

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

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**For Years Ended  
June 30, 2011 and 2010**

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**INDEPENDENT AUDITOR'S REPORT**

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

We have audited the accompanying statements of financial position of Electronic Frontier Foundation, Inc. (a nonprofit public benefit corporation), as of June 30, 2011 and 2010, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Electronic Frontier Foundation, Inc. as of June 30, 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.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The accompanying schedules of functional expenses are presented for the 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 taken as a whole.

*Doran & Associates*

April 2, 2012

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

**STATEMENTS OF FINANCIAL POSITION**  
**June 30, 2011 and 2010**

|  | 2011                | 2010                |
|--|---------------------|---------------------|
| <b>ASSETS</b>  |                     |                     |
| Current assets:  |                     |                     |
| Cash and cash equivalents (Note 1)   | \$ 1,453,384        | \$ 453,923          |
| Prepaid expenses   | -                   | 8,163               |
| Current portion of grants receivable, net of allowance for doubtful accounts (Note 2)  | 553,045             | 290,000             |
| Litigation settlement receivable   | -                   | 31,451              |
| Inventory (Note 3)   | <u>21,404</u>       | <u>30,239</u>       |
| Total current assets   | 2,027,833           | 813,776             |
| Grants receivable, net of current portion, allowance for doubtful accounts and present value discount (Note 2)                   | 251,185             | -                   |
| Marketable equity securities (Note 4)  | 3,436,010           | 4,316,567           |
| Deposits   | 14,300              | 14,300              |
| Land, building and improvements held for sale, net of accumulated depreciation (Note 5)  | 1,777,329           | -                   |
| Equipment and leasehold improvements, net of accumulated depreciation of \$212,207 at 2011 and \$226,917 at 2010 (Notes 1 and 5) | <u>403,600</u>      | <u>477,568</u>      |
| Total assets   | <u>\$ 7,910,257</u> | <u>\$ 5,622,211</u> |
| <b>LIABILITIES AND NET ASSETS</b>  |                     |                     |
| Current liabilities:   |                     |                     |
| Accounts payable and accrued expenses  | \$ 86,809           | \$ 24,642           |
| Accrued vacation liability (Note 6)  | <u>129,985</u>      | <u>99,891</u>       |
| Total liabilities  | <u>216,794</u>      | <u>124,533</u>      |
| Net assets:  |                     |                     |
| Unrestricted net assets:   |                     |                     |
| Undesignated   | 3,458,165           | 580,557             |
| Board-designated endowment (Note 7)  | <u>3,026,282</u>    | <u>4,161,699</u>    |
| Total unrestricted net assets  | 6,484,447           | 4,742,256           |
| Temporarily restricted net assets (Note 8)   | <u>1,209,016</u>    | <u>755,422</u>      |
| Total net assets   | <u>7,693,463</u>    | <u>5,497,678</u>    |
| Total liabilities and net assets   | <u>\$ 7,910,257</u> | <u>\$ 5,622,211</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, 2011**

|  | Unrestricted        | Temporarily<br>Restricted | Total               |
|--|---------------------|---------------------------|---------------------|
| <b>SUPPORT, REVENUE AND TRANSFERS</b>          |                     |                           |                     |
| Public support:                                |                     |                           |                     |
| Foundation and corporation grants              | \$ 1,037,800        | \$ 1,342,596              | \$ 2,380,396        |
| Donations and contributions                    | 1,609,561           | -                         | 1,609,561           |
| Memberships                                    | 1,106,863           | -                         | 1,106,863           |
| Cy pres award                                  | 208,760             | -                         | 208,760             |
| In-kind legal services (Note 9)                | <u>358,333</u>      | <u>-</u>                  | <u>358,333</u>      |
| Total public support                           | <u>4,321,317</u>    | <u>1,342,596</u>          | <u>5,663,913</u>    |
| Revenue:                                       |                     |                           |                     |
| Investment income (loss) (Note 4)              | 596,196             | -                         | 596,196             |
| Litigation revenue                             | 143,350             | -                         | 143,350             |
| Event income, net of expenses (Note 10)        | 12,669              | -                         | 12,669              |
| Loss on disposal of fixed assets, net (Note 5) | (75,818)            | -                         | (75,818)            |
| Miscellaneous                                  | <u>45,566</u>       | <u>-</u>                  | <u>45,566</u>       |
| Total revenue                                  | <u>721,963</u>      | <u>-</u>                  | <u>721,963</u>      |
| Net assets released from restriction (Note 11) | <u>889,002</u>      | <u>(889,002)</u>          | <u>-</u>            |
| Total support, revenue and transfers           | <u>5,932,282</u>    | <u>453,594</u>            | <u>6,385,876</u>    |
| <b>EXPENSES</b>                                |                     |                           |                     |
| Program services                               | 3,163,937           | -                         | 3,163,937           |
| General and administrative                     | 404,774             | -                         | 404,774             |
| Fundraising                                    | <u>621,380</u>      | <u>-</u>                  | <u>621,380</u>      |
| Total expenses                                 | <u>4,190,091</u>    | <u>-</u>                  | <u>4,190,091</u>    |
| Change in net assets                           | 1,742,191           | 453,594                   | 2,195,785           |
| Net assets, beginning of year                  | <u>4,742,256</u>    | <u>755,422</u>            | <u>5,497,678</u>    |
| Net assets, end of year                        | <u>\$ 6,484,447</u> | <u>\$ 1,209,016</u>       | <u>\$ 7,693,463</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, 2010**

