

Independent Auditors' Reports as
Required by Title 2 U.S. *Code of
Federal Regulations* Part 200, *Uniform
Administrative Requirements, Cost
Principles, and Audit Requirements for
Federal Awards and Government
Auditing Standards* and Related
Information

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

December 31, 2022 and 2021

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
The National Center for Missing and Exploited Children

Report on the financial statements**Opinion**

We have audited the financial statements of The National Center for Missing and Exploited Children (“NCMEC”), which comprise the statements of financial position as of December 31, 2022 and 2021, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of NCMEC as of December 31, 2022 and 2021, 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.

Basis for opinion

We conducted our audits of the financial statements in accordance with auditing standards generally accepted in the United States of America (US GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of NCMEC and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about NCMEC’s ability to continue as a going concern for one year after the date the financial statements are issued.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with US GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about NCMEC's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. The schedule of indirect cost pool, applicable base, and final overhead rate calculation and the schedule of fringe cost pool, applicable base, and final fringe rate calculation for the year ended December 31, 2022 are also presented for additional analysis and are not a required part of the financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing

procedures applied in the audits of the financial statements and certain additional procedures. These additional procedures included comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with US GAAS. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other reporting required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 26, 2023 on our consideration of NCMEC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of NCMEC's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering NCMEC's internal control over financial reporting and compliance.

Grant Thornton LLP

Arlington, Virginia
April 26, 2023

The National Center for Missing and Exploited Children

STATEMENTS OF FINANCIAL POSITION

December 31,

	<u>2022</u>	<u>2021</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 25,239,418	\$ 16,114,547
Accounts receivable, net	3,318,801	6,383,002
Pledges receivable, net	1,470,801	2,138,301
Prepaid expenses and other assets	892,115	835,059
	<u>30,921,135</u>	<u>25,470,909</u>
Noncurrent assets		
Investments	36,887,788	39,921,183
Pledges receivable, long-term	54,475	556,456
Property and equipment, net	7,301,168	7,924,415
Right of use assets	17,891,607	19,205,380
Other non-current assets	681,595	680,893
	<u>62,816,633</u>	<u>68,288,327</u>
Total current assets	<u>30,921,135</u>	<u>25,470,909</u>
Total noncurrent assets	<u>62,816,633</u>	<u>68,288,327</u>
Total assets	<u>\$ 93,737,768</u>	<u>\$ 93,759,236</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued expenses	\$ 2,079,520	\$ 2,125,157
Accrued salaries and benefits	1,594,561	1,517,517
Lease liabilities, current portion	-	60,598
	<u>3,674,081</u>	<u>3,703,272</u>
Total current liabilities	<u>3,674,081</u>	<u>3,703,272</u>
Noncurrent liabilities		
Lease liabilities	22,553,943	24,230,967
Post-employment benefit liability	885,742	1,202,846
Other non-current liabilities	6,331	11,719
	<u>23,446,016</u>	<u>25,445,532</u>
Total noncurrent liabilities	<u>23,446,016</u>	<u>25,445,532</u>
Total liabilities	<u>27,120,097</u>	<u>29,148,804</u>
Net assets		
Without donor restrictions:		
Undesignated	29,281,064	23,377,362
Board-designated	33,159,304	37,743,412
	<u>62,440,368</u>	<u>61,120,774</u>
Total net assets without donor restrictions	<u>62,440,368</u>	<u>61,120,774</u>
With donor restrictions	<u>4,177,303</u>	<u>3,489,658</u>
Total net assets	<u>66,617,671</u>	<u>64,610,432</u>
Total liabilities and net assets	<u>\$ 93,737,768</u>	<u>\$ 93,759,236</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, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and other support			
Government contracts and grants	\$ 45,610,970	\$ -	\$ 45,610,970
Contributions of cash and other financial assets	8,251,108	4,199,447	12,450,555
Contributions of nonfinancial assets and services	7,224,817	-	7,224,817
Special events, net of direct benefit costs of \$520,442	1,207,650	-	1,207,650
Other income (loss)	206,633	(8,133)	198,500
Net assets released from restrictions			
Satisfaction of program restrictions	2,187,409	(2,187,409)	-
Satisfaction of time restrictions	956,260	(956,260)	-
	<u>65,644,847</u>	<u>1,047,645</u>	<u>66,692,492</u>
Operating expenses			
Program services			
Community outreach and training	6,641,429	-	6,641,429
Missing child case management	12,528,855	-	12,528,855
Information and case analysis	15,545,559	-	15,545,559
Family advocacy and survivor services	2,080,314	-	2,080,314
Exploited child case management	18,972,481	-	18,972,481
	<u>55,768,638</u>	<u>-</u>	<u>55,768,638</u>
Supporting services			
Management and general	1,744,409	-	1,744,409
Fundraising	2,281,598	-	2,281,598
	<u>4,026,007</u>	<u>-</u>	<u>4,026,007</u>
	<u>59,794,645</u>	<u>-</u>	<u>59,794,645</u>
Change in net assets from operations	5,850,202	1,047,645	6,897,847
Non-operating activities			
Investment loss	(4,847,712)	-	(4,847,712)
Loss on uncollectible pledges and termination of grants	-	(360,000)	(360,000)
Change in post-employment benefit liability	317,104	-	317,104
	<u>1,319,594</u>	<u>687,645</u>	<u>2,007,239</u>
Net assets, beginning of year	<u>61,120,774</u>	<u>3,489,658</u>	<u>64,610,432</u>
Net assets, end of year	<u>\$ 62,440,368</u>	<u>\$ 4,177,303</u>	<u>\$ 66,617,671</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, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and other support			
Government contracts and grants	\$ 41,863,909	\$ -	\$ 41,863,909
Contributions of cash and other financial assets	7,317,976	1,817,173	9,135,149
Contributions of nonfinancial assets and services	7,416,952		7,416,952
Special events, net of direct benefit costs of \$132,758	1,136,200	-	1,136,200
Other income	107,224	5,022	112,246
Net assets released from restrictions			
Satisfaction of program restrictions	927,035	(927,035)	-
Satisfaction of time restrictions	1,114,234	(1,114,234)	-
	<u>59,883,530</u>	<u>(219,074)</u>	<u>59,664,456</u>
Operating expenses			
Program services			
Community outreach and training	6,734,408	-	6,734,408
Missing child case management	13,055,210	-	13,055,210
Information and case analysis	13,528,370	-	13,528,370
Family advocacy and survivor services	1,976,443	-	1,976,443
Exploited child case management	15,247,842	-	15,247,842
	<u>50,542,273</u>	<u>-</u>	<u>50,542,273</u>
Supporting services			
Management and general	847,748	-	847,748
Fundraising	3,368,690	-	3,368,690
	<u>4,216,438</u>	<u>-</u>	<u>4,216,438</u>
Total operating expenses	<u>54,758,711</u>	<u>-</u>	<u>54,758,711</u>
Change in net assets from operations	5,124,819	(219,074)	4,905,745
Non-operating activities			
Investment gain	3,716,222	-	3,716,222
Change in post-employment benefit liability	295,032	-	295,032
	<u>9,136,073</u>	<u>(219,074)</u>	<u>8,916,999</u>
Net assets, beginning of year	<u>51,984,701</u>	<u>3,708,732</u>	<u>55,693,433</u>
Net assets, end of year	<u>\$ 61,120,774</u>	<u>\$ 3,489,658</u>	<u>\$ 64,610,432</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, 2022

