

Financial Statements, Report of  
Independent Certified Public  
Accountants

**The National Center for Missing and Exploited  
Children**

December 31, 2020 and 2019

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**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

To the Board of Directors  
The National Center for Missing and Exploited Children:

We have audited the accompanying financial statements of The National Center for Missing and Exploited Children (“NCMEC”), which comprise the statements of financial position as of December 31, 2020 and 2019, and the related statements of activities, functional expenses, 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 NCMEC’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 NCMEC’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 NCMEC as of December 31, 2020 and 2019, 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.

*Grant Thornton LLP*

Arlington, Virginia  
May 4, 2021

The National Center for Missing and Exploited Children

STATEMENTS OF FINANCIAL POSITION

December 31,

	<u>2020</u>	<u>2019</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 15,434,061	\$ 10,261,250
Accounts receivable, net	2,623,843	3,310,808
Pledges receivable, net	2,144,702	323,334
Prepaid expenses and other assets	616,073	260,819
	<u>20,818,679</u>	<u>14,156,211</u>
<b>NONCURRENT ASSETS</b>		
Investments	34,796,696	31,663,673
Pledges receivable, long-term	1,488,441	192,041
Property and equipment, net	8,466,165	9,084,501
Building held for sale	-	142,968
Right of use assets	20,472,751	21,696,948
Cash surrender value of life insurance policies	605,180	590,956
Artwork collections	11,250	11,250
Deposits	3,863	11,813
Assets under unitrust agreement	40,388	34,507
	<u>65,884,734</u>	<u>63,428,657</u>
Total noncurrent assets	<u>65,884,734</u>	<u>63,428,657</u>
Total assets	<u>\$ 86,703,413</u>	<u>\$ 77,584,868</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 2,072,887	\$ 1,626,956
Accrued salaries and benefits	1,443,536	866,077
Lease liabilities, current portion	61,092	61,092
Notes payable, current portion	-	45,820
	<u>3,577,515</u>	<u>2,599,945</u>
Total current liabilities	<u>3,577,515</u>	<u>2,599,945</u>
<b>NONCURRENT LIABILITIES</b>		
Lease liabilities	25,921,686	27,569,735
Notes payable, net of current portion	-	273,594
Post employment benefit liability	1,497,878	1,247,801
Liability under unitrust agreement	12,901	12,762
	<u>27,432,465</u>	<u>29,103,892</u>
Total noncurrent liabilities	<u>27,432,465</u>	<u>29,103,892</u>
Total liabilities	<u>31,009,980</u>	<u>31,703,837</u>
<b>NET ASSETS</b>		
Without donor restrictions:		
Undesignated	17,810,250	13,545,065
Board-designated	34,174,451	31,085,399
	<u>51,984,701</u>	<u>44,630,464</u>
Total net assets without donor restrictions	<u>51,984,701</u>	<u>44,630,464</u>
With donor restrictions	<u>3,708,732</u>	<u>1,250,567</u>
Total net assets	<u>55,693,433</u>	<u>45,881,031</u>
Total liabilities and net assets	<u>\$ 86,703,413</u>	<u>\$ 77,584,868</u>

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

The National Center for Missing and Exploited Children

STATEMENT OF ACTIVITIES

Year ended December 31, 2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>Revenue and other support</b>			
Government contracts and grants	\$ 39,727,660	\$ -	\$ 39,727,660
Contributions	12,907,024	4,245,140	17,152,164
Special events, net of direct benefit costs of \$196,281	1,027,674	-	1,027,674
Investment gain	3,174,317	-	3,174,317
Other income	205,488	-	205,488
Gain on sale - building	1,101,023	-	1,101,023
Change in value of unitrust agreement	-	5,742	5,742
Net assets released from restrictions:			
Satisfaction of program restrictions	809,141	(809,141)	-
Satisfaction of time restrictions	983,576	(983,576)	-
	<u>59,935,903</u>	<u>2,458,165</u>	<u>62,394,068</u>
Total revenue and support			
<b>Operating expenses</b>			
Program services:			
Community outreach	5,368,811	-	5,368,811
Missing child case management	14,144,821	-	14,144,821
Information and case analysis	14,276,971	-	14,276,971
Training	906,926	-	906,926
Exploited child case management	14,094,395	-	14,094,395
	<u>48,791,924</u>	<u>-</u>	<u>48,791,924</u>
Total program services			
Supporting Services:			
Management and general	926,025	-	926,025
Fundraising	2,613,640	-	2,613,640
	<u>3,539,665</u>	<u>-</u>	<u>3,539,665</u>
Total supporting services			
Total operating expenses	<u>52,331,589</u>	<u>-</u>	<u>52,331,589</u>
Change in net assets from operations	7,604,314	2,458,165	10,062,479
<b>Non-operating activities</b>			
Change in post employment benefit liability	(250,077)	-	(250,077)
	<u>7,354,237</u>	<u>2,458,165</u>	<u>9,812,402</u>
<b>TOTAL CHANGE IN NET ASSETS</b>			
Net assets, beginning of year	44,630,464	1,250,567	45,881,031
Net assets, end of year	<u>\$ 51,984,701</u>	<u>\$ 3,708,732</u>	<u>\$ 55,693,433</u>

The accompanying notes are an integral part of this financial statement.

