



THE OWASP FOUNDATION, INC. AND AFFILIATE

**COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2016**

THE OWASP FOUNDATION, INC. AND AFFILIATE

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December 31, 2016

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Independent Auditor's Report

To the Board of Directors of
The OWASP Foundation, Inc. and Affiliate:

Report on the Combined Financial Statements

We have audited the accompanying combined financial statements of The OWASP Foundation, Inc. (a Delaware corporation, not for profit) and Affiliate, which comprise the combined statement of financial position as of December 31, 2016, and the related combined statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these combined 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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, we 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 combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of The OWASP Foundation, Inc. and Affiliate as of December 31, 2016, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Boston, Massachusetts
October 11, 2017

THE OWASP FOUNDATION, INC. AND AFFILIATE

Combined Statement of Financial Position
December 31, 2016

Assets

Current Assets:

Cash	\$ 1,374,690
Accounts receivable	135,757
Prepaid expenses	53,142
Inventory	<u>50,987</u>

Total current assets 1,614,576

Property and Equipment, net 2,575

Total assets \$ 1,617,151

Liabilities and Net Assets

Current Liabilities:

Accounts payable	\$ 99,478
Accrued expenses	35,823
Deferred revenue	<u>240,196</u>

Total current liabilities 375,497

Net Assets:

Unrestricted:

Operating	1,209,129
Property and equipment	2,575
Cumulative adjustment for foreign currency translation adjustment	<u>12,916</u>

Total unrestricted 1,224,620

Temporarily restricted 17,034

Total net assets 1,241,654

Total liabilities and net assets \$ 1,617,151

THE OWASP FOUNDATION, INC. AND AFFILIATE

Combined Statement of Activities and Changes in Net Assets
For the Year Ended December 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Operating Revenue and Support:			
Conference	\$ 2,190,969	\$ -	\$ 2,190,969
Membership fees	442,740	116,549	559,289
Contributions and grants	22,459	79,154	101,613
Donated services	52,236	-	52,236
Other	1,527	-	1,527
Net assets released from purpose restrictions	178,669	(178,669)	-
	<u>2,888,600</u>	<u>17,034</u>	<u>2,905,634</u>
Total operating revenue and support			
Operating Expenses:			
Personnel and related:			
Salaries	407,829	-	407,829
Payroll taxes and fringe benefits	112,626	-	112,626
	<u>520,455</u>	<u>-</u>	<u>520,455</u>
Conference	1,441,883	-	1,441,883
Chapter	201,139	-	201,139
Program	112,125	-	112,125
Professional fees	84,262	-	84,262
Travel and entertainment	64,974	-	64,974
Office supplies and expenses	59,023	-	59,023
Donated services	52,236	-	52,236
Bank charges	14,552	-	14,552
Insurance	9,804	-	9,804
VAT expense	9,059	-	9,059
Depreciation	4,282	-	4,282
Marketing	517	-	517
	<u>2,574,311</u>	<u>-</u>	<u>2,574,311</u>
Total operating expenses			
Changes in net assets from operations	314,289	17,034	331,323
Non-Operating Revenue:			
Foreign currency translation adjustment	11,480	-	11,480
	<u>325,769</u>	<u>17,034</u>	<u>342,803</u>
Changes in net assets			
Net Assets:			
Beginning of year	898,851	-	898,851
End of year	<u>\$ 1,224,620</u>	<u>\$ 17,034</u>	<u>\$ 1,241,654</u>

THE OWASP FOUNDATION, INC. AND AFFILIATE

Combined Statement of Cash Flows
For the Year Ended December 31, 2016

Cash Flows from Operating Activities:	
Changes in net assets	\$ 342,803
Adjustments to reconcile changes in net assets to net cash provided by operating activities:	
Depreciation	4,282
Foreign currency translation adjustment	(11,480)
Changes in operating assets and liabilities:	
Accounts receivable	60,473
Prepaid expenses	47,416
Inventory	(32,715)
Accounts payable	60,962
Accrued expenses	23,937
Deferred revenue	13,134
	<hr/>
Net cash provided by operating activities	508,812
Effect of Exchange Rate Changes on Cash	<hr/> 11,480
Net Change in Cash	520,292
Cash:	
Beginning of year	<hr/> 854,398
End of year	<hr/> <u>\$ 1,374,690</u>

THE OWASP FOUNDATION, INC. AND AFFILIATE

Notes to Combined Financial Statements
December 31, 2016

1. OPERATIONS AND NONPROFIT STATUS

The OWASP Foundation, Inc. (OWASP) is a not-for-profit entity that is an open community dedicated to enabling organizations to develop, purchase, and maintain software applications that can be trusted. All of OWASP's tools, documents, forums, and chapters are free and open to anyone interested in improving application security. OWASP advocates approaching application security as a people, process, and technology problem because the most effective approaches to application security include improvements in all these areas.