	Program Services					Total Program Services
	Community Outreach and Training	Missing Child Case Management	Information and Case Analysis	Family Advocacy and Survivor Services	Exploited Child Case Management	
Personnel	\$ 3,331,717	\$ 8,487,128.00	\$ 7,021,154	\$ 1,094,464	\$ 10,332,609	\$ 30,267,072
Fringe benefits	970,745	2,184,419	1,859,553	284,959	2,737,728	8,037,404
Staff travel	125,997	99,924	115,912	18,683	232,537	593,053
Supplies and equipment	217,739	177,695	758,896	39,066	2,409,289	3,602,685
Occupancy	317,010	811,535	451,216	110,924	951,137	2,641,822
Business services	1,076,377	218,233	3,625,383	30,184	784,082	5,734,259
Professional services	428,146	292,073	1,574,055	428,152	1,440,684	4,163,110
Participant and consultant travel	45,873	144,898	9,860	56,024	30,816	287,471
Office support	127,825	112,950	129,530	17,858	53,599	441,762
Total	<u>\$ 6,641,429</u>	<u>\$ 12,528,855</u>	<u>\$ 15,545,559</u>	<u>\$ 2,080,314</u>	<u>\$ 18,972,481</u>	<u>\$ 55,768,638</u>
Supporting Services						
	Management and General	Fundraising	Total Supporting Services	Total Expenses		
Personnel	\$ 792,479	\$ 1,308,524	\$ 2,101,003	\$ 32,368,075		
Fringe benefits	207,238	343,773	551,011	8,588,415		
Staff travel	25,134	39,738	64,872	657,925		
Supplies and equipment	26,080	91,370	117,450	3,720,135		
Occupancy	144,458	96,399	240,857	2,882,679		
Business services	24,661	96,102	120,763	5,855,022		
Professional services	368,340	281,361	649,701	4,812,811		
Participant and consultant travel	1,945	246	2,191	289,662		
Office support	154,074	24,085	178,159	619,921		
Total	<u>\$ 1,744,409</u>	<u>\$ 2,281,598</u>	<u>\$ 4,026,007</u>	<u>\$ 59,794,645</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, 2021

