MOODY, FAMIGLIETTI & ANDRONICO
Certified Public Accountants & Consultants

THE TOR PROJECT, INC. AND AFFILIATE

CONSOLIDATED FINANCIAL STATEMENTS AND REPORTS REQUIRED FOR AUDITS IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS AND OMB CIRCULAR A-133

DECEMBER 31, 2012 AND 2011

Proactive certified public accounting and consulting

To the Board of Directors
The Tor Project, Inc. and Affiliate
Walpole, Massachusetts

INDEPENDENT AUDITORS' REPORT

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of The Tor Project, Inc. and Affiliate (collectively referred to as the "Organization"), which comprise the consolidated statements of financial position as of December 31, 2012 and 2011, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Organization's preparation and fair presentation of the consolidated 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 Organization'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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Tor Project, Inc. and Affiliate as of December 31, 2012 and 2011, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidated schedule of expenditures of federal awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* is presented for purposes of additional analysis and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated 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 12, 2013, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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* in considering the Organization’s internal control over financial reporting and compliance.

Moody, Famigliette & Andronico, LLP

Moody, Famiglietti & Andronico, LLP
Tewksbury, Massachusetts
August 12, 2013

December 31	2012	2011
Assets		
Current Assets:		
Cash and Equivalents	$ 644,346	$ 252,838
Grants and Contracts Receivable	663,957	356,296
Assets Whose Use is Limited	44,575	49,118
Prepaid Expenses	7,940	3,376
Restricted Cash	1,002	157,253
Total Current Assets	1,361,820	818,881
Property and Equipment, Net of Accumulated Depreciation	6,252	14,253
Total Assets	$ 1,368,072	$ 833,134
Liabilities and Net Assets		
Current Liabilities:		
Accounts Payable	$ 250,317	$ 166,288
Accrued Expenses	64,254	137,886
Deferred Revenue	10,934	363,821
Other Liability- Assets Whose Use is Limited	44,575	49,118
Total Liabilities	370,080	717,113
Net Assets:		
Unrestricted	715,831	102,021
Temporarily Restricted	282,161	14,000
Total Net Assets	997,992	116,021
Total Liabilities and Net Assets	$ 1,368,072	$ 833,134

For the Years Ended December 31	**2012**	2011
Changes in Unrestricted Net Assets:		
Revenues and Other Support:		
Grants and Contribution Revenue	**$ 1,309,233**	$ 1,092,152
Contract Revenue	**937,168**	279,149
Donated Services	**337,500**	309,700
Net Assets Released from Restriction	**81,839**	-
Other Revenue	**11,696**	-
Total Unrestricted Revenues and Other Support	**2,677,436**	1,681,001
Expenses:		
Program Services	**1,936,332**	1,625,117
Management and General	**93,133**	203,062
Fundraising	**33,210**	72,236
Total Expenses	**2,062,675**	1,900,415
Operating Income (Loss)	**614,761**	(219,414)
Non-Operating Income (Loss):		
Foreign Currency Translation Loss	**(1,687)**	(10,509)
Interest Income	**736**	1,753
Total Non-Operating Loss	**(951)**	(8,756)
Increase (Decrease) in Unrestricted Net Assets	**613,810**	(228,170)
Changes in Temporarily Restricted Net Assets:		
Grants and Contribution Revenue	**350,000**	14,000
Net Assets Released from Restriction	**(81,839)**	-
Increase in Temporarily Restricted Net Assets	**268,161**	14,000
Increase (Decrease) in Net Assets	**881,971**	(214,170)
Net Assets, Beginning of Year	**116,021**	330,191
Net Assets, End of Year	**$ 997,992**	$ 116,021

