

**POLARIS**  
**DECEMBER 31, 2018**

## TABLE OF CONTENTS

	Page
<b><i>Independent Auditors' Report</i></b>	1 - 2
<b><i>Financial Statements:</i></b>	
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to the Financial Statements	7 - 13
<b><i>Supplementary Information:</i></b>	
Schedule of Expenditures of Federal Awards	14
<b><i>Other Reports Required by Government Auditing Standards and the Uniform Guidance:</i></b>	
Summary Schedule of Prior Audit Findings	15 - 16
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Others Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	17 - 18
Independent Auditors' Report on Compliance for Each Major Program and on Internal Control over Compliance required by the Uniform Guidance	19 - 20
Schedule of Findings and Questioned Costs	21

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Polaris  
Washington, DC

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of Polaris (a nonprofit organization), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities, 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.

### ***Auditors' 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 auditors' 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 auditors consider 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 in the first paragraph present fairly, in all material respects, the financial position of Polaris as of December 31, 2018, and the changes 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 Prior Period Summarized Comparative Information***

The financial statements of Polaris as of December 31, 2017, were audited by other auditors whose report dated August 23, 2018, expressed an unmodified opinion on those statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

### ***Other Matters***

#### ***Other information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards for the year ended December 31, 2018, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), 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 7, 2019 on our consideration of Polaris' 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 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' 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' internal control over financial reporting and compliance.



August 7, 2019

**POLARIS**  
**STATEMENT OF FINANCIAL POSITION**  
**AS OF DECEMBER 31, 2018**  
**(with comparative totals for 2017)**

	2018	2017
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash (Notes 1 and 14)	\$ 3,131,186	\$ 5,113,800
Grants and contributions receivable (Notes 1 and 4)	2,659,738	3,059,894
Prepaid expenses and other	103,032	146,696
<b>TOTAL CURRENT ASSETS</b>	5,893,956	8,320,390
<b>PROPERTY AND EQUIPMENT, NET</b> (Notes 1 and 5)	671,256	639,019
<b>OTHER ASSETS:</b>		
Grants and contributions receivable - long-term (Notes 1 and 4)	243,594	2,816,313
Deposit	45,239	95,477
<b>TOTAL OTHER ASSETS</b>	288,833	2,911,790
<b>TOTAL ASSETS</b>	<b>\$ 6,854,045</b>	<b>\$ 11,871,199</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable and accrued expenses	\$ 433,121	\$ 410,513
Accrued payroll and related liabilities	264,515	239,531
Deferred lease obligation (Note 7)	134,787	114,766
<b>TOTAL CURRENT LIABILITIES</b>	832,423	764,810
<b>OTHER LIABILITY:</b>		
Deferred lease obligation - long-term portion (Note 7)	719,110	853,897
<b>TOTAL LIABILITIES</b>	1,551,533	1,618,707
<b>COMMITMENT AND CONTINGENCY</b> (Notes 7 and 13)		
<b>NET ASSETS</b> (Notes 1, 8 and 9):		
Without donor restrictions	2,108,216	2,483,733
With donor restrictions	3,194,296	7,768,759
<b>TOTAL NET ASSETS</b>	5,302,512	10,252,492
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 6,854,045</b>	<b>\$ 11,871,199</b>

The accompanying notes are an integral part of these financial statements.

