

## **FINANCIAL STATEMENTS**



**POLARIS PROJECT**

FOR A WORLD WITHOUT SLAVERY

**FOR THE YEAR ENDED DECEMBER 31, 2012  
WITH SUMMARIZED FINANCIAL  
INFORMATION FOR 2011**

# POLARIS PROJECT, INC.

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Polaris Project, Inc.  
Washington, D.C.

We have audited the accompanying financial statements of Polaris Project, Inc. which comprise the statement of financial position as of December 31, 2012, 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.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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MEMBER OF CPAMERICA INTERNATIONAL, AN AFFILIATE OF HORWATH INTERNATIONAL  
MEMBER OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS' PRIVATE COMPANIES PRACTICE SECTION

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Polaris Project, Inc. as of December 31, 2012, and the change 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.

## Report on Summarized Comparative Information

We have previously audited Polaris Project, Inc.'s 2011 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated July 11, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2011, is consistent, in all material respects, with the audited financial statements from which it has been derived.

A handwritten signature in cursive script that reads "Gelman Rosenberg & Freedman".

Bethesda, Maryland  
August 26, 2013

**POLARIS PROJECT, INC.**  
**STATEMENT OF FINANCIAL POSITION**  
**AS OF DECEMBER 31, 2012**  
**WITH SUMMARIZED FINANCIAL INFORMATION FOR 2011**

<b>ASSETS</b>		<u>2012</u>	<u>2011</u>
<b>CURRENT ASSETS</b>			
Cash and cash equivalents		\$ 3,932,429	\$ 1,465,967
Grants receivable, current portion (Note 2)		478,350	359,706
Other receivables		85,986	208,795
Prepaid expenses		<u>159,680</u>	<u>86,606</u>
Total current assets		<u>4,656,445</u>	<u>2,121,074</u>
<b>PROPERTY AND EQUIPMENT</b>			
Furniture and equipment		102,636	87,294
Vehicles		<u>19,781</u>	<u>19,781</u>
		122,417	107,075
Less: Accumulated depreciation		<u>(42,132)</u>	<u>(41,888)</u>
Net property and equipment		<u>80,285</u>	<u>65,187</u>
<b>NONCURRENT ASSETS</b>			
Grants receivable, net of current portion (Note 2)		200,000	-
Deposits		<u>158,720</u>	<u>24,505</u>
Total noncurrent assets		<u>358,720</u>	<u>24,505</u>
<b>TOTAL ASSETS</b>		<b><u>\$ 5,095,450</u></b>	<b><u>\$ 2,210,766</u></b>
<b>LIABILITIES AND NET ASSETS</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable		\$ 59,628	\$ 44,646
Accrued wages and benefits		<u>125,240</u>	<u>101,046</u>
Total current liabilities		<u>184,868</u>	<u>145,692</u>
<b>NET ASSETS</b>			
Unrestricted		946,300	783,619
Temporarily restricted (Note 3)		<u>3,964,282</u>	<u>1,281,455</u>
Total net assets		<u>4,910,582</u>	<u>2,065,074</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>		<b><u>\$ 5,095,450</u></b>	<b><u>\$ 2,210,766</u></b>

See accompanying notes to financial statements.

## POLARIS PROJECT, INC.

**STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS  
FOR THE YEAR ENDED DECEMBER 31, 2012  
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2011**

	2012			2011
	Unrestricted	Temporarily Restricted	Total	Total
<b>SUPPORT AND REVENUE</b>				
Contributions and grants (Note 7)	\$ 2,753,847	\$ 3,685,404	\$ 6,439,251	\$ 3,202,897
In-kind contributions (Note 4)	3,695,054	-	3,695,054	1,003,250
Training	57,500	-	57,500	67,550
Honoraria and other	26,325	-	26,325	66,462
Net assets released from donor restrictions (Note 3)	<u>1,002,577</u>	<u>(1,002,577)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>7,535,303</u>	<u>2,682,827</u>	<u>10,218,130</u>	<u>4,340,159</u>
<b>EXPENSES</b>				
Program Services	6,623,224	-	6,623,224	3,178,825
General and Administrative	380,977	-	380,977	547,749
Fundraising	<u>368,421</u>	<u>-</u>	<u>368,421</u>	<u>281,592</u>
Total expenses	<u>7,372,622</u>	<u>-</u>	<u>7,372,622</u>	<u>4,008,166</u>
Change in net assets before other item	162,681	2,682,827	2,845,508	331,993
<b>OTHER ITEM</b>				
Japan activity	<u>-</u>	<u>-</u>	<u>-</u>	<u>(123,429)</u>
Change in net assets	162,681	2,682,827	2,845,508	208,564
Net assets at beginning of year	<u>783,619</u>	<u>1,281,455</u>	<u>2,065,074</u>	<u>1,856,510</u>
<b>NET ASSETS AT END OF YEAR</b>	<b><u>\$ 946,300</u></b>	<b><u>\$ 3,964,282</u></b>	<b><u>\$ 4,910,582</u></b>	<b><u>\$ 2,065,074</u></b>

