MOODY, FAMIGLIETTI & ANDRONICO
Certified Public Accountants & Consultants

# THE TOR PROJECT, INC. AND AFFILIATE

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

DECEMBER 31, 2011 AND 2010

Proactive certified public accounting and consulting

MFA
MOODY, FAMIGLIETTI & ANDRONICO
Certified Public Accountants & Consultants

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

**INDEPENDENT AUDITORS' REPORT**

We have audited the accompanying consolidated statements of financial position of The Tor Project, Inc. and Affiliate (collectively referred to as the "Organization") as of December 31, 2011 and 2010, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. Our audits include 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 consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2011 and 2010, and the changes in its net assets and its cash flows for the years 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 19, 2012, 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 audits.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The accompanying consolidated 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 consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Moody, Famiglietti & Andronico, LLP

Moody, Famiglietti & Andronico, LLP
July 19, 2012

| December 31 | 2011 | 2010 |
|---|---|---|
| **Assets** | | |
| Current Assets: | | |
| Cash and Equivalents | **$ 410,091** | $ 652,664 |
| Grants and Contracts Receivable | **356,296** | 180,183 |
| Assets Whose Use is Limited | **49,118** | 21,201 |
| Prepaid Expenses | **3,376** | 5,812 |
| Total Current Assets | **818,881** | 859,860 |
| Property and Equipment, Net of Accumulated Depreciation | **14,253** | 14,376 |
| **Total Assets** | **$ 833,134** | $ 874,236 |
| **Liabilities and Net Assets** | | |
| Current Liabilities: | | |
| Accounts Payable | **$ 166,288** | $ 149,954 |
| Accrued Expenses | **137,886** | 74,600 |
| Deferred Revenue | **363,821** | 298,290 |
| Other Liability- Assets Whose Use is Limited | **49,118** | 21,201 |
| Total Liabilities | **717,113** | 544,045 |
| Net Assets: | | |
| Unrestricted | **102,021** | 330,191 |
| Temporarily Restricted | **14,000** | - |
| Total Net Assets | **116,021** | 330,191 |
| **Total Liabilities and Net Assets** | **$ 833,134** | $ 874,236 |

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

| For the Years Ended December 31 | 2011 | 2010 |
|---|---|---|
| Changes in Unrestricted Net Assets: | | |
| Revenues and Other Support: | | |
| Grants and Contribution Revenue | **$ 1,092,152** | $ 1,334,391 |
| Contract Revenue | **279,149** | - |
| Donated Services | **309,700** | 239,728 |
| Total Unrestricted Revenues and Other Support | **1,681,001** | 1,574,119 |
| Expenses: | | |
| Program Services | **1,625,117** | 1,299,389 |
| Management and General | **203,062** | 227,267 |
| Fundraising | **72,236** | 60,000 |
| Total Expenses | **1,900,415** | 1,586,656 |
| Operating Loss | **(219,414)** | (12,537) |
| Non-Operating Loss: | | |
| Foreign Currency Translation Loss | **(10,509)** | (6,056) |
| Interest Income | **1,753** | 1,917 |
| Other Expense | **-** | (609) |
| Total Non-Operating Loss | **(8,756)** | (4,748) |
| Decrease in Unrestricted Net Assets | **(228,170)** | (17,285) |
| Increase in Temporarily Restricted Net Assets: | | |
| Grants and Contribution Revenue | **14,000** | - |
| Decrease in Net Assets | **(214,170)** | (17,285) |
| Net Assets, Beginning of Year | **330,191** | 347,476 |
| Net Assets, End of Year | **$ 116,021** | $ 330,191 |

