

FINANCIAL STATEMENTS



**FOR THE YEAR ENDED DECEMBER 31, 2014
WITH SUMMARIZED FINANCIAL
INFORMATION FOR 2013**

POLARIS PROJECT, INC.

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Polaris Project, Inc. which comprise the statement of financial position as of December 31, 2014, 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.

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, 2014, 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 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated August 12, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Expenditures of Federal Awards on page I-14, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated on our consideration of Polaris Project, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Polaris Project, Inc.'s internal control over financial reporting and compliance.

POLARIS PROJECT, INC.
STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2014
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2013

ASSETS

	<u>2014</u>	<u>2013</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 3,055,162	\$ 3,582,027
Grants and contributions receivable, current portion (Note 2)	1,727,231	617,467
Other receivables	64,787	116,137
Prepaid expenses	<u>176,976</u>	<u>130,544</u>
Total current assets	<u>5,024,156</u>	<u>4,446,175</u>
PROPERTY AND EQUIPMENT		
Furniture and equipment (Note 4)	205,190	65,860
Vehicles	19,781	19,781
Leasehold improvements (Note 5)	<u>921,566</u>	<u>915,670</u>
	1,146,537	1,001,311
Less: Accumulated depreciation and amortization	<u>(193,210)</u>	<u>(87,134)</u>
Net property and equipment	<u>953,327</u>	<u>914,177</u>
NONCURRENT ASSETS		
Grants and contributions receivable, net of current portion and present value discount (Note 2)	960,430	-
Deposits	<u>146,031</u>	<u>141,031</u>
Total noncurrent assets	<u>1,106,461</u>	<u>141,031</u>
TOTAL ASSETS	<u>\$ 7,083,944</u>	<u>\$ 5,501,383</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable and accrued expenses (Note 5)	\$ 406,291	\$ 131,384
Accrued wages and benefits	125,695	184,926
Current portion of deferred rent abatement (Note 5)	2,304	1,516
Current portion of deferred improvement allowance (Note 5)	<u>85,844</u>	<u>85,844</u>
Total current liabilities	<u>620,134</u>	<u>403,670</u>
LONG-TERM LIABILITIES		
Deferred rent abatement (Note 5)	428,285	210,334
Deferred improvement allowance (Note 5)	<u>693,906</u>	<u>779,750</u>
Total long-term liabilities	<u>1,122,191</u>	<u>990,084</u>
Total liabilities	<u>1,742,325</u>	<u>1,393,754</u>
NET ASSETS		
Unrestricted	1,019,018	1,615,576
Temporarily restricted (Note 3)	<u>4,322,601</u>	<u>2,492,053</u>
Total net assets	<u>5,341,619</u>	<u>4,107,629</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 7,083,944</u>	<u>\$ 5,501,383</u>

See accompanying notes to financial statements.

POLARIS PROJECT, INC.

**STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2014
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2013**

	2014			2013
	Unrestricted	Temporarily Restricted	Total	Total
SUPPORT AND REVENUE				
Grants and contributions	\$ 2,225,218	\$ 3,832,805	\$ 6,058,023	\$ 2,538,009
Government grants and contracts (Note 7)	1,434,224	-	1,434,224	1,551,327
In-kind contributions (Note 4)	3,433,295	13,000	3,446,295	5,449,717
Training	174,810	-	174,810	113,075
Honoraria and other	35,718	-	35,718	51,596
Net assets released from donor restrictions (Note 3)	<u>2,015,257</u>	<u>(2,015,257)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>9,318,522</u>	<u>1,830,548</u>	<u>11,149,070</u>	<u>9,703,724</u>
EXPENSES				
Program Services	8,640,356	-	8,640,356	9,389,390
General and Administrative	501,905	-	501,905	547,468
Fundraising	<u>582,046</u>	<u>-</u>	<u>582,046</u>	<u>419,819</u>
Total expenses	<u>9,724,307</u>	<u>-</u>	<u>9,724,307</u>	<u>10,356,677</u>
Change in net assets before other item	(405,785)	1,830,548	1,424,763	(652,953)
OTHER ITEM				
Lease buyout (Note 5)	<u>(190,773)</u>	<u>-</u>	<u>(190,773)</u>	<u>(150,000)</u>
Change in net assets	(596,558)	1,830,548	1,233,990	(802,953)
Net assets at beginning of year	<u>1,615,576</u>	<u>2,492,053</u>	<u>4,107,629</u>	<u>4,910,582</u>
NET ASSETS AT END OF YEAR	<u>\$ 1,019,018</u>	<u>\$ 4,322,601</u>	<u>\$ 5,341,619</u>	<u>\$ 4,107,629</u>

POLARIS PROJECT, INC.

