

THE DRUPAL ASSOCIATION
Reviewed Financial Statements
For the Year Ended December 31, 2015



MCDONALD JACOBS

Shareholders

Mark A. Clift, CPA

Jill Oswald

Karin S. Wandtke, CPA

Sang Ahn, CPA

Gerard DeBlois Jr., CPA

Mary Strasdin, CPA

Anthony Almer, CPA

Principals

Jake Jacobs, CPA

Susan J. Marks, CPA

Tyee Carr, CPA

Victor Epstein, CPA

INDEPENDENT ACCOUNTANT'S REVIEW REPORT

The Board of Directors
Drupalcon, Inc. dba The Drupal Association

We have reviewed the accompanying financial statements of Drupalcon, Inc. dba The Drupal Association (a nonprofit organization), which comprise the statement of financial position as of December 31, 2015, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

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.

Accountant's Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountant's Conclusion

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

The prior year summarized comparative information has been derived from the Association's 2014 reviewed financial statements, and based on our report dated June 23, 2015, we were not aware of any material modifications that should be made to those statements for them to be in conformity with generally accepted accounting principles.

McDonald Jacobson, P.C.

May 6, 2016

THE DRUPAL ASSOCIATION
STATEMENT OF FINANCIAL POSITION
December 31, 2015
(With comparative totals for 2014)

| | 2015 | 2014 |
|---------------------------------------|----------------|------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 219,859 | \$ 1,073,829 |
| Accounts receivable | 236,706 | 56,682 |
| Prepaid expenses and other assets | 172,537 | 160,608 |
| Property and equipment, net | 168,335 | 269,765 |
| TOTAL ASSETS | \$ 797,437 | \$ 1,560,884 |
| LIABILITIES AND NET ASSETS | | |
| Liabilities: | | |
| Accounts payable and accrued expenses | \$ 240,973 | \$ 115,772 |
| Fiscal sponsorships | 193,761 | 123,367 |
| Deferred revenue | 176,844 | 115,034 |
| Total liabilities | 611,578 | 354,173 |
| Unrestricted net assets: | | |
| Undesignated | 17,524 | 936,946 |
| Net property and equipment | 168,335 | 269,765 |
| Total unrestricted net assets | 185,859 | 1,206,711 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 797,437 | \$ 1,560,884 |

See independent accountant's review report and notes to financial statements.

THE DRUPAL ASSOCIATION
STATEMENT OF ACTIVITIES
For the year ended December 31, 2015
(With comparative totals for 2014)

| | <u>2015</u> | <u>2014</u> |
|--|-------------------|---------------------|
| Changes in unrestricted net assets: | | |
| Support and revenue: | | |
| Contributions and sponsorships | \$ 1,722,054 | \$ 1,343,125 |
| Conference and training registrations | 2,214,790 | 2,237,166 |
| Dues and memberships | 500,793 | 449,719 |
| Advertising and other income | 726,280 | 570,192 |
| Net realized and unrealized loss from currency translation | (27,721) | (115,326) |
| Sales, net of cost of goods sold of \$17,221 for 2015 and \$40,541 for 2014 | <u>4,200</u> | <u>(1,210)</u> |
| Total support and revenue | <u>5,140,396</u> | <u>4,483,666</u> |
| Expenses: | | |
| Program | 4,110,997 | 3,656,401 |
| Management and general | 1,823,898 | 1,061,723 |
| Fundraising | <u>226,353</u> | <u>194,800</u> |
| Total expenses | <u>6,161,248</u> | <u>4,912,924</u> |
| Change in unrestricted net assets | (1,020,852) | (429,258) |
| Unrestricted net assets: | | |
| Beginning of year | <u>1,206,711</u> | <u>1,635,969</u> |
| End of year | <u>\$ 185,859</u> | <u>\$ 1,206,711</u> |

See independent accountant's review report and notes to financial statements.

