

**LIBERTY IN NORTH KOREA
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
DECEMBER 31, 2017**



**LIBERTY IN NORTH KOREA
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5000 E. Spring Street Suite 200
Long Beach, California 90815-5213
Telephone (562)420-3100
Facsimile (562)420-3232

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, 2017, 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, 2017, 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
July 16, 2018

LIBERTY IN NORTH KOREA
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2017

ASSETS	Unrestricted	Temporarily Restricted	Total
Current Assets			
Cash and cash equivalents	\$ 829,298	\$ 335,826	\$ 1,165,124
Contributions receivable	220,819	-	220,819
Employee receivable	4,985	-	4,985
Inventory	8,839	-	8,839
Prepaid expenses, current portion	26,195	-	26,195
Total Current Assets	1,090,136	335,826	1,425,962
Noncurrent Assets			
Property and equipment, net	100,326	-	100,326
Deposits	25,898	-	25,898
Prepaid expenses, net of current portion	9,369	-	9,369
Total Noncurrent Assets	135,593	-	135,593
TOTAL ASSETS	\$ 1,225,729	\$ 335,826	\$ 1,561,555
 LIABILITIES AND NET ASSETS			
Current Liabilities			
Accounts payable	\$ 15,560	\$ -	\$ 15,560
Accrued liabilities	7,857	-	7,857
Total Current Liabilities	23,417	-	23,417
Total Liabilities	23,417	-	23,417
Net Assets			
Unrestricted net assets	1,202,312	-	1,202,312
Temporarily restricted net assets	-	335,826	335,826
Total Net Assets	1,202,312	335,826	1,538,138
TOTAL LIABILITIES AND NET ASSETS	\$ 1,225,729	\$ 335,826	\$ 1,561,555

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

**LIBERTY IN NORTH KOREA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
SUPPORT			
Contributions	\$ 1,834,118	\$ 952,309	\$ 2,786,427
Grants	385,000	150,000	535,000
Total Support	<u>2,219,118</u>	<u>1,102,309</u>	<u>3,321,427</u>
REVENUE			
Special events	97,164	-	97,164
Less: cost of direct benefits to donors	(127,106)	-	(127,106)
Net special events	<u>(29,942)</u>	<u>-</u>	<u>(29,942)</u>
Inventory sales	48,601	-	48,601
Other revenue	(3,331)	-	(3,331)
Net realized loss on disposal of assets	3,412	-	3,412
Total Revenue	<u>18,740</u>	<u>-</u>	<u>18,740</u>
Net assets released from restrictions	<u>766,483</u>	<u>(766,483)</u>	<u>-</u>
TOTAL SUPPORT AND REVENUE	<u>3,004,341</u>	<u>335,826</u>	<u>3,340,167</u>
EXPENSES			
Program services	1,540,447	-	1,540,447
Fund-raising	282,766	-	282,766
Management and general	409,031	-	409,031
TOTAL EXPENSES	<u>2,232,244</u>	<u>-</u>	<u>2,232,244</u>
CHANGE IN NET ASSETS	<u>772,097</u>	<u>335,826</u>	<u>1,107,923</u>
NET ASSETS, BEGINNING OF YEAR	<u>430,215</u>	<u>-</u>	<u>430,215</u>
NET ASSETS, END OF YEAR	<u>\$ 1,202,312</u>	<u>\$ 335,826</u>	<u>\$ 1,538,138</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, 2017

