

CONSOLIDATED FINANCIAL STATEMENTS

**THE INTERNATIONAL CENTRE FOR
MISSING & EXPLOITED CHILDREN AND
ICMEC LIMITED**

**FOR THE YEAR ENDED DECEMBER 31, 2017
WITH SUMMARIZED FINANCIAL
INFORMATION FOR 2016**

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GELMAN, ROSENBERG

& FREEDMAN

CERTIFIED PUBLIC ACCOUNTANTS



INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated financial statements of The International Centre for Missing & Exploited Children and ICMEC Limited (collectively, ICMEC), which comprise the consolidated statement of financial position as of December 31, 2017, and the related consolidated statements of activities and change in net assets, 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 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 consolidated financial position of the Organization as of December 31, 2017, and the consolidated change in its net assets and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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MEMBER OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS' PRIVATE COMPANIES PRACTICE SECTION

Report on Summarized Comparative Information

We have previously audited ICMEC's 2016 consolidated financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 29, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

A handwritten signature in cursive script that reads "Gelman Rosenberg & Freedman".

April 4, 2018

THE INTERNATIONAL CENTRE FOR MISSING & EXPLOITED CHILDREN AND ICMEC LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2017
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2016

ASSETS

	2017	2016
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,453,910	\$ 2,550,210
Investments	-	196,248
Grants and pledges receivable	300,088	498,331
Other receivables	11,799	15,328
Prepaid expenses	<u>56,025</u>	<u>81,764</u>
Total current assets	<u>2,821,822</u>	<u>3,341,881</u>
FIXED ASSETS		
Website development	181,267	181,267
Leasehold improvements	<u>247,683</u>	<u>714,964</u>
	428,950	896,231
Less: Accumulated amortization	<u>(160,789)</u>	<u>(538,094)</u>
Net fixed assets	<u>268,161</u>	<u>358,137</u>
OTHER ASSETS		
Grants and pledges receivable, net of current portion and present value discount of \$12,064 and \$1,860, respectively	187,936	53,140
Deposits	<u>39,540</u>	<u>63,814</u>
Total other assets	<u>227,476</u>	<u>116,954</u>
TOTAL ASSETS	<u>\$ 3,317,459</u>	<u>\$ 3,816,972</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 105,080	\$ 177,906
Deferred revenue	23,760	39,249
Deferred rent	<u>29,485</u>	<u>32,301</u>
Total current liabilities	<u>158,325</u>	<u>249,456</u>
LONG-TERM LIABILITIES		
Deferred rent	<u>396,117</u>	<u>235,909</u>
Total liabilities	<u>554,442</u>	<u>485,365</u>
NET ASSETS		
Unrestricted	1,041,360	1,580,800
Temporarily restricted	<u>1,721,657</u>	<u>1,750,807</u>
Total net assets	<u>2,763,017</u>	<u>3,331,607</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,317,459</u>	<u>\$ 3,816,972</u>

THE INTERNATIONAL CENTRE FOR MISSING & EXPLOITED CHILDREN AND ICMEC LIMITED

**CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2017
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2016**

	<u>2017</u>			<u>2016</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>Total</u>
SUPPORT AND REVENUE				
Grants and contributions	\$ 822,120	\$ 174,984	\$ 997,104	\$ 1,350,999
Investment income	14,980	-	14,980	2,257
Contributed services and materials	38,730	-	38,730	1,748
Gala, net of expenses totaling \$323,232	770,513	394,176	1,164,689	1,356,813
Net assets released from donor restrictions	<u>598,310</u>	<u>(598,310)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>2,244,653</u>	<u>(29,150)</u>	<u>2,215,503</u>	<u>2,711,817</u>
EXPENSES				
Program Services	<u>2,033,407</u>	<u>-</u>	<u>2,033,407</u>	<u>2,503,266</u>
Supporting Services:				
Management and General	355,300	-	355,300	426,327
Fundraising	<u>395,386</u>	<u>-</u>	<u>395,386</u>	<u>309,745</u>
Total supporting services	<u>750,686</u>	<u>-</u>	<u>750,686</u>	<u>736,072</u>
Total expenses	<u>2,784,093</u>	<u>-</u>	<u>2,784,093</u>	<u>3,239,338</u>
Change in net assets	(539,440)	(29,150)	(568,590)	(527,521)
Net assets at beginning of year	<u>1,580,800</u>	<u>1,750,807</u>	<u>3,331,607</u>	<u>3,859,128</u>
NET ASSETS AT END OF YEAR	<u>\$ 1,041,360</u>	<u>\$ 1,721,657</u>	<u>\$ 2,763,017</u>	<u>\$ 3,331,607</u>

