

FINANCIAL STATEMENTS

Entrepreneurs Foundation of Central Texas
Years Ended December 31, 2016 and 2015
With Report of Independent Auditors

Ernst & Young LLP



Building a better
working world

Entrepreneurs Foundation of Central Texas

Financial Statements

Years Ended December 31, 2016 and 2015

Contents

Report of Independent Auditors.....1

Financial Statements

Statements of Financial Position.....3

Statements of Activities4

Statements of Cash Flows5

Notes to Financial Statements.....6



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Report of Independent Auditors

The Board of Directors
Entrepreneurs Foundation of Central Texas

We have audited the accompanying financial statements of the Entrepreneurs Foundation of Central Texas (the Foundation), which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

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.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



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, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst + Young LLP

August 2, 2017

Entrepreneurs Foundation of Central Texas

Statements of Financial Position

	December 31	
	2016	2015
Assets		
Cash and cash equivalents	\$ 826,385	\$ 1,128,053
Investments	147,368	377,073
Accounts receivable	40,000	55,000
Other assets	432	432
Total assets	<u>\$ 1,014,185</u>	<u>\$ 1,560,558</u>
Liabilities and net assets		
Accounts payable	\$ 20,195	\$ 26,859
Other current liabilities	16,588	53,554
Total liabilities	<u>36,783</u>	80,413
Unrestricted net assets	963,152	1,465,895
Temporarily restricted net assets	14,250	14,250
Total net assets	<u>977,402</u>	<u>1,480,145</u>
Total liabilities and net assets	<u>\$ 1,014,185</u>	<u>\$ 1,560,558</u>

See accompanying notes.

Entrepreneurs Foundation of Central Texas

Statements of Activities

	Year Ended December 31	
	2016	2015
Revenue, gains, and support		
Event income	\$ 497,460	\$ 473,756
Event income – Youth Entrepreneurship Programs	76,338	130,000
Other contributions	3,917	15,753
Underwriting revenue	237,061	126,989
Total revenue, gains and support	<u>814,776</u>	<u>746,498</u>
Expenditures		
Grant distributions	324,730	462,113
Exercise costs	–	4,349
Event costs	557,106	457,449
Fundraising	45,674	55,669
Programs and services	318,738	369,364
Management and general	42,906	51,890
Total expenditures	<u>1,289,154</u>	<u>1,400,834</u>
Interest income	129	361
Unrealized loss on investments, net	(219,105)	(352,705)
Realized gain on investments, net	190,611	453,060
Decrease in net assets	<u>(502,743)</u>	<u>(553,620)</u>
Net assets, beginning of year	1,480,145	2,033,765
Net assets, end of year	<u>\$ 977,402</u>	<u>\$ 1,480,145</u>

See accompanying notes.

Entrepreneurs Foundation of Central Texas

Statements of Cash Flows

	Year Ended December 31	
	2016	2015
Operating activities		
Decrease in net assets	\$ (502,743)	\$ (553,620)
Adjustments to reconcile changes in net assets to cash used in operating activities:		
Realized gain on investments, net	(190,611)	(453,060)
Unrealized loss on investments, net	219,105	352,705
Fair value of stock and stock option donations received	(3,917)	(15,753)
Accounts receivable	15,000	(50,000)
Other assets	-	(432)
Liabilities	(43,630)	66,971
Other	-	106
Cash used in operating activities	<u>(506,796)</u>	<u>(653,083)</u>
Investing activities		
Proceeds from sale of investments	205,128	481,994
Cash provided by investing activities	<u>205,128</u>	<u>481,994</u>
Net change in cash and cash equivalents	(301,668)	(171,089)
Cash and cash equivalents, beginning of year	1,128,053	1,299,142
Cash and cash equivalents, end of year	<u>\$ 826,385</u>	<u>\$ 1,128,053</u>

See accompanying notes.

Entrepreneurs Foundation of Central Texas

Notes to Financial Statements

December 31, 2016

1. Organization

The purpose of the Entrepreneurs Foundation of Central Texas (the Foundation) is to add unique value and perspective to its member companies in community involvement, employee engagement and building corporate cultures that contribute to their success. The Foundation engages entrepreneurs, their companies and their teams in the community and in philanthropy. 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 financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

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 they are incurred are classified as prepaid. Expenses incurred but not paid at year end are classified as accounts payable.

