

FINANCIAL STATEMENTS

POLARIS PROJECT, INC.

**FOR THE YEAR ENDED DECEMBER 31, 2010
WITH SUMMARIZED FINANCIAL
INFORMATION FOR 2009**

POLARIS PROJECT, INC.

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GELMAN, ROSENBERG & FREEDMAN
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statement of financial position of Polaris Project, Inc. as of December 31, 2010, and the related statements of activities and change in net assets, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of Polaris Project, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from Polaris Project, Inc.'s 2009 financial statements, which were audited by other auditors and, in their report dated August 10, 2010, they expressed an unqualified opinion on those statements.

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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Polaris Project, Inc.'s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Polaris Project, Inc. as of December 31, 2010, and its change in net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 11, 2011, on our consideration of Polaris Project, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

September 11, 2011

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POLARIS PROJECT, INC.
STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2010
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2009

ASSETS		<u>2010</u>	<u>2009</u>
CURRENT ASSETS			
Cash and cash equivalents		\$ 1,265,259	\$ 1,022,939
Grants receivable		570,246	506,872
Other receivables		44,896	-
Prepaid expenses		<u>22,973</u>	<u>10,857</u>
Total current assets		<u>1,903,374</u>	<u>1,540,668</u>
FIXED ASSETS			
Furniture and equipment		57,391	56,307
Vehicles		<u>19,781</u>	<u>21,931</u>
		77,172	78,238
Less: Accumulated depreciation and amortization		<u>(24,986)</u>	<u>(37,368)</u>
Net fixed assets		<u>52,186</u>	<u>40,870</u>
OTHER ASSETS			
Deposits		<u>38,600</u>	<u>38,540</u>
TOTAL ASSETS		<u>\$ 1,994,160</u>	<u>\$ 1,620,078</u>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable		\$ 24,872	\$ 10,883
Accrued wages and benefits		<u>112,778</u>	<u>62,383</u>
Total current liabilities		<u>137,650</u>	<u>73,266</u>
NET ASSETS			
Unrestricted		505,385	1,036,937
Temporarily restricted (Note 2)		<u>1,351,125</u>	<u>509,875</u>
Total net assets		<u>1,856,510</u>	<u>1,546,812</u>
TOTAL LIABILITIES AND NET ASSETS		<u>\$ 1,994,160</u>	<u>\$ 1,620,078</u>

See accompanying notes to financial statements.

POLARIS PROJECT, INC.

**STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2010
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2009**

	2010			2009
	Unrestricted	Temporarily Restricted	Total	Total
SUPPORT AND REVENUE				
Contributions and grants (Note 6)	\$ 2,289,175	\$ 943,026	\$ 3,232,201	\$ 2,966,731
In-kind contributions (Note 3)	771,379	-	771,379	753,954
Honoraria and other	13,598	-	13,598	35,116
Net assets released from donor restrictions (Note 2)	<u>101,776</u>	<u>(101,776)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>3,175,928</u>	<u>841,250</u>	<u>4,017,178</u>	<u>3,755,801</u>
EXPENSES				
Program Services	3,004,070	-	3,004,070	2,541,783
Development	220,640	-	220,640	152,848
General and Administrative	<u>421,925</u>	<u>-</u>	<u>421,925</u>	<u>464,087</u>
Total expenses	<u>3,646,635</u>	<u>-</u>	<u>3,646,635</u>	<u>3,158,718</u>
Change in net assets before other item	(470,707)	841,250	370,543	597,083
OTHER ITEM				
Loss on Japan operations (Note 7)	<u>(60,845)</u>	<u>-</u>	<u>(60,845)</u>	<u>-</u>
Change in net assets	(531,552)	841,250	309,698	597,083
Net assets at beginning of year	<u>1,036,937</u>	<u>509,875</u>	<u>1,546,812</u>	<u>949,729</u>
NET ASSETS AT END OF YEAR	<u>\$ 505,385</u>	<u>\$ 1,351,125</u>	<u>\$ 1,856,510</u>	<u>\$ 1,546,812</u>

See accompanying notes to financial statements.

POLARIS PROJECT, INC.

