

Financial Statements, Report of
Independent Certified Public
Accountants

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

December 31, 2019 and 2018

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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

Report on the financial statements

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, 2019 and 2018, 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, 2019 and 2018, 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 12, 2020

The National Center for Missing and Exploited Children

STATEMENTS OF FINANCIAL POSITION

December 31,

ASSETS

	<u>2019</u>	<u>2018</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 10,261,250	\$ 13,109,329
Accounts receivable, net	3,310,808	999,740
Pledges receivable, net	323,334	926,797
Prepaid expenses and other assets	260,819	302,367
Total current assets	<u>14,156,211</u>	<u>15,338,233</u>
NONCURRENT ASSETS		
Investments	31,663,673	26,160,605
Pledges receivable, long-term	192,041	31,871
Property and equipment, net	9,084,501	10,331,356
Building held for sale	142,968	-
Right of use asset	21,696,948	22,644,047
Cash surrender value of life insurance policies	590,956	559,350
Artwork collections	11,250	11,250
Deposits	11,813	147,714
Assets under unitrust agreement	34,507	29,602
Total noncurrent assets	<u>63,428,657</u>	<u>59,915,795</u>
Total assets	<u>\$ 77,584,868</u>	<u>\$ 75,254,028</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 1,626,956	\$ 3,737,510
Accrued salaries and benefits	866,077	750,161
Lease liability, current portion	61,092	-
Notes payable, current portion	45,820	43,801
Total current liabilities	<u>2,599,945</u>	<u>4,531,472</u>
NONCURRENT LIABILITIES		
Deferred rent	-	32,275
Lease liability	27,569,735	29,001,778
Notes payable, net of current portion	273,594	319,414
Post employment benefit liability	1,247,801	1,032,474
Liability under unitrust agreement	12,762	12,330
Total noncurrent liabilities	<u>29,103,892</u>	<u>30,398,271</u>
Total liabilities	<u>31,703,837</u>	<u>34,929,743</u>
NET ASSETS		
Without donor restrictions:		
Undesignated	13,545,065	10,076,315
Board-designated	31,085,399	28,693,956
Total net assets without donor restrictions	<u>44,630,464</u>	<u>38,770,271</u>
With donor restrictions	<u>1,250,567</u>	<u>1,554,014</u>
Total net assets	<u>45,881,031</u>	<u>40,324,285</u>
Total liabilities and net assets	<u>\$ 77,584,868</u>	<u>\$ 75,254,028</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, 2019

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Revenue and other support			
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)	-
Total revenue and support	<u>54,864,879</u>	<u>(303,447)</u>	<u>54,561,432</u>
Operating expenses			
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
Total program services	<u>44,037,275</u>	<u>-</u>	<u>44,037,275</u>
Supporting Services:			
Management and general	1,116,210	-	1,116,210
Fundraising	3,635,874	-	3,635,874
Total supporting services	<u>4,752,084</u>	<u>-</u>	<u>4,752,084</u>
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
Non-operating expense			
Change in post employment benefit liability	<u>(215,327)</u>	<u>-</u>	<u>(215,327)</u>
TOTAL CHANGE IN NET ASSETS	5,860,193	(303,447)	5,556,746
Net assets, beginning of year	<u>38,770,271</u>	<u>1,554,014</u>	<u>40,324,285</u>
Net assets, end of year	<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 ACTIVITIES

