

**UTAH FUND OF FUNDS, LLC**

**FINANCIAL STATEMENTS**

**December 31, 2006**

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WISAN, SMITH, RACKER & PRESCOTT, LLP  
C E R T I F I E D P U B L I C A C C O U N T A N T S

INDEPENDENT AUDITORS' REPORT

**Chairman of the Board**  
**Utah Capital Investment Corporation**  
**Members**  
**Utah Fund of Funds, LLC**  
**Salt Lake City, Utah**

We have audited the accompanying balance sheet, including the schedule of investments, of Utah Fund of Funds, LLC as of December 31, 2006 and the related statements of operations, cash flows and members' equity for the period from inception (March 16, 2006) through December 31, 2006. All information included in these financial statements is the representation of the management of Utah Fund of Funds, LLC. Our responsibility is to express an opinion on these 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Utah Fund of Funds, LLC as of December 31, 2006, and the results of its operations, cash flows and members' equity for the period from inception (March 16, 2006) through December 31, 2006 in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 9, 2007, on our consideration of Utah Fund of Funds, LLC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Wisan Smith Racker & Prescott, LLP*

Salt Lake City, Utah  
August 9, 2007

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**UTAH FUND OF FUNDS, LLC**  
**BALANCE SHEET**  
**December 31, 2006**

**ASSETS**

Cash and cash equivalents	\$	2,969,742
Interest receivable		18,001
Investments at estimated fair value (cost - \$8,648,969)		<u>7,982,009</u>
<b>TOTAL ASSETS</b>	<b>\$</b>	<b><u>10,969,752</u></b>

**LIABILITIES AND MEMBERS' EQUITY**

**LIABILITIES**

Accrued expenses	\$	203,940
Payable to Utah Capital Investment Corporation		219,048
Payable to DBAH Capital, LLC		<u>101,269</u>
<b>TOTAL LIABILITIES</b>		<b>524,257</b>

**MEMBERS' EQUITY**

Managing member		-
Regular member		<u>10,445,495</u>
<b>TOTAL MEMBERS' EQUITY</b>		<b><u>10,445,495</u></b>

<b>TOTAL LIABILITIES AND MEMBERS' EQUITY</b>	<b>\$</b>	<b><u>10,969,752</u></b>
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*The accompanying notes are an integral part of the financial statements.*

**UTAH FUND OF FUNDS, LLC**  
**STATEMENT OF OPERATIONS**  
**For the Period from Inception (March 16, 2006)**  
**Through December 31, 2006**

INCOME		
Interest income		\$ 268,620
 EXPENSES		
Management fees	\$ 652,072	
Professional fees	866,180	
Organization fees	442,706	
Other expenses	1,413,550	
Operating expenses	<u>1,986</u>	<u>3,376,494</u>
NET INVESTMENT LOSS		(3,107,874)
 NET CHANGE IN UNREALIZED DEPRECIATION OF INVESTMENTS		 <u>(666,960)</u>
 NET DECREASE IN MEMBERS' EQUITY RESULTING FROM OPERATIONS		 <u>\$ (3,774,834)</u>

*The accompanying notes are an integral part of the financial statements.*

**UTAH FUND OF FUNDS, LLC**  
**STATEMENT OF CASH FLOWS**  
**For the Period from Inception (March 16, 2006)**  
**Through December 31, 2006**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss		\$ (3,774,834)
Adjustments to reconcile net loss to net cash used by operating activities:		
Net change in unrealized depreciation of investments	\$ 666,960	
Increase in assets:		
Interest receivable	(18,001)	
Increase in liabilities:		
Accrued expenses	203,940	
Payable to Utah Capital Investment Corporation	219,048	
Payable to DBAH Capital, LLC	<u>101,269</u>	<u>1,173,216</u>
Net cash used by operating activities		(2,601,618)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Cash paid for purchase of investments	<u>(8,648,969)</u>	
Net cash used by investing activities		(8,648,969)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Capital contributions received	15,000,000	
Distributions to member	<u>(779,671)</u>	
Net cash flows from financing activities		<u>14,220,329</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS		2,969,742
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		<u>-</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD		<u>\$ 2,969,742</u>

