

THE TOR PROJECT, INC.

JUNE 30, 2018
FINANCIAL STATEMENTS



Bader Martin, PS Certified Public Accountants + Business Advisors

THE TOR PROJECT, INC.

CONTENTS

	Page
Independent auditors' report	1 - 2
Financial statements:	
Statement of financial position	3
Statement of activities	4
Statement of functional expenses	5
Statement of cash flows	6
Notes to financial statements	7 - 12
Other information:	
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 <i>Government Auditing Standards</i>	13 – 14
Independent auditors' report on compliance for each major federal program and on internal control over compliance required by the Uniform Guidance	15 – 17
Schedule of expenditures of federal awards	18
Notes to schedule of expenditures of federal awards	19
Schedule of findings and questioned costs	20 – 28
Management's views and corrective action plan	29



Independent Auditors' Report

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

We have audited the accompanying financial statements of The Tor Project, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses, and cash flows for the period of January 1, 2017 through June 30, 2018, 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

Bader Martin, P.S. Certified Public Accountants + Business Advisors

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Tor Project, Inc. as of June 30, 2018, and the changes in its net assets and its cash flows for the period January 1, 2017 through June 30, 2018, in accordance with accounting principles generally accepted in the United States of America.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* 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 records used to prepare the financial statements. The information has been subjected to the auditing 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 March 1, 2019, on our consideration of The Tor Project, Inc.'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 Tor Project, Inc.'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 Tor Project, Inc.'s internal control over financial reporting and compliance.

BADER MARTIN, P.S.

March 1, 2019

THE TOR PROJECT, INC.

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2018

ASSETS	
Cash and cash equivalents	\$ 759,350
Cash - restricted	92,463
Grants, contracts and contributions receivable	818,089
Prepaid expenses and other assets	<u>5,595</u>
	<u>\$ 1,675,497</u>

LIABILITIES AND NET ASSETS	
Liabilities:	
Accounts payable and other accrued expenses	\$ 93,283
Accrued salaries and benefits	127,517
Refundable advance	420,171
Contingent liability	100,202
Due to others - fiscal agent	<u>92,463</u>
Total liabilities	<u>833,636</u>
Net assets:	
Unrestricted	823,861
Temporarily restricted	<u>18,000</u>
Total net assets	<u>841,861</u>
	<u>\$ 1,675,497</u>

See notes to financial statements.

THE TOR PROJECT, INC.

STATEMENT OF ACTIVITIES

FOR THE PERIOD JANUARY 1, 2017 THROUGH JUNE 30, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue and support:			
Government grants and contracts	\$ 1,511,900		\$ 1,511,900
Grants and contributions	1,723,670	\$ 18,000	1,741,670
Fee for services	2,034,184		2,034,184
In-kind contributions	639,093		639,093
Investment income	8,068		8,068
	<u>5,916,915</u>	<u>18,000</u>	<u>5,934,915</u>
Total revenue and support			
Expenses:			
Program services	6,684,718		6,684,718
Management and general	332,166		332,166
Fundraising	203,482		203,482
	<u>7,220,366</u>	<u></u>	<u>7,220,366</u>
Total expenses			
Change in net assets	(1,303,451)	18,000	(1,285,451)
Net assets, beginning of period	<u>2,127,312</u>	<u></u>	<u>2,127,312</u>
Net assets, end of period	<u>\$ 823,861</u>	<u>\$ 18,000</u>	<u>\$ 841,861</u>

See notes to financial statements.

THE TOR PROJECT, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE PERIOD JANUARY 1, 2017 THROUGH JUNE 30, 2018

	<u>Program services</u>	<u>Management and general</u>	<u>Fundraising</u>	<u>Total</u>
Salaries, benefits and payroll taxes	\$ 3,890,342	\$ 221,989	\$ 129,410	\$ 4,241,741
Contract services	1,257,170	744		1,257,914
Travel, transportation and conferences	576,142	69,457	16,821	662,420
In-kind services - information technology	639,093			639,093
Professional fees	108,372	8,297	1,846	118,515
Information technology	77,603	3,697		81,300
Office supplies, postage and printing	61,482	9,323	7,406	78,211
Swags and premiums	294		47,999	48,293
Bank fees and service charges	28,824	7,158		35,982
Occupancy	28,334	7,218		35,552
Insurance	17,062	4,283		21,345
Total expenses	<u><u>\$ 6,684,718</u></u>	<u><u>\$ 332,166</u></u>	<u><u>\$ 203,482</u></u>	<u><u>\$ 7,220,366</u></u>

See notes to financial statements.

