

ELECTRONIC FRONTIER FOUNDATION, INC.

FINANCIAL STATEMENTS

JUNE 30, 2022 and 2021

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Electronic Frontier Foundation, Inc.

Opinion

We have audited the accompanying financial statements of Electronic Frontier Foundation, Inc. (a nonprofit organization), which comprise the Statements of Financial Position as of June 30, 2022 and 2021, and the related Statements of Activities, Functional Expenses, and Cash Flows for the years then ended, and the related notes to the financial statements.

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, 2022, and 2021, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Electronic Frontier Foundation, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Electronic Frontier Foundation, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

INDEPENDENT AUDITORS' REPORT

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Electronic Frontier Foundation, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Electronic Frontier Foundation, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Harrington Group

Oakland, California
May 12, 2023

ELECTRONIC FRONTIER FOUNDATION, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
ASSETS		
Cash and cash equivalents (Note 2)	\$ 5,087,651	\$ 3,670,905
Restricted cash - donor restricted endowment	125,133	7,992
Grants receivable, net (Note 5)	5,406,886	2,471,749
Employee affordable housing loans receivable, net (Note 6)	189,649	185,087
Inventory (Note 2)	119,991	78,554
Investments (Note 7)	25,097,709	29,492,828
Prepaid expenses	103,420	71,427
Property and equipment (Note 9)	10,281,600	10,576,874
TOTAL ASSETS	\$ 46,412,039	\$ 46,555,416
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 144,720	\$ 84,681
Accrued liabilities (Note 10)	839,850	1,026,047
Deferred revenue (Note 2)	8,368	1,500
TOTAL LIABILITIES	992,938	1,112,228
NET ASSETS		
Without restrictions	35,553,917	37,345,519
With restrictions - purpose/time (Note 12)	6,865,184	5,097,669
With restrictions - perpetual (Note 13)	3,000,000	3,000,000
TOTAL NET ASSETS	45,419,101	45,443,188
TOTAL LIABILITIES AND NET ASSETS	\$ 46,412,039	\$ 46,555,416

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

ELECTRONIC FRONTIER FOUNDATION, INC.

STATEMENTS OF ACTIVITIES
For the years ended June 30, 2022 and 2021

	Year ended June 30, 2022			Year ended June 30, 2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT						
Public Support						
Foundation and corporation grants	\$ 1,873,090	\$ 6,759,888	\$ 8,632,978	\$ 1,562,147	\$ 3,361,843	\$ 4,923,990
Donations and contributions	7,603,789	867	7,604,656	4,796,509	214,762	5,011,271
Memberships	5,444,463		5,444,463	4,981,463		4,981,463
Cy pres awards	1,403,125		1,403,125	321,634		321,634
In-kind contributions (Notes 2 and 4)	34,123		34,123	129,484		129,484
Other revenue						
Other income	90,711		90,711	128,975		128,975
Special events	23,920		23,920	74,182		74,182
Litigation revenue	4,354		4,354	69,610		69,610
Investment (loss) income, net (Note 7)	(5,594,898)	(1,006,946)	(6,601,844)	4,113,501	1,156,281	5,269,782
Paycheck protection program loan - forgiveness			-	1,692,000		1,692,000
Net assets released from restrictions (Note 12)	3,986,294	(3,986,294)	-	1,632,172	(1,632,172)	-
TOTAL REVENUE AND SUPPORT	14,868,971	1,767,515	16,636,486	19,501,677	3,100,714	22,602,391
EXPENSES						
Education, advocacy and litigation program	11,898,664		11,898,664	10,710,627		10,710,627
General and administrative	2,487,474		2,487,474	2,403,354		2,403,354
Fundraising and development	2,274,435		2,274,435	2,329,145		2,329,145
TOTAL EXPENSES	16,660,573	-	16,660,573	15,443,126	-	15,443,126
CHANGE IN NET ASSETS	(1,791,602)	1,767,515	(24,087)	4,058,551	3,100,714	7,159,265
NET ASSETS, BEGINNING OF YEAR	37,345,519	8,097,669	45,443,188	33,286,968	4,996,955	38,283,923
NET ASSETS, END OF YEAR	\$ 35,553,917	\$ 9,865,184	\$ 45,419,101	\$ 37,345,519	\$ 8,097,669	\$ 45,443,188

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

ELECTRONIC FRONTIER FOUNDATION, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

