

INHOPE Association

Report on the annual accounts 2016



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All amounts in this report are stated
in Euros.

INHOPE Association

Director's Report

Date: 21 April 2017

Introduction

The Director's report is a summary of INHOPE's main activities and achievements during 2016. It is also an opportunity to reflect on the main challenges ahead.

INHOPE is the global umbrella organisation uniting National Internet hotlines engaged in combating online child sexual exploitation and child sexual abuse material. The mission of INHOPE is to support and enhance the work of these hotlines to strengthen the International efforts to combat child sexual abuse using a multi stakeholder approach. INHOPE's vision is an Internet free of child sexual abuse.

Summary

2016 was a productive, but also a challenging year for our Organisation. Some of the main highlights include delivering the INHOPE Strategy 2016-2020 which was approved by INHOPE members at the AGM in May 2016 in Copenhagen and the successful completion of the LOT1 and LOT2 EC-funded projects. As regards the Strategy, it demanded extensive consultation with the Board, the membership and the Advisory Board as well as the active involvement from all the members of the Secretariat. It is also important to mention the efforts made to increase the funding opportunities for INHOPE including the submission of two successful EC-funded project proposals. Our INHOPE Corporate Sponsorship Programme has continued to grow with new members committing themselves to supporting us annually. Other important donors have also confirmed to continue their generous sponsorship, although they have not signed up to become an official INHOPE Corporate sponsor. On the Communications side we had a vibrant SID 2016 with lots of action on our social media platforms.

2016 in a nutshell

To enhance and strengthen its position, as well as expand the depth, breadth and pace of the reduction of online CSAM, in 2016 INHOPE committed to do more. This was translated in the development of the INHOPE Strategic Plan 2016-2020 and underlying business plan which were developed to set clear milestones to accelerate the progress of the reduction of CSAM available online and to advance progress of the Association. The development of the INHOPE strategy and business plan was arguably one of the biggest achievements of 2016. Its development was guided by a participatory process where INHOPE members, the Executive Committee and the Advisory Board were extensively consulted. The aim was to have a strategy that was meaningful to INHOPE and its members and a clear business plan that set the main objectives and KPI's to assess progress. Members voted and approved the current strategy during the AGM in May 2016 in Copenhagen.

2016 was also marked by two successful members meetings in May 2016 in Copenhagen and in November 2016 in Tallinn. Members meetings are important because they provide our members with the opportunity to get to know each other share expertise and ideas and together determine the future of our organisation. The AGM 2016 in Copenhagen was particularly relevant because the INHOPE Strategy 2016-2020 was approved by all members but also because a new Executive Committee (Board) was elected for the coming 2 years. The former Board constituted by Amela Efendic (president), John Shehan (vice-president), Gitte Jakobsen (treasurer), Thiago Tavares (Board member with Foundation portfolio) and Tomislav Ramljak (Board member without portfolio) was replaced by the new Board constituted by:

- Ardina Meinoutje Vera Gerkens born on December 5th, 1965 in Naarden, The Netherlands, President
- Gregor Richard Hartmut Schwarz born on July, 26th, 1976 in Berlin, Germany, Vice-President
- Malle Hallimäe, born on December, 21st, 1959 in Tallinn, Estonia, Treasurer
- Sir Richard Tilt, born on March 11th, 1944 in Retford, UK, Board member without portfolio

- Miguel Torres García, born on June 20th, 1969 in Liege, Belgium, Board member with Foundation portfolio
- Thembinkosi Philemon Wakashe, born on 29th November 1960 in South Africa, Board member without portfolio.

The member's meeting in Tallinn was the first meeting led by the new Board. It had an introspective, transparent and honest character where members were given the opportunity to openly discuss issues that matter to them. During this meeting the Business Plan 12 M was presented to members. In general, the plan was considered as quite ambitious but as necessary if our organisation really wants to remain a relevant partner in the fight against CSAM.

2016 was also marked by a number of successes including the completion of the LOT1 and LOT2 projects funded by the European Commission. Both projects corresponded to the First phase: Digital Service Infrastructure for making a better and safer internet for kids – SMART 2016/1004. The overall objective of LOT1 was to build a Digital Service Infrastructure for making a better and safer internet for kids to deploy services that help make the internet a trusted environment for children through actions that empower and protect them online. LOT 2 concerned the development of a Core Service platform that provides functions to support hotline transactions and the removal of online child sexual abuse material. All deliverables were submitted and approved. This allowed us to receive the last project payments at the beginning of Q3.

