



THE OWASP FOUNDATION, INC. AND AFFILIATE

**COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2019**

THE OWASP FOUNDATION, INC. AND AFFILIATE

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December 31, 2019

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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, 2019, and the related combined statements of activities and changes in net assets, cash flows and functional expenses 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, 2019, 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.

AAFCPAs, Inc.

Boston, Massachusetts
September 28, 2020

THE OWASP FOUNDATION, INC. AND AFFILIATE

Combined Statement of Financial Position
December 31, 2019

Assets

Current Assets:

Cash	\$ 1,237,171
Accounts receivable, net	427,566
Prepaid expenses	111,277
Inventory	42,306

Total assets \$ 1,818,320

Liabilities and Net Assets

Current Liabilities:

Accounts payable	\$ 132,201
Accrued expenses	18,305
Deferred revenue	543,332

Total current liabilities 693,838

Net Assets:

Without donor restrictions:	
Operating	955,250
Cumulative adjustment for foreign currency translation adjustment	635

Total without donor restrictions 955,885

With donor restrictions 168,597

Total net assets 1,124,482

Total liabilities and net assets \$ 1,818,320

THE OWASP FOUNDATION, INC. AND AFFILIATE

Combined Statement of Activities and Changes in Net Assets
For the Year Ended December 31, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Operating Revenue and Support:			
Conference	\$ 3,057,738	\$ -	\$ 3,057,738
Membership fees	208,459	138,972	347,431
Contributions and grants	12,686	92,393	105,079
Other	44,849	-	44,849
Net assets released from purpose restrictions	<u>62,768</u>	<u>(62,768)</u>	<u>-</u>
Total operating revenue and support	<u>3,386,500</u>	<u>168,597</u>	<u>3,555,097</u>
Operating Expenses:			
Program	3,223,149	-	3,223,149
Management and general	179,715	-	179,715
Fundraising	<u>59,904</u>	<u>-</u>	<u>59,904</u>
Total operating expenses	<u>3,462,768</u>	<u>-</u>	<u>3,462,768</u>
Changes in net assets from operations	(76,268)	168,597	92,329
Non-Operating Expense:			
Foreign currency translation adjustment	<u>(801)</u>	<u>-</u>	<u>(801)</u>
Changes in net assets	(77,069)	168,597	91,528
Net Assets:			
Beginning of year	<u>1,032,954</u>	<u>-</u>	<u>1,032,954</u>
End of year	<u>\$ 955,885</u>	<u>\$ 168,597</u>	<u>\$ 1,124,482</u>

THE OWASP FOUNDATION, INC. AND AFFILIATE

Combined Statement of Cash Flows
For the Year Ended December 31, 2019

Cash Flows from Operating Activities:

Changes in net assets	\$ 91,528
Adjustments to reconcile changes in net assets to net cash used in operating activities:	
Foreign currency translation adjustment	801
Bad debt	463
Changes in operating assets and liabilities:	
Accounts receivable	(348,781)
Prepaid expenses	(21,211)
Inventory	9,429
Accounts payable	(15,583)
Accrued expenses	(40,403)
Deferred revenue	<u>288,640</u>
Net cash used in operating activities	(35,117)

Effect of Exchange Rate Changes on Cash (801)

Net Change in Cash (35,918)

Cash:

Beginning of year 1,273,089

End of year \$ 1,237,171

THE OWASP FOUNDATION, INC. AND AFFILIATE

Combined Statement of Functional Expenses
For the Year Ended December 31, 2019

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total Expenses</u>
Payroll:				
Salaries and wages	\$ 503,224	\$ 94,354	\$ 31,452	\$ 629,030
Payroll taxes and employee benefits	<u>102,293</u>	<u>19,180</u>	<u>6,393</u>	<u>127,866</u>
Total payroll	<u>605,517</u>	<u>113,534</u>	<u>37,845</u>	<u>756,896</u>
Other:				
Conference	2,010,541	-	-	2,010,541
Chapter	162,126	-	-	162,126
Professional fees	107,745	20,202	6,734	134,681
Travel and entertainment	100,337	18,813	6,271	125,421
Office supplies and expenses	84,074	15,764	5,255	105,093
Program	92,006	-	-	92,006
Marketing	31,889	5,979	1,993	39,861
Bank charges	26,231	4,919	1,639	32,789
Insurance	1,174	220	73	1,467
VAT expense	1,139	214	71	1,424
Bad debt	<u>370</u>	<u>70</u>	<u>23</u>	<u>463</u>
Total other	<u>2,617,632</u>	<u>66,181</u>	<u>22,059</u>	<u>2,705,872</u>
Total operating expenses	<u>\$ 3,223,149</u>	<u>\$ 179,715</u>	<u>\$ 59,904</u>	<u>\$ 3,462,768</u>

