

**POLARIS**  
**DECEMBER 31, 2020 AND 2019**

## TABLE OF CONTENTS

	Page
<b><i>Independent Auditors' Report</i></b>	1 - 2
<b><i>Financial Statements:</i></b>	
Statements of Financial Position	3
Statements of Activities	4
Statements of Functional Expenses	5 - 6
Statements of Cash Flows	7
Notes to the Financial Statements	8 - 16
<b><i>Supplementary Information:</i></b>	
Schedule of Expenditures of Federal Awards	17
<b><i>Other Reports Required by Government Auditing Standards and the Uniform Guidance:</i></b>	
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>	18 - 19
Independent Auditors' Report on Compliance for Each Major Program and on Internal Control over Compliance required by the Uniform Guidance	20 - 21
Schedule of Findings and Questioned Costs	22 - 24

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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 statements of financial position as of December 31, 2020 and 2019, and the related statements of activities, functional expenses and cash flows for the years 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 audits. We conducted our audits 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 audits 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, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***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, 2020, 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 1, 2022 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.

*Barfino and Rhoades LLP*

August 1, 2022

**POLARIS**  
**STATEMENTS OF FINANCIAL POSITION**

	DECEMBER 31,	
	2020	2019
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash	\$ 3,709,065	\$ 4,780,158
Grants and contributions receivable	2,338,925	3,281,016
Prepaid expenses and other	113,983	175,343
<b>TOTAL CURRENT ASSETS</b>	<u>6,161,973</u>	<u>8,236,517</u>
<b>PROPERTY AND EQUIPMENT, NET</b>	<u>2,732,526</u>	<u>522,167</u>
<b>OTHER ASSETS:</b>		
Grants and contributions receivable - long-term	-	492,174
Deposit	5,000	131,525
<b>TOTAL OTHER ASSETS</b>	<u>5,000</u>	<u>623,699</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 8,899,499</u></u>	<u><u>\$ 9,382,383</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable and accrued expenses	\$ 113,527	\$ 390,771
Accrued payroll and related liabilities	518,210	336,919
Notes payable - furniture and equipment	93,685	-
Deferred lease obligation	748,427	150,650
<b>TOTAL CURRENT LIABILITIES</b>	<u>1,473,849</u>	<u>878,340</u>
<b>OTHER LIABILITIES:</b>		
Note payable - PPP	1,385,860	-
Notes payable - furniture and equipment - long-term	380,663	-
Deferred lease obligation - long-term portion	1,957,365	568,461
<b>TOTAL OTHER LIABILITIES</b>	<u>3,723,888</u>	<u>568,461</u>
<b>TOTAL LIABILITIES</b>	<u>5,197,737</u>	<u>1,446,801</u>
<b>NET ASSETS</b>		
Without donor restrictions	1,046,317	1,545,845
With donor restrictions	2,655,445	6,389,737
<b>TOTAL NET ASSETS</b>	<u>3,701,762</u>	<u>7,935,582</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 8,899,499</u></u>	<u><u>\$ 9,382,383</u></u>