In 2016 the EC launched a new tender for project proposals for LOT1 and LOT2 Second phase: Digital Service Infrastructure for making a better and safer internet for kids – SMART 2016/1004. The main aim of this second phase was to continue improving the platforms and services delivered in the 1st phase of both LOT1 and LOT1 projects. INHOPE applied to be the leading partner of LOT2 and we were invited to be a sub-contractor of EUN for LOT1. Both projects were successfully awarded. LOT1 officially started in October 2016 and LOT2 in November 2016. The first payments for these projects are expected to be received in the first half of 2017.

On the Communications side, activities remained moderate because of the long-term absence of our Comms Manager. In spite of this some Comms highlights were achieved including a successful Safer Internet Day campaign. INHOPE also actively contributed to our partner projects and initiatives and gave as much visibility as possible to our members' activities and INHOPE achievements through our social media platforms and our internal newsletter.

As regards our engagement and commitment to members, in 2016 INHOPE continued promoting the invaluable work of its network of hotlines to European and international stakeholders and partners. INHOPE continued providing its members with direct training as well as training opportunities with 3rd parties including Interpol. As part of our core engagement with members INHOPE kept on improving and expanding the scope of the current reports exchange geographical platform (supporting new hotlines participating to the network) and systems platforms (by constantly working on improving the INHOPE's ICCAM platform functionalities, and developing new tools that can be a stepping stone for potential new members). INHOPE also facilitated working groups of hotlines on specific subjects which are seen as critical across countries. Last, we published global statistics about CSAM which are relevant to inform policy makers and stakeholders around the globe.

2016 was an active year for INHOPE's visibility and we were represented at numerous prestigious and international events including the European Internet Foundation (EIF) breakfast on CSAM at European Parliament on 27th April 2016; the Internet Governance Forum in Guadalajara, Mexico, UN meeting in Geneva, among others. In 2016 INHOPE also Secured INHOPE's representation on Twitter Trust and Safety Council and we were invited to become an Advisory Board member of EC project on Hate Speech Mandola.

As regards fundraising, efforts have been a priority for 2016 with the goal of diversifying the funding models. An important achievement was the growth of the Corporate Sponsorship programme. 2016 was focused on looking for opportunities to expand INHOPE's Corporate Sponsors and strategic partners related to potential funding sources such as the tech titans of the internet industry, and other connections and relationships that

benefit INHOPE, such as corporate entities, LEAs (Interpol, EUROPOL, FBI), NGOs and WePROTECT. Specially the first half of 2016 was quite successful in terms of solidifying relationships and INHOPE's future funding and putting INHOPE on the global map. There are still many companies ripe for outreach and we will continue to work to gain their financial support. During 2016 INHOPE continued to reach out to INHOPE 'friends' and partners with the following relationship and financial commitments now in place:

- Corporate partner committed to USD 150,000 for 2016, to be paid by the end of Q2 (previously 100k has been given);
- TrendMicro has become an Annual Corporate Sponsor (USD 28,000) - from January 2016;
- From Twitter we received €8,000 in 2016 and, if conditions allow them, they might become an Annual Corporate Sponsor in 2017 (€25,000).
- Crisp Thinking donated €15,000
- GoDaddy is looking to become an Annual Corporate Sponsor in 2017 (€25,000);
- PayPal has committed to become a corporate sponsor contributing €25,000 annually.
- Towards the end of 2016 Barclays Bank become an INHOPE Corporate Sponsor. We received €25,000 and this support should continue in 2017.
- From Google we got €25,000 in 2016 and they have committed to continue their support in 2017.
- Microsoft has continued supporting us with €25,000 annually.

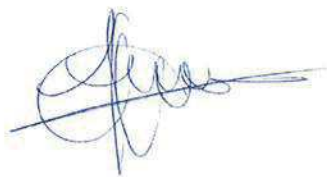
Unexpected costs hit INHOPE accounts in 2016. Most of them related to legal costs, expert consultants and HR support. Legal support was required on a number of levels but mainly because of HR issues but also because the legislation regarding Data Protection has become much stricter in Europe and it was necessary to review our operations, in particular the functioning of our Core platform ICCAM from a legal perspective. These costs are expected to continue increasing in 2017 as no budget for legal requirements was include in the project proposal for LOT2. This was not done because the amount of the tender was not high enough to include legal costs so INHOPE had to bear these increasing costs.