For the years ended June 30, 2022 and 2021

	Year ended June 30, 2022				Year ended June 30, 2021			
	Education, Advocacy and Litigation Program	General and Administrative	Fundraising and Development	Total Expenses	Education, Advocacy and Litigation Program	General and Administrative	Fundraising and Development	Total Expenses
Salaries	\$ 8,084,702	\$ 1,955,967	\$ 1,297,939	\$ 11,338,608	\$ 7,789,766	\$ 1,876,853	\$ 1,263,569	\$ 10,930,188
Employee benefits	1,134,762	202,119	258,761	1,595,642	978,886	172,908	233,055	1,384,849
Payroll taxes	574,921	93,047	138,346	806,314	511,811	83,493	125,115	720,419
Total personnel costs	9,794,385	2,251,133	1,695,046	13,740,564	9,280,463	2,133,254	1,621,739	13,035,456
Other professional fees	1,140,213	39,631	21,421	1,201,265	544,437	75,865	6,301	626,603
Membership expenses			417,629	417,629			598,741	598,741
Depreciation	219,333	49,772	36,443	305,548	211,684	55,294	35,652	302,630
Occupancy	156,884	35,601	26,067	218,552	118,102	30,850	19,891	168,843
Office expenses	137,216	31,142	22,799	191,157	124,348	32,470	20,943	177,761
Insurance	119,509	10,611	7,769	137,889	111,205	10,287	6,633	128,125
Litigation expenses	128,115			128,115	90,956			90,956
Planning and development expenses	46,155	16,099	7,436	69,690	39,622	15,781	4,238	59,641
IT expenses	45,157	10,248	7,503	62,908	32,743	8,553	5,515	46,811
Legal	49,931	1,346	985	52,262	50,257	590	380	51,227
Travel	29,540	35	4,832	34,407	429	4	41	474
Accounting		31,500		31,500		16,000		16,000
Event expenses	8,949	1	17,397	26,347			6,174	6,174
Intern expenses	15,624			15,624	17,025			17,025
Bank fees		10,355		10,355		3,956		3,956
Fundraising expenses			9,108	9,108			2,897	2,897
In-kind legal services (Notes 2 and 4)	7,653			7,653	89,356			89,356
In-kind equipment (Notes 2 and 4)				-		5,450		5,450
In-kind technology services (Notes 2 and 4)				-		15,000		15,000
TOTAL FUNCTIONAL EXPENSES	\$ 11,898,664	\$ 2,487,474	\$ 2,274,435	\$ 16,660,573	\$ 10,710,627	\$ 2,403,354	\$ 2,329,145	\$ 15,443,126

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

ELECTRONIC FRONTIER FOUNDATION, INC.

STATEMENTS OF CASH FLOWS
For the years ended June 30, 2022 and 2021

	2022	2021
CASH FLOWS FROM (TO) OPERATING ACTIVITIES:		
Change in net assets	\$ (24,087)	\$ 7,159,265
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation	305,548	302,630
Loss (gain) on investments	7,412,421	(4,894,914)
Reinvested dividends	(580,785)	(418,658)
Paycheck protection program loan - forgiveness	-	(1,692,000)
Change in allowance and discount on grants receivable	(6,000)	(7,570)
Change in allowance on employee affordable housing loans receivable	(4,562)	(4,451)
(Increase) decrease in operating assets:		
Grants receivable	(2,929,137)	(1,862,901)
Prepaid expenses	(31,993)	(12,979)
Inventory	(41,437)	8,051
Increase (decrease) in operating liabilities:		
Accounts payable	60,039	23,214
Accrued liabilities	(186,197)	415,817
Deferred revenue	6,868	(40,675)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	3,980,678	(1,025,171)
CASH FLOWS (TO) FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(10,274)	(128,846)
Purchase of investments	(3,731,298)	(1,969,000)
Sale of investments	1,294,781	2,916,812
Change in restricted endowment cash	(117,141)	36,443
NET CASH (USED) PROVIDED BY INVESTING ACTIVITIES	(2,563,932)	855,409
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,416,746	(169,762)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	3,670,905	3,840,667
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 5,087,651	\$ 3,670,905

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

ELECTRONIC FRONTIER FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

1. **Organization**

Electronic Frontier Foundation, Inc., (“EFF”) 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.