**POLARIS**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**  
**(with comparative totals for 2017)**

	2018			2017
	Without Donor Restrictions	With Donor Restrictions	Total	Total
<b>SUPPORT, REVENUE AND GAINS</b> (Notes 1, 9 and 10):				
Government grants	\$ 1,749,402	\$ -	\$ 1,749,402	\$ 2,031,818
Contributions	3,298,597	476,165	3,774,762	10,417,873
In-kind contributions	2,755,423	-	2,755,423	2,510,573
Training, honoraria and other	105,171	-	105,171	34,061
Net assets released from restrictions	5,050,628	(5,050,628)	-	-
<b>TOTAL SUPPORT, REVENUE AND GAINS</b>	12,959,221	(4,574,463)	8,384,758	14,994,325
<b>EXPENSES:</b>				
Program services	9,160,535	-	9,160,535	8,897,035
Supporting services:				
Management and general	3,072,463	-	3,072,463	1,861,986
Fundraising	1,101,740	-	1,101,740	983,814
Total supporting services	4,174,203	-	4,174,203	2,845,800
<b>TOTAL EXPENSES</b>	13,334,738	-	13,334,738	11,742,835
<b>CHANGES IN NET ASSETS</b>	(375,517)	(4,574,463)	(4,949,980)	3,251,490
<b>NET ASSETS, BEGINNING OF YEAR</b>	2,483,733	7,768,759	10,252,492	7,001,002
<b>NET ASSETS, END OF YEAR</b>	\$ 2,108,216	\$ 3,194,296	\$ 5,302,512	\$ 10,252,492

The accompanying notes are an integral part of these financial statements.

**POLARIS**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**  
**(with comparative totals for 2017)**

	2018					2017			
	Program Services				Supporting Services				
	National Hotline	Data Analysis	Disruption	Other Programs	Total Program Services	Management and General	Fundraising	Total	Total
Salaries and wages	\$ 2,172,132	\$ 538,575	\$ 516,289	\$ 562,816	\$ 3,789,812	\$ 1,011,288	\$ 429,605	\$ 5,230,705	\$ 4,640,034
Donated goods and services	1,169,155	890,654	183,499		2,243,308	562,140	-	2,805,448	2,476,206
Consulting and professional fees	128,657	65,842	409,270	486,319	1,090,088	579,444	286,280	1,955,812	1,555,203
Payroll taxes and benefits	531,808	144,800	264,275	202,833	1,143,716	453,618	208,968	1,806,302	1,543,250
Facilities and equipment	174,726	48,814	56,901	113,052	393,493	126,753	35,523	555,769	579,396
Subscriptions, technology and other	57,195	3,834	27,413	38,443	126,885	191,863	54,229	372,977	324,850
Travel and meetings	18,139	24,040	167,259	39,028	248,466	55,371	46,388	350,225	308,422
Depreciation and amortization	42,749	11,641	21,010	16,292	91,692	36,267	16,798	144,757	120,701
Miscellaneous	7,122	(1,693)	3,315	5,054	13,798	49,776	20,309	83,883	62,562
Insurance	8,976	2,444	4,436	3,421	19,277	5,943	3,640	28,860	16,264
Grant expense	-	-	-	-	-	-	-	-	100,000
Loss on disposal of property and equipment	-	-	-	-	-	-	-	-	15,947
Total Expenses	<u>\$ 4,310,659</u>	<u>\$ 1,728,951</u>	<u>\$ 1,653,667</u>	<u>\$ 1,467,258</u>	<u>\$ 9,160,535</u>	<u>\$ 3,072,463</u>	<u>\$ 1,101,740</u>	<u>\$ 13,334,738</u>	<u>\$ 11,742,835</u>

The accompanying notes are an integral part of these financial statements.

**POLARIS**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**  
**(with comparative totals for 2017)**

	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Changes in net assets	\$ (4,949,980)	\$ 3,251,490
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	144,757	120,701
Donated airline and hotel vouchers recorded as revenue	-	(34,367)
Loss on disposal of property and equipment	-	15,947
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Grants and contributions receivables	2,972,875	(2,299,903)
Prepaid expenses and other	43,664	(51,018)
Deposit	50,238	-
Increase (decrease) in:		
Accounts payable and accrued expenses	22,608	321,923
Accrued payroll and related benefits	24,984	(3,071)
Grant payable	-	(316,400)
Deferred lease obligation	(114,766)	(93,417)
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<b>(1,805,620)</b>	<b>911,885</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property and equipment	(176,994)	(26,906)
<b>NET CHANGE IN CASH</b>	(1,982,614)	884,979
<b>CASH, BEGINNING OF YEAR</b>	5,113,800	4,228,821
<b>CASH, END OF YEAR</b>	\$ 3,131,186	\$ 5,113,800

The accompanying notes are an integral part of these financial statements.



