POLARIS

DECEMBER 31, 2019 AND 2018

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Polaris
Washington, DC

We have audited the accompanying financial statements of Polaris (a nonprofit organization), which comprise the statements of financial position as of December 31, 2019 and 2018, 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, 2019 and 2018, 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, 2019, 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 December 30, 2020 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.

Sarfino and Rhoades LLP

December 30, 2020

POLARIS

STATEMENTS OF FINANCIAL POSITION

	DECEMBER 31, 2019	DECEMBER 31, 2018
ASSETS		
CURRENT ASSETS:		
Cash (Notes 1 and 15)	$ 4,780,158	$ 3,131,186
Grants and contributions receivable (Notes 1 and 4)	3,281,016	2,659,738
Prepaid expenses and other	175,343	103,032
TOTAL CURRENT ASSETS	8,236,517	5,893,956
PROPERTY AND EQUIPMENT, NET (Notes 1 and 5)	522,167	671,256
OTHER ASSETS:		
Grants and contributions receivable - long-term (Notes 1 and 4)	492,174	243,594
Deposit	131,525	45,239
TOTAL OTHER ASSETS	623,699	288,833
TOTAL ASSETS	$ 9,382,383	$ 6,854,045
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 390,771	$ 433,121
Accrued payroll and related liabilities	336,919	264,515
Deferred lease obligation (Note 7)	150,650	134,787
TOTAL CURRENT LIABILITIES	878,340	832,423
OTHER LIABILITY:		
Deferred lease obligation - long-term portion (Note 7)	568,461	719,110
TOTAL LIABILITIES	1,446,801	1,551,533
COMMITMENT AND CONTINGENCY (Notes 7 and 14)		
NET ASSETS (Notes 1, 8 and 9)**:**		
Without donor restrictions	1,545,845	2,108,216
With donor restrictions	6,389,737	3,194,296
TOTAL NET ASSETS	7,935,582	5,302,512
TOTAL LIABILITIES AND NET ASSETS	$ 9,382,383	$ 6,854,045

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

POLARIS

STATEMENTS OF ACTIVITIES

	FOR THE YEARS ENDED DECEMBER 31, 2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT, REVENUE AND GAINS (Notes 1, 9, 10 and 11)**:**						
Contributions:						
Government grants	$ 2,755,893	$ -	$ 2,755,893	$ 1,749,402	$ -	$ 1,749,402
Corporate, foundation, individual and other	4,632,157	6,995,609	11,627,766	3,298,597	476,165	3,774,762
In-kind contributions	6,464,547	-	6,464,547	2,755,423	-	2,755,423
Training, honoraria and other	192,886	-	192,886	105,171	-	105,171
Net assets released from restrictions	3,800,168	(3,800,168)	-	5,050,628	(5,050,628)	-
TOTAL SUPPORT, REVENUE AND GAINS	17,845,651	3,195,441	21,041,092	12,959,221	(4,574,463)	8,384,758
EXPENSES:						
Program services (Note 12)	13,272,983	-	13,272,983	9,160,535	-	9,160,535
Supporting services:						
Management and general	3,655,953	-	3,655,953	3,072,463	-	3,072,463
Fundraising	1,479,086	-	1,479,086	1,101,740	-	1,101,740
Total supporting services	5,135,039	-	5,135,039	4,174,203	-	4,174,203
TOTAL EXPENSES	18,408,022	-	18,408,022	13,334,738	-	13,334,738
CHANGES IN NET ASSETS	(562,371)	3,195,441	2,633,070	(375,517)	(4,574,463)	(4,949,980)
NET ASSETS, BEGINNING OF YEAR	2,108,216	3,194,296	5,302,512	2,483,733	7,768,759	10,252,492
NET ASSETS, END OF YEAR	$ 1,545,845	$ 6,389,737	$ 7,935,582	$ 2,108,216	$ 3,194,296	$ 5,302,512

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

POLARIS

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2019

	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	47,333	22,658	199,857
Miscellaneous	8,195	671	27,245	41,334	77,445	55,596	2,124	135,165
Insurance	24,510	5,465	3,905	10,608	44,488	22,505	7,762	74,755
Total Expenses	$ 8,261,533	$ 1,721,821	$ 1,279,337	$ 2,010,292	$ 13,272,983	$ 3,655,953	$ 1,479,086	$ 18,408,022

