# LUKE'S WINGS, INC.

# FINANCIAL REPORT

**December 31, 2022**

**LUKE'S WINGS, INC.**

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# 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, 2022, 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, 2022, 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.

## Emphasis of Matter – New Accounting Pronouncements

As discussed in Note 2, Luke's Wings, Inc. adopted Financial Accounting Standards Board (FASB) ASC 842, Leases. Our opinion is not modified with respect to this matter.

## 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.



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**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 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 17, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Dembo Jones, P.C.

*North Bethesda, Maryland*
*June 5, 2024*

**LUKE'S WINGS, INC.**
**STATEMENTS OF FINANCIAL POSITION**
**December 31, 2022 and 2021**

| | 2022 | 2021 |
|---|---|---|
| **Assets** | | |
| **Current Assets** | | |
| Cash and cash equivalents | $ 433,536 | $ 81,060 |
| Investments, at fair value | 799,978 | 1,411,259 |
| Unconditional promises to give | 81,794 | 366,708 |
| Event deposits | 74,524 | 91,714 |
| Total current assets | 1,389,832 | 1,950,741 |
| **Property and Equipment,** net of accumulated depreciation | | |
| Vehicles | 38,500 | 91,500 |
| Equipment | 3,440 | 3,440 |
| Less: accumulated depreciation | (41,940) | (94,940) |
| | - | - |
| **Other Assets** | | |
| Right-of-use assets - operating leases | 57,082 | - |
| Deposits | 16,890 | 16,890 |
| | 73,972 | 16,890 |
| | $ 1,463,804 | $ 1,967,631 |
| **Liabilities and Net Assets** | | |
| **Current Liabilities** | | |
| Paycheck Protection Program loan | $ - | $ 103,185 |
| Officer advance | - | 50,000 |
| Accounts payable and accrued expenses | 10,163 | 24,926 |
| Deferred revenue | 805 | 24,105 |
| Current maturities of operating lease liability | 64,273 | - |
| Deferred rent | - | 15,382 |
| Total current liabilities | 75,241 | 217,598 |
| **Net Assets** | | |
| Without donor restrictions | 1,388,563 | 1,666,033 |
| With donor restrictions | - | 84,000 |
| Total net assets | 1,388,563 | 1,750,033 |
| | $ 1,463,804 | $ 1,967,631 |

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

**LUKE'S WINGS, INC.**
**STATEMENT OF ACTIVITIES**
**Year Ended December 31, 2022**
**(With Comparative Totals for 2021)**

| | 2022 | | | |
|---|---|---|---|---|
| | Without Donor Restrictions | With Donor Restrictions | Total | 2021 Total |
| **Revenues** | | | | |
| Contributions | | | | |
| Grants and contributions | $ 1,296,855 | $ - | $ 1,296,855 | $ 1,622,928 |
| In-kind contributions | 945,568 | - | 945,568 | 577,284 |
| Special event revenue | - | - | - | 69,500 |
| Products and services | | | | |
| Special event loss - net costs of direct benefits to donors | (145,300) | - | (145,300) | (10,884) |
| Other income | | | | |
| Paycheck Protection Program loan forgiveness | 104,157 | - | 104,157 | 87,425 |
| Employee retention credit | 99,852 | - | 99,852 | - |
| Other income | 8,481 | - | 8,481 | - |
| Investment return - net | (171,280) | - | (171,280) | 177,178 |
| Total revenue before release of restrictions | 2,138,333 | - | 2,138,333 | 2,523,431 |
| Net assets released from restrictions | 84,000 | (84,000) | - | - |
| Total revenue | 2,222,333 | (84,000) | 2,138,333 | 2,523,431 |
| **Expenses** | | | | |
| Program services | 1,511,884 | - | 1,511,884 | 1,495,150 |
| General and administrative | 414,482 | - | 414,482 | 281,801 |
| Fundraising | 573,437 | - | 573,437 | 738,582 |
| Total expenses | 2,499,803 | - | 2,499,803 | 2,515,533 |
| **Change in net assets** | (277,470) | (84,000) | (361,470) | 7,898 |
| **Net assets, beginning of year** | 1,666,033 | 84,000 | 1,750,033 | 1,742,135 |
| **Net assets, end of year** | $ 1,388,563 | $ - | $ 1,388,563 | $ 1,750,033 |

