

KOREAN WAR VETERANS ASSOCIATION, INC.
REPORT AND FINANCIAL STATEMENTS
FOR THE YEARS ENDING
DECEMBER 31, 2013 AND 2012

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TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORTS	1-2
<u>EXHIBIT</u>	
A STATEMENTS OF FINANCIAL POSITION	3
B STATEMENTS OF ACTIVITIES	4
C STATEMENTS OF CASH FLOWS	5
NOTES TO FINANCIAL STATEMENTS	6-9
<u>SCHEDULE</u>	
1 SCHEDULES OF FUNCTIONAL EXPENSES	10

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Korean War Veterans Association, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of the Korean War Veterans Association, Inc. (a nonprofit organization) which comprise the statement of financial position as of December 31, 2013 and the related statements of activities and cash flows for the year then ended and the related notes to the financial statements. The financial statements of the Korean War Veterans Association, Inc. for the year ended December 31, 2012, were audited by other auditors whose opinion, dated May 22, 2013, 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.

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 auditors' 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 the Korean War Veterans, Inc., as of December 31, 2013, and the changes in net assets and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The supplemental schedule of functional expenses 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 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 basic financial statements as a whole.

Franklin & Payne LLC

KOREAN WAR VETERANS ASSOCIATION, INC
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2013 AND 2012

<u>ASSETS</u>	<u>DECEMBER 31,</u>	
	<u>2013</u>	<u>2012</u>
CURRENT ASSETS:		
CASH AND CASH EQUIVALENTS	\$ 123,626	\$ 91,663
TOTAL CURRENT ASSETS	\$ 123,626	\$ 91,663
INVESTMENTS	706,902	583,719
PROPERTY AND EQUIPMENT, NET	-	-
TOTAL ASSETS	\$ 830,528	\$ 675,382
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
ACCOUNTS PAYABLE	\$ 17,335	\$ 15,631
TOTAL CURRENT LIABILITIES	\$ 17,335	\$ 15,631
NET ASSETS:		
UNRESTRICTED	\$ 813,193	\$ 659,751
TOTAL NET ASSETS	\$ 813,193	\$ 659,751
TOTAL LIABILITIES AND NET ASSETS	\$ 830,528	\$ 675,382

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, 2013 AND 2012

	DECEMBER 31,	
	2013	2012
UNRESTRICTED NET ASSETS		
UNRESTRICTED REVENUES AND GAINS:		
Membership Dues	\$ 244,072	\$ 269,587
Fund Raising	61,124	58,438
Donations	78,865	129,659
Advertising Income	6,443	10,910
Dividends	25,698	22,203
Meeting		9,474
Realized (Losses) Gains	3,562	(13,740)
Unrealized Gains (Losses)	54,625	28,621
Miscellaneous	562	412
Total Unrestricted Revenues and Gains	\$ 474,951	\$ 515,564
EXPENSES:		
Program Services	\$ 185,436	\$ 176,095
Management and General	110,913	120,677
Fundraising	25,160	18,417
Total Expenses	\$ 321,509	\$ 315,189
CHANGE IN UNRESTRICTED NET ASSETS:	\$ 153,442	\$ 200,375
NET ASSETS, BEGINNING OF YEAR	659,751	459,376
NET ASSETS, END OF YEAR	\$ 813,193	\$ 659,751

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, 2013 AND 2012

	DECEMBER 31,	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Total Net Assets	\$ 153,442	\$ 200,375
ADJUSTMENTS TO RECONCILE INCREASE IN NET ASSETS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Net Unrealized (Gain) Loss on Investments	(54,625)	(28,621)
Net Realized Loss (Gain) on Investments	(3,562)	13,740
INCREASE (DECREASE) IN OPERATING LIABILITIES:		
Accounts Payable	1,704	(1,453)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 96,959	\$ 184,041
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from Sale of Investments	\$ 6,766	\$ 256,880
Purchase of Investments	(71,762)	(471,240)
NET CASH USED IN INVESTING ACTIVITIES	\$ (64,996)	\$ (214,360)
CASH FLOWS FROM FINANCING ACTIVITIES:		
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	\$ -	\$ -
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS	\$ 31,963	\$ (30,319)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	91,663	121,982
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 123,626	\$ 91,663

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, 2013 AND 2012

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

KOREAN WAR VETERANS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

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 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, 2013 and 2012, 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 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, 2013 and 2012, 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, 2013 and 2012.

