

FINANCIAL STATEMENTS



**FOR THE YEAR ENDED DECEMBER 31, 2017
WITH SUMMARIZED FINANCIAL
INFORMATION FOR 2016**

POLARIS PROJECT, INC.

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GELMAN, ROSENBERG

& FREEDMAN

CERTIFIED PUBLIC ACCOUNTANTS



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, 2017, 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, 2017, 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.

4550 MONTGOMERY AVENUE • SUITE 650 NORTH • BETHESDA, MARYLAND 20814

(301) 951-9090 • FAX (301) 951-3570 • WWW.GRFCPA.COM

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Report on Summarized Comparative Information

We have previously audited Polaris Project, Inc.'s 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated July 21, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 23, 2018, 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 this report is solely 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 the effectiveness of Polaris Project, Inc.'s internal control over financial reporting or on compliance. This 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.

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

August 23, 2018

POLARIS PROJECT, INC.
STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2017
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2016

ASSETS		<u>2017</u>	<u>2016</u>
CURRENT ASSETS			
Cash and cash equivalents		\$ 5,113,800	\$ 4,228,821
Grants and contributions receivable		3,059,894	1,982,146
Prepaid expenses		<u>146,696</u>	<u>61,311</u>
Total current assets		<u>8,320,390</u>	<u>6,272,278</u>
PROPERTY AND EQUIPMENT			
Furniture and equipment		213,936	233,862
Vehicles		10,500	10,500
Leasehold improvements		<u>940,457</u>	<u>923,103</u>
Less: Accumulated depreciation and amortization		1,164,893 <u>(525,874)</u>	1,167,465 <u>(418,704)</u>
Net property and equipment		<u>639,019</u>	<u>748,761</u>
NONCURRENT ASSETS			
Grants and contributions receivable, net of current portion and present value discount		2,816,313	1,594,158
Deposits		<u>95,477</u>	<u>95,477</u>
Total noncurrent assets		<u>2,911,790</u>	<u>1,689,635</u>
TOTAL ASSETS		<u>\$ 11,871,199</u>	<u>\$ 8,710,674</u>

LIABILITIES AND NET ASSETS

	<u>2017</u>	<u>2016</u>
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 410,513	\$ 88,590
Accrued wages and benefits	239,531	242,602
Grant payable	-	316,400
Deferred rent	28,922	7,572
Deferred improvement allowance	<u>85,844</u>	<u>85,844</u>
Total current liabilities	<u>764,810</u>	<u>741,008</u>
LONG-TERM LIABILITIES		
Deferred rent, net of current portion	417,523	446,446
Deferred improvement allowance, net of current portion	<u>436,374</u>	<u>522,218</u>
Total long-term liabilities	<u>853,897</u>	<u>968,664</u>
Total liabilities	<u>1,618,707</u>	<u>1,709,672</u>
NET ASSETS		
Unrestricted	2,483,733	632,629
Temporarily restricted	<u>7,768,759</u>	<u>6,368,373</u>
Total net assets	<u>10,252,492</u>	<u>7,001,002</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 11,871,199</u>	<u>\$ 8,710,674</u>

POLARIS PROJECT, INC.

**STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2017
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2016**

