

FINANCIAL STATEMENTS



**FOR THE YEAR ENDED DECEMBER 31, 2016
WITH SUMMARIZED FINANCIAL
INFORMATION FOR 2015**

POLARIS PROJECT, INC.

CONTENTS

	PAGE NO.
INDEPENDENT AUDITOR'S REPORT	2 - 3
EXHIBIT A - Statement of Financial Position, as of December 31, 2016, with Summarized Financial Information for 2015	4 - 5
EXHIBIT B - Statement of Activities and Change in Net Assets, for the Year Ended December 31, 2016, with Summarized Financial Information for 2015	6
EXHIBIT C - Statement of Functional Expenses, for the Year Ended December 31, 2016, with Summarized Financial Information for 2015	7
EXHIBIT D - Statement of Cash Flows, for the Year Ended December 31, 2016, with Summarized Financial Information for 2015	8
NOTES TO FINANCIAL STATEMENTS	9 - 14

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, 2016, 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. 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, 2016, 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.GRF CPA.COM

Report on Summarized Comparative Information

We have previously audited Polaris Project, Inc.'s 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated July 25, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Gelman Rosenberg & Friedman

July 21, 2017

POLARIS PROJECT, INC.
STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2016
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2015

ASSETS

	2016	2015
CURRENT ASSETS		
Cash and cash equivalents	\$ 4,228,821	\$ 2,320,805
Grants and contributions receivable	1,982,146	2,531,113
Other receivables	-	118,506
Prepaid expenses	61,311	100,683
Total current assets	6,272,278	5,071,107
PROPERTY AND EQUIPMENT		
Furniture and equipment	233,862	227,988
Vehicles	10,500	10,500
Leasehold improvements	923,103	923,103
	1,167,465	1,161,591
Less: Accumulated depreciation and amortization	(418,704)	(299,521)
Net property and equipment	748,761	862,070
NONCURRENT ASSETS		
Grants and contributions receivable, net of current portion and present value discount	1,594,158	1,206,015
Deposits	95,477	98,693
Total noncurrent assets	1,689,635	1,304,708
TOTAL ASSETS	\$ 8,710,674	\$ 7,237,885

See accompanying notes to financial statements.

LIABILITIES AND NET ASSETS

	<u>2016</u>	<u>2015</u>
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 88,590	\$ 89,475
Accrued wages and benefits	242,602	196,751
Grant payable	316,400	-
Deferred rent	7,572	-
Deferred improvement allowance	<u>85,844</u>	<u>85,844</u>
Total current liabilities	<u>741,008</u>	<u>372,070</u>
LONG-TERM LIABILITIES		
Deferred rent	446,446	447,123
Deferred improvement allowance	<u>522,218</u>	<u>608,062</u>
Total long-term liabilities	<u>968,664</u>	<u>1,055,185</u>
Total liabilities	<u>1,709,672</u>	<u>1,427,255</u>
NET ASSETS		
Unrestricted	632,629	917,108
Temporarily restricted	<u>6,368,373</u>	<u>4,893,522</u>
Total net assets	<u>7,001,002</u>	<u>5,810,630</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 8,710,674</u>	<u>\$ 7,237,885</u>

POLARIS PROJECT, INC.

**STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2016
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2015**

