MOODY, FAMIGLIETTI & ANDRONICO
Certified Public Accountants & Consultants

THE TOR PROJECT, INC. AND AFFILIATE

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

DECEMBER 31, 2013 AND 2012

Proactive CPA and Consulting Firm

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

INDEPENDENT AUDITORS' REPORT

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of The Tor Project, Inc. and Affiliate (collectively referred to as the "Organization"), which comprise the consolidated statements of financial position as of December 31, 2013 and 2012, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Organization's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Tor Project, Inc. and Affiliate as of December 31, 2013 and 2012, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidated schedule of expenditures of federal awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 11, 2014, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

Moody, Famigliette & Andronico, LLP

Moody, Famiglietti & Andronico, LLP
Tewksbury, Massachusetts
July 11, 2014

December 31	2013	2012
Assets		
Current Assets:		
Cash and Equivalents	**$ 849,553**	$ 644,346
Grants and Contracts Receivable	**785,589**	663,957
Assets Whose Use is Limited	**51,973**	44,575
Prepaid Expenses	**10,631**	7,940
Restricted Cash	**-**	1,002
Total Current Assets	**1,697,746**	1,361,820
Property and Equipment, Net of Accumulated Depreciation	**1,125**	6,252
Security Deposit	**1,367**	-
Total Assets	**$ 1,700,238**	$ 1,368,072
Liabilities and Net Assets		
Current Liabilities:		
Accounts Payable	**$ 175,579**	$ 250,317
Accrued Expenses	**33,706**	64,254
Deferred Revenue	**-**	10,934
Other Liability- Assets Whose Use is Limited	**51,973**	44,575
Total Liabilities	**261,258**	370,080
Net Assets:		
Unrestricted	**1,428,980**	715,831
Temporarily Restricted	**10,000**	282,161
Total Net Assets	**1,438,980**	997,992
Total Liabilities and Net Assets	**$ 1,700,238**	$ 1,368,072

For the Years Ended December 31	2013	2012
Changes in Unrestricted Net Assets:		
Revenues and Other Support:		
Grants and Contribution Revenue	**$ 1,957,725**	$ 1,309,233
Contract Revenue	**911,759**	937,168
Donated Services	**387,500**	337,500
Net Assets Released from Restriction	**272,161**	81,839
Other Revenue	**2,138**	11,696
Total Unrestricted Revenues and Other Support	**3,531,283**	2,677,436
Expenses:		
Program Services	**2,612,223**	1,936,332
Management and General	**177,230**	93,133
Fundraising	**29,988**	33,210
Total Expenses	**2,819,441**	2,062,675
Operating Income	**711,842**	614,761
Non-Operating Income (Loss):		
Interest Income	**1,152**	736
Other Income	**155**	-
Foreign Currency Translation Loss	**-**	(1,687)
Total Non-Operating Income (Loss)	**1,307**	(951)
Increase in Unrestricted Net Assets	**713,149**	613,810
Changes in Temporarily Restricted Net Assets:		
Net Assets Released from Restriction	**(272,161)**	(81,839)
Grants and Contribution Revenue	**-**	350,000
Increase in Temporarily Restricted Net Assets	**(272,161)**	268,161
Increase in Net Assets	**440,988**	881,971
Net Assets, Beginning of Year	**997,992**	116,021
Net Assets, End of Year	**$ 1,438,980**	$ 997,992

