



**ELECTRONIC FRONTIER FOUNDATION, INC.**

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**FINANCIAL STATEMENTS**

**JUNE 30, 2018 and 2017**

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**A Trusted Nonprofit Partner**

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## INDEPENDENT AUDITORS' REPORT

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To the Board of Directors  
Electronic Frontier Foundation, Inc.

### Report on the Financial Statements

We have audited the accompanying financial statements of Electronic Frontier Foundation, Inc. (a nonprofit organization), which comprise the Statements of Financial Position as of June 30, 2018 and 2017, and the related Statements of Activities, Functional Expenses, 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.

### Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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 auditors' 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, 2018, and 2017, 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.

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## INDEPENDENT AUDITORS' REPORT

continued

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### Other Matter

#### *Prior Period Financial Statements*

The financial statements of Electronic Frontier Foundation, Inc. as of June 30, 2017, were audited by other auditors whose report dated May 9, 2018, expressed an unmodified opinion on those statements.

*Harrington Group*

Oakland, California  
March 21, 2019

# ELECTRONIC FRONTIER FOUNDATION, INC.

## STATEMENT OF FINANCIAL POSITION

June 30, 2018

With comparative totals at June 30, 2017

	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
Cash and cash equivalents (Note 2)	\$ 5,048,245	\$ 4,596,568
Restricted cash - donor restricted endowment	53,283	85,198
Grants receivable, net of allowance and present value discount of \$95,921 (Note 3)	1,216,503	1,502,579
Employee affordable housing loans receivable, net of present value discount of \$100,736 (Note 4)	496,264	557,667
Other accounts receivable	6,165	16,228
Inventory (Note 2)	139,004	198,275
Investments (Note 5)	24,545,886	20,470,655
Prepaid expenses	71,362	42,278
Property and equipment (Note 7)	8,676,365	8,858,016
<b>TOTAL ASSETS</b>	<b><u>\$ 40,253,077</u></b>	<b><u>\$ 36,327,464</u></b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable	\$ 240,979	\$ 266,373
Accrued liabilities (Note 8)	284,621	279,758
Deferred revenue	1,500	1,500
<b>TOTAL LIABILITIES</b>	<b><u>527,100</u></b>	<b><u>547,631</u></b>
<b>NET ASSETS</b>		
Unrestricted	33,840,329	29,852,673
Temporarily restricted (Note 10)	2,885,648	2,927,160
Permanently restricted (Note 11)	3,000,000	3,000,000
<b>TOTAL NET ASSETS</b>	<b><u>39,725,977</u></b>	<b><u>35,779,833</u></b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 40,253,077</u></b>	<b><u>\$ 36,327,464</u></b>