	2016			2015
	Unrestricted	Temporarily Restricted	Total	Total
SUPPORT AND REVENUE				
Grants and contributions	\$ 2,937,781	\$ 5,905,521	\$ 8,843,302	\$ 6,267,476
Government grants and contracts	1,379,197	-	1,379,197	1,408,362
In-kind contributions	2,869,781	-	2,869,781	3,082,915
Training	48,137	-	48,137	53,044
Honoraria and other	20,345	-	20,345	33,985
Net assets released from donor restrictions	<u>4,430,670</u>	<u>(4,430,670)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>11,685,911</u>	<u>1,474,851</u>	<u>13,160,762</u>	<u>10,845,782</u>
EXPENSES				
Program Services	<u>10,783,274</u>	<u>-</u>	<u>10,783,274</u>	<u>9,274,706</u>
Supporting Services:				
General and Administrative	503,045	-	503,045	520,552
Fundraising	<u>684,071</u>	<u>-</u>	<u>684,071</u>	<u>584,008</u>
Total supporting services	<u>1,187,116</u>	<u>-</u>	<u>1,187,116</u>	<u>1,104,560</u>
Total expenses	<u>11,970,390</u>	<u>-</u>	<u>11,970,390</u>	<u>10,379,266</u>
Change in net assets from continuing operations before discontinued operations	(284,479)	1,474,851	1,190,372	466,516
DISCONTINUED OPERATIONS				
Gain from discontinued operations	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,495</u>
Change in net assets	(284,479)	1,474,851	1,190,372	469,011
Net assets at beginning of year	<u>917,108</u>	<u>4,893,522</u>	<u>5,810,630</u>	<u>5,341,619</u>
NET ASSETS AT END OF YEAR	<u>\$ 632,629</u>	<u>\$ 6,368,373</u>	<u>\$ 7,001,002</u>	<u>\$ 5,810,630</u>

POLARIS PROJECT, INC.

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2016
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2015**

	2016			2015	
	Program Services	General and Administrative	Fundraising	Total Expenses	Total Expenses
Salaries and wages	\$ 3,691,380	\$ 452,468	\$ 306,957	\$ 4,450,805	\$ 3,844,181
Payroll taxes and fringe benefits	1,226,942	155,085	105,159	1,487,186	1,395,061
Facilities and equipment	383,079	152,003	28,130	563,212	604,105
Depreciation and amortization	4,758	114,363	62	119,183	119,576
Subscriptions, technology and other operating expenses	160,093	178,463	34,941	373,497	276,056
Insurance	75	16,582	97	16,754	16,585
Travel and meeting expenses	240,703	40,167	47,788	328,658	214,299
Professional fees	498,528	196,274	42,778	737,580	786,095
Donated professional fees	2,306,453	120,550	-	2,427,003	2,624,550
Donated fellowship services	243,937	129,440	31,695	405,072	441,277
Donated technology	14,604	23,102	-	37,706	17,088
Other	45,947	(26,457)	14,991	34,481	38,481
Grant expense	989,253	-	-	989,253	-
Loss on disposal of equipment	-	-	-	-	1,912
Subtotal	9,805,752	1,552,040	612,598	11,970,390	10,379,266
Allocation of general and administrative	977,522	(1,048,995)	71,473	-	-
TOTAL	\$ 10,783,274	\$ 503,045	\$ 684,071	\$11,970,390	\$ 10,379,266

POLARIS PROJECT, INC.

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2015**

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,190,372	\$ 469,011
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	119,183	119,576
Loss on disposal of equipment	-	1,912
Change in present value discount on noncurrent receivables	(8,021)	4,415
(Increase) decrease in:		
Grants and contributions receivable	168,845	(1,053,882)
Other receivables	118,506	(53,719)
Prepaid expenses	39,372	76,293
Deposits	3,216	47,338
Increase (decrease) in:		
Accounts payable and accrued expenses	(885)	(316,816)
Accrued wages and benefits	45,851	71,056
Grant payable	316,400	-
Deferred rent	6,895	16,534
Deferred improvement allowance	<u>(85,844)</u>	<u>(85,844)</u>
Net cash provided (used) by operating activities	<u>1,913,890</u>	<u>(704,126)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	<u>(5,874)</u>	<u>(30,231)</u>
Net cash used by investing activities	<u>(5,874)</u>	<u>(30,231)</u>
Net increase (decrease) in cash and cash equivalents	1,908,016	(734,357)
Cash and cash equivalents at beginning of year	<u>2,320,805</u>	<u>3,055,162</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 4,228,821</u>	<u>\$ 2,320,805</u>

POLARIS PROJECT, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Organization -

Polaris Project, Inc. is a non-profit organization, incorporated in 2002 in the State of Rhode Island, with its headquarters 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 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, 2015, 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 approximate fair value. Grants and contributions 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 \$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 life of the lease. The cost of maintenance and repairs is recorded as expenses are incurred. Depreciation and amortization expense for the year ended December 31, 2016 totaled \$119,183.

