



WIKIMEDIA FOUNDATION, INC.

Financial Statements

June 30, 2011 and 2010

(With Independent Auditors' Report Thereon)

WIKIMEDIA FOUNDATION, INC.

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KPMG LLP
Suite 1400
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Independent Auditors' Report

The Board of Directors
Wikimedia Foundation, Inc.:

We have audited the accompanying balance sheets of Wikimedia Foundation, Inc. (the Foundation) as of June 30, 2011 and 2010, and the related statements of activities and cash flows for the years 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 audits.

We conducted our audits 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 audits provide 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, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

KPMG LLP

September 28, 2011

WIKIMEDIA FOUNDATION, INC.

Balance Sheets

June 30, 2011 and 2010

Assets	2011	2010
Current assets:		
Cash and cash equivalents	\$ 12,026,303	7,177,377
Current portion of contributions receivable	1,000,000	500,000
Accounts receivable	695,004	353,375
Investments	5,848,801	5,539,587
Prepaid expenses and other current assets	1,214,884	661,258
Total current assets	20,784,992	14,231,597
Property, plant, and equipment, net	3,401,675	1,193,580
Noncurrent portion of contributions receivable	1,978,900	—
Total assets	\$ 26,165,567	15,425,177
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 1,431,138	743,210
Deferred revenue	374,879	139,236
Other liabilities	167,406	—
Total current liabilities	1,973,423	882,446
Total liabilities	1,973,423	882,446
Net assets:		
Unrestricted	20,772,126	13,876,828
Temporarily restricted	3,420,018	665,903
Total net assets	24,192,144	14,542,731
Total liabilities and net assets	\$ 26,165,567	15,425,177

See accompanying notes to financial statements.

WIKIMEDIA FOUNDATION, INC.

Statements of Activities

Years ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Unrestricted net assets:		
Support and revenue:		
Contributions	\$ 23,020,127	14,490,273
In-kind service revenue	349,516	502,558
Other income, net	712,690	945,968
Investment income, net	36,856	7,219
Release of restrictions on temporarily restricted net assets	665,903	2,033,294
Total support and revenue	<u>24,785,092</u>	<u>17,979,312</u>
Expenses:		
Salaries and wages	7,312,120	3,508,336
Awards and grants	471,060	208,662
Internet hosting	1,799,943	1,056,703
In-kind service expenses	349,516	502,558
Operating	5,761,273	3,846,420
Travel	1,159,200	476,663
Depreciation and amortization	1,000,400	524,341
Special event expense, net	36,282	70,407
Other	—	72,703
Total expenses	<u>17,889,794</u>	<u>10,266,793</u>
Increase in unrestricted net assets	<u>6,895,298</u>	<u>7,712,519</u>
Temporarily restricted net assets:		
Contributions	3,420,018	631,739
Release of restrictions on temporarily restricted net assets	<u>(665,903)</u>	<u>(2,033,294)</u>
Increase (decrease) in temporarily restricted net assets	<u>2,754,115</u>	<u>(1,401,555)</u>
Increase in net assets	9,649,413	6,310,964
Net assets at beginning of year	<u>14,542,731</u>	<u>8,231,767</u>
Net assets at end of year	<u>\$ 24,192,144</u>	<u>14,542,731</u>

See accompanying notes to financial statements.

WIKIMEDIA FOUNDATION, INC.

Statements of Cash Flows

Years ended June 30, 2011 and 2010

	2011	2010
Cash flows from operating activities:		
Increase in net assets	\$ 9,649,413	6,310,964
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,000,400	524,341
Donation of common stock	(46,122)	(253,477)
Loss on disposal of equipment and impairment of leasehold improvements	—	26,849
(Gain) loss on investments	(4,412)	5,162
Changes in operating assets and liabilities:		
Contributions receivable	(2,478,900)	800,000
Accounts receivable	(341,629)	(280,786)
Prepaid expenses	(553,626)	(474,769)
Accounts payable	687,930	478,842
Deferred revenue	235,643	33,236
Other liabilities	167,406	—
Net cash provided by operating activities	8,316,103	7,170,362
Cash flows from investing activities:		
Purchase of computer equipment and software	(3,208,495)	(945,184)
Purchase of investments	(8,504,617)	(11,182,815)
Sale of donated common stock	45,935	251,543
Sale of investments	8,200,000	5,640,000
Net cash used in investing activities	(3,467,177)	(6,236,456)
Net increase in cash and cash equivalents	4,848,926	933,906
Cash and cash equivalents at beginning of year	7,177,377	6,243,471
Cash and cash equivalents at end of year	\$ 12,026,303	7,177,377

See accompanying notes to financial statements.

