



ELECTRONIC FRONTIER FOUNDATION, INC.

FINANCIAL STATEMENTS

JUNE 30, 2019 and 2018

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INDEPENDENT AUDITORS' REPORT

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, 2019 and 2018, 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, 2019, and 2018, 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.

Harrington Group

Oakland, California
July 1, 2020

ELECTRONIC FRONTIER FOUNDATION, INC.

STATEMENT OF FINANCIAL POSITION

June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Cash and cash equivalents (Note 2)	\$ 5,112,921	\$ 5,048,245
Restricted cash - donor restricted endowment	73,426	53,283
Grants receivable, net of allowance and present value discount of \$90,921 and \$95,921 (Note 4)	1,165,887	1,216,503
Employee affordable housing loans receivable, net of present value discount of \$68,682 and \$100,736 (Note 5)	397,068	496,264
Other accounts receivable	-	6,165
Inventory (Note 2)	119,915	139,004
Investments (Note 6)	23,665,908	24,545,886
Prepaid expenses	59,134	71,362
Property and equipment (Note 8)	10,278,138	8,676,365
TOTAL ASSETS	\$ 40,872,397	\$ 40,253,077
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 162,140	\$ 240,979
Accrued liabilities (Note 9)	411,283	284,621
Deferred revenue	20,250	1,500
TOTAL LIABILITIES	593,673	527,100
NET ASSETS		
Without restrictions	34,489,298	33,840,329
With restrictions (Note 11)	2,789,426	2,885,648
With restrictions - perpetuity (Note 12)	3,000,000	3,000,000
TOTAL NET ASSETS	40,278,724	39,725,977
TOTAL LIABILITIES AND NET ASSETS	\$ 40,872,397	\$ 40,253,077

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

ELECTRONIC FRONTIER FOUNDATION, INC.

STATEMENT OF ACTIVITIES
For the years ended June 30, 2019 and 2018

	Year ended June 30, 2019			Year ended June 30, 2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT						
Public Support						
Foundation and corporaton grants	\$ 1,891,868	\$ 2,332,742	\$ 4,224,610	\$ 3,689,976	\$ 639,548	\$ 4,329,524
Memberships	4,317,717		4,317,717	4,941,406		4,941,406
Donations and contributions	4,134,568	12,615	4,147,183	3,624,001		3,624,001
Cy pres awards	507,443		507,443	2,276,235		2,276,235
In-kind contributions (Note 2)	15,848		15,848	17,893		17,893
Other revenue						
Investment income (Note 6)	1,421,749	80,467	1,502,216	1,198,284	646,124	1,844,408
Litigation revenue	204,957		204,957	87,305		87,305
Other income	133,250		133,250	172,222		172,222
Special events net of expenses of \$41,162 and \$43,082	(10,214)		(10,214)	(24,164)		(24,164)
Net assets released from restrictions (Note 11)	2,522,046	(2,522,046)	-	1,327,184	(1,327,184)	-
TOTAL REVENUE AND SUPPORT	15,139,232	(96,222)	15,043,010	17,310,342	(41,512)	17,268,830
EXPENSES						
Education, Advocacy and Litigation Program	10,678,031		10,678,031	9,896,835		9,896,835
General and administrative	2,048,208		2,048,208	1,784,596		1,784,596
Fundraising and development	1,764,024		1,764,024	1,641,255		1,641,255
TOTAL EXPENSES	14,490,263	-	14,490,263	13,322,686	-	13,322,686
CHANGE IN NET ASSETS	648,969	(96,222)	552,747	3,987,656	(41,512)	3,946,144
NET ASSETS, BEGINNING OF YEAR	33,840,329	5,885,648	39,725,977	29,852,673	5,927,160	35,779,833
NET ASSETS, END OF YEAR	\$ 34,489,298	\$ 5,789,426	\$ 40,278,724	\$ 33,840,329	\$ 5,885,648	\$ 39,725,977