OWASP is a new kind of organization. Freedom from commercial pressures allows OWASP to provide unbiased, practical, cost effective information about application security. OWASP is not affiliated with any technology company, although OWASP supports the informed use of commercial security technology. Similar to many open-source software projects, OWASP produces many types of materials in a collaborative, open way.

OWASP Europe VZW (the Affiliate) is a Belgian not-for-profit organization established to organize knowledge-sharing activities and undertake activities that directly or indirectly contribute to the achievement of OWASP's aims. OWASP and the Affiliate (collectively, the Foundation) are affiliates through common Board of Directors.

OWASP is exempt from Federal income taxes as a foundation (not a private foundation) formed for charitable purposes under Section 501(c)(3) of the Internal Revenue Code (IRC). OWASP is also exempt from state income taxes. Donors may deduct contributions made to OWASP within IRC requirements.

2. SIGNIFICANT ACCOUNTING POLICIES

The Foundation prepares its combined financial statements in accordance with generally accepted accounting standards and principles (U.S. GAAP) established by the Financial Accounting Standards Board (FASB). References to U.S. GAAP in these notes are to the FASB Accounting Standards Codification (ASC).

Basis of Presentation

The combined financial statements include the accounts of OWASP and the Affiliate. All material intercompany accounts and transactions have been eliminated.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are carried at the original invoice amount less an estimate of doubtful receivables. Accounts receivable are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded as revenue when received.

An allowance for potentially uncollectible accounts receivable is provided based upon management's assessment of potential defaults. This assessment includes such factors as collection history and type of receivable. No allowance was deemed necessary as of December 31, 2016.

Inventory

Inventory is stated at the lower of cost or market value. Cost is determined on an average cost method. Market value is determined based on net realizable value. Appropriate consideration is given to obsolescence, excessive levels, deterioration, and other factors in evaluating net realizable value.

THE OWASP FOUNDATION, INC. AND AFFILIATE

Notes to Combined Financial Statements
December 31, 2016

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment and Depreciation

Property and equipment are recorded at cost, if purchased, or at fair value at the time of donation. Renewals and betterments with an expected life greater than one year are capitalized, while repairs and maintenance are expensed as incurred.

Property and equipment are depreciated using the straight-line basis over estimated useful lives of three years and consist of the following as of December 31, 2016:

Equipment	\$ 33,686
Website	<u>30,000</u>
	63,686
Less - accumulated depreciation	<u>61,111</u>
	<u>\$ 2,575</u>

Net Assets

Unrestricted Net Assets

Unrestricted net assets are those net resources that bear no external restrictions and are generally available for use by the Foundation. The Foundation has grouped its unrestricted net assets into the following categories:

Operating Net Assets represent funds available to carry on the operations of the Foundation.

Property and Equipment Net Assets represent the net book value of the Foundation's property and equipment.

Cumulative Adjustment for Foreign Currency Translation Adjustment Net Assets represent the cumulative effect of translating the Affiliate's financial activities and position into the Foundation's reporting currency (U.S. dollars).

Temporarily Restricted Net Assets

Temporarily restricted net assets represent funds contributed by donors for specific purposes or time periods. When a stipulated time restriction ends, or a purpose restriction is accomplished, temporarily restricted funds are reclassified to unrestricted net assets and are reflected as net assets released from restrictions in the accompanying combined statement of activities and changes in net assets. All temporarily restricted net assets as of December 31, 2016, are purpose restricted.

Revenue Recognition

Unrestricted contributions and grants are recorded as revenue when received or unconditionally pledged. Restricted contributions and grants are recorded as temporarily restricted revenues and net assets when received or unconditionally pledged. Transfers are made to unrestricted net assets as costs are incurred or time restrictions or program restrictions have lapsed.

THE OWASP FOUNDATION, INC. AND AFFILIATE

Notes to Combined Financial Statements
December 31, 2016

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

The Foundation receives membership fees from various members and registrations for various events and conferences. Membership fees are recognized as revenue on the membership start date each year. Conference revenue is recognized when the conference occurs. Deferred revenue in the accompanying combined statement of financial position consists of event registration fees paid in advance. Other revenue is recognized as earned.