Because of the start of the new projects happened in the middle of the restructuring of the Secretariat, where a number of old staff left the organisation and new staff joined, this implied that some gaps had to be filled with expert consultants. At the beginning of 2016, the Secretariat staff counted with 6 full-time members of staff including a Programme Manager and a Project Manager in charge of the EC projects, a Finance Manager, a Communications manager, a Global Partnerships Manager and the Executive Director. Both the Programme Manager and the Project Manager left the team after the EC projects ended at the end of August and September, respectively. A part-time office manager was hired in October to help carry out the administrative tasks previously carried out by the Programme Manager. Only in January 2017, after the EC contract for LOT 2 was signed, a new full-time Project Manager joined the team.

Also, the changing of the financial team implied extra costs unforeseen, Last, having a member of the Secretariat on sick leave for several months during this reporting period also had an impact on our accounts as extra HR support was necessary to cover all the legal requirements demanded in the Netherlands to support the reinsertion of workers who have been absent for a long time.

With the current lack of structural funding, the chances of achieving impactful positive improvements at the Secretariat, and for INHOPE as an organisation, remain limited. It is, for this reason that a core objective for 2016 was and remains to date to aggressively pursue sustainable funding sources, continue increasing the amount of corporate sponsorship and succeed in the attainment of new projects beyond EC funded ones.

Agreed and signed on 21 April 2017,
International Association of Internet Hotline providers - INHOPE



A. Gerken
Executive Director President of the Board

INTERNATIONAL ASSOCIATION OF INTERNET HOTLINES

INHOPE



G. Schwarz
Vice-President of the Board



INHOPE Association

1. BALANCE SHEET AS AT (before result appropriation)

		<u>December 31, 2016</u>	<u>December 31, 2015</u>
ASSETS	note		
Fixed assets			
<i>Financial fixed assets</i>			
Other financial fixed assets		9,600	9,600
<i>Receivables</i>			
Debtors	(3.4)	184,950	276,378
Receivables from EC	(3.5)	3,383	-
Taxation	(3.6)	4,371	18,497
Prepayments and other receivables	(3.7)	<u>9,431</u>	<u>10,141</u>
		202,135	305,016
Cash and Bank	(3.8)	384,573	313,519
		<u>596,308</u>	<u>628,135</u>



		<u>December 31, 2016</u>	<u>December 31, 2015</u>
	note		
EQUITY AND LIABILITIES			
Equity			
Reserves		276,091	299,054
Result financial year		<u>-3,829</u>	<u>-22,963</u>
		272,262	276,091
Restricted fund reserve	(3.9)	9,864	12,388
Current liabilities			
Creditors		1,212	80,967
Membership fees in advanced	(3.10)	1,750	11,339
Taxation and social security	(3.11)	35,005	38,290
Other payable and deferred expenses	(3.12)	<u>276,215</u>	<u>209,060</u>
		314,182	339,656
		<u>596,308</u>	<u>628,135</u>



INHOPE Association

2. STATEMENT OF INCOME AND EXPENDITURE FOR THE YEAR

		<u>2016</u>	<u>2015</u>
	note		
Income			
European Commission		-	-6,537
LOT 1 and LOT 2	(4.1)	316,131	557,205
Membership fees	(4.2)	259,965	245,023
Donations and Funding partnership	(4.3)	279,093	113,637
Charged cost		23,000	-
		<u>878,189</u>	<u>909,328</u>
Expenses			
Personnel costs	(4.4)	477,229	399,768
Subcontractor costs		29,880	87,703
Donation Stichting INHOPE Foundation		15,000	-
Travel/ meeting cost	(4.5)	146,356	149,266
Premises expenses	(4.6)	27,237	29,458
Training costs		2,523	341
Office expenses	(4.7)	37,264	31,541
General expenses	(4.8)	<u>149,052</u>	<u>225,521</u>
		<u>884,541</u>	<u>923,598</u>
Net result		-6,352	-14,270
Withdrawal from restricted fund reserve		<u>2,523</u>	<u>-8,693</u>
Result financial year		<u>-3,829</u>	<u>-22,963</u>



INHOPE Association

3. NOTES TO THE BALANCE SHEET AS AT DECEMBER 31, 2016

3.1 Accounting principles used in the preparation of the financial statements

Dutch Gaap

The financial statements have been prepared in accordance with Dutch GAAP RJK C1 'small non profit organisations'.

Consolidation

INHOPE Association has certain control over Stichting INHOPE Foundation. In accordance with C1.401 of RJK C1 'small non profit organisations' consolidated accounts are not drawn up.

Budget

The Board draws up a budget for each individual project. These budgets are used to monitor the projects and with this the financial position of the Association. The time period of most projects exceeds the period of the book year. For this reason, a yearly budget is not included in the annual accounts.