	Program Services					Total Program Services
	Community Outreach and Training	Missing Child Case Management	Information and Case Analysis	Family Advocacy and Survivor Services	Exploited Child Case Management	
Personnel	\$ 3,835,669	\$ 8,494,566	\$ 6,545,337	\$ 1,083,632	\$ 7,932,676	\$ 27,891,880
Fringe benefits	1,064,105	2,358,609	1,803,725	292,973	2,203,785	7,723,197
Staff travel	9,608	18,145	17,125	2,860	21,888	69,626
Supplies and equipment	171,288	212,184	902,142	9,775	732,494	2,027,883
Occupancy	364,721	939,462	565,500	111,868	757,062	2,738,613
Business services	1,003,190	189,162	1,904,125	24,639	583,276	3,704,392
Professional services	235,762	526,842	1,655,412	384,775	2,989,552	5,792,343
Participant and consultant travel	523	68,937	-	57,114	-	126,574
Office support	49,542	247,303	135,004	8,807	27,109	467,765
Total	\$ 6,734,408	\$ 13,055,210	\$ 13,528,370	\$ 1,976,443	\$ 15,247,842	\$ 50,542,273
	Supporting Services					
	Management and General	Fundraising	Total Supporting Services	Total Expenses		
Personnel	\$ 525,325	\$ 1,227,270	\$ 1,752,595	\$ 29,644,475		
Fringe benefits	145,898	334,645	480,543	8,203,740		
Staff travel	882	5,008	5,890	75,516		
Supplies and equipment	18,701	76,993	95,694	2,123,577		
Occupancy	26,694	137,191	163,885	2,902,498		
Business services	10,611	606,118	616,729	4,321,121		
Professional services	96,769	896,460	993,229	6,785,572		
Participant and consultant travel	1,000	79	1,079	127,653		
Office support	21,868	84,926	106,794	574,559		
Total	\$ 847,748	\$ 3,368,690	\$ 4,216,438	\$ 54,758,711		

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>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Change in net assets	\$ 2,007,239	\$ 8,916,999
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	623,247	617,377
Net realized and unrealized loss (gain) on investments	5,594,173	(1,811,993)
Changes in assets and liabilities:		
Accounts receivable	3,064,201	(3,759,159)
Pledges receivable	1,169,481	938,386
Prepaid expenses and other assets	(57,056)	(218,986)
Right of use assets	1,313,773	1,267,371
Accounts payable and accrued expenses	(45,637)	52,270
Accrued salaries and benefits	77,044	73,981
Lease liability	(1,737,622)	(1,691,213)
Post-employment benefit liability	(317,104)	(295,032)
Other non-current assets/liabilities	(6,090)	(21,394)
	<u>11,685,649</u>	<u>4,068,607</u>
Cash flows from investing activities:		
Proceeds from sale investments	14,984,722	7,351,872
Purchases of investments	(17,545,500)	(10,664,366)
Purchases of property, equipment and leasehold improvements	-	(75,627)
	<u>(2,560,778)</u>	<u>(3,388,121)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	9,124,871	680,486
Cash and cash equivalents, beginning of year	16,114,547	15,434,061
Cash and cash equivalents, end of year	\$ 25,239,418	\$ 16,114,547

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, 2022 and 2021

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.

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 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.

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, 2022 and 2021.

Measure of Operations

All activities, other than investment gains/losses, changes in the post-employment benefit liabilities and loss on uncollectible pledges and termination of grants, 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, 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.

The National Center for Missing and Exploited Children

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2022 and 2021

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 in-kind software are depreciated on a straight-line basis over their 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.

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 statements 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 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.

NCMEC's outstanding conditional contributions, which are to be recognized as revenue as conditions are met, totaled approximately \$40.65 and \$40.8 million at December 31, 2022 and 2021, respectively.

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 \$1,071,150 and \$1,391,580 for the years ended December 31, 2022 and 2021, respectively. For expenses incurred in advance of receipts of funds from the sponsoring organization, NCMEC recorded accounts receivable totaling \$142,526 and \$112,022 at December 31, 2022 and 2021, 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. These items have been recorded among the various program expenses and contributions without donor restrictions in the accompanying financial statements.

The National Center for Missing and Exploited Children

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2022 and 2021

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. During 2022 and 2021, no donated items were capitalized by NCMEC.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying statements 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 \$2,281,598 and \$3,368,690 for the years ended December 31, 2022 and 2021, respectively. Of the total fundraising costs, \$0 and \$1,057,248 for the years ended December 31, 2022 and 2021, respectively, relate to in-kind goods and services.

