

**LUKE'S WINGS, INC.**

**FINANCIAL REPORT**

**December 31, 2021**

**LUKE'S WINGS, INC.**

*Table of Contents*

|                                     | <b>Page</b> |
|-------------------------------------|-------------|
| <b>Independent Auditors' Report</b> | 1 - 2       |
| <b>Financial Statements</b>         |             |
| Statements of financial position    | 3           |
| Statement of activities             | 4           |
| Statements of functional expenses   | 5 - 6       |
| Statements of cash flows            | 7           |
| Notes to financial statements       | 8 - 18      |

## Independent Auditors' Report

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

### Opinion

We have audited the accompanying financial statements of Luke's Wings, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2021, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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, 2021, 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.

### Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Luke's Wings, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Responsibilities of Management 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; and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Luke's Wings, Inc's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

### Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Luke's Wings, Inc's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Luke's Wings, Inc's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

### **Report on Summarized Comparative Information**

We have previously audited Luke's Wings, Inc.'s 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 14, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.



*North Bethesda, Maryland  
February 17, 2023*

**LUKE'S WINGS, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**December 31, 2021 and 2020**

|  | 2021                | 2020                |
|--|---------------------|---------------------|
| <b>Assets</b>  |                     |                     |
| <b>Current Assets</b>  |                     |                     |
| Cash and cash equivalents  | \$ 81,060           | \$ 179,614          |
| Investments, at fair value   | 1,411,259           | 1,426,558           |
| Unconditional promises to give   | 366,708             | 211,377             |
| Event deposits   | 91,714              | 73,794              |
| Total current assets   | 1,950,741           | 1,891,343           |
| <b>Property and Equipment</b> , net of accumulated depreciation<br>of \$ 94,940 and \$ 86,107 for 2021 and 2020, respectively. | -                   | 8,833               |
| <b>Other Assets</b>  |                     |                     |
| Deposits   | 16,890              | 6,890               |
|  | <b>\$ 1,967,631</b> | <b>\$ 1,907,066</b> |
| <b>Liabilities and Net Assets</b>  |                     |                     |
| <b>Current Liabilities</b>   |                     |                     |
| Paycheck Protection Program loan   | \$ 103,185          | \$ 86,684           |
| Officer advance  | 50,000              | -                   |
| Accounts payable and accrued expenses  | 24,926              | 33,746              |
| Deferred revenue   | 24,105              | 24,105              |
| Deferred rent  | 15,382              | 20,396              |
| Total current liabilities  | 217,598             | 164,931             |
| <b>Net Assets</b>  |                     |                     |
| Without donor restrictions   | 1,666,033           | 1,667,135           |
| With donor restrictions  | 84,000              | 75,000              |
| Total net assets   | 1,750,033           | 1,742,135           |
|  | <b>\$ 1,967,631</b> | <b>\$ 1,907,066</b> |

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

**LUKE'S WINGS, INC.**  
**STATEMENT OF ACTIVITIES**  
**Year Ended December 31, 2021**  
**(With Comparative Totals for 2020)**

|  | 2021                             |                               |              | 2020<br>Total |
|--|----------------------------------|-------------------------------|--------------|---------------|
|  | Without<br>Donor<br>Restrictions | With<br>Donor<br>Restrictions | Total        |               |
| <b>Revenues</b>  |                                  |                               |              |               |
| Contributions  |                                  |                               |              |               |
| Grants and contributions   | \$ 1,622,928                     | \$ -                          | \$ 1,622,928 | \$ 840,931    |
| In-kind contributions  | 577,284                          | -                             | 577,284      | 153,129       |
| Special event revenue  | 60,500                           | 9,000                         | 69,500       | 219,852       |
| Products and services  |                                  |                               |              |               |
| Special event loss - net costs of direct benefits to donors<br>of \$ 18,450 for year ended December 31, 2021 | (10,884)                         | -                             | (10,884)     | -             |
| Other income   |                                  |                               |              |               |
| Investment return - net  | 177,178                          | -                             | 177,178      | 134,157       |
| Paycheck Protection Program loan forgiveness   | 87,425                           | -                             | 87,425       | -             |
|  |                                  |                               |              |               |
| Total revenue before release of restrictions   | 2,514,431                        | 9,000                         | 2,523,431    | 1,348,069     |
| Net assets released from restrictions  | -                                | -                             | -            | -             |
|  |                                  |                               |              |               |
| Total revenue  | 2,514,431                        | 9,000                         | 2,523,431    | 1,348,069     |
| <b>Expenses</b>  |                                  |                               |              |               |
| Program services   | 1,495,150                        | -                             | 1,495,150    | 601,398       |
| General and administrative   | 281,801                          | -                             | 281,801      | 342,584       |
| Fundraising  | 738,582                          | -                             | 738,582      | 224,933       |
|  |                                  |                               |              |               |
| Total expenses   | 2,515,533                        | -                             | 2,515,533    | 1,168,915     |
| <b>Change in net assets</b>  | (1,102)                          | 9,000                         | 7,898        | 179,154       |
| <b>Net assets, beginning of year</b>   | 1,667,135                        | 75,000                        | 1,742,135    | 1,562,981     |
| <b>Net assets, end of year</b>   | \$ 1,666,033                     | \$ 84,000                     | \$ 1,750,033 | \$ 1,742,135  |