2. **Summary of Significant Accounting Policies**

A summary of the significant accounting policies applied in the preparation of the accompanying financial statements is as follows:

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting which reflects revenue when earned and expenses as incurred.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Without Donor Restrictions. Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated some net assets, from net assets without donor restrictions, to create the endowment fund.

With Donor Restrictions. Net assets subject to imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates those resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Cash and Cash Equivalents

EFF has defined cash 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 interest rates are negligible. These are generally investments with maturity dates within three months of the acquisition date.

ELECTRONIC FRONTIER FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Contributions and Grants Receivable

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at fair value, which is measured at the present value of their future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discount is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

Investments

EFF values its investments at fair value. Unrealized gains or losses (including investments bought, sold, and held during the year) are reflected in the Statement of Activities as gain or loss on investments. Short-term highly liquid money market deposits that are not restricted and not used for operations are treated as investments.

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 \$119,991 and \$78,554 at June 30, 2022 and 2021, respectively.

Concentration of Credit Risks

EFF places its temporary cash investments with high-credit, quality financial institutions. At times, such investments may be in excess of the Federal Deposit Insurance Corporation insurance limit. EFF has not incurred losses related to these investments.

One single donor donated 26% of 2022 income through a 3-year grant and no other single donor contributed more than 11% of 2022 or 2021 income.

Fair Value Measurements

Generally accepted accounting principles provide guidance on how fair value should be determined when financial statement elements are required to be measured at fair value. Valuation techniques are ranked in three levels depending on the degree of objectivity of the inputs used with each level:

Level 1 inputs - quoted prices in active markets for identical assets

Level 2 inputs - quoted prices in active or inactive markets for the same or similar assets

Level 3 inputs - estimates using the best information available when there is little or no market

EFF is required to measure certain investments and in-kind contributions at fair value. The specific techniques used to measure fair value for these financial statement elements are described in the notes below that relate to each element.

continued

ELECTRONIC FRONTIER FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Property and Equipment

Property and equipment are recorded at cost if purchased or at fair value at the date of donation if donated. Maintenance and repair costs are charged to expense as incurred. Property and equipment are capitalized if the cost of an asset is greater than or equal to five thousand dollars and the useful life is greater than one year. Depreciation is computed on the straight-line basis over the estimated useful lives of the related assets, which range from 5 to 39 years.

EFF reviews its investments 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 2022 and 2021.

Recently Adopted Accounting Pronouncement

In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosure by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The ASU clarifies the presentation and disclosure of contributed nonfinancial assets, including land, buildings, and other items, to increase transparency and comparability surrounding contributed nonfinancial assets through enhancements to presentation and disclosure. The ASU requires to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash and other financial assets, include in disclosures a disaggregation of the amount of contributed nonfinancial assets by category, for each category, additional qualitative disclosures. The update does not change existing recognition and measurement requirements for contributed nonfinancial assets. The ASU is effective for fiscal years beginning after June 15, 2021. EFF's financial statements for the year ended June 30, 2022 are presented in accordance with ASU 2020-07.

Contributed Materials and Services

Contributions of donated non-cash assets are measured on a non-recurring basis and recorded at fair value in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at fair value in the period received. For the years ended June 30, 2022 and 2021, EFF recorded in-kind donations of \$34,123 and \$129,484, respectively. Also see Note 4.

ELECTRONIC FRONTIER FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Revenue and Revenue Recognition

EFF recognizes contributions when cash, securities or other assets; unconditional promises to give; or notifications of a beneficial interest are received. Unconditional promises to give which are scheduled to be received after one year are discounted at rates commensurate with the risks involved and amortization of the discount is recorded as additional contribution revenue in accordance with the donor-imposed restrictions, if any, on the contributions. Contributions with donor-imposed restrictions and investment income generated from such investments that are released within the year of receipt are reported as without donor restriction. Conditional promises to give - that is, those with a measurable performance or other barrier and a right of return - are not recognized until the conditions on which they depend have been met. At June 30, 2022, EFF did not have any contributions categorized as conditional.

A portion of EFF's revenue is derived from fee for service contracts, which are conditioned upon certain performance requirements and/or the completion of certain deliverables. Amounts under these contracts are recognized as revenue when EFF has satisfied the performance requirements or completed the deliverables in compliance with specific contract provisions.

