

FINANCIAL STATEMENTS

Entrepreneurs Foundation of Central Texas
Years ended December 31, 2006 and 2005

Entrepreneurs Foundation of Central Texas

Financial Statements

Years ended December 31, 2006 and 2005

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Report of Independent Auditors

Board of Directors
Entrepreneurs Foundation of Central Texas

We have audited the accompanying statements of financial position of the Entrepreneurs Foundation of Central Texas (formerly Austin Entrepreneurs Foundation) (the “Foundation”) as of December 31, 2006 and 2005, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Foundation’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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Foundation’s internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and 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 the Entrepreneurs Foundation of Central Texas at December 31, 2006 and 2005 and the results of its activities and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

August 3, 2007

Entrepreneurs Foundation of Central Texas

Statements of Financial Position

	December 31,	
	2006	2005
Assets		
Cash and cash equivalents	\$ 853,261	\$ 643,075
Investments	390,275	820,698
Pledge receivable	9,482	-
Total current assets	<u>\$1,253,018</u>	<u>\$ 1,463,773</u>
Liabilities and Net Assets		
Accounts payable	\$ 3,555	\$ -
Total current liabilities	<u>3,555</u>	<u>-</u>
Net assets:		
Total net assets	<u>1,249,463</u>	<u>1,463,773</u>
Total liabilities and net assets	<u>\$1,253,018</u>	<u>\$ 1,463,773</u>

See accompanying notes.

Entrepreneurs Foundation of Central Texas

Statements of Activities

	Year ended December 31,	
	2006	2005
Revenues, gains and support:		
Revenue, gains and support:		
Contributions – High Tech Fund	\$ 61,761	\$ 417,318
Other contributions	47,737	65,396
Underwriting revenue	155,258	283,250
Other revenue	1,750	44
Total revenue	<u>266,506</u>	<u>766,088</u>
 Expenditures:		
Grants	437,728	193,417
Programs and services	198,315	248,567
Fundraising	24,913	20,964
Management and general	29,387	29,948
Total expenditures	<u>690,343</u>	<u>492,896</u>
 Interest income	29,363	8,454
Other income	605	–
Realized and unrealized gain (loss) on investments, net	<u>179,559</u>	<u>(221,742)</u>
 (Decrease) increase in net assets	(214,310)	59,824
Net assets, beginning of year	<u>1,463,773</u>	<u>1,403,949</u>
Net assets, end of year	<u><u>\$1,249,463</u></u>	<u><u>\$1,463,773</u></u>

See accompanying notes.

Entrepreneurs Foundation of Central Texas

Statements of Cash Flows

	Year ended December 31,	
	2006	2005
Cash Flow from Operating Activities		
Changes in net assets	\$ (214,310)	\$ 59,824
Adjustments to reconcile changes in net assets to cash provided by (used in) operating activities:		
Realized and unrealized (gain) loss on investments, net	(179,559)	221,742
Fair value of stock and stock option donations received	(33,190)	(27,359)
Increase in pledges receivable	(9,482)	-
Increase in accounts payable	3,555	-
Cash provided by operating activities	<u>(432,986)</u>	254,207
Cash Flow from Investing Activities		
Proceeds from sale of investments	643,172	370,975
Exercise of stock options received	-	(163,602)
Cash provided by investing activities	<u>643,172</u>	207,373
Net change in cash	210,186	461,580
Cash and cash equivalents, beginning of year	643,075	181,495
Cash and cash equivalents, end of year	<u>\$ 853,261</u>	<u>\$ 643,075</u>

See accompanying notes.

Entrepreneurs Foundation of Central Texas

Notes to Financial Statements

December 31, 2006

1. Organization

The purpose of the Entrepreneurs Foundation of Central Texas (formerly the Austin Entrepreneurs' Foundation) ("the Foundation") is to create a community of entrepreneurs, their boards and their employees committed to philanthropy and community involvement making Central Texas an even better place to live, work and play. The Foundation was incorporated on September 17, 1999 in the state of Texas as a nonprofit corporation.

2. Summary of Significant Accounting Policies

Basis of Accounting

The Foundation prepares its financial statements on the accrual basis of accounting. It recognizes contributions as revenue when pledged or received, whichever comes first. It recognizes all other revenue when earned. It recognizes expenses when incurred, even if not yet paid. Expenses paid before incurred are classified as prepaid. Expenses incurred, but not paid at year-end, are classified as accounts payable.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Management's use of estimates and assumptions includes but is not limited to fair value determinations for stock and stock options received from companies.

Cash and Cash Equivalents

The Foundation considers all highly liquid investments with maturity from date of purchase of three months or less to be cash equivalents.

Entrepreneurs Foundation of Central Texas

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Investments

Investments consist of stock and stock options in public and nonpublic companies. The Foundation receives stock and stock options as contributions from technology companies in Austin and Central Texas with the objective to use proceeds from sales of these investments for contributions to local charities. The Foundation records investment contributions received at fair value at grant date in accordance with FAS 116. Fair value for publicly traded securities is based upon the closing market trading price for such security. The fair value of stock option contributions received is determined by management using the Black-Scholes option valuation model. Management of the Foundation assumed an expected life of stock options donated of five years; a risk-free interest rate of 4.75% for 2006 and 4.05% for 2005; an expected dividend yield of 0% for 2006 and 2005; an expected volatility ranging from 43% to 70% in 2006 and 37% to 74% in 2005 depending on the company granting the option and that company's related industry. For private companies, the Foundation assumes fair market value of the stock on the grant date equal to the exercise price of the option.

Subsequent to acquisition, the Foundation marks to market investments in public companies with readily determinable fair values as required by FAS 124. For investments in private companies, the Foundation performs impairment analysis and adjusts the value if an event indicated a change in value. This analysis takes into consideration any liquidation events and any company closures.