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

**LUKE'S WINGS, INC.**
**STATEMENT OF FUNCTIONAL EXPENSES**
**Year Ended December 31, 2022**

| | Program Services | | | |
|---|---|---|---|---|
| | Flight | General and Administrative | Fundraising | Total |
| In-kind expenses | $ 945,568 | $ - | $ - | $ 945,568 |
| Advocacy | 152,961 | 101,312 | 379,502 | 633,775 |
| Salaries, taxes, and benefits | 274,352 | 161,925 | 120,447 | 556,724 |
| Event costs | 2,591 | 21,344 | 249,284 | 273,219 |
| Professional fees | 3,192 | 70,978 | 24,150 | 98,320 |
| Office supplies, services, printing and publications, and other | 23,382 | 46,374 | 16,896 | 86,652 |
| Travel and transportation | 71,972 | 1,770 | 6,236 | 79,978 |
| Lease expense | 40,338 | 689 | 20,762 | 61,789 |
| Dues and subscriptions | 14 | 28,553 | 212 | 28,779 |
| Meetings and meals | - | 2,069 | 5,040 | 7,109 |
| Other expenses | 105 | 513 | 150 | 768 |
| Insurance | - | 299 | 42 | 341 |
| Total expenses by function | 1,514,475 | 435,826 | 822,721 | 2,773,022 |
| Less: Items included within revenue and support: | | | | |
| Cost of direct benefits to donors | (2,591) | (21,344) | (249,284) | (273,219) |
| Total expenses included in the functional categories on the statement of activities | $ 1,511,884 | $ 414,482 | $ 573,437 | $ 2,499,803 |

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

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

| | Program Services | | | |
|---|---|---|---|---|
| | Flight | General and Administrative | Fundraising | Total |
| 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 publications, and other | 88,326 | 65,756 | 36,061 | 190,143 |
| Professional fees | - | 51,917 | 15,250 | 67,167 |
| Lease expense | 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 |
| Total expenses by function | 1,495,150 | 281,801 | 757,032 | 2,533,983 |
| Less: Items included within revenue and support: | | | | |
| Cost of direct benefits to donors | - | - | (18,450) | (18,450) |
| Total expenses included in the functional categories on the statement of activities | $ 1,495,150 | $ 281,801 | $ 738,582 | $ 2,515,533 |

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

**LUKE'S WINGS, INC.**
**STATEMENTS OF CASH FLOWS**
**Years Ended December 31, 2022 and 2021**

| | 2022 | 2021 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Change in net assets | $ (361,470) | $ 7,898 |
| Adjustments to reconcile change in net assets to net cash used in operating activities: | | |
| Depreciation | - | 8,833 |
| Realized and unrealized net loss (gain) on investments | 195,452 | (140,191) |
| Paycheck Protection Program loan forgiveness | (103,185) | (86,684) |
| Operating lease right-of-use asset amortization | 85,008 | - |
| Payments to settle operating lease liability | (93,199) | - |
| Decrease (increase) in assets: | | |
| Unconditional promises to give | 284,914 | (155,331) |
| Event deposits | 17,190 | (17,920) |
| Deposits | - | (10,000) |
| Decrease in liabilities: | | |
| Accounts payable and accrued expenses | (14,763) | (8,820) |
| Deferred revenue | (23,300) | - |
| Deferred rent | - | (5,014) |
| Net cash used in operating activities | (13,353) | (407,229) |
| **Cash flows from investing activities:** | | |
| Purchase of investments | (223,662) | (416,786) |
| Proceeds from sale of investments | 639,491 | 572,276 |
| Net cash provided by investing activities | 415,829 | 155,490 |
| **Cash flows from financing activities:** | | |
| Proceeds from Paycheck Protection Program loan | - | 103,185 |
| Advance from officer | (50,000) | 50,000 |
| Net cash (used in) provided by financing activities | (50,000) | 153,185 |
| **Net increase (decrease) in cash and cash equivalents** | 352,476 | (98,554) |
| **Cash and cash equivalents, beginning of year** | 81,060 | 179,614 |
| **Cash and cash equivalents, end of year** | $ 433,536 | $ 81,060 |

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

**LUKE'S WINGS, INC.**
**NOTES TO FINANCIAL STATEMENTS**
**December 31, 2022 and 2021**

## Note 1. Organization and Nature of Operations

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.

