

FREE SOFTWARE FOUNDATION, INC.

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED
September 30, 2012**

**FREE SOFTWARE FOUNDATION, INC.
FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Management of Free Software Foundation, Inc.
Boston, MA

We have audited the accompanying statement of financial position of Free Software Foundation, Inc. (a nonprofit organization) as of September 30, 2012, 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.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our 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, 2012, and the changes in its 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 conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses on page 11 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Goloboy CPA LLC

Cambridge, Massachusetts
February 10, 2013

**FREE SOFTWARE FOUNDATION, INC.
STATEMENT OF FINANCIAL POSITION
AS OF SEPTEMBER 30, 2012**

ASSETS

Current assets

Cash and cash equivalents	\$ 1,082,994
Investments	84,500
Accounts receivable (net)	1,705
Contributions receivable	40,000
Inventory	42,642
Prepaid expenses	12,049
Total current assets	1,263,890

Property, plant and equipment

Office furniture and equipment	164,315
Accumulated depreciation	(136,823)
Total net property, plant and equipment	27,492

Noncurrent assets

Security deposits	9,715
Total noncurrent assets	9,715

Total assets

\$ 1,301,097

LIABILITIES AND NET ASSETS

Current liabilities

Accounts payable and accrued expenses	\$ 27,421
Accrued payroll	22,613
Total current liabilities	50,034

Net assets

Unrestricted net assets	1,251,063
Total net assets	1,251,063

Total liabilities and net assets

\$ 1,301,097

FREE SOFTWARE FOUNDATION, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2012

REVENUE AND SUPPORT

Contributions	\$ 972,141
GNU press mail order revenue	90,091
Interest income	10,352
Net realized and unrealized gain (loss) on investments	(2,833)
Other income	606
Total revenue and support	<u>1,070,357</u>

EXPENSES

Program services	774,673
Fundraising	70,760
Management and general	124,327
Total expenses	<u>969,760</u>

CHANGE IN NET ASSETS 100,597

NET ASSETS, BEGINNING OF YEAR 1,150,466

NET ASSETS, END OF YEAR \$ 1,251,063

FREE SOFTWARE FOUNDATION, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

OPERATING ACTIVITIES

Change in net assets	\$	100,597
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities:		
Depreciation		16,500
Net realized and unrealized loss on investments		2,833
Decrease in accounts receivable		3,210
Increase in contributions receivable		(38,000)
Increase in prepaid expenses		(12,049)
Increase in inventory		(3,270)
Increase in accounts payable and accrued expenses		25,490
Decrease in accrued payroll		(3,204)

Net cash and cash equivalents provided by operating activities		92,107
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INVESTING ACTIVITIES

Fixed asset purchases		(9,366)
Proceeds from sale of investments		661,246

Net cash and cash equivalents provided by investing activities		651,880
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Net increase in cash		743,987
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Cash and cash equivalents, beginning of year		339,007
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Cash and cash equivalents, end of year	\$	1,082,994
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FREE SOFTWARE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 1 DESCRIPTION OF ORGANIZATION

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 SIGNIFICANT ACCOUNTING POLICIES

The Organization prepares its financial statements in accordance with generally accepted accounting principles promulgated in the United States of America (U.S. GAAP) for Not-For-Profits. The significant accounting and reporting policies used by the organization are described subsequently to enhance the usefulness and understandability of the financial statements.

Financial Statement Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) in its Accounting Standards Codification (ASC) No. 958-205, Not-for-Profit Entities Presentation of Financial Statements. Under ASC 958-205, 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's net assets (excess of its assets over liabilities) and its revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions.

Use of Estimates

In preparing the Organization's financial statements in conformity with generally accepted accounting principles in the United States, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition

The statement of financial position presents three classes of net assets (permanently restricted, temporarily restricted, and unrestricted) when applicable. Unrestricted grants and contributions are recorded as revenue when received or unconditionally pledged. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

During the year ending September 30, 2012, the Organization derived approximately 91% of its total revenue from other non-profit agencies, foundations, and individual donors, 8% from merchandise sales, and 1% from investment activities.