**POLARIS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

Note 1. **Organization and Summary of Significant Accounting Policies**

**Organization** - Polaris Project, Inc., doing business as “Polaris” (the Organization), 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 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*.

Net assets of the Organization are reported in each of the following two classes: (a) net assets without donor restrictions, and (b) net assets with donor restrictions. Net assets with donor restrictions include support and revenue subject to donor-imposed stipulations that will be met by the actions of the Organization and/or the passage of time. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statement of Activities as net assets released from donor restrictions.

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 U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization’s financial statements for the year ended December 31, 2017, from which the summarized information was derived.

**Basis of Accounting** - The financial statements of the Organization have been prepared on the accrual basis of accounting.

**Cash** - The Organization considers all operating cash accounts and other highly liquid investments with initial maturities of three months or less to be cash.

**Grants and Contributions Receivable** - Grants receivable represent amounts due from donors based on approved grants and are reported on the Statement of Financial Position at their net realizable value. Contributions receivable represent unconditional promises made by donors that have not yet been collected at year-end. Contributions that are expected to be collected beyond the next year 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.

**POLARIS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

Note 1. **Organization and Summary of Significant Accounting Policies** (Continued)

Amortization of the discounts is included in grants and contributions revenue. Receivables are stated at the amount management expects to collect from balances outstanding at year-end. All grants and contributions receivable are considered by management to be fully collectible. Accordingly, an allowance for doubtful accounts has not been established. These grants and contributions are not collateralized.

**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. When assets are retired or otherwise disposed, the cost and related accumulated depreciation are removed from the accounts with any resulting gain or loss reflected in the Statement of Activities.

**Income Tax Status** - The Organization is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income.

**Revenue Recognition** - Contributions are recorded as revenue at the earlier of when received or unconditionally pledged. Revenue from certain grants and contracts with the United States Government is recognized when qualifying direct and indirect expenditures are incurred. Any expenses incurred prior to reimbursement is recorded as grants receivable. Any funds received in advance of incurring qualifying expenditures are recorded as refundable advances.

**In-kind Contributions** - In-kind contributions that create or enhance non-financial assets or that require specialized skills that would typically need to be purchased if not provided by donation, are recorded as revenue and expense at their estimated fair values in the period received. In-kind contributions consist of donated professional fees, donated technology, and donated airline and hotel vouchers.

**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. Actual results could differ from these estimates.

**POLARIS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

Note 1. **Organization and Summary of Significant Accounting Policies** (Continued)

**Functional Allocation of Expenses** - The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities and in detail by natural classification in the Statement of Functional Expenses. Expenses directly attributable to specific functional areas are charged to those functional areas while costs that benefit multiple functional areas have been allocated across program and other supporting services based on a time and effort basis that is consistently applied. Allocated costs that benefited multiple functional areas consisted primarily of depreciation, technology, telecommunications, and supplies.

Note 2. **Change in Accounting Principle** - The Organization adopted the Financial Accounting Standards Board's Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, for its 2018 financial statements. ASU 2016-14 requires the presentation of natural expenses by the various types of programs and supporting services, requires certain information about an organization's liquidity and cost allocation methods, clarifies the definition of management and general costs, and modifies the terminology of net asset categories, among other changes. As a result of this change, net assets that were previously reported as temporarily restricted net assets are now reported as net assets with donor restrictions in the Statement of Financial Position and the Statement of Activities. The implementation of this ASU had no effect on the changes in net asset classes for either period presented.