WIKIMEDIA FOUNDATION, INC.

Notes to Financial Statements

June 30, 2011 and 2010

(1) Organization and Summary of Significant Accounting Policies

(a) *Organization and Purpose*

The Wikimedia Foundation, Inc. (the Foundation) is the nonprofit organization that operates Wikipedia, the free encyclopedia. According to comScore Media Metrix, Wikipedia, and the other projects operated by the Foundation receive more than 399 million unique visitors per month, making them the 5th most popular Web property worldwide (June 2011). Available in more than 275 languages, Wikipedia contains more than 19 million articles contributed by a global volunteer community of more than 100,000 people. Based in San Francisco, California, the Foundation is a 501(c)(3) charity that is funded primarily through donations and grants.

(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 years ended June 30, 2011 and 2010.

(c) *Financial Statement Presentation*

Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions in accordance with Accounting Standards Codification (ASC) Topic 958, *Not-for-Profit Entities*.

Unrestricted net assets represent unrestricted resources available to support operations and also include temporarily restricted resources, which have become available for use by the Foundation in accordance with the intentions of donors.

Temporarily restricted net assets represent contributions that are limited in use by the Foundation in accordance with temporary donor-imposed stipulations. The stipulations may expire with time or may be satisfied and removed by the actions of the Foundation according to the terms of the contribution by the donor. Once such stipulations are satisfied, the associated net assets are released from temporarily restricted net assets and recognized as unrestricted net assets.

Permanently restricted net assets represent contributions to be held in perpetuity as stipulated by the donor. The Foundation does not have any permanently restricted net assets.

(d) *Restricted and Unrestricted Contributions*

The Foundation accounts for contributions in accordance with ASC Topic 958. 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.

WIKIMEDIA FOUNDATION, INC.

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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 (i.e., when a stipulated time restriction ends or the purpose of the restriction is accomplished), temporarily restricted contributions are reclassified and reported in the statements 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. Cash equivalents of \$1,721,386 and \$3,960,529 as of June 30, 2011 and 2010, respectively, are considered Level 1 under ASC Topic 820, *Fair Value Measurements and Disclosures*.

(f) *Contributions Receivable*

Contributions receivable represent 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 a fair value rate under ASC Topic 820. Contribution receivables are subject to review and adjustment by management should amounts be deemed uncollectible.

(g) *Accounts Receivable*

Accounts receivable comprise primarily fees charged to Web sites for live-feed access to Wikipedia and licensing fees. All receivables are noninterest-bearing. Management periodically reviews receivables for past-due amounts based on payment history and adjusts for uncollectible amounts as necessary.

(h) *Investments*

The Foundation's policy regarding investments is to invest surplus cash in short-term and intermediate-term fixed income instruments (such as certificates of deposits and U.S. Treasury Bills) without assuming undue risk to principal. Preservation of principal and maintenance of liquidity are priorities over yield. Investments are reported at fair value with realized and unrealized gains and losses included as a component of the change in net assets. Additionally, the Foundation holds no shares of stock as of June 30, 2011 and 2010, consistent with its policy to sell stock received through donations as soon as possible. Included in investment income in the statements of activities for the year ended June 30, 2011 are gains on investment of \$4,412 and for the year ended June 30, 2010 are losses on investments of \$5,162.

(i) *Property, Plant, and Equipment*

Expenditures for property, plant, and equipment with useful lives of one year or more are capitalized and recorded at cost. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets. The estimated useful life of furniture is five years, while the estimated useful lives of computer equipment and software are three 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

WIKIMEDIA FOUNDATION, INC.

Notes to Financial Statements

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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.

(j) *Deferred Revenue*

Deferred revenue represents payments related to live-feed and licensing agreements that have been paid or billed 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.

