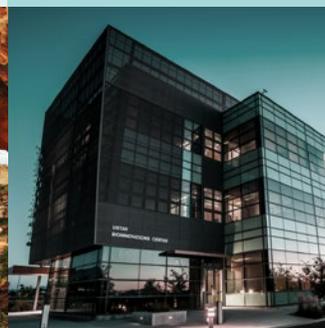
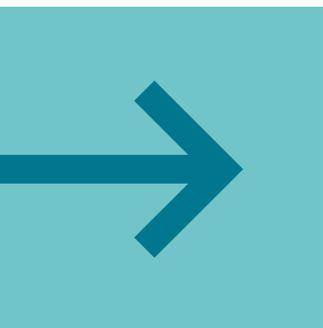


*Connecting  
Utah Companies  
with Capital.*



**2012** ANNUAL REPORT



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## ▶ HIGHLIGHTS

We are pleased to provide an update on the progress of the Utah Fund of Funds (“UFOF” or the “Fund”) in fulfilling its legislative mandate. Since the passage of the Utah Venture Capital Enhancement Act (“UVCEA”) that created the Utah Fund of Funds in 2003 and the commencement of investments in 2006, the Fund has generated positive results in both Utah state economic development and investment returns.

# 70 Utah Companies

*70 Utah companies have received investment from Utah Fund of Funds portfolio funds.*

**\$747**  
Million

*\$747 Million was invested directly by UFOF partner funds in Utah companies.*

**2700**  
New Jobs

*2,700 new Utah jobs were created by UFOF portfolio fund investments.*

**\$37**  
Million

*\$37 Million in new state tax revenues*

**\$3**  
Million

*\$3 Million annual savings due to new financing*

**\$15**  
Million

*One new \$15 Million Utah-based seed fund was created (Upstart Ventures).*

**10%**  
Return

*10% internal rate of return since inception*



**\$0**

Cost to the State of Utah

# PROGRESS UPDATE



eBay campus, South Jordan, UT

*Given the deferred cost to the state and the millions in economic development created, we believe the return on investment to Utah to be excellent.*

**T**he Fund continues to fulfill the legislative mandate of retaining private-sector focus on rate of return in the investing process along with the goal of maximizing economic development and minimizing the use of the contingent refundable tax credits pledged by the State of Utah. In fact, according to data from Preqin, the Fund is performing in the top half of return oriented-fund of funds that also began investing in 2006.

**Since the Fund's first investment in 2006, the Fund has achieved \$1.35 for every dollar invested before financing and operating costs. Operating costs for the Fund have been lean, averaging just 0.8% of assets under management compared to the industry average of 1%.**

**Unlike other state-run programs that receive all of their financing directly from the government in the form of tax dollars or other revenue offsets, the Utah Fund of Funds financed its program 100% with private sources of capital.**

The Fund has secured \$120M in private low-interest loans that finance the program. Despite the new state tax revenues created by the Fund, the cost of financing, including quarterly debt payments, creates a high hurdle rate for the Fund. Although it is difficult to forecast

the ultimate performance of the fund investments, current projections suggest that if performance continues its positive trajectory that little to no tax credits will be accessed. In the event that investment performance does not cover the cost of financing, the Fund may seek to access a fraction of the tax credits (currently expected to not be more than 5% of the tax credits allocated to the program). Updated forecasts indicate that if tax credits are accessed they would not be required before 2017. In order to prudently plan for any potential tax credit usage, the Fund has advised the Governor and the Legislature to begin setting aside \$3M a year beginning in 2014.

## ECONOMIC DEVELOPMENT HIGHLIGHTS:



- 70 Utah companies have received investment from Utah Fund of Funds portfolio funds
- \$747M invested directly by UFOF partner funds in Utah companies
- 2,700 new Utah jobs created by UFOF portfolio fund investments<sup>5</sup>
- 6,600 Utah jobs supported by UFOF partner fund investments
- \$35M committed to 8 Utah-based investment partnerships
- One new \$15M Utah-based seed fund created (Upstart Ventures)
- One new \$50M Utah-based growth equity created (Mercato Partners)

## INVESTMENT HIGHLIGHTS:



- \$120M of private investment capital into the Utah Fund of Funds
- \$122M committed to 28 venture capital and private equity partnerships
- \$26M of net gain before financing costs
- 10% net internal rate of return since inception (which includes the 2008 financial crisis)<sup>2</sup>
- Successful realized investments include Utah companies Fusion IO (Nasdaq: FIO), SkullCandy (Nasdaq: SKUL), Solera Networks, MediConnect and Control4 (Nasdaq: CTRL)
- Performing better than 50% of "return focused" fund of funds investing over a similar time period<sup>1</sup>
- \$44M investment distributions to date

## OVERALL HIGHLIGHTS:



- \$37M in new Utah state tax revenues received by the State<sup>3</sup>
- Secured new financing that will save the program over \$3M in annual financing costs
- **\$0 cost to the State of Utah**

# UTAH FUND *of* FUNDS

*We are playing an active role in building Utah's entrepreneur ecosystem.*

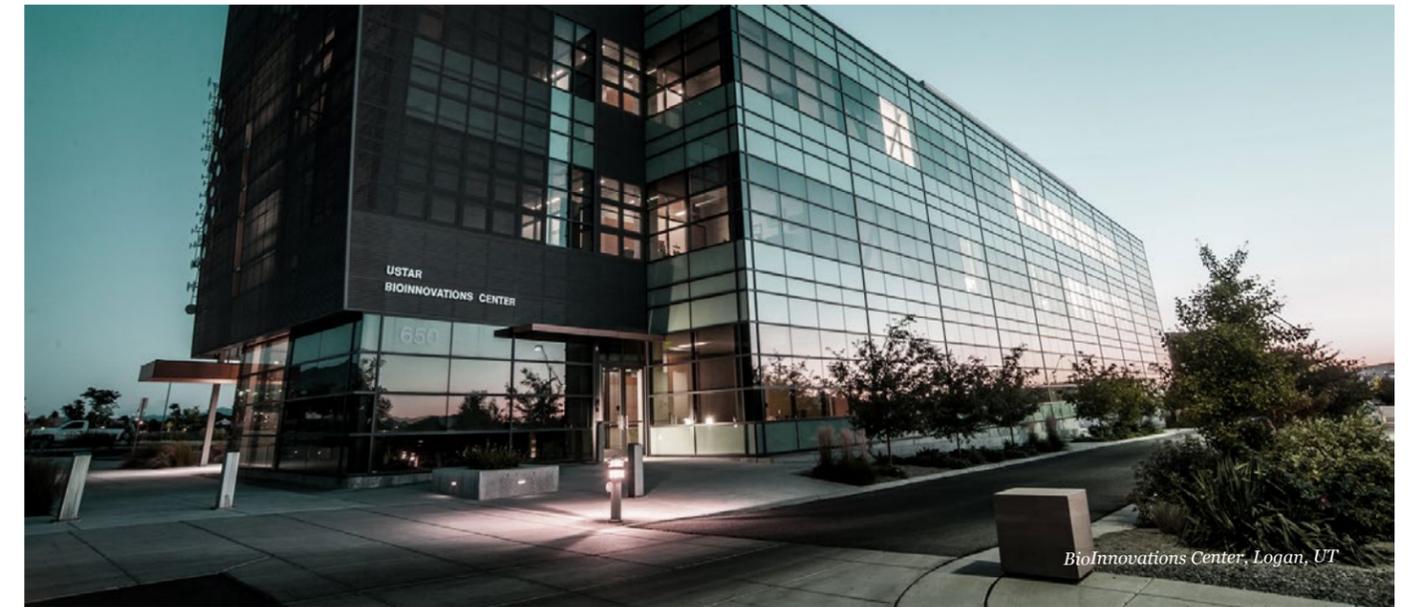
**\$121 Million**  
has been committed to  
**28**

