

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

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

**For Years Ended
June 30, 2016 and 2015**

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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 financial statements of Electronic Frontier Foundation, Inc. (a nonprofit public benefit corporation), which comprise the statements of financial position as of June 30, 2016 and 2015, 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, 2016 and 2015, 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 11, 2017

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

STATEMENTS OF FINANCIAL POSITION
June 30, 2016 and 2015

| | 2016 | 2015 |
|--|---------------|---------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents (Note 1) | \$ 1,687,201 | \$ 2,008,608 |
| Prepaid expenses and deposits | 39,889 | 43,380 |
| Accounts receivable and employee advances | 31,890 | 8,079 |
| Current portion of grants receivable, net of allowance for doubtful accounts (Note 2) | 485,799 | 561,225 |
| Inventory (Note 1) | 98,128 | 27,644 |
| Total current assets | 2,342,907 | 2,648,936 |
| Grants receivable, net of current portion, allowance for doubtful accounts and present value discount (Note 2) | 610,760 | - |
| Restricted cash, donor-restricted endowment (Note 3) | 67,774 | 104,661 |
| Marketable equity securities (Note 4) | 16,121,451 | 18,139,107 |
| Employee affordable housing loans receivable, net of present value discount (Note 5) | 637,508 | 451,876 |
| Land, building, improvements, and equipment net of accumulated depreciation of \$752,425 at 2016 and \$514,012 at 2015 (Notes 1 and 6) | 9,048,797 | 8,876,633 |
| Total assets | \$ 28,829,197 | \$ 30,221,213 |
| LIABILITIES AND NET ASSETS | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | \$ 190,823 | \$ 144,822 |
| Deferred revenue | 1,500 | 1,500 |
| Accrued vacation liability (Note 7) | 237,541 | 229,025 |
| Total liabilities | 429,864 | 375,347 |
| Net assets: | | |
| Unrestricted net assets: | | |
| Undesignated | 13,951,701 | 14,877,220 |
| Board-designated endowment (Note 3) | 9,356,357 | 10,197,126 |
| Total unrestricted net assets | 23,308,058 | 25,074,346 |
| Temporarily restricted net assets (Note 8) | 2,091,275 | 1,771,520 |
| Permanently restricted net assets (Note 3) | 3,000,000 | 3,000,000 |
| Total net assets | 28,399,333 | 29,845,866 |
| Total liabilities and net assets | \$ 28,829,197 | \$ 30,221,213 |

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, 2016

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

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

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

STATEMENTS OF ACTIVITIES (CONTINUED)
For the year ended June 30, 2015

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|--|----------------------|---------------------------|---------------------------|----------------------|
| SUPPORT, REVENUE, AND TRANSFERS | | | | |
| Public support: | | | | |
| Foundation and corporation grants | \$ 3,062,488 | \$ 1,489,126 | \$ 3,000,000 | \$ 7,551,614 |
| Donations and contributions | 2,292,151 | 255,000 | - | 2,547,151 |
| Memberships | 2,176,873 | - | - | 2,176,873 |
| Cy pres award | 3,743,826 | - | - | 3,743,826 |
| In-kind legal services (Note 1) | 237,464 | - | - | 237,464 |
| Total public support | <u>11,512,802</u> | <u>1,744,126</u> | <u>3,000,000</u> | <u>16,256,928</u> |
| Revenue: | | | | |
| Investment income (Note 4) | 138,161 | 116,550 | - | 254,711 |
| Litigation revenue | 95,306 | - | - | 95,306 |
| Event income, net of expenses (Note 9) | (14,521) | - | - | (14,521) |
| Miscellaneous | 169,622 | - | - | 169,622 |
| Total revenue | <u>388,568</u> | <u>116,550</u> | <u>-</u> | <u>505,118</u> |
| Net assets released from restriction | <u>1,391,608</u> | <u>(1,391,608)</u> | <u>-</u> | <u>-</u> |
| Total support, revenue, and transfers | <u>13,292,978</u> | <u>469,068</u> | <u>-</u> | <u>16,762,046</u> |
| EXPENSES | | | | |
| Program services | 7,153,752 | - | - | 7,153,752 |
| General and administrative | 1,150,243 | - | - | 1,150,243 |
| Fundraising | 1,120,915 | - | - | 1,120,915 |
| Total expenses | <u>9,424,910</u> | <u>-</u> | <u>-</u> | <u>9,424,910</u> |
| Change in net assets | 3,868,068 | 469,068 | 3,000,000 | 7,337,136 |
| Net assets, beginning of year | <u>21,206,278</u> | <u>1,302,452</u> | <u>-</u> | <u>22,508,730</u> |
| Net assets, end of year | <u>\$ 25,074,346</u> | <u>\$ 1,771,520</u> | <u>\$ 3,000,000</u> | <u>\$ 29,845,866</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, 2016 and 2015

