

THE TOR PROJECT, INC.

Index

June 30, 2022

Independent Auditor's Report

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

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The Tor Project, Inc.

Notes to Financial Statements

For the Year Ended June 30, 2022

Note 1 - Summary of Significant Accounting Policies

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

Nature of Activities

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

Basis of Presentation

The statement of activities reports all changes in net assets, including changes in net assets without donor restrictions from operating and non-operating activities. Operating revenues consist of those monies received and other contributions attributable to the Organization's ongoing efforts. Investment income is reported as non-operating revenue because such assets are managed for long-term stabilization of the Organization's activities. Non-operating activities consist of revenue, expenses, gains, and losses that are not attributable to the Organization's ongoing operational efforts.

Standards of Accounting and Reporting

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

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

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

The Tor Project, Inc.

Notes to Financial Statements

For the Year Ended June 30, 2022

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, 2022, the Organization had net assets with donor restrictions totaling \$233,035, as disclosed in Note 6.

Cash and Cash Equivalents

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

The Organization maintains its cash balances at several financial institutions. The cash balances are insured by the Federal Deposit Insurance Corporation. At times, these balances may exceed the federal insurance limits; however, the Organization has not experienced any losses with respect to its bank balances in excess of government provided insurance. Management believes that no significant concentration of credit risk exists with respect to these cash balances as of June 30, 2022.

Revenue Recognition

The Organization earns revenue as follows:

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

The Tor Project, Inc.

Notes to Financial Statements

For the Year Ended June 30, 2022

Contributions - In accordance with Accounting Standards Codification ("ASC") Subtopic 958-605, Revenue Recognition, the Organization must determine whether a contribution (or a promise) is conditional or unconditional for transactions deemed to be a contribution. A contribution is considered to be a conditional contribution if an agreement includes a barrier that must be overcome and either a right of return of assets or a right of release of a promise to transfer assets exists. Indicators of a barrier include measurable performance-related barrier or other measurable barrier, a stipulation that limits discretion by the recipient on the conduct of an activity and stipulations that are related to the purpose of the agreement. Topic 958 prescribes that the Organization should not consider probability of compliance with the barrier when determining if such awards are conditional and should be reported as conditional grant advance liabilities until such conditions are met.

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

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

During the year ended June 30, 2022, the Organization derived approximately 53% of its total revenue from governmental agencies, and approximately 47% from foundations, individual donors, and other sources.

The Tor Project, Inc.

Notes to Financial Statements

For the Year Ended June 30, 2022

Grants and Contributions Receivable

Grants and contributions receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. As of June 30, 2022, 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, 2022, three grantors accounted for approximately 94% of the Organization's receivables.

Computer and Equipment

Computer and equipment are recorded at cost or if donated, fair value on the date of receipt. The Organization capitalizes all computer and equipment purchases with an estimated useful life of more than one year and a total cost greater than \$3,000 and \$1,000 for computers and equipment, respectively. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives. Improvements, including planned major maintenance activities are capitalized, while expenditures for routine maintenance and repairs are charged to expense as incurred. Upon disposal of depreciable property, the appropriate property accounts are reduced by the related costs and accumulated depreciation. The resulting gains and losses are reflected in the statement of activities.

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

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

Fundraising

Fundraising relates to the activities of raising general and specific contributions for the Organization. Fundraising expenses as a percentage of contribution and grant revenue was 6% for the year ended June 30, 2022. The ratio of expenses to amounts raised is computed using actual expenses and related revenue on an accrual basis and excludes in-kind contributions.

The Tor Project, Inc.

Notes to Financial Statements

For the Year Ended June 30, 2022

Functional Allocation of Expenses

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

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

Use of Estimates

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

Income Taxes

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

Generally, the Organization's information returns remain open for possible examination for three years after the filing date. While no income tax returns are currently being examined by the Internal Revenue Service, tax years since 2019 remain open. As of June 30, 2022, the Organization believes that there are no uncertain tax positions with any of its open tax years.

Recent Accounting Standards Adopted

For the year ended June 30, 2022, the Organization adopted Accounting Standards Update ("ASU") 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. This standard provides guidance on the presentation of contributed nonfinancial assets in the statement of activities and additional disclosure requirements for each type of contributed nonfinancial asset. The ASU provides transparency on the measurement of the contributed nonfinancial assets of the Organization and will not change existing recognition and measurement requirements. The Organization has implemented the provisions of ASU 2020-07 applicable to all contributed nonfinancial assets.

The Tor Project, Inc.

Notes to Financial Statements

For the Year Ended June 30, 2022

Recent Accounting Standards

In February 2016, the Financial Accounting Standards Board ("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.