For the Years Ended December 31	2012				2011			
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
Contract Services	$ 653,267	$ 34,747	$ -	$ 688,014	$ 608,860	$ 16,794	$ -	$ 625,654
Salaries and Related Taxes and Benefits	622,270	21,161	19,196	662,627	499,794	35,262	68,579	603,635
Donated Services	337,500	-	-	337,500	309,700	-	-	309,700
Travel and Meals	168,093	19,718	11,747	199,558	48,497	73,688	82	122,267
Professional Fees	47,095	5,193	1,101	53,389	25,006	30,373	1,072	56,451
Research and Development Grants	39,015	-	-	39,015	74,033	7,061	-	81,094
Program Supplies	31,487	6,216	-	37,703	16,200	-	-	16,200
Miscellaneous Expenses	9,151	1,525	324	11,000	12,930	2,233	587	15,750
Bank Fees and Service Charges	5,799	826	175	6,800	682	2,682	705	4,069
Depreciation	7,058	778	165	8,001	5,278	1,265	333	6,876
Conferences	4,792	1,777	-	6,569	10,204	30,365	-	40,569
Occupancy	5,293	584	123	6,000	6,832	1,637	431	8,900
Advertising and Marketing	4,264	470	100	4,834	4,875	1,169	307	6,351
Insurance	1,248	138	29	1,415	2,226	533	140	2,899
Education and Training	-	-	250	250	-	-	-	-
Total Functional Expenses	$ 1,936,332	$ 93,133	$ 33,210	$ 2,062,675	$ 1,625,117	$ 203,062	$ 72,236	$ 1,900,415

For the Years Ended December 31	**2012**	2011
Cash Flows from Operating Activities:		
Increase (Decrease) in Net Assets	**$ 881,971**	$ (214,170)
Adjustments to Reconcile Increase (Decrease) in Net Assets to Net Cash Provided by (Used in) Operating Activities:		
Depreciation	**8,001**	6,876
Increase in Grants and Contracts Receivable	**(307,661)**	(176,113)
(Increase) Decrease in Prepaid Expenses	**(4,564)**	2,436
Decrease in Restricted Cash	**156,251**	141,422
Increase in Accounts Payable	**84,029**	16,334
(Decrease) Increase in Accrued Expenses	**(73,632)**	63,286
(Decrease) Increase in Deferred Revenue	**(352,887)**	65,531
Net Cash Provided by (Used In) Operating Activities	**391,508**	(94,398)
Net Cash Used in Investing Activities:		
Acquisitions of Property and Equipment	**-**	(6,753)
Net Increase (Decrease) in Cash and Equivalents	**391,508**	(101,151)
Cash and Equivalents, Beginning of Year	**252,838**	353,989
Cash and Equivalents, End of Year	**$ 644,346**	$ 252,838

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

1. Organization and Significant Accounting Policies:

Principles of Consolidation: The consolidated financial statements of The Tor Project, Inc. and Affiliate (collectively referred to as the "Organization") include the accounts of The Tor Project, Inc. (referred to as "Tor") and Tor Solution Corporation (the "Corporation" or the "Affiliate"). All significant intercompany balances and transactions have been eliminated in consolidation.

Nature of Organization: Tor is a nonprofit organization dedicated to allowing individuals and groups to protect their internet traffic from analysis. Tor provides the foundation for a range of applications that allow for the sharing of information over public networks without compromising privacy.

The Affiliate is a Massachusetts corporation incorporated on June 24, 2011, on which date Tor became the sole member. In addition, the Affiliate was established to design, develop, publish, and reproduce computer software or the equivalent for any mode of electronic or internet-based communications.

Method of Accounting: The consolidated financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting procedures generally accepted in the United States of America (GAAP).

Classification and Reporting of Net Assets: The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets; temporarily restricted net assets; and permanently restricted net assets. A description of the three net asset classes follows:

- Unrestricted net assets represents the portion of net assets of the Organization that is neither permanently restricted nor temporarily restricted by donor-imposed stipulations. Unrestricted net assets include expendable funds available for support of the Organization's operations and investments in property and equipment.

- Temporarily restricted net assets result from contributions and other inflows of assets whose use is limited by donor-imposed stipulations that either expire by the passage of time or can be fulfilled and released by actions of the Organization pursuant to those stipulations.

- Permanently restricted net assets represent contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization. As of December 31, 2012 and 2011, the Organization does not have any permanently restricted net assets.

Fair Value: Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. In order to measure fair value, the Organization uses a fair value hierarchy for valuation inputs which gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs.

The fair value hierarchy is as follows:

Level 1 - Inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that management has the ability to access.

Level 2 - Inputs utilize data points that are observable such as quoted prices, interest rates and yield curves.

