

**NATIONAL CENTER ON SEXUAL  
EXPLOITATION, INC.**

**FINANCIAL STATEMENTS**

**JUNE 30, 2022 AND 2021**



[www.warrenaverett.com](http://www.warrenaverett.com)

The report accompanying this deliverable was issued  
by Warren Averett, LLC.

**NATIONAL CENTER ON SEXUAL EXPLOITATION, INC.  
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JUNE 30, 2022 AND 2021**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
National Center on Sexual Exploitation, Inc.

### Opinion

We have audited the accompanying financial statements of National Center on Sexual Exploitation, Inc. (the Organization), which comprise the statements of financial position as of June 30, 2022 and 2021, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of National Center on Sexual Exploitation 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 the Organization's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

### Auditors' 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 auditors' 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 generally accepted 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 generally accepted 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 the Organization'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 the Organization'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.

*Warren Averett, LLC*

Birmingham, Alabama  
December 15, 2023

**NATIONAL CENTER ON SEXUAL EXPLOITATION, INC.  
STATEMENTS OF FINANCIAL POSITION  
JUNE 30, 2022 AND 2021**

<b>ASSETS</b>		
	<b>2022</b>	<b>2021</b>
Cash and cash equivalents	\$ 549,250	\$ 632,207
Investments	547,487	2,522,728
Accounts receivable, net	-	132,210
Pledges receivable, net	559,784	808,186
Property and equipment, net	818,382	847,349
Other assets	95,929	125,914
<b>TOTAL ASSETS</b>	<b>\$ 2,570,832</b>	<b>\$ 5,068,594</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable	\$ 7,609	\$ 62,636
Deferred rent	1,356,532	951,836
<b>TOTAL LIABILITIES</b>	1,364,141	1,014,472
<b>NET ASSETS</b>		
Without donor restrictions	741,691	3,129,122
With donor restrictions	465,000	925,000
Total net assets	1,206,691	4,054,122
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 2,570,832</b>	<b>\$ 5,068,594</b>

See notes to the financial statements.

**NATIONAL CENTER ON SEXUAL EXPLOITATION, INC.**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2022**  
*(With Comparative Totals for 2021)*

	Without Donor Restrictions	With Donor Restrictions	Total	
			2022	2021
<b>REVENUE AND SUPPORT</b>				
Contributions	\$ 2,679,647	\$ 300,000	\$ 2,979,647	\$ 4,693,529
Grant income –				
Paycheck Protection Program	-	-	-	204,392
Other income	88,585	-	88,585	125,861
Net assets released from restriction	760,000	(760,000)	-	-
Total revenue and support	3,528,232	(460,000)	3,068,232	5,023,782
<b>EXPENSES</b>				
Program services:				
Research	705,664	-	705,664	503,420
Litigation	1,419,105	-	1,419,105	1,087,311
Training and education	345,740	-	345,740	423,885
Corporate accountability	438,860	-	438,860	383,432
Public policy	713,256	-	713,256	597,568
Survivor services	130,816	-	130,816	10,140
Coalition and movement leadership	676,124	-	676,124	391,817
Supporting services:				
Fundraising	825,474	-	825,474	661,929
General and administrative	550,462	-	550,462	552,429
Total expenses	5,805,501	-	5,805,501	4,611,931
	(2,277,269)	(460,000)	(2,737,269)	411,851
<b>INVESTMENT INCOME (LOSS)</b>	(110,162)	-	(110,162)	325,379
<b>CHANGE IN NET ASSETS</b>	(2,387,431)	(460,000)	(2,847,431)	737,230
<b>NET ASSETS – BEGINNING OF YEAR</b>	3,129,122	925,000	4,054,122	3,316,892
<b>NET ASSETS – END OF YEAR</b>	\$ 741,691	\$ 465,000	\$ 1,206,691	\$ 4,054,122

See notes to the financial statements.

