

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

**FINANCIAL STATEMENTS**

**For the Six Months Ended  
June 30, 2009 and the  
Year Ended December 31, 2008**

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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, 2009 and December 31, 2008, and the related statements of activities and cash flows for the six month period ended June 30, 2009 and the year ended December 31, 2008. 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, 2009 and December 31, 2008, and the changes in its net assets and its cash flows for the six month period ended June 30, 2009 and the year ended December 31, 2008, 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 taken 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 basic financial statements of Electronic Frontier Foundation, Inc. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Doran & Associates*

April 29, 2010

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

**STATEMENTS OF FINANCIAL POSITION**  
**June 30, 2009 and December 31, 2008**

	2009	2008
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents (Note 1)	\$ 1,088,356	\$ 1,528,190
Prepaid expenses	6,450	28,438
Current portion of grants receivable (Note 2)	845,000	750,000
Inventory (Note 3)	<u>31,794</u>	<u>16,450</u>
Total current assets	1,971,600	2,323,078
Marketable equity securities (Note 4)	3,435,572	3,351,123
Grants receivable, net of current portion and present value discount (Note 2)	-	231,483
Deposits	13,000	13,000
Equipment and leasehold improvements, net of accumulated depreciation of \$197,488 at June 30, 2009 and \$191,699 at December 31, 2008 (Notes 1 and 5)	<u>497,997</u>	<u>517,152</u>
Total assets	<u><u>\$ 5,918,169</u></u>	<u><u>\$ 6,435,836</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 25,504	\$ 42,318
Accrued vacation liability (Note 6)	<u>108,011</u>	<u>76,803</u>
Total liabilities	<u>133,515</u>	<u>119,121</u>
Net assets:		
Unrestricted net assets:		
Undesignated	498,724	1,103,632
Board-designated endowment (Note 7)	<u>3,877,175</u>	<u>3,575,297</u>
Total unrestricted net assets	4,375,899	4,678,929
Temporarily restricted net assets (Note 8)	<u>1,408,755</u>	<u>1,637,786</u>
Total net assets	<u>5,784,654</u>	<u>6,316,715</u>
Total liabilities and net assets	<u><u>\$ 5,918,169</u></u>	<u><u>\$ 6,435,836</u></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 six months ended June 30, 2009**

	Unrestricted	Temporarily Restricted	Total
<b>SUPPORT, REVENUE AND TRANSFERS</b>			
Public support:			
Foundation and corporation grants	\$ 97,832	\$ 140,717	\$ 238,549
Donations and contributions	<u>299,490</u>	<u>-</u>	<u>299,490</u>
Total public support	<u>397,322</u>	<u>140,717</u>	<u>538,039</u>
Revenue:			
Memberships	352,169	-	352,169
Investment income (loss) (Note 4)	271,678	-	271,678
Litigation settlement	25,000	-	25,000
Event income, net of expenses (Note 9)	19,087	-	19,087
Loss on disposal of fixed assets, net (Note 5)	(9,416)	-	(9,416)
Miscellaneous	<u>2,877</u>	<u>-</u>	<u>2,877</u>
Total revenue	<u>661,395</u>	<u>-</u>	<u>661,395</u>
Net assets released from restrictions (Note 10)	<u>369,748</u>	<u>(369,748)</u>	<u>-</u>
Total support, revenue and transfers	<u>1,428,465</u>	<u>(229,031)</u>	<u>1,199,434</u>
<b>EXPENSES</b>			
Program services	1,341,736	-	1,341,736
General and administrative	205,707	-	205,707
Fundraising	<u>184,052</u>	<u>-</u>	<u>184,052</u>
Total expenses	<u>1,731,495</u>	<u>-</u>	<u>1,731,495</u>
Change in net assets	(303,030)	(229,031)	(532,061)
Net assets, December 31, 2008	<u>4,678,929</u>	<u>1,637,786</u>	<u>6,316,715</u>
Net assets, June 30, 2009	<u>\$ 4,375,899</u>	<u>\$ 1,408,755</u>	<u>\$ 5,784,654</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 December 31, 2008**