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

For the Years Ended December 31				**2013**				2012
	Program Services	**Management and General**	**Fundraising**	**Total**	Program Services	Management and General	Fundraising	Total
Salaries and Related Taxes and Benefits	**$ 1,222,710**	**$ 59,619**	**$ 25,047**	**$ 1,307,376**	$ 622,270	$ 21,161	$ 19,196	$ 662,627
Contract Services	**691,196**	**897**	**-**	**692,093**	653,267	34,747	-	688,014
Donated Services	**387,500**	**-**	**-**	**387,500**	337,500	-	-	337,500
Travel and Meals	**102,558**	**86,693**	**2,727**	**191,978**	168,093	19,718	11,747	199,558
Professional Fees	**117,826**	**13,887**	**1,205**	**132,918**	47,095	5,193	1,101	53,389
Other Expenses	**26,966**	**3,819**	**352**	**31,137**	9,151	1,525	324	11,000
Occupancy	**11,799**	**2,210**	**192**	**14,201**	5,293	584	123	6,000
Program Supplies	**12,531**	**675**	**80**	**13,286**	31,487	6,216	-	37,703
Advertising and Marketing	**10,746**	**1,634**	**142**	**12,522**	4,264	470	100	4,834
Research and Development Grants	**10,000**	**-**	**-**	**10,000**	39,015	-	-	39,015
Bank Fees and Service Charges	**7,033**	**1,069**	**93**	**8,195**	5,799	826	175	6,800
Conferences	**4,592**	**698**	**61**	**5,351**	4,792	1,777	-	6,569
Depreciation	**4,400**	**669**	**58**	**5,127**	7,058	778	165	8,001
Donations	**-**	**5,000**	**-**	**5,000**	-	-	-	-
Insurance	**2,366**	**360**	**31**	**2,757**	1,248	138	29	1,415
Education and Training	**-**	**-**	**-**	**-**	-	-	250	250
Total Functional Expenses	**$ 2,612,223**	**$ 177,230**	**$ 29,988**	**$ 2,819,441**	$ 1,936,332	$ 93,133	$ 33,210	$ 2,062,675

For the Years Ended December 31	2013	2012
Cash Flows from Operating Activities:		
Increase in Net Assets	**$ 440,988**	$ 881,971
Adjustments to Reconcile Increase in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	**5,127**	8,001
(Increase) in Grants and Contracts Receivable	**(121,632)**	(307,661)
Increase in Prepaid Expenses	**(2,691)**	(4,564)
Decrease in Restricted Cash	**1,002**	156,251
(Decrease) Increase in Accounts Payable	**(74,738)**	84,029
Decrease in Accrued Expenses	**(30,548)**	(73,632)
Decrease in Deferred Revenue	**(10,934)**	(352,887)
Net Cash Provided by Operating Activities	**206,574**	391,508
Net Cash Used in Investing Activities:		
Payment of Security Deposit	**(1,367)**	-
Net Increase in Cash and Equivalents	**205,207**	391,508
Cash and Equivalents, Beginning of Year	**644,346**	252,838
Cash and Equivalents, End of Year	**$ 849,553**	$ 644,346

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

1. Organization and Significant Accounting Policies:

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

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

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

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

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

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

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

- Permanently restricted net assets represent contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization. As of December 31, 2013 and 2012, the Organization does not have any permanently restricted net assets.

Fair Value: The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;

- Quoted prices for identical or similar assets or liabilities in inactive markets;

- Inputs other than quoted prices that are observable for the asset or liability; and

- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

1. Organization and Significant Accounting Policies (Continued):

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

Restricted Cash: In conjunction with a customer contract, the Organization is required to maintain funds received from this customer in a restricted cash account and is used upon the completion of services. As of December 31, 2013, the Company no longer had any restrictions on cash, as the customer contract was completed during the year. As of December 31, 2012, restricted cash amounted to $1,002.

Concentration of Credit Risk: Financial instruments that potentially subject the Organization to concentration of credit risk consist primarily of cash, cash equivalents and grants and contracts receivable. The Organization maintains its cash and cash equivalents with high-credit quality financial institutions. Grants and contracts receivable are stated at the amount management expects to collect from outstanding balances. There was no allowance for doubtful receivables as of December 31, 2013 and 2012.

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

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

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

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

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

Advertising: The Organization expenses advertising costs as incurred. During the years ended December 31, 2013 and 2012, the Organization incurred $12,522 and $4,834, respectively, of costs related to advertising.

Foreign Currency Transactions: The Organization records foreign currency transaction gains and losses to operations. There were no foreign currency transaction losses or gains during the year ended December 31, 2013. The foreign currency transaction loss recorded in non-operating loss in the accompanying consolidated statements of activities for the year ended December 31, 2012 amounted to $1,687.

