

**UTAH FUND OF FUNDS, LLC**

**FINANCIAL STATEMENTS**

**December 31, 2011**

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**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 (the Fund) as of December 31, 2011, and the related statements of operations, cash flows, and members' equity for the year then ended. These financial statements are the responsibility of the Fund's management. 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 Fund'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, 2011, and the results of its operations, cash flows, and members' equity for the year then ended 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 July 31, 2012, 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 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  
July 31, 2012

**UTAH FUND OF FUNDS, LLC**  
**BALANCE SHEET**  
**December 31, 2011**

**ASSETS**

**CURRENT ASSETS**

Investments at estimated fair value (cost - \$68,529,181)	\$89,568,995
Cash and cash equivalents	<u>2,309,828</u>

TOTAL ASSETS \$91,878,823

**LIABILITIES AND MEMBERS' EQUITY**

**LIABILITIES**

Accrued expenses	\$ 17,714
Payable to Utah Capital Investment Corporation	264,748
Payable to Utah Fund of Funds II, LLC	176,383
Payable to DBAH Capital, LLC	<u>577,534</u>

TOTAL LIABILITIES 1,036,379

**MEMBERS' EQUITY**

Managing member	-
Regular member	<u>90,842,444</u>

TOTAL MEMBERS' EQUITY 90,842,444

TOTAL LIABILITIES AND MEMBERS' EQUITY \$91,878,823

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

**UTAH FUND OF FUNDS, LLC**  
**STATEMENT OF OPERATIONS**  
**Year ended December 31, 2011**

INCOME	
Realized gain on investments	\$ 60,287
Interest income	3,335
	<u>63,622</u>
	TOTAL INCOME
EXPENSES	
Management fees	445,718
Professional fees	363,765
Operating expenses	1,226
Other expenses	444,459
	<u>1,255,168</u>
	TOTAL EXPENSES
	NET INVESTMENT LOSS (1,191,546)
	NET CHANGE IN UNREALIZED APPRECIATION ON INVESTMENTS <u>14,385,087</u>
	NET INCREASE IN MEMBERS' EQUITY
	RESULTING FROM OPERATIONS <u>\$13,193,541</u>

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

**UTAH FUND OF FUNDS, LLC**  
**STATEMENT OF CASH FLOWS**  
**Year ended December 31, 2011**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Net increase in members' equity resulting from operations	\$ 13,193,541
Adjustments to reconcile net increase in members' equity resulting from operations to net cash used by operating activities:	
Realized gain on investments	(60,287)
Net change in unrealized appreciation of investments	(14,385,087)
Changes in operating liabilities:	
Accrued expenses	(119,787)
Payable to Utah Capital Investment Corporation	4,973
Payable to Utah Fund of Funds II, LLC	(10,670,576)
Payable to DBAH Capital, LLC	140,077
Net cash used by operating activities	<u>(11,897,146)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Cash paid for purchases of investments	(18,092,388)
Cash distributions from investments	13,309,530
Net cash used by investing activities	<u>(4,782,858)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Capital contributions received	25,000,000
Distributions to members	(6,096,711)
Net cash flows from financing activities	<u>18,903,289</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,223,285
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>86,543</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 2,309,828</u></u>
<b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>	
Cash paid for interest	<u><u>\$ 458,658</u></u>

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

**UTAH FUND OF FUNDS, LLC**  
**STATEMENT OF MEMBERS' EQUITY**  
**Year ended December 31, 2011**

	<u>Managing Member</u>	<u>Regular Member</u>	<u>Total Members' Capital</u>
Balances at December 31, 2010	\$ -	\$58,745,615	\$58,745,615
Capital contributions	-	25,000,000	25,000,000
Distributions	-	(6,096,712)	(6,096,712)
Net investment loss	-	(1,191,546)	(1,191,546)
Net change in unrealized appreciation on investments	-	<u>14,385,087</u>	<u>14,385,087</u>
Balances at December 31, 2011	<u>\$ -</u>	<u>\$90,842,444</u>	<u>\$90,842,444</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  
Year ended December 31, 2011**

	Percentage of Investment Portfolio	Interest Held	Investment Cost	Estimated Fair Value
Apax US VII, LP	0.7%			\$ 636,430
Ares Corporate Opportunities Fund III, LP	3.5%			3,163,888
Blackstone/GSO	3.7%			3,283,172
Clarus Lifesciences II, LP	1.5%			1,371,652
Cross Creek	7.1%			6,374,264
Epic Venture Fund IV	2.6%			2,345,479
Fenway Partners	4.8%			4,293,892
5AM Ventures	6.6%			5,870,300
Foundry Venture Capital 2007	11.0%			9,844,130
Frazier Healthcare VI, LP	2.4%			2,099,392
Highway 12 Venture Fund II, LP	4.7%			4,192,290
Hummer Winblad Venture Partners VI	1.8%			1,637,872
Khosla Ventures III, LP	2.4%			2,125,880
Media Technology Ventures V	6.4%			5,755,264
Mercato Partners QP, LP	6.0%			5,363,327
New Enterprise Associates	3.6%			3,254,242
Pine Brook Capital Partners	3.3%			2,967,478
Rosewood Advisors	1.5%			1,374,414
RWI Ventures II, LP	2.5%			2,196,037
Shasta Ventures II, LP	0.9%			836,437
SV Life Sciences Fund IV, LP	3.0%			2,682,008
TA XI, LP	3.4%			3,000,203
TriVentures II	0.6%			548,635
University Opportunity Fund	1.1%			1,023,238
UpStart Life Sciences Capital, LP	0.1%			129,477
UV Partners IV	8.3%			7,414,739
vSpring II	2.4%			2,114,919
West Rim Capital Associates II	4.1%			3,669,936
	<u>100%</u>		<u>\$ 68,529,181</u>	<u>\$ 89,568,995</u>

**UTAH FUND OF FUNDS, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2011**

NOTE 1 - SUMMARY OF 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 (GAAP). 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 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, 2011, the Fund’s portfolio of funds had 28 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 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.

