The Tor Project, Inc.

Financial Statements

June 30, 2020

Kevin P. Martin & Associates, P.C

THE TOR PROJECT, INC.

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June 30, 2020

Kevin P. Martin & Associates, P.C.
ASSURANCE | TAX | RISK MANAGEMENT | IT ADVISORY

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, 2020, 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.

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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, 2020, 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 Matters

As discussed in Note 1 to the financial statements, the Organization has adopted Financial Accounting Standards Board Accounting Standards Update No. 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. Our opinion is not modified with respect to this matter.

As discussed in Note 9 to the financial statements, subsequent to the issuance of the Organization's financial statements for the year ended June 30, 2019, management determined that a fiscal agent liability should have been reported as net assets without donor restrictions as of June 30, 2019. As a result, the Organization has restated the opening net assets balance. 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 2, 2020, 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.

Danvers, Massachusetts
November 2, 2020

Kevin P. Martin & Associates, P.C.
ASSURANCE | TAX | RISK MANAGEMENT | IT ADVISORY

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, 2020, 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 2, 2020.

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) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Danvers, Massachusetts
November 2, 2020

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, 2020. 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, 2020.

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.

Danvers, Massachusetts
November 2, 2020

THE TOR PROJECT, INC.

Statement of Financial Position

As of June 30, 2020

Assets		
Current Assets		
Cash and cash equivalents	$	678,984
Grants, contracts and contributions receivable		219,458
Prepaid expenses and other assets		7,738
Total current assets		906,180
Fixed Assets		
Computer and equipment		242,053
Less: accumulated depreciation		(101,308)
Total net fixed assets		140,745
Total Assets	$	1,046,925
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and other accrued expenses	$	40,268
Accrued salaries and benefits		104,798
Paycheck Protection Program Loan		380,980
Deferred revenue		130,519
Total current liabilities		656,565
Net Assets		
Net assets without donor restrictions		331,950
Net assets with donor restrictions		58,410
Total net assets		390,360
Total Liabilities and Net Assets	$	1,046,925

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

THE TOR PROJECT, INC.

Statement of Activities

For the Year Ended June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support			
Government grants and contracts	$ 2,372,145	$ -	$ 2,372,145
Grants and contributions	1,673,794	354,236	2,028,030
In-kind contributions	450,705	-	450,705
Investment revenue, net	607	-	607
Net assets released from restrictions	295,826	(295,826)	-
Total revenue and support	4,793,077	58,410	4,851,487
Expenses			
Administration	153,196	-	153,196
Fundraising	308,845	-	308,845
Program services	4,349,358	-	4,349,358
Total expenses	4,811,399	-	4,811,399
Change in net assets	(18,322)	58,410	40,088
Total Change in Net Assets	(18,322)	58,410	40,088
Net Assets at Beginning of Year, as Restated	350,272	-	350,272
Net Assets at End of Year	$ 331,950	$ 58,410	$ 390,360

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, 2020

Cash Flows from Operating Activities		
Change in net assets	$	40,088
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation		45,647
Change in estimate - contingent liability		(93,963)
Decrease (increase) in assets		
Grants, contracts and contributions receivable		(46,262)
Prepaid expenses and other assets		(2,143)
Increase (decrease) in liabilities		
Accounts payable and other accrued expenses		(119,643)
Accrued salaries and benefits		(31,735)
Deferred revenue		34,704
Net Cash Used in Operating Activities		(173,307)
Cash Flows from Financing Activities		
Proceeds from Paycheck Protection Program loan		380,980
Net Cash Provided by Financing Activities		380,980
Net Increase in Cash and Cash Equivalents		207,673
Cash and Cash Equivalents - Beginning		471,311
Cash and Cash Equivalents - Ending	$	678,984

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, 2020

	Administration	Fundraising	Program Services	Total
Functional Expenses				
Salaries, benefits and payroll taxes	$ 112,568	$ 198,944	$ 2,974,818	$ 3,286,330
Contract services	-	-	586,569	586,569
Travel, transportation and conferences	22	10,951	79,078	90,051
In-kind services - information technology	-	-	450,705	450,705
Professional fees	9,397	39,398	97,578	146,373
Information technology	5,788	1,916	43,199	50,903
Office supplies, postage and printing	2,801	18,986	26,266	48,053
Occupancy	3,669	1,178	21,353	26,200
Bank fees and service charge	8,987	9,920	11,806	30,713
Insurance	3,537	1,136	20,583	25,256
Fundraising materials and supplies	-	24,352	-	24,352
Depreciation	6,392	2,053	37,202	45,647
Loss on foreign exchange	35	11	201	247
Total Functional Expenses	$ 153,196	$ 308,845	$ 4,349,358	$ 4,811,399

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 and is currently domiciled in the state of Massachusetts. 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.