## POLARIS PROJECT, INC.

**STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2012  
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2011**

	2012			2011	
	Program Services	General and Administrative	Fundraising	Total Expenses	Total Expenses
Salaries and wages	\$ 1,928,534	\$ 82,200	\$ 209,763	\$ 2,220,497	\$ 1,767,037
Fringe benefits (Note 6)	257,030	58,195	28,529	343,754	267,848
Facilities and equipment (Note 5)	287,189	54,504	33,547	375,240	363,955
Depreciation and amortization	10,266	5,987	62	16,315	16,902
Donated technology	923,640	1,775	-	925,415	-
Operating expenses	260,482	21,397	32,624	314,503	266,368
Insurance	23,899	3,499	1,422	28,820	24,259
Travel and meeting expenses	56,209	16,252	899	73,360	77,705
Contract services	65,291	-	-	65,291	-
Professional fees (Note 4)	2,729,191	109,288	53,893	2,892,372	1,168,031
Other	81,493	27,880	7,682	117,055	39,350
Bad debt	-	-	-	-	16,711
<b>TOTAL</b>	<b>\$ 6,623,224</b>	<b>\$ 380,977</b>	<b>\$ 368,421</b>	<b>\$ 7,372,622</b>	<b>\$ 4,008,166</b>

## POLARIS PROJECT, INC.

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2012  
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2011**

	<u>2012</u>	<u>2011</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 2,845,508	\$ 208,564
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	16,315	16,902
Loss on disposal of furniture and equipment	3,957	-
Bad debt expense	-	16,711
(Increase) decrease in:		
Grants receivable	(318,644)	210,540
Other receivables	122,809	(180,610)
Prepaid expenses	(73,074)	(63,633)
Deposits	(134,215)	14,095
Increase (decrease) in:		
Accounts payable	14,982	19,774
Accrued wages and benefits	<u>24,194</u>	<u>(11,732)</u>
Net cash provided by operating activities	<u>2,501,832</u>	<u>230,611</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of furniture and equipment	<u>(35,370)</u>	<u>(29,903)</u>
Net cash used by investing activities	<u>(35,370)</u>	<u>(29,903)</u>
Net increase in cash and cash equivalents	2,466,462	200,708
Cash and cash equivalents at beginning of year	<u>1,465,967</u>	<u>1,265,259</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b><u>\$ 3,932,429</u></b>	<b><u>\$ 1,465,967</u></b>



**POLARIS PROJECT, INC.**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION**

Organization -

Polaris Project, Inc. is a non-profit organization, incorporated in the State of Rhode Island in 2002. The organization is committed to combating human trafficking and modern-day slavery. Polaris Project, Inc. has offices in Washington, D.C. and New Jersey. The organization combines direct intervention, survivor support, policy advocacy, and movement building into a comprehensive approach to combat human trafficking.

Basis of presentation -

The accompanying financial statements are presented on the accrual basis of accounting, and in accordance with FASB ASC 958, *Not-for-Profit Entities*.

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with Polaris Project, Inc.'s financial statements for the year ended December 31, 2011, from which the summarized information was derived.

Cash and cash equivalents -

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

Through December 31, 2012, the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") provided temporary unlimited deposit insurance coverage for non-interest bearing transaction accounts at all Federal Deposit Insurance Corporation (FDIC) insured depository institutions (the "Dodd-Frank Deposit Insurance Provision"). Polaris Project, Inc. maintained a portion of its cash balance at a financial institution in a non-interest bearing account; thereby, all of this cash balance was protected by the FDIC under this Act. Beginning January 1, 2013, funds deposited in non-interest bearing accounts will no longer receive unlimited deposit insurance coverage. Bank deposit accounts at one institution will be insured by the FDIC up to a limit of \$250,000. Management believes the risk in these situations to be minimal.

Other receivables -

Other receivables approximate fair value. Management considers all amounts to be fully collectible. Accordingly, an allowance for doubtful accounts has not been established.

Property and equipment -

Property and equipment purchases over \$1,000 are capitalized and stated at cost. Property and equipment are depreciated on a straight-line basis over the estimated useful lives of the related assets, generally six years. The cost of maintenance and repairs is recorded as expenses are incurred.

Income taxes -

Polaris Project, Inc. is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made in the accompanying financial statements. Polaris Project, Inc. is not a private foundation.

POLARIS PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012

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

Uncertain tax positions -

For the year ended December 31, 2012, Polaris Project, Inc. has documented its consideration of FASB ASC 740-10, *Income Taxes*, that provides guidance for reporting uncertainty in income taxes and has determined that no material uncertain tax positions qualify for either recognition or disclosure in the financial statements.

The Federal Form 990, *Return of Organization Exempt from Income Tax*, is subject to examination by the Internal Revenue Service, generally for three years after it is filed.

