

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, 2021 and 2020

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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, 2021 and 2020, 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, 2021 and 2020, 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, 2021 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 20, 2022 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.



The National Center for Missing and Exploited Children

STATEMENTS OF FINANCIAL POSITION

December 31,

	<u>2021</u>	<u>2020</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 16,114,547	\$ 15,434,061
Accounts receivable, net	6,383,002	2,623,843
Pledges receivable, net	2,138,301	2,144,702
Prepaid expenses and other assets	835,059	616,073
	<u>25,470,909</u>	<u>20,818,679</u>
Noncurrent assets		
Investments	39,921,183	34,796,696
Pledges receivable, long-term	556,456	1,488,441
Property and equipment, net	7,924,415	8,466,165
Right-of-use assets	19,205,380	20,472,751
Other noncurrent assets	680,893	660,681
	<u>68,288,327</u>	<u>65,884,734</u>
Total assets	<u>\$ 93,759,236</u>	<u>\$ 86,703,413</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued expenses	\$ 2,125,157	\$ 2,072,887
Accrued salaries and benefits	1,517,517	1,443,536
Lease liabilities, current portion	60,598	61,092
	<u>3,703,272</u>	<u>3,577,515</u>
Noncurrent liabilities		
Lease liabilities	24,230,967	25,921,686
Post-employment benefit liability	1,202,846	1,497,878
Other noncurrent liabilities	11,719	12,901
	<u>25,445,532</u>	<u>27,432,465</u>
Total liabilities	<u>29,148,804</u>	<u>31,009,980</u>
Net assets		
Without donor restrictions		
Undesignated	23,377,362	17,810,250
Board-designated	37,743,412	34,174,451
	<u>61,120,774</u>	<u>51,984,701</u>
With donor restrictions	<u>3,489,658</u>	<u>3,708,732</u>
Total net assets	<u>64,610,432</u>	<u>55,693,433</u>
Total liabilities and net assets	<u>\$ 93,759,236</u>	<u>\$ 86,703,413</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, 2021

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenue and other support			
Government contracts and grants	\$ 41,863,909	\$ -	\$ 41,863,909
Contributions	14,734,928	1,817,173	16,552,101
Special events, net of direct benefit costs of \$132,758	1,136,200	-	1,136,200
Investment gain	3,716,222	-	3,716,222
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>63,599,752</u>	<u>(219,074)</u>	<u>63,380,678</u>
Operating expenses			
Program services			
Community outreach	5,756,123	-	5,756,123
Missing child case management	13,714,710	-	13,714,710
Information and case analysis	14,667,404	-	14,667,404
Training	978,285	-	978,285
Exploited child case management	15,425,751	-	15,425,751
	<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	8,841,041	(219,074)	8,621,967
Non-operating activities			
Change in post-employment benefit liability	295,032	-	295,032
TOTAL CHANGE IN NET ASSETS	9,136,073	(219,074)	8,916,999
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 ACTIVITIES