|  | Unrestricted        | Temporarily<br>Restricted | Total               |
|--|---------------------|---------------------------|---------------------|
| <b>SUPPORT, REVENUE AND TRANSFERS</b>          |                     |                           |                     |
| Public support:                                |                     |                           |                     |
| Foundation and corporation grants              | \$ 683,255          | \$ 317,301                | \$ 1,000,556        |
| Donations and contributions                    | <u>706,020</u>      | <u>16,000</u>             | <u>722,020</u>      |
| Total public support                           | <u>1,389,275</u>    | <u>333,301</u>            | <u>1,722,576</u>    |
| Revenue:                                       |                     |                           |                     |
| Memberships                                    | 959,201             | -                         | 959,201             |
| Investment income (loss) (Note 4)              | 363,759             | -                         | 363,759             |
| Litigation settlement                          | 109,248             | -                         | 109,248             |
| Event income, net of expenses (Note 10)        | 58,833              | -                         | 58,833              |
| Loss on disposal of fixed assets, net (Note 5) | (689)               | -                         | (689)               |
| Miscellaneous                                  | <u>3,348</u>        | <u>-</u>                  | <u>3,348</u>        |
| Total revenue                                  | <u>1,493,700</u>    | <u>-</u>                  | <u>1,493,700</u>    |
| Net assets released from restriction (Note 11) | <u>986,634</u>      | <u>(986,634)</u>          | <u>-</u>            |
| Total support, revenue and transfers           | <u>3,869,609</u>    | <u>(653,333)</u>          | <u>3,216,276</u>    |
| <b>EXPENSES</b>                                |                     |                           |                     |
| Program services                               | 2,792,275           | -                         | 2,792,275           |
| General and administrative                     | 259,096             | -                         | 259,096             |
| Fundraising                                    | <u>451,881</u>      | <u>-</u>                  | <u>451,881</u>      |
| Total expenses                                 | <u>3,503,252</u>    | <u>-</u>                  | <u>3,503,252</u>    |
| Change in net assets                           | 366,357             | (653,333)                 | (286,976)           |
| Net assets, beginning of year                  | <u>4,375,899</u>    | <u>1,408,755</u>          | <u>5,784,654</u>    |
| Net assets, end of year                        | <u>\$ 4,742,256</u> | <u>\$ 755,422</u>         | <u>\$ 5,497,678</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, 2011 and 2010**