*Contributed Capital*

Total capital committed to the Fund as of December 31, 2011 was \$100,000,000, all of which had been contributed as of December 31, 2011.

*Cash and Cash Equivalents*

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

**UTAH FUND OF FUNDS, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2011**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

*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. The Fund has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

*Investment Valuation*

Investments are stated at estimated fair value as determined by the Managing Member. The financial statements include investments valued at \$89,568,995 as of December 31, 2011, 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.

*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.

*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 the Regular Member is 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.

*Organization Costs*

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

**UTAH FUND OF FUNDS, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2011**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 federal or state income taxes has been made in the accompanying financial statements.

Subsequent Events

Management of the Fund has evaluated subsequent events through July 31, 2012, which is also the date the financial statements were available to be issued. No subsequent events were noted during this evaluation that required recognition or disclosure in these financial statements, except those discussed in Note 6.

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 year ended December 31, 2011, management fee expense to the Managing Member totaled \$445,718. As of December 31, 2011, the Fund owed \$264,748 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 year ended December 31, 2011, commitment fee expense to the Regular Member totaled \$31,704. As of December 31, 2011, the Fund owed \$577,534 to the Regular Member.

As of December 31, 2011, the Fund also owed \$176,383 to Utah Fund of Funds II, LLC (Fund II), a financing vehicle used to make additional funds available for investing.

NOTE 3 - FAIR VALUE MEASUREMENTS

The Fund uses a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority; Level 2 inputs consist of non-quoted prices that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active; and Level 3 inputs consist of inputs that are unobservable. The Fund uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments.

**UTAH FUND OF FUNDS, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2011**

NOTE 3 - FAIR VALUE MEASUREMENTS (CONTINUED)

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. An investment's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgment by the general partner of each fund invested in (collectively "the General Partner"). The General Partner considers observable data to be that market data which is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, provided by multiple, independent sources that are actively involved in the relevant market. The categorization of an investment within the hierarchy is based upon the pricing transparency of the investment and does not necessarily correspond to the General Partner's perceived risk of that investment.

Substantially all of the Fund's investments have been classified within Level 3 as they have unobservable inputs, as they trade infrequently or not at all. Level 3 investments include common and preferred equity securities, corporate debt, warrants, and other privately issued securities. When observable prices are not available for these securities, the General Partner uses the market approach valuation technique for which sufficient and reliable data is available. Within Level 3, the use of the market approach generally consists of using comparable market transactions.

The inputs used by the General Partner in estimating the value of Level 3 investments include the original transaction price, recent transactions in the same or similar instruments, completed or pending third-party transactions in the underlying investment or comparable issuers, subsequent rounds of financing, recapitalizations and other transactions across the capital structure, offerings in the equity or debt capital markets, and changes in financial ratios or cash flows. Level 3 investments may also be adjusted to reflect illiquidity and/or non-transferability, with the amount of such discount estimated by the General Partner in the absence of market information. The fair value measurement of Level 3 investments does not include transaction costs that may have been capitalized as part of the security's cost basis. Assumptions used by the General Partner due to the lack of observable inputs may significantly impact the resulting fair value and therefore the Fund's results of operations.

Investments may be classified as Level 2 when market information becomes available, yet the investment is not traded in an active market and/or the investment is subject to transfer restrictions, or the valuation is adjusted to reflect illiquidity and/or non-transferability.

Investments whose values are based on quoted market prices in active markets, and are therefore classified within Level 1, generally include active listed equities. The General Partner does not adjust the quoted price for such instruments, even in situations where the Fund holds a large position and a sale could reasonably impact the quoted price.

**UTAH FUND OF FUNDS, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2011**

NOTE 3 - FAIR VALUE MEASUREMENTS (CONTINUED)

The following table presents the investments carried on the balance sheet by level within the valuation hierarchy as of December 31, 2011:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments	\$ -	\$ -	\$ 89,568,995	\$ 89,568,995

The following table includes a rollforward of the amounts for the year ended December 31, 2011 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, 2010	\$ 70,340,763
Purchases	18,092,388
Distributions	(13,309,530)
Gains	
Realized	60,287
Unrealized	14,385,087
Balance at December 31, 2011	\$ 89,568,995

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 amounts 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 - 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.

Cumulative internal rate of return	0.46%
Operating expense ratio	1.70%
Net investment loss ratio	(1.61%)

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

**UTAH FUND OF FUNDS, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2011**

NOTE 5 - 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.

NOTE 6 - SUBSEQUENT EVENT

In February 2012 the Fund negotiated a promissory note with Zions Bank through Fund II to provide funding in order to redeem \$30,000,000 of the investment made by DBAH Capital, LLC. Fund II may borrow up to \$35,000,000 less an interest reserve as determined by the bank. The note is secured by the portfolio investments of the Fund and guaranteed by the Managing Member. Interest is accrued at 90 Day LIBOR plus 3.25% per annum on the outstanding balance. A non-use fee equal to 0.50% of the unused portion is assessed quarterly. The note matures in February 2017.

**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 Utah Fund of Funds, LLC (the Fund) as of and for the year ended December 31, 2011 and have issued our report thereon dated July 31, 2012. 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 opinions 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. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control over financial reporting.

*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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

## 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 management of the Fund, the Board of Directors, and the Utah State Auditor's Office and is not intended to be and should not be used by anyone other than these specified parties.

*Wisam Smith Racke & Prescott, LLP*

Salt Lake City, Utah  
July 31, 2012