THE TOR PROJECT, INC.

Financial Statements

June 30, 2021

Kevin P. Martin & Associates, P.C

THE TOR PROJECT, INC.

Index

June 30, 2021

Independent Auditors' Report

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

Report on the Financial Statements

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, 2021, 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2021, 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the Organization has adopted ASU No. 2014-09, *Revenue from Contracts with Customers*. Our opinion is not modified with respect to this matter.

Other Matters

Schedule of Expenditures of Federal Awards

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 November 15, 2021, 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.

Nunin P. Martin & Cunto P.C.

Danvers, Massachusetts
November 15, 2021

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

To the Board of Directors 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, 2021, 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 15, 2021.

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. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's 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 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.

Nunis P. Martin & Aunto P.C.

Danvers, Massachusetts
November 15, 2021

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

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

Report on Compliance for Each Major Federal Program

We have audited The Tor Project, Inc.'s (a nonprofit organization),(the Organization) 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 Organization's major federal programs for the year ended June 30, 2021. The Organization's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of 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 Organization's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on Each Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2021.

Report on Internal Control Over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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 Organization's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Nunin P. Martin & Amato P.C.

Danvers, Massachusetts
November 15, 2021

THE TOR PROJECT, INC.

Statement of Financial Position

As of June 30, 2021

Assets		
Current Assets		
Cash and cash equivalents	$	3,637,652
Contributions receivable		275,000
Grants receivable		389,933
Prepaid expenses		8,832
Total current assets		4,311,417
Fixed Assets		
Computer and equipment		242,053
Less: accumulated depreciation		(146,955)
Total net fixed assets		95,098
Total Assets	$	4,406,515
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and other accrued expenses	$	303,366
Accrued salaries and benefits		2,094
Deferred revenue		234,290
Total current liabilities		539,750
Net Assets		
Net assets without donor restrictions		3,182,779
Net assets with donor restrictions		683,986
Total net assets		3,866,765
Total Liabilities and Net Assets	$	4,406,515

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

THE TOR PROJECT, INC.

Statement of Activities

For the Year Ended June 30, 2021

		Without Donor Restrictions		With Donor Restrictions		Total
Revenue and Support						
Government grants	$	2,444,947	$	-	$	2,444,947
Contributions		3,898,845		683,986		4,582,831
In-kind contributions		797,597		-		797,597
Net assets released from restrictions		58,410		(58,410)		-
Total revenue and support		7,199,799		625,576		7,825,375
Expenses						
Administration		217,320		-		217,320
Fundraising		292,902		-		292,902
Program services		4,271,795		-		4,271,795
Total expenses		4,782,017		-		4,782,017
Change in net assets from operating activities		2,417,782		625,576		3,043,358
Non-Operating Activities						
Forgiveness of Paycheck Protection Program loan		384,303		-		384,303
Gain from change in vacation accrual policy		103,200		-		103,200
Loss on repayment of disallowed costs		(52,212)		-		(52,212)
Interest income		1,467		-		1,467
Interest expense		(3,323)		-		(3,323)
Loss on foreign currency exchange		(388)		-		(388)
Change in net assets from non-operating activities		433,047		-		433,047
Total Change in Net Assets		2,850,829		625,576		3,476,405
Net Assets at Beginning of Year		331,950		58,410		390,360
Net Assets at End of Year	$	3,182,779	$	683,986	$	3,866,765

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

THE TOR PROJECT, INC.

Statement of Cash Flows

For the Year Ended June 30, 2021

Cash Flows from Operating Activities	
Change in Net Assets	$ 3,476,405
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	45,647
Forgiveness of Paycheck Protection Program loan	(380,980)
Gain from change in vacation accrual policy	(103,200)
Forfeiture of security deposit refund	80
Decrease (increase) in assets	
Grants, contracts, and contributions receivable	(445,475)
Prepaid expenses and other assets	(1,594)
Increase (decrease) in liabilities	
Accounts payable and other accrued expenses	263,098
Accrued salaries and benefits	496
Deferred revenue	103,771
Net Cash Provided by Operating Activities	2,958,248
Cash Flows from Financing Activities	
Return of security deposit	420
Net Cash Provided by Financing Activities	420
Net Increase in Cash and Cash Equivalents	2,958,668
Cash and Cash Equivalents - Beginning	678,984
Cash and Cash Equivalents - Ending	$ 3,637,652
Supplement Data for Noncash Financing Activities	
Forgiveness of Paycheck Protection Program loan	$ 380,980

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

THE TOR PROJECT, INC.