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

**ELECTRONIC FRONTIER FOUNDATION, INC.**

STATEMENT OF ACTIVITIES  
For the years ended June 30, 2018 and 2017

	Year ended June 30, 2018				Year ended June 30, 2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>REVENUE AND SUPPORT</b>								
Contributions (Note 12)	\$ 7,564,538	\$ 639,548	\$ -	\$ 8,204,086	\$ 7,130,612	\$ 2,452,487	\$ -	\$ 9,583,099
Membership income	4,690,845			4,690,845	4,186,894			4,186,894
Cy pres awards	2,276,235			2,276,235	3,061,754			3,061,754
Investment income (Note 5)	1,198,284	646,124		1,844,408	1,543,065	167,054		1,710,119
Other income	172,222			172,222	226,354			226,354
Litigation revenue	87,305			87,305	22,500			22,500
In-kind contributions (Note 2)	17,893			17,893	289,437			289,437
Special events net of expenses of \$43,082	(24,164)			(24,164)	(16,242)			(16,242)
Net assets released from restrictions (Note 10)	1,327,184	(1,327,184)		-	1,783,656	(1,783,656)		-
<b>TOTAL REVENUE AND SUPPORT</b>	<b>17,310,342</b>	<b>(41,512)</b>	<b>-</b>	<b>17,268,830</b>	<b>18,228,030</b>	<b>835,885</b>	<b>-</b>	<b>19,063,915</b>
<b>EXPENSES</b>								
Program services	9,896,835			9,896,835	8,578,311			8,578,311
General and administrative	1,784,596			1,784,596	1,559,585			1,559,585
Fundraising and development	1,641,255			1,641,255	1,545,519			1,545,519
<b>TOTAL EXPENSES</b>	<b>13,322,686</b>	<b>-</b>	<b>-</b>	<b>13,322,686</b>	<b>11,683,415</b>	<b>-</b>	<b>-</b>	<b>11,683,415</b>
<b>CHANGE IN NET ASSETS</b>	<b>3,987,656</b>	<b>(41,512)</b>	<b>-</b>	<b>3,946,144</b>	<b>6,544,615</b>	<b>835,885</b>	<b>-</b>	<b>7,380,500</b>
<b>NET ASSETS, BEGINNING OF YEAR</b>	<b>29,852,673</b>	<b>2,927,160</b>	<b>3,000,000</b>	<b>35,779,833</b>	<b>23,308,058</b>	<b>2,091,275</b>	<b>3,000,000</b>	<b>28,399,333</b>
<b>NET ASSETS, END OF YEAR</b>	<b>\$ 33,840,329</b>	<b>\$ 2,885,648</b>	<b>\$ 3,000,000</b>	<b>\$39,725,977</b>	<b>\$ 29,852,673</b>	<b>\$ 2,927,160</b>	<b>\$ 3,000,000</b>	<b>\$ 35,779,833</b>

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

**ELECTRONIC FRONTIER FOUNDATION, INC.**

STATEMENT OF FUNCTIONAL EXPENSES

For the years ended June 30, 2018 and 2017

	Year ended June 30, 2018				Year ended June 30, 2017			
	Program Services	General and Administrative	Fundraising and Development	Total Expenses	Program Services	General and Administrative	Fundraising and Development	Total Expenses
Salaries	\$ 6,771,355	\$ 1,404,833	\$ 666,622	\$ 8,842,810	\$ 5,584,276	\$ 1,215,950	\$ 699,284	\$ 7,499,510
Employee benefits	910,105	113,139	171,141	1,194,385	777,859	111,240	151,009	1,040,108
Payroll taxes	485,844	47,134	101,024	634,002	402,427	50,478	87,750	540,655
Total personnel costs	8,167,304	1,565,106	938,787	10,671,197	6,764,562	1,377,668	938,043	9,080,273
Other professional fees	576,217	45,896	23,896	646,009	822,068	14,644	3,658	840,370
Membership expenses	14,358		564,898	579,256	10,278		499,486	509,764
Depreciation	192,444	41,568	22,324	256,336	185,181	45,350	20,931	251,462
Travel	201,036		19,957	220,993	166,660		18,838	185,498
Occupancy	159,155	34,378	18,462	211,995	150,126	36,765	16,969	203,860
Planning and development expenses	136,962	29,584	15,888	182,434	50,983	12,485	5,763	69,231
Office expenses	116,901	25,766	13,561	156,228	103,512	26,971	11,700	142,183
Insurance	106,549	7,238	3,887	117,674	103,745	7,648	3,529	114,922
Litigation expenses	98,963			98,963	95,811			95,811
IT expenses	46,646	10,076	5,411	62,133	24,029	5,884	2,716	32,629
Legal	45,310			45,310	71,958			71,958
Event expenses	17,429		12,135	29,564	6,056		21,941	27,997
Accounting		21,355		21,355		19,665		19,665
Intern expenses	17,561			17,561	23,342			23,342
Bank fees		3,629		3,629		12,505		12,505
Fundraising expenses			2,049	2,049			1,945	1,945
<b>TOTAL FUNCTIONAL EXPENSES</b>	<b>\$ 9,896,835</b>	<b>\$ 1,784,596</b>	<b>\$ 1,641,255</b>	<b>\$ 13,322,686</b>	<b>\$ 8,578,311</b>	<b>\$ 1,559,585</b>	<b>\$ 1,545,519</b>	<b>\$ 11,683,415</b>