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

**POLARIS**  
**STATEMENTS OF ACTIVITIES**

	FOR THE YEARS ENDED DECEMBER 31,					
	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>SUPPORT, REVENUE AND GAINS</b>						
Contributions:						
Government grants	\$ 3,700,372	\$ -	\$ 3,700,372	\$ 2,755,893	\$ -	\$ 2,755,893
Corporate, foundation, individual and other	5,177,120	300,000	5,477,120	4,632,157	6,995,609	11,627,766
In-kind contributions	6,942,920	-	6,942,920	6,464,547	-	6,464,547
Training, honoraria and other	53,049	-	53,049	192,886	-	192,886
Loss on disposal of assets	(326,800)	-	(326,800)	-	-	-
Net assets released from restrictions	4,034,292	(4,034,292)	-	3,800,168	(3,800,168)	-
<b>TOTAL SUPPORT, REVENUE AND GAINS</b>	<u>19,580,953</u>	<u>(3,734,292)</u>	<u>15,846,661</u>	<u>17,845,651</u>	<u>3,195,441</u>	<u>21,041,092</u>
<b>EXPENSES:</b>						
Program services	<u>15,535,419</u>	<u>-</u>	<u>15,535,419</u>	<u>13,272,983</u>	<u>-</u>	<u>13,272,983</u>
Supporting services:						
Management and general	3,220,680	-	3,220,680	3,655,953	-	3,655,953
Fundraising	<u>1,324,382</u>	<u>-</u>	<u>1,324,382</u>	<u>1,479,086</u>	<u>-</u>	<u>1,479,086</u>
Total supporting services	<u>4,545,062</u>	<u>-</u>	<u>4,545,062</u>	<u>5,135,039</u>	<u>-</u>	<u>5,135,039</u>
<b>TOTAL EXPENSES</b>	<u>20,080,481</u>	<u>-</u>	<u>20,080,481</u>	<u>18,408,022</u>	<u>-</u>	<u>18,408,022</u>
<b>CHANGES IN NET ASSETS</b>	(499,528)	(3,734,292)	(4,233,820)	(562,371)	3,195,441	2,633,070
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>1,545,845</u>	<u>6,389,737</u>	<u>7,935,582</u>	<u>2,108,216</u>	<u>3,194,296</u>	<u>5,302,512</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 1,046,317</u>	<u>\$ 2,655,445</u>	<u>\$ 3,701,762</u>	<u>\$ 1,545,845</u>	<u>\$ 6,389,737</u>	<u>\$ 7,935,582</u>

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

# POLARIS

## STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2020

	Program Services					Supporting Services		
	National Hotline	Learning, Innovation, and Data Systems	Strategic Initiative Labor Trafficking	Other Programs	Total Program Services	Management and General	Fundraising	Total
Salaries and wages	\$ 3,032,814	\$ 623,820	\$ 421,725	\$ 1,132,010	\$ 5,210,369	\$ 1,317,759	\$ 601,670	\$ 7,129,798
Donated goods and services	6,492,504	-	-	181,050	6,673,554	271,533	-	6,945,087
Consulting and professional fees	147,039	27,046	242,072	184,802	600,959	472,660	299,003	1,372,622
Payroll taxes and benefits	1,028,973	193,641	143,955	270,617	1,637,186	544,698	211,605	2,393,489
Facilities and equipment	380,534	71,811	50,659	112,580	615,584	241,474	68,110	925,168
Subscriptions, technology and other	85,703	17,223	351,087	45,772	499,785	93,095	45,776	638,656
Travel and meetings	3,933	2,056	2,747	8,314	17,050	14,679	12,405	44,134
Depreciation and amortization	127,327	26,190	17,705	36,033	207,255	66,815	25,261	299,331
Miscellaneous	8,262	1,024	836	8,144	18,266	182,338	53,799	254,403
Insurance	34,041	7,002	4,734	9,634	55,411	15,629	6,753	77,793
Total Expenses	<u>\$ 11,341,130</u>	<u>\$ 969,813</u>	<u>\$ 1,235,520</u>	<u>\$ 1,988,956</u>	<u>\$ 15,535,419</u>	<u>\$ 3,220,680</u>	<u>\$ 1,324,382</u>	<u>\$ 20,080,481</u>

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

# POLARIS

## STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2019

	Program Services					Supporting Services		
	National Hotline	Data Analysis	Disruption	Other Programs	Total Program Services	Management and General	Fundraising	Total
Salaries and wages	\$ 2,531,408	\$ 565,623	\$ 284,168	\$ 679,105	\$ 4,060,304	\$ 1,163,107	\$ 606,767	\$ 5,830,178
Donated goods and services	3,969,900	764,980	595,639	152,834	5,483,353	804,874	120,000	6,408,227
Consulting and professional fees	231,563	55,668	126,868	442,236	856,335	822,903	260,373	1,939,611
Payroll taxes and benefits	969,353	216,943	109,136	260,570	1,556,002	448,630	232,137	2,236,769
Facilities and equipment	217,892	57,992	59,130	130,036	465,050	159,789	43,455	668,294
Subscriptions, technology and other	207,576	21,581	16,337	212,911	458,405	18,581	123,741	600,727
Travel and meetings	29,587	16,946	45,511	49,691	141,735	112,635	60,069	314,439
Depreciation and amortization	71,549	15,952	11,398	30,967	129,866	47,334	22,658	199,858
Miscellaneous	8,195	671	27,245	41,334	77,445	55,595	2,124	135,164
Insurance	24,510	5,465	3,905	10,608	44,488	22,505	7,762	74,755
Total Expenses	<u>\$ 8,261,533</u>	<u>\$ 1,721,821</u>	<u>\$ 1,279,337</u>	<u>\$ 2,010,292</u>	<u>\$ 13,272,983</u>	<u>\$ 3,655,953</u>	<u>\$ 1,479,086</u>	<u>\$ 18,408,022</u>

