

FREE SOFTWARE FOUNDATION, INC.

Financial Statements
and Accompanying Information
for the years ended
September 30, 2010 and 2009

Table of Contents

	Page
Independent Auditors' Report	1
Statement of Financial Position - September 30, 2010 and 2009	2
Statement of Activities for the Year Ended September 30, 2010 and 2009	3
Statement of Cash Flows for the Year Ended September 30, 2010 and 2009	4
Notes to Financial Statements - September 30, 2010 and 2009	5-11
Accompanying Information:	
Schedule of Functional Expenses for the Year Ended September 30, 2010	12
Schedule of Functional Expenses for the Year Ended September 30, 2009	13



Armand & Company, PC
Certified Public Accountants

1024 Pearl Street
Brockton, Massachusetts 02301

508.436.6800
508.436.6900 Fax
masscpa.com

Independent Auditors' Report

Board of Directors
Free Software Foundation, Inc.

We have audited the accompanying statement of financial position of Free Software Foundation, Inc. (a not-for-profit organization) as of September 30, 2010, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Organization as of September 30, 2009 were audited by PKF, PC, whose report dated March 2, 2010, expressed an unqualified opinion on those statements.

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 our audit provides 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 Free Software Foundation, Inc. as of September 30, 2010, and its changes in net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the basic financial statements. The information on pages 12 and 13 provides additional analysis which is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit 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.

Armand & Company, P.C.

February 18, 2011

FREE SOFTWARE FOUNDATION, INC.

Statement of Financial Position

	September 30	
	2010	2009
Assets		
Current assets		
Cash and cash equivalents	\$ 132,310	\$ 71,361
Investments	880,391	1,046,896
Accounts receivable	6,268	4,045
Contributions receivable	25,000	35,000
Inventories - merchandise	44,541	36,645
Prepaid expenses	10,432	-
Security deposits	9,715	9,715
Total current assets	<u>1,108,657</u>	<u>1,203,662</u>
Equipment		
Computers	221,157	213,186
Office equipment	48,801	44,310
	<u>269,958</u>	<u>257,496</u>
Less accumulated depreciation	215,360	194,951
Equipment - net	<u>54,598</u>	<u>62,545</u>
Total assets	<u>\$ 1,163,255</u>	<u>\$ 1,266,207</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable	\$ 4,771	\$ 17,477
Accrued payroll	46,716	16,733
Total current liabilities	<u>51,487</u>	<u>34,210</u>
Commitments and contingencies		
Net assets		
Unrestricted net assets	1,099,401	1,154,297
Temporarily restricted net assets	12,367	77,700
Total net assets	<u>1,111,768</u>	<u>1,231,997</u>
Total liabilities and net assets	<u>\$ 1,163,255</u>	<u>\$ 1,266,207</u>

See the notes to the financial statements.

FREE SOFTWARE FOUNDATION, INC.

3

Statement of Activities

	Year Ended September 30	
	2010	2009
Changes in unrestricted net assets		
Unrestricted revenues and other support		
Support		
GNU press mail order revenue	\$ 833,850	\$ 776,066
License education fees	60,494	70,233
Interest income	7,129	12,662
Net realized and unrealized gain on investments	12,385	30,036
Legal settlement	69,978	17,466
Total unrestricted revenues and other support	-	400,000
	<u>983,836</u>	<u>1,306,463</u>
Unrestricted expenses		
Program services		
GNU project	122,919	147,589
Free software directory	99,262	85,048
Education and outreach	425,661	378,780
License education	173,880	301,076
GNU press	61,602	98,995
Total program services	<u>883,324</u>	<u>1,011,488</u>
Fundraising	121,825	150,993
Management and general	98,916	105,283
Total unrestricted expenses	<u>1,104,065</u>	<u>1,267,764</u>
Net assets released from restrictions		
Satisfaction of contribution restrictions	65,332	70,300
Change in unrestricted net assets	<u>(54,897)</u>	<u>108,999</u>
Change in temporarily restricted net assets		
Satisfaction of contribution restrictions	(65,332)	(70,300)
Change in temporarily restricted net assets	<u>(65,332)</u>	<u>(70,300)</u>
Change in net assets	<u>(120,229)</u>	<u>38,699</u>
Net assets at beginning of year	<u>1,231,997</u>	<u>1,193,298</u>
Net assets at end of year	<u>\$ 1,111,768</u>	<u>\$ 1,231,997</u>

See the notes to the financial statements.

