The International Centre for Missing and Exploited Children and ICMEC Limited

Consolidated Financial Report
December 31, 2013

Contents

McGladrey

Independent Auditor's Report

To the Board of Directors
The International Centre for Missing and Exploited Children
Alexandria, Virginia

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of The International Centre of Missing and Exploited Children and its affiliate, ICMEC Limited, a Singapore public company (collectively the Organization) which comprise the consolidated statement of financial position as of December 31, 2013, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 the consolidated 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 consolidated 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 consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2013, and the changes in its net assets and its cash flows the year then ended in accordance with accounting principles generally accepted in the United States of America.

McGladrey LLP

McLean, Virginia
April 2, 2014

The International Centre for Missing and Exploited Children and ICMEC Limited

Consolidated Statement of Financial Position
December 31, 2013

Assets		
Current Assets		
Cash and cash equivalents	$	470,445
Investments		3,645,174
Promises to give, net		1,189,807
Accounts receivable		2,000
Prepaid expenses		52,286
Total current assets		5,359,712
Other Assets		3,803
Property and Equipment, net		207,052
Deposits		50,000
Total assets	$	5,620,567
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	$	231,648
Deferred rent and lease incentive		50,907
Total current liabilities		282,555
Deferred Rent and Lease Incentive, net of current portion		134,875
Total liabilities		417,430
Commitment (Note 3)		
Net Assets		
Unrestricted		3,389,647
Temporarily restricted		1,813,490
Total net assets		5,203,137
	$	5,620,567

See Notes to Consolidated Financial Statements.

The International Centre for Missing and Exploited Children and ICMEC Limited

Consolidated Statement of Activities
Year Ended December 31, 2013

	Unrestricted	Temporarily Restricted	Total
Support and revenue:			
Grants and contributions	$ 1,839,248	$ 1,893,425	$ 3,732,673
Interest income	460	-	460
Net assets released from restrictions	648,859	(648,859)	-
Total support and revenue	2,488,567	1,244,566	3,733,133
Expenses:			
Program services			
Global network	2,231,328	-	2,231,328
Technology and training	578,292	-	578,292
Total program services	2,809,620	-	2,809,620
Supporting services:			
Management and general	75,796	-	75,796
Fundraising	146,965	-	146,965
Total supporting services	222,761	-	222,761
Total expenses	3,032,381	-	3,032,381
Change in net assets	(543,814)	1,244,566	700,752
Net assets:			
Beginning	3,933,461	568,924	4,502,385
Ending	$ 3,389,647	$ 1,813,490	$ 5,203,137

See Notes to Consolidated Financial Statements.

The International Centre for Missing and Exploited Children and ICMEC Limited

Consolidated Statement of Functional Expenses
Year Ended December 31, 2013

	Program Services			Supporting Services			
	Global Network	Technology And Training	Total Program Services	Management And General	Fundraising	Total Supporting Services	Total Expenses
Personnel	$ 784,618	$ 158,410	$ 943,028	$ 48,592	$ 72,510	$ 121,102	$ 1,064,130
Travel	147,377	72,690	220,067	-	7,321	7,321	227,388
Supplies and deliveries	48,812	7,736	56,548	1,012	2,175	3,187	59,735
Occupancy	280,436	69,062	349,498	9,036	17,565	26,601	376,099
Professional and contract fees	530,059	151,325	681,384	16,863	46,766	63,629	745,013
Grants outreach	320,616	-	320,616	-	-	-	320,616
Other	119,410	119,069	238,479	293	628	921	239,400
	$ 2,231,328	$ 578,292	$ 2,809,620	$ 75,796	$ 146,965	$ 222,761	$ 3,032,381

See Notes to Consolidated Financial Statements.

The International Centre for Missing and Exploited Children and ICMEC Limited

Consolidated Statement of Cash Flows
Year Ended December 31, 2013

Cash Flows from Operating Activities	
Change in net assets	$ 700,752
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation expense	67,152
Changes in assets and liabilities:	
(Increase) decrease in:	
Promises to give	(1,064,118)
Accounts receivable	500
Prepaid expenses	(21,512)
Payments to related party, net	6,325
Other assets	(3,803)
Decrease in:	
Accounts payable and accrued expenses	127,842
Deferred rent and lease incentive	(42,149)
Net cash used in operating activities	(229,011)
Cash Flows from Investing Activities	
Proceeds from sales of investments	450,000
Purchase of investments	(500,374)
Net cash used in investing activities	(50,374)
Net decrease in cash and cash equivalents	(279,385)
Cash and Cash Equivalents	
Beginning	749,830
Ending	$ 470,445

See Notes to Consolidated Financial Statements.