1. Organization and Significant Accounting Policies (Continued):

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

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

The Organization has not recognized any liabilities for uncertain tax positions or unrecognized benefits as of December 31, 2013 or 2012. The Organization does not expect any material change in uncertain tax benefits within the next twelve months.

The Organization is currently not under examination by any taxing authorities and is generally open to examination for three years from the date of filing.

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

Subsequent Events: Management has evaluated subsequent events spanning the period from December 31, 2013 through July 11, 2014, the latter representing the issuance date of these consolidated financial statements.

2. Assets Whose Use is Limited:

Tor, along with other sponsors, acts as an agent on behalf of the Privacy Enhancing Technology Symposium (the "Conference") by performing administrative functions, including custody of the Conference's operating cash account and performance of the cash receipts and cash disbursements functions. Funds held for the Conference are segregated from the general assets of Tor and are shown on the consolidated statements of financial position as an asset and a corresponding liability in the amounts of $51,973 and $44,575, as of December 31, 2013 and 2012, respectively. No fees are charged by Tor for these services.

3. Property and Equipment:

Property and equipment as of December 31, 2013 and 2012 consists of the following:

	2013	2012
Computer Equipment	$ 24,004	$ 24,004
Less: Accumulated Depreciation	22,879	17,752
	$ 1,125	$ 6,252

Depreciation expense for the years ended December 31, 2013 and 2012 amounted to $5,127 and $8,001, respectively.

4. Concentrations:

Tor received approximately 90% and 73% of its grants and contribution revenues from three federal grants during the years ended December 31, 2013 and 2012, respectively. As of December 31, 2013 and 2012, approximately 89% and 50% of grants and contracts receivable, respectively, were due from these federal grants. Additionally, Tor received 19% of its grants and contributions revenues from one foundation for the years ended December 31, 2012. Amounts due from this foundation as of December 31, 2012 totaled approximately 18% of grants and contracts receivable.

Tor received approximately 97% and 84% of its contract revenue from two customers for the years ended December 31, 2013 and 2012, respectively.

5. Donated Services:

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

	2013	2012
Software Development	$ 210,000	$ 204,000
Website Hosting	127,500	87,500
Language Translation	50,000	46,000
	$ 387,500	$ 337,500

6. Temporarily Restricted Net Assets:

Temporarily restricted net assets, as of December 31, 2013 and 2012, include unexpended contributions and grants temporarily restricted by donors for the following purposes:

	2013	2012
Purpose Restricted:		
Protection of Internet Traffic	$ 10,000	$ 10,000
Security Toolkit for Journalists	-	132,161
OONI Project	-	20,000
	10,000	162,161
Purpose and Time Restricted:		
Security Toolkit for Journalists	-	120,000
	-	120,000
	$ 10,000	$ 282,161

7. Net Assets Released from Restriction:

Temporarily restricted net assets, as of December 31, 2013 and 2012, include unexpended contributions and grants temporarily restricted by donors for the following purposes:

	2013	2012
Purpose Restricted:		
Security Toolkit for Journalists	$ 132,161	$ 67,839
OONI Project	20,000	-
Protection of Internet Traffic	-	14,000
	152,161	81,839
Purpose and Time Restricted:		
Security Toolkit for Journalists	120,000	-
	$ 272,161	$ 81,839

8. Operating Leases:

Effective September 2013, the Organization is a party to an operating lease agreement for office space in Cambridge, Massachusetts, which expires on August 31, 2018. The lease agreement requires monthly rental payments of $1,337.

Future minimum lease payments due under this non-cancelable lease agreement as of December 31, 2013 are as follows:

Year Ended December 31,	
2014	$ 16,537
2015	18,351
2016	18,810
2017	19,280
2018	13,577
	$ 86,555

Prior to September 2013, the Organization leased office space in Walpole, Massachusetts, as a tenant-at-will. Under the terms of the lease agreement, the Organization was required to remit monthly rental payments in the amount of $500.

Rent expense incurred by the Organization under these lease agreements amounted to $14,201 and $6,000 for the years ended December 31, 2013 and 2012, respectively.

9. Retirement and Fringe Benefits:

The Organization sponsors an IRC Section 408(p), SIMPLE IRA Plan (the Plan) to 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 2% of the employee's gross salary. Total expenses related to this plan amounted to $5,670 and $5,340 for the years ended December 31, 2013 and 2012, respectively.