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2010
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2009**

	2010			2009	
	Program Services	Development	General and Administrative	Total Expenses	Total Expenses
Salaries and wages	\$ 1,299,875	\$ 147,155	\$ 219,831	\$ 1,666,861	\$ 1,361,660
Fringe benefits (Note 5)	262,144	17,948	34,766	314,858	228,439
Facilities and equipment (Note 4)	280,028	19,889	45,667	345,584	299,690
Depreciation	-	-	73	73	12,653
Operating expenses	192,162	21,328	42,688	256,178	181,365
Insurance	31,873	1,350	3,813	37,036	62,411
Travel and meeting expenses	46,741	2,904	5,788	55,433	47,565
Contract services	38,665	-	-	38,665	26,731
Professional fees (Note 3)	834,215	6,901	55,843	896,959	911,866
Other	18,367	3,165	11,146	32,678	26,338
Bad debt	-	-	2,310	2,310	-
TOTAL EXPENSE	\$ 3,004,070	\$ 220,640	\$ 421,925	\$ 3,646,635	\$ 3,158,718

POLARIS PROJECT, INC.

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2010
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2009**

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 309,698	\$ 597,083
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	73	12,653
Donated vehicle	-	(2,150)
Loss on disposal of furniture and equipment	16,657	-
Bad debt expense	2,310	-
(Increase) decrease in:		
Grants receivable	(63,374)	(373,938)
Other receivables	(47,206)	-
Prepaid expenses	(12,116)	(10,857)
Deposits	(60)	(14,230)
Increase (decrease) in:		
Accounts payable	13,989	(2,160)
Accrued wages and benefits	<u>50,395</u>	<u>21,375</u>
Net cash provided by operating activities	<u>270,366</u>	<u>227,776</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of furniture and equipment	<u>(28,046)</u>	<u>(12,404)</u>
Net cash used by investing activities	<u>(28,046)</u>	<u>(12,404)</u>
Net increase in cash and cash equivalents	242,320	215,372
Cash and cash equivalents at beginning of year	<u>1,022,939</u>	<u>807,567</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 1,265,259</u>	<u>\$ 1,022,939</u>

See accompanying notes to financial statements.

POLARIS PROJECT, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Organization -

Polaris Project, Inc. is a non-profit organization, incorporated in the State of Rhode Island in 2002. The organization is committed to combating human trafficking and modern-day slavery. Polaris Project, Inc. has offices in Washington, D.C., New Jersey, and Japan. The organization combines direct intervention, survivor support, policy advocacy, and movement building into a comprehensive approach to combat human trafficking.

Recently issued accounting standards -

In June 2009, the Financial Accounting Standards Board (FASB) issued FASB ASC 105, *Generally Accepted Accounting Principles*, which establishes the FASB Accounting Standards Codification as the sole source of authoritative generally accepted accounting principles. Pursuant to the provisions of FASB ASC 105, Polaris Project, Inc. has updated references to GAAP in its financial statements issued for the year ended December 31, 2010. The adoption of FASB ASC 105 did not impact Polaris Project, Inc.'s financial position or results of operations.

Basis of presentation -

The accompanying financial statements are presented on the accrual basis of accounting, and in accordance with FASB ASC 958, *Not-for-Profit Entities*.

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with Polaris Project, Inc.'s financial statements for the year ended December 31, 2009, from which the summarized information was derived.

Cash and cash equivalents -

Polaris Project, Inc. considers all cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents.

At times during the year, Polaris Project, Inc. maintains cash balances at financial institutions in excess of the Federal Deposit Insurance Corporation (FDIC) limits. Management believes the risk in these situations to be minimal.

Grants receivable -

Grants receivable approximate fair value. Management considers all amounts to be fully collectible. Accordingly, an allowance for doubtful accounts has not been established.

Fixed assets -

Fixed assets are capitalized and stated at cost. Fixed assets are depreciated on a straight-line basis over the estimated useful lives of the related assets, generally three to five years. Leasehold improvements are amortized over the remaining life of the lease. The cost of maintenance and repairs is recorded as expenses are incurred.

POLARIS PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

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

Income taxes -

Polaris Project, Inc. is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made in the accompanying financial statements. Polaris Project, Inc. is not a private foundation.

Uncertain tax positions -

In June 2006, the Financial Accounting Standards Board (FASB) released FASB ASC 740-10, *Income Taxes*, that provides guidance for reporting uncertainty in income taxes. For the year ended December 31, 2010, Polaris Project, Inc. has documented its consideration of FASB ASC 740-10 and determined that no material uncertain tax positions qualify for either recognition or disclosure in the financial statements.

Net asset classification -

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

- **Unrestricted net assets** include unrestricted revenue and contributions received without donor-imposed restrictions. These net assets are available for the operation of Polaris Project, Inc.
- **Temporarily restricted net assets** include revenue and contributions subject to donor-imposed stipulations that will be met by the actions of Polaris Project, Inc. and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities and Change in Net Assets as net assets released from restrictions.