separate venture capital and private equity partnerships.

**A**s a result of innovative Utah legislators, the Utah Fund of Funds was created by the passage of the Utah Venture Capital Enhancement Act in the 2003 Legislative session. After confirming the constitutionality of the Act, the Fund raised \$100M in private investment and began investing in 2006. In 2008 the fund received an additional \$20M in private investment. Since 2006, the Utah Fund of Funds has committed \$121M to 28 separate venture capital and private equity partnerships. The Fund leverages its investment commitments to help Utah's entrepreneurs access appropriate sources of capital nationwide to help grow their businesses.

## ENTREPRENEUR CONSULTING AND MATCHMAKING

The UFOF staff meets one-on-one with Utah entrepreneurs seeking to raise capital to grow their businesses. Staff provides feedback on fundraising pitches and strategy, and where appropriate makes introductions to funds in the Utah Fund of Funds network. **We believe that our stature as an investor in venture capital and private equity funds gives us unique access to senior level decision makers at the premier investment funds in the country. We leverage these relationships to help Utah's entrepreneurs get access to sources of capital they otherwise would not have.**



BioInnovations Center, Logan, UT

## VENTURE CAPITAL FUND HOSTING

The Utah Fund of Funds staff hosts out-of-state venture capital and private equity funds in Utah. The purpose is to facilitate a tour of the state including introductions to key players in government, technology transfer offices, service providers and companies. These tours give venture capitalists an "on-the-ground" look into Utah's high growth infrastructure and important warm introductions to promising investment opportunities.

## ENTREPRENEUR TRAINING SESSIONS

The Utah Fund of Funds hosts periodic free training sessions for entrepreneurs. The sessions are topical to entrepreneurs seeking to grow their businesses. Past sessions have included "Effective Networking", "Search Engine Optimization" and a five part training entitled "How to Raise Venture Capital".

## MEDICAL DEVICE SYMPOSIUM

Utah has a strong competitive advantage in the Medical Device industry. To help match Utah's entrepreneurial strengths in the industry with the Utah Fund of Funds partner funds' investment interest, each year the Utah Fund of Funds hosts a "Medical Device Symposium". The symposium is attended by medical device entrepreneurs, venture capital investors and service providers in the space. Panels and presentations are focused on best practices, current pressures on the industry and fundraising trends in the space.

## MIDDLE MARKET SYMPOSIUM

Utah is home to thousands of "middle market" companies (companies with revenues between \$10M and \$500M). These companies are unlikely candidates for venture capital, as they are too large or not focused on high growth industries such as information technology and life science. Many of these middle market business owners are not aware of private equity as a source of financing for their business. The Middle Market Symposium is an event that brings together business owners and private equity investors. Panels and discussions center around understanding funding options for middle market business owners. Past topics have included "What is My Business Worth," "Why Private Equity" and "Preparing Your Business For Sale."



SOLERA NETWORKS

SOUTH JORDAN

UFOF PARTNER FUND: ALLEGIS CAPITAL

NEW UTAH EMPLOYEES: 48

Solera Networks is the industry's leading provider of big data security analytics for advanced threat protection. Its award-winning Security Analytics platform levels the battlefield against advanced targeted attacks and malware, and gives security professionals clear and concise answers to the toughest security questions. The Solera Platform is powered by next-generation deep-

packet inspection and indexing technologies, full-packet capture, malware analysis and real-time security intelligence and analytics capabilities. Global 2000 enterprises, cloud service providers and government agencies rely on Solera for real-time situational awareness, continuous monitoring, security incident response, advanced malware detection, data loss monitoring and analysis,

organization policy compliance and security assurance—allowing them to respond quickly and intelligently to advanced threats and attacks, while protecting critical information assets, minimizing exposure and loss, and reducing business liabilities.

You've Been Hacked. Now What?  
Contact Solera Networks.



solanetworks.com | 1-877-5SOLERA



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**INSTRUCTURE**

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SALT LAKE CITY

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UFOF PARTNER FUNDS: EPIC VENTURES,  
UNIVERSITY VENTURE FUND

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NEW UTAH EMPLOYEES: 181

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Instructure Inc. was founded in 2008 with the purpose of disrupting the Learning Management System (LMS) market by setting a new, open standard for education technology. Instructure believes that an LMS shouldn't be a closed system. It should be an easy to use, powerful

platform that easily integrates content and communication from everywhere. Canvas by Instructure is currently used by 400+ colleges, universities and school districts. Canvas was recently selected by Cisco Networking to power "the world's largest classroom".

# UPSTART VENTURES

UPSTART VENTURES

SALT LAKE CITY

UTAH COMPANIES FUNDED: 11

In 2008, the UFOF backed a fledgling team of former entrepreneurs, scientists and investors who had a vision of investing in the earliest stage technologies in Utah's life science industry to create lasting and meaningful

companies. With the credibility of UFOF's support, the team was able to raise an additional \$15+ million and has been a fixture in Utah's life science community ever since.



# UTAH INVESTMENT CLIMATE

*Utah continues to produce strong entrepreneurs and competitive companies but lags behind peer states in venture capital investment*

Utah has a reputation as an entrepreneurial state. Utahns have a spirit of industry and self reliance that has led to strong levels of entrepreneurship and innovation. In fact, the Milken Institute has ranked Utah 7th in the nation in fundamentals in entrepreneurship.<sup>5</sup> Despite strong Fundamentals, and an entrepreneurial population, Utah ranks only 18th in the nation for venture capital funding.<sup>6</sup> When considered on a per-capita basis top tier states like CA and MA generate 6 to 8 times more VC investments per capita than Utah. Peer states like Colorado and Washington also are significantly ahead of Utah on a per capita basis.