| For the Years Ended December 31 | | | | 2011 | | | | 2010 |
|---|---|---|---|---|---|---|---|---|
| | **Program Services** | **Management and General** | **Fundraising** | **Total** | Program Services | Management and General | Fundraising | Total |
| Contract Services | **$ 608,860** | **$ 16,794** | **$ -** | **$ 625,654** | $ 311,669 | $ 17,279 | $ 15,000 | $ 343,948 |
| Salaries and Related Taxes and Benefits | **499,794** | **35,262** | **68,579** | **603,635** | 463,173 | 114,548 | 45,000 | 622,721 |
| Donated Services | **309,700** | **-** | **-** | **309,700** | 239,728 | - | - | 239,728 |
| Travel and Meals | **48,497** | **73,688** | **82** | **122,267** | 44,966 | 36,358 | - | 81,324 |
| Research and Development Grants | **74,033** | **7,061** | **-** | **81,094** | 107,274 | 16,926 | - | 124,200 |
| Professional Fees | **25,006** | **30,373** | **1,072** | **56,451** | 64,165 | 2,385 | - | 66,550 |
| Conferences | **10,204** | **30,365** | **-** | **40,569** | 13,036 | 32,745 | - | 45,781 |
| Program Supplies | **16,200** | **-** | **-** | **16,200** | - | - | - | - |
| Miscellaneous Expenses | **12,930** | **2,233** | **587** | **15,750** | 9,501 | 4,224 | - | 13,725 |
| Occupancy | **6,832** | **1,637** | **431** | **8,900** | 4,675 | 825 | - | 5,500 |
| Depreciation | **5,278** | **1,265** | **333** | **6,876** | 2,444 | 431 | - | 2,875 |
| Advertising and Marketing | **4,875** | **1,169** | **307** | **6,351** | 33,711 | 655 | - | 34,366 |
| Bank Fees and Service Charges | **682** | **2,682** | **705** | **4,069** | 2,589 | 457 | - | 3,046 |
| Insurance | **2,226** | **533** | **140** | **2,899** | 2,458 | 434 | - | 2,892 |
| **Total Functional Expenses** | **$ 1,625,117** | **$ 203,062** | **$ 72,236** | **$ 1,900,415** | $ 1,299,389 | $ 227,267 | $ 60,000 | $ 1,586,656 |

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

| **For the Years Ended December 31** | | **2011** | | 2010 |
|---|---|---|---|---|
| Cash Flows from Operating Activities: | | | | |
| Decrease in Net Assets | **$** | **(214,170)** | $ | (17,285) |
| Adjustments to Reconcile Decrease in Net Assets | | | | |
| to Net Cash (Used in) Provided by Operating Activities: | | | | |
| Depreciation | | **6,876** | | 2,875 |
| Increase in Grants and Contracts Receivable | | **(176,113)** | | (150,183) |
| Decrease (Increase) in Prepaid Expenses | | **2,436** | | (4,063) |
| Increase in Accounts Payable | | **16,334** | | 60,124 |
| Increase (Decrease) in Accrued Expenses | | **63,286** | | (8,985) |
| Increase in Deferred Revenue | | **65,531** | | 298,290 |
| Net Cash (Used In) Provided by Operating Activities | | **(235,820)** | | 180,773 |
| Net Cash Used in Investing Activities: | | | | |
| Acquisitions of Property and Equipment | | **(6,753)** | | (17,251) |
| Net (Decrease) Increase in Cash and Equivalents | | **(242,573)** | | 163,522 |
| Cash and Equivalents, Beginning of Year | | **652,664** | | 489,142 |
| Cash and Equivalents, End of Year | **$** | **410,091** | $ | 652,664 |

## 1. Organization and Significant Accounting Policies:

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

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

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

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

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

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

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

- Permanently restricted net assets represent contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization. As of December 31, 2011 and 2010, the Organization does not have any permanently restricted net assets.

*Fair Value*: Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. In order to measure fair value, the Organization uses a fair value hierarchy for valuation inputs which 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 management 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.

