



IOWA DESIGNATED INVESTOR, INC.
Financial Statements
December 31, 2011 and 2010
(With Independent Auditors' Report Thereon)

IOWA DESIGNATED INVESTOR, INC.

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KPMG LLP
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Independent Auditors' Report

The Shareholders
Iowa Designated Investor, Inc.:

We have audited the accompanying balance sheets of Iowa Designated Investor, Inc. (the Company) as of December 31, 2011 and 2010, and the related statements of operations, shareholders' deficit, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 audits provide 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 Iowa Designated Investor, Inc. as of December 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

October 22, 2012

IOWA DESIGNATED INVESTOR, INC.

Balance Sheets

December 31, 2011 and 2010

Assets	2011	2010
Cash and cash equivalents	\$ 501,114	742
Investment in Iowa Fund of Funds, Fund A, LLLP	23,086,118	21,426,760
Loan origination fees, net of accumulated amortization of \$73,333 and \$64,917	6,667	1,250
Total assets	<u>\$ 23,593,899</u>	<u>21,428,752</u>
Liabilities and Shareholders' Deficit		
Liabilities:		
Accounts payable	\$ 484	105
Interest payable	138,677	161,645
Line of credit	32,641,519	29,736,300
Total liabilities	<u>32,780,680</u>	<u>29,898,050</u>
Shareholders' deficit:		
Common stock, \$1 par value. Authorized 5,000 shares; issued and outstanding 300 shares	300	300
Accumulated deficit	(9,187,081)	(8,469,598)
Total shareholders' deficit	<u>(9,186,781)</u>	<u>(8,469,298)</u>
Total liabilities and shareholders' deficit	<u>\$ 23,593,899</u>	<u>21,428,752</u>

See accompanying notes to financial statements.

IOWA DESIGNATED INVESTOR, INC.

Statements of Operations

Years ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Income:		
Equity in income (loss) of investment in Iowa Fund of Funds, Fund A, LLLP	\$ 618,464	(637,700)
Interest income	1,098	—
Total income (loss)	<u>619,562</u>	<u>(637,700)</u>
Expenses:		
Interest expense	1,216,259	609,407
Legal expense	36,931	610
General and administrative expenses	83,855	24,560
Total expenses	<u>1,337,045</u>	<u>634,577</u>
Net loss	<u>\$ (717,483)</u>	<u>(1,272,277)</u>

See accompanying notes to financial statements.

IOWA DESIGNATED INVESTOR, INC.

Statements of Shareholders' Deficit

Years ended December 31, 2011 and 2010

	<u>Common stock</u>	<u>Accumulated deficit</u>	<u>Total</u>
Balance, December 31, 2009	\$ 300	(7,197,321)	(7,197,021)
Net loss	—	(1,272,277)	(1,272,277)
Balance, December 31, 2010	300	(8,469,598)	(8,469,298)
Net loss	—	(717,483)	(717,483)
Balance, December 31, 2011	\$ <u>300</u>	<u>(9,187,081)</u>	<u>(9,186,781)</u>

See accompanying notes to financial statements.

IOWA DESIGNATED INVESTOR, INC.

Statements of Cash Flows

Years ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Net loss	\$ (717,483)	(1,272,277)
Adjustments to reconcile net loss to net cash used in operating activities:		
Amortization of loan origination fees	74,583	15,000
Equity in (income) loss of investment	(618,464)	637,700
Change in:		
Accounts payable	379	(63)
Interest payable	(22,968)	161,645
Net cash from operating activities	<u>(1,283,953)</u>	<u>(457,995)</u>
Cash flows from investing activities:		
Investment in Iowa Fund of Funds, Fund A, LLLP	(3,746,574)	(5,087,165)
Distributions received from investee	2,705,680	725,756
Net cash from investing activities	<u>(1,040,894)</u>	<u>(4,361,409)</u>
Cash flows from financing activities:		
Borrowings on line of credit	35,613,900	5,545,290
Repayments on line of credit	(32,708,681)	(725,756)
Loan origination fees paid	(80,000)	—
Net cash from financing activities	<u>2,825,219</u>	<u>4,819,534</u>
Net change in cash and cash equivalents	500,372	130
Cash and cash equivalents:		
Beginning of year	742	612
End of year	\$ <u><u>501,114</u></u>	<u><u>742</u></u>
Supplemental cash flow information:		
Cash paid for interest	\$ 1,239,227	447,762

See accompanying notes to financial statements.

IOWA DESIGNATED INVESTOR, INC.

Notes to Financial Statements

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(1) **Basis of Presentation**

Iowa Designated Investor, Inc. (the Company) was organized under the Delaware General Corporation Law. The Company, which began operations on June 24, 2005, was formed for the purpose of making equity investments in and being a Preferred Limited Partner of Iowa Fund of Funds, Fund A, LLLP (the Fund). The Company, upon making a commitment to invest in the Fund, received tax credit certificates from the Iowa Capital Investment Board (ICIB) that assures its receipt of a Scheduled Return (see note 5).