The National Center for Missing and Exploited Children

STATEMENT OF ACTIVITIES

Year ended December 31, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>Revenue and other support</b>			
Government contracts and grants	\$ 35,730,478	\$ -	\$ 35,730,478
Contributions	10,561,336	1,460,032	12,021,368
Special events, net of direct benefit costs of \$1,207,085	1,967,667	-	1,967,667
Investment gain	4,635,459	-	4,635,459
Other income	201,987	-	201,987
Change in value of unitrust agreement	-	4,473	4,473
Net assets released from restrictions:			
Satisfaction of program restrictions	1,228,369	(1,228,369)	-
Satisfaction of time restrictions	539,583	(539,583)	-
	<u>54,864,879</u>	<u>(303,447)</u>	<u>54,561,432</u>
Total revenue and support			
<b>Operating expenses</b>			
Program services:			
Community outreach	5,922,449	-	5,922,449
Missing child case management	14,587,611	-	14,587,611
Information and case analysis	11,566,837	-	11,566,837
Training	998,303	-	998,303
Exploited child case management	10,962,075	-	10,962,075
	<u>44,037,275</u>	<u>-</u>	<u>44,037,275</u>
Total program services			
Supporting Services:			
Management and general	1,116,210	-	1,116,210
Fundraising	3,635,874	-	3,635,874
	<u>4,752,084</u>	<u>-</u>	<u>4,752,084</u>
Total supporting services			
Total operating expenses	<u>48,789,359</u>	<u>-</u>	<u>48,789,359</u>
Change in net assets from operations	6,075,520	(303,447)	5,772,073
<b>Non-operating activities</b>			
Change in post employment benefit liability	(215,327)	-	(215,327)
	<u>5,860,193</u>	<u>(303,447)</u>	<u>5,556,746</u>
<b>TOTAL CHANGE IN NET ASSETS</b>			
<b>Net assets, beginning of year</b>	<u>38,770,271</u>	<u>1,554,014</u>	<u>40,324,285</u>
<b>Net assets, end of year</b>	<u>\$ 44,630,464</u>	<u>\$ 1,250,567</u>	<u>\$ 45,881,031</u>

The accompanying notes are an integral part of this financial statement.

The National Center for Missing and Exploited Children

STATEMENT OF FUNCTIONAL EXPENSES

Year ended December 31, 2020

	Program Services					Total Program Services
	Community Outreach	Missing Child Case Management	Information and Case Analysis	Training	Exploited Child Case Management	
Personnel	\$ 2,999,810	\$ 8,839,668	\$ 6,874,596	\$ 511,924	\$ 6,244,380	\$ 25,470,378
Fringe benefits	829,360	2,464,446	1,894,639	139,600	1,715,225	7,043,270
Staff travel	22,388	21,895	11,824	1,084	44,987	102,178
Supplies and equipment	117,598	123,984	1,948,497	6,206	1,366,711	3,562,996
Occupancy	336,451	994,935	722,768	57,897	703,057	2,815,108
Business services	742,175	254,326	2,006,051	29,430	523,981	3,555,963
Professional services	214,419	1,077,229	682,268	154,841	3,467,585	5,596,342
Participant & consultant travel	2,771	77,622	1,893	1,444	2,309	86,039
Office support	103,839	290,716	134,435	4,500	26,160	559,650
Total	<u>\$ 5,368,811</u>	<u>\$ 14,144,821</u>	<u>\$ 14,276,971</u>	<u>\$ 906,926</u>	<u>\$ 14,094,395</u>	<u>\$ 48,791,924</u>

	Supporting Services			Total Expenses
	Management and General	Fundraising	Total Supporting Services	
Personnel	\$ 587,449	\$ 1,352,681	\$ 1,940,130	\$ 27,410,508
Fringe benefits	161,961	361,035	522,996	7,566,266
Staff travel	3,502	5,551	9,053	111,231
Supplies and equipment	19,135	107,099	126,234	3,689,230
Occupancy	36,929	128,682	165,611	2,980,719
Business services	8,872	81,857	90,729	3,646,692
Professional services	17,353	460,216	477,569	6,073,911
Participant & consultant travel	12,657	-	12,657	98,696
Office support	78,167	116,519	194,686	754,336
Total	<u>\$ 926,025</u>	<u>\$ 2,613,640</u>	<u>\$ 3,539,665</u>	<u>\$ 52,331,589</u>

The accompanying notes are an integral part of this financial statement.

The National Center for Missing and Exploited Children

STATEMENT OF FUNCTIONAL EXPENSES

Year ended December 31, 2019

	Program Services					Total Program Services
	Community Outreach	Missing Child Case Management	Information and Case Analysis	Training	Exploited Child Case Management	
Personnel	\$ 2,909,426	\$ 8,699,577	\$ 5,984,771	\$ 465,724	\$ 5,141,140	\$ 23,200,638
Fringe benefits	747,519	2,257,292	1,535,150	119,339	1,342,764	6,002,064
Staff travel	121,642	157,016	83,557	42,859	157,777	562,851
Supplies and equipment	321,823	141,303	607,443	22,778	84,933	1,178,280
Occupancy	383,280	1,100,367	877,591	60,294	688,392	3,109,924
Business services	352,419	586,084	1,415,741	34,898	1,782,839	4,171,981
Professional services	1,011,574	1,186,120	773,738	43,964	1,627,214	4,642,610
Participant & consultant travel	8,430	312,129	123,821	169,175	48,340	661,895
Office support	66,336	147,723	165,025	39,272	88,676	507,032
Total	<u>\$ 5,922,449</u>	<u>\$ 14,587,611</u>	<u>\$ 11,566,837</u>	<u>\$ 998,303</u>	<u>\$ 10,962,075</u>	<u>\$ 44,037,275</u>