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



**POLARIS**  
**STATEMENTS OF CASH FLOWS**

	FOR THE YEAR ENDED DECEMBER 31,	
	<u>2021</u>	<u>2020</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Changes in net assets	\$ (4,233,820)	\$ 2,633,070
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	299,331	199,858
Bad debt expense	5,750	-
Loss on disposal of assets	326,800	-
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Grants and contributions receivables	1,428,515	(869,858)
Prepaid expenses and other	61,361	(72,311)
Deposit	-	(86,286)
Increase (decrease) in:		
Accounts payable and accrued expenses	(277,242)	(42,349)
Accrued payroll and related liabilities	181,291	72,404
Deferred lease obligation	1,986,681	(134,786)
<b>NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES</b>	<u>(221,333)</u>	<u>1,699,742</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property and equipment	(2,318,499)	(50,770)
Refund of security deposit	126,525	-
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<u>(2,191,974)</u>	<u>(50,770)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from Paycheck Protection Program loan	1,385,860	-
Payments on notes payable - furniture and equipment	(43,646)	-
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<u>1,342,214</u>	<u>-</u>
<b>NET CHANGE IN CASH</b>	(1,071,093)	1,648,972
<b>CASH, BEGINNING OF YEAR</b>	<u>4,780,158</u>	<u>3,131,186</u>
<b>CASH, END OF YEAR</b>	<u><u>\$ 3,709,065</u></u>	<u><u>\$ 4,780,158</u></u>
<b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>		
Non-cash investing activity:		
Asset acquisition through financing	\$ 517,994	\$ -
Asset acquisition through tenant improvement allowance	\$ 1,677,890	\$ -

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

**POLARIS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020 AND 2019**

**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 Statements of Activities as net assets released from donor restrictions.

**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 Statements 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.

Amortization of 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.

**POLARIS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020 AND 2019**

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

**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 shorter of the estimated useful life or the remaining lease term. 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 Statements of Activities.

**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. Expenses incurred prior to reimbursement is recorded as grants receivable in the Statements of Financial Position.

Revenue from contributions that are considered conditional contributions are recorded in the Statements of Activities as government grants when the conditions have been met.

**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 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.

**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. There was no unrelated business income for the years ended December 31, 2020 and 2019.

**POLARIS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020 AND 2019**

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 Statements of Activities and in detail by natural classification in the Statements 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 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which requires entities to recognize revenue when control of the promised goods or services is transferred to the customer at an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods and services. The Organization adopted the Standard on January 1, 2020 using the modified retrospective approach. The adoption did not materially affect changes in net assets, financial position or cash flows.

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

	<u>2020</u>	<u>2019</u>
Financial assets, December 31:		
Cash	\$ 3,709,065	\$ 4,780,158
Grants and contributions receivable	<u>2,338,925</u>	<u>3,773,190</u>
Total financial assets	6,047,990	8,553,348
Less:		
Restricted by donors	<u>(2,655,445)</u>	<u>(6,389,737)</u>
Financial assets available for general expenditures	<u>\$ 3,392,545</u>	<u>\$ 2,163,611</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, 2020 AND 2019**

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:

	<u>2020</u>	<u>2019</u>
Grants and contributions expected to be collected in:		
Less than one year:		
Contributions	\$ 2,172,218	\$ 2,155,898
Grants	166,707	1,125,118
One to five years - contributions	<u>-</u>	<u>500,000</u>
Subtotal	2,338,925	3,781,016
Less, discount to present value	<u>-</u>	<u>(7,826)</u>
Net grants and contributions receivable	<u><u>\$ 2,338,925</u></u>	<u><u>\$ 3,773,190</u></u>