Note 3. **Liquidity and Availability** - The Organization's financial assets available within one year of the Statement of Financial Position date for general expenditure are as follows:

Financial assets, December 31, 2018:	
Cash	\$ 3,131,186
Grants and contributions receivable	<u>2,903,332</u>
Total financial assets	6,034,518
Less amounts not available to be used within one year:	
Restricted by donor	<u>(3,006,796)</u>
Financial assets available for general expenditures	<u><u>\$ 3,027,722</u></u>

The Organization structures its financial assets to be available as its general expenditures, liabilities and other obligations come due. To manage liquidity, the Organization retains sufficient working capital in its checking account in order to fund at least sixty days of operating expenses.

**POLARIS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

Note 4. **Grants and Contributions Receivable** - The Organization receives commitments for programmatic and operating support under grants and contributions from its various donors. Grants and contributions receivable consisted of the following at December 31, 2018:

Grants and contributions expected to be collected in:	
Less than one year:	
Contributions	\$ 2,250,017
Grants	409,721
One to five years - contributions	250,000
Subtotal	2,909,738
Less, discount to present value (2.63%)	(6,406)
Net grants and contributions receivable	\$ 2,903,332

Note 5. **Property and Equipment** - Property and equipment consisted of the following at December 31, 2018:

Leasehold improvements	\$ 940,457
Furniture and equipment	390,929
Transportation equipment	10,500
Subtotal	1,341,886
Less, Accumulated depreciation and amortization	670,630
Property and Equipment, net	\$ 671,256

Depreciation and amortization expense for the year ended December 31, 2018 was \$144,757.

Note 6. **Line of Credit** - The Organization 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 5.5% as of December 31, 2018. The line of credit is secured by all of the Organization's business assets. As of December 31, 2018, there were no outstanding borrowings on the line of credit.

**POLARIS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

Note 7. **Commitment** - On November 30, 2012, the Organization 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, rental holidays, and an improvement allowance (collectively the “deferred lease obligation”).

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, 2018, the deferred rent liability aggregated \$417,523.

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 the Organization. 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, 2018, the total deferred improvement allowance aggregated \$436,374.

Rent expense for the year ended December 31, 2018 totaled \$536,980 and is included in facilities and equipment in the accompanying Statement of Functional Expenses.

Future minimum rental payments are as follows:

<u>Year ending December 31,</u>	
2019	\$ 631,894
2020	647,691
2021	663,883
2022	680,481
2023	697,493
Thereafter	<u>58,963</u>
Total	<u><u>\$ 3,380,405</u></u>

The Organization has a one-time right to terminate the lease by giving the landlord written notice at least twelve months prior to the last day of the eighty-fourth month after the lease commencement date. The date of termination shall not be prior to the last day of the eighty-fourth month after the lease commencement date. On or before the date of termination, the Organization would be required to pay the landlord a termination fee equal to \$644,262.

**POLARIS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

Note 8. **Net Assets with Donor Restrictions** - Net assets with donor restrictions were for the following purposes as of December 31, 2018:

Data Analysis Program	\$ 2,268,250
STFM Program	539,822
Time Restricted	187,500
Hotline Modernization	136,385
Global Human Trafficking Hotline Network	56,925
Unamortized Value of Donated Capital Assets	5,414
Total	<u>\$ 3,194,296</u>

Note 9. **Net Assets Released from Restrictions** - Net assets released from donor restrictions for the year ended December 31, 2018 are as follows:

Data Analysis Program	\$ 2,413,553
Global Human Trafficking Hotline Network	872,383
STFM Program	825,588
Central Programs	500,000
Passage of Time	437,500
Depreciation on Donated Capital Assets	1,604
Net Assets Released from Donor Restrictions	<u>\$ 5,050,628</u>

Note 10. **In-Kind Contributions** - During the year ended December 31, 2018, the Organization was the beneficiary of donated goods and services, which allowed the Organization to provide greater resources toward various programs. In-kind contributions consisted of the following during the year ended December 31, 2018:

Donated technology	\$ 1,520,683
Donated legal services	516,693
Donated consulting	457,273
Donated advertising	132,000
Donated airline and hotel vouchers	116,774
Donated human resource services	12,000
Total	<u>\$ 2,755,423</u>