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

**LUKE'S WINGS, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**Year Ended December 31, 2021**

|   | <u>Program<br/>Services</u> |                       | General<br>and<br>Fundraising | <u>Total</u>        |
|---|-----------------------------|-----------------------|-------------------------------|---------------------|
|   | <u>Flight</u>               | <u>Administrative</u> |                               |                     |
| Advocacy  | \$ 233,276                  | \$ -                  | \$ 539,014                    | \$ 772,290          |
| Salaries, taxes, and benefits   | 347,935                     | 119,460               | 140,801                       | 608,196             |
| In-kind expenses  | 574,884                     | -                     | 2,400                         | 577,284             |
| Travel and transportation   | 199,690                     | 7,033                 | 2,343                         | 209,066             |
| Office supplies, services, printing and publications, and other                     | 88,326                      | 65,756                | 36,061                        | 190,143             |
| Professional fees   | -                           | 51,917                | 15,250                        | 67,167              |
| Rent - net  | 51,039                      | 9,663                 | 1,199                         | 61,901              |
| Event costs   | -                           | -                     | 18,450                        | 18,450              |
| Dues and subscriptions  | -                           | 9,048                 | 1,447                         | 10,495              |
| Depreciation and amortization   | -                           | 8,833                 | -                             | 8,833               |
| Meetings and meals  | -                           | 7,758                 | 67                            | 7,825               |
| Other expenses  | -                           | 1,233                 | -                             | 1,233               |
| Insurance   | -                           | 1,100                 | -                             | 1,100               |
|   | <u>1,495,150</u>            | <u>281,801</u>        | <u>757,032</u>                | <u>2,533,983</u>    |
| Total expenses by function  |                             |                       |                               |                     |
| Less: Items included within revenue and support:                                    |                             |                       |                               |                     |
| Cost of direct benefits to donors   | <u>-</u>                    | <u>-</u>              | <u>(18,450)</u>               | <u>(18,450)</u>     |
| Total expenses included in the functional categories on the statement of activities | <u>\$ 1,495,150</u>         | <u>\$ 281,801</u>     | <u>\$ 738,582</u>             | <u>\$ 2,515,533</u> |

