

**THE TOR PROJECT, INC.**

JUNE 30, 2019  
FINANCIAL STATEMENTS



# THE TOR PROJECT, INC.

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## Independent Auditors' Report

To the Board of Directors  
The Tor Project, Inc.  
Seattle, Washington

We have audited the accompanying financial statements of The Tor Project, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 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.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 auditor considers 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

**Bader Martin, P.S.** Certified Public Accountants + Business Advisors

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To the Board of Directors  
The Tor Project, Inc.  
Seattle Washington

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Tor Project, Inc. as of June 30, 2019, and the changes in its net assets and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

## **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, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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 November 26, 2019, on our consideration of The Tor 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 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 The Tor Project, Inc.'s 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 Tor Project, Inc.'s internal control over financial reporting and compliance.

To the Board of Directors  
The Tor Project, Inc.  
Seattle Washington

**Effect of Adopting New Accounting Standard**

As discussed in Note 1, The Tor Project, Inc. adopted Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements for Not-for-Profit Entities. The ASU has been applied retrospectively to all periods presented. Our opinion is not modified with respect to this matter.

*BADER MARTIN, P.S.*

November 26, 2019

# THE TOR PROJECT, INC.

## STATEMENT OF FINANCIAL POSITION

JUNE 30, 2019

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ASSETS	
Cash and cash equivalents	\$ 380,000
Cash - restricted	91,311
Grants, contracts and contributions receivable	173,196
Prepaid expenses and other assets	5,595
Computer and equipment, net	<u>186,392</u>
	<u><b>\$ 836,494</b></u>

  

LIABILITIES AND NET ASSETS	
Liabilities:	
Accounts payable and other accrued expenses	\$ 159,911
Accrued salaries and benefits	136,533
Deferred revenue	95,815
Contingent liability	93,963
Due to others - fiscal agent	<u>91,311</u>
Total liabilities	<u>577,533</u>
Net assets:	
Without donor restrictions	<u>258,961</u>
Total net assets	<u>258,961</u>
	<u><b>\$ 836,494</b></u>

*See notes to financial statements.*

# THE TOR PROJECT, INC.

## STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2019

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Revenue and support:			
Government grants and contracts	\$ 2,025,910		\$ 2,025,910
Grants and contributions	2,416,211		2,416,211
Fee for services	195,000		195,000
In-kind contributions	966,214		966,214
Investment income, net	2,678		2,678
Net assets released from restrictions	18,000	\$ (18,000)	
Total revenue and support	<u>5,624,013</u>	<u>(18,000)</u>	<u>5,606,013</u>
Expenses:			
Program services	5,726,251		5,726,251
Management and general	202,146		202,146
Fundraising	260,516		260,516
Total expenses	<u>6,188,913</u>		<u>6,188,913</u>
Change in net assets	<b>(564,900)</b>	<b>(18,000)</b>	<b>(582,900)</b>
Net assets, beginning of period	<u>823,861</u>	<u>18,000</u>	<u>841,861</u>
Net assets, end of period	<u><b>\$ 258,961</b></u>	<u><b>\$ -</b></u>	<u><b>\$ 258,961</b></u>

*See notes to financial statements.*

# THE TOR PROJECT, INC.

## STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2019

	<u>Program services</u>	<u>Management and general</u>	<u>Fundraising</u>	<u>Total</u>
Salaries, benefits and payroll taxes	\$ 3,399,913	\$ 129,092	\$ 188,634	\$ 3,717,639
Contract services	812,647	3,766	750	817,163
Travel, transportation and conferences	364,443	2	2,569	367,014
In-kind services - information technology	737,979			737,979
Professional fees	217,993	30,030	14,819	262,842
Information technology	64,652	11,800	2,350	78,802
Office supplies, postage and printing	27,910	5,162	18,909	51,981
Occupancy	30,023	6,781	1,350	38,154
Bank fees and service charges	20,888	4,547	1,119	26,554
Insurance	15,624	3,529	703	19,856
Swags and premiums	1,222		27,832	29,054
Depreciation	32,925	7,437	1,481	41,843
Loss on foreign exchange	32			32
Total expenses	<u>\$ 5,726,251</u>	<u>\$ 202,146</u>	<u>\$ 260,516</u>	<u>\$ 6,188,913</u>