**NATIONAL CENTER ON SEXUAL EXPLOITATION, INC.  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2021**

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<b>REVENUE AND SUPPORT</b>			
Contributions	\$ 3,749,279	\$ 944,250	\$ 4,693,529
Grant income –			
Paycheck Protection Program	204,392	-	204,392
Other income	125,861	-	125,861
Net assets released from restriction	19,250	(19,250)	-
Total revenue and support	4,098,782	925,000	5,023,782
<b>EXPENSES</b>			
Program services:			
Research	503,420	-	503,420
Litigation	1,087,311	-	1,087,311
Training and education	423,885	-	423,885
Corporate accountability	383,432	-	383,432
Public policy	597,568	-	597,568
Survivor services	10,140	-	10,140
Coalition and movement leadership	391,817	-	391,817
Supporting services:			
Fundraising	661,929	-	661,929
General and administrative	552,429	-	552,429
Total expenses	4,611,931	-	4,611,931
	(513,149)	925,000	411,851
<b>INVESTMENT INCOME</b>	325,379	-	325,379
<b>CHANGE IN NET ASSETS</b>	(187,770)	925,000	737,230
<b>NET ASSETS – BEGINNING OF YEAR</b>	3,316,892	-	3,316,892
<b>NET ASSETS – END OF YEAR</b>	\$ 3,129,122	\$ 925,000	\$ 4,054,122

See notes to the financial statements.

**NATIONAL CENTER ON SEXUAL EXPLOITATION, INC.  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2022**

	<b>Research</b>	<b>Litigation</b>	<b>Training and Education</b>	<b>Corporate Accountability</b>	<b>Public Policy</b>	<b>Survivor Services</b>	<b>Coalition and Movement Leadership</b>	<b>Total Programs</b>	<b>Fundraising</b>	<b>General and Administrative</b>	<b>Total</b>
Advertising	\$ 142	\$ 76,115	\$ 43,643	\$ 118,432	\$ 25,122	\$ 1,355	\$ 2,767	\$ 267,576	\$ 44,624	\$ 61,894	\$ 374,094
Bank and credit card fees	-	-	-	-	-	-	61	61	17,234	1,065	18,360
Conference expenses	-	14,729	(3,894)	544	14,611	6,227	22,805	55,022	1,698	11,229	67,949
Contract labor	66,761	42,698	40,387	50,043	57,875	15,781	44,852	318,397	3,600	890	322,887
Depreciation and amortization	4,584	4,584	4,584	-	48,125	-	18,336	80,213	4,584	4,584	89,381
Dues and subscriptions	233	14,041	20,102	84	247	190	1,672	36,569	13,268	50,523	100,360
Equipment rental	427	443	374	267	374	-	533	2,418	401	748	3,567
Insurance	1,977	3,044	3,770	1,977	1,977	-	3,954	16,699	1,977	13,078	31,754
Internet and phone	6,732	8,754	17,122	9,248	9,416	498	16,367	68,137	6,747	50,026	124,910
Meals and entertainment	512	3,353	443	43	1,680	263	2,683	8,977	725	1,377	11,079
Miscellaneous expense	-	-	-	-	-	-	-	-	-	8,864	8,864
Office expense	554	2,093	1,059	392	1,211	914	2,103	8,326	847	10,238	19,411
Office rent	24,555	66,384	21,711	-	219,137	-	79,008	410,795	22,597	19,753	453,145
Postage	155	23,619	3,926	11,385	680	218	536	40,519	4,401	8,460	53,380
Printing	525	632	1,468	525	988	289	1,050	5,477	1,584	3,651	10,712
Professional fees	3,605	29,122	22,980	16,585	1,975	-	210	74,477	82,463	47,844	204,784
Salaries and wages	593,111	1,112,643	165,912	228,529	318,924	100,559	464,132	2,983,810	597,746	251,942	3,833,498
Travel	1,791	16,851	2,153	806	10,914	4,522	15,055	52,092	20,978	4,296	77,366
	<u>\$ 705,664</u>	<u>\$ 1,419,105</u>	<u>\$ 345,740</u>	<u>\$ 438,860</u>	<u>\$ 713,256</u>	<u>\$ 130,816</u>	<u>\$ 676,124</u>	<u>\$ 4,429,565</u>	<u>\$ 825,474</u>	<u>\$ 550,462</u>	<u>\$ 5,805,501</u>

See notes to the financial statements.