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

	<u>2020</u>	<u>2019</u>
Leasehold improvements	\$ 2,180,013	\$ 940,457
Furniture and equipment	1,095,883	441,698
Transportation equipment	<u>-</u>	<u>10,500</u>
Subtotal	3,275,896	1,392,655
Less, Accumulated depreciation and amortization	<u>543,370</u>	<u>870,488</u>
Property and Equipment, net	<u><u>\$ 2,732,526</u></u>	<u><u>\$ 522,167</u></u>

Depreciation and amortization expense for the years ended December 31, 2020 and 2019 was \$299,331 and \$199,858, respectively.

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 3.25% as of December 31, 2020. The line of credit is secured by all of the Organization's business assets. As of December 31, 2020, there were no outstanding borrowings on the line of credit.

**POLARIS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020 AND 2019**

Note 7. **Note Payable - PPP** - On April 27, 2020, the Organization received loan proceeds in the amount of \$1,385,860 under the Paycheck Protection Program (“PPP”). The PPP, established as part of the Coronavirus Aid Relief and Economic Security Act (“CARES Act”), provides for loans to qualifying businesses for an amount up to 2.5 times of the average monthly payroll expenses of the qualifying business. Under the terms of the PPP, the loan may be forgiven if the proceeds are used for qualifying expenses as described in the CARES Act, while maintaining payroll levels. Qualifying expenses include payroll, benefits, rent and utilities. The loan had an interest rate of 1% per annum. In July 2021 the entire loan amount was forgiven.

Note 8. **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 was scheduled to terminate on January 31, 2024. However, during 2019 the Organization exercised a one-time right to terminate the lease in 2020. On or before the date of termination in 2020, the Organization was required to pay the landlord a termination fee equal to \$644,262. The termination fee was paid by a new landlord on behalf of Polaris.

The Organization entered into a new 150-month lease agreement effective July 1, 2020 and expiring on December 31, 2032. The lease agreement required a lease deposit of \$288,479 which is secured by a letter of credit. The agreement also included scheduled rent increases and an initial 6-month abatement of rent. The scheduled rent increases and abatement resulted in a deferred lease liability which is being amortized on a straight-line basis over the lease term. At December 31, 2020 and 2019 the deferred rent liability was \$492,008 and \$368,581, respectively.

Additionally, both the new and terminated lease agreements included leasehold improvement allowances provided by the respective landlords. GAAP requires that leasehold improvement allowances be recorded as assets (leasehold improvements), with a corresponding liability (deferred lease obligation), in the accompanying Statements of Financial Position. The portion of the lease payment related to the improvement allowance is amortized over the lease term. As of December 31, 2020 and 2019, the total deferred improvement allowance aggregated \$1,599,588 and \$350,530, respectively.

Rent expense for the years ended December 31, 2020 and 2019 totaled \$683,885 and \$549,445, respectively, and is included in facilities and equipment in the accompanying Statements of Functional Expenses. The Organization’s unamortized portions of leasehold improvements and deferred lease obligations connected with the terminated lease were removed from the statement of financial position in 2020.

**POLARIS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020 AND 2019**

**Note 8. Commitment - (Continued)**

Future minimum rental payments are as follows:

<u>Year ending December 31,</u>	
2021	\$ 876,256
2022	898,162
2023	920,616
2024	943,632
2025	967,223
Thereafter	7,482,426
Total	<u>\$ 12,088,315</u>

**Note 9. Net Assets with Donor Restrictions** - Net assets with donor restrictions were for the following purposes as of December 31:

	<u>2020</u>	<u>2019</u>
SI Labor Trafficking	\$ 1,038,303	\$ 2,081,766
Financial Intelligence Unit	918,007	1,400,000
Time Restricted	492,173	1,352,173
Slavery	153,152	-
COVID-19 Snapshot Initiative	50,000	-
Learning, Innovation and Data Systems	-	1,315,725
SI Sex Trafficking	-	236,263
Unamortized Value of Donated Capital Assets	3,810	3,810
Total	<u>\$ 2,655,445</u>	<u>\$ 6,389,737</u>

**POLARIS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020 AND 2019**

Note 10. **Conditional Contributions** - The Organization was awarded conditional contributions from the U.S Department of Human Services to support its core mission. During the years ended December 31, 2020 and 2019, amounts received from this grantor were recognized as revenue upon completion of certain task-related milestones and the satisfying of conditions, included spending-related conditions guided by government cost principles. Contributions are not recognized as revenue to the extent that conditions have not yet been met. Conditional contributions which have not been recognized as of December 31, 2020 are expected to be recognized in the following year.

