

CONSOLIDATED FINANCIAL STATEMENTS

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

**FOR THE YEAR ENDED DECEMBER 31, 2018
WITH SUMMARIZED FINANCIAL
INFORMATION FOR 2017**

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated financial statements of The International Centre for Missing & Exploited Children and ICMEC Limited (collectively, ICMEC), which comprise the consolidated statement of financial position as of December 31, 2018, and the related consolidated statements of activities and change in net assets, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Organization as of December 31, 2018, and the consolidated change in its net assets and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Report on Summarized Comparative Information

We have previously audited ICMEC's 2017 consolidated financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 4, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Gelman Rosenberg & Freedman

May 2, 2019

THE INTERNATIONAL CENTRE FOR MISSING & EXPLOITED CHILDREN AND ICMEC LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2018
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2017

ASSETS

	2018	2017
CURRENT ASSETS		
Cash and cash equivalents	\$ 375,216	\$ 2,453,910
Grants and pledges receivable	798,606	300,088
Other receivables	12,299	11,799
Prepaid expenses	114,559	56,025
Total current assets	1,300,680	2,821,822
FIXED ASSETS		
Website development	274,239	181,267
Leasehold improvements	247,683	247,683
	521,922	428,950
Less: Accumulated amortization	(236,105)	(160,789)
Net fixed assets	285,817	268,161
OTHER ASSETS		
Grants and pledges receivable, net of current portion and present value discount of \$17,042 and \$12,064, respectively	282,656	187,936
Deposits	39,809	39,540
Investments - long-term	1,243,612	-
Total other assets	1,566,077	227,476
TOTAL ASSETS	\$ 3,152,574	\$ 3,317,459

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 98,193	\$ 105,080
Deferred revenue	24,320	23,760
Deferred rent	35,484	29,485
Total current liabilities	157,997	158,325
LONG-TERM LIABILITIES		
Deferred rent	360,633	396,117
Total liabilities	518,630	554,442
NET ASSETS		
Without donor restrictions	301,169	1,041,360
With donor restrictions	2,332,775	1,721,657
Total net assets	2,633,944	2,763,017
TOTAL LIABILITIES AND NET ASSETS	\$ 3,152,574	\$ 3,317,459

THE INTERNATIONAL CENTRE FOR MISSING & EXPLOITED CHILDREN AND ICMEC LIMITED

**CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2018
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2017**

	2018			2017
	Without Donor Restrictions	With Donor Restrictions	Total	Total
SUPPORT AND REVENUE				
Grants and contributions	\$ 507,371	\$ 1,505,345	\$ 2,012,716	\$ 997,104
Investment (loss) income	(9,747)	-	(9,747)	14,980
Contributed services and materials	2,101	-	2,101	38,730
Gala, net of expenses totaling \$206,899	771,996	215,600	987,596	1,164,689
Net assets released from donor restrictions	<u>1,109,827</u>	<u>(1,109,827)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>2,381,548</u>	<u>611,118</u>	<u>2,992,666</u>	<u>2,215,503</u>
EXPENSES				
Program Services	<u>2,536,899</u>	<u>-</u>	<u>2,536,899</u>	<u>2,033,407</u>
Supporting Services:				
Management and General	300,108	-	300,108	355,300
Fundraising	<u>284,732</u>	<u>-</u>	<u>284,732</u>	<u>395,386</u>
Total supporting services	<u>584,840</u>	<u>-</u>	<u>584,840</u>	<u>750,686</u>
Total expenses	<u>3,121,739</u>	<u>-</u>	<u>3,121,739</u>	<u>2,784,093</u>
Change in net assets	(740,191)	611,118	(129,073)	(568,590)
Net assets at beginning of year	<u>1,041,360</u>	<u>1,721,657</u>	<u>2,763,017</u>	<u>3,331,607</u>
NET ASSETS AT END OF YEAR	<u>\$ 301,169</u>	<u>\$ 2,332,775</u>	<u>\$ 2,633,944</u>	<u>\$ 2,763,017</u>

