

**FREE SOFTWARE FOUNDATION, INC.**

**FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
September 30, 2016**

**FREE SOFTWARE FOUNDATION, INC.  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

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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 financial statements of Free Software Foundation, Inc. (a nonprofit organization), which comprise the statement of financial position as of September 30, 2016, and the related statements of activities and cash flows for the year 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.

### Auditor's 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 auditor's 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 Free Software Foundation, Inc. as of September 30, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matter**

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 12 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.

*Galobay CPA LLC*

Cambridge, Massachusetts

August 15, 2017

**FREE SOFTWARE FOUNDATION, INC.  
STATEMENT OF FINANCIAL POSITION  
AS OF SEPTEMBER 30, 2016**

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**ASSETS**

**Current assets**

|                             |                  |
|-----------------------------|------------------|
| Cash and cash equivalents   | \$ 1,012,933     |
| Investments                 | 254,444          |
| Accounts receivable (net)   | 23,769           |
| Contributions receivable    | 22,000           |
| Inventory                   | 33,873           |
| Prepaid expenses            | -                |
| <b>Total current assets</b> | <u>1,347,019</u> |

**Property, plant and equipment**

|  |               |
|--|---------------|
| Office furniture and equipment                 | 190,386       |
| Accumulated depreciation                       | (167,019)     |
| <b>Total net property, plant and equipment</b> | <u>23,367</u> |

**Noncurrent assets**

|                                |              |
|--------------------------------|--------------|
| Security deposits              | 9,715        |
| <b>Total noncurrent assets</b> | <u>9,715</u> |

**Total assets**

\$ 1,380,101

**LIABILITIES AND NET ASSETS**

**Current liabilities**

|                                       |                |
|---------------------------------------|----------------|
| Accounts payable and accrued expenses | \$ 41,304      |
| Accrued payroll                       | 90,433         |
| <b>Total current liabilities</b>      | <u>131,737</u> |

**Net assets**

|                         |                  |
|-------------------------|------------------|
| Unrestricted net assets | 1,248,364        |
| <b>Total net assets</b> | <u>1,248,364</u> |

**Total liabilities and net assets**

\$ 1,380,101

**FREE SOFTWARE FOUNDATION, INC.**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

|                                      | Unrestricted        | Temporarily<br>Restricted | Total               |
|--------------------------------------|---------------------|---------------------------|---------------------|
| <b>REVENUE AND SUPPORT</b>           |                     |                           |                     |
| Contributions                        | \$ 1,211,776        | \$ -                      | \$ 1,211,776        |
| GNU press mail order revenue         | 104,557             | -                         | 104,557             |
| Interest income                      | 5,190               | -                         | 5,190               |
| Net unrealized gain on investments   | 39,737              | -                         | 39,737              |
| Other income                         | 4,372               | -                         | 4,372               |
| <b>Total revenue and support</b>     | <b>1,365,632</b>    | <b>-</b>                  | <b>1,365,632</b>    |
| <b>EXPENSES</b>                      |                     |                           |                     |
| Program services                     | 1,101,052           | -                         | 1,101,052           |
| Fundraising                          | 102,578             | -                         | 102,578             |
| Management and general               | 105,117             | -                         | 105,117             |
| <b>Total expenses</b>                | <b>1,308,747</b>    | <b>-</b>                  | <b>1,308,747</b>    |
| <b>CHANGE IN NET ASSETS</b>          | <b>56,885</b>       | <b>-</b>                  | <b>56,885</b>       |
| <b>NET ASSETS, BEGINNING OF YEAR</b> | <b>1,191,479</b>    | <b>-</b>                  | <b>1,191,479</b>    |
| <b>NET ASSETS, END OF YEAR</b>       | <b>\$ 1,248,364</b> | <b>\$ -</b>               | <b>\$ 1,248,364</b> |