Year ended December 31, 2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenue and other support			
Government contracts and grants	\$ 39,727,660	\$ -	\$ 39,727,660
Contributions	12,907,024	4,245,140	17,152,164
Special events, net of direct benefit costs of \$196,281	1,027,674	-	1,027,674
Investment gain	3,174,317	-	3,174,317
Other income	205,488	-	205,488
Gain on sale - building	1,101,023	-	1,101,023
Change in value of unitrust agreement	-	5,742	5,742
Net assets released from restrictions			
Satisfaction of program restrictions	809,141	(809,141)	-
Satisfaction of time restrictions	983,576	(983,576)	-
	<u>59,935,903</u>	<u>2,458,165</u>	<u>62,394,068</u>
Operating expenses			
Program services			
Community outreach	5,368,811	-	5,368,811
Missing child case management	14,144,821	-	14,144,821
Information and case analysis	14,276,971	-	14,276,971
Training	906,926	-	906,926
Exploited child case management	14,094,395	-	14,094,395
	<u>48,791,924</u>	<u>-</u>	<u>48,791,924</u>
Supporting services			
Management and general	926,025	-	926,025
Fundraising	2,613,640	-	2,613,640
	<u>3,539,665</u>	<u>-</u>	<u>3,539,665</u>
Total operating expenses	<u>52,331,589</u>	<u>-</u>	<u>52,331,589</u>
Change in net assets from operations	7,604,314	2,458,165	10,062,479
Non-operating activities			
Change in post-employment benefit liability	(250,077)	-	(250,077)
TOTAL CHANGE IN NET ASSETS	7,354,237	2,458,165	9,812,402
Net assets, beginning of year	44,630,464	1,250,567	45,881,031
Net assets, end of year	<u>\$ 51,984,701</u>	<u>\$ 3,708,732</u>	<u>\$ 55,693,433</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	Missing Child Case Management	Information and Case Analysis	Training	Exploited Child Case Management	
Personnel	\$ 3,219,754	\$ 8,753,487	\$ 7,350,931	\$ 615,915	\$ 7,951,794	\$ 27,891,881
Fringe benefits	893,454	2,424,333	2,029,071	170,651	2,205,688	7,723,197
Staff travel	7,191	19,097	18,764	2,417	22,156	69,625
Supplies and equipment	166,788	215,873	907,355	4,500	733,368	2,027,884
Occupancy	303,670	973,895	639,630	61,051	760,367	2,738,613
Business services	941,605	197,372	1,917,951	61,585	585,879	3,704,392
Professional services	188,548	810,336	1,664,075	47,214	3,082,171	5,792,344
Participant and consultant travel	-	68,937	-	523	57,114	126,574
Office support	35,113	251,380	139,627	14,429	27,214	467,763
Total	<u>\$ 5,756,123</u>	<u>\$ 13,714,710</u>	<u>\$ 14,667,404</u>	<u>\$ 978,285</u>	<u>\$ 15,425,751</u>	<u>\$ 50,542,273</u>

	Supporting Services			
	Management and General	Fundraising	Total Supporting Services	Total Expenses
Personnel	\$ 525,325	\$ 1,227,270	\$ 1,752,595	\$ 29,644,476
Fringe benefits	145,898	334,645	480,543	8,203,740
Staff travel	882	5,008	5,890	75,515
Supplies and equipment	18,701	76,993	95,694	2,123,578
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	6,785,573
Participant and consultant travel	1,000	79	1,079	127,653
Office support	21,868	84,926	106,794	574,557
Total	<u>\$ 847,748</u>	<u>\$ 3,368,690</u>	<u>\$ 4,216,438</u>	<u>\$ 54,758,711</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, 2020

	Program Services					Total Program Services
	Community Outreach	Missing Child Case Management	Information and Case Analysis	Training	Exploited Child Case Management	
Personnel	\$ 2,999,810	\$ 8,839,668	\$ 6,874,596	\$ 511,924	\$ 6,244,380	\$ 25,470,378
Fringe benefits	829,360	2,464,446	1,894,639	139,600	1,715,225	7,043,270
Staff travel	22,388	21,895	11,824	1,084	44,987	102,178
Supplies and equipment	117,598	123,984	1,948,497	6,206	1,366,711	3,562,996
Occupancy	336,451	994,935	722,768	57,897	703,057	2,815,108
Business services	742,175	254,326	2,006,051	29,430	523,981	3,555,963
Professional services	214,419	1,077,229	682,268	154,841	3,467,585	5,596,342
Participant and consultant travel	2,771	77,622	1,893	1,444	2,309	86,039
Office support	103,839	290,716	134,435	4,500	26,160	559,650
Total	\$ 5,368,811	\$ 14,144,821	\$ 14,276,971	\$ 906,926	\$ 14,094,395	\$ 48,791,924

	Supporting Services			Total Expenses
	Management and General	Fundraising	Total Supporting Services	
Personnel	\$ 587,449	\$ 1,352,681	\$ 1,940,130	\$ 27,410,508
Fringe benefits	161,961	361,035	522,996	7,566,266
Staff travel	3,502	5,551	9,053	111,231
Supplies and equipment	19,135	107,099	126,234	3,689,230
Occupancy	36,929	128,682	165,611	2,980,719
Business services	8,872	81,857	90,729	3,646,692
Professional services	17,353	460,216	477,569	6,073,911
Participant and consultant travel	12,657	-	12,657	98,696
Office support	78,167	116,519	194,686	754,336
Total	\$ 926,025	\$ 2,613,640	\$ 3,539,665	\$ 52,331,589