Statement of Functional Expenses

For the Year Ended June 30, 2021

	Administration	Fundraising	Program Services	Total
Functional Expenses				
Salaries, benefits and payroll taxes	$ 184,876	$ 117,988	$ 2,186,287	$ 2,489,151
Contract services	-	-	990,490	990,490
In-kind services - information technology	-	-	797,597	797,597
Professional fees	13,533	97,730	136,599	247,862
Office supplies, postage and printing	2,572	21,236	43,531	67,339
Depreciation	6,194	1,413	38,040	45,647
Fundraising materials and supplies	-	37,840	510	38,350
Information technology	3,430	783	32,548	36,761
Bank fees and service charges	1,963	14,828	12,160	28,951
Insurance	3,836	875	23,553	28,264
Occupancy	916	209	5,626	6,751
Travel, transportation & conferences	-	-	4,854	4,854
Total Functional Expenses	$ 217,320	$ 292,902	$ 4,271,795	$ 4,782,017

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

(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.

(a) 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.

(b) 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.

(c) 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:

<u>Net Assets Without Donor Restrictions</u> - 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.

(1) Summary of Significant Accounting Policies - continued

(c) Standards of Accounting and Reporting - continued

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, 2021, the Organization had net assets with donor restrictions totaling $706,422, as disclosed in Note 9.

(d) 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 located in Massachusetts. 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, 2021.

(e) Revenue Recognition

The Organization earns revenue as follows:

The Organization generally measures revenue based on the amounts of consideration it expects to be entitled for the transfers of goods and services to a customer, then recognizes its revenue as performance obligations are satisfied under a contract, except in transactions where U.S. GAAP provides other applicable guidance. The Organization evaluates its revenue contracts with customers based on the five-step model under Topic 606: (1) Identify the contract with the customer; (2) Identify the performance obligations in the contract; (3) Determine the transaction price; (4) Allocate the transaction price to separate performance obligations; and (5) Recognize revenue when (or as) each performance obligation is satisfied.

(1) Summary of Significant Accounting Policies - continued

(e) Revenue Recognition - continued

Government Grants - The Organization receives funding from federal and state governmental 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 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. 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.

During the year ended June 30, 2021, the Organization derived approximately 39% of its total revenue from governmental agencies, and approximately 61% from foundations, individual donors, and other sources.

(1) Summary of Significant Accounting Policies - continued

(f) 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, 2021, 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, 2021, three grantors accounted for approximately 96% of the Organization's receivables.

(g) 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. 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

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.

(h) 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 4% for the year ended June 30, 2021. The ratio of expenses to amounts raised is computed using actual expenses and related revenue on an accrual basis and excludes in-kind contributions.

(1) Summary of Significant Accounting Policies - continued

(i) 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.

(j) 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.

(k) 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).

(l) Recent Accounting Standards Adopted

On July 1, 2020, the Organization adopted ASU 2014-09, *Revenue from Contracts with Customers* and all subsequent amendments to the ASU (collectively, ASC 606). ASC 606 supersedes the revenue recognition requirements in Topic 605, Revenue Recognition, and requires the reporting entity to recognize revenues when control of promised goods or services is transferred to customers and at an amount that reflects the consideration to which the Organization expects to be entitled in exchange for those goods or services. On July 1 2020, the Organization adopted ASC 606 using the modified retrospective method applied to those contracts which were not competed as of July 1, 2020 (the practical expedient elected). Results for reporting periods beginning after July 1, 2020, are presented under ASC 606, while prior period amounts are not adjusted and continue to be reported in accordance with the Organization's historic accounting under ASC 605.

