MOODY, FAMIGLIETTI & ANDRONICO
Certified Public Accountants & Consultants

THE TOR PROJECT, INC.

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

DECEMBER 31, 2009

MOODY, FAMIGLIETTI & ANDRONICO
Certified Public Accountants & Consultants

To the Board of Directors
The Tor Project, Inc.
Walpole, Massachusetts

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying statement of financial position of The Tor Project, Inc. (the "Organization" or "Tor") as of December 31, 2009, and the related statements of activities, functional expenses, and cash flows 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 and standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of 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. The Organization is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2009, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 28, 2010, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Moody, Famiglietti & Andronico, LLP

Moody, Famiglietti & Andronico, LLP
July 28, 2010

December 31		2009
Assets		
Current Assets:		
Cash and Equivalents	$	489,142
Grants and Contracts Receivable		30,000
Assets Whose Use is Limited		6,217
Prepaid Expenses		1,749
Total Assets	$	527,108
Liabilities and Net Assets		
Current Liabilities:		
Accounts Payable	$	89,830
Accrued Expenses		83,585
Assets Whose Use is Limited		6,217
Total Liabilities		179,632
Unrestricted Net Assets		347,476
Total Liabilities and Net Assets	$	527,108

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

For the Year Ended December 31		2009
Changes in Unrestricted Net Assets:		
Revenues and Other Support:		
Grants and Contribution Revenue	$	1,036,521
Donated Services		216,720
Total Revenues and Other Support		1,253,241
Expenses:		
Program Services		1,004,866
Management and General		248,567
Fundraising		9,145
Total Expenses		1,262,578
Operating Loss		(9,337)
Non-Operating Income:		
Interest Income		4,950
Other Income		162
Total Non-Operating Income		5,112
Decrease in Unrestricted Net Assets		(4,225)
Net Assets at Beginning of Year		351,701
Net Assets at End of Year	$	347,476

For the Year Ended December 31				2009
	Program Services	Management and General	Fundraising	Total
Salaries and Related Taxes and Benefits	$ 402,887	$ 151,135	$ 1,075	$ 555,097
Contract Services	197,784	46,731	8,000	252,515
Donated Services	216,720	-	-	216,720
Research and Development Grants	81,979	16,884	-	98,863
Travel and Meals	52,826	15,205	54	68,085
Professional Fees	45,404	1,965	7	47,376
Miscellaneous Expenses	3,693	8,251	4	11,948
Bank Fees and Service Charges	736	3,247	2	3,985
Advertising and Marketing	1,704	1,758	2	3,464
Conferences	-	3,068	-	3,068
Insurance	1,133	323	1	1,457
Total Functional Expenses	$ 1,004,866	$ 248,567	$ 9,145	$ 1,262,578

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

For the Year Ended December 31		2009
Cash Flows from Operating Activities:		
Decrease in Net Assets	$	(4,225)
Adjustments to Reconcile Decrease in Net Assets to Net Cash Provided by Operating Activities:		
Decrease in Grants and Contracts Receivable		25,000
Increase in Prepaid Expenses		(1,249)
Increase in Accounts Payable		81,185
Increase in Accrued Expenses		65,585
Net Cash Provided by Operating Activities		166,296
Net Increase in Cash and Equivalents		166,296
Cash and Equivalents, Beginning of Year		322,846
Cash and Equivalents, End of Year	$	489,142

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

1. Significant Accounting Policies:

Reporting Entity: The Tor Project, Inc. ("Tor" or the "Organization") is a non-profit 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.

Accounting Standards Codification: During the year ended December 31, 2009, the Organization adopted the *FASB Accounting Standards Codification* ("ASC"). The ASC became the single official source of authoritative accounting principles generally accepted in the United States of America ("GAAP") recognized by the Financial Accounting Standards Board ("FASB"), other than guidance issued by the Securities and Exchange Commission. The adoption of the ASC did not have a material impact on the Organization's financial statements. However, the adoption of the ASC changed the Organization's references to GAAP in its financial statements.

Method of Accounting: The financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with GAAP.

