



WIKIMEDIA FOUNDATION, INC.

Financial Statements

June 30, 2008

(With Independent Auditors' Report Thereon)

WIKIMEDIA FOUNDATION, INC.

Financial Statements

June 30, 2008

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KPMG LLP
55 Second Street
San Francisco, CA 94105

Independent Auditors' Report

The Board of Trustees
Wikimedia Foundation, Inc.:

We have audited the accompanying balance sheet of Wikimedia Foundation, Inc. (the Foundation) as of June 30, 2008, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Wikimedia Foundation, Inc. as of June 30, 2008, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

November 4, 2008

WIKIMEDIA FOUNDATION, INC.

Balance Sheet

June 30, 2008

Assets

Current assets:

Cash and cash equivalents	\$	2,998,635
Current portion of contributions receivable		1,020,000
Accounts receivable		27,259
Investments		37,902
Prepaid expenses		85,424

Total current assets 4,169,220

Property, plant and equipment, net of accumulated
depreciation and amortization of \$734,282

521,107

Noncurrent portion of contributions receivable

974,279

Total assets \$ 5,664,606

Liabilities and Net Assets

Current liabilities:

Accounts payable and accrued expenses	\$	305,147
Deferred revenue		181,291

Total current liabilities 486,438

Total liabilities 486,438

Net assets:

Unrestricted		3,123,539
Temporarily restricted		2,054,629

Total net assets 5,178,168

Total liabilities and net assets \$ 5,664,606

See accompanying notes to financial statements.

WIKIMEDIA FOUNDATION, INC.

Statement of Activities

Year ended June 30, 2008

Unrestricted net assets:	
Support and revenue:	
Contributions	\$ 4,402,910
In-kind revenue	333,125
Other income	172,449
Investment income, net	21,497
Special event revenue, net	76,000
Release of restrictions on temporarily restricted net assets	27,000
Total support and revenue	<u>5,032,981</u>
Expenses:	
Salaries and wages	1,147,679
Internet hosting	537,204
In-kind expenses	333,125
Operating	952,019
Travel	307,679
Depreciation and amortization	233,314
Other	29,704
Total expenses	<u>3,540,724</u>
Increase in unrestricted net assets	<u>1,492,257</u>
Temporarily restricted net assets:	
Contributions	2,054,629
Release of restrictions on temporarily restricted net assets	(27,000)
Increase in temporarily restricted net assets	<u>2,027,629</u>
Increase in net assets	3,519,886
Net assets at beginning of year	<u>1,658,282</u>
Net assets at end of year	<u>\$ 5,178,168</u>

See accompanying notes to financial statements.

WIKIMEDIA FOUNDATION, INC.

Statement of Cash Flows

Year ended June 30, 2008

Cash flows from operating activities:	
Increase in net assets	\$ 3,519,886
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation and amortization	233,314
Donation of common stock	(49,787)
Unrealized loss on investments	11,885
Loss on disposal of equipment	17,481
Changes in operating assets and liabilities:	
Contributions receivable	(1,994,279)
Accounts receivable	18,110
Prepaid expenses	(50,397)
Accounts payable	266,860
Deferred revenue	181,291
Net cash provided by operating activities	<u>2,154,364</u>
Cash flows from investing activities:	
Purchase of computer equipment and software	(87,840)
Leasehold improvements	(71,687)
Net cash used by investing activities	<u>(159,527)</u>
Net increase in cash and cash equivalents	1,994,837
Cash and cash equivalents at beginning of year	<u>1,003,798</u>
Cash and cash equivalents at end of year	<u>\$ 2,998,635</u>

See accompanying notes to financial statements.

WIKIMEDIA FOUNDATION, INC.

Notes to Financial Statements

June 30, 2008

(1) Organization and Summary of Significant Accounting Policies

(a) *Organization and Purpose*

Wikimedia Foundation, Inc., (the Foundation) is a Florida not-for-profit organization which hosts several free-content projects on the Internet such as Wikipedia, the award-winning multilingual encyclopedia. In fiscal 2008 the Foundation moved its headquarters from Florida to San Francisco. Other online projects include: Wikibooks, free, open-content textbooks; Wikinews, a free news source; Wikiquote, a free compendium of quotations; Wikisource, a free library; Wikispecies, an open, free directory of species; Wiktionary, a free multilingual dictionary; and Wikiversity, a free learning platform. The Foundation was chartered to develop and maintain the necessary infrastructure for the growing online projects and to facilitate the work of a global volunteer authoring community. Independent local chapters have been set up in several countries to support and promote the projects on an international level. The Foundation operates with predominantly volunteer staff and relies on public contributions and grants to fund its mission of providing free knowledge to every person in the world.