Foreign currencies

Foreign currency transactions occurring during the financial year are recognised in the financial statements at exchange rates prevailing on the transaction date. Exchange rate differences are recorded in the income and expenditure statement.

3.2 Principles of valuation of assets and liabilities

General

The valuation of assets and liabilities and the determination of the result are recorded under the historical cost method. Assets and liabilities are presented at face value unless otherwise indicated.

Cash in bank

Cash in bank is stated at nominal value and is unrestricted for use by the association.

3.3 Principles for the determination of the results

Income and expenses are accounted for on an accrual basis. Income is recorded when realised. Losses originating before the end of the financial year are taken into account if they have become known before preparation of the financial statements. The result is based on the difference between income and expenses.

Grants are given to cover specific and overhead expenses. Grant income is recorded in the year that the related expenses occur. For grants received for which the expenses have not yet occurred, a deferred income (grants received in advance) is accounted for.

Regarding the recording of the LOTS, income is recognized based on the total result of the project. If a project is expected to result in a loss, this loss will be accounted for as soon as this loss is foreseeable. If a project is expected to result in a profit, this profit will be amortized during the project term.

Expenses are recorded when they occur or when they are foreseeable provided that the cost is related to the current financial year or can be allocated to a specific project.

Pensions

Personnel has been granted a pension scheme. This is a scheme, where personnel can select a pension insurance company of choice and in which a percentage of their gross wages is transferred to an insurance company.

Corporation taxes

On September 13, 2012 the Dutch tax authorities declared that Inhope is not subject to corporation tax.

3.4 Debtors

A provision for bad debtors has not been accounted for.



	12-31-2016	12-31-2015
3.5 Receivables from EC		
Direct cost for LOT 2	3,383	-
Advanced payment	-	-
Receivable for LOT 2	3,383	-
3.6 Taxation		
VAT	4,371	18,497
3.7 Prepayments and other receivables		
Interest	532	2,379
Prepayments	8,899	7,762
	9,431	10,141
3.8 Cash and bank		
Current account	34,573	20,000
Deposits	350,000	293,519
	384,573	313,519
3.9 Restricted fund reserve		
A restricted fund reserve has been recognized for funds that have been donated that are to be spent on a specific matter.		
<i>Training</i>		
A company has donated money for training sessions. In 2016 there has been a withdrawal of € 2,524.		
<i>Annual report production</i>		
A company has donated money for the annual report production. In 2016 there has been no withdrawal.		
3.10 Membership fees invoiced in advance		
Invoiced in advance	1,750	11,339
3.11 Taxation and social security		
RSI tax and pension	35,005	38,290



3.12 Other payable and deferred expenses

	12-31-2016	12-31-2015
Deferred income LOT 1 and LOT 2, phase 1	-	114,843
Deferred income LOT 1 and LOT 2, phase 2	88,908	-
Deferred income funding annual partnerships	52,084	61,443
Administration fee, audit fee and fiscal fee	64,048	8,050
Accrual for travel/meeting costs	-	3,183
Lawyer and notary costs	8,250	-
Reserve holiday allowance	2,831	3,991
Net wages	-	3,288
Credit cards	937	2,508
Severance costs	57,816	-
Miscellaneous expenses	1,341	11,754
	<u>276,215</u>	<u>209,060</u>

3.13 Commitments and rights not shown at the face of the balance sheet

Rental obligations

The Association has entered into a rental agreement to rent an office in Amsterdam. The agreement is for an indefinite period. Both Landlord and Tenant have a mutual term of notice of six months. The annual rental fee amounts € 21,008, which is subject to an annual index every July 1. Regarding the rental agreement a deposit of € 9,600 has been paid.

Pension

Personnel has been granted a pension scheme. This is a scheme, where personnel can select a pension insurance company of choice and in which a percentage of their gross wages is transferred to an insurance company. During 2016, payments were made directly to the personnel in stead of the insurance company for an amount of approximately € 22,500. Income taxes were not withheld. There may be a risk that local Tax Authorities will impose a claim for the not withheld income taxes.

Donations

In 2016 it has been agreed to pay to Stichting Inhope Foundation an amount of € 15,000 for the support provided to the delivery of the Strategic Business Plan. This donation will be reviewed during 2020 and approved as to the amount of future donations.