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

**LUKE'S WINGS, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**Year Ended December 31, 2020**

|   | <u>Program<br/>Services</u> |                       | <u>General<br/>and<br/>Fundraising</u> |                     |
|---|-----------------------------|-----------------------|--|---------------------|
|   | <u>Flight</u>               | <u>Administrative</u> | <u>Fundraising</u>                     | <u>Total</u>        |
| Salaries, taxes, and benefits   | \$ 242,944                  | \$ 179,989            | \$ 99,315                              | \$ 522,248          |
| Office supplies, services, printing and publications, and other                     | 56,462                      | 20,429                | 110,074                                | 186,965             |
| In-kind contributions   | 153,129                     | -                     | -                                      | 153,129             |
| Travel and transportation   | 113,852                     | -                     | 754                                    | 114,606             |
| Professional fees   | -                           | 82,899                | -                                      | 82,899              |
| Rent - net  | 35,011                      | 28,516                | -                                      | 63,527              |
| Depreciation and amortization   | -                           | 18,336                | -                                      | 18,336              |
| Advocacy  | -                           | -                     | 13,934                                 | 13,934              |
| Dues and subscriptions  | -                           | 8,143                 | -                                      | 8,143               |
| Insurance   | -                           | 3,607                 | -                                      | 3,607               |
| Other expenses  | -                           | 107                   | -                                      | 107                 |
| Meetings and meals  | -                           | -                     | 856                                    | 856                 |
| Interest  | -                           | 558                   | -                                      | 558                 |
|   | <u>601,398</u>              | <u>342,584</u>        | <u>224,933</u>                         | <u>1,168,915</u>    |
| Total expenses by function  |                             |                       |  |                     |
| Less: Items included within revenue and support:                                    |                             |                       |  |                     |
| Cost of direct benefits to donors   | <u>-</u>                    | <u>-</u>              | <u>-</u>                               | <u>-</u>            |
| Total expenses included in the functional categories on the statement of activities | <u>\$ 601,398</u>           | <u>\$ 342,584</u>     | <u>\$ 224,933</u>                      | <u>\$ 1,168,915</u> |

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



**LUKE'S WINGS, INC.**  
**STATEMENTS OF CASH FLOWS**  
**Years Ended December 31, 2021 and 2020**

|   | 2021      | 2020       |
|---|-----------|------------|
| <b>Cash flows from operating activities:</b>  |           |            |
| Change in net assets  | \$ 7,898  | \$ 179,154 |
| Adjustments to reconcile change in net assets to net cash used in operating activities: |           |            |
| Depreciation  | 8,833     | 18,336     |
| Realized and unrealized net gain on investments   | (140,191) | (109,401)  |
| Donated goods   | -         | 2,000      |
| Paycheck Protection Program loan forgiveness  | (86,684)  | -          |
| Increase in assets:   |           |            |
| Unconditional promises to give  | (155,331) | (211,377)  |
| Event deposits  | (17,920)  | (16,648)   |
| Deposits  | (10,000)  | -          |
| Increase (decrease) in liabilities:   |           |            |
| Accounts payable and accrued expenses   | (8,820)   | (37,062)   |
| Deferred revenue  | -         | 24,105     |
| Deferred rent   | (5,014)   | 16,562     |
| Net cash used in operating activities   | (407,229) | (134,331)  |
| <b>Cash flows from investing activities:</b>  |           |            |
| Purchase of investments   | (416,786) | (451,397)  |
| Proceeds from sale of investments   | 572,276   | 356,641    |
| Net cash provided by (used in) investing activities                                     | 155,490   | (94,756)   |
| <b>Cash flows from financing activities:</b>  |           |            |
| Proceeds from Paycheck Protection Program loan  | 103,185   | 86,684     |
| Advance from officer  | 50,000    | -          |
| Net cash provided by financing activities   | 153,185   | 86,684     |
| <b>Net decrease in cash and cash equivalents</b>  | (98,554)  | (142,403)  |
| <b>Cash and cash equivalents, beginning of year</b>                                     | 179,614   | 322,017    |
| <b>Cash and cash equivalents, end of year</b>   | \$ 81,060 | \$ 179,614 |

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

**LUKE'S WINGS, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2021 and 2020**

**Note 1. Nature of Operations**

*Description of Organization*

Luke's Wings Inc. (the Organization) is a nonprofit organization, incorporated in Maryland, 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 accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

*Comparative Totals*

The financial statements include certain prior-year summarized comparative information. The 2020 information does not show a breakout of net assets without donor restrictions and net assets with donor restrictions, just net assets in total. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organizations' financial statements for the year ended December 31, 2020, from which the summarized information was derived.

*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.

**LUKE'S WINGS, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2021 and 2020**

**Note 2. Summary of Significant Accounting Policies (continued)**

***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.

***Unconditional Promises to Give***

Unconditional promises to give are donations post marked in the current year but not received by the organization until the next. Promises to give are stated at the check amount. Management believes all promises are fully collectible in less than one year and no provision for allowance for doubtful accounts is deemed necessary.

***Event Deposits***

Event deposits are payments made in advance for future events to be held. The payments will be expensed when the event is held.