Year ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and other support			
Government contracts and grants	\$ 33,821,792	\$ -	\$ 33,821,792
Contributions	9,778,450	826,693	10,605,143
Special events, net of direct benefit costs of \$1,014,349	2,069,322	-	2,069,322
Investment loss	(1,228,454)	-	(1,228,454)
Other income	102,402	-	102,402
Gain on sale - Building	7,664,201	-	7,664,201
Change in value of unitrust agreement	-	(1,915)	(1,915)
Net assets released from restrictions:			
Satisfaction of program restrictions	1,836,065	(1,836,065)	-
Satisfaction of time restrictions	455,000	(455,000)	-
Total revenue and support	<u>54,498,778</u>	<u>(1,466,287)</u>	<u>53,032,491</u>
Operating expenses			
Program services:			
Community outreach	4,587,098	-	4,587,098
Missing child case management	14,622,036	-	14,622,036
Information and case analysis	13,307,269	-	13,307,269
Training	1,154,377	-	1,154,377
Exploited child case management	7,703,228	-	7,703,228
Total program services	<u>41,374,008</u>	<u>-</u>	<u>41,374,008</u>
Supporting Services:			
Management and general	681,311	-	681,311
Fundraising	3,390,874	-	3,390,874
Total supporting services	<u>4,072,185</u>	<u>-</u>	<u>4,072,185</u>
Total operating expenses	<u>45,446,193</u>	<u>-</u>	<u>45,446,193</u>
Change in net assets from operations	9,052,585	(1,466,287)	7,586,298
Non-operating expense			
Change in post employment benefit liability	742,414	-	742,414
TOTAL CHANGE IN NET ASSETS	9,794,999	(1,466,287)	8,328,712
Net assets, beginning of year	<u>28,975,272</u>	<u>3,020,301</u>	<u>31,995,573</u>
Net assets, end of year	<u>\$ 38,770,271</u>	<u>\$ 1,554,014</u>	<u>\$ 40,324,285</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	\$ 5,922,449	\$ 14,587,611	\$ 11,566,837	\$ 998,303	\$ 10,962,075	\$ 44,037,275

	Supporting Services			Total Expenses
	Management and General	Fundraising	Total Supporting Services	
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	\$ 1,116,210	\$ 3,635,874	\$ 4,752,084	\$ 48,789,359

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, 2018

	Program Services					Total Program Services
	Community Outreach	Missing Child Case Management	Information and Case Analysis	Training	Exploited Child Case Management	
Personnel	\$ 2,776,511	\$ 9,040,408	\$ 6,674,144	\$ 526,100	\$ 5,110,677	\$ 24,127,840
Fringe benefits	670,421	2,182,909	1,611,543	127,034	1,234,031	5,825,938
Staff travel	115,093	118,356	81,033	74,086	123,487	512,055
Supplies and equipment	253,658	246,597	638,709	13,655	75,867	1,228,486
Occupancy	233,136	738,010	585,785	51,469	399,537	2,007,937
Business services	246,588	570,681	2,858,582	67,140	173,194	3,916,185
Professional services	209,796	1,202,318	673,089	47,409	560,166	2,692,778
Participant & consultant travel	182	351,246	12,699	152,131	14,806	531,064
Office support	81,713	171,511	171,685	95,353	11,463	531,725
Total	<u>\$ 4,587,098</u>	<u>\$ 14,622,036</u>	<u>\$ 13,307,269</u>	<u>\$ 1,154,377</u>	<u>\$ 7,703,228</u>	<u>\$ 41,374,008</u>
	Supporting Services					
	Management and General	Fundraising	Total Supporting Services	Total Expenses		
Personnel	\$ 433,816	\$ 1,390,177	\$ 1,823,993	\$ 25,951,833		
Fringe benefits	104,749	335,675	440,424	6,266,362		
Staff travel	794	59,615	60,409	572,464		
Supplies and equipment	5,090	165,098	170,188	1,398,674		
Occupancy	30,750	143,467	174,217	2,182,154		
Business services	73,800	236,723	310,523	4,226,708		
Professional services	3,962	332,390	336,352	3,029,130		
Participant & consultant travel	24	407	431	531,495		
Office support	28,326	727,322	755,648	1,287,373		
Total	<u>\$ 681,311</u>	<u>\$ 3,390,874</u>	<u>\$ 4,072,185</u>	<u>\$ 45,446,193</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>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Change in net assets	\$ 5,556,746	\$ 8,328,712
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
In-kind artwork	-	(11,250)
Depreciation and amortization	1,202,713	767,775
Gain on sale of building	-	(7,664,201)
Unrealized (gain) loss on investments	(2,923,777)	1,852,200
Net change in value of unitrust agreement	(4,473)	1,914
Changes in assets and liabilities:		
Accounts receivable	(2,311,068)	874,860
Pledges receivable	443,293	712,197
Prepaid expenses and other assets	177,449	(154,856)
Right of use assets	947,099	-
Cash surrender value of life insurance policies	(31,606)	(2,361)
Accounts payable and accrued expenses	(2,110,554)	1,685,595
Accrued salaries and benefits	115,916	133,627
Deferred rent	(32,275)	(189,391)
Lease liability	(1,370,951)	-
Post employment benefit liability	215,327	(742,414)
Deferred compensation	-	(142,825)
Net cash (used in) provided by operating activities	<u>(126,161)</u>	<u>5,449,582</u>
Cash flows from investing activities:		
Proceeds from sale investments	7,809,317	18,856,951
Purchases of investments	(10,388,608)	(26,285,025)
Proceeds from sale of building	-	13,443,720
Purchases of property, equipment and leasehold improvements	<u>(98,826)</u>	<u>(1,465,621)</u>
Net cash (used in) provided by investing activities	<u>(2,678,117)</u>	<u>4,550,025</u>
Cash flows from financing activities		
Payments on line of credit	-	(2,820,000)
Principal payments on notes payable	<u>(43,801)</u>	<u>(41,835)</u>
Net cash used in financing activities	<u>(43,801)</u>	<u>(2,861,835)</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	<u>(2,848,079)</u>	<u>7,137,772</u>
Cash and cash equivalents, beginning of year	<u>13,109,329</u>	<u>5,971,557</u>
Cash and cash equivalents, end of year	<u>\$ 10,261,250</u>	<u>\$ 13,109,329</u>
Supplemental disclosure of cash flow information:		
Interest paid	<u>\$ 15,801</u>	<u>\$ 42,333</u>
Leasehold improvements acquired through tenant allowance	<u>\$ -</u>	<u>\$ 6,357,731</u>
Right of use assets acquired through operating leases	<u>\$ 240,196</u>	<u>\$ 22,644,047</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, 2019 and 2018

