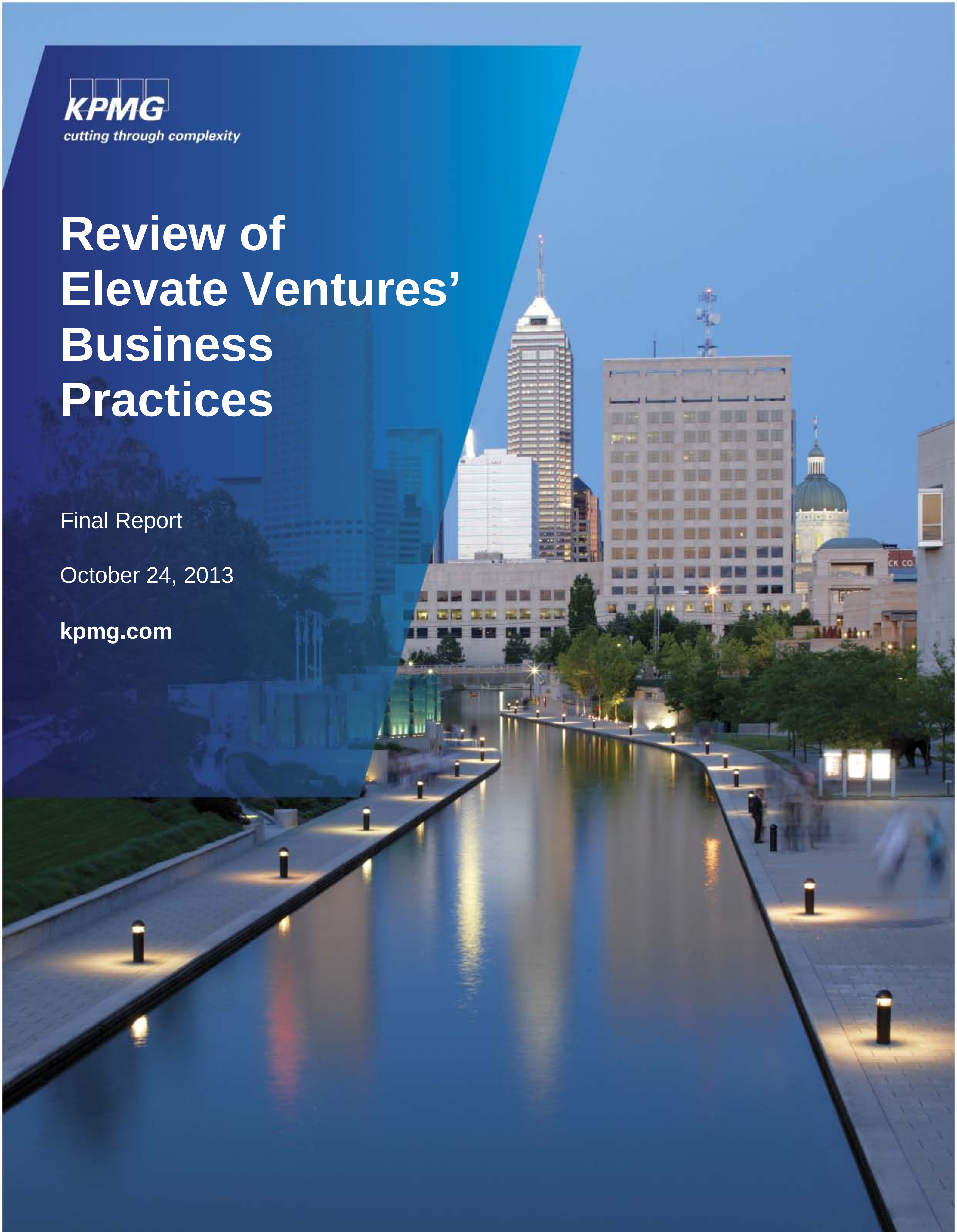


KPMG

cutting through complexity

Review of Elevate Ventures' Business Practices

Final Report

October 24, 2013

kpmg.com

This page intentionally left blank.

Table of Contents

This page intentionally left blank.

Executive Summary

Executive Summary

Business Practices Review Objectives and Scope

On July 15th, 2013, Governor Mike Pence of Indiana requested a review of the Indiana Economic Development Corporation (IEDC) and its contractor Elevate Ventures' business practices and investment decisions. The Indiana Finance Authority (IFA) subsequently engaged KPMG to provide advisory services related to certain IEDC programs, policies, and procedures.

The scope of work completed is detailed below.

1. Assess the development of the partnership between the IEDC and Elevate Ventures by reviewing contracts, agreements, and other related documentation as well as conducting interviews.
2. Identify observations and recommendations for policies and procedures related to the relationships assessed in Task 1.
3. Analyze investment policies, business practices, and conflict of interest policies related to 21 Fund investments.
4. Analyze investment policies, business practices, and conflict of interest policies related to Angel Fund investments.
5. Test selected investments for compliance with policies identified in Tasks 3 and 4.
6. Evaluate nepotism and post-employment policies related to Elevate Ventures.
7. Review business practices for compliance with nepotism and post-employment policies identified in Task 6.
8. Review a sample of similar programs, including contract negotiation and award, investment allocation, contractor investment, and business ethics practices, in other states or municipalities such as Cleveland's JumpStart program.

Overall Results

KPMG determined, through the review and analysis detailed above, that Elevate Ventures is operating in a manner consistent with its policies and contract with the IEDC. Although Elevate Ventures works with the IEDC, it is not expected to operate in the same way as a governmental entity. Furthermore, Elevate Ventures would not be able to seek private fundraising or invest on the same terms as private investors if it were subject to governmental policies.

As a result of the review, KPMG determined that Elevate Ventures is substantially compliant with its investment and operational requirements. Additionally, KPMG determined that Elevate Ventures' policies were consistent with expectations based on review of similar entities, federal guidance, and state law. However, to enhance these policies and related procedures, KPMG identified opportunities to help improve the consistency of operations and strengthen existing policies.

Review Details

The IEDC is the steward of public funds stemming from the 21st Century Research and Technology Fund and the State Small Business Credit Initiative. The groups responsible for managing these public funds have a fiduciary duty to help ensure that the funds are invested in accordance with the appropriate policies and procedures. Because IEDC contracts with Elevate Ventures to manage public funds and because Elevate Ventures is a new entity, it is important to periodically review business practices, policies, and procedures to help ensure that the fiduciary responsibility is fulfilled.

As a part of the review, the engagement team conducted more than 25 interviews with Office of the Governor personnel, IEDC management (both current and previous), Elevate Ventures management, management of similar entities, members of the Indiana entrepreneurial community, and founding Elevate Ventures board members and management. Additionally, KPMG reviewed more than 500 documents related to IEDC and Elevate Ventures' business practices, policies, and procedures. Information reviewed included, but was not limited to:

- **Policy documents**, including conflict of interest, confidentiality, and ethics
- **Program background information**, including history of Indiana's economic incentives, the 21st Century Research Fund, and State Small Business Credit Initiative funding
- **Contracts**, including the IEDC/Elevate Ventures contract and Elevate Ventures' contracts with other parties
- **Investment procedures**, including specific information for each fund based on State and Federal requirements
- **Investment files**, including due diligence details, management information, internal review documentation, capitalization information, recommendation approvals, and contract documents.
- **Industry research,** including background information and business practices of JumpStart, Inc., an organization in Northeast Ohio, and i2E, an organization in Oklahoma.

The level of detail reviewed through these interviews and documentation helped KPMG to identify the findings and observations documented in this report.

Findings, Observations, and Recommendations

KPMG defines a finding as an instance of non-compliance with policies and/or procedures. An observation is defined as an opportunity to strengthen a policy, procedure, or process. A recommendation is documented to help mitigate instances of non-compliance or strengthen policies, procedures, or processes.

KPMG tested Elevate Ventures' investment portfolio (including companies who were recommended for investment by Elevate Ventures and whose investment agreement is managed by Elevate Ventures) against relevant IEDC and Elevate Ventures' policies, procedures, and processes. KPMG reviewed relevant documentation and collected additional information through follow-up meetings as necessary.

KPMG identified two findings in the course of its review. Both of these findings directly related to errors in meeting documentation requirements under the company's own policies.

1. KPMG did not observe documentation to support that the Board members present at the meeting recognized the CEO as the acting Compliance Officer when four potential conflict disclosures were made. Without documentation that the CEO was acting as the Compliance Officer, it appears as if the Board functioned with no Compliance Officer during these disclosures.