	Supporting Services			
	Management and General	Fundraising	Total Supporting Services	Total Expenses
Personnel	\$ 751,299	\$ 1,526,842	\$ 2,278,141	\$ 25,478,779
Fringe benefits	196,219	379,869	576,088	6,578,152
Staff travel	29,927	68,734	98,661	661,512
Supplies and equipment	8,192	142,370	150,562	1,328,842
Occupancy	60,890	170,936	231,826	3,341,750
Business services	15,735	225,524	241,259	4,413,240
Professional services	11,300	499,814	511,114	5,153,724
Participant & consultant travel	3,175	5,827	9,002	670,897
Office support	39,473	615,958	655,431	1,162,463
Total	<u>\$ 1,116,210</u>	<u>\$ 3,635,874</u>	<u>\$ 4,752,084</u>	<u>\$ 48,789,359</u>

The accompanying notes are an integral part of this financial statement.

The National Center for Missing and Exploited Children

STATEMENTS OF CASH FLOWS

Years ended December 31,

	<u>2020</u>	<u>2019</u>
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ 9,812,402	\$ 5,556,746
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	622,516	1,202,713
Gain on sale of building	(1,101,023)	-
Unrealized gain on investments	(1,967,825)	(2,923,777)
Net change in value of unitrust agreement	(5,742)	(4,473)
Changes in assets and liabilities:		
Accounts receivable	686,965	(2,311,068)
Pledges receivable	(3,117,768)	443,293
Prepaid expenses and other assets	(347,304)	177,449
Right of use assets	1,224,197	947,099
Cash surrender value of life insurance policies	(14,224)	(31,606)
Accounts payable and accrued expenses	445,931	(2,110,554)
Accrued salaries and benefits	577,459	115,916
Deferred rent	-	(32,275)
Lease liability	(1,648,049)	(1,370,951)
Post employment benefit liability	250,077	215,327
Net cash provided by (used in) operating activities	<u>5,417,612</u>	<u>(126,161)</u>
<b>Cash flows from investing activities:</b>		
Proceeds from sale investments	9,194,543	7,809,317
Purchases of investments	(10,359,740)	(10,388,608)
Proceeds from sale of building	1,239,810	-
Purchases of property, equipment and leasehold improvements	-	(98,826)
Net cash provided by (used in) investing activities	<u>74,613</u>	<u>(2,678,117)</u>
<b>Cash flows from financing activities</b>		
Principal payments on notes payable	<u>(319,414)</u>	<u>(43,801)</u>
Net cash used in financing activities	<u>(319,414)</u>	<u>(43,801)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	5,172,811	(2,848,079)
<b>Cash and cash equivalents, beginning of year</b>	<u>10,261,250</u>	<u>13,109,329</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 15,434,061</u>	<u>\$ 10,261,250</u>
<b>Supplemental disclosure of cash flow information:</b>		
Interest paid	<u>\$ 12,094</u>	<u>\$ 15,801</u>
Right of use assets acquired through operating leases	<u>\$ 181,387</u>	<u>\$ 240,196</u>

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

The National Center for Missing and Exploited Children

NOTES TO FINANCIAL STATEMENTS

December 31, 2020 and 2019

**NOTE A - ORGANIZATION**

***Organization***

The National Center for Missing and Exploited Children (“NCMEC”) was incorporated January 23, 1984 as a District of Columbia corporation under the District of Columbia Nonprofit Corporation Act and operates as a national clearinghouse and technical center to work with issues regarding missing and exploited children. NCMEC’s primary sources of funding are grants from the federal government and private contributors.

NCMEC is exempt from Federal taxes under Section 501(c)(3) of the Internal Revenue Code (the Code) and has received a ruling of its status as a publicly supported organization as described in Sections 509(a)(1) and 170(b)(1)(A)(vi) of the Code.

***Recently Adopted Accounting Pronouncements***

In 2020, NCMEC adopted Accounting Standards Update (“ASU”) No. 2018-13, *Fair-Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*. ASU 2018-13 improves the effectiveness of disclosures in the notes to financial statements by facilitating clear communication of the information required by generally accepted accounting principles (GAAP) that is most important to users of each entity’s financial statements. As required by ASU 2018-13, NCMEC applied the requirements to the disclosures of fair-value measurement assets, which is NCMEC’s investments.

***Basis of Accounting***

The accompanying financial statements have been prepared on the accrual basis of accounting.

Net assets and changes in net assets are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of NCMEC are classified and reported as follows:

*Net assets without donor restrictions* - net assets that are not subject to donor-imposed stipulations. The funds are available for the overall operations of NCMEC and include both internally designated and undesignated resources. The internally designated net assets are available for use at the Board of Director’s discretion.

*Net assets with donor restrictions* - net assets subject to donor-imposed stipulations that will be met by actions of NCMEC and/or the passage of time. In addition, net assets with donor restrictions also include net assets whereby the respective donors have stipulated that the principal contributed be invested and maintained in perpetuity. NCMEC did not have such net assets that are required to be invested and maintained in perpetuity for the years ended December 31, 2020 and 2019.

***Measure of Operations***

All activities, other than changes in the post-employment benefit liabilities, are reported as changes in net assets from operating activities within the statements of activities.