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.

Recently Adopted Accounting Pronouncements

In September 2020, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2020-07, *Presentation and Disclosure by Not-for-Profit Entities for Contributed Nonfinancial Assets* to increase the transparency of contributed nonfinancial assets through enhancement to presentation and disclosure. The new guidance requires contributed nonfinancial assets to be presented as a separate line item on the statement of activities, apart from cash and other financial asset contributions. This guidance also requires disclosure of the types of contributed nonfinancial assets and, for each category, information about whether the assets were monetized or utilized, a description of the policies to monetize or utilize such assets, a description of donor-imposed restrictions associated with the contributions, and a description of the valuation techniques and principal market used to arrive at a fair value measure at initial recognition. In fiscal year 2022, NCMEC retrospectively adopted the provisions of ASU No. 2020-07.

The National Center for Missing and Exploited Children

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2022 and 2021

NOTE B - CONTRIBUTED NONFINANCIAL ASSETS AND SERVICES

For the years ended December 31, 2022 and 2021, contributed nonfinancial assets and services recognized within the statements of activities consisted of the following:

Description	2022	2021	Utilization in Programs/Services	Donor Restrictions	Valuation Techniques and Inputs
Software, license and equipment	\$ 6,077,456	\$ 6,276,441	Recorded as part of the program or supporting service benefited	No associated donor restrictions	Based on current rates for similar software license and subscriptions
Legal and professional services	155,588	341,056	Recorded as part of the program or supporting service benefited	No associated donor restrictions	Based on current rates for similar services
Advertising/media space and time	931,000	794,780	Recorded as part of the program or supporting service benefited	No associated donor restrictions	Based on current rates for media space and time
Other	60,773	4,675	Distributed and/or utilized in program or supporting services	No associated donor restrictions	Based on current rates for similar services
Total	<u>\$ 7,224,817</u>	<u>\$ 7,416,952</u>			

NOTE C - FINANCIAL ASSETS AND LIQUIDITY RESOURCES

As of December 31, 2022 and 2021, financial assets and liquidity resources available within one year for general expenditure, such as operating expenses, were as follows:

	2022	2021
Cash and cash equivalents	\$ 25,239,418	\$ 16,114,547
Accounts receivable, net	3,318,801	6,383,002
Pledges receivable, net (due within one year)	1,470,801	2,138,301
Investments	36,887,788	39,921,183
Less: board designated funds	(33,159,304)	(37,743,412)
Less: net assets with donor restrictions - purpose	(3,375,120)	(1,962,326)
Total	<u>\$ 30,382,383</u>	<u>\$ 24,851,295</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.

The National Center for Missing and Exploited Children

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2022 and 2021

NOTE D - 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 pledge receivables 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 a 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 \$1,470,801 and \$2,138,301 as of December 31, 2022 and 2021, respectively. The gross amounts due in one to two years amounted to \$55,000 and \$560,000 as of December 31, 2022 and 2021, respectively. The discount on the long-term pledges totaled \$525 and \$3,544 as of December 31, 2022 and 2021, respectively. Discount rates range from 0.07% and 0.32% for the years ended December 31, 2022 and 2021. No allowance for uncollectible pledges has been established as of and for the years ended December 31, 2022 and 2021. For the year ended December 31, 2022, NCMEC recognized a loss of \$360,000 as a result of pledges deemed uncollectible and the termination of grants.

NOTE E - INVESTMENTS

As of December 31, 2022 and 2021, NCMEC's investments consisted of the following:

	<u>2022</u>	<u>2021</u>
Money market funds	\$ 1,315,343	\$ 1,199,606
Equities	17,724,933	18,001,947
Mutual funds	7,811,997	9,440,823
U.S. government bonds and agency securities	5,105,256	5,743,344
Corporate bonds	-	590,301
REITs	2,556,543	1,223,418
Hedge funds	2,373,716	2,634,498
Due from fund manager	<u>-</u>	<u>1,087,246</u>
Total investments, at fair value	<u>\$ 36,887,788</u>	<u>\$ 39,921,183</u>

The National Center for Missing and Exploited Children

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2022 and 2021

NOTE F - PROPERTY AND EQUIPMENT AND RELATED DEPRECIATION AND AMORTIZATION

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

	2022	2021
Building and improvements	\$ 2,403,506	\$ 2,403,506
Land	470,000	470,000
In-kind software	1,686,701	1,686,701
Leasehold improvements	7,911,664	7,911,664
Furniture and equipment	1,596,834	1,596,834
Total property and equipment	14,068,705	14,068,705
Less: accumulated depreciation and amortization	<u>(6,767,537)</u>	<u>(6,144,290)</u>
Property and equipment, net	<u>\$ 7,301,168</u>	<u>\$ 7,924,415</u>

For the years ended December 31, 2022 and 2021, depreciation and amortization expense totaled \$623,247 and \$617,377, respectively. Of this amount, \$423,852 for both 2022 and 2021 were related to the amortization of leasehold improvements acquired through a tenant improvement allowance.