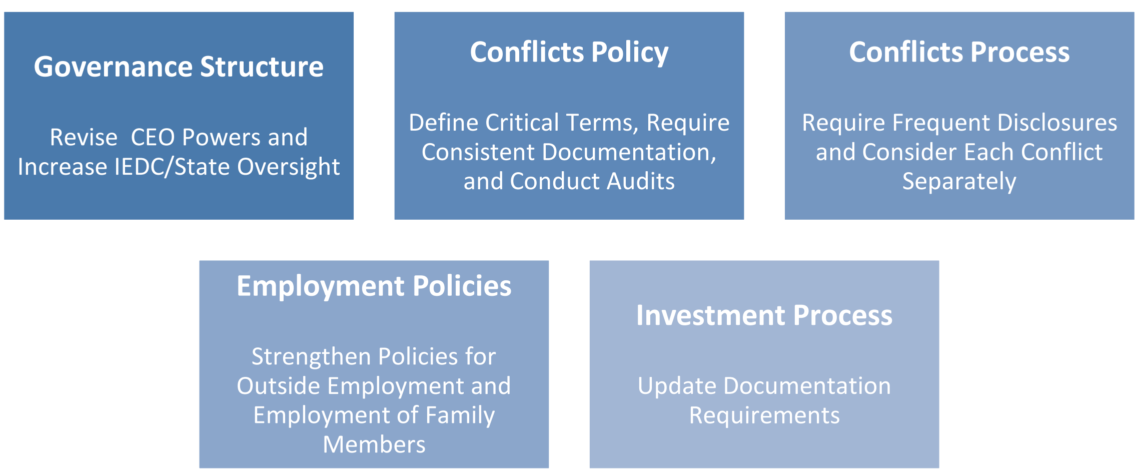
2. KPMG observed that a Board member abstained from voting in a discussion about a related party transaction; however, the documentation of that Board member's recusal was not originally documented in the appropriate Board Meeting Minutes. Documentation of this recusal is required under the Executive Compensation and Intermediate Sanctions Policy of Elevate Ventures.

KPMG also identified 25 observations across five categories, which indicate opportunities to strengthen policies but do not indicate non-compliance. The three main observations and related recommendations are shown below, as is a summary of the remaining observations.

1. Elevate Ventures' executive powers are currently afforded to the Chairman of the Board. KPMG recommends establishing an Executive Committee of the Board to help distribute powers.

2. While the IEDC Board approves the IANF investment policies, no group at IEDC is required to approve individual investments. KPMG recommends requiring IEDC management to review IANF investment decisions.

3. While conflict disclosure policies and procedures are in place, Elevate Ventures does not currently have a written procedure to review documentation related to conflicts disclosure and subsequent procedures. KPMG recommends that Elevate Ventures require both its Board and the IEDC to review all documentation related to conflicts disclosure and subsequent procedures when a conflict of interest has been disclosed.



Overview of Entities and Funds

The IEDC is Indiana's lead economic development agency. The Governor of Indiana and the General Assembly created the IEDC, along with its non-profit subsidiary, the Indiana Economic Development Foundation (IEDF), in March 2005. As the economic development engine for Indiana, it is also the designated recipient of entrepreneurship and innovation funds for the state, including funds from the State 21st Century Research and Technology Fund (21 Fund) and the Federal State Small Business Credit Initiative (SSBCI).

Due to challenges specific to private investment fundraising and finding entrepreneurial assistance, the IEDC recognized the need for a non-governmental partner. The IEDC currently partners with Elevate Ventures, a 501(c)(3) created in November 2010, through a professional services contract to manage the investments made from these two sources. For investment management and legal purposes, the IEDF, Elevate Ventures, and Elevate Advisors (wholly owned by Elevate Ventures) formed the 21st Century Research and Technology Fund Limited Partnership (21 Fund LP) to manage and invest SSBCI funds.

SSBCI appropriations are invested across three distinct funds: The Indiana Angel Network Fund (IANF) LLC, for early-stage, high-growth companies who have garnered at least a 1:1 private investment match; the Indiana High-Growth Fund (IHGF) LLC, which leverages public funds into high growth private lending mechanisms with a focus on underserved markets; and the Indiana Seed Fund Holdings (ISFH) LLC, which leverages public funds into seed-stage investments through private lending mechanisms.

Research on Similar Entities

Although Elevate Ventures is an organization that was created to meet a specific need for the State of Indiana, other venture development organizations exist throughout the United States. As a part of this review, KPMG conducted research on governance, business practices, and ethics policies of two relevant organizations. Key similarities and key differences of each organization to Elevate Ventures, along with practices that supported KPMG's recommendations, are indicated below.

JumpStart, Inc. (Cleveland, OH)

- **Key similarities:** Nonprofit entity; receives funds from both the State and through private fundraising.
- **Key differences:** State money received through proposal process; relationship is not contractual; does not currently receive Federal funding.
- **Key practices:** Rigid conflict of interest policy reduces appearance or actuality of conflicts of interest; Board committee-level approval of all investments.

Innovation to Enterprise (Oklahoma City, OK)

- **Key similarities:** Nonprofit entity; receives funds from State and Federal government as well as private donors; operates under a contract with the State government.
- **Key Differences:** Entrepreneur-in-Residence program less robust; works with contractors to provide Executive-level assistance to companies.
- **Key practices:** Board committee-level review of all investments; weekly and monthly updates with OCAST.

Involved Entities and Funding Sources

Introduction to the Indiana Economic Development Corporation

Background

The IEDC is the State of Indiana's lead economic development agency. It was officially established in 2005 under Indiana Code 5-28-3 to replace the former Department of Commerce. The IEDC is a public-private partnership governed by a 12-member board. Its stated goals are:

- Attract and support new business investment
- Create new jobs for Indiana residents
- Further Indiana's legacy as one of the top states in the nation for business

Programs

In order to further the above goals, the IEDC offers tax exemptions and credits, funding programs, and various certification and recognition programs for Indiana individuals and businesses. Programs active as of June 30, 2013, include the following:

Activity	Examples	Goals and Objectives
Tax Exemptions and Credits	▪ Economic Development for a Growing Economy Tax Credit (EDGE) ▪ Hoosier Alternative Fuel Vehicle Manufacturer Tax Credit ▪ Hoosier Business Investment Tax Credit (HBI) ▪ Headquarters Relocation Tax Credit ▪ Industrial Recovery Tax Credit ▪ R&D Tax Credit ▪ Venture Capital Investment Tax Credit ▪ Patent Income Exemption ▪ R&D Sales Tax Exemption	▪ Awarded exemptions and credits of over $50,810,926 in FY2013

Activity	Examples	Goals and Objectives
Business Resources	▪ Indiana Small Business Development Center ▪ Small Business Administration ▪ Indiana Clean Manufacturing Technology Institute ▪ Technical Assistance Program ▪ SCORE ▪ Business Incubators ▪ Networking Organizations ▪ Local and Regional Economic Development Associations ▪ Business Advisory Services for Minorities and Women ▪ Financial Assistance ▪ Regulatory Assistance	▪ Job growth in Indiana ▪ Loans, counseling, and other assistance exclusively for small businesses ▪ New small business growth assistance ▪ Attraction of new opportunities, including in the life sciences industry ▪ Advocation for typically under-represented business owners ▪ Identification of tax-exemptions and credits ▪ Assistance with investment and capital management ▪ Employment assistance
Funding Programs	▪ Industrial Development Grant Fund ▪ Skills Enhancement Fund (SEF) ▪ Indiana Certified Technology Parks ▪ 21st Century Research and Technology Fund ▪ SSBCI (Capital Access Program, Other Credit Support Program)	▪ Over $34,339,074 available in FY13 ▪ Over $2,000,000 in new grants awarded in FY2012 ▪ Appropriations planned for more than $32,500,000 in FY14
Programs and Initiatives	▪ Shovel Ready Program ▪ Major Moves ▪ IEDC Regulatory Ombudsman ▪ IEDC Century and Half Century Awards	▪ Improved locations for business expansion ▪ Improved State infrastructure ▪ Enhanced State and business relationships

Key Roles

There are many roles that are instrumental to achieving the objectives of the IEDC. The four key roles below are highlighted for the purpose of explaining the IEDC's partnership with Elevate Ventures.

