

THE TOR PROJECT, INC.

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

DECEMBER 31, 2008

(AUDITED)

CPA

*Dunn & Hoban, P.C.*

CERTIFIED PUBLIC ACCOUNTANTS

1179 HIGH STREET

WESTWOOD, MA 02090

(781) 769-7555

**THE TOR PROJECT, INC.**

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# Dunn & Hoban, P.C.

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WESTWOOD, MA 02090

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To the Board of Directors of  
The Tor Project Inc. (Tor)

We have audited the accompanying statement of assets, liabilities and net assets – cash basis of The Tor Project, Inc. (a nonprofit organization) as of December 31, 2008, and the related statement of support, revenue, and expenses – cash basis for the year then ended. These financial statements are the responsibility of the Organization's management. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note A, these financial statements were prepared on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and net assets of The Tor Project, Inc. as of December 31, 2008, and its support, revenue and expenses for the year then ended, on the basis of accounting described in Note A.

*Dunn & Hoban, P.C.*

Dunn & Hoban, P.C.  
Westwood, Massachusetts

May 9, 2009

**THE TOR PROJECT INC.**  
Statement of Assets, Liabilities and Net Assets (Cash Basis)  
December 31, 2008

ASSETS

Current Assets	
Cash	\$ <u>322,847</u>
<b>TOTAL ASSETS</b>	<b>\$ <u><u>322,847</u></u></b>

LIABILITIES AND NET ASSETS

Net Assets	
Unrestricted Net Assets	\$ <u>322,847</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ <u><u>322,847</u></u></b>

**THE TOR PROJECT, INC.**  
Statement of Support, Revenue and Expenses (Cash Basis)  
For the Year Ended December 31, 2008

Revenue and Support	
Funding income	\$ 527,761
Interest income	3,344
Contribution revenue (unrestricted)	96,647
Total Revenue and Support	<u>627,752</u>
Functional Expenses	
Program Expenses	
Contract labor expense	37,286
Grants funded	66,433
Payroll	259,122
Payroll fees	1,386
Payroll tax	21,206
Program service expense	64,022
Total Program Expenses	<u>449,455</u>
Management Expenses	
Employee expense	8,400
Insurance - health	3,186
Insurance - liability	1,557
Office expense	4,948
Legal and accounting	10,782
Management service expense	32,625
Total Management Expenses	<u>61,498</u>
Fundraising Expenses	
Advertising	908
Travel and meals	13,351
Total Fundraising Expense	<u>14,259</u>
Total Functional Expenses	<u>525,212</u>
Change in net unrestricted assets	102,540
Unrestricted net assets, beginning of the year	<u>220,307</u>
Unrestricted net assets, end of the year	<u>\$ 322,847</u>

See accountants' report and notes to financial statements

**THE TOR PROJECT, INC.**  
Notes to Financial Statements  
December 31, 2008

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

The Tor Project, Inc. (Tor) is a network of virtual tunnels that allows people and groups to improve their privacy and security on the Internet. It also enables software developers to create new communication tools with built-in privacy features. Tor provides the foundation for a range of applications that allow organizations and individuals to share information over public networks without compromising their privacy.

Basis of Accounting

Tor's policy is to prepare its financial statements on the cash basis of accounting; consequently, contributions and other revenues are recognized when received rather than when promised or earned, and certain expenses and purchases of assets are recognized when cash is disbursed rather than when the obligation is incurred.

Advertising Costs

Tor expenses advertising costs as they are incurred. Advertising expense was \$908 in 2008.

Income Taxes

Tor files Form 990 – Return of Organization Exempt from Income Tax with the IRS, but incurs no tax as it is exempt from federal income tax under section 501 (c)(3) of the Internal Revenue code. Due to the non-profit status, Tor is also exempt from state income tax.

Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from these estimates.

**THE TOR PROJECT, INC.**  
Notes to Financial Statements  
December 31, 2008

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Financial Statement Presentation

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.

Contributions

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

NOTE B – CASH

The Organization maintains its cash balances at one financial institution located in Massachusetts. Accounts at the institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. In addition, the Organization has an online PayPal account which is not FDIC insured. At the end of 2008, the PayPal account balance was \$7,125. At December 31, 2008, the Company's uninsured cash balances totaled \$65,723.

Cash balances at the end of the year are as follows:

Expense reserves	\$150,000
Future project funding	<u>172,847</u>
Total	<u>\$322,847</u>

NOTE C – REVENUE AND CONTRIBUTOR CONCENTRATION

A significant portion of Tor's 2008 funding (\$260,000) was from the International Broadcasting Bureau (a U.S. Government agency). Additionally, \$183,180 was from a contract with Internews Europe in France.

**THE TOR PROJECT, INC.**  
Notes to Financial Statements  
December 31, 2008

NOTE C – REVENUE AND CONTRIBUTOR CONCENTRATION - continued

Funding revenue by country is as follows:

U.S.	\$288,500
France	183,180
Netherlands	42,931
Various	<u>13,150</u>
 Total Revenue	 <u>\$527,761</u>

NOTE D – RELATED PARTY AND NONMONETARY TRANSACTIONS

Tor does not own property or equipment, nor does Tor lease or rent property or equipment. The home of a board member is currently used as the mailing address. Employees and volunteers use personal equipment (i.e. computers, office furniture and equipment) to conduct business on behalf of Tor.

NOTE E – SOFTWARE COSTS

Production labor costs (\$450,000) associated with software developed by Tor were donated by volunteers. The software was first released on October 8, 2003. It is fully amortized, and therefore not included in these financial statements.

NOTE F – NET ASSETS

The organization strives to keep \$150,000 as expense reserves to cover a quarter of payroll and other expenses. The balance is available for 2009 project funding. All net assets are classified as unrestricted.



**THE TOR PROJECT, INC.**  
Notes to Financial Statements  
December 31, 2008

NOTE G – DONATED SERVICES

In 2008, Tor recognized, as contribution revenue, an estimated \$96,647 worth of donated services at fair value as follows:

Legal fees	\$ 32,625
Language Translation	32,022
Software Support	20,000
Website Hosting	<u>12,000</u>
	<u>\$ 96,647</u>

In addition, Tor's treasurer donated bookkeeping services which were not recognized as revenue because the criteria for recognition under generally accepted accounting principles have not been satisfied.

NOTE H – MULTIPLE-DELIVERABLE ARRANGEMENTS

Tor recognizes revenue from multiple-deliverable contracts as received. As specified in the contracts, Tor provides a progress report of goods and services delivered to a customer upon completion of that deliverable. After customer approval, Tor bills for the applicable item per the contract. Most contracts include a cancellation provision, which varies by customer.