FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

For Years Ended June 30, 2013 and 2012

CONTENTS

	Page
Independent Auditor's Report	1 - 2
Financial Statements	
Statements of Financial Position	3
Statements of Activities	4 - 5
Statements of Cash Flows	6
Notes to Financial Statements	7 - 17
Supplementary Information	
Schedules of Functional Expenses	19 - 20



55 Mitchell Blvd., Suite 3 San Rafael, CA 94903 Phone (415) 491-1130 >>> Fax (415) 524-4167 www.DoranAssociates.net

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Electronic Frontier Foundation, Inc. (a nonprofit public benefit corporation), which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Electronic Frontier Foundation, Inc. as of June 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of functional expenses are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Doran & Associates

May 13, 2014

STATEMENTS OF FINANCIAL POSITION June 30, 2013 and 2012

	2013	2012
ASSETS		
Current assets:		
Cash and cash equivalents (Note 1)	\$ 3,364,699	\$ 2,272,684
Prepaid expenses and deposits	16,861	18,359
Current portion of grants receivable, net of		
allowance for doubtful accounts (Note 2)	764,858	779,648
Inventory (Note 3)	32,445	36,642
Total current assets	4,178,863	3,107,333
Grants receivable, net of current portion, allowance for		
doubtful accounts and present value discount (Note 2)	158,842	220,376
Marketable equity securities (Note 4)	5,412,325	3,349,214
Deposit on land, building and improvements purchase (Note 5)	<u>-</u>	4,034,256
Land, building, improvements, and equipment		
net of accumulated depreciation of \$171,656 at 2013		
and \$233,306 at 2012 (Notes 1 and 5)	5,960,041	377,033
Total assets	<u>\$ 15,710,071</u>	<u>\$ 11,088,212</u>
LIABILITIES AND NET A	ASSETS	
Current liabilities:		
Accounts payable and accrued expenses	\$ 88,558	\$ 49,868
Deferred revenue (Note 1)	71,986	-
Accrued vacation liability (Note 6)	160,062	128,324
Total liabilities	320,606	178,192
Not agasta.		
Net assets: Unrestricted net assets:		
Undesignated	9,086,057	6,555,054
Board-designated endowment (Note 7)	4,712,840	<u>2,967,156</u>
Total unrestricted net assets	13,798,897	9,522,210
Temporarily restricted net assets (Note 8)	1,590,568	1,387,810
Total net assets	15,389,465	10,910,020
Total liabilities and net assets	\$ 15,710,071	\$ 11,088,212
TOWN ARE MANUAL WAR AND THE BOOK OF		

STATEMENTS OF ACTIVITIES For the year ended June 30, 2013

			•
	Unrestricted	Temporarily Restricted	Total
SUPPORT, REVENUE, AND TRANSFERS Public support:			
Foundation and corporation grants	\$ 4,455,572	\$ 643,175	\$ 5,098,747
Donations and contributions	2,064,624	500,000	2,564,624
Memberships	1,800,376	-	1,800,376
Cy pres award		69,109	69,109
Total public support	8,320,572	1,212,284	9,532,856
Revenue:			
Investment income (Note 4)	475,847	-	475,847
Litigation revenue	33,512	_	33,512
Event income, net of expenses (Note 9)	23,946	-	23,946
Loss on disposal of fixed assets (Note 5)	(359,732)	_	(359,732)
Miscellaneous	86,314		86,314
Total revenue	259,887	-	259,887
Net assets released from restriction (Note 10)	1,009,526	(1,009,526)	-
Total support, revenue, and transfers	9,589,985	202,758	9,792,743
EXPENSES			
Program services	4,104,774	, -	4,104,774
General and administrative	512,717	-	512,717
Fundraising	695,807		695,807
Total expenses	5,313,298		5,313,298
Change in net assets	4,276,687	202,758	4,479,445
Net assets, beginning of year	9,522,210	1,387,810	10,910,020
Net assets, end of year	<u>\$ 13,798,897</u>	<u>\$ 1,590,568</u>	\$ 15,389,465