- **IEDC Board:** Indiana Code 5-28-4 states that the IEDC will be governed by a Board, of which the Governor of Indiana is the Chairman. The Governor is authorized to appoint eleven additional individuals to the Board, who must all be either currently employed in or retired from the private or non-profit sector or academia. The IEDC Board's responsibilities are as follows:
    - Accept, analyze, and approve applications for related funds
    - Contract with experts for advice and counsel
    - Employ staff to carry out the responsibilities
    - Approve and recommend applications for grants or loans from the fund
- **IEDC Entrepreneurship Committee:** At the recommendation of the Governor, the IEDC Board passed a resolution during the first meeting in March 2005 to create the Entrepreneurship Committee (EC) of the Board. As the Chairman of the Board, the Governor made a recommendation stating which Board Members would sit on the IEDC EC as well as the Audit and Economic Policy committees. The other members of the Board unanimously passed his recommendation. The IEDC EC is responsible for the following approvals:
    - 21 Fund award recommendations
    - Indiana Angel Network Fund investment policies
- **Secretary of Commerce:** The Secretary of Commerce is a role appointed by the Governor of Indiana. The individual in this role is responsible for leading the State of Indiana's domestic and international economic development agendas.
- **IEDC President:** As a direct report to the Secretary of Commerce, the IEDC President is also responsible for leading the State's economic development efforts.

Indiana Economic Development Foundation

The Governor of Indiana proposed the establishment of a non-profit subsidiary to the IEDC during its first Board meeting in March 2005. The Board unanimously accepted the resolution, which was ultimately codified in IC 5-28-5-13 and formed the Indiana Economic Development Foundation (IEDF). The IEDF's purpose is to solicit and accept private sector funding, gifts, donations, bequests, devises, and contributions.

The IEDF, as a subsidiary to the IEDC, is a partner in the 21 Fund LP along with Elevate Ventures, Inc. This relationship is described further in the *Development of New Entities and Relationships* section of this report.

Introduction to Funding Sources

The two main funding sources that were part of this review are the State 21st Century Research and Technology Fund (21 Fund), and the Federal State Small Business Credit Initiative (SSBCI). The 21 Fund, now managed by Elevate Ventures, has gone through multiple transformations since its creation in 1999. SSBCI funding was awarded to the IEDC, with Elevate Ventures acting as a co-applicant, under the Federal Small Business Jobs Act of 2010. More information about these two funding sources is presented in this section. Information included on other funds and programs are included for informational purposes only.

The 21st Century Research and Technology Fund

Background

Indiana Code 5-28-16-2 established the 21 Fund in 1999, initially to be managed by the Indiana Development Finance Authority (IDFA), the economic development agency at the time, and administrated by the State Budget Agency. Initial goals of the 21 Fund included:

- Increase the capacity of Indiana institutions of higher education, businesses, and nonprofits to compete successfully for federal or private research and development funding
- Stimulate the transfer of research and technology into marketable products
- Assist with diversifying Indiana's economy by focusing investment in biomedical research and biotechnology, information technology, and other high technology industry clusters requiring high skill and high wage employees
- Encourage an environment of innovation and cooperation among universities and businesses to promote research activity

The 21 Fund initially positioned itself between Indiana academic institutions and the commercial sector and carried out the goals above through funding and other entrepreneurial assistance activities.

In 2005, the IEDC decided to shift the 21 Fund's focus from the transfer of technology between originators and wider audiences to company-driven technology-based product development in the commercial sector, reducing the focus on academic institutions. Another shift came in 2009 as a result of the economic recession, to focus on company-driven acceleration of market entry and creation of entrepreneurial wealth, economic impact, and jobs. The IEDC also implemented a plan to provide business development assistance through contacts and connections during this time. The focus of the 21 Fund investments has remained the same since this most recent shift in 2009.

The 21 Fund is currently managed by Elevate Ventures. Elevate Ventures describes the goal of the 21 Fund as "to support the resolution of next-stage capital formation issues by co-investing with institutional investors in order to further build innovative, high-impact, high-growth companies." Elevate Ventures indicates that the 21 Fund's maximum investment is $2 million per company, as approved by the IEDC Board in July 2013, although the maximum was $1,000,000 for the majority of the time period under review. All 21 Fund investment recommendations are made by Elevate Ventures, while the decision and approval process lies within the IEDC and the State Budget Agency.

21 Fund investments are currently made in convertible debt with finalization in convertible debt or equity instruments with certain contingencies used to protect the interest of the investor (the IEDC). Convertible debt is a financial instrument that the holder can convert into shares of common stock in the issuing company, or cash of equal value, at an agreed-upon price.

Current 21 Fund Programs

In addition to providing funding awards, the 21 Fund also funds two programs, which are currently managed by Elevate Ventures: the Regional Entrepreneurship Action Plan (REAP) and Quick Start. Two additional programs, the Small Business Innovation Research/Small Business Technology Transfer Programs, are also funded by the 21 Fund but are not managed by Elevate Ventures.

Regional Entrepreneurship Action Plan (*Not Included in Scope of Testing)*

JumpStart designed the REAP, for Indiana, through its partnership with the Economic Development Association and the Knight Foundation in 2010. The IEDC determined that Elevate Ventures would carry out the REAP for Northern Indiana through a professional services contract with the IEDC, for and on behalf of the 21st Century Fund Limited Partnership (21 Fund LP), in September 2012.

The Northern Indiana REAP covers Northeast, North Central, and Northwest Indiana and endeavors to provide entrepreneurs with a range of services, expertise, and capital that exceeds those that any single region could fund and deliver on its own. The REAP targets the following two types of companies:

- **High Potential Startups:** Companies that are too early in their commercial development to attract investment capital from mainstream angel or venture capital investors.

- **Potential Gazelles:** Small companies, under $25 million in revenue, that operate in large, fast-growing industry sectors and have the potential to achieve accelerated revenue growth.

The REAP program has three main funding sources: the IEDC (through the 21 Fund), regional partners, and national foundations and other non-regional funding sources. The IEDC initially funded the REAP contract with $6 million and the contingency that the Northern Indiana region would fund the contract with $3 million. After REAP was initially funded, the IEDC agreed to a 1:2 private to public funding model, with State dollars from the 21 Fund doubling the capital raised by private investors or institutional donors in the region.

Elevate Ventures has four main responsibilities under the REAP contract:

Assisting Companies	• Locate Entrepreneurs-in-Residence to Northern Indiana to provide localized assistance • Hire regional personnel to provide industry and technology sector-specific expertise and assistance
Catalyzing the Ecosystem	• Provide programming and shared services to promote collaboration and connection of entrepreneurs • Provide fundraising support to sustain the region's entrepreneurship resources
Idea Crossing	• Facilitate the customization and rollout of IdeaCrossing, an online community connecting entrepreneurs
Investing and Assisting	• Assist startups through the procedures to receive funding through Elevate Ventures-managed programs, specifically 21 Fund and SSBCI

A REAP contract is not yet in place for Southern Indiana, although a Quick Start contract is active.

Quick Start *(Not Included in Scope of Testing)*

The Quick Start contract is a short-term, quick implementation of key elements of the REAP program. As a lighter version of REAP, it requires approximately half the financial resources as the REAP program. Quick Start allows Entrepreneurs-in-Residence to begin action in the region of interest to prepare the regions for full REAP services.

The goals of Quick Start are to provide the regions with a small pool of funds to accomplish outreach and entrepreneurial assistance while developing the regional approach to entrepreneurship and innovation. IEDC contracted with Elevate Ventures in August 2011 to provide Quick Start for the Northern Indiana regions, and in August 2012 for the Southern Indiana regions.

Small Business Innovation Research/Small Business Technology Transfer Programs *(Not Included in Scope of Testing)*

The Federal Small Business Development Act of 1982 developed the Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR) programs. These programs were designed to promote technology and commercialization at the small business level as well as promote research and development between small businesses and United States research institutions. Both programs are federally funded. The IEDC created a specific SBIR/STTR program under the 21 Fund, intended to help Indiana's commercial and academic sectors compete for the federal funds. The 21 Fund initiated a matching program in 2003.

In February 2011, during the 2009 – 2011 biennium, the 21 Fund indicated that it was exhausting the SBIR/STTR Phase I funds designated to the matching grant program. As a result, the 21 Fund determined that it would no longer make matching commitments but would emphasize the importance of early-stage technology development by encouraging competitive Phase II and Phase III awards for companies who effectively utilized the SBIR/STTR program. The 21 Fund pledged, however, to continue providing niche assessments, pre-submission technical review of late drafts, and supplemental emails.

State Small Business Credit Initiative

Background

The Federal Small Business Jobs Act of 2010 created the SSBCI. SSBCI was initially federally funded with $1.5 billion to strengthen individual state programs already in place to support lending to small businesses and small manufacturers. In order for the U.S. Treasury to approve a state's application for SSBCI funds, the state had to demonstrate an expected private funding to public funding leverage ratio of 10:1, indicating that additional private lending must be utilized.

Under SSBCI, states are offered the flexibility to design programs suited to the State's individual needs. Two general types of programs are eligible: Capital Access Programs (CAP) and Other Credit Support Programs (OCSP). The IEDC Board of Directors identified the IEDC as the entity responsible for applying for SSBCI funding.

