Financial Statements and Report of Independent Certified Public Accountants

The National Center for Missing and Exploited Children

December 31, 2018 and 2017

Contents

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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, 2018 and 2017, 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.

Grant Thornton

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the National Center for Missing and Exploited Children as of December 31, 2018 and 2017, 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
July 3, 2019

The National Center for Missing and Exploited Children

STATEMENTS OF FINANCIAL POSITION

December 31,

ASSETS

	2018	2017
CURRENT ASSETS		
Cash and cash equivalents	$ 13,109,329	$ 5,971,557
Accounts receivable, net	999,740	1,874,600
Pledges receivable, net	926,797	1,476,632
Prepaid expenses and other assets	302,367	147,511
Total current assets	15,338,233	9,470,300
NONCURRENT ASSETS		
Investments	26,160,605	20,584,731
Pledges receivable, long-term	31,871	194,233
Property and equipment, net	10,331,356	3,311,087
Building held for sale	-	5,744,211
Right of use asset	22,644,047	-
Cash surrender value of life insurance policies	559,350	556,989
Artwork collections	11,250	-
Deposits	147,714	147,713
Assets under unitrust agreement	29,602	35,514
Total noncurrent assets	59,915,795	30,574,478
Total assets	$ 75,254,028	$ 40,044,778

LIABILITIES AND NET ASSETS

	2018	2017
CURRENT LIABILITIES		
Accounts payable and accrued expenses	3,737,510	2,051,915
Accrued salaries and benefits	750,161	616,534
Notes payable, current portion	43,801	41,835
Line of credit	-	2,820,000
Total current liabilities	4,531,472	5,530,284
NONCURRENT LIABILITIES		
Deferred rent	32,275	221,666
Lease liability	29,001,778	-
Notes payable, net of current portion	319,414	363,215
Post employment benefit liability	1,032,474	1,774,888
Deferred compensation	-	142,825
Liability under unitrust agreement	12,330	16,327
Total noncurrent liabilities	30,398,271	2,518,921
Total liabilities	34,929,743	8,049,205
NET ASSETS		
Without donor restrictions:		
Undesignated	10,076,315	7,947,929
Board-designated	28,693,956	21,027,343
Total net assets without donor restrictions	38,770,271	28,975,272
With donor restrictions	1,554,014	3,020,301
Total net assets	40,324,285	31,995,573
Total liabilities and net assets	$ 75,254,028	$ 40,044,778

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, 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	54,498,778	(1,466,287)	53,032,491
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	41,374,008	-	41,374,008
Supporting Services:			
Management and general	681,311	-	681,311
Fundraising	3,390,874	-	3,390,874
Total supporting services	4,072,185	-	4,072,185
Total operating expenses	45,446,193	-	45,446,193
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	28,975,272	3,020,301	31,995,573
Net assets, end of year	$ 38,770,271	$ 1,554,014	$ 40,324,285

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, 2017

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and other support			
Government contracts and grants	$ 33,454,131	$ -	$ 33,454,131
Contributions	9,534,884	802,745	10,337,629
Special events, net of direct benefit costs of $1,223,386	2,396,446	-	2,396,446
Investment income	2,305,267	-	2,305,267
Other income	109,579	-	109,579
Change in value of unitrust agreement	-	3,070	3,070
Net assets released from restrictions:			
Satisfaction of program restrictions	1,427,918	(1,427,918)	-
Satisfaction of time restrictions	900,000	(900,000)	-
Total revenue and support	50,128,225	(1,522,103)	48,606,122
Operating expenses			
Program services:			
Community outreach	3,974,571	-	3,974,571
Missing child case management	13,835,547	-	13,835,547
Information and case analysis	12,827,419	-	12,827,419
Training	1,205,285	-	1,205,285
Exploited child case management	8,342,436	-	8,342,436
Total program services	40,185,258	-	40,185,258
Supporting services:			
Management and general	804,033	-	804,033
Fundraising	3,517,821	-	3,517,821
Total supporting services	4,321,854	-	4,321,854
Total operating expenses	44,507,112	-	44,507,112
Change in net assets from operations	5,621,113	(1,522,103)	4,099,010
Non-operating expense			
Change in post employment benefit liability	(38,320)	-	(38,320)
TOTAL CHANGE IN NET ASSETS	5,582,793	(1,522,103)	4,060,690
Net assets, beginning of year	23,392,479	4,542,404	27,934,883
Net assets, end of year	$ 28,975,272	$ 3,020,301	$ 31,995,573