THE INTERNATIONAL CENTRE FOR MISSING & EXPLOITED CHILDREN AND ICMEC LIMITED

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2017
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2016**

	2017				2016	
	Supporting Services			Total Supporting Services	Total Expenses	Total Expenses
	Program Services	Management and General	Fundraising			
Salaries and fringe benefits	\$ 798,280	\$ 173,652	\$ 266,888	\$ 440,540	\$ 1,238,820	\$ 1,256,098
Professional and contract fees	455,349	103,166	44,832	147,998	603,347	689,685
Travel	127,817	5,778	2,794	8,572	136,389	140,705
Supplies and deliveries	30,888	6,326	13,284	19,610	50,498	56,408
Occupancy and building costs	195,026	32,404	36,060	68,464	263,490	336,205
Outreach	167,744	-	-	-	167,744	176,352
Trainings/Roundtables/Conferences	170,019	18,187	-	18,187	188,206	424,699
Depreciation and amortization	67,728	11,855	13,192	25,047	92,775	126,292
Other	20,556	3,932	18,336	22,268	42,824	32,894
TOTAL	\$ 2,033,407	\$ 355,300	\$ 395,386	\$ 750,686	\$ 2,784,093	\$ 3,239,338

See accompanying notes to consolidated financial statements.

THE INTERNATIONAL CENTRE FOR MISSING & EXPLOITED CHILDREN AND ICMEC LIMITED

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2016**

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (568,590)	\$ (527,521)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation and amortization	92,775	126,292
Unrealized loss	-	1,873
Realized loss	797	-
Donated stock pledge	(15,005)	(198,121)
Change in discount	10,204	(5,366)
Change in allowance for bad debt	-	3,300
Decrease (increase) in:		
Grants and pledges receivable	53,243	248,602
Other receivables	3,529	(10,187)
Prepaid expenses	25,739	(20,422)
Deposits	24,274	(36,930)
(Decrease) increase in:		
Accounts payable and accrued expenses	(72,826)	880
Deferred revenue	(15,489)	(20,552)
Deferred rent	<u>154,593</u>	<u>(51,648)</u>
Net cash used by operating activities	<u>(306,756)</u>	<u>(489,800)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	-	(12,560)
Proceeds from sale of investments	<u>210,456</u>	<u>-</u>
Net cash provided (used) by investing activities	<u>210,456</u>	<u>(12,560)</u>
Net decrease in cash and cash equivalents	(96,300)	(502,360)
Cash and cash equivalents at beginning of year	<u>2,550,210</u>	<u>3,052,570</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 2,453,910</u>	<u>\$ 2,550,210</u>
SUPPLEMENTAL INFORMATION:		
Donated Stock	<u>\$ -</u>	<u>\$ 35,699</u>
Tenant Allowance	<u>\$ 2,799</u>	<u>\$ 244,884</u>

THE INTERNATIONAL CENTRE FOR MISSING & EXPLOITED CHILDREN AND ICMEC LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Organization -

The International Centre for Missing and Exploited Children (ICMEC) is a non-profit organization, incorporated in the State of New York and located in Alexandria, Virginia. ICMEC was organized for the purposes of protecting the world's children from sexual exploitation and abduction, and other activities in support of these purposes.

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. ICMEC Limited is funded by ICMEC. During the year ended December 31, 2017, ICMEC sent \$167,744 to ICMEC Limited. ICMEC Limited has one full-time employee and one ICMEC staff member serves on the ICMEC Limited Board of Directors.

Basis of presentation -

The accompanying consolidated financial statements of ICMEC and ICMEC Limited (the Organization) are presented on the accrual basis of accounting, and in accordance with FASB ASC 958-810, *Not-for-Profit Entities, Consolidation*. All significant intercompany balances and transactions have been eliminated in consolidation.

The consolidated financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's consolidated financial statements for the year ended December 31, 2016, from which the summarized information was derived.

Cash and cash equivalents -

ICMEC considers all cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents.

Bank deposit accounts are insured by the Federal Deposit Insurance Corporation ("FDIC") up to a limit of \$250,000. At times during the year, ICMEC maintains cash balances in excess of the FDIC insurance limits. Management believes the risk in these situations to be minimal.

Foreign currency -

The U.S. Dollar is the functional currency of ICMEC. ICMEC Limited financial statements are reported in Singapore dollars. All assets and liabilities of the Singapore entity have been translated into U.S. Dollars using the spot exchange rate in effect as of year-end. All revenues and expenses of the Singapore entity have been translated into U.S. Dollars using the average annual exchange rate. The effects of this translation are recorded in the Consolidated Statement of Activities and Change in Net Assets and are immaterial.