(b) *Income Taxes*

The Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and from state income tax under Chapter 220.13 of the Florida Statutes and Sections 23701(d) of Revenue and Taxation Code of the State of California. The Internal Revenue Service has determined that the Foundation is not a private foundation and contributions to it qualify as charitable contribution deductions. There was no unrelated business income tax for the year ended June 30, 2008.

(c) *Financial Statement Presentation*

The Foundation reports information regarding its financial position and activities based on the existence or absence of donor-imposed restrictions in accordance with Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Accordingly, the Foundation has classified its net assets and changes therein as unrestricted (net assets that are not subject to donor-imposed stipulations) and permanently or temporarily restricted net assets, as required.

(d) *Restricted and Unrestricted Contributions*

The Foundation accounts for contributions in accordance with SFAS No. 116, *Accounting for Contributions Received and Contributions Made*. Accordingly, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

Contributions that are restricted by the donor are reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the contributions are received.

All other donor-restricted contributions are reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished), temporarily

WIKIMEDIA FOUNDATION, INC.

Notes to Financial Statements

June 30, 2008

restricted contributions are reclassified and reported in the statement of activities as net assets released from restrictions.

(e) Cash and Cash Equivalents

The Foundation considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

(f) Contributions Receivable

Contributions receivable represents gift amounts due from various entities which are occasionally directed at specific activities. Contribution receivables due more than one year from the contribution date are discounted to present value using the U.S. Treasury rate. Contribution receivables are subject to review and adjustment by management should amounts be deemed uncollectible.

(g) Accounts Receivable

Accounts receivable is comprised primarily of fees charged to websites for live feed access to Wikipedia. All receivables are non-interest bearing. Management periodically reviews receivables for past due amounts based on payment history and adjusts for uncollectible amounts as necessary.

(h) Investments

At June 30, 2008, the Foundation's investments are comprised of 72 shares of Google common stock which are carried at fair value using quoted market prices in accordance with SFAS No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*. During the year ended June 30, 2008, the Foundation received the stock as a donation. Included in investment income in the statement of activities for the year ended June 30, 2008 are unrealized losses on investments of \$11,885.

(i) Property, Plant and Equipment

All expenditures for property, plant and equipment with useful lives of one year or more are capitalized and recorded at cost. Depreciation is calculated over the estimated useful lives of the assets. The estimated useful life of furniture is 5 years, while the estimated useful lives of computer equipment and software is 3 years. Leasehold improvements are amortized over the life of the lease. Donated computer equipment and software is recorded at the fair value of the items at the time of the donation and is deemed an unrestricted contribution in the year in which it was received. Repairs and maintenance of equipment are charged to operations. Upon retirement, sale, or other disposition of property, plant and equipment, costs and accumulated depreciation are eliminated from the accounts and any resulting gain or loss is included in operations.

At the beginning of fiscal 2008 the Foundation changed its method of depreciation from the double-declining balance method to the straight-line method, to better reflect the pattern of consumption of the expected benefits of the Foundation's property, plant and equipment. This change in accounting estimate, effected by a change in accounting principle, was accounted for prospectively in the accompanying financial statements in accordance with SFAS No. 154, *Accounting Changes and Error Corrections*. The impact of the change was a reduction to depreciation expense and increase to net assets in fiscal 2008 of \$134,126.

WIKIMEDIA FOUNDATION, INC.

Notes to Financial Statements

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(j) *Deferred Revenue*

Deferred revenue represents payments related to live-feed agreements that have been paid in advance.

(k) *Noncash Contributions*

A substantial number of volunteers make significant contributions of their time in the furtherance of the Foundation's projects. The value of this contributed time is not reflected in the accompanying financial statements. Certain contributed services requiring specialized skills are recorded as support and expenses at fair value when determinable, or otherwise at values indicated by the donor.

Contributed services are reported at fair value in the financial statements for voluntary donations of services when those services (1) create or enhance nonfinancial assets or (2) require specialized skills provided by individuals possessing those skills and are services which would be typically purchased if not provided by the donation, and (3) the services are professional in nature, and have been explicitly agreed to in advance.

In-kind revenue and expenses recorded on the statements of activities consist of contributed legal services and Internet hosting for the year ended June 30, 2008. The amount of specialized contributed legal services recognized as revenue and expenses was approximately \$20,000 for the year ended June 30, 2008. The value of contributed Internet hosting services for the year ended June 30, 2008 was approximately \$313,125.

Included in the 2008 amount are donated hosting services and bandwidth from two companies, Yahoo! and Kennisnet.