**NATIONAL CENTER ON SEXUAL EXPLOITATION, INC.  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2021**

	<u>Research</u>	<u>Litigation</u>	<u>Training and Education</u>	<u>Corporate Accountability</u>	<u>Public Policy</u>	<u>Survivor Services</u>	<u>Coalition and Movement Leadership</u>	<u>Total Programs</u>	<u>Fundraising</u>	<u>General and Administrative</u>	<u>Total</u>
Advertising	\$ 927	\$ 21,632	\$ 14,164	\$ 18,759	\$ 816	\$ 536	\$ 12,327	\$ 69,161	\$ 689	\$ 6,438	\$ 76,288
Bank and credit card fees	-	-	-	-	-	-	3,368	3,368	19,777	15,387	38,532
Conference expenses	592	6,719	1,942	158	5,507	857	60,783	76,558	1,776	1,171	79,505
Contract labor	39,098	43,475	30,464	20,851	40,836	-	27,459	202,183	-	5,931	208,114
Depreciation and amortization	-	-	-	-	-	-	-	-	-	32,916	32,916
Dues and subscriptions	1,497	27,009	129	3,351	1,431	-	345	33,762	16,404	1,092	51,258
Equipment rental	62	61	62	62	62	-	123	432	61	123	616
Insurance	1,054	1,074	1,054	1,054	1,054	-	2,108	7,398	1,074	1,302	9,774
Internet and phone	10,615	17,286	25,504	20,702	34,879	465	24,696	134,147	12,038	16,068	162,253
Meals and entertainment	157	1,582	280	375	425	126	332	3,277	710	1,132	5,119
Office expense	301	2,708	1,992	104	584	2,979	534	9,202	190	22,781	32,173
Office rent	3,162	3,162	6,365	3,162	3,162	-	6,709	25,722	3,162	139,225	168,109
Postage	-	4,444	1,850	5,649	-	-	1,700	13,643	10,781	1,015	25,439
Printing	2,738	7,409	10,464	6,078	2,975	-	3,064	32,728	3,239	576	36,543
Professional fees	15,005	59,823	55,655	33,493	5,506	-	14,614	184,096	63,688	64,057	311,841
Salaries and wages	427,365	876,591	273,154	268,250	499,471	1,608	233,454	2,579,893	521,172	232,900	3,333,965
Travel	847	14,336	806	1,384	860	3,569	201	22,003	7,168	10,315	39,486
	<u>\$ 503,420</u>	<u>\$ 1,087,311</u>	<u>\$ 423,885</u>	<u>\$ 383,432</u>	<u>\$ 597,568</u>	<u>\$ 10,140</u>	<u>\$ 391,817</u>	<u>\$ 3,397,573</u>	<u>\$ 661,929</u>	<u>\$ 552,429</u>	<u>\$ 4,611,931</u>

See notes to the financial statements.

**NATIONAL CENTER ON SEXUAL EXPLOITATION, INC.  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021**

	<u>2022</u>	<u>2021</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (2,847,431)	\$ 737,230
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	89,381	32,916
Net realized and unrealized (losses) gains on investments	110,162	(325,379)
Forgiveness of PPP note payable	-	(204,392)
Change in accounts and pledges receivable	380,612	(915,879)
Change in other assets	29,985	(95,285)
Change in accounts payable	(55,027)	30,984
Change in deferred rent	404,696	951,836
Net cash (used in) provided by operating activities	<u>(1,887,622)</u>	<u>212,031</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments	(113,543)	(1,420,586)
Sale of investments	1,978,622	1,045,020
Purchase of property and equipment	<u>(60,414)</u>	<u>(849,068)</u>
Net cash provided by (used in) investing activities	<u>1,804,665</u>	<u>(1,224,634)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repayment of capital lease obligation	<u>-</u>	<u>(1,053)</u>
Net cash used in financing activities	<u>-</u>	<u>(1,053)</u>
<b>DECREASE IN CASH AND CASH EQUIVALENTS</b>	(82,957)	(1,013,656)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>632,207</u>	<u>1,645,863</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u><u>\$ 549,250</u></u>	<u><u>\$ 632,207</u></u>

