ECPAT-USA, INC.

Financial Statements

December 31, 2023

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PKF O'CONNOR DAVIES
ACCOUNTANTS AND ADVISORS

Independent Auditors' Report

To the Board of Directors of
ECPAT-USA, Inc.
Brooklyn, New York

Opinion

We have audited the accompanying financial statements of ECPAT-USA, Inc. which comprise the statement of financial position as of December 31, 2023 and the related statements of activities, functional expenses and cash flows for the year 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 ECPAT-USA, Inc. as of December 31, 2023 and the changes in its net assets, functional expenses and 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. 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 ECPAT-USA, Inc. 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 ECPAT-USA, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

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 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, including omissions, 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 ECPAT-USA, Inc.'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 ECPAT-USA, Inc.'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.

PKF O'Connor Davies, LLP

New York, New York
September 26, 2024

ECPAT-USA, INC.

Statement of Financial Position
As of December 31, 2023

ASSETS	
Cash and cash equivalents	$ 780,352
Investments	1,307,661
Unconditional promises to give	
Without donor restrictions	147,221
With donor restrictions	310,100
Grants receivable	195,287
Program revenue receivable	175,299
Prepaid expenses and other current assets	76,597
Property and equipment, net of allowance for depreciation	693
Total Assets	$ 2,993,210
LIABILITIES AND NET ASSETS	
Liabilities	
Accounts payable and accrued expenses	$ 266,479
Grants payable	135,000
Total Liabilities	401,479
Net assets	
Without donor restrictions	2,028,255
With donor restrictions	563,476
Total Net Assets	2,591,731
Total Liabilities and Net Assets	$ 2,993,210

See notes to financial statements

ECPAT-USA, INC.

Statement of Activities
For the Year Ended December 31, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Contributions	$ 1,106,983	$ 1,067,278	$ 2,174,261
Government grants	529,668	-	529,668
In-kind contributions	577,681	-	577,681
Special events	208,049	-	208,049
Less: event costs	(59,594)	-	(59,594)
Investment income	191,153	-	191,153
Program revenue	312,925	-	312,925
Other revenue	28,963	-	28,963
Satisfaction of program and time restrictions	908,414	(908,414)	-
Total Support and Revenue	3,804,242	158,864	3,963,106
EXPENSES			
Program Services			
Educational programs	2,864,371	-	2,864,371
Total Program Services	2,864,371	-	2,864,371
Supporting Services			
Management and General	351,224	-	351,224
Fundraising	240,671	-	240,671
Total Supporting Services	591,895	-	591,895
Total Expenses	3,456,266	-	3,456,266
Change in Net Assets	347,976	158,864	506,840
NET ASSETS			
Beginning of year	1,680,279	404,612	2,084,891
End of year	$ 2,028,255	$ 563,476	$ 2,591,731

See notes to financial statements

ECPAT-USA, INC.

Statement of Functional Expenses
For the Year Ended December 31, 2023

2023	PROGRAM SERVICES Educational Programs	SUPPORTING SERVICES Management and General	Fundraising	Total
Salaries	$ 895,839	$ 171,805	$ 159,533	$ 1,227,177
Fringe benefits and taxes	310,181	59,487	55,238	424,906
Rent and related items	29,059	6,199	3,487	38,745
Contract services	532,096	-	-	532,096
Grants and awards	283,046	-	-	283,046
Telephone and equipment rental	10,590	2,259	1,271	14,120
Postage and messenger	1,364	291	164	1,819
Office expenses	30,949	6,601	3,712	41,262
Event and meeting expenses	-	-	59,594	59,594
Program expense	69,357	-	-	69,357
Printing	2,860	610	342	3,812
Insurance	5,276	1,125	633	7,034
Professional fees	540,815	93,340	-	634,155
Travel	66,710	14,231	8,005	88,946
Publications and videos	19,980	-	-	19,980
Advertising	33,465	4,016	7,139	44,620
Bad debt expense	12,447	-	-	12,447
Other expenses	9,102	1,942	1,092	12,136
Total Expenses Before Depreciation	2,853,136	361,906	300,210	3,515,252
Depreciation	456	97	55	608
Total Expenses	2,853,592	362,003	300,265	3,515,860
Less expenses of direct benefit to donors on the statement of activities	-	-	(59,594)	(59,594)
Total Expenses Reported by Function on the Statement of Activities	$ 2,853,592	$ 362,003	$ 240,671	$ 3,456,266

See notes to financial statements

ECPAT-USA, INC.