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 2019, NCMEC adopted Accounting Standards Update (“ASU”) No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions made*. ASU 2018-08 clarifies and improves the scope and guidance for contributions received and made, including guidance to help an entity evaluate whether transactions should be accounted as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions and determine whether a contribution is conditional. As required by ASU 2018-08, NCMEC applied the requirements to agreements that either were not completed as of December 31, 2018 or entered into after January 1, 2019.

NCMEC also adopted ASU 2014-09 (Topic 606), *Revenue from Contracts from Customers*, on January 1, 2019. The core principle of the standard is that an entity should recognize revenue to depict the transfer of promised goods and 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 standard outlines a five-step model whereby revenue is recognized as performance obligations within a contract are satisfied. The five-step model is outlined below:

- a. Step 1: Identify the contract(s) with a customer;
- b. Step 2: Identify the performance obligation in the contract;
- c. Step 3: Determine the transaction price;
- d. Step 4: Allocate the transaction price to the performance in the contract; and
- e. Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

Topic 606 also requires new and expanded disclosures regarding revenue recognition to ensure an understanding as to the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The results of applying Topic 606 using the modified retrospective approach did not have a material impact on NCMEC’s financial position, changes in net assets, cash flows, business processes, controls or systems.

Basis of Accounting

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

The National Center for Missing and Exploited Children

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2019 and 2018

Net assets and changes in net assets are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the 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. Board-designated funds include NCMEC's endowment (Note L) and \$3,027,555 at December 31, 2018 for the build-out of the new headquarters building.

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, 2019 and 2018.

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.

Investments

Investments consist of U.S. government and agency securities, municipal and 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.

The National Center for Missing and Exploited Children

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2019 and 2018

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 currently holds assets with 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.

In 2018, grant revenue was recognized to the extent allowable expenses were incurred. Beginning in 2019, with the adoption of ASU 2018-08, 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.

Due to the adoption of ASU 2018-08, as of December 31, 2019, NCMEC's outstanding conditional contributions totaled approximately \$34.8 million, which will be recognized as revenue as conditions are met. As of December 31, 2018, NCMEC did not have any conditional contributions.

The National Center for Missing and Exploited Children

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2019 and 2018

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 \$981,701 and \$969,405 for the years ended December 31, 2019 and 2018, respectively. For expenses incurred in advance of receipts of funds from the sponsoring organization, NCMEC recorded accounts receivable totaling \$78,014 and \$74,902 at December 31, 2019 and 2018, 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 2019 and 2018, NCMEC received \$5,331,111 and \$3,627,488, respectively, of in-kind goods and services relating to the following:

	<u>2019</u>	<u>2018</u>
Software, licenses, and equipment	\$ 4,570,618	\$ 2,976,520
Artwork collections	-	11,250
Legal and professional services	453,358	374,881
Event management	219,235	196,751
Office space	40,500	42,526
Advertising	40,400	28,000
Other	7,000	8,810
	<u>5,331,111</u>	<u>3,638,738</u>
Total	\$ 5,331,111	\$ 3,638,738

These items have been recorded among the various program expenses and contributions without donor restrictions in the accompanying financial statements. During 2019, no donated items were capitalized by NCMEC. During 2018, NCMEC capitalized \$11,250 in donated artwork.

