

KOREAN WAR VETERANS ASSOCIATION, INC.

REPORT AND FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2016 AND 2015

KOREAN WAR VETERANS ASSOCIATION, INC.

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Korean War Veterans Association, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Korean War Veterans Association, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities and cash flows for the years 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Korean War Veterans Association, Inc., as of December 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The schedule of functional expenses on page 11 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.


Franklin & Vaughn, LLC

St. Louis, Missouri

March 9, 2017

KOREAN WAR VETERANS ASSOCIATION, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2016 AND 2015

ASSETS

	<u>DECEMBER 31,</u>	
	<u>2016</u>	<u>2015</u>
CURRENT ASSETS:		
CASH AND CASH EQUIVALENTS	\$ 108,448	\$ 156,938
TOTAL CURRENT ASSETS	\$ 108,448	\$ 156,938
INVESTMENTS	833,719	759,240
PROPERTY AND EQUIPMENT, NET	-	-
TOTAL ASSETS	<u>\$ 942,167</u>	<u>\$ 916,178</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:		
ACCOUNTS PAYABLE	\$ 5,686	\$ 21,426
TOTAL CURRENT LIABILITIES	<u>\$ 5,686</u>	<u>\$ 21,426</u>
NET ASSETS:		
UNRESTRICTED	\$ 925,179	\$ 894,752
TEMPORARILY RESTRICTED	<u>11,302</u>	<u>-</u>
TOTAL NET ASSETS	<u>\$ 936,481</u>	<u>\$ 894,752</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 942,167</u>	<u>\$ 916,178</u>

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

KOREAN WAR VETERANS ASSOCIATION, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL 2016</u>	<u>TOTAL 2015</u>
REVENUES AND GAINS:				
Membership Dues	\$ 190,125		\$ 190,125	\$ 215,062
Fundraising	83,431		83,431	117,703
Donations	23,004	\$ 31,302	54,306	51,583
Advertising Income	13,795		13,795	16,283
Dividends	29,676		29,676	27,639
Convention Registration	13,557		13,557	22,092
Realized (Losses) Gains	113		113	(30,782)
Unrealized Gains (Losses)	44,609		44,609	(42,784)
Interest	50		50	50
Miscellaneous	2,667		2,667	533
Net Assets Released from Restrictions	20,000	(20,000)	-	-
Total Revenues, Gains, and other Support	<u>\$ 421,027</u>	<u>\$ 11,302</u>	<u>\$ 432,329</u>	<u>\$ 377,379</u>
EXPENSES:				
Program Services	\$ 217,515		\$ 217,515	\$ 203,961
Management and General	159,650		159,650	164,431
Fundraising	13,435		13,435	17,897
Total Expenses	<u>\$ 390,600</u>	<u>\$ -</u>	<u>\$ 390,600</u>	<u>\$ 386,289</u>
CHANGE IN NET ASSETS:				
	\$ 30,427	\$ 11,302	\$ 41,729	\$ (8,910)
NET ASSETS, BEGINNING OF YEAR	<u>894,752</u>	<u>-</u>	<u>894,752</u>	<u>903,662</u>
NET ASSETS, END OF YEAR	<u><u>\$ 925,179</u></u>	<u><u>\$ 11,302</u></u>	<u><u>\$ 936,481</u></u>	<u><u>\$ 894,752</u></u>

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

KOREAN WAR VETERANS ASSOCIATION, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u> <u>Total</u>	<u>2015</u> <u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Total Net Assets	\$ 41,729	\$ (8,910)
ADJUSTMENTS TO RECONCILE CHANGE IN NET ASSETS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Net Realized (Gain) Loss on Investments	(113)	30,782
Net Unrealized (Gain) Loss on Investments	(44,609)	42,784
Investment Fees	3,621	3,288
Dividends	(29,676)	(27,639)
Change In Accounts Payable	(15,740)	3,009
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ (44,788)</u>	<u>\$ 43,314</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from Sale of Investments	\$ 13,500	\$ 4,600
Purchase of Investments	(17,202)	(29,320)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>\$ (3,702)</u>	<u>\$ (24,720)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	<u>\$ -</u>	<u>\$ -</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ (48,490)	\$ 18,594
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>156,938</u>	<u>138,344</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 108,448</u>	<u>\$ 156,938</u>