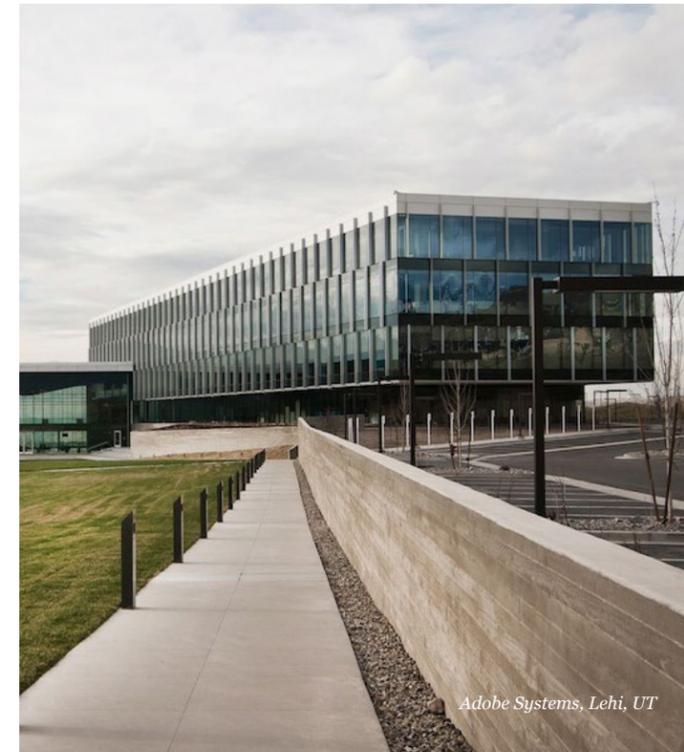
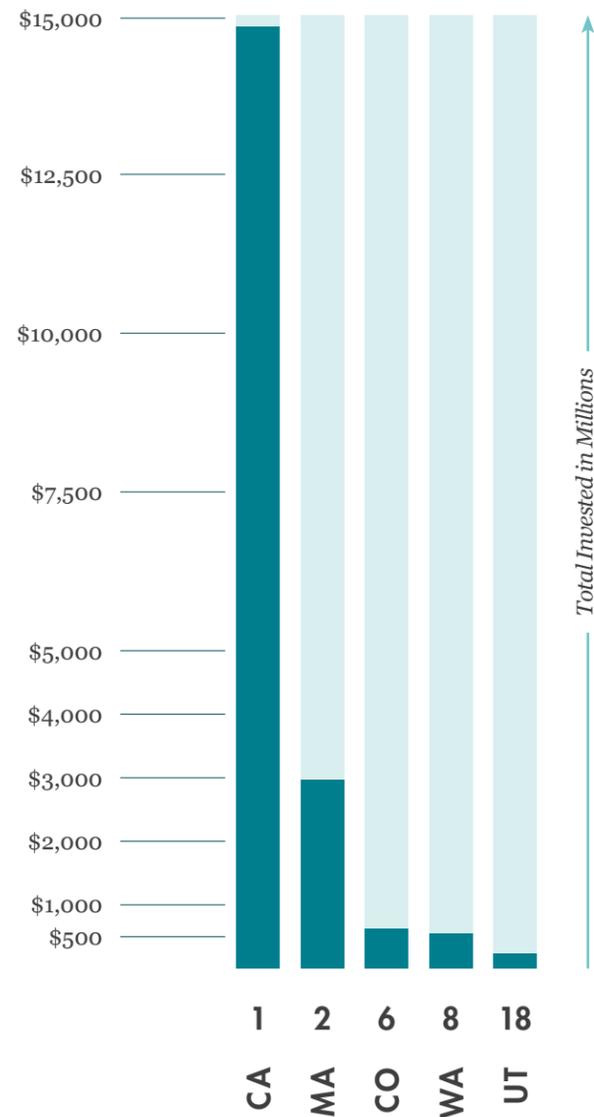
When looking at private equity investments Utah ranks 31st in the nation for private equity investments. On a per capita

basis Utah lags peer states like Colorado, Washington, and Arizona by 3-10X. Utah is not attracting the amount of private investment dollars to support the high level of entrepreneurship, innovation and infrastructure that exist in the state.

Of particular concern to Utah is the fact that since the Utah Fund of Funds stopped investing in 2010 the landscape of Utah-based venture capitalists willing to invest in early stage or "Series A" projects has decreased significantly.

One of the key components of the Utah Fund of Funds continuing strategy is to encourage the founding of additional funds located in Utah to focus on Utah's core competency of information technology and life science.

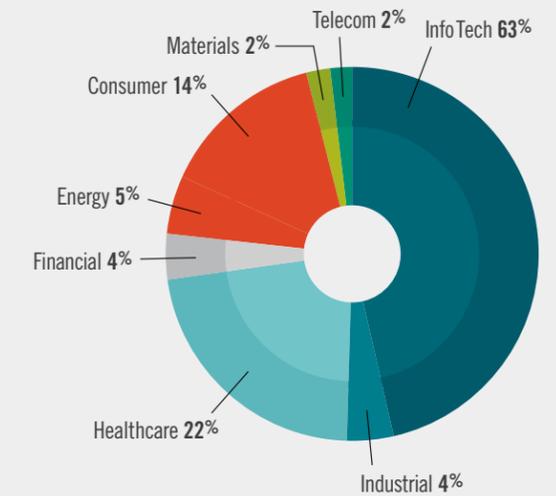
## VENTURE CAPITAL RANKINGS BY STATE



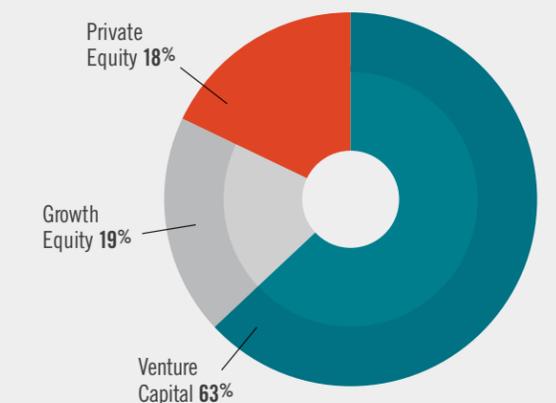
## INVESTMENT PORTFOLIO UPDATE

The program has committed \$122M to 28 separate venture capital and private equity partnerships. A complete list of partnerships can be found in the appendix. The program has generated a 10% internal rate of return and a 1.35X return on invested capital before administrative and financing costs. The Fund is diversified across asset class, vintage year and industry.

