

**ELECTRONIC FRONTIER FOUNDATION, INC.**  
**(A Nonprofit Public Benefit Corporation)**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**For Years Ended  
June 30, 2017 and 2016**

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55 Mitchell Blvd., Ste. 3  
San Rafael, CA 94903  
Phone (415) 491-1130 \* Fax (415) 524-4167  
www.DoranAssociates.net  
Member CalCPA and AICPA

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Electronic Frontier Foundation, Inc.  
San Francisco, California

We have audited the accompanying financial statements of Electronic Frontier Foundation, Inc. (a nonprofit public benefit corporation), which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities and cash flows for the years then ended, 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.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Electronic Frontier Foundation, Inc. as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of functional expenses are presented for purposes of additional analysis and are 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 audits 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.

*Doran & Associates*

May 9, 2018

**ELECTRONIC FRONTIER FOUNDATION, INC.**  
**(A Nonprofit Public Benefit Corporation)**

**STATEMENTS OF FINANCIAL POSITION**  
**June 30, 2017 and 2016**

	2017	2016
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents (Note 1)	\$ 4,596,568	\$ 1,687,201
Prepaid expenses and deposits	42,278	39,889
Accounts receivable and employee advances	16,228	31,890
Current portion of grants receivable, net of allowance for doubtful accounts (Note 2)	968,575	485,799
Inventory (Note 1)	198,275	98,128
Total current assets	<u>5,821,924</u>	<u>2,342,907</u>
Grants receivable, net of current portion, allowance for doubtful accounts and present value discount (Note 2)	534,004	610,760
Restricted cash, donor-restricted endowment (Note 3)	85,198	67,774
Marketable equity securities (Note 4)	20,470,655	16,121,451
Employee affordable housing loans receivable, net of present value discount (Note 5)	557,667	637,508
Land, building, improvements, and equipment net of accumulated depreciation of \$1,001,267 at 2017 and \$752,425 at 2016 (Notes 1 and 6)	<u>8,858,016</u>	<u>9,048,797</u>
Total assets	<u>\$ 36,327,464</u>	<u>\$ 28,829,197</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 295,502	\$ 190,823
Deferred revenue	1,500	1,500
Accrued vacation liability (Note 7)	250,629	237,541
Total liabilities	<u>547,631</u>	<u>429,864</u>
Net assets:		
Unrestricted net assets:		
Undesignated	18,478,464	13,951,701
Board-designated endowment (Note 3)	11,374,209	9,356,357
Total unrestricted net assets	<u>29,852,673</u>	<u>23,308,058</u>
Temporarily restricted net assets (Note 8)	2,927,160	2,091,275
Permanently restricted net assets (Note 3)	3,000,000	3,000,000
Total net assets	<u>35,779,833</u>	<u>28,399,333</u>
Total liabilities and net assets	<u>\$ 36,327,464</u>	<u>\$ 28,829,197</u>

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

**ELECTRONIC FRONTIER FOUNDATION, INC.**  
**(A Nonprofit Public Benefit Corporation)**

**STATEMENTS OF ACTIVITIES**  
**For the year ended June 30, 2017**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>SUPPORT, REVENUE, AND TRANSFERS</b>				
Public support:				
Foundation and corporation grants	\$ 3,947,163	\$ 1,864,120	\$ -	\$ 5,811,283
Donations and contributions	3,183,449	588,367	-	3,771,816
Memberships	4,186,894	-	-	4,186,894
Cy pres award	3,061,754	-	-	3,061,754
In-kind goods and services (Note 1)	<u>289,437</u>	<u>-</u>	<u>-</u>	<u>289,437</u>
Total public support	<u>14,668,697</u>	<u>2,452,487</u>	<u>-</u>	<u>17,121,184</u>
Revenue:				
Investment income (Note 4)	1,543,065	167,054	-	1,710,119
Litigation revenue	22,500	-	-	22,500
Event income, net of expenses (Note 9)	(16,242)	-	-	(16,242)
Miscellaneous	<u>226,354</u>	<u>-</u>	<u>-</u>	<u>226,354</u>
Total revenue	<u>1,775,677</u>	<u>167,054</u>	<u>-</u>	<u>1,942,731</u>
Net assets released from restriction	<u>1,783,656</u>	<u>(1,783,656)</u>	<u>-</u>	<u>-</u>
Total support, revenue, and transfers	<u>18,228,030</u>	<u>835,885</u>	<u>-</u>	<u>19,063,915</u>
<b>EXPENSES</b>				
Program services	8,578,311	-	-	8,578,311
General and administrative	1,559,585	-	-	1,559,585
Fundraising	<u>1,545,519</u>	<u>-</u>	<u>-</u>	<u>1,545,519</u>
Total expenses	<u>11,683,415</u>	<u>-</u>	<u>-</u>	<u>11,683,415</u>
Change in net assets	6,544,615	835,885	-	7,380,500
Net assets, beginning of year	<u>23,308,058</u>	<u>2,091,275</u>	<u>3,000,000</u>	<u>28,399,333</u>
Net assets, end of year	<u>\$ 29,852,673</u>	<u>\$ 2,927,160</u>	<u>\$ 3,000,000</u>	<u>\$ 35,779,833</u>