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

KOREAN WAR VETERANS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 1. NATURE OF OPERATIONS

The Korean War Veterans Association, Inc. (Association) is a perpetual non-profit corporation issued a Certificate of Incorporation by the State of New York. The purpose of the Association is to organize, promote, and maintain for benevolent and charitable purposes an Association of persons who have seen honorable service within Korea any time beginning September 3, 1945 to present or outside Korea beginning June 25, 1950 to January 31, 1955, and certain other veterans and persons, with the qualifications for membership per the Bylaws. The Association is organized to grant charters to groups at large, provide a means of contact and communication among the members of the Association, and to establish and maintain a national headquarters. The Association promotes the establishment of war and other memorials commemorative of any persons who served in the Korean War and aids needy Association members and their families. The Association is also organized to recognize the achievements of those who served in the armed services of the United States and the United Nations Command during the Korean War era. Through its "Tell America Program", the association conducts programs at the local schools to help today's students understand the true meaning of the freedoms that we all enjoy in this 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 generally accepted accounting principles. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when the obligation is incurred.

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 results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the combined statement of cash flows, the Association uses the indirect method of reporting net cash flows from operating activities, and considers all cash and checking accounts not held within a brokerage account to be cash equivalents.

Investments

Investments in marketable securities with readily determinable fair values and investments in debt securities are valued at their fair values in the statements of financial position. Unrealized gains and losses are included in the change of net assets. There are no known material unrecorded permanent market value declines in marketable securities.

Furniture and Equipment

Furniture and equipment are carried at cost at the date of acquisition if purchased or, if donated, at the approximate fair value at the date of donation. The Association capitalizes acquisitions of furniture and

KOREAN WAR VETERANS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Furniture and Equipment (Continued)

equipment in excess of \$500. Lesser amounts are expensed. Depreciation and amortization is computed using the straight-line method over the estimated economic useful lives of the assets (5-7 years).

When property and equipment are retired or otherwise disposed of, the related costs and accumulated depreciation are removed from the accounts and any gain or loss is recorded in the statement of activities.

Financial Statement Presentation

Financial statement presentation follows the recommendation of FASB Accounting Standards Codification (ASC) 958, *Financial Statements of Not-for-Profit Organizations*. Under ASC 958, the Association is required to report information regarding its financial position and activities based on the existence or absence of donor-imposed restrictions according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, the Association is required to present a statement of cash flows.

Unrestricted Net Assets

Net assets not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets

Temporarily restricted net assets are those whose use by the Association has been limited by donors to a specific time period or purpose. As of December 31, 2016 and 2015, there were temporarily restricted net assets of \$11,302 and \$0, respectively.

Permanently Restricted Net Assets

Permanently restricted net assets are those whose use by the Association has been restricted by donors requiring that they be maintained permanently by the Association. Generally the donors of these assets permit the Association to use all or part of the income earned on any related investments for general or specific purposes. As of December 31, 2016 and 2015, there were no permanently restricted net assets.

Accrued Compensated Absences

The Association has no full-time employees that are eligible for compensated absences. Accordingly, no accrual was recorded at December 31, 2016 and 2015.

Donated Services

Many volunteers donate significant amounts of their time on an ongoing basis to perform the Association's duties. No amounts have been included in the accompanying statements of activities to value these donated services, as no objective basis is available to measure the value of such services and their inclusion in the financial statements would not provide meaningful information regarding the Association's activities.

KOREAN WAR VETERANS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue and Expense Recognition

Program service fees and unrestricted revenues are recorded when payment is received and expenses are recorded when incurred. It is impractical to record dues assessments as revenues when earned, as dues assessments occur in advance, and there is no way of knowing the collectability of such dues. Contributions restricted by donors or grantors for particular operating purposes are deemed to be earned and reported as support when received.