The Foundation recorded \$217,833 in realized gains in 2006 and \$3,828 in realized losses in 2005 from the sale of shares of common stock or the net exercises of stock options in both publicly traded and privately held companies. These gains were recorded using the specific identification method.

Pledges Receivable

Pledges receivable consist of unconditional and unrestricted promises to give donations. All pledges receivable are expected to be collected within one year.

Entrepreneurs Foundation of Central Texas

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Property and Equipment

The Foundation records property and equipment at cost (or estimated market value, if donated). It depreciates them over their estimated useful lives (ranging from three to four years) using the straight-line method. Upon retirement or disposition of the assets, the Foundation reports related gains or losses in the statement of activities. As of December 31, 2004, the Foundation's property and equipment was fully depreciated.

Received Contributions

The Foundation receives cash, stock and stock options as contributions from technology companies in Austin and Central Texas. It recognizes contributions as revenue when pledged or received. The members of the Board of Directors may be affiliated with entities that contribute toward the financing of the Foundation activities.

In-kind Donations

The Foundation records donations of the use of long-lived assets and professional services, including management consulting and audit services, at estimated market value on the date received. In kind donations of \$41,824 and \$25,000 are included in underwriting revenues for the years ended December 31, 2006 and 2005, respectively.

Functional Expenses

The Foundation reports its expenses on a functional basis to disclose its administrative and fund-raising costs. The Foundation allocates certain operational expenses (contract services, printing and publications) between fund-raising and supporting services, based on estimates made by management.

Income Taxes

The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except with respect to any unrelated business income.

Entrepreneurs Foundation of Central Texas

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Assets and Contributions Held for Others

The Foundation accounts for assets and contributions that will ultimately be distributed to other charities in accordance with Statement No. 136, *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions For Others*.

New Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards (“SFAS”) No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. Earlier application is encouraged. The Foundation is currently evaluating the effect that SFAS No. 157 will have on its financial position or results of activities.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option of Financial Assets and Financial Liabilities* (“SFAS 159”), which allows entities to measure eligible financial instruments and certain other items at fair value. The Statement also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The Foundation is currently evaluating the effect that SFAS No. 157 will have on its financial position or results of activities.

In June 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (“FAS 48”). FIN 48 clarifies the application of SFAS No. 109 by providing detailed guidance for the financial statement recognition, measurement and disclosure of uncertain tax positions recognized in an enterprise’s financial statements. Tax positions must meet a more-likely-than-not threshold at the effective date to be recognized upon the adoption of FIN 48 and in subsequent periods. As the Foundation is a Not-For-Profit entity, FIN 48 will have no impact on the Foundation’s financial position or results of activities.

Entrepreneurs Foundation of Central Texas

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Risk Concentration

Stock and stock options held by the Foundation represent a significant concentration of market and credit risks. The maximum amount of loss due to market risk and credit risk that the entity would incur if companies that issued stock and stock options ceased to exist is equal to the value of the investments at the reporting date.

3. Cash and Cash Equivalents

The Foundation's cash and cash equivalents as of December 31, 2006 and 2005 consisted of the following:

	2006	2005
Cash and demand deposits	\$ 50,674	\$ 279,635
Money market accounts	802,587	363,440
Total cash and cash equivalents	<u>\$ 853,261</u>	<u>\$ 643,075</u>

4. Investments

The Foundation's investments as of December 31, 2006 and 2005 consisted of the following:

	2006	2005
Common stock in public companies	\$ 1,707	\$ 391,061
Stock options in public companies	48,750	72,600
Common stock in nonpublic companies	100	-
Stock options in nonpublic companies	339,718	357,037
Total investments	<u>\$ 390,275</u>	<u>\$820,698</u>

Entrepreneurs Foundation of Central Texas

Notes to Financial Statements (continued)

5. Grants

During the years ended December 31, 2006 and 2005, the Foundation received \$61,761 and \$417,000, respectively, in cash in connection with its High Tech Fund for relief to be provided to Hurricane Katrina victims. During the years ended December 31, 2006 and 2005, the Foundation disbursed \$316,972 and \$146,000, respectively, of such contributions.

6. Expenses by Type

Expenses on the statement of activity are presented by function. Following are the expenses by type for the years ended December 31, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Grants (Contributions to other charities)	\$ 437,728	\$ 193,417
Depreciation	–	–
Contract services and professional fees	66,742	65,050
Marketing and promotion	4,140	12,796
Training and development	201	–
Payroll benefits	138,370	182,224
Printing and publications	709	3,877
Postage and shipping	780	1,847
Supplies and equipment	1,799	2,279
Occupancy	–	5,583
Travel	3,290	289
Other	36,584	25,534
Total expenses	<u>\$ 690,343</u>	<u>\$ 492,896</u>

Entrepreneurs Foundation of Central Texas

Notes to Financial Statements (continued)

7. Grants Distributed

Charities	Amounts
Foundation Communities	\$ 25,472
Caritas of Austin	100,000
Austin Travis County MHMR	100,000
Volunteer Healthcare Clinic	10,000
Community Action Development & Assistance	20,000
UT School of Social Work	15,000
Mobile Loaves and Fishes	45,000
Meal Service	1,500
Entrepreneur Foundation of Central Texas	1,500
Leukemia Lymphoma Society	1,948
American Diabetes Association	1,948
Kelly Davidson Foundation	1,949
Bo Busby Foundation	1,949
University of Texas (DTeach)	4,298
Girl Scouts Lone Star Council	4,052
Wimberley Lions Club	4,052
Austin Technology Incubator	87,960
Global Giving	10,000
Other	1,100
Total Grants	<u>\$ 437,728</u>