

LUKE'S WINGS, INC.

**Financial Statements and
Independent Auditors' Report**

Year Ended December 31, 2016

TABLE OF CONTENTS

	<u>Page Number</u>
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
Statement of Financial Position	2
Statement of Activities	3
Statement of Functional Expenses	4
Statement of Cash Flows	5
Notes to Financial Statements	6 - 9

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Luke's Wings, Inc. which comprise the statement of financial position as of December 31, 2016 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 of 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 auditors' 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 circumstance, 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, Inc. as of December 31, 2016, and the results of operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Lively & Worch, P.C.
Kensington, Maryland

November 20, 2017

LUKE'S WINGS, INC.
STATEMENT OF FINANCIAL POSITION
December 31, 2016

ASSETS

Assets

Cash and Cash Equivalents	\$ 352,945
Securities Held for Investment	631,878
Pledges Receivable	44,137
Event Deposits	<u>21,600</u>

Total Assets \$ 1,050,560

LIABILITIES AND NET ASSETS

Liabilities

Accounts Payable	<u>14,563</u>
------------------	---------------

Net Assets

Unrestricted	<u>1,035,997</u>
--------------	------------------

Total Liabilities and Net Assets \$ 1,050,560

See accompanying notes and independent auditors' report.

LUKE'S WINGS, INC.
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2016

	<u>Unrestricted</u>
REVENUES	
Contributions	\$ 790,149
Gross Proceeds from Fundraising Events	389,093
Donated Services and Materials	276,229
Net Income from Investments	<u>29,585</u>
 TOTAL REVENUES	 <u>1,485,056</u>
 EXPENSES	
Program Services	
Transportation	450,271
Benefits to Donors - Events	212,901
Supporting Services	
Fundraising	428,779
Management and General	<u>174,573</u>
 TOTAL EXPENSES	 <u>1,266,524</u>
 CHANGE IN NET ASSETS	 218,532
 NET ASSETS BEGINNING OF YEAR	 <u>817,465</u>
 NET ASSETS AT END OF YEAR	 <u>\$ 1,035,997</u>

See accompanying notes and independent auditors' report.

LUKE'S WINGS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2016

	<u>Program Services</u>	<u>Supporting Services</u>		
	<u>Providing Transportation</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total Expenses</u>
Travel and Transportation	\$ 276,294	\$ 2,214	\$ 3,011	\$ 281,519
Salaries and Payroll Taxes	132,480	74,624	216,331	423,435
Fringe Benefits	9,112	7,742	11,875	28,729
Contributed Services	-	-	80,000	80,000
Rent - net	15,481	30,963	30,963	77,406
Printing and Mailing	3,820	3,820	30,561	38,201
Professional Fees	-	26,014	-	26,014
Advertising	2,474	2,474	19,793	24,741
Internet Cash Processing Fees	-	4,633	13,898	18,530
Telephone and Internet	5,057	2,529	7,586	15,171
Office and Supplies	2,416	1,927	6,507	10,850
Investment and Banking Fees	99	6,155	45	6,299
Shipping and Postage	1,051	1,075	1,916	4,042
Meeting and Meals	662	1,673	2,319	4,654
Insurance	-	4,836	-	4,836
Local Travel	-	2,552	158	2,710
Miscellaneous	1,326	1,343	3,817	6,485
	<u>\$ 450,271</u>	<u>\$ 174,573</u>	<u>\$ 428,779</u>	<u>1,053,623</u>
Total				
Benefits to Donors - Events				<u>212,901</u>
Total Expenses				<u>\$ 1,266,524</u>

See accompanying notes and independent auditors' report.