THE INTERNATIONAL CENTRE FOR MISSING & EXPLOITED CHILDREN AND ICMEC LIMITED

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2017**

	2018				2017		
	Supporting Services						
	Program Services	Management and General	Fundraising	Total Supporting Services	Direct Cost of Special Events	Total Expenses	Total Expenses
Salaries and fringe benefits	\$ 932,010	\$ 135,721	\$ 203,973	\$ 339,694	\$ 9,571	\$ 1,281,275	\$ 1,238,820
Professional and contract fees	699,396	95,291	36,618	131,909	83,142	914,447	722,203
Travel	158,891	10,760	550	11,310	12,267	182,468	145,815
Supplies and deliveries	40,643	4,449	12,791	17,240	13,233	71,116	63,081
Occupancy and building costs	190,143	21,369	20,275	41,644	-	231,787	263,490
Outreach	184,431	-	-	-	-	184,431	167,744
Trainings/roundtables/conferences	240,504	21,889	-	21,889	88,536	350,929	370,263
Depreciation and amortization	61,281	7,202	6,833	14,035	-	75,316	92,775
Other	29,600	3,427	3,692	7,119	150	36,869	43,134
	2,536,899	300,108	284,732	584,840	206,899	3,328,638	3,107,325
Direct costs of special events	-	-	-	-	(206,899)	(206,899)	(323,232)
TOTAL	\$ 2,536,899	\$ 300,108	\$ 284,732	\$ 584,840	\$ -	\$ 3,121,739	\$ 2,784,093

See accompanying notes to consolidated financial statements.

THE INTERNATIONAL CENTRE FOR MISSING & EXPLOITED CHILDREN AND ICMEC LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (129,073)	\$ (568,590)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation and amortization	75,316	92,775
Unrealized loss	35,924	-
Realized loss	632	797
Donated stock pledge	-	(15,005)
Change in discount	4,978	10,204
(Increase) decrease in:		
Grants and pledges receivable	(598,216)	53,243
Other receivables	(500)	3,529
Prepaid expenses	(58,534)	25,739
Deposits	(269)	24,274
(Decrease) increase in:		
Accounts payable and accrued expenses	(6,887)	(72,826)
Deferred revenue	560	(15,489)
Deferred rent	<u>(29,485)</u>	<u>154,593</u>
Net cash used by operating activities	<u>(705,554)</u>	<u>(306,756)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(92,972)	-
Purchase of investments	(1,585,097)	-
Proceeds from sale of investments	<u>304,929</u>	<u>210,456</u>
Net cash (used) provided by investing activities	<u>(1,373,140)</u>	<u>210,456</u>
Net decrease in cash and cash equivalents	(2,078,694)	(96,300)
Cash and cash equivalents at beginning of year	<u>2,453,910</u>	<u>2,550,210</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 375,216</u>	<u>\$ 2,453,910</u>
SUPPLEMENTAL INFORMATION:		
Donated Stock	<u>\$ 25,639</u>	<u>\$ -</u>
Tenant Allowance	<u>\$ -</u>	<u>\$ 2,799</u>

THE INTERNATIONAL CENTRE FOR MISSING & EXPLOITED CHILDREN AND ICMEC LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Organization -

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

In May 2009, ICMEC created ICMEC Limited, a Singapore public company limited by guarantee. ICMEC is the sole member of ICMEC Limited. The office was established to direct ICMEC's policies and programmatic initiatives in the Asia-Pacific Region. ICMEC Limited is funded by ICMEC. During the year ended December 31, 2018, ICMEC sent \$179,117 to ICMEC Limited. ICMEC Limited has one full-time employee and one ICMEC staff member serves on the ICMEC Limited Board of Directors.

The accompanying consolidated financial statements reflect the activity of The International Centre for Missing & Exploited Children and ICMEC Limited as of December 31, 2018. The financial statements of the two organizations have been consolidated because they are under common control. All intercompany transactions have been eliminated during consolidation.

