

Software Freedom Conservancy, Inc.
Financial Statements
February 28, 2017

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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, 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.

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, 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

I have previously audited Software Freedom Conservancy, Inc.'s, February 29, 2016 financial statements, and I expressed an unmodified audit opinion on those audited financial statements in my audit report dated January 12, 2017. In my opinion, the summarized comparative information presented herein, as of, and for the year ended February 28, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

January 16, 2018

Software Freedom Conservancy, Inc.
Statement of Financial Position
February 28, 2017
(With Summarized Financial Information for 2016)

	February 28, <u>2017</u>	February 29, <u>2016</u>
Assets		
Current Assets		
Cash	\$ 2,203,969	\$ 1,351,786
Prepaid expenses	3,668	4,895
Contributions receivable	538,101	567,606
Security deposit	600	600
Total Current Assets	2,746,338	1,924,887
Total Assets	\$ 2,746,338	\$ 1,924,887
 Liabilities and Net Assets		
Liabilities		
Current Liabilities		
Accounts payable and accrued expenses	\$ 181,479	\$ 50,664
Unearned income - advance program registration fees	278,787	213,612
Total Current Liabilities	460,266	264,276
 Net Assets		
Net Assets		
Unrestricted	482,172	310,860
Temporarily restricted	1,803,900	1,349,751
Total Net Assets	2,286,072	1,660,611
Total Liabilities and Net Assets	\$ 2,746,338	\$ 1,924,887

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, 2017
(With Summarized Financial Information for 2016)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total Year Ended February 28, 2017</u>	<u>Year Ended February 29, 2016</u>
Support and Revenue				
Contributions	\$ 717,245	\$ 1,093,637	\$ 1,810,882	\$ 1,780,653
Conference registration fees	-	286,767	286,767	108,110
Honoraria	-	-	-	14,650
Book royalties	216	1,993	2,209	3,439
Trademark licensing income	200	1,800	2,000	-
Interest and currency conversion gains	1,090	2,518	3,608	1,555
Conference sponsorship income	-	19,437	19,437	17,675
Promotional items sales	5	762	767	-
	<u>718,756</u>	<u>1,406,914</u>	<u>2,125,670</u>	<u>1,926,082</u>
Net Assets released from restrictions:				
Satisfaction of program restrictions	952,767	(952,767)	-	-
Total Support and Revenue	<u>1,671,523</u>	<u>454,147</u>	<u>2,125,670</u>	<u>1,926,082</u>
Expenses				
Program services	<u>1,255,859</u>	-	<u>1,255,859</u>	<u>968,363</u>
Supporting services:				
General and administrative	184,043	-	184,043	140,964
Fund-raising	60,307	-	60,307	51,921
Total Supporting services	<u>244,350</u>	-	<u>244,350</u>	<u>192,885</u>
Total Expenses	<u>1,500,209</u>	<u>-</u>	<u>1,500,209</u>	<u>1,161,248</u>
Change in Net Assets	(548,080)	1,161,903	625,461	764,834
Beginning Net Assets	1,030,252	641,997	1,660,611	895,777
Ending Net Assets	<u>\$ 482,172</u>	<u>\$ 1,803,900</u>	<u>\$ 2,286,072</u>	<u>\$ 1,660,611</u>

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

Software Freedom Conservancy, Inc.
Statement of Functional Expenses
Year Ended February 28, 2017
(With Summarized Financial Information for 2016)

	<u>Program Services</u>	<u>Supporting Services</u>		<u>Total Year Ended February 28, 2017</u>	<u>Year Ended February 29, 2016</u>
		<u>General and Administrative</u>	<u>Fund-raising</u>		
Salaries and wages	\$ 200,706	\$ 100,355	\$ 36,353	\$ 337,414	\$ 281,035
Employee benefits	65,690	31,006	11,671	108,367	88,803
Internships	457,265	-	-	457,265	261,250
Payroll taxes	16,471	8,201	2,989	27,661	23,202
Technology expenses	9,309	5,094	-	14,403	11,429
Bad debt expenses	-	10,130	-	10,130	-
Bank charges and other fees	-	9,427	-	9,427	10,545
Office supplies and other	275	2,174	4,797	7,246	7,883
Travel, meals and lodging	2,327	1,295	1,400	5,022	3,205
Taxes and government assessments	4,307	476	-	4,783	751
Trademark registration & enforcement	3,371	-	-	3,371	2,229
Membership	2,357	121	-	2,478	449
Insurance	-	1,687	-	1,687	1,687
Payroll processing fees	819	384	153	1,356	1,073
Copyright license enforcement	1,075	-	-	1,075	14,363
Occupancy	225	105	42	372	584
Grants	200	-	-	200	200
Mentoring student software developers	-	-	-	-	5,000
Professional services:					
Software development and design	90,884	-	-	90,884	45,865
Accounting and audit	-	12,742	-	12,742	11,800
Promotional	3,026	634	2,506	6,166	2,211
Non-license enforcement legal fees	424	212	71	707	960
Graphic design	412	-	50	462	20
Program Coordination	8,357	-	-	8,357	-
	<u>867,500</u>	<u>184,043</u>	<u>60,032</u>	<u>1,111,575</u>	<u>774,544</u>
Direct conference expenses:					
Travel, meals and lodging	292,418	-	-	292,418	253,757
Venue rental	41,386	-	275	41,661	62,060
Audio / video	28,672	-	-	28,672	37,312
Bank charges and other fees	10,066	-	-	10,066	7,762
Services	7,151	-	-	7,151	10,340
Registration service fees	5,135	-	-	5,135	66
Materials	2,161	-	-	2,161	9,188
Sponsorship	1,000	-	-	1,000	-
Badges	356	-	-	356	1,449
Honoraria	14	-	-	14	1,500
T-shirts	-	-	-	-	3,270
	<u>388,359</u>	<u>-</u>	<u>275</u>	<u>388,634</u>	<u>386,704</u>
Total Expenses	<u>\$ 1,255,859</u>	<u>\$ 184,043</u>	<u>\$ 60,307</u>	<u>\$ 1,500,209</u>	<u>\$ 1,161,248</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, 2017
(With Summarized Financial Information for 2016)