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 that 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 service revenue and expenses recorded on the statements of activities consist of contributed legal services and Internet hosting. The amounts of specialized contributed legal services and other consulting services recognized as revenue and expenses are \$46,319 and \$77,688 for the years ended June 30, 2011 and 2010, respectively. The value of contributed internet hosting services for the years ended June 30, 2011 and 2010 is \$303,197 and \$424,870, respectively.

Included in the 2011 amount are donated hosting services and bandwidth from five companies: (1) Kennisnet, (2) EvoSwitch, (3) LeaseWeb, (4) Teliasonera, and (5) Tele2.

Included in the 2010 amount are donated hosting services and bandwidth from six companies: (1) Kennisnet, (2) EvoSwitch, (3) LeaseWeb, (4) Teliasonera, (5) Tele2, and (6) AMS-IX.

Noncash contributions also consist of investments, which are recorded as contributions on the statement of activities 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.

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Notes to Financial Statements

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(2) Contributions Receivable

Contributions receivable at June 30, 2011 and 2010 consist of amounts due from one contributor as follows:

	<u>2011</u>	<u>2010</u>
Amounts due in:		
One year	\$ 1,000,000	500,000
Two to three years	2,000,000	—
Less discount to net present value	<u>(21,100)</u>	<u>—</u>
Total	2,978,900	500,000
Less current portion	<u>1,000,000</u>	<u>500,000</u>
Noncurrent portion	<u>\$ 1,978,900</u>	<u>—</u>

(3) Fair Value of Investments

ASC Topic 820 establishes a fair value hierarchy that prioritizes inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical investments that the Foundation has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the investment, either directly or indirectly.
- Level 3 inputs are unobservable inputs from investments.

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The following table presents the fair value of the investments based on hierarchical level as of June 30, 2011 and 2010:

Description	June 30, 2011	Fair value measurements at reporting date using significant other observable inputs (Level 2)
Certificates of deposit	\$ 3,499,679	3,499,679
U.S. government and agency securities	2,349,122	2,349,122
Total	\$ <u>5,848,801</u>	<u>5,848,801</u>

Description	June 30, 2010	Fair value measurements at reporting date using significant other observable inputs (Level 2)
Certificates of deposit	\$ 3,839,755	3,839,755
U.S. government and agency securities	1,699,832	1,699,832
Total	\$ <u>5,539,587</u>	<u>5,539,587</u>

(4) Property, Plant, and Equipment

Property, plant, and equipment at June 30, 2011 and 2010 consist of the following:

	2011	2010
Furniture	\$ 226,866	46,888
Computer equipment and software	5,785,157	2,756,640
Total	6,012,023	2,803,528
Less accumulated depreciation and amortization	<u>(2,610,348)</u>	<u>(1,609,948)</u>
Net	\$ <u>3,401,675</u>	<u>1,193,580</u>

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Notes to Financial Statements

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(5) Net Assets

Temporarily restricted net assets at June 30, 2011 and 2010 are available for the following purposes:

	<u>2011</u>	<u>2010</u>
Restricted to future periods	\$ 2,978,900	—
Restricted by purpose:		
Stanton Foundation – Public Policy Initiative Phase 2	441,118	565,963
Ford Foundation – Multimedia	—	99,940
Temporarily restricted net assets	<u>\$ 3,420,018</u>	<u>665,903</u>

(6) 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 years ended June 30, 2011 and 2010, as follows:

	<u>2011</u>			
	<u>Projects</u>	<u>General and administrative</u>	<u>Fund-raising</u>	<u>Total</u>
Salary and wages	\$ 4,860,808	1,618,534	832,778	7,312,120
Awards and grants	471,060	—	—	471,060
Internet hosting	1,799,943	—	—	1,799,943
In-kind service expenses	326,148	23,368	—	349,516
Operating	2,738,738	1,822,296	1,200,239	5,761,273
Travel	1,013,603	36,397	109,200	1,159,200
Depreciation and amortization	879,594	120,806	—	1,000,400
Special event expense	31,516	4,766	—	36,282
	<u>\$ 12,121,410</u>	<u>3,626,167</u>	<u>2,142,217</u>	<u>17,889,794</u>

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Notes to Financial Statements