THE DRUPAL ASSOCIATION
STATEMENT OF FUNCTIONAL EXPENSES
For the year ended December 31, 2015
(With comparative totals for 2014)

| | 2015 | | | | | | 2014 Total | |
|------------------------------------|---------------------|-----------------------|-------------------|---------------------|---------------------------|-------------------|---------------------|---------------------|
| | Drupalcons | Drupal.org Website | Other Programs | Total Program | Management and General | Fundraising | | Total |
| Salaries and related expenses | \$ 521,104 | \$ 706,232 | \$ 219,656 | \$ 1,446,992 | \$ 1,174,921 | \$ 164,620 | \$ 2,786,533 | \$ 1,801,562 |
| Professional fees | 3,362 | 5,984 | 1,283 | 10,629 | 77,256 | 52,455 | 140,340 | 143,929 |
| Events and conferences | 1,976,817 | - | 4,291 | 1,981,108 | 11 | 1,429 | 1,982,548 | 1,788,970 |
| Scholarships and grants | 44,783 | - | 235,370 | 280,153 | 15,829 | - | 295,982 | 65,572 |
| Marketing | 8,235 | - | - | 8,235 | 6,603 | 491 | 15,329 | 22,095 |
| Information technology and website | 39,137 | 124,883 | 11,155 | 175,175 | 14,878 | 6 | 190,059 | 501,074 |
| Facilities | - | - | - | - | 128,262 | - | 128,262 | 74,385 |
| Travel and meals | 1,442 | 31,091 | 3,970 | 36,503 | 40,656 | 1,496 | 78,655 | 90,762 |
| Board expenses | - | - | - | - | 22,699 | - | 22,699 | 24,872 |
| Office expenses | 36,200 | 4,800 | 2,449 | 43,449 | 62,919 | 324 | 106,692 | 132,019 |
| Insurance | 1,500 | - | - | 1,500 | 16,657 | - | 18,157 | 19,916 |
| Bank fees | - | 1,146 | 728 | 1,874 | 40,950 | 1,266 | 44,090 | 35,447 |
| Income and sales taxes | 11,090 | - | 955 | 12,045 | 183,822 | - | 195,867 | 110,178 |
| Miscellaneous | 16,107 | 17,044 | 2,643 | 35,794 | 4,052 | - | 39,846 | 3,381 |
| Depreciation and amortization | 51,114 | 17,152 | 9,274 | 77,540 | 34,383 | 4,266 | 116,189 | 98,762 |
| Total expenses | <u>\$ 2,710,891</u> | <u>\$ 908,332</u> | <u>\$ 491,774</u> | <u>\$ 4,110,997</u> | <u>\$ 1,823,898</u> | <u>\$ 226,353</u> | <u>\$ 6,161,248</u> | <u>\$ 4,912,924</u> |

See independent accountant's review report and notes to financial statements.

THE DRUPAL ASSOCIATION
STATEMENT OF CASH FLOWS
For the year ended December 31, 2015
(With comparative totals for 2014)

| | <u>2015</u> | <u>2014</u> |
|---|-------------------|---------------------|
| Cash flows from operating activities: | | |
| Change in net assets | \$ (1,020,852) | \$ (429,258) |
| Adjustments to reconcile change in net assets to net cash used in operating activities: | | |
| Depreciation and amortization | 116,189 | 98,762 |
| (Increase) decrease in: | | |
| Accounts receivable | (180,024) | 13,791 |
| Prepaid expenses and other assets | (11,929) | (75,657) |
| Increase (decrease) in: | | |
| Accounts payable and accrued expenses | 125,201 | 7,510 |
| Fiscal sponsorships | 70,394 | 31,228 |
| Deferred revenue | <u>61,810</u> | <u>(37,522)</u> |
| Net cash used in operating activities | <u>(839,211)</u> | <u>(391,146)</u> |
| Cash flows from investing activities: | | |
| Purchase of property and equipment | <u>(14,759)</u> | <u>(107,782)</u> |
| Net cash used in investing activities | <u>(14,759)</u> | <u>(107,782)</u> |
| Net decrease in cash and cash equivalents | (853,970) | (498,928) |
| Cash and cash equivalents - beginning of year | <u>1,073,829</u> | <u>1,572,757</u> |
| Cash and cash equivalents - end of year | <u>\$ 219,859</u> | <u>\$ 1,073,829</u> |
| Supplemental cash flow information: | | |
| Cash paid for income taxes | \$ 119,481 | \$ 110,081 |

See independent accountant's review report and notes to financial statements.