FREE SOFTWARE FOUNDATION, INC.

Statement of Cash Flows

	Year Ended September 30	
	2010	2009
Operating activities		
Change in net assets		
Unrestricted	\$ (54,897)	\$ 108,999
Temporarily restricted	(65,332)	(70,300)
	<u>(120,229)</u>	<u>38,699</u>
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	20,409	17,670
Net realized and unrealized gain on investments	(69,978)	(17,466)
Effect of changes in operating assets and liabilities		
Accounts receivable	(2,223)	8,625
Contributions receivable	10,000	500
Inventories - merchandise	(7,898)	(17,370)
Prepaid expenses	(10,432)	-
Accounts payable	(12,703)	11,936
Accrued payroll	29,982	(9,788)
Net cash provided by (used by) operating activities	<u>(163,072)</u>	<u>32,806</u>
Investing activities		
Purchase of investments	(482,102)	(823,318)
Proceeds from sale of investments	718,585	808,011
Purchase of equipment	(12,462)	(28,723)
Net cash provided by (used by) investing activities	<u>224,021</u>	<u>(44,030)</u>
Net increase (decrease) in cash and cash equivalents	60,949	(11,224)
Cash and cash equivalents, beginning of year	<u>71,361</u>	<u>82,585</u>
Cash and cash equivalents, end of year	<u>\$ 132,310</u>	<u>\$ 71,361</u>

See the notes to the financial statements.

Notes to Financial Statements
September 30, 2010

Note 1 - Nature of operations

Free Software Foundation, Inc. ("the Organization") was formed to encourage, foster and promote the free exchange of computer software and information related to computers, to create, distribute and disseminate software and to increase the public's access to computers.

Note 2 - Summary of significant accounting policies

Basis of accounting and financial statement presentation

The Organization prepares its financial statements in accordance with accounting principles generally accepted in the United States of America, which include the application of accrual accounting; consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Organization presently does not have any permanently restricted net assets.

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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

Cash and cash equivalents

For purposes of the statement of cash flows, the Organization considers all unrestricted highly liquid investments with initial maturity of three months or less to be cash equivalents. Cash and cash equivalents, which consist primarily of checking and money market accounts, are stated at cost, which approximates fair value. The Organization monitors its credit risk on a regular basis and has not experienced any losses on its bank balances.

Investments

The Organization's policy is to invest cash in excess of operating requirements in income-producing investments. Investments are carried at fair value. See discussion under Fair Value Measurements for a description of the methodologies used for assets measured at fair

Notes to Financial Statements
September 30, 2010

value. Interest and dividends on these investments, as well as realized and unrealized gains and losses on these investments are included on the Statement of Activities.

Fair value measurements

The Organization adopted Fair Value Measurements set forth under the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) which establishes a framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at September 30, 2010 and 2009.

Cash and cash equivalents

Cash and cash equivalents are stated at cost which approximates the fair value and these instruments are classified within Level 1 of the valuation hierarchy.

Certificates of Deposits

Certificates of deposits are stated at cost plus accrued interest, which approximates the fair value. Certificates of deposits are classified within Level 2 of the valuation hierarchy.

Exchange-traded funds

Exchange-traded funds hold assets, such as stocks or bonds, and trade at approximately the same price as the Net Asset Value (NAV) of its underlying assets over the course of a trading day. These funds are valued at quoted prices in active markets and are classified within Level 1 of the valuation hierarchy.

FREE SOFTWARE FOUNDATION, INC.

