

Houston Area League of PC Users, Inc.

Notes to Financial Statements

May 31, 1999 and 1998

Note 1: Summary of Significant Accounting Policies

Background and Nature of Organization

Houston Area League of PC Users, Inc. (HAL-PC) was incorporated on August 20, 1984 under the Texas Non-Profit Corporation Act. Its primary purpose is to provide a forum for users of IBM and compatible personal computers and to exchange ideas, knowledge and experience regarding the use of such computers.

Revenues

The majority of HAL-PC revenues are generated from membership dues and fees related to internet service to members for non-commercial usage. Membership dues, currently \$40 per year with a \$5 discount offered to members who pay their dues 30 days or more prior to the renew date, are received annually in advance and are deferred and amortized into income monthly. Internet fees are collected six months in advance in the amount of \$60 and are also amortized into income monthly. Included in deferred revenue is \$226,672 and \$172,562 of Internet fee revenues as of May 31, 1999 and 1998 respectively.

Concentrations of Credit Risks

At May 31, 1999 and 1998, HAL-PC had cash deposited in a financial institution that exceeded the federally insured deposit limit. Concentration of credit risk with respect to accounts receivable are limited due to their dispersion across different industries. As of May 31, 1999 and 1998, there were no significant concentrations of credit risk.

Property and Equipment

Property and equipment is stated at original cost. Depreciation is recorded based on the estimated useful lives of the assets, provided on the straight line method. The estimated useful lives are: equipment 5 years, furniture and fixtures 7 years and, leasehold improvements over the lease term of 8 years and 1 month. Maintenance and repair costs are charged to expense as incurred.

Tax Status

Houston Area League of PC Users, Inc. is a non-profit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Marketable Debt Securities

As of May 15, 1999 and 1998, U.S. Treasury bills with amortized costs of \$516,022 and \$739,507 respectively were held by HAL-PC. There were no unrealized gross gains at May 31, 1999 and 1998.

Note 2: Lease Commitment

On November 4, 1996, HAL-PC entered into a lease agreement for office space at 4543 Post Oak Place, Suite 200, Houston, Texas 77027. The term of the lease is 97 months, commencing on January 1, 1997 and expiring on January 31, 2005. The minimum annual lease payments, payable monthly, net of abatements for the balance of the lease term are set forth below.

| Year Ending May 31, | Amount |
|----------------------------|---------------|
| 1999 | \$80,383 |
| 2000 | 93,133 |
| 2001 | 93,133 |
| 2002 | 94,164 |
| 2003 | 95,196 |
| 2004 | 95,196 |
| 2005 | <u>69,339</u> |
| Total | \$620,544 |

In addition, estimated common area maintenance, taxes and insurance costs are payable annually.