INHOPE Association

4. NOTES TO THE STATEMENT OF INCOME AND EXPENDITURE FOR THE YEAR 2016

4.1 LOT 1 and LOT 2 (first phase)

LOT 1 is the creation of a core service platform for resources and capacity building where INHOPE helps make the internet a trusted environment for children and build a BIK NET. The subsidy has been granted by the European Commission to EUN Partnership. INHOPE Association has been subcontracted. The grant amounts to € 240,160. The final part of the grant has been spent in 2016.

LOT 2 involves the creation and deployment of a core service platform for providing a database and a technical infrastructure to support hotlines and the removal of online child sexual abuse material. The subsidy has been granted by the European Commission. The subsidy amounts to € 599,901. The final part of the grant has been spent in 2016.

LOT 1 and 2 (second phase)

These projects concern Digital Service Infrastructure for making a better and safer internet for kids. The main aim of this second phase is to continue improving the platform and services delivered in the first phase of both LOT 1 and LOT 2 projects. INHOPE is the leading partner of LOT 2 and the subcontractor of EUN for LOT 1.

LOT 1 started in October 2016 and will finish in May 2019. The total grant amounts to € 395,999.

LOT 2 started in November 2016 and will finish in July 2019. The total grant amounts to € 1,199,995.

4.2 Membership fees

This includes fee income from members.

4.3 Donations and Funding partnership

These are donations and contributions related to the Funding partnership.

4.4 Personnel costs

Personnel costs includes salary, taxes, social premiums and pension costs for the staff, and also severance costs. The average number of employees in 2016 was 1.9 in The Netherlands and 4.5 abroad. (2015: 2.5 and abroad 4.5).

The Executive Committee members do not receive a remuneration.

4.5 Travel / meeting costs

This includes expenses of staff, and meetings and travel costs.

4.6 Premises expenses

This includes rent and insurance.

4.7 Office expenses

Office expenses concerns expenses made by the staff for the office machinery, postage, telecommunications and stationary.

4.8 General expenses

This concerns audit and advisor fees, external support, P&R, other direct expenses and bank interests and charges.



4.9 Subsequent events

There are no subsequent events.

Signing of the financial statements

Amsterdam, September 15, 2017

A.M.V. Gerkens
President

G.R.H. Schwarz
Vice-President

M. Hallimaë
Treasurer

M. Torres Garcia

T.P. Wakashe

R.R. Tilt

To the General Assembly and the Executive Committee of
INHOPE Association
Jozef Israëlskade 46V
1072 SB Amsterdam

1. INDEPENDENT AUDITOR'S REPORT

A. Report on the audit of the financial statements 2016 included in the annual accounts

Our opinion

We have audited the financial statements 2016 of INHOPE Association, based in Amsterdam.

In our opinion the accompanying financial statements give a true and fair view of the financial position of INHOPE Association as at 31 December 2016, and of its result for 2016 in accordance with RJK-C1 'small non profit organisations' of the Dutch Accounting Standards Board.

The financial statements comprise:

1. the balance sheet as at 31 December 2016;
2. the profit and loss account for 2016; and
3. the notes comprising a summary of the accounting policies and other explanatory information.

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the 'Our responsibilities for the audit of the financial statements' section of our report. We are independent of INHOPE Association in accordance with the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics). We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

B. Report on the other information included in the annual accounts

In addition to the financial statements and our auditor's report thereon, the annual accounts contains other information that consists of:

- director's report.

Based on the following procedures performed, we conclude that the other information is consistent with the financial statements and does not contain material misstatements. We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements. By performing these procedures, we comply with the requirements of the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the financial statements.

The executive committee is responsible for the preparation of the other information, including the director's report in accordance with RJK-C1 'small non profit organisations' of the Dutch Accounting Standards Board.

C. Description of responsibilities regarding the financial statements

Responsibilities of the executive committee for the financial statements

The executive committee is responsible for the preparation and fair presentation of the financial statements in accordance with RJK-C1 'small non profit organisations' of the Dutch Accounting Standards Board. Furthermore, the executive committee is responsible for such internal control as the executive committee determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error. As part of the preparation of the financial statements, the executive committee is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting framework mentioned, the executive committee should prepare the financial statements using the going concern basis of accounting unless the executive committee either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.



Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit assignment in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion. Our audit has been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audit. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgement and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included e.g.:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. 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;
- Obtaining 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 company's internal control;
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the executive committee;
- Concluding on the appropriateness of the executive committee's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company to cease to continue as a going concern;
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures; and
- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit.

Amsterdam, September 15, 2017

Horlings Accountants & Belastingadviseurs B.V.

C. Rabe
Registeraccountant