National Center for Missing and Exploited Children

Financial Statements

Year Ended December 31, 2023

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National Center for Missing and Exploited Children

Contents

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Independent Auditor's Report

Board of Directors
The National Center for Missing and Exploited Children
Alexandria, Virginia

Opinion

We have audited the financial statements of The National Center for Missing and Exploited Children ("NCMEC"), which comprise the statement of financial position as of December 31, 2023, and the related statements of activities and change in net assets, functional expenses and cash flows for the year 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 The National Center for Missing and Exploited Children as of December 31, 2023, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). 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 audit. 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 within one year after the date that the financial statements are available to be 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 GAAS 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 GAAS, 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 audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Indirect Cost Pool, Application Base and Final Overhead Rate Calculation and the Schedule of Fringe Cost Pool, Application Base and Fringe Rate Calculation are presented for purposes of additional analysis and are not a required part of the financial statements. Such 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. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including 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 GAAS. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

BDO USA, P.C.

McLean, Virginia
June 14, 2024

Financial Statements

The National Center for Missing and Exploited Children

Statement of Financial Position

December 31,		2023
Assets		
Current Assets		
Cash and cash equivalents	$	21,209,500
Investments - current		9,537,538
Accounts receivable, net		3,734,457
Pledges receivable, net		1,164,814
Prepaid expenses		1,271,651
Total current assets		36,917,960
Investments		37,106,442
Pledges receivable, long-term		641,245
Property and equipment, net		6,677,922
Operating lease right of use assets		16,701,531
Other non-current assets		696,753
Total Assets	$	98,741,853
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	$	2,284,971
Accrued salaries and benefits		1,744,795
Lease liabilities, current portion		32,713
Total current liabilities		4,062,479
Operating lease liabilities		20,907,305
Post-employment benefit liability		994,292
Other non-current liabilities		4,933
Total liabilities		25,969,009
Commitments and contingencies (Note 9)		
Net assets		
Without donor restrictions		
Undesignated		31,470,758
Board-designated		37,106,442
Total net assets without donor restrictions		68,577,200
With donor restrictions		4,195,644
Total net assets		72,772,844
Total Liabilities and Net Assets	$	98,741,853

See accompanying notes to financial statements.

The National Center for Missing and Exploited Children

Statement of Activities

Year Ended December 31, 2023	Without donor Restrictions	With donor Restrictions	Total
Revenue and other support			
Government contracts and grants	$ 50,151,912	$ -	$ 50,151,912
Contributions of cash and other financial assets	6,871,506	3,976,592	10,848,098
Contributions of nonfinancial assets and services	7,541,007	-	7,541,007
Special events, net of direct benefit costs of $598,132	737,255	-	737,255
Other income	73,590	5,272	78,862
Net assets released from restrictions			
Satisfaction of program restrictions	3,289,356	(3,289,356)	-
Satisfaction of time restrictions	674,167	(674,167)	-
Total revenue and other support	69,338,793	18,341	69,357,134
Operating expenses			
Program services			
Community outreach and training	6,803,279	-	6,803,279
Missing child case management	13,684,573	-	13,684,573
Information and case analysis	18,483,199	-	18,483,199
Family advocacy and survivor services	2,694,391	-	2,694,391
Exploited child case management	21,702,809	-	21,702,809
Total program services	63,368,251	-	63,368,251
Supporting services			
Management and general	2,410,862	-	2,410,862
Fundraising	2,357,918	-	2,357,918
Total supporting services	4,768,780	-	4,768,780
Total operating expenses	68,137,031	-	68,137,031
Change in net assets from operations	1,201,762	18,341	1,220,103
Non-operating activities			
Investment return	5,043,620	-	5,043,620
Change in post-employment benefit liability	(108,550)	-	(108,550)
Change in net assets from non-operating activities	4,935,070	-	4,935,070
Total change in net assets	6,136,832	18,341	6,155,173
Net assets, beginning of year	62,440,368	4,177,303	66,617,671
Net assets, end of year	$ 68,577,200	$ 4,195,644	$ 72,772,844

See accompanying notes to financial statements.