| | 2016 | 2015 |
|---|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Change in net assets | \$ (1,446,533) | \$ 7,337,136 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation | 249,503 | 190,411 |
| Unrealized loss (gain) on investments | 2,171,307 | 549,864 |
| Realized loss (gain) on investments | 3,654 | 1,821 |
| Changes in assets and liabilities: | | |
| Prepaid expenses and deposits | 3,491 | (24,817) |
| Grants receivable | (535,334) | 235,472 |
| Accounts receivable and employee advances | (23,811) | (6,538) |
| Inventory | (70,484) | (1,116) |
| Employee loan receivable, net | (185,632) | (400,566) |
| Accounts payable and accrued expenses | 46,001 | (47,730) |
| Deferred revenue | - | 1,500 |
| Accrued vacation liability | 8,516 | 50,736 |
| Total adjustments | <u>1,667,211</u> | <u>549,037</u> |
| Net cash provided by operating activities | <u>220,678</u> | <u>7,886,173</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of investments | (2,264,418) | (8,909,978) |
| Sales of investments | 2,144,000 | 2,842,237 |
| Purchase of land, building, improvements, and equipment | (421,667) | (2,502,249) |
| Net cash used by investing activities | <u>(542,085)</u> | <u>(8,569,990)</u> |
| Net decrease in cash and cash equivalents | (321,407) | (683,817) |
| Cash and cash equivalents, beginning of year | <u>2,008,608</u> | <u>2,692,425</u> |
| Cash and cash equivalents, end of year | <u>\$ 1,687,201</u> | <u>\$ 2,008,608</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, 2016 and 2015

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

Inventory - Inventory consists of apparel and other items held for resale and promotion. Inventory is stated at the lower of cost or market value determined on the first-in, first-out basis and was valued at \$98,128 and \$27,644 at June 30, 2016 and 2015, respectively.

ELECTRONIC FRONTIER FOUNDATION
(A Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2016 and 2015

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

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

The Corporation reviews its investment in real estate for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the real estate to the future net undiscounted cash flow expected to be generated by any estimated proceeds from the eventual disposition of the real estate. If the real estate is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the real estate exceeds the fair value of such property. There were no impairment losses recognized in 2016 or 2015.

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

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

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

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

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

ELECTRONIC FRONTIER FOUNDATION
(A Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2016 and 2015

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

In-Kind Contributions - During the years ended June 30, 2016 and 2015, the Corporation recorded in-kind contributions of legal services related to its programs. These services have a fair market value using the market method of \$170,039 and \$237,464 for the years ended June 30, 2016 and 2015, as follows:

| <u>Description</u> | Fair Value Measurements Using | | | <u>Total</u> |
|--------------------|--|--|--|-------------------|
| | <u>Quoted Price in Active Markets for Identical Assets (Level 1)</u> | <u>Significant Other Observable Inputs (Level 2)</u> | <u>Significant Unobservable Inputs (Level 3)</u> | |
| <u>2016:</u> | | | | |
| Legal services | \$ - | \$ 137,434 | \$ - | \$ 137,434 |
| Program goods | - | 5,605 | - | 5,605 |
| Inventory goods | - | 27,000 | - | 27,000 |
| | <u>\$ -</u> | <u>\$ 170,039</u> | <u>\$ -</u> | <u>\$ 170,039</u> |
| <u>2015:</u> | | | | |
| Legal services | <u>\$ -</u> | <u>\$ 237,464</u> | <u>\$ -</u> | <u>\$ 237,464</u> |

Subsequent Events - Subsequent events have been evaluated through May 11, 2017, which is the date the financial statements were available to be issued.