The IEDC applied for both CAP and OCSP programs and indicated that their OCSP program would be a State Venture Capital Program managed by a contracted entity and the State's co-applicant, Elevate Ventures. The IEDC requested $1,500,000 in CAP funding and $32,839,074 in OCSP funding. The IEDC's application indicated that funding would be divided among four funds or initiatives: the 21 Fund, High Growth Lending Initiative, Seed Fund Formation Initiative, and Angel Network Formation Initiative. The U.S. Treasury notified the IEDC on May 16, 2011 that its application had been selected and that the IEDC would be eligible to receive the full $34,339,074 via transfer from the SSBCI.

Indiana represents one of few states with the additional goal of earning comprehensive returns, i.e. direct financial returns plus indirect economic benefits (others include Maine, Maryland, Oklahoma, Pennsylvania, and Rhode Island). Indiana's deployment of this venture capital is done so in a multi-investment strategy, including a portfolio of investment funds (fund of funds), competitive process, and co-investment. The IEDC is responsible for furthering these strategies and contracts with Elevate Ventures to manage the State venture capital program portion of the SSBCI funding.

In anticipation of receiving the SSBCI funding, the 21 Fund LP created Limited Liability Corporations (LLCs) for three funds, which it planned to use to manage the SSBCI funding. The purpose of each fund was to help ensure that different stages of venture development and multiple sectors would be supported with the same Federal funding.

More information on investment strategies as they pertain to specific funds can be found below; further information related to the process to award these funds to Indiana Companies can be found in the *Development of New Entities and Relationships* section of this report.

Indiana Angel Network Fund, LLC *(Included in Scope of Testing)*

The Indiana Angel Network Fund (IANF) LLC is a source of seed capital focused on discovering and nurturing Indiana's emerging, high-potential, innovation-based companies. Businesses seeking investment from IANF should have strong market potential based on the application of new technology, new marketing concepts, or new products/services. Companies receiving funding from the IANF are typically in the early stages of development and need the investment to create prototypes or validate products and services.

The State was awarded $8 million to invest in Indiana companies through the IANF, and the maximum investment size available is currently $500,000 per company. Based on the SSBCI leverage expectations, qualified angel investors are required to co-invest alongside the IANF funding. This encourages post-IANF private funding and helps to maximize private sector participation.

Businesses requesting investment from the IANF must be qualified companies in the State, as defined in Indiana Code 6-3.1-24-7. Additionally, Elevate Ventures has additional reporting criteria potential recipients must agree upon, as well as investment contingencies. Through the application intake and review process and potentially subsequent investment agreement, Elevate Ventures and potential awardees agree upon terms and conditions related to these eligibility requirements and reporting standards.

As of August 13, 2013, IANF had committed and invested $2,262,485.98, with $4,901,903.94 co-invested.

Sub-Programs

Two sub-programs exist under the IANF: the Indiana Community Development Fund (ICDF) and the Indiana Diversity Investment Fund (IDIF). Both sub-programs are a part of IANF and are therefore managed by Elevate Ventures.

The ICDF is intended to support community-interested assets focused on early-stage businesses in Indiana with high-growth potential. Elevate Ventures initiated this program in Northern Indiana with plans to expand into Southern Indiana. The maximum investment is $50,000 per company.

The IDIF, rolled out in June 2013, is focused on supporting and investing in innovative women-, minority-, and veteran-owned businesses with high-growth potential in Indiana. The maximum investment is $125,000 per company and follows the same investment process as the IANF.

Indiana High Growth Fund, LLC *(Not Included in Scope of Testing)*

Indiana High Growth Fund (IHGF) is the source of investment funds for businesses that have been identified as high-growth opportunities. The IHGF issues loans to private lending corporations, who in turn issue loans to companies leveraging the public funds into high growth private lending mechanisms with a focus on underserved markets.

The State was allocated $6 million in SSBCI funding to support the IHGF initiatives. The IHGF is set up as a fund of funds. The IEDC and Elevate Ventures conducted a competitive Request For Proposals (RFP) process to identify existing companies to manage these investments. Those companies selected are responsible for making these investment decisions.

Information on the RFP process conducted and further details about the fund can be found in the *Development of New Entities and Relationships* section.

Indiana Seed Fund Holdings, LLC *(Not Included in Scope of Testing)*

Indiana Seed Fund Holdings (ISFH) is the source of investment funds for businesses identified to be in the stage of growth requiring seed capital, or the initial capital needed to grow the business. The ISFH is used to invest in seed funds, which in turn provide seed-stage investments to private companies leveraging the public funds to attract additional private investments.

The State was allocated $7 million in SSBCI funding to support the ISFH initiatives. The ISFH was intended to be set up as a fund of funds. However, there were challenges in identifying companies to manage these investments. More information on this process and further details about the fund can be found in the *Development of New Entities and Relationships* section.

Timeline of Events

Based on the background information provided for the IEDC, 21 Fund, and SSBCI, the following sections further explain the transformation of the 21 Fund, management of SSBCI funding, and creation of IEDC's partnership with Elevate Ventures. This information is included to help illustrate the various pieces that were moving forward simultaneously to ultimately lead to the new fund management operating model.

The IEDC's roles and responsibilities have evolved over time, as have those of the 21 Fund and various other State and federal investment instruments. Following is a high-level timeline of events, beginning with the inception of the IEDC and its initial responsibility as the manager of the 21 Fund.

2005	Indiana Statute created IEDC and IEDF and charged IEDC with administering the 21 Fund
April 2009	IEDC named New Director of Small Business & Entrepreneurship / Managing Director of 21 Fund
July 2009	IEDC Entrepreneurship Committee (EC) considered need for additional entrepreneurial assistance for 21 Fund companies
October 2009	IEDC initiated discussions with JumpStart of Ohio, a Statewide venture development organization
May 2010	21 Fund completed first convertible note investment
September 2010	IEDC entered into a contract with JumpStart for entrepreneurship assessment work in Northern Indiana
September 2010	Ball State University published study on performance of the 21 Fund
September 2010	IEDC EC considered options, including 21 Fund transformation, to address strategic obstacles
September 2010	Federal Small Business Jobs Act of 2010 passed and State Small Business Credit Initiative (SSBCI) created
September 2010	State Ethics Commission published an opinion regarding post-employment and conflict of interest concerns of a non-profit hiring current IEDC employees
November 2010	State Legislative Interim Study Committee on Economic Development published final report on economic development assistance and incentive programs

November 2010	Future Chairman of Board creates Elevate Ventures, Inc., an Indiana 501(c)(3) corporation
December 2010	IEDC applies for SSBCI funding through Capital Access Program and State Venture Capital Program
December 2010	IEDC EC and Board approve parameters of IEDC's partnership with the new non-profit, Elevate Ventures
March 2011	IEDC and Elevate Ventures entered into a professional services contract for the INVEST Indiana Initiative
April 2011	Elevate Ventures made hiring decisions for the following two positions: Chief Executive Officer, Vice President of Investments
May 2011	Indiana's proposed SSBCI capital program approved for $34 million of funding to be distributed in three equal tranches
May 2011	Elevate Ventures made hiring decisions for the following two positions: Chief Technology Officer/Venture Partner, Executive Assistant
July 2011	Elevate Ventures made hiring decisions for the following two positions: Venture Partner, Chief Financial Officer
August 2011	IEDC and Elevate Ventures issue two RFPs for SSBCI funding to solicit fund-of-fund applicants, and applicants applied for co-investments
August 2011	Elevate Ventures made hiring decisions for the following one position: Manager, Venture Analysis
September 2011	Elevate Ventures, IEDF, and Elevate Advisors create the 21st Century Fund Limited Partnership
October 2011	21 Fund LP becomes the sole member of the Indiana Angel Network Fund LLC for allocation of SSBCI capital funds
December 2011	21 Fund LP becomes the sole member of the Indiana High Growth Fund LLC and Indiana Seed Fund Holdings LLC for allocation of SSBCI capital funds
December 2011	Indiana High Growth Fund LLC executes agreements with High Growth Initiative RFP applicants: Cambridge Ventures, LP; Indiana Community Business Credit Corporation; and Lynx Capital Corporation
January 2012	Elevate Ventures made hiring decisions for the following one position: Manager, Marketing and Communications

May 2012	IEDC EC approved a change to the IANF Investment Policy to increase maximum co-investment amount to $500,000 and to allow capital from investors outside the State to be treated as co-investment
August 2012	U.S. Treasury approved the application modification to increase the IANF maximum co-investment amount to $500,000
August 2012	Indiana High Growth Fund LLC executes agreement with High Growth Initiative RFP applicant Indiana Statewide Certified Development Corp
September 2012	IEDC enters into a professional services contract with Elevate Ventures for the execution of the Northern Regional Entrepreneurship Action Plan (REAP)
December 2012	First full-year SSBCI metrics report was submitted to the U.S. Treasury
January 2013	Elevate Ventures made hiring decisions for the following one position: Manager, IT Portfolio
January 2013	Elevate Ventures Chief Financial Officer position eliminated
February 2013	Elevate Ventures made hiring decisions for the following one position: Controller
July 2013	Governor Pence orders a review of IEDC's business practices

Development of New Entities and Relationships

During the first five years of the IEDC's existence, a number of challenges surfaced related to the administration of the 21 Fund as well as the furtherance of its strategic initiatives, which led to the creation of a partnership with Elevate Ventures. The challenges and resulting actions taken by the IEDC and members of the community are described in the following section. This information is included to provide the reader with an understanding of the background events that were the impetus of Elevate Ventures and the environment in which it operates today.

