



IOWA CAPITAL INVESTMENT CORPORATION

Consolidated Financial Statements and Supplemental Consolidating Schedules

December 31, 2013 and 2012

(With Independent Auditors' Report Thereon)

IOWA CAPITAL INVESTMENT CORPORATION

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KPMG LLP
2500 Ruan Center
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Independent Auditors' Report

The Board of Directors
Iowa Capital Investment Corporation:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Iowa Capital Investment Corporation and subsidiaries (the Company), which comprise the consolidated balance sheets as of December 31, 2013 and 2012, and the related consolidated statements of operations, equity (deficit), and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 entity'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 consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for Qualified Opinion

As more fully described in note 2 to the consolidated financial statements, for the year ended December 31, 2012, the Company's consolidated statement of operations and cash flows do not include the operations and cash flows of Iowa Community Development, LC for the period January 1, 2012 through July 16,



2012. In our opinion, consolidation of this information is required by U.S. generally accepted accounting principles.

Qualified Opinion

In our opinion, except for the omission of the information described in the Basis for Qualified Opinion paragraph, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Iowa Capital Investment Corporation and subsidiaries as of December 31, 2013 and 2012, and the results of their operations and their cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Other Matters

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information included in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

Des Moines, Iowa
August 28, 2014

IOWA CAPITAL INVESTMENT CORPORATION

Consolidated Balance Sheets

December 31, 2013 and 2012

Assets	2013	2012
Cash and cash equivalents	\$ 189,532	189,719
Investment in portfolio funds	18,943,111	22,675,605
Total assets	\$ 19,132,643	22,865,324
Liabilities, Noncontrolling Interest, and Equity (Deficit)		
Liabilities:		
Accounts payable	\$ 16,961	31,271
Total liabilities	16,961	31,271
Equity:		
Accumulated deficit	(663,257)	(670,623)
Total Iowa Capital Investment Corporation's deficit	(663,257)	(670,623)
Noncontrolling interest	19,778,939	23,504,676
Total equity	19,115,682	22,834,053
Total liabilities and equity	\$ 19,132,643	22,865,324

See accompanying notes to consolidated financial statements.

IOWA CAPITAL INVESTMENT CORPORATION

Consolidated Statements of Operations

Years ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Income:		
Portfolio revenue	\$ 1,342,783	2,639,718
Other income	—	754
Total income	<u>1,342,783</u>	<u>2,640,472</u>
Expenses:		
Management fees	275,000	376,250
General and administrative expenses	56,658	160,014
Legal fees	48,845	291,045
Total expenses	<u>380,503</u>	<u>827,309</u>
Net income	962,280	1,813,163
Net income attributable to noncontrolling interest in affiliates	<u>(954,914)</u>	<u>(1,735,510)</u>
Net income attributable to Iowa Capital Investment Corporation	<u>\$ 7,366</u>	<u>77,653</u>

See accompanying notes to consolidated financial statements.

IOWA CAPITAL INVESTMENT CORPORATION

Consolidated Statements of Equity (Deficit)

Years ended December 31, 2013 and 2012

	<u>Accumulated deficit</u>	<u>Noncontrolling interest</u>	<u>Total</u>
Balance at December 31, 2011	\$ (748,276)	23,784,569	23,036,293
Capital contributions from noncontrolling interests	—	2,621,513	2,621,513
Distribution to noncontrolling interests	—	(3,938,465)	(3,938,465)
Removal of noncontrolling interest due to loss of control (note 2)	—	(698,451)	(698,451)
Net income	<u>77,653</u>	<u>1,735,510</u>	<u>1,813,163</u>
Balance at December 31, 2012	(670,623)	23,504,676	22,834,053
Capital contributions from noncontrolling interests	—	1,131,625	1,131,625
Distribution to noncontrolling interests	—	(5,812,276)	(5,812,276)
Net income	<u>7,366</u>	<u>954,914</u>	<u>962,280</u>
Balance at December 31, 2013	<u>\$ (663,257)</u>	<u>19,778,939</u>	<u>19,115,682</u>

See accompanying notes to consolidated financial statements.