THE TOR PROJECT, INC.

STATEMENT OF CASH FLOWS

FOR THE PERIOD JANUARY 1, 2017 THROUGH JUNE 30, 2018

Cash flows from operating activities:	
Change in net assets	\$ (1,285,451)
Adjustments to reconcile change in net assets to cash used in operating activities:	
Changes in operating assets and liabilities:	
Grants, contracts and contributions receivable	563,181
Prepaid expenses and other assets	4,138
Accounts payable and other accrued expenses	(11,655)
Accrued salaries and benefits	120,317
Refundable advance	420,171
Due to others - fiscal agent	<u>26,191</u>
Net cash used in operating activities	(163,108)
Cash and cash equivalents, and cash - restricted, beginning of period	<u>1,014,921</u>
Cash and cash equivalents, and cash - restricted, end of period	<u><u>\$ 851,813</u></u>

See notes to financial statements.

THE TOR PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS

1. Nature of organization and significant accounting policies:

Organization:

The Tor Project, Inc. (the Organization) is a nonprofit organization which was established in 2006 and is currently domiciled in the state of Washington. The Tor network is a group of volunteer-operated servers that allows people to improve their privacy and security on the Internet. The Organization's users employ this 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.

On December 5, 2016, the Board of Directors for the Organization elected to change their fiscal year end of the Organization from December 31 to June 30.

Basis of presentation:

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States. Net assets and revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. The Organization reports information regarding its financial position and activities according to three classes of net assets:

Unrestricted net assets – Net assets that are not subject to donor-imposed restrictions.

Temporarily restricted net assets – Net assets subject to donor-imposed restrictions that will be met either by actions of the Organization or the passage of time.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. The Organization has no permanently restricted net assets.

Revenue and support are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

THE TOR PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Nature of organization and significant accounting policies (continued):

Expirations of temporary restrictions on net assets are reported as transfers between the applicable classes of net assets.

Revenue recognition:

The Organization's grant revenue is generally from grants funded on a reimbursement basis. The Organization recognizes grant revenue when amounts allowed for reimbursement have been expended or donor conditions have been met.

Unconditional promises to give and contributions are recorded at fair value as cash or receivables, and as revenues in the period received, in accordance with donor-imposed restrictions.

Cash and cash equivalents:

Cash consists of cash held in checking and savings accounts. Cash equivalents consist of cash held in a money market account. The Organization considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents. On occasion, the Organization maintains cash balances in excess of federal insurance limits.

Cash restricted and due to others - fiscal agent:

Restricted cash is cash held by the Organization, along with other sponsors, to act 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 performing cash receipt and cash disbursement functions. Funds held for the Conference are segregated from the general assets of the Organization and are shown on the financial statements as an asset and liability. The Organization charges no fees for this service.

Receivables:

Receivables are stated at the amount management expects to collect. Management provides for uncollectible amounts through a charge to earnings and a credit to valuation allowance based on its assessment of the current status of individual accounts. Specific accounts are written off against the allowance after management has used all reasonable means to collect. No such allowance was deemed necessary at June 30, 2018.

THE TOR PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Nature of organization and significant accounting policies (continued):

Property and equipment:

Property and equipment is stated at cost, except for donated items which are stated at their estimated fair value at the date of the gift. 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 computed using the straight-line method over estimated useful lives.

Contingent liability:

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. The Organization has reported \$100,202 in unallowable costs charged to the grantor at June 30, 2018 that remain unsettled. The grantor may waive the unallowed costs, may accept the unallowable costs or request such amounts be offset against current or future billings or may request direct payment. As of June 30, 2018, no amounts have been waived and the full value of the contingent liability remains on the Statement of Financial Position.

Functional expenses:

The accompanying statement of functional expenses includes all direct costs. Costs that benefit more than one activity are allocated based on an analysis of personnel time for the related activities.

Concentration of risks:

The Organization's assets are exposed to various risks such as interest rate, market, and credit risks. Due to the risk associated with certain assets, it is reasonably possible that changes in the values of the assets will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

A significant portion of the Organization's revenues consists of government grants. A significant reduction in the level of this support, if this were to occur, may have a significant adverse effect on the Organization.

THE TOR PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Nature of organization and significant accounting policies (continued):

Concentration of risks (continued):

The Organization received approximately 36% of its grants and contract revenue from two federal agencies and 43% from two non-governmental sources for the period January 1, 2017 through June 30, 2018.

