

**LIBERTY IN NORTH KOREA
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
DECEMBER 31, 2014**



**LIBERTY IN NORTH KOREA
TABLE OF CONTENTS**

<i>Independent Auditors' Report</i>	1
<i>Financial Statements</i>	
<i>Statement of Financial Position</i>	2
<i>Statement of Activities</i>	3
<i>Statement of Functional Expenses</i>	4
<i>Statement of Cash Flows</i>	5
<i>Notes to the Financial Statements</i>	6-12

INDEPENDENT AUDITORS' REPORT

To the Board of Directors 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, 2014, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, 2014, 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
January 21, 2016

LIBERTY IN NORTH KOREA
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2014

ASSETS	Unrestricted	Temporarily Restricted	Total
Current Assets			
Cash and cash equivalents	\$ 38,516	\$ 450,606	\$ 489,122
Accounts receivable	59,415	-	59,415
Inventory	3,411	-	3,411
Total Current Assets	101,342	450,606	551,948
Noncurrent Assets			
Property and equipment, net	128,427	-	128,427
Other assets	3,170	-	3,170
Total Noncurrent Assets	131,597	-	131,597
 TOTAL ASSETS	 \$ 232,939	 \$ 450,606	 \$ 683,545
 LIABILITIES AND NET ASSETS			
Current Liabilities			
Accounts payable	\$ 38,871	\$ -	\$ 38,871
Accrued liabilities	564	-	564
Total Current Liabilities	39,435	-	39,435
Total Liabilities	39,435	-	39,435
Net Assets			
Unrestricted net assets	193,504	-	193,504
Temporarily restricted net assets	-	450,606	450,606
Total Net Assets	193,504	450,606	644,110
 TOTAL LIABILITIES AND NET ASSETS	 \$ 232,939	 \$ 450,606	 \$ 683,545

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

**LIBERTY IN NORTH KOREA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
SUPPORT			
Contributions	\$ 962,250	\$ 793,203	\$ 1,755,453
Grants	265,000	10,000	275,000
Total Support	<u>1,227,250</u>	<u>803,203</u>	<u>2,030,453</u>
REVENUE			
Inventory sales	182,420	-	182,420
Other revenue	5,167	-	5,167
Total Revenue	<u>187,587</u>	<u>-</u>	<u>187,587</u>
Net assets released from restrictions	<u>478,884</u>	<u>(478,884)</u>	<u>-</u>
TOTAL SUPPORT AND REVENUE	<u>1,893,721</u>	<u>324,319</u>	<u>2,218,040</u>
EXPENSES			
Program services	1,436,430	-	1,436,430
Fund-raising	104,795	-	104,795
Management and general	365,051	-	365,051
TOTAL EXPENSES	<u>1,906,276</u>	<u>-</u>	<u>1,906,276</u>
CHANGE IN NET ASSETS	(12,555)	324,319	311,764
NET ASSETS, BEGINNING OF YEAR	<u>206,059</u>	<u>126,287</u>	<u>332,346</u>
NET ASSETS, END OF YEAR	<u>\$ 193,504</u>	<u>\$ 450,606</u>	<u>\$ 644,110</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, 2014

	<u>Program Services</u>	<u>Fund-raising</u>	<u>Management and General</u>	<u>Total</u>
Payroll Expenses				
Salaries and Wages	\$ 442,441	\$ 49,658	\$ 192,850	\$ 684,949
Health Insurance	20,811	3,265	16,730	40,806
Payroll Taxes	28,724	4,381	16,985	50,090
Total Payroll Expenses	<u>491,976</u>	<u>57,304</u>	<u>226,565</u>	<u>775,845</u>
Advertising	799	166	629	1,594
Bank Service Charges	1,135	186	820	2,141
Campaign Development	-	9,367	-	9,367
Client Assistance	222,989	7,445	2,097	232,531
Consultants	63,811	-	-	63,811
Depreciation Expense	-	-	15,051	15,051
Dues and Subscriptions	11,697	-	-	11,697
Equipment Expense	7,271	375	2,101	9,747
Fuel	32,018	390	680	33,088
Insurance	22,100	300	5,459	27,859
Interest Expense	-	-	1,175	1,175
Inventory Purchases	99,970	-	-	99,970
Legal and Professional Fees	-	-	16,855	16,855
Loss on Disposal of Assets	-	-	11,185	11,185
Meals and Entertainment	10,939	843	1,404	13,186
Merchant Account Fees	20,133	4,182	15,844	40,159
Payroll Fees	1,193	164	636	1,993
Postage	2,964	1,038	1,035	5,037
Printing and Reproduction	9,063	1,317	4	10,384
Recruiting Expense	1,254	261	987	2,502
Rent Expense	39,902	4,952	19,513	64,367
Repairs and Maintenance	29,660	954	6,666	37,280
Rescue Expense	220,920	-	-	220,920
Staff Development	10,360	2,151	5,283	17,794
Staff/Intern Housing	50,659	-	8,066	58,725
Storage	275	-	-	275
Supplies	9,644	787	3,379	13,810
Taxes and Licenses	886	133	501	1,520
Travel	53,634	10,119	9,291	73,044
Utilities	17,692	1,637	7,082	26,411
Worker's Compensation	3,486	724	2,743	6,953
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total expenses	<u>\$ 1,436,430</u>	<u>\$ 104,795</u>	<u>\$ 365,051</u>	<u>\$ 1,906,276</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, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Change in net assets	\$ (12,555)	\$ 324,319	\$ 311,764
Adjustments to reconcile changes in net assets to net cash provided by operating activities:			
Depreciation	15,051	-	15,051
Loss on disposal of assets	11,185	-	11,185
Changes in operating assets and liabilities:			
Accounts receivable	(59,415)	-	(59,415)
Inventory	2,591	-	2,591
Accounts payable	38,718	-	38,718
Accrued liabilities	4	-	4
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>(4,421)</u>	<u>324,319</u>	<u>319,898</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of equipment	<u>(105,808)</u>	<u>-</u>	<u>(105,808)</u>
NET CASH USED BY INVESTING ACTIVITIES	<u>(105,808)</u>	<u>-</u>	<u>(105,808)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(110,229)	324,319	214,090
BEGINNING CASH AND CASH EQUIVALENTS	<u>148,745</u>	<u>126,287</u>	<u>275,032</u>
ENDING CASH AND CASH EQUIVALENTS	<u>\$ 38,516</u>	<u>\$ 450,606</u>	<u>\$ 489,122</u>