STATEMENTS OF ACTIVITIES (CONTINUED) For the year ended June 30, 2012

	Uı	Unrestricted		Temporarily Restricted		Total	
SUPPORT, REVENUE, AND TRANSFERS							
Public support:							
Foundation and corporation grants	\$	2,772,273	\$	786,939	\$	3,559,212	
Donations and contributions		1,483,188		-		1,483,188	
Memberships		1,489,719		_		1,489,719	
Cy pres award		1,272,254		-		1,272,254	
Total public support		7,017,434		786,939		7,804,373	
Revenue:							
Investment income (loss) (Note 4)		(32,965)		-		(32,965)	
Litigation revenue		263,284		-		263,284	
Event income, net of expenses (Note 9)		58,537		-		58,537	
Loss on disposal of fixed assets, net (Note 5)		(391,189)		-		(391,189)	
Miscellaneous		26,891				26,891	
Total revenue		(75,442)		_		(75,442)	
Net assets released from restriction (Note 10)		608,145		(608,145)		_	
Total support, revenue, and transfers		7,550,137		178,794		7,728,931	
EXPENSES							
Program services		3,481,637		-		3,481,637	
General and administrative		415,339		-		415,339	
Fundraising		615,398	-			615,398	
Total expenses		4,512,374		<u> </u>		4,512,374	
Change in net assets		3,037,763		178,794		3,216,557	
Net assets, beginning of year		6,484,447		1,209,016		7,693,463	
Net assets, end of year	<u>\$</u>	9,522,210	<u>\$</u>	1,387,810	<u>\$</u>	10,910,020	

STATEMENTS OF CASH FLOWS For the years ended June 30, 2013 and 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES: Change in net assets	\$ 4,479,445	\$ 3,216,557
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	120,382	26,567
Unrealized loss (gain) on investments	(364,051)	120,234
Realized gain on investments	13,332	-
Realized loss on disposal of fixed assets	359,732	391,189
Changes in assets and liabilities:		
Prepaid expenses and deposits	1,498	(4,059)
Grants receivable	76,324	(195,794)
Inventory	4,197	(15,238)
Accounts payable and accrued expenses	38,690	(36,941)
Deferred revenue	71,986	-
Accrued vacation liability	31,738	(1,661)
Total adjustments	353,828	284,297
Net cash provided by operating activities	4,833,273	3,500,854
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(1,712,392)	(33,438)
Deposit for purchase of land, building, and improvements	4,034,256	(4,034,256)
Cash received from sale of land, building,		
and improvements held for sale	- .	1,574,420
Purchase of land, building, and improvements held for sale	-	(188,280)
Purchase of land, building, improvements, and equipment	<u>(6,063,122)</u>	(0.601.774)
Net cash used by investing activities	(3,741,258)	(2,681,554)
Net increase in cash and cash equivalents	1,092,015	819,300
Cash and cash equivalents, beginning of year	2,272,684	1,453,384_
Cash and cash equivalents, end of year	\$ 3,364,699	\$ 2,272,684

ELECTRONIC FRONTIER FOUNDATION, INC.

(A Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS For the years ended June 30, 2013 and 2012

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

<u>Organization</u> - 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.

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

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

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

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

There were no permanently restricted net assets as of June 30, 2013 and 2012.

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

<u>Cash and Cash Equivalents</u> - 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.

<u>Deferred Revenue</u> - The Corporation received an advance payment on a reimbursement contract during the 2013 fiscal year. At June 30, 2013, \$71,986 was held as deferred revenue, to be earned in the subsequent fiscal year.

NOTES TO FINANCIAL STATEMENTS For the years ended June 30, 2013 and 2012

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

<u>Contributions</u> - 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.

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

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.

<u>Estimates</u> - 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.

<u>Subsequent Events</u> - Subsequent events have been evaluated through May 13, 2014, 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.

<u>Reclassifications</u> - Certain balances at, and for the year ended June 30, 2012, were reclassified to conform with June 30, 2013, balances.

NOTES TO FINANCIAL STATEMENTS For the years ended June 30, 2013 and 2012

NOTE 2 GRANTS RECEIVABLE

The Corporation had recorded the following grants receivable as of June 30, 2013 and 2012:

		Current Portion				: 	Total
June 30, 2013: Grants receivable Less: allowance for	\$	780,615	\$	175,000	\$	955,615	
doubtful account		15,757		3,533		19,290	
Less: present value discount at 6%			-	12,625		12,625	
	<u>\$</u>	764,858	<u>\$</u>	158,842	<u>\$</u>	923,700	
June 30, 2012: Grants receivable Less: allowance for	\$	781,939	\$	250,000	\$	1,031,939	
doubtful account		2,291		7,500		9,791	
Less: present value discount at 6%		· <u>-</u>		22,124		22,124	
	<u>\$</u>	779,648	\$	220,376	<u>\$</u>	1,000,024	