Revenue and Expense Recognition

Program services 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.

KOREAN WAR VETERANS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue and Expense Recognition (Continued)

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.

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, 2013 and 2012.

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) 2010 - 2013.

NOTE 3. INVESTMENTS AND PORTFOLIO INCOME

Investments held by the Association at December 31, 2013 and 2012:

<u>Description</u>	<u>Market Value</u>	
	<u>2013</u>	<u>2012</u>
Cash and Money Market	\$ 38,505	\$ 4,768
Mutual Funds	263,863	262,859
Equities	104,439	47,816
Exchange Traded Funds	31,257	42,335
Unit Investment Trust	<u>268,838</u>	<u>225,941</u>
Total Investments	<u>\$ 726,902</u>	<u>\$ 583,719</u>

KOREAN WAR VETERANS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE 3. INVESTMENTS AND PORTFOLIO INCOME (CONTINUED)

Total portfolio income for the years ended December 31, 2013 and 2012 consists of the following:

	<u>2013</u>	<u>2012</u>
Unrealized Gain (Loss) on Investments	\$ 54,625	\$ 28,621
Dividend Distributions	25,698	22,203
Realized (Loss) Gain on Investments	<u>3,562</u>	<u>(13,740)</u>
	<u>\$ 83,885</u>	<u>\$ 37,084</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, 2013:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and Money Market	\$ 38,505	\$	\$	\$ 38,505
Mutual Funds	263,863			263,863
Equities	104,439			104,439
Exchange Traded Funds	31,257			31,257
Unit Investment Trusts	<u>268,838</u>			<u>268,838</u>
Total Assets at Fair Value	<u>\$ 706,902</u>	<u>\$</u>	<u>\$</u>	<u>\$ 706,902</u>

Financial instruments at fair values as of December 31, 2012:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
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>

KOREAN WAR VETERANS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE 5 FIXED ASSETS

Fixed assets consisted of the following at December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</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 2013 and 2012 was \$0 and \$0, respectively.

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, 2013 and 2012 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 February 24, 2014, the date the financial statements were made available. All subsequent events requiring recognition as of February 24, 2014 have been incorporated into these financial statements.

KOREAN WAR VETERANS ASSOCIATION, INC
SCHEDULES OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	<u>PROGRAM</u> <u>SERVICES</u>	<u>MANAGEMENT</u> <u>&</u> <u>GENERAL</u>	<u>FUNDRAISING</u>	<u>2013</u>	<u>2012</u>
<i>Graybeards</i>	\$ 132,953			\$ 132,953	\$ 122,479
Meetings & Travel		\$ 50,015		50,015	70,504
Contract Labor	21,602		\$ 1,039	22,641	23,142
Professional Fees		17,249		17,249	18,628
Website	12,534			12,534	7,134
Postage	12,797		22	12,819	29,465
Insurance		5,718		5,718	5,631
Elections		5,106		5,106	4,674
Other	1,450	2,666	24,099	28,215	6,491
Headquarter Expense		27,647		27,647	14,801
Membership	2,864			2,864	5,177
Committees		1,749		1,749	3,383
Telephone	1,236			1,236	931
Bank Charges		763		763	2,749
Total Expense	<u>\$ 185,436</u>	<u>\$ 110,913</u>	<u>\$ 25,160</u>	<u>\$ 321,509</u>	<u>\$ 315,189</u>
Percentage	58%	34%	8%	100%	100%