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

**LIBERTY IN NORTH KOREA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 1 – ORGANIZATION AND NATURE OF ACTIVITIES

Liberty in North Korea (the “Organization”) is a 501(c)(3) nonprofit organization based out of Torrance, 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 their networks that cover 3,000 miles of secret rescue routes, 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:** As resettled North Koreans pursue their long-term dreams and ambitions in their new societies they still do not face a level playing field. 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 issue in order 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 global online campaigns and tours across North America, 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 (chapters) exist around the world working to raise funds to support 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, 2014

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.

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, 2014.

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, 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, 2014

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, 2014. 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, 2014 was \$19,242.

A substantial number of volunteers have donated significant amounts of their time to the Organization and its educational 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 times, the Organization maintains cash balances in excess of the federally insured amounts. 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. \$46,000 at December 31, 2014 after conversion to U.S. dollars). Cash balances held in foreign bank accounts did not exceed the KDIC insured limit in 2014.

LIBERTY IN NORTH KOREA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

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 raise awareness of the human rights issues in North Korea. Advertising costs are expensed as incurred. Advertising expense for the year ended December 31, 2014 was \$1,594.

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 – ACCOUNTS RECEIVABLE

Accounts receivable as of December 31, 2014 consisted of the following:

Contributions	\$ 59,415
	\$ 59,415

**LIBERTY IN NORTH KOREA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2014 consists of the following:

Furniture and fixtures	\$ 41,057
Computer equipment	33,237
Vehicles	<u>128,720</u>
	203,014
 Less accumulated depreciation	 <u>(74,587)</u>
	 <u>\$ 128,427</u>

Depreciation expense for the year ended December 31, 2014 was \$15,051.

NOTE 5 – OPERATING LEASES

The Organization is committed under two real property leases for premises in Harbor City, California and Torrance, California expiring May 31, 2015 and January 14, 2016, respectively.

Minimum lease payments required under the leases are as follows:

Year Ending December 31,	Total
2015	\$ 62,306
2016	<u>3,963</u>
	<u>\$ 66,629</u>

Rental expenses were \$123,092 for the year ended December 31, 2014.

NOTE 6 – CONTINGENCIES

During the spring tour, on May 5, 2014, a tragic automobile accident occurred in Lubbock, Texas involving a van owned by the Organization and a semi-truck carrying highly-flammable ethanol. The accident resulted in the death of three Organization interns, caused substantial property damage, and injured the semi-truck driver.

Lawsuits have been filed against the Organization for the personal injuries and property damage sustained in the accident. The Organization was covered by an automobile insurance liability policy underwritten by United Financial Casualty Company (Progressive) with a single limit of \$300,000. See Note 12 for additional details on progress of lawsuits.

LIBERTY IN NORTH KOREA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

NOTE 7 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at December 31, 2014 are available for the following purposes:

Rescue fund	\$ 447,282
Memorial fund	<u>3,324</u>
	<u>\$ 450,606</u>

Net assets were released from restrictions during the year ended December 31, 2014 by incurring expenses satisfying the restricted purpose as follows:

Rescue fund	\$ 382,929
Summit fund	52,090
Memorial fund	<u>43,865</u>
	<u>\$ 478,884</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, 2014 was \$56,191. See Note 2 for foreign cash amounts held in the Organization.

NOTE 9 – CONCENTRATIONS

Approximately 20 percent of the Organization's support was received from two donors.

NOTE 10 – RELATED PARTIES

The Organization received donations from a board member in the amount of \$123,613 during the year ended December 31, 2014.

NOTE 11 – SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

During the year ended December 31, 2014, the Organization paid \$1,175 in interest and no income taxes.

**LIBERTY IN NORTH KOREA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 12 – SUBSEQUENT EVENTS

On June 18, 2015 pre-litigation mediation took place resulting in 9 of the 11 original claims made against the Organization being settled within the \$300,000 applicable policy limit. The 2 remaining claimants have a two year statute of limitations to file a claim or lawsuit from the date of the accident. The Organization does not foresee any exposure related to this automobile accident above the insurance limit due to the remote chance the 2 claimants have in winning if they do file a claim or lawsuit. Thus, no liability has been recorded as of December 31, 2014.

Management has evaluated subsequent events through January 21, 2016, the date the financial statements were available to be issued.