

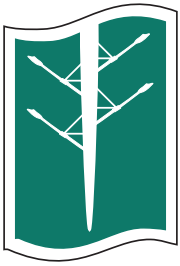
FREE SOFTWARE FOUNDATION, INC.
FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2017

FREE SOFTWARE FOUNDATION, INC.

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FOR THE YEAR ENDED SEPTEMBER 30, 2017

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Murphy,
Edwards,
Goncalves
&
Ferrera, PC

*Certified Public Accountants
and Business Advisors*

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Free Software Foundation, Inc.

Report on the Financial Statements

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, 2017, and the related statements of activities, functional expenses, 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.

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 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.

INDEPENDENT AUDITORS' REPORT

(Continued)

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, 2017, 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.

Report on Summarized Comparative Information and Adjustment to Prior Period Financial Statements

The financial statements of Free Software Foundation, Inc. as of September 30, 2016, were audited by other auditors whose report dated August 15, 2017, expressed an unmodified opinion on those statements. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2016, is consistent in all material respects (except as described in Note 9), with the audited financial statements from which it has been derived.

As part of our audit of the fiscal year 2017 financial statements, we audited an adjustment described in Note 9 that was applied to restate the fiscal year 2016 financial statements. In our opinion, this adjustment is appropriate and has been properly applied. We were not engaged to audit, review, or apply procedures to the fiscal 2016 financial statements of the Organization other than with respect to the adjustment and, accordingly, we do not express an opinion or any other form of assurance on the fiscal 2016 financial statements as a whole.

Murphy, Edwards, Gonçalves & Ferrera, PC

Southborough, Massachusetts
May 22, 2018

FREE SOFTWARE FOUNDATION, INC.

STATEMENT OF FINANCIAL POSITION

AS OF SEPTEMBER 30, 2017

(With Comparative Totals as of September 30, 2016)

ASSETS

	2017	2016
CURRENT ASSETS:		
Cash and Cash Equivalents (Note 2)	\$ 1,191,910	\$ 1,012,933
Accounts Receivable (Note 2)	7,553	23,769
Contributions Receivable	-	22,000
Inventory (Note 2)	20,872	33,873
Prepaid Expenses and Other Current Assets	4,038	-
Total Current Assets	<u>1,224,373</u>	<u>1,092,575</u>
INVESTMENTS (Notes 2 and 3)	239,645	254,444
PROPERTY AND EQUIPMENT, NET (Notes 2 and 4)	19,169	23,367
OTHER ASSETS:		
Security Deposits	<u>13,228</u>	<u>9,715</u>
TOTAL ASSETS	<u>\$ 1,496,415</u>	<u>\$ 1,380,101</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:		
Accounts Payable	\$ 16,335	\$ 41,304
Accrued Expenses	<u>106,435</u>	<u>90,433</u>
Total Current Liabilities	<u>122,770</u>	<u>131,737</u>
NET ASSETS:		
Unrestricted (Note 2)	1,186,690	1,147,727
Temporarily Restricted (Notes 2 and 5)	<u>186,955</u>	<u>100,637</u>
Total Net Assets	<u>1,373,645</u>	<u>1,248,364</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,496,415</u>	<u>\$ 1,380,101</u>

See Accompanying Notes and Independent Auditors' Report

FREE SOFTWARE FOUNDATION, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2017

(With Comparative Totals as of September 30, 2016)

	Unrestricted	Temporarily Restricted	2017 Total	2016 Total
SUPPORT AND REVENUE:				
Contributions (Note 2)	\$ 1,202,906	\$ 91,791	\$ 1,294,697	\$ 1,211,776
In-kind Contributions (Note 2)	3,600	-	3,600	-
Release from Restriction (Note 2)	5,473	(5,473)	-	-
Product Sales	90,879	-	90,879	104,557
Less: Cost of Sales	<u>(34,723)</u>	<u>-</u>	<u>(34,723)</u>	<u>(41,882)</u>
Gross Profit on Product Sales	56,156	-	56,156	62,675
GPL Compliance Lab Fees	14,250	-	14,250	1,800
Interest Income	5,630	-	5,630	5,190
Realized and Unrealized Gain (Loss), Net (Note 3)	(14,899)	-	(14,899)	39,737
Other Income	<u>2,841</u>	<u>-</u>	<u>2,841</u>	<u>902</u>
TOTAL SUPPORT AND REVENUE	<u>1,275,957</u>	<u>86,318</u>	<u>1,362,275</u>	<u>1,322,080</u>
FUNCTIONAL EXPENSES (Note 2):				
Program Services	<u>1,076,394</u>	<u>-</u>	<u>1,076,394</u>	<u>1,059,170</u>
Support Services:				
Management and General	95,105	-	95,105	105,117
Fundraising	<u>65,639</u>	<u>-</u>	<u>65,639</u>	<u>100,908</u>
Total Support Services	<u>160,744</u>	<u>-</u>	<u>160,744</u>	<u>206,025</u>
TOTAL FUNCTIONAL EXPENSES	<u>1,236,994</u>	<u>-</u>	<u>1,236,994</u>	<u>1,265,195</u>
INCREASE IN NET ASSETS	38,963	86,318	125,281	56,885
NET ASSETS - BEGINNING	<u>1,147,727</u>	<u>100,637</u>	<u>1,248,364</u>	<u>1,191,479</u>
NET ASSETS - ENDING	<u>\$ 1,186,690</u>	<u>\$ 186,955</u>	<u>\$ 1,373,645</u>	<u>\$ 1,248,364</u>