IEDC Strategic Efforts

In 2006, the IEDC put forth a Strategic Plan outlining a total of 37 talent, innovation, and investment initiatives for economic development. With role changes occurring in the IEDC throughout 2009, particularly with the Managing Director of the 21 Fund and IEDC General Counsel, the IEDC reviewed and re-addressed its entrepreneurship strategies and initiatives. The IEDC commissioned a study to explore the Managing Director's thesis that the 21 Fund was crowding out private investors and potentially funding the wrong companies. Separately, the IEDC established a partnership with another venture development organization to identify a plan to help create and/or enhance already existing entrepreneurial networks in specific Indiana regions.

The IEDC identified the following obstacles and determined that they aligned with certain initiatives that were originally included in the 2006 Strategic Plan. Each obstacle and related initiative is identified below.

Obstacle	Related Initiative
The IEDC experienced pushback from the private sector when attempting to forge relationships that would satisfy the need for entrepreneurial assistance to 21 Fund applicants and investment recipients.	Establish a high-profile and prestigious Entrepreneur-in-Residence program.
Attracting additional investments, especially follow-on venture capital after a 21 Fund investment, proved difficult for the IEDC, possibly due to a lack of existing venture capital in Indiana and a lack of exposure of Indiana companies on a national level.	Create a network of Indiana's investors to encourage private sector investment in and advisory assistance for Indiana's high-growth businesses
Over 70% of 21 Fund awards were to four counties: Marion, Monroe, Tippecanoe, and St. Joseph.	Focus on regional economic growth initiatives to spur the development of regional networks.

Partnership with JumpStart, Inc.

IEDC contracted with JumpStart in September 2010 with the objective of helping the Northern Indiana region develop a plan to strengthen regional entrepreneurship and innovation capabilities, to ultimately stimulate job growth and wealth creation. In carrying out this objective, JumpStart prepared research that was based on its own successes in Northeast Ohio in providing regional entrepreneurs with expert assistance and investment capital. JumpStart ultimately prepared a report, the *Northern Indiana Regional Entrepreneurship Action Plan: Fall 2011.*

The REAP, as described in JumpStart's report, identified two main goals, both of which aligned with the IEDC's 2006 initiatives for innovation and investment:

- Increase the number of competitive, fast-growing firms by identifying high potential startup opportunities and providing them with the capital and expert assistance they need to attract follow-on funding, talent, and other resources needed to succeed

- Build on the success and information generated in pursuit of the first goal to help the region develop or attract the complementary resources necessary to foster a thriving ecosystem built on a foundation of entrepreneurship and innovation.

Ball State University Center for Business and Economic Research Report

The Managing Director of the 21 Fund commissioned the Ball State University Center for Business and Economic Research to complete a study of the 21 Fund, including analysis and recommendations. The report was published in September 2010.

A focus of the study is on the leverage ratio, or the ratio of private to public funding. Results from the study showed that the leverage ratio for the 21 Fund awards was consistently below 3:1 due to a lack of additional private investment. As a benchmark, SSBCI applications required that programs could achieve at least a 10:1 leverage ratio. Additionally, policy recommendations centered on the need for feedback and support of entrepreneurial activities after distinct phases of the application and investment processes.

Interim Study Committee on Economic Development Report

In October 2010, a Legislative Interim Study Committee conducted a study to examine the scope, focus, and usefulness of Indiana's economic development assistance and incentive programs. The Committee studied best practices in State and local economic development policies and activities among a host of other topics.

The Committee had the following findings, which were an impetus to the creation of Elevate Ventures:

- Insufficient access to capital for growth companies in Indiana was restricting economic development

- The entrepreneurship culture in Indiana could be strengthened through educational programming

- Community revitalization enhancement districts are a strong tool for local economic development efforts in Indiana but must be balanced with their revenue impact

The Committee made the following related recommendations:

- Review existing funding for the State's economic development incentives to see if resources can be moved to the Capital Access Program. Require peer review of the business merits of the loan applicant's proposed business and business plan. Require loan recipients to participate in specified technical assistance programs.

- Encourage more collaboration between IEDC and local economic development organizations.

- Formalize regional collaboration on economic development efforts in Indiana, and explore new economic development tools available for regional economic development activities.

Results

Using the information garnered through the various research and partnership efforts, the IEDC EC presented a recommendation to the IEDC Board for the INVEST Indiana Initiative.

I Investment-Matched Strategy

N Networked Angel Investors

V Venture Development

E Experienced Entrepreneurs-in-Residence Program

S SBIR/STTR Assistance

T Technical and Business Due Diligence Services

The IEDC EC proposed that the Initiative be developed and managed by a non-governmental entity. While the IEDC developed the INVEST Indiana Initiative, it also developed the idea to create such a non-governmental entity. This entity became Elevate Ventures, Inc., which is described further in the following section.

Formation of Elevate Ventures, Inc.

IEDC leadership determined that in order to carry out the IEDC's strategic initiatives related to State funding, a non-profit entity would need to partner or contract with the State. A non-profit entity would be afforded certain business privileges that the State is not, such as the ability to fundraise from private sources and the ability to hold equity. Additionally, using JumpStart's operations and research as examples, IEDC leadership believed that a non-profit structure would encourage private investors to invest due to the fact that the non-profit would invest under the same terms and conditions as private investors. It would also serve as a vehicle to employ Entrepreneurs-in-Residence.

The IEDC identified the Central Indiana Corporate Partnership (CICP) as a potential partner for the initiatives. CICP's main descriptors are as follows:

- Partnership of Central Indiana's chief executives and university presidents

- Sponsor of four economic development initiatives: BioCrossroads, Conexus Indiana, Energy Systems Network, and TechPoint

- Focuses on innovation and entrepreneurship, building a world-class workforce, and encouraging a pro-growth business climate

- Formed in 1999

Between the October 2010 and December 2010 IEDC EC meetings, the Secretary of Commerce and IEDC General Counsel conferred with the CICP to discuss the feasibility of partnering to carry out the IEDC's strategic initiatives. However, the Secretary of Commerce and General Counsel determined that CICP's central-Indiana focus and sector-specific sponsorship did not align with the strategic initiatives the IEDC was seeking to promote. Because of this decision, IEDC leadership determined that a new entity must be created in order to carry out the initiatives.

With this determination, the IEDC approached members of the community to discuss the entrepreneurial and investment needs of the State and the goals the IEDC were trying to accomplish. The IEDC General Counsel selected Howard Bates to be the future Chairman of the Board of Directors due to his entrepreneurial experience and willingness to perform the functions required for the role. As such, Bates created Elevate Ventures, Inc., which was later incorporated as a 501(c)(3) by its CEO, Stephen Hourigan. Board Members Jim Jay and John Schneider were also identified as Elevate Ventures' founding Board.

In the December 2010 IEDC EC meeting, at the request of the IEDC EC, the Secretary of Commerce and General Counsel explored the possibility of a partnership with the newly-formed Elevate Ventures. The IEDC EC approved a partnership with Elevate Ventures based on the terms presented and subsequently presented the decision to the IEDC Board of Directors.