IOWA CAPITAL INVESTMENT CORPORATION

Consolidated Statements of Cash Flows

Years ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Net income	\$ 962,280	1,813,163
Removal of noncontrolling interest (note 2)	—	(698,451)
Adjustments to reconcile net income to net cash from operating activities:		
Non-cash investment income	(15,932)	—
Impairment of portfolio fund	2,799,806	—
Change in:		
Other assets	—	555,420
Accounts payable	(14,310)	24,693
Management fee payable	—	(121,667)
Net cash from operating activities	<u>3,731,844</u>	<u>1,573,158</u>
Cash flows from investing activities:		
Investment in portfolio funds	(736,999)	(1,735,710)
Return of capital from portfolio funds	1,669,687	1,298,748
Net cash from (used in) investing activities	<u>932,688</u>	<u>(436,962)</u>
Cash flows from financing activities:		
Capital contributed from noncontrolling interests	1,131,625	2,621,513
Distributions paid to noncontrolling interests	(5,796,344)	(3,938,465)
Net cash used in financing activities	<u>(4,664,719)</u>	<u>(1,316,952)</u>
Net change in cash and cash equivalents	(187)	(180,756)
Cash and cash equivalents:		
Beginning of year	189,719	370,475
End of year	\$ <u>189,532</u>	<u>189,719</u>
Supplemental cash flow information:		
Non-cash distributions to noncontrolling interests	\$ 15,932	—

See accompanying notes to consolidated financial statements.

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Notes to Consolidated Financial Statements

December 31, 2013 and 2012

(1) **Basis of Presentation**

Iowa Capital Investment Corporation (the Company) was incorporated under the laws of Iowa for the purpose of organizing the Iowa Fund of Funds Fund A, LLLP (the Fund), selecting a venture capital investment fund allocation manager to select venture capital fund investments for the Fund, receiving investment returns from the Fund, and reinvesting the investment returns in additional venture capital investments designed to result in a significant potential to create jobs and to diversify and stabilize the economy of the state. The Company began operations on May 7, 2002, and upon the dissolution of the Iowa Fund of Funds, the Iowa Capital Investment Corporation shall also dissolve.

The Company organized the Fund on October 30, 2003. The Fund currently has four partners: the Company is the General Partner; Iowa Designated Investor, Inc. (IDI) is a Preferred Limited Partner; Iowa Fund of Funds L.C. (the Revolving Fund) has been admitted as the Special Limited Partner; and Cimarron Capital Associates I, LLC (Cimarron) has been admitted as a limited partner. Cimarron is employed by ICIC as the Fund's manager.

The investments by the Fund are focused principally on partnership interests in private venture capital funds and not in direct investments in individual businesses. Each portfolio fund in which the Fund invests (Portfolio Fund) makes a commitment to consider equity investments in businesses located within the State of Iowa and is required to maintain a physical presence within the State of Iowa. Such physical presence requirement can be met in a number of different ways and is subject to a written agreement.

Revisions to Iowa Code 15E.61 et seq, including new Section 15E.72, were adopted in 2013 (the 2013 Legislation). The 2013 Legislation codifies portions of the Partnership Agreement as amended on August 8, 2012. The 2013 Legislation limits the authority of the Company to those actions needed to comply with existing agreements and to wind down the Fund. The 2013 Legislation also provides that all returns payable to the Revolving Fund under the Partnership Agreement must instead be paid to the general fund of the State of Iowa.

Until July 16, 2012, Iowa Capital Investment Corporation was authorized to appoint the members of the board of directors of Iowa Development Corporation (IDC), which is the managing member of Iowa Community Development, LC (ICD). IDC has no other function or financial activity besides being the managing member of ICD. ICD is an Iowa limited liability company that was formed on August 28, 2003. The primary mission of ICD is to serve or provide economic development opportunities and investment capital for low-income communities or low-income persons in the state of Iowa, consistent with the New Markets Tax Credit (NMTC) program.

(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 when earned and expenses when incurred, rather than when cash is actually received or disbursed.

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Notes to Consolidated Financial Statements

December 31, 2013 and 2012

(b) *Principles of Consolidation*

The consolidated financial statements as of December 31, 2013 and 2012, and for the years then ended include the accounts of Iowa Capital Investment Corporation, Iowa Fund of Funds, Fund A, LLLP, and Iowa Fund of Funds, L.C.

Iowa Capital Investment Corporation is the sole general partner for Iowa Fund of Funds, Fund A, LLLP, and sole member of Iowa Fund of Funds, L.C.

