

**Software Freedom Conservancy, Inc.
Financial Statements
February 28, 2014**

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Independent Auditor's Report

To the Board of Directors of
Software Freedom Conservancy, Inc.

I have audited the accompanying financial statements of Software Freedom Conservancy, Inc., which comprise the Statement of Financial Position as of February 28, 2014, and the related Statement of Activities, Cash Flows and Functional Expenses 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

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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, I 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. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Software Freedom Conservancy, Inc., as of February 28, 2014, 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

I have previously audited Software Freedom Conservancy, Inc.'s year ended February 28, 2013 financial statements, and my report dated January 8, 2014, expressed an unmodified opinion on those audited financial statements. In my opinion, the summarized comparative information presented herein as of and for the year ended February 28, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.



December 23, 2014

Software Freedom Conservancy, Inc.
Statement of Financial Position
February 28, 2014
(With Summarized Financial Information for 2013)

	February 28, <u>2014</u>	February 28, <u>2013</u>
Assets		
Current Assets		
Cash	\$ 954,799	\$ 780,738
Prepaid expenses	2,377	6,215
Contributions receivable	71,160	116,083
Total Current Assets	1,028,336	903,036
Other Assets		
Security deposit	-	2,125
Total Other Assets	-	2,125
Total Assets	\$ 1,028,336	\$ 905,161
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	\$ 63,786	\$ 42,684
Unearned income - advance program registration fees	81,349	84,509
Total Current Liabilities	145,135	127,193
Net Assets		
Unrestricted	118,618	26,816
Temporarily restricted	764,583	751,152
Total Net Assets	883,201	777,968
Total Liabilities and Net Assets	\$ 1,028,336	\$ 905,161

See independent auditor's report and accompanying notes to the financial statements.

Software Freedom Conservancy, Inc.
Statement of Activities
For the Year Ended February 28, 2014
(With Summarized Financial Information for 2013)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total Year Ended February 28, 2014</u>	<u>Year Ended February 28, 2013</u>
Support and Revenue				
Contributions	\$ 380,608	\$ 216,911	\$ 597,519	\$ 368,429
Conference registration fees	-	220,988	220,988	174,534
Legal settlements	-	-	-	10,000
Consulting	-	-	-	13,515
Book royalties	474	5,171	5,645	2,907
Conference sponsorship income	-	11,919	11,919	8,549
Advertising	-	-	-	3,357
Honoraria	1,000	-	1,000	100
Promotional items sales	-	671	671	-
Interest and currency conversion income	37	294	331	6,114
Net Assets released from restrictions:				
Satisfaction of program restrictions	442,523	(442,523)	-	-
Total Support and Revenue	<u>824,642</u>	<u>13,431</u>	<u>838,073</u>	<u>587,505</u>
Expenses				
Program services	<u>597,330</u>	<u>-</u>	<u>597,330</u>	<u>787,828</u>
Supporting services:				
General and administrative	126,809	-	126,809	122,853
Fund-raising	8,701	-	8,701	14,040
Total supporting services	<u>135,510</u>	<u>-</u>	<u>135,510</u>	<u>136,893</u>
Total Expenses	<u>732,840</u>	<u>-</u>	<u>732,840</u>	<u>924,721</u>
Change in Net Assets	91,802	13,431	105,233	(337,216)
Beginning Net Assets	26,816	751,152	777,968	1,115,184
Ending Net Assets	<u>\$ 118,618</u>	<u>\$ 764,583</u>	<u>\$ 883,201</u>	<u>\$ 777,968</u>

See independent auditor's report and accompanying notes to the financial statements.

Software Freedom Conservancy, Inc.
Statement of Cash Flows
For the Year Ended February 28, 2014
(With Summarized Financial Information for 2013)

	Year Ended February 28, <u>2014</u>	Year Ended February 28, <u>2013</u>
Cash Flows from Operating Activities		
Change in Net Assets	\$ 105,233	\$ (337,216)
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Receipt of gifted stock	(6,593)	-
(Increase) decrease in operating assets:		
Prepaid expenses	3,838	(2,648)
Contributions receivable	44,923	43,986
Security deposit	2,125	-
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	21,102	(47,445)
Unearned income - advance program registration fees	(3,160)	16,469
Net cash provided by (used in) operating activities	<u>167,468</u>	<u>(326,854)</u>
Cash Flows from Investing Activities		
Repayment of loans receivable	-	132,000
Proceeds from sale of gifted stock	6,593	-
Net cash provided by investing activities	<u>6,593</u>	<u>132,000</u>
Increase (decrease) in Cash	174,061	(194,854)
Beginning Cash	780,738	975,592
Ending Cash	<u>\$ 954,799</u>	<u>\$ 780,738</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for:		
Unrelated business income taxes paid	<u>\$ 604</u>	<u>\$ 2,277</u>

See independent auditor's report and accompanying notes to the financial statements.