The National Center for Missing and Exploited Children

Statement of Functional Expenses

Year Ended December 31, 2023	Program Services					
	Community Outreach and Training	Missing Child Case Management	Information and Case Analysis	Family Advocacy and Survivor Services	Exploited Child Case Management	Total Program Services
Personnel	$ 3,690,738	$ 8,834,721	$ 7,509,329	$ 1,255,520	$ 11,972,390	$ 33,262,698
Fringe benefits	971,584	2,364,332	1,972,685	324,660	3,178,753	8,812,014
Staff travel	227,165	138,470	124,112	35,363	317,407	842,517
Supplies and equipment	290,292	209,557	1,268,778	157,896	2,202,158	4,128,681
Occupancy	318,141	770,775	460,203	108,547	999,943	2,657,609
Business services	420,958	196,283	4,423,344	29,972	504,066	5,574,623
Professional services	656,880	858,825	2,524,670	460,938	2,453,752	6,955,065
Participant and consultant travel	95,350	203,194	3,694	239,563	18,808	560,609
Office support	132,171	108,416	196,384	81,932	55,532	574,435
	$ 6,803,279	$ 13,684,573	$ 18,483,199	$ 2,694,391	$ 21,702,809	$ 63,368,251

	Supporting Services			
	Management and General	Fundraising	Total Supporting Services	Total Expenses
Personnel	$ 1,504,592	$ 1,235,986	$ 2,740,578	$ 36,003,276
Fringe benefits	402,565	321,588	724,153	9,536,167
Staff travel	33,768	44,900	78,668	921,185
Supplies and equipment	41,497	76,207	117,704	4,246,385
Occupancy	182,551	83,217	265,768	2,923,377
Business services	46,159	103,745	149,904	5,724,527
Professional services	62,357	449,174	511,531	7,466,596
Participant and consultant travel	2,125	2,449	4,574	565,183
Office support	135,248	40,652	175,900	750,335
	$ 2,410,862	$ 2,357,918	$ 4,768,780	$ 68,137,031

See accompanying notes to financial statements.

The National Center for Missing and Exploited Children

Statements of Cash Flows

Year Ended December 31,	2023
Cash flows from operating activities:	
Change in net assets	$ 6,155,173
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	623,247
Net realized and unrealized gain on investments	(3,679,835)
Right-of-use asset amortization	1,190,076
Change in present value discount for pledge receivables	(63,408)
Changes in assets and liabilities:	
Accounts receivable	(415,657)
Pledges receivable	(217,375)
Prepaid expenses and other assets	(379,536)
Accounts payable and accrued expenses	205,452
Accrued salaries and benefits	150,233
Operating lease liabilities	(1,613,925)
Post-employment benefit liability	108,550
Other non-current assets/liabilities	(16,557)
Net cash provided by operating activities	2,046,438
Cash flows from investing activities:	
Proceeds from sales of investments	63,248,889
Purchases of investments	(56,674,249)
Net cash provided by investing activities	6,574,640
Net increase in cash and cash equivalents	8,621,078
Cash and cash equivalents, beginning of year	12,588,422
Cash and cash equivalents, end of year	$ 21,209,500
Supplemental disclosure of cash flow information	
Cash paid for amounts included in lease liability measurement	$ 2,509,911

See accompanying notes to financial statements.

1. 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 are presented in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) 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:

> <u>Net assets without donor restrictions</u> - 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.
>
> <u>Net assets with donor restrictions</u> - 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 any net assets that are required to be invested and maintained in perpetuity for the year ended December 31, 2023.

Measure of Operations

All activities, other than investment gains/losses, changes in the post-employment benefit liabilities and loss on uncollectible pledges and termination of grants, are reported as changes in net assets from operating activities within the statement 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 investments in the accompanying statement of financial position as the funds are not intended to be used for general operating purposes.

Allowance for Credit Losses

NCMEC recognizes an allowance for credit losses for financial assets carried at amortized cost to present the net amount expected to be collected as of the financial position date. Such allowance is based on the credit losses expected to arise over the life of the asset (contractual term) which includes consideration of prepayments and is based on our expectation as of the financial position date.