**FREE SOFTWARE FOUNDATION, INC.**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

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|  |              |
|--|--------------|
| <b>OPERATING ACTIVITIES</b>  |              |
| Change in net assets   | \$ 56,885    |
| Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities: |              |
| Depreciation   | 5,783        |
| Net unrealized gain on investments   | (39,737)     |
| Increase in accounts receivable  | (21,152)     |
| Increase in contributions receivable   | (14,981)     |
| Decrease in prepaid expenses   | 1,315        |
| Increase in inventory  | (638)        |
| Decrease in accounts payable and accrued expenses  | (2,914)      |
| Increase in accrued payroll  | 37,073       |
|  | <hr/>        |
| Net cash and cash equivalents provided by operating activities   | 21,634       |
| <b>INVESTING ACTIVITIES</b>  |              |
| Property, plant and equipment purchases  | (14,480)     |
|  | <hr/>        |
| Net cash and cash equivalents used in investing activities   | (14,480)     |
|  | <hr/>        |
| Net decrease in cash   | 7,154        |
| Cash and cash equivalents, beginning of year   | 1,005,779    |
|  | <hr/>        |
| Cash and cash equivalents, end of year   | \$ 1,012,933 |
|  | <hr/> <hr/>  |

**FREE SOFTWARE FOUNDATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016**

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**NOTE 1 DESCRIPTION OF ORGANIZATION**

Free Software Foundation, Inc. (the Organization) is dedicated to promoting and defending computer user rights to use, study, copy, and modify the software on their computers, as well as the related documentation. The Organization assists in the development and use of free software and documentation.

**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, 2016, the Organization derived approximately 89% of its total revenue from other non-profit agencies, foundations, and individual donors, approximately 8% from merchandise sales, and less than 3% from other sources.



**FREE SOFTWARE FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2016**

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**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 with banks located in Massachusetts. At times the amount in the banks exceed the federally insured limit. The Organization minimizes its risk by maintaining its cash with highly reputable financial institutions.

**Accounts Receivable**

Accounts receivable consists of amounts due which were not received by the Organization at yearend, 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 accounts receivable has been provided at September 30, 2016.

**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 contributions receivable has been provided at September 30, 2016.

**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 \$500 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 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, 2016**

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**NOTE 2    SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*Donated Assets*

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

*Concentration of Source of Supply Labor*

The Organization's staff other than management (representing approximately 92% of the Organization's employees) 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.

*Shipping and Handling*

Shipping and handling costs of \$12,854 for the year ended September 30, 2016 are included in program services expenses on the statement of activities.

*Promotions and Marketing*

Promotion and marketing costs are expensed as incurred. Promotions and marketing costs of \$1,885 for the year ended September 30, 2016 are included in program services expenses on the statement of activities.

*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 2012 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, 2016**

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**NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Functional Allocation of Expenses

The cost of providing various programs and other activities have been summarized on a functional basis in the schedule 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.

**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, 2016:

|                | Fair Value Measurements on a Recurring Basis |             |             |                   |
|----------------|--|-------------|-------------|-------------------|
|                | Level 1                                      | Level 2     | Level 3     | Total             |
| Commodity fund | \$ 169,404                                   | \$ -        | \$ -        | \$ 169,404        |
| Mutual fund    | 85,040                                       | -           | -           | 85,040            |
|                | <u>\$ 254,444</u>                            | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 254,444</u> |

**FREE SOFTWARE FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2016**

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**NOTE 3 FAIR VALUE MEASUREMENTS (CONTINUED)**

Level 1 investments include shares of a commodity fund and of mutual funds as of September 30, 2016, which are valued based on quoted prices in an active market of the underlying assets owned by the fund, minus its liabilities, then divided by the number of shares outstanding.

Investment income consisted of the following for the year ending September 30, 2016:

|                               |                         |
|-------------------------------|-------------------------|
| Interest and dividends        | \$ 5,190                |
| Net unrealized gain           | <u>39,737</u>           |
| Total income from investments | <u><u>\$ 44,927</u></u> |

**NOTE 4 INVENTORY**

Inventory consists of the following as of September 30, 2016:

|          |                         |
|----------|-------------------------|
|          | Amount                  |
| Manuals  | \$ 22,448               |
| Clothing | 7,347                   |
| Other    | <u>4,078</u>            |
|          | <u><u>\$ 33,873</u></u> |

**NOTE 5 PROPERTY, PLANT AND EQUIPMENT**

Fixed assets consists of office furniture and equipment at September 30, 2016. Depreciation was \$5,783 for the year ending September 30, 2016.