Deferred Revenue

Deferred revenue results from EFF recognizing event revenue in the period in which the event occurs. Accordingly, deferred revenue of \$8,368 at June 30, 2022, primarily represents event revenue received in advance for events expected to be held in the next fiscal year.

Functional Allocation of Expenses

Costs of providing EFF's programs and other activities have been presented in the Statement of Functional Expenses. During the year, such costs are accumulated into separate groupings as either direct or indirect. Indirect or shared costs are allocated among program and support services based upon usage, employee ratios, and square footage of occupied space.

Income Taxes

EFF is exempt from taxation under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701d and the Massachusetts General Law Chapter 180, Section 4, and is considered by the Internal Revenue Service to be an organization other than a private foundation.

Generally accepted accounting principles provide accounting and disclosure guidance about positions taken by an organization in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken by EFF in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination. EFF's returns are subject to examination by federal and state taxing authorities, generally for three and four years, respectively, after they are filed.

ELECTRONIC FRONTIER FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues, and expenses as of the date and for the period presented. Actual results could differ from those estimates.

Reclassification

Certain amounts from the June 30, 2021 financial statements have been reclassified to conform to the June 30, 2022 presentation.

Subsequent Events

Management has evaluated subsequent events through May 12, 2023, the date which the financial statements were available for issue. No events or transactions have occurred during this period that appear to require recognition or disclosure in the financial statements.

3. Liquidity and Availability of Resources

EFF receives significant contributions and promises to give restricted by donors, and considers contributions restricted for programs which are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures. EFF manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs, and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged.

Financial assets in excess of operating cash requirements are invested in certificates of deposit, money market funds and other short- and medium-term investments. To achieve these targets, the entity forecasts its future cash flows and monitors its liquidity quarterly and monitors its reserves annually. The Finance Director and Deputy Executive Director meet on an as-needed basis with EFF's investments advisors to review investment results, assess risk, and make recommendations for changes as needed.

EFF's endowment funds consist of donor-restricted endowments and funds designated by the Board as endowments. Income from donor-restricted endowments is restricted for specific purposes. Donor-restricted endowment funds are not available for general expenditure. The board-designated endowment is subject to an annual spending rate limited to no more than 6% of the three-year rolling average of funds as described in Note 12. These funds are invested for long-term appreciation and current income but remain available and may be spent at the discretion of the Board. Occasionally, the Board designates a portion of any operating surplus to its capital spending reserve, which was \$98,000 as of June 30, 2022 or to its operating reserve, which was \$7.4 million as of June 30, 2022.

As of June 30, 2022, the following financial assets could readily be made available within one year of the statement of financial position date to meet its operational cash flow needs:

continued

ELECTRONIC FRONTIER FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

3. Liquidity and Availability of Resources, continued

<u>Financial assets at year end</u>	
Cash and cash equivalents	\$ 5,087,651
Grants receivable, net	5,406,886
Employee housing (EAH) loan receivables, net	189,649
Investments	<u>25,097,709</u>
Total financial assets	<u>\$35,781,895</u>
 <u>Less amounts not available to be used within one year:</u>	
Investments held for Board designated endowments	(14,313,918)
Investments held for donor endowments	(3,000,000)
Cash for restricted gifts	(1,241,549)
Contributions receivable for restricted gifts, net	(3,020,484)
Contributions receivable due after one year, net	(2,386,402)
EAH receivables due after one year, net	<u>(189,649)</u>
Financial assets not available to be used within one year	<u>(24,152,002)</u>
Financial assets available to meet general expenditures within one year	<u>\$ 11,629,893</u>

4. In-kind Contributions

In-kind contributions received for the years June 30, 2022 and 2021 are as follows:

	<u>2022</u>	<u>2021</u>
Services	\$ 7,653	\$104,356
Vehicles	26,470	-
Equipment	-	5,450
Total in-kind contributions	<u>\$34,123</u>	<u>\$109,806</u>

Unless otherwise noted, in-kind contributions did not have donor-imposed restrictions. The contributed services were used entirely for the education, advocacy and litigation program, and the contributed vehicles were monetized as part of EFF's fundraising efforts. The established fair value of each category of contributions received are as follows:

Contributed Services

Contributed services are valued and reported in the financial statements at their estimated fair value based on current rates for similar services in the region. For the years ended June 30, 2022 and 2021, EFF received \$7,653 and \$89,356, respectively, in legal services and \$0 and \$15,000, respectively, in web hosting services.