Assets are written off when NCMEC determines that such financial assets are deemed uncollectible or based on regulatory requirements, whichever is earlier. Write-offs are recognized as a deduction from the allowance for credit losses. Expected recoveries of amounts previously written off, not to exceed the aggregate of the amount previously written off, are included in determining the necessary reserve at the financial position date.

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 their established 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 statement of activities. Gains and losses on investments, realized and unrealized, are recorded as of the trade date.

Property and Equipment and Related Depreciation and Amortization

NCMEC's method of accounting for furniture and equipment is in conformity with the method used to report on activities funded by its contracts and grants with the federal government. Accordingly, all furniture and equipment purchased with cooperative agreement funds are charged to expense when acquired, rather than being capitalized and depreciated over the useful life of the asset. NCMEC must use these assets in fulfilling the purpose of the cooperative agreements, and the funding agency has final determination for all disposals or transfers.

Furniture and equipment with a unit value exceeding $10,000, purchased with nonfederal funds, are capitalized and depreciated on a straight-line basis over the estimated useful lives of the individual items. NCMEC's in-kind software is depreciated on a straight-line basis over its estimated useful lives of three years. NCMEC buildings are depreciated on a straight-line basis over their estimated useful lives 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 statement of activities as net assets released from restrictions. Restricted contributions received in the same year in which the restriction is met are recorded as an increase to net assets without donor restrictions.

NCMEC 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 $40.14 million at December 31, 2023.

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 over time, and in the amounts to which NCMEC has the right to invoice. Revenue recognized for grants and contracts treated as exchange transactions totaled $1,185,297 for the year ended December 31, 2023. For revenue recognized in advance of receipts of funds from the sponsoring organization, NCMEC recorded a corresponding receivable of $109,413 at December 31, 2023.

Contributed Nonfinancial Assets and Services

The fair value of contributed services that are considered specialized and can be estimated are reflected in the accompanying financial statements. These items have been recorded among the various program expenses and contributions without donor restrictions in the accompanying financial statements.

Donated furniture, equipment and software with a unit value over $10,000 is recorded at fair value upon receipt and depreciated on a straight-line basis over the estimated useful life of the asset. During 2023, no donated items were capitalized by NCMEC.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying statement of functional expenses. Accordingly, certain operating costs are allocated among the benefiting program and supporting services based on specific identification or appropriate methodologies such as square footage and level of effort.

Fundraising Costs

Revenue derived from specific fundraising activities is presented in the accompanying statement of activities, net of direct benefit costs to donors. General fundraising costs totaled $2,357,918 for the year ended December 31, 2023.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

Recently Adopted Authoritative Guidance

In June 2016, the Financial Accounting Standards Board (the FASB) issued Accounting Standards Update (ASU) 2016-13, *Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments* (Topic 326), which eliminates the requirement that a credit loss on a financial instrument be “probable” prior to recognition Instead, a valuation allowance will be recorded to reflect an entity’s current estimate of all expected credit losses, based on both historical and forecasted information related to an instrument. This ASU was effective for NCMEC for annual and interim reporting periods beginning after December 15, 2022, and was adopted using a modified retrospective approach, which applies a cumulative-effect adjustment to net assets as of the beginning of the first reporting period in which the guidance is effective. NCMEC adopted this standard effective January 1, 2023 using the modified retrospective method. The adoption of this standard did not have a material impact to the financial results or disclosures.

Revision of Previously Issued Financial Statements

Subsequent to the issuance of the NCMEC’s financial statements as of and for the year ended December 31, 2022, an error was identified in the classification of certain Treasury Bills and certificates of deposits with original maturities of greater than 90 days at the time of purchase. These investments were incorrectly classified as cash equivalents and should have been presented as short-term investments as of December 31, 2022. Short-term investments should also be classified as assets categorized as Level 2 investments in the fair value hierarchy as of December 31, 2022.