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, 2013 and 2012, consisted of the following:

	<u></u>	2013			
Apparel Cards, stickers, etc;	\$	28,396	\$	12,251	
Cards, stickers, etc,		4,049		24,391	
	<u>\$</u>	32,445	\$	36,642	

NOTES TO FINANCIAL STATEMENTS For the years ended June 30, 2013 and 2012

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, 2013 and 2012, 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 Using							
	Qu	oted Price in	5	Significant				
	Ac	tive Markets		Other	Si	gnificant		
	for	· Identical	(Observable	Uno	bservable		
		Assets		Inputs		Inputs		
<u>Description</u>		(Level 1)		(Level 2)	(]	Level 3)		Total
June 30, 2013								
Mutual funds	\$	1,113,106	\$	-	\$	-	\$	1,113,106
Fixed income		1,439,375		-		-		1,439,375
Equities		2,859,844		-				2,859,844
	<u>\$</u>	5,412,325	<u>\$</u>		<u>\$</u>		<u>\$</u>	5,412,325
June 30, 2012								
Mutual funds	\$	523,235	\$	-	\$	-	\$	523,235
Fixed income		1,064,753		-				1,064,753
Equities		1,761,226						1,761,226
	<u>\$</u>	3,349,214	<u>\$</u>	-	<u>\$</u>		\$	3,349,214

The following summarizes the investment income (loss) during the years ended June 30, 2013 and 2012, including cash and cash equivalent accounts:

,		2013		2012
Unrealized gain (loss) on investments	\$	364,051	\$	(120,234)
Realized loss on investments		(13,332)		-
Interest and dividend income		141,258		101,688
Investment management fees	-	(16,130)		(14,419)
	<u>\$</u>	475,847	<u>\$</u>	(32,965)

NOTES TO FINANCIAL STATEMENTS For the years ended June 30, 2013 and 2012

NOTE 5 LAND, BUILDING, IMPROVEMENTS, AND EQUIPMENT

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

Land, building,		Building		
improvements, and		and	Furniture and	
equipment, at cost	Land	<u>Improvements</u>	<u>Equipment</u>	Total
Balance, June 30, 2011	\$ -	\$ 492,496	\$ 123,311	\$ 615,807
Disposals			(5,468)	(5,468)
Balance, June 30, 2012	-	492,496	117,843	610,339
Additions	954,712	4,959,902	148,508	6,063,122
Disposals		(492,496)	(49,268)	(541,764)
Balance, June 30, 2013	954,712	4,959,902	217,083	6,131,697
Accumulated depreciation				
Balance, June 30, 2011	-	122,233	89,974	212,207
Depreciation expense	-	12,489	14,078	26,567
Disposals			(5,468)	(5,468)
Balance, June 30, 2012	-	134,722	98,584	233,306
Depreciation expense	-	85,545	34,837	120,382
Disposals		(134,722)	(47,310)	(182,032)
Balance, June 30, 2013		85,545	86,111	171,656
Land, building, improvements,				
and equipment, net	\$ 954,712	\$ 4,874,357	<u>\$ 130,972</u>	\$ 5,960,041

In February 2012 the Corporation began negotiations for the purchase of a building in San Francisco, California to serve as the Corporation's offices. As of June 30, 2012, the Corporation had paid \$4,034,256 in escrow deposits and renovation costs toward the purchase, which closed escrow and was placed in service on July 3, 2012. Renovations were placed in service as work was completed.

NOTES TO FINANCIAL STATEMENTS For the years ended June 30, 2013 and 2012

NOTE 5 LAND, BUILDING, IMPROVEMENTS, AND EQUIPMENT (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 building was sold June 8, 2012. The value of the land, building and improvements held for sale as of June 30, 2011, and at the time of sale, was:

	June 30,2011		Additions		Value at sale	
Land	\$	1,174,734	\$	= '	\$	1,174,734
Building and improvements		605,989		188,280		794,269
Accumulated depreciation		(3,394)		-		(3,394)
Proceeds of sale	<u>\$</u>	1,777,329	\$	188,280		1,965,609 1,574,420
Net loss on sale of building, year ended	<u>\$</u>	(391,189)				

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, 2013 and 2012, was \$160,062 and \$128,324, respectively.