NOTE 2 GRANTS RECEIVABLE

The Corporation had recorded the following grants receivable as of June 30, 2016 and 2015:

| | <u>Current Portion</u> | <u>Long-term Portion</u> | <u>Total</u> |
|--------------------------------------|----------------------------|------------------------------|---------------------|
| <u>June 30, 2016:</u> | | | |
| Grants receivable | \$ 494,267 | \$ 700,000 | \$ 1,194,267 |
| Less: allowance for doubtful account | 8,468 | 24,179 | 32,647 |
| Less: present value discount at 6% | - | 65,061 | 65,061 |
| | <u>\$ 485,799</u> | <u>\$ 610,760</u> | <u>\$ 1,096,559</u> |
| <u>June 30, 2015:</u> | | | |
| Grants receivable | \$ 593,140 | \$ - | \$ 593,140 |
| Less: allowance for doubtful account | 31,915 | - | 31,915 |
| | <u>\$ 561,225</u> | <u>\$ -</u> | <u>\$ 561,225</u> |

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

ELECTRONIC FRONTIER FOUNDATION
(A Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2016 and 2015

NOTE 3 ENDOWMENT

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

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

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

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

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

ELECTRONIC FRONTIER FOUNDATION
(A Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2016 and 2015

NOTE 3 ENDOWMENT (Continued)

Endowment Net Asset Composition by Type of Fund as of:

| <u>June 30, 2016</u> | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|-------------------------------------|---------------------|-----------------------------------|-----------------------------------|----------------------|
| Board-designated endowment funds | \$ 9,356,357 | \$ - | \$ - | \$ 9,356,357 |
| Donor-restricted endowment funds | <u>(439,387)</u> | <u>-</u> | <u>3,000,000</u> | <u>2,560,613</u> |
| Total funds | <u>\$ 8,916,970</u> | <u>\$ -</u> | <u>\$ 3,000,000</u> | <u>\$ 11,916,970</u> |

| <u>June 30, 2015</u> | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|-------------------------------------|----------------------|-----------------------------------|-----------------------------------|----------------------|
| Board-designated endowment funds | \$ 10,197,126 | \$ - | \$ - | \$ 10,197,126 |
| Donor-restricted endowment funds | <u>85,000</u> | <u>31,550</u> | <u>3,000,000</u> | <u>3,116,550</u> |
| Total funds | <u>\$ 10,282,126</u> | <u>\$ 31,550</u> | <u>\$ 3,000,000</u> | <u>\$ 13,313,676</u> |

Changes in Endowment Net Assets for the years ended June 30, 2016 and 2015

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|---|---------------------|-----------------------------------|-----------------------------------|-------------------|
| Endowment net assets, June 30, 2014 | \$ 10,230,205 | \$ - | \$ - | \$ 10,230,205 |
| Investment return | | | | |
| Realized gain | (1,821) | - | - | (1,821) |
| Unrealized gain | (508,386) | 106,042 | - | (402,344) |
| Interest and dividends | 520,849 | 21,495 | - | 542,344 |
| Investment fees | <u>(43,721)</u> | <u>(10,987)</u> | <u>-</u> | <u>(54,708)</u> |
| Total investment return | <u>(33,079)</u> | <u>116,550</u> | <u>-</u> | <u>83,471</u> |
| Contributions | <u>-</u> | <u>-</u> | <u>3,000,000</u> | <u>3,000,000</u> |
| Appropriation of endowment assets for expenditure: | | | | |
| Board-approved withdrawal | <u>85,000</u> | <u>(85,000)</u> | <u>-</u> | <u>-</u> |
| | <u>85,000</u> | <u>(85,000)</u> | <u>-</u> | <u>-</u> |
| Endowment net assets, June 30, 2015 | <u>10,282,126</u> | <u>31,550</u> | <u>3,000,000</u> | <u>13,313,676</u> |

