LUKE’S WINGS, INC.

FINANCIAL REPORT

December 31, 2018

LUKE'S WINGS, INC.

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Independent Auditors' Report

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

We have audited the accompanying financial statements of Luke's Wings, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities, and cash flows for the years then ended, and the related notes to the financial statements, and the statement of functional expenses for the year ended December 31, 2018.

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 audits. We conducted our audits 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.

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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, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter – Effect of Adopting New Accounting Standard

As discussed in Note 2, Luke’s Wings adopted the Financial Accounting Standards Board’s Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities* as of and for the year ended December 31, 2018. The requirements of the ASU have been applied retrospectively to all periods presented. Our opinion is not modified with respect to this matter.

Dembo Jones, P.C.

Rockville, Maryland
September 30, 2019

LUKE'S WINGS, INC.
STATEMENTS OF FINANCIAL POSITION
December 31, 2018 and 2017

	2018	2017
Assets		
Current Assets		
Cash and cash equivalents	$ 459,447	$ 330,207
Investments, at fair value	954,638	915,229
Event deposits	14,043	43,382
Donated goods	54,992	-
Total current assets	1,483,120	1,288,818
Property and Equipment, net of accumulated depreciation of $ 48,957 and $ 478 for 2018 and 2017, respectively.	45,983	2,962
Other Assets		
Security deposit	6,890	6,890
	$ 1,535,993	$ 1,298,670
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	$ 70,694	$ 108,782
Deferred revenue	5,000	-
Deferred rent	11,701	16,222
Total current liabilities	87,395	125,004
Net Assets		
Without donor restrictions	1,448,598	1,173,666
	$ 1,535,993	$ 1,298,670

The accompanying notes are an integral part of these financial statements.

LUKE'S WINGS, INC.
STATEMENTS OF ACTIVITIES
Years Ended December 31, 2018 and 2017

	2018 Without Donor Restrictions	2017 Without Donor Restrictions
Revenues		
Special event revenue - net of related expense of $ 209,373 and $ 183,072 for years ended December 31, 2018 and 2017, respectively	$ 420,819	$ 224,146
Grant and contributions	725,800	711,393
In-kind contributions	304,989	230,328
Investment return - net	(57,591)	71,166
Total revenue	1,394,017	1,237,033
Expenses		
Program services	654,828	539,918
General and administrative	345,880	496,365
Fundraising	118,377	52,174
Total expenses	1,119,085	1,088,457
Change in net assets	274,932	148,576
Net assets, beginning of year	1,173,666	1,025,090
Net assets, end of year	$ 1,448,598	$ 1,173,666

The accompanying notes are an integral part of these financial statements.

LUKE'S WINGS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2018

	Program Services			
	Flight	General and Administrative	Fundraising	Total
Salaries, taxes, and benefits	$ 188,496	$ 189,966	$ 87,847	$ 466,309
In-kind contributions	196,997	-	-	196,997
Travel and transportation	172,638	10,264	-	182,902
Office supplies, services, and other	59,774	19,874	30,446	110,094
Professional fees	-	45,800	-	45,800
Rent - net	36,923	31,871	-	68,794
Advertising and marketing	-	15,797	84	15,881
Depreciation and amortization	-	9,980	-	9,980
Other expenses	-	9,188	-	9,188
Dues and subscriptions	-	8,605	-	8,605
Meetings and meals	-	3,299	-	3,299
Insurance	-	1,236	-	1,236
	$ 654,828	$ 345,880	$ 118,377	$ 1,119,085

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

LUKE'S WINGS, INC.
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	$ 274,932	$ 148,576
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	9,980	478
Unrealized (gain) loss on investments	54,074	(77,849)
Donated property and equipment	(53,001)	-
Donated goods	(54,992)	-
Increase (decrease) in assets:		
Event deposits	29,339	(21,782)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(38,088)	94,219
Deferred revenue	5,000	-
Deferred rent	(4,521)	(1,575)
Net cash provided by operating activities	222,723	142,067
Cash flows from investing activities:		
Purchase of investments	(413,647)	(333,057)
Proceeds from sale of investments	320,164	189,441
Purchase of property and equipment	-	(3,440)
Net cash used in investing activities	(93,483)	(147,056)
Net increase (decrease) in cash and cash equivalents	129,240	(4,989)
Cash and cash equivalents, beginning of year	330,207	335,196
Cash and cash equivalents, end of year	$ 459,447	$ 330,207

The accompanying notes are an integral part of these financial statements.

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, whereby income and expenses are recognized in the period in which they are earned or incurred.

Basis of Presentation

The Organization is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. Net assets without donor restrictions represent the expendable net assets that are available to support the Organization. Net assets with donor restrictions are subject to donor-imposed stipulations that may or will be met by actions of the Organization and/or the passage of time and those that are subject to donor-imposed stipulations that the Organization maintain them permanently. As of December 31, 2018 and 2017, the Organization did not have any net assets with donor restrictions.