NOTE 7 ENDOWMENT

EFF's endowment consists of one investment account consisting of equities, 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-restricted 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, 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.

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

NOTES TO FINANCIAL STATEMENTS For the years ended June 30, 2013 and 2012

NOTE 7 ENDOWMENT (Continued)

Endowment Net Asset Composition by Type of Fund as of:

June 30, 2013	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board-designated endowment funds	\$ 4,712,840	\$ -	\$ -	\$ 4,712,840
Total funds	\$ 4,712,840	\$ -	\$ -	\$ 4,712,840
June 30, 2012 Board-designated endowment funds	¢ 2007.150	¢.	Ф	¢ 2067.156
Total funds	\$ 2,967,156 \$ 2,967,156	\$ - \$ -	<u>\$</u> -	\$ 2,967,156 \$ 2,967,156
Changes in Endowment Net 2				<u> </u>
P. 1	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2011	\$ 3,026,282	\$ -	<u>\$</u>	\$ 3,026,282
Addition to Board-designated amounts	i 			·
Investment return: Realized and	(45.792)			(45.792)
unrealized loss Investment fees	(45,783) (13,343)	- ·	-	(45,783) (13,343)
Total investment return	(59,126)			(59,126)
Contributions		<u> </u>		
Appropriation of endowment assets for expenditure: Spending rule	<u>-</u>			<u> </u>
Endowment net assets, June 30, 2012	2,967,156	-		2,967,156

NOTES TO FINANCIAL STATEMENTS For the years ended June 30, 2013 and 2012

NOTE 7 ENDOWMENT (Continued)

		Temporarily	Permanently	
Investment return	<u>Unrestricted</u>	Restricted	Restricted	Total
Realized loss	(13,326)	-	-	(13,326)
Unrealized gain	361,237	-	-	361,237
Interest and dividends	104,767	, -	_	104,767
Investment fees	(15,271)			(15,271)
Total investment return	437,407			437,407
Contributions	1,308,277			1,308,277
Appropriation of endowment assets for expenditure:				
Spending rule	-	-	-	_
		_	_	-
Endowment net assets,				
June 30, 2013	\$ 4,712,840	\$	\$	\$ 4,712,840

<u>Description of Amounts Classified as Permanently Restricted Net Assets and Temporarily Restricted Net Assets (Endowment Only) for the years ended June 30, 2013 and 2012</u>

As of June 30, 2013 and 2012, none of the net assets in EFF's endowment fund were restricted either permanently or temporarily.

Funds with Deficiencies

As of June 30, 2013 and 2012, the fair value of assets in EFF's endowment fund was not deficient under California's enactment of UPMIFA.

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.

NOTES TO FINANCIAL STATEMENTS For the years ended June 30, 2013 and 2012

NOTE 7 ENDOWMENT (Continued)

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.

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, 2013 and 2012, are designated for the following uses:

	2013			2012
Time-Restricted	\$	342,284	\$	586,939
Prime Number Contest		387,786		387,786
FOIA / FLAG		450,000		280,000
eHealth Privacy Project		100,000		150,000
Distributed Denial of Service		15,000		15,000
Patent-busting Project		235,513		-
Free Speech Project		25,000		-
Public Service Venture Fund Fellowship		45,000		-
Other		21,900		-
Allowances for doubtful accounts and				
present value on related grants receivable		(31,915)		(31,915)
	<u>\$</u>	1,590,568	<u>\$</u>	1,387,810

NOTES TO FINANCIAL STATEMENTS For the years ended June 30, 2013 and 2012

NOTE 9 EVENT INCOME

Event income consists of special events held by the Corporation, as well as events held by others which resulted in contributions for the Corporation as follows for the years ended June 30, 2013 and 2012:

	Gross			Gross	Net		
<u>2013</u>		Income	E	Expense	Inco	me/(Loss)	
Pioneer Award	\$	16,142	\$	22,898	\$	(6,756)	
Workshops		70,000		31,095		38,905	
Other		4,934		13,137		(8,203)	
	<u>\$</u>	91,076	<u>\$</u>	67,130	\$	23,946	
2012		•					
Pioneer Award	\$	22,527	\$	19,105	\$	3,422	
DEFCON		72,961		17,509		55,452	
Other		31,150		31,487		(337)	
	<u>\$</u>	126,638	<u>\$</u>	68,101	<u>\$</u>	58,537	