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					
	Community Outreach	Missing Child Case Management	Information and Case Analysis	Training	Exploited Child Case Management	Total Program Services
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	$ 4,587,098	$ 14,622,036	$ 13,307,269	$ 1,154,377	$ 7,703,228	$ 41,374,008

	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	$ 681,311	$ 3,390,874	$ 4,072,185	$ 45,446,193

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, 2017

	Program Services					
	Community Outreach	Missing Child Case Management	Information and Case Analysis	Training	Exploited Child Case Management	Total Program Services
Personnel	$ 2,355,392	$ 8,563,765	$ 6,403,164	$ 522,781	$ 4,903,876	$ 22,748,978
Fringe benefits	580,118	2,109,203	1,577,060	129,256	1,207,792	5,603,429
Staff travel	103,260	136,358	88,373	49,111	108,822	485,924
Supplies and equipment	241,945	204,485	886,385	16,054	66,514	1,415,383
Occupancy	249,165	753,226	612,989	56,668	383,008	2,055,056
Business services	284,937	705,055	2,384,325	76,768	623,476	4,074,561
Professional services	120,228	838,484	696,938	82,716	1,034,412	2,772,778
Participant & consultant travel	730	420,488	14,398	139,564	5,262	580,442
Office support	38,796	104,483	163,787	132,367	9,274	448,707
Total	$ 3,974,571	$ 13,835,547	$ 12,827,419	$ 1,205,285	$ 8,342,436	$ 40,185,258

	Supporting Services			
	Management and General	Fundraising	Total Supporting Services	Total Expenses
Personnel	$ 530,417	$ 1,424,810	$ 1,955,227	$ 24,704,205
Fringe benefits	130,137	350,923	481,060	6,084,489
Staff travel	24,545	66,194	90,739	576,663
Supplies and deliveries	1,506	150,394	151,900	1,567,283
Occupancy	3,748	194,509	198,257	2,253,313
Business services	4,029	190,515	194,544	4,269,105
Professional services	453	419,592	420,045	3,192,823
Participant & consultant travel	1,130	2,717	3,847	584,289
Office support	108,068	718,167	826,235	1,274,942
Total	$ 804,033	$ 3,517,821	$ 4,321,854	$ 44,507,112

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,

	2018	2017
Cash flows from operating activities:		
Change in net assets	$ 8,328,712	$ 4,060,690
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
In-kind contributed software	-	(1,686,701)
In-kind artwork	(11,250)	-
Depreciation and amortization	767,775	1,181,995
Gain on sale of building	(7,664,201)	-
Unrealized loss (gain) on investments	1,852,200	(1,654,895)
Net change in value of unitrust agreement	1,914	(3,070)
Impairment charge	-	35,000
Changes in assets and liabilities:		
Accounts receivable	874,860	40,000
Pledges receivable	712,197	1,479,578
Prepaid expenses and other assets	(154,856)	73,429
Cash surrender value of life insurance policies	(2,361)	38,208
Accounts payable and accrued expenses	1,685,595	(208,648)
Accrued salaries and benefits	133,627	53,391
Deferred rent	(189,391)	(164,880)
Post employment benefit liability	(742,414)	38,320
Deferred compensation	(142,825)	10,568
Net cash provided by operating activities	5,449,582	3,292,985
Cash flows from investing activities:		
Proceeds from sale investments	18,856,951	20,141,766
Purchases of investments	(26,285,025)	(20,781,882)
Proceeds from sale of building	13,443,720	-
Purchases of property, equipment and leasehold improvements	(1,465,621)	(125,996)
Net cash provided by (used in) investing activities	4,550,025	(766,112)
Cash flows from financing activities		
Payments on line of credit	(2,820,000)	(540,000)
Principal payments on notes payable	(41,835)	(39,957)
Net cash used in financing activities	(2,861,835)	(579,957)
NET INCREASE IN CASH AND CASH EQUIVALENTS	7,137,772	1,946,916
Cash and cash equivalents, beginning of year	5,971,557	4,024,641
Cash and cash equivalents, end of year	$ 13,109,329	$ 5,971,557
Supplemental disclosure of cash flow information:		
Interest paid	$ 42,333	$ 84,078
Leasehold improvements acquired through tenant allowance	$ 6,357,731	$ -