|  | 2011                | 2010                |
|--|---------------------|---------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>   |                     |                     |
| Change in net assets   | <u>\$ 2,195,785</u> | <u>\$ (286,976)</u> |
| Adjustments to reconcile change in net assets to net cash provided (used) by operating activities: |                     |                     |
| Depreciation   | 31,105              | 30,215              |
| Unrealized gain on investments   | (509,632)           | (284,313)           |
| Realized gain on investments   | (20,891)            | (75,458)            |
| Realized loss on disposal of fixed assets  | 75,818              | 689                 |
| Contribution of marketable equity securities   | (240,405)           | (94,829)            |
| Changes in assets and liabilities:   |                     |                     |
| Prepaid expenses   | 8,163               | (1,713)             |
| Grants receivable  | (482,779)           | 523,549             |
| Inventory  | 8,835               | 1,555               |
| Deposits   | -                   | (1,300)             |
| Accounts payable and accrued expenses  | 62,167              | (862)               |
| Accrued vacation liability   | <u>30,094</u>       | <u>(8,120)</u>      |
| Total adjustments  | <u>(1,037,525)</u>  | <u>89,413</u>       |
| Net cash provided (used) by operating activities   | <u>1,158,260</u>    | <u>(197,563)</u>    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>   |                     |                     |
| Purchase of investments  | (415,305)           | (878,015)           |
| Sales of investments   | 2,066,790           | 451,620             |
| Purchase of land, building and improvements held for sale  | (1,780,723)         | -                   |
| Purchase of equipment and leasehold improvements   | <u>(29,561)</u>     | <u>(10,475)</u>     |
| Net cash used by investing activities  | <u>(158,799)</u>    | <u>(436,870)</u>    |
| Net increase (decrease) in cash and cash equivalents   | 999,461             | (634,433)           |
| Cash and cash equivalents, beginning of year   | <u>453,923</u>      | <u>1,088,356</u>    |
| Cash and cash equivalents, end of year   | <u>\$ 1,453,384</u> | <u>\$ 453,923</u>   |
| Supplementary information:   |                     |                     |
| Non-cash transactions:   |                     |                     |
| Contribution of marketable equity securities   | <u>\$ 240,405</u>   | <u>\$ 94,829</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, 2011 and 2010**

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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. This class also includes restricted gifts whose donor-imposed restrictions were met during the fiscal year.

*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.

There were no permanently restricted net assets as of June 30, 2011 and 2010.

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.

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

**NOTES TO FINANCIAL STATEMENTS**  
**For the years ended June 30, 2011 and 2010**

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

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.

Land, Building, Equipment and Leasehold Improvements - The Corporation records land, building, equipment and leasehold improvements of \$1,000 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.

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.

Subsequent Events - Subsequent events have been evaluated through April 2, 2012, which is the date the financial statements were available to be issued.

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.

Advertising - The Corporation expenses advertising costs as incurred. Advertising expense totaled \$6,445 for the year ended June 30, 2010. There were no advertising expenses incurred during the year ended June 30, 2011.

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

**NOTES TO FINANCIAL STATEMENTS**  
**For the years ended June 30, 2011 and 2010**

NOTE 2 GRANTS RECEIVABLE

The Corporation had recorded the following grants receivable as of June 30, 2011 and 2010:

|   | Current<br>Portion | Long-term<br>Portion | Total             |
|---|--------------------|----------------------|-------------------|
| <u>June 30, 2011:</u>                   |                    |                      |                   |
| Grants receivable                       | \$ 561,145         | \$ 275,000           | \$ 836,145        |
| Less: allowance for<br>doubtful account | 8,100              | 8,250                | 16,350            |
| Less: present value discount            | -                  | 15,565               | 15,565            |
|   | <u>\$ 553,045</u>  | <u>\$ 251,185</u>    | <u>\$ 804,230</u> |
| <br><u>June 30, 2010:</u>               |                    |                      |                   |
| Grants receivable                       | <u>\$ 290,000</u>  | <u>\$ -</u>          | <u>\$ 290,000</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 INVENTORY

Inventory items are held for resale and promotion, are stated at the lower of cost or market value, and are determined on a first-in, first-out basis. Inventory at June 30, 2011 and 2010, consisted of the following:

|   | 2011             | 2010             |
|---|------------------|------------------|
| T-shirts                                  | \$ 16,581        | \$ 18,429        |
| Cards, stickers, and other clothing items | 4,823            | 11,810           |
|   | <u>\$ 21,404</u> | <u>\$ 30,239</u> |

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

**NOTES TO FINANCIAL STATEMENTS**  
**For the years ended June 30, 2011 and 2010**

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, 2011 and 2010, using quoted prices in active markets for identified assets (Level 1); significant other observable inputs (Level 2); and significant unobservable inputs (Level 3):