Contributions of investments are recorded as support at fair value at the date of donation.

(l) *Use of Estimates*

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Significant items subject to such estimates and assumptions include the allowance for doubtful accounts, useful lives of fixed assets and the valuation of in-kind gifts. Accordingly, actual results could differ from those estimates.

WIKIMEDIA FOUNDATION, INC.

Notes to Financial Statements

June 30, 2008

(2) Contributions Receivable

Contributions receivable at June 30, 2008 consists of amounts primarily due from one contributor which is due as follows:

Amounts due in:		
One year	\$	1,020,000
Two years		1,000,000
Less discount to present value		<u>(25,721)</u>
Total		1,994,279
Less current portion		<u>1,020,000</u>
Noncurrent portion	\$	<u><u>974,279</u></u>

Additionally, contribution revenue for the year ended June 30, 2008 includes \$2,974,279 from one contributor.

(3) Property, Plant and Equipment

Property, plant and equipment at June 30, 2008 consist of the following:

Furniture	\$	35,016
Leasehold improvements		71,687
Computer equipment and software		<u>1,148,686</u>
Total		1,255,389
Less accumulated depreciation and amortization		<u>(734,282)</u>
Net	\$	<u><u>521,107</u></u>

(4) Net Assets

Temporarily restricted net assets at June 30, 2008 are available for the following purposes:

Restricted to future periods	\$	1,974,279
Restricted by purpose:		
Restricted to improving Wiki print and technology		40,000
Restricted to payments for illustrations		20,350
Restricted to scholarships for Wikimania		<u>20,000</u>
Temporarily restricted net assets	\$	<u><u>2,054,629</u></u>

WIKIMEDIA FOUNDATION, INC.

Notes to Financial Statements

June 30, 2008

(5) Functional Allocation of Expenses

Costs of providing the Foundation's various projects are summarized below on a functional basis. Accordingly, certain costs have been allocated among the projects benefited and supporting services for the year ended June 30, 2008 as follows:

	<u>Projects</u>	<u>General and administrative</u>	<u>Fund raising</u>	<u>Total</u>
Salary and wages	\$ 575,956	479,078	92,645	1,147,679
Internet hosting	537,204	—	—	537,204
In-kind expenses	333,125	—	—	333,125
Operating	395,241	437,648	119,130	952,019
Travel	153,840	141,533	12,306	307,679
Depreciation and amortization	226,605	5,961	748	233,314
Other	17,553	12,151	—	29,704
	<u>\$ 2,239,524</u>	<u>1,076,371</u>	<u>224,829</u>	<u>3,540,724</u>

The overwhelming majority of the Foundation's project activities are carried out by an international network of volunteers, whose activity is not reflected in the table above.

For example (unaudited):

- In the year ended June 30, 2008, the educational content of the Foundation's projects grew by approximately 1.7 billion words. (By comparison, according to its publisher, the 32-volume print edition of Encyclopedia Britannica contains 44 million words.) This material was entirely contributed by volunteer writer/editors.
- In the year ended June 30, 2008, volunteers added approximately 1.3 million images, movies and sound files to the Foundation's multimedia repository.
- Volunteers also contribute in several ways to the Foundation's wiki software: volunteer software developers add new functionality to the code base, and volunteer language specialists add to the code base by translating the wiki interface into different languages. In the year ended June 30, 2008, the source code hosted in the Foundation's version control repository grew by approximately 737,000 lines of code.

(6) Operating Leases

The Foundation has a four-year noncancelable operating lease for its San Francisco office space. Minimum rent payments under operating leases are recognized on a straight-line basis over the term of the lease including any periods of free rent. Rental expense for operating leases for the year ended June 30, 2008 was \$103,121.

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Future minimum lease payments under noncancelable operating leases as of June 30, 2008 are:

Year ended June 30:		
2009	\$	76,250
2010		79,250
2011		82,250
2012		<u>49,000</u>
Total minimum lease payments	\$	<u><u>286,750</u></u>

(7) Related Party Transactions

The Foundation shared hosting and bandwidth costs through December 31, 2007 with Wikia, Inc., a for-profit company founded by the same founder as Wikimedia Foundation, Inc. Wikia, Inc. reimbursed the Foundation \$5,000 in fiscal 2008 which represented fair value of the shared costs and has been recorded as an offset to the Foundation's Internet hosting expense. While Wikia and the Foundation share the same founder, after December 31, 2007, there is no financial relationship between the two organizations.

(8) Contingencies

In the normal course of business, the Foundation receives various threats of litigation on a regular basis. In the opinion of management, the outcome of the pending lawsuits will not materially affect present operations or the financial position of the Foundation.