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

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 August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* ("ASU 2016-14"). The ASU amends the current reporting model for not-for-profit organizations and requires certain additional disclosures. NCMEC adopted ASU 2016-14 during fiscal 2018 and the significant changes include:

- Requiring the presentation of two net asset classes - "net assets without donor restrictions" and "net assets with donor restrictions";
- Modifying the presentation of underwater endowment funds and related disclosures;
- Requiring the use of the placed in service approach to recognize the satisfaction of restrictions on gifts used to acquire or construct long-lived assets, absent explicit donor stipulations otherwise;
- Requiring that all not-for-profits present an analysis of expenses by function and nature either in a separate statement or in the notes to the financial statements;
- Requiring disclosure of quantitative and qualitative information on liquidity;
- Presenting investment return net of external and direct internal investment expenses; and
- Modifying other financial statement reporting requirements and disclosures intended to increase the usefulness to the reader.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* ("ASU 2016-02"). The ASU clarifies the definition of a lease, requires recognition of all types of leases on the statement of financial position, and modifies disclosure requirements to provide financial statement users with key information about lease arrangements. The amendments in ASU 2016-02 are effective for fiscal years beginning after December 15, 2019 for non-public business entities and early adoption is permitted. NCMEC early-adopted ASU 2016-02 during fiscal 2018 using the current-period adjustment method. Under this method, an entity applies ASU 2016-02 as of the beginning of the period of adoption with a cumulative-effect adjustment recorded to beginning net assets. NCMEC determined no cumulative-effect adjustment was required upon adoption.

NOTE A - ORGANIZATION - Continued

Recently Adopted Accounting Pronouncements - Continued

To aid in the transition to ASU 2016-02, NCMEC elected certain practical expedients available including package of practical expedients for existing contracts to forgo reassessing 1) whether a contract contains a lease, 2) classification of leases, and 3) whether capitalized costs associated with a lease meet the definition of initial direct costs. In addition, NCMEC also made the accounting policy elections to not separate nonlease components from lease components for its real-estate leases and to use a risk-free rate to compute the present value of lease payments for all leases.

Basis of Accounting

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

Net assets and changes in net assets are classified based on the existence or absence of donor imposed restrictions. Accordingly, net assets of 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 M) and $3,027,555 at December 31, 2018 for the build-out of the new headquarters building (Note J).

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 includes 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, 2018 and 2017.

Measure of Operations

All activities, other than changes in the post-employment benefit liability, are reported as change 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.

NOTE A - ORGANIZATION - Continued

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.

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.

NOTE A - ORGANIZATION - Continued

Revenue Recognition

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.

NCMEC has government contracts and grants with U.S. government agencies. Revenue on cost-based and fixed price contracts and billable grants is recognized to the extent of allowable direct and indirect costs incurred or by the specified measure of performance. Revenue recognized on federal contracts and grants for which payments have not been received is reflected as accounts receivable in the accompanying statements of financial position.

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 2018 and 2017, NCMEC received $3,627,488 and $5,762,518, respectively, of in-kind goods and services relating to the following:

	2018	2017
Software, licenses, and equipment	$ 2,976,720	$ 4,883,020
Artwork collections	11,250	-
Legal and professional services	374,881	344,573
Event management	196,751	446,479
Office space	42,526	40,000
Advertising	28,000	25,000
Other	8,810	23,446
Total	$ 3,638,738	$ 5,762,518

These items have been recorded among the various program expenses and contributions without donor restrictions in the accompanying financial statements. During 2018, NCMEC capitalized $11,250 in donated artwork. During 2017, NCMEC capitalized $1,686,701 in Adobe software as in-kind.

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.

NOTE A - ORGANIZATION - Continued

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 $3,390,874 and $3,517,821 for the years ended December 31, 2018 and 2017, 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.

Reclassifications

Certain reclassifications of prior year amounts have been made to conform to the current year presentation. Specifically, NCMEC reclassified investment management fees from supporting services to investment income on the 2017 statements of activities to conform with the 2018 presentation. The effect of these reclassifications did not change total revenues, expenses, or changes in net assets as previously presented in the 2017 financial statements.