(2) **Summary of Significant Accounting Policies**

(a) *Basis of Accounting*

The Company prepares its financial statements on the accrual basis of accounting, which recognizes revenue as earned and expenses when incurred, rather than when cash is actually received or disbursed.

(b) *Use of Estimates*

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(c) *Cash Equivalents*

Cash equivalents include highly liquid securities, investments in interest-bearing money market deposits, and short-term debt securities with maturities of three months or less when purchased.

(d) *Investment in Iowa Fund of Funds, Fund A, LLLP*

The Company has a capital commitment obligation, subject to its ability to obtain financing, to the Fund for an amount equal to \$40,000,000 and \$30,000,000 for the years ended December 31, 2011 and 2010, respectively, in exchange for an economic interest in the Fund described in note 4. The Company does not control or have significant influence over the Fund. However, the Company's officers do exercise significant influence over the Fund through their control of Cimarron Capital Associates I, LLC (Cimarron), which is employed by the general partner of the Fund as the Fund's manager. The investment is included in the balance sheets at the Company's ratable share of the underlying net assets of the Fund. Equity in income (loss) of investment represents the Company's share of the Fund's income (losses) as provided for under the terms of the Limited Partnership Agreement of the Fund dated June 9, 2005 (the Partnership Agreement).

(e) *Income Taxes*

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable

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income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

The Company files income tax returns in the U.S. federal jurisdiction and multiple state jurisdictions. The Company is currently not under income tax examination by the IRS or any state. For federal and state tax purposes, the Company's 2008 through 2010 tax years remain open for examination by the tax authorities due to the statute of limitations. The Company had no unrecognized tax benefits as of December 31, 2011 and 2010.

(f) Risks and Uncertainties

The Company's ability to recover its investment in the Fund is dependent upon a number of factors, including the ability of the individual portfolio funds of the Fund to generate and distribute cash flow to the Fund, their ability to execute investment exit strategies in accordance with their individual objectives, the economic and industry conditions in the geographical areas in which the portfolio partnerships operate, and other factors that may affect national securities markets. The tax credit certificates issued by the ICIB to assure the Company of a Scheduled Return (see note 5) are intended to mitigate these risks.

In 2010, the Iowa Legislature scaled back or otherwise curtailed most of the state's tax credit programs, and the tax credit that supports the Fund was reduced from \$100 million to \$60 million. This is expected to reduce the capacity of the Fund to make investments and result in a portfolio of smaller size and fewer investments. The diversity of the Fund's investments may be less than originally planned and the commensurate risk of the portfolio may be higher than planned. The risk that the Fund's portfolio returns will be insufficient to amortize its combined startup and operating costs has been increased.

(3) Iowa Fund of Funds, Fund A, LLLP: Partnership Profits, Losses, and Cash Distributions

The Fund has four partners: the Company (a Preferred Limited Partner); Cimarron; the Iowa Revolving Fund, LP (the Special Limited Partner); and Iowa Capital Investment Corporation (the General Partner). Additional Preferred Limited Partners may be admitted from time to time as provided in the Partnership Agreement.

The Partnership Agreement provides that amounts received by the Fund from a portfolio investment (including proceeds realized by the Fund from a sale of property distributed by a portfolio investment), net of expenses and reserves (collectively considered to be net cash flow), generally shall be distributed first to Cimarron as Fund Manager to defray any income tax liabilities arising from its ownership of an interest in the Fund (determined pursuant to the Partnership Agreement), and thereafter among the Partners as follows:

- First, to the Preferred Limited Partners, in proportion to their Unpaid Distribution Preferences (as defined in the Partnership Agreement) in respect of the particular portfolio investment which includes compounding at a Minimum Rate (as calculated from time to time per the Partnership Agreement) until the Preferred Limited Partners have received distributions equal to their Distribution Preference (as defined, in the Partnership Agreement) with respect to such portfolio investment;

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- Second, to Cimarron, until Cimarron has received distributions equal to a 7.5% “carried interest” on the Fund’s profits, net of losses, from interests in portfolio investments (as determined under the Partnership Agreement);
- Third, to the Preferred Limited Partners, in proportion to their respective Aggregated Unpaid Distribution Preferences (as defined in the Partnership Agreement which includes compounding at a Minimum Rate as calculated from time to time per the Partnership Agreement) until the Preferred Limited Partners have received distributions equal to the sum of their Distribution Preferences with respect to all portfolio investments;
- Fourth, to the Preferred Limited Partners, in proportion to their respective unpaid Scheduled Return (see note 5) until each Preferred Limited Partner has received distributions equal to their Scheduled Return;
- Fifth, 100% to the Special Limited Partner until the cumulative distributions to the Special Limited Partner equals the product of 10 multiplied by the cumulative distributions previously made to Cimarron as “carried interest” above;
- Thereafter, 99% to the Special Limited Partner and 1% to Cimarron.