See Accompanying Notes and Independent Auditors' Report

FREE SOFTWARE FOUNDATION, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED SEPTEMBER 30, 2017

(With Comparative Totals as of September 30, 2016)

SUPPORT SERVICES

	Program Services	Management & General	Fundraising	2017 Total	2016 Total
Salaries and Wages	\$ 635,110	\$ 57,341	\$ 30,548	\$ 722,999	\$ 699,830
Payroll Taxes	55,426	5,004	2,666	63,096	56,999
Employee Benefits	<u>118,916</u>	<u>10,736</u>	<u>5,721</u>	<u>135,373</u>	<u>130,887</u>
Total Payroll and Related Expenses	809,452	73,081	38,935	921,468	887,715
Occupancy (Note 6)	60,951	5,503	2,932	69,386	79,040
Special Events and Mailings	34,229	-	10,881	45,110	47,160
Credit Card Processing Fees	41,702	-	-	41,702	46,272
Contractors and Consultants	19,695	7,314	5,230	32,239	90,333
Conferences and Meetings	28,767	684	364	29,815	29,092
Professional Fees	19,730	1,781	949	22,460	29,133
Shipping and Materials	12,440	1,827	2,927	17,194	11,662
Office Supplies and Expenses	14,365	1,297	691	16,353	12,645
Outside Services	10,272	929	486	11,687	7,705
Telecommunications	6,417	579	453	7,305	7,643
Insurance	6,148	342	341	6,831	6,930
Depreciation	6,447	584	311	7,342	5,783
Educational Campaign Expense	4,594	-	1,139	5,733	1,885
Licenses and Permits	<u>1,185</u>	<u>1,184</u>	<u>-</u>	<u>2,369</u>	<u>2,196</u>
Total Expenses	<u>\$ 1,076,394</u>	<u>\$ 95,105</u>	<u>\$ 65,639</u>	<u>\$ 1,236,994</u>	<u>\$ 1,265,195</u>

See Accompanying Notes and Independent Auditors' Report

FREE SOFTWARE FOUNDATION, INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED SEPTEMBER 30, 2017

(With Comparative Totals as of September 30, 2016)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in Net Assets	\$ 125,281	\$ 56,885
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation	7,342	5,783
Unrealized (Gain) Loss on Investments, Net	14,899	(39,737)
(Increase) Decrease in Assets:		
Accounts Receivable	16,216	(21,152)
Contributions Receivable	22,000	(14,981)
Inventory	13,001	(638)
Prepaid Expenses	(4,038)	1,315
Security Deposit	(3,513)	-
Increase (Decrease) in Current Liabilities:		
Accounts Payable	(24,970)	(2,914)
Accrued Expenses	16,002	37,073
Net Cash Provided by Operating Activities	<u>182,220</u>	<u>21,634</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment Purchases	(100)	-
Property and Equipment Purchases	<u>(3,143)</u>	<u>(14,480)</u>
Net Cash Used by Investing Activities	<u>(3,243)</u>	<u>(14,480)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	178,977	7,154
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>1,012,933</u>	<u>1,005,779</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 1,191,910</u>	<u>\$ 1,012,933</u>

See Accompanying Notes and Independent Auditors' Report

FREE SOFTWARE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

NOTE 1 ORGANIZATION AND NATURE OF ACTIVITIES

Free Software Foundation, Inc. was incorporated in 1985 as a Massachusetts corporation. It 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. The primary sources of support and revenue are generated through contributions, membership dues and product sales.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Standards of Accounting and Reporting

The Organization maintains its accounting records on the accrual basis in accordance with generally accepted accounting policies. The financial statements are presented in accordance with the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) 958-205, *Financial Statements of Not-for-Profit Organizations*. The Organization reports information regarding its financial position and activities according to three net asset classes: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Summarized Comparative Financial Statements

The financial statements include certain prior-year summarized comparative information in total but not by net asset class or functional expense category. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the financial statements for the prior year, from which the summarized totals were derived.

