

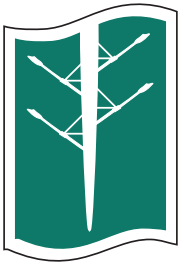
FREE SOFTWARE FOUNDATION, INC.
FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2020

FREE SOFTWARE FOUNDATION, INC.

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FOR THE YEAR ENDED SEPTEMBER 30, 2020

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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.

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, 2020, 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.

INDEPENDENT AUDITORS' REPORT

(Continued)

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, 2020, 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

We have previously audited Free Software Foundation, Inc.'s 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated August 6, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Murphy, Edwards, Goncalves & Ferreira, PC

Southborough, Massachusetts
July 13, 2021

FREE SOFTWARE FOUNDATION, INC.

STATEMENT OF FINANCIAL POSITION

AS OF SEPTEMBER 30, 2020

(With Comparative Totals as of September 30, 2019)

| | 2020 | 2019 |
|--|---------------------|---------------------|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and Cash Equivalents (Notes 2, 3 and 10) | \$ 2,071,140 | \$ 2,220,870 |
| Certificates of Deposit (Notes 2, 3 and 10) | 313,460 | 742,290 |
| Inventory (Note 2) | 22,694 | 23,636 |
| Prepaid Expenses | <u>12,500</u> | <u>26,663</u> |
| Total Current Assets | 2,419,794 | 3,013,459 |
| INVESTMENTS (Notes 2, 5 and 10) | 311,157 | 158,388 |
| PROPERTY AND EQUIPMENT, NET (Notes 2 and 4) | 21,276 | 27,785 |
| OTHER ASSETS: | | |
| Security Deposits | <u>13,228</u> | <u>13,228</u> |
| TOTAL ASSETS | <u>\$ 2,765,455</u> | <u>\$ 3,212,860</u> |
| LIABILITIES AND NET ASSETS | | |
| CURRENT LIABILITIES: | | |
| Accounts Payable | \$ 4,045 | \$ 43,804 |
| Accrued Expenses | 76,696 | 97,554 |
| Note Payable (Note 6) | <u>220,200</u> | <u>-</u> |
| Total Current Liabilities | <u>300,941</u> | <u>141,358</u> |
| NET ASSETS: | | |
| Without Donor Restriction (Note 2) | 1,645,867 | 2,139,106 |
| With Donor Restriction (Notes 2 and 7) | <u>818,647</u> | <u>932,396</u> |
| Total Net Assets | <u>2,464,514</u> | <u>3,071,502</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 2,765,455</u> | <u>\$ 3,212,860</u> |

See Accompanying Notes and Independent Auditors' Report

FREE SOFTWARE FOUNDATION, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2020

(With Comparative Totals for the Year Ended September 30, 2019)