*See notes to financial statements.*

# THE TOR PROJECT, INC.

## STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2019

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Cash flows from operating activities:	
Change in net assets	\$ (582,900)
Adjustments to reconcile change in net assets to cash used in operating activities:	
Depreciation	41,843
Donated computers and equipment	(228,235)
Changes in operating assets and liabilities:	
Grants, contracts and contributions receivable	644,893
Accounts payable and other accrued expenses	66,628
Accrued salaries and benefits	9,016
Refundable advance	(324,356)
Contingent liability	(6,239)
Due to others - fiscal agent	(1,152)
Net cash used in operating activities	(380,502)
Cash and cash equivalents, and cash - restricted, beginning of period	851,813
Cash and cash equivalents, and cash - restricted, end of period	<u>\$ 471,311</u>
Noncash operating activities, donated computers and equipment	<u>\$ 228,235</u>

*See notes to financial statements.*

# THE TOR PROJECT, INC.

## NOTES TO FINANCIAL STATEMENTS

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### 1. Nature of organization and significant accounting policies:

#### Organization:

The Tor Project, Inc. (the Organization) is a nonprofit organization which was established in 2006 and is currently domiciled in the state of Washington. The Tor network is a group of volunteer-operated servers that allows people to improve their privacy and security on the Internet. The Organization's users employ this network by connecting through a series of virtual tunnels rather than making a direct connection, thus allowing both organizations and individuals to share information over public networks without compromising their privacy. Along the same line, the Tor network is an effective censorship circumvention tool, allowing its users to reach otherwise blocked destinations or content. The Tor network can also be used as a building block for software developers to create new communication tools with built-in privacy features.

#### Basis of presentation:

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States.

Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. The Organization reports information regarding its financial position and activities as follows:

Net assets without donor restrictions – net assets that are not subject to donor-imposed stipulations.

Net assets with donor restrictions – net assets subject to donor imposed stipulations, and grantors. Some donor restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor, others are donor restricted endowments, where the corpus is intended to be held in perpetuity.

Revenue and support are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. When a restriction expires or the stipulated purpose has been fulfilled, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Expenses are reported as decreases in net assets without donor restrictions. Contributions with donor imposed restrictions where the restrictions are met in the same period of the contributions are shown as revenues and expenses without donor restrictions on the statement of activities.

# THE TOR PROJECT, INC.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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### 1. Nature of organization and significant accounting policies (continued):

#### Revenue recognition:

The Organization's grant revenue is generally from grants funded on a reimbursement basis. The Organization recognizes grant revenue when amounts allowed for reimbursement have been expended or donor conditions have been met. Unconditional promises to give and contributions are recorded at fair value as cash or receivables, and as revenues in the period received, in accordance with donor-imposed restrictions.

#### Cash and cash equivalents:

Cash consists of cash held in checking and savings accounts. The Organization considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents. On occasion, the Organization maintains cash balances in excess of federal insurance limits.

#### Restricted cash and due to others - fiscal agent:

Restricted cash is cash held by the Organization, along with other sponsors, to act 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 performing cash receipt and cash disbursement functions. Funds held for the Conference are segregated from the general assets of the Organization and are shown on the financial statements as an asset and liability. The Organization charges no fees for this service.

#### Receivables:

Receivables are stated at the amount management expects to collect. Management provides for uncollectible amounts through a charge to earnings and a credit to valuation allowance based on its assessment of the current status of individual accounts. Specific accounts are written off against the allowance after management has used all reasonable means to collect. No such allowance was deemed necessary at June 30, 2019. At June 30, 2019, four grantors accounted for 91% of receivables.

# THE TOR PROJECT, INC.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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### 1. Nature of organization and significant accounting policies (continued):

#### Property and equipment:

Property and equipment is stated at cost, except for donated items which are stated at their estimated fair value at the date of the gift. The Organization capitalizes all property and equipment purchases with an estimated useful life of more than one year and a total cost greater than \$3,000 and \$1,000 for computers and equipment, respectively. Depreciation is computed using the straight-line method over estimated useful lives.

#### Contingent liability:

The Organization receives funding or reimbursement from agencies of the United States government for various activities that are subject to audit. The settlement of audits is subject to inherent uncertainties, and it is possible that such liabilities, if any, will differ materially from management's current expectations. The Organization has reported approximately \$94,000 in unallowable costs charged to the grantor at June 30, 2019 that remain unsettled. The grantor may waive the unallowed costs, may accept the unallowable costs or request such amounts be offset against current or future billings or may request direct payment. As of June 30, 2019, no amounts have been waived and the full value of the contingent liability remains on the Statement of Financial Position.