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

**ELECTRONIC FRONTIER FOUNDATION, INC.**  
**(A Nonprofit Public Benefit Corporation)**

**STATEMENTS OF ACTIVITIES (CONTINUED)**  
**For the year ended June 30, 2016**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>SUPPORT, REVENUE, AND TRANSFERS</b>				
Public support:				
Foundation and corporation grants	\$ 2,071,223	\$ 1,476,322	\$ -	\$ 3,547,545
Donations and contributions	2,255,360	119,000	-	2,374,360
Memberships	2,556,282	-	-	2,556,282
Cy pres award	997,470	-	-	997,470
In-kind goods and services (Note 1)	<u>170,039</u>	<u>-</u>	<u>-</u>	<u>170,039</u>
Total public support	<u>8,050,374</u>	<u>1,595,322</u>	<u>-</u>	<u>9,645,696</u>
Revenue:				
Investment income (loss) (Note 4)	(904,399)	45,714	-	(858,685)
Litigation revenue	89,475	-	-	89,475
Event income, net of expenses (Note 9)	20,450	-	-	20,450
Miscellaneous	<u>84,465</u>	<u>-</u>	<u>-</u>	<u>84,465</u>
Total revenue	<u>(710,009)</u>	<u>45,714</u>	<u>-</u>	<u>(664,295)</u>
Net assets released from restriction	<u>1,321,281</u>	<u>(1,321,281)</u>	<u>-</u>	<u>-</u>
Total support, revenue, and transfers	<u>8,661,646</u>	<u>319,755</u>	<u>-</u>	<u>8,981,401</u>
<b>EXPENSES</b>				
Program services	7,833,333	-	-	7,833,333
General and administrative	1,324,459	-	-	1,324,459
Fundraising	<u>1,270,142</u>	<u>-</u>	<u>-</u>	<u>1,270,142</u>
Total expenses	<u>10,427,934</u>	<u>-</u>	<u>-</u>	<u>10,427,934</u>
Change in net assets	(1,766,288)	319,755	-	(1,446,533)
Net assets, beginning of year	<u>25,074,346</u>	<u>1,771,520</u>	<u>3,000,000</u>	<u>29,845,866</u>
Net assets, end of year	<u>\$ 23,308,058</u>	<u>\$ 2,091,275</u>	<u>\$ 3,000,000</u>	<u>\$ 28,399,333</u>

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

**ELECTRONIC FRONTIER FOUNDATION, INC.**  
**(A Nonprofit Public Benefit Corporation)**

**STATEMENTS OF CASH FLOWS**  
**For the years ended June 30, 2017 and 2016**

	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	<u>\$ 7,380,500</u>	<u>\$ (1,446,533)</u>
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	251,462	249,503
Unrealized (gain) loss on investments	(1,386,603)	2,171,307
Realized loss on investments	245,698	3,654
Changes in assets and liabilities:		
Prepaid expenses and deposits	(2,389)	3,491
Grants receivable	(406,020)	(535,334)
Accounts receivable and employee advances	15,662	(23,811)
Inventory	(100,147)	(70,484)
Employee loan receivable, net	79,841	(185,632)
Accounts payable and accrued expenses	104,679	46,001
Accrued vacation liability	13,088	8,516
Total adjustments	<u>(1,184,729)</u>	<u>1,667,211</u>
Net cash provided by operating activities	<u>6,195,771</u>	<u>220,678</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of investments	(18,876,816)	(2,264,418)
Change in restricted cash	(17,424)	-
Sales of investments	15,668,517	2,144,000
Purchase of land, building, improvements, and equipment	(60,681)	(421,667)
Net cash used by investing activities	<u>(3,286,404)</u>	<u>(542,085)</u>
Net increase (decrease) in cash and cash equivalents	2,909,367	(321,407)
Cash and cash equivalents, beginning of year	<u>1,687,201</u>	<u>2,008,608</u>
Cash and cash equivalents, end of year	<u>\$ 4,596,568</u>	<u>\$ 1,687,201</u>

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



**ELECTRONIC FRONTIER FOUNDATION, INC.**  
**(A Nonprofit Public Benefit Corporation)**

**NOTES TO FINANCIAL STATEMENTS**  
**For the years ended June 30, 2017 and 2016**

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NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - The Electronic Frontier Foundation, Inc., a Massachusetts nonprofit public benefit corporation, was founded in July 1990 to work in the public interest to promote online privacy, freedom of expression, and social responsibility. The Corporation's primary sources of revenue are grants and contributions from foundations, corporations and individuals.