Reclassification of Financial Statement Presentation

Certain revenue and expense reclassifications have been made to the prior year financial statements to conform to the current year presentation. Such reclassifications have had no effect on the change of net assets as previously reported.

FREE SOFTWARE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

(Continued)

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent 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.

Cash and Cash Equivalents

The Organization considers equivalent to cash all money market funds and other deposits with an original maturity of ninety days or less from date of purchase. Cash equivalents are stated at cost which approximates market.

Accounts Receivable

Accounts receivable primarily consist of amounts due which were not collected by the Organization as of September 30, 2017. Management expects that accounts receivable are fully collectible, based on historical performance, and therefore has not recognized any allowance for doubtful accounts. It is the Organization's policy to write off a receivable only after all collection efforts have been fully exhausted.

Contributions Receivable

Contributions receivable are unconditional promises to give that are recognized when the promise is received. Contributions 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 to give. As of September 30, 2017, there are no contributions receivable.

Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

FREE SOFTWARE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

(Continued)

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventory

Inventory consists of merchandise held for sale which primarily includes books and clothing. Inventory is stated at the lower of cost or market and is accounted for on a first-in, first-out basis.

Property and Equipment

Property and equipment are recorded at cost when purchased, or if donated, at their estimated fair market value at date of donation. All acquisitions of property and equipment in excess 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 as incurred. Depreciation is provided on a straight-line basis over the estimated useful lives of the depreciable assets. Depreciation expense for the year ended September 30, 2017 is \$7,342.

Investment Policy

The primary investment objective of the Organization is to maintain a high quality portfolio that preserves principal, meets liquidity needs and delivers a suitable return based on market conditions and relative benchmarks. The Board of Directors oversees investment performance and has the discretion to change the investment objectives.

Support and Revenue Recognition

Support and revenue, including investment income, is recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets, if the restriction expires in the same reporting period in which the support is recognized.

FREE SOFTWARE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

(Continued)

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Donated Services and Assets

Donated services are recognized as contributions if the services (a) create or enhance non-financial assets or (b) require specialized skills and are performed by people with those skills and would otherwise be purchased. The value of those services is included in the financial statements as in-kind contribution with an offsetting in-kind expense.

Donated marketable securities and other noncash assets are recorded as contributions at their fair values at the date of donation. Donated assets that do not meet the Organization's investment guidelines are liquidated as soon as possible after the date of donation.

For the year ended September 30, 2017, the Organization recognized \$3,600 of donated internet and server hosting fees, which are included in outside services.

Functional Allocation of Expenses

Expenses are allocated among program and support services directly or on the basis of time and utilization estimates made by management. General and administrative expenses include those expenses that are not directly identifiable with any specific function but provide for the overall support and direction of the Organization.

Shipping and Handling

Shipping and handling costs are incurred in connection with the sale of merchandise, as well as informational materials. These costs are expensed as they are incurred. For the year ended September 30, 2017, \$11,493 is included in cost of sales and \$2,812 is included in shipping and materials.

Subsequent Events

Management has evaluated subsequent events through May 22, 2018, the date the financial statements were available to be issued. No significant subsequent events have been identified by management.

FREE SOFTWARE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

(Continued)

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Tax Status

Free Software Foundation, Inc. is exempt from federal and state income tax under Section 501(c)(3) of the Internal Revenue Code, and, accordingly, no provision for income taxes is included in the financial statements. The Organization qualifies for the charitable contribution deduction for individuals under the Internal Revenue Code.

Under the *Income Taxes* accounting standard, an organization should recognize the tax benefit associated with uncertain tax positions taken for tax return purposes only when it is more likely than not the position will be sustained. Management does not believe there are any material uncertain tax positions and, accordingly, it has not recognized any liability for unrecognized tax benefits, interest or penalties. Fiscal years 2013 – 2017 are currently open for examination by taxing authorities.

NOTE 3 INVESTMENTS AND FAIR VALUE MEASUREMENTS

In accordance with the *Fair Value Measurement* standard, the Organization measures its investments at fair value, which is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The standards establish a fair value hierarchy that prioritizes the inputs and assumptions used to measure fair value.