	<u>Program Services</u>	<u>Fund-raising</u>	<u>Management and General</u>	<u>Total</u>
Payroll Expenses				
Salaries and Wages	\$ 590,725	\$ 136,277	\$ 139,175	\$ 866,177
Employee Benefits	74,637	14,313	17,071	106,021
Payroll Taxes	27,089	11,560	7,826	46,475
Total Payroll Expenses	<u>692,451</u>	<u>162,150</u>	<u>164,072</u>	<u>1,018,673</u>
Advertising	555	147	24	726
Bank Service Charges	-	-	9,532	9,532
Client Assistance	124,608	-	-	124,608
Conferences	69	-	1,229	1,298
Consultants	1,105	300	-	1,405
Depreciation Expense	23,463	2,774	3,283	29,520
Dues and Subscriptions	34,831	14,737	3,841	53,409
Equipment Expense	2,427	319	236	2,982
Facility and Equipment Rentals	8,667	118,069	204	126,940
Film Production	65,942	-	-	65,942
Gifts and Appreciation	2,035	9,678	3,748	15,461
Insurance	9,488	1,877	10,151	21,516
Interest Expense	-	-	808	808
Inventory Purchases	27,525	-	-	27,525
Legal and Professional Fees	28,281	2,480	116,839	147,600
Meals and Entertainment	10,523	5,328	9,469	25,320
Merchant Account Fees	-	-	34,761	34,761
Payroll Fees	-	-	2,148	2,148
Postage	1,240	838	859	2,937
Printing and Reproduction	1,602	7,935	278	9,815
Professional Fundraising	-	26,883	-	26,883
Rent Expense	77,963	18,257	20,152	116,372
Repairs and Maintenance	3,435	633	839	4,907
Rescue Expense	284,395	-	-	284,395
Staff Development	144	-	587	731
Staff/Intern Housing	32,402	5,718	9,530	47,650
Supplies	3,997	5,701	1,690	11,388
Taxes and Licenses	244	-	550	794
Travel	75,434	19,445	7,380	102,259
Utilities	20,890	5,402	5,297	31,589
Worker's Compensation	<u>6,731</u>	<u>1,201</u>	<u>1,524</u>	<u>9,456</u>
Total expenses	1,540,447	409,872	409,031	2,359,350
Less expenses included in revenue section of the statement of activities	<u>-</u>	<u>(127,106)</u>	<u>-</u>	<u>(127,106)</u>
Total expenses included in the expense section of the statement of activities	<u>\$ 1,540,447</u>	<u>\$ 282,766</u>	<u>\$ 409,031</u>	<u>\$ 2,232,244</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, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Change in net assets	\$ 772,097	\$ 335,826	\$ 1,107,923
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:			
Depreciation	29,520	-	29,520
Net realized loss on disposal of assets	3,412	-	3,412
Changes in operating assets and liabilities:			
Contributions receivable	(188,354)	-	(188,354)
Employee receivable	(4,985)	-	(4,985)
Inventory	6,326	-	6,326
Prepaid expenses	(12,639)	-	(12,639)
Deposits	9,214	-	9,214
Accounts payable	(4,795)	-	(4,795)
Accrued liabilities	5,550	-	5,550
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 <u>615,346</u>	 <u>335,826</u>	 <u>951,172</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property and equipment	(46,550)	-	(46,550)
Proceeds from sale of property and equipment	7,827	-	7,827
 NET CASH USED BY INVESTING ACTIVITIES	 <u>(38,723)</u>	 <u>-</u>	 <u>(38,723)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Principal payments on loan payable	(41,770)	-	(41,770)
 NET CASH USED BY FINANCING ACTIVITIES	 <u>(41,770)</u>	 <u>-</u>	 <u>(41,770)</u>
 NET INCREASE IN CASH AND CASH EQUIVALENTS	 534,853	 335,826	 870,679
BEGINNING CASH AND CASH EQUIVALENTS	<u>294,445</u>	<u>-</u>	<u>294,445</u>
ENDING CASH AND CASH EQUIVALENTS	<u>\$ 829,298</u>	<u>\$ 335,826</u>	<u>\$ 1,165,124</u>

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

**LIBERTY IN NORTH KOREA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

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, 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.

Working with North Korean Refugees

The Organization works with North Korean refugees because of the humanitarian imperative, but also because of their potential as agents of change on this issue. This strategy is implemented through two programs:

- 1) **Refugee Rescues:** North Korean refugees who have escaped into China face the twin threats of exploitation and forced repatriation. The Organization brings these individuals through networks that cover 3,000 miles of secret rescue routes, helping them safely resettle in South Korea or the United States without cost or condition.
- 2) **Post-Resettlement Cooperation:** Newly arriving North Korean refugees face a range of resettlement challenges in their new societies. The Organization provides resources and guidance to help these individuals make a smooth adjustment and quick transition to self-sufficiency through the following services: resettlement counseling, interpretation and translation services, education grants, workshops and community events, and by providing information and referrals for additional support services. The Organization also seeks to invest in the long-term ambitions, potential and strength of the North Korean people by focusing on building a community that will equip them to pursue their dreams and empower them to become agents of change on the issue.