Basis of Presentation - Resources are classified for accounting and reporting purposes into three classes of net assets, according to externally imposed restrictions:

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

*Temporarily restricted net assets* - Net assets resulting (a) from contributions and other inflows of assets whose use by the Corporation is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Corporation pursuant to those stipulations, (b) from other asset enhancements and diminishments that are subject to the same kind of stipulations, and (c) from reclassification from (or to) other classes of net assets as a consequence of donor-imposed stipulations, their expiration by passage of time, or their fulfillment and removal by actions of the Corporation pursuant to those stipulations.

*Permanently restricted net assets* - Net assets resulting (a) from contributions and other inflows of assets whose use by the Corporation is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Corporation, (b) from other asset enhancements and diminishments that are subject to the same kinds of stipulations, and (c) from reclassification from (or to) other classes of net assets as a consequence of donor-imposed stipulations.

Method of Accounting - The financial statements of the Corporation are prepared using the accrual basis of accounting, which reflects revenue when earned and expenses as incurred.

Cash and Cash Equivalents - For purposes of the statement of cash flows, cash is defined as cash in demand deposit accounts as well as cash on hand. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and investments so near their maturity that the risk of changes in value due to changes in interest rates is negligible. These are generally investments with maturity dates within three months of the acquisition date.

Contributions - Contributions are recognized when the donor makes a promise to give to the Corporation that is, in substance, unconditional. Donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Inventory - Inventory consists of apparel and other items held for resale and promotion. Inventory is stated at the lower of cost or market value determined on the first-in, first-out basis and was valued at \$198,275 and \$98,128 at June 30, 2017 and 2016, respectively.

**ELECTRONIC FRONTIER FOUNDATION**  
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**NOTES TO FINANCIAL STATEMENTS**  
**For the years ended June 30, 2017 and 2016**

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NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Land, Building, Improvements, and Equipment - The Corporation records land, building, improvements, and equipment of \$5,000 or more at historical cost or, if donated, at fair market value at the date of donation. Depreciation is determined on the straight-line method over the estimated useful lives ranging from 5 to 39 years.

The Corporation reviews its investment in real estate for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the real estate to the future net undiscounted cash flow expected to be generated by any estimated proceeds from the eventual disposition of the real estate. If the real estate is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the real estate exceeds the fair value of such property. There were no impairment losses recognized in 2017 or 2016.

Income Taxes - The Corporation is exempt from income taxes under Internal Revenue Code Section 501(c)(3), Section 23701(d) of the California Revenue and Taxation Code, and the Massachusetts General Law Chapter 180, Section 4, and is considered by the IRS to be an organization other than a private foundation. In the opinion of management, there is no unrelated business income.

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

ASC 740-10, Accounting for Uncertainty in Income Taxes - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Corporation to report information regarding its exposure to various tax positions taken by the Corporation. The Corporation has determined whether any tax positions have met the recognition threshold and have measured the Corporation's exposure to those tax positions. Management believes that the Corporation has adequately addressed all relevant tax positions and that there are no unrecorded tax liabilities. Federal and state tax authorities generally have the right to examine and audit the previous three years of tax returns filed. Any interest or penalties assessed to the Corporation are recorded in operating expenses. No interest or penalties from federal or state tax authorities were recorded in the accompanying financial statements.

Accounting Standards, ASU 2015-11, Inventory (Topic 330) - In July 2015, the FASB issued new guidance to simplify the measurement of inventory held by the Corporation. The new guidance applies to inventory measured using the first-in, first-out or average cost method, which should be measured using the lower of cost and net realizable value (the estimated selling price in the normal course of business, less reasonably predicted costs of completion, disposal, and transportation). This new standard is effective for annual financial statements issued for fiscal years beginning after December 15, 2016, and is not expected to have a material impact on the Corporation's financial position, results of operations, or cash flows.

Accounting Standards, ASU 2014-09, Revenue from Contracts with Customers (Topic 606)- In May 2014, the FASB issued new revenue recognition guidance, which applies to most contracts with customers. The core revenue recognition principle is that revenue should be recognized as the organization transfers goods or services to customers/clients in an amount reflecting the consideration it expects to receive. This new guidance is effective for the Corporation for annual reporting periods beginning after December 15, 2017. In the opinion of management, the implementation of this standard will not materially impact these financial statements.