Use of estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and related disclosures. Actual results could differ from those estimates.

Income taxes:

The Organization is a nonprofit corporation as defined in Internal Revenue Code Section 501(c)(3) and, accordingly, is exempt from federal income taxes under the provisions of Section 501(a) of the Internal Revenue Code. The Organization may be subject to unrelated business income tax resulting from income not related to the Organization's exempt purpose. The Organization evaluates its uncertain tax positions and a loss contingency is recognized when it is more likely than not that a liability has been incurred and the amount can be reasonably estimated.

Donated goods and services:

Donated materials are reported as contributions in the accompanying financial statements at their estimated fair value at the date of receipt. Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets, or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization.

Contributed goods and services are included in in-kind contributions for the period January 1, 2017 through June 30, 2018. These services benefited the Organization as a whole and included donated professional services and server use.

THE TOR PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Nature of organization and significant accounting policies (continued):

Subsequent events:

The Organization has evaluated subsequent events through March 1, 2019, the date on which the financial statements were available to be issued.

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.

The Organization considers accounts greater than 30 days old to be past due and uses the allowance method for recognizing bad debts. When determining an appropriate allowance, management considers such things as the age of the receivable and the credit history of the customer. When an account is deemed uncollectible, it is generally written off against the allowance. The Organization considers all amounts to be fully collectible.

Grants, contracts, and contributions receivable consisted of the following at June 30, 2018 and considered to be collectible within one year:

Grants, contracts and contributions receivable:	
National Science Foundation	\$ 238,319
University of Minnesota	211,833
US Department of State	184,714
Radio Free Asia	91,700
Harvard University	50,000
Mozilla	20,000
New York University	18,102
Other	3,421
	<hr/>
	\$ 818,089
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THE TOR PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. Temporarily restricted net assets:

The Organization's temporarily restricted net assets consist of \$18,000 for the Summer of Privacy Program at June 30, 2018.

4. Operating leases:

The Organization has an operating lease for office space in Seattle, WA, which expires in January 2020. The monthly lease payments are approximately \$2,700 through February 2019 and \$2,800 through January 2020. Future minimum lease payments due in fiscal year 2019 are \$32,437 and fiscal year 2020 are \$19,296.

5. Employee benefit plan:

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 \$18,896 for the period January 1, 2017 through June 30, 2018.

6. Contingencies:

The Organization has a pending litigation in the ordinary course of business. The Organization maintains professional liability insurance coverage to mitigate losses as a result of claims. The Organization and general counsel are of the opinion that the outcome of such matters will not have a material effect on the Organization's financial position.

OTHER INFORMATION



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*

Board of Trustees
The Tor Project, Inc.
Seattle, Washington

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), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses, and cash flows for the period January 1, 2017 through June 30, 2018, and the related notes to the financial statements, and have issued our report thereon dated March 1, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered The Tor Project, Inc.'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 Tor Project, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of The Tor Project, Inc.'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 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 have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2018-001 that we consider to be a material weakness.

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Board of Trustees
The Tor Project, Inc.
Seattle, Washington

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Tor Project, Inc.'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2018-002.

The Tor Project, Inc.'s Response to Findings

The Tor Project, Inc.'s response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Tor Project, Inc.'s response was not subjected to the auditing procedures applied in the audit of the 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 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.

BADER MARTIN, P.S.

March 1, 2019



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

Board of Trustees
The Tor Project, Inc.
Seattle, Washington

Report on Compliance for Each Major Federal Program

We have audited The Tor Project, Inc.'s 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 Tor Project, Inc.'s major federal programs for the period January 1, 2017 through June 30, 2018. The Tor Project, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with 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 Tor Project, Inc.'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 Tor Project, Inc.'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 Tor Project, Inc.'s compliance.

Bader Martin, P.S. Certified Public Accountants + Business Advisors

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Board of Trustees
The Tor Project, Inc.
Seattle, Washington

Opinion on Each Major Federal Program

In our opinion, The Tor Project, Inc. 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 period January 1, 2017 through June 30, 2018.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2018-003. Our opinion on each major federal program is not modified with respect to these matters.

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

Report on Internal Control over Compliance

Management of The Tor Project, Inc. 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 Tor Project, Inc.'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 Tor Project, Inc.'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 a 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.

Board of Trustees
The Tor Project, Inc.
Seattle, Washington

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.

BADER MARTIN, P.S.