Management has evaluated subsequent events through August 2, 2017, the date on which the financial statements were available to be issued.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP 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 could differ from those estimates, and such differences may be material to the financial statements.

Entrepreneurs Foundation of Central Texas

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

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, 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 shares is based upon the closing market trading price for such security. Contributions of stock in private companies are valued at fair value at grant date.

The fair value of stock option and warrant contributions is determined by management using the Black-Scholes option-pricing model. For publicly traded entities, stock price is equivalent to the closing market trading price on the date of grant. For private entities, the Foundation assumes the fair market value of the stock on the grant date is equal to the exercise price of the option or warrant. Management of the Foundation assumes the expected life of stock options and warrants donated based on the term prescribed in the option and warrant agreements which was ten years in 2016 and ranged from five to 100 years in 2015. The risk-free interest rate is determined based on the U.S. Treasury yield curve which was 2.45% in 2016 and ranged from 1.66% to 2.38% in 2015. Expected volatility was 38.3% in 2016 and ranged from 22% to 40% in 2015, and is derived from the granting company's annual report if the company is publicly traded or based on analysis of volatility in the company's related industry if privately held.

Expected dividend yield is assumed to be 0% for 2016 and 2015, as none of the entities that granted options have a history of paying dividends.

Entrepreneurs Foundation of Central Texas

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

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, which are accounted for as cost method investments, 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. As of December 31, 2016, the Foundation had cost method investments of \$134,310.

The Foundation recorded \$191,752 and \$474,569 in realized gains in 2016 and 2015, 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 \$1,141 and \$21,509 in realized losses in 2016 and 2015, from impairments as a result of company closures or expiration of stock options or warrants. These losses were recorded using the specific identification method.

The Foundation recorded \$219,105 and \$352,750 of unrealized losses in 2016 and 2015, respectively, from the revaluing to market value and realization of gains from sales of public shares, options, and/or warrants. These unrealized losses were 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, 2016 and 2015, the Foundation's property and equipment was fully depreciated.

Accounts Receivable and 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. Any outstanding unpaid pledges are recorded as accounts receivables. The members of the Board of Directors may be affiliated with entities that contribute toward the financing of the Foundation's activities.

Entrepreneurs Foundation of Central Texas

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

During the year, the Foundation received \$150,000 from Vista Equity, where Donald Park, Board of Director of the Foundation, is Chief of Staff. The cash received was provided as an unrestricted contribution to the Foundation in the normal course of operations.

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 approximately \$69,900 and \$72,100 are included in underwriting revenue for the years ended December 31, 2016 and 2015, 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 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.

Entrepreneurs Foundation of Central Texas

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

- 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.

Concentration of Credit Risks

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 consisted of the following:

	<u>2016</u>	<u>2015</u>
Cash and demand deposits	\$ 64,009	\$ 252,102
Money market accounts	762,376	875,951
Total cash and cash equivalents	<u>\$ 826,385</u>	<u>\$ 1,128,053</u>

Entrepreneurs Foundation of Central Texas

Notes to Financial Statements (continued)

4. Investments – Unrestricted

The Foundation’s investments, excluding restricted investments as of December 31, 2016 and 2015 of \$14,250, consisted of the following:

	<u>2016</u>	<u>2015</u>
Common stock in public companies	\$ 13,058	\$ 236,526
Common stock in nonpublic companies	1,736	1,415
Stock options and warrants in nonpublic companies	117,674	124,232
Membership interest	300	300
Other investment	350	350
Total investments	<u>\$ 133,118</u>	<u>\$ 362,823</u>

The original cost (donated value) and estimated fair values, based on published market rates for public stock and cost method for non-public investments, of instruments in the Foundation’s investment portfolio are reflected below:

	<u>Original Cost</u>	<u>Unrealized Gain/Loss</u>	<u>Estimated Fair Value</u>
December 31, 2016:			
Common stock in public companies	\$ 623	\$ 12,435	\$ 13,058
Common stock in nonpublic companies	1,736	–	1,736
Stock options and warrants in nonpublic companies	117,674	–	117,674
Membership interest	300	–	300
Other investment	350	–	350
Total investments	<u>\$ 120,683</u>	<u>\$ 12,435</u>	<u>\$ 133,118</u>
December 31, 2015:			
Common stock in public companies	\$ 5,343	\$ 231,183	\$ 236,526
Common stock in nonpublic companies	1,415	–	1,415
Stock options and warrants in nonpublic companies	124,232	–	124,232
Membership interest	300	–	300
Other investment	350	–	350
Total investments	<u>\$ 131,640</u>	<u>\$ 231,183</u>	<u>\$ 362,823</u>

Entrepreneurs Foundation of Central Texas

Notes to Financial Statements (continued)

4. Investments – Unrestricted (continued)

The Foundation follows 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 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. As of December 31, 2016, 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:

	<u>2016</u>	<u>2015</u>
Level 1 – Quoted prices	\$ 13,058	\$ 236,526
Level 2 – Other significant observable inputs	–	–
Level 3 – Significant unobservable inputs	–	–
Total	<u>\$ 13,058</u>	<u>\$ 236,526</u>

Entrepreneurs Foundation of Central Texas

Notes to Financial Statements (continued)

4. Investments – Unrestricted (continued)

	Fair Value Measurement Using Significant Unobservable Inputs (Level 3)
Balance at December 31, 2014	\$ 139,050
Transfers to Level 3	–
Investments acquired	–
Investments sold	–
Net unrealized gain	–
Exercised	(139,050)
Balance at December 31, 2015	–
Transfers to Level 3	–
Investments acquired	–
Investments sold	–
Net unrealized gain	–
Exercised	–
Balance at December 31, 2016	<u>\$ –</u>

5. Expenses by Type

Expenses on the statements of activities are presented by function. The Foundation’s expenses consisted of the following:

	2016	2015
Grants (contributions to other charities)	\$ 324,730	\$ 462,113
Contract services and professional fees	57,900	52,100
Event expenses	424,157	311,241
Youth Entrepreneurship Programs costs	132,948	146,208
Marketing and promotion	13,842	18,896
Training and development	99	3,004
Payroll expenses and benefits	277,261	332,130
Facilities	38,796	26,628
Supplies and equipment	1,973	6,712
Travel, entertainment, and auto reimbursements	8,780	13,797
Exercise costs	–	4,349
Other	8,668	23,656
Total expenses	<u>\$ 1,289,154</u>	<u>\$ 1,400,834</u>

Entrepreneurs Foundation of Central Texas

Notes to Financial Statements (continued)

6. Grants Distributed

Grants distributed are presented by charity. The Foundation’s grant distributions consisted of the following:

Charities	2016	2015
826 Valencia	\$ —	\$ 5,000
Austin Classical Guitar Society	—	270
Austin Community Foundation	34,500	—
Austin Creative Alliance	—	500
Austin Ed Fund	18,000	5,000
Austin Gives	—	1,000
Austin Pets Alive	—	10,000
Austin Startup Games	—	17,500
Austin Technology Council Community Foundation	—	10,000
Austin Youth and Community Farm, Inc.	—	120
Be The Difference Foundation	500	—
Bertha Sadler Means Young Women’s Leaders	1,000	—
Breakthrough Austin	26,000	25,000
Capital Area Food Bank	—	1,000
Capital Factory	18,500	—
Center for Child Protective Services	—	10,000
Central Texas Food Bank	1,250	—
Children’s Medical Center Foundation	—	5,000
Children’s Miracle Network Hospitals	2,500	—
Circus of Hope	5,000	—
Coastal Community Foundation of South Carolina	—	75,000
Colin’s Hope	—	3,500
Concierge Cancer Center	15,000	—
Dell Children’s Medical Center	—	100
Down Syndrome Association of Central Texas	2,000	10,000
Eanes Independent School District	15,000	—
Equality of Texas	250	—
Explore Austin	3,000	12,000
Fidos for Freedom	2,500	—
Friends of Paws in Prison	—	5,559