Level 3 - Inputs are unobservable data points for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability.

Cash and Equivalents: The Organization maintains its cash in bank deposit accounts, which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts and therefore believes it is not exposed to any significant risks on cash and equivalents. The Organization has a cash management program, which provides for the investment of excess cash balances primarily in money market funds, which are valued using Level 1 inputs. The Organization considers highly liquid investments with original maturities of three months or less when purchased to be cash equivalents.

1. Organization and Significant Accounting Policies (Continued):

Restricted Cash: In conjunction with a customer contract, the Organization is required to maintain funds received from this customer in a restricted cash account and is used upon the completion of services. As of December 31, 2012 and 2011, restricted cash amounted to $1,002 and $157,253, respectively.

Concentration of Credit Risk: Financial instruments that potentially subject the Organization to concentration of credit risk consist primarily of cash, cash equivalents and grants and contracts receivable. The Organization maintains its cash and cash equivalents with high-credit quality financial institutions. Grants and contracts receivable are stated at the amount management expects to collect from outstanding balances. There was no allowance for doubtful receivables as of December 31, 2012 and 2011.

Property and Equipment: Property and equipment, which consists of computer equipment, are recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets of three years.

Revenue Recognition: Revenues are reported as increases in unrestricted net assets unless the use is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Grant and contract revenues are recognized upon the performance of reimbursable activities when persuasive evidence of an agreement exists, delivery of the services has occurred, the fee is fixed and determinable, and collectability is probable.

Deferred Revenue: Deferred revenue results from revenues received for services that have not yet been performed by the Organization.

Contributions: Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor imposed restrictions.

Contributions received with donor-imposed restrictions that are met in the same year as recognized are reported as revenues of the unrestricted net asset class. Contributions received with donor-imposed restrictions that are met subsequent to the year in which they are received are reported as revenues of the temporarily restricted net asset class when they are recognized. A reclassification to unrestricted net assets is made to reflect the expiration of such restrictions in the year the restriction is met. Contributions of services are reported as revenue and expenses of the unrestricted net asset class at the fair value of the services received only if the services create or enhance a nonfinancial asset or would typically need to be purchased by the Organization if they had not been provided by contribution, require specialized skills, and are provided by individuals with those skills. Contributions of goods and space to be used in program operations are reported as revenue and expenses of the unrestricted net asset class at the time the goods or space is received.

Advertising: The Organization expenses advertising costs as incurred. During the years ended December 31, 2012 and 2011, the Organization incurred $4,834 and $6,351, respectively, of costs related to advertising.

Foreign Currency Transactions: The Organization records foreign currency transaction gains and losses to operations. The foreign currency transaction loss recorded in non-operating loss in the accompanying consolidated statements of activities for the years ended December 31, 2012 and 2011 amounted to $1,687 and $10,509, respectively.

Income Taxes: The Organization is a nonprofit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes. The Affiliate is a disregarded entity for tax purposes. As a result, no provision for income taxes is presented in these consolidated financial statements. However, in certain circumstances, the Organization may be subject to federal and state income taxes for profits generated from unrelated trade or business income. The Organization has determined that it does not have any liabilities associated with unrelated trade or business income.

The Organization assesses the recording of uncertain tax positions by evaluating the minimum recognition threshold and measurement requirements a tax position must meet before being recognized as a benefit in the consolidated financial statements. The Organization's policy is to recognize interest and penalties accrued on any uncertain tax positions as a component of income tax expense, if any, in its consolidated statements of activities.

1. Organization and Significant Accounting Policies (Continued):

The Organization has not recognized any liabilities for uncertain tax positions or unrecognized benefits as of December 31, 2012 or 2011. The Organization does not expect any material change in uncertain tax benefits within the next twelve months.

The Organization is generally open to examination in the U.S. federal and certain state jurisdictions for three years from the date of filing.

Uses of Estimates: Management has used estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities in its preparation of the consolidated financial statements in accordance with GAAP. Actual results experienced by Tor may differ from those estimates.

Reclassification: Certain accounts in the December 31, 2011 consolidated financial statements have been reclassified for comparative purposes to conform to the presentation in the December 31, 2012 consolidated financial statements.