ELECTRONIC FRONTIER FOUNDATION
(A Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2016 and 2015

NOTE 3 ENDOWMENT (Continued)

Changes in Endowment Net Assets for the years ended June 30, 2016 and 2015 (Continued)

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|--------------|---------------------------|---------------------------|---------------|
| Investment return | | | | |
| Realized gain | (3,654) | - | - | (3,654) |
| Unrealized gain | (1,934,300) | - | - | (1,934,300) |
| Interest and dividends | 1,059,548 | 45,714 | - | 1,105,262 |
| Investment fees | (70,014) | - | - | (70,014) |
| Total investment return | (948,420) | 45,714 | - | (902,706) |
| Contributions | - | - | - | - |
| Appropriation of endowment assets for expenditure: | | | | |
| Board-approved withdrawal | (416,736) | (77,264) | - | (494,000) |
| | (416,736) | (77,264) | - | (494,000) |
| Endowment net assets, June 30, 2016 | \$ 8,916,970 | \$ - | \$ 3,000,000 | \$ 11,916,970 |

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

| | 2016 | 2015 |
|--|--------------|--------------|
| <i>Permanently Restricted Net Assets</i> | | |
| The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by SPMIFA | \$ 3,000,000 | \$ 3,000,000 |
| Total endowment funds classified as permanently restricted net assets | \$ 3,000,000 | \$ 3,000,000 |
| <i>Temporarily Restricted Net Assets</i> | | |
| Term endowment funds | \$ - | \$ - |
| The portion of perpetual endowment funds subject to a time restriction under SPMIFA: | | |
| Without purpose restrictions | - | - |
| With purpose restrictions | - | 31,550 |
| Total endowment funds classified as temporarily restricted net assets | \$ - | \$ 31,550 |

ELECTRONIC FRONTIER FOUNDATION
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NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2016 and 2015

NOTE 3 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. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were approximately \$439,000 as of June 30, 2016. Subsequent gains occurred in fiscal 2017 due to the recovery in the financial markets that restored approximately \$103,000 of the fair value of the assets of the affected endowment funds to their required level, which have been classified as an increase in unrestricted net assets. There were no such deficiencies as of June 30, 2015.

Return Objectives and Risk Parameters

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

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

Strategies Employed for Achieving Objectives

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

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NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2016 and 2015

NOTE 3 ENDOWMENT (Continued)

Spending Policy and How the Investment Objectives Relate to Spending Policy

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

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

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, 2016 and 2015, using quoted prices in active markets for identified assets (Level 1); significant other observable inputs (Level 2); and significant unobservable inputs (Level 3):

| Description | Fair Value Measurements Using | | | Total |
|----------------------|---|---|--|----------------------|
| | Quoted Price in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | |
| <u>June 30, 2016</u> | | | | |
| Mutual funds | \$ 4,796,027 | \$ - | \$ - | \$ 4,796,027 |
| Fixed income | 3,189,172 | - | - | 3,189,172 |
| Equities | 8,136,252 | - | - | 8,136,252 |
| | <u>\$ 16,121,451</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 16,121,451</u> |
| <u>June 30, 2015</u> | | | | |
| Mutual funds | \$ 5,262,626 | \$ - | \$ - | \$ 5,262,626 |
| Fixed income | 3,900,947 | - | - | 3,900,947 |
| Equities | 8,975,534 | - | - | 8,975,534 |
| | <u>\$ 18,139,107</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 18,139,107</u> |

The following summarizes the investment income (loss) including interest on bank accounts and other sources during the years ended June 30, 2016 and 2015:

| | 2016 | 2015 |
|--------------------------------|---------------------|-------------------|
| Unrealized loss on investments | \$ (2,171,308) | \$ (549,864) |
| Realized loss on investments | (3,654) | (1,821) |
| Interest and dividend income | 1,390,535 | 864,435 |
| Investment management fees | (74,258) | (58,039) |
| | <u>\$ (858,685)</u> | <u>\$ 254,711</u> |

ELECTRONIC FRONTIER FOUNDATION
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NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2016 and 2015