#### Functional expenses:

The accompanying statement of functional expenses includes all direct costs. Costs that benefit more than one activity are allocated based on an analysis of personnel time for the related activities.

#### Concentration of risks:

The Organization's assets are exposed to various risks such as interest rate, market, and credit risks. Due to the risk associated with certain assets, it is reasonably possible that changes in the values of the assets will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

A significant portion of the Organization's revenues consists of government grants. A significant reduction in the level of this support, if this were to occur, may have a significant adverse effect on the Organization.

# THE TOR PROJECT, INC.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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### 1. Nature of organization and significant accounting policies (continued):

#### Concentration of risks (continued):

The Organization received approximately 55% of its grants and contract revenue from two federal agencies and 22% from one non-governmental source for the year ended June 30, 2019.

#### 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 amounts reported in the financial statements and related disclosures. Actual results could differ from those estimates.

#### Income taxes:

The Organization is a nonprofit corporation as defined in Internal Revenue Code Section 501(c)(3) and, accordingly, is exempt from federal income taxes under the provisions of Section 501(a) of the Internal Revenue Code. The Organization may be subject to unrelated business income tax resulting from income not related to the Organization's exempt purpose. The Organization evaluates its uncertain tax positions and a loss contingency is recognized when it is more likely than not that a liability has been incurred and the amount can be reasonably estimated.

#### Donated goods and services:

Donated materials are reported as contributions in the accompanying financial statements at their estimated fair value at the date of receipt. Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets, or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization.

Contributed goods and services are included in in-kind contributions for the year ended June 30, 2019. These services benefited the Organization as a whole and included donated professional services and server use.

# THE TOR PROJECT, INC.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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### 1. Nature of organization and significant accounting policies (continued):

#### Subsequent events:

The Organization has evaluated subsequent events through November 26, 2019, the date on which the financial statements were available to be issued.

#### Change in accounting principle:

On August 18, 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has implemented ASU 2016-14 and has adjusted the presentation in these financial statements accordingly. The ASU has been applied retrospectively to all periods presented.

### 2. Liquidity and availability:

The Organization regularly monitors the availability of resources required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. For purposes of analyzing resources available to meet general expenditures within one year, the Organization considers all expenditures related to its ongoing research, development, education and advocacy into online anonymity and privacy activities and the conduct of services undertaken to support those activities to be general expenditures.

**THE TOR PROJECT, INC.**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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2. Liquidity and availability (continued):

The table below presents financial assets available for expenditures within one year at June 30, 2019:

Financial assets at year-end:	
Cash, cash equivalents, and restricted cash	\$ 471,311
Grants, contracts and contributions receivable	<u>173,196</u>
Total financial assets	<u>644,507</u>
Total restrictions and designations:	
Cash - restricted	<u>(91,311)</u>
Total restrictions and designations	<u>(91,311)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u><b>\$ 553,196</b></u>

The bulk of the Organization’s restricted financial resources, unavailable to meet general expenditures within one year, are composed of restricted cash amounts held on behalf of others.

In addition to financial assets available to meet general expenditures over the next year, the Organization operates with a balanced budget, managing program service expenses based upon committed funding obtained under grants and contributions received. Through the date of the financial statements, the Organization has federal grant commitments of approximately \$1.2 million (including a \$1.5 million, two-year grant, recently signed with the federal government); federal contract commitments of approximately \$720,000; foreign agency commitments of approximately \$251,000; large foundation grant commitments of approximately \$325,000, a total of approximately \$2.5 million available to fund program services. The Organization also obtains individual, corporate, and small foundation donations to help cover its program services as well as, management, general, and fundraising costs.

**THE TOR PROJECT, INC.**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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3. Grants, contracts, and contributions receivable:

Grants receivable are due from governmental agencies for services provided under various grants. Contracts receivable are due from funders and grantors for consulting and technology resources provided. Contributions receivable consist of unconditional promises to give.

The Organization considers accounts greater than 30 days old to be past due and uses the allowance method for recognizing bad debts. When determining an appropriate allowance, management considers such things as the age of the receivable and the credit history of the customer. When an account is deemed uncollectible, it is generally written off against the allowance. The Organization considers all amounts to be fully collectible.