Subsequent Events: Management has evaluated subsequent events spanning the period from December 31, 2012 through August 12, 2013, the latter representing the issuance date of these consolidated financial statements.

2. Assets Whose Use is Limited:

Tor, along with other sponsors, acts as an agent on behalf of the Privacy Enhancing Technology Symposium (the "Conference") by performing administrative functions, including custody of the Conference's operating cash account and performance of the cash receipts and cash disbursements functions. Funds held for the Conference are segregated from the general assets of Tor and are shown on the consolidated statements of financial position as an asset and a corresponding liability in the amounts of $44,575 and $49,118, as of December 31, 2012 and 2011, respectively. No fees are charged by Tor for these services.

3. Property and Equipment:

Property and equipment as of December 31, 2012 and 2011 consists of the following:

	2012	2011
Computer Equipment	$ 24,004	$ 24,004
Less: Accumulated Depreciation	17,752	9,751
	$ 6,252	$ 14,253

Depreciation expense for the years ended December 31, 2012 and 2011 amounted to $8,001 and $6,876, respectively.

4. Concentrations:

Tor received approximately 73% and 79% of its grants and contribution revenues from three federal grants during the years ended December 31, 2012 and 2011, respectively. As of December 31, 2012 and 2011, approximately 50% and 90%, respectively, of grants and contracts receivable were due from these federal grants. Additionally, Tor received 19% of its grants and contributions revenues from one foundation for the year ended December 31, 2012. Amounts due from this foundation as of December 31, 2012 totaled approximately 18% of grants and contracts receivable.

Tor received approximately 84% of its contract revenue from two customers for the year ended December 31, 2012. One of these customers represented 100% of contract revenue for the year ended December 31, 2011.

5. Donated Services:

Tor receives donated services in various aspects of its operations and programs. The fair value of services as determined by the donor or by management is as follows:

	2012	2011
Software Development	$ 204,000	$ 162,500
Website Hosting	87,500	125,000
Language Translation	46,000	22,200
	$ 337,500	$ 309,700

6. Temporarily Restricted Net Assets:

Temporarily restricted net assets, as of December 31, 2012 and 2011, include unexpended contributions and grants temporarily restricted by donors for the following purposes:

	2012	2011
Purpose Restricted:		
Security Toolkit		
for Journalists	$ 132,161	$ -
OONI Project	20,000	-
Protection of		
Internet Traffic	10,000	14,000
	162,161	14,000
Purpose and Time Restricted:		
Security Toolkit		
for Journalists	120,000	-
	120,000	-
	$ 282,161	$ 14,000

7. Net Assets Released from Restriction:

Temporarily restricted net assets, as of December 31, 2012 and 2011, include unexpended contributions and grants temporarily restricted by donors for the following purposes:

	2012	2011
Purpose Restricted:		
Security Toolkit		
for Journalists	$ 67,839	$ -
Protection of		
Internet Traffic	14,000	-
	$ 81,839	$ -

8. Operating Leases:

The Organization leases office space in Walpole, Massachusetts, as a tenant-at-will. Under the terms of the lease agreement, the Organization is required to remit monthly rental payments in the amount of $500. Rent expense incurred by the Organization under this lease agreement amounted to $6,000 and $8,900 for the years ended December 31, 2012 and 2011, respectively.

9. Indemnifications:

In the ordinary course of business, the Organization enters into various agreements containing standard indemnification provisions. The Organization indemnification obligations under such provisions are typically in effect from the date of execution of the applicable agreement through the end of the applicable statute of limitations. The aggregate maximum potential future liability of the Organization under such indemnification provisions is uncertain. As of December 31, 2012 and 2011, no amounts have been accrued related to such indemnification provisions.