These relationships give rise to a presumption of control under GAAP, therefore requiring consolidation. As Iowa Capital Investment Corporation has no financial interest in these entities other than a right to receive an annual management fee, all income and loss of the Fund is shown through noncontrolling interest in the financial statements. All intercompany balances and transactions have been eliminated.

As noted above, ICIC also had the authority to appoint the members of the board of directors of the managing member of ICD until July 16, 2012. Effective July 16, 2012, the Company deconsolidated ICD due to the removal of its ability to appoint the board of directors of ICD's managing member, resulting in a loss of control. Under U.S. generally accepted accounting principles (GAAP), the Company is required to reflect the results of operations and cash flows of ICD in its consolidated financial statements for the period in which control is maintained. The Company's financial statements do not include the results of ICD's operations or its cash flows for the period January 1, 2012 through July 16, 2012, which is a departure from GAAP.

(c) *Use of Estimates*

The preparation of consolidated financial statements in conformity with GAAP 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.

(d) *Cash Equivalents*

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

(e) *Investments in Portfolio Funds*

In connection with the Fund's investment in a Portfolio Fund, the Portfolio Fund agrees to consider investments in Iowa companies that may, in turn, have a positive impact on the economy in Iowa. At December 31, 2013 and 2012, the Fund was not a controlling partner or controlling member of any of the Portfolio Funds in which it was invested.

All of the Company's investments are accounted for using the cost method. Under this method, income recognized by the Company is limited to distributions received, except that distributions that exceed the Company's share of earnings are applied to reduce the carrying value of the investment. While the majority of distributions are received from the Portfolio Funds in cash, Portfolio Funds

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Notes to Consolidated Financial Statements

December 31, 2013 and 2012

may provide non-cash distributions which represent withholdings of income taxes payable. Additional capital contributions are recorded as increases to the carrying value of the investment.

The Company is generally not required to record its investments with nonreadily determinable fair values on the balance sheet at fair value. However, the Company assesses the fair value of the investments based on the information provided by management of the related Portfolio Fund, including annual audited financial statements. If the estimated fair value is less than the recorded cost of the investment, the investment is deemed impaired, and the Company makes a determination of whether the impairment is temporary or other than temporary based on consideration of currently known facts and circumstances. If the impairment is determined to be other than temporary, the recorded amount of the investment is reduced, and a loss is recorded (note 4).

Given the nature of the Company's investments, determining the estimated fair value of the Company's interest in these Portfolio Funds involves a high degree of subjectivity. Estimated fair values may differ significantly from the values that would result if a ready and active market for these investments existed, and such differences could be material. In addition, these estimated fair values could be subject to material changes in the near future, and such changes could have a significant impact on the Company's consolidated financial statements.

(f) *Fair Value of Financial Instruments*

The Company receives estimates of fair value from the management of its respective Portfolio Funds, as discussed in note 4, based on assumptions that market participants would use in pricing an investment security in the principal or most advantageous market. When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are categorized in one of the following levels:

Level 1 Inputs – Unadjusted quoted prices in active markets for identical securities at the measurement date.

Level 2 Inputs – Other than quoted prices included in Level 1 inputs that are observable including quoted prices for similar securities or quoted prices in markets that are not active.

Level 3 Inputs – Unobservable inputs to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the security at measurement date.

All investments are recorded in the balance sheets at cost. The estimates of fair value of the investments in note 4 are based on Level 3 inputs.

(g) *Tax Status*

The Company is exempt from federal income tax under the provisions of Section 501(c)(3) of the Internal Revenue Code. The Fund and the Revolving Fund are treated as partnerships for income tax purposes. As such, the income or loss of these entities is "passed-through" and taxed at the owner level. Accordingly, no provision for income taxes is included in the consolidated statements of operations. The non-cash distributions received from Portfolio Funds representing income tax

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withholdings are allocated to the Partners and reflected as distributions in the statements of equity (deficit).

The Company's policy is to recognize the effect of income tax positions only if those positions are more likely than not of being sustained. There were no tax contingency accruals reflected in the Company's financial statements at December 31, 2013 and 2012.

The Company files income tax returns in the U.S. federal jurisdiction. The Company is currently not under income tax examination by the IRS. The Company's 2010 through 2013 tax years remain open for examination by the tax authorities. The Company had no unrecognized tax benefits as of December 31, 2013 and 2012.