Dues are assessed on a yearly basis based on the member's anniversary date. Revenues of the *Graybeards* magazine are from nonmember subscriptions and advertising. Advertising revenues are recorded when earned. Members automatically receive a magazine subscription, but none of the membership dues are allocated to magazine revenues for financial statement purposes.

Functional Expenses

The costs of the Association's programs and supporting services have been reported on a functional basis. Allocations of certain costs have been made between the various programs and supporting services based on estimates made by management.

Income Tax Status

The Association is exempt from income taxes under section 501(c)(19) of the Internal Revenue Code per a determination letter dated September 15, 1986. The Association has unrelated business income from the *Graybeards* magazine operations that would be subject to income taxes. However, the magazine incurred a loss for the years ending December 31, 2016 and 2015.

The major taxing jurisdictions applicable to the Association's business affairs, for which tax returns have been filed, remain open and available for audit. Tax examinations are often complex, as tax authorities may disagree with the treatment of items reported by the Association, and such disagreements can take years to resolve. The Association establishes liabilities for possible assessments by taxing authorities for known tax exposures to the extent that a reasonable tax provision can be estimated. The normal statutory period impacting unaudited years is as follows: Federal (US) 2013 - 2016.

NOTE 3. INVESTMENTS AND PORTFOLIO INCOME

Investments held by the Association at December 31, 2016 and 2015:

<u>Description</u>	<u>Market Value</u>	
	<u>2016</u>	<u>2015</u>
Cash and Money Market	\$ 29,595	\$ 35,866
Mutual Funds	344,152	318,577
Equities	90,879	84,802
Exchange Traded Funds	74,173	55,133
Unit Investment Trust	294,920	264,862
Total Investments	<u>\$ 833,719</u>	<u>\$ 759,240</u>

KOREAN WAR VETERANS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 3. INVESTMENTS AND PORTFOLIO INCOME (CONTINUED)

Total portfolio income for the years ended December 31, 2016 and 2015 consists of the following:

	<u>2016</u>	<u>2015</u>
Unrealized Gain (Loss) on Investments	\$ 44,609	\$ (42,784)
Dividend Distributions	29,676	27,639
Realized (Loss) Gain on Investments	<u>113</u>	<u>(30,782)</u>
	<u>\$ 74,398</u>	<u>\$ (45,927)</u>

NOTE 4. FAIR VALUES OF FINANCIAL INSTRUMENTS

ASC 820 - Fair Value Measurements and Disclosures, establishes a three-level valuation of hierarchy for disclosures of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The three levels are defined as follows:

- Level 1 - Quoted market prices in active markets for identical assets or liabilities
- Level 2 - Observable market-based inputs or unobservable inputs that are corroborated by market data
- Level 3 - Unobservable inputs

Following is a description of the valuation methodologies used for assets measured at fair value.

Mutual funds: valued at the net asset value of shares held by the plan at year end.

Fixed income and equity securities: valued at the closing price reported in the New York Stock Exchange.

Cash and money market fund: valued at the net asset value of shares held by the plan at year end.

Financial instruments at fair values as of December 31, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and Money Market	\$ 29,595	\$	\$	\$ 29,595
Mutual Funds	344,152			344,152
Equities	90,879			90,879
Exchange Traded Funds	74,173			74,173
Unit Investment Trusts	<u>294,920</u>			<u>294,920</u>
Total Assets at Fair Value	<u>\$ 833,719</u>	<u>\$</u>	<u>\$</u>	<u>\$ 833,719</u>

Financial instruments at fair values as of December 31, 2015:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and Money Market	\$ 35,866	\$	\$	\$ 35,866
Mutual Funds	318,577			318,577
Equities	84,802			84,802
Exchange Traded Funds	55,133			55,133
Unit Investment Trusts	<u>264,862</u>			<u>264,862</u>
Total Assets at Fair Value	<u>\$ 759,240</u>	<u>\$</u>	<u>\$</u>	<u>\$ 759,240</u>

KOREAN WAR VETERANS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 5 FIXED ASSETS

Fixed assets consisted of the following at December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Furniture and Equipment	\$ 5,298	\$ 5,298
Less: Accumulated Depreciation and Amortization	<u>(5,298)</u>	<u>(5,298)</u>
Total	<u>\$ 0</u>	<u>\$ 0</u>

Depreciation charged to expense in 2016 and 2015 was \$0 and \$0, respectively.