NOTE G - 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, 2022 and 2021 totaled \$33,159,304 and \$37,743,412, respectively. There were no outstanding balances on the line of credit as of December 31, 2022 and 2021, and the available credit at both December 31, 2022 and 2021 was \$10,000,000. The interest rate on the line of credit is the average daily Bloomberg Short-Term Bank Yield Index ("BSBY") plus 1%. As of December 31, 2022 and 2021, the interest rate was 5.32% and 1.08%, respectively. Interest expense on the line of credit totaled \$0 for the years ended December 31, 2022 and 2021.

NOTE H - 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.

The National Center for Missing and Exploited Children

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2022 and 2021

The maturity analysis of NCMEC's operating lease agreements as of December 31, 2022 is as follows:

2023	\$	-
2024		649,377
2025		2,492,768
2026		2,554,988
2027		2,862,953
Thereafter		<u>18,744,483</u>
		27,304,569
Less: present value discount		<u>(4,750,626)</u>
Total lease liabilities	\$	<u>22,553,943</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 lease for the office space was 2.93% at both December 31, 2022 and 2021. The weighted-average remaining lease term for NCMEC's operating lease for the office space was 11 years and 12 years at December 31, 2022 and 2021, respectively.

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, 2022 and 2021 totaled \$2,119,476. Cash paid for amounts included in the lease liability measurement for each of the years ended December 31, 2022 and 2021 totaled \$2,543,326.

NOTE I - 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.

Concentration of Risk

During the years ended December 31, 2022 and 2021, NCMEC recognized revenue of \$45,610,970 and \$41,863,909, respectively, from the U.S. government, which was predominantly from the U.S. Department of Justice ("DOJ"). Revenue recognized from the U.S. government represented approximately 69% and 70% of the total revenue and support recognized by NCMEC for each of the years ended December 31, 2022 and 2021, respectively. Additionally, NCMEC received \$44,009,134 and \$40,028,443, 66% and 67% of the total revenue and support directly from DOJ for the years ended December 31, 2022 and 2021, 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.

The National Center for Missing and Exploited Children

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2022 and 2021

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 U.S. Department of Homeland Security's reviews of the separate annual audit, in accordance with the Uniform 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.

Provisional Fringe Benefit and Indirect Cost Rates

Billings under cost reimbursable government contracts and grants are calculated using provisional rates that permit the 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, 2022. Management believes that cost disallowances, if any, arising from the DOJ's audits for 2022 will not have a material effect on NCMEC's financial position as of December 31, 2022, or the results of operations for the year then ended.

NOTE J - NET ASSETS WITH DONOR RESTRICTIONS

As of December 31, 2022 and 2021, net assets with donor restrictions are available for the following programs:

	2022	2021
Internet safety initiatives	\$ 2,714,315	\$ 2,222,793
Technology advancement initiatives	736,545	330,629
Outreach initiatives	702,068	903,728
Emery remainder trust	24,375	32,508
Total	\$ 4,177,303	\$ 3,489,658

During 2022 and 2021, net assets were released from restrictions as follows:

	2022	2021
Internet safety initiatives	\$ 2,387,200	\$ 1,379,550
Technology advancement initiatives	344,084	337,149
Outreach initiatives	412,385	324,570
Total	\$ 3,143,669	\$ 2,041,269

The National Center for Missing and Exploited Children

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2022 and 2021

NOTE K - 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.

In April 2022, the Board of Directors approved a new target allocation for the funds in the endowment as follows:

	<u>Target</u>
Asset category	
Equities	48 to 58%
Risk-free fixed income	25 to 35%
Alternative investments - private equity, REITs, and hedge funds	10 to 30%

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

During the years ended December 31, 2022 and 2021, NCMEC had the following activity in its board-designated fund:

Board-designated fund, January 1, 2021	\$ 34,174,451
Investment earnings	3,809,556
Investment fees	<u>(240,595)</u>
Board-designated fund, December 31, 2021	37,743,412
Investment losses	(4,360,329)
Investment fees	<u>(223,779)</u>
Board-designated fund, December 31, 2022	<u>\$ 33,159,304</u>

NOTE L - 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.

The National Center for Missing and Exploited Children

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2022 and 2021

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.