Recent Accounting Pronouncements Adopted

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities. The ASU amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes include: (a) requiring the presentation of only two classes of net assets now entitled "net assets without donor restrictions" and "net assets with donor restrictions", (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring the use of the placed in service approach to recognize the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (d) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, (e) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (f) presenting investment return net of external and direct internal investment expenses, and (g) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. The Organization has adopted this ASU as of and for the year ended December 31, 2018 with retrospective application for the 2017 financial statements. The Organization opted to not disclose liquidity and availability information and an analysis of functional expenses for 2017, as permitted under the ASU in the year of adoption.

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. Money market funds are carried at cost, which approximates fair value. Realized and 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 $ 94,940 and $ 3,440 as of December 31, 2018 and 2017, respectively. 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.

Deferred Rent

Luke's Wings recognizes the minimum non-contingent rents required under operating leases as rent expense on a straight-line basis over the life of the lease, with differences between amounts recognized as expense and the amounts actually paid recorded as deferred rent and included on the accompanying statements of financial position.

Note 2. Summary of Significant Accounting Policies (continued)

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 contributions revenue and as donated goods assets. 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 $ 385,434 and $ 284,613 have been recorded for the years ended December 31, 2018 and 2017, respectively, of which $ 80,445 and $ 54,285 of these contributions have been included in special event revenue on the statement of activities for the years ended December 31, 2018 and 2017, respectively.

Functional Allocation of Expenses

The cost of providing various programs and other activities have been summarized on a functional basis in the statement of functional expenses. Salaries, taxes, and benefits are allocated among program and supporting services by percentage based on each employee's time spent on each project. General and administrative expenses such as rent and office supplies, services, and other, are allocated by percentage based on an estimate of total time spent among program and supporting services throughout the year. Remaining expense line items are changed based on actual expense incurred among program and supporting services.

Subsequent Events

In preparing its financial statements, the Organization has evaluated subsequent events through September 30, 2019, which is the date the financial statements were available to be issued.

Reclassifications

Certain reclassifications have been made to the 2017 financial statement presentation to correspond to the current year's format. Total net assets and net income are unchanged due to these reclassifications.

Note 3. Liquidity and Availability

As of December 31, 2018, the following financial assets could readily be made available within one year of the statement of financial position date to meet general expenditures:

Cash and cash equivalents	$ 459,447
Investments	954,638
	$ 1,414,085

As part of the Organization's liquidity management, it invests cash in various short-term investments, including mutual funds, fixed income - debt securities and money market funds. The Board manages its liquid resources by focusing on investing excess cash in investments that maximize earnings potential balanced with the amount of risk the Board has decided can be tolerated.

Note 4. 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 5. 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.

Note 5. 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, 2018 and 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 Organization 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 tables set forth by level, within the fair value hierarchy, the Organization's assets measured at fair value on a recurring basis as of December 31, 2018 and 2017:

Investments at Fair Value as of December 31, 2018

	Level 1	Level 2	Level 3	Total
Mutual funds:				
Bond funds	$ 234,948	$ -	$ -	$ 234,948
Growth funds	89,548	-	-	89,548
Income funds	218,544	-	-	218,544
Fixed income - debt securities	-	317,793	-	317,793
Money market fund	-	93,805	-	93,805
Total assets at fair value	$ 543,040	$ 411,598	$ -	$ 954,638

Note 5. Fair Value Measurements (continued)

Investments at Fair Value as of December 31, 2017

	Level 1	Level 2	Level 3	Total
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	$ 667,434	$ 247,795	$ -	$ 915,229

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, 2018 and 2017. All assets have been valued using a market approach. There were no changes in the valuation techniques during the current year.

Investment income, gains consisted of the following for the years ended December 31, 2018 and 2017:

	2018	2017
Interest and dividend income	$ 33,418	$ 18,481
Unrealized gain (loss)	(54,074)	77,849
Investment fees	(36,935)	(25,164)
Total	$ (57,591)	$ 71,166

Note 6. 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 years ended December 31, 2018 and 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, 2018 and 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 years ended December 31, 2018 and 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 7. Advertising Costs

The Organization expenses advertising costs as incurred. Advertising expense for the years ended December 31, 2018 and 2017 was $ 15,881 and $ 20,997, respectively.

Note 8. 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. Effective January 2018, this office signed a sublease agreement expiring on May 31, 2020. The annual lease payments by year and the total obligation are:

	Gross Rent Commitments	Sublease Rentals	Net Rent Commitments
2019	$ 98,625	$ 24,000	$ 74,625
2020	41,650	10,000	31,650
Total	$ 140,275	$ 34,000	$ 106,275

Rent expense for the years ended December 31, 2018 and 2017, was $ 68,794 and $ 81,666 net of sublease income of $ 24,000 and $ 10,500, respectively.

Note 9. 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 10. Related Party Transactions

The Organization leases office space to a company owned by the Chief Executive Officer and Executive Director. The rental income provided to the Organization from the related party totaled $ 24,000 and $ 10,500 for the years ended December 31, 2018 and 2017, respectively.

Note 11. 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.

Note 12. Supplemental Disclosures of Cash Flow Information

For the year ended December 31, 2018, Luke's Wings received a donated vehicle in the amount of $53,001 and goods in the amount of $ 54,992.