***Cash Equivalents***

NCMEC considers highly liquid investments purchased with original maturity dates of three months or less to be cash equivalents. Money market funds held in certain investment portfolios are considered cash equivalents, however the funds are not intended to be used for general operating purposes, and therefore, are included in investments in the accompanying statements of financial position.

**The National Center for Missing and Exploited Children**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2020 and 2019**

***Investments***

Investments consist of U.S. government and agency securities, corporate bonds, public and private equities, real estate investment trusts (“REITs”), hedge funds, certificates of deposit, and money market funds. These investments are recorded in the financial statements at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability through an orderly transaction between marked participants at the measurement value. Investment income and losses, including unrealized gains and losses and interest and dividend income, are recognized in the accompanying statements of activities. Gains and losses on investments, realized and unrealized, are recorded as of the trade date.

***Property and Equipment and Related Depreciation and Amortization***

NCMEC’s method of accounting for furniture and equipment is in conformity with the method used to report on activities funded by its contracts and grants with the Federal government. Accordingly, all furniture and equipment purchased with cooperative agreement funds are charged to expense when acquired, rather than being capitalized and depreciated over the useful life of the asset. NCMEC must use these assets in fulfilling the purpose of the cooperative agreements, and the funding agency has final determination for all disposals or transfers.

Furniture and equipment with a unit value exceeding \$10,000, purchased with nonfederal funds, are capitalized and depreciated on a straight-line basis over the estimated useful lives of the individual items. NCMEC in-kind software are depreciated on a straight-line basis over their estimated useful lives of three years. NCMEC buildings are depreciated on a straight-line basis over their estimated useful life of 30 years. Building-related improvements are depreciated on a straight-line basis over the lesser of the improvements’ estimated useful lives of 15 years or the remaining life of the building. Leasehold improvements are stated at cost and are amortized using the straight-line method over the lesser of the estimated useful life of 15 years or remaining life of the lease.

***Cash Surrender Value of Life Insurance Policies***

The cash surrender value of the life insurance policies is based upon the reserve value, which is the face amount of the contracts discounted at a specific rate of interest according to the insured’s life expectancy, less any loans to the policyholders outstanding.

***Artwork Collections***

NCMEC has received donated collections consisting of works of art, historical treasures, or similar assets that are held for public exhibition and are protected and preserved. Donated collections are initially capitalized at the appraised fair value as of the date of the acceptance of the donation and is analyzed for impairment on an annual basis. Artwork collections are not depreciated.

***Contributions, Grants and Contracts Revenue***

Contributions are recognized when donations are made or pledged. NCMEC reports contributions within net assets with donor restrictions if they are received with donor or grantor stipulations that limit the use of the donated assets or include an explicit or implied time restriction. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the accompanying statement of activities as net assets released from restrictions. Restricted contributions received in the same year in which the restriction is met are recorded as an increase to net assets without donor restrictions.

The National Center for Missing and Exploited Children

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2020 and 2019

NCMEC recognizes government and private contracts and grants as either contributions or exchange transactions, depending on whether the transaction is reciprocal or nonreciprocal. For contributions, revenue is recognized when a contribution becomes unconditional. Typically, contract and grant agreements contain a right of return or release from obligation provision and NCMEC has limited discretion over how funds transferred should be spent. As such, NCMEC recognizes revenue for these conditional contributions when the related barrier has been overcome.

NCMEC's outstanding conditional contributions, which are to be recognized as revenue as conditions are met, totaled approximately \$37.7 million and \$34.8 million at December 31, 2020 and 2019, respectively. Of the \$37.7 million in conditional contributions existing as of December 31, 2020, \$0.3M of this amount is a conditional contribution from the Paycheck Protection Program for which funds have already been received and are being accounted for as deferred revenue within the accounts payable and accrued expenses financial statement line.

For contracts and grants treated as exchange transactions, NCMEC has the right to consideration from the sponsoring organization in an amount that corresponds directly with the value to the sponsoring organization of NCMEC's performance completed to date (cost incurred). For these agreements, NCMEC recognizes revenue in the amount to which NCMEC has the right to invoice. Revenue recognized for grants and contracts treated as exchange transactions totaled \$1,033,485 and \$981,701 for the years ended December 31, 2020 and 2019, respectively. For expenses incurred in advance of receipts of funds from the sponsoring organization, NCMEC recorded accounts receivable totaling \$163,162 and \$78,014 at December 31, 2020 and 2019, respectively.

**Donated Equipment, Materials and Services**

The fair value of contributed services that are considered specialized and can be estimated are reflected in the accompanying financial statements. During 2020 and 2019, NCMEC received \$6,723,415 and \$5,331,111, respectively, of in-kind goods and services relating to the following:

	2020	2019
Software, licenses, and equipment	\$ 5,626,545	\$ 4,570,618
Legal and professional services	512,800	453,358
Event management	13,820	219,235
Office space	40,250	40,500
Advertising	530,000	40,400
Other	-	7,000
Total	<u>\$ 6,723,415</u>	<u>\$ 5,331,111</u>

These items have been recorded among the various program expenses and contributions without donor restrictions in the accompanying financial statements. During 2020 and 2019, no donated items were capitalized by NCMEC.

Donated furniture, equipment and software with a unit value over \$10,000 is recorded at fair value upon receipt and depreciated on a straight-line basis over the estimated useful life of the asset.

**Functional Allocation of Expenses**

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying statement of functional expenses. Accordingly, certain operating costs are allocated among the benefiting program and supporting services based on specific identification or appropriate methodologies such as square footage and level of effort.