10. Indemnifications:

In the ordinary course of business, the Organization enters into various agreements containing standard indemnification provisions. The Organization indemnification obligations under such provisions are typically in effect from the date of execution of the applicable agreement through the end of the applicable statute of limitations. The aggregate maximum potential future liability of the Organization under such indemnification provisions is uncertain. As of December 31, 2013 and 2012, no amounts have been accrued related to such indemnification provisions.

For the Year Ended December 31			2013
Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass -Through Entity Identifying Number	Federal Expenditures
Major Program:			
U.S. Department of State			
Direct -			
International Programs to Support Democracy, Human Rights and Labor	19.345	N/A	$ 256,900
Pass-Through -			
Internews Network			
International Programs to Support Democracy, Human Rights and Labor	19.345	F5047-TOR-00	555,413
New America Foundation			
International Programs to Support Democracy, Human Rights and Labor	19.345	N/A	30,000
New America Foundation			
International Programs to Support Democracy, Human Rights and Labor	19.345	OITPDOS2013	40,000
Total Major Program			882,313
Non-Major Programs:			
U.S. Department of Defense			
Pass-Through -			
SRI International			
Basic and Applied Research and Development in Areas Relating to the Navy Command, Control, Communications, Computers, Intelligence, Surveillance, and Reconnaissance	12.335	116-000004	830,269
U.S. Agency for International Development			
Pass-Through -			
Counterpart Information Security Coalition			
USAID Foreign Assistance for Programs Overseas	98.001	1011-2T2	10,000
Research and Development Cluster			
National Science Foundation			
Direct -			
Computer and Information Science and Engineering	47.070	N/A	100,325
Total Non-Major Programs			940,594
Total Expenditures of Federal Awards			$ 1,822,907

Notes to the Consolidated Schedule of Expenditures of Federal Awards

Note 1 – Basis of Presentation

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

Note 2 – Summary of Significant Accounting Policies

Expenditures reported on the consolidated schedule of expenditures of federal awards are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles of Non-profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the consolidated schedule of expenditures of federal awards, if any, represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented when available.

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

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance with *Government Auditing Standards*

INDEPENDENT AUDITORS' REPORT

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of The Tor Project, Inc. and Affiliate (collectively referred to as the "Organization") which comprise the consolidated statement of financial position as of December 31, 2013, and the related consolidated statement of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated July 11, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

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

Our consideration of the 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify certain deficiencies in internal control, described in the accompanying consolidated schedule of findings and questioned costs that we consider to be significant deficiencies. See findings 2013-001 and 2013-002.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Organization's Response to Findings

The Organization's response to the findings identified in our audit is described in the accompanying consolidated schedule of findings and questioned costs. The Organization's response was not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Moody, Famiglietti & Andronico, LLP

Moody Famiglietti & Andronico, LLP
Tewksbury, Massachusetts
July 11, 2014

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

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

INDEPENDENT AUDITORS' REPORT

Report on Compliance for Each Major Federal Program

We have audited the compliance of The Tor Project, Inc. and Affiliate (collectively referred to as the "Organization") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal program for the year ended December 31, 2013. The Organization's major federal programs are identified in the summary of independent auditors' results section of the accompanying consolidated schedule of findings and questioned costs.

Management's Responsibility

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

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the 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 December 31, 2013.

Report on Internal Control over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying consolidated schedule of findings and questioned costs as items 2013-001 and 2013-002 that we consider to be significant deficiencies.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Moody, Famigliette & Andronico, LLP

Moody, Famiglietti & Andronico, LLP
Tewksbury, Massachusetts
July 11, 2014

Year Ended December 31, 2013

I. Summary of Independent Auditors' Results

Consolidated Financial Statements

Type of auditors' report issued:	Unmodified	
Internal control over financial reporting:		
• Material weakness identified?	____ Yes	X No
• Significant deficiencies identified that are not considered to be material weaknesses?	X Yes	____ None Reported
Noncompliance material to consolidated financial statements noted?	____ Yes	X No

Federal Awards

Internal control over major program:		
• Material weakness identified?	____ Yes	X No
• Significant deficiencies identified that are not considered to be material weaknesses?	X Yes	____ 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 section 510(a) of Circular A-133?	____ Yes	X No

Identification of major program:

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	$ 300,000	
Auditee qualifies as low-risk auditee?	X Yes	____ No

Year Ended December 31, 2013

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

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

2013-001 – Cost Allocations

Criteria: Indirect cost allocation methods should be uniformly and consistently implemented to all programs.