NOTE 6 CONCENTRATIONS OF CREDIT RISK AND UNCERTAINTIES

The Association maintains cash funds in a financial institution. The account balance is insured by the Federal Deposit Insurance Corporation up to \$250,000. At December 31, 2016 and 2015 there were no uninsured balances.

Financial instruments that potentially subject the Association to credit risk consist primarily of investments in money market, bonds, and mutual funds. Future changes in economic conditions may make the investments less valuable.

Veterans who served in Korea during the Korean War have continued to decline and the average age of those that have served and are members is seventy-five plus years. The continued successful operation of the Association is dependent on recruitment of members that have served since the Korean Armistice Agreement signed on July 27, 1953. The Armistice Agreement was designed to "insure a complete cessation of hostilities and of all acts of armed force in Korea until a final peaceful settlement is achieved." No "final peaceful settlement" has yet been achieved.

NOTE 7. SCHOLARSHIP PROGRAM

During 2015, and continuing for 2016, the Association entered into a verbal agreement with a South Korean organization, American Veterans of Korea Foundation (AVKF), to select direct descendants of Korean War Veterans to receive college scholarships. The students must be at least High School Seniors planning to attend a college or university who demonstrate an affinity towards the Korean War Veterans, and a desire to learn and understand the legacy of the Korean War Veteran. AVKF funds the scholarships and the Association awards ten scholarships in the amount of \$2,000 each.

NOTE 8. MEMORIALS

During 2016, the Association approved a "Leadership Gift" donation of \$25,000 to be constructed at the Korean War Memorial in Washington, D.C. and a separate donation of \$1,000 to the Army Memorial at Fort Belvoir in Fairfax County, Virginia.

NOTE 9. SUBSEQUENT EVENTS

In accordance with FASB Accounting Standards Codification Topic 855, *Subsequent Events*, the Association has evaluated subsequent events occurring between the end of its most recent fiscal year and March 9, 2017, the date the financial statements were made available. All subsequent events requiring recognition as of March 9, 2017 have been incorporated into these financial statements.

KOREAN WAR VETERANS ASSOCIATION, INC.
SCHEDULES OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>PROGRAM</u> <u>SERVICES</u>	<u>MANAGEMENT</u> <u>&</u> <u>GENERAL</u>	<u>FUNDRAISING</u>	<u>TOTAL</u> <u>2016</u>	<u>TOTAL</u> <u>(MEMORANDUM ONLY)</u> <u>2015</u>
Graybeards	\$ 125,882			\$ 125,882	\$ 131,114
Scholarships	20,000			20,000	20,000
Meetings & Travel		\$ 52,093		52,093	67,670
Contract Labor	29,843	51,386	\$ 667	81,896	81,740
Professional Fees		9,306		9,306	9,683
Website		12,136		12,136	12,334
Postage	9,552		3,388	12,940	18,558
Memorials	26,667			26,667	-
Insurance		5,926		5,926	5,809
Elections		3,667		3,667	3,571
Other	1,258	1,717	9,380	12,355	12,760
Investment Fees		3,621		3,621	3,288
Headquarter Expense		17,572		17,572	6,084
Membership	2,212			2,212	5,075
Committees	1,192			1,192	6,002
Telephone	909			909	932
Bank Charges		2,226		2,226	1,669
Total Expense	<u>\$ 217,515</u>	<u>\$ 159,650</u>	<u>\$ 13,435</u>	<u>\$ 390,600</u>	<u>\$ 386,289</u>
Percentage	56%	41%	3%	100%	100%

See accompanying independent auditor's report.