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, 2019 and 2018

	Year ended June 30, 2019				Year ended June 30, 2018			
	Education, Advocacy and Litigation Program	General and Administrative	Fundraising and Development	Total Expenses	Education, Advocacy and Litigation Program	General and Administrative	Fundraising and Development	Total Expenses
Salaries	\$ 7,412,110	\$ 1,626,932	\$ 789,089	\$ 9,828,131	\$ 6,771,355	\$ 1,401,083	\$ 666,622	\$ 8,839,060
Employee benefits	969,775	120,780	199,495	1,290,050	910,105	116,889	171,141	1,198,135
Payroll taxes	517,436	54,109	118,933	690,478	485,844	47,134	101,024	634,002
Total personnel costs	8,899,321	1,801,821	1,107,517	11,808,659	8,167,304	1,565,106	938,787	10,671,197
Other professional fees	563,727	27,080	25,703	616,510	576,217	45,896	23,896	646,009
Membership expenses	13,310	2,557	517,213	533,080	14,358		564,898	579,256
Depreciation	201,093	49,889	26,096	277,078	192,444	41,568	22,324	256,336
Occupancy	157,100	38,976	20,387	216,463	159,155	34,378	18,462	211,995
Planning and development expenses	153,514	38,085	19,922	211,521	136,962	29,584	15,888	182,434
Office expenses	141,841	34,966	18,407	195,214	116,901	25,766	13,561	156,228
Travel	176,232	6,382	419	183,033	201,036		19,957	220,993
Insurance	107,281	8,119	4,246	119,646	106,549	7,238	3,887	117,674
Litigation expenses	116,820			116,820	98,963			98,963
IT expenses	50,945	12,639	6,611	70,195	46,646	10,076	5,411	62,133
Legal	60,318	3,050	1,596	64,964	45,310			45,310
Event expenses	12,893		13,858	26,751	17,429		12,135	29,564
Intern expenses	23,636			23,636	17,561			17,561
Accounting		21,000		21,000		21,355		21,355
Bank fees		3,644		3,644		3,629		3,629
Fundraising expenses			2,049	2,049			2,049	2,049
TOTAL FUNCTIONAL EXPENSES	\$ 10,678,031	\$ 2,048,208	\$ 1,764,024	\$ 14,490,263	\$ 9,896,835	\$ 1,784,596	\$ 1,641,255	\$ 13,322,686

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, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 552,747	\$ 3,946,144
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities		
Depreciation	277,078	256,336
Unrealized (gain)	(887,759)	(1,412,691)
Reinvested dividends	(553,980)	(420,378)
(Increase) decrease in operating assets:		
Grants receivable	50,616	286,076
Other accounts receivable	6,165	10,063
Prepaid expenses	12,228	(29,084)
Inventory	19,089	59,271
Employee affordable housing loans receivable	99,196	61,403
Increase (decrease) in operating liabilities:		
Accounts payable and accrued liabilities	66,573	(20,531)
	(358,047)	2,736,609
NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(1,878,851)	(74,685)
Purchase of investments	-	(2,468,662)
Sale of investments	2,321,717	226,500
Change in restricted cash	(20,143)	31,915
	422,723	(2,284,932)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES		
NET INCREASE IN CASH AND CASH EQUIVALENTS	64,676	451,677
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	5,048,245	4,596,568
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 5,112,921	\$ 5,048,245

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

ELECTRONIC FRONTIER FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

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.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Without Donor Restrictions. Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated some net assets, from net assets without donor restrictions, to create the endowment fund.

With Donor Restrictions. Net assets subject to imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Cash and Cash Equivalents

EFF has defined cash 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 interest rates is negligible. These are generally investments with maturity dates within three months of the acquisition date.

ELECTRONIC FRONTIER FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies continued

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 \$119,915 and \$139,004 at June 30, 2019 and 2018 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 2019 or 2018 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:

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.

continued

ELECTRONIC FRONTIER FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

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 2019 and 2018.

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, 2019 and 2018, EFF received donated services of \$15,848 and \$17,893 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.

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.

ELECTRONIC FRONTIER FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

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.

Recently Adopted Accounting Pronouncement

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The ASU amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes include: (a) requiring the presentation of only two classes of net assets now titled "without donor restrictions" and "with donor restrictions", (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring the use of the placed-in-service approach to recognize the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (d) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, (e) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (f) presenting investment return net of external and direct expenses, and (g) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. The ASU is effective for fiscal years beginning after December 15, 2017. The provisions of the ASU must be applied on a retrospective basis for all years presented although certain optional practical expedients are available for the periods prior to adoption. EFF's financial statements for the year ended June 30, 2019 are presented in accordance with ASU 2016-14.