**ELECTRONIC FRONTIER FOUNDATION**  
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**NOTES TO FINANCIAL STATEMENTS**  
**For the years ended June 30, 2017 and 2016**

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting Standards, ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)*- In August 2016, the FASB issued new financial statement presentation guidance, which applies to most nonprofit financial statements. The new guidance will impact net asset classes, the presentation of investment return, and other changes, and is effective for annual financial statements issued for fiscal years beginning after December 15, 2017. The new standard is not expected to have a material impact on the Corporation's financial position, results of operations, or cash flows.

Accounting Standards, ASU 2016-02, *Leases* - In February 2016, the FASB issued amendments to the way lessees record lease transactions. Upon implementation, lessees will be required to recognize at commencement the right-of-use asset and a lease liability representing the lessee's obligation to make lease payments arising from the lease, as discounted, for all leases except short-term leases. This Standard is effective for annual financial statements issued for fiscal years beginning after December 15, 2019, and early adoption is permitted. Management is currently evaluating the impact the amendments to this ASU will have on the financial statements of the Corporation.

In-Kind Contributions - During the years ended June 30, 2017 and 2016, the Corporation recorded in-kind contributions of legal services related to its programs. These services have a fair market value using the market method of \$289,437 and \$170,039 for the years ended June 30, 2017 and 2016, as follows:

<u>Description</u>	Fair Value Measurements Using			<u>Total</u>
	<u>Quoted Price in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>	
2017:				
Legal services	\$ -	\$ 287,437	\$ -	\$ 287,437
Other	-	2,000	-	2,000
	<u>\$ -</u>	<u>\$ 289,437</u>	<u>\$ -</u>	<u>\$ 289,437</u>
2016:				
Legal services	\$ -	\$ 137,434	\$ -	\$ 137,434
Program goods	-	5,605	-	5,605
Inventory goods	-	27,000	-	27,000
	<u>\$ -</u>	<u>\$ 170,039</u>	<u>\$ -</u>	<u>\$ 170,039</u>

Subsequent Events - Subsequent events have been evaluated through May 9, 2018, which is the date the financial statements were available to be issued.

**ELECTRONIC FRONTIER FOUNDATION**  
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**NOTES TO FINANCIAL STATEMENTS**  
**For the years ended June 30, 2017 and 2016**

NOTE 2 GRANTS RECEIVABLE

The Corporation had recorded the following grants receivable as of June 30, 2017 and 2016:

	Current Portion	Long-term Portion	Total
<u>June 30, 2017:</u>			
Grants receivable	\$ 998,500	\$ 600,000	\$ 1,598,500
Less: allowance for doubtful account	29,925	18,000	47,925
Less: present value discount at 6%	-	47,996	47,996
	<u>\$ 968,575</u>	<u>\$ 534,004</u>	<u>\$ 1,502,579</u>
 <u>June 30, 2016:</u>			
Grants receivable	\$ 494,267	\$ 700,000	\$ 1,194,267
Less: allowance for doubtful account	8,468	24,179	32,647
Less: present value discount at 2.5%	-	65,061	65,061
	<u>\$ 485,799</u>	<u>\$ 610,760</u>	<u>\$ 1,096,559</u>

In the opinion of management, the allowance for doubtful accounts accurately reflects the expected collectibility of related receivables as of year-end.

NOTE 3 ENDOWMENT

EFF's endowment consists of two investment accounts consisting of equities, fixed income instruments, and cash and cash equivalents. Its endowment includes donor-restricted and Board-designated endowment funds. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. EFF's Board-designated endowment was established to further the charitable purposes of the organization by providing general support in meeting the operating needs of the organization, as determined by the EFF Board of Directors. EFF's donor-restricted endowment was established to permanently pay the salary of the holder of the Adams Chair for Internet Freedom.

Interpretation of Law - The Board of Directors of EFF has interpreted the California State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair market value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, EFF classifies as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund, if applicable.

**ELECTRONIC FRONTIER FOUNDATION**  
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**NOTES TO FINANCIAL STATEMENTS**  
**For the years ended June 30, 2017 and 2016**

NOTE 3 ENDOWMENT (Continued)

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed in SPMIFA. In accordance with SPMIFA, the organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purpose of the organization and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the organization
7. The investment policies of the organization

To enable users of EFF's financial statements to understand the net asset classification, net asset composition, changes in net asset composition, spending policies, and related investment policies of EFF's board-designated endowment funds, EFF is providing the following disclosures.