The National Center for Missing and Exploited Children

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2020 and 2019

**Fundraising Costs**

Revenue derived from specific fundraising activities is presented in the accompanying statements of activities, net of direct benefit costs to donors. General fundraising costs totaled \$2,613,640 and \$3,635,874 for the years ended December 31, 2020 and 2019, respectively.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

**NOTE B - FINANCIAL ASSETS AND LIQUIDITY RESOURCES**

As of December 31, 2020, and 2019, financial assets and liquidity resources available within one year for general expenditure, such as operating expenses, were as follows:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 15,434,061	\$ 10,261,250
Accounts receivable, net	2,623,843	3,310,808
Pledges receivable, net (due within one year)	2,144,702	323,334
Investments	34,796,696	31,663,673
Less: Board designated funds	(34,174,451)	(31,085,399)
Less: Net assets with donor restrictions - purpose	<u>(1,638,747)</u>	<u>(1,058,526)</u>
Total	<u>\$ 19,186,104</u>	<u>\$ 13,415,140</u>

NCMEC maintains cash balances at a level designed to ensure short-term liquidity. In addition, a suitable proportion of NCMEC's investment balances are held in instruments that can readily be converted to cash, if needed. NCMEC prepares and monitors a 12-month rolling cash-flow forecast in order to identify and address any threats to short-term liquidity.

**NOTE C - ACCOUNTS AND PLEDGES RECEIVABLE**

Accounts receivable consist mainly of short-term contributions and costs incurred that are due to be reimbursed under the terms of NCMEC's federal contracts and grants. All are due within one year and are expected to be fully collectible.

**The National Center for Missing and Exploited Children**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2020 and 2019**

Pledges receivable represent unconditional promises to give by donors. Unconditional promises to give (pledges) are recognized as revenue and pledge receivables in the period the promises are made. Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using a risk adjusted interest rate commensurate with the risk involved applicable to the years in which the promises are received. Amounts due in less than one year amounted to \$2,144,702 and \$323,334 as of December 31, 2020 and 2019, respectively. The gross amounts due in one to two years amounted to \$1,510,801 and \$200,000 as of December 31, 2020 and 2019, respectively. The discount on the long-term pledges totaled \$22,360 and \$7,959 as of December 31, 2020 and 2019, respectively. Discount rates range from 0.11% and 2.55% for the years ended December 31, 2020 and 2019. No allowance for uncollectible pledges has been established.

**NOTE D - INVESTMENTS**

As of December 31, 2020, and 2019, NCMEC's investments consisted of the following:

	2020	2019
	<u>                    </u>	<u>                    </u>
Money market funds	\$ 965,016	\$ 931,993
Certificates of deposit	51,130	60,321
Equities	14,996,402	12,934,187
Mutual funds	8,301,926	7,343,481
U.S. government bonds and agency securities	5,397,835	5,634,927
Corporate bonds	864,820	768,862
REITs	824,304	631,318
Hedge funds	3,395,263	3,358,584
	<u>                    </u>	<u>                    </u>
Total investments, at fair value	<u>\$ 34,796,696</u>	<u>\$ 31,663,673</u>

**NOTE E - PROPERTY AND EQUIPMENT AND RELATED DEPRECIATION AND AMORTIZATION**

NCMEC held the following property and equipment as of December 31:

	2020	2019
	<u>                    </u>	<u>                    </u>
Building and improvements	\$ 2,327,879	\$ 2,352,116
Land	470,000	573,950
In-kind software	1,686,701	1,686,701
Leasehold improvements	7,911,664	7,911,664
Furniture and equipment	1,596,834	1,596,834
	<u>                    </u>	<u>                    </u>
Total property and equipment	13,993,078	14,121,265
Less: Accumulated depreciation and amortization	<u>(5,526,913)</u>	<u>(5,036,764)</u>
Total	<u>\$ 8,466,165</u>	<u>\$ 9,084,501</u>

**The National Center for Missing and Exploited Children**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2020 and 2019**

For the years ended December 31, 2020 and 2019, depreciation and amortization expense totaled \$622,516 and \$1,202,713, respectively. Of this amount, \$423,852 during both 2020 and 2019 were related to the amortization of leasehold improvements acquired through a tenant improvement allowance.

**NOTE F - NOTES PAYABLE**

NCMEC refinanced the promissory note with M&T Bank (previously held with KeyBank) for the Center's Rochester, New York building on March 31, 2011. The term of the agreement was for 15 years expiring on February 28, 2026. In 2020, NCMEC paid off the promissory note in full. Prior to payoff, the unpaid principal amount of the note earned interest calculated on the basis of a 360 day year for the actual number of days of each year (365/366), from and including the date the proceeds of this note were disbursed to, but not including, the date all amounts hereunder are paid in full, at a rate per year which was fixed at 4.54% as of December 31, 2019. The total amount outstanding on the note was \$319,414 as of December 31, 2019. The promissory note was to acquire and renovate a building in Rochester, New York. Collateral on this loan, as defined by the M&T Bank loan agreement, was a first position lien on property located in Rochester, New York.

Interest expense totaled \$12,094 and \$15,801 during the years ended December 31, 2020 and 2019, respectively.