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2014
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2013**

	2014			2013	
	Program Services	General and Administrative	Fundraising	Total Expenses	Total Expenses
Salaries and wages	\$ 3,068,883	\$ 105,885	\$ 298,968	\$ 3,473,736	\$ 2,475,986
Fringe benefits (Note 6)	961,201	8,214	94,778	1,064,193	840,575
Facilities and equipment (Note 5)	400,827	134,407	32,329	567,563	604,817
Depreciation and amortization	13,472	93,285	64	106,821	65,586
Donated technology (Note 4)	241,384	1,002	-	242,386	401,111
Operating expenses	190,619	111,399	18,423	320,441	265,832
Travel and meeting expenses (Note	141,618	20,903	14,607	177,128	110,371
Contract services	-	-	-	-	66,306
Professional fees	169,071	332,724	18,231	520,026	367,948
Donated professional fees (Note 4)	2,391,819	390,487	-	2,782,306	4,456,812
Fellowship services (Note 4)	294,616	79,174	29,791	403,581	598,225
Loss on asset disposal	-	584	-	584	-
Other	24,936	38,166	2,440	65,542	103,108
Subtotal	7,898,446	1,316,230	509,631	9,724,307	10,356,677
Allocation of general and administrative	741,910	(814,325)	72,415	-	-
TOTAL	\$ 8,640,356	\$ 501,905	\$ 582,046	\$ 9,724,307	\$ 10,356,677

POLARIS PROJECT, INC.

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2014
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2013**

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,233,990	\$ (802,953)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation and amortization	106,821	65,586
Loss on disposal of furniture and equipment	584	20,631
Deferred rent abatement	218,739	211,850
Deferred improvement allowance benefit	(85,844)	(50,076)
Restricted capital assets received through donation	(13,000)	-
(Increase) decrease in:		
Grants and contributions receivable	(2,070,194)	60,883
Other receivables	51,350	(30,151)
Prepaid expenses	(46,432)	29,136
Deposits	(5,000)	17,689
Increase (decrease) in:		
Accounts payable and accrued expenses	274,907	71,756
Accrued wages and benefits	<u>(59,231)</u>	<u>59,686</u>
Net cash used by operating activities	<u>(393,310)</u>	<u>(345,963)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(133,855)	(4,439)
Proceeds from sale of property and equipment	<u>300</u>	<u>-</u>
Net cash used by investing activities	<u>(133,555)</u>	<u>(4,439)</u>
Net decrease in cash and cash equivalents	(526,865)	(350,402)
Cash and cash equivalents at beginning of year	<u>3,582,027</u>	<u>3,932,429</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 3,055,162</u>	<u>\$ 3,582,027</u>

POLARIS PROJECT, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

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, 2013, 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.

Bank deposit accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to a limit of \$250,000. At times during the year, Polaris Project, Inc. maintains cash balances in excess of the FDIC insurance limits. Management believes the risk in these situations to be minimal.

Grants and contributions receivable -

Grants and contributions receivable that are expected to be collected in future years are recorded at fair value, measured as the present value of their future cash flows. The discount on these amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discount is included in grants and contribution revenue. All grants and contributions receivable are considered by management to be fully collectible. Accordingly, an allowance for doubtful accounts has not been established.

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. Leasehold improvements are amortized over the life of the lease. 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, 2014**

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

Uncertain tax positions -

For the year ended December 31, 2014, 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. and include both internally designated and undesignated resources.
- **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.

Grants and contributions -

Unrestricted and temporarily restricted grants and contributions are recorded as revenue in the year notification is received from the donor. Temporarily restricted grants and contributions 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 grants and contributions 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 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.

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.

POLARIS PROJECT, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

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

Reclassification -

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation. These reclassifications had no effect on the previously reported change in net assets.

2. GRANTS AND CONTRIBUTIONS RECEIVABLE

Polaris Project, Inc. receives grants and contributions from donors which assist in furthering its programmatic goals. As of December 31, 2014, the total value of grants and contributions received by Polaris Project, Inc. and not collected aggregated \$2,687,661.