Grants, pledges and other receivables -

Grants, pledges and other receivables that are expected to be collected in future years are recorded at fair value, measured as the present value of their future cash flows. The discounts on these amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in grants and contributions revenue.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION**
(Continued)

Fixed assets -

Fixed assets in excess of \$10,000 are capitalized and stated at cost. Fixed assets are depreciated on a straight-line basis over the estimated useful lives of the related assets. Leasehold improvements are amortized over the remaining life of the lease. The cost of maintenance and repairs is recorded as expenses are incurred. Website development costs are amortized over three years once placed in service. Costs incurred for the ongoing maintenance of the existing website are expensed as incurred.

The capitalization and ongoing assessment of recoverability of development costs incurred require considerable judgment by management with respect to certain external factors, including, but not limited to, technological and economic feasibility and estimated economic life.

Depreciation and amortization expense for the year ended December 31, 2017 totaled \$92,775.

Income taxes -

ICMEC is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. 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, no provision for income taxes has been made in the accompanying consolidated financial statements. ICMEC is not a private foundation.

Uncertain tax positions -

For the year ended December 31, 2017, ICMEC has documented its consideration of FASB ASC 740-10, *Income Taxes*, that provides guidance for reporting uncertainty in income taxes and has determined that no material uncertain tax positions qualify for either recognition or disclosure in the consolidated financial statements.

Deferred revenue -

Deferred revenue consists of gala registrations. ICMEC recognizes gala revenue when the related event has occurred.

Net asset classification -

The net assets are reported in two self-balancing groups as follows:

- **Unrestricted net assets** include unrestricted revenue and contributions received without donor-imposed restrictions. These net assets are available for the operation of ICMEC and include both internally designated and undesignated resources.
- **Temporarily restricted net assets** include revenue and contributions subject to donor-imposed stipulations that will be met by the actions of ICMEC and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Consolidated Statement of Activities and Change in Net Assets as net assets released from restrictions.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION
(Continued)

Contributions and grants -

Unrestricted and temporarily restricted contributions and grants are recorded as revenue in the year notification is received from the donor. Temporarily restricted contributions and grants are recognized as unrestricted support only to the extent of actual expenses incurred in compliance with the donor-imposed restrictions and satisfaction of time restrictions. Such funds in excess of expenses incurred are shown as temporarily restricted net assets in the accompanying consolidated financial statements.

Contributed services and materials -

Contributed services and materials consist of professional services and materials for the Gala and are recorded at their fair market value as of the date of the gift.

Use of estimates -

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Functional allocation of expenses -

The costs of providing the various programs and other activities have been summarized on a functional basis in the Consolidated Statement of Activities and Change in Net Assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

New accounting pronouncements (not yet adopted) -

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (Topic 958), intended to improve financial reporting for not-for-profit entities. The ASU will reduce the current three classes of net assets into two: with and without donor restrictions. The change in each of the classes of net assets must be reported on the Consolidated Statement of Activities and Change in Net Assets. The ASU also requires various enhanced disclosures around topics such as board designations, liquidity, functional classification of expenses, investment expenses, donor restrictions, and underwater endowments. The ASU is effective for years beginning after December 15, 2017. Early adoption is permitted. The ASU should be applied on a retrospective basis in the year that the ASU is first applied. While the ASU will change the presentation of the Organization's consolidated financial statements, it is not expected to alter the Organization's reported financial position activities.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606) (ASU 2014-09). The ASU establishes a comprehensive revenue recognition standard for virtually all industries under generally accepted accounting principles in the United States (U.S. GAAP) including those that previously followed industry-specific guidance. The guidance states that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The FASB issued ASU 2015-14 in August 2015 that deferred the effective date of ASU 2014-09 by a year; thus, the effective date is fiscal years beginning after December 15, 2018. Early adoption is permitted.

THE INTERNATIONAL CENTRE FOR MISSING & EXPLOITED CHILDREN AND ICMEC LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION**
(Continued)

New accounting pronouncements (not yet adopted) (continued) -

In 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). The ASU changes the accounting treatment for operating leases by recognizing a lease asset and lease liability at the present value of the lease payments in the Consolidated Statement of Financial Position and disclosing key information about leasing arrangements. The ASU is effective for private entities for fiscal years beginning after December 15, 2019. Early adoption is permitted. The ASU should be applied at the beginning of the earliest period presented using a modified retrospective approach.