The following table summarizes NCMEC's assets and liabilities measured at fair value on a recurring basis as of December 31, 2022:

	Level 1	Level 2	Reported at NAV	Total
Investments:				
Money market funds	\$ 1,315,343	\$ -	\$ -	\$ 1,315,343
Equities	14,893,326	-	2,831,607	17,724,933
Mutual funds	7,811,997	-	-	7,811,997
U.S. government bond and agency securities	-	5,105,256	-	5,105,256
Corporate bonds	-	-	-	-
REITs	-	-	2,556,543	2,556,543
Hedge funds	-	-	2,373,716	2,373,716
	<u>\$ 24,020,666</u>	<u>\$ 5,105,256</u>	<u>\$ 7,761,866</u>	<u>\$ 36,887,788</u>

The table below presents additional information for NCMEC's investments, as of December 31, 2022, whose fair value is estimated using the practical expedient of reported net assets value ("NAV").

	NAV as of December 31, 2022	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Private equity	\$ 2,831,607	None	N/A	N/A
REITs	2,556,543	None	Daily	Daily
Hedge funds	<u>2,373,716</u>	None	Monthly; at Board's Discretion	30 to 95 days
	<u>\$ 7,761,866</u>			

The National Center for Missing and Exploited Children

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2022 and 2021

The following table summarizes NCMEC's assets and liabilities measured at fair value on a recurring basis as of December 31, 2021:

	Level 1	Level 2	Reported at NAV	Total
Investments:				
Money market funds	\$ 1,199,606	\$ -	\$ -	\$ 1,199,606
Equities	17,820,656	-	181,291	18,001,947
Mutual funds	9,440,823	-	-	9,440,823
U.S. government bond and agency securities	-	5,743,344	-	5,743,344
Corporate bonds	-	590,301	-	590,301
REITs	-	-	1,223,418	1,223,418
Hedge funds	-	-	2,634,498	2,634,498
Subtotal	<u>\$ 28,461,085</u>	<u>\$ 6,333,645</u>	<u>\$ 4,039,207</u>	38,833,937
Due from fund manager				<u>1,087,246</u>
Investments				<u>\$ 39,921,183</u>

The table below presents additional information for NCMEC's investments, as of December 31, 2021, whose fair value is estimated using the practical expedient of reported net assets value ("NAV").

	NAV as of December 31, 2021	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Private equity	\$ 181,291	None	N/A	N/A
REITs	1,223,418	None	Daily	Daily
Hedge funds	<u>2,634,498</u>	None	Monthly; at Board's Discretion	30 to 95 days
	<u>\$ 4,039,207</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.

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.

The National Center for Missing and Exploited Children

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2022 and 2021

Money market funds - the NAV of funds held at the year end.

Hedge funds, REITs, and private equity investments - NCMEC's interests in 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. Private equity investments can never be redeemed with the funds. Distributions from each private equity fund will be received as the underlying investments are liquidated, which is unknown as of December 31, 2022.

NOTE M - 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 24 contributions during the year. Each employee is fully vested upon being credited with two plan years of service. Administrative expenses of the plan are paid with forfeited plan funds. Any expenses in excess of forfeited plan funds are paid by NCMEC. Pension expense totaled \$2,280,108 and \$2,067,709 for the years ended December 31, 2022 and 2021, respectively, and is classified as a fringe benefit in the accompanying statements of functional expenses.

NOTE N - 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 Internal Revenue Code 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. NCMEC has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements.

NOTE O - POST-EMPLOYMENT BENEFITS

NCMEC is providing post-employment benefits to certain former senior personnel on an individual basis. As of December 31, 2022 and 2021, the amounts are actuarially determined for health coverage in the amounts of \$885,742 and \$1,202,846, respectively. The significant assumptions used to determine the post-employment benefit obligation for continuation of healthcare as of December 31, 2022, was a discount rate ranging from 5.24% - 5.37%, assumed initial health care cost trend rate of 5.42% for medical, 4% for dental, and 2% for vision. The significant assumptions used to determine the post-employment benefit obligation for continuation of healthcare as of December 31, 2021, was a discount rate ranging from 2.51% - 2.82%, assumed initial health care cost trend rate of 5.52% for medical, 4.00% for dental, and 2.00% for vision. Mortality rates utilized were based upon the Society of Actuaries 2019 Mortality Table. Future mortality improvements are assumed to follow the 2022 Mortality Table.

The National Center for Missing and Exploited Children

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2022 and 2021

NOTE P - RECLASSIFICATION OF PROGRAMS

Prior year program services expenses have been reclassified in the statement of activities and statement of functional expenses for consistency with current year presentation. Family advocacy and survivor services was added as a new program service while both training and community outreach were combined in to one program service. There were no changes to total assets, liabilities, net assets, revenues, expenses or changes in net assets as previously reported in the fiscal 2021 financial statements.