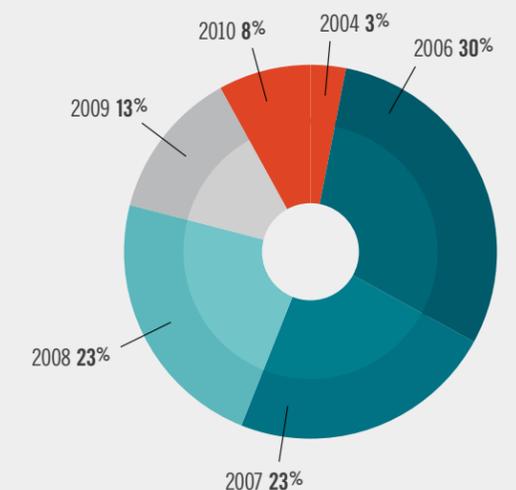
### INDUSTRY DIVERSIFICATION



### ASSET CLASS DIVERSIFICATION



### VINTAGE YEAR DIVERSIFICATION





# UTAH CAPITAL INVESTMENT TEAM

*The team is responsible for all administration of the Fund, monitoring of investments, reporting, consulting with entrepreneurs and developing relationships with Fund managers.*



**BRET JEPSEN**

*Executive Director*

Bret Jepsen was hired in September, 2013 to build and manage phase II of the program. Mr. Jepsen was most recently a principal with the highly successful investment firm Northgate Capital. He has over 13 years of private equity and venture capital experience, and was Acting Director of Venture Capital, Small Buyout and Emerging Market investing for the San Francisco Employees' Retirement System (SFERS). While at SFERS, Bret established a portfolio of several top-tier, oversubscribed venture capital funds, served on several advisory boards and created a secondary program designed to enhance returns by acquiring less-risky, pre-identified private equity assets. Bret has spoken regularly at industry events including the IBF Venture Capital

conferences, Merrill Lynch Private Equity CFO Conference, ICBI Super Return China Conference, University Venture Fund Summit and Silicon Valley SDForum. Prior to his employment with SFERS, Bret worked at Connecticut-based Portfolio Advisors, LLC, where he helped build and monitor private equity programs for various foundations and pensions. Bret also gained direct investment experience while working for Dominion Ventures. Bret received his BA from Brigham Young University and an MBA from Northwestern's Kellogg School of Management, where he co-authored a case study on the private equity secondary industry.



**MATT PETERSON**

*Vice President*

Matthew Peterson is responsible the operations of the Fund including sourcing and due diligence on investment opportunities, treasury management, and financial reporting. Prior to joining Utah Fund of Funds, Mr. Peterson worked as a Vice President with IndustryPro, a middle-market investment bank where he personally led successful buyout and growth-equity transactions with aggregate values in excess of \$200 million. Mr. Peterson began his career in the finance department at the American Standard Companies in Campinas, Brazil. Mr. Peterson received a B.A. in Finance and an MBA from the University of Utah.



**RICHARD PUGMIRE**

*Director, LP Capital Advisors*

Richard Pugmire, CFA is a Director in the Client and Advisory Services group of LP Capital Advisors based in Salt Lake City, Utah. Prior to joining LP Capital Advisors in 2008, Mr. Pugmire spent four years at Ford Motor Company, where he focused on pension asset management within the treasury group. Prior to joining Ford, Mr. Pugmire spent a year at the University Venture Fund evaluating venture capital investments and three years at Harris Investor Services. Mr. Pugmire received an MBA and a B.S. in Finance (with honors) from the University of Utah and is a CFA Charterholder.



**RYAN DAVIS**

*Chief Financial Officer*

Ryan Davis is the CFO at the Utah Fund of Funds where he oversees accounting and reporting functions for the funds and the management company. He is also employed as the CFO of Epic Ventures and is the V.P./Venture Capital Controller at Zions First National Bank. Ryan is also a consultant for the University Venture Fund where he initially developed the financial preparation and reporting system currently in use. Previously Ryan was CFO at an international marketing company, and controller for a travel company. He started his career with the international accounting firm KPMG. Ryan received his Bachelor of Science degree in Accounting, cum laude, and a Master of Accountancy and Information Systems from Brigham Young University.



**CAMBRIDGE HOSSFELD**

*Project Manager*

Cambridge Hossfeld is a Project Manger at the Utah Fund of Funds. Prior to joining the Utah Fund of Funds, Ms. Hossfeld worked for Las Vegas based development company(s), Razaghi Development and Morgan and Associates. Ms. Hossfeld was involved in the development of a multi-million dollar Critical Access Hospital in southern Utah. Ms. Hossfeld implemented and managed all accounting systems/procedures and corporate governance at the hospital.

# UTAH CAPITAL INVESTMENT CORPORATION BOARD



*The day-to-day operations of the Fund are overseen by a board of directors made up of industry veterans, successful entrepreneurs, and former government officials. The board and its committees approve all investment decisions, enter into financing agreements, approve budgets, approve compensation, and develop a strategy for the Fund.*

## WILL WEST

Founder and Chairman of Control4 Corporation (NASDAQ: CTRL), Co-Founder of STSN (ibahn) | University of Utah, Wharton School of Business

## MEL LAVITT

Chairman of Utah Governors Office of Economic Development, Director of Jabil (NYSE: JBL) | Brown University

## RICHARD NELSON

President of Utah Technology, Council Director of Salt Lake Chamber of Commerce | Brigham Young University, Northwestern University

## PEGGY WALLACE

Vice President of America First Credit Union, Utah State House of Representatives, West Jordan, Utah Cooperative Alliance

## ED ALTER

28 years as Utah State Treasurer, Utah State Retirement Board, Utah State Bonding Commission

## ED ESBER

CEO of Ashton Tate, COO of Creative Labs Case Western University, Syracuse University, Harvard Business School

## GEOFF WOOLLEY

Founder of Unitus Impact Fund, Founding Partner of Dominion Ventures | Brigham Young University, University of Utah

# UTAH CAPITAL INVESTMENT BOARD

Government oversight of the Fund is provided by Governor appointed members of the Utah Capital Investment Board (UCIB). The UCIB is charged with approving any transaction involving the pledging of Utah state tax credits and with ensuring the Fund is fulfilling its legislative mandate. The UCIB is a public board with publicly noticed meetings.

