



AUDIT REPORT

**FINANCIAL AND FEDERAL AWARD
COMPLIANCE EXAMINATION**

FOR THE YEAR ENDED DECEMBER 31, 2013

POLARIS PROJECT, INC.

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FINANCIAL STATEMENTS



**FOR THE YEAR ENDED DECEMBER 31, 2013
WITH SUMMARIZED FINANCIAL
INFORMATION FOR 2012**

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, 2013, 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, 2013, 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.

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Report on Summarized Comparative Information

We have previously audited Polaris Project, Inc.'s 2012 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated August 26, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2012, 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 pages I (14 - 15), 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 August 12, 2014 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.



August 12, 2014

POLARIS PROJECT, INC.
STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2013
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2012

ASSETS

	<u>2013</u>	<u>2012</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 3,582,027	\$ 3,932,429
Contributions and grants receivable, current portion	611,718	478,350
Other receivables	121,887	85,986
Prepaid expenses	<u>130,544</u>	<u>159,680</u>
Total current assets	<u>4,446,176</u>	<u>4,656,445</u>
PROPERTY AND EQUIPMENT		
Furniture and equipment	65,860	102,636
Vehicles	19,781	19,781
Leasehold improvements (Note 4)	<u>915,670</u>	<u>-</u>
	1,001,311	122,417
Less: Accumulated depreciation and amortization	<u>(87,134)</u>	<u>(42,132)</u>
Net property and equipment	<u>914,177</u>	<u>80,285</u>
NONCURRENT ASSETS		
Grants receivable, net of current portion	-	200,000
Deposits	<u>141,031</u>	<u>158,720</u>
Total noncurrent assets	<u>141,031</u>	<u>358,720</u>
TOTAL ASSETS	<u>\$ 5,501,384</u>	<u>\$ 5,095,450</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	\$ 131,385	\$ 59,628
Accrued wages and benefits	184,926	125,240
Current portion of deferred rent abatement (Note 4)	1,516	-
Current portion of deferred improvement allowance (Note 4)	<u>85,844</u>	<u>-</u>
Total current liabilities	<u>403,671</u>	<u>184,868</u>
LONG-TERM LIABILITIES		
Deferred rent abatement (Note 4)	210,334	-
Deferred improvement allowance (Note 4)	<u>779,750</u>	<u>-</u>
Total long-term liabilities	<u>990,084</u>	<u>-</u>
Total liabilities	<u>1,393,755</u>	<u>184,868</u>
NET ASSETS		
Unrestricted	1,615,576	946,300
Temporarily restricted (Note 2)	<u>2,492,053</u>	<u>3,964,282</u>
Total net assets	<u>4,107,629</u>	<u>4,910,582</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 5,501,384</u>	<u>\$ 5,095,450</u>

POLARIS PROJECT, INC.

**STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2013
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2012**

	2013			2012
	Unrestricted	Temporarily Restricted	Total	Total
SUPPORT AND REVENUE				
Contributions and grants (Note 6)	\$ 3,459,578	\$ 629,758	\$ 4,089,336	\$ 6,439,251
In-kind contributions (Note 3)	5,449,717	-	5,449,717	3,695,054
Training	113,075	-	113,075	57,500
Honoraria and other	51,596	-	51,596	26,325
Net assets released from donor restrictions (Note 2)	<u>2,101,987</u>	<u>(2,101,987)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>11,175,953</u>	<u>(1,472,229)</u>	<u>9,703,724</u>	<u>10,218,130</u>
EXPENSES				
Program Services	9,389,390	-	9,389,390	6,623,224
General and Administrative	547,468	-	547,468	380,977
Fundraising	<u>419,819</u>	<u>-</u>	<u>419,819</u>	<u>368,421</u>
Total expenses	<u>10,356,677</u>	<u>-</u>	<u>10,356,677</u>	<u>7,372,622</u>
Change in net assets before other item	819,276	(1,472,229)	(652,953)	2,845,508
OTHER ITEM				
Lease buyout payment (Note 4)	<u>(150,000)</u>	<u>-</u>	<u>(150,000)</u>	<u>-</u>
Change in net assets	669,276	(1,472,229)	(802,953)	2,845,508
Net assets at beginning of year	<u>946,300</u>	<u>3,964,282</u>	<u>4,910,582</u>	<u>2,065,074</u>
NET ASSETS AT END OF YEAR	<u>\$ 1,615,576</u>	<u>\$ 2,492,053</u>	<u>\$ 4,107,629</u>	<u>\$ 4,910,582</u>

POLARIS PROJECT, INC.