Statement of Cash Flows
For the Year Ended December 31, 2023

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	$ 506,840
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	608
Unrealized (gain) on investments	(144,503)
(Increase) decrease in:	
Unconditional promises to give	129,687
Grants receivable	3,154
Program revenue receivable	(133,096)
Prepaid expenses and other current assets	(35,742)
Increase (Decrease) in:	
Accounts payable and accrued expenses	21,891
Net Cash Provided by Operating Activities	348,839
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from maturity of investments	971,833
Acquisition of investments	(1,903,858)
Net Cash (Used in) Investing Activities	(932,025)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(583,186)
Beginning of year	1,363,538
End of year	$ 780,352

See noted to financial statements

1. Organization

ECPAT-USA, Inc. (the "Organization") is a not-for-profit organization committed to ending commercial sexual exploitation of children including trafficking for sexual purposes. It conducts policy development and advocacy, research, and awareness raising activities to protect children trafficked into the U.S., American children who are trafficked and foreign children exploited by Americans who travel abroad.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements have been prepared using the accrual basis of accounting and conform with accounting principles generally accepted in the United States of America ("US GAAP").

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Net Assets

The Organization reports information regarding its financial position and activities according to two classes of net assets based upon the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Amounts that are not subject to usage restrictions based on donor-imposed requirements. This class also includes assets previously restricted where restrictions have expired or been met. This category may also include amounts designated by the Board of Directors.

Net Assets with Donor Restrictions – Assets subject to usage limitations based on donor-imposed or grantor restrictions. These restrictions may be time-based or may be based on a particular use. Restrictions may be met by the passage of time or by actions of the Organization. Certain restrictions may require the assets to be maintained in perpetuity.

Cash and Cash Equivalents

The Organization considers all highly liquid debt instruments, purchased with a maturity of three months or less, to be cash equivalents. Cash equivalents consist of money market account balances.

2. Summary of Significant Accounting Policies *(continued)*

Investments

Investments consist of equity securities and a United States treasury bill and are reported at fair market value. Realized and unrealized gains and losses are recognized in the year incurred in the statement of activities.

Promises to Give

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increase 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.

The Organization uses the allowance method to determine uncollectible promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises made.

Property and Equipment

Purchased property and equipment is capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as separate line items within the statement of activities as contributions without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as contributions with donor restrictions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service. The Organization reclassifies net assets with donor restrictions to net assets without donor restrictions at that time. Property and equipment are depreciated using the straight-line method over estimated useful lives ranging from five years for equipment and seven years for furniture and fixtures. There were no donor imposed restrictions on property and equipment as of December 31, 2023.

Contributed Services

No amounts have been reflected in the financial statements for donated services. The Organization generally pays for services requiring specific expertise. However, individuals volunteer their time and perform a variety of tasks that assist the Organization, but these services do not meet the criteria for recognition as contributed services.

2. Summary of Significant Accounting Policies *(continued)*

Contributions

Contributions received are recorded as net assets with donor restrictions or net assets without donor restrictions depending on the existence or nature of any donor restrictions.

In-kind Contributions

Contributions of donated non-cash assets are recorded at their fair value in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair value in the period received.

Program Revenue

Program revenue primarily consists of educational programs offered by the Organization. The Organization believes it has one performance obligation to the customers participating in these educational programs: to provide educational services regarding commercial sexual orientation of children including trafficking for sex purposes. The Organization believes it satisfies the performance obligation in its normal course of business as the educational services are provided. Revenue is recognized over time the amount which the Organization has a right to invoice the customer, as such billed amounts corresponds directly with the value to the customer of the Organization performance completed to date. The customers are not entitled to refunds.

Income Taxes

The Organization is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code and has been designated as an organization which is not a private foundation. The Organization recognizes the effect of income tax positions only if those positions are more likely than not to be sustained. Management has determined that the Organization had no uncertain tax positions that would require financial statement recognition or disclosure. The Organization is no longer subject to examinations by the applicable taxing jurisdictions for periods prior to 2020.

Allocation of Functional Expenses

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries and benefits and occupancy which are allocated on the basis of estimates of time and effort.

