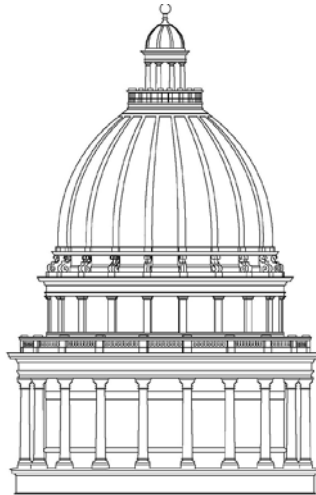


REPORT TO THE
UTAH LEGISLATURE
Number 2014-C



**A Follow-Up of the
Performance Audit of
The Utah Fund of Funds**

November 2014

Office of the
LEGISLATIVE AUDITOR GENERAL
State of Utah



STATE OF UTAH

Office of the Legislative Auditor General

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Audit Subcommittee of the Legislative Management Committee
President Wayne L. Niederhauser, Co-Chair • Speaker Rebecca D. Lockhart, Co-Chair
Senator Gene Davis • Representative Jennifer M. Seelig

JOHN M. SCHAFF, CIA
AUDITOR GENERAL

November 2014

TO: THE UTAH STATE LEGISLATURE

Transmitted herewith is our report, A Follow-Up of the Performance Audit of the Utah Fund of Funds (Report #2014-C). We will be happy to meet with appropriate legislative committees, individual legislators, and other state officials to discuss any item contained in the report in order to facilitate the implementation of the recommendations.

Sincerely,

A handwritten signature in black ink that reads "John M. Schaff" with a stylized flourish at the end.

John M. Schaff, CIA
Auditor General

JMS/lm

REPORT TO THE UTAH LEGISLATURE

Report No. 2014-C

A Follow-Up of the Performance Audit of The Utah Fund of Funds

November 2014

Audit Performed By:

Audit Manager	Darin Underwood, CIA
Audit Supervisor	Brian Dean, CIA, CFE
Audit Staff	Jake Dinsdale Matthias Boone

A Follow-Up of the Performance Audit of The Utah Fund of Funds

In August 2014, the Office of the Legislative Auditor General issued report number 2014-08 titled, *A Performance Audit of the Utah Fund of Funds (UFOF)*¹. After release of this audit by the Legislative Audit Subcommittee, the report was presented to the following legislative committees in September 2014:

- Retirement and Independent Entities Interim Committee
- Economic Development and Workforce Services Interim Committee
- Business and Labor Interim Committee
- Business, Economic Development, and Labor Appropriations Subcommittee

Following those presentations, two of the legislative committees (Retirement and Independent Entities Interim and Economic Development and Workforce Services Interim) requested that the UFOF report on the status of all 18 audit recommendations in the committees' respective November meetings.

While the results of annual follow-ups are typically conducted approximately one year after completion of an audit, with results contained in the Legislative Auditor General's Annual Report, the follow-up to the UFOF report was expedited to respond to legislative committee requests.

This report helps fulfill requirements set forth in *Utah Code* 36-12-15(11), which states, in part, that "(a) Prior to each annual general session, the legislative auditor general shall prepare a summary of the audits conducted and of actions taken based upon them during the preceding year."

Annual legislative audit follow-ups are largely self-reported with audit staff doing selected validation work. The UFOF reports all 18

¹ http://le.utah.gov/audit/14_08rpt.pdf

This expedited follow-up report of the UFOF was completed in order to meet the needs of two legislative committees.

The UFOF reports all 18 recommendations from the audit report as either implemented or in the process of being implemented.

recommendations from the audit report are either implemented or in the process of being implemented and the audit team did some validation work to verify responses. Specifically, 13 recommendations have been implemented and the remaining 5 recommendations are in the process of being implemented. One recommendation being reported as in-process was directed towards the Legislature, but the UFOF reports its intention to work with the Legislature in the upcoming 2015 Legislative General Session to facilitate implementation.

This report contains four sections addressing the recommendations found in each chapter of the August 2014 audit report of the UFOF. Each section contains a table that has the recommendations restated (blue shade) and UFOF's response below the recommendation (green shade).

Chapter II Recommendations: Improving Economic Development Reporting

Chapter II of the audit report contained five recommendations aimed at improving the economic development reporting of the UFOF. Implementation of these recommendations will help the UFOF ensure that economic impact is consistently reported and not overstated. Figure 1 shows the five recommendations made in this chapter, the reported status of the recommendations, and the actions taken by the UFOF.