*The accompanying notes are an integral part of the financial statements.*

**UTAH FUND OF FUNDS, LLC**  
**STATEMENT OF MEMBERS' EQUITY**  
**For the Period from Inception (March 16, 2006)**  
**Through December 31, 2006**

	<u>Managing Member</u>	<u>Regular Member</u>	<u>Total Members' Equity</u>
Balance March 16, 2006 (inception)	\$ -	\$ -	\$ -
Capital contributions	-	15,000,000	15,000,000
Distributions to member	-	(779,671)	(779,671)
Net investment loss	-	(3,107,874)	(3,107,874)
Net change in unrealized depreciation of investments	<u>-</u>	<u>(666,960)</u>	<u>(666,960)</u>
Balance December 31, 2006	<u>\$ -</u>	<u>\$ 10,445,495</u>	<u>\$ 10,445,495</u>

*The accompanying notes are an integral part of the financial statements.*

[Certain information on this page has been redacted by the Office of the Utah State Auditor pursuant to the settlement agreement for Third District Court Case No. 110919712]

**UTAH FUND OF FUNDS, LLC  
SCHEDULE OF INVESTMENTS  
December 31, 2006**

	<u>Percentage of Members' Equity</u>	<u>Interest Held</u>	<u>Investment Cost</u>	<u>Estimated Fair Value</u>
Apax US VII, L.P.	9.1%			\$ 946,159
Cross Creek Capital, L.P.	11.7%			1,223,087
5AM Ventures II, L.P.	1.9%			199,883
Highway 12 Venture Fund II, L.P.	1.9%			193,873
Rosewood Capital V, L.P.	0.4%			38,827
RWI Ventures II, L.P.	11.0%			1,146,102
University Opportunity Fund, LLC	9.0%			939,284
vSpring II, L.P.	<u>31.5%</u>			<u>3,294,794</u>
<b>TOTAL INVESTMENTS</b>	<u><u>76.5%</u></u>		<u><u>\$ 8,648,969</u></u>	<u><u>\$ 7,982,009</u></u>

*The accompanying notes are an integral part of the financial statements.*

**UTAH FUND OF FUNDS, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2006**

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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

*Business Activity*

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 to 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, 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 Utah. As of December 31, 2006, the Fund's portfolio of funds had twenty investments in Utah companies.

The Managing Member is Utah Capital Investment Corporation (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.

*Use of Estimates in the Preparation of Financial Statements*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and reported amounts of revenues and expenses during the reporting period. Actual results could differ from such estimates and the difference could be material.

*Contributed Capital*

Total capital committed to the Fund as of December 31, 2006 was \$100,000,000, of which \$15,000,000 was contributed during the period from inception (March 16, 2006) through December 31, 2006.

**UTAH FUND OF FUNDS, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2006**

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

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

Investment Valuation

Investments are stated at estimated fair value as determined by the Managing Member. The financial statements include investments valued at \$7,982,009 as of December 31, 2006, whose fair values have been estimated by the Managing Member in the absence of readily ascertainable market values. The fair values assigned to the investments where no market quotation exists are based upon available information from third-party issuers but may not necessarily represent amounts that will ultimately be realized. Because of the inherent uncertainty of valuations, estimated fair values may differ significantly from the values that would have been used had a ready market for the investments existed, and the differences could be material.

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 was dissolved.

Distributions

The Agreement provides for discretionary and mandatory distributions to be made during the term of the Fund.

Distributions are to be made at least semi-annually to DBAH Capital, LLC (the Regular Member) and call for the Regular Member to receive 100% of the "Commitment Fee" (0.20% of the capital contributed, compounded annually) and 100% of the "Undistributed Preferred Dividends" (6.8% of the capital contributed, compounded annually) and any related "Default Interest" to and including June 1, 2021.

Mandatory distributions are scheduled to begin on June 1, 2017 and on each of the next four anniversaries to redeem the Regular Member's "Unrecovered Capital Balance" according to a prescribed formula in the Agreement.

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.

**UTAH FUND OF FUNDS, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2006**

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Organization Costs

Organization costs incurred with the formation of the Fund are expensed in the period incurred.

