

LUKE'S WINGS, INC.

FINANCIAL REPORT

December 31, 2017

LUKE'S WINGS, INC.

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Independent Auditors' Report

To the Board of Directors of
Luke's Wing, Inc.
Washington, DC

We have audited the accompanying financial statements of Luke's Wing, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Luke's Wings as of December 31, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.



Rockville, Maryland
August 24, 2018

LUKE'S WINGS, INC.
STATEMENT OF FINANCIAL POSITION
December 31, 2017

Assets

Current Assets

Cash and cash equivalents	\$ 330,207
Investments, at fair value	915,229
Event deposits	<u>43,382</u>

Total current assets 1,288,818

Property and Equipment, net of accumulated depreciation of \$ 478 2,962

Other Assets

Security deposit	<u>6,890</u>
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\$ 1,298,670

Liabilities and Net Assets

Current Liabilities

Accounts payable and accrued expenses	\$ 108,782
Deferred rent	<u>16,222</u>

Total current liabilities 125,004

Net Assets

Net assets-unrestricted	<u>1,173,666</u>
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\$ 1,298,670

The accompanying notes are an integral part of this financial statement.

LUKE'S WINGS, INC.
STATEMENT OF ACTIVITIES
Year Ended December 31, 2017

Revenues

Special event revenue- net of related expense of \$ 228,417	\$ 511,704
Grant and contributions	378,490
In-kind contributions	230,328
Net investment return	<u>71,166</u>
 Total revenue	 <u>1,191,688</u>

Expenses

Program services	542,604
General and administrative	<u>500,508</u>
 Total expenses	 <u>1,043,112</u>

Change in net assets 148,576

Unrestricted net assets, beginning of year (restated) 1,025,090

Unrestricted net assets, end of year \$ 1,173,666

The accompanying notes are an integral part of this financial statement.

LUKE'S WINGS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2017

	Program Services	General and Administrative	Total
Salaries and payroll taxes	\$ 123,678	\$ 326,261	\$ 449,939
In-kind contributions	230,328	-	230,328
Travel and transportation	120,997	10,234	131,231
Rent - net	32,242	49,424	81,666
Professional fees	3,697	38,327	42,024
Fringe benefits	-	28,322	28,322
Advertising	4,143	16,854	20,997
Banking fees	18,494	942	19,436
Telephone and internet	5,494	8,155	13,649
Dues and subscriptions	-	8,058	8,058
Meetings and meals	227	6,437	6,664
Office supplies	1,211	1,782	2,993
Shipping and postage	695	1,042	1,737
Staff support	-	1,655	1,655
Insurance	-	931	931
Storage expense	887	-	887
Printing and mailing	349	524	873
Miscellaneous	-	838	838
Depreciation and amortization	-	478	478
Internet cash processing fees	162	244	406
	<u>\$ 542,604</u>	<u>\$ 500,508</u>	<u>\$ 1,043,112</u>

The accompanying notes are an integral part of this financial statement.

LUKE'S WINGS, INC.
STATEMENT OF CASH FLOWS
Year Ended December 31, 2017

Cash flows from operating activities:

Change in net assets	\$ 148,576
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	478
Unrealized gain on investments	(77,849)
Increase in assets:	
Event deposits	(21,782)
Increase (decrease) in liabilities:	
Accounts payable and accrued expenses	94,219
Deferred rent	(1,575)
Net cash provided by operating activities	<u>142,067</u>

Cash flows from investing activities:

Purchase of investments	(333,057)
Proceeds from sale of investments	189,441
Purchase of property and equipment	<u>(3,440)</u>
Net cash used in investing activities	<u>(147,056)</u>

Net decrease in cash and cash equivalents (4,989)

Cash and cash equivalents (restated), beginning of year 335,196

Cash and cash equivalents, end of year \$ 330,207

The accompanying notes are an integral part of this financial statement.

LUKE'S WINGS, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

Note 1. Nature of Operations

Description of Organization

Luke's Wings Inc. (the Organization) is an incorporated Maryland based nonprofit organization that is dedicated to the support of U.S. service members who have been wounded in battle. The organization provides families travel planning services and airplane tickets to visit those service members currently hospitalized at medical and rehabilitation centers all over the country.

Note 2. Summary of Significant Accounting Policies

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America, whereby income and expenses are recognized in the period in which they are earned or incurred.

Financial Statement Presentation

The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Accordingly, the Organization's net assets and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. The Organization had no temporarily restricted net assets at December 31, 2017.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on any related investments for general or specific purposes. The Organization had no permanently restricted net assets at December 31, 2017.

LUKE'S WINGS, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

Note 2. Summary of Significant Accounting Policies (continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For the purposes of the statement of cash flows, the Organization considers all highly liquid investments available with an original maturity of ninety days or less to be cash equivalents.

Investments

Investments are reported at fair value in the statement of financial position. Unrealized gains and losses are included in the change in net assets in the accompanying statement of activities.

Property and Equipment

Property and equipment consists of equipment which is stated at cost and totals \$ 3,440 as of December 31, 2017. The Organization follows the practice of capitalizing all expenditures for property and equipment in excess of \$ 2,500. Depreciation is provided on a straight-line basis over their estimated useful lives of between three and seven years.

