# The International Centre for Missing and Exploited Children and ICMEC Limited

Consolidated Financial Report
December 31, 2014

**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 for Missing and Exploited Children and its affiliate, ICMEC Limited, a Singapore public company (collectively, ICMEC) which comprise the consolidated balance sheet as of December 31, 2014, 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 from 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 ICMEC as of December 31, 2014, and the changes in their net assets and their cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

McGladrey LLP

McLean, Virginia
April 8, 2015

**The International Centre for Missing and Exploited Children and ICMEC Limited**

**Consolidated Balance Sheet**
**December 31, 2014**

| | |
|---|---|
| **Assets** | |
| Cash | $ 469,359 |
| Investments | 1,995,493 |
| Promises to Give, Net | 1,078,976 |
| Prepaid Expenses | 58,635 |
| Other Assets | 7,235 |
| Leasehold Improvements, net | 139,900 |
| Deposits | 26,799 |
| | $ 3,776,397 |
| | |
| **Liabilities and Net Assets** | |
| Liabilities | |
| Accounts payable and accrued expenses | $ 94,553 |
| Deferred revenue | 58,105 |
| Deferred rent | 134,877 |
| **Total liabilities** | 287,535 |
| | |
| Commitment (Note 5) | |
| | |
| Net Assets | |
| Unrestricted | 1,691,587 |
| Temporarily restricted | 1,797,275 |
| **Total net assets** | 3,488,862 |
| | $ 3,776,397 |

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, 2014**

| | Unrestricted | Temporarily Restricted | Total |
|---|---|---|---|
| Support and Revenue | | | |
| Grants and contributions | $ 562,645 | $ 696,598 | $ 1,259,243 |
| Interest income | 358 | - | 358 |
| Net assets released from restrictions | 712,813 | (712,813) | - |
| **Total support and revenue** | 1,275,816 | (16,215) | 1,259,601 |
| Expenses | | | |
| Program services: | | | |
| Global network | 2,097,674 | - | 2,097,674 |
| Technology and training | 504,183 | - | 504,183 |
| **Total program services** | 2,601,857 | - | 2,601,857 |
| Supporting services: | | | |
| Management and general | 52,473 | - | 52,473 |
| Fundraising | 319,546 | - | 319,546 |
| **Total supporting services** | 372,019 | - | 372,019 |
| **Total expenses** | 2,973,876 | - | 2,973,876 |
| **Change in net assets** | (1,698,060) | (16,215) | (1,714,275) |
| Net Assets | | | |
| Beginning | 3,389,647 | 1,813,490 | 5,203,137 |
| Ending | $ 1,691,587 | $ 1,797,275 | $ 3,488,862 |

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, 2014**

| | Program Services | | | Supporting Services | | | |
|---|---|---|---|---|---|---|---|
| | Global Network | Technology and Training | Total Program Services | Management and General | Fundraising | Total Supporting Services | Total Expenses |
| Salaries and Fringe Benefits | $ 718,819 | $ 184,103 | $ 902,922 | $ 17,505 | $ 94,570 | $ 112,075 | $ 1,014,997 |
| Professional and Contract Fees | 602,030 | 98,804 | 700,834 | 27,585 | 134,169 | 161,754 | 862,588 |
| Travel | 115,084 | 87,978 | 203,062 | - | 20,135 | 20,135 | 223,197 |
| Supplies and Deliveries | 25,785 | 5,859 | 31,644 | 610 | 7,772 | 8,382 | 40,026 |
| Occupancy and Building Costs | 262,328 | 63,309 | 325,637 | 6,589 | 40,125 | 46,714 | 372,351 |
| Grants Outreach | 276,601 | - | 276,601 | - | - | - | 276,601 |
| Other | 97,027 | 64,130 | 161,157 | 184 | 22,775 | 22,959 | 184,116 |
| | $ 2,097,674 | $ 504,183 | $ 2,601,857 | $ 52,473 | $ 319,546 | $ 372,019 | $ 2,973,876 |

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, 2014**

| | |
|---|---|
| Cash Flows From Operating Activities | |
| Change in net assets | $ (1,714,275) |
| Adjustments to reconcile change in net assets to net cash used in operating activities: | |
| Change in discount in net present value | (3,831) |
| Depreciation | 67,152 |
| Deferred rent | (50,905) |
| Changes in assets and liabilities: | |
| (Increase) decrease in: | |
| Promises to give | 114,661 |
| Prepaid expenses | (6,349) |
| Other assets | (1,432) |
| Deposits | 23,201 |
| Increase (decrease) in: | |
| Accounts payable and accrued expenses | (137,094) |
| Deferred revenue | 58,105 |
| **Net cash used in operating activities** | (1,650,767) |
| | |
| Cash Flows From Investing Activities | |
| Proceeds from sales of investments | 1,650,000 |
| Purchase of investments | (319) |
| **Net cash provided by investing activities** | 1,649,681 |
| | |
| **Net decrease in cash** | (1,086) |
| | |
| Cash | |
| Beginning | 470,445 |
| | |
| Ending | $ 469,359 |

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:** ICMEC follows the accounting and reporting practices set forth in the Not-for-Profit Topic of the Accounting Standards Codification (ASC). As such, ICMEC is required to report information regarding its financial position and activities according to three classes of net assets, as follows:

> *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 has no permanently restricted net assets at December 31, 2014.