| | Without Donor Restriction | With Donor Restriction | 2020 Total | 2019 Total |
|--|--------------------------------------|-----------------------------------|-----------------------|-----------------------|
| SUPPORT AND REVENUE (Note 2): | | | | |
| Contributions (Note 2) | \$ 1,001,353 | \$ 57,445 | \$ 1,058,798 | \$ 2,091,019 |
| In-kind Contributions (Note 2) | - | - | - | 2,700 |
| Release from Restriction (Notes 2 and 7) | 171,194 | (171,194) | - | - |
| Product Sales | 55,062 | - | 55,062 | 91,568 |
| Less: Cost of Sales (Note 2) | <u>(23,968)</u> | <u>-</u> | <u>(23,968)</u> | <u>(31,352)</u> |
| Gross Profit on Product Sales | 31,094 | - | 31,094 | 60,216 |
| GPL Compliance Lab Fees | 629 | - | 629 | 1,700 |
| Return on Investments, Net (Note 5) | 106,212 | - | 106,212 | 53,368 |
| Other Income | <u>5,637</u> | <u>-</u> | <u>5,637</u> | <u>9,397</u> |
| TOTAL SUPPORT AND REVENUE | <u>1,316,119</u> | <u>(113,749)</u> | <u>1,202,370</u> | <u>2,218,400</u> |
| FUNCTIONAL EXPENSES (Note 2): | | | | |
| Program Services | <u>1,613,249</u> | <u>-</u> | <u>1,613,249</u> | <u>1,506,279</u> |
| Support Services: | | | | |
| Management and General | 120,218 | - | 120,218 | 102,165 |
| Fundraising | <u>75,891</u> | <u>-</u> | <u>75,891</u> | <u>81,779</u> |
| Total Support Services | <u>196,109</u> | <u>-</u> | <u>196,109</u> | <u>183,944</u> |
| TOTAL FUNCTIONAL EXPENSES | <u>1,809,358</u> | <u>-</u> | <u>1,809,358</u> | <u>1,690,223</u> |
| INCREASE (DECREASE) IN NET ASSETS | (493,239) | (113,749) | (606,988) | 528,177 |
| NET ASSETS - BEGINNING | <u>2,139,106</u> | <u>932,396</u> | <u>3,071,502</u> | <u>2,543,325</u> |
| NET ASSETS - ENDING | <u>\$ 1,645,867</u> | <u>\$ 818,647</u> | <u>\$ 2,464,514</u> | <u>\$ 3,071,502</u> |

See Accompanying Notes and Independent Auditors' Report

FREE SOFTWARE FOUNDATION, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED SEPTEMBER 30, 2020

(With Comparative Totals for the Year Ended September 30, 2019)

| | SUPPORT SERVICES | | | | | |
|--|-----------------------------|-------------------------------------|--------------------|--------------------------|-----------------------|-----------------------|
| | Program Services | Management & General | Fundraising | Cost of Sales | 2020 Total | 2019 Total |
| Salaries and Wages (Note 10) | \$ 865,232 | \$ 68,052 | \$ 38,887 | \$ - | \$ 972,171 | \$ 875,033 |
| Payroll Taxes | 79,639 | 6,722 | 3,265 | - | 89,626 | 83,503 |
| Employee Benefits (Note 9) | <u>184,886</u> | <u>9,940</u> | <u>3,976</u> | - | <u>198,802</u> | <u>179,880</u> |
| Total Payroll and Related Expenses | 1,129,757 | 84,714 | 46,128 | - | 1,260,599 | 1,138,416 |
| Conferences and Meetings | 181,080 | 1,432 | 8,174 | - | 190,686 | 227,090 |
| Occupancy (Note 8) | 142,421 | 12,021 | 5,839 | - | 160,281 | 121,959 |
| Credit Card Processing Fees | 39,433 | - | - | - | 39,433 | 50,693 |
| Member Materials and Postage | 31,075 | 4,493 | 1,872 | - | 37,440 | 20,319 |
| Special Events and Mailings | 22,451 | 340 | 11,226 | - | 34,017 | 41,907 |
| Professional Fees | 24,986 | 1,965 | 1,123 | - | 28,074 | 20,500 |
| Cost of Product Sales | - | - | - | 23,968 | 23,968 | 31,352 |
| Outside Services (Note 2) | 12,581 | 1,062 | 516 | - | 14,159 | 22,381 |
| Contractors and Consultants | 659 | 11,916 | - | - | 12,575 | 5,613 |
| Telecommunications | 7,353 | 621 | 301 | - | 8,275 | 8,415 |
| Insurance | 7,107 | 515 | 251 | - | 7,873 | 5,737 |
| Depreciation (Note 2) | 5,784 | 488 | 237 | - | 6,509 | 7,130 |
| Office Supplies and Expenses | 5,467 | 461 | 224 | - | 6,152 | 9,149 |
| Educational Campaign Expense | 2,904 | - | - | - | 2,904 | 8,878 |
| Licenses and Permits | <u>191</u> | <u>190</u> | <u>-</u> | <u>-</u> | <u>381</u> | <u>2,036</u> |
| Total Functional Expenses | <u>1,613,249</u> | <u>120,218</u> | <u>75,891</u> | <u>23,968</u> | <u>1,833,326</u> | <u>1,721,575</u> |
| Less Items Included Within Statement of Activities | | | | | | |
| Cost of Product Sales | <u>-</u> | <u>-</u> | <u>-</u> | <u>(23,968)</u> | <u>(23,968)</u> | <u>(31,352)</u> |
| Total Functional Expenses as Presented on the Statement of Activities | <u>\$ 1,613,249</u> | <u>\$ 120,218</u> | <u>\$ 75,891</u> | <u>\$ -</u> | <u>\$ 1,809,358</u> | <u>\$ 1,690,223</u> |