Changing the Narrative

The Organization works directly with North Korean defectors and other experts to develop new insights and ways of understanding the issue, and then disseminates this to people worldwide through multiple strategies:

- 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, and shares these with international audiences.
- 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 a broader perspective on the issue. Hundreds of Liberty in North Korea Rescue Teams (chapters) around the world fundraise to rescue North Korean refugees and build support for the North Korean people in their local communities.

LIBERTY IN NORTH KOREA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

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 \$335,826 of temporarily restricted net assets at December 31, 2017.

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, 2017.

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 and net realizable value. Cost is determined by using the average cost method.

LIBERTY IN NORTH KOREA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

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, 2017. 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, 2017 was \$86,764.

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, 2017, the Organization had \$544,027 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. \$47,000 at December 31, 2017 after conversion to U.S. dollars). At times during the year, the Organization maintained cash balances in excess of the foreign insured limits.

LIBERTY IN NORTH KOREA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

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 expenses as incurred. Advertising expense for the year ended December 31, 2017 was \$726.

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.

Recent Accounting Pronouncements

In July 2015, the FASB issued ASU 2015-11, *Inventory (Topic 330): Simplifying the Measurement of Inventory*. The standard requires entities to measure most inventory “at the lower of cost and net realizable value,” thereby simplifying the current guidance under which an entity must measure inventory at the lower of cost or market (market in this context is defined as one of three different measures, one of which is net realizable value). The standard is effective for the Organization prospectively beginning January 1, 2017. The adoption of ASU 2015-11 did not have a material impact on the Organization’s financial statements.

**LIBERTY IN NORTH KOREA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 3 – CONTRIBUTIONS RECEIVABLE

Contributions receivable as of December 31, 2017 are expected to be collected in the following periods:

Less than one year	\$ 220,819
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NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2017 consists of the following:

Furniture and fixtures	\$ 14,664
Computer equipment	67,483
Vehicles	88,730
Camera Equipment	15,227
	186,105
Less accumulated depreciation	(85,778)
	\$ 100,326

Depreciation expense for the year ended December 31, 2017 was \$29,520.

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 June 30, 2018, respectively. One lease is also held in South Korea expiring March 17, 2018.

Minimum lease payments required under the leases are as follows:

Year Ending December 31,	Total
2018	\$ 104,546
2019	87,776
2020	90,128
2021	53,375
2022	-
	\$ 335,825

Rental expenses for all operating leases, except those with terms of a month or less that were not renewed, were \$116,372 for the year ended December 31, 2017.

LIBERTY IN NORTH KOREA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

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 \$8,480. Interest paid on the loan amounted to \$586 in 2017 and the loan was paid off in April 2017.

NOTE 7 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at December 31, 2017 are available for the following purposes:

Rescue fund	\$ 275,711
Stateless Children fund	488
Red Zone fund	<u>59,627</u>
	<u>\$ 335,826</u>

Net assets were released from restrictions during the year ended December 31, 2017 by incurring expenses satisfying the restricted purpose as follows:

Rescue fund	\$ 589,358
Resettlement fund	2,862
Changing the Narrative fund	78,378
Stateless Children fund	5,512
Red Zone fund	<u>90,373</u>
	<u>\$ 766,483</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, 2017 was \$64,788. See Note 2, Concentration of Credit Risk, for foreign cash amounts held in the Organization.

NOTE 9 – CONCENTRATIONS

Approximately 19 percent of the Organization's support was received from three donors and 91 percent of contribution receivables are from one donor.

LIBERTY IN NORTH KOREA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 10 – RELATED PARTIES

The Organization received donations from board members in the amount of \$393,102 during the year ended December 31, 2017.

NOTE 11 – SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

During the year ended December 31, 2017, the Organization paid \$808 in interest and no income taxes.

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 \$15,644 to the plan for the year ended December 31, 2017.

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 \$7,663 for the year ended December 31, 2017.

NOTE 13 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through July 16, 2018, the date the financial statements were available to be issued.