The following tables show 2021 program services expense categories before and after the reclassification.

Before reclassification:

Community outreach	\$ 5,756,123
Missing child case management	13,714,710
Information and case analysis	14,667,404
Training	978,285
Exploited child case management	<u>15,425,751</u>
Total program services	<u>\$ 50,542,273</u>

After reclassification:

Community outreach and training	\$ 6,734,408
Missing child case management	13,055,210
Information and case analysis	13,528,370
Family advocacy and survivor services	1,976,443
Exploited child case management	<u>15,247,842</u>
Total program services	<u>\$ 50,542,273</u>

NOTE Q - SUBSEQUENT EVENTS

NCMEC evaluated its December 31, 2022 financial statements for subsequent events through April 26, 2023, the date the financial statements were available to be issued.

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

SUPPLEMENTARY INFORMATION

The National Center for Missing and Exploited Children
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended December 31, 2022

Federal Grantor/Pass-through Grantor/Program Title	Federal Assistance Listing No.	Grant Number	Federal Expenditures	Provided to Subrecipients
U.S. Department of Justice				
Direct awards:				
Office of Juvenile Justice and Delinquency Prevention Services for Trafficking Victims	16.320	2019-VM-BX-K052	\$ 1,296,032	\$ -
Total Assistance Listing No. 16.320			<u>1,296,032</u>	<u>-</u>
Direct awards:				
Office of Juvenile Justice and Delinquency Prevention Missing Children's Assistance	16.543	2020-MC-FX-K004	108,863	
Missing Children's Assistance	16.543	2020-MC-FX-K031	1,027	-
Missing Children's Assistance	16.543	15PJDP-21-GK-02819-MECP	32,922,644	-
Missing Children's Assistance	16.543	15PJDP-21-GK-00998-MECP	4,920,881	-
Missing Children's Assistance	16.543	15PJDP-22-GK-04703-MECP	4,446,821	-
Missing Children's Assistance	16.543	15PJDP-22-GK-04704-MECP	257,619	-
Total Assistance Listing No. 16.534			<u>42,657,855</u>	<u>-</u>
Direct awards:				
Office of Victims of Crime Crime Victim Assistance	16.582	2017-VR-GX-K001	55	-
Crime Victim Assistance	16.582	2020-VR-GX-K001	42,319	-
Total Assistance Listing No. 16.582			<u>42,374</u>	<u>-</u>
Pass through Awards:				
International Association of Chiefs of Police Edward Byrne Memorial Justice Assistance Grant Program	16.738	IACP-2021-7615-0	12,873	-
Total U.S. Department of Justice			<u>44,009,134</u>	<u>-</u>
U.S. Department of State				
Pass through Awards:				
International Justice Mission International Programs to Combat Human Trafficking	19.019	AWD-00075-01	205,165	-
Total U.S. Department of State			<u>205,165</u>	<u>-</u>
U.S. Department of Homeland Security				
Direct awards:				
Immigration and Customs Enforcement CyberTipline	97.076	18CECYT00002	325,003	-
Total U.S. Department of Homeland Security			<u>325,003</u>	<u>-</u>
U.S. Department of Health and Human Services				
Pass through Awards:				
Northeastern University Injury Prevention and Control Research and State and Community Based Programs	93.136	500801-78051	518	-
Total U.S. Department of Health and Human Services			<u>518</u>	<u>-</u>
Total Expenditures of Federal Awards			<u>\$ 44,539,820</u>	<u>\$ -</u>

The accompanying notes to the schedule of expenditures of federal awards should be read in conjunction with this schedule.

The National Center for Missing and Exploited Children
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended December 31, 2022

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying schedule of expenditures of federal awards is presented on the accrual basis of accounting. Consequently, amounts are recorded as expenditures when the obligations are incurred. Expenses are incurred using the cost accounting principles contained in Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Under those cost principles, certain types of expenses are not allowable or are limited as to reimbursement.

NOTE B - RECONCILIATION OF SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS TO FINANCIAL STATEMENTS

Expenditures per the schedule of expenditures of federal awards	\$ 44,539,820
Federal and state fixed fee contracts:	<u>1,071,150</u>
Government contracts and grants per statement of activities	<u>\$ 45,610,970</u>

NOTE C - INDIRECT COST

NCMEC has not elected to use the 10% de minimus cost rate allowed under the Uniform Guidance.

