

**LIBERTY IN NORTH KOREA
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
DECEMBER 31, 2016**



**LIBERTY IN NORTH KOREA
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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Liberty in North Korea

We have audited the accompanying financial statements of Liberty in North Korea (a nonprofit organization), which comprise the statement of financial position as of December 31, 2016, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Liberty in North Korea as of December 31, 2016, 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.

Onisko & Scholz, LLP

Onisko & Scholz, LLP
Long Beach, California
November 7, 2017

LIBERTY IN NORTH KOREA
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2016

ASSETS	Unrestricted	Temporarily Restricted	Total
Current Assets			
Cash and cash equivalents	\$ 294,445	\$ -	\$ 294,445
Contributions receivable	32,465	-	32,465
Inventory	15,165	-	15,165
Prepaid expenses	22,925	-	22,925
Total Current Assets	<u>365,000</u>	<u>-</u>	<u>365,000</u>
Noncurrent Assets			
Property and equipment, net	94,535	-	94,535
Deposits	35,112	-	35,112
Total Noncurrent Assets	<u>129,647</u>	<u>-</u>	<u>129,647</u>
TOTAL ASSETS	<u>\$ 494,647</u>	<u>\$ -</u>	<u>\$ 494,647</u>
LIABILITIES AND NET ASSETS			
Current Liabilities			
Accounts payable	\$ 20,355	\$ -	\$ 20,355
Accrued liabilities	2,307	-	2,307
Loan payable	41,770	-	41,770
Total Current Liabilities	<u>64,432</u>	<u>-</u>	<u>64,432</u>
Total Liabilities	<u>64,432</u>	<u>-</u>	<u>64,432</u>
Net Assets			
Unrestricted net assets	430,215	-	430,215
Temporarily restricted net assets	-	-	-
Total Net Assets	<u>430,215</u>	<u>-</u>	<u>430,215</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 494,647</u>	<u>\$ -</u>	<u>\$ 494,647</u>

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

LIBERTY IN NORTH KOREA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
SUPPORT			
Contributions	\$ 1,271,443	\$ 360,788	\$ 1,632,231
Grants	375,000	10,000	385,000
Total Support	<u>1,646,443</u>	<u>370,788</u>	<u>2,017,231</u>
REVENUE			
Special events	176,058	-	176,058
Less: cost of direct benefits to donors	(84,499)	-	(84,499)
Net special events	<u>91,559</u>	<u>-</u>	<u>91,559</u>
Inventory sales	62,924	-	62,924
Other revenue	11	-	11
Net realized loss on disposal of assets	(3,225)	-	(3,225)
Total Revenue	<u>151,269</u>	<u>-</u>	<u>151,269</u>
Net assets released from restrictions	<u>551,839</u>	<u>(551,839)</u>	<u>-</u>
TOTAL SUPPORT AND REVENUE	<u>2,349,551</u>	<u>(181,051)</u>	<u>2,168,500</u>
EXPENSES			
Program services	1,560,122	-	1,560,122
Fund-raising	251,992	-	251,992
Management and general	381,125	-	381,125
TOTAL EXPENSES	<u>2,193,239</u>	<u>-</u>	<u>2,193,239</u>
CHANGE IN NET ASSETS	<u>156,312</u>	<u>(181,051)</u>	<u>(24,739)</u>
BEGINNING NET ASSETS PREVIOUSLY REPORTED	270,783	181,051	451,834
PRIOR PERIOD ADJUSTMENT	<u>3,120</u>	<u>-</u>	<u>3,120</u>
BEGINNING NET ASSETS AS RESTATED	<u>273,903</u>	<u>181,051</u>	<u>454,954</u>
NET ASSETS, END OF YEAR	<u>\$ 430,215</u>	<u>\$ -</u>	<u>\$ 430,215</u>