Endowment Net Asset Composition by Type of Fund as of:

<u>June 30, 2017</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Board-designated endowment funds	\$ 11,374,209	\$ -	\$ -	\$ 11,374,209
Donor-restricted endowment funds	<u>-</u>	<u>27,057</u>	<u>3,000,000</u>	<u>3,027,057</u>
Total funds	<u>\$ 11,374,209</u>	<u>\$ 27,057</u>	<u>\$ 3,000,000</u>	<u>\$ 14,401,266</u>
<u>June 30, 2016</u>				
Board-designated endowment funds	\$ 9,356,357	\$ -	\$ -	\$ 9,356,357
Donor-restricted endowment funds	<u>(439,387)</u>	<u>-</u>	<u>3,000,000</u>	<u>2,560,613</u>
Total funds	<u>\$ 8,916,970</u>	<u>\$ -</u>	<u>\$ 3,000,000</u>	<u>\$ 11,916,970</u>

**ELECTRONIC FRONTIER FOUNDATION**  
**(A Nonprofit Public Benefit Corporation)**

**NOTES TO FINANCIAL STATEMENTS**  
**For the years ended June 30, 2017 and 2016**

NOTE 3 ENDOWMENT (Continued)

Changes in Endowment Net Assets for the years ended June 30, 2017 and 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2015	\$ 10,282,126	\$ 31,550	\$ 3,000,000	\$ 13,313,676
Investment return				
Realized gain	(3,654)	-	-	(3,654)
Unrealized gain	(1,934,300)	-	-	(1,934,300)
Interest and dividends	1,059,548	45,714	-	1,105,262
Investment fees	(70,014)	-	-	(70,014)
Total investment return	(948,420)	45,714	-	(902,706)
Contributions	-	-	-	-
Appropriation of endowment assets for expenditure:				
Board-approved withdrawal	(416,736)	(77,264)	-	(494,000)
	(416,736)	(77,264)	-	(494,000)
Endowment net assets, June 30, 2016	8,916,970	-	3,000,000	11,916,970
Investment return				
Realized gain	133,962	-	-	133,962
Unrealized gain	471,340	143,993	-	615,333
Interest and dividends	489,893	44,784	-	534,677
Investment fees	(37,956)	(21,723)	-	(59,679)
Total investment return	1,057,239	167,054	-	1,224,293
Contributions	1,750,000	-	-	1,750,000
Appropriation of endowment assets for expenditure:				
Board-approved withdrawal	(350,000)	(139,997)	-	(489,997)
	(350,000)	(139,997)	-	(489,997)
Endowment net assets, June 30, 2017	\$ 11,374,209	\$ 27,057	\$ 3,000,000	\$ 14,401,266

**ELECTRONIC FRONTIER FOUNDATION**  
**(A Nonprofit Public Benefit Corporation)**

**NOTES TO FINANCIAL STATEMENTS**  
**For the years ended June 30, 2017 and 2016**

NOTE 3 ENDOWMENT (Continued)

Description of Amounts Classified as Permanently Restricted Net Assets and Temporarily Restricted Net Assets (Endowment Only) for the Fiscal Years Ended June 30:

<i>Permanently Restricted Net Assets</i>	2017	2016
The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by SPMIFA	\$ 3,000,000	\$ 3,000,000
Total endowment funds classified as permanently restricted net assets	\$ 3,000,000	\$ 3,000,000
<i>Temporarily Restricted Net Assets</i>		
Term endowment funds	\$ -	\$ -
The portion of perpetual endowment funds subject to a time restriction under SPMIFA:		
Without purpose restrictions	-	-
With purpose restrictions	27,057	-
Total endowment funds classified as temporarily restricted net assets	\$ 27,057	\$ -

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or SPMIFA requires the Organization to retain as a fund of perpetual duration. In 2016, these deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions. In accordance with GAAP, deficiencies of this nature that were reported in unrestricted net assets were approximately \$439,000 as of June 30, 2016. Subsequent gains occurred during the year ended June 30, 2017, due to the recovery in the financial markets that restored the fair value of the assets of the affected endowment funds to their required level. There were no such deficiencies as of June 30, 2017.

Return Objectives and Risk Parameters

EFF has adopted investment and spending policies for board-designated endowment assets that attempt to provide a predictable stream of investment returns that treats equitably inflation, adjusted terms, and the present and future needs of EFF while seeking to maintain the purchasing power of the endowment assets. Under this policy, as approved by the Board of Directors, the endowment assets are invested using an allocation model of no more than 75% of the funds in equities and no less than 25% in fixed-income. Additional investment guidelines are detailed in the EFF Endowment Fund for Digital Civil Liberties Investment and Spending Guidelines. Actual returns in any given year may vary.