See notes to the financial statements.

**NATIONAL CENTER ON SEXUAL EXPLOITATION, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2022 AND 2021**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND  
DESCRIPTION OF BUSINESS**

**Nature of Operations**

The National Center on Sexual Exploitation, Inc. (the Organization) was established in December 1963, as a nonprofit corporation, incorporated in the State of New York, exclusively for charitable purposes. The Organization changed its name from Morality in Media Inc. to National Center on Sexual Exploitation, Inc. in April 2019.

The Organization is a not-for-profit organization incorporated for the purpose of exposing the links between all forms of sexual exploitation such as child abuse, prostitution, sex trafficking and the public health crisis of pornography. As the thread of pornography in the web of sexual exploitation is systematically overlooked by society, the Organization has prominently advanced this issue as a central pillar of its projects in order to promote more holistic solutions. To accomplish its vision of abolition of sexual exploitation, the Organization operates on the cutting edge of policy activism to combat corporate and government policies that foster exploitation, advance public education and empowerment and spur united action by leading the movement through the International Coalition to End Sexual Exploitation.

**Basis of Accounting**

The financial statements of the Organization are prepared under the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). Net assets of the Organization are recorded based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified and reported as follows:

- **Net Assets Without Donor Restrictions** – Net assets without donor restrictions are available for use at the discretion of the Board and/or management for general operating purposes.
- **Net Assets with Donor Restrictions** – Net assets with donor restrictions consist of assets whose use is limited by donor-imposed time and/or purpose restrictions.

The Organization reports gifts of cash and other assets as revenue with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, a stipulated time restriction ends or a purpose restriction is accomplished, the net assets are classified as net assets without donor restrictions and reported in the statements of activities as net assets released from restriction.

**Revenue and Support**

Contributions are recognized in the period pledged to the Organization. Revenues are reported as increases in net assets without donor restrictions unless their use is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions.

**Use of Management Estimates**

Management uses estimates and assumptions in preparing these financial statements in accordance with GAAP. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported revenues and expenses. Actual results could vary from the estimates that were used.

**NATIONAL CENTER ON SEXUAL EXPLOITATION, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2022 AND 2021**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND  
DESCRIPTION OF BUSINESS – CONTINUED**

**Reclassifications**

Certain prior period amounts have been reclassified to conform to the current year presentation. The reclassifications had no effect on net assets or the change in net assets previously reported.

**Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand that is not restricted or designated for a specific purpose. The Organization maintains cash accounts at a financial institution. The amount of cash held at June 30, 2022 and 2021, respectively, was \$549,250 and \$632,207. Such amounts exceed the Federal Deposit Insurance Corporation insured limit of \$250,000. The Organization believes that no significant concentration of credit risk exists with respect to its cash accounts. The Organization has not experienced any losses with respect to its cash accounts.

**Investments**

Investments in equity securities with readily determinable fair values are recorded at fair market value. The Organization's investments as of June 30, 2022 and 2021, respectively, are valued at \$547,487 and \$2,522,728 and consisted of mutual funds and bonds. Realized gains and losses are reflected in the statements of activities.

**Accounts Receivable**

The Organization reports accounts receivable at net realizable value. Management determines the allowance for doubtful accounts based on historical losses and current economic conditions. Based on management's analysis, no allowance for doubtful accounts has been recorded as of June 30, 2022 and 2021.