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

LIBERTY IN NORTH KOREA
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Program Services</u>	<u>Fund-raising</u>	<u>Management and General</u>	<u>Total</u>
Payroll Expenses				
Salaries and Wages	\$ 697,817	\$ 117,934	\$ 173,330	\$ 989,081
Employee Benefits	102,596	18,551	26,903	148,050
Payroll Taxes	38,248	9,851	12,940	61,039
Total Payroll Expenses	<u>838,661</u>	<u>146,336</u>	<u>213,173</u>	<u>1,198,170</u>
Advertising	-	5,187	-	5,187
Bank Service Charges	-	-	1,684	1,684
Client Assistance	148,348	1,320	165	149,833
Conferences	204	-	-	204
Consultants	16,357	-	-	16,357
Depreciation Expense	22,554	2,253	3,492	28,299
Dues and Subscriptions	22,946	9,919	4,950	37,815
Equipment Expense	3,104	21	648	3,773
Facility and Equipment Rentals	7,871	88,295	75	96,241
Fuel	5,898	910	820	7,628
Gifts and Appreciation	3,807	2,153	1,751	7,711
Insurance	15,673	2,317	11,830	29,820
Interest Expense	-	-	655	655
Inventory Purchases	46,684	-	-	46,684
Legal and Professional Fees	1,918	950	37,949	40,817
Meals and Entertainment	14,426	2,396	10,031	26,853
Merchant Account Fees	-	-	38,836	38,836
Miscellaneous Expenses	349	60	330	739
Payroll Fees	-	-	2,505	2,505
Postage	1,018	1,867	582	3,467
Printing and Reproduction	278	5,222	402	5,902
Professional Fundraising	-	29,656	-	29,656
Rent Expense	52,270	9,932	14,191	76,393
Repairs and Maintenance	14,845	2,871	5,530	23,246
Rescue Expense	189,851	-	-	189,851
Research and Development	93	-	-	93
Staff Development	1,330	-	315	1,645
Staff/Intern Housing	50,970	5,569	4,455	60,994
Supplies	5,523	4,487	4,737	14,747
Taxes and Licenses	65	-	623	688
Travel	62,019	8,582	12,100	82,701
Utilities	27,321	4,913	7,499	39,733
Worker's Compensation	5,739	1,275	1,797	8,811
Total expenses	<u>1,560,122</u>	<u>336,491</u>	<u>381,125</u>	<u>2,277,738</u>
Less expenses included in revenue section of the statement of activities	<u>-</u>	<u>(84,499)</u>	<u>-</u>	<u>(84,499)</u>
Total expenses included in the expense section of the statement of activities	<u>\$ 1,560,122</u>	<u>\$ 251,992</u>	<u>\$ 381,125</u>	<u>\$ 2,193,239</u>

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

LIBERTY IN NORTH KOREA
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Change in net assets	\$ 156,312	\$ (181,051)	\$ (24,739)
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:			
Depreciation	28,299	-	28,299
Net realized loss on disposal of assets	3,225	-	3,225
Receipt of donated property and equipment	(3,500)	-	(3,500)
Changes in operating assets and liabilities:			
Contributions receivable	134,206	1,416	135,622
Inventory	(9,366)	-	(9,366)
Prepaid expenses	(16,689)	-	(16,689)
Deposits	(7,010)	-	(7,010)
Accounts payable	(26,402)	-	(26,402)
Accrued liabilities	(239)	-	(239)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>258,836</u>	<u>(179,635)</u>	<u>79,201</u>
 CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property and equipment	(16,588)	-	(16,588)
Proceeds from sale of property and equipment	<u>2,800</u>	<u>-</u>	<u>2,800</u>
NET CASH USED BY INVESTING ACTIVITIES	<u>(13,788)</u>	<u>-</u>	<u>(13,788)</u>
 CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from loan payable	50,000	-	50,000
Principal payments on loan payable	<u>(8,230)</u>	<u>-</u>	<u>(8,230)</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>41,770</u>	<u>-</u>	<u>41,770</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	286,818	(179,635)	107,183
BEGINNING CASH AND CASH EQUIVALENTS	<u>7,627</u>	<u>179,635</u>	<u>187,262</u>
ENDING CASH AND CASH EQUIVALENTS	<u>\$ 294,445</u>	<u>\$ -</u>	<u>\$ 294,445</u>

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

**LIBERTY IN NORTH KOREA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 1 – ORGANIZATION AND NATURE OF ACTIVITIES

Liberty in North Korea (the “Organization”) is a 501(c)(3) nonprofit organization based out of Long Beach, California, United States, with overseas operations in Seoul, South Korea and Southeast Asia. The Organization’s main purpose is to work alongside the North Korean people to accelerate change, by focusing on two primary strategic areas: working directly with North Korean refugees, and changing the way the world sees North Korea.

Refugee Work

The organization’s work with North Korean refugees is divided into three key programs:

- 1) **Refugee Rescues:** North Koreans who have escaped into China face the twin threats of repatriation and exploitation. The Organization brings these North Korean refugees through a 3,000 mile secret rescue route, helping them safely resettle in South Korea and the U.S. without cost or condition.
- 2) **Resettlement Assistance:** Newly arriving refugees face a range of resettlement challenges in their new societies, particularly in their first 24 months. The Organization’s Resettlement Assistance Program is designed to help refugees make a smooth adjustment and quick transition to self-sufficiency.
- 3) **Empowerment Programs:** The Organization’s Empowerment Programs are designed to provide opportunities and enhanced support in the areas of education, personal development and career development so that resettled North Koreans can fulfill their potential.

Changing the Narrative

The Organization works directly with North Korean defectors and other experts to develop new insights and ways of understanding the North Korean issue in an effort to change and broaden the public’s perception of North Korea, and ultimately to mobilize increased support and attention.