Grants, contracts, and contributions receivable consisted of the following at June 30, 2019 and considered to be collectible within one year:

Grants, contracts and contributions receivable:

University of Pennsylvania	\$ 89,956
Georgetown University	66,924
New York University	7,062
National Science Foundation	6,138
Other	<u>3,116</u>
	<u><b>\$ 173,196</b></u>

4. Operating leases:

The Organization has an operating lease for office space in Seattle, WA, which expires in January 2020. The monthly lease payments are approximately \$2,800 through January 2020. Future minimum lease payments due in fiscal year 2020 are \$19,296.

5. Employee benefit plan:

The Organization sponsors an IRC Section 408(p), SIMPLE IRA Plan (the Plan) for all employees, which allows participants to defer a portion of their salaries into an investment plan of the participant's choosing. Once the employee has established an account with a financial institution, the Organization makes a contribution to the Plan each month equal to 4% of the employee's gross salary. Total expenses related to this plan were \$50,248 for the year ended June 30, 2019.

## OTHER INFORMATION



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*

Board of Directors  
The Tor Project, Inc.  
Seattle, Washington

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 The Tor Project, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 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 November 26, 2019.

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

In planning and performing our audit of the financial statements, we considered The Tor Project, Inc.'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of The Tor Project, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of The Tor Project, Inc.'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 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.

**Bader Martin, P.S.** Certified Public Accountants + Business Advisors

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Board of Directors  
The Tor Project, Inc.  
Seattle, Washington

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether The Tor Project, Inc.'s 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 the organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

***BADER MARTIN, P.S.***

November 26, 2019



Independent Auditors' Report on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by the Uniform Guidance

Board of Directors  
The Tor Project, Inc.  
Seattle, Washington

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

We have audited The Tor Project, Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of The Tor Project, Inc.'s major federal programs for the year ended June 30, 2019. The Tor Project, Inc.'s major federal programs are identified in the summary of auditor's 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 The Tor Project, Inc.'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 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 The Tor Project, Inc.'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 Tor Project, Inc.'s compliance.



Board of Directors  
The Tor Project, Inc.  
Seattle, Washington

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

In our opinion, The Tor Project, Inc. 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 June 30, 2019.

## **Report on Internal Control over Compliance**

Management of The Tor Project, Inc. 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 Tor Project, Inc.'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 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 The Tor Project, Inc.'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 a 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.

*BADER MARTIN, P.S.*

November 26, 2019

**THE TOR PROJECT, INC.**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2019

Federal Grantor / Pass-Through Program or Cluster Title	Federal CFDA Number	Pass-Through Entity ID	Grant Period	Federal Expenditures
U.S. Department of State				
Direct Awards				
International Programs to Support Democracy, Human Rights and Lab	19.345	S-LMAQM-17-GR-1121	7/31/17-12/31/18	\$ 400,374
Pass through Harvard University				
International Programs to Support Democracy, Human Rights and Lab	19.345	S-LMAQM-17-GR-1069	8/27/17-3/31/19	<u>50,000</u>
<b>Total U.S. Department of State</b>				<b><u>450,374</u></b>
Research and Development Cluster				
National Science Foundation				
Direct Awards				
Computer and Information Science and Engineering	47.070	N/A	9/1/12-8/31/18	<u>163,919</u>
<b>Total Research and Development Cluster: National Science Foundation</b>				<b><u>163,919</u></b>
Institute of Museum and Library Services				
Pass through New York University				
Librarians for the 21st Century	45.313	RE-95-17-0076-17	12/1/17-11/30/19	<u>89,052</u>
<b>Total Institute of Museum and Library Services</b>				<b><u>89,052</u></b>
Defense Advanced Research Projects Agency				
Pass through University of Pennsylvania				
DeDOS: Declarative Dispersion-Oriented Software	12.910	HR0011-16-C-0056	8/15/18-5/31/20	961,803
Pass through Georgetown University				
TA2: Reliable Anonymous Communication Evading Censors and Repressors (RACECAR)	12.910	FA8750-19-C-0500	3/1/19-2/28/20	<u>66,924</u>
<b>Total Defense Advanced Research Projects Agency</b>				<b><u>1,028,727</u></b>
<b>Total Expenditures of Federal Awards</b>				<b><u>\$ 1,732,072</u></b>

*See notes to schedule of expenditures of federal awards.*

# THE TOR PROJECT, INC.

## NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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### 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of The Tor Project, Inc. (the Organization) under programs of the federal government for the year ended June 30, 2019. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets, cash flows, or statement of functional expenses of the Organization.

### 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Expenditures reported on the Schedule are recognized following the cost principles contained in the Uniform Guidance.