	2017			2016
	Unrestricted	Temporarily Restricted	Total	Total
SUPPORT AND REVENUE				
Grants and contributions	\$ 3,573,096	\$ 6,844,777	\$ 10,417,873	\$ 8,843,302
Government grants and contracts	2,031,818	-	2,031,818	1,379,197
In-kind contributions	2,510,573	-	2,510,573	2,869,781
Training	12,600	-	12,600	48,137
Honoraria and other	21,461	-	21,461	20,345
Net assets released from donor restrictions	<u>5,444,391</u>	<u>(5,444,391)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>13,593,939</u>	<u>1,400,386</u>	<u>14,994,325</u>	<u>13,160,762</u>
EXPENSES				
Program Services	<u>8,897,035</u>	<u>-</u>	<u>8,897,035</u>	<u>10,783,274</u>
Supporting Services:				
General and Administrative	1,861,986	-	1,861,986	503,045
Fundraising	<u>983,814</u>	<u>-</u>	<u>983,814</u>	<u>684,071</u>
Total supporting services	<u>2,845,800</u>	<u>-</u>	<u>2,845,800</u>	<u>1,187,116</u>
Total expenses	<u>11,742,835</u>	<u>-</u>	<u>11,742,835</u>	<u>11,970,390</u>
Change in net assets	1,851,104	1,400,386	3,251,490	1,190,372
Net assets at beginning of year	<u>632,629</u>	<u>6,368,373</u>	<u>7,001,002</u>	<u>5,810,630</u>
NET ASSETS AT END OF YEAR	<u>\$ 2,483,733</u>	<u>\$ 7,768,759</u>	<u>\$ 10,252,492</u>	<u>\$ 7,001,002</u>

POLARIS PROJECT, INC.

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2017
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2016**

	2017			2016	
	Program Services	General and Administrative	Fundraising	Total Expenses	Total Expenses
Salaries and wages	\$ 3,478,960	\$ 800,966	\$ 360,108	\$ 4,640,034	\$ 4,450,805
Payroll taxes and fringe benefits	1,151,478	256,907	134,865	1,543,250	1,487,186
Facilities and equipment	397,471	151,942	29,983	579,396	563,212
Depreciation and amortization	3,965	116,684	52	120,701	119,183
Subscriptions, technology and other operating expenses	140,988	132,749	51,113	324,850	373,497
Insurance	-	16,264	-	16,264	16,754
Travel and meeting expenses	244,647	29,148	34,627	308,422	328,658
Professional fees	964,988	485,267	104,948	1,555,203	737,580
Donated professional fees	1,716,358	248,196	208,674	2,173,228	2,427,003
Donated fellowship services	129,696	-	-	129,696	405,072
Donated technology	102,427	70,855	-	173,282	37,706
Other	48,647	3,385	10,530	62,562	34,481
Grant expense	100,000	-	-	100,000	989,253
Loss on disposal of property and equipment	-	15,947	-	15,947	-
Subtotal	8,479,625	2,328,310	934,900	11,742,835	11,970,390
Allocation of general and administrative	417,410	(466,324)	48,914	-	-
TOTAL	\$ 8,897,035	\$ 1,861,986	\$ 983,814	\$ 11,742,835	\$ 11,970,390

POLARIS PROJECT, INC.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 3,251,490	\$ 1,190,372
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	120,701	119,183
Donated airline and hotel vouchers	(34,367)	-
Loss on disposal of property and equipment	15,947	-
Change in present value discount on noncurrent receivables	35,223	(8,021)
(Increase) decrease in:		
Grants and contributions receivable	(2,335,126)	168,845
Other receivables	-	118,506
Prepaid expenses	(51,018)	39,372
Deposits	-	3,216
Increase (decrease) in:		
Accounts payable and accrued expenses	321,923	(885)
Accrued wages and benefits	(3,071)	45,851
Grant payable	(316,400)	316,400
Deferred rent	(7,573)	6,895
Deferred improvement allowance	<u>(85,844)</u>	<u>(85,844)</u>
Net cash provided by operating activities	<u>911,885</u>	<u>1,913,890</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	<u>(26,906)</u>	<u>(5,874)</u>
Net cash used by investing activities	<u>(26,906)</u>	<u>(5,874)</u>
Net increase in cash and cash equivalents	884,979	1,908,016
Cash and cash equivalents at beginning of year	<u>4,228,821</u>	<u>2,320,805</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 5,113,800</u>	<u>\$ 4,228,821</u>

POLARIS PROJECT, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Organization -

Polaris Project, Inc. is a not-for-profit organization, incorporated in 2002 in the State of Rhode Island, with its headquarters located in Washington, D.C. The Organization is committed to combating human trafficking and modern-day slavery. Polaris Project, Inc. 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 the Financial Accounting Standards Board (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, 2016, 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 are recorded at their net realizable value, which approximates fair value. Grants and contributions that are expected to be collected in future years are recorded at their fair value, measured as the present value of their future cash flows. The discounts on these amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in grants and contributions revenue. All grants and contributions receivable are considered by management to be fully collectible. Accordingly, an allowance for doubtful accounts has not been established.