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

**ELECTRONIC FRONTIER FOUNDATION, INC.**

STATEMENT OF CASH FLOWS

For the years ended June 30, 2018 and 2017

	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 3,946,144	\$ 7,380,500
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	256,336	251,462
Unrealized (gain)	(1,412,691)	(1,386,603)
Reinvested dividends	(420,378)	
Realized loss on investments	-	245,698
(Increase) decrease in operating assets:		
Grants receivable	286,076	(406,020)
Other accounts receivable	10,063	15,662
Prepaid expenses	(29,084)	(2,389)
Inventory	59,271	(100,147)
EAH loan receivable	61,403	79,841
Increase (decrease) in operating liabilities:		
Accounts payable and accrued liabilities	(20,531)	117,767
	<b>2,736,609</b>	<b>6,195,771</b>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property and equipment	(74,685)	(60,681)
Purchase of investments	(2,468,662)	(18,876,816)
Sale of investments	226,500	15,668,517
Change in restricted cash	31,915	(17,424)
	<b>(2,284,932)</b>	<b>(3,286,404)</b>
<b>NET CASH (USED) BY INVESTING ACTIVITIES</b>		
<b>NET INCREASE IN CASH</b>	<b>451,677</b>	<b>2,909,367</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR</b>	<b>4,596,568</b>	<b>1,687,201</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 5,048,245</b>	<b>\$ 4,596,568</b>

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



# ELECTRONIC FRONTIER FOUNDATION, INC.

## NOTES TO FINANCIAL STATEMENTS

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### 1. **Organization**

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

### 2. **Summary of Significant Accounting Policies**

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

#### **Basis of Presentation**

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

#### **Accounting**

To ensure observance of certain constraints and restrictions placed on the use of resources, the accounts of EFF are maintained in accordance with the principles of net asset accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into net asset classes that are in accordance with specified activities or objectives. Accordingly, all financial transactions have been recorded and reported by net asset class as follows:

**Unrestricted.** These generally result from revenue generated by providing services, receiving unrestricted contributions, and receiving interest from investments less expenses incurred in providing program-related services, raising contributions, and performing administrative functions.

**Temporarily Restricted.** EFF reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions. EFF has temporarily restricted net assets of \$2,885,863 and \$2,927,160 at June 30, 2018 and 2017 respectively (see Note 10).

**Permanently Restricted.** These net assets are restricted by donors who stipulate that resources are to be maintained permanently, but permit to expend all of the income (or other economic benefits) derived from the donated assets. EFF has permanently restricted net assets of \$3,000,000 at June 30, 2018 and 2017 respectively (see Note 11).

# ELECTRONIC FRONTIER FOUNDATION, INC.

## NOTES TO FINANCIAL STATEMENTS

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### 2. Summary of Significant Accounting Policies, continued

#### **Cash and Cash Equivalents**

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

#### **Contributions and Grants Receivable**

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

#### **Investments**

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

#### **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 \$139,004 and \$198,275 at June 30, 2018 and 2017 respectively.

#### **Concentration of Credit Risks**

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

No single donor provided more than 10% of 2018 or 2017 income.

#### **Fair Value Measurements**

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

# ELECTRONIC FRONTIER FOUNDATION, INC.

## NOTES TO FINANCIAL STATEMENTS

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### 2. Summary of Significant Accounting Policies, continued

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

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

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

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

#### Property and Equipment

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

EFF reviews its investments in real estate for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the real estate to the future net undiscounted cash flow expected to be generated by any estimated proceeds from the eventual disposition of the real estate. If the real estate is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the real estate exceeds the fair value of such property. There were no impairment losses recognized in 2018 and 2017.

#### Contributed Services

Contributions of donated non-cash assets are measured on a non-recurring basis and recorded at fair value in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at fair value in the period received. For the years ended June 30, 2018 and 2017, EFF received donated services of \$17,893 and \$289,437 respectively.