NOTE B - FINANCIAL ASSETS AND LIQUIDITY RESOURCES

As of December 31, 2018, financial assets and liquidity resources available within one year for general expenditure, such as operating expenses, follow (in thousands):

Cash and cash equivalents	$ 13,109,329
Accounts receivable, net	999,740
Pledges receivable, net (due within one year)	926,927
Investments	26,160,605
Less: Board designated funds	(28,693,956)
Less: Net assets with donor restrictions - purpose	(1,522,143)
Total	$ 10,980,502

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 $926,797 and $1,476,632 as of December 31, 2018 and 2017, respectively. The gross amounts due in one to three years amounted to $33,334 and $200,000 as of December 31, 2018 and 2017, respectively. The discount on the long-term pledges totaled $1,463 and $5,767 as of December 31, 2018 and 2017, respectively. Discount rates range from 0.23% to 1.66% for the years ended December 31, 2018 and 2017. No allowance for uncollectible pledges has been established, as all amounts are deemed to be fully collectible for both years.

NOTE D - INVESTMENTS

As of December 31, 2018 and 2017, NCMEC's investments consisted of the following:

	2018	2017
Money market funds	$ 746,724	$ 793,526
Certificates of deposit	34,062	59,885
Equities	10,517,771	8,767,776
Mutual funds	6,305,436	7,016,659
Municipal bonds	30,030	30,486
U.S. government bonds and agency securities	4,403,997	2,368,566
Corporate bonds	1,121,739	1,547,833
Hedge funds	2,596,239	-
REITs	404,607	-
Total investments, at fair value	$ 26,160,605	$ 20,584,731

During 2018 and 2017, investments totaling $0 and $142,825, respectively, are held in segregated accounts to fund NCMEC's deferred compensation obligation to certain key employees.

NOTE E - PROPERTY AND EQUIPMENT AND RELATED DEPRECIATION AND AMORTIZATION

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

	2018	2017
Building and improvements	$ 2,401,474	$ 2,401,474
Land	573,950	573,950
In-kind software	1,686,701	1,686,701
Leasehold improvements	7,906,448	1,679,929
Furniture and equipment	1,596,834	1,520,532
Total property and equipment	14,165,407	7,862,586
Less: Accumulated depreciation and amortization	(3,834,051)	(4,551,499)
Total	$ 10,331,356	$ 3,311,087

For the years ended December 31, 2018 and 2017, depreciation and amortization expense totaled $767,775 and $1,181,995, respectively.

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 $29,602 and $35,514, were recorded at fair value as of December 31, 2018 and 2017, 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.

At December 31, 2018 and 2017, 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, 2016	$ 16,100
Change in net present value of the liability	227
Balance at December 31, 2017	16,327
Change in net present value of the liability	(3,997)
Balance at December 31, 2018	$ 12,330

NOTE G - NOTES PAYABLE

NCMEC refinanced the promissory note with M&T Bank (previously held with KeyBank) for the Center's Rochester, NY building on March 31, 2011. The term of the agreement is for fifteen 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, 2018 and 2017. The total amount outstanding on the note was $363,215 and $405,050 as of December 31, 2018 and 2017, 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, NY.

Notes payables consisted of the following as of December 31:

	2018	2017
15-year note payable to M&T Bank	$ 363,215	$ 405,050
Less: Current portion	(43,801)	(41,835)
Long-term portion	$ 319,414	$ 363,215

Scheduled principal repayments on the notes payable for the year ending December 31, 2018 are as follows:

2019	$ 43,801
2020	45,819
2021	48,015
2022	50,272
2023	52,636
Thereafter	122,672
Total	$ 363,215

Interest expense totaled $17,768 and $19,646 during the years ended December 31, 2018 and 2017, respectively.

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 Endowment Trust Fund held at Merrill Lynch Trust Company, which as of December 31, 2018 and 2017 totaled $28,664,323 and $19,910,114, respectively. The outstanding balance on the line of credit as of December 31, 2018 and 2017 totaled $0 and $2,820,000, respectively, and the available credit as of December 31, 2018 and 2017 was $10,000,000 and $7,173,997, respectively. 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, 2018 and 2017 the interest rate was 3.52% and 2.56%, respectively. Interest expense on the line of credit totaled and $24,566 and $64,432 for the years ended December 31, 2018 and 2017, 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 - RENTAL INCOME

NCMEC entered into a lease with a tenant to rent space in its Rochester, NY office building in 2011. This lease was effective through August 31, 2015 and was renewed on September 1, 2016 bearing monthly payments in the amount of $5,417 for total rental income in 2018 and 2017 of $65,000 and $65,000, respectively. The term of the renewed lease is on a month by month basis.