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>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Change in net assets	\$ 8,916,999	\$ 9,812,402
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	617,377	622,516
Gain on sale of building	-	(1,101,023)
Unrealized gain on investments	(1,811,993)	(1,967,825)
Changes in assets and liabilities:		
Accounts receivable	(3,759,159)	686,965
Pledges receivable	938,386	(3,117,768)
Prepaid expenses and other assets	(218,986)	(347,304)
Right-of-use assets	1,267,371	1,224,197
Accounts payable and accrued expenses	52,270	445,931
Accrued salaries and benefits	73,981	577,459
Lease liability	(1,691,213)	(1,648,049)
Post-employment benefit liability	(295,032)	250,077
Other noncurrent assets/liabilities	(21,394)	(19,966)
	<u>4,068,607</u>	<u>5,417,612</u>
Net cash provided by operating activities		
Cash flows from investing activities:		
Proceeds from sale investments	7,351,872	9,194,543
Purchases of investments	(10,664,366)	(10,359,740)
Proceeds from sale of building	-	1,239,810
Purchases of property, equipment and leasehold improvements	(75,627)	-
	<u>(3,388,121)</u>	<u>74,613</u>
Net cash (used in) provided by investing activities		
Cash flows from financing activities:		
Principal payments on notes payable	-	(319,414)
	<u>-</u>	<u>(319,414)</u>
Net cash used in financing activities		
NET INCREASE IN CASH AND CASH EQUIVALENTS	680,486	5,172,811
Cash and cash equivalents, beginning of year	15,434,061	10,261,250
Cash and cash equivalents, end of year	\$ 16,114,547	\$ 15,434,061
Supplemental disclosure of cash flow information:		
Interest paid	\$ -	\$ 12,094
Right-of-use assets acquired through operating leases	\$ -	\$ 181,387

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, 2021 and 2020

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, 2021 and 2020.

Measure of Operations

All activities, other than changes in the post-employment benefit liabilities, are reported as changes in net assets from operating activities within the statements of activities.

Cash Equivalents

NCMEC considers highly liquid investments purchased with original maturity dates of three months or less to be cash equivalents. Money market funds held in certain investment portfolios are considered cash equivalents, however, the funds are not intended to be used for general operating purposes and, therefore, are included in investments in the accompanying statements of financial position.

Investments

Investments consist of U.S. government and agency securities, 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, 2021 and 2020

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 \$40.8 million and \$37.7 million at December 31, 2021 and 2020, 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 \$1,391,580 and \$1,033,485 for the years ended December 31, 2021 and 2020, respectively. For expenses incurred in advance of receipts of funds from the sponsoring organization, NCMEC recorded accounts receivable totaling \$112,022 and \$163,162 at December 31, 2021 and 2020, respectively.

The National Center for Missing and Exploited Children

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2021 and 2020

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 2021 and 2020, NCMEC received \$7,416,952 and \$6,723,415, respectively, of in-kind goods and services relating to the following:

	2021	2020
Software, licenses, and equipment	\$ 6,276,441	\$ 5,626,545
Legal and professional services	341,056	512,800
Event management	-	13,820
Office space	-	40,250
Advertising	794,780	530,000
Other	4,675	-
Total	<u>\$ 7,416,952</u>	<u>\$ 6,723,415</u>

These items have been recorded among the various program expenses and contributions without donor restrictions in the accompanying financial statements. During 2021 and 2020, no donated items were capitalized by NCMEC.

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 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 \$3,368,690 and \$2,613,640 for the years ended December 31, 2021 and 2020, respectively. Of the total fundraising costs, \$1,057,248 and \$48,295 for the years ended December 31, 2021 and 2020, 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.

The National Center for Missing and Exploited Children

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2021 and 2020

Accounting Standards to be Adopted in Future Years

In September 2020, the Financial Accounting Standards Board issued Accounting Standards Update (“ASU”) 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. ASU 2020-07 requires entities to present contributed nonfinancial assets as a separate line item on the face of the statement of activities, separate from contributions of cash or other financial assets. ASU 2020-07 also requires additional qualitative and quantitative disclosures, disaggregated by type of nonfinancial asset contributed. This ASU will be effective for NCMEC for the year ending December 31, 2022 on a retrospective basis. NCMEC is currently evaluating the impact of the adoption of this ASU on its financial statements.