	Unrestricted	Temporarily Restricted	Total
<b>SUPPORT, REVENUE AND TRANSFERS</b>			
Public support:			
Foundation and corporation grants	\$ 508,042	\$ 864,411	\$ 1,372,453
Donations and contributions	<u>811,158</u>	<u>100,000</u>	<u>911,158</u>
Total public support	<u>1,319,200</u>	<u>964,411</u>	<u>2,283,611</u>
Revenue:			
Memberships	967,045	-	967,045
Investment income (loss) (Note 4)	(784,871)	-	(784,871)
Litigation settlement	66,605	-	66,605
Loss on disposal of fixed assets, net (Note 5)	<u>(3,210)</u>	<u>-</u>	<u>(3,210)</u>
Total revenue	<u>245,569</u>	<u>-</u>	<u>245,569</u>
Net assets released from restrictions (Note 10)	<u>1,122,043</u>	<u>(1,122,043)</u>	<u>-</u>
Total support, revenue and transfers	<u>2,686,812</u>	<u>(157,632)</u>	<u>2,529,180</u>
<b>EXPENSES</b>			
Program services	3,124,960	-	3,124,960
General and administrative	402,380	-	402,380
Fundraising	<u>289,100</u>	<u>-</u>	<u>289,100</u>
Total expenses	<u>3,816,440</u>	<u>-</u>	<u>3,816,440</u>
Change in net assets	<u>(1,129,628)</u>	<u>(157,632)</u>	<u>(1,287,260)</u>
Net assets, December 31, 2007	5,648,557	590,418	6,238,975
Prior period adjustment (Note 11)	<u>160,000</u>	<u>1,205,000</u>	<u>1,365,000</u>
Net assets, December 31, 2007, as restated	<u>5,808,557</u>	<u>1,795,418</u>	<u>7,603,975</u>
Net assets, December 31, 2008	<u>\$ 4,678,929</u>	<u>\$ 1,637,786</u>	<u>\$ 6,316,715</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 six months ended June 30, 2009 and the year ended December 31, 2008**

	2009	2008
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ (532,061)	\$ (1,287,260)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	16,405	34,245
Prior period adjustment	-	1,365,000
Unrealized (gain) loss on investments	(271,317)	787,931
Realized loss on disposal of fixed assets	9,416	3,210
Contribution of marketable equity securities	(180,373)	(159,487)
Changes in assets and liabilities:		
Prepaid expenses	21,988	-
Grants receivable	136,483	(981,483)
Inventory	(15,344)	20,393
Accounts payable and accrued expenses	(16,814)	15,385
Accrued vacation liability	31,208	41,815
Total adjustments	<u>(268,348)</u>	<u>1,127,009</u>
Net cash used by operating activities	<u>(800,409)</u>	<u>(160,251)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Net sales of investments	367,241	459,686
Purchase of equipment and leasehold improvements	<u>(6,666)</u>	<u>(66,695)</u>
Net cash provided by investing activities	<u>360,575</u>	<u>392,991</u>
Net (decrease) increase in cash and cash equivalents	(439,834)	232,740
Cash and cash equivalents, beginning of year	<u>1,528,190</u>	<u>1,295,450</u>
Cash and cash equivalents, end of year	<u>\$ 1,088,356</u>	<u>\$ 1,528,190</u>
Supplementary information:		
Non-cash transactions:		
Contribution of marketable equity securities	<u>\$ 180,373</u>	<u>\$ 159,487</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 six months ended June 30, 2009 and the year ended December 31, 2008**

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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.

Effective January 1, 2009 the Corporation changed the fiscal year end from December 31 to June 30. As a result, these financial statements reflect the operations of the six month period ended June 30, 2009.

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 diminishment 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 diminishment 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, 2009 and December 31, 2008.

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**  
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**NOTES TO FINANCIAL STATEMENTS**  
**For the six months ended June 30, 2009 and the year ended December 31, 2008**

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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.