7

Notes to Financial Statements
September 30, 2010

Mutual Funds

These investments are public investment vehicles valued using the NAV provided by the administrator of the fund. The NAV is based on the quoted price in an active market of the underlying assets owned by the fund, minus its liabilities, and then divided by the number of shares outstanding. Mutual funds are classified within Level 1 of the valuation hierarchy.

Accounts receivable

Accounts receivable consists of amounts due for merchandise sales, which were not received by the Organization at year-end. Management of the Organization reviews the collectability of the accounts receivable on a monthly basis, and no reserve for doubtful accounts has been established.

Contributions receivable

Contributions are recognized when the donor makes a promise to give that is, in substance, unconditional. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

It is the Organization's policy to report donor-restricted contributions whose restrictions are met in the same reporting period as unrestricted support.

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Support, which is restricted by the donor, is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized.

Management of the Organization reviews the collectability of the contributions receivable on a monthly basis, and no reserve for doubtful accounts has been established.

Inventories

Inventories consist of merchandise held for sale and are stated at the lower of cost (first-in, first-out) or market.

Equipment

Equipment is recorded at cost, or if donated, at the approximate fair value at the date of donation. Depreciation is being provided on a straight-line method over the estimated useful lives of the related assets ranging from 3 to 5 years. Expenditures for major renewals and betterments that extend the useful lives of equipment are capitalized. Expenditures for

Notes to Financial Statements
September 30, 2010

maintenance and repairs are charged to expense as incurred.

Donated equipment and services

Donated equipment is reflected as contributions in the accompanying financial statements at the estimated values at the date of receipt. No amounts have been reflected in the statements for donated services because they did not meet the criteria for recognition under SFAS No. 116.

Functional allocation of expenses

The costs of providing the directly related support services have been summarized on a functional basis in the Statement of Activities. Accordingly, certain costs have been allocated among the directly related support services benefited.

Income taxes

The Organization qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code, and, therefore, has no provision for Federal income taxes. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(1).

Effective October 1, 2009, the Organization adopted the new provisions related to uncertain tax positions, in accordance with FASB ASC topic 740, Income Taxes. This standard requires that the impact of tax positions be recognized in the financial statements if they are more likely than not of being sustained upon examination, based on the technical merits of the position. Interest and penalties, if any, related to accrued liabilities for potential tax assessments are included in income tax expense. There were no significant uncertain tax positions for the year ended September 30, 2010, and as a result, no additional income tax expense or liability has been recorded in the financial statements.

Generally, tax years beginning in 2006 are subject to examination by taxing authorities. The jurisdictions subject to examination include the United States of America and the Commonwealth of Massachusetts.

Concentration of credit risk

The Organization manages its cash by maintaining a savings account. The funds are maintained with a major bank and the amount exceeds the Federally-insured limit from time to time. The Organization minimizes its risk by maintaining its cash with a high quality financial institution.

FREE SOFTWARE FOUNDATION, INC.

Notes to Financial Statements
September 30, 2010

Classification on net assets

Unrestricted net assets bear no external restrictions as to use or purpose.

Temporarily restricted net assets are subject to donor imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are classified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

The Organization received a contribution during the fiscal year ended September 30, 2007 of \$200,000. The contribution is restricted for the End Software Patents campaign. This amount is classified as temporarily restricted net assets. During fiscal years ended September 30, 2010 and 2009, the Organization released \$65,333 and \$70,300 from restrictions for expenses incurred for the campaign. The campaign is still ongoing.

Note 3 - Investments

The following tables set forth the Organization's investment assets reported on the Statement of Financial Position at fair value:

	As of September 30, 2010			
	(Level 1)	(Level 2)	Total Fair Value	Cost
Cash and cash equivalents	\$ 201,347		\$ 201,347	\$ 201,347
Certificates of deposits		\$ 119,742	119,742	120,000
Corporate bonds	124,851		124,851	118,540
Exchange-traded funds	350,080		350,080	172,650
Mutual funds	84,370		84,370	84,347
Total	\$ 760,648	\$ 119,742	\$ 880,390	\$ 696,884