### 3. Indirect Cost Rate

The Organization has elected to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

**THE TOR PROJECT, INC.**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**FOR THE YEAR ENDED JUNE 30, 2019**

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**Section I - Summary of Auditor's Results**

**Financial Statements**

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weaknesses identified?	None
Significant deficiencies identified?	None reported
Noncompliance material to financial statements noted?	None

**Federal Awards**

Internal control over major federal award programs:	
Material weaknesses identified?	None
Significant deficiencies identified?	None reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	None

**Identification of Major Programs**

Name of Federal Program or Cluster  
U.S. Department of Defense – Defense Advanced Research Projects Agency – CFDA 12.910

Dollar threshold used to distinguish between Type A and Type B programs:	\$750,000
Auditee qualified as low-risk auditee?	No

# THE TOR PROJECT, INC.

## SCHEDULE OF PRIOR AUDIT FINDINGS

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### **2018-001 – Generally Accepted Accounting Principles (GAAP)**

#### **Observation:**

During the audit of the financial statements for the Organization there were two material adjustments identified that were determined to be material weaknesses. The first instance related to the lack of an accrued liability for compensated absences. During the audit period, the Organization revised its policy to provide for the payment of vacation earned but not taken upon termination. An adjustment to accrue for compensated absences related to this change in policy was not properly recorded. The second instance related to improper revenue recognition of a conditional non-federal grant. Grant income was recorded for the total amount of cash received related to a conditional grant, though the conditions of the grant had yet to be fully satisfied by the Organization as of year-end. This resulted in a material understatement of deferred revenue and an overstatement of grant income and unrestricted net assets.

#### **Action Taken:**

Susan Abt, Chief Financial Officer has enrolled and is currently in the process of completing the AICPA Certificate in Nonprofit Management.

# THE TOR PROJECT, INC.

## SCHEDULE OF PRIOR AUDIT FINDINGS (CONTINUED)

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### **2018-002 – Internal control policies**

**Programs:** International Programs to Support Democracy, Human Rights and Labor; Computer and Information Science and Engineering

**Sponsor Award Numbers:** Various

**Sponsoring Agencies:** Department of State; National Science Foundation

**CFDA Numbers:** 19.345; 47.070

**Institute Award Numbers:** None

**Award Periods:** Various

#### **Condition:**

In testing the Organization's conformity with the federal requirements for establishing and maintaining effective internal controls, it was noted that multiple internal control policies lacked documentation of operating effectiveness. The key controls tested that lacked sufficient documentation were:

- (1) Bank reconciliations are to be reviewed by the Executive Director. There was a lack of documentation of this review for all bank reconciliations tested during the audit.
- (2) Purchase greater than \$3,000 require Executive Director approval. Approval was not evidenced for item selected for testing.
- (3) Funding requests for Federal awards require review by someone other than the preparer before submission. For all cash draws tested, no evidence was noted that the draws were reviewed prior to submission.
- (4) No evidence of review of the quarterly progress reports submitted to the Department of State.
- (5) No written policies for procurement, suspension and debarment.
- (6) No records were maintained for suspension and debarment verification for independent contractors.

#### **Action Taken:**

The Tor Project Internal Control and Fiscal Policies and Procedures Manual was rewritten during the fiscal year and is compliant with the "Internal Control Integrated Framework" issued by the Committee on Sponsoring Organization of the Treadway Commission (COSO) set forth by the CFR.

# THE TOR PROJECT, INC.

## SCHEDULE OF PRIOR AUDIT FINDINGS (CONTINUED)

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### **2018-003 – Timely reporting & 2016-002 Quarterly performance and financial reports not filed timely.**

**Program:** International Programs to Support Democracy, Human Rights and Labor

**Sponsor Award Number:** Various

**Sponsoring Agency:** U.S. Department Of State

**CFDA Number:** 19.345

**Institute Award Number:** S-LMAQM-17-GR-1121

**Award Period:** 7/31/2017 – 6/30/2018

#### **Condition:**

During testing of reporting it was noted that three of four quarterly financial status reports required during the period were filed after the required reporting date (from 1-3 days late) and all four quarterly progress reports required during the period were filed after the required reporting date (from 1-18 days late). This item is ongoing from the previous two audits. Upon review of submission report dates, it was noted during the current fiscal year that one of the four quarterly financial status reports was filed approximately one month late.