Reclassification

Certain amounts from the June 30, 2018 financial statements have been reclassified to conform to the June 30, 2019 presentation.

3. Liquidity and Availability of Resources

EFF receives significant contributions and promises to give restricted by donors, and considers contributions restricted for programs which are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures. EFF manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs, and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged. Financial assets in excess of operating cash requirements are invested in certificates of deposit, money market funds and other short- and medium-term investments. To achieve these targets, the entity forecasts its future cash flows and monitors its liquidity quarterly and monitors its reserves annually.

continued

ELECTRONIC FRONTIER FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

3. Liquidity and Availability of Resources, continued

The Finance Director and Deputy Executive Director meet on an as-needed basis with EFF's investments advisors to review investment results, assess risk, and make recommendations for changes as needed.

EFF's endowment funds consist of donor-restricted endowments and funds designated by the Board as endowments. Income from donor-restricted endowments is restricted for specific purposes. Donor-restricted endowment funds are not available for general expenditure. Our board-designated endowment is subject to an annual spending rate limited to no more than 6% of the three-year rolling average of funds as described in Note 12. These funds are invested for long-term appreciation and current income but remain available and may be spent at the discretion of the Board. Occasionally, the Board designates a portion of any operating surplus to its capital spending reserve, which was \$950,000 as of June 30, 2019 or to its operating reserve, which was \$6.2 million as of June 30, 2019.

As of June 30, 2019, the following financial assets could readily be made available within one year of the balance sheet date to meet its operational cash flow needs:

<u>Financial assets at year end</u>	
Cash and cash equivalents	\$ 5,112,921
Contributions receivable, net	1,165,887
Other receivables, net	397,068
Investments	<u>23,665,908</u>
Total financial assets	<u>30,341,784</u>
 <u>Less amounts not available to be used within one year</u>	
Investments held for Board restricted endowments	(14,105,102)
Investments held for donor -endowments	(3,000,000)
Cash for restricted gifts	(1,623,539)
Contributions receivable for restricted gifts, net	(716,304)
Contributions receivable due after one year, net	<u>(449,583)</u>
Financial assets not available to be used within one year	<u>(19,894,528)</u>
 Financial assets available to meet general expenditures within one year	 <u>\$ 10,447,256</u>

4. Grants Receivable

EFF had recorded grants receivable at June 30, 2019 and 2018 as follows:

	<u>2019</u>	<u>2018</u>
Grants receivable	\$1,256,808	\$1,312,424
Less: allowance for doubtful debts	<u>(67,118)</u>	<u>(32,461)</u>
	1,189,690	1,279,963
Less: present value discount at 2.5%	<u>(23,803)</u>	<u>(63,460)</u>
	<u>\$1,165,887</u>	<u>\$1,216,503</u>

continued

ELECTRONIC FRONTIER FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

4. Grants Receivable, continued

Total grants receivable at June 30, 2019 of \$1,165,887 is expected to be collected as follows:

<u>Year ending June 30,</u>	
2020	\$ 856,808
2021	100,000
2022	100,000
2023	100,000
2024	<u>100,000</u>
	1,256,808
Less: unamortized discount on grants receivable and allowance for doubtful debts	<u>(90,921)</u>
	<u>\$1,165,887</u>

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, 2019, and 2018, EFF had made the following EAH loans:

	<u>2019</u>	<u>2018</u>
Principal	\$465,750	\$ 597,000
Less: present value discount, equal to imputed interest discount of 3.14%	<u>(68,682)</u>	<u>(100,736)</u>
	<u>\$397,068</u>	<u>\$ 496,264</u>

6. Investments

Investments at June 30, 2019 and 2018 consist of the following:

	<u>2019</u>	<u>2018</u>
Equity	\$13,463,946	\$13,641,634
Fixed income	<u>10,201,962</u>	<u>10,904,252</u>
	<u>\$23,665,908</u>	<u>\$24,545,886</u>

continued

ELECTRONIC FRONTIER FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

6. Investments, continued

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

	<u>2019</u>	<u>2018</u>
Unrealized gain on investments	\$ 887,759	\$1,412,691
Interest and dividends	690,104	490,783
Investment management fees	<u>(75,647)</u>	<u>(59,066)</u>
	<u>\$1,502,216</u>	<u>\$1,844,408</u>

7. Fair Value Measurements

The table below presents the balances of assets measured at fair value at June 30, 2019 and 2018 on a recurring basis:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>June 30, 2019</u>				
Equities				
Stock market	\$ 6,262,353	\$ -	\$ -	\$ 6,262,353
International stock	4,103,932			4,103,932
Common stock	2,903,378			2,903,378
Preferred stock	106,030			106,030
Real estate investment trusts	<u>88,253</u>			<u>88,253</u>
Total equities	<u>13,463,946</u>	<u>-</u>	<u>-</u>	<u>13,463,946</u>
Fixed income				
Bond market		5,158,772		5,158,772
International bonds		2,903,671		2,903,671
Short term investment	1,078,422			1,078,422
International investment	754,535			754,535
Large growth	180,914			180,914
Corporate bonds		<u>125,648</u>		<u>125,648</u>
Total fixed income	<u>2,013,871</u>	<u>8,188,091</u>	<u>-</u>	<u>10,201,962</u>
Fair value at June 30, 2019	<u>\$15,477,817</u>	<u>\$8,188,091</u>	<u>\$ -</u>	<u>\$23,665,908</u>
 <u>June 30, 2018</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>

continued

ELECTRONIC FRONTIER FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

7. Fair Value Measurements, continued

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
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	49,713			49,713
Total fixed income	<u>2,398,077</u>	<u>8,506,175</u>	<u>-</u>	<u>10,904,252</u>
Fair value at June 30, 2018	<u>\$16,039,711</u>	<u>\$8,506,175</u>	<u>\$ -</u>	<u>\$24,545,886</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, 2019 and 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>June 30, 2019</u>				
In-kind contributions	\$ -	\$ 15,848	\$ -	\$ 15,848
Pledged contributions – new			2,345,357	2,345,357
Fair value at June 30, 2019	<u>\$ -</u>	<u>\$ 15,848</u>	<u>\$2,345,357</u>	<u>\$2,361,205</u>
<u>June 30, 2018</u>				
In-kind contributions	\$ -	\$ 17,893	\$ -	\$ 17,893
Pledged contributions – new			1,285,672	1,285,672
Fair value at June 30, 2018	<u>\$ -</u>	<u>\$ 17,893</u>	<u>\$1,285,672</u>	<u>\$1,303,565</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).

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

continued

ELECTRONIC FRONTIER FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

8. Property and Equipment

Property and equipment at June 30, 2019 and 2018 consist of the following:

	<u>2019</u>	<u>2018</u>
Building and Improvements	\$ 9,709,768	\$ 8,105,171
Land	1,689,197	1,450,280
Computer equipment	235,038	211,198
Furniture and equipment	<u>148,184</u>	<u>143,313</u>
	11,782,187	9,909,962
Less: accumulated depreciation	<u>(1,504,049)</u>	<u>(1,233,597)</u>
	<u>\$10,278,138</u>	<u>\$ 8,676,365</u>

Depreciation expense for the years ended June 30, 2019 and 2018 was \$277,078 and \$256,336 respectively.

9. Accrued Liabilities

Accrued liabilities at June 30, 2019 and 2018 consist of the following:

	<u>2019</u>	<u>2018</u>
Accrued vacation	\$394,554	\$264,437
Other accrued liabilities	<u>16,729</u>	<u>20,184</u>
	<u>\$411,283</u>	<u>\$284,621</u>