THE OWASP FOUNDATION, INC. AND AFFILIATE

Notes to Combined Financial Statements
December 31, 2019

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.

Recently Adopted Accounting Pronouncements

In 2019, the Foundation adopted FASB's Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU clarifies and improves guidance for contributions received and contributions made and provides guidance to organizations on how to account for certain exchange transactions. In addition, it clarifies whether a contribution is conditional. As a result, it enhances comparability of financial information among not-for-profit entities. The Foundation adopted ASU 2018-08 using a modified prospective method effective January 1, 2019. Under the modified prospective method, this ASU only applies to agreements not completed or entered into (revenue or expense that has not yet been recognized) as of January 1, 2019. As a result, there was no cumulative-effect adjustment to opening net assets as of January 1, 2019.

THE OWASP FOUNDATION, INC. AND AFFILIATE

Notes to Combined Financial Statements
December 31, 2019

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Adopted Accounting Pronouncements (Continued)

During 2019, the Foundation also adopted FASB's ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, with respect to its revenue recognition policies. The core principle of the new accounting guidance is that an entity should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Foundation adopted ASU 2018-08 using a modified prospective method effective January 1, 2019. Under the modified prospective method, this ASU only applies to agreements not completed or entered into (revenue or expense that has not yet been recognized) as of January 1, 2019. The adoption of this standard did not have a significant impact on the Foundation's combined financial statements as substantially all of the Foundation's revenues are recognized across the year as services are provided to the customers.

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. There was an allowance of \$9,013 as of December 31, 2019.

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.

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, 2019:

Equipment	\$ 40,863
Website	<u>30,000</u>
	70,863
Less - accumulated depreciation	<u><u>70,863</u></u>
	\$ <u><u>-</u></u>

THE OWASP FOUNDATION, INC. AND AFFILIATE

Notes to Combined Financial Statements
December 31, 2019

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets

Net Assets Without Donor Restrictions

Net assets without donor restrictions are those net resources that bear no external restrictions and are generally available for use by the Foundation. The Foundation has grouped its net assets without donor restrictions into the following categories:

- **Operating Net Assets** consist of amounts relating to program and other operating activities, which bear no external restrictions and are generally available for operations.
- **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).

Net Assets With Donor Restrictions

Net assets with donor restrictions represent amounts received or committed with donor restrictions which have not yet been expended for their designated purposes (purpose restricted), amounts for unrestricted use in future periods (time restricted), and amounts received from donors with the stipulation that the principal will be held in perpetuity and only the investment income can be spent. All net assets with donor restrictions are purpose restricted as of December 31, 2019.

Revenue Recognition

The Foundation generally measures revenue for qualifying exchange transactions based on the amount of consideration the Foundation expects to be entitled for the transfer of goods or services to a customer, then recognizes this revenue when or as the Foundation satisfies its performance obligations under a contract, except in transactions where U.S. GAAP provides other applicable guidance. The Foundation evaluates its revenue contracts with customers based on the five-step model under ASC Topic 606: (1) Identify the contract with the customer; (2) Identify the performance obligations in the contract; (3) Determine the transaction price; (4) Allocate the transaction price to separate performance obligations; and (5) Recognize revenue when (or as) each performance obligation is satisfied.

The Foundation receives conference fees for registrations for various events and conferences. Conference revenue is recognized at a point in time when the conference occurs. Deferred revenue in the accompanying combined statement of financial position consists of event registration fees paid in advance that have not been earned as of December 31, 2019. Other revenue is recognized as earned.

