

THE DRUPAL ASSOCIATION

Reviewed Financial Statements

For the Year Ended December 31, 2017



McDONALD JACOBS

INDEPENDENT ACCOUNTANT'S REVIEW REPORT

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, 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. 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 2016 financial statements that were audited by us, and we expressed an unmodified opinion on them in our report dated June 20, 2017, but we have not performed any auditing procedures since that date.

McDonald Jacobz, P.C.

Portland, Oregon

March 8, 2018

THE DRUPAL ASSOCIATION
STATEMENT OF FINANCIAL POSITION
December 31, 2017
(With comparative totals for 2016)

	2017 <u>(Reviewed)</u>	2016 <u>(Audited)</u>
ASSETS		
Cash and cash equivalents	\$ 770,087	\$ 397,121
Accounts receivable	132,582	146,089
Prepaid expenses and other assets	186,823	162,419
Property and equipment, net	<u>27,020</u>	<u>47,490</u>
 TOTAL ASSETS	 <u>\$ 1,116,512</u>	 <u>\$ 753,119</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 101,192	\$ 197,840
Fiscal sponsorships	186,213	213,662
Deferred revenue	<u>320,865</u>	<u>433,771</u>
Total liabilities	<u>608,270</u>	<u>845,273</u>
Unrestricted net assets (deficit):		
Undesignated	481,222	(139,644)
Net property and equipment	<u>27,020</u>	<u>47,490</u>
Total unrestricted net assets (deficit)	<u>508,242</u>	<u>(92,154)</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 1,116,512</u>	 <u>\$ 753,119</u>

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

THE DRUPAL ASSOCIATION
STATEMENT OF ACTIVITIES
For the year ended December 31, 2017
(With comparative totals for 2016)

	<u>2017</u>	<u>2016</u>
	<u>(Reviewed)</u>	<u>(Audited)</u>
Changes in unrestricted net assets:		
Support and revenue:		
Contributions and sponsorships	\$ 1,633,940	\$ 1,608,838
Conference and training registrations	1,946,688	1,979,403
Donated materials and services	13,000	-
Dues and memberships	576,439	690,625
Advertising and other income	709,290	677,516
Net realized and unrealized gain (loss) from currency translation	21,627	(35,274)
Loss on disposal of property and equipment	-	(24,138)
Total support and revenue	<u>4,900,984</u>	<u>4,896,970</u>
Expenses:		
Program	3,231,096	3,873,079
Management and general	1,011,459	1,230,975
Fundraising	58,033	70,929
Total expenses	<u>4,300,588</u>	<u>5,174,983</u>
Change in unrestricted net assets	600,396	(278,013)
Unrestricted net assets (deficit):		
Beginning of year	<u>(92,154)</u>	<u>185,859</u>
End of year	<u>\$ 508,242</u>	<u>\$ (92,154)</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, 2017
(With comparative totals for 2016)

	Program			Management and General	Fundraising	2017	2016	
	Drupal.org Website	Other Programs	Total Program			(Reviewed) Total	(Audited) Total	
Salaries and related expenses	\$ 380,340	\$ 433,145	\$ 155,648	\$ 969,133	\$ 457,823	\$ 49,061	\$ 1,476,017	\$ 2,100,412
Professional fees	-	880	-	880	196,750	-	197,630	94,856
Events and conferences	1,794,672	-	360	1,795,032	50	-	1,795,082	1,956,855
Scholarships and grants	38,441	-	4,750	43,191	-	-	43,191	42,691
Marketing	76,211	4,479	1,542	82,232	4,798	506	87,536	68,252
Information technology and website	-	120,988	-	120,988	9,992	-	130,980	94,499
Facilities	3,066	1,865	-	4,931	25,908	400	31,239	167,739
Travel and meals	2,508	8,915	-	11,423	27,092	-	38,515	48,931
Board expenses	-	-	-	-	96,902	-	96,902	34,227
Office expenses	10,307	2,359	-	12,666	41,202	-	53,868	49,991
Insurance	6,605	-	-	6,605	18,152	-	24,757	23,380
Bank fees	73,321	6,707	6,135	86,163	9,572	7,386	103,121	98,803
Income and sales taxes	72,411	-	-	72,411	116,869	-	189,280	256,364
Other operating expenses	4,500	7,500	-	12,000	-	-	12,000	44,191
Depreciation and amortization	5,275	6,007	2,159	13,441	6,349	680	20,470	93,792
Total expenses	<u>\$ 2,467,657</u>	<u>\$ 592,845</u>	<u>\$ 170,594</u>	<u>\$ 3,231,096</u>	<u>\$ 1,011,459</u>	<u>\$ 58,033</u>	<u>\$ 4,300,588</u>	<u>\$ 5,174,983</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, 2017
(With comparative totals for 2016)