POLARIS PROJECT, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

**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, 2016, 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.

Net asset classification -

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

- **Unrestricted net assets** include unrestricted support and revenue 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 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 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. Revenue is recognized when qualifying direct and indirect expenditures are incurred. Any funds received in advance of incurring qualifying expenditures are recorded as refundable advances.

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.

In-kind contributions -

In-kind contributions consist of fellowship services, pro-bono legal services, and donated supplies and materials.

POLARIS PROJECT, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

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

In-kind contributions (continued) -

In-kind contributions are recorded at their fair value as of the date 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.

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 pronouncement -

In August 2016, the Financial Accounting Standards Board (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.

Polaris Project, Inc. has not elected to early adopt the ASU.

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, 2016, the total value of commitments received by Polaris Project, Inc. and not collected aggregated \$3,612,268.

Following is a schedule of total grants and contributions due, by year of expected collection, as of December 31, 2016:

Less than one year	\$ 1,982,146
One to five years	<u>1,630,122</u>
Total	3,612,268
Less: present value discount (1.43%)	<u>(35,964)</u>
NET GRANTS AND CONTRIBUTIONS RECEIVABLE	\$ <u>3,576,304</u>

POLARIS PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

3. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following as of December 31, 2016:

Global Human Trafficking Hotline Network	\$ 316,153
Data Analysis Program	2,607,521
STFM Program	1,997,493
Unamortized Value of Donated Capital Assets	8,623
Time Restricted	<u>1,438,583</u>
TOTAL TEMPORARILY RESTRICTED NET ASSETS	<u>\$ 6,368,373</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	\$ 2,245,087
Data Analysis Program	1,071,052
STFM Program	812,927
Depreciation on Donated Capital Assets	1,604
Passage of Time	<u>300,000</u>
TOTAL NET ASSETS RELEASED FROM DONOR RESTRICTIONS	<u>\$ 4,430,670</u>

4. IN-KIND CONTRIBUTIONS

During the year ended December 31, 2016, Polaris Project, Inc. was the beneficiary of donated goods and services, which allowed Polaris Project, Inc. to provide greater resources toward various programs. The following in-kind contributions have been included in revenue and expense during the year ended December 31, 2016:

Professional fees	\$ 2,427,003
Fellowship services	405,072
Technology	<u>37,706</u>
TOTAL IN-KIND CONTRIBUTIONS	<u>\$ 2,869,781</u>

In-kind contributions have been allocated to the following functional expense categories during the year ended December 31, 2016:

Program Services	\$ 2,564,994
General and Administrative	273,092
Fundraising	<u>31,695</u>
TOTAL IN-KIND CONTRIBUTIONS	<u>\$ 2,869,781</u>

5. LEASE COMMITMENT

On November 30, 2012, Polaris Project, Inc. entered into an operating lease for office space 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.

POLARIS PROJECT, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

5. LEASE COMMITMENT (Continued)

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, 2016, the deferred rent liability aggregated \$454,018.

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, 2016, the total deferred improvement allowance aggregated \$608,062.

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

Year Ending December 31,

2017	\$ 593,128
2018	614,479
2019	634,500
2020	650,362
2021	666,621
Thereafter	<u>1,442,619</u>
	<u>\$ 4,601,709</u>

Rent expense during the year ended December 31, 2016 totaled \$538,589, and is included in Facilities and Equipment in the Statement of Functional Expenses.

6. RETIREMENT PLAN

Polaris Project, Inc. offers a 403(b) retirement plan for all full-time employees. During 2016, Polaris Project, Inc. provided a matching contribution of up to 4% of eligible employees' compensation. Retirement plan expense during the year ended December 31, 2016 totaled \$114,744, and is included in Payroll Taxes and Fringe Benefits in the accompanying Statement of Functional Expenses.

7. CONTINGENCY

Polaris Project, Inc. receives grants from various agencies of the United States Government. Beginning for fiscal year ended December 31, 2015, 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.

POLARIS PROJECT, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

7. CONTINGENCY (Continued)

Audits in accordance with the applicable provisions have been completed for all required fiscal years through 2016. 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 July 21, 2017, the date the financial statements were issued.