(h) Risks and Uncertainties

The Company's ability to recover its investment in the various Portfolio Funds is dependent upon a number of factors, including the ability of the individual Portfolio Funds to generate and distribute cash flows 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 Funds operate, and other factors that may affect national securities markets.

(i) Subsequent Events

The Company has evaluated subsequent events from the balance sheet date through August 28, 2014, the date at which the consolidated financial statements were available to be issued, and determined there are no other items requiring recognition or disclosure in the consolidated financial statements.

(3) Partnership Profits, Losses, and Cash Distributions

The Partnership Agreement, as amended on August 8, 2012, provides that amounts received by the Fund from a Portfolio Fund (including proceeds realized by the Fund from a sale of property distributed by a Portfolio Fund) net of expenses and reserves (collectively considered to be net cash flow), generally shall be distributed first to Cimarron as the Fund's 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 Partner to be applied solely to obligations under the Preferred Limited Partner's loan agreements, including the obligation to reimburse the State of Iowa for verified tax credit, interest and expense;
- Second, to Cimarron, until Cimarron has received the distributions it would have received under the Partnership Agreement but for the August 8, 2012 amendments equal to a 7.5% "carried interest" on the Fund's profits and net losses from interests in portfolio investments (as determined under the Partnership Agreement) and an additional amount based on the amount and time period of the deferral calculated at a rate of 12% per annum; and
- Thereafter, to the partners based upon the provisions of the Partnership Agreement as in effect prior to the August 8, 2012 amendments.

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The 2013 Legislation revised the above to provide that amounts payable to the Revolving Fund under the Partnership Agreement shall instead be paid to the general fund of the State of Iowa.

Prior to the August 8, 2012 amendments, the Partnership Agreement provided that all amounts received by the Fund from a Portfolio Fund (including proceeds realized by the Fund from a sale of property distributed by a Portfolio Fund) net of expenses and reserves (collectively considered to be net cash flow), generally shall be distributed first to Cimarron as the Fund's 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;
- Second, to Cimarron, until Cimarron has received distributions equal to 7.5% "carried interest" on the Fund's profits and net 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 until each Preferred Limited Partner has received distributions equal to their Scheduled Return;
- Fifth, 100% to the Special Limited Partner (who is owned by ICIC) 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, 2013 and 2012, net cash flow was distributed to the Preferred Limited Partner.

For the year ended December 31, 2013, distributions from Portfolio Funds totaled \$5,812,276, of which \$1,669,687 represented a return of invested capital. Distributions included \$15,932 of pass-through tax withholdings by the Portfolio Funds for the year ended December 31, 2013. For the year ended December 31, 2012, distributions from Portfolio Funds totaled \$3,938,465, of which \$1,298,748 represented a return of invested capital. Net distributions recorded as portfolio revenue in the statements of operations totaled \$4,142,589 and \$2,639,717 for the years ended December 31, 2013 and 2012, respectively.

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Notes to Consolidated Financial Statements

December 31, 2013 and 2012

(4) Portfolio Investments

Investment in Portfolio Funds at December 31, 2013 and 2012 are set forth below. The Fund had no investment commitments at December 31, 2013 other than discussed below.

Prolog Capital II, L.P.:

Headquarters	St. Louis, Missouri
Business	Venture capital fund investing in early stage life sciences firms
Ownership	7.60% Equity interest
Investment commitment	\$ 5,000,000
2013 Cost basis	1,264,168
2012 Cost basis	3,891,474

Bayview Capital Partners II, L.P.:

Headquarters	Minnetonka, Minnesota
Business	Venture capital fund investing in later stage small manufacturers, distributors, and business service firms
Ownership	5.29% Equity interest
Investment commitment	\$ 2,750,000
2013 Cost basis	1,650,000
2012 Cost basis	1,650,000

Village Ventures Fund II A, L.P.:

Headquarters	Williamstown, Massachusetts
Business	Venture capital fund investing in businesses of every kind and character within the United States
Ownership	99.99% Equity interest
Investment commitment	\$ 6,206,417
2013 Cost basis	5,287,106
2012 Cost basis	5,287,106

LFE Growth Fund II, L.P.:

Headquarters	Minneapolis, Minnesota
Business	Venture capital fund investing primarily in small and medium-sized companies in the health, consumer, and business services sectors. The Fund has a special focus on businesses owned or led by women or that target female consumers
Ownership	15.23% Equity interest
Investment commitment	\$ 5,000,000
2013 Cost basis	3,742,937
2012 Cost basis	4,625,478

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Notes to Consolidated Financial Statements

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OCA Venture Partners II, L.P.:

Headquarters	Chicago, Illinois
Business	Venture capital fund investing in early stage companies with dramatic growth potential, primarily in technology, financial services, for-profit education, and technology-enabled services located in the United States
Ownership	9.99% Equity interest
Investment commitment	\$ 5,000,000
2013 Cost basis	3,241,246
2012 Cost basis	3,043,893

Petra Growth Fund II, L.P.:

Headquarters	Nashville, Tennessee
Business	Venture capital fund investing in businesses of every kind and character within the United States
Ownership	9.20% Equity interest
Investment commitment	\$ 5,000,000
2013 Cost basis	1,831,881
2012 Cost basis	1,831,881

Stone Arch Capital II, L.P.:

Headquarters	Minneapolis, Minnesota
Business	Venture capital fund investing in businesses of every kind and character within the United States
Ownership	3.97% Equity interest
Investment commitment	\$ 6,000,000
2013 Cost basis	1,925,773
2012 Cost basis	2,345,773

The Portfolio Funds held at December 31, 2013 and 2012 were evaluated for impairment due to the fact that some of these Portfolio Funds and their respective underlying portfolio of companies are experiencing losses in the initial phases of operations as is usual in these types of investments.

For the year ended December 31, 2013, the fund considered the loss for a part of the investment portfolio to be other than temporary and recognized an impairment loss (in earnings) of \$2,799,806. The impairment loss was recorded in portfolio revenue in the statement of operations. All other losses as of December 31, 2013 are considered to be temporary.

The estimated unaudited aggregate fair values of the Portfolio Funds at December 31, 2013 and 2012 totaled approximately \$27,900,000 and \$26,100,000, respectively, resulting in an unaudited aggregate net unrealized gain of approximately \$9.0 million at December 31, 2013 and an unaudited aggregate net unrealized gain of approximately \$3.4 million at December 31, 2012. The unaudited aggregate amounts of

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Notes to Consolidated Financial Statements

December 31, 2013 and 2012

gross unrealized losses that have been in an unrealized loss position for a period greater than 12 months at December 31, 2013 and 2012 were approximately \$0 and \$1,846,000, respectively. The Fund considers these unrealized losses to be temporary. As the underlying companies in which the Portfolio Funds invest develop their anticipated potential, the Fund anticipates that the fair values of these Portfolio Funds will increase to equal or exceed the Fund's cost.

(5) Transactions with Related Parties

(a) *Transactions with Iowa Designated Investor, Inc.*

IDI has a capital commitment obligation, subject to its ability to obtain financing, to the Fund for an amount equal to \$40,000,000 for the years ended December 31, 2013 and 2012, in exchange for an economic interest in the Fund. On February 23, 2011, IDI entered into two line of credit agreements with two banks for a total of \$40,000,000, with a maturity date of February 22, 2012 (original loan). On February 22, 2012, IDI's line of credit was extended to April 22, 2012. The line of credit was not paid at maturity. On August 8, 2012, IDI and the banks agreed to modify the original loan agreement (modified loan agreement). The modified loan agreement provides for an up to \$40 million line of credit to March 30, 2018. The outstanding balance on the line of credit was \$13,513,069 and \$27,604,249 at December 31, 2013 and 2012, respectively.

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.

IDI has pledged all of its equity interest in the Fund as collateral. The Fund has also guaranteed the modified loan agreement, and in the event of default by IDI, all outstanding principal and interest will be payable by the Fund. In addition, the loan agreement is collateralized by tax credit certificates.

Contingent tax credit certificates are issued by the Iowa Capital Investment Board (ICIB), 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 IDI to invest in the Fund. The original loan was secured by the collateral assignment of contingent tax credit certificates issued to IDI. After modification of the original loans, the contingent tax credit certificates were reissued to the bank.