Property and equipment -

Purchases of property and equipment in excess of \$5,000 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 remaining life of the lease. The cost of maintenance and repairs is recorded as expenses are incurred. Depreciation and amortization expense during the year ended December 31, 2017 totaled \$120,701.

POLARIS PROJECT, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

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

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.

Uncertain tax positions -

For the year ended December 31, 2017, 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.

Grant payable and expense -

Grant expense consists of project costs incurred by grantees. These costs are recorded in the accompanying financial statements when reported to Polaris Project, Inc. Amounts not reimbursed by Polaris Project, Inc. (to grantees) as of fiscal year-end are recorded as grant payable.

Net asset classification -

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

- **Unrestricted net assets** include support and revenue received without donor-imposed restrictions. These net assets are available for the operations of Polaris Project, Inc. and include both internally designated and undesignated resources.
- **Temporarily restricted net assets** include support and revenue 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 donor 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 United States Government and other donors. Revenue is recognized when qualifying direct and indirect expenditures are incurred. Any expenses incurred prior to reimbursement are recorded as grants receivable. Any funds received in advance of incurring qualifying expenditures are recorded as refundable advances.

POLARIS PROJECT, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

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

In-kind contributions -

In-kind contributions consist of donated professional fees, donated fellowship services, donated technology, and donated airline and hotel vouchers. In-kind contributions are recorded at their fair value as of the date of receipt.

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.

New accounting pronouncements (not yet adopted) -

In August 2016, the FASB issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (Topic 958), intended to improve financial reporting for not-for-profit entities. The ASU will reduce the current three classes of net assets into two: with and without donor restrictions. The change in each of the classes of net assets must be reported on the Statement of Activities and Change in Net Assets. The ASU also requires various enhanced disclosures around topics such as board designations, liquidity, functional classification of expenses, investment expenses, donor restrictions, and underwater endowments. The ASU is effective for years beginning after December 15, 2017. Early adoption is permitted. The ASU should be applied on a retrospective basis in the year the ASU is first applied. While the ASU will change the presentation of Polaris Project, Inc.'s financial statements, it is not expected to alter Polaris Project, Inc.'s reported financial position.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606) (ASU 2014-09). The ASU establishes a comprehensive revenue recognition standard for virtually all industries under generally accepted accounting principles in the United States (U.S. GAAP) including those that previously followed industry-specific guidance. The guidance states that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The FASB issued ASU 2015-14 in August 2015 that deferred the effective date of ASU 2014-09 by a year; thus, the effective date is years beginning after December 15, 2018. Early adoption is permitted. Polaris Project, Inc. has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on its financial statements.

In 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). The ASU changes the accounting treatment for operating leases by recognizing a lease asset and lease liability at the present value of the lease payments in the Statement of Financial Position and disclosing key information about leasing arrangements.

POLARIS PROJECT, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

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

New accounting pronouncements (not yet adopted) (continued) -

The ASU is effective for private entities for years beginning after December 15, 2019. Early adoption is permitted. The ASU should be applied at the beginning of the earliest period presented using a modified retrospective approach.

Polaris Project, Inc. plans to adopt the new ASUs at the respective required implementation dates.

2. GRANTS AND CONTRIBUTIONS RECEIVABLE

Polaris Project, Inc. receives commitments for programmatic and operating support under grants and contributions from its various donors. As of December 31, 2017, the total value of commitments received by Polaris Project, Inc. and not collected aggregated \$5,947,394.