Software Freedom Conservancy, Inc.
Statement of Functional Expenses
For the Year Ended February 28, 2014
(With Summarized Financial Information for 2013)

	<u>Program Services</u>		<u>Supporting Services</u>		<u>Total</u> <u>Year Ended</u> <u>February 28,</u> <u>2014</u>	<u>Year Ended</u> <u>February 28,</u> <u>2013</u>
			<u>General</u> <u>and</u> <u>Administrative</u>	<u>Fund-raising</u>		
Salaries and wages	\$ 120,380	\$ 70,596	\$ 5,943	\$ 196,919	\$ 203,560	
Payroll taxes	9,214	5,398	454	15,066	16,639	
Employee benefits	18,243	18,187	1,772	38,202	27,263	
Payroll processing fees	409	236	20	665	963	
Technology expenses	4,762	9,553	-	14,315	17,851	
Occupancy	8,174	4,721	397	13,292	19,620	
Grants	10,825	-	-	10,825	-	
Bank charges and other fees	-	2,908	-	2,908	1,730	
Office supplies and other	1,701	981	83	2,765	1,968	
Trademark registration & enforcement	2,014	275	-	2,289	40	
Insurance	-	1,652	-	1,652	1,228	
Taxes and government assessments	467	718	-	1,185	3,277	
Mentoring student software developers	1,000	-	-	1,000	3,325	
Membership	-	700	-	700	-	
Copyright license enforcement	188	-	-	188	9,255	
Travel, meals and lodging	76	-	-	76	712	
Professional services:						
Software development and design	81,497	-	-	81,497	385,768	
Accounting and audit	-	10,500	-	10,500	11,796	
Non-license enforcement legal fees	664	384	32	1,080	444	
Graphic design	300	-	-	300	400	
Promotional	-	-	-	-	2,390	
	<u>259,914</u>	<u>126,809</u>	<u>8,701</u>	<u>395,424</u>	<u>708,229</u>	
Direct conference expenses:						
Travel, meals and lodging	179,988	-	-	179,988	75,742	
Venue rental	94,732	-	-	94,732	114,873	
Audio / video	23,501	-	-	23,501	10,731	
Materials	18,865	-	-	18,865	1,703	
Bank charges and other fees	6,739	-	-	6,739	6,473	
T-shirts	5,263	-	-	5,263	1,590	
Other conference expenses	5,228	-	-	5,228	-	
Services	2,500	-	-	2,500	2,000	
Badges	553	-	-	553	1,638	
Registration service fees	47	-	-	47	1,742	
	<u>337,416</u>	<u>-</u>	<u>-</u>	<u>337,416</u>	<u>216,492</u>	
Total Expenses	\$ 597,330	\$ 126,809	\$ 8,701	\$ 732,840	\$ 924,721	

See independent auditor's report and accompanying notes to the financial statements.

Software Freedom Conservancy, Inc.
Notes to Financial Statements
February 28, 2014

Note 1 - Nature of Activities and Summary of Significant Accounting Policies

Nature of Activities

Software Freedom Conservancy, Inc. (Conservancy) is a not-for-profit organization that helps promote, improve, develop, and defend Free, Libre, and Open Source Software (FLOSS) projects. Conservancy provides a nonprofit home and infrastructure for FLOSS projects. This allows FLOSS developers to focus on what they do best — writing and improving FLOSS for the general public.

FLOSS projects whose applications are accepted become part of the Software Freedom Conservancy (akin to a separate department of a large agency). Once joined, the "member project" receives most of the benefits of existing as a non-profit corporate entity without engaging in the arduous work of forming a separate, new organization. Conservancy aggregates the work of running a FLOSS non-profit for its many members.

Conservancy provides many important services for its member projects. Member projects can take directed donations, which allows donors to earmark their donations for the benefit of a specific FLOSS project. Conservancy provides fiscal oversight to ensure that these funds are spent in a manner that advances the project and fits with Conservancy's 501(c)(3) mission to promote, advance, and defend software freedom.

If the member project's leaders want, Conservancy can also hold other assets and titles on behalf of the projects, such as copyrights, trademarks, domain names, online hosting accounts, and title and ownership of physical hardware. Also at discretion of the project's leaders, Conservancy can assist in defending the rights represented in these assets. For example, Conservancy is available to assist member projects in enforcing the terms of the projects' FLOSS license.

Finally, developers of Conservancy's member projects, when operating in their capacity as project leaders, could receive some protection from personal liability for their work on the project.

Software Freedom Conservancy, Inc., was incorporated in the State of New York in 2006.

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

See independent auditor's report.

Software Freedom Conservancy, Inc.
Notes to Financial Statements
February 28, 2014

Note 1 - (Continued)

Financial Statement Presentation

Conservancy reports 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.

Unrestricted net assets represent revenues and expenses related to the operations and management of Conservancy's primary programs and supporting services. If funds are raised and set aside by the Board for future use, these are considered unrestricted. Temporarily restricted contributions that are expended for their restricted purpose in the same reporting period as received may be recorded as unrestricted.

Temporarily restricted net assets represent resources available for use, but expendable only for the purpose specifically stated by the donor. As of February 28, 2014 there was \$764,583 of temporarily restricted net assets.