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Board of Directors
The National Center for Missing and Exploited Children

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*), the financial statements of The National Center for Missing and Exploited Children (“NCMEC”), which comprise the statement of financial position as of December 31, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 26, 2023

Report on internal control over financial reporting

In planning and performing our audit of the financial statements, we considered NCMEC’s internal control over financial reporting (“internal control”) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of NCMEC’s internal control. Accordingly, we do not express an opinion on the effectiveness of NCMEC’s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of NCMEC’s financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on compliance and other matters

As part of obtaining reasonable assurance about whether NCMEC’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of NCEMC's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering NCEMC's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Grant Thornton LLP

Arlington, Virginia
April 26, 2023

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Board of Directors
The National Center for Missing and Exploited Children

Report on compliance for each major federal program

Opinion on each major federal program

We have audited the compliance of The National Center for Missing and Exploited Children ("NCMEC") with the types of compliance requirements identified as subject to audit in the U.S. Office of Management and Budget's *OMB Compliance Supplement* that could have a direct and material effect on NCMEC's major federal program for the year ended December 31, 2022. NCMEC's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, NCMEC complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2022.

Basis for opinion on each major federal program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (US GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of NCMEC and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for the major federal program. Our audit does not provide a legal determination of NCMEC's compliance with the compliance requirements referred to above.

Responsibilities of management for compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to NCMEC's federal programs.

Auditor's responsibilities for the audit of compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on NCMEC's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about NCMEC's compliance with the requirements of its major federal program as a whole.

In performing an audit in accordance with US GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding NCMEC's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of NCMEC's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on internal control over compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a

material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in NCMEC's internal control over compliance that we consider to be material weaknesses or significant deficiencies. However, material weaknesses or significant deficiencies in internal control over compliance may exist that have not been identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this Report on Internal Control Over Compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Grant Thornton LLP

Arlington, Virginia
April 26, 2023

The National Center for Missing and Exploited Children

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended December 31, 2022

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified?	_____ yes	<u> X </u> no
Significant deficiency(ies) identified?	_____ yes	<u> X </u> none reported
Noncompliance material to financial statements noted?	_____ yes	<u> X </u> no

Federal Awards

Internal control over the major program:

Material weakness(es) identified?	_____ yes	<u> X </u> no
Significant deficiency(ies) identified?	_____ yes	<u> X </u> none reported

Type of auditors' report issued on compliance for the major program: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a) of the Uniform Guidance? _____ yes X no

Identification of the major program:

Name of Federal Program	Federal Assistance Listing Number
Missing Children's Assistance	16.543
Dollar threshold used to distinguish between type A and type B programs:	\$1,336,196
Auditee qualified as low-risk auditee?	<u> X </u> yes _____ no

SECTION II - FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III - FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None reported.

The National Center for Missing and Exploited Children

SCHEDULE OF INDIRECT COST POOL, APPLICABLE BASE AND FINAL OVERHEAD RATE CALCULATION

December 31, 2022

Applicable base for direct costs:	
Salaries	\$ 29,286,118
Benefits	7,770,662
Professional fees	4,513,785
Rent & utilities	2,493,247
Software & service fees	8,090,330
Travel	785,659
Equipment & supplies	521,247
Printing, postage & delivery	157,891
Meetings, memberships & other	313,200
	<hr/>
Total applicable base for direct costs	\$ 53,932,139
Exclusions from applicable base:	
Rent	\$ 2,370,760
Other unallowable costs	122,289
Non-expendable equipment	46,193
In-kind services	7,224,817
Participant travel	37,597
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Total exclusions from applicable base	\$ 9,801,656
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Total applicable base, net of exclusions	\$ 44,130,483
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Indirect cost pool:	
Salaries	\$ 3,081,956
Benefits	817,754
Facility costs	522,450
Software & service fees	421,735
Professional fees	299,026
Meetings, postage & other	175,054
Supplies & equipment	155,683
Insurance	385,445
Travel	3,403
	<hr/>
Total indirect costs	\$ 5,862,506
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Indirect cost rate	13.28%
	<hr/>
Provisional rate	15.24%
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Total applicable base for direct costs	\$ 53,932,139
Total indirect costs	5,862,506
	<hr/>
Total operating expenses	\$ 59,794,645
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The National Center for Missing and Exploited Children

SCHEDULE OF FRINGE COST POOL, APPLICABLE BASE AND FINAL FRINGE RATE CALCULATION

December 31, 2022

Applicable base for total labor:	
Direct salaries	\$ 29,286,118
Indirect salaries	<u>3,081,956</u>
Total applicable base for total labor	<u>\$ 32,368,074</u>
Fringe cost pool:	
Medical & dental insurance	\$ 3,342,891
Payroll tax expense	2,355,598
Retirement plan costs	2,280,108
Disability, life and other	332,728
Unallocated leave benefits	171,551
Unemployment & workers comp	<u>105,539</u>
Total fringe cost pool	<u>\$ 8,588,415</u>
Fringe actual rate	<u>26.53%</u>
Fringe provisional rate	<u>27.67%</u>