Entrepreneurs Foundation of Central Texas

Notes to Financial Statements (continued)

6. Grants Distributed (continued)

Charities	2016	2015
Girl Scouts of Central Texas	\$ —	\$ 200
Girl Start	9,450	10,000
Greater Austin Chamber of Commerce	2,500	5,000
H.A.N.D.	—	8,000
Habitat for Humanity	500	88,500
Helping Hand Home for Children	10,000	—
Hispanic Alliance for the Performing Arts	—	3,541
Honor Flight Austin	—	1,000
Joe Torre Safe at Home Foundation	—	5,000
KIPP Austin	—	13,800
Launch U	—	1,500
Legacy of Giving	—	1,500
Lifeworks	—	5,000
Make a Wish Foundation of Central & South Texas	1,850	10,000
Marfa Education Foundation	—	500
Mealshare USA	5,000	—
Mercy Corps	—	1,000
Merrimack Valley YMCA	2,000	—
Micro-Society, Inc.	12,500	—
Miracle Foundation	—	103
Mobile Loaves and Fishes	—	30,000
Multicultural Refugee Coalition	—	35,500
National Center for Missing & Exploited Children	25,000	—
New Life Ministries of New England	—	250
Off the Street Club	1,500	—
Petals N Belles	5,000	—
Quality of Life Foundation of Austin	5,000	—
RBI Austin	1,000	—
Refuge Services of Texas	250	—
Rockway Foundation	250	—
Ronald McDonald House Charities CTX	25,000	—
Service Dogs Inc.	10,000	—
Shoal Creek Conservancy	5,000	—

Entrepreneurs Foundation of Central Texas

Notes to Financial Statements (continued)

6. Grants Distributed (continued)

Charities	2016	2015
Society of St. Vincent de Paul	\$ —	\$ 5,500
Southern Regional Education Board	31,900	17,600
Student Inc. Fund	2,280	—
Sustainable Food Center	—	100
Texas Transgender Nondiscrimination Conference	—	1,000
The Contemporary Austin	10,000	—
The For The City Network	2,000	—
The Guardsman	5,000	—
The Leukemia and Lymphoma Society	5,000	—
The University of Texas at Austin	—	220
Thinkery	—	5,500
We Viva	—	15,250
Other	1,750	—
Total grants	\$ 324,730	\$ 462,113

7. Event Income and Event Costs by Class

Event income and event costs are presented by class. The Foundation's classes consisted of the following:

	2016	2015
Event income		
Austin Invitational	\$ 155,107	\$ 140,011
Capital Factory	88,544	113,318
Culturati	230,958	126,801
Fall Service Day	7,956	1,466
Philanthropitch	—	80,750
Spring Service Day	14,895	3,910
Texas Independence	—	7,500
Youth Entrepreneurship Programs	76,338	130,000
Total event income	\$ 573,798	\$ 603,756

Entrepreneurs Foundation of Central Texas

Notes to Financial Statements (continued)

7. Event Income and Event Costs by Class (continued)

	<u>2016</u>	<u>2015</u>
Event costs		
Austin Invitational	\$ 54,634	\$ 44,345
Capital Factory	69,455	132,526
Corporate Culture Conference	13,000	–
Culturati	264,820	115,487
Fall Service Day	7,338	2,218
Philanthropitch ⁽¹⁾	–	80,750
Spring Service Day	14,910	12,338
Texas Independence	–	4,327
Youth Entrepreneurship Programs	132,949	146,208
Total event costs	<u>\$ 557,106</u>	<u>\$ 538,199</u>

⁽¹⁾ 2015 Philanthropitch event costs include grant distributions of \$80,750.

8. 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 \$8,387 and \$9,473, before valuation allowances as of December 31, 2016 and 2015, respectively, are comprised of suspended losses and business credit carryovers from UBI partnership investments. The Foundation maintains a full valuation allowance against its deferred tax assets. The suspended losses of \$25,460 shall carry forward indefinitely, while the \$816 of business credits expire beginning in 2027, if not utilized.

The Foundation has not identified or recorded any liability for uncertain tax positions for 2016 or 2015.

About EY

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