NOTE 5 EMPLOYEE AFFORDABLE HOUSING LOANS RECEIVABLE

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

As of June 30, 2016 and 2015, the Corporation had made the following EAH loans:

| | 2016 | 2015 |
|---|------------|------------|
| Principal | \$ 799,150 | \$ 590,850 |
| Less: present value discount, equal to imputed interest discount; 3.14% | (161,642) | (138,974) |
| | \$ 637,508 | \$ 451,876 |

NOTE 6 LAND, BUILDING, IMPROVEMENTS, AND EQUIPMENT

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

| | Land | Building and Improvements | Furniture and Equipment | Total |
|---|--------------|---------------------------------|----------------------------|--------------|
| <u>Land, building, improvements, and equipment, at cost</u> | | | | |
| Balance, June 30, 2014 | \$ 954,712 | \$ 5,736,355 | \$ 197,329 | \$ 6,888,396 |
| Additions | 495,568 | 1,968,646 | 38,035 | 2,502,249 |
| Balance, June 30, 2015 | 1,450,280 | 7,705,001 | 235,364 | 9,390,645 |
| Additions | - | 356,166 | 65,501 | 421,667 |
| Disposals | - | - | (11,090) | (11,090) |
| Balance, June 30, 2016 | 1,450,280 | 8,061,167 | 289,775 | 9,801,222 |
| <u>Accumulated depreciation</u> | | | | |
| Balance, June 30, 2014 | - | 232,441 | 91,160 | 323,601 |
| Depreciation expense | - | 156,849 | 33,562 | 190,411 |
| Balance, June 30, 2015 | - | 389,290 | 124,722 | 514,012 |
| Depreciation expense | - | 206,698 | 42,805 | 249,503 |
| Disposals | - | - | (11,090) | (11,090) |
| Balance, June 30, 2016 | - | 595,988 | 156,437 | 752,425 |
| Land, building, improvements, and equipment, net | \$ 1,450,280 | \$ 7,465,179 | \$ 133,338 | \$ 9,048,797 |

ELECTRONIC FRONTIER FOUNDATION
(A Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2016 and 2015

NOTE 7 ACCRUED VACATION LIABILITY

Accumulated unpaid employee vacation benefits are recognized as liabilities of the Corporation. The value of accumulated vacation at June 30, 2016 and 2015, was \$237,541 and \$229,025, respectively.

NOTE 8 TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are contributions which were received with donor stipulations that limit the use of the assets for specific purposes and/or for specific time periods. Temporarily restricted net assets at June 30, 2016 and 2015, are designated for the following uses:

| | <u>2016</u> | <u>2015</u> |
|--|---------------------|---------------------|
| Time-Restricted | \$ 1,046,171 | \$ 457,877 |
| Prime Number Contest | 387,786 | 387,786 |
| Online Censorship.org | 44,144 | 195,910 |
| World Without Mass Surveillance LatAm Tour | - | 40,106 |
| Digital Privacy Training | 100,000 | 100,000 |
| Patent-busting Project | 88,573 | 227,383 |
| Surveillance Reform/Patriot Act Sunset Videos | 44,702 | 47,579 |
| Adams Endowed Chair for Internet Freedom | - | 31,550 |
| Student and Grassroots Patent Reform | 6,551 | 25,000 |
| Copyright Litigation Expense | 53,020 | 28,994 |
| Other | 49,317 | - |
| First Amendment fellowship | 248,719 | 261,250 |
| First Amendment staff | 120,000 | - |
| Allowances for doubtful accounts and present value on related grants receivable | <u>(97,708)</u> | <u>(31,915)</u> |
| | <u>\$ 2,091,275</u> | <u>\$ 1,771,520</u> |

NOTE 9 EVENT INCOME

Event income consists of special events held by the Corporation, as well as events held by others which resulted in contributions for the Corporation, as follows for the years ended June 30, 2016 and 2015:

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

ELECTRONIC FRONTIER FOUNDATION
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NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2016 and 2015

