Professional Association for SQL Server

Financial Statements and
Independent Auditor's Report

June 30, 2012 and 2011

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PROFESSIONAL ASSOCIATION FOR SQL SERVER

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FGMK, LLC
One Source
Infinite Solutions™
Certified
Public Accountants
and Consultants

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Professional Association for SQL Server

We have audited the accompanying statements of financial position of Professional Association for SQL Server (the "Association") as of June 30, 2012 and 2011, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Professional Association for SQL Server as of June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

FGMK, LLC

Bannockburn, Illinois
January 24, 2013

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PROFESSIONAL ASSOCIATION FOR SQL SERVER

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2012 AND 2011

ASSETS

	2012	2011
Cash and cash equivalents	$ 2,532,885	$ 2,184,034
Investments	358,678	354,096
Accounts receivable	7,530	42,482
Prepaid expenses	319,964	176,088
Website development costs, net	10,162	50,812
	$ 3,229,219	$ 2,807,512

LIABILITIES AND NET ASSETS

LIABILITIES		
Accounts payable	$ 166,477	$ 191,953
Income taxes payable	58,074	61,000
Deferred revenue	1,806,295	1,665,881
Deferred income taxes	85,000	66,000
	2,115,846	1,984,834
NET ASSETS	1,113,373	822,678
	$ 3,229,219	$ 2,807,512

The accompanying notes are an integral part of these statements.

PROFESSIONAL ASSOCIATION FOR SQL SERVER

STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
REVENUE AND SUPPORT		
Membership education and services:		
Conferences and seminars	$ 5,333,856	$ 4,081,498
Charter and Founder member support	173,210	193,263
Investment return	5,774	5,401
Advertising	79,900	78,575
Miscellaneous	15,557	60,971
Total revenue and support	5,608,297	4,419,708
EXPENSES		
Program:		
Membership education and services:		
Conferences and seminars	2,810,867	2,296,282
Marketing	356,814	240,492
Regional users groups	112,822	97,821
Community programs	195,310	68,590
Special projects	57,331	33,321
Special interest groups	22,856	12,542
Volunteer support	5,662	7,648
Total program expenses	3,561,662	2,756,696
General and administrative:		
Headquarters administration	1,115,556	941,454
Technology support	268,170	188,405
Board support	206,440	137,997
Total general and administrative expenses	1,590,166	1,267,856
Total expenses	5,151,828	4,024,552
CHANGE IN NET ASSETS BEFORE PROVISION FOR INCOME TAXES	456,469	395,156
PROVISION FOR INCOME TAXES	165,774	138,800
CHANGE IN NET ASSETS	290,695	256,356
NET ASSETS - BEGINNING OF YEAR	822,678	566,322
NET ASSETS - END OF YEAR	$ 1,113,373	$ 822,678

The accompanying notes are an integral part of these statements.

PROFESSIONAL ASSOCIATION FOR SQL SERVER

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 290,695	$ 256,356
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Amortization	40,650	40,650
Unrealized losses on investments	-	(1,957)
Reinvested interest income	(4,582)	(3,213)
Deferred income taxes	19,000	46,000
Changes in operating assets and liabilities		
Accounts receivable	34,952	15,091
Refundable income taxes	(61,000)	1,800
Prepaid expenses	(143,876)	99,630
Accounts payable	(25,476)	55,849
Income taxes payable	58,074	61,000
Deferred revenue	140,414	475,296
NET CASH PROVIDED BY OPERATING ACTIVITIES	348,851	1,046,502
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	2,184,034	1,137,532
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 2,532,885	$ 2,184,034
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Income taxes paid	$ 149,700	$ 30,000

The accompanying notes are an integral part of these statements.

PROFESSIONAL ASSOCIATION FOR SQL SERVER

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities. The Professional Association for SQL Server ("PASS" or "Association") is an international, not-for-profit organization which provides an independent forum for users of SQL Server and users and vendors of products and services that are of interest to users of SQL Server. PASS provides educational opportunities and other member services to the SQL Server community.

Basis of Accounting. PASS reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. There were no temporarily or permanently restricted net assets at June 30, 2012 and 2011.

Management Estimates and Assumptions. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and Cash Equivalents. PASS considers all highly liquid securities purchased with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents exclude funds held in investment accounts. PASS regularly maintains cash balances that exceed Federal Deposit Insurance Corporation limits.

Investments. Investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement for these assets are all level 1 inputs, thus are quoted prices (unadjusted) in active markets for identical assets or liabilities that PASS has the ability to access.

Accounts Receivable. Accounts receivable are stated at the amount PASS expects to collect from balances outstanding at year end. PASS performs in-house collection efforts as necessary based on its assessment of the current status of individual accounts. Bad debts, which are typically minimal, are expensed as incurred. Management has determined that an allowance for doubtful accounts was not necessary at June 30, 2012 and 2011.

Revenue Recognition. Conference revenue is recognized in the year the event occurs. Conference revenues received in advance of conferences are accounted for as deferred revenue at year end. Sponsorship and other revenues are recognized when earned. Original payments received from founding members are amortized evenly over fifteen years.

Website Development Costs. Website development costs are accounted for as capital assets and amortized on a straight-line method over their estimated useful life of three years. Costs related to the planning stage of website development projects as well as ongoing website operating and support costs are expensed as incurred. Upon sale or retirement, website development costs and related accumulated amortization are eliminated from their respective accounts and the resulting gain or loss is included in the statement of activities.

Expense Recognition. Conference costs are recognized as expenses in the period the conference occurs. Costs incurred or paid in advance of the conference are accounted for as prepaid expenses at year end.