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

POLARIS

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2018

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

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

POLARIS

STATEMENTS OF CASH FLOWS

	DECEMBER 31, 2019	DECEMBER 31, 2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	$ 2,633,070	$ (4,949,980)
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	199,858	144,757
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Grants and contributions receivables	(869,858)	2,972,875
Prepaid expenses and other	(72,311)	43,664
Deposit	(86,286)	50,238
Increase (decrease) in:		
Accounts payable and accrued expenses	(42,349)	22,608
Accrued payroll and related liabilities	72,404	24,984
Deferred lease obligation	(134,786)	(114,766)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	1,699,742	(1,805,620)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(50,770)	(176,994)
NET CHANGE IN CASH	1,648,972	(1,982,614)
CASH, BEGINNING OF YEAR	3,131,186	5,113,800
CASH, END OF YEAR	$ 4,780,158	$ 3,131,186

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

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.

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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.

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 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 Statements 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. There was no unrelated business income for the years ended December 31, 2019 and 2018.

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. Any funds received in advance of incurring qualifying expenditures are recorded as refundable advances.

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.

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 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. ASU 2018-08 includes specific criteria to consider when determining whether a contract or agreement should be accounted for as a contribution or as an exchange transaction. ASU 2018-08 also provides a framework to determine whether a contribution is conditional or unconditional, which may impact the timing of revenue recognition. A transaction that is considered an exchange transaction is accounted for under the applicable revenue recognition standards. The Organization adopted this ASU prospectively for agreements that were not completed as of December 31, 2018 and for those entered into after December 31, 2018. Accordingly, only the portion of revenue that had not been recognized as of December 31, 2018 was subject to the guidance in ASU 2018-08.

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:

	2019	2018
Financial assets, December 31:		
Cash	$ 4,780,158	$ 3,131,186
Grants and contributions receivable	3,773,190	2,903,332
Total financial assets	8,553,348	6,034,518
Less:		
Restricted by donors	(6,389,737)	(3,194,296)
Financial assets available for general expenditures	$ 2,163,611	$ 2,840,222

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.

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:

	2019	2018
Grants and contributions expected to be collected in:		
Less than one year:		
Contributions	$ 2,155,898	$ 2,250,017
Grants	1,125,118	409,721
One to five years - contributions	500,000	250,000
Subtotal	3,781,016	2,909,738
Less, discount to present value	(7,826)	(6,406)
Net grants and contributions receivable	$ 3,773,190	$ 2,903,332

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

	2019	2018
Leasehold improvements	$ 940,457	$ 940,457
Furniture and equipment	441,698	390,929
Transportation equipment	10,500	10,500
Subtotal	1,392,655	1,341,886
Less, Accumulated depreciation and amortization	870,488	670,630
Property and Equipment, net	$ 522,167	$ 671,256

Depreciation and amortization expense for the years ended December 31, 2019 and 2018 was $199,858 and $144,757, 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 4.75% as of December 31, 2019. The line of credit is secured by all of the Organization's business assets. As of December 31, 2019, there were no outstanding borrowings on the line of credit.

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 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. Polaris entered into a new 150-month lease commencing approximately July 1, 2020 and ending December 31, 2032. The lease agreement included scheduled rent increases and an initial 6-month abatement of rent. The scheduled rent increases and abatement will give rise to a deferred lease liability in 2020.

The terminating lease included periodic lease escalations, rental holidays, and an improvement allowance (collectively the "deferred lease obligation"). Accounting principles generally accepted in the United States of America (GAAP) 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 Statements of Financial Position. As of December 31, 2019 and 2018, the deferred rent liability aggregated $368,581 and $417,523, respectively.

Additionally, included in the terminating lease was a tenant improvement allowance of $915,670. GAAP requires that leasehold improvement allowances be recorded as assets (leasehold improvements), with a corresponding liability (deferred improvement allowance), 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, 2019 and 2018, the total deferred improvement allowance aggregated $350,530 and $436,374, respectively.

Rent expense for the years ended December 31, 2019 and 2018 totaled $549,445 and $536,980, 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 terminating lease will be removed from the statement of financial position in 2020.