| <u>Description</u> | <u>Fair Value Measurements at June 30, 2011, Using</u>                               |  |  | <u>Total</u>        |
|--------------------|--|--|--|---------------------|
|                    | <u>Quoted Price in<br/>Active Markets<br/>for Identical<br/>Assets<br/>(Level 1)</u> | <u>Significant<br/>Other<br/>Observable<br/>Inputs<br/>(Level 2)</u> | <u>Significant<br/>Unobservable<br/>Inputs<br/>(Level 3)</u> |                     |
| Mutual funds       | \$ 2,642,813   | \$ -   | \$ -   | \$ 2,642,813        |
| Fixed income       | 793,197  | -  | -  | 793,197             |
|                    | <u>\$ 3,436,010</u>  | <u>\$ -</u>  | <u>\$ -</u>  | <u>\$ 3,436,010</u> |

| <u>Description</u> | <u>Fair Value Measurements at June 30, 2010, Using</u>                               |  |  | <u>Total</u>        |
|--------------------|--|--|--|---------------------|
|                    | <u>Quoted Price in<br/>Active Markets<br/>for Identical<br/>Assets<br/>(Level 1)</u> | <u>Significant<br/>Other<br/>Observable<br/>Inputs<br/>(Level 2)</u> | <u>Significant<br/>Unobservable<br/>Inputs<br/>(Level 3)</u> |                     |
| Mutual funds       | \$ 398,487   | \$ -   | \$ -   | \$ 398,487          |
| Fixed income       | 1,478,645  | -  | -  | 1,478,645           |
| Equities           | 2,439,435  | -  | -  | 2,439,435           |
|                    | <u>\$ 4,316,567</u>  | <u>\$ -</u>  | <u>\$ -</u>  | <u>\$ 4,316,567</u> |

The following summarizes the investment income during the year ended June 30, 2011, including cash and cash equivalent accounts:

|                                |                   |
|--------------------------------|-------------------|
| Unrealized gain on investments | \$ 509,632        |
| Realized gain on investments   | 20,891            |
| Interest and dividend income   | 84,321            |
| Investment management fees     | <u>(18,648)</u>   |
|                                | <u>\$ 596,196</u> |

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

**NOTES TO FINANCIAL STATEMENTS**  
**For the years ended June 30, 2011 and 2010**

NOTE 5 LAND, BUILDING, EQUIPMENT AND LEASEHOLD IMPROVEMENTS

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

| <u>Land, building,<br/>equipment and leasehold<br/>improvements, at cost</u> | <u>Land</u>        | <u>Building<br/>and<br/>Improvements</u> | <u>Furniture and<br/>Equipment</u> | <u>Total</u>       |
|--|--------------------|--|------------------------------------|--------------------|
| Balance, June 30, 2009   | \$ -               | \$ 546,489                               | \$ 148,996                         | \$ 695,485         |
| Additions  | -                  | -  | 10,475                             | 10,475             |
| Disposals  | -                  | -  | (1,475)                            | (1,475)            |
| Balance, June 30, 2010   | -                  | 546,489                                  | 157,996                            | 704,485            |
| Additions  | 1,174,734          | 605,989                                  | 29,561                             | 1,810,284          |
| Disposals  | -                  | (53,993)                                 | (64,246)                           | (118,239)          |
| Transfer to land, building<br>and improvements held<br>for sale              | <u>(1,174,734)</u> | <u>(605,989)</u>                         | <u>-</u>                           | <u>(1,780,723)</u> |
| Balance, June 30, 2011   | <u>-</u>           | <u>492,496</u>                           | <u>123,311</u>                     | <u>615,807</u>     |
| <u>Accumulated depreciation</u>  |                    |  |                                    |                    |
| Balance, June 30, 2009   | -                  | 99,842                                   | 97,646                             | 197,488            |
| Depreciation expense   | -                  | 13,874                                   | 16,341                             | 30,215             |
| Disposals  | -                  | -  | (786)                              | (786)              |
| Balance, June 30, 2010   | -                  | 113,716                                  | 113,201                            | 226,917            |
| Depreciation expense   | -                  | 15,883                                   | 15,222                             | 31,105             |
| Disposals  | -                  | (3,972)                                  | (38,449)                           | (42,421)           |
| Transfer to land, building<br>and improvements held<br>for sale              | <u>-</u>           | <u>(3,394)</u>                           | <u>-</u>                           | <u>(3,394)</u>     |
| Balance, June 30, 2011   | <u>-</u>           | <u>122,233</u>                           | <u>89,974</u>                      | <u>212,207</u>     |
| Land, building,<br>equipment and leasehold<br>improvements, net              | <u>\$ -</u>        | <u>\$ 370,263</u>                        | <u>\$ 33,337</u>                   | <u>\$ 403,600</u>  |