Equipment and Leasehold Improvements - The Corporation records 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.

New Accounting Pronouncement, FAS-157, Fair Value Measurements - In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 157 (FAS-157), *Fair Value Measurements*. FAS-157 defines fair value, establishes a framework for measuring fair value in accordance with GAAP, and expands disclosures about fair value measurements. The provisions of FAS-157 are effective for the Corporation for fiscal years beginning January 1, 2008. The adoption of FAS-157 did not have a material impact on the Corporation's financial statements.

Subsequent Events - Subsequent events have been evaluated through April 29, 2010, which is the date the financial statements were available to be issued.

New Accounting Pronouncement, Uniform Prudent Management of Institutional Funds Act (UPMIFA) and California's State Prudent Management of Institutional Funds Act (SPMIFA) - In 2008, SB1329 was adopted, changing the rules governing the investment of funds by a nonprofit public benefit corporation. The new legislation will apply to newly created investment funds, as well as existing funds held as of January 1, 2009. As a result of this change in law, \$39,274 in endowment funds consisting of board-designated funds and unappropriated endowment gains was added to unrestricted endowment net assets in the six months ended June 30, 2009 (see Note 7).

**ELECTRONIC FRONTIER FOUNDATION**  
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**NOTES TO FINANCIAL STATEMENTS**

**For the six months ended June 30, 2009 and the year ended December 31, 2008**

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

New Accounting Principles, FIN48, Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109 - In June 2006, FASB issued FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109*. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement 109, *Accounting for Income Taxes*. FIN 48 prescribes a comprehensive model for recognizing, measuring, presenting and disclosing in the financial statements tax positions taken or expected to be taken on a tax return including positions that the organization is exempt from income taxes or not subject to income taxes on unrelated business income. If there are changes in net assets as a result of application of FIN 48, these will be accounted for as an adjustment to the opening balance of net assets. Additional disclosures about the amounts of such liabilities will be required also. The Corporation presently discloses or recognizes income tax positions based on management's estimate of whether it is reasonably possible or probable, respectively, that a liability has been incurred for unrecognized income tax benefits by applying FASB Statement No. 5, *Accounting for Contingencies*. The Corporation had elected to defer the application of FIN 48 in accordance with FASB Staff Position (FSP) FIN 48-3. This FSP deferred the elective date of FIN 48 for nonpublic enterprises, such as the Corporation, included within its scope, to the annual financial statements for fiscal years beginning after December 15, 2008. The Corporation has adopted FIN 48 in its 2009 financial statements. Management assessed the impact of FIN 48 on its financial position and results of operations and has determined the adoption of FIN 48 did not have a material effect on its financial statements.

**NOTE 2 GRANTS RECEIVABLE**

The Corporation has received several multi-year unconditional grants, which were receivable as follows at June 30, 2009 and December 31, 2008:

	<u>2009</u>	<u>2008</u>
Collectible in current period	\$ 845,000	\$ 750,000
Collectible in 2010	-	250,000
Less: present value discount	-	(18,517)
Net long-term portion	-	<u>231,483</u>
Total grants receivable, net	<u>\$ 845,000</u>	<u>\$ 981,483</u>

It is the practice of the Corporation to expense uncollectibles only after exhausting all efforts to collect the amounts due. There is no allowance for doubtful accounts and management believes all amounts will be collected in full.

**ELECTRONIC FRONTIER FOUNDATION**  
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**NOTES TO FINANCIAL STATEMENTS**  
**For the six months ended June 30, 2009 and the year ended December 31, 2008**

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, 2009 and December 31, 2008, consisted of the following:

	2009	2008
T-shirts	\$ 25,990	\$ 8,435
Cards, stickers, and other clothing items	5,804	8,015
	\$ 31,794	\$ 16,450

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 six months ended June 30, 2009 and the year ended December 31, 2008, 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, 2009, Using</u>			Total
	Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Mutual funds	\$ 2,206,543	\$ -	\$ -	\$ 2,206,543
Fixed income	1,044,629	-	-	1,044,629
Stocks	184,400	-	-	184,400
	\$ 3,435,572	\$ -	\$ -	\$ 3,435,572