#### Functional Allocation of Expenses

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

continued

# ELECTRONIC FRONTIER FOUNDATION, INC.

## NOTES TO FINANCIAL STATEMENTS

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### 2. Summary of Significant Accounting Policies, continued

#### Income Taxes

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

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

#### Use of Estimates

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

#### Reclassification

Certain amounts from the June 30, 2017 financial statements have been reclassified to conform to the June 30, 2018 presentation.

### 3. Grants Receivable

EFF had recorded grants receivable at June 30, 2018 and 2017 as follows:

	<u>2018</u>	<u>2017</u>
Grants receivable	\$1,312,424	\$1,598,500
Less: allowance for doubtful debts	<u>(32,461)</u>	<u>(47,925)</u>
	1,279,963	1,550,575
Less: present value discount at 2.5%	<u>(63,460)</u>	<u>(47,996)</u>
	<u>\$1,216,503</u>	<u>\$1,502,579</u>

### 4. 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.

continued

# ELECTRONIC FRONTIER FOUNDATION, INC.

## NOTES TO FINANCIAL STATEMENTS

### 4. Employee Affordable Housing Loans Receivable, continued

As of June 30, 2018, and 2017 EFF had made the following EAH loans:

	<u>2018</u>	<u>2017</u>
Principal	\$ 597,000	\$ 689,250
Less: present value discount, equal to imputed interest discount of 3.14%	<u>(100,736)</u>	<u>(131,583)</u>
	<u>\$ 496,264</u>	<u>\$ 557,667</u>

### 5. Investments

Investments at June 30, 2018 and 2017 consist of the following:

	<u>2018</u>	<u>2017</u>
Equity	\$13,641,634	\$11,396,875
Fixed income	<u>10,904,252</u>	<u>9,073,780</u>
	<u>\$24,545,886</u>	<u>\$20,470,655</u>

Investment income (loss) including interest on bank accounts and other sources are as follows:

	<u>2018</u>	<u>2017</u>
Unrealized gain on investments	\$1,412,691	\$1,386,907
Interest and dividends	490,783	634,831
Realized (loss) on investments	-	(245,698)
Investment management fees	<u>(59,066)</u>	<u>(65,921)</u>
	<u>\$1,844,408</u>	<u>\$1,710,119</u>

### 6. Fair Value Measurements

The table below presents the balances of assets measured at fair value at June 30, 2018 and 2017 on a recurring basis:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b><u>June 30, 2018</u></b>				
Fixed income				
Bond market	\$ -	\$6,211,242	\$ -	\$ 6,211,242
International bonds		2,185,442		2,185,442
Short term investment	1,363,547			1,363,547
International investment	908,537			908,537
Corporate bonds		109,491		109,491
Large growth	76,280			76,280
Bank loan	<u>49,713</u>			<u>49,713</u>
Total fixed income	<u>2,398,077</u>	<u>8,506,175</u>	<u>-</u>	<u>10,904,252</u>

continued

# ELECTRONIC FRONTIER FOUNDATION, INC.

## NOTES TO FINANCIAL STATEMENTS

### 6. Fair Value Measurements, continued

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equities				
Stock market	\$ 8,791,807	\$ -	\$ -	\$ 8,791,807
Common stock	3,158,718			3,158,718
International stock	1,595,413			1,595,413
Real estate investment trusts	69,706			69,706
Preferred stock	<u>25,990</u>			<u>25,990</u>
Total equities	<u>13,641,634</u>	<u>-</u>	<u>-</u>	<u>13,641,634</u>
Fair value at June 30, 2018	<u>\$16,039,711</u>	<u>\$8,506,175</u>	<u>\$ -</u>	<u>\$24,545,886</u>
<u>June 30, 2017</u>				
Fixed income				
Index fund	\$8,951,119	\$ -	\$ -	\$ 8,951,119
Corporate bonds		<u>122,661</u>		<u>122,661</u>
Total fixed income	<u>8,951,119</u>	<u>122,661</u>	<u>-</u>	<u>9,073,780</u>
Equities				
Stock market	7,351,422			7,351,422
Common stock	2,664,046			2,664,046
International stock	1,303,832			1,303,832
Real estate investment trusts	51,765			51,765
Preferred stock	<u>25,810</u>			<u>25,810</u>
Total equities	<u>11,396,875</u>	<u>-</u>	<u>-</u>	<u>11,396,875</u>
Fair value at June 30, 2017	<u>\$20,347,994</u>	<u>\$ 122,661</u>	<u>\$ -</u>	<u>\$20,470,655</u>