FREE SOFTWARE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

Cash and Cash Equivalents

The Organization considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents. The Organization maintains its cash deposit balances in a bank located in Massachusetts, as well as in a bank located in Japan. At times the amount in the bank located in Massachusetts exceeds the federally-insured limit. The Organization minimizes its risk by maintaining its cash with a highly reputable financial institution.

Accounts Receivable

Accounts receivable consists of amounts due for merchandise sales, which were not received by the Organization at year-end, and is stated at the amount management expects to collect from outstanding balances. Management believes that all outstanding accounts receivable are collectible in full, therefore no allowance for uncollectible receivables has been provided at September 30, 2012.

Contributions Receivable

Contributions receivable are unconditional promises to give that are recognized as contributions when the promise is received. Contributions receivable are expected to be collected in less than one year and are reported at net realizable value. The allowance for uncollectible contributions receivable is determined based on management's evaluation of the collectability of individual promises. Management believes that all outstanding contributions receivable are collectible in full. Therefore, no allowance for uncollectible receivables has been provided at September 30, 2012.

Inventory

Inventory consists of merchandise held for sale and is stated at the lower of cost (first-in, first out) or market.

Fixed Assets

Fixed assets are stated at cost or fair value at date of donation. Additions and betterments of \$1,000 or more are capitalized, while maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently. Upon disposal of depreciable property, the appropriate property accounts are reduced by the related costs and accumulated depreciation. The resulting gains and losses are reflected in the statement of activities. Depreciation is provided using the straight-line method over the estimated useful lives of the assets.

Donated Assets

Donated marketable securities and other noncash donations are recorded as contributions at their fair values at the date of donation.

Donated Services

Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. No amounts have been reflected in the financial statements for donated services as they did not meet this criteria.

FREE SOFTWARE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

Concentration of Source of Supply Labor

The Organization's staff other than management are members of the United Automobile Aerospace and Agricultural Implement Workers of America (UAW), Local #1596. The Organization's contract with the union is subject to renegotiation annually. Management of the Organization is not represented by a union.

Shipping and Handling

Shipping and handling costs of \$17,992 for the year ended September 30, 2012 are included in program services expenses on the statement of activities.

Functional Allocation of Expenses

The cost of providing various programs and other activities have been summarized on a functional basis in the statement of functional expenses. Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of management estimates of allocation of staff time. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

Financial Instruments

The carrying amounts of the Organization's financial instruments, which include cash and cash equivalents, pledges receivable, prepaid expenses, accounts payable, and accrued expenses, approximate their fair values due to their short maturities.

Income Taxes

The Organization qualifies as an organization formed for charitable purposes under Section 501(c)(3) of the Internal Revenue Code and therefore no provision for income taxes is reflected in the statements. The Organization qualifies for the charitable contribution deduction for individuals under the Internal Revenue Code.

The Organization adopted Topic 740 of the FASB Accounting Standards Codification (ASC 740) relating to the accounting for uncertainty in income taxes. As required by this topic, the Organization has evaluated its tax positions, applying a "More Likely Than Not" standard, and believes that there would be no material changes to the results of its operations or financial position as a result of an audit by the applicable taxing authorities, federal or state.

Generally, all tax years prior to 2008 are closed via the passing of the statute of limitations. No notices have been received from the Internal Revenue service addressing any subsequent year.

FREE SOFTWARE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 3 FAIR VALUE MEASUREMENTS

The Organization categorizes the fair value of its financial assets and liabilities according to the hierarchy established by the FASB, which 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). The three levels of the fair value hierarchy are described as follows:

Level 1 Valuations based on quoted prices in active markets for identical assets or liabilities that the Organization has the ability to directly assess.

Level 2 Valuations based on quoted prices for similar assets or liabilities; valuations for interest-bearing securities based on non-daily quoted prices in active markets; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable data for substantially the full term of the assets or liabilities.