**Property and Equipment**

Property and equipment is stated at cost or if donated, at the estimated fair value at the date of donation, including expenditures that substantially increase the useful lives of existing property and equipment. When property and equipment is retired or otherwise disposed, the related costs and accumulated depreciation are removed from the respective accounts, and any gain or loss on the disposition is recognized.

The Organization provides for depreciation of property and equipment using the straight-line method designed to amortize costs over estimated useful lives as shown below:

<b>Item</b>	<b>Estimated Useful Lives</b>
Computer equipment	5 years
Furniture and equipment	7 years
Leasehold improvements	12 years

**NATIONAL CENTER ON SEXUAL EXPLOITATION, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2022 AND 2021**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF BUSINESS – CONTINUED**

**Functional Expenses**

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities and functional expenses. Accordingly, personnel costs have been allocated among the programs and supporting services benefitted based on estimates of time and effort, and occupancy costs have been allocated on the basis of the function of the personnel using the space involved.

**Fair Value Measurements**

The established framework for measuring fair value provides a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. Fair value is the price the Organization would expect to receive to sell an asset or pay to transfer a liability in an orderly transaction with a market participant at the measurement date. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

- Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.
- Level 2 – Inputs to the valuation methodology include: quoted prices for similar assets or liabilities in active market; quoted prices for identical or similar assets or liabilities in inactive markets; Inputs other than quoted prices that are observable for the asset or liability; and inputs which are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used maximize the use of observable inputs and minimize the use of unobservable inputs.

**Income Taxes**

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC). Management believes that all revenue-producing activities of the Organization comply with Section 501(c)(3) of the IRC; accordingly, no accrual for income taxes has been made in the accompanying financial statements.

The Organization adheres to the provisions of GAAP relating to uncertainty in income taxes. Such provisions require entities to assess their uncertain tax positions for the likelihood that they would be overturned upon Internal Revenue Service examination or upon examination by state taxing authorities. In accordance with these provisions, the Organization has determined that it does not have any positions at June 30, 2022, that it would be unable to substantiate. The Organization has filed its tax returns through June 30, 2021.

**NATIONAL CENTER ON SEXUAL EXPLOITATION, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2022 AND 2021**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND  
DESCRIPTION OF BUSINESS – CONTINUED**

**Recent Accounting Pronouncements**

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, *Leases (Subtopic 842)*. The purpose of this ASU is to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on their balance sheets and disclosing key information about leasing arrangements. The amendments in this ASU require that lessees recognize the rights and obligations resulting from leases as assets and liabilities on their balance sheets, initially measured at the present value of the lease payments over the term of the lease, including payments to be made in optional periods to extend the lease and payments to purchase the underlying assets if the lessee is reasonably certain of exercising those options. Subtopic 842 requires recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous GAAP. This guidance is effective for the Organization for the fiscal year ending June 30, 2023. Management is currently evaluating the impact of this guidance on the financial statements.

**Subsequent Events**

Management has evaluated subsequent events and their potential effects on these financial statements through December 15, 2023, the date the financial statements were available to be issued.

**2. INVESTMENTS**

The investments of the Organization consist of the following at June 30:

	<u>June 30, 2022</u>		<u>June 30, 2021</u>	
	<u>Cost or Amortized Cost</u>	<u>Fair Value</u>	<u>Cost or Amortized Cost</u>	<u>Fair Value</u>
Mutual funds	\$ 283,825	\$ 270,575	\$ 408,319	\$ 630,733
Fixed income securities	281,888	276,912	1,657,130	1,891,995
	<u>\$ 565,713</u>	<u>\$ 547,487</u>	<u>\$ 2,065,449</u>	<u>\$ 2,522,728</u>