Following is a schedule of total grants and contributions due, by year of expected collection, as of December 31, 2017:

Less than one year	\$ 3,059,894
One to five years	<u>2,887,500</u>
Total	5,947,394
Less: present value discount (1.76%)	<u>(71,187)</u>
NET GRANTS AND CONTRIBUTIONS RECEIVABLE	<u>\$ 5,876,207</u>

3. LINE OF CREDIT

Polaris Project, Inc. maintains a \$500,000 revolving line of credit with a local financial institution. Amounts borrowed under the line of credit bear interest based on the Wall Street Journal Prime Rate, which was 4.75% as of December 31, 2017. The line is secured by all of Polaris Project, Inc.'s business assets. As of December 31, 2017, there were no outstanding borrowings on the line of credit.

4. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following as of December 31, 2017:

Global Human Trafficking Hotline Network	\$ 929,308
Data Analysis Program	4,351,756
STFM Program	1,358,920
Unamortized Value of Donated Capital Assets	7,018
Central Programs	500,000
Time Restricted	<u>621,757</u>
TOTAL TEMPORARILY RESTRICTED NET ASSETS	<u>\$ 7,768,759</u>

POLARIS PROJECT, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

4. TEMPORARILY RESTRICTED NET ASSETS (Continued)

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	\$ 1,326,846
Data Analysis Program	1,894,316
STFM Program	646,625
Depreciation on Donated Capital Assets	1,604
Central Programs	600,000
Passage of Time	<u>975,000</u>
TOTAL NET ASSETS RELEASED FROM DONOR RESTRICTIONS	<u>\$ 5,444,391</u>

5. IN-KIND CONTRIBUTIONS

During the year ended December 31, 2017, Polaris Project, Inc. was the beneficiary of donated goods and services, which allowed Polaris Project, Inc. to provide greater resources toward various programs. In-kind contributions consisted of the following during the year ended December 31, 2017:

Donated professional fees	\$ 2,173,228
Donated fellowship services	129,696
Donated technology	173,282
Donated airline and hotel vouchers	<u>34,367</u>
TOTAL IN-KIND CONTRIBUTIONS	<u>\$ 2,510,573</u>

6. LEASE COMMITMENT

On November 30, 2012, Polaris Project, Inc. entered into an operating lease for office space located in Washington, D.C., which began on June 1, 2013 and will terminate on January 31, 2024 (128 months). This lease includes 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, 2017, the deferred rent liability aggregated \$446,445.

Additionally, included in the lease was a tenant improvement allowance equating to \$70 per square foot, multiplied by a total of 13,081 rented square feet, resulting in a \$915,670 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 is amortized over the lease term. As of December 31, 2017, the total deferred improvement allowance aggregated \$522,218.

POLARIS PROJECT, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

6. LEASE COMMITMENT (Continued)

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

Year Ending December 31,

2018	\$	614,479
2019		634,500
2020		650,362
2021		666,621
2022		683,287
Thereafter		<u>759,332</u>
	\$	<u>4,008,581</u>

Rent expense during the year ended December 31, 2017 totaled \$555,659, and is included in facilities and equipment in the accompanying Statement of Functional Expenses.

7. RETIREMENT PLAN

Polaris Project, Inc. offers a 403(b) retirement plan for all full-time employees. In accordance with this plan, Polaris Project, Inc. provides a matching contribution of up to 4% of eligible employees' compensation. Retirement plan expense during the year ended December 31, 2017 totaled \$111,910, and is included in payroll taxes and fringe benefits in the accompanying Statement of Functional Expenses.

8. CONTINGENCY

Polaris Project, Inc. receives grants from various agencies of the United States Government. Such grants are subject to audit under the provisions of *Title 2 U.S. Code of Federal Regulations (CFR) Part 200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. 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 audits.

Audits in accordance with the applicable provisions have been completed for all required fiscal years through 2017. 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.

9. SUBSEQUENT EVENTS

In preparing these financial statements, Polaris Project, Inc. has evaluated events and transactions for potential recognition or disclosure through August 23, 2018, the date the financial statements were issued.