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

**NOTES TO FINANCIAL STATEMENTS**  
**For the years ended June 30, 2011 and 2010**

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NOTE 5 LAND, BUILDING, EQUIPMENT AND LEASEHOLD IMPROVEMENTS (Continued)

On March 9, 2011, the Corporation purchased a building in San Francisco, California, to serve as the Corporation's offices. The building was undergoing significant renovations and, as a result of the costs associated with the renovation, on February 11, 2012, the Board of Directors voted to sell the property. The value of the land, building and improvements held for sale as of June 30, 2011, was:

|                           |                     |
|---------------------------|---------------------|
| Land                      | \$ 1,174,734        |
| Building and improvements | 605,989             |
| Accumulated depreciation  | <u>(3,394)</u>      |
|                           | <u>\$ 1,777,329</u> |

As of the report date, the property has not been sold.

NOTE 6 ACCRUED VACATION LIABILITY

Accumulated unpaid employee vacation benefits are recognized as liabilities of the Corporation. The value of accumulated vacation at June 30, 2011 and 2010, was \$129,985 and \$99,891, respectively.

NOTE 7 ENDOWMENT

EFF's endowment consists of two investment accounts consisting of mutual funds, fixed income instruments, and cash and cash equivalents. EFF's 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.

Interpretation of Law - The California State Prudent Management of Institutional Funds Act (UPMIFA) regulates all donor-created endowment funds held by charitable institutions in the State. EFF's endowment is a "board-designated endowment fund" and not a "donor restricted endowment fund," and is therefore not subject to California's enactment of UPMIFA. However, the Board of Directors of EFF have interpreted GAAP to require disclosure of the following information in order 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.

IF EFF were to receive any contributions to the endowment that included donor restrictions, the Board of Directors of EFF understands that those contributions would be subject to California's enactment of UPMIFA with regard to classification of net assets and all other factors considered in making determinations as to appropriate or accumulated donor-restricted funds.

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

**NOTES TO FINANCIAL STATEMENTS**  
**For the years ended June 30, 2011 and 2010**

NOTE 7 ENDOWMENT (Continued)

Endowment Net Asset Composition by Type of Fund as of:

| <u>June 30, 2011</u>                | <u>Unrestricted</u> | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total</u>        |
|-------------------------------------|---------------------|-----------------------------------|-----------------------------------|---------------------|
| Board-designated<br>endowment funds | \$ 3,026,282        | \$ -                              | \$ -                              | \$ 3,026,282        |
| Total funds                         | <u>\$ 3,026,282</u> | <u>\$ -</u>                       | <u>\$ -</u>                       | <u>\$ 3,026,282</u> |

| <u>June 30, 2010</u>                | <u>Unrestricted</u> | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total</u>        |
|-------------------------------------|---------------------|-----------------------------------|-----------------------------------|---------------------|
| Board-designated<br>endowment funds | \$ 4,161,699        | \$ -                              | \$ -                              | \$ 4,161,699        |
| Total funds                         | <u>\$ 4,161,699</u> | <u>\$ -</u>                       | <u>\$ -</u>                       | <u>\$ 4,161,699</u> |

Changes in Endowment Net Assets for the years ended June 30, 2011 and 2010

|   | <u>Unrestricted</u> | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total</u>     |
|---|---------------------|-----------------------------------|-----------------------------------|------------------|
| Endowment net assets,<br>June 30, 2009                | \$ 3,833,342        | \$ -                              | \$ -                              | \$ 3,833,342     |
| Addition to Board-designated<br>amounts               | -                   | -                                 | -                                 | -                |
| Investment return:                                    |                     |                                   |                                   |                  |
| Interest and dividends                                | -                   | -                                 | -                                 | -                |
| Realized and<br>unrealized gain                       | 346,887             | -                                 | -                                 | 346,887          |
| Investment fees                                       | (18,530)            | -                                 | -                                 | (18,530)         |
| Total investment return                               | <u>328,357</u>      | <u>-</u>                          | <u>-</u>                          | <u>328,357</u>   |
| Contributions   | -                   | -                                 | -                                 | -                |
| Appropriation of endowment<br>assets for expenditure: |                     |                                   |                                   |                  |
| Spending rule   | -                   | -                                 | -                                 | -                |
| Endowment net assets,<br>June 30, 2010                | <u>4,161,699</u>    | <u>-</u>                          | <u>-</u>                          | <u>4,161,699</u> |