In-Kind Contributions

The Organization receives donations of frequent flier miles from individuals to provide airline tickets to U.S. service members and their families. The value of the miles is based on the specific flight and recorded at the time the ticket is acquired. The Organization also receives merchandise and/or services from various retailers and individuals, some of which is auctioned off at the Organization's fund raising events. The value of contributed goods or services are recorded at the lower of their fair value established by the donors' retail price or the amount generated by the item's sale at auction. If an item is sold for an amount in excess of its fair value, the excess is recorded as a contribution. Items which are not sold at auction have been reflected as both in-kind contributions support and as in-kind program or fund raising expense. The value of contributed services, other than that provided by unpaid volunteers, are reported at fair value in the financial statements when those services (1) create or enhance nonfinancial assets or (2) require specialized skills provided by individuals possessing those skills and are services which would typically be purchased if not provided by donation. In-kind contributions of \$ 284,613 have been recorded of which \$ 54,285 of these contributions have been included in fundraising events on the statement of activities for the year ended December 31, 2017.

LUKE'S WINGS, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

Note 2. Summary of Significant Accounting Policies (continued)

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized by program. Certain costs have been allocated among the programs and supporting services benefited.

Subsequent Events

In preparing its financial statements, the Organization has evaluated subsequent events through August 24, 2018, which is the date the financial statements were available to be issued.

Note 3. Concentration of Credit Risk

The Organization maintains its cash accounts at institutions with balances that may exceed \$ 250,000, which is the amount insured by the Federal Deposit Insurance Corporation. The Organization has not experienced any losses in such accounts and monitors the creditworthiness of the financial institutions with which it conducts business. Management believes that the Organization is not exposed to any significant credit risk with respect to its cash balances.

Note 4. Fair Value Measurements

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy are described as follows:

Level 1

Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2

Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

LUKE'S WINGS, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

Note 4. Fair Value Measurements (continued)

Level 3

Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2017.

Mutual Funds:

Valued at the daily closing price as reported by the fund. Mutual funds held by the Organization are open-ended mutual funds and are registered with the SEC. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the Association are deemed to be actively traded.

Fixed Income – Debt Securities:

Valued at the internal funding rate that is linked to the S&P 500.

Money Market Funds:

Valued at the daily closing price as reported by the fund. Money market funds held by the Organization are open-ended money market funds and are registered with the SEC. These funds are required to publish their daily net asset value (NAV). These funds generally transact at a \$ 1.00 stable NAV. However, on a daily basis the fund's NAV is calculated using the amortized cost (not market value) of the securities held in the fund.

The following table sets forth by level, within the fair value hierarchy, the Organization's assets measured at fair value on a recurring basis as of December 31, 2017:

	<u>Investments at Fair Value as of December 31, 2017</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds:				
Bond funds	\$ 236,787	\$ -	\$ -	\$ 236,787
Growth funds	144,225	-	-	144,225
Income funds	286,422	-	-	286,422
Fixed income - debt securities	-	228,518	-	228,518
Money market fund	-	19,277	-	19,277
Total assets at fair value	<u>\$ 667,434</u>	<u>\$ 247,795</u>	<u>\$ -</u>	<u>\$ 915,229</u>

The Organization's policy is to recognize transfers in and transfers out as of actual date of the event or change in circumstance that caused the transfer. There were no transfers between level classifications during the years ended December 31, 2017. All assets have been valued using a market approach. There were no changes in the valuations techniques during the current year.

LUKE’S WINGS, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

Note 4. Fair Value Measurements (continued)

Investment income, gains consisted of the following for the year ended December 31, 2017:

Interest and dividend income	\$ 18,481
Unrealized gain	77,849
Investment fees	<u>(25,164)</u>
Total	<u>\$ 71,166</u>

Note 5. Income Taxes

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. However, entities that are classified under this section of the Code are taxed on “unrelated business income” as defined by IRS regulations. No unrelated business income tax was due for the year ended December 31, 2017.

Accounting principles generally accepted in the United States of America require the Organization to evaluate tax positions taken and recognize a tax liability if it is more likely than not that uncertain tax positions taken would not be sustained upon examination by taxing authorities. The Organization has analyzed tax positions taken and has concluded that, as of December 31, 2017, there are no uncertain tax positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements. The Organization had no interest and penalties related to income taxes for the year ended December 31, 2017. The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Organization’s federal and state income tax returns are subject to examination by the Internal Revenue Service and state tax authorities, generally for a period of three years after the returns are filed.

Note 6. Advertising Costs

The Organization expenses advertising costs as incurred. Advertising expense for the year ended December 31, 2017 was \$ 20,997.

LUKE'S WINGS, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

Note 7. Lease Commitments

In April 2015 the Organization entered into a lease for new office space. The lease, with a five year term, began June 1, 2015 and terminates May 31, 2020. The lease calls for monthly payments beginning September 1, 2015 following a two month rent abatement period and requires prorated payment for any increase in real estate taxes over the base period. A portion of this office is leased on a month to month basis. The annual lease payments by year and the total obligation are:

2018	\$ 90,378
2019	93,537
2020	<u>39,530</u>
Total	<u>\$ 223,445</u>

Rent expense for the year ended December 31, 2017, was \$81,666 net of sublease income of \$ 10,500.

Note 8. Retirement Plan

The Organization has established a deferred compensation plan on behalf of its employees under Internal Revenue Code Section 403(b). Eligible employees may contribute up to IRS limits annually to this plan through elective deferrals. Employer contributions are not made by the Organization.

Note 9. Prior Period Adjustment

During the year, the Organization made adjustments to reflect deferred rent liability for \$ 17,797 to reflect a two-month rent abatement received in 2015, and the payment of a security deposit of \$ 6,890 on the same lease. Beginning of the year net assets have been adjusted by \$ 10,907 from \$ 1,035,997 to \$ 1,025,090 to reflect this change.

Investments held in money market funds have been reclassified from cash to investments. Beginning cash on the cash flow statement has been adjusted by \$ 17,749.

Note 10. Risks and Uncertainties

The Organization invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of activities.