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NOTE 3    ENDOWMENT (Continued)

For donor-restricted endowment assets, EFF has adopted a balanced investment policy that attempts to provide a predictable stream of investment returns that treats equitably inflation, adjusted terms, and the present and future needs of EFF while seeking to maintain the purchasing power of the endowment assets. Under this policy, as approved by the donor and the Board of Directors, the endowment assets are invested using an allocation model of no more than 70-80% of the funds in equities and no less than 20-30% in fixed income. Additional investment guidelines are detailed in the Capital Group Asset Management Investment Policy Statement. Actual returns in any given year may vary.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return, EFF relies on a total return objective consisting of the sum of the budgetary reliance on the endowment and the rate of inflation.

Spending Policy and How the Investment Objectives Relate to Spending Policy

Withdrawals from the board-designated endowment account shall be limited to no more than 6% of the three-year rolling average of funds under investment at December 31, or the average annual total return for three years, whichever is less, unless otherwise specified by the board.

Withdrawals from the donor-restricted endowment account shall be limited to no more than 5% of the three-year rolling average of funds under investment at December 31, unless otherwise specified by the donor.



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NOTE 4 MARKETABLE EQUITY SECURITIES

The following are the major categories of marketable equity securities measured at fair value on a recurring basis during the years ended June 30, 2017 and 2016, using quoted prices in active markets for identical assets (Level 1); significant other observable inputs (Level 2); and significant unobservable inputs (Level 3):

<u>Description</u>	Fair Value Measurements Using			<u>Total</u>
	<u>Quoted Price in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>	
<u>June 30, 2017</u>				
Fixed income				
Corporate bonds	\$ 122,661	\$ -	\$ -	\$ 122,661
Index fund	8,951,119	-	-	8,951,119
Equities				
Common stock	2,664,046	-	-	2,664,046
Preferred stock	25,810	-	-	25,810
Real estate investment trusts	51,765	-	-	51,765
Domestic stock fund	7,351,422	-	-	7,351,422
International stock fund	1,303,832	-	-	1,303,832
	<u>\$ 20,470,655</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,470,655</u>
<u>June 30, 2016</u>				
Mutual funds	\$ 4,796,027	\$ -	\$ -	\$ 4,796,027
Fixed income				
Corporate bonds	203,125	-	-	203,125
Index fund	2,986,047	-	-	2,986,047
Equities				
Common stock	2,184,214	-	-	2,184,214
Preferred stock	105,500	-	-	105,500
Large blend fund	5,846,538	-	-	5,846,538
	<u>\$ 16,121,451</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 16,121,451</u>

The following summarizes the investment income (loss) including interest on bank accounts and other sources during the years ended June 30, 2017 and 2016:

	2017	2016
Unrealized gain (loss) on investments	\$ 1,386,603	\$ (2,171,307)
Realized loss on investments	(245,698)	(3,654)
Interest and dividend income	635,135	1,390,534
Investment management fees	(65,921)	(74,258)
	<u>\$ 1,710,119</u>	<u>\$ (858,685)</u>

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NOTE 5 EMPLOYEE AFFORDABLE HOUSING LOANS RECEIVABLE

During the year ended June 30, 2014, the Board of Directors adopted a policy allowing eligible employees to participate in an Employer Assisted Housing (EAH) program. The program allows employees to apply for an interest-free loan of up to 15% of the purchase price of a home, up to \$150,000, or as long as the borrower is employed at EFF. The loans are secured by a deed of trust on the property.

As of June 30, 2017 and 2016, the Corporation had made the following EAH loans:

	2017	2016
Principal	\$ 689,250	\$ 799,150
Less: present value discount, equal to imputed interest discount; 3.14%	(131,583)	(161,642)
	\$ 557,667	\$ 637,508

NOTE 6 LAND, BUILDING, IMPROVEMENTS, AND EQUIPMENT

Land, building, improvements, and equipment consisted of the following:

	Land	Building and Improvements	Furniture and Equipment	Total
<u>Land, building, improvements, and equipment, at cost</u>				
Balance, June 30, 2015	\$ 1,450,280	\$ 7,705,001	\$ 235,364	\$ 9,390,645
Additions	-	356,166	65,501	421,667
Disposals	-	-	(11,090)	(11,090)
Balance, June 30, 2016	1,450,280	8,061,167	289,775	9,801,222
Additions	-	-	60,681	60,681
Disposals	-	-	(2,620)	(2,620)
Balance, June 30, 2017	1,450,280	8,061,167	347,836	9,859,283
<u>Accumulated depreciation</u>				
Balance, June 30, 2015	-	389,290	124,722	514,012
Depreciation expense	-	206,698	42,805	249,503
Disposals	-	-	(11,090)	(11,090)
Balance, June 30, 2016	-	595,988	156,437	752,425
Depreciation expense	-	206,698	44,764	251,462
Disposals	-	-	(2,620)	(2,620)
Balance, June 30, 2017	-	802,686	198,581	1,001,267
Land, building, improvements, and equipment, net	\$ 1,450,280	\$ 7,258,481	\$ 149,255	\$ 8,858,016

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**NOTES TO FINANCIAL STATEMENTS**  
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NOTE 7 ACCRUED VACATION LIABILITY

Accumulated unpaid employee vacation benefits are recognized as liabilities of the Corporation. The value of accumulated vacation at June 30, 2017 and 2016, was \$250,629 and \$237,541, respectively.