NOTE J - OPERATING LEASES

NCMEC leases office space and office equipment under noncancelable operating leases expiring between 2018 and 2033. Rent is subject to scheduled escalations as well as escalations in operating costs, real estate taxes and the Consumer Price Index. Additionally, under the terms of its leases, NCMEC received from the landlord a build-out allowances of $7,086,706. The build-out allowances were completely used at December 31, 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 are 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.

Future minimum payments under NCMEC's operating lease agreements as of December 31, are as follows:

2019	$ -
2020	1,201,724
2021	2,258,028
2022	2,314,592
2023	2,372,287
Thereafter	29,086,872
	37,233,503
Less: Present value discount	(8,231,725)
Total lease liability	$ 29,001,778

For the years ended December 31, 2018 and 2017, operating lease expense totaled $1,061,762 and $932,855, respectively, and is included in occupancy expenses in the accompanying statements of functional expenses.

NOTE K - COMMITMENTS, RISKS AND CONTINGENCIES

Litigation

NCMEC is involved in various claims and lawsuits arising from the normal conduct of its operation. 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.

NOTE K - COMMITMENTS, RISKS AND CONTINGENCIES - Continued

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 reflected in the accompanying financial statements as earned under the agreements. NCMEC's funding of these amounts is reflected in separate investment accounts and corresponding long-term liabilities in the accompanying statements of financial position.

Concentration of Risk

During the years ended December 31, 2018 and 2017, NCMEC earned revenue of $33,821,792 and $33,454,131, respectively, from the U. S. government, which was predominantly from the U. S. Department of Justice (DOJ). Revenue earned from the U.S. government represented approximately 64% and 69% of the total revenue recognized by NCMEC for each of the years ended December 31, 2018 and 2017. Additionally, NCMEC received $33,426,670 and $32,837,919, 63% and 68% of the total revenue and support directly from DOJ for the years ended December 31, 2018 and 2017, 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, 2018, cash in excess of the Federal Deposit Insurance Corporation insured limit of $250,000 totaled $9,465,160.

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 fixed fee contracts awarded by the DOJ, U.S. Department of Homeland Security and the State of Texas. These contracts represent fee-for-service agreements and NCMEC recognizes revenue according to the specific requirements of each contract awarded. The U.S. Marshals Service (USMS), Federal Bureau of Investigation (FBI), Federal Emergency Management Agency (FEMA), Federal and Parent Locator Services contracts account for $969,405 and $1,170,561 of total grant revenue in 2018 and 2017, respectively. NCMEC believes it has complied with all Federal Acquisition Regulations as they apply to these contracts.

Provisional Fringe Benefit and Indirect Cost Rates

Billings under cost reimbursable government contracts and grants are calculated using provisional rates that permit 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.

NOTE K - COMMITMENTS, RISKS AND CONTINGENCIES - Continued

Provisional Fringe Benefit and Indirect Cost Rates - Continued

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, 2018. Management believes that cost disallowances, if any, arising from the DOJ's audits for 2018 will not have a material effect on NCMEC's financial position as December 31, 2018, or the results of operations for the year then ended.

NOTE L - NET ASSETS WITH DONOR RESTRICTIONS

As of December 31, 2018, and 2017, net assets with donor restrictions are available for the following programs:

	2018	2017
Technology advancement initiatives	$ 290,632	$ 1,363,069
Internet safety initiatives	322,356	180,000
Outreach initiatives	923,753	1,458,045
Emory remainder trust	17,273	19,187
Total net assets with donor restrictions	$ 1,554,014	$ 3,020,301

During 2018 and 2017, $2,291,066 and $2,327,918, respectively, of net assets with donor restrictions were released from restriction.

NOTE M - 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:

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

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

NOTE M - BOARD-DESIGNATED ENDOWMENT - Continued

During the years ended December 31, 2018 and 2017, NCMEC had the following activity in its board-designated fund:

Board-designated fund, January 1, 2017	$ 18,768,464
Additions	2,550
Investment income	2,383,324
Transfers from operating fund	23,164
Expenditures	(150,159)
Board-designated fund, December 31, 2017	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	(3,085,300)
Board-designated fund, December 31, 2018	$ 25,666,401

NOTE N - 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.