### ROBERT MAIJKA

*Former Executive Vice President - Citigroup*

### SPENCER ECCLES

*Executive Director of the Governors Office of Economic Development*

### RICHARD ELLIS

*State of Utah Treasurer*

### TAYLOR RANDALL

*Dean of the David Eccles School of Business*

### SAMUEL STRAIGHT

*Shareholder – Ray Quinney & Nebeker*

## ALLOCATION MANAGER

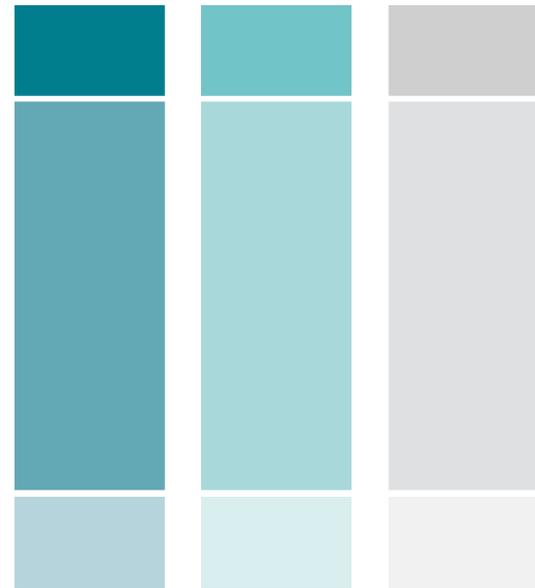
The UVCEA calls for the UCIC to hire a fund “allocation manager” to help manage the investments of the Utah Fund of Funds<sup>9</sup>. Since 2008, UCIC has used LP Capital Advisors (LPCA) to provide the allocation manager role contemplated in the UVCEA. Richard Pugmire, Director, has been assigned to Utah and works daily with the UFOF staff to implement the strategy set by UCIC.

LP Capital Advisors (“LPCA”) provides high quality, independent and cost-effective alternative investment consulting services to institutional investors in the alternative asset class. LPCA has a diversified client base, which spans the large

institutional investor landscape. LPCA currently provides advisory, reporting and/or monitoring services to clients with more than \$120 billion of alternative asset commitments. LPCA investment professionals are based across three offices in Sacramento, California, Boston, Massachusetts and Salt Lake City, Utah.

## REBRANDING

To better reflect the mission of the program and to avoid confusion that surrounds the name Utah Fund of Funds, beginning on January 1, 2014, the program will be known as *Utah Capital Investment Corporation*. The new website URL will be [www.utahcapital.com](http://www.utahcapital.com). The location and operations of the program will not change.



## TRANSPARENCY

By statute, the Utah Fund of Funds is required to provide the Governor and Legislature with regular updates on the progress of the Fund. Specifically the statute calls for:

1. An annual report to be delivered to the Governor and the Executive Appropriations Committee of the Legislature. The report includes the 3rd party financial audit and a review of the progress of the Fund. In addition, the report discusses any redemption of tax credits.
2. A progress report of the Fund in accomplishing its purposes to be delivered to the Legislature every two years.

The Fund has complied with these statutory requirements since inception. In addition, the Fund allows the Utah State Auditor to publish a copy of the annual financial audit.

As part of typical practice in the venture capital industry and to help the program gain access to the best managers, the Legislature has prudently exempted the program from certain portions of Open and Public Meetings Act and the Government Records Access and Management Act.

## UTAH VENTURE CAPITAL ENHANCEMENT ACT OVERVIEW

The Utah Venture Capital Enhancement Act (“UVCEA”) was overwhelmingly passed by the Utah Legislature in the 2003 legislative session. UVCEA is a result of a groundswell of support from Utah’s entrepreneurial community who had recognized a critical shortage in seed and early stage capital in Utah that was impairing the growth of Utah companies. **The legislature believed that the passage of the act would encourage Utah job growth, help diversify the State’s economic base, and help maintain a well-trained workforce.**



In addition to creating the Utah Fund of Funds, its respective oversight boards and approving \$100M in contingent refundable tax credits to entice private investment into the Fund, the Act contemplates the Fund accomplishing the following:

- (a) mobilize private investment in a broad variety of venture capital partnerships in diversified industries and locales;
- (b) retain the private-sector culture of focusing on rate of return in the investing process;
- (c) secure the services of the best managers in the venture capital industry, regardless of location;
- (d) facilitate the organization of the Utah Fund of Funds to seek private investments and to serve as a catalyst in those investments by offering state incentives for private persons to make

- investments in the Utah Fund of Funds;
- (e) enhance the venture capital culture and infrastructure in the state so as to increase venture capital investment within the state and to promote venture capital investing within the state;
- (f) accomplish the purposes referred to in Subsections (2) (a) through (e) in a manner that would maximize the direct economic impact for the state; and
- (g) authorize the issuance and use of contingent tax credits to accomplish the purposes referred to in Subsections (2) (a) through (e) while protecting the interests of the state by limiting the manner in which contingent tax credits are issued, registered, transferred, claimed as an offset to the payment of state income tax, and redeemed.

In helping the Fund accomplish its mandate above the Utah Capital Investment Corporation has tasked itself with five primary functions:

1. Investments in Venture Capital and Private Equity Funds to increase capital into Utah
2. Seed and angel investment support
3. Entrepreneur investment training and matchmaking (i.e. introductions to sources of investment capital)
4. Early-stage innovation and accelerator support; Alignment with state objectives
5. Marketing Utah to a national audience of private market investors

UVCEA was amended in 2008 to allow the Fund to monetize up to a total of \$300M in contingent, refundable, tax credits and exclude the Fund from the Open and Public Meetings Act and the Government Reporting Act<sup>4</sup>. In addition, it was clarified that only \$20M per \$100M of outstanding tax credits could be redeemed in any fiscal year.

