

The Tor Project, Inc.
**Financial Statements and
Independent Auditor's Report**
June 30, 2023

The Tor Project, Inc.

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Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of The Tor Project, Inc. (a nonprofit organization), (the "Organization"), which comprise the statement of financial position as of June 30, 2023, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of June 30, 2023, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS") and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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 and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary 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* (CFR) 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 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 February 15, 2024, 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, 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 Organization'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 Organization's internal control over financial reporting and compliance.



Braintree, Massachusetts
February 15, 2024

The Tor Project, Inc.
Statement of Financial Position
June 30, 2023

Assets

Current assets	
Cash and cash equivalents	\$ 5,583,945
Grants and contributions receivable	1,511,817
Prepaid expenses	<u>11,587</u>
Total current assets	<u>7,107,349</u>
Fixed assets	
Computer and equipment	267,253
Less: accumulated depreciation	<u>(228,983)</u>
Total net fixed assets	<u>38,270</u>
Total assets	<u><u>\$ 7,145,619</u></u>

Liabilities and Net Assets

Current liabilities	
Accounts payable and other accrued expenses	\$ 319,713
Accrued salaries and benefits	460
Deferred revenue	<u>32,430</u>
Total current liabilities	<u>352,603</u>
Net assets	
Net assets without donor restrictions	5,940,046
Net assets with donor restrictions	<u>852,970</u>
Total net assets	<u>6,793,016</u>
Total liabilities and net assets	<u><u>\$ 7,145,619</u></u>

See Notes to Financial Statements.

The Tor Project, Inc.

Statement of Activities Year Ended June 30, 2023

	Without donor restrictions	With donor restrictions	Total
Revenue and support			
Government grants	\$ 3,684,992	\$ -	\$ 3,684,992
Contributions	3,919,361	852,970	4,772,331
In-kind contributions	831,179	-	831,179
Net assets released from restrictions	233,035	(233,035)	-
Total revenue and support	8,668,567	619,935	9,288,502
Expenses			
Administration	1,486,750	-	1,486,750
Fundraising	421,369	-	421,369
Program services	5,612,649	-	5,612,649
Total expenses	7,520,768	-	7,520,768
Change in net assets from operating activities	1,147,799	619,935	1,767,734
Non-operating activities			
Interest income	12,816	-	12,816
Loss on foreign currency exchange	(580)	-	(580)
Change in net assets from non-operating activities	12,236	-	12,236
Total change in net assets	1,160,035	619,935	1,779,970
Net assets, beginning	4,780,011	233,035	5,013,046
Net assets, end	\$ 5,940,046	\$ 852,970	\$ 6,793,016

See Notes to Financial Statements.

The Tor Project, Inc.

**Statement of Functional Expenses
Year Ended June 30, 2023**

	<u>Administration</u>	<u>Fundraising</u>	<u>Program services</u>	<u>Total</u>
Functional expenses				
Salaries, benefits and payroll taxes	\$ 571,805	\$ 260,955	\$ 2,962,281	\$ 3,795,041
Contract services	2,132	16,633	1,931,340	1,950,105
In-kind services - information technology	831,179	-	-	831,179
Professional fees	15,379	59,996	255,536	330,911
Travel, transportation & conferences	5,398	11,236	256,701	273,335
Office supplies, postage and printing	3,136	18,935	104,385	126,456
Information technology	4,590	2,258	81,591	88,439
Depreciation	50,199	-	-	50,199
Fundraising materials and supplies	-	37,984	-	37,984
Bank fees and service charges	1,031	12,402	7,714	21,147
Insurance	1,530	780	10,540	12,850
Occupancy	371	190	2,561	3,122
	<u>371</u>	<u>190</u>	<u>2,561</u>	<u>3,122</u>
Total functional expenses	<u><u>\$ 1,486,750</u></u>	<u><u>\$ 421,369</u></u>	<u><u>\$ 5,612,649</u></u>	<u><u>\$ 7,520,768</u></u>

See Notes to Financial Statements.

The Tor Project, Inc.

**Statement of Cash Flows
Year Ended June 30, 2023**

Cash flows from operating activities	
Change in net assets	\$ 1,779,970
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	50,199
(Decrease) Increase in assets	
Grants and contributions receivable	(430,615)
Prepaid expenses	2,867
Increase in liabilities	
Accounts payable and other accrued expenses	83,023
Accrued salaries and benefits	60
Deferred revenue	<u>32,430</u>
Net cash provided by operating activities	<u>1,517,934</u>
Cash flows from investing activities	
Purchase of fixed assets	<u>(39,018)</u>
Net cash used in investing activities	<u>(39,018)</u>
Net change in cash and cash equivalents	1,478,916
Cash and cash equivalents, beginning	<u>4,105,029</u>
Cash and cash equivalents, end	<u><u>\$ 5,583,945</u></u>

See Notes to Financial Statements.