The Organization plans to adopt the new ASUs at the required implementation dates.

2. **INVESTMENTS**

Included in investment income are the following at December 31, 2017:

Interest and dividends	\$ 15,777
Realized loss	<u>(797)</u>
TOTAL INVESTMENT INCOME	<u>\$ 14,980</u>

3. **GRANTS AND PLEDGES RECEIVABLE**

ICMEC has received grants and pledges to be paid over the next three years. The grants and pledges due in more than one year have been discounted using the Federal Prime Rate (4.25% as of December 31, 2017).

Following is a summary of all pledges receivable as of December 31, 2017:

<u>Year Ending December 31,</u>	
2018	\$ 300,088
2019	100,000
2020	<u>100,000</u>
	500,088
Less: Discount	<u>(12,064)</u>
PLEDGES RECEIVABLE, NET DISCOUNT	<u>\$ 488,024</u>

4. **TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets consisted of the following at December 31, 2017:

Program	\$ 1,326,265
Time Restricted	<u>395,392</u>
TOTAL TEMPORARILY RESTRICTED NET ASSETS	<u>\$ 1,721,657</u>

THE INTERNATIONAL CENTRE FOR MISSING & EXPLOITED CHILDREN AND ICMEC LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017

4. TEMPORARILY RESTRICTED NET ASSETS (Continued)

The following temporarily restricted net assets were released from donor restrictions by incurring expenses (or through the passage of time) which satisfied the restricted purposes specified by the donors:

Program	\$ 470,399
Passage of Time	<u>127,911</u>
TOTAL NET ASSETS RELEASED FROM DONOR RESTRICTIONS	<u>\$ 598,310</u>

5. CONTRIBUTED SERVICES AND MATERIALS

During the year ended December 31, 2017, ICMEC was the beneficiary of professional services and materials which allowed ICMEC to provide greater resources toward various programs, as well as the Gala. To properly reflect total program expenses, the following donations have been included in revenue and expense for the year ended December 31, 2017.

Donated legal services	\$ 1,798
Donated goods for the Gala	<u>36,932</u>
TOTAL CONTRIBUTED SERVICES AND MATERIALS	<u>\$ 38,730</u>

6. LEASE COMMITMENTS

In May 2016, ICMEC signed a lease for 111 months, commencing on November 15, 2016, for office space in Virginia. ICMEC received build-out allowance and other modifications paid by the landlord in the amount totaling \$244,884, which was recorded as a deferred rent liability and will be amortized using the straight-line method over the life of the lease. Additionally, the lease calls for an annual two and one-half percent rent escalation adjustment and eleven months of rent abatement.

Accounting principles generally accepted in the United States of America require that the total rent commitment and lease incentive should be recognized on a straight-line basis over the term of the lease.

Accordingly, the difference between the actual monthly payments and the rent expense being recognized for financial statement purposes is recorded as a deferred rent liability on the consolidated statement of financial position. As of December 31, 2017, the deferred rent liability totaled \$425,602.

The following is a schedule of the future minimum lease payments:

Year Ending December 31,

2018	\$ 239,193
2019	245,191
2020	251,316
2021	257,617
2022	264,044
Thereafter	<u>880,850</u>
	<u>\$ 2,138,211</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017

6. LEASE COMMITMENTS (Continued)

Rent expense under this lease for the year ended December 31, 2017 was \$230,774.

ICMEC Limited leases office space in Singapore under a short-term lease agreement.

7. RETIREMENT PLAN

In January 2017, ICMEC started participating in a new 403(b) defined contribution plan covering all eligible employees of ICMEC. The plan offers employee elective deferrals, voluntary after-tax contributions and ROTH contributions up to the maximum allowed by law. Employees are immediately vested in their elective deferrals. Under the same 403(b) plan, ICMEC contributes 7% of each eligible employee's gross salary per pay period, regardless of the employee's contribution. Employees are vested after being employed for two (2) years, with at least 1,000 hours worked in each year. ICMEC's contributions to the plan during the year ended December 31, 2017 totaled \$70,302.

8. RELATED PARTY

For the year ended December 31, 2017, ICMEC reimbursed The National Center for Missing and Exploited Children (NCMEC) \$5,437 for expenses incurred on ICMEC's behalf related to phone equipment and employee benefits.

For the year ended December 31, 2017, contributions from Board members totaled \$545,073.

9. SUBSEQUENT EVENTS

In preparing these consolidated financial statements, ICMEC has evaluated events and transactions for potential recognition or disclosure through April 4, 2018, the date the consolidated financial statements were issued.