THE DRUPAL ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

I. THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Organization

The Drupal Association (the Association) is a nonprofit organization dedicated to helping the open-source Drupal CMS project flourish. The Association supports the Drupal community with funding, infrastructure, education, promotion, distribution and online collaboration (Drupal.org website). The Association also hosts two or three world-wide conferences (Drupalcons) annually. Revenue and support is provided by memberships, supporting partners, sponsorships, donations, and volunteers.

Basis of Presentation

Net assets and all balances and transactions are presented based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Association and changes therein are classified and reported as unrestricted or restricted net assets. Unrestricted net assets are those that are not subject to donor-imposed stipulations. Temporarily restricted net assets are subject to donor-imposed stipulations that will be met, either by actions of the Association and/or the passage of time. At December 31, 2015 and 2014, the Association had only unrestricted net assets.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Association considers all highly liquid investments available for current use with maturities of three months or less at the time of purchase to be cash equivalents.

Accounts Receivable

Accounts receivable are reported at the amount management expects to collect on balances outstanding at year-end. Based on an assessment of the credit history with those having outstanding balances and current relationships with them, management has concluded that realization losses on balances outstanding at year-end will be immaterial. Accounts receivable are unsecured and represent event sponsorships which are expected to be received within one year.

Property and Equipment

Acquisitions of property and equipment in excess of \$900 are capitalized. Property and equipment purchased are recorded at cost. Donated assets are reflected as contributions at their estimated values on the date received. Depreciation of property and equipment and amortization of website costs are calculated using the straight-line method over the estimated useful lives of the assets.

See independent accountant's review report.

THE DRUPAL ASSOCIATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
December 31, 2015

I. THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Fiscal Sponsorships

The Association receives and expends funds on behalf of Drupal Camps, established as fiscal sponsorships. Funds held are reflected as a liability on the statement of financial position. The revenue and expenses of these activities are not reflected in the financial statements of the Association.

Contributions and Sponsorships

Contributions and non-cancelable sponsorships are recognized as revenues in the period the Association is notified of the commitment. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met.

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Donor-restricted support is 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 purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Memberships and Registrations

Membership dues are recognized as revenue when received. Program and conference registrations are recognized as revenue in the period the programs and conferences occur. Conference and program registration fees received in advance are reflected as deferred revenue.

Donated Assets and Services

Donations of property, equipment, materials and other assets are recorded as support at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose.

The Association recognizes donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

See independent accountant's review report.

THE DRUPAL ASSOCIATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
December 31, 2015

I. THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Foreign Currency Translation

The Association maintains bank accounts in Belgium and the United Kingdom and hosts conferences in various foreign cities and receives support from members world-wide. Foreign bank balances in the statement of financial position have been translated using the exchange rates in effect as of December 31, 2015 and 2014. Amounts reported in the statement of activities amounts have been translated using the exchange rate in effect at the time of the transaction.

Foreign currency translation adjustments on foreign bank accounts resulted in an unrealized loss of approximately \$54,400 for 2015 (loss of \$111,700 for 2014) and have been reported in the statement of activities. Realized foreign currency transaction gain resulting from exchange rate fluctuations on transactions denominated in a currency other than the functional currency totaled approximately \$26,500 for 2015 (loss of \$3,600 for 2014) and have been reported in the accompanying statement of activities.

Income Tax Status

The Drupal Association is a nonprofit corporation exempt from federal and state income tax under section 501(c)(3) of the Internal Revenue Code and applicable state law. The Association is subject to income tax on income from activities unrelated to its exempt purpose. Income taxes relating to net advertising income of approximately \$167,000 for 2015 and \$95,000 for 2014 are included in management and general expenses. The Association is not a private foundation.

The Association follows the provisions of FASB ASC Topic *Accounting for Uncertainty in Income Taxes*. Management has evaluated the Association's tax positions and concluded that there are no uncertain tax positions that require adjustment to the financial statements to comply with provisions of this Topic.

