

THE DRUPAL ASSOCIATION

**Audited Financial
Statements**

**For the Year Ended
December 31, 2012**



McDONALD JACOBS

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Drupalcon, Inc. dba The Drupal Association

We have audited the accompanying financial statements of Drupalcon, Inc. dba The Drupal Association (the Association) (a nonprofit corporation), which comprise the statement of financial position as of December 31, 2012, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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.

Auditor's Responsibility

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

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

Strength in Numbers

ACCOUNTANTS & CONSULTANTS

McDonald Jacobs, PC

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Jake Jacobs, CPA
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Susan J. Marks, CPA
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Mark A. Clift, CPA
Shareholder

Karin S. Wandtke, CPA
Shareholder

Sang Ahn, CPA
Shareholder

Gerard DeBlois Jr., CPA
Shareholder

Jill Oswald
Shareholder

Mary Strasdin, CPA
Principal

Dennis C. Johnson, CPA
of counsel

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 financial statements referred to above present fairly, in all material respects, the financial position of The Drupal Association as of December 31, 2012, and changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

McDonald Jacobz, P.C.

Portland, Oregon
July 17, 2013

THE DRUPAL ASSOCIATION
STATEMENT OF FINANCIAL POSITION
December 31, 2012

ASSETS

Cash and cash equivalents	\$ 1,425,294
Accounts receivable	159,947
Prepaid expenses and other assets	32,849
Property and equipment, net	<u>210,026</u>

TOTAL ASSETS	<u><u>\$ 1,828,116</u></u>
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LIABILITIES AND NET ASSETS

Liabilities:	
Accounts payable and accrued expenses	\$ 102,703
Fiscal sponsorships	83,077
Deferred revenue	<u>648,828</u>
Total liabilities	<u>834,608</u>

Unrestricted net assets:	
Undesignated	783,482
Net property and equipment	<u>210,026</u>
Total unrestricted net assets	<u>993,508</u>

TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 1,828,116</u></u>
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See notes to financial statements.

THE DRUPAL ASSOCIATION
STATEMENT OF ACTIVITIES
For the year ended December 31, 2012

Changes in unrestricted net assets:

Support and revenue:

Contributions and sponsorships	\$ 1,050,132
Conference and training registrations	1,794,876
Dues and memberships	258,847
Realized and unrealized gains from currency translation	76,099
Sales, net of cost of goods sold of \$42,623	(4,894)
Advertising and other income	226,044
Total support and revenue	<u>3,401,104</u>

Expenses:

Program	2,196,788
Management and general	572,477
Fundraising	129,055
Total expenses	<u>2,898,320</u>

Change in net assets	502,784
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Unrestricted net assets:

Beginning of year	<u>490,724</u>
End of year	<u>\$ 993,508</u>

See notes to financial statements.

THE DRUPAL ASSOCIATION
SCHEDULE OF FUNCTIONAL EXPENSES
For the year ended December 31, 2012

	Program	Management and General	Fundraising	Total
Salaries and related expenses	\$ 194,479	\$ 279,192	\$ 100,174	\$ 573,845
Professional fees	74,102	22,752	-	96,854
Events and conferences	1,370,020	13,176	-	1,383,196
Scholarships and grants	27,397	8,393	-	35,790
Marketing	5,086	1,804	-	6,890
Information technology and website	347,047	44,703	9,156	400,906
Postage and shipping	2,124	2,720	557	5,401
Facilities	49	18,311	3,751	22,111
Equipment and maintenance	1,254	2,455	503	4,212
Printing	18,992	2,116	434	21,542
Travel and meals	7,461	39,499	8,090	55,050
Office expense	7,960	21,895	4,484	34,339
Insurance	338	4,346	890	5,574
Bank fees	1,468	20,604	-	22,072
Income and sales taxes	125,180	84,944	-	210,124
Miscellaneous	1,164	605	-	1,769
Depreciation	12,667	4,962	1,016	18,645
Total expenses	<u>\$ 2,196,788</u>	<u>\$ 572,477</u>	<u>\$ 129,055</u>	<u>\$ 2,898,320</u>

See notes to financial statements.

THE DRUPAL ASSOCIATION
STATEMENT OF CASH FLOWS
For the year ended December 31, 2012

Cash flows from operating activities:	
Change in net assets	\$ 502,784
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	18,645
(Increase) decrease in:	
Accounts receivable	470,487
Prepaid expenses and other assets	63,442
Increase (decrease) in:	
Accounts payable and accrued expenses	27,739
Fiscal sponsorships	27,752
Deferred revenue	3,309
Net cash provided by operating activities	<u>1,114,158</u>
Cash flows from investing activities:	
Purchase of property and equipment	<u>(189,727)</u>
Net cash used in investing activities	<u>(189,727)</u>
Net increase in cash and cash equivalents	924,431
Cash and cash equivalents - beginning of year	<u>500,863</u>
Cash and cash equivalents - end of year	<u><u>\$ 1,425,294</u></u>

See notes to financial statements.

THE DRUPAL ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

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. The Association also hosts two or three world-wide conferences 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, 2012, 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 include 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 is calculated using the straight-line method over the estimated useful lives of the assets of the assets.

THE DRUPAL ASSOCIATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
December 31, 2012

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

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 \$79,000 are included in expenses. The Association is not a private foundation.

The Association's information returns for years ended December 31, 2008 and prior are generally no longer subject to examination by taxing authorities in its major tax jurisdictions.

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.

Revenue Recognition

Membership dues are recognized as revenue when received. Revenues from programs and conferences are recognized in the period the programs and conferences occur. Conference and program fees received in advance are reflected as deferred revenue.

Contributions and Sponsorships

Contributions and 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.

THE DRUPAL ASSOCIATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
December 31, 2012

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 a bank account in Belgium 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 rate in effect as of December 31, 2012. 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 gain of approximately \$48,200 and have been reported in the statement of activities. Foreign currency transaction gains resulting from exchange rate fluctuations on transactions denominated in a currency other than the functional currency totaled approximately \$28,100 and have been reported in the accompanying statement of activities.

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.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 July 17, 2013, the date the financial statements were available to be issued.

THE DRUPAL ASSOCIATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
December 31, 2012

2. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31, 2012:

Computer and equipment	\$ 20,673
Website	38,000
Website upgrade in progress	<u>183,812</u>
Total property and equipment	242,485
Less accumulated depreciation	<u>32,459</u>
Net property and equipment	<u><u>\$ 210,026</u></u>

3. DEFERRED REVENUE

Deferred revenue consists of funds received in advance for conferences to be held in 2013 as follows:

Sydney - February 2013	\$ 251,878
Portland - May 2013	385,992
Prague - September 2013	<u>10,958</u>
Total deferred revenue	<u><u>\$ 648,828</u></u>

4. LEASE COMMITMENT

The Association leases its administrative office under an operating lease which expires December 31, 2013, with an option to renew in six-month intervals. Rent expense totaled approximately \$21,400 for the year ended December 31, 2012. Future minimum lease commitments for the year ending December 31, 2013 approximate \$24,800.

THE DRUPAL ASSOCIATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
December 31, 2012

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 \$332,000 at December 31, 2012.

6. CONCENTRATION 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 \$1,153,000 as of December 31, 2012.

Accounts receivable are unsecured and approximately 54% of the total balance outstanding at December 31, 2012 is receivable from four entities.