(1) Summary of Significant Accounting Policies - continued

(l) Recent Accounting Standards Adopted - continued

On July 1, 2020, the Organization adopted ASU 2018-13, *Fair Value Measurement (Topic 820), Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*. The amendments in this update removed the following disclosure requirements from Topic 820: (1) the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, (2) the policy for timing of transfers between levels, (3) the valuation processes for Level 3 fair value measurements and (4) the changes in unrealized gains and losses for the period included in earnings for recurring Level 3 fair value measurements held at the reporting period. The following disclosure requirements were modified in Topic 820: (1) in lieu of a roll forward for Level 3 fair value measurements, a nonpublic entity is required to disclose transfers into and out of Level 3 of the fair value hierarchy and purchases and issues of Level 3 assets and liabilities, (2) for investments in certain entities that calculate net asset value, an entity is required to disclose the timing of liquidation of an investee's assets and the date when restrictions from redemption might lapse only if the investee has communicated the timing to the entity or announced the timing publicly and (3) the amendments clarity that the measurement uncertainty disclosure is to communicate information about the uncertainty in measurement as of the reporting date. The disclosures to the financial statements were updated to reflect the amendments in this update.

There were no material changes in the timing of recognition of revenue and, therefore, there were no adjustments to the opening balance of net assets without donor restrictions. The Organization does not expect the adoption of the new revenue standard to have a significant impact on its changes in net assets on an ongoing basis.

(m) Recent Accounting Standards

In June 2020, FASB issued ASU 2020-05, Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842). ASU 2020-05 deferred the implementation date of ASU 2016-02 and ASU 2014-09 by one year. The Organization adopted ASU 2014-09 during the year ended June 30, 2021, as disclosed in Note 1(l). ASU 2016-02 is described below.

In February 2016, FASB issued ASU 2016-02, *Leases (Topic 842)* which sets out the principles for the recognition, measurement, presentation, and disclosure of leases for both parties to a contract (i.e., lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today.

The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases.

(1) Summary of Significant Accounting Policies – continued

(m) Recent Accounting Standards - continued

The ASU was set to be effective on January 1, 2021, with early adoption permitted. The effective date was extended to fiscal years beginning after December 15, 2021. The Organization is currently evaluating the impact the adoption of this new standard will have on its financial statements.

In July 2018, FASB issued ASU 2018-10, *Codification Improvements to Topic 842, Leases* and *ASU 2018-11, Leases (Topic 842), Targeted Improvements*. In December 2018, FASB issued ASU 2018-20, *Leases (Topic 842), Narrow-Scope Improvements for Lessors*. Adoption of these ASUs will run concurrent with the Organization's adoption of ASU 2016-02.

In September 2020, FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958), Presentation and Disclosures by Not-for Profit Entities for Contributed Nonfinancial Assets*. The amendments in this update address presentation and disclosure of contributed nonfinancial assets. The ASU is effective for annual periods beginning after June 15, 2021. The Organization is currently evaluating the impact the adoption of this new standard will have on its financial statements.

(n) Paycheck Protection Program Loan

As described at Note 4, the Organization received a Paycheck Protection Program (PPP) loan during the year ended June 30, 2020, which was forgiven during the year ended June 30, 2021. The Organization elected to follow the guidance regarding Debt found in FASB ASC 470 - *Not-for Profit Entities - Debt* to account for its PPP loan.

(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, 2021 and considered to be collectible within one year:

Private foundations	$ 275,000
Government agencies	259,103
Passthrough entities on behalf of government agencies	95,771
Other	35,059
	$ 664,933

(3) Property and Equipment

Property and equipment consists of the following as of June 30, 2021:

Computer and equipment	$	242,053
	$	242,053

Depreciation amounted to $45,647 for the year ended June 30, 2021.