In accordance with ASC Subtopic 958-605, *Revenue Recognition*, the Foundation must determine whether a contribution (or a promise) is conditional or unconditional for transactions deemed to be a contribution. A contribution is considered to be a conditional contribution if an agreement includes a barrier that must be overcome and either a right of return of assets or a right of release of a promise to transfer assets exists. Indicators of a barrier include measurable performance-related barrier or other measurable barriers, a stipulation that limits discretion by the recipient on the conduct of an activity, and stipulations that are related to the purpose of the agreement. Topic 958 prescribes that the Foundation should not consider probability of compliance with the barrier when determining if such awards are conditional and should be reported as conditional grant advance liabilities until such conditions are met.

THE OWASP FOUNDATION, INC. AND AFFILIATE

Notes to Combined Financial Statements
December 31, 2019

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

Membership fees do not have an intrinsic benefit and are considered a donation. The Foundation recognizes the revenue under ASC Subtopic 958-605 at the time of the donation.

Contributions and grants are recorded as revenue when received or unconditionally pledged. Restricted contributions and grants are recorded as net assets with donor restrictions when received or unconditionally pledged. Transfers are made to net assets without donor restrictions as costs are incurred or time restrictions or program restrictions have lapsed.

Expense Allocations

Expenses related directly to a program or function are distributed to that program or function, while other expenses are allocated to programs or functions based upon management's estimate of the percentage attributable to each program or function. The expenses that are allocated include payroll, miscellaneous, professional fees, travel and entertainment, office supplies and expenses, marketing, bank charges, insurance, VAT expense, and bad debt, which are allocated based on management's estimate of usage or time spent on various functions.

Chapter expenses of \$162,126, 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, 2019.

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.

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.

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, 2019. The Foundation's information returns are subject to examination by the Federal and state jurisdictions.

THE OWASP FOUNDATION, INC. AND AFFILIATE

Notes to Combined Financial Statements
December 31, 2019

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.

Subsequent Events

Subsequent events have been evaluated through September 28, 2020, which is the date the combined financial statements were available to be issued. See Note 6 for disclosure of a subsequent events.

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 \$14,003 as of December 31, 2019.

Economic Dependency

At December 31, 2019, 86% of operating revenue is from four annual conferences.

THE OWASP FOUNDATION, INC. AND AFFILIATE

Notes to Combined Financial Statements
December 31, 2019

3. CONCENTRATIONS (Continued)

Net Assets in Foreign Countries

Net assets in Europe of \$6,477 are included in the accompanying combined statement of financial position as of December 31, 2019.

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, 2019.

5. LIQUIDITY

Financial assets available for general operating use, that is, without donor or other restrictions limiting their use within one year of the combined statement of financial position date, comprise the following at December 31, 2019:

Cash	\$ 1,237,171
Accounts receivable	<u>427,566</u>
	<u>\$ 1,664,737</u>

The Foundation has a policy to structure its financial assets to be available and liquid as its obligations become due. As of December 31, 2019, the Foundation has financial assets equal to approximately six months operating expenses.

6. SUBSEQUENT EVENTS

In March 2020, the COVID-19 coronavirus (COVID-19) pandemic emerged in the United States triggering widespread government mandated and voluntary business closures, which in turn have led to substantial interruptions in financial markets, employment and the economy as a whole. Though the potential financial effects cannot be reasonably estimated at this time, these circumstances may have adverse effects on the Foundation, its operations and future combined financial statements. The accompanying combined financial statements have not been adjusted for any potential financial effects that may occur in the future related to the current uncertainty.

Management of the Foundation is monitoring these events and their borrowers closely to assess the financial impact of the situation and determine appropriate courses of action. As of the date of this report, the Foundation is unable to accurately predict how COVID-19 will affect the results of its operations because the disease's severity and the duration of the outbreak are uncertain.

In April 2020, the Foundation has applied for and was awarded a loan from the Paycheck Protection Program established by the Coronavirus Aid, Relief and Economic Security Act (CARES Act) in the amount of \$112,700. The funds will be used to pay certain payroll costs including benefits during a twenty-four-week period. A portion of these funds may be forgiven, as defined in the agreement, at the end of the twenty-four-week period and the remainder of the funds will be due with interest at 1%. The repayment will be deferred until November 2020 when the note, plus interest, will be due in equal monthly payments through April 2022.