Contributed Equipment

Contributed equipment is valued and reported in the financial statements at the estimated fair value based on estimates provided by the donor at the time of contribution which were based on the market rate for sales of similar equipment. For the year ended June 30, 2021, EFF received a donation of hardware authentication devices valued at \$5,450.

continued

ELECTRONIC FRONTIER FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

4. In-kind Contributions, continued

Contributed Vehicles

EFF uses Car Program, Inc., a third party, to solicit, process and sell vehicles. Though donors contact Car Program, Inc. and they handle the processing and sale of the vehicles, donors are made aware that the vehicle sales benefit EFF. The estimated fair value of the contributed vehicles is based on sale amounts received by Car Program, Inc. The gross sales amounts are recorded by EFF as an in-kind contribution and the related fees to run the program are recorded as fundraising expense. No vehicles are donated directly to EFF.

5. Grants Receivable

EFF had recorded grants receivable at June 30, 2022 and 2021 as follows:

	<u>2022</u>	<u>2021</u>
Grants receivable	\$5,470,484	\$2,541,347
Less: allowance for doubtful accounts	<u>(40,359)</u>	<u>(46,359)</u>
	5,430,125	2,494,988
Less: present value discount at 2.5%	<u>(23,239)</u>	<u>(23,239)</u>
Grants receivable, net	<u>\$5,406,886</u>	<u>\$2,471,749</u>

Total grants receivable at June 30, 2022 of \$5,470,484 is expected to be collected as follows:

<u>Year ending June 30,</u>	
2023	\$3,020,484
2024	2,300,000
2025	<u>150,000</u>
	<u>\$5,470,484</u>

6. 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, 2022, and 2021, EFF had the following EAH loans receivable, net:

	<u>2022</u>	<u>2021</u>
EAH loans principal	\$210,750	\$210,750
Less: present value discount, equal to imputed interest discount of 1.2%	<u>(21,101)</u>	<u>(25,663)</u>
	<u>\$189,649</u>	<u>\$185,087</u>

continued

ELECTRONIC FRONTIER FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

7. Investments

Investments at June 30, 2022 and 2021 consist of the following:

	<u>2022</u>	<u>2021</u>
Equity	\$14,001,569	\$17,102,067
Fixed income	<u>11,096,140</u>	<u>12,390,761</u>
	<u>\$25,097,709</u>	<u>\$29,492,828</u>

Investment income, including interest on bank accounts and other sources, are as follows:

	<u>2022</u>	<u>2021</u>
(Loss) gain on investments	\$(7,153,470)	\$4,894,206
Interest and dividends	647,954	469,006
Investment management fees	<u>(96,328)</u>	<u>(93,430)</u>
	<u>\$(6,601,844)</u>	<u>\$5,269,782</u>

8. Fair Value Measurements

The table below presents the balances of assets measured at fair value at June 30, 2022 and 2021 on a recurring basis:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>June 30, 2022</u>				
Equities				
Domestic stock fund	\$ 6,436,276	\$ -	\$ -	\$ 6,436,276
International stock	4,282,960			4,282,960
Common stock	2,973,613			2,973,613
Preferred stock	218,600			218,600
Real estate investment trusts	<u>90,120</u>			<u>90,120</u>
Total equities	<u>14,001,569</u>	<u>-</u>	<u>-</u>	<u>14,001,569</u>
Fixed income				
Domestic bond market		5,561,707		5,561,707
International bonds		3,277,659		3,277,659
Short term investment	1,342,356			1,342,356
International investment	896,748			896,748
Bank loan	<u>17,670</u>			<u>17,670</u>
Total fixed income	<u>2,256,774</u>	<u>8,839,366</u>	<u>-</u>	<u>11,096,140</u>
Fair value at June 30, 2022	<u>\$16,258,343</u>	<u>\$8,839,366</u>	<u>\$ -</u>	<u>\$25,097,709</u>

continued

ELECTRONIC FRONTIER FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

8. Fair Value Measurements, continued

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>June 30, 2021</u>				
Equities				
Domestic stock fund	\$ 7,614,256	\$ -	\$ -	\$ 7,614,256
International stock	4,941,624			4,941,624
Common stock	4,295,996			4,295,996
Preferred stock	250,191			250,191
Real estate investment trusts	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total equities	<u>17,102,067</u>	<u>-</u>	<u>-</u>	<u>17,102,067</u>
Fixed income				
Domestic bond market		6,363,441		6,363,441
International bonds		3,641,881		3,641,881
Short term investment	1,417,021			1,417,021
International investment	946,038			946,038
Bank loan	22,380			22,380
Total fixed income	<u>2,385,439</u>	<u>10,005,322</u>	<u>-</u>	<u>12,390,761</u>
Fair value at June 30, 2021	<u>\$19,487,506</u>	<u>\$10,005,322</u>	<u>\$-</u>	<u>\$29,492,828</u>