NCMEC evaluated the qualitative and quantitative aspects of the error and determined they are not material to the NCMEC’s previously issued financial statements. The impacted line items within the financial statements are as follows:

Correction to Statement of Financial Position

December 31,	2022 (As Previously Reported)	Adjustments	2022 (As Revised)
Cash and cash equivalents	$ 25,239,418	$ (12,650,996)	$ 12,588,422
Short-term investments	$ -	$ 12,650,996	$ 12,650,996

Correction to Statement of Cash Flows

December 31,	2022 (As Previously Reported)	Adjustments	2022 (As Revised)
Cash flows from operating activities:			
Net realized and unrealized loss on investments	$ 5,594,173	$ 159,675	$ 5,753,848
Net cash provided by operating activities	$ 11,685,649	$ 159,675	$ 11,845,324
Cash flows from investing activities:			
Proceeds from sales of investments	$ 14,984,722	$ 6,487,673	$ 21,472,395
Purchases of investments	$ (17,545,500)	$ (19,298,344)	$ (36,843,844)
Net cash used in investing activities	$ (2,560,778)	$ (12,810,671)	$ (15,371,449)
Net increase (decrease) in cash and cash equivalents	$ 9,124,871	(12,650,996)	$ (3,526,125)
Cash and cash equivalents, end of year	$ 25,239,418	$ (12,650,996)	$ 12,588,422

2. Contributed Nonfinancial Assets and Services

For the year ended December 31, 2023, contributed nonfinancial assets and services recognized within the statement of activities consisted of the following:

Description	**2023**	Utilization in Programs/Services	Donor Restrictions	Valuation Techniques and Inputs
Software, license and equipment	**$ 6,130,157**	Recorded as part of the program of supporting service benefited	No associated donor restrictions	Based on current rates for similar license and subscriptions
Legal and professional services	**1,161,655**	Recorded as part of the program of supporting service benefited	No associated donor restrictions	Based on current rates for similar services
Advertising/media space and time	**249,195**	Recorded as part of the program of supporting service benefited	No associated donor restrictions	Based on current rates for similar services
Other	**-**	Distributed and/or utilized in program or supporting services	No associated donor restrictions	Based on current rates for similar services
Total	**$ 7,541,007**			

3. Financial Assets and Liquidity Resources

As of December 31, 2023, financial assets and liquidity resources available within one year for general expenditure, such as operating expenses, were as follows:

	2023
Cash and cash equivalents	$ 21,209,500
Accounts receivable, net	3,734,457
Pledges receivable, net (due within one year)	1,164,814
Investments	46,643,980
Less: board designated funds	(37,106,442)
Less: net assets with donor restrictions - purpose	(3,059,943)
Total	$ 32,586,366

NCMEC maintains cash balances at a level designed to ensure short-term liquidity. In addition, a suitable portion 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.

4. Accounts and Pledges Receivable

Accounts receivable consist mainly of short-term receivables 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 receivables 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. Amount due in less than one year amounted to $1,164,814 as of December 31, 2023. The gross amounts due in one to two years amounted to $705,178 as of December 31, 2023. The discount on the long-term pledges totaled $63,933 as of December 31, 2023. Discount rates range from 4.81% and 4.97% for the year ended December 31, 2023. No allowance for uncollectible pledges has been established as of and for the year ended December 31, 2023.

5. Investments

As of December 31, 2023, NCMEC's investments consisted of the following:

		2023
Money market funds	$	2,714,090
Equities		10,567,290
Mutual funds		7,513,610
U.S. government bonds and agency securities		21,966,699
Real estate investment trusts		2,419,583
Hedge funds		1,462,708
Total investments	$	46,643,980

6. Property and Equipment

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

		2023
Building and improvements	$	2,403,506
Land		470,000
In-kind software		1,686,701
Leasehold improvements		7,911,664
Furniture		1,596,834
Total property and equipment		14,068,705
Less: accumulated depreciation and amortization		(7,390,783)
Property and equipment, net	$	6,677,922

For the year ended December 31, 2023, depreciation and amortization expense totaled $623,247. Of this total, $423,852 was related to the amortization of leasehold improvements acquired through a tenant improvement allowance.