March 1, 2019

THE TOR PROJECT, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE PERIOD JANUARY 1, 2017 THROUGH JUNE 30, 2018

Federal Grantor / Pass-Through Program or Cluster Title	Federal CFDA Number	Pass-Through Entity ID	Grant Period	Federal Expenditures
U.S. Department of State				
Direct Awards				
International Programs to Support Democracy, Human Rights and Labo	19.345	S-LMAQM-17-GR-1121	7/31/17-7/31/18	\$ 499,626
Pass through Harvard University				
International Programs to Support Democracy, Human Rights and Labo	19.345	S-LMAQM-17-GR-1069	8/27/17-8/23/19	<u>50,000</u>
Total U.S. Department of State				<u>549,626</u>
Research and Development Cluster				
National Science Foundation				
Direct Awards				
Computer and Information Science and Engineering	47.070	N/A	9/1/12-8/31/18	622,166
Pass through Regents of the University of Minnesota				
Computer and Information Science and Engineering	47.070	A003482101	9/01/13-8/31/18	<u>308,438</u>
Total Reseach and Development Cluster: National Science Foundation				<u>930,604</u>
Institute of Museum and Library Services				
Pass through New York University				
Librarians for the 21st Century	45.313	RE-95-17-0076-17	12/1/17-11/30/19	<u>54,426</u>
Total Expenditures of Federal Awards				<u><u>\$ 1,534,656</u></u>

See notes to schedule of expenditures of federal awards.

THE TOR PROJECT, INC.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of The Tor Project, Inc. (the Organization) under programs of the federal government for the period January 1, 2017 through June 30, 2018. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the 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, cash flows, or statement of functional expenses of the Organization.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Expenditures reported on the Schedule are recognized following the cost principles contained in the Uniform Guidance.

3. Indirect Cost Rate

The Organization has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

THE TOR PROJECT, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE PERIOD JANUARY 1, 2017 THROUGH JUNE 30, 2018

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weaknesses identified?	Yes
Significant deficiencies identified?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major federal award programs:	
Material weaknesses identified?	No
Significant deficiencies identified?	None reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	Yes

Identification of Major Programs

Name of Federal Program or Cluster
U.S. Department of State - International Programs to Support Democracy, Human Rights and Labor – CFDA 19.345
National Science Foundation - Computer and Information Science and Engineering – CFDA 47.070

Dollar threshold used to distinguish between Type A and Type B programs:	\$750,000
Auditee qualified as low-risk auditee?	No

THE TOR PROJECT, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section II – Financial Reporting Finding

2018-001 – Generally Accepted Accounting Principles (GAAP)

Observation:

During the audit of the financial statements for the Organization there were two material adjustments identified that were determined to be material weaknesses. The first instance related to the lack of an accrued liability for compensated absences. During the audit period, the Organization revised its policy to provide for the payment of vacation earned but not taken upon termination. An adjustment to accrue for compensated absences related to this change in policy was not properly recorded. The second instance related to improper revenue recognition of a conditional non-federal grant. Grant income was recorded for the total amount of cash received related to a conditional grant, though the conditions of the grant had yet to be fully satisfied by the Organization as of year-end. This resulted in a material understatement of deferred revenue and an overstatement of grant income and unrestricted net assets.

Recommendation:

We recommend that those responsible for the preparation and oversight of financial reporting for the Organization seek out training with respect to the recording and presentation of financial information for not-for-profit organizations in accordance with GAAP, which includes understanding the accounting for various types of revenues received by the Organization.

Management’s Views and Corrective Action Plan:

Management’s response is reported in “Management’s Views and Corrective Action Plan” included at the end of this report.

THE TOR PROJECT, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

Section III – Federal Award Findings and Questioned Costs

2018-002 – Internal control policies

Programs: International Programs to Support Democracy, Human Rights and Labor;
Computer and Information Science and Engineering

Sponsor Award Numbers: Various

Sponsoring Agencies: Department of State; National Science Foundation

CFDA Numbers: 19.345; 47.070

Institute Award Numbers: None

Award Periods: Various

Condition:

In testing the Organization's conformity with the federal requirements for establishing and maintaining effective internal controls, it was noted that multiple internal control policies lacked documentation of operating effectiveness. The key controls tested that lacked sufficient documentation were:

- (1) Bank reconciliations are to be reviewed by the Executive Director. There was a lack of documentation of this review for all bank reconciliations tested during the audit.
- (2) Purchase greater than \$3,000 require Executive Director approval. Approval was not evidenced for item selected for testing.
- (3) Funding requests for Federal awards require review by someone other than the preparer before submission. For all cash draws tested, no evidence was noted that the draws were reviewed prior to submission.
- (4) No evidence of review of the quarterly progress reports submitted to the Department of State.
- (5) No written policies for procurement, suspension and debarment.
- (6) No records were maintained for suspension and debarment verification for independent contractors.