- 1) **Creating Media & Documentaries:** The Organization creates short and long-form videos and other media that focus on the North Korean people’s challenges as well as their potential.
- 2) **Engaging with International Journalists and Policymakers:** The Organization engages with international journalists, filmmakers, diplomats and other policymakers to influence the way the media reports on North Korea as well as the way that governments and policymakers think about the issue.
- 3) **Direct Grassroots Engagement:** Through events and global online campaigns, the Organization shares the stories of the North Korean people and promotes a broader perspective on the issue. Hundreds of Liberty in North Korea Rescue Teams around the world are raising funds to rescue North Korean refugees and build support for the North Korean people on a local level.

LIBERTY IN NORTH KOREA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Organization uses the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.

Description of Net Asset Classes

The net assets and revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions as follows:

Unrestricted - Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors.

Temporarily restricted - Net assets subject to donor-imposed stipulations that can be fulfilled by actions of the Organization, pursuant to those stipulations, or that expire by the passage of time. There were no temporarily restricted net assets at December 31, 2016.

Permanently restricted - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of such assets permit the Organization to use all or part of the income earned on assets. There were no permanently restricted net assets as of December 31, 2016.

Accounting for Contributions

Generally accepted accounting principles require that the Organization reports information about its financial position and activities in three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. Contributions are recognized when the donor makes a promise to give to the Organization that is unconditional. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Cash and Cash Equivalents

For purposes of the statement of financial position and the statement of cash flows, cash and cash equivalents consist of cash and other highly liquid resources, such as investments in certificates of deposit and money market funds, with an original maturity of three months or less when purchased.

Inventories

Inventories, which consist primarily of store items such as T-shirts, sweatshirts, tote bags, books, and DVDs, are valued at the lower of cost or market. Cost is determined by using the average cost method.

LIBERTY IN NORTH KOREA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and Equipment

Property and equipment are stated at cost, if purchased or at fair value at the date of the gift, if donated and significant. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support.

Expenditures for major additions and improvements that exceed \$500 are capitalized. Minor replacements, maintenance, and repairs are charge to expense as incurred. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets ranging from five to seven years.

Long Lived Assets

The Organization reviews long lived assets such as property and equipment to determine if there has been an impairment of value whenever events or changes occur that indicate the carrying value of the assets may have declined and not be recoverable. No circumstances have occurred during the year to cause the Organization to believe there has been any impairment of the carrying value of its long lived assets as of December 31, 2016. There can be no assurance, however, that market or other conditions will not change in the future resulting in impairment of long lived assets.

Contributed Services

The Organization receives periodic donations of professional services, such as bookkeeping, legal fees, and media consulting, which are recorded at estimated fair market value at the date of donation, if significant. The amount of contributed services for the year ended December 31, 2016 was \$11,525.

A substantial number of volunteers have donated significant amounts of their time to the Organization and its programs. These services are not reflected in the financial statements since these services do not meet the criteria for recognition as contributed services.

Compensated Absences

Employees of the Organization are entitled to unlimited paid vacation days with approval of supervisors. No payout of vacation days will be made upon termination of employment; therefore, no liability for such absences is included in accrued liabilities on the statement of financial position. Employees are also granted unlimited sick days, which is not an earned benefit. No payment of sick leave will be made upon termination of employment.

Concentration of Credit Risk

The Organization's cash and cash equivalents are maintained in various banks and financial institutions. The Organization has exposure to credit risk to the extent that its cash and cash equivalents exceed amounts covered by federal deposit insurance (FDIC) up to \$250,000. At December 31, 2016, the Organization had \$80,677 in uninsured cash balances. The Organization has two foreign bank accounts held in South Korea. The foreign bank accounts are covered by Korea Deposit Insurance Corporation (KDIC) up to 50,000,000 Korean Won (approx. \$42,000 at December 31, 2016 after conversion to U.S. dollars). Cash balances held in foreign bank accounts did not exceed the KDIC insured limit in 2016.

LIBERTY IN NORTH KOREA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Taxes

The Organization is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code (“IRC”) and Section 23701(d) of the California Tax Code. Consequently, the accompanying financial statements do not reflect any provision for income taxes. Contributions to the Organization are deductible for tax purposes under Section 170(b)(1) of the IRC.

GAAP provides accounting and disclosure guidance about positions taken by an organization in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken by the Organization in its federal and state exempt organization returns are more likely than not to be sustained upon examination. The Organization’s returns are subject to examination by federal and state taxing authorities, generally for three and four years after they are filed, respectively.

Use of Estimates

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

Advertising Costs

The Organization uses advertising to change the narrative on North Korea. Advertising costs are expensed as incurred. Advertising expense for the year ended December 31, 2016 was \$5,187.