7. Line of Credit

NCMEC has an existing line of credit with Merrill Lynch Trust Company. 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, 2023 totaled $32,795,947. There were no outstanding balances on the line of credit as of December 31, 2023, and the available credit at December 31, 2023 was $10,000,000. The interest rate on the line of credit is the average daily Bloomberg Short-Term Bank Yield Index ("BSBY") plus 1%. As of December 31, 2023, the interest rate was 5.44%. There was no recorded or paid interest expense on the line of credit during the year ended December 31, 2023.

8. 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 made the accounting policy election to use a risk-free rate to compute the present value of lease payments for all leases.

NCMEC's office lease is subject to scheduled escalations as well as escalations in operating costs and real estate taxes.

As of December 31, 2023, operating lease right-of-use assets and lease liabilities totaled $16,701,531 and $20,940,018, respectively. The weighted-average discount rate used to calculate the present value of future minimum lease payments was 2.93% and the weighted-average lease term is 10 years.

The maturity analysis of NCMEC's operating lease liabilities is as follows:

Years ending December 31,		
2024	$	36,900
2025		696,811
2026		2,591,888
2027		2,872,178
2028		2,934,635
Thereafter		15,809,849
		24,942,260
Less: present value discount		(4,002,242)
Total lease liabilities	$	20,940,018

The weighted-average remaining lease term for NCMEC's operating lease for the office space was approximately 10 years as of December 31, 2023.

In accordance with U.S. GAAP, 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 classified as single lease costs and recognized on a straight-line basis ratably over the term of the lease. Lease costs for the year ended December 31, 2023 totaled $2,086,059. Cash paid for amounts included in the lease liability measurement for the year ended December 31, 2023 totaled $2,509,911.

9. 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.

Concentrations of Risk

During the year ended December 31, 2023, NCMEC recognized revenue of $50,151,912 from the U.S. government, which was predominantly from the U.S. Department of Justice (DOJ). Revenue recognized from the U.S. government represented 72% of the total revenue and support recognized by NCMEC for the year ended December 31, 2023. Additionally, NCMEC received $48,966,615 which represents 71% of the total revenue and support directly from DOJ for the year ended December 31, 2023. If a significant reduction in this revenue should occur, it may adversely impact NCMEC's financial position and ability to carry out its program activities.

NCMEC's cash is comprised of amounts in accounts at various financial institutions. While the amount at a given bank, at times, exceeds the amount guaranteed by federal agencies and, therefore, bears some risk, NCMEC has not experienced, nor does it anticipate, any losses on its funds. The amount in excess of The Federal Deposit Insurance Corporation (FDIC) coverage as of December 31, 2023 is $11,102,654.

Investment securities are exposed to various risks such as interest rate, 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 investment balances and the amounts reported in the statement of financial position.

Federal Funds

The support from the DOJ and the majority of the U.S. Department of Homeland Security (DHS) 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 DHS' reviews of the separate annual audit, 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). 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 the Uniform Guidance. The DOJ has yet to audit the costs and indirect cost rates for the year ended December 31, 2023. Management believes that cost disallowances, if any, arising from the DOJ's audit for 2023 will not have a material effect on NCMEC's financial position as of December 31, 2023, or the results of operations for the year then ended.

10. Net Assets With Donor Restrictions

As of December 31, 2023, net assets with donor restrictions are available for the following programs:

		2023
Subject to expenditure for specified purpose:		
Internet safety initiatives	$	**2,515,635**
Technology advancement initiatives		**450,000**
Outreach initiatives		**94,308**
		3,059,943
Subject to expenditure due to passage of time:		
Internet safety initiatives		**818,554**
Technology advancement initiatives		**250,000**
Outreach initiatives		**37,500**
Emery remainder trust		**29,647**
		1,135,701
Total net assets with donor restrictions	**$**	**4,195,644**

During the year ended December 31, 2023, net assets were released from restrictions as follows:

		2023
Released for specified purpose:		
Internet safety initiatives	$	**2,422,027**
Technology advancement initiatives		**436,545**
Outreach initiatives		**430,785**
		3,289,356
Released due to the passage of time:		
Internet safety initiatives		**204,167**
Technology advancement initiatives		**300,000**
Outreach initiatives		**170,000**
		674,167
Total	**$**	**3,963,523**

11. Board Designated Endowment

As of December 31, 2023, net assets with donor restrictions are available for the following program:

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 U.S. GAAP, 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 March 2023, the Board of Directors approved a new target allocation for the endowment related funds is as follows:

	Target
Asset allocation	
Equities	30 to 70%
Risk-free fixed income	20 to 50%
Alternative investments – private equity, REITs, and hedge funds	10 to 30%

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

During the year ended December 31, 2023, NCMEC had the following activity in its board- designated fund:

Board-designated fund, December 31, 2022	$ 33,159,304
Investment earnings	4,123,754
Investment fees	(176,616)
Board designated fund, December 31, 2023	$ 37,106,442

12. 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.

NCMEC's alternative investments are held in equity funds, real estate investment trusts, and hedge funds. These funds are reported using the Net Asset Value (NAV) per share as determined by investment managers under the so called "practical expedient". The practical expedient allows NAV per share to represent fair value for reporting purposes when the criteria using this method are met. These investment funds are held as units or interest in both nonmarketable and market-traded securities. Nonmarketable securities may include equity in private companies, real estate, thinly traded securities, and other investment vehicles. The financial statements of the investees are audited annually by nationally recognized firms of independent auditors. NCMEC uses the NAV as a practical expedient to estimate the fair value, unless it is probable that all or a portion of the investment will be sold for an amount different than NAV. Pursuant to ASU 2015-07, Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities that Calculate Net Asset Value Per Share (or its Equivalent), NCMEC has not categorized these investments in levels within the fair value hierarchy table.

The fair value of alternative investments is based on available information and does not necessarily represent the amounts that might ultimately be realized, which depend on future circumstances and cannot be reasonably determined until the investment is actually liquidated. The fair values may differ significantly from the values that would have been used had a read market for the investment funds existed. Furthermore, although NCMEC believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table summarizes NCMEC's assets and liabilities measured at fair value on a recurring basis as of December 31, 2023:

		As of December 31, 2023		
		Fair Value Hierarchy Level		Investment Reported
Description	Total	Level 1	Level 2	at NAV
Investments:				
Money market funds	$ 2,714,090	$ 2,714,090	$ -	$ -
Equities	10,567,290	7,406,115	-	3,161,175
Mutual funds	7,513,610	7,513,610	-	-
U.S. government bonds and agency securities	21,966,699	-	21,966,699	-
REITs	2,419,583	-	-	2,419,583
Hedge funds	1,462,708	-	-	1,462,708
Total	$ 46,643,980	$ 17,633,815	$ 21,966,699	$ 7,043,466

Description	NAV as of December 31, 2023	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Private equity	$ 3,161,175	None	N/A	N/A
REITs	2,419,583	None	Daily	Daily
Hedge funds	1,462,708	None	Monthly	30 to 95 days
	$ 7,043,466			

NCMEC used the following methods and significant assumptions to estimate fair value for assets and liabilities recorded at fair value:

Money market funds – valued at the NAV of NCMEC share in these funds.

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.

U.S. government bonds and agency securities - valued at the closing price reported in the active market in which the individual security is traded.

Hedge funds, REITs, and private equity investments - NCMEC's interests in these investments are generally reported at the NAV per share by the fund managers. This NAV is used as a practical expedient to estimate the fair value of such investments. Private equity investments can never be redeemed with the funds. Distributions from each private equity fund will be received as the underlying investments are liquidated, which is unknown as of December 31, 2023.