	Year Ended February 28, <u>2017</u>	Year Ended February 29, <u>2016</u>
Cash Flows from Operating Activities		
Change in Net Assets	\$ 625,461	\$ 764,834
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
(Increase) decrease in operating assets:		
Prepaid expenses	1,227	(3,341)
Contributions receivable	29,505	(494,345)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	130,815	(8,197)
Unearned income - advance program registration fees	65,175	151,018
Net cash provided by operating activities	852,183	409,969
 Net Increase in Cash	 852,183	 409,969
Beginning Cash	1,351,786	941,817
Ending Cash	\$ 2,203,969	\$ 1,351,786

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

Software Freedom Conservancy, Inc.
Notes to Financial Statements
February 28, 2017

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

Nature of Activities

Software Freedom Conservancy, Inc. (the Organization) 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 Organization (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. The Organization aggregates the work of running a FLOSS non - profit for its many members.

The Organization 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. The Organization provides fiscal oversight to ensure that these funds are spent in a manner that advances the project and fits with the Organization's 501(c)(3) mission to promote, advance, and defend software freedom.

If the member project's leaders want, the Organization 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, the Organization can assist in defending the rights represented in these assets. For example, the Organization is available to assist member projects in enforcing the terms of the projects' FLOSS license.

Finally, developers of the Organization'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").

Financial Statement Presentation

The Organization 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 the Organization'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.

See independent auditor's report.

Software Freedom Conservancy, Inc.
Notes to Financial Statements
February 28, 2017

Note 1 - (Continued)

Financial Statement Presentation (Continued)

Temporarily restricted net assets represent resources available for use, but expendable only for the purpose specifically stated by the donor. As of February 28, 2017, there were \$1,803,900 of temporarily restricted net assets.

Permanently restricted net assets are assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on only related investments for general or specific purpose. As of February 29, 2017, there were no permanently restricted net assets.

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.

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 between the program and supporting services benefited.

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, the Organization considers all highly liquid investments purchased with original maturities of three months or less when purchased to be cash equivalents.

Revenue Recognition

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted depending on the existence and / or nature of any donor restrictions. The Organization 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.

Software Freedom Conservancy, Inc.
Notes to Financial Statements
February 28, 2017

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, 2017, the allowance for doubtful accounts was \$0.

All contributions receivable are expected to be collected within the current operating cycle of one year.

Income Taxes

The Organization 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.

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 the Organization. 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, the Organization, has evaluated subsequent events and transactions for potential recognition or disclosure in the financial statements January 16, 2018, the date the financial statements were available to be issued.

Note 2 - Unearned Income

Unearned income represents income for the year ending February 28, 2018, that was received during the year ended February 28, 2017.

Note 3 - Temporarily Restricted Net Assets

Temporarily restricted net assets by revenue source and changes therein for the year ended February 28, 2017, were as follows:

	Balance as of February 29, 2016	Additions	Releases From Restrictions	Balance as of February 28, 2017
Restricted as to purpose for the following projects:				
ArgoUML	\$ 12,697	\$ 11	\$ -	\$ 12,708
Boost	143,743	81,613	(76,449)	148,907
Bro	199,988	139,237	(61,507)	277,718
Buildbot	19,900	-	(10,000)	9,900
BusyBox	66,460	375	-	66,835
Coreboot	1,800	-	-	1,800
Darcs	1,642	35	(2)	1,675
Diversity Grant	15,000	-	-	15,000
Evergreen	43,075	61,837	(49,724)	55,188
Foresight	393	-	-	393
Gevent	6,881	2,831	(96)	9,616
Git	18,740	4,745	(2,260)	21,225
Godot	5,097	25,905	(18,457)	12,545
Homebrew	-	4,617	(39)	4,578
Inkscape	36,765	13,058	(8,077)	41,746
K3D	2,858	23	(1)	2,880
Kallithea	91	186	(7)	270
Kohana	2,742	14	(445)	2,311
Libbraille	459	5	-	464
LibreHealth	-	947	(24)	923
Linux Compliance	35,517	-	(626)	34,891
Linux XIA	1,500	2,880	(1,731)	2,649
LuxRender	3,151	576	(39)	3,688
Mercurial	16,845	6,761	(6,363)	17,243
Metalink	928	-	-	928
OpenChange	2,545	-	-	2,545
Outreachy	255,140	568,634	(464,550)	359,224
PyGMO	1,000	-	(1,249)	(249)
PyPy	49,533	29,796	(12,151)	67,178
QEMU	4,796	4,771	(2,142)	7,425
SWIG	3,862	15	(1)	3,876
Samba	134,224	28,264	(11,582)	150,906
Selenium	92,169	250,602	(153,107)	189,664
SpecOps	-	28,350	(14,635)	13,714
Squeak	267	1,513	(38)	1,742
Sugar	84,655	5,924	(8,416)	82,163
Twisted	12,416	2,750	(1,585)	13,581
Wine	11,559	8,413	(8,208)	11,764
Xapian	3,000	4,700	(2,959)	4,741
phpMyAdmin	58,313	118,529	(36,297)	140,545
	\$ 1,349,751	\$ 1,397,917	\$ (952,767)	\$ 1,794,900

See independent auditor's report.