

Financial Statements

Austin Entrepreneurs Foundation

For the years ended December 31, 2004 and 2003

Austin Entrepreneurs Foundation

Financial Statements

For the years ended December 31, 2004 and 2003

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Report of Independent Auditors

Board of Directors
Austin Entrepreneurs Foundation

We have audited the accompanying statements of financial position of Austin Entrepreneurs Foundation (the "Foundation") as of December 31, 2004 and 2003, 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 audits 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 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 Austin Entrepreneurs Foundation at December 31, 2004 and 2003 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.

Ernst + Young LLP

July 26, 2005

Austin Entrepreneurs Foundation

Statements of Financial Position

	December 31	
	2004	2003
Assets		
Cash and cash equivalents	\$ 181,495	\$ 284,197
Investments at fair value	1,222,454	1,103,030
Pledges receivable	-	8,500
Property and equipment, net of accumulated depreciation of \$7,418 and \$5,781 at December 31, 2004 and 2003	-	1,637
Total assets	\$1,403,949	\$1,397,364
Liabilities and Net Assets		
Accounts payable	\$ -	\$ 1,621
Accrued expenses	-	10,313
Total liabilities	-	11,934
Total net assets	1,403,949	1,385,430
Total liabilities and net assets	\$1,403,949	\$1,397,364

See accompanying notes.

Austin Entrepreneurs Foundation

Statements of Activities

	For the year ended December 31	
	2004	2003
Revenue, gains and support:		
Total contributions	\$ 113,356	\$ 78,793
Underwriting revenue	192,100	120,520
Other revenue	25	25
Total revenue	305,481	199,338
Expenditures:		
Contributions made to other charities	143,625	20,740
Programs and services	64,873	72,393
Fundraising	13,368	18,582
Management and general	118,904	123,788
Total expenditures	340,770	235,503
Interest income	1,864	2,533
Realized and unrealized gain (loss) on investments, net	51,944	97,237
Increase (decrease) in net assets	18,519	63,605
Net assets, beginning of year	1,385,430	1,321,825
Net assets, end of year	\$1,403,949	\$1,385,430

See accompanying notes.

Austin Entrepreneurs Foundation

Statements of Cash Flows

	For the year ended December	
	2004	2003
Cash Flow from Operating Activities		
Changes in net assets	\$ 18,519	\$ 63,605
Adjustments to reconcile changes in net assets to cash used in operating activities:		
Depreciation expense	1,636	1,721
Realized and unrealized (gain) loss on investments, net	(51,944)	(97,237)
Fair value of stock and stock option donations received	(102,350)	(77,626)
Changes in operating assets and liabilities:		
Pledges receivable	8,500	(3,500)
Prepaid expenses	-	66
Accounts payable	(1,621)	1,621
Accrued expenses	(10,313)	3,517
Cash used in operating activities	<u>(137,573)</u>	<u>(107,833)</u>
Cash Flow from Investing Activities		
Proceeds from sale of investments	194,041	33,012
Exercise of stock options received	(159,170)	(2,800)
Cash provided by investing activities	<u>34,871</u>	<u>30,212</u>
Net change in cash	(102,702)	(77,621)
Cash and cash equivalents, beginning of year	284,197	361,818
Cash and cash equivalents, end of year	<u>\$ 181,495</u>	<u>\$ 284,197</u>

See accompanying notes.

Austin Entrepreneurs Foundation

Notes to Financial Statements

December 31, 2004

1. Organization

The purpose of the Austin Entrepreneurs Foundation is to unite emerging businesses with nonprofit organizations in an effort to promote prosperity for the Austin community. The Foundation allows young Austin businesses to help finance the community and better the Austin quality of life through both cash and equity donations. 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 private companies and fixed asset depreciation and useful life estimates.

Cash and Cash Equivalents

The Foundation considers all highly liquid investments with maturity of six months or less when purchased to be cash equivalents.

Investments

The Foundation records its investments at fair value as of year-end.

Austin Entrepreneurs Foundation

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Pledges Receivable

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

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.

In-kind Donations

The Foundation records donations of capital property and professional services at estimated market value on the date received.

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.

Austin Entrepreneurs Foundation

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Advertising Costs

The Foundation expenses advertising costs as incurred. These expenses amounted to \$3,231 and \$8,518 for the years ended December 31, 2004 and 2003, respectively.

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*. SFAS 136.

3. Cash and Cash Equivalents

The composition of the Foundation's cash and cash equivalents were as follows:

	December 31	
	2004	2003
Cash and demand deposits	\$ 4,878	\$ 83,312
Money market accounts	176,617	200,885
Total cash and cash equivalents	<u>\$ 181,495</u>	<u>\$ 284,197</u>

4. Investments

Investments are comprised of equity securities donated to the Foundation.

At December 31, 2004 and 2003, investments consisted of stock option donations from both public and private companies. The fair value of these investments was derived using the Black-Scholes option valuation model. The Foundation assumed an expected life of stock options donated of five years; a risk-free interest rate of 3.67%; an expected dividend yield of 0%; an expected volatility ranging from 20% to 69% depending on the Company granting the option and that Company's related industry. During 2004 and 2003, the Foundation recorded \$13,631 and \$16,625 in realized gains from the sale of 4,732 and 21,552 shares of common stock in publicly traded companies. These gains were recorded using the specific identification method.

Austin Entrepreneurs Foundation

Notes to Financial Statements (continued)

5. Property and Equipment

Property and equipment are classified as follows:

	December 31	
	2004	2003
Furniture and Equipment	\$ 7,418	\$ 7,418
Less: Accumulated Depreciation	(7,418)	(5,781)
Net Property and Equipment	\$ -	\$ 1,637

6. Expenses by Type

Expenses on the statement of activity are presented by function. Following are the expenses by type:

	Year ended December 31	
	2004	2003
Contributions made to other charities	\$ 143,625	\$ 20,740
Depreciation	1,637	1,721
Contract services and professional fees	19,400	18,592
Marketing and promotion	13,756	16,084
Training and development	-	110
Payroll benefits	146,064	155,908
Printing and publications	3,231	8,518
Postage and shipping	2,110	1,943
Supplies and equipment	1,200	959
Occupancy	5,313	5,176
Travel	704	597
Other	3,730	5,155
Total expenses	\$ 340,770	\$ 235,503