Figure 1 Chapter II Recommendations and Implementation Status. In Chapter II of the audit report, five recommendations were made. UFOF reports implementation of two recommendations with the other three recommendations currently in the process of being implemented.

Chapter II – Recommendation #1

We recommend that the UFOF continue to highlight all relevant economic impact associated with the program but develop a methodology to consistently track and validate economic development data that will measure the impact attributable to the program.

Status: Implemented – Utah Capital’s (known as UFOF throughout this report) 2013 Annual Report² and 2014 Economic Development Plan (see Appendix A and B) contain economic activity items – the latter establishing the framework for UFOF’s mission of mobilizing capital profitably into Utah and the former quantifying and reporting the results. UFOF now uses the robust functionality of Salesforce software to track economic development. (Salesforce is a customer relationship management system designed to enhance productivity, organize disparate information and record results.) Moving forward, an example of this functionality will be the ability of the UFOF to track activities such as funding introductions and consulting sessions to actual investments made. Both publications share detailed methodology used to measure impact (see page 18 of Appendix A and page 22 of Appendix B). The economic data relating to fund investments in Utah companies will be reviewed and reported by UFOF advisor, LP Capital Advisors (“LPCA”).

Chapter II – Recommendation #2

We recommend that the UFOF ensure that reports from its fund managers are accurate and consistently updated.

Status: In-Process – Beginning with the 2014 jobs analysis, the UFOF will utilize the extended resources and data analytics software of its advisor LPCA to collect and vet Utah-based jobs information. LPCA will collect data as part of the year-end reporting process (typically done March through May of a given year) and will utilize its team of nine professionals in various capacities to request information from fund managers and to review and provide reporting to UFOF.

Five recommendations were made in Chapter II. UFOF reports three being implemented and two in-process.

² UFOF 2013 Annual Report was released on September 1, 2014. Based on feedback, a revised annual report was compiled and included in Appendix A of this report.

Chapter II – Recommendation #3

We recommend that the UFOF clearly report companies that have received investments but have since gone out of business and account for those companies in estimates of economic impact.

Status: Implemented – UFOF 2013 Annual Report and 2014 Economic Development Plan (see Appendix A and B) account for companies no longer in business. Specifically, the 2013 Annual Report states “73 Utah companies received investment capital from UFOF portfolio funds since fund inception (13 companies no longer operational).”

Chapter II – Recommendation #4

We recommend that the UFOF work with GOED to ensure that both programs are not taking credit for and reporting the same jobs created.

Status: Implemented – The methodology in the Economic Development Plan (see Appendix B, page 22 adopted October 2014) states:

“If another State agency has provided incentives to the Utah Company, Utah Capital will verify that its capital was invested before any other State incentive was offered and jobs will be reported consistent with other companies. If a State incentive was offered to a Utah company before Utah Capital’s investment in the company, Utah Capital will make note of the incentive in any Utah Capital reporting.”

Chapter II – Recommendation #5

We recommend that the UFOF develop a set of program metrics, track and report them consistently from year to year, and arrange their annual reports in a way that clearly presents this information to the reader.

Status: In-Process – UFOF 2013 Annual Report and 2014 Economic Development Plan (see Appendix A and B) contain economic activity and program metrics such as Utah invested capital and jobs created by UFOF portfolio funds, the number of entrepreneur consulting sessions, funding introductions, UFOF events, community events, etc. UFOF annual report has been redesigned to simplify the investment and economic development results.

Chapter III Recommendations: Improving Economic Development Impact and Planning

Chapter III of the audit report contained three recommendations aimed at improving the economic development impact and planning of the UFOF. Implementation of these recommendations will enhance accountability by helping the UFOF document and measure the impact of the program. Figure 2 shows the three recommendations made in this chapter, the reported status of the recommendations, and the actions taken by the UFOF.

Three recommendations were made in Chapter III. UFOF reports two being implemented and one in-process.

Figure 2 Chapter III Recommendations and Implementation Status.

In Chapter III of the audit report, three recommendations were made. UFOF reports two of the recommendations being implemented and the other recommendation currently in the process of being implemented.