Financial Statement Presentation: Tor reports under the provisions of Accounting Standards Codification No. 958-205 [Prior Authoritative Guidance: Statement of Financial Accounting Standards No. 117, *Financial Statements of Not-for-Profit Organizations*] (ASC 958-205). In accordance with ASC 958-205, Tor 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.

These classifications are related to the existence or absence of donor imposed restrictions. As of December 31, 2009, Tor had unrestricted net assets representing the portion of net assets of Tor that is neither permanently restricted nor temporarily restricted by donor-imposed stipulations. Unrestricted net assets include expendable funds available for support of Tor.

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. As of December 31, 2009, the Organization does not have any temporarily restricted net assets.

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, 2009, the Organization does not have any permanently restricted net assets.

Fair Value: Effective January 1, 2008, the Organization adopted ASC No. 820-10 [Prior Authoritative Guidance: SFAS No. 157, *Fair Value Measurements*] (ASC 820-10), for financial assets and financial liabilities. In accordance with ASC No. 820-10-15 [Prior Financial Accounting Standards Board Staff Position No. 157-2, *Effective Date of FASB Statement No. 157*] (ASC 820-10-15), the Organization has adopted ASC 820-10 for nonfinancial assets and nonfinancial liabilities effective January 1, 2009. ASC 820-10 defines fair value, establishes a framework for measuring fair value in accordance with GAAP and expands disclosures about fair value measurements.

ASC 820-10 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. ASC 820-10 establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs.

The fair value hierarchy is as follows:

Level 1 - Inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization has the ability to access.

Level 2 - Inputs utilize data points that are observable such as quoted prices, interest rates and yield curves.

Level 3 - Inputs are unobservable data points for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability.

1. 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. The Organization considers highly liquid investments with original maturities of three months or less when purchased to be cash equivalents. Fair value measurements for money market funds are based on quoted market prices in active markets, which are Level 1 inputs.

Grants and Contracts Receivable and Concentration of Credit Risk: Financial instruments that potentially subject the Organization to concentration of credit risk consist primarily of grants and contracts receivable. Accounts receivable are stated at the amount management expects to collect from outstanding balances. There was no allowance for doubtful receivables as of December 31, 2009. Amounts recorded as grants receivable include amounts due from other entities, which relate to reimbursable expenses incurred.

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.

Contributions: Tor reports under the provisions of Accounting Standards Codification No. 440, 605, 720, 835, 958 [Prior Authoritative Guidance: Statement of Financial Accounting No. 116, *Accounting for Contributions Received and Contributions Made*] (ASC 440, 605, 720, 835, 958). In accordance with ASC 440, 605, 720, 835, 958, 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 received 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 received. 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 year ended December 31, 2009, the Organization incurred $2,191 of costs related to advertising.

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 on trade or business profits generated by activities related to the Organization's exempt function. The Organization may be subject to federal and state income taxes for profits generated from trade or business activities unrelated to the Organization's exempt function.

During the year ended December 31, 2009, the Organization adopted ASC No. 740-10-25 [Prior Authoritative Guidance: FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – An Interpretation of FASB Statement No. 109*] (ASC 740-10-25), which clarifies the accounting for uncertainty in income taxes by prescribing the minimum recognition threshold and measurement requirements a tax position must meet before being recognized as a benefit in the financial statements. ASC 740-10-25 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting for interim periods and disclosures for uncertain tax positions.

1. Significant Accounting Policies (Continued):

The Organization follows the guidance in ASC 740-10-25, and has determined that it does not have a liability for uncertain tax positions or unrecognized benefits.

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 financial statements in accordance with GAAP. Actual results experienced by Tor may differ from those estimates.

Subsequent Events: In May of 2009, the FASB issued ASC No. 855-10 [Prior Authoritative Guidance: SFAS No. 165, *Subsequent Events*] (ASC 855-10), which establishes general standards of accounting for and disclosure of events that occur after the date of financial position, but before the financial statements are issued or available to be issued. This statement is effective for annual financial periods ending after June 15, 2009, and should be applied prospectively. In accordance with ASC 855-10, management has evaluated subsequent events spanning the period from December 31, 2009 through July 28, 2010, the latter representing the issuance date of these financial statements.