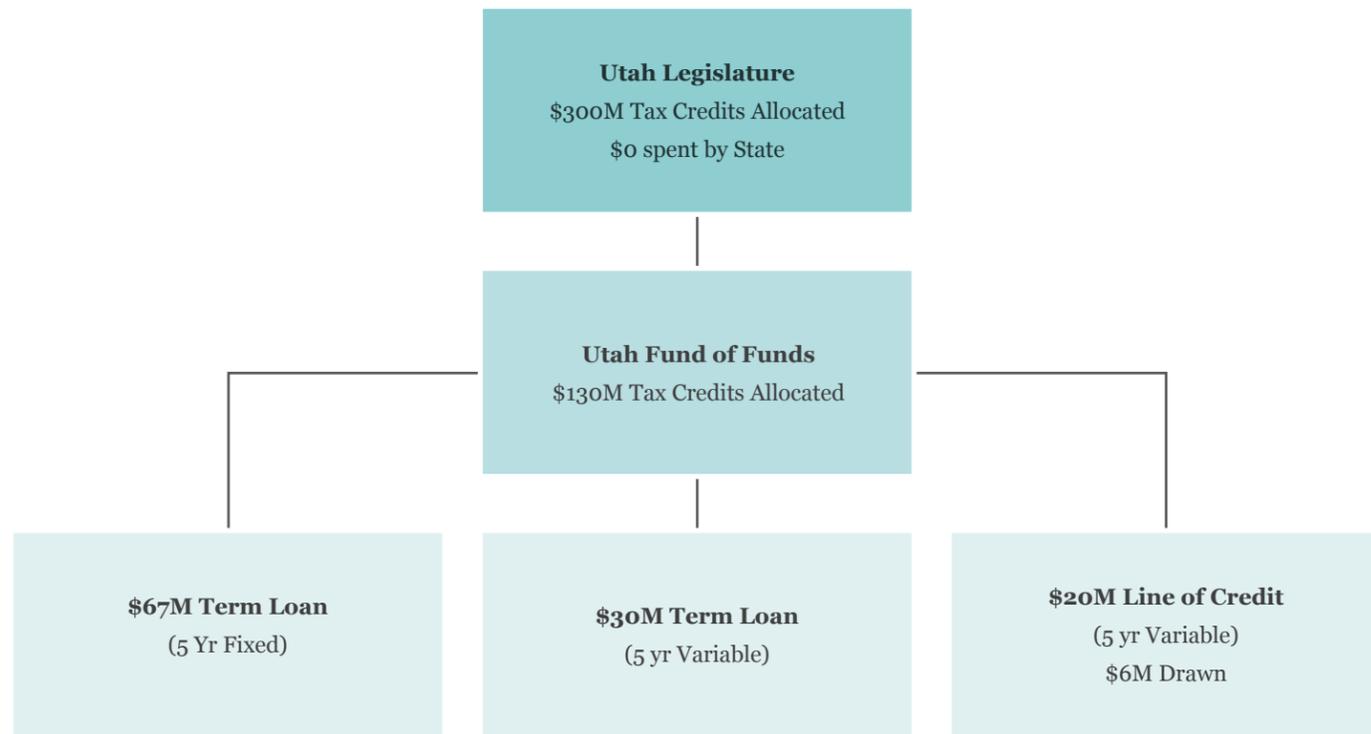
The Act in its entirety can be found in Utah code Section 63M Chapter 1 Sections 1201-1224 or on the Utah Fund of Funds website at <http://www.utahfof.com/UtahVentureCapitalEnhancementAR2009.pdf>

# UTAH FUND OF FUNDS FINANCING

The Utah Fund of Funds is capitalized 100% by private sources of capital. As of July 30, 2013 private investors had invested \$110M into the Utah Fund of Funds. The Fund was originally capitalized by a \$100M loan from Deutsche Bank. In 2012, Utah Fund of Funds management secured new investors to refinance the Deutsche Bank facility. This refinance will save the Fund over \$3M in annual

financing costs. Today, the investor syndicate includes Zions Bank and the local branch of Morgan Stanley who have each loaned the Utah Fund of Funds \$55M through three separate loan vehicles (see diagram). This new investor group provides the Fund with a much lower cost of capital and allows all interest paid to the investors to go to Utah-based banks.

The loans provide the Fund with the flexibility necessary to smartly manage the Fund's cash flows. In addition, with cost of financing lower than 4%, the Fund has secured a low cost of capital that will further help reduce the probability of accessing state of Utah tax credits.



# REFERENCES

- 1 Preqin. June 30,2013
- 2 As reported by Utah Fund of Funds as of June 30, 2013
- 3 Estimate based on study completed by University of Utah Bureau of Economic and Business Research
- 4 As of December 31, 2012. Total current employees less employees at time of investment.
- 5 Milken Institute State Technology and Science Index, 2012
- 6 PWC Moneytree

Utah Fund of Funds, LLC

# INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS

Utah Fund of Funds, LLC

## INDEPENDENT AUDITOR'S REPORT

*Chairman of the Board, Utah Fund of Funds, LLC*

We have audited the accompanying balance sheet, including the schedule of investments, of Utah Fund of Funds, LLC (the Fund), a Utah Corporation, and the related statements of operations, statement of equity, and cash flows for the year 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 accordance with the accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 Fund'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.

### BASIS FOR QUALIFIED OPINION

In accordance with the Utah Venture Capital Enhancement Act and in order to adhere and maintain investing partnerships with premier venture capital and private equity managers, these financial statements do not disclose the cost basis of individual investments. In our opinion, accounting principles generally accepted in the United States of America require that the cost basis of individual investments exceeding 5% of the investment portfolio on the Schedule of Investments be disclosed. However, in conjunction with our audit of the Utah Fund of Funds, we have audited the associated individual investment costs that would be disclosed in the Schedule of Investments presented in accordance with accounting principles generally accepted in the United States of America.

### QUALIFIED OPINION

In our opinion, except for the effects of not disclosing the cost basis of investments on the Schedule of Investments as explained in the Basis for Qualified Opinion paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Utah Fund of Funds, LLC as of December 31, 2012, and the results of its operations, its change in net assets, and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

HANSEN, BARNETT & MAXWELL, P.C.  
Salt Lake City, UT  
August 21, 2013

**BALANCE SHEET**

▶ Year ended December 31, 2012

<b>ASSETS</b>	
Current Assets	
Cash and cash equivalents	\$ 1,604,436
Receivable from UFOF II, LLC	1,629
<b>Total current assets</b>	<b>1,606,065</b>
Investments at fair value (cost - \$65,325,693)	88,344,045
<b>Total assets</b>	<b>\$ 89,950,110</b>
<b>LIABILITIES</b>	
Current Liabilities	
Management fees payable	\$ 62,500
Payable to Utah Capital Investment Corporation	238,784
Interest payable	728,805
Accrued expenses	3,329
<b>Total current liabilities</b>	<b>1,033,418</b>
Line of Credit	6,156,654
Notes Payable	97,000,000
<b>Total liabilities</b>	<b>104,190,072</b>
Members' equity	
Accumulated deficit	(14,239,962)
<b>Total liabilities and members' equity</b>	<b>\$ 89,950,110</b>