***Property and Equipment***

Property and equipment consists of equipment which is stated at cost and totals \$ 94,940 as of December 31, 2021 and 2020. 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. Depreciation expense was \$ 8,833 and \$ 18,336 for the years ended December 31, 2021 and 2020, respectively.

***Deferred Revenue***

Deferred income represents payments received in advance of providing product and/or services under certain contracts. Monies received in the current fiscal year relating to tickets to attend events held in an upcoming fiscal year are recorded as deferred income and are recognized in the fiscal year corresponding with event date. Monies received for sponsorship for events to be held on dates after the financial statement date are treated as part contribution and part exchange. The portion of the monies that relates to an exchange transaction is recorded as deferred income and recognized in the fiscal year corresponding to the event to which the monies are associated. The portion of the monies deemed to be contributions are treated as contributions with donor restrictions.

***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.

**LUKE'S WINGS, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2021 and 2020**

**Note 2. Summary of Significant Accounting Policies (continued)**

***Revenue Recognition***

Revenue is generated from the following services:

**Grant and Contribution Revenue** - The Organization recognizes contributions as revenue in the period received or when a promise to give is made. Unconditional contributions and promises to give received are recorded as “without donor restrictions” or “with donor restrictions” depending on the existence or nature of any donor restrictions. Donor restricted revenue is reported as an increase in net assets with donor restrictions and reclassified to net assets without donor restrictions when the purpose and time restrictions are met. Conditional contributions and promises to give, that is, those with a measurable performance or other barrier and a right of return, are not recognized until they become unconditional, which is when the conditions are substantially met. The Organization did not receive any conditional contributions for the years ended December 31, 2021 and 2020.

**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 not recognized until they are redeemed by the Organization.

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. Revenue is recognized the date donations are received, and with certainty they will be used, and when services are performed. The value of contributed goods or services are recorded at the lower of their fair value established by the donors' retail price, to the extent that such amounts can be reasonably estimated, 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 consisted of the following for the years ended December 31, 2021 and 2020:

|                                     | <u>2021</u>       | <u>2020</u>       |
|-------------------------------------|-------------------|-------------------|
| Donated merchandise and service     | \$ 20,345         | \$ 102,226        |
| Donated airline miles used          | <u>556,939</u>    | <u>50,903</u>     |
| Total in-kind contributions         | <u>\$ 577,284</u> | <u>\$ 153,129</u> |
| Special event donated auction items | <u>\$ 4,858</u>   | <u>\$ 8,958</u>   |

**LUKE'S WINGS, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2021 and 2020**

**Note 2. Summary of Significant Accounting Policies (continued)**

***Revenue Recognition (continued)***

**Special Event Revenue** – Special event revenue is an exchange transaction and is recognized at a point in time when the event takes place, or the services are provided to the Organization’s customers, and performance obligations are fulfilled. The Organization records special event revenue equal to the fair value of direct benefits to donors, net of the costs of direct benefits, and contribution income for the excess received when the event takes place.

Each party does not directly receive commensurate value for sponsorship revenue received for a special event. In addition, sponsorship revenue is generally not refundable if the event is not held. Therefore, sponsorship revenue received for special events should be recognized as contribution revenue when received and recorded as donor-restricted until the event is held.

In 2021, revenue received for the purchase of the tickets, auction, and other items for the special events were considered an exchange transaction due to direct benefits received from attending the event in person and the value of the items received. The revenue received from sponsorships and general donations during the special event were considered contribution income. In 2020, all special events were virtual due to the global pandemic. Therefore, all revenue is considered a contribution since no direct benefits were received.

The beginning and ending exchange transactions included on the balance sheet for the years ended December 31 were:

|                  | 2021      | 2020      | 2019      |
|------------------|-----------|-----------|-----------|
| Event deposits   | \$ 91,714 | \$ 73,794 | \$ 57,146 |
| Deferred revenue | \$ 24,105 | \$ 24,105 | \$ -      |

**Investment Return** - Investment income is recognized upon receipt since there is no performance obligation.

***Disaggregation of Revenue***

The Organization’s products and services revenue are recognized at a point in time, based on the performance obligations of each event. Various economic factors affect revenues and cash flows. Substantially all customers are in the United States.