Chapter III – Recommendation #1

We recommend that the UFOF develop an economic development plan with metrics that are consistently tracked and reported to ensure that the UFOF is being held accountable to its economic development mandate. Examples of metrics that should be consistently tracked and documented include:

- UFOF relevance in jobs created by companies in Utah receiving investments from UFOF portfolio funds
- Introductions and matchmaking efforts and their importance in investments made
- Events sponsored and attended and measured outcomes of events
- The mobilization of venture capital into the state as compared to other states

Status: Implemented – UFOF 2014 Economic Development Plan (EDP – see Appendix B pages 21 - 23) was developed and formally adopted in October 2014. It contains various metrics designed to quantify economic development (e.g. capital introductions, events sponsored, etc.), ultimately assisting Utah’s small businesses in a sustainable way. The EDP also details the methodology used to measure UFOF impact. UFOF now uses the functionality of Salesforce software to track various activities and data about the companies, such as consulting sessions and/or capital investment introductions. The economic data relating to fund investments in Utah companies will be reviewed and filtered through UFOF consultant, LPCA.

Relevance is more difficult to quantify, but UFOF will continue to expand its economic development resources as budgets allow to ensure continual emphasis on small business support.

Tracking venture capital accurately through internal databases and industry publications will continue to occur. UFOF EDP states:

State investment activity: “Utah Capital will track, on an annual basis, the amount of venture capital and private equity investments into Utah companies and benchmark this amount to other states in the region.”

Chapter III – Recommendation #2

We recommend that, once an economic development plan is developed and approved, UFOF improve its outreach throughout the state to inform pertinent parties of its purpose and services.

Status: In-Process – UFOF EDP states (see Appendix B page 21):

Community Awareness Marketing: “In addition to supporting community events, hosting Utah Capital events, and maintaining an informational website, Utah Capital will place ads in select Utah business publications and issue periodic press releases to help make the public more aware of Utah Capital’s services.”

Chapter III – Recommendation #3

We recommend that, once an economic development plan is developed and approved, UFOF report performance relative to its metrics.

Status: Implemented – UFOF 2014 Economic Development Plan (see Appendix B) was developed and formally adopted in October 2014. Utah Capital’s 2013 Annual Report (see Appendix A) contains the performance relative to the metrics established in the Economic Development Plan. For example:

- UFOF now reports total Utah companies that received investments, but also notes the companies that are no longer operational.
- UFOF has developed criteria for counting jobs and payroll and will report data in accordance with the adopted Economic Development Plan.
- UFOF will now track and report various activities that help lead towards investments such as consulting sessions and investment capital introductions.

Chapter IV Recommendations: Improving Investment Performance Reporting

Chapter IV of the audit report contained three recommendations aimed at improving investment performance reporting of the UFOF. Implementation of these recommendations will help ensure accountability and adequate disclosure of actual costs. Figure 3 shows

Three recommendations were made in Chapter IV. UFOF reports implementation of all three recommendations.

the three recommendations made in this chapter, the reported status of the recommendations, and the actions taken by the UFOF.

Figure 3 Chapter IV Recommendations and Implementation Status. In Chapter IV of the audit report, three recommendations were made. The UFOF reports the implementation of all three recommendations.

Chapter IV – Recommendation #1

We recommend that the UFOF more clearly and consistently report investment results in the future by showing calculation methodologies (including when costs are and are not accounted for) and noting date ranges for specific performance measures.

Status: Implemented – UFOF 2013 Annual Report (see Appendix A page 17) reports investment returns net of all financing and administrative costs since inception and in accordance with legislative requirements.

Chapter IV – Recommendation #2

We recommend that UFOF annual program reports primarily focus on performance data for the reporting year in question and that annual and supplemental data are clearly labeled to distinguish the two.

Status: Implemented – UFOF 2013 Annual Report (see Appendix A page 17) reports investment returns net of all financing and administrative costs since inception as of year-end in accordance with legislative requirements and will clearly label any subsequent supplemental data shared in future reports.

Chapter IV – Recommendation #3

We recommend that, in addition to complying with the new reporting requirements found in *Utah Code* 63M-1-1206, the UFOF prepare a brief summary of these measures going back to the beginning of program operation.

Status: Implemented – See the UFOF Performance History (Appendix C page 27) document that shows the history of investment performance before all program costs, after administrative costs and after all costs (administrative and financing) since 2006, the year UFOF began investing.

Chapter V Recommendations: Improving Investment Performance Reporting

Chapter V of the audit report contained seven recommendations aimed at improving the oversight and operations of the UFOF. Included in these were recommendations addressing policies and procedures, administrative rules, and contracts. Figure 4 shows the seven recommendations made in this chapter, the reported status of the recommendations, and the actions taken by the UFOF.