**NATIONAL CENTER ON SEXUAL EXPLOITATION, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2022 AND 2021**

**3, PLEDGES RECEIVABLE**

Pledges are recognized when the donor makes a promise to the Organization that is, in substance, unconditional. Unconditional promises to give due in more than one year are initially recorded at fair value, measured as the present value of their estimated future cash flows, utilizing discount rates commensurate with the associated risk. The rate used was 1.78% at June 30, 2022. Pledges receivable due in more than one year are not marked to fair value on a recurring basis. At June 30 contributions receivable are scheduled to be collected as follows:

	<u>2022</u>	<u>2021</u>
Amounts due in:		
Past due	\$ 100,000	\$ -
Less than one year	265,000	437,500
One to five years	<u>200,000</u>	<u>382,500</u>
Pledges receivable, gross	565,000	820,000
Present value discount	<u>(5,216)</u>	<u>(11,814)</u>
Pledges receivable net	<u>\$ 559,784</u>	<u>\$ 808,186</u>

**4. PROPERTY AND EQUIPMENT**

Property and equipment consists of the following at June 30:

	<u>2022</u>	<u>2021</u>
Furniture and equipment	\$ 5,042	\$ 1,035
Leashold improvements	862,106	814,267
Computer equipment	<u>109,659</u>	<u>101,091</u>
	976,807	916,393
Less accumulated depreciation	<u>158,425</u>	<u>69,044</u>
	<u>\$ 818,382</u>	<u>\$ 847,349</u>

Depreciation and amortization expense incurred amounted to \$89,381 and \$32,916 for the years ended June 30, 2022 and 2021, respectively.

The Organization entered into a new lease agreement in April 2021. The agreement included a tenant improvement allowance of \$958,000. The Organization received \$814,267 of improvement during 2021 and an additional \$47,839 of improvements during 2022. The total improvements are amortized over the lease term. The total is included in Leasehold improvements on the statement of financial position and related amortization of \$71,557 and \$16,964 is included in the statements of activities for the years ended June 30, 2022 and 2021, respectively.

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**5. OPERATING LEASE COMMITMENTS**

The Organization previously leased office space totaling 9,800 square feet under an operating lease expiring August 31, 2020. In April 2021, the Organization relocated to a new office in Washington D.C. The Organization leases the office space under an operating lease expiring March 31, 2033. The lease includes an arrangement for a rent abatement. The abatement terms include no rent payments to be made for the first 12 months of the lease and no rent payment to be made on 2,000 square feet of the office space for the following 18 months. Rent expense associated with both leases totaled \$453,145 and \$168,109 for the years ended June 30, 2022 and 2021, respectively.

Minimum future rental payments under the noncancelable operating lease are as follows:

2023	\$	532,952
2024		576,165
2025		590,535
2026		601,528
2027		616,569
Thereafter		<u>3,279,386</u>
	<u>\$</u>	<u>6,197,135</u>

**6. NET ASSETS WITH DONOR RESTRICTIONS**

Net assets with donor restrictions were available for the following purposes at June 30:

	<u>2022</u>	<u>2021</u>
Demand reduction	\$ 165,000	\$ 420,000
Law center	300,000	500,000
Research, awareness, and education	-	5,000
	<u>\$ 465,000</u>	<u>\$ 925,000</u>

The various purposes of the above donor restricted amounts are as follows:

**Demand Reduction** – Funds pledged by one donor for the purpose of paying the salaries of employees and contractors that work on the Organization’s national strategy for combatting sex buyer demand in order to end sex trafficking and prostitution.

**International Operations** – Funds collected from one donor for the purpose of supporting efforts having international impact and to file a lawsuit in Europe.

**Law Center** – Funds collected from one donor for the purpose of supporting the Organization’s law center.



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**6. NET ASSETS WITH DONOR RESTRICTIONS – CONTINUED**

**Research, Awareness and Education** – Funds collected from one donor for the purpose of funding research related to various functions of the Organization.