Income Taxes

The results of operations of the Fund are includable in the taxable income of the individual members and, accordingly, no provision for federal or state income taxes has been made in the accompanying financial statements.

Concentrations of Credit Risk

The Company's financial instruments that are exposed to concentrations of credit risk consist primarily of cash deposits.

The Company maintains its cash deposits at financial institutions. At times such deposits may exceed federally insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

NOTE 2 - RELATED PARTY TRANSACTIONS

Under the Agreement, the Fund pays the Managing Member management fees for reasonable expenses incurred by the Managing Member in providing management services to the Fund. For the period from inception (March 16, 2006) through December 31, 2006, management fee expense to the Managing Member totaled \$652,072. As of December 31, 2006, the Fund had a payable totaling \$219,048 due to the Managing Member.

Under the Agreement, the Fund pays the Regular Member a "Commitment Fee" of 0.20% compounded annually of the total capital contributed by the Regular Member. For the period from inception (March 16, 2006) through December 31, 2006, commitment fee expense to the Regular Member totaled \$131,750. For the period from inception (March 16, 2006) through December 31, 2006, the Fund also paid the Regular Member a transaction fee totaling \$1,000,000. As of December 31, 2006, the Fund had a payable totaling \$101,269 due to the Regular Member.

NOTE 3 - 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.

**UTAH FUND OF FUNDS, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2006**

NOTE 4 - FINANCIAL HIGHLIGHTS

The Fund is required to disclose financial highlights in accordance with the provisions of AICPA Statement of Position 03-04. These financial highlights consist of the operating expenses and net investment loss ratios for the period from inception (March 16, 2006) through December 31, 2006 and the Internal Rate of Return (IRR) of the Regular Member, net of all fees and profit allocations to the Managing Member. The following summarizes the Regular Member's financial highlights:

Net investment loss ratio	(26.15%)
Operating expense ratio	28.41%
Cumulative internal rate of return	(32.52%)

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

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

# WISAN, SMITH, RACKER & PRESCOTT, LLP

CERTIFIED PUBLIC ACCOUNTANTS

## REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

**Chairman of the Board**  
**Utah Capital Investment Corporation**  
**Members**  
**Utah Fund of Funds, LLC**  
**Salt Lake City, Utah**

We have audited the financial statements of the Utah Fund of Funds, LLC (the Fund) as of and for the period from inception (March 16, 2006) through December 31, 2006, and have issued our report thereon dated August 9, 2007. 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, we considered the Fund's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control. We consider the deficiency described in 06-01 in the accompanying schedule of findings and recommendations to be significant in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the organization's internal control.

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Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements are free of 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*.

This report is intended solely for the information and use of the management, the Board of Directors, and the Utah State Auditor's Office and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Wison Smith Racker & Prescott, LLP*

Salt Lake City, Utah  
August 9, 2007

**UTAH FUND OF FUNDS, LLC**  
**SCHEDULE OF FINDINGS AND RECOMMENDATIONS**  
**Year ended December 31, 2006**

**06-01: WRITTEN OPERATIONAL POLICIES AND PROCEDURES**

*Condition:* During our audit, we noted that the Fund had not formally adopted written operational policies and procedures in all areas and functions governing the Fund's activities. We did note that the Fund has policies and procedures in the areas of conflicts of interest, investing by the Utah Capital Investment Corporation's (the Corporation) Board members, records access management, and travel. Further, we noted that the Fund is in the process of drafting and adopting policies and procedures governing budgeting, procurement, and disposal of surplus property; however, policies and procedures should include clear definitions of authority, reporting relationships, responsibility, and accountability for all areas and functions of the Fund and should be in writing. Policies and procedures should include a disaster recovery plan, an information security policy requiring protection of sensitive data, and confidentiality agreements for employees who come in contact with confidential information. The lack of adequate written policies and procedures results in confusion with assigned responsibilities, accountability, and proper procedures. This situation weakens the internal controls at the Fund and could allow errors or misappropriations to occur without detection.

*Recommendation:* We recommend that the Corporation's Board of Directors develop written policies and procedures for all areas and functions of the Fund.