2. Summary of Significant Accounting Policies *(continued)*

Concentration of Credit Risk

Financial instruments that potentially subject the Organization to concentrations of credit and market risk consist principally of cash and cash equivalents on deposit with financial institutions, investments held at financial institutions and unconditional promises to give. Deposits held at financial institutions insured by the Federal Deposit Insurance Corporation ("FDIC") are insured up to $250,000. Investment holdings at financial institutions insured by the Securities Investor Protection Corporation ("SIPC") are insured up to $500,000 ($250,000 for cash holdings). At times cash balances may exceed the FDIC limit. As of December 31, 2023, the Organization's uninsured cash balances on deposit totaled approximately $354,873.

As of December 31, 2023, the Organization's diversified investment portfolio includes approximately 56% invested in Spdr S&P 500 Exchange Traded Fund at a reputable financial institution.

The Organization does not have a material concentration of credit risk, with respect to unrestricted promises to give, due to generally short payment terms.

Change in Accounting Policies

Leases

The Organization adopted Financial Accounting Standards Board Topic 842, Leases, using the effective date method with January 1, 2022, as the date of initial adoption, with certain practical expedients available. The Organization elected the available practical expedient to account for its existing operating leases as operating leases, under the new guidance, without reassessing (a) whether the contracts contain leases under the new standard, (b) whether classification of capital leases or operating leases would be different in accordance with the new guidance, or (c) whether the unamortized initial direct costs before transition adjustments would have met the definition of initial direct costs in the new guidance at lease commencement. The standard had no impact on the Organization's financial statements.

Accounts Receivable and Allowance for Credit Losses

In June 2016, the Financial Accounting Standards Board issued an accounting pronouncement related to the measurement of credit losses on financial instruments. This pronouncement and subsequently issued Accounting Standards Updates, clarified certain provisions of the new guidance, changed the impairment model for most financial assets and required the use of an "expected loss" model for instruments measured at amortized cost. Under this model, entities are required to estimate the lifetime expected credit losses on such instruments and record an allowance to offset the amortized cost basis of the financial asset, resulting in a net presentation of the amount expected to be collected on the financial asset.

2. Summary of Significant Accounting Policies *(continued)*

Accounts Receivable and Allowance for Credit Losses (continued)

The adoption of this guidance on January 1, 2023 expanded the Organization's required disclosures for its expected credit losses for its grants receivable and program revenue receivable but did not have a material effect on its financial statements.

Prior to January 1, 2023, accounts receivable were recorded at the amount invoiced less an allowance for doubtful accounts. The net amount of accounts receivable and corresponding allowance for doubtful accounts were presented on the statement of financial position, if any. Receivable balances were assessed at every reporting date for collectability and an allowance was recorded if the receivable was considered uncollectable. There was no allowance for doubtful accounts as of December 31, 2022. Subsequent to January 1, 2023, accounts receivable are recorded at amortized cost less an allowance for credit losses that are not expected to be recovered. The amount of accounts receivable and corresponding allowance for credit losses are presented on the statement of financial position. The Organization maintains allowances for credit losses resulting from the expected failure or inability of its customers to make required payments. The Organization recognizes the allowance for credit losses at inception and reassesses at every reporting date based on the asset's expected collectability. The allowance is based on multiple factors including historical experience with uncollectible accounts, the credit quality of the customer base, the aging of such receivables and current macroeconomic conditions as well as expectations of conditions in the future, if applicable. The Organization's allowance for credit losses is based on the assessment of the collectability of assets pooled together with similar risk characteristics. There was no allowance for credit losses as of December 31, 2023.

The Organization records a provision for expected credit losses using a historical loss-rate method based on the ratio of its historical write-offs to its average accounts receivable. At each reporting period, the Organization assesses whether financial assets in a pool continue to display similar risk characteristics. If particular receivables no longer display risk characteristics that are similar to those of the receivables in the pool, the Organization may determine that it needs to move those receivables to a different pool or perform an individual assessment of expected credit losses for those specific receivables.

The Organization's accounts receivable are short-term in nature and written off only when all collection attempts have failed. If any recoveries are made from any accounts previously written off, they will be recognized in income or an offset to credit loss expense in the year of recovery, in accordance with the Organization's accounting policy election. There were no material write offs to the financial statements as a whole for the year ended December 31, 2023.