	2017 <u>(Reviewed)</u>	2016 <u>(Audited)</u>
Cash flows from operating activities:		
Change in net assets	\$ 600,396	\$ (278,013)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	20,470	93,792
Loss on sale of property and equipment	-	24,138
(Increase) decrease in:		
Accounts receivable	13,507	90,617
Prepaid expenses and other assets	(24,404)	10,118
Increase (decrease) in:		
Accounts payable and accrued expenses	(96,648)	(43,133)
Fiscal sponsorships	(27,449)	19,901
Deferred revenue	<u>(112,906)</u>	<u>256,927</u>
Net cash provided by operating activities	<u>372,966</u>	<u>174,347</u>
 Cash flows from investing activities:		
Proceeds from sale of property and equipment	<u>-</u>	<u>2,915</u>
Net cash provided by investing activities	<u>-</u>	<u>2,915</u>
 Net increase in cash and cash equivalents	372,966	177,262
 Cash and cash equivalents - beginning of year	<u>397,121</u>	<u>219,859</u>
 Cash and cash equivalents - end of year	<u>\$ 770,087</u>	<u>\$ 397,121</u>
 Supplemental cash flow information:		
Cash paid for income taxes	<u>\$ 163,800</u>	<u>\$ 191,807</u>

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

THE DRUPAL ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

1. 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, 2017 and 2016, 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.

Prepaid Expenses

Prepaid expenses primarily represent costs incurred in advance related to conferences scheduled in subsequent years. These costs are recognized as expenses in the year the conference occur.

See independent accountant's review report.

THE DRUPAL ASSOCIATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
December 31, 2017

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

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.

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, Registrations and Deferred Revenue

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.

See independent accountant's review report.

THE DRUPAL ASSOCIATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
December 31, 2017

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

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.

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 worldwide. Foreign bank balances in the statement of financial position have been translated using the exchange rates in effect as of December 31, 2017 and 2016. Amounts reported in the statement of activities 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 gain of approximately \$27,800 for 2017 (loss of \$23,300 for 2016) and have been reported in the statement of activities. Realized foreign currency transaction loss resulting from exchange rate fluctuations on transactions denominated in a currency other than the functional currency totaled approximately \$6,200 for 2017 (loss of \$12,000 for 2016) 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 \$124,000 for 2017 and \$115,000 for 2016 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.

See independent accountant's review report.

THE DRUPAL ASSOCIATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
December 31, 2017

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

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.

Advertising

The Association expenses advertising and marketing costs in the year the advertising takes place, except for direct-response advertising and marketing relating to future conferences, which is capitalized and expensed in the year the conference takes place. Advertising expense totaled approximately \$87,500 and \$68,300 during the years ended December 31, 2017 and 2016, respectively. Prepaid expenses included advertising cost of approximately \$16,100 and \$9,000 at December 31, 2017 and 2016, respectively.

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.

Summarized Financial Information for 2016

The financial information as of December 31, 2016 and for the year then ended is presented for comparative purposes and is not intended to be a complete financial statement presentation.

Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

Subsequent Events

The Association has evaluated all subsequent events through March 8, 2018, the date the financial statements were available to be issued.

See independent accountant's review report.

THE DRUPAL ASSOCIATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
December 31, 2017

2. PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Computer and equipment	\$ 120,037	\$ 120,037
Website	267,242	267,242
Furniture and fixtures	<u>6,345</u>	<u>6,345</u>
Total property and equipment	393,624	393,624
Less accumulated depreciation and amortization	<u>366,604</u>	<u>346,134</u>
Net property and equipment	<u>\$ 27,020</u>	<u>\$ 47,490</u>

3. DEFERRED REVENUE

Deferred revenue at December 31, 2017 and 2016 consists of funds received in advance for advertising, sponsorships and conferences registration to be held as follows:

	<u>2017</u>	<u>2016</u>
DrupalCon North America	\$ 310,372	\$ 258,203
Digital Sponsorships	1,893	175,000
Advertising	8,600	-
DrupalCon Europe	<u>-</u>	<u>568</u>
Total deferred revenue	<u>\$ 320,865</u>	<u>\$ 433,771</u>

4. LEASE COMMITMENT

The Association leased administrative office space for \$10,085 per month under a lease agreement that was terminated in August 2016 and subject to an early termination fee of \$30,000. Employees currently work from home offices. Space is rented on a month-month basis for storage and on an as-needed basis for meetings. Rent expense totaled approximately \$14,000 and \$146,000 for the years ended December 31, 2017 and 2016, respectively.

See independent accountant's review report.

THE DRUPAL ASSOCIATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
December 31, 2017

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 \$2,010,000 at December 31, 2017.

6. RETIREMENT PLAN

In February 2017, the Association established a 401(k) retirement plan covering substantially all employees. Under the plan, employees may elect to defer salary up to the amounts allowed by law. The plan provides for discretionary employer contributions. No matching contributions were made to the plan in 2017.

7. 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 totaled approximately \$520,000 and \$250,000 at December 31, 2017 and 2016, respectively.

Credit risk for accounts receivable is concentrated in that approximately 60% of the balance at December 31, 2017 is receivable from four companies. At December 31, 2016, 28% was receivable from two companies.

8. RELATED PARTY TRANSACTIONS

In 2017, six member companies have executives that also serve on the board of directors of the Association (four member companies in 2016). Sponsorships and supporting partner revenue from these member companies totaled \$426,500 during 2017 and \$737,400 during 2016.

The Association may incur standard program-related expenses to these companies; however, no expenses to these member companies were incurred during 2017 or 2016.

See independent accountant’s review report.