Basis of presentation -

The accompanying consolidated financial statements of ICMEC and ICMEC Limited are presented on the accrual basis of accounting, and in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14 *Presentation of Financial Statements for Not-for-Profit Entities*. The ASU was adopted for the year ended December 31, 2018 and applied retrospectively.

The consolidated financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with ICMEC's consolidated financial statements for the year ended December 31, 2017, from which the summarized information was derived.

Cash and cash equivalents -

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

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

Foreign currency -

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

THE INTERNATIONAL CENTRE FOR MISSING & EXPLOITED CHILDREN AND ICMEC LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018

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

Investments -

Investments are recorded at their readily determinable fair value. Realized and unrealized gains and losses are included in investment income in the Consolidated Statement of Activities and Change in Net Assets.

Grants, pledges and other receivables -

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

Fixed assets -

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

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

Depreciation and amortization expense for the year ended December 31, 2018 totaled \$75,316.

Income taxes -

ICMEC is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Beginning January 1, 2018, it is subject to unrelated business income taxes on qualified transportation fringe benefits provided to its employees. The amount of the tax for the year ended December 31, 2018 is immaterial.

ICMEC Limited is recognized as a public company limited by guarantee in accordance with the laws and regulations of Singapore. A public company limited by guarantee is exempt from income tax if any surplus funds are from contributions or if over 50% of gross revenue receipts are from members and are not tax deductible for members. Accordingly, no provision for income taxes has been made in the accompanying consolidated financial statements. ICMEC is not a private foundation.

Uncertain tax positions -

For the year ended December 31, 2018, ICMEC has documented its consideration of FASB ASC 740-10, *Income Taxes*, that provides guidance for reporting uncertainty in income taxes and has determined that no material uncertain tax positions qualify for either recognition or disclosure in the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018

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

Deferred revenue -

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

Net asset classification -

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

- **Net Assets Without Donor Restrictions** - Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions are recorded as net assets without donor restrictions. Assets restricted solely through the actions of the Board are referred to as Board Designated and are also reported as net assets without donor restrictions.
- **Net Assets With Donor Restrictions** - Contributions restricted by donors (or certain grantors) are reported as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Consolidated Statement of Activities and Change in Net Assets as net assets released from restrictions. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed in service.

Contributions and grants -

Contributions and grants received without donor restrictions and with donor restrictions are recorded as revenue in the year notification is received from the donor. Contributions and grants with donor restrictions are recognized as without donor restrictions only to the extent of actual expenses incurred in compliance with the donor-imposed restrictions and satisfaction of time restrictions. Such funds in excess of expenses incurred are shown as net assets with donor restriction in the accompanying consolidated financial statements.

Contributed services and materials -

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

Use of estimates -

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018

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

Functional allocation of expenses -

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

Direct identification of specific expenses is ICMEC's preferred method for charging expenses to various functions. If an expense can be specifically identified with a program or a supporting service, it will be assigned to that function. When it is not possible or practical to make a direct identification, an allocation of funds approach is used.

Indirect costs are those expenses that benefit more than one project, activity, or service. They are not readily identifiable with a particular grant, contract, project function, or activity, but are necessary for ICMEC's general operation. ICMEC allocates indirect expenses as a percentage of direct costs.

All ICMEC employees are required to complete a timesheet on a bi-weekly basis. Those employee whose responsibilities include tasks that fall into more than one functional category or program record their time to the different functional categories based upon effort spent on separate identifiable activities. ICMEC's accountant's salary and benefits are allocated to programs and other functional categories as a percentage of those activities' direct costs.

New accounting pronouncements -

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

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*, which is intended to clarify and improve current guidance about whether a transfer of assets is an exchange transaction or a contribution.

The amendments in this ASU provide a more robust framework to determine when a transaction should be accounted for as a contribution under Subtopic 958-605 or as an exchange transaction accounted for under other guidance (for example, Topic 606). The amendments also provide additional guidance about how to determine whether a contribution is conditional or unconditional. The amendments in this ASU could result in more grants and contracts being accounted for as contributions than under previous GAAP. The ASU recommends application on a modified prospective basis; however, retrospective application is permitted. The ICMEC has not yet decided on a transition method. The ASU is effective for fiscal years beginning after December 15, 2018.