**SCHEDULE OF INVESTMENTS**

▶ Year ended December 31, 2012

	<b>PERCENTAGE OF INVESTMENT PORTFOLIO</b>	<b>INTEREST HELD</b>	<b>FAIR VALUE</b>
Cross Creek	8.4%	7.70%	\$ 7,409,668
5AM Ventures	6.4%	4.88%	5,663,160
Foundry Venture Capital 2007	5.6%	1.73%	4,981,583
Highway 12 Venture Fund II, LP	5.3%	11.29%	4,704,025
Media Technology Ventures V	7.1%x	5.82%	6,279,125
New Enterprise Associates	5.2%	0.14%	4,553,653
UV Partners IV	6.5%	6.86%	5,766,612
	<b>44.6%</b>		<b>\$ 39,357,826</b>
<hr/>			
Total investments in other funds	55.4%		\$ 48,986,220
<b>Total Investments</b>	<b>100%</b>		<b>\$ 88,344,045</b>

*(Note: Investments in the schedule are shown as a percentage of net assets of \$88,344,045 and only include investments that represents more than 5% of net assets.)*

**STATEMENT OF OPERATIONS**

▶ Year ended December 31, 2012

<b>INCOME</b>	
Realized gain on investments	\$ 5,139,386
<b>Total income</b>	<b>5,139,386</b>
<b>EXPENSES</b>	
Management fees	580,141
Professional fees	534,052
Operating expenses	51,180
Loan fees	722,037
DBAH fees (see note 5)	4,825,000
Interest expense	1,389,290
Total expenses	<b>8,101,700</b>
<b>Net investment loss</b>	<b>(2,962,314)</b>
Net change in unrealized appreciation on investments	1,978,538
<b>Net decrease in equity resulting from operations</b>	<b>\$ (983,776)</b>

**STATEMENT OF CASH FLOW**

▶ Year ended December 31, 2012

<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Net loss	\$ (983,776)
Adjustments to reconcile net income to cash used in operating activities:	
Realized gain on investments	(5,139,386)
Net change in unrealized appreciation of investments	(1,978,538)
Change in operating assets and liabilities:	
Accounts Receivable	(1,629)
Accounts Payable	52,155
Payable to Utah Capital Investment Corporation	(25,964)
Payable to Utah Fund of Funds II, LLC	(176,383)
Accrued Expenses	(4,040)
Interest Payable	728,805
<b>Net cash used in operating activities</b>	<b>(7,528,756)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Cash paid for purchases of investments	(12,065,518)
Cash distributions from investments	20,408,392
<b>Net cash provided by investing activities</b>	<b>8,342,874</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>	
Net proceeds from line of credit	6,156,654
Proceeds from notes payable	97,000,000
Distributions to member	(104,676,164)
<b>Net cash used in financing activities</b>	<b>(1,519,510)</b>
Net decrease in cash	(705,392)
Cash, beginning of period	2,309,828
<b>Cash, end of period</b>	<b>\$ 1,604,436</b>

## STATEMENT OF MEMBER'S EQUITY

► Year ended December 31, 2012

	UFOF	REGULAR MEMBER	TOTAL CAPITAL
Balances as of December 31, 2011	\$ -	\$ 90,842,444	\$ 90,842,444
Distributions to member	-	(104,098,630)	(104,098,630)
Net investment loss	(2,962,314)	-	(2,962,314)
Net change in unrealized			
appreciation on investments	1,978,538	-	1,978,538
Allocation of realized losses from Regular Member to UFOF	(13,256,186)	13,256,186	-
<b>Balances as of December 31, 2012</b>	<b>\$ (14,239,962)</b>	<b>\$ -</b>	<b>\$ (14,239,962)</b>

(Note: Investments in the schedule are shown as a percentage of net assets of \$88,344,045 and only include investments that represents more than 5% of net assets.)

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 1 – BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Fund is a limited liability company organized under the laws of the State of Utah. The Fund commenced operations on March 16, 2006. The Fund is scheduled to terminate on the earlier of March 16, 2105 or the occurrence of an “Event of Dissolution” as specified in the Amended and Restated Limited Liability Company Agreement (the Agreement).

The Fund is a \$100 million State of Utah economic development program aimed at providing access to alternative or non-traditional capital by Utah entrepreneurs. The Fund does not invest money into any company or individual but rather invests in venture capital and private equity funds that commit to establishing a working relationship with the Fund and with Utah’s start-up and business community, and making investments in qualified companies. The fund invests in venture capital and private equity funds located both in Utah and outside of Utah. As of December 31, 2012 the Fund’s portfolio of funds had 28 investments.

The Managing Member is Utah Capital Investment Corporation, UCIC (a Utah quasi-public non-profit corporation) (the Managing Member). The Managing Member was created upon the enactment of the Utah Venture Capital Enhancement Act to establish and provide management services to the Fund.

The accounting policies of Utah Fund of Funds, LLC (the Fund) conform to accounting principles generally accepted in the United States of America (GAAP). The following policies are considered to be significant:

**Use of Estimates in the Preparation of Financial Statements** – The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses during the

reporting period. Actual results could differ from those estimates and the differences could be material.

**Cash and Cash Equivalents** – Cash and Cash Equivalents include all cash balances and highly liquid investments with original maturities of less than three months.

**Concentrations of Credit Risk** – The Fund’s financial instruments that are exposed to concentrations of credit risk consist primarily of cash deposits.

The Fund maintains its cash deposits at financial institutions. At times such deposits may exceed federally insured limits. As of December 31, 2012, the Fund had deposits in excess of FDIC insurance of \$1,354,340.

**Gains or Losses on Investments** – Unrealized gains and losses on investments reflect the difference between fair value and cost basis.

Realized gains and losses on investments are recognized in the period of disposal or exchange and are measured by the difference between the proceeds of the sale or the fair value at the date of distribution and the cost basis of the investment.

**Allocation of Profits and Losses** – The Agreement provides for the allocation of profits and losses to be allocated among Members such that the Members would receive distributions equivalent to the distributions that would be received if the Fund were dissolved.

**Income Taxes** – The results of operations of the Fund are includable in the taxable income of the individual

members and, accordingly, no provision for deferral or state income taxes has been made in the accompanying

financial statements. No income tax returns are currently under examination. The Fund’s US federal tax

returns for the years ended December 31, 2009 through December 31, 2011 remain open.

**NOTES (CONTINUED)****NOTE 2 – RELATED PARTY TRANSACTIONS**

Under the Agreement, the Fund pays UCIC, the Managing Member, management fees for reasonable expenses incurred in providing management services to the Fund. For the year ended December 31, 2012, management fee expense to the Managing Member totaled \$580,141. As of December 31, 2012, the Fund owed \$238,784 to the Managing Member.

As of December 31, 2012, the Fund had a receivable due of \$1,629 from Utah Fund of Funds II, LLC (Fund II), a financing vehicle used to make additional funds available for investing. The Fund reimburses the Fund II for interest incurred on the Fund II's debt, which amounted to \$840,146 for the year ended December 31, 2012.

