

Houston Area League of PC Users

Financial Statements
and Independent Auditors' Report
for the years ended May 31, 2005 and 2004

Blazek & Vetterling LLP
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

To the Board of Directors of
Houston Area League of PC Users:

We have audited the accompanying statements of financial position of Houston Area League of PC Users as of May 31, 2005 and 2004 and the related statements of activities and of cash flows for the years then ended. These financial statements are the responsibility of the management of Houston Area League of PC Users. 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 our 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 Houston Area League of PC Users as of May 31, 2005 and 2004 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.

Blazek & Vetterling

March 10, 2006

Houston Area League of PC Users

Statements of Financial Position as of May 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
ASSETS		
Cash	\$ 94,002	\$ 47,851
Accounts receivable, net of allowance for uncollectible accounts of \$723 in 2005 and \$18,710 in 2004	4,981	29,296
Prepaid expenses and other assets	9,873	19,373
Investments (Note 3)	427,032	479,974
Property and equipment, net (Note 4)	<u>26,530</u>	<u>43,856</u>
TOTAL ASSETS	<u>\$ 562,418</u>	<u>\$ 620,350</u>

LIABILITIES AND NET ASSETS

Liabilities:		
Accounts payable and accrued expenses	\$ 57,880	\$ 64,940
Deferred revenue:		
Internet fees	252,847	295,492
Membership fees	<u>146,199</u>	<u>160,409</u>
Total liabilities	456,926	520,841
Unrestricted net assets	<u>105,492</u>	<u>99,509</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 562,418</u>	<u>\$ 620,350</u>

See accompanying notes to financial statements.

Houston Area League of PC Users

Statements of Activities for the years ended May 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
REVENUE:		
Internet fees	\$ 1,056,670	\$ 1,074,641
Membership dues	243,840	297,000
Learning Center fees	30,178	31,975
Investment return <i>(Note 3)</i>	8,513	12,145
Other revenues	<u>16,529</u>	<u>46,045</u>
Total revenue	<u>1,355,730</u>	<u>1,461,806</u>
EXPENSES:		
Program services:		
Internet services	996,186	1,145,442
Membership	123,002	128,239
HAL-PC Magazine	<u>79,642</u>	<u>108,691</u>
Total program services	1,198,830	1,382,372
Management and general	<u>150,917</u>	<u>127,105</u>
Total expenses	<u>1,349,747</u>	<u>1,509,477</u>
CHANGES IN UNRESTRICTED NET ASSETS	5,983	(47,671)
Unrestricted net assets, beginning of year	<u>99,509</u>	<u>147,180</u>
Unrestricted net assets, end of year	<u>\$ 105,492</u>	<u>\$ 99,509</u>

See accompanying notes to financial statements.

Houston Area League of PC Users

Statements of Cash Flows for the years ended May 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in unrestricted net assets	\$ 5,983	\$ (47,671)
Adjustments to reconcile changes in unrestricted net assets to net cash provided (used) by operating activities:		
Depreciation	34,295	62,740
Net unrealized loss on investments		7,194
Changes in operating assets and liabilities:		
Accounts receivable	24,315	(10,708)
Prepaid expenses and other assets	9,500	(8,552)
Accounts payable and accrued expenses	(7,060)	(51,367)
Deferred revenue	<u>(56,855)</u>	<u>(69,674)</u>
Net cash provided (used) by operating activities	<u>10,178</u>	<u>(118,038)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(16,969)	(4,843)
Proceeds from maturities of investments	469,847	459,000
Net change in money market funds	281,646	(194,177)
Purchases of investments	<u>(698,551)</u>	<u>(98,980)</u>
Net cash provided by investing activities	<u>35,973</u>	<u>161,000</u>
NET CHANGE IN CASH	46,151	42,962
Cash, beginning of year	<u>47,851</u>	<u>4,889</u>
Cash, end of year	<u>\$ 94,002</u>	<u>\$ 47,851</u>

See accompanying notes to financial statements.

Houston Area League of PC Users

Notes to Financial Statements for the years ended May 31, 2005 and 2004

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization – Houston Area League of PC Users (HAL-PC) is a Texas nonprofit corporation formed in 1984 to provide a forum for its members to exchange ideas, knowledge, educational materials, and experience in the use of personal computers. HAL-PC has approximately 7,000 members primarily in the Greater Houston area. HAL-PC is primarily supported by membership dues and internet fees assessed to its members.

Federal income tax status – HAL-PC is exempt from federal income taxes under Internal Revenue Code §501(c)(3) and is classified as a publicly supported organization under section §509(a)(2).

Cash concentration – At times, bank account balances exceed the federally insured limit of \$100,000 per depositor per institution.

Allowance for uncollectible receivables are estimated based on management's periodic evaluation of the Clinic's past loss experience, and management's analysis of specific promises made. It is possible that management's estimate regarding the collectibility of these balances will change in the near term resulting in a change in the carrying value of the pledges receivable.

Property and equipment is recorded at cost if purchased or at the estimated fair value at the date of gift if donated. Depreciation is recognized on a straight-line basis over estimated useful lives of 3 to 5 years for computer equipment and 8 to 10 years for leasehold improvements.

Investments are recorded at fair value.

Internet service fees and membership dues are recognized over the period of service or membership. Fees and dues for future years are recorded as deferred revenue.

Estimates – Management must make estimates and assumptions to prepare financial statements in accordance with generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, reported revenue and expenses, and the allocation of expenses among various functions. Actual results could vary from the estimates that were used.

NOTE 2 – RELATED PARTY TRANSACTIONS

HAL-PC's internet operations are managed by individuals who are members of its Board of Directors. During 2004 and for approximately one-half of the 2005 year, these individuals were compensated through a lease arrangement with an entity that subleases a portion of HAL-PC's office space. In January 2005, these individuals became employees of HAL-PC. Management fees of \$44,000 were recognized for these services in 2005 and \$82,000 in 2004.

NOTE 3 – INVESTMENTS

Investments consist of the following:

	<u>2005</u>	<u>2004</u>
Certificates of deposit	\$ 424,050	\$ 195,346
Money market funds	<u>2,982</u>	<u>284,628</u>
Total investments	<u>\$ 427,032</u>	<u>\$ 479,974</u>

Investment return includes earnings on cash balances and consists of the following:

	<u>2005</u>	<u>2004</u>
Interest	\$ 8,513	\$ 19,339
Net unrealized loss	<u> </u>	<u>(7,194)</u>
Total investment return	<u>\$ 8,513</u>	<u>\$ 12,145</u>

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>2005</u>	<u>2004</u>
Computer equipment	\$ 795,207	\$ 778,238
Leasehold improvements	<u>171,512</u>	<u>171,512</u>
Total property and equipment, at cost	966,719	949,750
Accumulated depreciation	<u>(940,189)</u>	<u>(905,894)</u>
Property and equipment, net	<u>\$ 26,530</u>	<u>\$ 43,856</u>

NOTE 5 – LEASE AGREEMENT

HAL-PC leases telephone lines, office space, and equipment under noncancellable operating leases. Rental expense totaled approximately \$399,000 in 2005 and \$410,000 in 2004. Future minimum lease commitments are as follows:

2006	\$ 254,736
2007	234,283
2008	174,217
2009	181,178
2010	186,151
Thereafter	<u>1,589,741</u>
Total	<u>\$ 2,620,306</u>