To redeem the tax credit certificates, the contingent certificates are presented to the ICIB for issuance of a verified tax credit certificate. As of December 31, 2013, ICIB has issued to the bank a verified tax credit certificate of \$25 million and a contingent tax credit certificate of \$31 million.

Concurrently with the modified loan agreement, IDI entered into a subordinated note with the State of Iowa. Under this facility, IDI 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 collateral support of the new loan. As collateral for this agreement, IDI has pledged its partnership

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Notes to Consolidated Financial Statements

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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 IDI. IDI had borrowings outstanding with the State of \$17,109,270 and \$6,393,070 at December 31, 2013 and 2012, respectively.

(b) *Transactions with Cimarron Capital Associates I, LLC*

The Fund pays management fees to Cimarron. Fees paid under these provisions were approximately \$275,000 and \$376,250 for the years ended December 31, 2013 and 2012, respectively. In addition, the Fund paid tax consortium fees to Cimarron for organizing and maintaining tax credit purchase agreements. Fees incurred under these provisions were \$64,629 for the year ended December 31, 2012, and were recorded in general and administrative expenses. On August 8, 2012, the Partnership Agreement Amendment removed the tax consortium fees and limited the management fee paid Cimarron to \$275,000 per year payable in equal quarterly installments.

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Supplemental Consolidating Schedule – Balance Sheet Information
December 31, 2013

Assets	ICIC	IFOF, Fund A	IFOF, L.C.	Subtotal	Elimination	Consolidated
Cash and cash equivalents	\$ 189,482	50	—	189,532	—	189,532
Investment in portfolio funds	—	18,943,111	—	18,943,111	—	18,943,111
Total assets	<u>\$ 189,482</u>	<u>18,943,161</u>	<u>—</u>	<u>19,132,643</u>	<u>—</u>	<u>19,132,643</u>
Liabilities, Noncontrolling Interest, and Equity (Deficit)						
Liabilities:						
Accounts payable	\$ 5,700	11,261	—	16,961	—	16,961
Total liabilities	<u>5,700</u>	<u>11,261</u>	<u>—</u>	<u>16,961</u>	<u>—</u>	<u>16,961</u>
Equity (deficit):						
General Partner's equity	—	(847,039)	—	(847,039)	(847,039)	—
Limited partners' equity	—	19,778,939	—	19,778,939	19,778,939	—
Equity (accumulated deficit)	183,782	—	—	183,782	847,039	(663,257)
Noncontrolling interest	—	—	—	—	(19,778,939)	19,778,939
Total equity (deficit)	<u>183,782</u>	<u>18,931,900</u>	<u>—</u>	<u>19,115,682</u>	<u>—</u>	<u>19,115,682</u>
Total liabilities and equity	<u>\$ 189,482</u>	<u>18,943,161</u>	<u>—</u>	<u>19,132,643</u>	<u>—</u>	<u>19,132,643</u>

See accompanying independent auditors' report.

IOWA CAPITAL INVESTMENT CORPORATION

Supplemental Consolidating Schedule – Statement of Operations Information

Year ended December 31, 2013

	<u>ICIC</u>	<u>IFOF, Fund A</u>	<u>IFOF, L.C.</u>	<u>Subtotal</u>	<u>Elimination</u>	<u>Consolidated</u>
Income:						
Portfolio revenue	\$ —	1,342,783	—	1,342,783	—	1,342,783
Management fee income	75,000	—	—	75,000	75,000	—
Total income	<u>75,000</u>	<u>1,342,783</u>	<u>—</u>	<u>1,417,783</u>	<u>75,000</u>	<u>1,342,783</u>
Expenses:						
Management fees	—	275,000	—	275,000	—	275,000
General and administrative expenses	30,950	100,708	—	131,658	75,000	56,658
Legal fees	36,684	12,161	—	48,845	—	48,845
Total expenses	<u>67,634</u>	<u>387,869</u>	<u>—</u>	<u>455,503</u>	<u>75,000</u>	<u>380,503</u>
Net income	7,366	954,914	—	962,280	—	962,280
Net income attributable to noncontrolling interest in affiliates	—	—	—	—	954,914	(954,914)
Net income attributable to Iowa Capital Investment Corporation	<u>\$ 7,366</u>	<u>954,914</u>	<u>—</u>	<u>962,280</u>	<u>954,914</u>	<u>7,366</u>

See accompanying independent auditors' report.