Note 11. **Notes Payable - Furniture and Equipment** - The Organization entered into financing agreements for furniture and equipment. The obligations are payable through July 2025. At December 31, 2020, the net book value of the financed assets was \$467,480.

Minimum future lease payments under the capital leases are as follows:

Year Ending <u>December 31:</u>	<u>Capital Lease</u>
2021	\$ 121,313
2022	121,313
2023	121,313
2024	121,313
2025	<u>62,256</u>
Total minimum lease payments	\$ 547,508
Less, amount representing interest	<u>73,160</u>
Present value of minimum lease payments	\$ 474,348
Less, current maturities	<u>93,685</u>
Notes payable - furniture and equipment, net of current portion	<u><u>\$ 380,663</u></u>

Maturities of these notes are as follows:

Year Ending <u>December 31:</u>	<u>Maturities</u>
2021	\$ 93,685
2022	99,829
2023	106,388
2024	113,391
2025	<u>61,055</u>
Total	<u><u>\$ 474,348</u></u>



**POLARIS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020 AND 2019**

Note 12. **In-Kind Contributions** - 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 years ended December 31:

	2020	2019
Donated technology	\$ 6,324,658	\$ 4,999,867
Donated airline and hotel vouchers	198,792	201,175
Donated legal services	193,896	707,486
Donated advertising	120,000	123,000
Donated consulting	100,000	379,393
Donated human resource services	5,574	53,626
Total	<u>\$ 6,942,920</u>	<u>\$ 6,464,547</u>

Note 13. **Program Services** - The Organization's program activities are as follows:

	2020	2019
National Hotline	\$ 11,341,130	\$ 8,261,533
Strategic Initiative Labor Trafficking	1,235,520	1,279,337
Learning, Innovation and Data Systems	969,813	1,721,821
Other	911,006	845,289
Communications	727,260	812,513
Program administration	203,471	18,374
Policy	140,651	303,395
Survivor Engagement	6,568	30,721
Total	<u>\$ 15,535,419</u>	<u>\$ 13,272,983</u>

Note 14. **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 years ended December 31, 2020 and 2019 totaled \$172,652 and \$155,874, respectively, and is included in payroll taxes and benefits in the accompanying Statements of Functional Expenses.

Note 15. **Contingencies** - The Organization receives grants from various agencies of the U.S. Government, which are subject to audit. There exists the possibility that, upon audit, certain costs could be disallowed and result in a liability. Management is of the opinion that no material liability will result from such audits.

**POLARIS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020 AND 2019**

- Note 16. **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, 2020, the total cash balance in excess of the limit was \$3,264,813.
- Note 17. **Related Party Transactions** - Polaris engaged outsourced professional services from a national professional services firm and a local partner in such firm served on Polaris' board of directors. During 2020 and 2019 Polaris paid \$106,272 and \$179,237, respectively, to the service provider.
- Note 18. **Reclassifications** - Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform with the current year presentation.
- Note 19. **Subsequent Events** - In preparation of these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through August 1, 2022, 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, 2020**

<b>FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE</b>	<b>FEDERAL CFDA NUMBER</b>	<b>PASS-THROUGH ENTITY/AWARD NUMBER</b>	<b>FEDERAL EXPENDITURES</b>
<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 8	93.598	90ZV0134-03	\$ 2,511,321
National Human Trafficking Hotline Year 9	93.598	90ZV0138-01	1,178,604
<b>Total U.S. Department of Health and Human Services</b>			<b>3,689,925</b>
<b><u>U.S. Department of Justice:</u></b>			
<i>Pass-through program from:</i>			
The National Center for Victims of Crime - Victims of Crime (OVC) program funding	N/A	2019-V3-GX-K018	11,600
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<b>\$ 3,701,525</b>

**NOTE A - BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Polaris under programs of the federal government for the year ended December 31, 2020. 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 did not provide federal awards to any subrecipients during the year ended December 31, 2020.