See Accompanying Notes and Independent Auditors' Report

FREE SOFTWARE FOUNDATION, INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED SEPTEMBER 30, 2020

(With Comparative Totals for the Year Ended September 30, 2019)

| | 2020 | 2019 |
|--|----------------------------|----------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Increase (Decrease) in Net Assets | \$ (606,988) | \$ 528,177 |
| Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities: | | |
| Depreciation | 6,509 | 7,130 |
| Realized and Unrealized Gain, Net | (74,228) | (32,230) |
| Interest Income from Certificates of Deposit | (26,497) | (12,290) |
| Noncash Donation (BitCoin) | (32,290) | - |
| Sales of BitCoin | 53,750 | - |
| (Increase) Decrease in Assets: | | |
| Accounts Receivable | - | 3,652 |
| Inventory | 942 | (6,609) |
| Prepaid Expenses | 14,163 | (10,054) |
| Increase (Decrease) in Current Liabilities: | | |
| Accounts Payable | (39,759) | 34,960 |
| Accrued Expenses | (20,857) | 2,819 |
| Net Cash Provided (Used) by Operating Activities | <u>(725,255)</u> | <u>515,555</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Certificates of Deposit Purchases | (1,009,675) | (500,000) |
| Certificates of Deposit Maturities | 1,465,000 | - |
| Purchase of Investments | (100,000) | - |
| Sale of Investments | <u>-</u> | <u>100,000</u> |
| Net Cash Provided (Used) by Investing Activities | <u>355,325</u> | <u>(400,000)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from Paycheck Protection Program | <u>220,200</u> | <u>-</u> |
| Net Cash Provided by Financing Activities | <u>220,200</u> | <u>-</u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (149,730) | 115,555 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | <u>2,220,870</u> | <u>2,105,315</u> |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | <u>\$ 2,071,140</u> | <u>\$ 2,220,870</u> |

See Accompanying Notes and Independent Auditors' Report

FREE SOFTWARE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2020

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 the rights of all computer users, 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 accounting and reporting policies of the Organization conform with United States generally accepted accounting policies (GAAP) as codified in the Financial Accounting Standards Board (FASB) *Accounting Standards Codification* (ASC).

Financial Presentation

The financial statements of the Organization have been prepared on the accrual basis of accounting in conformity with generally accepted accounting principles. The Organization reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restriction. A description of the two net asset classes follows:

Without Donor Restriction - Net assets that are not subject to donor-imposed restrictions. Net assets without donor restriction may be designated for specific purposes by action of the Board of Directors.

With Donor Restriction - Net assets whose use by the Organization is subject to donor-imposed restrictions that can be fulfilled by actions of the Organization pursuant to those restrictions or that expire by the passage of time or are subject to donor-imposed restrictions such that they be maintained permanently by the Organization.

FREE SOFTWARE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2020

(Continued)

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Summarized Comparative Financial Statements

The financial statements include certain prior-year summarized comparative information in total but not in 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.

New Accounting Pronouncements

The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers* (Topic 606). The update supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. The Organization has adopted the provisions during the year ended September 30, 2020, and has retrospectively applied the standard to the year ended September 30, 2019. The retrospective application had no effect on the 2019 net income or the beginning net assets on October 1, 2019.