NOTE B - FINANCIAL ASSETS AND LIQUIDITY RESOURCES

As of December 31, 2021 and 2020, financial assets and liquidity resources available within one year for general expenditure, such as operating expenses, were as follows:

	2021	2020
Cash and cash equivalents	\$ 16,114,547	\$ 15,434,061
Accounts receivable, net	6,383,002	2,623,843
Pledges receivable, net (due within one year)	2,138,301	2,144,702
Investments	39,921,183	34,796,696
Less: board designated funds	(37,743,412)	(34,174,451)
Less: net assets with donor restrictions - purpose	(1,962,326)	(1,638,747)
Total	<u>\$ 24,851,295</u>	<u>\$ 19,186,104</u>

NCMEC maintains cash balances at a level designed to ensure short-term liquidity. In addition, a suitable proportion of NCMEC’s investment balances are held in instruments that can readily be converted to cash, if needed. NCMEC prepares and monitors a 12-month rolling cash flow forecast in order to identify and address any threats to short-term liquidity.

NOTE C - ACCOUNTS AND PLEDGES RECEIVABLE

Accounts receivable consist mainly of short-term contributions and costs incurred that are due to be reimbursed under the terms of NCMEC’s federal contracts and grants. All are due within one year and are expected to be fully collectible.

Pledges receivable represent unconditional promises to give by donors. Unconditional promises to give (pledges) are recognized as revenue and 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 \$2,138,301 and \$2,144,702 as of December 31, 2021 and 2020, respectively. The gross amounts due in one to two years amounted to \$560,000 and \$1,510,801 as of December 31, 2021 and 2020, respectively. The discount on the long-term pledges totaled \$3,544 and \$22,360 as of December 31, 2021 and 2020, respectively. Discount rates range from 0.07% and 1.49% for the years ended December 31, 2021 and 2020. No allowance for uncollectible pledges has been established.

The National Center for Missing and Exploited Children

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2021 and 2020

NOTE D - INVESTMENTS

As of December 31, 2021 and 2020, NCMEC's investments consisted of the following:

	2021	2020
Money market funds	\$ 1,199,606	\$ 965,016
Certificates of deposit	-	51,130
Equities	18,001,947	14,996,402
Mutual funds	9,440,823	8,301,926
U.S. government bonds and agency securities	5,743,344	5,397,835
Corporate bonds	590,301	864,820
REITs	1,223,418	824,304
Hedge funds	2,634,498	3,395,263
Due from fund manager	1,087,246	-
	\$ 39,921,183	\$ 34,796,696

NOTE E - PROPERTY AND EQUIPMENT AND RELATED DEPRECIATION AND AMORTIZATION

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

	2021	2020
Building and improvements	\$ 2,403,506	\$ 2,327,879
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
	14,068,705	13,993,078
Total property and equipment		
Less: accumulated depreciation and amortization	(6,144,290)	(5,526,913)
	Total	Total
	\$ 7,924,415	\$ 8,466,165

For the years ended December 31, 2021 and 2020, depreciation and amortization expense totaled \$617,377 and \$622,516, respectively. Of this amount, \$423,852 for both 2021 and 2020 were related to the amortization of leasehold improvements acquired through a tenant improvement allowance.

On October 8, 2020, NCMEC sold its California building for \$1,278,888, which resulted in a gain on the building in the amount of \$1,101,023. Further, following adjustments, commission, title charges, escrow charges, and taxes, NCMEC received \$1,239,810 from the buyer on October 8, 2020.

The National Center for Missing and Exploited Children

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2021 and 2020

NOTE F - 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, 2021 and 2020 totaled \$37,743,412 and \$34,174,451, respectively. There were no outstanding balances on the line of credit as of December 31, 2021 and 2020, and the available credit at both December 31, 2021 and 2020 was \$10,000,000. The monthly interest rate on the line of credit was calculated based on the average daily LIBOR (“London Interbank Offered Rate”) plus 1% for 2020. In 2021, due to reference rate reform, the interest rate transitioned to the average daily Bloomberg Short-Term Bank Yield Index (“BSBY”) plus 1%. As of December 31, 2021 and 2020, the interest rate was 1.08% and 1.15%, respectively. Interest expense on the line of credit totaled \$0 for the years ended December 31, 2021 and 2020.

NOTE G - OPERATING LEASES

NCMEC assesses contracts at inception to determine whether an arrangement is or includes a lease, which conveys NCMEC’s right to control the use of an identified asset for a period of time in exchange for consideration. NCMEC leases office space and equipment under noncancelable operating leases. NCMEC’s office lease includes renewal options, however, these options do not impact the lease term as NCMEC is not reasonably certain that it will exercise these options. In addition, NCMEC also made the accounting policy election not to separate non-lease components from lease components for its operating leases. Furthermore, there are no leases under which NCMEC guarantees a residual value or faces restrictions on its ability to finance activities.