Future minimum rental payments, excluding the termination penalty, are as follows:

Year ending December 31,	
2020	$ 325,181
2021	876,256
2022	898,162
2023	920,616
2024	943,632
Thereafter	8,449,649
Total	$ 12,413,496

POLARIS

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

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

	2019	2018
Global Human Trafficking Hotline Network	$ 2,081,766	$ 56,925
Financial Intelligence Unit	1,400,000	-
Time Restricted	1,352,173	187,500
Data Analysis Program	1,315,725	2,268,250
STFM Program	121,881	539,822
Online Trafficking	114,382	-
Unamortized Value of Donated Capital Assets	3,810	5,414
Hotline Modernization	-	136,385
Total	$ 6,389,737	$ 3,194,296

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

	2019	2018
Passage of Time	$ 1,117,500	$ 437,500
Global Human Trafficking Hotline Network	1,057,187	872,383
Data Analysis Program	952,525	2,413,553
STFM Program	424,348	825,588
Hotline Modernization	136,385	-
Online Trafficking	110,619	-
Depreciation on Donated Capital Assets	1,604	1,604
Central Programs	-	500,000
Net Assets Released from Donor Restrictions	$ 3,800,168	$ 5,050,628

Note 10. **Conditional Contributions** – The Organization was awarded a total of $3,500,000 in conditional contributions from the U.S Department of Human Services to support its core mission. During the years ended December 31, 2019 and 2018, $2,124,739 and $675,440, respectively was received from the grantor and recognized as revenue upon completion of certain task related milestones. The remaining $699,821 was unearned at year-end. This amount will be recognized as revenue upon successful fulfilment of specified conditions.

Note 10. **Conditional Contributions -** (Continued)

The Organization was awarded a total of $682,685 in conditional contributions from the State of Texas Office of the Governor to support its core mission. During the years ended December 31, 2019 and 2018, $523,404 and $0, respectively, was received from the grantor and recognized as revenue upon completion of certain task related milestones. The remaining $109,281 was unearned at year-end. This amount will be recognized as revenue upon successful fulfilment of specified conditions.

Note 11. **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:

	2019	2018
Donated technology	$ 4,999,867	$ 1,520,683
Donated legal services	707,486	516,693
Donated consulting	379,393	457,273
Donated airline and hotel vouchers	201,175	116,774
Donated advertising	123,000	132,000
Donated human resource services	53,626	12,000
Total	$ 6,464,547	$ 2,755,423

Note 12. **Program Services** - The Organization's program activities are as follows:

	2019	2018
National Hotline	$ 8,261,533	$ 4,310,659
Data Analysis Program	1,721,821	1,728,951
Disruption	1,279,337	1,653,667
Mexico	845,289	589,518
Communications	812,513	523,621
Policy	303,395	252,272
Survivor Engagement	30,721	101,847
Program admin	18,374	-
Totals	$ 13,272,983	$ 9,160,535

Note 13. **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, 2019 and 2018 totaled $155,874 and $132,038, respectively, and is included in payroll taxes and benefits in the accompanying Statements of Functional Expenses.

Note 14. **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.

Note 15. **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, 2019, the total cash balance in excess of the limit was $3,302,888.

Note 16. **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 2019 Polaris paid $179,237 to the service provider.

Note 17. **Subsequent Events** - In preparation of these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through December 30, 2020, which is the date the financial statements were available to be issued.

The effect of the COVID-19 pandemic may have an effect on the Organization's activities during 2020, though the length of the pandemic and extent of the impact is not yet known.

POLARIS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED DECEMBER 31, 2019

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH ENTITY/AWARD NUMBER	FEDERAL EXPENDITURES
U.S. Department of Health and Human Services:			
Administration for Children and Families (ACF)/ Office on Trafficking in Persons (OTIP):			
Services to Victims of a Severe Form of Trafficking:			
National Human Trafficking Hotline Year 7	93.598	90ZV0102-03-02	$ 1,074,560
National Human Trafficking Hotline Year 8	93.598	90ZV0102-03-02	1,050,179
Total U.S. Department of Health and Human Services			2,124,739
U.S. Department of Justice:			
Pass-through program from:			
Texas Office of the Governor - Criminal Justice Division (CJD):			
Victims of Crime Act Formula Grant Program	16.575	2017-VA-GX-0006	573,404
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 2,698,143

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, 2019. 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, 2019.

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, 2019, 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 December 30, 2020.

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.

Sarfino and Rhoades LLP

December 30, 2020

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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, 2019. 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, 2019.

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.

Sarfino and Rhoades LLP

December 30, 2020

POLARIS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

DECEMBER 31, 2019

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:

CFDA Number	Name of Federal Programs or Contract
16.575	Victims of Crime Act Formula Grant Program

8. The threshold for distinguishing Types A and B programs was $750,000.

9. Polaris was determined to be a low-risk auditee.

Findings - Financial Statement Audit

No matters were reported.

Findings and Questioned Costs - Major Federal Award Programs Audit

No matters were reported.