**NOTE G - LINE OF CREDIT**

NCMEC has an existing line of credit with Merrill Lynch. The line of credit is fully secured by the balance in the NCMEC investment account held at Merrill Lynch Trust Company, which as of December 31, 2020 and 2019 totaled \$34,174,451 and \$32,120,046, respectively. There were no outstanding balances on the line of credit as of December 31, 2020 and 2019, and the available credit at both December 31, 2020 and 2019 was \$10,000,000. The monthly interest rate on the line of credit is calculated based on the average daily LIBOR (London Interbank Offered Rate) plus 1%. As of December 31, 2020, and 2019, the interest rate was 1.15% and 2.76%, respectively. Interest expense on the line of credit totaled \$0 for the years ended December 31, 2020 and 2019.

**NOTE H - OPERATING LEASES**

NCMEC assesses contracts at inception to determine whether an arrangement is or includes a lease, which conveys NCMEC's right to control the use of an identified asset for a period of time in exchange for consideration. NCMEC leases office space and equipment under noncancelable operating leases. NCMEC's office lease includes renewal options, however, these options do not impact the lease term as NCMEC is not reasonably certain that it will exercise these options. In addition, NCMEC also made the accounting policy election not to separate non lease components from lease components for its operating leases. Furthermore, there are no leases under which NCMEC guarantees a residual value or faces restrictions on its ability to finance activities.

NCMEC's office lease is subject to scheduled escalations as well as escalations in operating costs and real estate taxes. Additionally, under the terms of this lease, NCMEC received from the landlord a build-out allowance of \$6,357,731. The build-out allowance was completely used at December 31, 2018.

The National Center for Missing and Exploited Children

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2020 and 2019

The maturity analysis of NCMEC's operating lease agreements as of December 31, 2020 is as follows:

2021	\$ 61,092
2022	870,969
2023	2,372,287
2024	2,431,679
2025	2,492,768
Thereafter	<u>24,162,426</u>
	32,391,221
Less: Present value discount	<u>(6,408,443)</u>
Total lease liabilities	<u>\$ 25,982,778</u>

NCMEC made the accounting policy election to use a risk-free rate to compute the present value of lease payments for all leases. The weighted-average discount rate used for NCMEC's operating leases was 2.93% and 2.48% for the office space and equipment, respectively, at both December 31, 2020 and 2019. The weighted-average remaining lease term for NCMEC's operating lease for the office space was 13 years and 14 years at December 31, 2020 and 2019, respectively. The weighted-average remaining lease term for NCMEC's operating lease for the equipment was 2 years and 3 years at December 31, 2020 and 2019, respectively.

Under generally accepted accounting principles, all fixed payments, reduced by lease incentives, variable payments dependent on a rate or index, and the exercise price of options reasonably certain to be exercised are included in the single lease cost and recognized on a straight-line basis ratably over the term of the lease. Lease cost for the years ended December 31, 2020 and 2019 totaled \$2,119,476 and \$2,206,083, respectively. Cash paid for amounts included in the lease liability measurement for the years ended December 31, 2020 and 2019 totaled \$2,543,326 and \$2,642,698, respectively.

**NOTE I - COMMITMENTS, RISKS AND CONTINGENCIES**

***Litigation***

NCMEC is involved in various claims and lawsuits arising from the normal conduct of its operations. Although the ultimate outcome of such legal proceedings cannot be predicted with certainty, management of NCMEC believes the resulting liability, if any, will have no material effect upon NCMEC's financial statements.

***Concentration of Risk***

During the years ended December 31, 2020 and 2019, NCMEC earned revenue of \$39,727,660 and \$35,730,478, respectively, from the U.S. government, which was predominantly from the U.S. Department of Justice ("DOJ"). Revenue earned from the U.S. government represented approximately 64% and 65% of the total revenue recognized by NCMEC for each of the years ended December 31, 2020 and 2019, respectively. Additionally, NCMEC received \$38,351,032 and \$35,292,464, 61% and 65% of the total revenue and support directly from DOJ for the years ended December 31, 2020 and 2019, respectively. If a significant reduction in this revenue should occur, it may adversely impact NCMEC's financial position and ability to carry out its program activities.

**The National Center for Missing and Exploited Children**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2020 and 2019**

NCMEC's cash is comprised of amounts in accounts at various financial institutions. While the amount at a given bank, at times, exceeds the amount guaranteed by federal agencies and, therefore, bears some risk, NCMEC has not experienced, nor does it anticipate, any losses on its funds. As of December 31, 2020, cash in excess of the Federal Deposit Insurance Corporation insured limit of \$250,000 totaled \$11,092,535.

***Federal Funds***

The support from the DOJ and the majority of the U.S. Department of Homeland Security support is in the form of cost-reimbursable government contracts and grants. Amounts expended pursuant to the cost-reimbursable agreements are subject to adjustment based upon the DOJ's and the U.S. Department of Homeland Security's reviews of the separate annual audit, in accordance with the Uniform Guidance. Management believes it has complied with all applicable laws and regulations related to the agreements and that it is unlikely any material adjustments will result from the review.

NCMEC has federal and state contracts awarded by the DOJ, U.S. Department of Homeland Security and the State of Texas. The U.S. Marshals Service ("USMS"), Federal Bureau of Investigation ("FBI"), and Federal Parent Locator Service contracts account for 3% of total grant revenue for the years ended December 31, 2020 and 2019. NCMEC believes it has complied with all Federal Acquisition Regulations as they apply to these contracts.

***Provisional Fringe Benefit and Indirect Cost Rates***

Billings under cost reimbursable government contracts and grants are calculated using provisional rates that permit the recovery of fringe benefits and indirect costs. These rates are subject to audit on an annual basis by the DOJ, NCMEC's cognizant agency. The audit results in the negotiation and determination of the final indirect cost and fringe benefits rates, which may create a liability for indirect cost or fringe benefits recovery for amounts billed in excess of the actual rates or may allow for additional billings for unbilled indirect costs and fringe benefits.