Note 1. Nature of Activities and Significant Accounting Policies

Nature of Activities: The International Centre for Missing and Exploited Children (ICMEC) was incorporated on January 20, 1999, under the corporation laws of the state of New York. It is chartered to operate on the international level as a clearinghouse and technical center to work with issues regarding missing and exploited children. ICMEC's primary source of funds is from private contributions.

In May 2009, ICMEC created ICMEC Limited, a Singapore public company limited by guarantee. ICMEC is the sole member of ICMEC Limited. The office was established to direct ICMEC's policies and programmatic initiatives in the Asia-Pacific Region.

A summary of ICMEC's significant accounting policies follows:

Basis of Accounting: The accompanying consolidated financial statements are prepared using the accrual basis of accounting, whereby, revenue is recognized when earned and expenses are recognized when incurred.

Basis of Presentation: The financial statements have been prepared on the accrual basis of accounting. ICMEC follows the accounting and reporting practices set forth in the Not-for-Profit Topic of the Accounting Standards Codification (ASC).

> *Unrestricted net assets:* Unrestricted net assets are the net assets that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations.
>
> *Temporarily restricted net assets:* Temporarily restricted net assets result from contributions whose use is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of ICMEC pursuant to these stipulations. Net assets may be temporarily restricted for various purposes, such as use in future periods or use for specified purposes.
>
> *Permanently restricted net assets:* Permanently restricted net assets result from contributions whose use is limited by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by ICMEC's actions. ICMEC does not have any permanently restricted net assets as of December 31, 2013.

Principles of Consolidation: The consolidated financial statements include the accounts of ICMEC and ICMEC Limited. All significant intercompany transactions have been eliminated.

Cash and Cash Equivalents: ICMEC considers all highly liquid investments with original maturity dates of three months or less to be cash equivalents.

Financial Risk: ICMEC maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. ICMEC has not experienced any losses in such accounts. ICMEC believes it is not exposed to any significant financial risk on cash.

ICMEC invests in a professionally managed portfolio that contains a money market fund which invests exclusively in government securities.

Investments are exposed to various risks, such as market and credit. Due to the level of risk associated with investments, and the level of uncertainty related to changes in the value of investments, it is at least reasonably possible that changes in risks in the near term could materially affect investment balances and the amounts reported in the consolidated financial statements.

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Promises to Give: Promises to give are carried at original amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a periodic basis. Management determines the allowance for doubtful promises by identifying troubled promises and using historical experience with its donors. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received. There was no allowance for doubtful promises at December 31, 2013. Promises that are expected to be collected beyond one year are recorded at their net present value.

Investments: Investments are reflected at fair market value. To adjust the carrying values of these investments, the change in fair market value is charged or credited to current operations.

Property and Equipment: Property and equipment with a unit value exceeding $10,000 and with an estimated useful life greater than one year are capitalized and depreciated on a straight-line basis over the estimated useful lives of the individual items. Leasehold improvements are stated at cost and are being amortized using the straight-line method over the remaining life of the lease.

Revenue Recognition: Grants and contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted support and revenue. When a donor restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying consolidated statement of activities as net assets released from restrictions.

Donated Services: In-kind contributions are recognized as revenue and expense in the accompanying statement of activities at their estimated fair value, as provided by the donor, at the date of receipt. In-kind contributions consist of contributed professional services and are recorded as professional and contract fees under program services expenses and unrestricted contributions in the accompanying consolidated statement of activities. Donated services were $3,805 for the year ended December 31, 2013.

