

FINANCIAL STATEMENTS

Entrepreneurs Foundation of Central Texas
Years Ended December 31, 2008 and 2007
With Report of Independent Auditors

Entrepreneurs Foundation of Central Texas

Financial Statements

Years ended December 31, 2008 and 2007

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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, 2008 and 2007, 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, 2008 and 2007 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

August 21, 2009

Entrepreneurs Foundation of Central Texas

Statements of Financial Position

	December 31,	
	2008	2007
Assets		
Cash and cash equivalents	\$ 550,678	\$ 675,370
Investments	376,305	363,199
Pledge receivable	–	42,500
Total current assets	<u>\$ 926,983</u>	<u>\$1,081,069</u>
Liabilities and Net Assets		
Contributions held for others	\$ –	\$ 51,003
Accounts payable	5,665	719
Total current liabilities	<u>5,665</u>	<u>51,722</u>
Net assets:		
Total net assets	<u>921,318</u>	<u>1,029,347</u>
Total liabilities and net assets	<u>\$ 926,983</u>	<u>\$1,081,069</u>

See accompanying notes.

Entrepreneurs Foundation of Central Texas

Statements of Activities

	Year ended December 31,	
	2008	2007
Revenues, gains and support:		
Revenue, gains and support:		
Contributions – Breast Cancer Services Project	\$ 62,125	\$ 69,607
Event income	142,875	91,815
Other contributions	53,523	54,734
Underwriting revenue	128,890	120,345
Other revenue	209	110
Total revenue	<u>387,622</u>	<u>336,611</u>
 Expenditures:		
Grants	73,100	223,246
Breast Cancer Service Project costs	86,564	75,606
Programs and services	243,302	189,561
Fundraising and events	74,736	61,888
Management and general	35,013	24,795
Total expenditures	<u>512,715</u>	<u>575,096</u>
 Interest income	13,026	35,872
Realized and unrealized gain (loss) on investments, net	4,038	(17,503)
 Decrease in net assets	(108,029)	(220,116)
Net assets, beginning of year	1,029,347	1,249,463
Net assets, end of year	<u>\$ 921,318</u>	<u>\$ 1,029,347</u>

See accompanying notes.

Entrepreneurs Foundation of Central Texas

Statements of Cash Flows

	Year ended December 31,	
	2008	2007
Cash Flow from Operating Activities		
Decrease in net assets	\$ (108,029)	\$ (220,116)
Adjustments to reconcile changes in net assets to cash provided by (used in) operating activities:		
Realized and unrealized (gain) loss on investments, net	(4,038)	17,503
Fair value of stock and stock option donations received	(57,633)	(10,108)
(Decrease) increase in pledges receivable	42,500	(33,018)
(Decrease) increase in liabilities	(46,057)	48,167
Cash used in operating activities	<u>(173,257)</u>	<u>(197,572)</u>
Cash Flow from Investing Activities		
Proceeds from sale of investments	48,565	19,681
Cash provided by investing activities	<u>48,565</u>	<u>19,681</u>
Net change in cash and cash equivalents	(124,692)	(177,891)
Cash and cash equivalents, beginning of year	675,370	853,261
Cash and cash equivalents, end of year	<u>\$ 550,678</u>	<u>\$ 675,370</u>

See accompanying notes.

Entrepreneurs Foundation of Central Texas

Notes to Financial Statements

December 31, 2008

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.

All of the Foundation's investments are initially reported at fair value. For contributions of stock options, fair value is determined using the Black Scholes model. The fair values were determined using Level 3 inputs, because the inputs to the Black Scholes model were not observable.

Investments received and measured at fair value during 2008 were as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments in public companies	\$ 1,541	\$ -	\$ 374,764	\$ 376,305

Changes in level 3 assets measured at fair value on a recurring basis for the year ended December 31, 2008 were as follows:

	<u>Investments</u>
January 1, 2008	\$ 348,759
Realized and unrealized gains (losses) net	\$ 15,104
Purchases and sales, net	\$ 10,901
Net transfers in and out of level 3	\$ -
December 31, 2008	<u>\$ 374,764</u>

Entrepreneurs Foundation of Central Texas

Notes to Financial Statements (continued)

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 contributions are unrestricted, or temporarily restricted and as liabilities when contributions are permanently restricted, 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.