Note 11. **Program Expenses** - The Organization incurred expenses during 2018 for the following program activities:

**POLARIS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

<u>Program</u>	<u>Expenses</u>
Data Analysis Program	\$ 1,728,951
National Hotline	4,310,659
Mexico	589,518
Policy	252,272
Communications	523,621
Survivor Engagement	101,847
Disruption	1,653,667
	<u>\$ 9,160,535</u>

Note 12. **Retirement Plan** - The Organization offers a 403(b) retirement plan for all full-time employees. In accordance with this plan, the Organization provides a matching contribution of up to 4% of eligible employees' compensation. Retirement plan expense during the year ended December 31, 2018 totaled \$132,038 and is included in payroll taxes and fringe benefits in the accompanying Statement of Functional Expenses.

Note 13. **Contingencies** - The Organization receives grants from various agencies of the United States Government, which are subject to audit. There exists the possibility that, upon audit, certain costs could be disallowed by the federal agency and result in a liability owed back to the government. Management is of the opinion that no material liability will result from such audits.

Note 14. **Concentration of Credit Risk** - Financial instruments, which potentially subject the Organization to concentrations of credit risk, include deposits with commercial banks. The Organization's cash management policies generally limit its exposure to concentrations of credit risk by maintaining cash accounts at financial institutions whose deposits are insured by the Federal Deposit Insurance Corporation (FDIC). Balances in these accounts may exceed the FDIC coverage limit at times throughout the year. Management believes the risks at these times to be minimal. At December 31, 2018, the total cash balance in excess of the limit was \$2,615,020.

Note 15. **Subsequent Events** - In preparation of these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through August 7, 2019, which is the date the financial statements were available to be issued.



**POLARIS**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

<u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>PASS-THROUGH ENTITY/AWARD NUMBER</u>	<u>FEDERAL EXPENDITURES</u>
<b><u>U.S. Department of Health and Human Services:</u></b>			
<i>Administration for Children and Families (ACF)/ Office on Trafficking in Persons (OTIP):</i>			
<b>Services to Victims of a Severe Form of Trafficking:</b>			
National Human Trafficking Hotline Year 7	93.598	90ZV0102-03-02	\$ 675,440
National Human Trafficking Hotline Year 6	93.598	90ZV0102-03-02	<u>861,329</u>
<b>Total U.S. Department of Health and Human Services</b>			<b>1,536,769</b>
<b><u>U.S. Department of Justice:</u></b>			
<i>Pass-through program from:</i>			
Texas Office of the Governor - Criminal Justice Division (CJD):			
Victims of Crime Act Formula Grant Program	16.575	2017-VA-GX-0006	<u>109,281</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<b><u>\$ 1,646,050</u></b>

**NOTE A - 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, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). 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 B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**NOTE C - SUBRECIPIENTS**

Polaris Project, Inc. did not provide federal awards to any subrecipients during the year ended December 31, 2018.

**NOTE D - INDIRECT COST RATE**

Polaris Project, Inc. has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.



**POLARIS**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**DECEMBER 31, 2018**

**DEPARTMENT OF HEALTH AND HUMAN SERVICES**

**DEPARTMENT OF JUSTICE**

**Finding 2017-001: Audit Adjustments**

**Condition:** This finding was a significant deficiency stating that several asset and liability accounts were not properly reconciled as of December 31, 2017. Accordingly, management incurred additional time to reconcile such accounts, and as a result, several adjustments were recorded in the unaudited financial statements. This finding also noted that certain schedules and reconciliations (prepared by the outside accountants), including bank reconciliations, were not properly reviewed and approved by management.

**Recommendation:** The auditors recommended that Polaris Project, Inc. institute procedures to ensure all asset and liability accounts are properly reconciled on a monthly basis, and all schedules supporting these accounts should evidence management's review and approval process (and such evidence should be maintained in the Finance office).