**LUKE’S WINGS, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2021 and 2020**

**Note 2. Summary of Significant Accounting Policies (continued)**

*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*

As discussed in Note 6, the Organization received notice on May 27, 2022, that the SBA approved full forgiveness of the second Paycheck Protection Program loan.

In preparing its financial statements, the Organization has evaluated subsequent events through February 17, 2023, which is the date the financial statements were available to be issued.

**Note 3. Liquidity and Availability**

As of December 31, 2021 and 2020, the following financial assets could readily be made available within one year of the statement of financial position date to meet general expenditures:

|  | 2021                | 2020                |
|--|---------------------|---------------------|
| Cash and cash equivalents                | \$ 81,060           | \$ 179,614          |
| Investments                              | 1,411,259           | 1,426,558           |
| Less: net assets with donor restrictions | (84,000)            | (75,000)            |
|  | <b>\$ 1,408,319</b> | <b>\$ 1,531,172</b> |

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.

**LUKE'S WINGS, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2021 and 2020**

**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.

*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.

**LUKE'S WINGS, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2021 and 2020**

**Note 5. Fair Value Measurements (continued)**

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, 2021 and 2020.

*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.

*Exchange traded funds:* Valued at net asset value (NAV) of units at year end.

*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, 2021 and 2020:

|                                | <b><u>Investments at Fair Value as of December 31, 2021</u></b> |                             |                             |                             |
|--------------------------------|---|-----------------------------|-----------------------------|-----------------------------|
|                                | <u>Level 1</u>  | <u>Level 2</u>              | <u>Level 3</u>              | <u>Total</u>                |
| Mutual funds:                  |   |                             |                             |                             |
| Bond funds                     | \$ 314,834  | \$ -                        | \$ -                        | \$ 314,834                  |
| Growth funds                   | 220,408   | -                           | -                           | 220,408                     |
| Income funds                   | 337,624   | -                           | -                           | 337,624                     |
| Exchange traded funds          | 138,473   | -                           | -                           | 138,473                     |
| Fixed income - debt securities | -   | 390,770                     | -                           | 390,770                     |
| Money market fund              | -   | 9,150                       | -                           | 9,150                       |
|                                | <u>                    </u>                                     | <u>                    </u> | <u>                    </u> | <u>                    </u> |
| Total assets at fair value     | <u>\$ 1,011,339</u>   | <u>\$ 399,920</u>           | <u>\$ -</u>                 | <u>\$ 1,411,259</u>         |



**LUKE'S WINGS, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2021 and 2020**

**Note 5. Fair Value Measurements (continued)**

|                                | <b><u>Investments at Fair Value as of December 31, 2020</u></b> |                       |                 |                         |
|--------------------------------|---|-----------------------|-----------------|-------------------------|
|                                | <u>Level 1</u>  | <u>Level 2</u>        | <u>Level 3</u>  | <u>Total</u>            |
| Mutual funds:                  |   |                       |                 |                         |
| Bond funds                     | \$ 416,217  | \$ -                  | \$ -            | \$ 416,217              |
| Growth funds                   | 162,221   | -                     | -               | 162,221                 |
| Income funds                   | 221,936   | -                     | -               | 221,936                 |
| Exchange traded funds          | 89,700  | -                     | -               | 89,700                  |
| Fixed income - debt securities | -   | 473,073               | -               | 473,073                 |
| Money market fund              | -   | <u>63,411</u>         | -               | <u>63,411</u>           |
| <br>Total assets at fair value | <br><u>\$ 890,074</u>   | <br><u>\$ 536,484</u> | <br><u>\$ -</u> | <br><u>\$ 1,426,558</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, 2021 and 2020. All assets have been valued using a market approach. There were no changes in the valuation techniques during the current year.