(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:

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.

(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, 2020, the Organization had net assets with donor restrictions totaling $58,410, 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, 2020.

(e) Revenue Recognition

The Organization earns revenue by type as follows:

Government Contracts - Federal and state contracts that are considered reciprocal transactions or purchases of services, the results of which are turned over to the grantor, are recognized as the work under the contract is performed. Contracts that are considered nonreciprocal transactions that further the programs of the Organization are recorded when the Organization receives notification of the contract, or if, conditions for performance are imposed, revenue is recognized when conditions have been met. All contracts are cost reimbursement contracts, all with ceiling amounts. Under the cost-reimbursement contracts, revenue recognition takes place as costs related to the services provided are incurred. Billings on the contracts are subject to final approval by the governmental agency.

(1) Summary of Significant Accounting Policies - continued

(e) Revenue Recognition - continued

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, 2020, the Organization derived approximately 55% of its total revenue from governmental agencies, 5% from corporations, and 40% from foundations, individual donors, and other sources.

(1) Summary of Significant Accounting Policies - continued

(f) Grants, Contracts, and Contributions Receivable

Grants, contracts, 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, 2020, 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, 2020, two grantors accounted for 52% of the Organization's receivables.

(g) Property and Equipment

Property and equipment are recorded at cost or if donated, fair value on the date of receipt. The Organization capitalizes all property and equipment purchases with an estimated useful life of more than one year and a total cost greater than $3,000 and $1,000 for computers and equipment, respectively. Depreciation is 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) 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.

(1) Summary of Significant Accounting Policies – continued

(h) Functional Allocation of Expenses - continued

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

(i) 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.

(j) 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).

U.S. GAAP prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Generally, the Organization's information/tax returns remain open for possible federal income tax examination for three years after the filing date. The Organization is not currently under examination by any taxing jurisdiction.

(k) Recent Accounting Standards Adopted

On July 1, 2019, the Organization adopted ASU 2018-08, *Not-for Profit Entities (Topic 958), Clarified Scope and Accounting Guidance for Contributions Received and Made*. This ASU was issued to clarify and improve the guidance in U.S. GAAP for distinguishing transactions that are contributions from those that are exchange transactions. The ASU also provides guidance for determining if a contribution that is a promise to give is conditional. Adoption of this standard did not have a significant impact on recognition of contribution revenue in 2020 or on the Organization's opening net asset balance as of July 1, 2019.

(l) 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. These ASUs are described below.

(1) Summary of Significant Accounting Policies – continued

(l) Recent Accounting Standards - continued

In May 2014, FASB issued ASU 2014-09, *Revenue from Contracts with Customers* and all subsequent amendments to the ASU (collectively, ASC 606). The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: Step 1 - identify the contract(s) with the customer; Step 2 - Identify the performance obligations in the contract; Step 3 - determine the transaction price; Step 4 - Allocate the transaction price to the performance obligations in the contract and Step 5 - recognize revenue when (or as) the entity satisfies a performance obligation. Services within the scope of ASU 2014-09 primarily include program service fees. The ASU was set to be effective for fiscal years beginning after December 15, 2018 and has been extended to be effective for fiscal years beginning after December 15, 2019. The Organization is currently evaluating the impact the adoption of this new standard will have on its financial statements.

In March 2016, FASB issued ASU 2016-08, Revenue from Contracts with Customers (Topic 606), Principal versus Agent Considerations (Reporting Revenue Gross versus Net). In December 2016, FASB Issued ASU 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers. These ASUs will be adopted concurrent with the Agency's adoption of ASU 2014-09.

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. 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.

(1) Summary of Significant Accounting Policies - continued

(l) Recent Accounting Standards - continued

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 2019, 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.

(2) Grants, contracts, and contributions receivable

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

Grants, contracts, and contributions receivable consisted of the following at June 30, 2020 and considered to be collectible within one year:

Open Technology Fund	$	58,039
Avast Software s.r.o.		50,000
US Department of State		36,076
Georgetown University		20,984
Other		43,126
	$	219,458

(3) Property and Equipment

Property and equipment consists of the following as of June 30, 2020:

Computer and equipment	$	242,053
	$	242,053

Depreciation amounted to $45,647 for the year ended June 30, 2020.