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

The table below presents the transactions measured at fair value on a non-recurring basis during the years ended June 30, 2018 and 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>June 30, 2018</u>				
In-kind contributions	\$ -	\$ 17,893	\$ -	\$ 17,893
Pledged contributions – new			<u>1,285,672</u>	<u>1,285,672</u>
Fair value at June 30, 2018	<u>\$ -</u>	<u>\$ 17,893</u>	<u>\$1,285,672</u>	<u>\$1,303,565</u>
<u>June 30, 2017</u>				
In-kind contributions	<u>\$ -</u>	<u>\$289,437</u>	<u>\$ -</u>	<u>\$ 289,437</u>

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

continued

# ELECTRONIC FRONTIER FOUNDATION, INC.

## NOTES TO FINANCIAL STATEMENTS

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### 6. Fair Value Measurements, continued

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

### 7. Property and Equipment

Property and equipment at June 30, 2018 and 2017 consist of the following:

	<u>2018</u>	<u>2017</u>
Building and Improvements	\$ 8,105,171	\$ 8,061,167
Land	1,450,280	1,450,280
Computer equipment	211,198	207,423
Furniture and equipment	<u>143,313</u>	<u>140,413</u>
	9,909,962	9,859,283
Less: accumulated depreciation	<u>(1,233,597)</u>	<u>(1,001,267)</u>
	<u>\$ 8,676,365</u>	<u>\$ 8,858,016</u>

Depreciation expense for the years ended June 30, 2018 and 2017 was \$256,336 and \$251,462 respectively.

### 8. Accrued Liabilities

Accrued liabilities at June 30, 2018 and 2017 consist of the following:

	<u>2018</u>	<u>2017</u>
Accrued vacation	\$264,437	\$250,629
Other accrued liabilities	<u>20,184</u>	<u>29,129</u>
	<u>\$284,621</u>	<u>\$279,758</u>

### 9. Commitments

#### Obligations Under Operating Leases

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

<u>Year ending June 30</u>	
2019	\$ 7,545
2020	7,545
2021	<u>3,773</u>
	<u>\$18,863</u>

continued

# ELECTRONIC FRONTIER FOUNDATION, INC.

## NOTES TO FINANCIAL STATEMENTS

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### 10. Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2018 and 2017 are restricted for the following programs:

	<u>2018</u>	<u>2017</u>
Time restricted	\$1,308,049	\$1,507,182
Adams endowed chair for internet freedom	543,181	27,057
Prime number contest	387,786	387,786
Artificial intelligence	199,000	199,000
STARTTLS project	150,000	150,000
Creativity and innovation	149,462	188,366
Saved by Alice – patent stories	63,954	73,938
First amendment fellowship	53,132	134,078
Chair to eliminate stupid patents	46,039	202,293
Privacy lab	42,851	19,507
Others	19,891	31,574
First amendment staff	18,223	95,786
Online censorship.org	-	6,514
Allowances for doubtful accounts and present value on related grants receivable	<u>(95,920)</u>	<u>(95,921)</u>
	<u>\$2,885,648</u>	<u>\$2,927,160</u>

For the years ended June 30, 2018 and 2017, net assets released from purpose restrictions were \$1,327,184 and \$1,783,656 respectively.

### 11. Permanently Restricted Net Assets and Endowment Funds

Permanently restricted net assets represent contributions for which the donor has stipulated that the principal is to be kept intact in perpetuity and only the interest and dividends therefrom may be expended for unrestricted purposes. At June 30, 2018 and 2017, permanently restricted net assets were \$3,000,000.