Investments

Investments consist of stock and stock options in public and nonpublic companies. The Foundation receives stock and stock options as contributions from 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 2.80% for

Entrepreneurs Foundation of Central Texas

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

2008 and 4.53% for 2007; an expected dividend yield of 0% for 2008 and 2007; an expected volatility ranging from 27% to 42% in 2008 and 31% to 69% in 2007 depending on the company granting the option and that company's related industry. For private companies, the Foundation assumes the fair market value of the stock on the grant date is equal to the exercise price of the option. Contributions of stock in private companies are valued at fair value at grant date.

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 \$16,458 in realized gains in 2008 and \$18,931 in realized gains in 2007 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.

The Foundation recorded \$12,420 in unrealized losses in 2008 and \$36,434 in unrealized losses in 2007 from the revaluing of public shares, options and/or warrants to market value. These losses recorded using the specific identification method.

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.

Entrepreneurs Foundation of Central Texas

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

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 \$47,500 and \$47,219 are included in underwriting revenues for the years ended December 31, 2008 and 2007, 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.

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*.

Entrepreneurs Foundation of Central Texas

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS 157, "Fair Value Measurements". SFAS 157 defines fair value, establishes a framework for measuring fair value in GAAP and expands disclosures about fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. In February 2008, the FASB issued FASB Staff Position FAS 157-2, "Effective Date of FASB Statement No. 157" (the "FSP"). The FSP delayed, for one year, the effective date of FAS 157 for all nonfinancial assets and liabilities, except those that are recognized or disclosed in the financial statements on at least an annual basis.

In February 2007, the FASB issued SFAS 159, "The Fair Value Option for Financial Assets and Financial Liabilities-Including an amendment of FASB Statement No. 115". SFAS 159 expands the use of fair value accounting to many financial instruments and certain other items. The fair value option is irrevocable and generally made on an instrument-by-instrument basis, even if a company has similar instruments that it elects not to measure based on fair value. SFAS 159 is effective for fiscal years beginning after November 15, 2007.

In May 2008, the FASB issued SFAS No. 162, "*The Hierarchy of Generally Accepted Accounting Principles*" ("SFAS No. 162"). SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements. SFAS No. 162 is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, "*The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles.*" The implementation of this standard is not expected to have a material impact on the Company's consolidated financial position, results of operations or cash flows.

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.

Entrepreneurs Foundation of Central Texas

Notes to Financial Statements (continued)

3. Cash and Cash Equivalents

The Foundation's cash and cash equivalents as of December 31, 2008 and 2007 consisted of the following:

	2008	2007
Cash and demand deposits	\$ 54,851	\$ 84,274
Money market accounts	495,827	591,096
Total cash and cash equivalents	<u>\$ 550,678</u>	<u>\$ 675,370</u>

4. Investments

The Foundation's investments as of December 31, 2008 and 2007 consisted of the following:

	2008	2007
Common stock in public companies	\$ 941	\$ 1,461
Stock options in public companies	600	12,562
Common stock in nonpublic companies	11,021	50
Stock options in nonpublic companies	363,343	348,726
Membership interest	400	400
Total investments	<u>\$ 376,305</u>	<u>\$ 363,199</u>

Entrepreneurs Foundation of Central Texas

Notes to Financial Statements (continued)

5. 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, 2008 and 2007:

	2008	2007
Grants (Contributions to other charities)	\$ 73,100	\$ 223,246
Contract services and professional fees	39,731	39,269
Breast Cancer Project costs	86,564	75,606
Event	44,011	38,071
Marketing and promotion	3,338	2,451
Training and development	2,701	685
Payroll benefits	235,906	175,640
Printing and publications	–	156
Postage and shipping	668	271
Supplies and equipment	3,414	997
Travel, entertainment and auto reimbursements	8,333	3,263
Other	14,949	15,441
Total expenses	\$ 512,715	\$ 575,096

Entrepreneurs Foundation of Central Texas

Notes to Financial Statements (continued)

6. Grants Distributed

Grants distributed are presented by charity. Following are the distributions for the years ended December 31, 2008 and 2007:

Charities	2008	2007
Habitat for Humanity	\$ 50,000	\$ 100,000
Foundation Communities	—	100,000
University of Texas	—	10,234
Austin Technology Incubator	—	8,012
Global Giving	—	5,000
Community Action Development & Assistance	1,000	—
Austin Children's Shelter	10,000	—
SafePlace	5,000	—
American Youth Works	2,500	—
Capital Area Food Bank	2,000	—
Austin Community Foundation	1,500	—
Skillpoint Alliance	1,000	—
Greater Austin Crime Commission	100	—
Total Grants	<u>\$ 73,100</u>	<u>\$ 223,246</u>