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.

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 \$3,635,874 and \$3,390,874 for the years ended December 31, 2019 and 2018, 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.

The National Center for Missing and Exploited Children

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2019 and 2018

NOTE B - FINANCIAL ASSETS AND LIQUIDITY RESOURCES

As of December 31, 2019, and 2018, financial assets and liquidity resources available within one year for general expenditure, such as operating expenses, were as follows:

Cash and cash equivalents, January 1, 2018	\$ 13,109,329
Accounts receivable, net	999,740
Pledges receivable, net (due within one year)	926,797
Investments	26,160,605
Less: Board designated funds	(28,693,956)
Less: Net assets with donor restrictions - purpose	<u>(1,522,143)</u>
Total, December 31, 2018	<u>\$ 10,980,372</u>
Cash and cash equivalents, January 1, 2019	\$ 10,261,250
Accounts receivable, net	3,310,808
Pledges receivable, net (due within one year)	323,334
Investments	31,663,673
Less: Board designated funds	(31,085,399)
Less: Net assets with donor restrictions - purpose	<u>(1,058,526)</u>
Total, December 31, 2019	<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.

Pledges receivable represent unconditional promises to give by donors. Unconditional promises to give (pledges) are recognized as revenue and contribution receivable 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 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 \$323,334 and \$926,797 as of December 31, 2019 and 2018, respectively. The gross amounts due in one to three years amounted to \$200,000 and \$33,334 as of December 31, 2019 and 2018, respectively. The discount on the long-term pledges totaled \$7,959 and \$1,463 as of December 31, 2019 and 2018, respectively. Discount rates range from 0.23% to 2.55% for the years ended December 31, 2019 and 2018. No allowance for uncollectible pledges has been established, as all amounts are deemed to be fully collectible for both years.

The National Center for Missing and Exploited Children

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2019 and 2018

NOTE D - INVESTMENTS

As of December 31, 2019 and 2018, NCMEC's investments consisted of the following:

	<u>2019</u>	<u>2018</u>
Money market funds	\$ 931,993	\$ 746,724
Certificates of deposit	60,321	34,062
Equities	12,934,187	10,517,771
Mutual funds	7,343,481	6,305,436
Municipal bonds	-	30,030
U.S. government bonds and agency securities	5,634,927	4,403,997
Corporate bonds	768,862	1,121,739
Hedge funds	3,358,584	2,596,239
REITs	631,318	404,607
	<u>\$ 31,663,673</u>	<u>\$ 26,160,605</u>
Total investments, at fair value		

NOTE E - PROPERTY AND EQUIPMENT AND RELATED DEPRECIATION AND AMORTIZATION

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

	<u>2019</u>	<u>2018</u>
Building and improvements	\$ 2,352,116	\$ 2,401,474
Land	573,950	573,950
In-kind software	1,686,701	1,686,701
Leasehold improvements	7,911,664	7,906,448
Furniture and equipment	1,596,834	1,596,834
	<u>14,121,265</u>	<u>14,165,407</u>
Total property and equipment		
Less: Accumulated depreciation and amortization	<u>(5,036,764)</u>	<u>(3,834,051)</u>
	<u>\$ 9,084,501</u>	<u>\$ 10,331,356</u>
Total		

For the years ended December 31, 2019 and 2018, depreciation and amortization expense totaled \$1,202,713 and \$767,775, respectively. Of this amount, \$423,852 and \$0 during 2019 and 2018 were related to the amortization of leasehold improvements acquired through a tenant improvement allowance (see Note J).