For the years ended December 31, 2011 and 2010, net cash flow was distributed to the Preferred Limited Partner.

Distributions of \$2,705,680 and \$725,756 were received from the Fund during the years ended December 31, 2011 and 2010, respectively.

The Partnership Agreement provides that profit and loss of the Fund shall be allocated among the Partners in a manner consistent with each Partner’s share of distributions of net cash flow.

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(4) Investment in Iowa Fund of Funds, Fund A, LLLP

A summary of the financial information for the Fund, which the Company does not control, but over which the Company's officers have significant influence through their control of Cimarron, which is employed by the General Partner of the Fund as the Fund's manager, as of December 31 is as follows:

	<u>2011</u>	<u>2010</u>
Assets:		
Cash and cash equivalents	\$ 436	670
Investment in portfolio funds	22,238,643	20,645,255
Other assets	847,039	847,039
Total assets	<u>\$ 23,086,118</u>	<u>21,492,964</u>
Liabilities and partners' equity:		
Accounts payable	\$ —	66,204
Partners' equity	23,086,118	21,426,760
Total liabilities and partners' equity	<u>\$ 23,086,118</u>	<u>21,492,964</u>
Income	\$ 1,285,642	44,983
Expenses	(667,178)	(632,535)
Net income (loss)	<u>\$ 618,464</u>	<u>(587,552)</u>

(5) Tax Credit Certificates

Contingent tax credit certificates are issued by the Iowa Capital Investment Board, an agency of the State of Iowa, under authority granted by the Fund's enabling statute and rules (Iowa Code 15E.61 and Iowa Administrative Code, Section 123, Chapter 4.1). Tax credit certificates are issued based upon a commitment by the Company to invest in the Iowa Fund of Funds, Fund A, LLLP. Each contingent tax credit certificate contains on its face a maximum value along with maturity dates and a calculation formula for its "Scheduled Return." Generally, Scheduled Return is defined as the sum of all of the Company's expenses and liabilities – including principal and accumulated interest – related to the Company's investment in the Fund.

The Company borrows under a revolving credit agreement (see note 6) to fund its investments in the Fund. All borrowings are collateralized by the contingent tax credit certificates which have value to the extent that the actual return from the Fund is less than the Scheduled Return. As such, they are "contingent," having a value equal to such deficiency should it occur. If the actual return equals or exceeds the Scheduled Return, then the tax credit certificates are retired unused. The tax credit certificates are assigned to the Company's lenders.

If the Company determines and is otherwise permitted to redeem the tax credit certificates, the contingent certificates are first certified in total amount by the General Partner and then presented to the ICIB under the rules noted above for issuance of a verified tax credit certificate. Once verified, the Company would recognize revenue for reporting purposes under U.S. generally accepted accounting principles. The verified tax credit certificates may be used by any holder against current or future liabilities for payment of Iowa

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income, premium, or franchise taxes and are freely transferable. Tax credit certificates may be verified in amounts up to \$20 million that might first become redeemable in any one year. Tax credit certificates may not be carried back against past liabilities but they may be carried forward up to seven years. As described in note 2(f), recent legislative changes have impacted the continued availability of these tax credits.

At December 31, 2011 and 2010, the Company was the holder of a contingent tax credit certificate with a maximum amount of \$57 million and \$36 million, respectively.

(6) Line of Credit

The Company entered into a revolving credit agreement on February 1, 2008. The agreement provided for not more than \$30,000,000 outstanding at any point in time and expired on February 1, 2011. In February 2011, the Company increased its commitment, subject to its ability to obtain financing, to the Fund by \$10 million, resulting in a total commitment of \$40 million. Subsequently on February 23, 2011, the Company entered into two line of credit agreements for a total of \$40,000,000, with a maturity date of February 22, 2012. Borrowings on the lines are limited based on a combination of the floating interest rate, ongoing operating costs, the volume and pace at which capital is called by the Fund's individual portfolio funds and the size of, and rate paid on, a compensating balance. The line may be re-financed or restructured without penalty prior to maturity. The proceeds from this line of credit were used to pay the outstanding borrowings on the previous revolving credit agreement.

Interest is payable quarterly in arrears and is determined at the prime rate minus one percent. All advances shall be repaid in full on the maturity date (February 22, 2012). The Company had borrowings outstanding under the credit agreement of \$32,641,519 and \$29,736,300 at December 31, 2011 and 2010, respectively.

At the time the 2011 revolving credit agreement was entered into the Company paid commitment fees of \$80,000, of which \$73,333 has been amortized.

