

KOREAN WAR VETERANS ASSOCIATION, INC.

**REPORT ON
AUDITED FINANCIAL STATEMENTS
AND SUPPLEMENTAL DATA**

Years Ended December 31, 2012 and 2011

Korean War Veterans Association, Inc.

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SIRCHIA & CUOMO, LLP

Members of: The American Institute of Certified Public Accountants
The New York State Society of Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Board of Directors
Korean War Veterans Association, Inc.

Report on the Financial Statements

We have audited the accompanying statement of financial position of the Korean War Veterans, Inc. (a nonprofit organization) as of December 31, 2012 and the related statements of activities and cash flows for the year then ended. The financial statements of the Korean War Veterans, Inc. for the year ended December 31, 2011, were audited by other auditors whose opinion, dated April 9, 2012, was unqualified as being presented fairly.

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 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 of 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. 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 in the first paragraph present fairly, in all material respects, the financial position of the Korean War Veterans, Inc., as of December 31, 2012, and the changes in net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audit was made for the purpose of forming an opinion on the basic financial statements as a whole. The supplemental schedule on page 11 is presented for the purpose of additional analysis and is not a required part of the basic 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 basic 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 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 basic financial statements as a whole.

A handwritten signature in cursive script, which appears to read "Sincere & Co. LLC", is positioned above the typed name and date.

Syracuse, New York
May 22, 2013

Korean War Veterans Association, Inc.
Statements of Financial Position
December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ <u>91,663</u>	\$ <u>121,982</u>
Total current assets	91,663	121,982
Investments	583,719	354,478
Property and equipment, net	<u>-</u>	<u>-</u>
Total assets	\$ <u>675,382</u>	\$ <u>476,460</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ <u>15,631</u>	\$ <u>17,084</u>
Total current liabilities	<u>15,631</u>	<u>17,084</u>
Net assets:		
Unrestricted	<u>659,751</u>	<u>459,376</u>
Total net assets	<u>659,751</u>	<u>459,376</u>
Total liabilities and net assets	\$ <u>675,382</u>	\$ <u>476,460</u>

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

Korean War Veterans Association, Inc.
Statements of Activities
Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Change in unrestricted net assets		
Support and revenues:		
Membership dues	\$ 269,587	\$ 217,221
Fund raising	58,438	65,720
Donations	129,659	20,421
Advertising income	10,910	15,490
Dividends	22,203	13,150
Meeting	9,474	8,893
In-kind expenses	-	1,122
Realized (losses) gains	(13,740)	17,809
Unrealized gains (losses)	28,621	(27,519)
Miscellaneous	412	-
Total unrestricted support and revenue	<u>515,564</u>	<u>332,307</u>
Expenses:		
Program services	176,095	201,599
Management and general	120,677	105,323
Fundraising	18,417	12,090
Total expenses	<u>315,189</u>	<u>319,012</u>
Change in unrestricted net assets	<u>200,375</u>	<u>13,295</u>
Net assets - beginning of year	<u>459,376</u>	<u>446,081</u>
Net assets - end of year	<u>\$ 659,751</u>	<u>\$ 459,376</u>

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

Korean War Veterans Association, Inc.
Statements of Cash Flows
Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Change in total net assets	\$ 200,375	\$ 13,295
Adjustments to reconcile net cash provided by operating activities:		
Net unrealized (gain) loss on investments	(28,621)	27,519
Net realized loss (gain) on investments	13,740	(17,809)
Increase (decrease) in operating liabilities:		
Accounts payable	<u>(1,453)</u>	<u>(282)</u>
Net cash provided by operating activities	<u>184,041</u>	<u>22,723</u>
Cash flows from investing activities:		
Proceeds from sale of investments	256,880	18,393
Purchase of investments	<u>(471,240)</u>	<u>(30,958)</u>
Net cash used in investing activities	<u>(214,360)</u>	<u>(12,565)</u>
Cash flows from financing activities:		
	<u>-</u>	<u>-</u>
Net cash provided by financing activities	<u>-</u>	<u>-</u>
Net increase in cash and cash equivalents	(30,319)	10,158
Cash and cash equivalents, beginning of year	<u>121,982</u>	<u>111,824</u>
Cash and cash equivalents, end of year	<u>\$ 91,663</u>	<u>\$ 121,982</u>

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

Korean War Veterans Association, Inc.

Notes to Financial Statements

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 or persons who served in the Korean War and aids needy Association members and their families.

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 short-term investments with an original maturity of three months or less 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 statement 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 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).

Korean War Veterans Association, Inc.

Notes to Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

Furniture and Equipment (continued)

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 Board Designated 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, 2012 and 2011, there were no temporarily restricted net assets.