**ELECTRONIC FRONTIER FOUNDATION**  
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**NOTES TO FINANCIAL STATEMENTS**  
**For the years ended June 30, 2011 and 2010**

NOTE 7 ENDOWMENT (Continued)

|   | <u>Unrestricted</u> | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total</u>        |
|---|---------------------|-----------------------------------|-----------------------------------|---------------------|
| Investment return:                                    |                     |                                   |                                   |                     |
| Interest and dividends                                | 81,337              | -                                 | -                                 | 81,337              |
| Realized and<br>unrealized gain                       | 485,062             | -                                 | -                                 | 485,062             |
| Investment fees                                       | <u>(18,030)</u>     | <u>-</u>                          | <u>-</u>                          | <u>(18,030)</u>     |
| Total investment return                               | <u>548,369</u>      | <u>-</u>                          | <u>-</u>                          | <u>548,369</u>      |
| Contributions   | <u>-</u>            | <u>-</u>                          | <u>-</u>                          | <u>-</u>            |
| Appropriation of endowment<br>assets for expenditure: |                     |                                   |                                   |                     |
| Spending rule   | <u>(1,683,786)</u>  | <u>-</u>                          | <u>-</u>                          | <u>(1,683,786)</u>  |
| Endowment net assets,<br>June 30, 2011                | <u>\$ 3,026,282</u> | <u>\$ -</u>                       | <u>\$ -</u>                       | <u>\$ 3,026,282</u> |

Description of Amounts Classified as Permanently Restricted Net Assets and Temporarily Restricted Net Assets (Endowment Only) for the years ended June 30, 2011 and 2010

*Permanently Restricted Net Assets*

|   | <u>2011</u> | <u>2010</u> |
|---|-------------|-------------|
| The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation of SPMIFA | \$ -        | \$ -        |
| Total endowment funds classified as permanently restricted net assets   | <u>\$ -</u> | <u>\$ -</u> |

*Temporarily Restricted Net Assets*

|  |             |             |
|--|-------------|-------------|
| Term endowment funds   | \$ -        | \$ -        |
| The portion of perpetual endowment funds subject to a time restriction under SPMIFA: |             |             |
| Without purpose restrictions   | -           | -           |
| With purpose restrictions  | <u>-</u>    | <u>-</u>    |
| Total endowment funds classified as temporarily restricted net assets                | <u>\$ -</u> | <u>\$ -</u> |

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**NOTES TO FINANCIAL STATEMENTS**  
**For the years ended June 30, 2011 and 2010**

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NOTE 7 ENDOWMENT (Continued)

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. There were no such deficiencies as of June 30, 2011 and 2010.

Return Objectives and Risk Parameters

EFF has adopted investment and spending policies for 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. Endowment assets consist of board-designated funds. 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.

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 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.

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**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, 2011 and 2010, are designated for the following uses:

|  | 2011         | 2010       |
|--|--------------|------------|
| Time-Restricted  | \$ 550,000   | \$ -       |
| Prime Number Contest   | 387,786      | 387,786    |
| Civil Liberties Project  | 200,000      | -          |
| FOIA / FLAG  | 47,000       | 45,000     |
| International Advocacy and Policy Development Work                                 | 40,000       | 40,000     |
| HTTPS Observatory project  | 16,145       | -          |
| Endowment Campaign   | -            | 250,000    |
| Copyright watch  | -            | 17,636     |
| Legal Advice   | -            | 15,000     |
| Allowances for doubtful accounts and<br>present value on related grants receivable | (31,915)     | -          |
|  | \$ 1,209,016 | \$ 755,422 |

**NOTE 9 IN-KIND LEGAL SERVICES**

The Corporation received the benefit of in-kind legal services during the year ended June 30, 2011, which was recorded at fair value on a non-recurring basis using quoted prices in active markets for identified assets (Level 1); significant other observable inputs (Level 2); and significant unobservable inputs (Level 3):

|                        | Fair Value Measurements at June 30, 2011, Using                           |   |  |            |
|------------------------|---|---|--|------------|
|                        | Quoted Price in<br>Active Markets<br>for Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |            |
| <u>Description</u>     |   |   |  |            |
| In-kind legal services | \$ -  | \$ 358,333  | \$ -   | \$ 358,333 |