(4) Paycheck Protection Program Loan

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 PPP loan bears interest at a rate of 1%, which is deferred for the first 6 months. Management estimates that the loan will be substantially forgiven during the fiscal year ended June 30, 2021 and, as such, the loan has been presented as a current liability on the statement of financial position. The SBA has disclosed criteria for forgiveness which include but are not limited to maintaining the full-time equivalent number of employees over a certain time period and expending the funds on eligible expenses over the covered period. The Organization will recognize forgiveness of the loan in full or in part when the SBA determines the amount of forgiveness and notifies the Organization. If the Organization does not receive loan forgiveness, it will be required to pay monthly principal and interest payments of $21,444 beginning seven months from the date the note was issued (November 2020). All remaining principal and accrued interest is due at the maturity date of the note.

(5) Operating Lease Commitments

The Organization had an operating lease for office space in Seattle, WA, which expired in January 2020. The monthly payments were approximately $2,800.

The Organization entered into an operating lease during the current year for office space in Seattle, WA, which commenced in January 2020 and expires in January 2021. The monthly payments are approximately $550, which includes rent and operating costs.

The minimum annual operating non-cancelable lease commitments on property for the Organization are as follows:

2021	$	3,780

Rent expense for the year ended June 30, 2020 was $22,188.

(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 $49,763 for the year ended June 30, 2020.

(7) Liquidity and Availability of Resources

The following reflects the Organization's financial assets as of June 30, 2020, 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	$	678,984
Grants, contracts, and contributions receivable		219,458
Total		898,442
Financial assets available to meet cash needs for general expenditures within one year	$	898,442

The Organization is primarily supported by government contracts and grants. Because of the nature of the contracts and 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, 2020 as follows:

Translation services	$ 192,594
Software support and maintenance services	161,850
Computing infrastructure	96,261
Total	$ 450,705

(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, 2020, net assets with donor restrictions are restricted for the following purposes or time periods:

Subject to expenditure for a specified purpose:		
Improving the Tor Network IPv6 Project	$	16,759
Walking Onions: Scaling the Tor Network Project		20,818
		37,577
Subject to time restrictions expiring during year ended June 30, 2021		20,833
Total net assets with donor restrictions	$	58,410

(9) Net Assets with Donor Restrictions - continued

Net assets were released from restrictions to support the following purposes or time periods during the year ended June 30, 2020:

Improving the Tor Network IPv6 Project	$	36,355
Walking Onions: Scaling the Tor Network Project		30,304
Purpose restrictions met during the year ended June 30, 2020		66,659
Time restrictions that expired during year ended June 30, 2020		229,167
Total net assets released from restrictions	$	295,826

(10) Significant Change in Management Estimate

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 the grantor intends to waive the unallowed costs, and will not recoup the contingent liability as direct repayment or as an offset against current or future billings. The $94,000 contingency has been recorded as government grants and contracts revenue on the statement of activities for the year ended June 30, 2020.

(11) Prior-Period Adjustment

The accompanying financial statements have been restated to correct an error made in prior years. The error relates to an overstatement of a fiscal agent liability by $91,311 based on the Organization's misinterpretation on the existence of variance power over how those funds are spent. The effect of the restatement was to decrease the Due to others – fiscal agent liability and increase net assets without donor restrictions at June 30, 2019 by $91,311.

(12) Schedule of Federal Awards

Determination of federal major programs was made using a risk-based approach. For the fiscal year ended June 30, 2020, the Organization did not qualify as a low-risk auditee. The major programs tested are disclosed as such in the schedule of findings and questioned costs.

(13) 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. At this stage, the limited impact to the Organization resulted in a loss of revenues and other adverse effects to the Organization's financial position, results of operations, and cash flows. As described in Note 4, the Organization received a PPP loan. Further, the Organization's liquidity as of June 30, 2020 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.

(14) Subsequent Events

The Organization has performed an evaluation of subsequent events through November 2, 2020, which is the date the Organization's financial statements were available to be issued. No material subsequent events have occurred since June 30, 2020 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, 2020

(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?	_____ Yes __X__ 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, 2020

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 Award:				
International Programs to Support Democracy, Human Rights and Labor	19.345	N/A	9/20/2019-11/30/2022	$ 752,154
National Science Foundation:				
Passed through Georgetown University				
Computer and Information Science and Engineering	47.070	1925497	10/1/2019-9/30/2022	98,727
Institute of Museum and Library Services:				
Passed through New York University				
Librarians for the 21st Century	45.313	RE-95-17-0076-17	10/1/2017-11/30/2020	101,549
USAID Foreign Assistance for Programs Overseas:				
Passed through United Nations				
United Nations Foundation	98.001	UNF-19-1071	7/1/2019-12/31/2019	25,000
Total Expenditures of Federal Awards				$ 977,430

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, 2020. 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

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.