Figure 4 Chapter V Recommendations and Implementation Status. In Chapter V of the audit report, seven recommendations were made, five recommendations have been implemented and the other two recommendations are in the process of being implemented. Both of the recommendations from this chapter that are in the process of being implemented require the UFOF to work with the Legislature in order to facilitate implementation.

Chapter V – Recommendation #1

We recommend that the UCIB and UCIC boards thoroughly review their policies, procedures, and administrative rules to ensure that all pertinent operating areas are addressed, including issues addressed in this report, along with economic development metrics that will be tracked and reported.

Status: Implemented – UFOF expanded and formally adopted its Policies and Procedures (P&P) in October 2014. The P&P detail all functions, controls, employment practices, conflicts of interest, investing guidelines, etc. of UFOF and the UCIC Board. The UCIB Board expanded and approved its rules in September 2014.

Auditor Note: Newly adopted policies and procedures were reviewed by the audit team and found to be very detailed and thorough, but were not included in this report due to confidentiality.

Chapter V – Recommendation #2

We recommend that the UCIC board change its bylaws to reflect statutory language on conflicts of interest.

Status: Implemented – The UCIC Board expanded and formally adopted its bylaws on conflicts of interest. These guidelines are more robust than statute and can be found in the P&P, which details behaviors, activities and necessary disclosures for employees of UFOF and the UCIC Board.

Seven recommendations were made in Chapter V. UFOF reports five being implemented and two in process. The two recommendations that are in the process of being implemented require the UFOF to work with the Legislature in order to facilitate implementation.

Chapter V – Recommendation #3

We recommend that UFOF staff work with the Legislature to determine whether a statutory amendment could be made concerning conflicts of interest that would ensure ethical standards are met without unduly preventing qualified individuals from serving on the UCIC board.

Status: In-process – UFOF will work with legislative leadership in 2015 to align legislation with bylaws (P&P) to ensure the highest ethical standards are met. Employees and UCIC Board members will abide by the higher standards regardless.

Chapter V – Recommendation #4

We recommend that the UCIB work with the Attorney General’s Office and the GOED to ensure that the board receives adequate support.

Status: Implemented – UFOF (including the UCIC and UCIB Boards) has seen great improvements in the participation of the Attorney General’s Office and GOED in recent months and will continue to work closely with them to ensure collaboration and transparency. For example, increased communications between meetings has occurred along with regular attendance at meetings.

Chapter V – Recommendation #5

We recommend that the UCIC board ensure that bonus and severance payments be tied to performance. We further recommend that the UCIC board follow policies regarding documentation on decisions regarding compensation/bonuses.

Status: Implemented – UFOF expanded and formally adopted its Policies and Procedures (P&P) in October 2014. Included is a section regarding bonus and severance payments which clearly tie any payments to documented performance standards, it states:

“Eligible employees may receive incentive compensation in February of each year for the previous year’s performance according to individual contractual obligations, company performance and additional incremental services. For employees who have not been with the company the entire year prior, the incentive compensation amount will be prorated if the employee has been employed for at least 90 days.”

Consistent with industry practice and beginning in December 2013, employees of Utah Capital undergo a thorough annual performance review designed to provide structure, measurement and goals for improvement and career development. Results are shared in confidence with the UCIC Board’s Compensation Committee.

Chapter V – Recommendation #6

We recommend the Legislature consider amending *Utah Code* 63M-1-1209(4)(d) to clearly allow the UCIC board chair to serve terms in succession.

Status: In-process – UFOF will work with legislative leadership in 2015 to align legislation with best industry practices.

Chapter V – Recommendation #7

We recommend that the UCIC board ensure employment contracts are up-to-date and that staff are held accountable to them.

Status: Implemented – UFOF and the UCIC Board now have executed employment contracts with all current employees, which include compensation commensurate with education and work experience, specific responsibilities, target goals and measurement criteria for bonuses, vacation time and termination clauses. In addition, employees of UFOF undergo a thorough annual performance review.

To reiterate, 18 recommendations were made in the performance audit report. The UFOF reports that all 18 recommendations either have been implemented or are in the process of being implemented. Specifically, 13 recommendations have been implemented and the remaining 5 recommendations are in the process of being implemented.