The Tor Project, Inc.

Notes to Financial Statements June 30, 2023

Note 1 - Summary of significant accounting policies

The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The significant accounting policies followed by The Tor Project, Inc. (the "Organization") are described below to enhance the usefulness of the financial statements to the reader.

Nature of activities

The Organization is a nonprofit organization which was established in 2006. The Organization provides support and management services to The Tor Network, which is a group of volunteer-operated servers that allows people to improve their privacy and security on the Internet. The Organization's users employ The Tor 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 statement of activities reports all changes in net assets, including changes in net assets without donor restrictions from operating and non-operating activities. Operating revenues consist of those monies received and other contributions attributable to the Organization's ongoing efforts. Investment income is reported as non-operating revenue because such assets are managed for long-term stabilization of the Organization's activities. Non-operating activities consist of revenue, expenses, gains, and losses that are not attributable to the Organization's ongoing operational efforts.

Standards of accounting and reporting

The Organization's net assets (excess of its assets over liabilities) and its revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions.

The statement of financial position presents two classes of net assets (net assets without donor restrictions and net assets with donor restrictions) and the statement of activities displays the change in each class of net assets. The classes of net assets applicable to the Organization are presented as follows:

Net Assets Without Donor Restrictions - Net assets that are not subject to donor-imposed restrictions. Net assets without donor restrictions consist of assets and contributions available for the support of operations. These net assets may be designated for specific purposes by management or the Board of Directors. Gains and losses on investments are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulations or law.

The Tor Project, Inc.

Notes to Financial Statements June 30, 2023

Net Assets With Donor Restrictions - Net assets that are subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or passage of time. When a restriction expires, 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.

Net assets with donor restrictions also includes the original amount of gifts and investment earnings required by the donor to be permanently retained. Generally, the donors of these assets permit the Organization to use all or part of the income earned on related investments for general or specific purposes.

As of June 30, 2023, the Organization had net assets with donor restrictions totaling \$852,970, as disclosed in Note 7.

Cash and cash equivalents

The Organization considers all highly-liquid investments purchased with an original maturity of three months or less to be cash equivalents.

The Organization maintains its cash balances at several financial institutions. The cash balances are insured by the Federal Deposit Insurance Corporation. At times, these balances may exceed the federal insurance limits; however, the Organization has not experienced any losses with respect to its bank balances in excess of government provided insurance. Management believes that no significant concentration of credit risk exists with respect to these cash balances as of June 30, 2023.

Revenue recognition

The Organization earns revenue as follows:

Government grants - The Organization receives funding from federal government agencies and various other grantors for direct and indirect program costs associated with specific programs and projects. Grants are generally subject to certain restrictions, which are met by incurring qualifying expenses for the particular program or project that is funded by the grant. Revenue from such grants is recognized when the funds have been expended on activities stipulated in the grant agreement. For unconditional grants, revenue is recognized as contribution revenue that increases net assets with donor restrictions at the time the grant is received or pledged and the funds are released from restriction when the restriction has been met. Grants with donor restrictions received and satisfied in the same period are included in grants and contributions without donor restrictions.

Contributions - In accordance with Accounting Standards Codification ("ASC") Subtopic 958-605, Revenue Recognition, the Organization must determine whether a contribution (or a promise) is conditional or unconditional for transactions deemed to be a contribution. A contribution is considered to be a conditional contribution if an agreement includes a barrier that must be overcome and either a right of return of assets or a right of release of a promise to transfer assets exists.

The Tor Project, Inc.

Notes to Financial Statements June 30, 2023

Indicators of a barrier include measurable performance-related barrier or other measurable barrier, a stipulation that limits discretion by the recipient on the conduct of an activity and stipulations that are related to the purpose of the agreement. Topic 958 prescribes that the Organization should not consider probability of compliance with the barrier when determining if such awards are conditional and should be reported as conditional grant advance liabilities until such conditions are met.

Contributions without donor restrictions are recognized as revenue when received or unconditionally pledged. Contributions with donor restrictions are recorded as revenues and net assets with donor restrictions when received or unconditionally pledged. Transfers are made to net assets without donor restrictions as services are performed and costs are incurred pro-rata over the period covered by the grant or contribution as time restrictions lapse. Contributions with donor restrictions received and satisfied in the same period are included in grants and contributions without donor restrictions.