(7) Income Taxes

Deferred income taxes as of December 31 are as follows:

	<u>2011</u>	<u>2010</u>
Deferred income tax assets	\$ 3,741,491	3,439,551
Valuation allowance	(3,741,491)	(3,439,551)
Net deferred tax asset	<u>\$ —</u>	<u>—</u>

Temporary differences giving rise to deferred taxes at December 31, 2011 and December 31, 2010 include primarily net operating loss carryforwards and basis differences in partnership investments.

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The components of income tax benefit (expense) for the year ended December 31 are as follows:

	<u>2011</u>	<u>2010</u>
Current	\$ —	—
Deferred	301,940	(1,818,175)
Valuation allowance	<u>(301,940)</u>	<u>1,818,175</u>
Total	<u>\$ —</u>	<u>—</u>

Deferred income tax assets are calculated based on an assumed effective tax rate of approximately 40%, determined based on a federal income tax rate of 35% and then increased for additional state income taxes, net of federal tax benefits arising from deductions for state income taxes.

As of December 31, 2011 and 2010, the Company has net operating loss carryforwards for federal income tax purposes of approximately \$12.8 million and \$11.2 million, respectively. The carryforwards will begin to expire in 2025 if not used.

Realization of the Company's net deferred tax assets is dependent upon the Company generating sufficient taxable income in future years in the appropriate tax jurisdictions to obtain a benefit from the reversal of deductible temporary differences and from tax loss carryforwards.

The Company has concluded that, based on expected future results and the future reversals of existing taxable temporary differences, it is not more likely than not that certain deferred tax assets will be used in the next twelve months or the near term. Accordingly, a valuation allowance has been established for these tax benefits.

(8) Subsequent Events

On February 22, 2012, the Company's line of credit was extended to April 22, 2012. The line was not at that time extended or renewed. The line of credit was not paid when due, resulting in a default by the Company.

On August 8, 2012, an extended and modified loan agreement (new loan agreement) was reached between the Company and the lenders. The new loan agreement provides for up to a \$40 million line of credit to March 30, 2018. If certain provisions within the agreement are met at that date, then the line will be automatically extended to March 30, 2020. The new loan agreement waived the Company's default with respect to non-payment of the previous line of credit at the maturity date.

The new loan agreement is collateralized by a verified tax credit certificate for approximately \$25 million and a contingent tax credit certificate of approximately \$31 million. The Company has pledged all of its equity interest now owned, or hereafter acquired, in the Fund as collateral. The Fund has also guaranteed the new loan agreement, and in the event of default by the Company, all outstanding principal and interest will be payable by the Fund.

Concurrently with the new loan agreement, the Company entered into a subordinated note with the State of Iowa. Under this facility, the Company will reimburse the State for, and pay to the State, the full cost for the amount of any existing or future tax credits verified and sold or otherwise used by any taxpayer in

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collateral support of the new loan. Any amounts owed under this agreement accrue interest at an initial rate of 5 percent, subject to annual adjustment. As collateral for this agreement, the Company has pledged its partnership interest in the Fund and all distributions, dividends, and rights to payment from the Fund. The Fund has also guaranteed the subordinate note in the event of default by the Company.

In conjunction with the establishment of the new financing facilities, the Fund, its general partner, each of its limited partners, the fund manager and the State of Iowa agreed upon procedures for sharing confidential information and setting of estimated budgets during the term of the financing, among other matters.

On August 8, 2012, the partnership agreement of the Fund was amended to provide, generally that during the terms of the financings, without the approval of the appropriate signatories:

- No new Partners shall be admitted to the Fund
- The capital contributed by the Preferred Limited Partner (the Company) shall be automatically increased without approval by any other Partner by the amount of funding provided by the Preferred Limited partner to meet mandatory capital calls of the existing Portfolio Entities
- The Fund shall make no capital investments in any new portfolio entity, and shall not make new commitments to any existing portfolio entity, but it shall honor mandatory capital calls based on commitments to existing portfolio entities made prior to December 31, 2011.
- Upon the event of default by the Preferred Limited Partner, the Fund may sell any assets at the direction of the General Partner, with prior consent of the Lenders and State, as applicable.
- All distributions received by the Fund from its portfolio companies are to be distributed by the Fund first to meet any applicable tax distribution obligations and then 100% to the Company, to be applied solely to the Company's obligation under the new loan agreement.
- The Fund Management Agreement was revised to set the fee paid to the Fund manager at \$275,000 per year while allowing termination only for cause until such time as assets of the Fund are \$7.5 million or less. The carried interest to be paid to Cimarron will be deferred until after the obligations under the new loan agreements have been satisfied (note 3).

The Company has evaluated subsequent events from the balance sheet date through October 22, 2012, the date at which the financial statements were available to be issued, and determined there are no other items to disclose.