The DOJ audits costs related to U.S. government contracts and grants in accordance with Title 2 *U.S. Code of Federal Regulations ("CFR") Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). The DOJ has yet to audit the costs and indirect cost rates for the year ended December 31, 2020. Management believes that cost disallowances, if any, arising from the DOJ's audits for 2020 will not have a material effect on NCMEC's financial position as of December 31, 2020, or the results of operations for the year then ended.

***COVID-19 Pandemic***

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus ("COVID-19") as a pandemic, which continues to spread throughout the United States. The COVID-19 pandemic is having a broad impact on commerce and financial markets around the world. The extent of the impact of COVID-19 on NCMEC's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, which at present cannot be determined. Accordingly, the extent to which COVID-19 may impact NCMEC's financial position, changes in net assets and cash flows is uncertain and the accompanying financial statements include no adjustments relating to the effects of this pandemic. NCMEC has and will continue to make every effort to mitigate the current and future financial impacts of COVID-19.

The National Center for Missing and Exploited Children

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2020 and 2019

**NOTE J - NET ASSETS WITH DONOR RESTRICTIONS**

As of December 31, 2020, and 2019, net assets with donor restrictions are available for the following programs:

	<u>2020</u>	<u>2019</u>
Technology advancement initiatives	\$ 287,558	\$ 39,583
Internet safety initiatives	2,904,146	845,791
Outreach initiatives	489,541	343,448
Emery remainder trust	<u>27,487</u>	<u>21,745</u>
Total	<u>\$ 3,708,732</u>	<u>\$ 1,250,567</u>

During 2020 and 2019, \$1,792,717 and \$1,767,952, respectively, of net assets with donor restrictions were released from restriction.

**NOTE K - BOARD-DESIGNATED ENDOWMENT**

NCMEC's Board of Directors has established a board-designated fund, hereafter referred to as the endowment, to provide for the financial stability of NCMEC. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments are classified and reported on the existence or absence of donor-imposed restrictions.

The funds in the endowment are allocated as follows:

<b>Asset Category</b>	<u>Target</u>
Equities	43 to 53%
Risk-free fixed income	35 to 40%
Alternative investments - Private equity, REITs, and hedge funds	10 to 20%

All earnings of the endowment are reinvested within the endowment. The Board of Directors intends for the endowment to be used by NCMEC only upon approval of 75% of the members of the Board with fiduciary authority.

The National Center for Missing and Exploited Children

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2020 and 2019

During the years ended December 31, 2020 and 2019, NCMEC had the following activity in its board-designated fund:

Board-designated fund, January 1, 2019	\$ 25,666,401
Investment earnings	4,633,598
Investment fees	(214,600)
Carlyle build-out savings	<u>1,000,000</u>
Board-designated fund, December 31, 2019	31,085,399
Investment earnings	3,277,473
Investment fees	<u>(188,421)</u>
Board-designated fund, December 31, 2020	<u>\$ 34,174,451</u>

**NOTE L - FAIR VALUE MEASUREMENTS**

Accounting standards define fair value and establish a framework for measuring fair value for those assets and liabilities that are measured at fair value on a recurring basis. In accordance with the fair value measurement standards, NCMEC has categorized its applicable financial instruments into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based upon the lowest level input that is significant to the fair value measurement of the instrument.

Applicable financial assets and liabilities are categorized based on the inputs to the valuation techniques as follows:

- Level 1 - inputs based on quoted prices (unadjusted) in active markets for identical assets or liabilities accessible at the measurement date.
- Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly, such as quoted prices for similar assets or liabilities in active markets.
- Level 3 - unobservable inputs for the asset or liability including the reporting entity's own assumptions in determining the fair value measurement.

The National Center for Missing and Exploited Children

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2020 and 2019

The following table summarizes NCMEC's assets and liabilities measured at fair value on a recurring basis as of December 31, 2020:

	Level 1	Level 2	Level 3	Reported at NAV	Total
Investments:					
Money market funds	\$ 965,016	\$ -	\$ -	\$ -	\$ 965,016
Certificates of deposit	-	51,130	-	-	51,130
Equities	14,900,336	-	-	96,066	14,996,402
Mutual funds	8,301,926	-	-	-	8,301,926
U.S. government bond and agency securities	-	5,397,835	-	-	5,397,835
Corporate bonds	-	864,820	-	-	864,820
REITs	-	-	-	824,304	824,304
Hedge funds	-	-	-	3,395,263	3,395,263
	<u>\$ 24,167,278</u>	<u>\$ 6,313,785</u>	<u>\$ -</u>	<u>\$ 4,315,633</u>	<u>\$ 34,796,696</u>
Assets held under unitrust agreement	\$ -	\$ -	\$ 40,388	\$ -	\$ 40,388

The table below presents additional information for NCMEC's investments, as of December 31, 2020, whose fair value is estimated using the practical expedient of reported net assets value ("NAV").