NOTE 9 EVENT INCOME (Continued)

| <u>2015</u> | <u>Gross Income</u> | <u>Gross Expense</u> | <u>Net Income/(Loss)</u> |
|--------------------------|-------------------------|--------------------------|------------------------------|
| Pioneer Award | \$ 42,115 | \$ 44,379 | \$ (2,264) |
| Trivia Night | 11,318 | 12,840 | (1,522) |
| Donor Celebration Dinner | - | 8,682 | (8,682) |
| Other | <u>1,200</u> | <u>3,253</u> | <u>(2,053)</u> |
| | <u>\$ 54,633</u> | <u>\$ 69,154</u> | <u>\$ (14,521)</u> |

NOTE 10 EQUIPMENT LEASE

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

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

| <u>Year ending June 30,</u> | | |
|---------------------------------|---|------------------|
| 2017 | | \$ 7,545 |
| 2018 | | 7,545 |
| 2019 | | 7,545 |
| 2020 | - | 7,545 |
| 2021 | | <u>3,773</u> |
| | | <u>\$ 33,953</u> |

NOTE 11 TAX SHELTERED ANNUITY

The Corporation has established a 403(b) deferred income plan for all eligible employees. Voluntary contributions are made by employees who choose to participate to the extent permissible by law. During the years ended June 30, 2016 and 2015, the Corporation matched up to 10% of employee contributions to the plan, for a total of \$57,842 and \$36,729, respectively. Additionally, the Corporation approved an anniversary bonus contribution totaling \$56,000 for the year ended June 30, 2016, and \$114,000 for the year ended June 30, 2015, for a total contribution of \$113,842 and \$150,729, respectively.

**ELECTRONIC FRONTIER FOUNDATION
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**NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2016 and 2015**

NOTE 12 RISKS, UNCERTAINTIES AND CONCENTRATIONS

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

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

For the year ended June 30, 2015, the Corporation received approximately 19% of its total income from an individual donor, an additional 18% from a Cy Pres award, and 9% from contributions made by customers of Humble Bundle, Inc. No single donor provided more than 10% of 2016 income.

As of June 30, 2016, the Corporation had exceeded the Federal Depository Insurance Corporation cash limit of \$250,000 on its depository accounts. At June 30, 2016, the Corporation had approximately \$857,000 on deposit in excess of federally insured limits.

SUPPLEMENTARY INFORMATION

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

SCHEDULES OF FUNCTIONAL EXPENSES
For the year ended June 30, 2016

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

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

SCHEDULES OF FUNCTIONAL EXPENSES (CONTINUED)
For the year ended June 30, 2015

| | Program Services | General and Administrative | Fundraising | Total |
|----------------------------|---------------------|-------------------------------|---------------------|---------------------|
| Salaries | \$ 4,194,243 | \$ 834,774 | \$ 525,610 | \$ 5,554,627 |
| Pension plan contributions | 117,692 | 24,867 | 12,478 | 155,037 |
| Other employee benefits | 577,251 | 76,967 | 115,450 | 769,668 |
| Payroll taxes | 298,787 | 59,757 | 39,838 | 398,382 |
| Legal | 244,785 | - | - | 244,785 |
| Accounting | - | 18,155 | - | 18,155 |
| Other professional fees | 587,769 | 17,255 | - | 605,024 |
| Bank fees | - | 16,134 | - | 16,134 |
| Office expenses | 86,965 | 20,408 | 11,752 | 119,125 |
| Information technology | 38,501 | 8,324 | 5,203 | 52,028 |
| Occupancy | 132,272 | 28,598 | 17,875 | 178,745 |
| Travel | 379,227 | - | 51,712 | 430,939 |
| Depreciation | 140,903 | 30,467 | 19,041 | 190,411 |
| Insurance | 95,622 | 6,554 | 4,097 | 106,273 |
| Litigation expenses | 215,129 | - | - | 215,129 |
| Membership expenses | 7,949 | - | 315,945 | 323,894 |
| Fundraising expenses | - | - | 1,914 | 1,914 |
| Intern expenses | 24,162 | - | - | 24,162 |
| Other expenses | 12,495 | 7,983 | - | 20,478 |
| | <u>\$ 7,153,752</u> | <u>\$ 1,150,243</u> | <u>\$ 1,120,915</u> | <u>\$ 9,424,910</u> |
| Total expenses | | | | |