The Secretary of Commerce and Chairman of Elevate Ventures signed the contract for Elevate Ventures' management of the 21 Fund. The nature of the contract was for professional services commencing on March 28, 2011 and, as amended, expiring September 30, 2015. The main duties assigned to Elevate Ventures under the contract are as follows:

- Management of the 21 Fund's SBIR/STTR program

- Solicitation, review, management, and monitoring of 21 Fund applications and investments

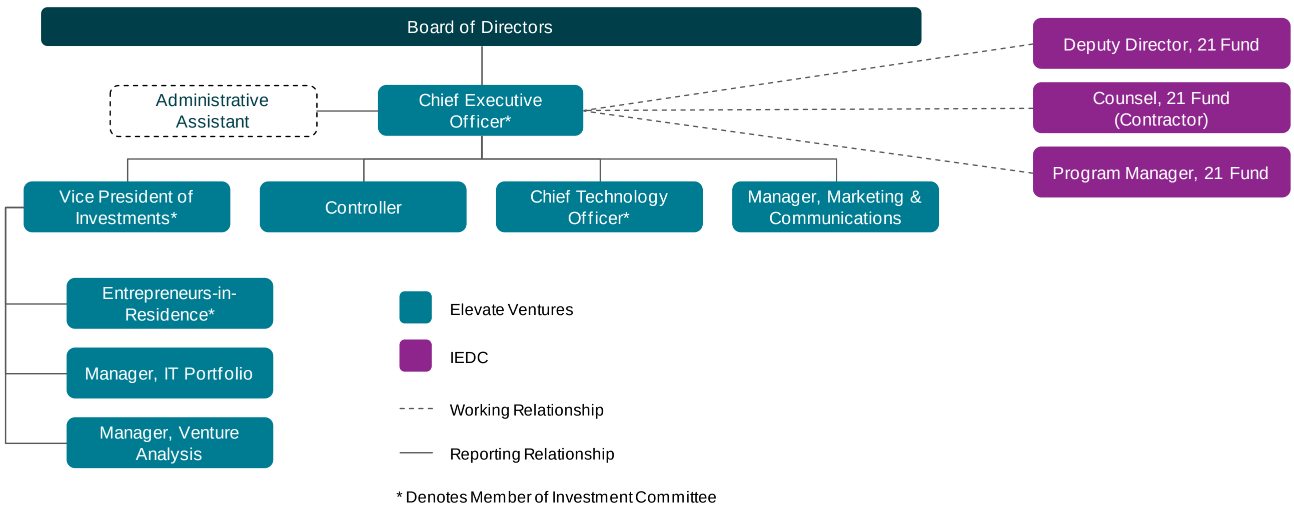
- Development of a technology framework to help enable Elevate Ventures to better serve the State of Indiana and encourage regional economic development activities

- Pursuit of new and follow-on funding for Indiana entrepreneurs

- Attraction of federal and institutional research funding in the State

Organizational Structure

Elevate Ventures was modeled after programs across the US: JumpStart, Inc. (Ohio), Innovation Works (Pennsylvania), and Innovation to Enterprise ("i2E;" Oklahoma). The structure of the organization is depicted below.



In order to preserve the State's interest while the management of 21 Fund dollars was transferred to Elevate Ventures, the IEDC elected to keep three positions under the IEDC's purview. These positions work with Elevate Ventures, in its capacity as the Fund's manager, on a daily basis. This is a common practice for a government or company to protect the assets managed by a third party. The 21 Fund Counsel is an outside contractor whose duty is to the IEDC.

Certain individuals filling the positions above were previously employees of IEDC. During the formation of Elevate Ventures, the General Counsel of the IEDC requested a formal advisory opinion from the Indiana State Ethics Commission related to conflict of interest, confidentiality, and post-employment policies for three IEDC positions. These positions were specifically related to management of the 21 Fund and would have the option to leave IEDC and become employees of Elevate Ventures: the Managing Director of the 21 Fund, Assistant Director of the 21 Fund, and Chief Technical Officer of the 21 Fund. The Managing Director of the 21 Fund became Elevate Ventures' CEO; the Assistant Director of the 21 Fund became Elevate Ventures' Vice President of Investments, and the Chief Technical Officer remained with IEDC and became the Deputy Director of the 21 Fund. In September 2010, the State Ethics Commission ruled that the IEDC employees' employment with Elevate Ventures would not violate any conflict of interest, confidentiality, or post-employment policies under the Indiana Code.

The State Ethics Commission did find that the IEDC employees must be mindful of the prohibition to work on any of the following matters with the nonprofit, if they had been involved as a state employee: 1) an application, 2) a business transaction, 3) a claim, 4) a contract, 5) a determination, 6) an enforcement proceeding, 7) an investigation, 8) a judicial proceeding, 9) a lawsuit, 10) a license, 11) an economic development project, or 12) a public works project.

As a result of this decision, the IEDC General Counsel permitted the Elevate Ventures board of Directors to pursue current IEDC employees for positions at Elevate Ventures, should they so choose. To select a CEO, Elevate Ventures' Chairman indicated that the Board searched for an individual with entrepreneurial experience who also had an understanding of the State funding instruments. According to the Chairman of the Board of Directors, the Board considered at least one other individual and determined that the current Managing Director of the 21 Fund, Stephen Hourigan, was the strongest match for the position's requirements.

Key Roles

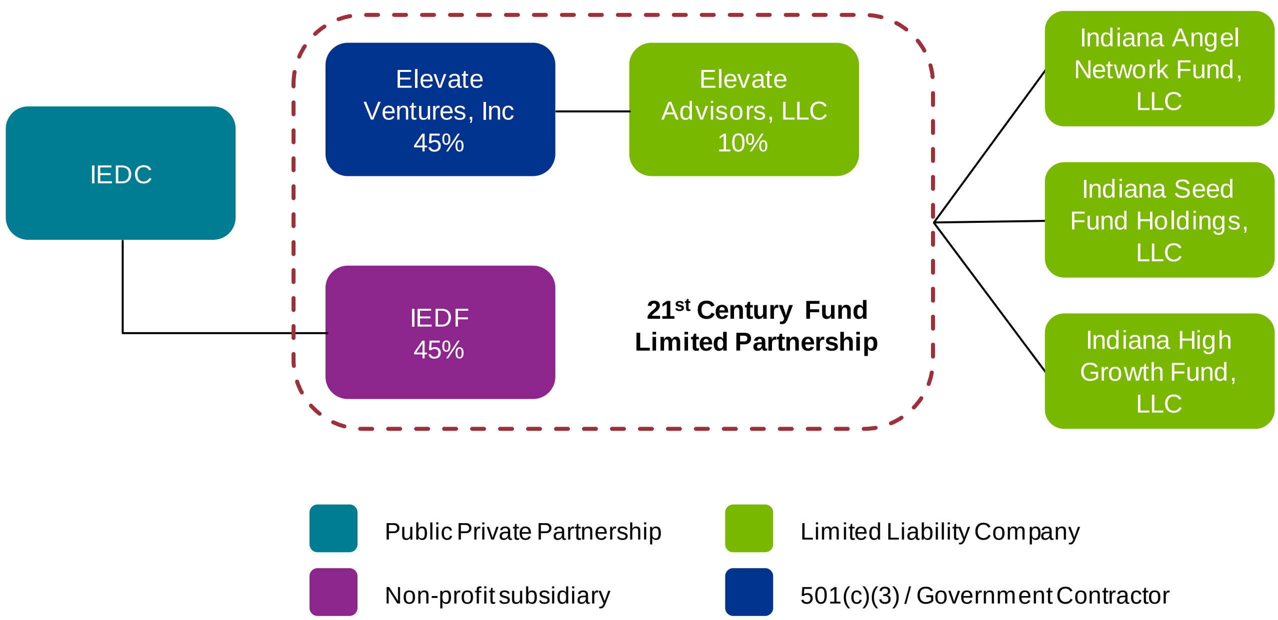
Two main roles exist in Elevate Ventures, both in committee capacities: the Board, and the Investment Committee.

The voluntary Elevate Ventures Board consists of one Chairman and four Directors. The Board is responsible for corporate governance, fundraising, and community outreach. It is comprised of individuals with experience in entrepreneurial and economic activity with a demonstrated commitment to the State of Indiana. It also holds certain privileges, as indicated by Elevate Ventures' bylaws. The Board as a whole reserves the right to remove an officer from Elevate Ventures; the Chairperson possesses and may exercise general executive and supervisory authority over Elevate Ventures and its employees. The Board does not have a voting influence on SSBCI investments or 21 Fund investment recommendations, except in the case when a conflict of interest has been identified for a potential 21 Fund investment.

The Investment Committee is composed of compensated Elevate Ventures employees, including the CEO, Vice President of Investments, and Venture Partners. The Investment Committee meets weekly to make investment recommendations and decisions.

Creation of the 21st Century Fund Limited Partnership

Elevate Ventures, Elevate Advisors, and the IEDC created the 21st Century Fund Limited Partnership (21 Fund LP) in October 2011. The 21 Fund LP was created for legal and accounting purposes related to the SSBCI funds. The limited partnership allows potential returns from the three LLC funds to be held and potentially reinvested. Generally speaking, it also allows the partnership to prioritize the charitable and governmental purposes of the partners over profit maximization or commercial interests that may arise in an investing environment. The 21 Fund LP is comprised of Elevate Ventures, IEDF, and Elevate Advisors. The relationship among these entities is depicted below.