Level 3 Valuations based on inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. In circumstances in which a quoted price in an active market for the identical liability is not available, the Organization is required to use the quoted price of the identical liability when traded as an asset, quoted prices for similar liabilities, or quoted prices for similar liabilities when traded as assets. If these quoted prices are not available, the Organization is required to use another valuation technique, such as income approach or a market approach.

The following table presents the fair value hierarchy for those financial assets measured at fair value on a recurring basis as of September 30, 2012:

	Fair Value Measurements on a Recurring Basis			
	Level 1	Level 2	Level 3	Total
Mutual funds	\$ 84,500	\$ -	\$ -	\$ -

Level 1 investments include mutual funds as of September 30, 2012, which are valued based on quoted prices in an active market of the underlying assets owned by the fund, minus it's liabilities, then divided by the number of shares outstanding.

Investment return consisted of the following for the year ending September 30, 2012:

Interest	\$ 9,681
Net realized and unrealized loss	(2,883)
Total return on investments	<u>\$ 6,798</u>

FREE SOFTWARE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 4 INVENTORY

Inventory consists of the following as of September 30, 2012:

	<u>Amount</u>
Manuals	\$ 22,486
Clothing	5,756
Emblems	9,133
Other	5,267
	<u>\$ 42,642</u>

NOTE 5 PROPERTY, PLANT AND EQUIPMENT

Fixed assets consists of office furniture and equipment at September 30, 2012, and is depreciated using the straight-line method over an estimated useful life of 3 - 7 years. Depreciation was \$16,500 for the year ending September 30, 2012.

NOTE 6 OPERATING LEASE COMMITMENTS

The Organization is committed to an operating lease for property located in Boston, Massachusetts at a monthly rate of \$5,319 as of September 30, 2012 plus a share of real estate taxes and utilities. In August of each year the monthly base rent increases as stated in the lease agreement. The operating lease expires in August 2017. Rent expense for the year ended September 30, 2012 was \$67,661. The future minimum lease payments, exclusive of escalation clauses and optional renewals, as of September 30, 2012 are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2013	\$ 64,052
2014	66,768
2015	69,484
2016	72,200
2017	68,466
	<u>\$ 340,970</u>

NOTE 7 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 per week and has completed a twelve-month waiting period. The Organization contributed \$317 to employee accounts during the year ended September 30, 2012.

FREE SOFTWARE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 8 SUBSEQUENT EVENTS

Management of the Organization has performed an evaluation of subsequent events through February 10, 2013, which is the date these financial statements were available to be issued. No material subsequent events have occurred since September 30, 2012 that required recognition of disclosure in these financial statements.

FREE SOFTWARE FOUNDATION, INC.
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Program Services	Supporting Services		Total Expenses
		Fundraising	Management & General	
Personnel expenses	\$ 544,094	\$ 30,071	\$ 67,686	\$ 641,851
Occupancy	42,659	2,097	27,513	72,269
Contractors and consultants	30,267	-	3,078	33,345
Events	18,990	-	-	18,990
Cost of inventory shipped	22,346	-	-	22,346
Promotion and marketing	24,116	-	-	24,116
Conferences and meetings	19,553	-	-	19,553
Special events and mailings	-	19,523	-	19,523
Office expenses	4,299	171	5,586	10,056
Shipping and materials	21,237	-	1,081	22,318
Depreciation	15,213	91	1,196	16,500
Professional fees	10,731	528	6,922	18,181
Credit card processing fees	2,700	15,299	-	17,999
Telephone	3,096	152	1,996	5,244
Outside services	6,584	324	4,246	11,154
Meetings and entertainment	2,702	133	1,742	4,577
Insurance	3,809	138	1,812	5,759
Internet	2,277	112	1,469	3,858
Licenses and permits	-	564	-	564
Loss on foreign exchange	-	1,557	-	1,557
TOTAL EXPENSES	\$ 774,673	\$ 70,760	\$ 124,327	\$ 969,760