**NOTE 3 – FAIR VALUE MEASUREMENTS**

The Fund uses a fair value hierarchy that prioritizes inputs used to measure fair value into three broad levels. The Fund's investments are measured at fair value using the following fair value hierarchy levels:

- Level 1** Quoted prices in active markets for identical assets or liabilities;
- Level 2** Inputs that are both significant to the fair value measurement and observable, including net asset value per share (or equivalent) for certain investment funds.
- Level 3** Inputs that are both significant to the fair value measurement and unobservable, including inputs that are not derived from market data or cannot be corroborated by market data.

As a fund of hedge funds, all of the Fund's investments consist of investments in private investment funds. The classification level within the fair value hierarchy for investments in investment funds is determined by the Fund's ability to redeem the invest-

ment with the investee at net asset value (NAV) per share or its equivalent member units or interest in partners' capital at the measurement date.

For Level 2 classification, the Fund analyzed the investments in investment funds and determined that the investments were redeemable at NAV (or its equivalent) at the measurement date or within the near term.

For Level 3 classification, the Fund determined that the investments in Investment Funds cannot be redeemed at December 31, 2012, but may be redeemed at a future date because of a lock-up period or gate.

The following is a summary of the inputs used to value the Fund's investment as of December 31, 2012:

	Level 1	Level 2	Level 3
<b>Investments</b>	\$ -	\$ -	\$ 88,344,045

The following table includes a roll-forward of the amounts for the year ended December 31, 2012 for investments classified within Level 3. The classification of an investment within Level 3 is based upon the significance of the unobservable inputs to the overall fair value measurement.

Balance at December 31, 2011	\$89,568,995
Purchases	12,065,518
Distributions	(20,408,392)
Gains	
Realized	5,139,386
Unrealized	1,978,538
<b>Balance at December 31, 2012</b>	<b>\$88,344,045</b>

**NOTES (CONTINUED)**

All net realized and unrealized gains in the table above are reflected in the accompanying statement of operations. The fair values assigned to the investments where no market quotation exists are based upon available information and may not necessarily represent amount that will ultimately be realized. Such estimated amounts depend on future circumstances. These estimated amounts will not be realized until the individual investments are liquidated.

**NOTE 4 – LONG-TERM DEBT OBLIGATIONS**

During 2012, the Fund entered into several new debt agreements to buyout the Regular Members' equity interest (See Note 5). On February 13, 2012, the Fund entered into a line of credit agreement with a financial institution for \$35,000,000. The proceeds were used to pay down \$30,000,000 of the Regular Members' interest plus fees and expenses. Interest is calculated at the 90 day Libor rate plus 3.25%. This loan was paid in full as part of the debt agreements entered into on October 22, 2012.

On October 22, 2012, the Fund entered into an agreement with a financial institution for a note payable of \$80,000,000 with a maturity date of October 2017. The Fund is required to have an interest reserve of \$13,000,000. The note bears interest at 3.9% annually and the Fund is required to make quarterly interest payments. The total amount of the note payable is due at maturity. Utah Capital Investment Corporation is the guarantor of the debt and the debt is secured by the investments of the Fund.

On October 22, 2012, the Fund entered into an additional note payable with a financial institution for \$30,000,000 with a maturity date of October 2017. Interest is calculated at the 90 day Libor rate plus 2.95% with interest payments due quarterly. As of December 31, 2012, the interest rate was 3.75%. Principal payments of \$2,000,000 are required quarterly starting June 2014, and the remaining balance of \$2,000,000 will be due at maturity. Utah Capital Investment Corporation is the guarantor

of the debt and the debt is secured by the investments of the Fund. Below is a summary of the required principal payments.

Years Ending December 31,	Principal
2013	\$ -
2014	6,000,000
2015	8,000,000
2016	8,000,000
2017	8,000,000
	<b>\$ 30,000,000</b>

Lastly, on October 22, 2012, the Fund entered into a line of credit agreement with a financial institution for \$20,000,000 with a maturity date of October 2017. This line of credit replaced the line of credit from Utah Fund of Funds II, LLC that was previously outstanding. At October 22, 2012, \$687,323 of outstanding debt on the line of credit was assumed by the Fund from Fund II. Interest is calculated at the 90 day Libor rate plus 3.1% with interest payments due quarterly. As of December 31, 2012, the interest rate was 3.41%. The line of credit will be reduced by \$1,000,000 each quarter beginning on December 31, 2014, with the outstanding balance being due at maturity. Utah Capital Investment Corporation is the guarantor of the debt and the debt is secured by the investments of the Fund.

**NOTE 5 – EQUITY**

The Fund reached an agreement with the DBAH Captial, LLC (the Regular Member) to buy out their equity interest in 2012. The Fund paid \$100,000,000 during the year to the Regular Member to buy out the original equity contribution. In addition, the Fund paid \$4,676,164 which represents the current year preferred

dividends of \$4,098,631 as well as preferred dividends accrued but not paid last year of \$577,534. As part of the payoff, the Fund incurred transaction fees of \$4,825,000 which represents penalties and fee's associated with the buyout of the Regular Member. As of December 31, 2012, the Regular Member had no equity ownership in the Fund.

#### NOTE 6 – FINANCIAL HIGHLIGHTS

The following financial highlights are being presented in accordance with the provisions of ASC 946, *Financial Services – Investment Companies*.

These financial highlights may not be indicative of the future performance of the Fund.

Total return	2.34%
Operating expense ratio	16.77%
Net investment loss ratio	-16.77%

The net investment loss and operating expense ratios are computed as a percentage of average member's equity. The total return was computed based on the actual dates of cash inflows (capital contributions), cash outflows (distributions), and ending balance of equity as of the measurement date (residual value).

#### NOTE 7 – COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Fund is party to various claims, actions, and complaints. In the opinion of management, the resolution of these matters will not have a material adverse effect on the Fund's financial position or activities.

The Fund has outstanding capital commitments of \$33,432,751 to their current investments. These capital calls are determined by the investment and can be made at any time.

#### NOTE 8 – SUBSEQUENT EVENTS

Management has evaluated all events subsequent to the balance sheet date of December 31, 2012, through August 21, 2013, which is the date these financial statements were available to be issued, and have determined that there are no subsequent events that require disclosure.

*Chairman of the Board, Utah Fund of Funds, LLC*

We have audited the financial statements of the Utah Fund of Funds LLC (the Fund) as of and for the year ended December 31, 2012, and have issued our report thereon August 21, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

#### COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

#### PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

HANSEN, BARNETT & MAXWELL, P.C.  
Salt Lake City, UT  
August 21, 2013



*Instructure, Salt Lake City, UT*

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