Condition: During 2013, the spreadsheet used to allocate employee time across various programs contained an error. The under and overstatement of three employees' time for various grant programs resulted in a misallocation of employee time and, subsequently, indirect costs. The misallocation, while not material, was not discovered by the Organization's internal controls.

Context: We tested the accuracy of the employees' annual time sheet inputs on the Allocation by Program spreadsheet by selecting a sample of employees and viewing each employee's monthly time card. It was discovered during this review that three employees had time improperly entered into the Allocation by Program spreadsheet, which caused the employees' time on an annual basis to be over or under reported.

Effect: The Allocation by Program spreadsheet allocates employee salaries and indirect costs based upon the ratio of time spent on each program to annual time work each employee. The date entry errors for the three employees' time on the spreadsheet resulted in improper salary and, subsequently, indirect cost allocation calculations. The effect of this error was not material to the consolidated financial statements or to compliance with Federal Programs under OMB A-133.

Cause: The input errors were a result of not receiving monthly employee time sheets timely. This delay caused either the employee's time sheet to never be entered into the Allocation by Program spreadsheet or the improper amount time was entered. These errors were not discovered, as there is no detailed review process for the Allocation by Program spreadsheet.

Recommendation: We recommend that monthly employee time cards be received as close to month end as possible to avoid missed entry. Additionally, we recommend that a detailed review process be implemented to ensure that the manual inputs into the spreadsheet are appropriate.

Views of Responsible Officials and Planned Corrective Actions: Management has a system of controls whereby reviews of total dollars and percentages allocated to federal programs are detail reviewed. As no material amounts were misallocated as a result of the input error, the current of system on controls did not identify the input error. In order to prevent input errors that serve to generate these allocations, management will institute a second level of detailed review. The detail review will include agreeing all manual spreadsheet inputs to source documentation. The Organization has contracted a second accounting staff person to assist in this review function.

2013-002 – Classification of Direct Costs

Federal Program 19.345 International Programs to Support Democracy, Human Rights and Labor

Criteria: Direct costs should be charged to the appropriate federal programs.

Condition: During 2013, an instance was noted where a direct cost was allocated to this federal program incorrectly.

II. Findings Related to the Consolidated Financial Statement Audit as Required to be Reported in Accordance with *Government Auditing Standards* (Continued):

2013-002 – Classification of Direct Costs (Continued)

Context: During the audit it was noted that the invoice supporting the direct costs reflected detailed tasks completed for a different federal program. The incorrect posting of this direct cost did not result in an overbilling as the funding is based on certain milestones, which were completed by the Organization prior to billing.

Cause: An invoice for another federal program was mistakenly charged to this federal program, resulting in the incorrect amount of expense being charged to this federal program.

Recommendation: The Organization should implement a review process, especially for federal programs that require detailed expense reports to be attached and reviewed, in order to ensure that the proper expenses are being billed to the correct federal program. This will ensure the Executive Director is aware of funds being requested and whether the amounts requested are reasonable.

Views of Responsible Officials and Planned Corrective Actions: Management has a system of controls that allocates milestone based contracts to the same cost center as there is no cost reimbursement requirement. Both invoices included in this misidentification noted in this finding were recorded in the same cost center, as a result the misidentification was not corrected by management in a timely manner. Management will perform a detail review of all invoice directly allocated to a particular federal program to ensure that it has been properly identified in our books and records.

B. Compliance Findings

None

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

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

See 2013-001 and 2013-002 in Part II, A

B. Compliance Findings

None

<u>Year Ended December 31, 2013</u>

Prior Year Findings:

None

1 Highwood Drive | Tewksbury, MA 01876