Permanently restricted net assets are assets subject to donor-imposed stipulations that they be maintained permanently by Conservancy. Generally, the donors of these assets permit Conservancy to use all or part of the income earned on only related investments for general or specific purpose. As of February 28, 2014 there were no permanently restricted net assets.

Cash

Cash consists of demand deposit accounts held at major financial institutions and may at times exceed the insurable amount. Management believes it mitigates its risk by investing in a major financial institution and in funds that are currently U.S. federal government insured. Recoverability of investments is dependent upon the performance of the issuer.

Cash Equivalents

For purposes of the statement of cash flows, Conservancy considers all highly liquid investments purchased with original maturities of three months or less when purchased to be cash equivalents.

Contributions

Contributions are recognized when the donor makes a promise to give to Conservancy that is in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restriction expires in the same reporting period in which the contributions are 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.

See independent auditor's report.

Software Freedom Conservancy, Inc.
Notes to Financial Statements
February 28, 2014

Note 1 - (Continued)

Contributions Receivable

Contributions receivable are stated at the amount management expects to collect. Management provides for probable uncollectible amounts through adjustments to valuation allowances based on its assessment of the current status of individual receivables. Balances still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance. For the year ended February 28, 2014 the allowance for doubtful accounts was \$0.

Revenue Recognition

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted depending on the existence and / or nature of any donor restrictions. Conservancy has not received any contributions with donor-imposed restrictions that would result in permanently restricted net assets.

Income is recognized on an accrual basis when earned.

Reclassifications

Certain reclassifications have been made to prior year amounts to conform to the current year presentations.

Income Taxes

Conservancy is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code. Therefore, no provision for income taxes has been provided for in the accompanying financial statements.

Tax Uncertainties

Conservancy's policy is to record interest expense and penalties in operating expenses. For the year ended February 28, 2014, there was no interest and penalties expense recorded.

Conservancy's Federal Forms 990 are open for examination for the years ended February 28, 2011, and thereafter.

Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

See independent auditor's report.

Software Freedom Conservancy, Inc.
Notes to Financial Statements
February 28, 2014

Note 1 - (Continued)

Concentrations

Conservancy maintains cash balances in two financial institutions. Balances in one of those institutions at times exceed federally insured limits. Conservancy has not experienced any losses related to these accounts and believes it is not exposed to any significant credit risk.

Approximately 42% of contributions receivable are from one organization.

Approximately 30% of Conservancy's contributions were provided by one organization.

Donated Services

Donated services are recognized as contributions if the services (1) create or enhance nonfinancial assets or (2) require specialized skills, are performed by people with those skills, and would otherwise be purchased by Conservancy. Volunteers provide various services that are not recognized as contributions in the financial statements since the recognition criteria were not met.

Subsequent Events

In preparing these financial statements, Software Freedom Conservancy, Inc., has evaluated subsequent events and transactions for potential recognition or disclosure in the financial statements through December 23, 2014, the date the financial statements were available to be issued.

Note 2 - Lease

Software Freedom Conservancy, Inc., leased its premises on a month to month basis until October 31, 2013.

Payments during the year ended February 28, 2014 amounted to \$13,000.

Note 3 - Unearned Income

Unearned income represents income for the year ending February 28, 2015, that was received during the year ended February 28, 2014.

See independent auditor's report.

Software Freedom Conservancy, Inc.
Notes to Financial Statements
February 28, 2014

Note 4 - Temporarily Restricted Net Assets

Temporarily restricted net assets by revenue source and changes therein for the year ended February 28, 2014, were as follows:

	Balance as of March 1, 2013	Additions	Releases From Restrictions	Balance as of February 28, 2014
Restricted as to purpose for the following projects:				
Amarok	\$ 6,647	\$ 268	\$ 6,915	\$ -
ArgoUML	12,630	12	1	12,641
Boost	124,698	65,634	58,447	131,885
Buildbot	823	1,094	3	1,914
BusyBox	123,882	26	7,146	116,762
Coreboot	1,800	-	-	1,800
Darcs	1,613	72	3	1,682
Evergreen	40,616	66,603	72,811	34,408
Foresight	393	-	-	393
Gevent	246	5	-	251
Git	8,651	3,132	292	11,491
Inkscape	25,605	8,068	2,502	31,171
K3D	2,857	-	-	2,857
Kohana	3,480	205	417	3,268
Libbraille	459	-	-	459
Mercurial	1,592	5,860	107	7,345
Metalink	894	-	9	885
Mifos	6,336	-	6,336	-
OpenChange	4,726	4	-	4,730
PyPy	54,483	19,392	43,599	30,276
SWIG	2,915	19	21	2,913
Samba	170,928	39,622	32,609	177,941
Selenium	82,083	167,566	154,138	95,511
Squeak	1,193	24	539	678
Sugar	8,673	44,318	13,546	39,445
Twisted	27,857	9,390	21,064	16,183
Wine	14,926	5,143	3,763	16,306
jQuery	20,146	4	14,780	5,370
phpMyAdmin	-	19,493	3,475	16,018
	\$ 751,152	\$ 455,954	\$ 442,523	\$ 764,583

See independent auditor's report.