**ELECTRONIC FRONTIER FOUNDATION**  
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**NOTES TO FINANCIAL STATEMENTS**  
**For the years ended June 30, 2011 and 2010**

NOTE 10 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, 2011 and 2010:

| <u>2011</u>  | <u>Gross</u>     | <u>Gross</u>     | <u>Net</u>           |
|--|------------------|------------------|----------------------|
| EFF Events:  | <u>Income</u>    | <u>Expense</u>   | <u>Income/(Loss)</u> |
| Pioneer Award  | \$ 14,043        | \$ 7,483         | \$ 6,560             |
| EFF Birthday Party                                       | 6,249            | 248              | 6,001                |
| Other  | <u>9,565</u>     | <u>9,457</u>     | <u>108</u>           |
|  | <u>\$ 29,857</u> | <u>\$ 17,188</u> | <u>\$ 12,669</u>     |
|  |                  |                  |                      |
| <u>2010</u>  |                  |                  |                      |
| EFF Events:  |                  |                  |                      |
| Pioneer Award  | \$ 17,260        | \$ 11,574        | \$ 5,686             |
| 20 <sup>th</sup> Birthday Party                          | <u>8,690</u>     | <u>2,953</u>     | <u>5,737</u>         |
|  | <u>\$ 25,950</u> | <u>\$ 14,527</u> | <u>11,423</u>        |
| Outside events held by others resulting in contributions |                  |                  | <u>47,410</u>        |
|  |                  |                  | <u>\$ 58,833</u>     |

NOTE 11 NET ASSETS RELEASED FROM RESTRICTION

During the years ended June 30, 2011 and 2010, temporarily restricted funds were used for their restricted purposes or were held for specific time periods, and they were released to unrestricted net assets:

|  | <u>2011</u>       | <u>2010</u>       |
|--|-------------------|-------------------|
| Time-restricted                                    | \$ 275,000        | \$ 70,000         |
| Endowment campaign                                 | 250,000           | 250,000           |
| Civil Liberties Program                            | 200,000           | 33,333            |
| FOIA / FLAG Project                                | 83,000            | 30,000            |
| HTTPS Observatory project                          | 23,366            | -                 |
| Legal activities / free speech                     | 25,000            | -                 |
| Copyright watch                                    | 17,636            | -                 |
| Legal Advice                                       | 15,000            | 15,000            |
| Intellectual Property Program                      | -                 | 200,000           |
| E-Voting (EVN)                                     | -                 | 110,000           |
| Prime Number Contest                               | -                 | 100,000           |
| Public Interest Advocate                           | -                 | 75,000            |
| International Advocacy and Policy Development Work | -                 | 39,973            |
| Educational Work                                   | -                 | 25,000            |
| Summer Intern Program                              | -                 | 16,000            |
| European Digital Rights                            | -                 | 12,328            |
| Membership   | -                 | 10,000            |
|  | <u>\$ 889,002</u> | <u>\$ 986,634</u> |

**ELECTRONIC FRONTIER FOUNDATION**  
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**NOTES TO FINANCIAL STATEMENTS**  
**For the years ended June 30, 2011 and 2010**

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NOTE 12 LEASES

The Corporation leases its offices in San Francisco, California under two non-cancelable operating leases that expire July 31, 2012. The leases call for combined monthly payments of \$11,260.

In November 2009, the Corporation entered into a lease for office space in Washington, DC, under an operating lease that matured November 14, 2011. The lease called for base monthly rent payments of \$1,300, increasing to \$1,365 on the lease anniversary. On November 28, 2011, the lease was extended through November 30, 2012, with monthly payments of \$1,504.

Rent expense for the leases for the years ended June 30, 2011 and 2010, was \$151,170 and \$146,723, respectively.

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

| Year ending     |                   |
|-----------------|-------------------|
| <u>June 30,</u> |                   |
| 2012            | \$ 152,468        |
| 2013            | <u>18,780</u>     |
|                 | <u>\$ 171,248</u> |

NOTE 13 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, 2011 and 2010, the Corporation matched up to 10% of employee contributions to the plan, for a total of \$18,993 and \$19,308, respectively.

NOTE 14 RISKS, UNCERTAINTIES AND CONCENTRATIONS

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 and discussions of a U.S. economic downturn 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.