In-Kind Contributions - Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by individuals with those skills, and would otherwise be purchased by the Organization. Donated property and equipment are recorded as contributions at fair value at the date of donation.

During the year ended June 30, 2023, the Organization derived approximately 50% of its total revenue from governmental agencies, approximately 43% from foundations, individual donors, and other sources and approximately 7% from corporations.

Grants and contributions receivable

Grants and contributions receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. As of June 30, 2023, management has determined any allowance would be immaterial.

The Organization does not have a policy to accrue interest on receivables. The Organization has no policies requiring collateral or other security to secure receivables.

As of June 30, 2023, four grantors accounted for approximately 95% of the Organization's receivables.

Computer and equipment

Computer and equipment are recorded at cost or if donated, fair value on the date of receipt. The Organization capitalizes all computer 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 provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives.

The Tor Project, Inc.

Notes to Financial Statements June 30, 2023

Improvements, including planned major maintenance activities are capitalized, while expenditures for routine maintenance and repairs are charged to expense as incurred. Upon disposal of depreciable property, the appropriate property accounts are reduced by the related costs and accumulated depreciation. The resulting gains and losses are reflected in the statement of activities.

The Organization computes depreciation using the straight-line method over the following estimated lives:

Computer and equipment	3-5 years
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Property and equipment are reviewed for impairment if the use of the asset significantly changes or another indicator or possible impairment is noted. If the carrying amount for the asset is not recoverable, the value is written down to the asset's fair value.

Fundraising

Fundraising relates to the activities of raising general and specific contributions for the Organization. Fundraising expenses as a percentage of contribution and grant revenue was 5% for the year ended June 30, 2023. The ratio of expenses to amounts raised is computed using actual expenses and related revenue on an accrual basis and excludes in-kind contributions.

Functional allocation of expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities and in the statement of functional expenses. Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are allocated to programs and supporting services. Administration expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

Payroll and associated costs are allocated to functions based upon time and effort reporting. Occupancy costs are allocated based upon time and effort reporting.

Use of estimates

In preparing the Organization's financial statements in conformity with U.S. GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income taxes

The Organization qualifies as an organization formed for charitable purposes under Section 501(c)(3) of the Internal Revenue Code ("IRC") and is generally not subject to income tax. However, income from certain activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income. In addition, the Organization is not a private foundation under Section 509(a)(1).

The Tor Project, Inc.

Notes to Financial Statements June 30, 2023

Generally, the Organization's information returns remain open for possible examination for three years after the filing date. While no income tax returns are currently being examined by the Internal Revenue Service, tax years since 2020 remain open. As of June 30, 2023, the Organization believes that there are no uncertain tax positions with any of its open tax years.

Note 2 - Grants and contributions receivable

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

Grants and contributions receivable consisted of the following at June 30, 2023 and considered to be collectible within one year:

Government agencies	\$ 526,358
Passthrough entities on behalf of government agencies	368,796
Contribution receivable	<u>616,663</u>
	<u><u>\$ 1,511,817</u></u>

Note 3 - Property and equipment

Property and equipment consists of the following as of June 30, 2023:

Computer and equipment	<u>\$ 267,253</u>
	<u><u>\$ 267,253</u></u>

Depreciation amounted to \$50,199 for the year ended June 30, 2023.

The Tor Project, Inc.

Notes to Financial Statements June 30, 2023

Note 4 – Related parties

A member of the Organization's Board of Directors has a related party relationship with a board member on the Board of Directors of a subrecipient entity.

Note 5 - Employee benefits

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 \$57,056 for the year ended June 30, 2023.

Note 6 - Liquidity and availability of resources

The following reflects the Organization's financial assets as of June 30, 2023, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year from the statement of financial position date:

Financial assets at year end	
Cash and cash equivalents	\$ 5,583,945
Grants and contributions receivable	<u>1,511,817</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 7,095,762</u>

The Organization is primarily supported by government grants, grants, and contributions. Because of the nature of the grants, the Organization is required to use resources in a particular manner. Further, the Organization must maintain sufficient resources to meet those responsibilities to its contractors and grantors. Thus, financial assets may not be available for general expenditure within one year. As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

Note 7 - Net assets with donor restrictions

Net assets with donor restrictions consist of resources available to meet future obligations, but only in compliance with the restrictions specified by donors. As of June 30, 2023, net assets with donor restrictions are restricted for time periods:

Restricted as to use in future periods	
Time restricted as of June 30, 2023	<u>\$ 852,970</u>
Total net assets with donor restrictions	<u>\$ 852,970</u>

The Tor Project, Inc.