<u>Description</u>	<u>Fair Value Measurements at December 31, 2008, Using</u>			Total
	Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Mutual funds	\$ 1,964,324	\$ -	\$ -	\$ 1,964,324
Bonds	1,386,799	-	-	1,386,799
	\$ 3,351,123	\$ -	\$ -	\$ 3,351,123

**ELECTRONIC FRONTIER FOUNDATION**  
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**NOTES TO FINANCIAL STATEMENTS**  
For the six months ended June 30, 2009 and the year ended December 31, 2008

NOTE 4 MARKETABLE EQUITY SECURITIES (Continued)

The following summarizes the investment income (loss) during the six months ended June 30, 2009 and the year ended December 31, 2008:

	2009	2008
Unrealized gain (loss)	\$ 271,317	\$ (787,931)
Interest and dividend income	361	3,060
	\$ 271,678	\$ (784,871)

NOTE 5 EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Equipment and leasehold improvements consisted of the following:

	Leasehold Improvements	Furniture and Equipment	Total
<u>Equipment and leasehold improvements, at cost</u>			
Balance, December 31, 2007	\$ 500,706	\$ 145,642	\$ 646,348
Additions	43,993	22,702	66,695
Disposals	-	(4,192)	(4,192)
Balance, December 31, 2008	544,699	164,152	708,851
Additions	1,790	4,876	6,666
Disposals	-	(20,032)	(20,032)
Balance, June 30, 2009	546,489	148,996	695,485
<u>Accumulated depreciation</u>			
Balance, December 31, 2007	79,077	79,359	158,436
Depreciation expense	13,828	20,417	34,245
Disposals	-	(982)	(982)
Balance, December 31, 2008	92,905	98,794	191,699
Depreciation expense	6,937	9,468	16,405
Disposals	-	(10,616)	(10,616)
Balance, June 30, 2009	99,842	97,646	197,488
Equipment and leasehold improvements, net	\$ 446,647	\$ 51,350	\$ 497,997

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, 2009 and December 31, 2008, was \$108,011 and \$76,803, respectively.

**ELECTRONIC FRONTIER FOUNDATION**  
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**NOTES TO FINANCIAL STATEMENTS**

For the six months ended June 30, 2009 and the year ended December 31, 2008

NOTE 7 ENDOWMENT

EFF's endowment consists of two investment accounts consisting of mutual funds, fixed income instruments, and cash and cash equivalents established to further the charitable purposes of EFF by providing general support in meeting the operating needs of EFF, as determined by its Board of Directors. Its endowment is made up of funds designated by the Board of Directors to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

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 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 by SPMIFA (see Note 1). 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

Endowment Net Asset Composition by Type of Fund as of June 30, 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Board-designated endowment funds	\$ 3,877,175	\$ -	\$ -	\$ 3,877,175
Total funds	<u>\$ 3,877,175</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,877,175</u>

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

**NOTES TO FINANCIAL STATEMENTS**  
**For the six months ended June 30, 2009 and the year ended December 31, 2008**

NOTE 7 ENDOWMENT (Continued)

Changes in Endowment Net Assets for the Six Months Ended June 30, 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, December 31, 2008	\$ 3,575,297	\$ -	\$ -	\$ 3,575,297
Addition to Board-designated amounts due to change in law (see Note I)	<u>39,274</u>	<u>-</u>	<u>-</u>	<u>39,274</u>
Endowment net assets, December 31, 2008, as restated	<u>3,614,571</u>	<u>-</u>	<u>-</u>	<u>3,614,571</u>
Investment return:				
Interest and dividends	-	-	-	-
Realized loss	-	-	-	-
Unrealized gain	262,604	-	-	262,604
Investment fees	-	-	-	-
Total investment return	<u>262,604</u>	<u>-</u>	<u>-</u>	<u>262,604</u>
Contributions	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Appropriation of endowment assets for expenditure:				
Spending rule	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Endowment net assets, June 30, 2009	<u>\$ 3,877,175</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,877,175</u>