Following is a schedule of total grants and contributions due, by year of expected collection, as of December 31, 2014:

Less than one year	\$ 1,727,231
One to five years	<u>1,000,000</u>
Total	2,727,231
Less: Allowance to discount balance to present value	<u>(39,570)</u>
TOTAL GRANTS AND CONTRIBUTIONS RECEIVABLE	\$ <u>2,687,661</u>

3. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at December 31, 2014:

Global Human Trafficking Hotline Network	\$ 1,335,656
Data Analysis Program	2,772,691
New Jersey Client Services	201,947
Unamortized value of donated capital assets	<u>12,307</u>
TOTAL TEMPORARILY RESTRICTED NET ASSETS	\$ <u>4,322,601</u>

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:

Global Human Trafficking Hotline Network	\$ 1,022,647
Data Analysis Program	348,430
New Jersey Client Services	314,737
National Human Trafficking Resource Center	78,750
Lobbying	75,000
Policy	75,000
Depreciation on donated capital assets	693
Passage of Time	<u>100,000</u>
TOTAL NET ASSETS RELEASED FROM DONOR RESTRICTIONS	\$ <u>2,015,257</u>

POLARIS PROJECT, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

4. IN-KIND CONTRIBUTIONS

During the year ended December 31, 2014, Polaris Project, Inc. was the beneficiary of donated goods and services (including fellowship and legal services, and donated assets/supplies), which allowed Polaris Project, Inc. to provide greater resources toward various programs. In-kind contributions are recorded at their fair value as of the date the contributions are received. The following in-kind contributions have been included in revenue for the year ended December 31, 2014:

Professional fees	\$ 2,782,306
Fellowship services	403,581
Technology	242,386
Donated computers (Note 3)	13,000
Hotel/travel vouchers	<u>5,022</u>
TOTAL IN-KIND CONTRIBUTIONS	<u>\$ 3,446,295</u>

5. LEASE COMMITMENTS

On November 30, 2012, Polaris Project, Inc. entered into an operating lease for office space in Washington, D.C., beginning on June 1, 2013 and terminating on December 31, 2023 (128 months). In addition, Polaris Project, Inc. entered into a lease for office space (in New Jersey), beginning on September 1, 2013 and terminating on August 31, 2016.

Both leases include periodic lease escalations, as well as rental holidays. Accounting principles generally accepted in the United States of America require that the total rent commitment should be recognized on a straight-line basis over the term of the lease. Accordingly, the difference between the actual monthly payments and the rent expense being recognized for financial statement purposes is recorded as a deferred rent liability on the Statement of Financial Position. As of December 31, 2014, the deferred rent liability aggregated \$430,589.

Included in both leases were tenant improvement allowances equating to \$70 per square foot (multiplied by a total of 13,081 rented square feet in Washington D.C.), and \$5,896 representing the difference between the carpet cost and installation and the Pergo flooring costs (in New Jersey), therefore, resulting in a \$921,566 improvement allowance available to Polaris Project, Inc. Accounting principles generally accepted in the United States of America require that leasehold improvement allowances be recorded as assets (leasehold improvements), with a corresponding liability (deferred improvement allowance), in the accompanying Statement of Financial Position. The portion of the lease payment related to the improvement allowance will be amortized over the lease term. As of December 31, 2014, the total current and noncurrent portion of the deferred improvement allowance aggregated \$779,750.

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

<u>Year Ending December 31,</u>	
2015	\$ 604,120
2016	608,783
2017	593,128
2018	614,479
2019	634,500
Thereafter	<u>2,759,602</u>
	<u>\$ 5,814,612</u>

POLARIS PROJECT, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

5. LEASE COMMITMENTS (Continued)

Rent expense (included in facilities and equipment expense in the accompanying Statement of Functional Expenses) for the year ended December 31, 2014 totaled \$550,900.

During 2013, Polaris Project, Inc. rented office space in Washington, D.C. under a long-term operating lease agreement which had not expired, but Polaris Project, Inc. sought to terminate the lease at an earlier date. Polaris Project, Inc. provided the landlord a lease buyout payment of \$150,000 to terminate the lease early, however, the matter ended in litigation as the landlord sought damages for breach of contract as a result of the lease termination. During 2015, the lawsuit was settled for an additional \$190,773, therefore, resulting in a total cost of \$340,773. As of December 31, 2014 a total of \$310,207 has been accrued as a liability as accounts payable and accrued expenses (in the accompanying Statement of Financial Position).

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 2014. Until such audits 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 audits.

8. SUBSEQUENT EVENTS

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