Income Taxes: ICMEC received a letter from the Internal Revenue Service (IRS) dated April 2, 2004, stating that it is exempt from federal taxes under Section 501(c)(3) of the Internal Revenue Code (the Code), and that it is a publicly supported organization, as described in Sections 509(a)(l) and 170(b)(I)(A)(vi) of the Code. Under Section 501(c)(3) of the Internal Revenue Code, ICMEC is a nonprofit organization and is exempt from federal taxes on income other than net unrelated business income. No provision for federal or state income taxes is required as of December 31, 2013, as ICMEC had no taxable net unrelated business income.

ICMEC Limited is recognized as a public company limited by guarantee in accordance with the laws and regulations of Singapore. A public company limited by guarantee is exempt from income tax if any surplus funds are from contributions or if over 50% of gross revenue receipts are from members and are not tax-deductible for members. Accordingly, ICMEC Limited has no provision for income taxes related to its activities for the year ended December 31, 2013.

Management evaluated ICMEC's tax positions and concluded that ICMEC had taken no uncertain tax positions that require adjustment to the consolidated financial statements to comply with the provisions of this guidance. Generally, ICMEC is no longer subject to U.S. federal income tax positions by tax authorities for years before 2010.

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Functional Allocation of Expenses: The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying consolidated statement of activities. Accordingly, certain costs have been allocated proportionately among the programs and supporting services to which they relate on the basis of direct costs.

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. Accordingly, actual results could differ from those estimates.

Subsequent Events: ICMEC evaluated subsequent events through April 2, 2014, which is the date the consolidated financial statements were available to be issued.

Note 2. Investments and Fair Value Measurements

ICMEC follows the Fair Value Measurement Topic of ASC. This topic establishes a single authoritative definition of fair value, sets out a framework for measuring fair value, and requires additional disclosures about fair value measurements. The topic applies to all assets and liabilities that are being measured and reported on a fair value basis. This topic enables the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine values. The topic requires that assets and liabilities carried at fair value will be classified and disclosed in one of the following categories:

Level 1 Quoted market prices in active markets for identical assets or liabilities.
Level 2 Observable market-based inputs or unobservable inputs corroborated by market data.
Level 3 Unobservable inputs that are not corroborated by market data.

In determining the appropriate levels, ICMEC performs a detailed analysis of the assets and liabilities that are subject to the accounting standard. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3. There were no Level 3 inputs for any assets held by ICMEC at December 31, 2013.

The following table summarizes ICMEC's assets measured at fair value on a recurring basis as of December 31, 2013:

	Fair Value	Level 1	Level 2	Level 3
Investments				
Money market funds	$ 3,645,174	$ 3,645,174	$ -	$ -

Money market funds are included in Level 1 securities as the market values are based on quoted market prices.

Note 3. Office Lease

ICMEC leases office space under a noncancelable, seven-year operating lease, which expires in January 2017. Under the terms of the lease, ICMEC received from the landlord a build-out allowance of $303,369 which is considered to be a lease incentive. The lease incentive and the difference between the straight-line expense and the required lease payments is reflected as deferred rent and lease incentive in the accompanying consolidated statement of financial position. All rent escalations and lease incentives are recognized on a straight-line basis ratably over the term of the lease.

Future minimum rental payments under this lease are as follows:

Years Ending December 31,		
2014	$	327,181
2015		336,179
2016		345,424
2017		28,850
	$	1,037,634

Note 4. Related Party Transactions

ICMEC reimburses The National Center for Missing and Exploited Children (NCMEC) for expenses incurred on its behalf for employee services, facilities and other overhead expenses. NCMEC is a nonprofit chartered to operate a national clearinghouse and technical center to work with issues regarding missing and exploited children. Certain members of NCMEC's management and board also serve in management positions at ICMEC.

During the year ended December 31, 2013, NCMEC charged ICMEC $241,701 for employee services and $139,560 for overhead costs. At December 31, 2013, amounts due to NCMEC totaled $0.

During the year ended December 31, 2013, contributions from members of ICMEC's board of directors totaled approximately $2,113,000. At December 31, 2013, receivables from members of ICMEC's board of directors totaled $513,000.

Note 5. Temporarily Restricted Net Assets

Changes in temporarily restricted net assets during the year ended December 31, 2013, are as follows:

	Balance December 31, 2012	Additions	Released	**Balance December 31, 2013**
Purpose restricted:				
Global network	$ 568,924	$ 1,893,425	$ 648,859	**$ 1,813,490**