2. Assets Whose Use is Limited:

Tor, along with other sponsors, acts as an agent on behalf 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 statement of financial position as an asset and a corresponding liability of $6,217 as of December 31, 2009. No fees are charged by Tor for these services.

3. Government Support:

Tor received approximately 87% of its grants and contribution revenues from two federal grants during the year ended December 31, 2009. As of December 31, 2009, there were no grant receivables due from these grants.

4. Donated Services:

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

Software Development	$ 145,000
Website Hosting	45,000
Language Translation	26,720
	$ 216,720

5. Indemnifications:

The Organization's articles of organization provide that the Organization indemnify its officers and directors for certain events or occurrences that happen by reason of the fact that the officer or director is, was, or has agreed to serve as an officer or director of the Organization. The maximum potential amount of future payments the Organization could be required to make under these indemnification agreements is unlimited. The Organization may also enter into other indemnification agreements in the normal course of business. As of December 31, 2009, the Organization had not experienced any losses related to these indemnification obligations, and no claims with respect thereto were outstanding.

6. Subsequent Event:

On March 1, 2010, the Organization entered into a non-cancellable operating lease agreement for office space that expires on December 31, 2010 and requires monthly rental payments of $500.

For the Year Ended December			2009
Federal Grantor/Pass-Through Grantor/Program Title	**Federal CFDA Number**	**Award Number**	**Federal Expenditures**
Major Program			
U.S. Department of State			
Pass-Through from Internews Network			
International Programs to Support Democracy,			
Human Rights and Labor	19.345	S-LMAQM-08-GR-618	$ 632,189
Total Expenditures of Federal Awards			$ 632,189

Notes to the Schedule of Expenditures of Federal Awards

Note 1 – Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of The Tor Project, Inc. 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 financial statements.

To the Board of Directors
The Tor Project, Inc.
Walpole, Massachusetts

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

We have audited the accompanying financial statements of The Tor Project, Inc. (the "Organization") as of and for the year ended December 31, 2009, and have issued our report thereon dated July 28, 2010. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Organization's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

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 combination of deficiencies in internal control such that there is a reasonable possibility more that a material misstatement of the Organization's financial statements will not be prevented, or detected and corrected in a timely basis. A significant deficiency in internal control over financial reporting is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness in internal control, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be significant deficiencies or material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's 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 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 that are required to be reported under *Government Auditing Standards.*

The Organization's responses to the findings identified in our audit are described in the accompanying corrective action plan. We did not audit the Organization's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the Board of Directors, management and Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specifies parties.

Moody, Famiglietti & Andronico, LLP

Moody Famiglietti & Andronico
July 28, 2010

To the Board of Directors
The Tor Project, Inc.
Walpole, Massachusetts

Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

Compliance

We have audited the compliance of The Tor Project, Inc. (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 are applicable to its major federal program for the year ended December 31, 2009. The Organization's major federal program is identified in the summary of the independent auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the Organization's management. Our responsibility is to express an opinion on the Organization's compliance based on our audit.

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. Our audit does not provide a legal determination of the Organization's compliance with those requirements.

In our opinion, the Organization complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2009. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questions costs as item 09-2.

Internal Control Over Compliance

The management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Organization's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance 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 Organization's 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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items 09-1.

The Organization's responses to the findings identified in our audit are described in the accompanying corrective action plan. We did not audit the Organization's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of Board of Directors, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Moody, Famigliette & Andronico, LLP

Moody, Famiglietti & Andronico
July 28, 2010

Year Ended December 31, 2009

I. Summary of Independent Auditors' Results

Financial Statements

Type of auditors' report issued:	Unqualified	
Internal control over financial reporting:		
• Material weakness identified?	___ Yes	_x_ No
• Significant deficiencies identified?	___ Yes	_x_ None Reported
Noncompliance material to financial statements noted?	___ Yes	_x_ No

Federal Awards

Internal control over major programs:		
• Material weakness identified?	___ Yes	_x_ No
• Significant deficiencies identified?	_x_ Yes	___ None Reported
Type of auditors' report issued on compliance for major programs:	Unqualified	
• Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	_x_ Yes	___ No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
19.345	U.S. Department of State 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?	___ Yes	_x_ No