Citation:

2 CFR 200.303 – Internal controls

2 CFR 200.318 – General procurement standards

2 CFR 200.319 – Competition

2 CFR 200.320 – Methods of procurement to be followed

2 CFR 200.323 – Contract cost and price

THE TOR PROJECT, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

2018-002 – Internal control policies (continued)

Criteria:

The non-Federal entity must establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control Integrated Framework”, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In addition, as cited in 2 CFR 200.318 (a), the non-Federal entity must use its own documented procurement procedures which reflect applicable state and local laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this section.

Questioned Cost:

None

Cause:

The Organization did not sufficiently document the effectiveness or implementation of their written internal control policies, including a written policy to address procurement, suspension and debarment.

Effect:

Receipts and expenditures associated with Federal awards were not subjected to reasonable assurances that the non-Federal entity was managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

Recommendation:

The Organization should implement written policies and procedures consistent with the COSO framework set forth by the CFR.

Management’s Views and Corrective Action Plan:

Management’s response is reported in “Management’s Views and Corrective Action Plan” included at the end of this report.

THE TOR PROJECT, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

2018-003 – Timely reporting

Program: International Programs to Support Democracy, Human Rights and Labor

Sponsor Award Number: Various

Sponsoring Agency: U.S. Department Of State

CFDA Number: 19.345

Institute Award Number: S-LMAQM-17-GR-1121

Award Period: 7/31/2017 – 6/30/2018

Condition:

During testing of reporting it was noted that three of four quarterly financial status reports required during the period were filed after the required reporting date (from 1-3 days late) and all four quarterly progress reports required during the period were filed after the required reporting date (from 1-18 days late).

Citation:

2 CFR 200.327 – Financial reporting

Criteria:

Financial reports are due 30 days following the end of the calendar year quarter. Progress reports are due 15 days following the end of the calendar year quarter.

Questioned Cost:

None

Cause:

The Organization experienced turnover in their accounting department during the audit period. The turnover in the accounting department resulted in lack of tracking of required Federal reporting dates.

Effect:

Financial reports and progress reports were not submitted timely.

Recommendation:

The Organization should implement controls sufficient to ensure required reporting dates are tracked in order to meeting filing deadlines.

Management's Views and Corrective Action Plan:

Management's response is reported in "Management's Views and Corrective Action Plan" included at the end of this report.

THE TOR PROJECT, INC.

SCHEDULE OF PRIOR AUDIT FINDINGS

2016-01 – Allowable costs - cost allocation between grants

Program: International Programs to Support Democracy, Human Rights and Labor

Sponsor Award Number: Various

Sponsoring Agency: Department of State

CFDA Number: 19.345

Institute Award Number: None

Award Period: Various

Condition:

The Organization recorded some costs as direct costs. Not all costs were charged proportionally to each grant, but billed up to the budgeted amount. For example, total rent expense for September through December 2016 was charged to the major grant. The amount charged for rent was less than the budgeted amount, but not in compliance with grant allocation criteria which requires indirect costs to be charged proportionately to all funded programs. Lindley & Associates, LLC performed an estimated calculation of the amount of indirect costs billed by grouping costs billed as direct costs totaling \$258,000 and reallocating those costs proportionately to the individual grants (22% allocation to the major program) based on the percentage for the individual grant to revenue in total. From these calculations, we determined the under/over billing to the major program(s) and other federally funded programs. This was a systemic problem over all funded programs. Total questioned costs were \$34,879.

Action Taken: Management is currently working with the Department of State to determine the impact of the total amount of this finding as there were numerous errors in the calculations used to determine the questioned costs of \$34,879. Management closed out the audit with Internews Network and returned \$6,239 to the Internews Network organization due to this finding in December 2018.

THE TOR PROJECT, INC.

SCHEDULE OF PRIOR AUDIT FINDINGS (CONTINUED)

2016-02 – Quarterly performance and financial reports not filed timely. The data collection form to the Federal Clearinghouse was not filed within nine months of the due date

Program: International Programs to Support Democracy, Human Rights and Labor

Sponsor Award Number: Various

Sponsoring Agency: Department of State

CFDA Number: 19.345

Institute Award Number: None

Award Period: Various

Condition:

The major grant program requires quarterly performance and quarterly financial reports be filed timely each quarter so the grantor can monitor meeting the scope of work criteria and to remit timely payments. The Data Collection Form, due no later than September 30, 2017 was not filed timely.