	As of September 30, 2009			
	(Level 1)	(Level 2)	Total Fair Value	Cost
Cash and cash equivalents	\$ 55,350		\$ 55,350	\$ 55,350
Certificates of deposits		\$ 679,008	679,008	680,671
Exchange-traded funds	228,528		228,528	122,896
Mutual funds	84,010		84,010	84,347
Total	\$ 367,888	\$ 679,008	\$ 1,046,896	\$ 943,264

Notes to Financial Statements
September 30, 2010

Note 4 - Inventories

Inventories consist of the following:

	September 30	
	2010	2009
Manuals	\$ 18,748	\$ 24,670
Clothing	8,336	5,625
Emblems	5,066	5,246
Other	12,397	1,104
	<u>\$ 44,547</u>	<u>\$ 36,645</u>

Note 5 - Retirement plan

The Organization maintains a retirement plan under which eligible employees may contribute to an annuity plan which is qualified under Section 403(b) of the Internal Revenue Code. In addition, under the terms of the plan, the Organization contributes a maximum of 3% of an eligible employee's contribution. Eligibility requirements are fulfilled when an employee works a minimum of 20 hours a week and has completed a twelve-month waiting period. There were no contributions charged to operations during the years ended September 30, 2010 and 2009.

Note 6 - Commitments

The Organization is committed to an operating lease for property located in Boston, Massachusetts at a monthly rate of \$5,658 plus a share of real estate taxes and utilities. In May of each year, the monthly base rent changes as stated in the lease agreement. The operating lease expires in April 2012. Rent expense for the years ended September 30, 2010 and 2009 were \$66,316 and \$73,691, respectively. The future minimum lease payments, exclusive of escalation clauses and optional renewals, as of September 30, 2010 is as follows:

Year Ending September 30	Amount
2011	\$ 67,900
2012	<u>39,608</u>
	<u>\$ 107,508</u>

Notes to Financial Statements
September 30, 2010

Note 7 - Subsequent events

Under generally accepted accounting principles, The Organization evaluates events that occur after the date of the statement of financial position but before the date the financial statements are available to be issued. Such date was February 18, 2011 for the accompanying financial statements. The Organization did not identify any subsequent events that had a material effect on the accompanying financial statements.

FREE SOFTWARE FOUNDATION, INC.

Schedule of Functional Expenses
Year Ended September 30, 2010

Functional expenses	GNU Project	Free Software Directory	Education/ Outreach Programs	License Education Program	GNU Press	Total Program Services	Fundraising	Management and General	Total Unrestricted Expenses
Salaries and wages	\$ 80,043	\$ 64,952	\$ 219,262	\$ 112,901	\$ 20,578	\$ 497,736	\$ 43,374	\$ 70,492	\$ 611,602
Support staff costs recharged	7,402	6,481	22,262	11,742	2,254	\$ 50,141	4,227	(54,369)	\$ (1)
Payroll taxes	7,103	5,764	19,457	10,019	1,826	\$ 44,169	3,849	6,255	\$ 54,273
Staff benefit costs	12,660	10,273	34,679	17,857	3,255	\$ 78,724	6,860	11,149	\$ 96,733
Office rent	5,585	4,890	16,797	8,859	1,701	\$ 37,832	3,189	25,295	\$ 66,316
Cost of inventory shipped					16,517	\$ 16,517			\$ 16,517
Promotion and marketing			7,674		231	\$ 7,905			\$ 7,905
Conferences and meetings			30,014			\$ 30,014			\$ 30,014
Legal settlement legal fees				-		\$ -			\$ -
Special events and mailings						\$ -	37,088		\$ 37,088
Office expenses	770	674	2,316	1,222	235	\$ 5,217	440	7,882	\$ 13,539
Shipping and materials					7,941	\$ 7,941			\$ 7,941
Depreciation of office equipment	1,718	1,505	5,169	2,727	523	\$ 11,642	982	7,785	\$ 20,409
Audit and accounting	983	861	2,957	1,559	299	\$ 6,659	561	4,453	\$ 11,673
Contracted labor/programming	2,244		51,810			\$ 54,054			\$ 54,054
Credit card processing fees					2,900	\$ 2,900	20,301		\$ 23,201
Telephone	389	341	1,170	617	119	\$ 2,636	222	1,763	\$ 4,621
Outside services	2,043	1,789	6,143	3,240	622	\$ 13,837	1,166	9,251	\$ 24,254
Heat, light and power	737	645	2,216	1,169	224	\$ 4,991	421	3,337	\$ 8,749
Meetings and entertainment	251	220	754	398	76	\$ 1,699	143	1,136	\$ 2,978
Insurance	575	504	1,729	912	2,175	\$ 5,895	328	2,605	\$ 8,828
Internet connection fees	416	363	1,252	658	126	\$ 2,815	238	1,882	\$ 4,935
Licenses and permits						\$ -	-	-	\$ -
Gain on foreign exchange						\$ -	(1,564)	-	\$ (1,564)
Total functional expenses	\$ 122,919	\$ 99,262	\$ 425,661	\$ 173,880	\$ 61,602	\$ 883,324	\$ 121,825	\$ 98,916	\$ 1,104,065