**Current Status:** The recommendation was adopted in September 2018.

**Finding 2017-002: Timesheets**

**Condition:** This finding was a significant deficiency stating that the audit disclosed several instances of timesheets that lacked evidence of supervisory review and approval.

**Recommendation:** The auditors recommended that management evaluate the current time-keeping system and make any modifications necessary in order to strengthen internal controls and ensure compliance with internal and Federal compliance requirements.

**Current status:** All supervisors are required to assign a delegate when they are not able to approve timesheets for a given pay period. The recommendation was adopted in September 2018.

**POLARIS**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**DECEMBER 31, 2018**

**Finding 2017-003: Federal Financial Reporting**

**Condition:** This finding was a significant deficiency stating that the audit disclosed two instances in which Federal Financial Report (FFR) SF-425 reports were not submitted timely.

**Recommendation:** In order to ensure compliance with respect to this requirement, the auditors recommended that Polaris Project, Inc. strengthen its controls in this area in the upcoming fiscal year. The auditors also recommended a documented review and approval process with respect to all FFR's be performed prior to submission to the U.S. Government (and documented in the Finance office).

**Current Status:** The review and approval of all Federal Financial Reports are done by the Director of Finance in advance of the submission date. The recommendation was adopted in December 2018.

**Finding 2017-004: Compliance with United States Government Regulations on**

**Terrorism**

**Condition:** This finding was a significant deficiency stating that Polaris Project, Inc. performed (and documented) its due diligence with respect to third party payments; however, its employees were not subjected to a similar review process. The auditors believed the due diligence practice related to third party payment should also include the organization's employees. Additionally, Polaris Project, Inc. had not documented its policies and procedures with respect to this area of compliance.

**Recommendation:** The auditors recommended that Polaris Project, Inc. implement formal policies to address these regulations, and that its procedures include suspension and debarment screening checks on its employees on a periodic basis (i.e. annually).

**Current Status:** All new hires are screened for government sanctions during the initial background check prior to employment. The recommendation was adopted in September 2018.

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## **Independent Auditors' 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***

To the Board of Directors  
Polaris

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 (a nonprofit organization), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated August 7, 2019.

### **Internal Control over Financial Reporting**

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

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Polaris' 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 Polaris' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Polaris' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Sarfino and Rhoades LLP". The signature is written in a cursive, flowing style.

August 7, 2019

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## **Independent Auditors' Report on Compliance for Each Major Program and on Internal Control over Compliance required by the Uniform Guidance**

To the Board of Directors  
Polaris

### **Report on Compliance for Each Major Federal Program**

We have audited Polaris' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Polaris' major federal programs for the year ended December 31, 2018. Polaris' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

### **Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on compliance for each of Polaris' 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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' 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' compliance.

### **Opinion on Each Major Federal Program**

In our opinion, Polaris 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, 2018.

### **Report on Internal Control Over Compliance**

Management of Polaris 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' 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 the Uniform Guidance, 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' 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



August 7, 2019

**POLARIS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**DECEMBER 31, 2018**

**Summary of Auditors' Results**

1. The auditors' report expresses an unmodified opinion on the financial statements of Polaris.
2. No significant deficiencies were disclosed during the audit of the financial statements.
3. No instances of non-compliance material to the financial statements of Polaris were disclosed during the audit.
4. No significant deficiencies were disclosed during the audit of the major federal award program.
5. The auditors' report on compliance for the major federal program for Polaris expresses an unmodified opinion.
6. Audit findings, if applicable, that are required to be reported in accordance with 2 CFR section 200.516(a) are reported in this Schedule.
7. The program tested as a major program included:

<u>CFDA Number</u>	<u>Name of Federal Programs or Contract</u>
93.598	Services to Victims of a Severe Form of Trafficking

8. The threshold for distinguishing Types A and B programs was \$750,000.
9. Polaris was not determined to be a low-risk auditee (due to delayed filing of 2016 Data Collection Form)

**Findings - Financial Statement Audit**

No matters were reported.

**Findings and Questioned Costs - Major Federal Award Programs Audit**

No matters were reported.