LUKE'S WINGS, INC.
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2016

CASH FLOWS FROM OPERATING ACTIVITIES	
Increase in Net Assets	\$ 218,532
Adjustments to Reconcile Increase in Net Assets to Net Cash Provided by Operating Activities:	
Unrealized Loss on Investments	(16,931)
(Increase) Decrease in Operating Assets	
Pledges Receivable	(31,985)
Deposits	(21,600)
Increase (Decrease) in Operating Liabilities	
Accounts Payable	<u>(10,271)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>137,745</u>
CASH FLOWS FROM INVESTMENT ACTIVITIES	
Purchase of Securities	(210,681)
Sale of Securities	<u>31,022</u>
NET CASH USED BY INVESTING ACTIVITIES	<u>(179,659)</u>
NET DECREASE IN CASH	(41,913)
CASH - BEGINNING OF YEAR	<u>394,858</u>
CASH - END OF YEAR	<u>\$ 352,945</u>
Supplemental Disclosures of Cash Flow Information:	
Interest paid	<u>\$ -</u>

See accompanying notes and independent auditors' report.

LUKE'S WINGS, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

1 - Nature of Activities and Summary of Significant Accounting Policies

(a) Nature of Activities

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.

As a nonprofit described in Section 501 (c)(3) of the Internal Revenue Code, Luke's Wings is exempt from federal and state income taxes. The Organization had no unrelated business income in 2016.

(b) Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting, which recognizes contributions in the period received or when the donor makes an unconditional promise to give. Expenses are recorded when incurred.

Net assets, revenues and expenses, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts specifically restricted or designated for future periods are reported as temporarily or permanently restricted support that increases these net asset classes. Luke's Wings has no restricted net assets at December 31, 2016.

(c) Functional Expenses

The costs of providing program and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the supporting services benefited based on the estimated benefit received.

(d) Cash and Cash Equivalents

The Organization considers all cash accounts and money market accounts to be cash and cash equivalents.

(e) Pledges Receivable

All pledges receivable are expected to be collected within one year.

LUKE'S WINGS, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

1 - Nature of Activities and Summary of Significant Accounting Policies (Continued)

(f) Investments

Investments are carried in the aggregate at fair value. All unrealized and realized gains and losses, interest, and dividends are recorded as unrestricted revenues.

(g) Contributed Services and Materials

Luke's Wings receives donations of frequent flyer miles from individuals to provide airplane 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 receive 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.

(h) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles sometimes requires management to make certain estimates and assumptions that may affect the reported amounts and disclosure. Accordingly, actual results could differ from those estimates.

2 - Concentration of Credit Risk

Luke's Wings maintains its cash and cash equivalent balances in two financial institutions. The balances are generally insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At December 31, 2015, the Organization's cash balances totaled \$394,858, of which \$324,777 was covered by FDIC insurance and \$70,081 was in non-federally insured accounts.

LUKE'S WINGS, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

3 - Operating Lease

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. The annual lease payments by year and the total obligation are:

For the Years Ending December 31,

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

Rent expense for the year ended December 31, 2016, was \$77,406 net of sublease income of \$10,000.

4 - Fair Value Measurements

Fair values of assets measured on a recurring basis at December 31, 2016, are as follows:

Fair Value Measurements at Reporting Date Using

		Quoted Prices in Active Markets for Identical Assets <u>Fair Value</u> (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Fixed Income Securities and Mutual Funds invested primarily in Fixed Income Securities	\$ 631,878	\$ 631,878	\$ -	\$ -

Financial assets valued using Level 1 inputs are based on unadjusted quoted market prices within active markets. Financial assets valued using Level 2 inputs are based primarily on quoted prices for similar assets in active or inactive markets. Financial assets valued using Level 3 inputs are valued using unobservable inputs to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. Unobservable inputs are developed based on the best information available in the circumstances, which might include the Organization's own data and assumptions.

LUKE'S WINGS, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

4 - Fair Value Measurements (continued)

At December 31, 2016, the investments had a cost basis of \$624,309 and unrealized gains of \$7,569.

5 - Value of Contributed Services and Materials

The Organization recorded total contributed services and materials of \$329,312 of which \$53,083 has been reported as event revenue. The contributed items consists primarily of donated airline miles and public relations and software support services. The related expenses are reported in program and fund raising expenses respectively. Donated items for the Organization's events are either sold at the events or used in their production.

6 - Advertising Costs

The Organization expenses advertising costs as incurred. Advertising expense for the year ending December 31, 2016 were \$24,741.

7 - Subsequent Events

The Organization's Management has evaluated events subsequent to November 20, 2017 the date which the financial statements were available to be issued.