Fair Value of Financial Instruments

The Organization’s financial instruments, including cash and cash equivalents, and accounts payable, and accrued expenses, are carried at cost, which approximates fair value because of the short-term nature of these instruments.

Expense Allocation

The cost of providing various programs and other activities has been summarized on a functional basis in the statement of activities and the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

NOTE 3 – CONTRIBUTIONS RECEIVABLE

Contributions receivable as of December 31, 2016 are expected to be collected in the following periods:

Less than one year	<u>\$ 32,465</u>
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**LIBERTY IN NORTH KOREA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2016 consists of the following:

Furniture and fixtures	\$ 14,664
Computer equipment	58,762
Vehicles	88,446
Camera Equipment	7,591
	<hr/>
	169,463
Less accumulated depreciation	(74,928)
	<hr/>
	\$ 94,535

Depreciation expense for the year ended December 31, 2016 was \$28,299.

NOTE 5 – OPERATING LEASES

The Organization is committed under two real property leases for premises in Long Beach and Rancho Palos Verdes, California expiring July 31, 2021 and July 31, 2017, respectively. Two leases are also held in South Korea expiring March 17, 2017 and February 21, 2018.

Minimum lease payments required under the leases are as follows:

<u>Year Ending December 31,</u>	<u>Total</u>
2017	\$ 105,627
2018	78,393
2019	87,776
2020	90,128
2021	53,375
	<hr/>
	\$ 415,299

Rental expenses for all operating leases, except those with terms of a month or less that were not renewed, were \$69,176 for the year ended December 31, 2016.

NOTE 6 – NOTES PAYABLE

In October 2016 the Organization entered into a loan agreement with Nonprofits Insurance Alliance of California for \$50,000. Interest is to be paid at an annual rate of 6.0% and monthly payments are \$8,479.77. Interest paid on the loan amounted to \$250 and the total amount due on the loan was \$41,770 for the year ended December 31, 2016. The loan matures in May 2017.

LIBERTY IN NORTH KOREA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 7 – TEMPORARILY RESTRICTED NET ASSETS

There were no temporarily restricted net assets at December 31, 2016. Net assets were released from restrictions during the year ended December 31, 2016 by incurring expenses satisfying the restricted purpose as follows:

Rescue fund	\$ 536,239
Education fund	5,065
Resettlement fund	7,211
Memorial fund	<u>3,324</u>
	<u>\$ 551,839</u>

NOTE 8 – FOREIGN OPERATIONS

Operations outside the United States include offices in South Korea and Southeast Asia. Foreign operations are subject to risks inherent in operating under different legal systems and various political and economic environments. Among the risks are changes in existing tax laws, possible limitations on foreign investment and income repatriation, government price or foreign exchange controls, and restrictions on currency exchange. Total property and equipment held outside of the United States at December 31, 2016 was \$56,191. See Note 2, Concentration of Credit Risk, for foreign cash amounts held in the Organization.

NOTE 9 – CONCENTRATIONS

Approximately 32 percent of the Organization's support was received from three donors.

NOTE 10 – RELATED PARTIES

The Organization received donations from board members in the amount of \$176,539 during the year ended December 31, 2016.

NOTE 11 – SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

During the year ended December 31, 2016, the Organization paid \$655 in interest and no income taxes.

LIBERTY IN NORTH KOREA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 12 – RETIREMENT PLAN

The Organization started a Savings Incentive Match Plan for Employees (SIMPLE) IRA on May 1, 2015. Under the SIMPLE IRA plan, eligible employees may make elective contributions of up to \$12,500. The Organization will make a matching contribution equal to the 100% of the employee's contribution up to a limit of 3% of the employee's compensation for the calendar year. The Organization contributed \$14,826 to the plan for the year ended December 31, 2016.

In addition to the SIMPLE IRA, the Organization also participates in government-mandated pension plan contributions for its employees in South Korea. Under this plan, both the employee and the employer are required to contribute 4.5% of an employee's gross pay towards retirement. Organization's contributions were \$9,190 for the year ended December 31, 2016.

NOTE 13 – PRIOR PERIOD ADJUSTMENTS

Net assets beginning January 1, 2016 have been adjusted for corrections to the prior year. The previously issued financial statements have been restated. The effect of these corrections was to increase net assets by \$3,120 as of January 1, 2016.

Prepaid expenses were understated in the prior year by \$3,120. Prepaid expenses were adjusted for a refund on a retainer paid in 2015 and prepaid marketing expenses not utilized. The effect of the correction was an increase in prepaid expenses of \$3,120 and an increase of \$3,120 in unrestricted net assets.

NOTE 14 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 7, 2017, the date the financial statements were available to be issued.