Investment return consisted of the following for the years ended December 31, 2021 and 2020:

|                                  | <u>2021</u>       | <u>2020</u>       |
|----------------------------------|-------------------|-------------------|
| Interest and dividend income     | \$ 50,340         | \$ 36,098         |
| Realized and unrealized net gain | 140,191           | 109,401           |
| Investment fees                  | <u>(13,354)</u>   | <u>(11,342)</u>   |
| Total                            | <u>\$ 177,178</u> | <u>\$ 134,157</u> |

**Note 6. Paycheck Protection Program**

The Organization received a loan from a bank in the amount of \$ 86,684 under the Paycheck Protection Program (PPP) established by the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The loan is subject to a note dated May 9, 2020, and can be forgiven to the extent proceeds of the loan are used for eligible expenditures such as payroll and other expenses described in the CARES Act. The loan bears interest at a rate of 1% and is payable in monthly installments of principal and interest over 24 months beginning 6 months from the date of the note. The loan may be repaid at any time with no prepayment penalty. The Company's PPP loan is subject to an examination by the Small Business Administration (SBA) or its authorized representatives for 10 years after the date the note is forgiven or repaid in full.

**LUKE'S WINGS, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2021 and 2020**

**Note 6. Paycheck Protection Program (continued)**

During the year ended December 31, 2020, the Organization met all applicable SBA requirements, including having used loan proceeds for eligible expenses. Accordingly, the Company submitted its application for PPP Loan forgiveness subsequent to December 30, 2020 and received notice from its lender on March 15, 2021, that the SBA approved full forgiveness of \$ 86,684 of the PPP Loan and the related interest thereon. Therefore, the loan is recognized as a current liability on the statements of financial position as of December 31, 2020 and as other income on the statement of activities as of December 31, 2021.

In May 2021, the Organization received a second SBA Loan under the CARES Act, Paycheck Protection Program. The loan is for the amount of \$ 103,185, bears interest at a rate of 1% and is payable in monthly installments of principal and interest over 5 years. The loan can be forgiven to the extent proceeds of the loan are used for eligible expenditures such as payroll and other expenses described in the CARES Act. The loan may be repaid at any time with no prepayment penalty. The Organization's PPP loan is subject to an examination by the Small Business Administration (SBA) or its authorized representatives for 10 years after the date the note is forgiven or repaid in full.

During the year ended December 31, 2021, the Organization met all applicable SBA requirements, including having used loan proceeds for eligible expenses. Accordingly, the Organization submitted its application for PPP Loan forgiveness and received notice from its lender on May 27, 2022, that the SBA approved full forgiveness of \$ 103,185 of the second PPP Loan and the related interest thereon. Therefore, the loan is recognized as a current liability on the statements of financial position as of December 31, 2021.

**Note 7. 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, 2021 and 2020.

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, 2021 and 2020, 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, 2021 and 2020. 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.

**LUKE'S WINGS, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2021 and 2020**

**Note 8. Net Assets with Donor Restrictions**

Net assets with donor restrictions at December 31, 2021 and 2020, were subject to purpose restrictions as follows:

|                       | <u>2021</u>      | <u>2020</u>      |
|-----------------------|------------------|------------------|
| Special event sponsor | <u>\$ 84,000</u> | <u>\$ 75,000</u> |

**Note 9. Commitments and Contingencies**

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 June 1, 2020, the lease got extended to terminate on August 31, 2023. There is a two month 100% rent abatement and a two month 50% rent abatement. Base payments begin October 1, 2020.

Effective January 2018, the Organization signed a sublease agreement expiring on May 31, 2020. Effective June 1, 2020, the sublease was extended to expire on August 31, 2023.

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

|      | Gross Rent<br>Commitments | Sublease<br>Rentals | Net Rent<br>Commitments |
|------|---------------------------|---------------------|-------------------------|
| 2022 | \$ 94,036                 | \$ 24,000           | \$ 70,036               |
| 2023 | <u>64,421</u>             | <u>16,000</u>       | <u>48,421</u>           |
|      | <u>\$ 158,457</u>         | <u>\$ 40,000</u>    | <u>\$ 118,457</u>       |

Rent expense for the years ended December 31, 2021 and 2020, was \$ 61,901 and \$ 63,527, net of sublease income of \$ 24,000 for both 2021 and 2020.

**Note 10. 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. The Organization does not make employer contributions.

**LUKE'S WINGS, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2021 and 2020**

**Note 11. Related Party Transactions**

The Organization leases office space to a company owned by the Chief Executive Officer. The rental income provided to the Organization from the related party totaled \$ 24,000 for the years ended December 31, 2021 and 2020.

The Organization borrowed \$ 50,000 from the Chief Executive Officer during the year ended December 31, 2021 that is payable on demand. This loan was repaid in 2022.

**Note 12. 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.