FREE SOFTWARE FOUNDATION, INC.

Schedule of Functional Expenses
Year Ended September 30, 2009

Functional expenses	GNU Project	Free Software Directory	Education/ Outreach Programs	License Education Program	GNU Press	Total Program Services	Fundraising	Management and General	Total Unrestricted Expenses
Salaries and wages	\$ 81,621	\$ 60,577	\$ 212,337	\$ 105,836	\$ 39,777	\$ 500,148	\$ 60,617	\$ 68,149	\$ 628,914
Support staff costs recharged	7,890	3,598	20,035	12,915	4,112	\$ 48,550	3,920	(52,470)	\$ -
Payroll taxes	7,039	5,225	18,313	9,128	3,431	\$ 43,136	5,228	5,877	\$ 54,241
Staff benefit costs	10,946	8,124	28,477	14,194	5,335	\$ 67,076	8,130	9,139	\$ 84,345
Office rent	6,991	3,188	17,753	11,444	3,644	\$ 43,020	3,474	27,197	\$ 73,691
Cost of inventory shipped					19,275	\$ 19,275			\$ 19,275
Promotion and marketing			13,436			\$ 13,436			\$ 13,436
Conferences and meetings			19,238			\$ 19,238			\$ 19,238
Legal settlement legal fees				132,000		\$ 132,000			\$ 132,000
Special events and mailings						\$ -	45,491		\$ 45,491
Office expenses	2,221	1,013	5,640	3,636	1,158	\$ 13,668	1,104	19,050	\$ 33,822
Shipping and materials					13,264	\$ 13,264			\$ 13,264
Depreciation of office equipment	15,146	121	672	433	138	\$ 16,510	131	1,029	\$ 17,670
Audit and accounting	1,921	876	4,878	3,144	1,001	\$ 11,820	955	7,473	\$ 20,248
Contracted labor/programming	8,713		25,053			\$ 33,766			\$ 33,766
Credit card processing fees					3,204	\$ 3,204	22,426		\$ 25,630
Telephone	433	198	1,100	709	226	\$ 2,666	215	1,687	\$ 4,568
Outside services	2,204	1,005	5,597	3,608	1,149	\$ 13,563	1,095	8,575	\$ 23,233
Heat, light and power	946	431	2,402	1,548	493	\$ 5,820	470	3,679	\$ 9,969
Meetings and entertainment	645	294	1,638	1,056	336	\$ 3,969	321	2,509	\$ 6,799
Insurance	374	170	946	610	2,192	\$ 4,292	186	1,450	\$ 5,928
Internet connection fees	480	219	1,217	784	250	\$ 2,950	238	1,865	\$ 5,053
Licenses and permits	19	9	48	31	10	\$ 117	9	74	\$ 200
Gain on foreign exchange						\$ -	(3,017)		\$ (3,017)
Total functional expenses	\$ 147,589	\$ 85,048	\$ 378,780	\$ 301,076	\$ 98,995	\$ 1,011,488	\$ 150,993	\$ 105,283	\$ 1,267,764