(4) Paycheck Protection Program Loan

As described in Note 1, the Organization received a Paycheck Protection Program ("PPP") loan from Eastern Bank during the fiscal year ended June 30, 2020 in the original amount of $380,980 with a maturity date of April 30, 2022. The loan bore interest at a rate of 1%, which was deferred for the first 6 months. Interest expense recognized on this loan during the fiscal year ended June 30, 2021 was $3,323. During the year ended June, 30, 2021, the loan of $380,980 plus accrued interest of $3,323 was forgiven in full. This revenue from forgiveness of the PPP loan, which totaled $384,303, has been reported as a non-operating activity on the statement of activities.

(5) Operating Lease Commitments

The Organization had an operating lease for office space in Seattle, WA, which expired in January 2021. The monthly payments were approximately $550, which included rent and operating costs. Upon expiration of this lease, the Organization transitioned to a fully remote environment and, as such, there are no future minimum lease payments as of June 30, 2021.

Rent expense for the year ended June 30, 2021 was $3,780.

(6) 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 $39,462 for the year ended June 30, 2021.

(7) Liquidity and Availability of Resources

The following reflects the Organization's financial assets as of June 30, 2021, 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	$ 3,637,652
Grants and contributions receivable	664,933
Total	4,302,585
Less: financial assets not available for general expenditure:	
Donor restricted for programmatic or time purposes extending beyond one year from balance sheet date	(408,986)
Financial assets available to meet cash needs for general expenditures within one year	$ 3,893,599

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.

(8) In-Kind Contributions

The Organization received in-kind contributions from individuals and corporations during the year ended June 30, 2021 as follows:

Translation services	$ 276,236
Software support and maintenance services	425,100
Computing infrastructure	96,261
Total	$ 797,597

(9) 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, 2021, net assets with donor restrictions are restricted for the following purposes or time periods:

Subject to expenditure for a specified purpose:		
Tor protocol improvements	$	175,384
Training initiatives for indigenous communities		4,435
Purpose restricted as of June 30, 2021		179,819
Restricted as to time of receipt		275,000
Restricted as to use in future periods		229,167
Time restricted as of June 30, 2021		504,167
Total net assets with donor restrictions	$	683,986

Net assets were released from restrictions to support the following purposes or time periods during the year ended June 30, 2021:

Purpose restrictions met during the year ended June 30, 2021:		
Improving the Tor Network IPv6 Project	$	16,759
Walking Onions: Scaling the Tor Network Project		20,818
Time restrictions that expired during year ended June 30, 2021		20,833
Total net assets released from restrictions	$	58,410

(10) Loss on Repayment of Disallowed Costs

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. In previous years, the Organization had reported approximately $94,000 in unallowable costs charged to a United Stated government grantor agency and, as a result, recorded a contingent liability owed to the grantor agency. During the year ended June 30, 2020, management determined that it was unlikely that the grantor would pursue the disallowed costs and, as such, brought the contingent liability into revenue. However, during the year ended June 30, 2021, the grantor contacted the Organization to demand immediate repayment of $52,212 of those disallowed costs, which the Organization paid during the year ended June 30, 2021. The loss associated with this repayment has been reported as a non-operating activity on the statement of activities for the year ended June 30, 2021.

(11) Schedule of Federal Awards

Determination of federal major programs was made using a risk-based approach. For the fiscal year ended June 30, 2021, the Organization qualified as a low-risk auditee. The major program tested is disclosed as such in the schedule of findings and questioned costs.

(12) Risks and Uncertainties

(a) 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 Institute of Museum and Library Services, 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.