Contributions and grants -

Unrestricted and temporarily restricted contributions and grants are recorded as revenue in the year notification is received from the donor. Temporarily restricted contributions and grants are recognized as unrestricted support only to the extent of actual expenses incurred in compliance with the donor-imposed restrictions and satisfaction of time restrictions. Temporarily restricted contributions and grants received in excess of expenses incurred are shown as temporarily restricted net assets in the accompanying financial statements.

Polaris Project, Inc. receives funding under grants and contracts from the the U.S. government and other donors for direct and indirect program costs. This funding is subject to grant/contract restrictions, which must be met through incurring qualifying expenses for particular programs. Accordingly, such grants are considered exchange transactions and are recorded as unrestricted income to the extent that related expenses are incurred in compliance with the criteria stipulated in the grant agreements.

Grants receivable represents amounts due from funding organizations for reimbursable expenses incurred in accordance with the grant agreements. Grant funding received in advance of incurring the related expenses is recorded as a refundable advance.

POLARIS PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

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

In-kind contributions -

In-kind contributions consist of fellowship services, pro-bono legal services and donated supplies and materials. In-kind contributions are recorded at fair value as of the date the contributions are received.

Use of estimates -

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Functional allocation of expenses -

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statement of Activities and Change in Net Assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Reclassification -

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation. These reclassifications had no effect on the previously reported changes in net assets.

2. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at December 31, 2010:

New Jersey Client Services	\$ 15,625
D.C. Client Services	18,750
National Human Trafficking Resource Center	91,667
Policy	652,167
20,000 Campaign	83,333
Time Restricted	<u>489,583</u>
	<u>\$1,351,125</u>

The following temporarily restricted net assets were released from donor restrictions by incurring expenses (or through the passage of time), which satisfied the restricted purposes specified by the donors:

New Jersey Client Services	\$ 24,375
Training and Technical Assistance	5,000
D.C. Client Services	17,750
National Human Trafficking Resource Center	16,067
Policy	11,500
20,000 Campaign	16,668
Passage of time	<u>10,416</u>
	<u>\$ 101,776</u>

POLARIS PROJECT, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010**

3. IN-KIND GOODS AND SERVICES

During the year ended December 31, 2010, Polaris Project, Inc. was the beneficiary of donated goods and services, which allow Polaris Project, Inc. to provide greater resources towards various programs. To properly reflect total program expenses, the following donations have been included in revenue and expense for the year ended December 31, 2010.

Pro-bono legal services	\$ 192,215
Fellowship services	541,454
Other donations	<u>37,710</u>
	<u>\$ 771,379</u>

4. LEASE COMMITMENTS

Polaris Project, Inc. leases office space in Washington, D.C. under two agreements that expire January 31, 2015 and December 31, 2012, in addition to several other lease agreements, which are on a month-to-month basis. Polaris Project, Inc. also leases office space in New Jersey under an agreement that expires May 15, 2011.

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

Year Ended December 31,

2011	\$ 248,489
2012	239,355
2013	192,852
2014	<u>199,602</u>
	<u>\$ 880,298</u>

Rent expense for the year ended December 31, 2010 was \$269,929.

5. RETIREMENT PLAN

Polaris Project, Inc. offers a 403(b) retirement plan for all full-time employees. All full-time employees may contribute up to 60% of their gross wages. Polaris Project, Inc. does not provide a matching contribution at this time.

6. CONTINGENCY

Polaris Project, Inc. receives grants from various agencies of the United States Government. Such grants are subject to audit under the provisions of OMB Circular A-133. The ultimate determination of amounts received under the United States Government grants is based upon the allowance of costs reported to and accepted by the United States Government as a result of the audit. Audits in accordance with the provisions of OMB Circular A-133 have been completed for all required fiscal years through 2010. Until such audit have been accepted by the United States Government, there exists a contingency to refund any amount received in excess of allowable costs. Management is of the opinion that no material liability will result from such audit.

POLARIS PROJECT, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010**

7. LOSS ON JAPAN OPERATIONS

During 2010, management discovered errors in the accounting of its Japan operations upon reconciling the cumulative cash on hand and in banks. As a result, a difference of \$60,845 was discovered and accordingly, the cash balance at December 31, 2010 was reduced by such amount.

8. SUBSEQUENT EVENTS

In preparing these financial statements, Polaris Project, Inc. has evaluated events and transactions for potential recognition or disclosure through September 11, 2011, the date the financial statements were issued.