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

**1. Organization and Significant Accounting Policies (Continued):**

*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. Grants and contracts receivable are stated at the amount management expects to collect from outstanding balances. There was no allowance for doubtful receivables as of December 31, 2011 and 2010. Amounts recorded as grants receivable include amounts due from other entities, which relate to reimbursable expenses incurred.

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

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

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

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

Contributions received with donor-imposed restrictions that are met in the same year as recognized are reported as revenues of the unrestricted net asset class. Contributions received with donor-imposed restrictions that are met subsequent to the year in which they are received are reported as revenues of the temporarily restricted net asset class when they are recognized. A reclassification to unrestricted net assets is made to reflect the expiration of such restrictions in the year the restriction is met.

Contributions of services are reported as revenue and expenses of the unrestricted net asset class at the fair value of the services received only if the services create or enhance a nonfinancial asset or would typically need to be purchased by the Organization if they had not been provided by contribution, require specialized skills, and are provided by individuals with those skills. Contributions of goods and space to be used in program operations are reported as revenue and expenses of the unrestricted net asset class at the time the goods or space is received.

*Advertising*: The Organization expenses advertising costs as incurred. During the years ended December 31, 2011 and 2010, the Organization incurred $1,476 and $4,366, respectively, of costs related to advertising.

*Foreign Currency Transactions*: The Organization records foreign currency transaction gains and losses to operations. The foreign currency transaction loss recorded in non-operating loss in the accompanying consolidated statements of activities for the years ended December 31, 2011 and 2010 amounted to $10,509 and $6,056, respectively.

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

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

**1. Organization and Significant Accounting Policies (Continued):**

The Organization has not recognized any liabilities for uncertain tax positions or unrecognized benefits as of December 31, 2011 or 2010. The Organization does not expect any material change in uncertain tax benefits within the next twelve months.

The Organization is generally open to examination in the U.S. federal and certain state jurisdictions for three years from the date of filing.

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

*Reclassification*: Certain accounts in the December 31, 2010 consolidated financial statements have been reclassified for comparative purposes to conform to the presentation in the December 31, 2011 consolidated financial statements.

*Subsequent Events:* Management has evaluated subsequent events spanning the period from December 31, 2011 through July 19, 2012, the latter representing the issuance date of these consolidated financial statements.

**2. Assets Whose Use is Limited:**

Tor, along with other sponsors, acts as an agent on behalf of the Privacy Enhancing Technologies Symposium (the "Conference") by performing administrative functions, including custody of the Conference's operating cash account and performance of the cash receipts and cash disbursements functions. Funds held for the Conference are segregated from the general assets of Tor and are shown on the consolidated statements of financial position as an asset and a corresponding liability in the amounts of $49,118 and $21,201 as of December 31, 2011 and 2010, respectively. No fees are charged by Tor for these services.

**3. Property and Equipment:**

Property and equipment as of December 31, 2011 and 2010 consists of the following:

| | 2011 | 2010 |
|---|---|---|
| Computer Equipment | $ 24,004 | $ 17,251 |
| Less: Accumulated Depreciation | 9,751 | 2,875 |
| | $ 14,253 | $ 14,376 |

Depreciation expense for the years ended December 31, 2011 and 2010 amounted to $6,876 and $2,875, respectively.

**4. Government Support:**

Tor received approximately 65% of its grants and contribution revenues from three federal grants during the year ended December 31, 2011 and 80% of its grants and contribution revenues from two federal grants as of December 31, 2010. As of December 31, 2011 and 2010, there were a total of $322,369 and $38,168, respectively, in grant receivables due from these grants.

**5. Donated Services:**

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

| | 2011 | 2010 |
|---|---|---|
| Software Development | $ 162,500 | $ 154,000 |
| Website Hosting | 125,000 | 55,000 |
| Language Translation | 22,200 | 30,728 |
| | $ 309,700 | $ 239,728 |

## 6. Temporarily Restricted Net Assets:

Temporarily restricted net asset, as of December 31, 2011, include an unexpended contribution temporarily restricted by donors for application enhancements surrounding protection of internet traffic. Temporarily restricted net assets totaled $14,000 as of December 31, 2011. There were no temporarily restricted net assets as of December 2010.