During the year, the Organization adopted the provisions of FASB ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (Topic 958). This accounting standard is meant to help not-for-profit entities evaluate whether transactions should be accounted for as contributions or as exchange transactions and, if the transaction is identified as a contribution, whether it is conditional or unconditional. ASU 2018-08 clarifies how an organization determines whether a resource provider is receiving commensurate value in return for a grant. If the resource provider does receive commensurate value from the grant recipient, the transaction is an exchange transaction and would follow the guidance under ASU 2014-09 (FASB ASC Topic 606). If no commensurate value is received by the grant maker, the transfer is a contribution. ASU 2018-08 stresses that the value received by the general public as a result of the grant is not considered to be commensurate value received by the provider of the grant. The Organization has adopted the provisions of the new ASU during the year ended September 30, 2020 and has retrospectively applied the standard to the year ended September 30, 2019. The retrospective application had no effect on the 2019 increase in net assets.

FREE SOFTWARE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2020

(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.

Certificates of Deposit

Certificates of deposit consist of the following as of September 30, 2020:

| | |
|---|------------------|
| Certificate at 1.80%, Maturing 10/02/20 | \$101,049 |
| Certificate at 2.00%, Maturing 10/03/20 | 101,321 |
| Certificate at 2.40%, Maturing 12/07/20 | <u>111,090</u> |
| Total Certificates of Deposit | <u>\$313,460</u> |

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, 2020, 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, 2020

(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 net realizable value 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 \$5,000 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, 2020 is \$6,509.

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.

Public Support Recognition

Support and revenue, including investment income, is recorded as without donor restriction, or with donor restriction 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), net assets with restriction are reclassified to net assets without restriction and reported in the statement of activities as release from restriction. Support that is restricted by the donor is reported as an increase in net assets without donor restriction, 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, 2020

(Continued)

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

The Organization recognizes revenue in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers, as amended. ASU 2014-09 applies to exchange transactions with customers that are bound by contracts or similar arrangements and establishes a performance obligation approach to revenue recognition. The Organization records the following exchange transaction revenue in its statement of activities and changes in net assets:

Product Sales

The Organization sells merchandise on a retail basis to customers. The performance obligation is the delivery of the merchandise to the customer. The transaction price is established by the Organization. As each item is individually priced, no allocation of the transaction price is necessary. The Organization recognizes revenue as the customer pays and takes possession of the merchandise. Some merchandise is sold with a right of return. If probable customer returns exist at the end of an accounting period, the Organization estimates and records in its financial statements a liability for such returns, which offset revenue. No liability for probable customer returns was considered necessary as of September 30, 2020.

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, 2020, \$11,911 of shipping and handling costs is included in cost of product sales.

FREE SOFTWARE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2020

(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.

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.

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.

Subsequent Events

The Organization has evaluated subsequent events through July 13, 2021, the date that the financial statements were available to be issued. See Note 11.

FREE SOFTWARE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2020

(Continued)

NOTE 3 LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The Organization's primary source of support is from contributions. The Organization has a policy to manage its liquidity and reserves by following three principal guidelines, which include operating within a prudent range of financial stability, maintaining adequate liquidity to fund near-term operations, and maintaining sufficient reserves to provide reasonable assurance that long-term goals will be met. The following reflects the Organization's financial assets as of September 30, 2020.

| | |
|---|---------------------|
| Cash and Cash Equivalents | \$ 2,071,140 |
| Certificates of Deposit | <u>313,460</u> |
| Total Financial Assets Available to Meet Cash Needs for General Expenditures within One Year | <u>\$ 2,384,600</u> |

In addition, the Organization has \$311,157 of investments that can be liquidated with Board approval.

NOTE 4 PROPERTY AND EQUIPMENT

Property and equipment consists of the following as of September 30, 2020:

| | |
|--------------------------------|------------------|
| Office Furniture and Equipment | \$ 78,623 |
| Leasehold Improvements | 22,570 |
| Less: Accumulated Depreciation | <u>(79,917)</u> |
| Property and Equipment, Net | <u>\$ 21,276</u> |

NOTE 5 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.