#### **Action Taken:**

Tor has hired a Grants Manager who is responsible for tracking reporting requirements for all grants. The Grants Manager reports directly to the CFO and along with the Fundraising Team, Executive Director and Program Managers, has a weekly Grant Synch meeting to ensure all deadlines are being meet. Management has also purchased Grant Management software that also tracks all requirements for post award activities. Since this audit period Tor has not missed a deadline. The Grants Manager tracks all reporting requirements and since the fulfillment of this position Tor Project has not missed a reporting deadline. Appended to The Tor Project Internal Control and Fiscal Polices and Procedures Manual is a Grants Management Manual which was created by and for the use of the Grants Manager and Chief Financial Officer as additional internal compliance controls.

# THE TOR PROJECT, INC.

## SCHEDULE OF PRIOR AUDIT FINDINGS (CONTINUED)

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### **2016-01 – Allowable costs - cost allocation between grants**

**Program:** International Programs to Support Democracy, Human Rights and Labor

**Sponsor Award Number:** Various

**Sponsoring Agency:** Department of State

**CFDA Number:** 19.345

**Institute Award Number:** None

**Award Period:** Various

**Condition:**

The Organization recorded some costs as direct costs. Not all costs were charged proportionally to each grant, but billed up to the budgeted amount. For example, total rent expense for September through December 2016 was charged to the major grant. The amount charged for rent was less than the budgeted amount, but not in compliance with grant allocation criteria which requires indirect costs to be charged proportionately to all funded programs. Lindley & Associates, LLC performed an estimated calculation of the amount of indirect costs billed by grouping costs billed as direct costs totaling \$258,000 and reallocating those costs proportionately to the individual grants (22% allocation to the major program) based on the percentage for the individual grant to revenue in total. From these calculations, we determined the under/over billing to the major program(s) and other federally funded programs. This was a systemic problem over all funded programs. Total questioned costs were \$34,879.

**Action Taken:** Management is currently working with the Department of State to determine the impact of the total amount of this finding as there were numerous errors in the calculations used to determine the questioned costs of \$34,879. Management closed out the audit with Internews Network and returned \$6,239 to the Internews Network organization in December 2018. Correspondence between the DRL Grants Officer and the CFO of Tor Project continues. Tor Project is currently awaiting a response from the DRL Grants Officer for the next steps necessary to come to a conclusion on these items.

# THE TOR PROJECT, INC.

## SCHEDULE OF PRIOR AUDIT FINDINGS (CONTINUED)

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### **2016-03 – Allowable costs – legal expenses**

**Program:** International Programs to Support Democracy, Human Rights and Labor

**Sponsor Award Number:** Various

**Sponsoring Agency:** Department of State

**CFDA Number:** 19.345

**Institute Award Number:** None

**Award Period:** Various

**Condition:**

During audit procedures, we reviewed all billings from lawyers. The Organization recorded all legal expenses from one attorney for services regarding an internal personnel issue to the major grant program as an expense for community relations. Legal costs are allowed for the Organization to defend itself from criminal and civil proceedings, not for internal issues. This expense was not an allowable cost for this grant. In addition, the allowed budget categories do not include a “community relations” category. Further, the legal expenses were paid by another entity as an in-kind donation. Total questioned costs were \$60,817.

**Action Taken:** Management is currently working with the Department of State to determine the impact of the total amount of this finding as there were numerous errors in the calculations used to determine the questioned costs of \$60,817. Correspondence between the DRL Grants Officer and the CFO of Tor Project continues. Tor Project is currently awaiting a response from the DRL Grants Officer for the next steps necessary to come to a conclusion on these items.

# THE TOR PROJECT, INC.

## SCHEDULE OF PRIOR AUDIT FINDINGS (CONTINUED)

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### **2016-05 – Allowable costs – cash disbursements**

**Program:** International Programs to Support Democracy, Human Rights and Labor

**Sponsor Award Number:** Various

**Sponsoring Agency:** Department of State

**CFDA Number:** 19.345

**Institute Award Number:** None

**Award Period:** Various

**Condition:**

The Organization billed legal expenses from one law firm that was hired to determine the legality of a fundraising question to a major program(s). Total questioned costs were \$4,506.

**Action Taken:** Management is currently working with the Department of State to determine the impact of the total amount of this finding as there were numerous errors in the calculations used to determine the questioned costs of \$4,506. In the case of this finding, this amount of \$4,506 was also counted in finding 2016-03 and is a duplicate. Correspondence between the DRL Grants Officer and the CFO of Tor Project continues. Tor Project is currently awaiting a response from the DRL Grants Officer for the next steps necessary to come to a conclusion on these items.