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

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. 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.

continued



# ELECTRONIC FRONTIER FOUNDATION, INC.

## NOTES TO FINANCIAL STATEMENTS

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### 11. Permanently Restricted Net Assets and Endowment Funds, continued

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 EFF.

#### *Investment Objectives, Asset Allocation and Disbursement Policy*

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

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

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

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

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

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

# ELECTRONIC FRONTIER FOUNDATION, INC.

## NOTES TO FINANCIAL STATEMENTS

### 11. Permanently Restricted Net Assets and Endowment Funds, continued

Endowment net assets composition by type of fund at June 30, 2018 and 2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment Assets</u>
<b>June 30, 2018:</b>				
Board-designated endowment	\$13,468,360	\$ -	\$ -	<b>\$13,468,360</b>
Donor restricted endowment	<u>-</u>	<u>543,181</u>	<u>3,000,000</u>	<u><b>3,543,181</b></u>
	<u>\$13,468,360</u>	<u>\$543,181</u>	<u>\$3,000,000</u>	<u><b>\$17,011,541</b></u>
 <u>June 30, 2017</u>				
Board-designated endowment	\$11,374,209	\$ -	\$ -	\$11,374,209
Donor restricted endowment	<u>-</u>	<u>27,057</u>	<u>3,000,000</u>	<u>3,027,057</u>
	<u>\$11,374,209</u>	<u>\$ 27,057</u>	<u>\$3,000,000</u>	<u>\$14,401,266</u>

Changes in endowment net assets for the years ended June 30, 2018 and 2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment Assets</u>
<b>June 30, 2018:</b>				
Endowment net assets, beginning of year	\$11,374,209	\$ 27,057	\$3,000,000	<b>\$14,401,266</b>
Contributions	1,250,000			<b>1,250,000</b>
Withdrawals	(96,500)	(130,000)		<b>(226,500)</b>
Investment return:				
Net appreciation (realized and unrealized)	<u>940,651</u>	<u>646,124</u>	<u>_____</u>	<u><b>1,586,775</b></u>
Endowment net assets, end of year	<u>\$13,468,360</u>	<u>\$ 543,181</u>	<u>\$3,000,000</u>	<u><b>\$17,011,541</b></u>
 <u>June 30, 2017</u>				
Endowment net assets, beginning of year	\$ 8,916,970	\$ -	\$3,000,000	\$11,916,970
Contributions	1,750,000			1,750,000
Withdrawals	(350,000)	(139,997)		(489,997)
Investment return:				
Net appreciation (realized and unrealized)	<u>1,057,239</u>	<u>167,054</u>	<u>_____</u>	<u>1,224,293</u>
Endowment net assets, end of year	<u>\$11,374,209</u>	<u>\$ 27,057</u>	<u>\$3,000,000</u>	<u>\$14,401,266</u>

continued

# ELECTRONIC FRONTIER FOUNDATION, INC.

## NOTES TO FINANCIAL STATEMENTS

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### 12. Contributions

Contribution income for the years ended June 30, 2018 and 2017 consist of the following:

	<u>2018</u>	<u>2017</u>
Individual	\$2,878,991	\$2,712,407
Foundations	2,334,049	4,103,481
Corporate	1,995,475	1,707,801
Other contributions	<u>995,571</u>	<u>1,059,410</u>
	<u>\$8,204,086</u>	<u>\$9,583,099</u>

### 13. Tax Sheltered Annuity

EFF established a 403(b) deferred income plan for all eligible employees. Voluntary contributions made by employees who choose to participate to the extent permissible by law. EFF makes matching contributions up to 10% of employee contributions. Employer contributions under this plan for the years ended June 30, 2018 and 2017 were \$212,464 and \$188,414 respectively.

### 14. Subsequent Events

EFF closed escrow on its newly acquired property in November 2018.

No adjustments related to the above transaction has been made to the financial statements for the year ended June 30, 2018.

Management has evaluated subsequent events through March 21, 2019, the date which the financial statements were available for issue. No other events or transactions have occurred during this period that appear to require recognition or disclosure in the financial statements.