FREE SOFTWARE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2020

(Continued)

NOTE 5 INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)

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.

The following table presents the fair value hierarchy for those financial assets measured at fair value on a recurring basis as of September 30, 2020:

| Description | Fair Value Measurement | | | Total |
|--------------------|------------------------|-------------|-------------|-------------------|
| | Level 1 | Level 2 | Level 3 | |
| Mutual Bond Funds | \$ 86,510 | \$ - | \$ - | \$ 86,510 |
| Commodity Funds | <u>224,647</u> | <u>-</u> | <u>-</u> | <u>224,647</u> |
| Total Market Value | <u>\$ 311,157</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 311,157</u> |

Investment performance during the years ended September 30, 2020 consists of:

| | |
|---|-------------------|
| Interest and Dividend Income | \$ 31,984 |
| Realized and Unrealized Gain on Investments | <u>74,228</u> |
| Total Return on Investments | <u>\$ 106,212</u> |

NOTE 6 NOTE PAYABLE – PAYCHECK PROTECTION PROGRAM

In an effort to mitigate the uncertainty of the COVID-19 pandemic, the Organization received a loan in the amount of \$220,200 under the Paycheck Protection Program (PPP) on April 21, 2020. The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act (“CARES Act”), provides for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. The loan proceeds were primarily used for payroll expenses, and therefore, the loan was fully forgiven in June 2021. The Organization will recognize the loan forgiveness as contribution income in fiscal year 2021.

FREE SOFTWARE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2020

(Continued)

NOTE 7 NET ASSETS WITH DONOR RESTRICTION

As of September 30, 2020, net assets with donor restriction are for Free Software projects that consist of the following:

| | |
|--|-------------------|
| GNU Related Projects | \$ 553,004 |
| End Software Patents | 28,583 |
| SeaGL Project | 34,554 |
| Replicant Project | <u>202,506</u> |
| Total Net Assets With Donor Restrictions | <u>\$ 818,647</u> |

During the year ended September 30, 2020, net assets released from prior year restriction is \$171,194. The released restrictions primarily relate to conferences associated with various projects.

NOTE 8 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 \$11,404 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. In addition, the Organization leases off-site server space and pays licensing and related fees on a monthly basis. Rent and related utility expense under these lease agreements for the year ended September 30, 2020 is \$160,281.

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

| | |
|------|------------|
| 2021 | \$ 142,888 |
| 2022 | 146,114 |
| 2023 | 149,340 |
| 2024 | 139,609 |

FREE SOFTWARE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2020

(Continued)

NOTE 9 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 \$257 to employee accounts during the year ended September 30, 2020.

NOTE 10 CONCENTRATIONS OF BUSINESS AND CREDIT RISK

The Organization maintains its cash and certificate of deposit balances in various financial institutions in Massachusetts. The amount insured by the Federal Deposit Insurance Corporation is \$250,000 per bank. At September 30, 2020, the uninsured cash balances were approximately \$1,669,285.

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, 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 periodically.

NOTE 11 SUBSEQUENT EVENTS

The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary cancellation of group gatherings and travel. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of cancelled programs. As such, the Organization expects this matter to negatively impact its fiscal year 2021 financial performance. However, the related financial impact and duration cannot be reasonably estimated at this time.

FREE SOFTWARE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2020

(Continued)

NOTE 11 SUBSEQUENT EVENTS (Continued)

In an effort to mitigate the continued uncertainty of the COVID-19 pandemic, the Organization secured a second loan under the Paycheck Protection Program (PPP) in the amount of \$225,300 through the Small Business Administration on March 15, 2021. It is anticipated that the loan proceeds will be primarily used for payroll expenses and that the loan will qualify for forgiveness under the program. In the event that some portion of this loan doesn't qualify for forgiveness, monthly payments of principal and interest at 1% will begin ten months after the covered period and the amount of the loan forgiveness has been determined. Any remaining balance on the note the lender determines cannot be forgiven under the PPP rules shall be due in full and payable by March 2026.