Description of Amounts Classified as Permanently Restricted Net Assets and Temporarily Restricted Net Assets (Endowment Only) for the Six Months Ended June 30, 2009

*Permanently Restricted Net Assets*

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

\$ -

**ELECTRONIC FRONTIER FOUNDATION**  
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**NOTES TO FINANCIAL STATEMENTS**  
**For the six months ended June 30, 2009 and the year ended December 31, 2008**

NOTE 7    ENDOWMENT (Continued)

*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	-
	-
Total endowment funds classified as temporarily restricted net assets	\$ -

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, 2009.

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 more than 25% in fixed-income. Initial allocation targets shall be set at 60% equities and 40% 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

Spending 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.

**ELECTRONIC FRONTIER FOUNDATION**  
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**NOTES TO FINANCIAL STATEMENTS**

For the six months ended June 30, 2009 and the year ended December 31, 2008

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, 2009 and December 31, 2008, are designated for the following uses:

	2009	2008
Prime Number Contest	\$ 487,786	\$ 487,786
Civil Liberties Program	33,333	200,000
Time-Restricted	25,000	50,000
E-Voting (EVN)	-	50,000
Intellectual Property Program	200,000	200,000
Public Interest Advocate	75,000	100,000
Educational Work	25,000	50,000
Endowment Campaign	500,000	500,000
Consumer rights related to cell-phone use	15,000	-
Outplacement attorney program	30,000	-
Copyright watch	17,636	-
	\$ 1,408,755	\$ 1,637,786

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 six months ended June 30, 2009:

	Gross Income	Gross Expense	Net Income/(Loss)
EFF Events:			
Legal bootcamp	\$ 10,037	\$ 375	\$ 9,662
EFF Birthday Party	5,635	2,741	2,894
	\$ 15,672	\$ 3,116	12,556
Outside events held by others resulting in contributions			6,531
			\$ 19,087

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**NOTES TO FINANCIAL STATEMENTS**  
**For the six months ended June 30, 2009 and the year ended December 31, 2008**

**NOTE 10 NET ASSETS RELEASED FROM RESTRICTION**

During the six months ended June 30, 2009 and the year ended December 31, 2008, temporarily restricted funds were used for their restricted purposes or were held for specific time periods, and they were released to unrestricted net assets:

	2009	2008
Patent Busting Project	\$ -	\$ 22,632
FLAG Project	-	155,000
Summer Intern Program	-	10,000
EFF Europe / International Program	-	150,000
Copyfiltering Meeting	-	14,411
Civil Liberties Program	166,667	200,000
E-Voting (EVN)	55,000	85,000
Total Election Awareness	-	10,000
Intellectual Property Program	-	225,000
Endowment Campaign	-	250,000
Public Interest Advocate	25,000	-
Educational Work	25,000	-
Outplacement attorney program	30,000	-
Consumer rights related to cellphone use	15,000	-
Time-restricted	25,000	-
Copyright watch	18,081	-
EFF legal bootcamp	10,000	-
	\$ 369,748	\$ 1,122,043

**NOTE 11 PRIOR PERIOD ADJUSTMENT**

During the year ended December 31, 2008, it was discovered that several multi-year grants received in 2007 were unconditional and should have been recorded in full as of December 31, 2007. As a result, the balance of each grant was recorded in 2008 as a prior period adjustment, increasing unrestricted net assets by \$160,000 and temporarily restricted net assets by \$1,205,000, for a total prior period adjustment of \$1,365,000.

**NOTE 12 LEASES**

The Corporation leases its offices in San Francisco, California under two non-cancelable operating leases that expire July 31, 2010. The Corporation also occupies offices in Washington, DC under a short-term lease. EFF had also entered into a lease agreement to expand its San Francisco office. The lease had a term of two years commencing July 1, 2008, and required monthly rental payments of \$1,500. Subsequent to year-end, the Corporation determined that this additional office space was not needed and on May 27, 2009, the landlord released EFF from the new lease obligation. Rent expense for the leases for the six months ended June 30, 2009 was \$71,162 and for the year ended December 31, 2008, was \$148,619.