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Appendices

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Appendix A

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Prepared in accordance with the requirements of §63M-1-1206 (6) of the Utah Venture Capital Enhancement Act

Portfolio Performance

- **-0.3%** net internal rate of return including financing and administrative costs since fund inception
- **13.6%** net internal rate of return including financing and administrative costs for the reporting period
- **\$38.9 m** net realized gain since fund inception
- **\$36.8 m** net unrealized gain since fund inception
- **No new investment commitments** will be made under the current financing structure

Administrative Costs

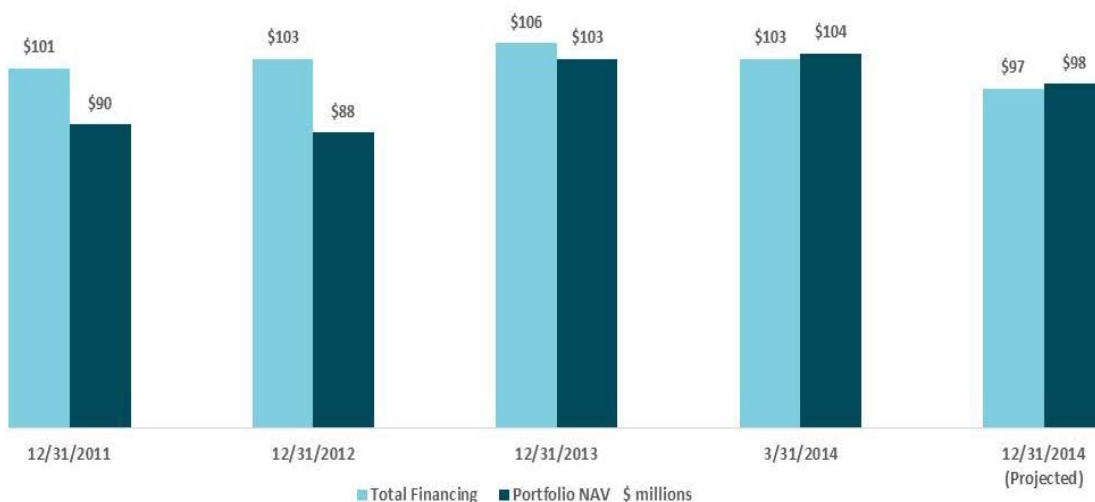
- **\$870 k** for the reporting period including:
 - a) \$427 k in total compensation paid to three full time employees and one part time employee
 - b) \$250 k investment allocation manager
 - c) \$178 k other (economic development, office, legal)
 - d) \$15k business travel expense

Utah Economic Development

- **73 Utah companies** received investment capital from *Utah Capital portfolio funds* since fund inception (13 companies no longer operational)
- **4,069 new Utah jobs** added by *Utah companies* since fund inception
- **\$785 m** invested in *Utah companies* by *Utah Capital portfolio funds* since fund inception
- **\$16 m** invested by *Utah Capital* in *Utah companies*
- **89 consulting sessions** during reporting period
- **32 funding introductions** made during reporting period
- **60 community events** supported during reporting period

Financing Costs

- **\$3.9 m** for the full year ended 12/31/2013
- **Decrease** of \$3 m over 2012



The combination of increased investment performance and a decline in financing costs due to the 2012 refinancing have allowed the fund to reduce current tax credit exposure to \$0. Although it is possible that tax credits may be used in the future, assuming steady investment performance and distributions, it is unlikely that the fund will require any tax credit redemptions over the next 5 years. The fund has received typical investment distributions over the reporting period sufficient to allow the fund to pay-down its financing obligations. Current financing matures in 2017. Management continues to evaluate low cost sources of financing to finance the program through completion. Consistent with legislation, Utah Capital will finance all new funds with equity capital.

Investment Performance as of June 30, 2014:

- **0.4%** net internal rate of return including financing and administrative costs since fund inception
- **12.3%** net internal rate of return including financing and administrative costs for the trailing twelve months

Investment Performance as of March 31, 2014

- **0.1%** net internal rate of return including financing and administrative costs since fund inception
- **14.4%** net internal rate of return including financing and administrative costs for the trailing twelve months

Sources: Utah Capital analysis, LP Capital Advisors (fund allocation manager) analysis. Job figures are received directly from Utah Capital portfolio funds.

Community Event: a Utah-based event focused on entrepreneurship and/or improving small business access to investment capital.

Consulting Sessions: meetings between Utah Capital staff and a Utah Company seeking investment capital.

Financing Costs: interest, dividends, and fees paid to investors.

Funding Introductions: introduction made by Utah Capital between a Utah Company and a source of investment capital.

Investment Commitment: commitment by UCIC to invest in a portfolio fund.