**Notes to Financial Statements
June 30, 2023**

Net assets were released from restrictions to support the following purposes or time periods during the year ended June 30, 2023:

Tor protocol improvements	\$ 3,868
Time restrictions that expired during year ended June 30	<u>229,167</u>
Total net assets released from restrictions	<u>\$ 233,035</u>

Note 8 - Risks and uncertainties

Government funding

The Organization receives a portion of its funding from government agencies. The ultimate determination of amounts received under these programs generally is based upon allowable costs reported to and audited by the government. Until such audits have been completed, if any, and final settlement reached, 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 audits.

The Organization operates in a heavily regulated environment. The operations of the Organization are subject to administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to the following: the United States Department of State, the National Science Foundation, the Defense Advanced Research Project Agency, and the United States Agency for International Development.

Such administrative directives, rules and regulations are subject to change by an act of Congress, act of the state and local legislature or an administrative change mandated by, the United States Departments or governments listed above. Such changes may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden, to comply with a change. Additionally, contractual funding may decrease or be withdrawn with little notice.

Note 9 - Conditional grants

Conditional grants received by the Organization as of June 30, 2023 consist of government grants and other grants totaling \$6,711,769. Those conditional grants will be recognized as revenue when the related expenses are incurred or the associated milestones are met in future years.

The Tor Project, Inc.

Notes to Financial Statements
June 30, 2023

Note 10 - Contributed nonfinancial assets

For the year ended June 30, 2023, contributed nonfinancial assets recognized within the statement of activities included:

	Revenue recognized	Utilization in programs/ activities	Donor restrictions	Valuation techniques and inputs
Translation services	\$ 323,468	Program services	None	Fair market value of the asset at the date of donation
Software development	411,450	Program services	None	Fair market value of the asset at the date of donation
Computing infrastructure	<u>96,261</u>	IT equipment	None	Fair market value of the asset at the date of donation
Total	<u>\$ 831,179</u>			

Note 11 - Subsequent events

The Organization has performed an evaluation of subsequent events through February 15, 2024, which is the date the Organization's financial statements were available to be issued. No material subsequent events have occurred, since June 30, 2023 that required recognition or disclosure in these financial statements.

The Tor Project, Inc.

**Schedule of Expenditures of Federal Awards
Year Ended June 30, 2023**

<u>Federal grantor/pass-through grantor/program or cluster title</u>	<u>Assistance listing number</u>	<u>Pass-through entity identifying number</u>	<u>Grant period</u>	<u>Passed through to subrecipients</u>	<u>Federal expenditures</u>
U.S. Department of State:					
<i>Direct Awards</i>					
International Programs to Support Democracy, Human Rights, and Labor	19.345	S-LMAQM-19-GR-2045	09/20/2019 - 05/31/2023	\$ 247,946	\$ 561,585
International Programs to Support Democracy, Human Rights, and Labor	19.345	S-LMAQM-20-CA-2506	09/28/2020 - 03/31/2023	274,226	289,305
International Programs to Support Democracy, Human Rights, and Labor	19.345	S-LMAQM-20-GR-2393	09/28/2020 - 03/31/2023	-	267,971
International Programs to Support Democracy, Human Rights, and Labor	19.345	S-LMAQM-21-GR-3086	07/02/2021 - 07/01/2023	155,262	1,190,363
International Programs to Support Democracy, Human Rights, and Labor	19.345	S-LMAQM-21-GR-3149	09/27/2021 - 09/30/2023	38,449	436,956
International Programs to Support Democracy, Human Rights, and Labor	19.345	S-AQMIP-22-GR-0102	09/30/2022 - 09/30/2024	-	185,312
International Programs to Support Democracy, Human Rights, and Labor	19.345	S-AQMIP-22-GR-0144	09/30/202 - 01/31/2025	<u>163,257</u>	<u>287,163</u>
				879,140	3,218,655
National Science Foundation:					
<i>Passed through Georgetown University</i>					
Computer and Information Science and Engineering R&D Cluster	47.070	1925497	10/01/2019 - 09/30/2023	<u>-</u>	<u>62,583</u>
Total expenditures of federal awards				<u>\$ 879,140</u>	<u>\$ 3,281,238</u>

See Notes to Schedule of Expenditures of Federal Awards.

The Tor Project, Inc.

**Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2023**

Note 1 - Basis of presentation

The accompanying schedule of expenditures of federal awards ("Schedule") includes the federal award activity of The Tor Project, Inc. (the "Organization"), under programs of the federal government for the year ended June 30, 2023. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.