NCMEC’s office lease is subject to scheduled escalations as well as escalations in operating costs and real estate taxes. Additionally, under the terms of this lease, NCMEC received from the landlord a build-out allowance of \$6,357,731. The build-out allowance was completely used at December 31, 2018.

The maturity analysis of NCMEC’s operating lease agreements as of December 31, 2021 is as follows:

2022	\$	61,092
2023		699,931
2024		2,431,679
2025		2,492,768
2026		2,554,988
Thereafter		<u>21,607,437</u>
		29,847,895
Less: present value discount		<u>(5,556,330)</u>
Total lease liabilities	\$	<u>24,291,565</u>

NCMEC made the accounting policy election to use a risk-free rate to compute the present value of lease payments for all leases. The weighted-average discount rate used for NCMEC’s operating leases was 2.93% for the office space and equipment at both December 31, 2021 and 2020. The weighted-average remaining lease term for NCMEC’s operating lease for the office space was 12 years and 13 years at December 31, 2021 and 2020, respectively. The weighted-average remaining lease term for NCMEC’s operating lease for the equipment was one year and two years at December 31, 2021 and 2020, respectively.

The National Center for Missing and Exploited Children

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2021 and 2020

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, 2021 and 2020 totaled \$2,119,476. Cash paid for amounts included in the lease liability measurement for each of the years ended December 31, 2021 and 2020 totaled \$2,543,326.

NOTE H - 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, 2021 and 2020, NCMEC recognized revenue of \$41,863,909 and \$39,727,660, 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 66% and 64% of the total revenue recognized by NCMEC for each of the years ended December 31, 2021 and 2020, respectively. Additionally, NCMEC received \$40,028,443 and \$38,351,032, 63% and 61% of the total revenue and support directly from DOJ for the years ended December 31, 2021 and 2020, 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.

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, 2021. Management believes that cost disallowances, if any,

The National Center for Missing and Exploited Children

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2021 and 2020

arising from the DOJ's audits for 2021 will not have a material effect on NCMEC's financial position as of December 31, 2021, or the results of operations for the year then ended.

COVID-19 Pandemic

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus ("COVID-19") as a pandemic. The extent to which COVID-19 may impact NCMEC's future financial position, changes in net assets and cash flows is uncertain and the accompanying financial statements include no adjustments relating to the effects of this pandemic. NCMEC has and will continue to make every effort to mitigate the current and future financial impacts of COVID-19.

NOTE I - NET ASSETS WITH DONOR RESTRICTIONS

As of December 31, 2021 and 2020, net assets with donor restrictions are available for the following programs:

	2021	2020
Technology advancement initiatives	\$ 330,629	\$ 287,558
Internet safety initiatives	2,222,793	2,904,146
Outreach initiatives	903,728	489,541
Emery remainder trust	32,508	27,487
Total	<u>\$ 3,489,658</u>	<u>\$ 3,708,732</u>

During 2021 and 2020, \$2,041,269 and \$1,792,717, respectively, of net assets with donor restrictions were released from restriction.

NOTE J - 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 December 2021, the Board of Directors approved a new target allocation for the funds in the endowment as follows:

	Target
Asset category	
Equities	48 to 58%
Risk-free fixed income	30 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 NCMEC only upon approval of 75% of the members of the Board with fiduciary authority.

The National Center for Missing and Exploited Children

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2021 and 2020

During the years ended December 31, 2021 and 2020, NCMEC had the following activity in its board-designated fund:

Board-designated fund, January 1, 2020	\$ 31,085,399
Investment earnings	3,277,473
Investment fees	<u>(188,421)</u>
Board-designated fund, December 31, 2020	34,174,451
Investment earnings	3,809,556
Investment fees	<u>(240,595)</u>
Board-designated fund, December 31, 2021	<u>\$ 37,743,412</u>

NOTE K - 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.