NOTE N - FAIR VALUE MEASUREMENTS - Continued

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
Investments	$ 17,553,930	$ 5,589,829	$ -	$ 3,016,846	$ 26,160,605
Assets held under unitrust agreement	$ -	$ -	$ 29,602	$ -	$ 29,602

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	1,596,239	None	Monthly; at Board's Discretion	67 to 95 days
	$ 3,016,846			

NOTE N - FAIR VALUE MEASUREMENTS - Continued

The following table summarizes NCMEC's assets and liabilities measured at fair value on a recurring basis as of December 31, 2017:

	Level 1	Level 2	Level 3	Reported at NAV	Total
Investments:					
Money market funds	$ 793,526	$ -	$ -	$ -	$ 793,526
Certificates of deposit	-	59,885	-	-	59,885
Equities	8,767,776	-	-	-	8,767,776
Mutual funds	7,016,659	-	-	-	7,016,659
Municipal bonds	-	30,486	-	-	30,486
U.S. government bond and agency securities	-	2,368,566	-	-	2,368,566
Corporate bonds	-	1,547,833	-	-	1,547,833
Investments	$ 16,577,961	$ 4,006,770	$ -	$ -	$ 20,584,731
Assets held under unitrust agreement	$ -	$ -	$ 35,514	$ -	$ 35,514

A roll forward of the fair value measurements using unobservable inputs (Level 3) as of December 31, 2018 and 2017, were as follows:

Fair value, January 1, 2017	$ 32,217
Change in value	3,297
Fair value, December 31, 2017	35,514
Change in value	(5,912)
Fair value, December 31, 2018	$ 29,602

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.

NOTE N - FAIR VALUE MEASUREMENTS - Continued

Money market funds - the net asset value 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.

NOTE O - 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 $1,806,839 and $1,760,527 for the years ended December 31, 2018 and 2017, respectively, and is classified as fringe benefits in the accompanying statements of functional expenses.

NOTE P - RELATED PARTIES

Two members of NCMEC's Board of Directors or their companies provided services to NCMEC during the year ended December 31, 2017. These services included consulting and speaker fees. For the year ended December 31, 2018 and 2017, NCMEC paid professional fees of $0 and $34,611, respectively, for services provided by these parties. These amounts have been included in the respective expenses in the accompanying statement of functional expenses. As of December 31, 2018, and 2017, no amounts were due to the related parties.

During 2018 and 2017, NCMEC paid approximately $0 and $1,885, respectively, for medical claims and medical premiums for an individual who is a member of the Board of Directors of NCMEC and her family.

NOTE Q - 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 ending December 31, 2018, 2017, 2016, and 2015 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 R - FUND SEGREGATION INFORMATION

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

Results of operations for the year ended December 31, 2017 are as follows:

	National Funding Support	Austin Office	New York Office	Board-Designated Endowment	Total
Support and revenue	$ 44,422,891	$ 571,270	$ 1,333,918	$ 2,409,038	$ 48,737,117
Expenses	(42,852,170)	(508,504)	(1,165,594)	(150,159)	(44,676,427)
Excess (deficiency) of support and revenue over expenses	1,570,721	62,766	168,324	2,258,879	4,060,690
Net assets, January 1, 2017	7,763,661	236,754	1,166,004	18,768,464	27,934,883
Net assets at December 31, 2017	$ 9,334,382	$ 299,520	$ 1,334,328	$21,027,343	$ 31,995,573

NOTE S - POST EMPLOYMENT BENEFITS

NCMEC is providing post-employment benefits to certain former senior personnel on an individual basis. As of December 31, 2018 and 2017, the amounts are actuarially determined for health coverage in the amount of $1,032,474 and $1,774,888, respectively. 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. The significant assumptions used to determine the post-employment benefit obligation for continuation of healthcare as of December 31, 2017, was a discount rate ranging from 3.41% - 3.59%, assumed initial health care cost trend rate of 6.48% 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 T - BUILDING HELD FOR SALE

As of December 31, 2017, NCMEC has classified its headquarters building in Alexandria, Virginia, as an asset held for sale. NCMEC's Board of Directors approved the sale of the building in order to secure larger space to consolidate Virginia locations, to eliminate cost redundancies, and to achieve a more modern work environment in order to more effectively fulfill its mission. On March 30, 2018, NCMEC sold the 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.

NOTE U - SUBSEQUENT EVENTS

NCMEC evaluated its December 31, 2018 financial statements for subsequent events through July 3, 2019, the date the financial statements were available to be issued. NCMEC is not aware of any other subsequent events which would require recognition or disclosure in the accompanying financial statements.