Net assets released from donor restrictions by incurring expenses satisfying the restricted purpose or by the passage of time for the years ended June 30:

	<u>2022</u>	<u>2021</u>
Trafficking research and awareness	\$ -	\$ 19,250
National strategy	255,000	-
International operations	300,000	
Law Center	200,000	-
Research, awareness, and education	5,000	-
	<u>\$ 760,000</u>	<u>\$ 19,250</u>

**7. RETIREMENT PLAN**

The Organization has adopted a retirement contribution plan for its employees. All employees who have six months of employment are eligible to participate. During the years ended June 30, 2022 and 2021, the Organization matched 100% of the employees' optional contributions up to 5%. During the years ended June 30, 2022 and 2021, the Organization made contributions totaling \$138,534 and \$107,391 to the plan, respectively.

**8. FAIR VALUE MEASUREMENTS**

Investment income (loss) for the years ended June 30, consisted of the following:

	<u>2022</u>	<u>2021</u>
Unrealized (loss) gain	\$ (19,555)	\$ 263,302
Realized (loss) gain on sales of securities	(90,607)	62,077
	<u>\$ (110,162)</u>	<u>\$ 325,379</u>

The Organization's assets and liabilities recorded at fair value have been categorized based upon a fair value hierarchy in accordance with generally accepted accounting principles. See Note 1 for a discussion of the Organization's policies regarding this hierarchy.

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**8. FAIR VALUE MEASUREMENTS – CONTINUED**

The following fair value hierarchy table's present information about the Organization's assets measured or disclosed at fair value on a recurring basis at June 30, 2022 and 2021, respectively:

	<b>Investment Assets at Fair Value as of June 30, 2022</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Fair Value</b>
Mutual funds	\$ 270,575	\$ -	\$ -	\$ 270,575
Fixed income securities	-	276,912	-	276,912
<b>TOTAL</b>	<b>\$ 270,575</b>	<b>\$ 276,912</b>	<b>\$ -</b>	<b>\$ 547,487</b>
	<b>Investment Assets at Fair Value as of June 30, 2021</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Fair Value</b>
Mutual funds	\$ 630,733	\$ -	\$ -	\$ 630,733
Fixed income securities	-	1,891,995	-	1,891,995
<b>TOTAL</b>	<b>\$ 630,733</b>	<b>\$ 1,891,995</b>	<b>\$ -</b>	<b>\$ 2,522,728</b>

**9. CONTRIBUTIONS CONCENTRATION**

Approximately 25% and 58% of the Organization's contributions were made by three donors for the years ended June 30, 2022 and 2021, respectively.

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**10. LIQUIDITY AND AVAILABILITY OF RESOURCES**

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following at June 30:

	<u>2022</u>	<u>2021</u>
Financial assets, at year end		
Cash	\$ 549,250	\$ 632,207
Investments	547,487	2,522,728
Accounts receivable, net	-	132,210
Pledges receivable, net	<u>559,784</u>	<u>808,186</u>
Total financial assets at June 30	1,656,521	4,095,331
Less: assets unavailable for general expenditures within one year, due to:		
Donor-imposed and time restrictions	<u>760,000</u>	<u>925,000</u>
Total financial assets and liquidity resources available within one year	<u>\$ 896,521</u>	<u>\$ 3,170,331</u>

The Organization obtains certain support from donor-restricted contributions. Because a donor's restriction requires resources to be used for a particular purpose or in a future period, the Organization must maintain sufficient resources to meet those responsibilities of its donors. Due to the donor restrictions above, certain financial assets may not be available for general expenditure within one year.

**11. GRANT INCOME**

The Coronavirus Aid, Relief, and Economic Security (CARES) Act, passed in 2020 by the United States Congress and signed into law by the President of the United States, allocated funds to the Paycheck Protection Program to help small businesses keep workers employed amid the COVID-19 pandemic and economic downturn. On May 6, 2020, the Organization entered into a \$204,392 term loan under the Paycheck Protection Program (the PPP Term Loan). On November 10, 2020, the Organization was granted forgiveness of the loan and related interest expense. The forgiven amount of \$204,392 is reflected in the statement of activities for the year ended June 30, 2021.