The National Center for Missing and Exploited Children

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2021 and 2020

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
	<u>\$ 28,461,085</u>	<u>\$ 6,333,645</u>	<u>\$ 4,039,207</u>	
Subtotal				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
Equities	\$ 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>			

The National Center for Missing and Exploited Children

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2021 and 2020

The following table summarizes NCMEC's assets and liabilities measured at fair value on a recurring basis as of December 31, 2020:

	Level 1	Level 2	Reported at NAV	Total
Investments:				
Money market funds	\$ 965,016	\$ -	\$ -	\$ 965,016
Certificates of deposit	-	51,130	-	51,130
Equities	14,900,336	-	96,066	14,996,402
Mutual funds	8,301,926	-	-	8,301,926
U.S. government bond and agency securities	-	5,397,835	-	5,397,835
Corporate bonds	-	864,820	-	864,820
REITs	-	-	824,304	824,304
Hedge funds	-	-	3,395,263	3,395,263
	<u>\$ 24,167,278</u>	<u>\$ 6,313,785</u>	<u>\$ 4,315,633</u>	<u>\$ 34,796,696</u>

The table below presents additional information for NCMEC's investments, as of December 31, 2020, whose fair value is estimated using the practical expedient of reported net assets value NAV.

	NAV as of December 31, 2020	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Equities	\$ 96,066	None	N/A	N/A
REITs	824,304	None	Daily	Daily
Hedge funds	<u>3,395,263</u>	None	Monthly; at Board's Discretion	30 to 95 days
	<u>\$ 4,315,633</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.

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

The National Center for Missing and Exploited Children

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2021 and 2020

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. Distributions from private equity investments are expected over the next 10 years, as the underlying assets are sold. These investments can never be redeemed with the funds. Distributions from each fund will be received as the underlying investments of the funds are liquidated, which is unknown as of December 31, 2021.

NOTE L - 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. All administrative expenses of the plan are paid by NCMEC. Pension expense totaled \$2,067,709 and \$1,915,558 for the years ended December 31, 2021 and 2020, respectively, and is classified as a fringe benefit in the accompanying statements of functional expenses.

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

NOTE N - POST-EMPLOYMENT BENEFITS

NCMEC is providing post-employment benefits to certain former senior personnel on an individual basis. As of December 31, 2021 and 2020, the amounts are actuarially determined for health coverage in the amounts of \$1,202,846 and \$1,497,878, respectively. 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. The significant assumptions used to determine the post-employment benefit obligation for continuation of healthcare as of December 31, 2020, was a discount rate ranging from 1.99% - 2.40%, assumed initial health care cost trend rate of 5.70% for medical, 4.50% for dental, and 3.00% for vision. Mortality rates utilized were based upon the Society of Actuaries 2019 Mortality Table. Future mortality improvements are assumed to follow the 2021 Mortality Table.

The National Center for Missing and Exploited Children

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2021 and 2020

NOTE O - SUBSEQUENT EVENTS

NCMEC evaluated its December 31, 2021 financial statements for subsequent events through April 20, 2022, 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, 2021

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	\$ 1,254,617	\$ -
Total Assistance Listing No. 16.320			<u>1,254,617</u>	<u>-</u>
Direct awards:				
Office of Juvenile Justice and Delinquency Prevention Missing Children's Assistance	16.543	2019-MU-MU-K012	227,308	-
Missing Children's Assistance	16.543	2019-MC-FX-K011	64,500	-
Missing Children's Assistance	16.543	2020-MC-FX-K004	29,010,780	-
Missing Children's Assistance	16.543	2020-MC-FX-K031	4,546,506	-
Missing Children's Assistance	16.543	15PJDP-21-GK-02819-MECP	3,793,149	-
Missing Children's Assistance	16.543	15PJDP-21-GK-00998-MECP	1,051,586	-
Total Assistance Listing No. 16.534			<u>38,693,829</u>	<u>-</u>
Direct awards:				
Office of Victims of Crime Crime Victim Assistance	16.582	2017-VR-GX-K001	64,394	-
Pass-through awards:				
National Crime Victims' Rights Week Community (NCVRW) Crime Victim Assistance	16.582	CAP21-711	4,849	-
Total Assistance Listing No. 16.582			<u>69,243</u>	<u>-</u>
Pass through awards:				
Texas Office of the Governor, Criminal Justice Division - Victims of Crime Act Grant Program Protecting Children from Sexual Exploitation	16.575	2995103	77,507	-
National TTA for Law Enforcement Responses to MHD/IDD Edward Byrne Memorial Justice Assistance Grant Program	16.738	IACP-2021-7615-0	10,753	-
Total U.S. Department of Justice			<u>40,105,949</u>	<u>-</u>
U.S. Department of State				
Pass through awards:				
Office to Monitor and Combat Trafficking in Persons International Programs to Combat Human Trafficking	19.019	AWD-00075-01	69,464	-
Total U.S. Department of State			<u>69,464</u>	<u>-</u>
U.S. Department of Homeland Security				
Direct awards:				
Immigration and Customs Enforcement CyberTipline	97.076	18CECYT00002	296,915	-
Total U.S. Department of Homeland Security			<u>296,915</u>	<u>-</u>
Total Expenditures of Federal Awards			<u>\$ 40,472,328</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
Years ended December 31, 2021 and 2020