3. Restrictions on Net Assets

The Organization's net assets with donor restrictions consists of the following at December 31:

	2023
Program purposes	$ 538,476
Time restricted	25,000
	$ 563,476

The Organization reclassifies a portion of the contribution from net assets with donor restrictions upon satisfaction of restriction.

4. Promises to Give

Unconditional promises to give without and with donor restrictions consist of donations and are due in less than one year.

5. Liquidity and Availability of Financial Assets

The following reflects the Organization's financial assets as of the statement of financial position dates, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the statement of financial position date.

	December 31, 2023
Financial assets:	
Cash and cash equivalents	$ 780,352
Investments	1,307,661
Unconditional promises to give	457,321
Grants receivable	195,287
Program revenue receivable	175,299
Total Financial Assets	2,915,920
Less: donor restricted net assets	(563,476)
Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	$ 2,352,444

The Organization will rely on future contributions, grants and program revenue to support its ongoing operations.

6. Fair Values of Financial Instruments

The Organization follows U.S. GAAP guidance on Fair Value Measurements which defines fair value and establishes a fair value hierarchy organized into three levels based upon the input assumptions used in pricing assets. Level 1 inputs have the highest reliability and are related to assets with unadjusted quoted prices in active markets. Level 2 inputs relate to assets with other than quoted prices in active markets which may include quoted prices for similar assets or liabilities or other inputs which can be corroborated by observable market data. Level 3 inputs are unobservable inputs and are used to the extent that observable inputs do not exist.

The estimated fair value of the Organization's financial instruments are as follows:

December 31, 2023	Carrying Amount	Fair Value
Financial assets:		
Cash and cash equivalents	$ 780,352	$ 780,352
Unconditional promises to give	457,321	457,321
Grants receivable	195,287	195,287
Program receivable	175,299	175,299
Investments	1,307,661	1,307,661

The following methods and assumptions were used by the Organization estimating its fair value disclosures for financial instruments: Cash and cash equivalents, unconditional promises to give, grants receivable and program revenue receivable. The carrying amounts reported in the statement of financial position approximate fair value because of the short maturities of those instruments. The fair value of investments are based upon quoted market prices.

7. Investments

Investments consist of corporate stocks and a United States treasury bill, are stated at fair value based on quoted prices in active markets (all Level 1 measurements), and are summarized as follows, at December 31, 2023:

	Cost	Fair Value	Unrealized Gain
Corporate Stocks	$ 959,999	$ 1,103,744	$ 143,745
US Treasury bill	203,159	203,917	758
	$ 1,163,158	$ 1,307,661	$ 144,503

7. Investments *(continued)*

Investment return consisted of the following for the year ended December 31, 2023:

Unrealized gain on investments	$ 144,503
Realized gain on investments	1,504
Interest and dividends, net	45,146
	$ 191,153

8. Property and Equipment

Property and equipment consist of the following at December 31:

	2023
Equipment	$ 13,529
Furniture and Fixtures	9,658
	23,187
Less: Accumulated Depreciation	(22,494)
	$ 693

Depreciation expense amounted to $608 in 2023.

9. Grants Payable

Grants payable consist of grants awarded but not yet paid.

10. Commitments and Contingency

The Organization leased office space from August 1, 2022 through April 30, 2023. Said lease was subsequently extended from May 1, 2023 through October 31, 2023 at $2,675 per month, October 31, 2023 through March 30, 2024 at $3,500 per month and from April 1,2024 through September 30, 2024 at $3,600 per month.

Rent expense for the year ended December 31, 2023 was $35,363.

Government grants are subject to audit by the appropriate agency.

11. Retirement Plan

The Organization established a 401(K) Profit Sharing Plan that provides for a discretionary matching contribution. There were no matching contributions made in 2023.

12. Contributions In-Kind

The Organization received the following in-kind contributions during the year ended December 31:

	2023
Legal Services	$ 577,681

The Organization was provided legal services at no cost. Based on current market rates for legal services, the Organization would have paid $577,681 for the year ended December 31, 2023.

13. Federal Employee Retention Credits

The Organization qualified and applied for Federal Employee Retention Credits under both the 2020 CARES Act and Economic Aid Act totaling $106,613. The amount receivable as of December 31, 2023 for said grant was $30,021 and is included in grants receivable in the statement of financial position as of December 31, 2023.

14. Evaluation of Subsequent Events

The Organization has evaluated subsequent events through September 26, 2024, the date which the financial statements were available to be issued.

* * * * *