THE INTERNATIONAL CENTRE FOR MISSING & EXPLOITED CHILDREN AND ICMEC LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018

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

New accounting pronouncements (continued) -

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

Risks and uncertainties -

The ICMEC invests in various investment securities. Investment securities are exposed to various risks such as interest rates, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying consolidated financial statements.

Fair value measurement -

ICMEC adopted the provisions of FASB ASC 820, *Fair Value Measurement*. FASB ASC 820 defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs (assumptions that market participants would use in pricing assets and liabilities, including assumptions about risk) used to measure fair value, and enhances disclosure requirements for fair value measurements. ICMEC accounts for a significant portion of its financial instruments at fair value or considers fair value in their measurement.

Reclassification -

Certain amounts in the prior year's consolidated financial statements have been reclassified to conform to the current year's presentation. The reclassifications are primarily due to the adoption of Accounting Standards Update 2016-14, as discussed above, which requires two classifications of net assets from the previously presented three classes.

Net assets previously classified as of December 30, 2017 as unrestricted net assets in the amount of \$1,041,360 are now classified as without donor restrictions. Net assets previously classified as temporarily restricted net assets in the amount of \$1,721,657, are now classified as net assets with donor restrictions

2. INVESTMENTS

Investments consisted of the following at December 31, 2018:

Common Stocks	\$	261,154
Mutual Funds		484,918
Corporate Bonds		<u>497,540</u>
	\$	<u>1,243,612</u>

THE INTERNATIONAL CENTRE FOR MISSING & EXPLOITED CHILDREN AND ICMEC LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018

2. INVESTMENTS (Continued)

Included in investment loss are the following at December 31, 2018:

Interest and dividends	\$ 31,409
Unrealized loss	(35,924)
Realized loss	(632)
Management fees	<u>(4,600)</u>
TOTAL INVESTMENT LOSS	\$ <u>(9,747)</u>

3. GRANTS AND PLEDGES RECEIVABLE

ICMEC has received grants and pledges to be paid over the next three years. The grants and pledges due in more than one year have been discounted using the Federal Prime Rate (4.25% to 4.75%).

Following is a summary of all pledges receivable as of December 31, 2018:

<u>Year Ending December 31,</u>	
2019	\$ 798,606
2020	<u>299,698</u>
	1,098,304
Less: Discount	<u>(17,042)</u>
PLEDGES RECEIVABLE, NET DISCOUNT	\$ <u>1,081,262</u>

4. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of the following at December 31, 2018:

Program	\$ 1,937,160
Time Restricted	<u>395,615</u>
TOTAL NET ASSETS WITH DONOR RESTRICTION	\$ <u>2,332,775</u>

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

Program	\$ 895,667
Passage of Time	<u>214,160</u>
TOTAL NET ASSETS RELEASED FROM DONOR RESTRICTIONS	\$ <u>1,109,827</u>

THE INTERNATIONAL CENTRE FOR MISSING & EXPLOITED CHILDREN AND ICMEC LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018

5. LIQUIDITY

Financial assets available for use within one year of the Statement of Financial Position, comprise the following at December 31, 2018:

Cash and cash equivalents	\$ 375,216
Accounts receivable	12,299
Pledges receivable	1,081,262
Investments	1,243,612
Less: Those unavailable for general expenditures within one year due to:	
Restricted by donor with time or purpose restrictions	<u>(2,027,167)</u>
FINANCIAL ASSETS AVAILABLE TO MEET CASH NEEDS FOR GENERAL EXPENDITURES WITHIN ONE YEAR	<u>\$ 685,222</u>

ICMEC's working capital and cash flow vary throughout the year, attributable to cash receipts related to the annual Gala for Child Protection (held in May). ICMEC's goal is to maintain financial assets, including cash and short-term investments on hand to meet two months of normal operating expenses (approximately \$500,000). ICMEC structures their financial assets to become available as general expenditures, liabilities and other obligations become due. ICMEC uses restricted and unrestricted funds to cover such expenditures as appropriate and as permitted.