(b) COVID-19

In early 2020, an outbreak of a novel strain of coronavirus (COVID-19) emerged globally. As a result, events have occurred including mandates from federal, state and local authorities leading to an overall decline in economic activity. As described in Note 4, the Organization received a Payroll Protection Program (PPP) loan during the fiscal year ended June 30, 2020, which was forgiven in full during the fiscal year ended June 30, 2021. Further, the Organization's liquidity as of June 30, 2021 is documented at Note 7. The Organization is not able to estimate the length or severity of this outbreak and the related financial impact. Management plans to adjust its operations accordingly and will continue to assess and monitor the situation as it evolves. If the length of the outbreak and related effects on the Organization's operations continue for an extended period of time the Organization may have to seek alternative measures to finance its operations. The Organization does not believe that the impact of COVID-19 would have a material adverse effect on its financial condition or liquidity.

(13) Conditional Grants

Conditional grants received by the Organization as of June 30, 2021 consist of government grants and other grants totaling $3,177,234. Those conditional grants will be recognized as revenue when the related expenses are incurred or the associated milestones are met in future years.

(14) Gain from Change in Paid Time Off Policy

Effective June 30, 2021, the Organization adopted a new flexible paid time off policy whereby employees can take unlimited time off as their jobs permit. As a result of this change, the Organization recognized a gain of $103,200 for the year ended June 30, 2021 to reflect the elimination of the accrued paid time off liability as of year-end. This gain has been presented as a non-operating activity on the statement of activities for the year ended June 30, 2021.

(15) Subsequent Events

The Organization has performed an evaluation of subsequent events through November 15, 2021, which is the date the Organization's financial statements were available to be issued. No material subsequent events have occurred since June 30, 2021 that required recognition or disclosure in these financial statements.

THE TOR PROJECT, INC.

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2021

(1) Summary of Auditors' Results

Financial Statements:

Type of Auditors' Report Issued:	Unmodified opinion
Internal Control Over Financial Reporting:	
Material Weakness(es) Identified?	______ Yes ___X___ No
Significant Deficiency(ies) Identified?	______Yes ___X___ None reported
Noncompliance Material to Financial Statements Noted?	______Yes ___X___No

Federal Awards:

Internal Control Over Major Programs:	
Material Weakness(es) Identified?	_______ Yes ___X___No
Significant Deficiency(ies) Identified?	_______ Yes ___X___None reported
Type of Auditors' Report Issued on Compliance for Major Programs:	Unmodified
Any Audit Findings Disclosed that are Required to be Reported in Accordance with 2 CFR Section 200.516(a)?	_______ Yes ___X___No

Identification of Major Programs:

CFDA 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

(2) Findings – Financial Statement Audit

No significant deficiencies or material weaknesses reported.

(3) Findings and Questioned Costs – Major Federal Programs Audit

No significant deficiencies or material weaknesses reported.

(4) Status of Prior Year Findings

No prior year findings were noted.

THE TOR PROJECT, INC.

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2021

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Grant Period		Federal Expenditures
U.S. Department of State:					
Direct Awards					
International Programs to Support Democracy, Human Rights, and Labor	19.345	S-LMAQM-19-GR-2045	09/20/2019 - 11/30/2021	$	491,166
International Programs to Support Democracy, Human Rights, and Labor	19.345	S-LMAQM-20-CA-2506	09/28/2020 - 09/30/2022		686,975
International Programs to Support Democracy, Human Rights, and Labor	19.345	S-LMAQM-20-GR-2393	09/28/2020 - 09/30/2022		354,702
					1,532,843
Institute of Museum and Library Services:					
Passed through New York University					
Librarians for the 21st Century	45.313	RE-95-17-0076-17	12/01/2017 - 11/30/2021		96,569
National Science Foundation:					
Passed through Georgetown University					
Computer and Information Science and Engineering	47.070	1925497	10/01/2019 - 09/30/2022		224,617
National Institutes of Health:					
Passed through University of Pittsburgh					
National Network of Libraries of Medicine MidAtlantic (Region 1) and Web Services Office	93.879	5UG4LM012342-05	01/04/2021 - 04/30/2021		20,421
Total Expenditures of Federal Awards				$	1,874,450

Notes to the Schedule of Expenditures of Federal Awards

Note 1: Basis of Presentation

The accompanying schedule of expenditures of federal awards (the 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, 2021. 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 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. The Organization has elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.