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2013
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2012**

	2013			2012	
	Program Services	General and Administrative	Fundraising	Total Expenses	Total Expenses
Salaries and wages	\$ 2,202,071	\$ 107,034	\$ 166,881	\$ 2,475,986	\$ 2,220,497
Fringe benefits (Note 5)	750,311	33,403	56,861	840,575	343,754
Facilities and equipment (Note 4)	397,460	171,149	36,208	604,817	375,240
Depreciation and amortization	10,554	54,845	187	65,586	16,315
Donated technology (Note 3)	413,782	-	-	413,782	925,415
Operating expenses	189,554	48,509	27,769	265,832	314,503
Insurance	-	-	-	-	28,820
Travel and meeting expenses	89,357	7,608	13,406	110,371	73,360
Contract services	66,306	-	-	66,306	65,291
Professional fees	241,880	77,263	48,805	367,948	128,462
Donated professional fees (Note 3)	4,212,834	229,837	1,470	4,444,141	2,272,916
Fellowship services (Note 3)	598,225	-	-	598,225	490,994
Other	18,202	36,650	48,256	103,108	117,055
Subtotal	9,190,536	766,298	399,843	10,356,677	7,372,622
Allocation of general and administrative	198,854	(218,830)	19,976	-	-
TOTAL	\$ 9,389,390	\$ 547,468	\$ 419,819	\$ 10,356,677	\$ 7,372,622

POLARIS PROJECT, INC.

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2013
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2012**

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (802,953)	\$ 2,845,508
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Depreciation and amortization	65,586	16,315
Loss on disposal of furniture and equipment	20,631	3,957
Deferred rent abatement	211,850	-
Deferred improvement allowance benefit	(50,076)	-
(Increase) decrease in:		
Contributions and grants receivable	66,632	(318,644)
Other receivables	(35,901)	122,809
Prepaid expenses	29,136	(73,074)
Deposits	17,689	(134,215)
Increase (decrease) in:		
Accounts payable	71,757	14,982
Accrued wages and benefits	<u>59,686</u>	<u>24,194</u>
Net cash (used) provided by operating activities	<u>(345,963)</u>	<u>2,501,832</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	<u>(4,439)</u>	<u>(35,370)</u>
Net cash used by investing activities	<u>(4,439)</u>	<u>(35,370)</u>
Net (decrease) increase in cash and cash equivalents	(350,402)	2,466,462
Cash and cash equivalents at beginning of year	<u>3,932,429</u>	<u>1,465,967</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 3,582,027</u>	<u>\$ 3,932,429</u>

POLARIS PROJECT, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

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, 2012, 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.

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.

Uncertain tax positions -

For the year ended December 31, 2013, 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.

POLARIS PROJECT, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

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

Uncertain tax positions (continued) -

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 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.

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.

POLARIS PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

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

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. **TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets consisted of the following at December 31, 2013:

National Human Trafficking Resource Center	\$ 18,750
Lobbying	50,000
Policy	50,000
Global Human Trafficking Hotline Network	2,273,303
Time Restricted	<u>100,000</u>
TOTAL TEMPORARILY RESTRICTED NET ASSETS	\$ <u>2,492,053</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:

New Jersey Client Services	\$ 64,666
D.C. Client Services	61,896
National Human Trafficking Resource Center	579,123
Lobbying	37,026
Policy	250,321
Global Human Trafficking Hotline Network	234,197
Training and Technical Assistance	1,073
Public Outreach and Communications	255,352
Passage of Time	<u>618,333</u>
TOTAL NET ASSETS RELEASED FROM DONOR RESTRICTIONS	\$ <u>2,101,987</u>

3. **IN-KIND CONTRIBUTIONS**

During the year ended December 31, 2013, Polaris Project, Inc. was the beneficiary of donated goods and services, which allowed 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, 2013:

Professional fees	\$ 4,444,141
Fellowship services	598,225
Technology	<u>407,351</u>
TOTAL IN-KIND CONTRIBUTIONS	\$ <u>5,449,717</u>

POLARIS PROJECT, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

4. LEASE COMMITMENTS

During 2013, Polaris Project, Inc. rented office space in Washington, D.C. under two long-term operating lease agreements (in addition to several month-to-month lease agreements). One of the long-term leases expired and was not renewed. Polaris provided the landlord a lease buyout payment of \$150,000 to terminate the other lease early. Polaris is in litigation with the landlord who is seeking damages for breach of contract as a result of the lease termination (Note 7). Polaris Project, Inc. also leased office space in New Jersey under an agreement that expired on May 31, 2013 and was not renewed.

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, 2013, the deferred rent liability aggregated \$211,850.

Included in the Washington, D.C. lease (which commenced on June 1, 2013), was a tenant improvement allowance equal to \$70 per square foot (multiplied by a total of 13,081 rented square feet), therefore, 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 will be amortized over the lease term. As of December 31, 2013, the total current and noncurrent portion of the deferred improvement allowance aggregated \$865,594.

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

Year Ending December 31,

2014	\$ 404,085
2015	604,120
2016	608,783
2017	593,128
2018	614,479
Thereafter	<u>3,394,102</u>
	<u>\$ 6,218,697</u>

Rent expense (included in facilities and equipment expense in the accompanying Statement of Functional Expenses) for the year ended December 31, 2013 totaled \$516,934.

5. 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.

POLARIS PROJECT, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

6. 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 2013. 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.