Permanently Restricted Net Assets

Permanently restricted net assets are those whose use by the Association has been restricted by donors that they maintain 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, 2012 and 2011, 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, 2012 and 2011.

Revenue and Expense Recognition

Program service fees and unrestricted revenues are recorded when earned and expenses are recorded when incurred. Unrestricted contributions restricted by donor or grantor for particular operating purposes are deemed to be earned and reported as support when received.

Dues are assessed on a calendar year basis. 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.

Korean War Veterans Association, Inc.

Notes to Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

Functional Expense

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, 2012 and 2011.

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) 2009 -2011.

In-Kind Service and Materials

The Association recorded amounts for donated in-kind rent received for the years ended December 31, 2012 and 2011 of \$0 and \$1,122, respectively.

Note 3 – Investments and Portfolio Income

Investments held by the Association at December 31, 2012 and 2011:

<u>Description</u>	<u>Market Value</u>	
	<u>2012</u>	<u>2011</u>
Cash and money market	\$ 4,768	\$ 8
Mutual funds	262,859	354,470
Equities	47,816	-
Exchange traded funds	42,335	-
Unit investment trusts	<u>225,941</u>	<u>-</u>
Total investments	<u>\$ 583,719</u>	<u>\$ 354,478</u>

Total portfolio income for the years ended December 31, 2012 and 2011 consists of the following:

	<u>2012</u>	<u>2011</u>
Unrealized gain (loss) on investments	\$ 28,621	\$ (27,519)
Dividend distributions	22,203	13,150
Realized (loss) gain on investments	<u>(13,740)</u>	<u>7,809</u>
	<u>\$ 37,084</u>	<u>\$ 3,440</u>

Korean War Veterans Association, Inc.

Notes to Financial Statements

Note 4 – Fair Values of Financial Instruments

ASC 820 – *Fair Value Measurements and Disclosures*, establishes a three-level valuation hierarchy for disclosure 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, 2012:

	Level 1	Level 2	Level 3	Total
Cash and money market	\$ 4,768	\$ -	\$ -	\$ 4,768
Mutual funds	262,859	-	-	262,859
Equities	47,816	-	-	47,816
Exchange traded funds	42,335	-	-	42,335
Unit investment trusts	<u>225,941</u>	-	-	<u>225,941</u>
Total assets at fair value	<u>\$ 583,719</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 583,719</u>

Financial instruments at fair values as of December 31, 2011:

	Level 1	Level 2	Level 3	Total
Cash and money market	\$ 8	\$ -	\$ -	\$ 8
Mutual funds	<u>354,470</u>	-	-	<u>354,470</u>
Total assets at fair value	<u>\$ 354,478</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 354,478</u>

Note 5 – Fixed Assets

Fixed assets consisted of the following at December 31, 2012 and 2011:

	2012	2011
Furniture and equipment	\$ 5,298	\$ 5,298
Less: Accumulated Depreciation and amortization	<u>5,298</u>	<u>5,298</u>
Total	<u>\$ -</u>	<u>\$ -</u>

Depreciation charged to expense in 2012 and 2011 was \$0 and \$0, respectively.

Korean War Veterans Association, Inc.

Notes to Financial Statements

Note 6 – Concentrations of Credit Risk

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, 2012, and 2011 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 war and are currently serving.

Note 7 – 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 May 22, 2013, the date the financial statements were made available. All subsequent events requiring recognition as of May 22, 2013 have been incorporated into these financial statements.

Korean War Veterans Association, Inc.
Schedule of Functional Expenses
Years Ended December 31, 2012 and 2011

	<u>Program Services</u>	<u>Management & General</u>	<u>Fundraising</u>	<u>2012</u>	<u>2011</u>
<i>Graybeards</i>	\$ 122,479	\$ -	\$ -	\$ 122,479	\$ 154,978
Meetings and travel	-	70,504	-	70,504	73,062
Contract labor	23,142	-	-	23,142	23,087
Professional fees	-	18,628	-	18,628	13,455
Website	7,134	-	-	7,134	13,140
Postage	15,478	307	13,680	29,465	15,180
Insurance	-	5,631	-	5,631	5,631
Elections	-	4,674	-	4,674	4,382
Other	1,754	-	4,737	6,491	5,050
Headquarter expense	-	14,801	-	14,801	4,150
Membership	5,177	-	-	5,177	1,660
Committees	-	3,383	-	3,383	1,973
Telephone	931	-	-	931	975
In-kind rent	-	-	-	-	1,122
Bank charges	-	2,749	-	2,749	1,167
Total expenses	\$ 176,095	\$ 120,677	\$ 18,417	\$ 315,189	\$ 319,012
Percentage	56%	38%	6%	100%	100%

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