



FINANCIAL STATEMENTS

Entrepreneurs Foundation of Central Texas
Years Ended December 31, 2011 and 2010
With Report of Independent Auditors

Ernst & Young LLP

 **ERNST & YOUNG**

Entrepreneurs Foundation of Central Texas

Financial Statements

Years Ended December 31, 2011 and 2010

Contents

Report of Independent Auditors.....1

Financial Statements

Statements of Financial Position.....2

Statements of Activities3

Statements of Cash Flows.....4

Notes to Financial Statements.....5

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, 2011 and 2010, 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, 2011 and 2010, 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

October 31, 2012

Entrepreneurs Foundation of Central Texas

Statements of Financial Position

	December 31	
	2011	2010
Assets		
Cash and cash equivalents	\$ 105,673	\$ 348,469
Restricted cash – breast cancer services	–	8,051
Restricted cash – HelpHaiti fund	–	1,445
Investments – unrestricted	1,489,651	290,512
Investments – temporarily restricted for breast cancer services	3,000	3,065
Pledges receivable	50,000	–
Other receivable	16,500	–
Total assets	<u>\$ 1,664,824</u>	<u>\$ 651,542</u>
Liabilities and net assets		
Health premium liability	\$ 300	\$ –
Accounts payable	–	3,302
Total liabilities	<u>300</u>	<u>3,302</u>
Total net assets	<u>1,664,524</u>	648,240
Total liabilities and net assets	<u>\$ 1,664,824</u>	<u>\$ 651,542</u>

See accompanying notes.

Entrepreneurs Foundation of Central Texas

Statements of Activities

	Year Ended December 31	
	2011	2010
Revenue, gains, and support		
Contributions – HelpHaiti fund	\$ 2,500	\$ 942,004
Contributions – breast cancer services project	–	8,051
Event income	171,595	245,662
Event income – Lemonade Day	207,500	261,107
Other contributions	11,619	38,351
Underwriting revenue	253,525	145,001
Other revenue	–	14,030
Total revenue, gains, and support	646,739	1,654,206
Expenditures		
Grants	88,351	1,251,683
Exercise costs	4,157	–
Event costs	407,250	273,743
Fund-raising	38,251	47,092
Programs and services	306,004	283,239
Management and general	38,251	51,834
Total expenditures	882,264	1,907,591
Interest income	19	60
Other income	(65)	(1,200)
Unrealized gain on investments, net	1,340,122	15,827
Realized loss on investments, net	(88,267)	(4,214)
Increase (decrease) in net assets	1,016,284	(242,912)
Net assets, beginning of year	648,240	891,152
Net assets, end of year	\$ 1,664,524	\$ 648,240

See accompanying notes.

Entrepreneurs Foundation of Central Texas

Statements of Cash Flows

	Year Ended December 31	
	2011	2010
Operating activities		
Increase (decrease) in net assets	\$ 1,016,284	\$ (242,912)
Adjustments to reconcile changes in net assets to cash used in operating activities:		
Realized loss on investments, net	88,267	4,214
Unrealized gain on investments, net	(1,340,122)	(15,827)
Fair value of stock and stock option donations received	(11,619)	(37,613)
(Increase) decrease in pledges receivable	(50,000)	78,750
(Increase) decrease in other assets	(16,500)	35,269
(Decrease) increase in liabilities	(3,002)	2,864
Other	22	20
Cash used in operating activities	(316,670)	(172,835)
Investing activities		
Proceeds from sale of investments	64,378	74,432
Decrease in restricted cash	9,496	27,540
Cash provided by investing activities	73,874	101,972
Net change in cash and cash equivalents	(242,796)	(70,863)
Cash and cash equivalents, beginning of year	348,469	419,332
Cash and cash equivalents, end of year	\$ 105,673	\$ 348,469

See accompanying notes.

Entrepreneurs Foundation of Central Texas

Notes to Financial Statements

December 31, 2011

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. Contributions are unrestricted or temporarily restricted and are recorded as liabilities when contributions are permanently restricted. The Foundation 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.

Management has evaluated subsequent events through October 31, 2012, the date on which the financial statements were available to be issued.

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, stock options, and warrants received from companies. Actual results inevitably will differ from those estimates, and such differences may be material to the financial statements.

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, stock options, and warrants in public and nonpublic companies. The Foundation receives stock, stock options, and warrants 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. Investments with donor-imposed restrictions related to purpose are classified as temporarily restricted in the statement of financial position.

Fair value for publicly traded securities is based upon the closing market trading price for such security. The fair value of stock option and warrant contributions received is determined by management using the Black-Scholes option valuation model. Management of the Foundation assumed an expected life of stock options and warrants donated of either five or three years, based on the life of the option; a five-year risk-free interest rate of 1.52% and a three-year risk-free rate of .75% and 1.93% for 2011 and 2010, respectively; an expected dividend yield of 0% for 2011 and 2010; and an expected volatility ranging from 46% to 79% in 2011 and 32% to 71% in 2010 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 in the statement of financial position. For investments in private companies, the Foundation performs an impairment analysis and adjusts the carrying value if an event indicates a change in value. This analysis takes into consideration any liquidation events and any company closures.