NOTE F - UNITRUST AGREEMENT

In May 1996, NCMEC was named the trustee and beneficiary of a charitable remainder unitrust. The trust will pay the donors the lesser of 8% of the fair value of the trust assets or income generated during each calendar year until the death of the donors. The assets consisted of a rental property, which was subsequently sold in July 1996. The proceeds were invested in an insurance contract. The assets, totaling \$34,507 and \$29,602, were recorded at fair value as of December 31, 2019 and 2018, respectively. The liability under the unitrust agreement is calculated using 8% of the fair value at year-end and an estimated average life expectancy of 80 years.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2019 and 2018

At December 31, 2019 and 2018, NCMEC's liability under unitrust agreement was classified as Level 3 within the fair value hierarchy as required by generally accepted accounting principles for fair value measurement (see Note N).

Balance at December 31, 2017	\$ 16,327
Change in net present value of the liability	(3,997)
Balance at December 31, 2018	12,330
Change in net present value of the liability	<u>432</u>
Balance at December 31, 2019	<u>\$ 12,762</u>

NOTE G - 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 is for 15 years expiring on February 28, 2026. The unpaid principal amount of the note earns 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 are disbursed to, but not including, the date all amounts hereunder are paid in full, at a rate per year which shall be fixed at 4.54% as of December 31, 2019 and 2018. The total amount outstanding on the note was \$319,414 and \$363,215 as of December 31, 2019 and 2018, respectively. The rate will reset every five years to a market rate agreed upon by NCMEC and the bank. 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, is a first position lien on property located in Rochester, New York.

Notes payables consisted of the following as of December 31:

	<u>2019</u>	<u>2018</u>
15-year note payable to M&T Bank	\$ 319,414	\$ 363,215
Less: Current portion	<u>(45,820)</u>	<u>(43,801)</u>
Long-term portion	<u>\$ 273,594</u>	<u>\$ 319,414</u>

Scheduled principal repayments on the notes payable for the year ended December 31, 2019 are as follows:

2020	\$ 45,820
2021	48,015
2022	50,272
2023	52,636
2024	55,095
Thereafter	<u>67,576</u>
Total	<u>\$ 319,414</u>

Interest expense totaled \$15,801 and \$17,768 during the years ended December 31, 2019 and 2018, respectively.

The National Center for Missing and Exploited Children

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2019 and 2018

NOTE H - 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, 2019 and 2018 totaled \$32,120,046 and \$28,664,323, respectively. There was no outstanding balances on the line of credit as of December 31, 2019 and 2018, and the available credit at both December 31, 2019 and 2018 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, 2019, and 2018, the interest rate was 2.76% and 3.52%, respectively. Interest expense on the line of credit totaled \$0 and \$24,566 for the years ended December 31, 2019 and 2018, respectively. During April 2018, NCMEC fully paid off the existing line of credit balance with Merrill Lynch using funds from the building sale.

NOTE I - 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 maturity analysis of NCMEC's operating lease agreement as of December 31, 2019 is as follows:

2020	\$ 61,092
2021	1,038,611
2022	2,375,685
2023	2,372,287
2024	2,431,679
Thereafter	<u>26,655,192</u>
	34,934,546
Less: Present value discount	<u>(7,303,719)</u>
Total lease liability	<u>\$ 27,630,827</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% at both December 31, 2019 and 2018. The weighted-average remaining lease term for NCMEC's operating leases was 14 years and 15 years at December 31, 2019 and 2018, respectively.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2019 and 2018

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, 2019 and 2018 totaled \$2,206,083 and \$1,029,816, respectively. Cash paid for amounts included in the lease liability measurement for the years ended December 31, 2019 and 2018 totaled \$2,642,698 and \$961,888, respectively.

NOTE J - 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.

Deferred Compensation Agreements

NCMEC has entered into deferred compensation arrangements with certain former officers. The agreements were fully funded in prior years; accordingly, there are no expenses or liabilities reflected in the accompanying financial statements as earned under the agreements. The account has been closed and paid out in 2018.

Concentration of Risk

During the years ended December 31, 2019 and 2018, NCMEC earned revenue of \$35,730,478 and \$33,821,792, 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 65% and 64% of the total revenue recognized by NCMEC for each of the years ended December 31, 2019 and 2018. Additionally, NCMEC received \$35,292,464 and \$33,426,670, 65% and 63% of the total revenue and support directly from DOJ for the years ended December 31, 2019 and 2018, 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.

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, 2019, cash in excess of the Federal Deposit Insurance Corporation insured limit of \$250,000 totaled \$9,288,855.