The fair value of equities and fixed income have been measured on a recurring basis using quoted prices in active markets for identical assets (Level 1 inputs) and quoted prices in active or inactive markets for the same or similar assets (Level 2 inputs).

The table below presents the transactions measured at fair value on a non-recurring basis during the years ended June 30, 2022 and 2021:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>June 30, 2022</u>				
In-kind contributions	\$ -	\$34,123	\$ -	\$ 34,123
Pledged contributions – new	<u> </u>	<u> </u>	<u>6,754,755</u>	<u>6,754,755</u>
Fair value at June 30, 2022	<u>\$-</u>	<u>\$34,123</u>	<u>\$6,754,755</u>	<u>\$6,788,878</u>
<u>June 30, 2021</u>				
In-kind contributions	\$ -	\$129,484	\$ -	\$ 129,484
Pledged contributions – new	<u> </u>	<u> </u>	<u>3,576,605</u>	<u>3,576,605</u>
Fair value at June 30, 2021	<u>\$-</u>	<u>\$129,484</u>	<u>\$3,576,605</u>	<u>\$3,686,411</u>

The fair value of in-kind contributions has been measured on a non-recurring basis using quoted prices for similar assets in inactive markets (Level 2 inputs).

The fair value of pledged contributions - new are measured on a recurring basis based on the value provided by the donor at the date of pledge (Level 3 inputs).

continued

ELECTRONIC FRONTIER FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

9. Property and Equipment

Property and equipment at June 30, 2022 and 2021 consist of the following:

	<u>2022</u>	<u>2021</u>
Building and improvements	\$10,601,189	\$10,590,913
Land	1,689,197	1,689,197
Computer equipment	226,954	238,477
Furniture and equipment	<u>117,572</u>	<u>148,184</u>
	12,634,912	12,666,771
Less: accumulated depreciation	<u>(2,353,312)</u>	<u>(2,089,897)</u>
	<u>\$10,281,600</u>	<u>\$10,576,874</u>

Depreciation expense for the years ended June 30, 2022 and 2021 was \$305,548 and \$302,630, respectively.

10. Accrued Liabilities

Accrued liabilities at June 30, 2022 and 2021 consist of the following:

	<u>2022</u>	<u>2021</u>
Accrued vacation	\$614,054	\$ 703,988
Other accrued liabilities	<u>225,796</u>	<u>322,059</u>
	<u>\$839,850</u>	<u>\$1,026,047</u>

11. Commitments and Contingencies

Obligations Under Operating Leases

EFF leases equipment under operating leases. Future minimum payments, by year and in the aggregate, under these leases with initial or remaining terms of one year or more, consist of the following:

<u>Year ending June 30,</u>	
2023	\$13,740
2024	13,740
2025	13,740
2026	13,740
2027	<u>12,595</u>
	<u>\$67,555</u>

Operating lease expense for the year ended June 30, 2022 was \$18,306.

continued

ELECTRONIC FRONTIER FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

12. Net Assets With Donor Restrictions – Purpose/Time

Net assets with donor restrictions for purpose or time at June 30, 2022 and 2021 are as follows:

	<u>2022</u>	<u>2021</u>
Time restricted	\$5,297,917	\$2,314,723
Adams endowed chair for internet freedom	410,353	1,601,298
Prime number contest	387,786	387,786
Chair to eliminate stupid patents	231,266	250,000
How to fix internet podcast	188,342	-
Fellowships	174,975	174,975
Law enforcement access to data	100,000	-
Saved by Alice – patent stories	48,046	48,046
Others	45,045	96,008
Threat lab	39,053	294,432
Allowances for doubtful accounts and present value on related grants receivable	<u>(63,599)</u>	<u>(69,599)</u>
	<u>\$6,859,184</u>	<u>\$5,097,669</u>

For the years ended June 30, 2022 and 2021, net assets released from purpose/time restrictions were \$3,986,293 and \$1,632,172, respectively.