The Foundation recorded \$64,313 and \$67,232 in realized gains in 2011 and 2010, respectively, 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 \$1,340,122 and \$15,827 in unrealized gains in 2011 and 2010, respectively, from the revaluing of public shares, options, and/or warrants to market value. These unrealized gains were recorded using the specific identification method.

Entrepreneurs Foundation of Central Texas

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

The Foundation recorded \$152,580 in realized losses in 2011 and \$71,446 in realized losses in 2010 from impairments as a result of company closures or expiration of stock options or warrants. These losses were recorded using the specific identification method.

Pledges Receivable

In accordance with Accounting Standards Codification (ASC) 958-310, *Not-for-Profit Entities- Receivables*, an unconditional promise to give is to be recognized at the time the promise is made. A promise is considered unconditional when payment depends only on the passage of time or demand by the promise. The Foundation recorded \$50,000 in pledged receivables and underwriting revenue as of December 31, 2012.

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, 2011 and 2010, the Foundation's property and equipment was fully depreciated.

Received Contributions

The Foundation receives cash, stock, stock options, and warrants as contributions from start-up 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's 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 \$130,750 and \$42,000 are included in underwriting revenues for the years ended December 31, 2011 and 2010, respectively.

Entrepreneurs Foundation of Central Texas

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

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 Internal Revenue Service has determined that the Foundation is exempt from federal income taxes under Section 501(a) as an organization described in Section 501(c)(3) of the Internal Revenue Code, except with respect to any unrelated business income (UBI).

The tax effect of UBI does not have a material effect on the Foundation's financial statements. No provision for federal or state income taxes has been provided in the accompanying financial statements.

Assets and Contributions Held for Others

The Foundation accounts for a contribution as an asset unless any of the four conditions stated below are met:

- The transfer is subject to the resource provider's unilateral right to redirect the use of the assets to another beneficiary.
- The transfer is accompanied by the resource provider's conditional promise to give or is otherwise revocable or repayable.
- The resource provider controls the recipient entity and specifies an unaffiliated beneficiary.
- The resource provider specifies itself or its affiliate as the beneficiary and the transfer is not an equity transaction.

If any of these conditions are met, the Foundation accounts for such contribution as a liability.

Entrepreneurs Foundation of Central Texas

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Recent Accounting Pronouncements

In January 2010, the Financial Accounting Standards Board updated ASC 820, *Fair Value Measurements and Disclosures*, which requires additional disclosures and clarifies existing disclosures regarding fair value measurements. The additional disclosures include (1) transfers in and out of Levels 1 and 2 and (2) rollforward activity in Level 3 fair value measurements. The update provides amendments that clarify existing disclosures on (1) level of disaggregation and (2) disclosures about inputs and valuation techniques. This update is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the rollforward of activity in Level 3 fair value measurements. The Foundation adopted this standard on January 1, 2010, as required and subsequently adopted on January 1, 2011, the update surrounding disclosures on Level 3 fair value measurements, and concluded it did not have a material impact on its financial position or statement of activities.

Risk Concentration

Stock, stock options, and warrants 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, stock options, and warrants 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 consisted of the following:

	2011	2010
Cash and demand deposits	\$ 16,592	\$ 109,350
Money market accounts	89,081	239,119
Total cash and cash equivalents	<u>\$ 105,673</u>	<u>\$ 348,469</u>

Entrepreneurs Foundation of Central Texas

Notes to Financial Statements (continued)

4. Investments – Unrestricted

The Foundation's investments as of December 31 consisted of the following:

	<u>2011</u>	<u>2010</u>
Stock options in public companies	\$ 1,355,277	\$ 35,785
Common stock in nonpublic companies	12,666	12,665
Stock options in nonpublic companies	120,936	241,312
Membership interest	400	400
Other investment	372	350
Total investments	<u>\$ 1,489,651</u>	<u>\$ 290,512</u>

On January 1, 2008, the Foundation adopted an accounting standard that defines fair value, establishes a framework for measuring fair value, and expands on required disclosures regarding fair value measurements. This standard applies to reported balances that are required or permitted to be measured at fair value under existing accounting pronouncements; accordingly, the standard does not require any new fair value measurements of reported balances. The adoption of this standard did not have a material impact on the financial statements of the Foundation. The guidance establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The guidance establishes three levels of inputs that may be used to measure fair value:

- Level 1 – Quoted prices in active markets for identical assets or liabilities
- Level 2 – Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices in markets with insufficient volume or infrequent transactions (less active markets), or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3 – Unobservable inputs to the valuation methodology that are significant to the measurement of fair value of assets or liabilities

The Foundation measures certain financial instruments at fair value on a recurring basis.