Year Ended December 31, 2009

II. Findings Related To The Financial Statement Audit As Required To Be Reported In Accordance with Government Auditing Standards:

A. Significant Deficiencies in Internal Control:

No matters reported

B. Compliance Findings:

No matters reported

III. Findings and Questioned Costs for Major Federal Award Program Audit:

A. Significant Deficiencies in Internal Control:

09-1 Financial Reporting

Condition: In the initial months of the year ended December 31, 2009, the accounting records were not designed to provide adequate separation of programmatic costs at a level of detail necessary to provide financial reports required by the award that contained accurate, current, and complete financial information about the federally assisted activities. In addition, the accounting records were not supported by time and attendance records during those months.

Criteria: Under the requirements of the subgrant agreement, the Organization is required to comply with the U.S. Department of State Standard Terms and Conditions for Domestic Awards (the "Terms"). Specifically, the Terms require that the Organization comply with certain requirements and cost principles relative to the financial management system utilized by the recipient of the grant.

Cause: In the initial months of the year ended December 31, 2009, the Organization was not adequately staffed with financial personnel with the level of knowledge necessary to maintain the appropriate accounting records as required under the award.

Effect: In the absence of adequate financial records, the Organization is unable to provide the information needed to substantiate the expenditures as allowable under the federal award. In addition, the time and attendance records that would detail the activities performed under the federal contract are unavailable to support the federally assisted activities.

Recommendation: During 2009, the Organization hired financial personnel who possessed the necessary qualifications to produce the accounting records that were required under the federal award, and therefore since corrective action had already been taken, we have no additional recommendations relative to this deficiency. As of December 31, 2009, we consider the control deficiency to be corrected.

B. Material Weakness:

No matters reported

C. Material Instance of Compliance Findings:

09-2 Timesheet Submission

Condition: In the initial months of the year ended December 31, 2009, the Organization did not require time and attendance records for employees or consultants who were working on federally assisted activities.

Criteria: Section I of OMB Circular A-122, *Cost Principles of Non-Profit Organizations,* requires that salaries and wages and other direct costs funded by federal awards must be supported by source documentation, which would include personnel activity reports and vendor invoices that reflect a proper determination of the actual activity of each employee or contractor.

Cause: In the initial months of the year ended December 31, 2009, the Organization was not adequately staffed with financial personnel with the level of knowledge necessary to maintain the appropriate accounting records as required under the award.

Effect: Allocations based on future activity do not qualify as support for charges to federal awards. The allocation of hours based on future activity violates the requirements of OMB Circular A-122.

Recommendation: During 2009, the Organization hired financial personnel who possessed the necessary qualifications to produce the accounting records that were required under the federal award, and therefore since corrective action had already been taken, we have no additional recommendations relative to this deficiency. As of December 31, 2009, we consider the compliance deficiency to be corrected.

<u>Year Ended December 31, 2009</u>

Prior Year Findings: N/A

The year ended December 31, 2009, was the first year the Organization was required to have an audit under OMB A-133.

June 9, 2010

Corrective Action Plan
For the Year Ended December 31, 2009

09-1 and 09-2 Financial Reporting and Timesheet Submission

The Tor Project, Inc. instituted a corrective action plan during the last quarter of fiscal 2009 in order to cure any instances of non-compliance with Circular OMB A-133. The plan included hiring an experienced chief financial officer, developing a cost allocation plan that allocated all expenses incurred directly and indirectly to the contract and / or functional classification in which the costs were incurred, and requiring time reporting for all employees and contractors. As a result, costs allocated to federal contracts as of year-end were supportable with actual expenditures and no federal contract was overbilled. Additionally, the Company strengthened internal controls by adding more stringent monitoring controls over financial reporting. Management had fully implemented the corrective action plan as of December 31, 2009 and therefore has determined, along with the Company's Audit committee, that the company is in compliance of all requirements embodied in Circular OMB A-122 and Circular OMB A-133 as of year-end.

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