13. Pension Plan

NCMEC sponsors a defined contribution pension plan for all employees. Participation commences upon employment. NCMEC makes a contribution of 7% each pay period, for a total of 24 contributions during the year. Each employee is fully vested upon being credited with two plan years of service. Administrative expenses of the plan are paid with forfeited plan funds. Any expenses in excess of forfeited plan funds are paid by NCMEC. Pension expense totaled $2,430,453 for the years ended December 31, 2023, and is classified as a fringe benefit in the accompanying statement of functional expenses.

14. Income Taxes

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 is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years ended December 31, 2020 and prior.

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

15. Post Employment Benefits

NCMEC is providing post-employment benefits to certain former senior personnel on an individual basis. No additional current or former employees are eligible to become members of the plan. Plan benefits are fully subsidized by NCMEC and retirees are not required to contribute towards the premium.

As of December 31, 2023, the actuarially determined projected liability amount for health coverage is $994,292. The significant assumptions used to determine the post-employment benefit obligation for continuation of healthcare as of December 31, 2023, was a discount rate ranging from 4.84% - 4.99%, assumed initial health care cost trend rate of 5.32% for medical, 4% for dental, and 2% for vision. The discount rate was updated to the most recently published Treasury High Quality Market Corporate Bond Yield Curve. Mortality rates utilized were based upon the Society of Actuaries 2019 Mortality Table. Future mortality improvements are assumed to follow the 2023 Mortality Table.

16. Subsequent Events

NCMEC evaluated its December 31, 2023 financial statements for subsequent events through June 14, 2024, the date the financial statements were available to be issued. Except as described below, NCMEC is not aware of any subsequent events which would require recognition or disclosure in the financial statements.

NCMEC entered into a Purchase Agreement Sale (PSA) effective April 18, 2024 to sell its Rochester, New York regional office building for $745,000. Under the terms of the PSA, NCMEC is holding a $50,000 buyer deposit during the inspection period, which ended May 20, 2024. In addition, there will be an additional 60-day due diligence period with settlement scheduled on or before July 17, 2024. NCMEC is currently seeking leased office space in Rochester area with no disruptions to operations anticipated.

Other Supplemental Schedules

The National Center for Missing and Exploited Children

Schedule of Indirect Cost Pool, Applicable Base and Final Overhead Rate Calculation

Year Ended December 31,	2023
Applicable base for direct costs:	
Salaries	$ 32,850,712
Benefits	8,701,150
Professional fees	8,270,599
Rent and utilities	2,663,998
Software and service fees	5,932,370
Travel	1,290,393
Equipment and supplies	1,773,093
Printing, postage and delivery	153,055
Meetings, memberships and other	421,129
Total applicable base for direct costs	62,056,499
Exclusions from applications base:	
Rent	2,538,502
Other unallowed costs	129,546
Non-expendable equipment	1,108,424
In-kind services	7,541,007
Participant travel	308,760
Total exclusions from applicable base	11,626,239
Total applicable base, net of exclusions	$ 50,430,260
Indirect cost pool:	
Salaries	$ 3,152,564
Benefits	835,017
Facility costs	394,266
Software and service fees	476,155
Professional fees	485,630
Meeting, postage and other	233,446
Supplies and equipment	98,736
Insurance	393,865
Travel	10,853
Total indirect costs	6,080,532
Indirect cost rate	12.06%
Provisional rate	13.28%
Total applicable base for direct costs	$ 62,056,499
Total indirect costs	6,080,532
Total operating expenses	$ 68,137,031

The National Center for Missing and Exploited Children

Schedule of Fringe Cost Pool, Applicable Base and Final Fringe Rate Calculation

Year Ended December 31,	**2023**
Applicable base for total costs:	
Direct salaries	**$ 32,850,712**
Indirect salaries	**3,152,564**
Total applicable base for total labor	**$ 36,003,276**
Fringe cost pool:	
Medical and dental insurance	**$ 3,744,365**
Payroll tax expense	**2,614,899**
Retirement plan costs	**2,430,453**
Disability, life and other	**381,394**
Unallocated leave benefits	**275,433**
Unemployment and workers compensation	**89,623**
Total fringe cost pool	**$ 9,536,167**
Fringe actual rate	**26.49%**
Fringe provisional rate	**26.53%**