June 30, 2011 and 2010

	2010			
	Projects	General and administrative	Fund-raising	Total
Salary and wages	\$ 2,378,652	531,616	598,068	3,508,336
Awards and grants	208,662	—	—	208,662
Internet hosting	1,056,703	—	—	1,056,703
In-kind service expenses	492,702	1,178	8,678	502,558
Operating	2,828,205	372,064	646,151	3,846,420
Travel	288,069	125,291	63,303	476,663
Depreciation and amortization	471,907	26,217	26,217	524,341
Special event expense	70,407	—	—	70,407
Other	54,693	8,476	9,534	72,703
	<u>\$ 7,850,000</u>	<u>1,064,842</u>	<u>1,351,951</u>	<u>10,266,793</u>

Beginning in 2009 – 10, the Foundation began a program of awarding grants to support chapters in projects that further the mission of the Foundation. In addition to this work, which is reflected above in the awards and grants line, an 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):

- By the year ended June 30, 2011, the educational content of the Foundation’s largest project, Wikipedia, grew by approximately 2.9 million articles to 19.0 million articles total.
- By the year ended June 30, 2011, volunteers added approximately 3.8 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. By the year ended June 30, 2011, the source code hosted in the Foundation’s version control repository grew by approximately 1.1 million lines of code.

(7) Operating Leases

The Foundation has a seven-year noncancelable operating lease for its new San Francisco location in addition to the four-year noncancelable operating lease for the Foundation’s original San Francisco location. A sublease was signed for the original location effective January 1, 2010 through the remainder of the lease that ends January 31, 2012. Due to a decline in the market since the original lease was signed, the sublease rental rate is less than the rent owed on the lease by the Foundation. According to ASC Topic 840 Leases (FASB Technical Bulletin 79-15, *Accounting for Loss on a Sublease Not Involving the Disposal of a Segment* (FTB 79-15)), the Foundation recorded a loss for the cumulative difference of \$47,625 in other expenses for the year ended June 30, 2010. As of June 30, 2011, \$9,625 remains as an accrual on the balance sheet. The original five-year lease became effective October 1, 2009. The lease expansion, signed on April 30, 2010 and effective October 1, 2010, extends the current lease from five to seven years and includes expansion to an additional floor. The lease expires on September 30, 2017.

WIKIMEDIA FOUNDATION, INC.

Notes to Financial Statements

June 30, 2011 and 2010

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 years ended June 30, 2011 and 2010 was \$585,114 and \$280,382, respectively.

Future minimum lease payments and sublease income under noncancelable operating leases as of June 30, 2011 are:

	<u>Lease payments</u>	<u>Sublease income</u>	<u>Net</u>
Year ending June 30:			
2012	\$ 671,459	(36,750)	634,709
2013	644,881	—	644,881
2014	667,302	—	667,302
2015	689,725	—	689,725
2016	712,146	—	712,146
2017 and thereafter	919,612	—	919,612
Total minimum lease payments	<u>\$ 4,305,125</u>	<u>(36,750)</u>	<u>4,268,375</u>

(8) Related-Party Transactions

Beginning in January 2009 (and ending in October 2009), the Foundation rented between 400 and 600 square feet of office space from Wikia, Inc., a for-profit company founded by the same founder as the Foundation, in order to accommodate staff hired for the usability initiative. Rent paid to Wikia, Inc. for the years ended June 30, 2011 and 2010, respectively, totaled \$0 and \$14,800. After October 2009, the office rental with Wikia, Inc. came to an end and there is no financial relationship between the two organizations.

(9) Retirement Plan

The Foundation offers a 401(k) plan (the Plan) to all of its employees residing in the United States. Employees are eligible to participate in the Plan upon employment. Effective January 1, 2011, the Foundation matches employee contributions on a dollar-for-dollar basis up to 4% of the employee's compensation. The Foundation contributed \$64,745 to the Plan for the year ended June 30, 2011.

(10) Contingencies

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

WIKIMEDIA FOUNDATION, INC.

Notes to Financial Statements

June 30, 2011 and 2010

(11) Subsequent Events

In August 2011, the Stanton Foundation pledged to fund the Foundation a grant of \$3.6 million to support the initiative in “Making Wikipedia More User-Friendly.” The amount of \$1.8 million was funded in August 2011, with the remaining \$1.8 million scheduled to be funded in September 2012. The Foundation has evaluated its subsequent events through September 28, 2011, the date at which the financial statements were available to be issued.