NOTE 10 NET ASSETS RELEASED FROM RESTRICTION

During the years ended June 30, 2013 and 2012, temporarily restricted funds were used for their restricted purposes or were held for specific time periods, and they were released to unrestricted net assets:

		2013	 2012
FOIA / FLAG Project	\$	30,000	\$ 267,000
Civil Liberties Program		200,000	200,000
International Advocacy and Policy Development World	k ·	-	40,000
Distributed Denial of Service		-	35,000
Time-restricted		449,439	25,000
Free Speech		-	25,000
HTTPS Observatory project		· -	16,145
eHealth Privacy Project		50,000	-
Patent-busting Project		264,487	-
Other		15,600	_
	\$	1,009,526	\$ 608,145
	<u>\$</u>	1,009,526	\$ 608,145

NOTES TO FINANCIAL STATEMENTS For the years ended June 30, 2013 and 2012

NOTE 11 LEASES

The Corporation leased offices in San Francisco, California under two non-cancelable operating leases that expired April 30, 2013, when the property was vacated. The leases called for combined monthly payments of \$13,112.

In November 2009, the Corporation entered into a lease for office space in Washington, DC, under an operating lease that matured November 30, 2012, and was month-to-month until it was vacated in May 2013. The lease calls for base monthly rent payments of \$1,504.

Rent expense for the leases for the years ended June 30, 2013 and 2012, was \$128,995 and \$165,232, respectively.

NOTE 12 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, 2013 and 2012, the Corporation matched up to 10% of employee contributions to the plan, for a total of \$26,345 and \$22,036, respectively. Additionally, the Corporation approved a one-time anniversary bonus contribution totaling \$82,000 during the year ended June 30, 2013, for a total contribution of \$108,345.

NOTE 13 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.

NOTE 14 CONTINGENCIES AND COMMITMENT

As of June 30, 2013, the Corporation had exceeded the Federal Depository Insurance Corporation cash limit of \$250,000 on its depository accounts. At June 30, 2013, the Corporation had approximately \$2,514,000 on deposit in excess of federally insured limits.

SUPPLEMENTARY INFORMATION

SCHEDULES OF FUNCTIONAL EXPENSES For the year ended June 30, 2013

·	 Program General and Services Administrative		Fundraising		Total	
Salaries	\$ 2,744,957	\$	359,760	\$	298,280	\$ 3,402,997
Pension plan contributions	87,139		11,092		10,114	108,345
Other employee benefits	268,223		33,527		33,528	335,278
Payroll taxes	193,910		24,238		24,239	242,387
Legal (including in-kind)	5,274		-		-	5,274
Accounting	-		15,015		-	15,015
Other professional fees	100,505		1,994		4,099	106,598
Bank fees	-		9,057		· <u>-</u>	9,057
Office expenses	79,814		12,545		9,977	102,336
Information technology	38,105		4,763		4,763	47,631
Occupancy	218,306		27,288		27,288	272,882
Travel	110,301		-		19,464	129,765
Depreciation	96,306		12,038		12,038	120,382
Insurance	63,961		1,400		1,400	66,761
Litigation expenses	89,067		-		-	89,067
Membership expenses	-		-		248,109	248,109
Fundraising expenses	-		-		2,508	2,508
Intern expenses	8,906				-	 8,906

SCHEDULES OF FUNCTIONAL EXPENSES (CONTINUED) For the year ended June 30, 2012

		Program Services	General and Administrative		Fundraising		Total	
Salaries	\$	2,280,074	\$	306,265	\$	308,285	\$	2,894,624
Pension plan contributions	•	18,083	•	2,260	•	2,260	*	22,603
Other employee benefits		259,396		32,166		32,206		323,768
Payroll taxes		166,290		20,786		20,786		207,862
Legal (including in-kind)		132,401		_				132,401
Accounting		-		15,300		_		15,300
Bank fees		-		6,778		_		6,778
Other professional fees		106,705		646		1,582		108,933
Office expenses		36,999		6,927		4,568		48,494
Information technology		44,729		3,772		5,389		53,890
Occupancy		189,010		15,941		22,772		227,723
Travel		112,302		-		19,818		132,120
Depreciation		21,206		2,710		2,651		26,567
Insurance		56,433		1,788		1,788		60,009
Litigation expenses		56,109		-		-		56,109
Membership expenses		-		-		188,568		188,568
Fundraising expenses		-		-		4,725		4,725
Intern expenses		1,900		-		_		1,900