Net asset classification -

The net assets are reported in two self-balancing groups as follows:

- **Unrestricted net assets** include unrestricted revenue and contributions received without donor-imposed restrictions. These net assets are available for the operation of Polaris Project, Inc.
- **Temporarily restricted net assets** include revenue and contributions subject to donor-imposed stipulations that will be met by the actions of Polaris Project, Inc. and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities and Change in Net Assets as net assets released from restrictions.

Contributions and grants -

Unrestricted and temporarily restricted contributions and grants are recorded as revenue in the year notification is received from the donor. Temporarily restricted contributions and grants are recognized as unrestricted support only to the extent of actual expenses incurred in compliance with the donor-imposed restrictions and satisfaction of time restrictions. Temporarily restricted contributions and grants received in excess of expenses incurred are shown as temporarily restricted net assets in the accompanying financial statements.

Polaris Project, Inc. receives funding under grants and contracts from the the U.S. Government and other donors for direct and indirect program costs. This funding is subject to grant/contract restrictions, which must be met through incurring qualifying expenses for particular programs. Accordingly, such grants are considered exchange transactions and are recorded as unrestricted income to the extent that related expenses are incurred in compliance with the criteria stipulated in the grant agreements.

Grants receivable represents amounts due from funding organizations for reimbursable expenses incurred in accordance with the grant agreements.

In-kind contributions -

In-kind contributions consist of fellowship services, pro-bono legal services and donated supplies and materials. In-kind contributions are recorded at their fair value as of the date the contributions are received.

**POLARIS PROJECT, INC.**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012**

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

Use of estimates -

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

Functional allocation of expenses -

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

**2. GRANTS RECEIVABLE**

As of December 31, 2012, contributors to Polaris Project, Inc. have made written promises to give totaling \$678,350. Grants are due as follows at December 31, 2012:

Less than one year	\$ 478,350
One to five years	<u>200,000</u>
<b>TOTAL GRANTS RECEIVABLE</b>	<b><u>\$ 678,350</u></b>

**3. TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets consisted of the following at December 31, 2012:

New Jersey Client Services	\$ 32,500
D.C. Client Services	9,500
National Human Trafficking Resource Center	302,404
Policy	254,167
Global Human Trafficking Hotline Network	2,500,000
Public Outreach and Communications	292,378
Time Restricted	<u>573,333</u>
<b>TOTAL TEMPORARILY RESTRICTED NET ASSETS</b>	<b><u>\$ 3,964,282</u></b>

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

New Jersey Client Services	\$ 30,995
D.C. Client Services	8,800
National Human Trafficking Resource Center	161,263
Policy	168,897
20,000 Campaign	33,333
Public Outreach and Communications	99,289
Passage of Time	<u>500,000</u>
<b>TOTAL NET ASSETS RELEASED FROM DONOR RESTRICTIONS</b>	<b><u>\$ 1,002,577</u></b>

**POLARIS PROJECT, INC.**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012**

**4. IN-KIND CONTRIBUTIONS**

During the year ended December 31, 2012, Polaris Project, Inc. was the beneficiary of donated goods and services, which allow Polaris Project, Inc. to provide greater resources toward various programs. To properly reflect total program expenses, the following in-kind contributions have been included in revenue for the year ended December 31, 2012:

Pro-bono legal services	\$ 2,272,916
Fellowship services	490,994
Client materials	11,110
IT services	<u>920,034</u>
<b>TOTAL IN-KIND CONTRIBUTIONS</b>	<b><u>\$ 3,695,054</u></b>

**5. LEASE COMMITMENTS**

Polaris Project, Inc. rents office space in Washington, D.C. under three long-term operating lease agreements (in addition to several month-to-month lease agreements). Polaris Project, Inc. also leases office space in New Jersey under an agreement that expires on May 31, 2013 (renewable on a month-to-month basis).

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

<u>Year Ending December 31,</u>	
2013	\$ 361,012
2014	564,902
2015	564,548
2016	578,661
2017	593,128
Thereafter	<u>4,008,580</u>
	<b><u>\$ 6,670,831</u></b>

Rent expense (included in facilities and equipment expense in the Statement of Functional Expenses) for the year ended December 31, 2012 was \$320,305.

**6. RETIREMENT PLAN**

Polaris Project, Inc. offers a 403(b) retirement plan for all full-time employees. Polaris Project, Inc. does not provide a matching contribution at this time.

**7. CONTINGENCY**

Polaris Project, Inc. receives grants from various agencies of the United States Government. Such grants are subject to audit under the provisions of OMB Circular A-133. The ultimate determination of amounts received under the United States Government grants is based upon the allowance of costs reported to and accepted by the United States Government as a result of the audit. Audits in accordance with the provisions of OMB Circular A-133 have been completed for all required fiscal years through 2012. Until such audit have been accepted by the United States Government, there exists a contingency to refund any amount received in excess of allowable costs. Management is of the opinion that no material liability will result from such audit.

**POLARIS PROJECT, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012**

**8. SUBSEQUENT EVENTS**

In preparing these financial statements, Polaris Project, Inc. has evaluated events and transactions for potential recognition or disclosure through August 26, 2013, the date the financial statements were issued.