6. CONTRIBUTED SERVICES AND MATERIALS

During the year ended December 31, 2018, ICMEC was the beneficiary of professional services and materials which allowed ICMEC to provide greater resources toward various programs. To properly reflect total program expenses, the following donations have been included in revenue and expense for the year ended December 31, 2018.

Donated legal services	\$ 1,851
Other donation (translation)	<u>250</u>
TOTAL CONTRIBUTED SERVICES AND MATERIALS	<u>\$ 2,101</u>

7. LEASE COMMITMENTS

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

Accounting principles generally accepted in the United States of America require that the total rent commitment and lease incentive should be recognized on a straight-line basis over the term of the lease. Accordingly, the difference between the actual monthly payments and the rent expense being recognized for financial statement purposes is recorded as a deferred rent liability on the consolidated statement of financial position. As of December 31, 2018, the deferred rent liability totaled \$396,117.

THE INTERNATIONAL CENTRE FOR MISSING & EXPLOITED CHILDREN AND ICMEC LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018

7. LEASE COMMITMENTS (Continued)

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

Year Ending December 31,

2019	\$ 245,191
2020	251,316
2021	257,617
2022	264,044
2023	270,647
Thereafter	<u>610,201</u>
	<u>\$ 1,899,016</u>

Rent expense under this lease for the year ended December 31, 2018 was \$209,707. ICMEC Limited leases office space in Singapore under a short-term lease agreement.

8. RETIREMENT PLAN

In January 2017, ICMEC started participating in a new 403(b) defined contribution plan covering all eligible employees of ICMEC. The plan offers employee elective deferrals, voluntary after-tax contributions and Roth contributions up to the maximum allowed by law. Employees are immediately vested in their elective deferrals. Under the same 403(b) plan, ICMEC contributes 7% of each eligible employee's gross salary per pay period, regardless of the employee's contribution. Employees are vested after being employed for two (2) years, with at least 1,000 hours worked in each year. ICMEC's contributions to the plan during the year ended December 31, 2018 totaled \$73,221.

9. RELATED PARTY

For the year ended December 31, 2018, ICMEC received contributions from Board members totaling \$400,828.

10. FAIR VALUE MEASUREMENT

In accordance with FASB ASC 820, *Fair Value Measurement*, ICMEC has categorized its financial instruments, based on the priority of the inputs to the valuation technique, 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 hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument. Investments recorded in the Consolidated Statement of Financial Position are categorized based on the inputs to valuation techniques as follows:

Level 1. These are investments where values are based on unadjusted quoted prices for identical assets in an active market ICMEC has the ability to access.

Level 2. These are investments where values are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, or model-based valuation techniques that utilize inputs that are observable either directly or indirectly for substantially the full-term of the investments.

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10. FAIR VALUE MEASUREMENT (Continued)

Level 3. These are investments where inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Following is a description of the valuation methodology used for investments measured at fair value. There have been no changes in the methodologies used at December 31, 2018.

- *Common stocks* - Valued at the closing price reported on the active market in which the individual securities are traded.
- *Mutual funds* - Valued at the daily closing price as reported by the fund. Mutual funds held by ICMEC's are open-end mutual funds that are registered with the SEC. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the ICMEC's are deemed to be actively traded.
- *Corporate bonds* - Valued at the closing price reported on the active market in which the individual securities are traded.

The table below summarizes, by level within the fair value hierarchy, ICMEC's investments as of December 31, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total December 31, 2018</u>
Asset Class:				
Common stocks	\$ 261,154	\$ -	\$ -	\$ 261,154
Mutual funds	484,918	-	-	484,918
Corporate bonds	<u>497,540</u>	<u>-</u>	<u>-</u>	<u>497,540</u>
TOTAL	<u>\$ 1,243,612</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,243,612</u>

11. SUBSEQUENT EVENTS

In preparing these consolidated financial statements, ICMEC has evaluated events and transactions for potential recognition or disclosure through May 2, 2019, the date the consolidated financial statements were issued.