**ELECTRONIC FRONTIER FOUNDATION**  
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**NOTES TO FINANCIAL STATEMENTS**  
**For the years ended June 30, 2011 and 2010**

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NOTE 15 SUBSEQUENT EVENTS

- On February 11, 2012, the Board of Directors voted to sell the property originally purchased to serve as the Corporate offices of EFF, due to the significant renovation costs. As of the report date, the property has not been sold (see Note 5)
- On November 28, 2011, the Corporation signed an extension to the lease agreement for office space in Washington, DC. The new lease has a maturity date of November 30, 2012, and calls for monthly payments of \$1,504 (see Note 12).

**SUPPLEMENTARY INFORMATION**

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

**SCHEDULES OF FUNCTIONAL EXPENSES**  
**For the year ended June 30, 2011**

|                            | Program<br>Services | General and<br>Administrative | Fundraising       | Total               |
|----------------------------|---------------------|-------------------------------|-------------------|---------------------|
| Salaries                   | \$ 1,964,580        | \$ 316,699                    | \$ 329,713        | \$ 2,610,992        |
| Pension plan contributions | 14,657              | 2,475                         | 1,904             | 19,036              |
| Other employee benefits    | 210,500             | 18,191                        | 31,185            | 259,876             |
| Payroll taxes              | 142,090             | 23,989                        | 18,453            | 184,532             |
| Legal (including in-kind)  | 370,672             | -                             | -                 | 370,672             |
| Accounting                 | -                   | 13,220                        | -                 | 13,220              |
| Bank fees                  | -                   | -                             | 3,107             | 3,107               |
| Other professional fees    | 38,402              | 421                           | -                 | 38,823              |
| Office expenses            | 35,776              | 3,905                         | 6,833             | 46,514              |
| Information technology     | 10,775              | -                             | -                 | 10,775              |
| Occupancy                  | 159,050             | 13,745                        | 23,563            | 196,358             |
| Travel                     | 67,172              | 5,805                         | 9,951             | 82,928              |
| Depreciation               | 25,195              | 2,177                         | 3,733             | 31,105              |
| Insurance                  | 47,988              | 4,147                         | 7,109             | 59,244              |
| Litigation expenses        | 68,063              | -                             | -                 | 68,063              |
| Membership expenses        | -                   | -                             | 182,163           | 182,163             |
| Fundraising expenses       | -                   | -                             | 3,666             | 3,666               |
| Intern expenses            | 9,017               | -                             | -                 | 9,017               |
|                            | <u>9,017</u>        | <u>-</u>                      | <u>-</u>          | <u>9,017</u>        |
| Total expenses             | <u>\$ 3,163,937</u> | <u>\$ 404,774</u>             | <u>\$ 621,380</u> | <u>\$ 4,190,091</u> |

**ELECTRONIC FRONTIER FOUNDATION, INC.**  
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**SCHEDULES OF FUNCTIONAL EXPENSES (CONTINUED)**  
**For the year ended June 30, 2010**

|  | Program<br>Services | General and<br>Administrative | Fundraising       | Total               |
|--|---------------------|-------------------------------|-------------------|---------------------|
| Salaries and benefits                    | \$ 2,144,822        | \$ 180,898                    | \$ 307,504        | \$ 2,633,224        |
| Building expenses                        | 148,496             | 12,618                        | 21,762            | 182,876             |
| Program expenses<br>and special projects | 149,528             | -                             | -                 | 149,528             |
| Prime Number award                       | 100,000             | -                             | -                 | 100,000             |
| Office expenses                          | 83,218              | 5,717                         | 9,801             | 98,736              |
| Travel and meetings                      | 23,108              | 1,964                         | 54,183            | 79,255              |
| Grassroots campaigning                   | 53,091              | 4,511                         | 7,781             | 65,383              |
| Consultants                              | 13,872              | 44,391                        | 5,600             | 63,863              |
| Corporate insurance                      | 39,705              | 3,374                         | 5,819             | 48,898              |
| Bank and merchant fees                   | -                   | 2,527                         | 34,091            | 36,618              |
| Depreciation                             | 24,534              | 2,085                         | 3,596             | 30,215              |
| Other expenses                           | <u>11,901</u>       | <u>1,011</u>                  | <u>1,744</u>      | <u>14,656</u>       |
| Total expenses                           | <u>\$ 2,792,275</u> | <u>\$ 259,096</u>             | <u>\$ 451,881</u> | <u>\$ 3,503,252</u> |