**NOTE D - INDIRECT COST RATE**

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

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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, 2020, 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 1, 2022.

### **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.

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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we did identify certain deficiencies in internal control that we consider to be a material weakness and a significant deficiency.

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. We consider the deficiency described in the accompanying schedule of findings and questioned as item 2020-001 to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2020-002 to be a significant deficiency.

### **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 financial statements. 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*.

### **Polaris' Response to Findings**

Polaris' response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Polaris' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **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 1, 2022

**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, 2020. 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, 2020.

## 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 1, 2022

**POLARIS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**DECEMBER 31, 2020**

**Summary of Auditors' Results**

1. The auditors' report expresses an unmodified opinion on whether the financial statements of Polaris were prepared in accordance with GAAP.
2. One material weakness and one significant deficiency disclosed during the audit of the financial statements are reported in the 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*.
3. No instances of non-compliance material to the financial statements of Polaris, which would be required to be reported in accordance with *Government Auditing Standards*, 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 award program for Polaris expresses an unmodified opinion.
6. Audit findings 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 was:

<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 used for distinguishing Types A and B programs was \$750,000.
9. Polaris was determined not to be a low-risk auditee.

**Findings - Financial Statement Audit**

Material Weakness

2020-001: Review for Unusual and Complex Transactions

*Condition:* A specific review for unusual and complex financial transactions is not required.

*Criteria:* Internal controls over financial reporting should be in place to provide reasonable assurance that all material transactions are recorded.



**POLARIS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**DECEMBER 31, 2020**

*Cause:* There are no procedures in place to require a specific review for unusual and complex transactions.

*Effect:* Because there was not a review for unusual and complex financial transactions, a material lease termination transaction that occurred outside the routine accounting process was not recorded. This specific type of transaction occurs only infrequently when a lease is terminated.

*Recommendation:* A procedure should be implemented to require a specific review for unusual and complex financial transactions by management at least annually to determine the existence of such transactions and, if so, that they have been recorded in the financial statements.

*Views of Responsible Officials and Planned Corrective Actions:* The management of Polaris agrees with the finding and plans to adopt and implement the recommended procedure of a specific review for unusual and complex transactions.

**Significant Deficiency**

**2020-002: Review of Account Balances and Reconciliations**

*Condition:* The trial balance and related supporting schedules as of December 31, 2020 that were initially given to the auditors were not in a state of accuracy. In order to correct the trial balance and related supporting schedules, an outsourced accountant with experience working with nonprofit organizations was subsequently engaged by the Organization. A corrected trial balance and certain corrected supporting schedules were subsequently provided to the auditors

*Criteria:* The Organization's assets, liabilities, net assets, and certain revenues and expenses should be reconciled to match supporting documentation so that the financial statements are accurate.

*Cause:* The Organization did not initially assess the Organization's state of readiness for the annual independent audit by conducting a thorough review of the year-end trial balance, general ledger and supporting schedules prior to the start of the audit.

*Effect:* Because a critical review of the year-end trial balance, general ledger and supporting schedules was not applied prior to the start of the audit, the trial balance and related supporting schedules as of December 31, 2020 required corrections to bring them into a state of accuracy and readiness to be audited.

*Recommendation:* We recommend that financial management personnel assess the Organization's state of readiness for the annual independent audit by conducting a thorough review of the year-end trial balance, general ledger and supporting schedules prior to the start of the audit. This assessment and critical review will improve the accuracy of the Organization's financial statements and promote a smoother and more cost-efficient audit process by reducing the number of audit inquiries and reducing the extent of work required of the auditors.

**POLARIS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**DECEMBER 31, 2020**

*Views of Responsible Officials and Planned Corrective Actions:* The management of Polaris agrees with the finding and plans to adopt and implement the recommended procedure for a more thorough review and assessment of the Organization's financial statement accuracy and readiness for audit.

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

No matters were reported.