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

Note 2 - Grants and Contributions Receivable

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

Grants and contributions receivable consisted of the following at June 30, 2022 and considered to be collectible within one year:

Government agencies	\$ 703,698
Passthrough entities on behalf of government agencies	317,759
Contributions receivable (within one year)	50,000
Other	9,745
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	\$ 1,081,202
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The Tor Project, Inc.

Notes to Financial Statements

For the Year Ended June 30, 2022

Note 3 - Property and Equipment

Property and equipment consists of the following as of June 30, 2022:

Computer and equipment	\$	<u>242,053</u>
	\$	<u>242,053</u>

Depreciation amounted to \$45,647 for the year ended June 30, 2022.

Note 4 - 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 \$47,638 for the year ended June 30, 2022.

Note 5 - Liquidity and Availability of Resources

The following reflects the Organization's financial assets as of June 30, 2022, 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	\$	4,105,029
Grants and contributions receivable		<u>1,081,202</u>
Total		<u>5,186,231</u>
Less: financial assets not available for general expenditure:		
Donor restricted for programmatic or time purposes extending beyond one year from balance sheet date		<u>(233,035)</u>
Financial assets available to meet cash needs for general expenditures within one year	\$	<u>4,953,196</u>

The Tor Project, Inc.

Notes to Financial Statements

For the Year Ended June 30, 2022

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

Note 6 - 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, 2022, net assets with donor restrictions are restricted for the following purposes or time periods:

Subject to expenditure for a specified purpose:	
Training initiatives for indigenous communities	\$ 3,868
Purpose restricted as of June 30, 2022	<u>3,868</u>
Restricted as to use in future periods	229,167
Time restricted as of June 30, 2022	<u>229,167</u>
Total net assets with donor restrictions	\$ <u>233,035</u>

Net assets were released from restrictions to support the following purposes or time periods during the year ended June 30, 2022:

Purpose restrictions met during the year ended June 30, 2022:	\$ 175,384
Tor protocol improvements	567
Time restrictions that expired during year ended June 30, 2022	<u>275,000</u>
Total net assets released from restrictions	\$ <u>450,951</u>

Note 7 - Risks and Uncertainties

Government Funding

The Organization receives a portion of its funding from government agencies. The ultimate determination of amounts received under these programs generally is based upon allowable costs reported to and audited by the government. Until such audits have been completed, if any, and final settlement reached, there exists a contingency to refund any amount received in excess of allowable costs. Management is of the opinion that no material liability will result from such audits.

The Tor Project, Inc.

Notes to Financial Statements

For the Year Ended June 30, 2022

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.

COVID-19

In early 2021, 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. Further, the Organization's liquidity as of June 30, 2022 is documented at Note 5. 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.

Note 8 - Conditional Grants

Conditional grants received by the Organization as of June 30, 2022 consist of government grants and other grants totaling \$4,512,968. Those conditional grants will be recognized as revenue when the related expenses are incurred or the associated milestones are met in future years.

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Notes to Financial Statements

For the Year Ended June 30, 2022

Note 9 - Contributed Nonfinancial Assets

For the year ended June 30, 2022, contributed nonfinancial assets recognized within the statement of activities included:

	Revenue Recognized	Utilization in Programs/Activities	Donor Restrictions	Valuation Techniques and Inputs
Translation services	\$ 363,208	Program services	None	Fair market value of the asset at the date of donation
Software development	494,910	Program services	None	Fair market value of the asset at the date of donation
Computing infrastructure	<u>96,261</u>	IT equipment	None	Fair market value of the asset at the date of donation
Total	<u>\$ 954,379</u>			

Note 10 - Subsequent Events

The Organization has performed an evaluation of subsequent events through November 11, 2022, which is the date the Organization's financial statements were available to be issued. No material subsequent events have occurred since June 30, 2022 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, 2022

(1) Summary of Auditor's Results

Financial Statements:

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

Internal Control Over Financial Reporting:
Material Weakness(es) Identified? Yes No
Significant Deficiency(ies) Identified? Yes None reported
Noncompliance Material to Financial Statements Noted? Yes No

Federal Awards:

Internal Control Over Major Federal Programs:
Material Weakness(es) Identified? Yes No
Significant Deficiency(ies) Identified? Yes None reported
Type of Auditor's Report Issued on Compliance for Major Federal Programs: Unmodified
Any Audit Findings Disclosed that are Required to be Reported in Accordance with 2 CFR Section 200.516(a)? Yes No

Identification of Major Programs:

Assistance Listing Number Name of Federal Program or Cluster

19.345 International Programs to Support Democracy
Human Rights and Labor

Dollar Threshold Used to Distinguish Between Type A and Type B Programs: \$ 750,000

Auditee Qualified as Low-Risk Auditee? Yes No

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Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2022

(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.