The stated purpose of the 21 Fund LP is "to encourage the formation and growth of investor groups and investments across the State of Indiana, including with a focus on Indiana's distressed regions and populations, in order to foster and promote the development of entrepreneurs and emerging companies within Indiana in support of Indiana's economy and its creation and retention of jobs."

Key Roles

- Elevate Advisors, LLC: 10% ownership; general partner.

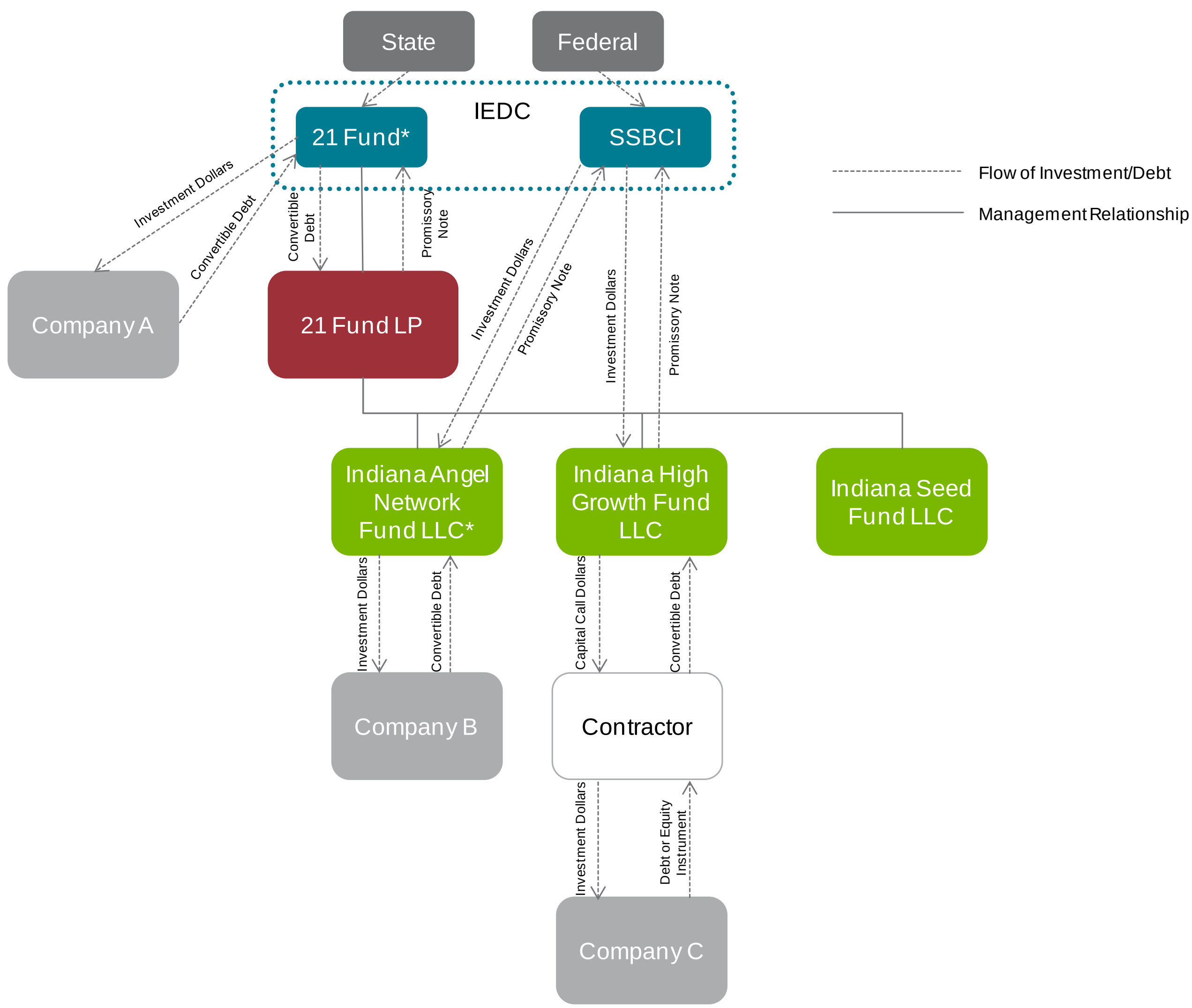
  Elevate Advisors was established solely for the purpose of acting as the general partner in the 21 Fund LP. In this role, Elevate Advisors is responsible for the management of the IANF and 21 Fund investments.

- Elevate Ventures: 45% ownership; limited partner.
- IEDF: 45% ownership; limited partner.

  The IEDC Board established the IEDF. Indiana Code permits the IEDC to establish a non-profit subsidiary corporation to solicit and accept private sector funding, gifts, donations, bequests, devises, and contributions.

Funding through the 21 Fund LP

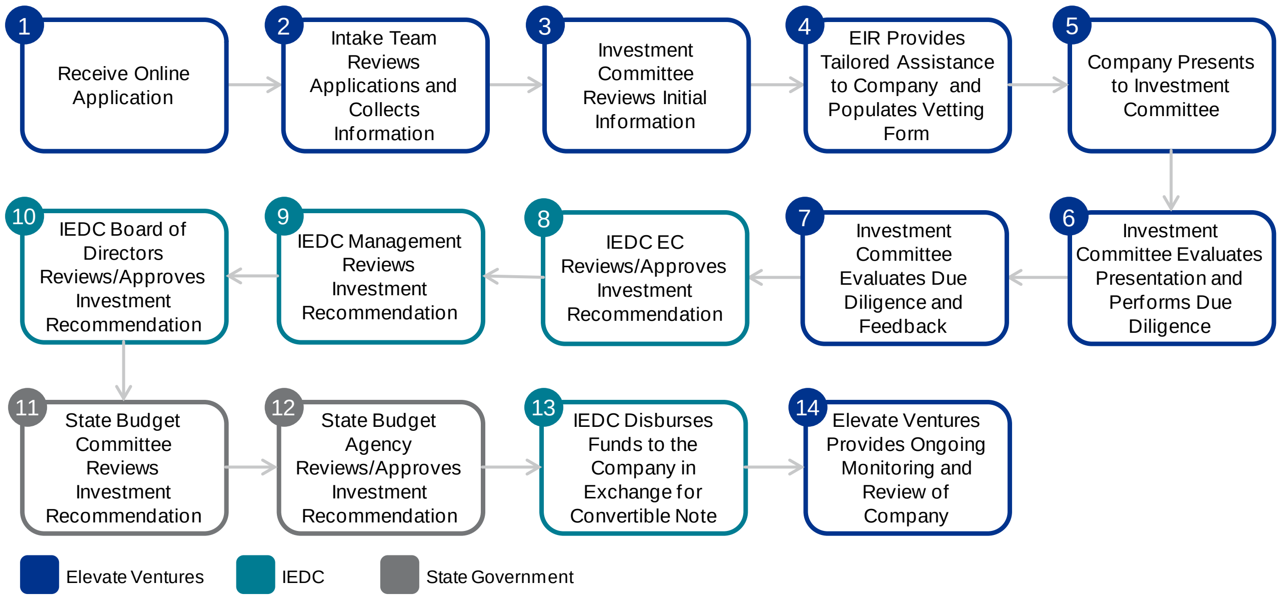
In order to fully understand the complex operating relationship between the IEDC, 21 Fund LP, and each investment program, it is critical to understand the flow of investment dollars between the related entities and funds. A funding map is shown below, and additional detail related for each operating relationship can be found below in distinct sections for each fund. Asterisks indicate the funds that KPMG tested as a part of this review.



State Funding (21 Fund)

Award and Funding Process

As indicated previously, State appropriations fund the 21 Fund, which is held by IEDC and managed by Elevate Ventures. As shown in the diagram on the previous page, State dollars are disbursed to the 21 Fund and are held by the IEDC while Elevate Ventures follows its process for accepting and reviewing applications for 21 Fund dollars, shown below:



1. Startups and organizations interested in receiving state or federal venture capital dollars apply at Elevate Ventures' website and the application is routed to Elevate Ventures personnel.

2. A three-person intake team receives the applications. One individual from the intake team is assigned to collect basic information on the company.

3. The Investment Committee reviews the application and basic information and decides whether to assign an Entrepreneur-in-Residence to the company.

4. Elevate Ventures' EIR provides tailored assistance to the company. Feedback is collected and documented on an initial vetting form. The EIR determines when the company is ready to proceed to the presentation stage.