Entrepreneurs Foundation of Central Texas

Notes to Financial Statements (continued)

4. Investments – Unrestricted (continued)

As of December 31, 2011, those instruments comprised investments in public companies. The fair value of the investments was based upon the closing market trading price for such securities.

Investments received and measured at fair value were as follows:

	Level 1	Level 2	Level 3	Total
Investments in public companies	\$ –	\$ –	\$ 1,355,277	\$ 1,355,277
	Fair Value Measurement Using Significant Unobservable Inputs (Level 3)			
Beginning balance	\$ 13,185			
Unrealized gain	1,342,092			
Ending balance	\$ 1,355,277			

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:

	2011	2010
Grants (contributions to other charities)	\$ 88,351	\$ 1,251,683
Contract services and professional fees	51,500	34,000
Event expenses	196,171	42,383
Lemonade Day costs	211,079	273,743
Marketing and promotion	9,369	5,577
Training and development	7,663	1,501
Payroll expenses and benefits	280,144	263,769
Facilities	13,682	11,380
Supplies and equipment	2,944	3,302
Travel, entertainment, and auto reimbursements	11,573	13,308
Exercise costs	4,157	–
Other	5,631	6,945
Total expenses	\$ 882,264	\$ 1,907,591

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:

Charities	2011	2010
A Glimmer of Hope	\$ 5,000	\$ –
Active Life	5,000	–
American Cancer Society	–	100
Anti-Defamation League	–	434
Any Baby Can	3,500	5,936
ARC of the Capital Area	5,000	–
Austin Children's Shelter	–	15,000
Austin Community Foundation	–	1,500
Austin Disaster Relief Network	–	5,000
Austin Jewish Academy	–	136
Austin Technology Council	–	5,223
Bastrop Christian Ministerial Alliance	5,627	–
Blue Santa	–	8,000
Bookspring	–	12,000
Breakthrough Austin	–	32,872
Cancer Connection	8,051	–
Capital Area Food Bank	–	8,000
Catholic Relief Services	–	50,000
Center for Child Protective Services	–	33,917
Charity Water	–	37,651
Communities in Schools	–	15,000
Concern Worldwide	–	538,000
Down Syndrome Association of Central Texas	10,000	–
Fonkoze USA	–	101,000
Foundation Communities	–	50,000
Friends of McCallum Fine Arts Academy	–	1,000
Habitat for Humanity	2,500	1,500
Harvest Hope Food Bank	–	1,000
Helping Hand Home for Children	1,500	–
Jeremiah Program	5,000	–
KLRU	5,000	–
La Pasadita	–	500
Mamma Jamma Ride Against Breast Cancer	–	5,000
Meals on Wheels	–	1,000
Miracle Foundation	11,343	–
Partners in Health	–	184,018
People Fund	–	5,000
Red Cross	1,030	29,958
Sammy's House	–	6,034
San Juan Diego High School	–	50,000
Save the Children	–	9,018
Seton Fund	–	37,036

Entrepreneurs Foundation of Central Texas

Notes to Financial Statements (continued)

6. Grants Distributed (continued)

Charities	2011	2010
Sustainable Food Center	\$ 5,000	\$ –
TEDx Austin c/o Austin Community Foundation	5,000	–
Theatre Action Project	5,000	–
The Care Communities	1,500	–
Other	3,300	850
Total grants	\$ 88,351	\$ 1,251,683

7. Income Taxes

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities used for financial reporting purposes and the amounts used for income tax purposes.

All deferred tax assets associated with UBI are subject to a full valuation allowance, as future realization is not more likely than not to occur. Deferred tax assets of \$100,000 and \$114,000, before valuation allowances, as of December 31, 2011 and 2010, respectively, comprise suspended losses and business credit carryovers from UBI partnership investments. The suspended losses of \$283,000 shall carry forward indefinitely, while the \$3,500 of business credits expire beginning in 2027, if not utilized. The valuation allowance decreased by \$14,000 for the year ended December 31, 2011.

The Foundation has not identified or recorded any liability for uncertain tax positions for 2011 or 2010.

8. Subsequent Events

On August 27, 2012, the Foundation exercised its options in one of its investments and sold 46,224 shares, receiving cash of \$619,122.

Ernst & Young LLP

Assurance | Tax | Transactions | Advisory

About Ernst & Young

Ernst & Young is a global leader in assurance, tax, transaction and advisory services. Worldwide, our 167,000 people are united by our shared values and an unwavering commitment to quality. We make a difference by helping our people, our clients and our wider communities achieve their potential.

For more information, please visit www.ey.com

Ernst & Young refers to the global organization of member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. This Report has been prepared by Ernst & Young LLP, a client serving member firm located in the United States.