Investment Distributions: cash returns received from investments.

NAV: net asset value of the remaining investment portfolio.

Net Internal Rate of Return: the annualized rate of return calculated using dates of cash outflows (investments, operating costs), cash inflows (investment distributions), and net asset value.

Net Realized Gains: cash investment returns received above investment cost net of losses.

Net Unrealized Gains: investment valuations above investment cost net of losses.

New Utah Jobs: current number of Utah employees at a company that has received investment capital from a UCIC portfolio fund less number of employees at time of original investment by UCIC portfolio fund.

Reporting Period: December 31, 2012 to December 31, 2013..

Total Financing: aggregate outstanding balance of loans to Utah Capital.

USBGI: Utah Small Business Growth Initiative.

Utah Capital Portfolio Fund: any fund receiving an investment commitment from Utah Capital.

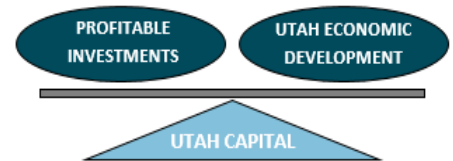
Utah Company: any company headquartered in or with substantial operations in Utah.

Appendix B

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Utah Capital is a quasi-governmental agency created by the Utah Legislature to help attract private sector investment capital into the State’s growing entrepreneurial community. Utah Capital seeks to balance its dual mission of 1) mobilizing and enhancing venture capital investment in order to maximize direct economic impact to the State and 2) retaining a private-sector focus on rate of return and securing the best managers in the venture capital industry regardless of location.¹



INVESTMENTS

Goal: Partner with investment fund managers who help fuel Utah’s economy by investing in growing Utah businesses. Utah Capital will utilize its investing relationships to introduce Utah’s small and growing businesses to investors.

Action Plan:

Investments: Create a diversified portfolio of investment funds. Of particular focus will be managers that:

- have experienced management and excellent investment track records;
- have made prior investments in Utah companies or have a history of reviewing Utah company investment opportunities;
- are focused on the Governor’s Office of Economic Development targeted “industry clusters”²;
- commit to spend time in Utah and review Utah companies for investment; and
- have portfolio companies interested in relocating to Utah.

Relationship Building: Build relationships with investment managers that will help Utah’s entrepreneurs and small businesses. In addition to its investing activities, Utah Capital will make a proactive effort to reach out to investment managers to develop relationships and share Utah companies. Proactive outreach can include:

- attendance at fund annual meetings;
- Utah Capital investor meetings; and
- visits by Utah Capital staff to targeted geographies.

UTAH ENTREPRENEUR OUTREACH

Goal: Educate Utah entrepreneurs about investment capital fundraising and facilitate introductions between Utah entrepreneurs and appropriate sources of investment capital.

Action Plan:

Utah Entrepreneur Consulting: Staff members will meet with Utah entrepreneurs to provide education and training about raising investment capital. In addition, Utah Capital will utilize its investment fund manager network to make introductions between entrepreneurs and investors.

Utah Capital Events:³ Utah Capital will host events each year focused on helping Utah entrepreneurs and/or attracting investment capital to Utah.

Community Event Support:⁴ Utah Capital will regularly support and sponsor events and organizations focused on Utah economic development.

Website: www.utahcap.com is visited by fund managers, entrepreneurs, and legislators. In addition to basic information about the fund and its management, the site also includes resources for entrepreneurs and information about Utah’s attractive business climate for investors.

Community Awareness Marketing: In addition to supporting community events, hosting Utah Capital events, and maintaining an informational website, Utah Capital will place ads in select Utah business publications and issue periodic press releases to help make the public more aware of Utah Capital’s services.

“Utah Capital is a key mechanism to help attract venture capital and private equity to our state.”

– Governor Gary Herbert



METRICS FOR TRACKING AND MEASURING IMPACT

Utah companies receiving investment from Utah Capital portfolio funds: The number of Utah companies that have received investment capital from Utah Capital portfolio funds. The number of Utah companies that have received investment capital from a Utah Capital Portfolio that have since ceased operations will be noted in any reporting. If another State agency has provided incentives to the Utah Company, Utah Capital will verify that its capital was invested before any other State incentive was offered. If a State incentive was offered to a Utah company before Utah Capital's investment in the company, Utah Capital will make note of the incentive in any Utah Capital reporting.

Utah Capital portfolio fund investments in Utah companies:⁵ Amount of dollars invested in Utah-based companies, or satellite offices with significant Utah operations, directly by a Utah Capital portfolio fund since the fund's inception.