### *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 for support of the Organization. These net assets may be used at discretion of the Organization's management and the Board of Directors. 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.

### *Comparative Totals*

The financial statements include certain prior-year summarized comparative information. The 2021 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's financial statements for the year ended December 31, 2021, 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.

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

***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.

***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 year. 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 are carried at cost. 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 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.

## 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, 2022 and 2021.

**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 determined by the airlines and are 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.

All in-kind contributions received by the Organization for the years ended December 31, 2022 and 2021 were considered without donor restrictions and able to be used by the Organization as determined by the board of directors and management.

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

***Revenue Recognition (continued)***

In-kind contributions consisted of the following for the years ended December 31, 2022 and 2021:

| | 2022 | 2021 |
|---|---|---|
| Donated merchandise and service | $ - | $ 20,345 |
| Donated airline miles used | 945,568 | 556,939 |
| Total in-kind contributions | $ 945,568 | $ 577,284 |
| Special event donated auction items | $ 42,539 | $ 4,858 |

**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 2022 and 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.

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

| | 2022 | 2021 | 2020 |
|---|---|---|---|
| Event deposits | $ 74,524 | $ 91,714 | $ 73,794 |
| Deferred revenue | $ 805 | $ 24,105 | $ 24,105 |

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

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

***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.

***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.

***Recent Accounting Pronouncements Adopted***

In February 2016, FASB issued FASB ASC 842, Leases, which revised existing practice related to accounting for leases under FASB ASC 840, Leases for both lessees and lessors. The new guidance in FASB ASC 842 requires lessees to recognize a right of use (ROU) asset and a lease liability for qualified leases. FASB ASC 842 requires leases to be classified as either operating leases or finance leases. For lessees, operating leases will result in a straight-line operating lease expense while finance leases will result in finance lease expense that includes the amortization of the right of use asset and interest on the lease liability. The lease liability will be equal to the present value of lease payments and the ROU asset will be based on the lease liability, subject to adjustment such as for initial direct costs.

The Organization adopted Topic 842 on January 1, 2022, utilizing an optional transition method, which allowed the recognition of a cumulative effect adjustment to the opening balance of net assets on the initial date of adoption and the application of new disclosure requirements beginning in the period of adoption. Additionally, the Organization elected the package of practical expedients permitted under the transition guidance. This package includes the following: relief from determination of lease contracts included in existing or expiring leases at the point of adoption, relief from having to reevaluate the classification of leases in effect at the point of adoption, and relief from reevaluation of existing leases that have initial direct costs associated with the execution of the lease contract. LFA also adopted ongoing accounting policies to not recognize right-of-use (ROU) assets and lease liabilities for leasing arrangements with terms of less than one year and to not separate lease and non-lease components for all classes of underlying assets.

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

### *Recent Accounting Pronouncements Adopted (continued)*

The adoption of the new standard had a material impact on the statement of financial position for the recognition of ROU assets and lease liabilities for the operating lease.

In September 2020, the FASB issued ASU 2020-07, Presentation and Disclosures by *Not-for-Profit Entities for Contributed Nonfinancial Assets*. The standard requires nonprofits to expand their financial statement presentation and disclosure of contributed nonfinancial assets, including in-kind contributions. The standard includes disclosure of information on an entity's policies on contributed nonfinancial assets about monetization and utilization during the reporting period, information on donor-imposed restrictions, and valuation techniques. The new standard, as amended, is to be applied retrospectively to annual reporting periods beginning after June 15, 2021, and interim periods within annual reporting periods beginning after June 15, 2022. The amendments have been applied retrospectively to all periods presented, with no effects on net assets. The Organization has updated disclosures as necessary. See *Revenue Recognition* disclosure in Note 2.

### *Subsequent Events*

In preparing its financial statements, the Organization has evaluated subsequent events through June 5, 2024, which is the date the financial statements were available to be issued.

In 2023, the Organization entered into a long-term lease agreement for office space through September 2024.

## Note 3. Liquidity and Availability

As of December 31, 2022 and 2021, the following financial assets could readily be made available within one year of the statement of financial position date to meet general expenditures:

| | 2022 | 2021 |
|---|---|---|
| Cash and cash equivalents | $ 433,536 | $ 81,060 |
| Investments | 799,978 | 1,411,259 |
| Less: net assets with donor restrictions | - | (84,000) |
| | $ 1,233,514 | $ 1,408,319 |

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.