For the Year Ended December 31			2012
Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Award Number	Federal Expenditures
Major Program:			
U.S. Department of Defense			
Pass-Through from SRI International			
Basic and Applied Research and Development in Areas Relating to the Navy Command, Control, Communications, Computers, Intelligence, Surveillance, and Reconnaissance	12.335	N66001-11-C-4022	$ 876,099
Total Major Program			876,099
Non-Major Programs:			
U.S. Department of State			
Pass-Through from Internews Network			
International Programs to Support Democracy, Human Rights and Labor	19.345	S-LMAQM-08-GR-618	328,566
Pass- Through from New America Foundation:			
International Programs to Support Democracy, Human Rights	19.345	S-LMAQM-11-GR-589	25,000
			353,566
National Science Foundation			
Pass-Through from Drexel University			
Computer and Information Science and Engineering	47.070	CNS-0959138	7,547
Total Non-Major Programs			361,113
Total Expenditures of Federal Awards			$ 1,237,212

Note to the Consolidated Schedule of Expenditures of Federal Awards

Note 1 – Basis of Presentation

The accompanying consolidated schedule of expenditures of federal awards includes the federal grant activity of The Tor Project, Inc. and Affiliate, and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic consolidated financial statements.

To the Board of Directors
The Tor Project, Inc. and Affiliate
Walpole, Massachusetts

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*

INDEPENDENT AUDITOR'S REPORT

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 consolidated financial statements of The Tor Project, Inc. and Affiliate (collectively referred to as the "Organization") which comprise the consolidated statement of financial position as of December 31, 2012, and the related statement 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 12, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's 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 consolidated 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 the Organization's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of consolidated 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 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 the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Moody, Famiglietti & Andronico, LLP

Moody Famiglietti & Andronico, LLP
Tewksbury, Massachusetts
August 12, 2013

MOODY, FAMIGLIETTI & ANDRONICO
Certified Public Accountants & Consultants

To the Board of Directors
The Tor Project, Inc. and Affiliate
Walpole, Massachusetts

Report on Compliance For Each Major Federal Program and Report on Internal Control Over Compliance Required by OMB Circular A-133

INDEPENDENT AUDITOR'S REPORT

Report on Compliance for Each Major Federal Program

We have audited the compliance of The Tor Project, Inc. and Affiliate (collectively referred to as the "Organization") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal program for the year ended December 31, 2012. The Organization's major federal programs are identified in the summary of independent auditor's results section of the accompanying consolidated schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization's 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 the Organization's 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 the Organizations' compliance.

Opinion on Each Major Federal Program

In our opinion, the Organization 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 program for the year ended December 31, 2012.

Report on Internal Control over Compliance

Management of the Organization 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 the Organization's 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 OMB Circular A-133, 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 The Organization's 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Moody, Famiglietti & Andronico, LLP

Moody, Famiglietti & Andronico, LLP
Tewksbury, Massachusetts
August 12, 2013

Year Ended December 31, 2012

I. Summary of Independent Auditors' Results

Consolidated Financial Statements

Type of auditors' report issued:	Unqualified	
Internal control over financial reporting:		
• Material weakness identified?	_____ Yes	__X__ No
• Significant deficiencies identified?	_____ Yes	__X__ None Reported
Noncompliance material to consolidated financial statements noted?	_____ Yes	__X__ No

Federal Awards

Internal control over major program:		
• Material weakness identified?	_____ Yes	__X__ No
• Significant deficiencies identified?	_____ Yes	__X__ None Reported
Type of auditors' report issued on compliance for major programs:	Unqualified	
• Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	_____ Yes	__X__ No

Identification of major program:

CFDA Number	Name of Federal Program or Cluster
12.335	Basic and Applied Research and Development in areas Relating to the Navy Command, Control, Communications, Computers, Intelligence, Surveillance, and Reconnaissance

Dollar threshold used to distinguish between Type A and Type B programs	$ 300,000	
Auditee qualifies as low-risk auditee?	__X__ Yes	_____ No

Year Ended December 31, 2012

II. Findings Related to the Consolidated Financial Statement Audit as Required to be Reported in Accordance with Generally Accepted Government Auditing Standards:

A. Significant Deficiencies or Material Weaknesses in Internal Control Over Financial Reporting

None

B. Compliance Findings

None

III. Findings and Questioned Costs for Major Federal Award Programs to be Reported in Accordance with OMB A-133.

A. Significant Deficiencies or Material Weaknesses in Internal Control Over Compliance

None

B. Compliance Findings

None

<u>Year Ended December 31, 2012</u>

Prior Year Findings:

None

1 Highwood Drive, Tewksbury, MA 01876