Income Taxes. PASS is a non-profit corporation under Illinois law, but is subject to taxes on its income under applicable federal and state laws. Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the basis of assets and liabilities for financial and income tax reporting. Deferred income tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled.

(Continued)

PROFESSIONAL ASSOCIATION FOR SQL SERVER

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

NOTE 1 – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

Income Taxes (Concluded). GAAP requires management to evaluate tax positions taken by PASS and recognize a tax liability (or asset) if the Association has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service or other tax authorities. Management has analyzed the tax positions taken by PASS and has concluded that as of June 30, 2012 and 2011, there are no uncertain tax positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. PASS is subject to routine audit by the Internal Revenue Service or other tax authorities, generally for three years after the tax returns are filed; however, there are currently no audits for any tax periods in progress.

Foreign Currency Translation. Transactions denominated in foreign currencies are converted to U.S. currency at the rate prevailing on the transaction dates and gains and losses on subsequent settlement are included in revenue or expense. Assets and liabilities denominated in foreign currency at year end are converted to U. S. dollars using the conversion rate as of year end.

Contributed Services. PASS relies significantly on volunteer effort by Board and Committee members. Contributed services are reported as contributions at their fair value if such services create or enhance non-financial assets, or would have been purchased if not provided by donation, require specialized skills, and are provided by individuals possessing such specialized skills. There were no contributed services meeting those criteria during the years ended June 30, 2012 and 2011.

Allocation of Expenses. The costs of providing various programs and services are summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among program and supporting services on the basis of management estimates.

Comparative Information. Certain comparative numbers for the year ended June 30, 2011 have been reclassified from their original presentation to conform with the current year's presentation. These reclassifications had no effect on net assets or the change in net assets.

NOTE 2 – INVESTMENTS

PASS has an investment account at an investment management company. As of June 30, 2012 and 2011, investments consisted of certificates of deposit and money market funds.

NOTE 3 – WEBSITE DEVELOPMENT COSTS

PASS incurred website development costs of $121,950 during the fiscal year ended June 30, 2009. Amortization expense was $40,650 for both the years ended June 30, 2012 and 2011. Accumulated amortization was $111,788 and $71,138 as of June 30, 2012 and 2011, respectively.

NOTE 4 – LINE OF CREDIT

PASS has a revolving line of credit for $200,000 with a bank that expired on December 31, 2012. Interest on amounts borrowed on the line is payable at a variable rate based on one month LIBOR plus 5.25 percentage points (approximately 5.5% as of June 30, 2012). Amounts borrowed by PASS under the line are collateralized by a security interest in all of its assets. The loan has various financial covenants including maintenance of unencumbered liquid assets of at least $200,000 and a debt service coverage ratio of at lease 1.25:1.0. PASS did not borrow on the line of credit during the years ended June 30, 2012 and 2011. It is expected that the line will be renewed in 2013.

PROFESSIONAL ASSOCIATION FOR SQL SERVER

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

NOTE 5 – CONFERENCE AND SEMINAR REVENUES AND EXPENSES

Conference and seminar revenues and expenses consisted of the following for the years ended June 30:

	2012	2011
Revenues:		
Summit conference	$ 4,351,901	$ 3,227,568
Summit exhibit	702,093	624,575
SQL Rally	249,862	199,355
Virtual events	30,000	30,000
Total revenues	$ 5,333,856	$ 4,081,498
Expenses:		
Summit conference	$ 2,077,626	$ 1,686,653
Summit exhibit	456,082	387,794
SQL Rally	226,340	182,474
SQL Rally - Global	22,630	-
Virtual events	28,189	26,754
European conference	-	12,607
Total expenses	$ 2,810,867	$ 2,296,282

NOTE 6 – MANAGEMENT AGREEMENT

PASS contracts with a management company on an annual basis to manage its operations. The management company agreements provide for general management and headquarters services as well as conference management, marketing and operations support services. The related charges are included in various line items on the statement of activities. PASS incurred management company expenses of approximately $1,515,000 and $1,425,000 for the years ended June 30, 2012 and 2011, respectively.

NOTE 7 – INCOME TAXES

The provision for income taxes consisted of the following for the years ended June 30:

	2012	2011
Current	$ 146,774	$ 92,800
Deferred	19,000	46,000
	$ 165,774	$ 138,800

Current income tax charges for the years ended June 30, 2012 and 2011 arise from taxable income for those years. The provision for deferred income taxes relates primarily to timing differences in expense recognition between the financial statements and tax returns.

PROFESSIONAL ASSOCIATION FOR SQL SERVER

NOTES TO THE FINANCIAL STATEMENTS
(Concluded)

NOTE 8 – CONCENTRATIONS

PASS has a significant volume of transactions with Microsoft Corporation ("Microsoft") including community support, event sponsorships, conference attendance by Microsoft personnel and expense reimbursements. Approximate revenues generated from Microsoft were $580,000 and $400,000 for the years ended June 30, 2012 and 2011, respectively.

NOTE 9 – COMMITMENTS

PASS has entered into hotel contracts for services and accommodations for future conferences. These contracts include penalty clauses which would require PASS to pay certain amounts if a conference was to be cancelled, or if attendance was less than the original commitment. Management estimates that PASS had no material exposure to such penalties as of June 30, 2012.

NOTE 10 – SUBSEQUENT EVENTS

Management has evaluated all known subsequent events from June 30, 2012 through January 24, 2013, the date the accompanying financial statements were available to be issued, and is not aware of any material subsequent events occurring during this period.