***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.

**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, 2022 and 2021.

*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, 2022 and 2021:

| | Investments at Fair Value as of December 31, 2022 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Mutual funds: | | | | |
| Bond funds | $ 96,820 | $ - | $ - | $ 96,820 |
| Growth funds | 50,775 | - | - | 50,775 |
| Income funds | 264,045 | - | - | 264,045 |
| Exchange traded funds | 133,213 | - | - | 133,213 |
| Fixed income - debt securities | - | 232,785 | - | 232,785 |
| Money market fund | - | 22,340 | - | 22,340 |
| Total assets at fair value | $ 544,853 | $ 255,125 | $ - | $ 799,978 |

## Note 5. Fair Value Measurements (continued)

**Investments at Fair Value as of December 31, 2021**

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| 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 |
| Total assets at fair value | $ 1,011,339 | $ 399,920 | $ - | $ 1,411,259 |

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, 2022 and 2021:

| | 2022 | 2021 |
|---|---|---|
| Interest and dividend income | $ 35,524 | $ 50,340 |
| Realized and unrealized net gain (loss) | (195,452) | 140,191 |
| Investment fees | (11,352) | (13,354) |
| Total | $ (171,280) | $ 177,178 |

## 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 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.

## 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 Organization 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 was removed as a current liability and was included as other income on the statement of activities for the year ended December 31, 2021.

In May 2021, the Organization received a second SBA Loan under the CARES Act, Paycheck Protection Program. The loan is the 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 was removed as a current liability and was included as other income on the statement of activities for the year ended December 31, 2022.

## Note 7. CARES Employee Retention Credit

Under the provisions of the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") signed into law on March 27, 2020 and the subsequent extension of the CARES Act, the Organization was eligible for a refundable employee retention credit subject to certain criteria. The Organization recognized $ 99,852 employee retention credit during the fiscal year 2022 as a non-exchange conditional contribution. Management recognized the conditions and barriers as met when payments were received. The Organization submitted its application for employee retention credit in October 2021 and collected credit during the year ended December 31, 2022. Therefore the $ 99,852 is reflected as part of other income on the accompanying statement of activities.

## Note 8. 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, 2022 and 2021.

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, 2022 and 2021, 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, 2022 and 2021. 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 9. Net Assets with Donor Restrictions

Net assets with donor restrictions at December 31, 2022 and 2021, were subject to purpose restrictions as follows:

| | 2022 | 2021 |
|---|---|---|
| Special event sponsor | $ - | $ 84,000 |

## Note 10. Commitments and Contingencies

In April 2015 the Organization entered into a lease for office space. 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. Effective June 1, 2020, the sublease was extended to expire on August 31, 2023.

The lease asset and liability were calculated utilizing an average incremental borrowing rate (1.04%), according to the Organization's elected policy. The leases contain options to renew the office lease, which were considered when assessing the value of the ROU asset because the Organization is reasonably certain that it will exercise its option to renew these leases.

Additional information about the Organization's leases are as follows:

| | |
|---|---|
| Lease Costs (included in operating expenses) | |
| Operating lease cost | $ 85,789 |

## Note 10. Commitments and Contingencies (continued)

Other Information

| | | |
|---|---|---|
| Cash paid for amounts included in measurement of lease liabilities: | | |
| Operating cash flows from operating leases | $ | 94,036 |
| ROU assets obtained in exchange for new operating lease liabilities | $ | 157,472 |
| Weighted-average remaining lease term (years) | | .67 |
| Weighted average discount rate | | .78% |

Maturities of operating lease liabilities as of December 31, 2022, are as follows:

| | Gross Lease Commitments | Sublease | Net Lease Commitments |
|---|---|---|---|
| 2023 lease payments | $ 64,421 | $ 16,000 | $ 48,421 |
| Less: present value discount | 148 | - | 148 |
| Present value of lease liabilities | $ 64,273 | $ 16,000 | $ 48,273 |

Lease expense for the years ended December 31, 2022 and 2021, was $ 61,789 and $ 61,901, net of sublease income of $ 24,000 for both 2022 and 2021.

## Note 11. 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.

## Note 12. 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, 2022 and 2021.

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 13. 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.