**Principles of consolidation:** The consolidated financial statements include the accounts of ICMEC and ICMEC Limited (ICMEC, collectively). All significant intercompany transactions have been eliminated.

**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, 2014. 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.

**Valuation of long-lived assets:** ICMEC reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less costs to sell.

**Deferred rent:** ICMEC has a lease agreement for rental space in Alexandria, Virginia, that includes a lease incentive and escalating rent over the life of the lease period. Rent expense is being recognized on a straight-line basis over the life of the lease. The difference between rent expense recognized and rental payments, as stipulated in the lease, is reflected as deferred rent in the balance sheet.

**Support and revenue:** 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 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. These 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 $70,081 for the year ended December 31, 2014.

**Income taxes:** ICMEC is generally exempt from federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code. In addition, ICMEC qualifies for charitable contribution deductions and has been classified as an organization that is not a private foundation. Business income, which is not related to exempt purposes, less applicable deductions, is subject to federal and state corporate income taxes. ICMEC had no net unrelated business income for the year ended December 31, 2014.

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

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, 2014.

Management evaluated ICMEC’s tax positions and concluded that ICMEC had taken no uncertain tax positions that require adjustment to the financial statements. Generally, ICMEC is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before 2011.

**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 8, 2015, which is the date the consolidated financial statements were available to be issued.

## Note 2. Promises to Give

Promises to give in one year or more are measured using the present value of future cash flows. Promises to give that exceed one year are discounted based on the five-year Treasury Bill Rate at the date of promise +.25% for additional risk consideration.

Promises to give at December 31, 2014, consist of the following:

| | |
|---|---|
| Promises to give in less than one year | $ 589,777 |
| Promises to give in one to five years | 500,038 |
| **Total promises to give** | 1,089,815 |
| Less discount to net present value | 10,839 |
| **Net promises to give** | $ 1,078,976 |

Promises to give include unrestricted and temporarily restricted gifts. Promises to give in each classification at December 31, 2014, consist of the following:

| | |
|---|---|
| Temporarily restricted | $ 1,009,006 |
| Unrestricted | 69,970 |
| | $ 1,078,976 |

### Note 3. 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 2 or 3 inputs for any assets held by ICMEC at December 31, 2014. Investments at December 31, 2014, consist of money market funds of $1,995,493 which are classified as Level 1 as the market values are based on quoted market prices.

### Note 4. Temporarily Restricted Net Assets

Temporarily restricted net assets are only available for program activities or supporting services designated for future years. Temporarily restricted net assets were released from restrictions during the year ended December 31, 2014, due to the time restriction ending or the purpose restriction being accomplished.

Changes in temporarily restricted net assets during the year ended December 31, 2014, are as follows:

| | Balance December 31, 2013 | Additions | Released | Balance December 31. 2014 |
|---|---|---|---|---|
| Purpose restricted: | | | | |
| Global network | $ 622,920 | $ 326,338 | $ 317,357 | $ 631,901 |
| Technology training | 190,570 | 101,523 | 135,725 | 156,368 |
| Purpose and time restricted: | | | | |
| Global network | 900,000 | 4,807 | 234,731 | 670,076 |
| Gala | - | 263,930 | - | 263,930 |
| Time restricted: | | | | - |
| Promises to give | 100,000 | - | 25,000 | 75,000 |
| | $ 1,813,490 | $ 696,598 | $ 712,813 | $ 1,797,275 |

## Note 5. 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 balance sheet. All rent escalations are recognized on a straight-line basis ratably over the term of the lease. Rent expense for the year ended December 31, 2014, was $319,608.

Future minimum rental payments under this lease are as follows:

| Year Ending December 31, | | |
|---|---|---|
| 2015 | $ | 336,179 |
| 2016 | | 345,424 |
| 2017 | | 28,850 |
| | $ | 710,453 |

## Note 6. 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. ICMEC reimbursed NCMEC $139,668 for the year ended December 31, 2014, and ICMEC had a payable of $1,607 to NCMEC at December 31, 2014.

During the year ended December 31, 2014, contributions from board members were $298,980. At December 31, 2014, promises to give from board members were $105,000.

ICMEC has a contractor that is related to one of the board members. For the year ended December 31, 2014, ICMEC paid the contractor $51,600. Additionally, one ICMEC employee is a relative of another board member.

## Note 7. Retirement Plan

ICMEC participates in the NCMEC defined contribution retirement plan covering all employees who have met the two-year service requirement and have attained the age of 20½ years. Employees can make voluntary contributions not to exceed the maximum allowable by the Internal Revenue Service regulations. ICMEC contributes 7% of employee compensation. Employer contributions were $49,059 during the year ended December 31, 2014.