Utah Capital direct investment in Utah companies: The amount of dollars invested by a Utah Capital portfolio fund in a Utah company multiplied by the Utah Capital share of total portfolio fund commitments.

New Utah jobs:⁵ The number of current Utah jobs less Utah jobs at the time of original investment in a Utah company by a Utah Capital portfolio fund. For companies that have been acquired or have had an IPO, and in the absence of more reliable data, Utah Capital will roll-forward job statistics from the previous reporting period. If Utah Capital is unable to obtain job numbers from a portfolio fund, no jobs will be counted for the corresponding Utah Company. If another State agency has provided incentives to the Utah Company, Utah Capital will verify that its capital was invested before any other State incentive was offered. If a State incentive was offered to a Utah company before Utah Capital's investment in the company, Utah Capital will make note of the State incentive in any Utah Capital reporting.

New Utah payroll:⁵ The dollar amount of current Utah payroll less Utah payroll at time of original investment in a Utah company by a Utah Capital portfolio fund. For companies that have been acquired or have had an IPO, in the absence of more reliable data, Utah Capital will roll-forward payroll statistics from the previous reporting period. If Utah Capital is unable to obtain payroll information from a portfolio fund no payroll will be counted for the corresponding Utah Company. If another State agency has provided incentives to the Utah Company, Utah Capital will verify that its capital was invested before any other State incentive was offered. If a State incentive was offered to a Utah company before Utah Capital's investment in the Utah Company, Utah Capital will make note of the State incentive in any Utah Capital reporting.

Utah Capital consulting sessions: The total number of meetings a member of the Utah Capital staff had with Utah entrepreneurs or fund managers seeking to raise capital for their respective businesses and the total number of meetings a member of the Utah Capital staff had with non-Utah investors promoting Utah companies.

Investment capital introductions: The number of introductions made by Utah Capital between a Utah entrepreneur or fund manager and a source of investment capital.

Community events supported: The number of community events supported by Utah Capital through attendance and/or sponsorship. If available, Utah Capital will capture the attendance and content provided at each event.

Utah Capital events hosted: Utah Capital will capture the attendance, content presented, and attendee testimonials from each event hosted.

State investment activity: Utah Capital will track, on an annual basis, the amount of venture capital and private equity investments into Utah companies and benchmark this amount to other states in the region.

TRANSPARENCY

Goal: Utah Capital, in full compliance with legislation¹, seeks to give Utah State legislators and the public a fair and transparent accounting of fund economic development activities and results while preserving confidentiality of privately held small and early stage businesses.

Accurately track economic development activities and measure economic impact to the State: Utah Capital has developed a methodology and criteria for tracking its economic development activities and measuring its economic impact on the State of Utah.

Utah Capital Annual Report: Consistent with legislation, Utah Capital issues an annual report to the legislature and posts the report on www.utahcap.com.

¹ Utah Venture Capital Enhancement Act §63M-1-1201.

² Governor's Office of Economic Development: <http://business.utah.gov/industries/clusters/>

³ Past events include Utah Middle Market Symposium, Medical Device Symposium, Entrepreneur Lecture Series, and Fundraising Training.

⁴ Past community events supported include Utah Technology Council, Utah Association for Corporate Growth, Sessions at The Leonardo, Mountain West Capital Network, BioUtah, Utah Small Business Growth Initiative, University Venture Summit, and Governors Economic Council.

⁵ Information received directly from Utah Capital portfolio funds.

GLOSSARY

Acquisition: Reference to a Utah company being purchased by an outside party.

Community Events: Events organized and hosted by third parties focused on building entrepreneurship and increasing investment in Utah.

Consulting Sessions: Meetings in which Utah Capital staff members provide training, guidance, and support to Utah entrepreneurs.

IPO: Initial public offering of a Utah company's common stock to be traded on a recognized exchange.

New Utah Jobs: Current number of Utah jobs at a Utah company less number of Utah jobs at a Utah company at time of original Utah Capital portfolio fund investment.

New Utah Payroll: Current annual payroll for Utah jobs at a Utah company less annual payroll for Utah jobs at a Utah company at time of original Utah Capital portfolio fund investment.

Portfolio Fund Investments: Investments made in Utah companies by Utah Capital portfolio funds.

Source of Investment Capital: Any person or entity providing investment capital to Utah businesses.