Note 2 - Summary of significant accounting policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles contained in OMB Circular A-122, Cost Principles for Non-Profit Organizations, or the cost principles contained in Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3 – Indirect cost rate

The Agency has elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Independent Auditor's Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards*

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

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), (the "Organization"), which comprise the statement of financial position as of June 30, 2023, 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 February 15, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting ("internal control") as a basis for designing 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 Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

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 over financial reporting 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 financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization'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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this 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 Organization's internal control over financial reporting 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 over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.



Braintree, Massachusetts
February 15, 2024

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

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

Report on Compliance for the Major Federal Program

Opinion on the Major Federal Program

We have audited The Tor Project, Inc.'s (a nonprofit organization), (the "Organization"), compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on the Organization's major federal program for the year ended June 30, 2023. The Organization's major federal program are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Basis for Qualified Opinion on Assistance Listing Number (ALN) 19.345, International Programs to Support Democracy Human Rights and Labor

As described in the accompanying schedule of findings and questioned costs, the Agency did not comply with requirements regarding ALN 19.345, International Programs to Support Democracy Human Rights and Labor as described in finding 2023-001, subrecipient monitoring. Compliance with such requirements is necessary, in our opinion, for the Agency to comply with the requirements applicable to that program.

Qualified Opinion on ALN 19.345, International Programs to Support Democracy Human Rights and Labor

In our opinion, except for the noncompliance described in the *Basis for Qualified Opinion* paragraph, the Agency complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on ALN 19.345, International Programs to Support Democracy Human Rights and Labor for the year ended June 30, 2023.

The Agency's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Agency's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response. The Agency is responsible for preparing a corrective action plan to address each audit finding included in our auditor's report. The Agency's corrective action plan was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Organization's federal program.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and to express an opinion on the Organization's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than that for resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Organization's compliance with the requirements of the major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Organization's compliance with the compliance requirements referred to above and performing such other procedures as we consider necessary in the circumstances.
- Obtain an understanding of the Organization's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the Organization's internal control. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

Management of the Agency 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 Agency's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the 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 Agency'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 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 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.

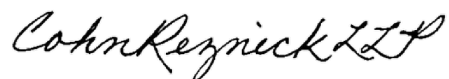
Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

We consider the deficiencies in internal control over compliance described in the attached schedule of findings and questioned costs as items 2023-001 to be a significant deficiency.

The Agency's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Agency's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of the entity's internal control over compliance. Accordingly, no such opinion is expressed.

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.



Braintree, Massachusetts
February 15, 2024

The Tor Project, Inc.

**Schedule of Findings and Questioned Costs
June 30, 2023**

A. Summary of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with generally accepted accounting principles:

Unmodified opinion

Internal control over financial reporting:

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiency(ies) identified? ☐ Yes ☒ None reported

Noncompliance material to financial statements noted?

☐ Yes ☒ No

Federal Awards:

Internal control over major federal programs:

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiency(ies) identified? ☒ Yes ☐ None reported

Type of auditor's report issued on compliance for major federal programs:

Qualified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a)? ☒ Yes ☐ No

The Tor Project, Inc.

**Schedule of Findings and Questioned Costs
June 30, 2023**

Identification of major federal programs:

Assistance Listing Number	Name of Federal Program or Cluster
19.345	International Programs to Support Democracy Human Rights and Labor

Dollar threshold used to distinguish between Type A and Type B programs: \$ 750,000

Auditee Qualified as Low-Risk Auditee? X Yes No

B. Financial Statement Findings

None reported

The Tor Project, Inc.

**Schedule of Findings and Questioned Costs
June 30, 2023**

C. Federal Award Findings and Questioned Costs

SIGNIFICANT DEFICIENCY

Item #2023-001 Subrecipient Monitoring

International Programs to Support Democracy Human Rights and Labor – 19.345

Criteria: Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved per 2 CFR 200.332.

Condition and Context: The Agency did not fully monitor the subrecipients to ensure the subaward was used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved.

Cause: Management did not have internal control over subrecipient monitoring to fully address requirements under 2 CFR 200.332

Effect or Potential Effect: The Agency did not timely monitor the subrecipients in a timely fashion. Subsequent to year end the Agency retroactively monitored these activities and determined that one of the four subrecipients did not fully comply with required documentation and determined that \$23,134 of costs billed to the contract were not allowable.

Questioned Costs: N/A

Repeat Finding: No

Recommendation: Management should continue to monitor the internal controls established as part of their subsequent to year end activities to ensure all compliance requirements are conducted in a timely manner.

Views of Responsible Officials: Subsequent to year end, the Agency implemented internal controls over subrecipient monitoring and retroactively performed these compliance procedures.



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