NOTE 8 TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are contributions which were received with donor stipulations that limit the use of the assets for specific purposes and/or for specific time periods. Temporarily restricted net assets at June 30, 2017 and 2016, are designated for the following uses:

	<u>2017</u>	<u>2016</u>
Time-Restricted	\$ 1,507,182	\$ 1,046,171
Prime Number Contest	387,786	387,786
Chair to Eliminate Stupid Patents	202,293	-
Artificial Intelligence	199,000	-
Creativity and Innovation	188,366	-
STARTTLS Everywhere	150,000	-
Saved by Alice - Patent Stories	73,938	-
Online Censorship.org	6,514	44,144
Digital Privacy Staff	19,507	100,000
Patent-busting Project	-	88,573
Surveillance Reform/Patriot Act Sunset Videos	-	44,702
Adams Endowed Chair for Internet Freedom	27,057	-
Student and Grassroots Patent Reform	-	6,551
Copyright Litigation Expense	-	53,020
Other	31,574	49,317
First Amendment fellowship	134,078	248,719
First Amendment staff	95,786	120,000
Allowances for doubtful accounts and present value on related grants receivable	<u>(95,921)</u>	<u>(97,708)</u>
	<u>\$ 2,927,160</u>	<u>\$ 2,091,275</u>

NOTE 9 EVENT INCOME

Event income consists of special events held by the Corporation, as well as events held by others which resulted in contributions for the Corporation, as follows for the years ended June 30, 2017 and 2016:

<u>2017</u>	<u>Gross</u> <u>Income</u>	<u>Gross</u> <u>Expense</u>	<u>Net</u> <u>Income/(Loss)</u>
Pioneer Award	\$ 20,315	\$ 20,195	\$ 120
Donor Celebration Dinner	<u>-</u>	<u>16,362</u>	<u>(16,362)</u>
	<u>\$ 20,315</u>	<u>\$ 36,557</u>	<u>\$ (16,242)</u>

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**NOTES TO FINANCIAL STATEMENTS**  
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NOTE 9 EVENT INCOME (Continued)

<u>2016</u>	<u>Gross Income</u>	<u>Gross Expense</u>	<u>Net Income/(Loss)</u>
Pioneer Award	\$ 39,500	\$ 23,557	\$ 15,943
Trivia Night	10,364	9,511	853
Birthday/EFF Party	52,399	37,820	14,579
Donor Celebration Dinner	-	10,273	(10,273)
Other	453	1,105	(652)
	<u>\$ 102,716</u>	<u>\$ 82,266</u>	<u>\$ 20,450</u>

NOTE 10 EQUIPMENT LEASE

In December 2015 the Corporation leased office equipment under a non-cancellable operating lease. The lease calls for 60 monthly payments of \$629 for equipment, plus usage charges. The total lease expense for this lease for the years ended June 30, 2017 and 2016, was \$7,545 and \$3,773, respectively.

The estimated future minimum payments for the long-term lease for the current and succeeding years are as follows:

<u>Year ending June 30,</u>	
2018	\$ 7,545
2019	7,545
2020	7,545
2021	<u>3,773</u>
	<u>\$ 26,408</u>

NOTE 11 TAX SHELTERED ANNUITY

The Corporation has established a 403(b) deferred income plan for all eligible employees. Voluntary contributions are made by employees who choose to participate to the extent permissible by law. During the years ended June 30, 2017 and 2016, the Corporation matched up to 10% of employee contributions to the plan, for a total of \$68,414 and \$57,842, respectively. Additionally, the Corporation approved an anniversary bonus contribution totaling \$120,000 for the year ended June 30, 2017, and \$56,000 for the year ended June 30, 2016, for a total contribution of \$188,414 and \$113,842, respectively.