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	\$ 40,472,328
Federal and state fixed fee contracts:	<u>1,391,581</u>
Government contracts and grants per statement of activities	<u>\$ 41,863,909</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, 2021, 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 20, 2022.

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 20, 2022

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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 each of NCMEC's major federal programs for the year ended December 31, 2021. NCMEC's major federal programs are 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 each of its major federal programs for the year ended December 31, 2021.

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 each of the major federal programs. 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 each of 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 20, 2022

The National Center for Missing and Exploited Children

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended December 31, 2021

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements:

Type of auditor's report issued:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Significant deficiencies identified that are not considered to be material weakness(es)? yes none reported
- Noncompliance material to the financial statements noted? yes no

Federal Awards:

Internal control over the major programs:

- Material weakness(es) identified? yes no
- Significant deficiencies identified that are not considered to be material weakness(es)? yes none reported

Type of auditor's report issued on compliance for the major programs:

Unmodified

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

Identification of the major programs:

Federal Assistance Listing Number	Name of Federal Program
16.320	Services for Trafficking Victims
16.543	Missing Children's Assistance

Dollar threshold used to distinguish between type A and type B programs: \$1,214,170

Auditee qualified as low-risk auditee? yes No

SECTION II - FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

The National Center for Missing and Exploited Children

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

December 31, 2021

Applicable base for direct costs:	
Salaries	\$ 26,444,796
Benefits	7,318,268
Professional fees	6,532,921
Rent and utilities	2,377,621
Software and service fees	4,827,296
Travel	137,039
Equipment and supplies	832,341
Printing, postage and delivery	115,004
Meetings, memberships and other	98,817
Insurance	187,992
	<u>48,872,095</u>
Total applicable base for direct costs	
Exclusions from applicable base:	
Rent	2,230,870
Other unallowable costs or credits (-)	16,364
Non-expendable equipment	585,713
In-kind services	7,416,952
Participant travel	(1,454)
	<u>10,248,445</u>
Total exclusions from applicable base	
Total applicable base, net of exclusions	
	<u>\$ 38,623,650</u>
Indirect cost pool:	
Salaries	\$ 3,199,680
Benefits	885,471
Facility costs	683,443
Software and service fees	491,597
Professional fees	252,651
Meetings, postage and other	81,246
Supplies and equipment	98,435
Insurance	193,884
Travel	209
	<u>5,886,616</u>
Total indirect costs	
Indirect cost rate	
	<u>15.24%</u>
Provisional rate	
	<u>14.33%</u>
Total applicable base for direct costs	
	\$ 48,872,095
Total indirect costs	
	<u>5,886,616</u>
Total operating expenses	
	<u>\$ 54,758,711</u>

This schedule should be read in conjunction with the accompanying Report of Independent Certified Public Accountants and the financial statements and notes thereto.

The National Center for Missing and Exploited Children

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

December 31, 2021

Applicable base for total labor:	
Direct salaries	\$ 26,444,796
Indirect salaries	<u>3,199,679</u>
Total applicable base for total labor	<u>\$ 29,644,475</u>
Fringe cost pool:	
Medical and dental insurance	\$ 3,374,489
Payroll tax expense	2,147,940
Retirement plan costs	2,067,709
Disability and life insurance	318,162
Unallocated leave benefits	190,954
Unemployment and workers comp	<u>104,487</u>
Total fringe cost pool	<u>\$ 8,203,741</u>
Fringe actual rate	<u>27.67%</u>
Fringe provisional rate	<u>27.60%</u>

This schedule should be read in conjunction with the accompanying Report of Independent Certified Public Accountants and the financial statements and notes thereto.