Action Taken: Management has hired a Grants Manager who is responsible for tracking reporting requirements for all grants. The Grants Manager reports directly to the CFO and along with the Fundraising Team, Executive Director and Program Managers, has a weekly Grant Synch meeting to ensure all deadlines are being met. Management has also purchased Grant Management software that tracks all requirements for post award activities. Since the 2017-2018 audit the Organization has not missed a deadline.

THE TOR PROJECT, INC.

SCHEDULE OF PRIOR AUDIT FINDINGS (CONTINUED)

2016-03 – Allowable costs – legal expenses

Program: International Programs to Support Democracy, Human Rights and Labor

Sponsor Award Number: Various

Sponsoring Agency: Department of State

CFDA Number: 19.345

Institute Award Number: None

Award Period: Various

Condition:

During audit procedures, we reviewed all billings from lawyers. The Organization recorded all legal expenses from one attorney for services regarding an internal personnel issue to the major grant program as an expense for community relations. Legal costs are allowed for the Organization to defend itself from criminal and civil proceedings, not for internal issues. This expense was not an allowable cost for this grant. In addition, the allowed budget categories do not include a “community relations” category. Further, the legal expenses were paid by another entity as an in-kind donation. Total questioned costs were \$60,817.

Action Taken: Management is currently working with the Department of State to determine the impact of the total amount of this finding as there were numerous errors in the calculations used to determine the questioned costs of \$60,817.

2016-04 – Internal control – monitoring – failure to obtain cancelled checks with bank statement

Program: International Programs to Support Democracy, Human Rights and Labor

Sponsor Award Number: Various

Sponsoring Agency: Department of State

CFDA Number: 19.345

Institute Award Number: None

Award Period: Various

Condition:

Review of checks which have cleared the bank is not performed by supervisory personnel in conjunction of the review of the bank statement and bank reconciliation.

Action Taken: Management has moved 99% of all disbursements to either wire transfers or ACH transactions which requires two levels of approval before the funds can be disbursed. In addition, the Executive Director reviews all checks recorded on the bank statement monthly via the on-line banking system and signs each bank statement to document the review is complete.

THE TOR PROJECT, INC.

SCHEDULE OF PRIOR AUDIT FINDINGS (CONTINUED)

2016-05 – Allowable costs – cash disbursements

Program: International Programs to Support Democracy, Human Rights and Labor

Sponsor Award Number: Various

Sponsoring Agency: Department of State

CFDA Number: 19.345

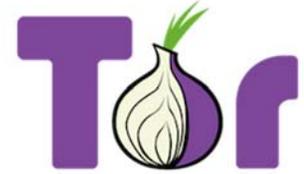
Institute Award Number: None

Award Period: Various

Condition:

The Organization billed legal expenses from one law firm that was hired to determine the legality of a fundraising question to a major program(s). Total questioned costs were \$4,506.

Action Taken: Management is currently working with the Department of State to determine the impact of the total amount of this finding as there were numerous errors in the calculations used to determine the questioned costs of \$4,506. In the case of this finding, this amount of \$4,506 was also counted in finding 2016-03 and is a duplicate.



The Tor Project, Inc.

2017-18 Audit Findings

Management's Views and Corrective Action Plan

2018-001 - Generally Accepted Accounting Principles (GAAP)

Management agrees with the auditor's recommendation and will research potential educational opportunities to further the current knowledge base for the accounting staff in regards to Not-for-Profit Financial Statement preparation in accordance with GAAP.

2018-002 - Internal control policies

Management agrees with the auditor's recommendation and is in the process of completing a full rewrite of all Accounting Policies, Procedures and Practices in order to be in compliant with the "Internal Control Integrated Framework", issued by the Committee of Sponsoring Organization of the Treadway Commission (COSO) set forth by the CFR.

2018-003 - Timely reporting

Management agrees with the auditor's recommendation and Tor has hired a Grants Manager who is responsible for tracking reporting requirements for all grants. The Grants Manager reports directly to the CFO and along with the Fundraising Team, Executive Director and Program Managers, has a weekly Grant Synch meeting to ensure all deadlines are being met. Management has also purchased Grant Management software that also tracks all requirements for post award activities. Since this audit period Tor has not missed a deadline.