13. Net Assets With Donor Restrictions – Perpetual in Nature (Endowment)

Net assets with donor restrictions that are perpetual in nature represent contributions which the donor has stipulated that the principal is to be kept intact in perpetuity and only the interest and dividends therefrom may be expended for unrestricted or restricted purposes. At June 30, 2022 and 2021, net assets with donor restrictions that are perpetual in nature were \$3,000,000.

Generally accepted accounting principles provide guidance on the net asset classification of donor restricted endowment funds for a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (“UPMIFA”). Generally accepted accounting principles also require additional disclosures about an organization’s endowment funds (both donor-restricted endowment funds and board-designated endowment funds) whether or not EFF is subject to UPMIFA.

EFF’s endowment consists of two investment accounts consisting of equities, fixed income instruments, and cash and cash equivalents. EFF’s endowment includes donor-restricted and Board-designated endowment funds. EFF’s Board-designated endowment was established to further the charitable purposes of EFF by providing general support in meeting the operating needs of EFF, 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.

continued

ELECTRONIC FRONTIER FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

13. Net Assets With Donor Restrictions – Perpetual in Nature (Endowment), continued

EFF classifies as net assets with donor restrictions - perpetuity (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. The remaining portion of the donor restricted endowment fund that is not classified in net assets with donor restrictions - perpetuity is classified as net assets with donor restrictions - temporary until those amounts are appropriated for expenditure by EFF.

Investment Objectives, Asset Allocation and Disbursement Policy

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.

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.

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.

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 donor.

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 provides the following disclosures.

Endowment net assets composition by type of fund at June 30, 2022 and 2021:

continued

ELECTRONIC FRONTIER FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

13. Net Assets With Donor Restrictions – Perpetual in Nature (Endowment), continued

	<u>Without Restrictions</u>	<u>With Restrictions</u>	<u>Total Endowment Assets</u>
<u>June 30, 2022</u>			
Board-designated endowment	\$14,313,918	\$ -	\$14,313,918
Donor restricted endowment-perpetual		3,000,000	3,000,000
Donor restricted endowment-purpose		410,354	410,354
	<u>\$14,313,918</u>	<u>\$3,410,354</u>	<u>\$17,724,272</u>
<u>June 30, 2021</u>			
Board-designated endowment	\$17,033,698	\$ -	\$17,033,698
Donor restricted endowment-perpetual		3,000,000	3,000,000
Donor restricted endowment-purpose		1,601,300	1,601,300
	<u>\$17,033,698</u>	<u>\$4,601,300</u>	<u>\$21,634,998</u>

Changes in endowment net assets for the years ended June 30, 2022 and 2021:

	<u>Without Restrictions</u>	<u>With Restrictions</u>	<u>Total Endowment Assets</u>
<u>June 30, 2022</u>			
Endowment net assets, beginning of year	\$17,033,698	\$4,601,300	\$21,634,998
Contributions	500,000	-	500,000
Withdrawals	(890,000)	(184,000)	(1,074,000)
Investment return:			
Net depreciation (realized and unrealized)	<u>(2,329,780)</u>	<u>(1,006,946)</u>	<u>(3,336,726)</u>
Endowment net assets, end of year	<u>\$14,313,918</u>	<u>\$3,410,354</u>	<u>\$17,724,272</u>
<u>June 30, 2021</u>			
Endowment net assets, beginning of year	\$14,435,541	\$3,613,018	\$18,048,559
Withdrawals	(800,500)	(168,000)	(968,500)
Investment return:			
Net appreciation (realized and unrealized)	<u>3,398,657</u>	<u>1,156,282</u>	<u>4,554,939</u>
Endowment net assets, end of year	<u>\$17,033,698</u>	<u>\$4,601,300</u>	<u>\$21,634,998</u>

14. Tax Sheltered Annuity

EFF established a 403(b) deferred income plan for all eligible employees. Voluntary contributions made by employees who choose to participate to the extent permissible by law. EFF makes matching contributions up to 10% of employee contributions. Employer contributions under this plan for the years ended June 30, 2022 and 2021 were \$276,938 and \$244,347, respectively.