## 7. Operating Leases:

During 2010, the Organization became party to an operating lease for office space in Walpole, Massachusetts, which expired on December 31, 2010, at which time the Organization became a tenant-at-will. Under the terms of the lease agreement, the Organization was required to remit monthly rental payments in the amount of $500. Rent expense incurred by the Organization under this lease agreement amounted to $8,900 and $5,500 as of December 31, 2011 and 2010, respectively.

## 8. Indemnifications:

In the ordinary course of business, the Organization enters into various agreements containing standard indemnification provisions. The Organization indemnification obligations under such provisions are typically in effect from the date of execution of the applicable agreement through the end of the applicable statute of limitations. The aggregate maximum potential future liability of the Organization under such indemnification provisions is uncertain. As of December 31, 2011 and 2010, no amounts have been accrued related to such indemnification provisions.

| **For the Year Ended December 31** | | | **2011** |
|---|---|---|---|
| **Federal Grantor/Pass-Through Grantor/Program Title** | **Federal CFDA Number** | **Award Number** | **Federal Expenditures** |
| **Major Program:** | | | |
| U.S. Department of Defense | | | |
| Pass-Through from SRI International | | | |
| Basic and Applied Research and Development in Areas Relating to the Navy Command, Control, Communications, Computers, Intelligence, Surveillance, and Reconnaissance | 12.335 | N66001-11-C-4022 | $ 503,706 |
| Total Major Program | | | 503,706 |
| **Non-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 | $ 227,118 |
| National Science Foundation | | | |
| Pass-Through from Drexel University | | | |
| Computer and Information Science and Engineering | 47.070 | CNS-0959138 | 143,062 |
| Total Non-Major Program | | | 370,180 |
| **Total Expenditures of Federal Awards** | | | $ 873,886 |

Note to the Consolidated Schedule of Expenditures of Federal Awards

Note 1 – Basis of Presentation

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

To the Board of Directors
The Tor Project, Inc. and Affiliate
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 consolidated financial statements of The Tor Project, Inc. and Affiliate (the "Organization") as of and for the year ended December 31, 2011, and have issued our report thereon dated July 19, 2012. 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**

Management of the Organization is responsible for establishing and maintaining effective 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 consolidated 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 that more than a material misstatement of the Organization's consolidated financial statements will not be prevented, or detected and corrected in a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, 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 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 that we consider to be material weaknesses, as defined above.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Organization's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of 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.*

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 specified parties.

Moody, Famiglietti & Andronico, LLP

Moody Famiglietti & Andronico, LLP
July 19, 2012

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

**Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect On 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. and Affiliate (the "Organization") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended December 31, 2011. The Organization's major federal programs are identified in the summary of independent auditor's results section of the accompanying consolidated 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, 2011.

**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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

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

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.

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 specified parties.

Moody, Famigliette & Andronico, LLP

Moody, Famiglietti & Andronico, LLP
July 19, 2012

**Year Ended December 31, 2011**

**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 program: | | |
| • Material weakness identified? | _____ Yes | __X__ No |
| • Significant deficiencies identified? | _____ Yes | __X__ 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? | _____ Yes | __X__ No |

Identification of major program:

| CFDA Number | Name of Federal Program or Cluster |
|---|---|
| 12.335 | U.S. Department of Defense<br>Basic and Applied Research and Development in areas Relating to the Navy Command, Control, Communications, Computers, Intelligence, Surveillance, and Reconnaissance |

| | | |
|---|---|---|
| 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, 2011**

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

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

NONE

B. Compliance Findings

NONE

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

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

NONE

B. Compliance Findings

NONE

**Year Ended December 31, 2011**

Prior Year Findings:

NONE

1 Highwood Drive, Tewksbury, MA  01876