The Association's information returns for years ended December 31, 2011 and prior are generally no longer subject to examination by taxing authorities in its major tax jurisdictions.

Expense Allocation

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

See independent accountant's review report.

THE DRUPAL ASSOCIATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
December 31, 2015

1. THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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 of assets and liabilities and disclosure 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.

Subsequent Events

The Association has evaluated all subsequent events through May 6, 2016, the date the financial statements were available to be issued.

Summarized Financial Information for 2014

The financial information as of December 31, 2014 and for the year then ended is presented for comparative purposes and is not intended to be a complete financial statement presentation.

2. PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2015 and 2014 are as follows:

| | <u>2015</u> | <u>2014</u> |
|---|-------------------|-------------------|
| Computer and equipment | \$ 140,898 | \$ 144,910 |
| Website | 267,243 | 267,242 |
| Furniture and fixtures | <u>36,254</u> | <u>22,635</u> |
| Total property and equipment | 444,395 | 434,787 |
| Less accumulated depreciation and amortization | <u>276,060</u> | <u>165,022</u> |
| Net property and equipment | <u>\$ 168,335</u> | <u>\$ 269,765</u> |

See independent accountant's review report.

THE DRUPAL ASSOCIATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
December 31, 2015

3. DEFERRED REVENUE

Deferred revenue at December 31, 2015 and 2014 consists of funds received in advance for advertising and conferences to be held as follows:

| | 2015 | 2014 |
|----------------------------|------------|------------|
| Advertising | \$ 5,500 | \$ 6,320 |
| New Orleans - May 2016 | 148,500 | - |
| India - February 2016 | 22,844 | - |
| Bogota - February 2015 | - | 48,245 |
| Los Angeles - May 2015 | - | 47,100 |
| Barcelona - September 2015 | - | 13,369 |
| Total deferred revenue | \$ 176,844 | \$ 115,034 |

4. LEASE COMMITMENTS

The Association leases administrative office space under a lease agreement through March 2021. The lease has a base monthly rent of \$6,350 with escalating lease payments for subsequent years. During 2015, the Association began leasing additional space with a base monthly rent of \$3,392 and escalating lease payments for subsequent years.

Rent expense totaled approximately \$105,000 and \$65,000 for the years ended December 31, 2015 and 2014, respectively.

Future minimum lease payments are as follows:

| | |
|--------------------------------|------------|
| Years ending December 31, 2016 | \$ 124,000 |
| 2017 | 127,800 |
| 2018 | 131,600 |
| 2019 | 135,500 |
| 2020 | 139,600 |
| Thereafter | 35,100 |
| | \$ 693,600 |

See independent accountant's review report.

THE DRUPAL ASSOCIATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
December 31, 2015

5. CONTINGENT LIABILITY

The Association is contingently liable for committed future charges with various hotels in the event the Association cancels the reservations. The contingent liability represents the “worst case” scenario, as if all of the hotel contracts required full payment of anticipated profit. In actuality, a majority of the contracts have graduated cancellation clauses, where the percentage of payment required increases as the event date approaches. The total potential obligation approximates \$1,035,000 at December 31, 2015.

6. CONCENTRATIONS OF CREDIT RISK

The Association maintains its cash balances in several financial institutions including foreign banks. Balances in each U.S. institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. The balances, at times, may exceed the federally insured limit. Balances in other financial institutions, including foreign banks, are uninsured. Uninsured balances were approximately \$86,000 and \$664,000 as of December 31, 2015 and 2014, respectively.

7. RELATED PARTY TRANSACTIONS

Five member companies have executives that also serve on the board of directors of the Association. The Association made payments to these companies for standard program-related purposes during 2015 and 2014 as follows:

| | <u>2015</u> | <u>2014</u> |
|--------------|-----------------|------------------|
| Acquia | \$ - | \$ 3,942 |
| Palantir.net | - | 4,400 |
| Wunderkraut | <u>2,423</u> | <u>8,294</u> |
| Total | <u>\$ 2,423</u> | <u>\$ 16,636</u> |

Although payments to related parties are not material to the financial statements, management and the board have opted for full disclosure of these payments.

See independent accountant’s review report.