	NAV as of 12/31/2020	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Equities	\$ 96,066	None	N/A	N/A
REITs	824,304	None	Daily	Daily
Hedge funds	<u>3,395,263</u>	None	Monthly; at Board's Discretion	30 to 95 days
	<u>\$ 4,315,633</u>			

The following table summarizes NCMEC's assets and liabilities measured at fair value on a recurring basis as of December 31, 2019:

	Level 1	Level 2	Level 3	Reported at NAV	Total
Investments:					
Money market funds	\$ 931,993	\$ -	\$ -	\$ -	\$ 931,993
Certificates of deposit	-	60,321	-	-	60,321
Equities	12,663,233	-	-	270,954	12,934,187
Mutual funds	7,291,962	51,519	-	-	7,343,481
U.S. government bond and agency securities	-	5,634,927	-	-	5,634,927
Corporate bonds	-	768,862	-	-	768,862
REITs	-	-	-	631,318	631,318
Hedge funds	-	-	-	3,358,584	3,358,584
	<u>\$ 20,887,188</u>	<u>\$ 6,515,629</u>	<u>\$ -</u>	<u>\$ 4,260,856</u>	<u>\$ 31,663,673</u>
Assets held under unitrust agreement	\$ -	\$ -	\$ 34,507	\$ -	\$ 34,507

The National Center for Missing and Exploited Children

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2020 and 2019

The table below presents additional information for NCMEC's investments, as of December 31, 2019, whose fair value is estimated using the practical expedient of reported net assets value NAV.

	NAV as of 12/31/2019	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Equities	\$ 270,954	None	N/A	N/A
REITs	631,318	None	Daily	Daily
Hedge funds	3,358,584	None	Monthly; at Board's Discretion	67 to 95 days
	<u>\$ 4,260,856</u>			

NCMEC used the following methods and significant assumptions to estimate fair value for assets and liabilities recorded at fair value:

*U.S. government bonds and agency securities* - valued at the closing price reported in the active market in which the individual security is traded.

*Corporate bonds* - valued at the closing price reported in the active market in which the bond is traded.

*Equities and mutual funds* - publicly traded equities are valued at the closing price reported in the active market in which the individual securities are traded.

*Certificates of deposit* - valued at fair value by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the creditworthiness of the issuer.

*Money market funds* - the NAV of funds held at the year-end.

*Hedge funds, REITs, and private equity investments* - NCMEC's interests these investments are generally reported at the NAV per share by the fund managers. This NAV is used as a practical expedient to estimate the fair value of such investments. Distributions from private equity investments are expected over the next 10 years, as the underlying assets are sold. These investments can never be redeemed with the funds. Distributions from each fund will be received as the underlying investments of the funds are liquidated, which is unknown as of December 31, 2020.

**NOTE M - PENSION PLAN**

NCMEC sponsors a defined contribution pension plan for all employees. Participation commences upon employment. NCMEC makes a contribution of 7% each pay period, for a total of 24 contributions during the year. Each employee is fully vested upon being credited with two plan years of service. All administrative expenses of the plan are paid by NCMEC. Pension expense totaled \$1,915,558 and \$1,779,234 for the years ended December 31, 2020 and 2019, respectively, and is classified as a fringe benefit in the accompanying statements of functional expenses.

**NOTE N - RELATED PARTIES**

For the years ended December 31, 2020 and 2019, NCMEC did not receive professional services from members of its Board of Directors or other related parties and thus no payment was made for professional fees for services provided by related parties. As of December 31, 2020, and 2019, no amounts were due to the related parties.

**The National Center for Missing and Exploited Children**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2020 and 2019**

**NOTE O - INCOME TAXES**

NCMEC follows guidance that clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a tax return, including issues relating to financial statement recognition and measurement. This guidance provides that the tax effects from an uncertain tax position can only be recognized in the financial statements if the position is “more-likely-than-not” to be sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged.

NCMEC is exempt from federal income tax under IRC section 501(c)(3), though it is subject to tax on income unrelated to its exempt purpose, unless that income is otherwise excluded by the Code. NCMEC has processes presently in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated income; to determine its filing and tax obligations in jurisdictions for which it has nexus; and to identify and evaluate other matters that may be considered tax positions. NCMEC has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements.

**NOTE P - POST EMPLOYMENT BENEFITS**

NCMEC is providing post-employment benefits to certain former senior personnel on an individual basis. As of December 31, 2020, and 2019, the amounts are actuarially determined for health coverage in the amounts of \$1,497,878 and \$1,247,801, respectively. The significant assumptions used to determine the post-employment benefit obligation for continuation of healthcare as of December 31, 2020, was a discount rate ranging from 1.99% - 2.40%, assumed initial health care cost trend rate of 5.70% for medical, 4.50% for dental, and 3.00% for vision. The significant assumptions used to determine the post-employment benefit obligation for continuation of healthcare as of December 31, 2019, was a discount rate ranging from 2.98% - 3.28%, assumed initial health care cost trend rate of 5.95% for medical, 4.50% for dental, and 3.00% for vision. Mortality rates utilized were based upon the Society of Actuaries 2019 Mortality Table. Future mortality improvements are assumed to follow the 2020 Mortality Table.

**NOTE Q - BUILDING HELD FOR SALE**

On October 8, 2020, NCMEC sold its California building for \$1,278,888, which resulted in a gain on the building in the amount of \$1,101,023. Further, following adjustments, commission, title charges, escrow charges, and taxes, NCMEC received \$1,239,810 from the buyer on October 8, 2020.

**NOTE R - SUBSEQUENT EVENTS**

NCMEC evaluated its December 31, 2020 financial statements for subsequent events through May 4, 2021, the date the financial statements were available to be issued.

NCMEC is not aware of any subsequent events which would require recognition or disclosure in the financial statements.