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 Department of Homeland Security's reviews of the separate annual audit, in accordance with the Uniform Grant 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"), Federal Emergency Management Agency ("FEMA"), and Federal and Parent Locator Services contracts account for 3% of total grant revenue in 2019 and 2018. NCMEC believes it has complied with all Federal Acquisition Regulations as they apply to these contracts.

The National Center for Missing and Exploited Children

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2019 and 2018

Provisional Fringe Benefit and Indirect Cost Rates

Billings under cost reimbursable government contracts and grants are calculated using provisional rates that permit 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, 2019. Management believes that cost disallowances, if any, arising from the DOJ’s audits for 2019 will not have a material effect on NCMEC’s financial position as December 31, 2019, or the results of operations for the year then ended.

NOTE K - NET ASSETS WITH DONOR RESTRICTIONS

As of December 31, 2019, and 2018, net assets with donor restrictions are available for the following programs:

	<u>2019</u>	<u>2018</u>
Technology advancement initiatives	\$ 39,583	\$ 290,632
Internet safety initiatives	845,791	322,356
Outreach initiatives	343,448	923,753
Emery remainder trust	<u>21,745</u>	<u>17,273</u>
Total	<u>\$ 1,250,567</u>	<u>\$ 1,554,014</u>

During 2019 and 2018, \$1,767,952 and \$2,291,065, respectively, of net assets with donor restrictions were released from restriction.

NOTE L - 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:

Asset Category	<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

The National Center for Missing and Exploited Children

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2019 and 2018

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

During the years ended December 31, 2019 and 2018, NCMEC had the following activity in its board-designated fund:

Board-designated fund, January 1, 2018	\$ 21,027,343
Investment loss	(1,070,590)
Investment fees	(154,083)
Transfers to operating fund	(923,384)
Proceeds from building sale	12,692,415
Payoff of line of credit	(2,820,000)
Build-out funds approved	<u>(3,085,300)</u>
Board-designated fund, December 31, 2018	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	<u>\$ 31,085,399</u>

NOTE M - 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.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2019 and 2018

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
Municipal bonds	-	-	-	-	-
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>
Investments					
Assets held under unitrust agreement	\$ -	\$ -	\$ 34,507	\$ -	\$ 34,507

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").

	Fair Value as of 12/31/2019	Unfunded Commitments	Redemption Frequency	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>			

The following table summarizes NCMEC's assets and liabilities measured at fair value on a recurring basis as of December 31, 2018:

	Level 1	Level 2	Level 3	Reported at NAV	Total
Investments:					
Money market funds	\$ 746,722	\$ -	\$ -	\$ -	\$ 746,722
Certificates of deposit	-	34,063	-	-	34,063
Equities	10,501,771	-	-	16,000	10,517,771
Mutual funds	6,305,437	-	-	-	6,305,437
Municipal bonds	-	30,030	-	-	30,030
U.S. government bond and agency securities	-	4,403,997	-	-	4,403,997
Corporate bonds	-	1,121,739	-	-	1,121,739
REITs	-	-	-	404,607	404,607
Hedge funds	-	-	-	2,596,239	2,596,239
	<u>\$ 17,553,930</u>	<u>\$ 5,589,829</u>	<u>\$ -</u>	<u>\$ 3,016,846</u>	<u>26,160,605</u>
Investments					
Assets held under unitrust agreement	\$ -	\$ -	\$ 29,602	\$ -	\$ 29,602

The National Center for Missing and Exploited Children

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2019 and 2018

The table below presents additional information for NCMEC's investments, as of December 31, 2018, whose fair value is estimated using the practical expedient of reported net assets value NAV.

	Fair Value as of 12/31/2018	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Equities	\$ 16,000	144,000	N/A	N/A
REITs	404,607	None	Daily	Daily
Hedge funds	2,596,239	None	Monthly; at Board's Discretion	67 to 95 days
	<u>\$ 3,016,846</u>			

A roll forward of the fair value measurements using unobservable inputs (Level 3) as of December 31, 2019 and 2018, were as follows:

Fair value, January 1, 2018	\$ 35,514
Change in value	<u>(5,912)</u>
Fair value, December 31, 2018	29,602
Change in value	<u>4,905</u>
Fair value, December 31, 2019	<u>\$ 34,507</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.