Utah Capital Events: Events organized and hosted by Utah Capital focused on building entrepreneurship and increasing velocity of investment capital in Utah.

Utah Capital Portfolio Fund: An investment fund partnership that has received investment capital from Utah Capital.

Utah Company: Company that is either headquartered in Utah or has significant operations and employees in Utah.

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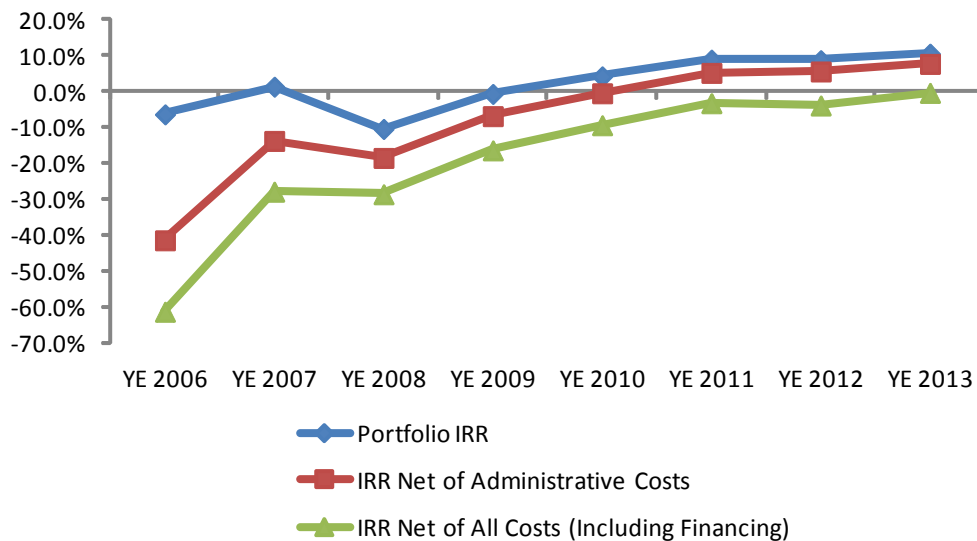
Appendix C

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Private equity and venture capital performance tends to have negative returns in the early years and positive performance in the middle and later years of the fund. The early performance of Utah Fund of Funds (“UFOF”) reflects the program’s start-up costs and a small base of capital invested at that time, with positive performance in recent years reflecting investment value appreciation. The graph and table below show the since inception internal rate of return (“IRR”) of the Utah Fund of Funds (“UFOF”) for each year end. The increase of the since inception IRR is reflective of positive investment performance. UFOF committed capital to funds from 2006 to 2010. Over time, the funds manage portfolio companies through new investments and sales leading to distributions to investors. Many funds sell all investments in a ten to fifteen year period.

Utah Fund of Funds Program Since Inception Internal Rate of Return



Utah Fund of Funds Program Since Inception Internal Rate of Return History

	12/31/2006	12/31/2007	12/31/2008	12/31/2009	12/31/2010	12/31/2011	12/31/2012	12/31/2013
Portfolio IRR	-6.3%	1.4%	-10.3%	-0.6%	4.3%	9.0%	8.8%	10.6%
IRR Net of Administrative Costs	-41.4%	-13.7%	-18.4%	-6.8%	-0.4%	5.3%	5.7%	7.8%
IRR Net of All Costs (Including Financing)	-61.3%	-27.8%	-28.6%	-16.3%	-9.3%	-3.2%	-3.8%	-0.3%

Note: "IRR" refers to the since inception internal rate of return.

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Agency Response

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November 4, 2014

John M. Schaff
Legislative Auditor General
W315 State Capitol Complex
Salt Lake City, Utah 84114

Dear Mr. Schaff:

We are pleased to endorse, adopt and fully implement all recommendations given by your legislative audit team. We continue to be excited for the future of Utah Capital as we continue to build on our existing relationships to improve the Utah economic environment through our investment and economic plan. Utah Capital will continue to evolve into a stronger organization with an equity financing structure (which reduces potential risk to tax credits compared to the current debt finance structure), improved reporting and the continued participation of talented individuals.

Sincerely,

A handwritten signature in blue ink, appearing to read "Bret Jepsen".

Bret Jepsen
Managing Director

A handwritten signature in blue ink, appearing to read "Robert Majka".

Robert Majka
Utah Capital Investment Board
Chair

A handwritten signature in blue ink, appearing to read "Scott Peterson".

Scott Peterson
Utah Capital Investment Corporation Chair