10. 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>	
2020	\$ 7,545
2021	<u>3,775</u>
	<u>\$11,320</u>

continued

ELECTRONIC FRONTIER FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

11. Net Assets With Donor Restrictions

Net assets with donor restrictions at June 30, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Time restricted	\$1,046,833	\$1,308,049
Adams endowed chair for internet freedom	477,648	543,181
Prime number contest	387,786	387,786
Artificial intelligence	235,000	199,000
Fellowships	200,381	53,132
Chair to eliminate stupid patents	135,016	46,039
Privacy lab	116,146	42,851
Creativity and innovation	103,460	149,462
Threat lab	89,196	-
Saved by Alice – patent stories	51,933	63,954
Others	36,948	19,891
STARTTILS project	-	150,000
First amendment staff	-	18,223
Allowances for doubtful accounts and present value on related grants receivable	<u>(90,921)</u>	<u>(95,920)</u>
	<u>\$2,789,426</u>	<u>\$2,885,648</u>

For the years ended June 30, 2019 and 2018, net assets released from purpose restrictions were \$2,522,046 and \$1,327,184 respectively.

12. Net Assets with Donor Restrictions – Perpetual in Nature (Endowment)

Net assets with donor restrictions that are perpetual in nature represent contributions 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, 2019 and 2018, net assets with donor restrictions that are perpetual in nature 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 EFF 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 EFF by providing general support in meeting the operating needs of EFF, 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

12. Net Assets with Donor Restrictions – Perpetual in Nature (Endowment), continued

EFF classifies as net assets with donor restrictions - perpetuity (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 net assets with donor restrictions- perpetuity is classified as net assets with donor restrictions-temporary 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

12. Net Assets with Donor Restrictions – Perpetual in Nature (Endowment), continued

Endowment net assets composition by type of fund at June 30, 2019 and 2018:

	Without Donor Restrictions	With Donor Restrictions	Total Endowment Assets
<u>June 30, 2019</u>			
Board-designated endowment	\$14,105,102	\$ -	\$14,105,102
Donor restricted endowment	<u> </u>	<u>3,477,648</u>	<u>3,477,648</u>
	<u>\$14,105,102</u>	<u>\$3,477,648</u>	<u>\$17,582,750</u>
<u>June 30, 2018</u>			
Board-designated endowment	\$13,468,360	\$ -	\$13,468,360
Donor restricted endowment	<u> </u>	<u>3,543,181</u>	<u>3,543,181</u>
	<u>\$13,468,360</u>	<u>\$3,543,181</u>	<u>\$17,011,541</u>

Changes in endowment net assets for the years ended June 30, 2019 and 2018:

	Without Donor Restrictions	With Donor Restrictions	Total Endowment Assets
<u>June 30, 2019</u>			
Endowment net assets, beginning of year	\$13,468,360	\$3,543,181	\$17,011,541
Withdrawals	(302,000)	(146,000)	(448,000)
Investment return:			
Net appreciation (realized and unrealized)	<u>938,741</u>	<u>80,467</u>	<u>1,019,208</u>
Endowment net assets, end of year	<u>\$14,105,101</u>	<u>\$3,477,648</u>	<u>\$17,582,749</u>
<u>June 30, 2018</u>			
Endowment net assets, beginning of year	\$11,374,209	\$3,027,057	\$14,401,266
Contributions	1,250,000		1,250,000
Withdrawals	(96,500)	(130,000)	(226,500)
Investment return:			
Net appreciation (realized and unrealized)	<u>940,651</u>	<u>646,124</u>	<u>1,586,775</u>
Endowment net assets, end of year	<u>\$13,468,360</u>	<u>\$3,543,181</u>	<u>\$17,011,54</u>

continued

ELECTRONIC FRONTIER FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

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, 2019 and 2018 were \$220,812 and \$212,464 respectively.

14. Subsequent Events

In early March 2020, the COVID-19 virus was declared a global pandemic, and it unfortunately continues to spread rapidly. Patterns of financial support may be impacted by unprecedented and unpredictable economic adjustments. Management is carefully monitoring the observable impact on income and donor sentiment and evaluating its options during this time.

No adjustments have been made to these financial statements as a result of this uncertainty.

In April 2020, the Electronic Frontier Foundation received a loan of \$1,692,000 from the Small Business Administration Paycheck Protection Program and is in the process of applying for full forgiveness of that loan.

No adjustments related to the above transaction has been made to the financial statements for the year ended June 30, 2019.

Management has evaluated subsequent events through July 1, 2020, 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.