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**NOTES TO FINANCIAL STATEMENTS**

**For the six months ended June 30, 2009 and the year ended December 31, 2008**

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NOTE 12 LEASES (Continued)

In November 2009, the Corporation entered into a lease for office space in Washington, DC, under an operating lease that matures November 14, 2011. The lease calls for base monthly rent payments of \$1,300, increasing to \$1,365 on the lease anniversary.

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

Year ended <u>June 30,</u>	
2010	\$ 144,248
2011	27,348
2012	<u>6,143</u>
	<u>\$ 177,739</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 six months ended June 30, 2009 and the year ended December 31, 2008, the Corporation matched up to 10% of employee contributions to the plan, for a total of \$10,077 and \$19,132, respectively.

NOTE 14 CONTINGENCIES

As of June 30, 2009, the Corporation had exceeded the Federal Depository Insurance Corporation limit of \$250,000 on its depository accounts. At June 30, 2009, the Corporation had approximately \$439,000 on deposit in excess of federally insured limits.

NOTE 15 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 16 SUBSEQUENT EVENTS

Subsequent to year-end, the Corporation entered into a new, long-term lease for office space in Washington, DC. The terms and minimum payments under this lease are disclosed in Note 12.

**SUPPLEMENTARY INFORMATION**

**ELECTRONIC FRONTIER FOUNDATION, INC.**  
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**SCHEDULES OF FUNCTIONAL EXPENSES**  
**For the six months ended June 30, 2009**

	Program Services	General and Administrative	Fundraising	Total
Salaries and benefits	\$ 1,066,601	\$ 179,813	\$ 86,837	\$ 1,333,251
Building expenses	82,129	7,700	12,833	102,662
Corporate insurance	19,505	1,829	3,048	24,382
Office expenses	36,094	10,676	4,067	50,837
Membership expenses	-	-	23,729	23,729
Bank and merchant fees	1,095	2,189	18,608	21,892
Consultants	14,922	3,500	-	18,422
Grassroots campaigning	-	-	31,824	31,824
Program expenses	109,923	-	-	109,923
Travel and entertainment	7,246	-	3,106	10,352
Other expenses	4,221	-	-	4,221
<b>Total expenses</b>	<b><u>\$ 1,341,736</u></b>	<b><u>\$ 205,707</u></b>	<b><u>\$ 184,052</u></b>	<b><u>\$ 1,731,495</u></b>

**ELECTRONIC FRONTIER FOUNDATION, INC.**  
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**SCHEDULES OF FUNCTIONAL EXPENSES (CONTINUED)**  
**For the year ended December 31, 2008**

	Program Services	General and Administrative	Fundraising	Total
Salaries and benefits	\$ 2,281,283	\$ 268,386	\$ 134,193	\$ 2,683,862
Professional fees	239,019	15,257	-	254,276
Office expenses	33,060	6,612	4,408	44,080
Telephone	21,728	6,427	2,448	30,603
Postage and delivery	4,583	4,583	10,760	19,926
Occupancy	89,171	37,155	22,293	148,619
Membership	-	6,782	77,991	84,773
Maintenance and repairs	2,235	931	559	3,725
Promotion and publications	7,714	-	1,810	9,524
Travel and conferences	66,228	-	16,557	82,785
Depreciation	20,547	8,561	5,137	34,245
Insurance	52,416	17,472	-	69,888
Program expenses	226,401	-	-	226,401
Bank and merchant fees	25,168	12,584	12,584	50,336
Other expenses	<u>55,407</u>	<u>17,630</u>	<u>360</u>	<u>73,397</u>
Total expenses	<u>\$ 3,124,960</u>	<u>\$ 402,380</u>	<u>\$ 289,100</u>	<u>\$ 3,816,440</u>