**NOTE 6 OPERATING LEASE COMMITMENTS**

The Organization is committed to an operating lease for property located in Boston, Massachusetts at a monthly rate of \$6,224 as of September 30, 2016 plus storage rental and 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, 2016 was \$72,607. The future minimum lease payments, exclusive of escalation clauses and optional renewals, as of September 30, 2016 are as follows:

|                    |                         |
|--------------------|-------------------------|
| <u>Fiscal Year</u> | <u>Amount</u>           |
| 2017               | <u><u>\$ 68,466</u></u> |

**FREE SOFTWARE FOUNDATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016**

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**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 and as required by the contract with the UAW union, the Organization contributes a maximum of 3% of an eligible employee's contribution. Eligible employees may contribute up to a maximum of 10% of their annual income. 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 \$198 to employee accounts during the year ended September 30, 2016.

**NOTE 8 CONCENTRATIONS OF CREDIT RISK ARISING FROM INVESTMENT HOLDINGS**

Approximately 67%, or \$169,404, of total investments consist of shares in a single commodity fund as of September 30, 2016.

**NOTE 9 RESTRICTIONS OF NET ASSETS**

At September 30, 2016 the Organization did not have any restricted net assets.

**NOTE 10 SUBSEQUENT EVENTS**

Management of the Organization has performed an evaluation of subsequent events through August 31, 2017, which is the date these financial statements were available to be issued. No material subsequent events have occurred since September 30, 2016 that required recognition of disclosure in these financial statements.

**FREE SOFTWARE FOUNDATION, INC.**  
**SCHEDULE OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

|                             | Program<br>Services | Supporting Services |                         | Total<br>Expenses   |
|-----------------------------|---------------------|---------------------|-------------------------|---------------------|
|                             |                     | Fundraising         | Management<br>& General |                     |
| Personnel expenses          | \$ 780,972          | \$ 34,108           | \$ 72,635               | \$ 887,715          |
| Occupancy                   | 67,856              | 2,244               | 8,940                   | 79,040              |
| Contractors and consultants | 84,935              | 2,386               | 3,012                   | 90,333              |
| Cost of inventory shipped   | 30,989              | -                   | -                       | 30,989              |
| Promotion and marketing     | 1,885               | -                   | -                       | 1,885               |
| Conferences and meetings    | 24,735              | 1,480               | -                       | 26,215              |
| Special events and mailings | 28,301              | 18,859              | -                       | 47,160              |
| Office expenses             | 11,128              | 486                 | 1,031                   | 12,645              |
| Shipping and materials      | 20,268              | 999                 | 1,288                   | 22,555              |
| Depreciation                | 5,577               | 16                  | 190                     | 5,783               |
| Professional fees           | 17,946              | 784                 | 10,403                  | 29,133              |
| Credit card processing fees | 7,546               | 38,726              | -                       | 46,272              |
| Telephone                   | 2,823               | 123                 | 1,636                   | 4,582               |
| Outside services            | 6,522               | 378                 | 805                     | 7,705               |
| Meetings and entertainments | 1,932               | 77                  | 869                     | 2,878               |
| Insurance                   | 4,653               | 160                 | 2,117                   | 6,930               |
| Internet                    | 1,886               | 82                  | 1,093                   | 3,061               |
| Licenses and permits        | 1,098               | -                   | 1,098                   | 2,196               |
| Loss on foreign exchange    | -                   | 1,670               | -                       | 1,670               |
| <b>TOTAL EXPENSES</b>       | <b>\$ 1,101,052</b> | <b>\$ 102,578</b>   | <b>\$ 105,117</b>       | <b>\$ 1,308,747</b> |