Municipal and 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.

The National Center for Missing and Exploited Children

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2019 and 2018

NOTE N - 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 26 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 \$1,779,234 and \$1,806,839 for the years ended December 31, 2019 and 2018, respectively, and is classified as fringe benefits in the accompanying statements of functional expenses.

NOTE O - RELATED PARTIES

For the years ended December 31, 2019 and 2018, 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, 2019, and 2018, no amounts were due to the related parties.

NOTE P - 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. The tax years ended December 31, 2019, 2018, 2017, and 2016 are still open to audit for both federal and state purposes. NCMEC has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements.

NOTE Q - FUND SEGREGATION INFORMATION

Results of operations for the year ended December 31, 2019 are as follows:

	National Funding Support	Austin Office	New York Office	Board- Designated Endowment	Total
Support and revenue	\$ 47,438,708	\$ 568,496	\$ 1,140,625	\$ 4,633,598	\$ 53,781,427
Expenses	(47,096,807)	(621,843)	(1,291,431)	(214,600)	(49,224,681)
Gain on building sale				1,000,000	1,000,000
Savings on Build-out	-	-	-		
Excess (deficiency) of support and revenue over expenses	341,901	(53,347)	(150,806)	5,418,998	5,556,746
Net assets, January 1, 2019	12,992,587	377,848	1,287,449	25,666,401	40,324,285
Net assets at December 31, 2019	<u>\$ 13,334,488</u>	<u>\$ 324,501</u>	<u>\$ 1,136,643</u>	<u>\$ 31,085,399</u>	<u>\$ 45,881,031</u>

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2019 and 2018

Results of operations for the year ended December 31, 2018 are as follows:

	National Funding Support	Austin Office	New York Office	Board- Designated Endowment	Total
Support and revenue	\$ 44,798,708	\$ 621,045	\$ 1,191,784	\$ (1,070,590)	\$ 45,540,947
Expenses	(42,940,973)	(542,717)	(1,238,663)	(154,083)	(44,876,436)
Gain on building sale	1,800,470	-	-	5,863,731	7,664,201
Excess (deficiency) of support and revenue over expenses	3,658,205	78,327	(46,879)	4,639,058	8,328,712
Net assets, January 1, 2018	9,334,382	299,520	1,334,328	21,027,343	31,995,573
Net assets at December 31, 2018	\$ 12,992,587	\$ 377,847	\$ 1,287,449	\$ 25,666,401	\$ 40,324,285

NOTE R – POST EMPLOYMENT BENEFITS

NCMEC is providing post-employment benefits to certain former senior personnel on an individual basis. As of December 31, 2019, and 2018, the amounts are actuarially determined for health coverage in the amount of \$1,247,801 and \$1,032,474, respectively. 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. The significant assumptions used to determine the post-employment benefit obligation for continuation of healthcare as of December 31, 2018, was a discount rate ranging from 4.06% - 4.32%, assumed initial health care cost trend rate of 6.22% for medical, 4.50% for dental, and 3.00% for vision. Mortality rates utilized were based upon the Society of Actuaries 2014 Mortality Table. Future mortality improvements are assumed to follow the 2017 Mortality table.

NOTE S - BUILDING HELD FOR SALE

On March 30, 2018, NCMEC sold its Alexandria headquarters building for \$13,443,720, which resulted in a gain on the disposition of the building of \$7,664,201. Further, NCMEC was responsible for operating costs during the lease back period from the new owner, through December 2018.

As of December 31, 2019, NCMEC has classified its California building and property as an asset held for sale. The building was listed with a commercial realtor and was expected to sell between a range of \$1.2 and \$1.6 million.

NOTE T - SUBSEQUENT EVENTS

NCMEC evaluated its December 31, 2019 financial statements for subsequent events through May 12, 2020, the date the financial statements were available to be issued.

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. As a result, NCMEC has cancelled all fundraising, special events, and live training courses for the remainder of 2020, all resulting in a negative impact to revenue. Further, NCMEC removed the listing for the California building and property. While the disruption is currently expected to be temporary, there is uncertainty around the duration. The net impact to our Federally funded operations is not deemed material; however, we anticipate a reduction in 2020 fundraising and development revenue not to exceed 5% of total revenue.

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