7. SUBSEQUENT EVENTS

In preparing these financial statements, Polaris Project, Inc. has evaluated events and transactions for potential recognition or disclosure through August 12, 2014, the date the financial statements were issued. As of the date of these financial statements, Polaris Project, Inc.'s former landlord has filed a lawsuit against the organization. The plaintiffs are seeking \$500,000 in damages for breach of contract, plus attorney's fees and costs. Polaris Project, Inc. has countersued the plaintiffs; however, as of the date of these financial statements, a final conclusion has not been reached. Polaris Project, Inc.'s attorneys have not expressed an opinion on the likelihood of an unfavorable outcome or the amount (or range) of any possible loss; however, management believes the case is without merit. As of December 31, 2013, Polaris Project, Inc. has expensed \$150,000 as a lease buyout payment in the accompanying financial statements.

SUPPLEMENTAL INFORMATION

POLARIS PROJECT, INC.

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

<u>Federal Granting Agency and Program Title</u>	<u>Pass-Through Entity</u>	<u>CFDA</u>	<u>Award Number</u>	<u>Expenditures</u>
Health and Human Services	N/A	93.598	90ZV0087/02	\$ 604,702
Health and Human Services	N/A	93.598	90ZV0087/03	190,390
Health and Human Services	Heartland Alliance Human Care Services	93.598	5036	13,979
Health and Human Services	U.S. Committee for Refugees and Immigrants	93.598	902V0101/01	<u>15,926</u>
Subtotal CFDA 93.598/Services to Victims of a Severe Form of Trafficking				<u>824,997</u>
Department of Justice	N/A	16.320	2012-VT-BX-K009	165,131
Department of Justice	D.C. Office of Victim Services	16.320	2010-VOCA-08	78,021
Department of Justice	N/A	16.320	2011-VT-BX-K008	<u>329,481</u>
Subtotal CFDA 16.320/Services for Trafficking Victims				<u>572,633</u>
Department of State-International Programs to Combat Human Trafficking	N/A	19.019	S-SJTIP-12-GR- 1029	<u>152,815</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS				\$ <u>1,550,445</u>

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the Federal grant activity of Polaris Project, Inc. under programs of the Federal government for the year ended December 31, 2013. The information in the Schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of Polaris Project, Inc., it is not intended to and does not present the financial position, changes in net assets or cash flows of Polaris Project, Inc.

Note 2. Summary of Significant Accounting Policies

Expenditures reported in the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

POLARIS PROJECT, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2013

Note 3. Subrecipients

Of the Federal expenditures presented in the Schedule, Polaris Project, Inc. provided Federal awards to subrecipients as follows:

<u>Program Name</u>	<u>CFDA</u>	<u>Amount Provided to Subrecipients</u>
Services to Victims of a Severe Form of Trafficking	93.598	\$ 2,566
Services for Trafficking Victims	16.320	\$ 1,125

POLARIS PROJECT, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2013

Section I - Summary of Auditor's Results

Financial Statements

- 1). Type of auditor's report issued: **Unmodified**
- 2). Internal control over financial reporting:
- Material weakness(es) identified? Yes No
 - Significant deficiency(ies) identified that are not considered to be material weakness(es)? Yes None Reported
- 3). Noncompliance material to financial statements noted? Yes No

Federal Awards

- 4). Internal control over major programs:
- Material weakness(es) identified? Yes No
 - Significant deficiency(ies) identified that are not considered to be material weakness(es)? Yes None Reported
- 5). Type of auditor's report issued on compliance for major programs: **Unmodified**
- 6). Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? Yes No

7). Identification of major programs:

<u>Federal Program Title</u>	<u>Expenditures</u>
CFDA 93.598: Services to Victims of a Severe Form of Trafficking	\$ 824,997
CFDA 16.320: Services for Trafficking Victims	\$ 572,633

- 8). Dollar threshold used to distinguish between Type A and Type B programs: **\$300,000**
- 9). Auditee qualified as a low-risk auditee? Yes No

POLARIS PROJECT, INC.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2013**

Section II - Financial Statement Findings

There were no reportable findings.

Section III - Federal Award Findings and Questioned Costs (Circular A-133, Section .510)

There were no reportable findings.

Section IV - Prior Year Findings

There were no prior year findings.



REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Independent Auditor's Report

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

We have audited, in accordance with the 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, the financial statements of Polaris Project, Inc. as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise Polaris Project, Inc.'s basic financial statements, and have issued our report thereon dated August 12, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Polaris Project, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances, for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Polaris Project, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Polaris Project, Inc.'s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of Polaris Project, Inc.'s financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Polaris Project, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

August 12, 2014



**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

Independent Auditor's Report

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

Report on Compliance for Each Major Federal Program

We have audited Polaris Project, Inc.'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Polaris Project, Inc.'s major federal programs for the year ended December 31, 2013. Polaris Project, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Polaris Project, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Polaris Project, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Polaris Project, Inc.'s compliance.

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Opinion on Each Major Federal Program

In our opinion, Polaris Project, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013.

Report on Internal Control Over Compliance

Management of Polaris Project, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Polaris Project, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Polaris Project, Inc.'s internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



August 12, 2014