Foreign Currency Translation

The financial activity of the Affiliate is translated in accordance with the provisions of the ASC Topic, *Foreign Currency Matters*. Under these provisions, current assets and liabilities of the Affiliate are translated into U.S. dollars at year-end exchange rates. Property and equipment are translated at the exchange rate in effect at acquisition. Revenue and expenses are translated at the average rates in effect during the year. Translation effects are shown within non-operating section of the combined statement of activities and changes in net assets.

Donated Services

Donated services are recorded based on pro-bono invoices or statements submitted from the relevant service providers. The Foundation received donated services totaling \$52,236 for the year ended December 31, 2016. These expenses are reflected as donated services in the accompanying combined statement of activities and changes in net assets.

Expense Allocations

Expenses related directly to a program are distributed to that program, while other expenses are allocated based upon management's estimate of the percentage attributable to each program.

Total expenses are comprised of the following for the year ended December 31, 2016:

Program expenses	\$ 2,274,181
General and administrative	208,772
Fundraising	<u>91,358</u>
Total	<u>\$ 2,574,311</u>

Chapter expenses of \$201,139 included in the accompanying combined statement of activities and changes in net assets consist of reimbursements to members for travel, meals and entertainment for the year ended December 31, 2016.

Estimates

The preparation of combined financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that may affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the combined financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from these estimates.

THE OWASP FOUNDATION, INC. AND AFFILIATE

Notes to Combined Financial Statements
December 31, 2016

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements

The Foundation follows the accounting and disclosure standards pertaining to *Fair Value Measurements* for qualifying assets and liabilities. Fair value is defined as the price that the Foundation would receive upon selling an asset or pay to settle a liability in an orderly transaction between market participants.

The Foundation uses a framework for measuring fair value that includes a hierarchy that categorizes and prioritizes the sources used to measure and disclose fair value. This hierarchy is broken down into three levels based on inputs that market participants would use in valuing the financial instruments based on market data obtained from sources independent of the Foundation. Inputs refer broadly to the assumptions that market participants would use in pricing the financial instrument, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the financial instrument developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset developed based on the best information available. The three-tier hierarchy of inputs is summarized in the three broad levels as follows:

- Level 1: Inputs that reflect unadjusted quoted prices in active markets for identical assets at the measurement date.
- Level 2: Inputs other than quoted prices that are observable for the asset either directly or indirectly, including inputs in markets that are not considered to be active.
- Level 3: Inputs that are unobservable and which require significant judgment or estimation.

An asset or liability's level within the framework is based upon the lowest level of any input that is significant to the fair value measurement. All qualifying assets and liabilities are valued using Level 1 inputs.

Income Taxes

The Foundation accounts for uncertainty in income taxes in accordance with ASC Topic, *Income Taxes*. This standard clarifies the accounting for uncertainty in tax positions and prescribes a recognition threshold and measurement attribute for the combined financial statements regarding a tax position taken or expected to be taken in a tax return. The Foundation has determined that there are no uncertain tax positions which qualify for either recognition or disclosure in the combined financial statements at December 31, 2016. The Foundation's information returns are subject to examination by the Federal and state jurisdictions and generally remain open for the most recent three years.

Subsequent Events

Subsequent events have been evaluated through October 11, 2017, which is the date the combined financial statements were available to be issued. There were no events that met the criteria for recognition or disclosure in the combined financial statements.

THE OWASP FOUNDATION, INC. AND AFFILIATE

Notes to Combined Financial Statements
December 31, 2016

3. CONCENTRATIONS

Credit Risk

The Foundation maintains their cash balances in United States banks. At certain times during the year, the cash balances in some of the accounts exceed the maximum amount of insurance provided by the Federal Deposit Insurance Corporation. The Foundation has not experienced any losses in such accounts. The Foundation also maintains one bank account in euros that had a balance totaling \$60,394 as of December 31, 2016.

Economic Dependency

At December 31, 2016, 75% of operating revenue is from four annual conferences.

Net Assets in Foreign Countries

Net assets in Europe of \$49,746 are included in the accompanying combined statement of financial position as of December 31, 2016.

4. CONTINGENCY

In the ordinary course of business, the Foundation is from time-to-time a party to various claims and lawsuits. If management determines, based on the underlying facts and circumstances, that it is probable a loss will result from a litigation contingency and the amount of the loss can be reasonably estimated, the estimated loss is accrued for. Management does not expect any adverse financial impact from open litigation matters occurring in the normal course of business as of December 31, 2016.