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**NOTES TO FINANCIAL STATEMENTS**  
**For the years ended June 30, 2017 and 2016**

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NOTE 12 RISKS, UNCERTAINTIES AND CONCENTRATIONS

During the year ended June 30, 2014, the Corporation hired the spouse of the Development Director to serve as the Finance Director of EFF. This action increased the inherent risk of fraud due to the proximity of the working relationship between the married individuals and their access to the Corporation's assets. Controls were implemented to reduce the direct working relationship between the married individuals. These include: 1) requiring either the Executive Director, Legal Director or General Counsel to sign off on all withdrawals from any EFF financial accounts, 2) implementing procedures that require others to review all transactions initiated by either of the married individuals, and 3) creating a separate weekly review process for each individual with the Executive Director to help identify any potential conflicts. This hiring was made with the knowledge of the Board of Directors. In January 2017, the Development Director left the Organization to pursue other professional opportunities and therefore eliminated this inherent risk for future periods.

The Corporation relies on a significant amount of funding received in the form of donations and grants from individuals and foundations as well as investment income to support its operations. The current global financial markets may have an impact on the level of funding provided by these funding sources and the market value of marketable equity securities held by the Corporation. While it is impracticable to determine the impact of these events, management is taking steps to address potential changes in funding levels and reduce the Corporation's exposure to impact from these events.

No single donor provided more than 10% of 2017 or 2016 income.

As of June 30, 2017, the Corporation had exceeded the Federal Depository Insurance Corporation cash limit of \$250,000 on its depository accounts. At June 30, 2017, the Corporation had approximately \$4,145,000 on deposit in excess of federally insured limits.

**SUPPLEMENTARY INFORMATION**

**ELECTRONIC FRONTIER FOUNDATION, INC.**  
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**SCHEDULES OF FUNCTIONAL EXPENSES**  
**For the year ended June 30, 2017**

	Program Services	General and Administrative	Fundraising	Total
Salaries	\$ 5,584,276	\$ 1,215,950	\$ 699,284	\$ 7,499,510
Pension plan contributions	143,915	31,722	12,777	188,414
Other employee benefits	633,944	79,518	138,232	851,694
Payroll taxes	402,427	50,478	87,750	540,655
Legal	71,958	-	-	71,958
Accounting	-	19,665	-	19,665
Other professional fees	822,068	14,644	3,658	840,370
Bank fees	-	12,505	-	12,505
Office expenses	103,512	26,971	11,700	142,183
Information technology	24,029	5,884	2,716	32,629
Occupancy	150,126	36,765	16,969	203,860
Travel	166,660	-	18,838	185,498
Depreciation	185,181	45,350	20,931	251,462
Insurance	103,745	7,648	3,529	114,922
Litigation expenses	95,811	-	-	95,811
Planning and development	50,983	12,485	5,763	69,231
Event expenses	6,056	-	21,941	27,997
Membership expenses	10,278	-	499,486	509,764
Fundraising expenses	-	-	1,945	1,945
Intern expenses	23,342	-	-	23,342
	<u>\$ 8,578,311</u>	<u>\$ 1,559,585</u>	<u>\$ 1,545,519</u>	<u>\$ 11,683,415</u>
Total expenses	<u>\$ 8,578,311</u>	<u>\$ 1,559,585</u>	<u>\$ 1,545,519</u>	<u>\$ 11,683,415</u>

**ELECTRONIC FRONTIER FOUNDATION, INC.**  
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**SCHEDULES OF FUNCTIONAL EXPENSES (CONTINUED)**  
**For the year ended June 30, 2016**

	Program Services	General and Administrative	Fundraising	Total
Salaries	\$ 5,107,762	\$ 1,051,660	\$ 588,135	\$ 6,747,557
Pension plan contributions	85,655	19,039	9,148	113,842
Other employee benefits	531,152	62,150	111,138	704,440
Payroll taxes	362,505	41,825	74,791	479,121
Legal	145,978	-	-	145,978
Accounting	-	19,188	-	19,188
Other professional fees	636,406	26,290	-	662,696
Bank fees	-	16,326	-	16,326
Office expenses	138,390	17,127	28,552	184,069
Information technology	37,864	4,369	7,812	50,045
Occupancy	178,826	20,632	36,895	236,353
Travel	176,270	20,338	36,368	232,976
Depreciation	188,775	21,780	38,948	249,503
Insurance	101,856	3,735	6,680	112,271
Litigation expenses	80,094	-	-	80,094
Membership expenses	14,737	-	329,830	344,567
Fundraising expenses	-	-	1,845	1,845
Intern expenses	41,458	-	-	41,458
Other expenses	5,605	-	-	5,605
	<u>5,605</u>	<u>-</u>	<u>-</u>	<u>5,605</u>
Total expenses	<u>\$ 7,833,333</u>	<u>\$ 1,324,459</u>	<u>\$ 1,270,142</u>	<u>\$ 10,427,934</u>