This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets, Level 2 inputs consist of inputs other than quoted prices that are observable for the asset either directly or indirectly, including in markets that are not considered to be active, and Level 3 consists of inputs that are unobservable and which require significant judgment or estimation. A qualifying asset or liability's level within the framework is based upon the lowest level of any input that is significant to the fair value measurement. The inputs and methodology used for valuing the investments are not indicators of the risks associated with those instruments.

FREE SOFTWARE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

(Continued)

NOTE 3 INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)

The following table presents the fair value hierarchy for those financial assets measured at fair value on a recurring basis as of September 30, 2017:

Description	Fair Value Measurement			Total
	Level 1	Level 2	Level 3	
Mutual Funds	\$ 84,450	\$ -	\$ -	\$ 84,450
Commodity Funds	<u>155,195</u>	<u>-</u>	<u>-</u>	<u>155,195</u>
Total Market Value	<u>\$ 239,645</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 239,645</u>

Investment performance during the years ended September 30, 2017 consists of:

Interest and Dividend Income	\$ 5,630
Unrealized Gains (Losses)	<u>(14,799)</u>
Total Return (Loss) on Investments	<u>\$ (9,169)</u>

NOTE 4 PROPERTY AND EQUIPMENT

Property and equipment consists of the following as of September 30, 2017:

Office Furniture and Equipment	\$ 104,643
Less: Accumulated Depreciation	<u>(85,474)</u>
Property and Equipment, Net	<u>\$ 19,169</u>

FREE SOFTWARE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

(Continued)

NOTE 5 TEMPORARILY RESTRICTED NET ASSETS

As of September 30, 2017, temporarily restricted net assets restricted for Free Software projects consist of the following:

GNU Related Projects	\$ 111,638
End Software Patents	28,190
SeaGL	23,161
Replicant	18,966
Computer Literacy Program	<u>5,000</u>
Total Temporarily Restricted Net Assets	<u>\$ 186,955</u>

NOTE 6 OPERATING LEASES

In August 2017, the Organization renewed its lease for office space in Boston, MA. The renewed lease commitment extends through August 2024. Monthly base rent is \$10,880 plus storage rental and a proportional share of real estate taxes and utilities, subject to increases each year as outlined in the lease agreement. The lease contains an early termination clause effective October 31, 2022 with a formula for termination consideration of \$24,382 plus various unamortized costs as outlined in the agreement. Rent expense under this lease for the year ended September 30, 2017 is \$79,040.

Future minimum lease commitments under all leases are as follows for the years ending September 30:

2018	\$ 133,227
2019	136,445
2020	139,666
2021	142,888
2022	146,114
2023 - 2024	288,949

FREE SOFTWARE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

(Continued)

NOTE 7 RETIREMENT SAVINGS PLAN

The Organization offers all employees the opportunity to participate in its 403(b) Plan. The Plan allows employees to defer a maximum of 10% of their annual compensation on a pre-tax basis for retirement. Under the terms of the Plan, the Organization contributes a maximum of 3% of an eligible employee's contribution. The Organization contributed \$222 to employee accounts during the year ended September 30, 2017.

NOTE 8 CONCENTRATIONS OF BUSINESS AND CREDIT RISK

The Organization maintains its cash balances in various financial institutions in Massachusetts. The amount insured by the Federal Deposit Insurance Corporation is \$250,000 per bank. At September 30, 2017, the uninsured cash balances were approximately \$727,000.

The Organization has significant investments in mutual and commodity funds and is therefore subject to concentrations of credit risk. Though the market value of investments is subject to significant fluctuations on an annual basis, management believes the investment policy is prudent for the long-term welfare of the Organization.

The Organization's non-management employees are members of the United Automobile Aerospace and Agricultural Implement Workers of America Local #1596 (UAW) Union. The Organization's contract with the UAW Union is renegotiated annually.

FREE SOFTWARE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

(Continued)

NOTE 9 PRIOR PERIOD ADJUSTMENT

As of September 30, 2017, changes were made to prior year net asset balances to adjust certain balances in accordance with donor designated restrictions to the Organization. The adjustment had no effect on the total net income of the Organization. The September 30, 2016 net asset balances have been restated to reflect the adjustment as follows:

	Previously Reported	Adjusted
Unrestricted Net Assets	\$ 1,248,364	\$ 1,147,727
Temporarily Restricted Net Assets	<u>-</u>	<u>100,637</u>
Total Net Assets	<u>\$ 1,248,364</u>	<u>\$ 1,248,364</u>