5. The Investment Committee evaluates the company during the presentation. Evaluations are compiled and a master evaluation form is created.

6. Elevate Ventures determines the company's eligibility for 21 Fund dollars and performs the applicable due diligence. Due diligence is an investigation or audit of a potential investment.

7. The Elevate Ventures Investment Committee reviews the opportunity to fund the company based on the completed due diligence and ongoing feedback from the EIR. The Investment Committee determines whether to approve the investment or deny the recommendation.

8. Elevate Ventures presents an investment recommendation to the IEDC EC, including investment value, terms, and additional contingencies, if any. The EC reviews the opportunity and determines whether to approve or deny the investment.

9. IEDC Management reviews the investment recommendation and provides feedback to Elevate Ventures.

10. The IEDC Board of Directors reviews the IEDC EC-approved investment recommendation and determines whether to approve or deny the investment.

11. The State Budget Committee reviews the IEDC-approved investment recommendation and provides feedback to the State Budget Agency.

12. The State Budget Agency reviews the IEDC-approved investment recommendation and considers State Budget Committee feedback. The State Budget Agency determines whether to approve or deny the investment.

13. IEDC disburses funds from the 21 Fund to the approved company in exchange for a convertible note.

14. Elevate Ventures reviews and monitors the company to ensure it remains compliant with performance and reporting requirements through the term of the investment. Information is shared with the IEDC 21 Fund Program Manager, who is responsible for reporting the information to the U.S. Treasury.

If a company is not approved after any step, Elevate Ventures will notify the company and provide a rationale for not continuing with the process. However, companies may re-apply for funding after six months.

Federal Funding (SSBCI)

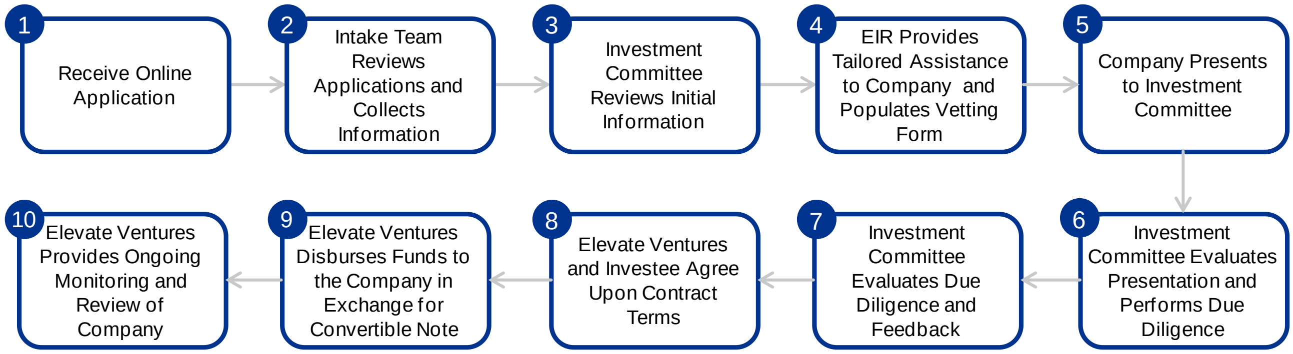
As discussed in the *Introduction to Funding Sources* section, the U.S. Treasury approved Indiana's proposed use of SSBCI funds in the State Venture Capital program in May 2011. The process for awarding SSBCI funds to Indiana companies is detailed below for each fund.

IANF Investments

To align with the IEDC's application for SSBCI funds, the 21 Fund LP established the IANF LLC and became its sole member on October 31, 2011. IANF received $8 million of the SSBCI-allocated dollars, which is managed by Elevate Ventures.

In this capacity, Elevate Ventures is responsible for receiving and evaluating investment opportunities and making investment decisions for the IANF on behalf of the IEDC. Elevate Ventures proposed investment policies for the fund to the IEDC EC on May 11, 2012. The IEDC EC approved the purpose of IANF, type of investment, investment criteria, qualified private investor criteria, prohibited use of funds, ineligible recipients, and investment procedure at this time.

The IEDC funds the IANF LLC on a tranche, not investment, basis. Tranches, or portions, of allocated SSBCI dollars are available in the IANF's reserve fund. Elevate Ventures awards IANF investments and, upon reaching a certain percentage of tranched funds awarded, requests an additional tranche. The process for reviewing and awarding funds under the IANF is as follows:



1. See page 30, step 1.
2. See page 30, step 2.
3. See page 30, step 3.
4. See page 30, step 4.
5. See page 30, step 5.
6. Elevate Ventures determines the company's eligibility for IANF dollars and performs the applicable due diligence.
7. See page 30, step 7.
8. Elevate Ventures and potential investee agree upon final terms and conditions of investment.
9. Elevate Ventures initiates the disbursement of funds from the reserve fund account of the IANF LLC to the company.
10. See page 31, step 14.

If a company is not approved after any step, Elevate Ventures will notify the company and provide a rationale for not continuing with the process. However, companies may re-apply for funding after six months.

IHGF and ISFH Investments

When determining the appropriate structure for use of the SBBCI funds, the IEDC determined that based on historical leverage rates for similar approaches, a fund of funds approach would help the IEDC achieve the SSBCI's required 10:1 leverage ratio.

In August 2011, the IEDC and Elevate Ventures issued two requests for proposals (RFPs) on behalf of the 21 Fund to solicit fund managers for high-growth lending and seed or early-stage funds. The RFPs included a section for proposers to document their technical proposal, including a summary of the proposed Fund and the proposed method of fund operation to achieve project objectives.

Initially, the 21 Fund received three proposals for high-growth lending and three for early-stage lending. An inter-agency committee reviewed and scored the applications for each fund proposal based on the following scoring criteria.

Criteria	Seed Stage RFP Points	High Growth RFP Points
Compliance with RFP Requirements	Pass/Fail	Pass/Fail
Project Objectives	35 Points	25 Points
Indiana Economic Impact for Distressed Areas or Populations	35 Points	25 Points
Funds Leveraged	20 Points	25 Points
Experience/Past Performance	10 Points	25 Points
Total	**100 Points**	**100 Points**

The IEDC EC provided the final approval to award Cambridge Capital Management Corp for the IHGF, and four funds for ISFH: Northern Indiana Imaging Fund, Gravity Ventures III, Allos ventures II, and NE Indiana LEAP Fund.

The portfolio managers of the IHGF are contracted to invest in companies or technologies with high growth potential who may be candidates to receive funding in an investment pool. Under Cambridge Capital Management Corp, four entities are responsible for investing IHGF dollars, each with a distinct purpose:

- **Cambridge Ventures, LP:** Focused on investing in promising firms with a focus on Indiana Businesses.
- **Indiana Community Business Credit Corporation (ICBCC):** Provides secondary and supplemental financing to small- and medium-size Indiana companies that are unable to obtain all of their financing needs from ICBCC's member banks.
- **Indiana Statewide Certified Development Corp (ISCDC):** Provides fixed asset financing through the US Small Business Administration 504 loan program, specifically for Indiana companies.
- **LYNX Capital Corporation (LYNX):** Provides growth capital to companies owned by racial minorities.

KPMG reviewed Elevate Ventures' agreements with each of the entities above and observed compliance with the terms required by the RFP. It was not in the scope of this review to test investments made by the entities above on behalf of Elevate Ventures.

Although the IEDC identified awardees for the early-stage capital, contracts did not proceed beyond the negotiation process and thus no awards have been made through ISFH. Hurdles to complete investment transactions with RFP awardees included lack of adequate management fees, potential inability to comply with SSBCI compliance and reporting requirements, and unlikely ability to meet the mission and objectives of SSBCI.

This page intentionally left blank.

Employment and Ethics Policies

Elevate Ventures Policies

As part of this review, KPMG evaluated nepotism and post-employment policies related to Elevate Ventures and reviewed business practices for compliance with such policies. In addition to reviewing these policies, KPMG also chose to review the Outside Employment section of Elevate Ventures' Employee Handbook and the Executive Compensation and Intermediate Sanctions Policy, as these sections relate to conflicts of interest.

Conflict of Interest Policies

Since both Elevate Ventures' and IEDC's Boards are comprised of investors, it is possible that conflicts of interest may arise and would need to be addressed as part of the investment process.

IEDC Policies

The IEDC Board adopted a Confidentiality and Conflict of Interest Policy on March 24, 2005.

First, the IEDC's policy requires that all IEDC employees and Board members comply with the ethical rules of conduct as promulgated in Executive Order 05-12 and the State Code of Ethics. Additionally, the policy has specific requirements for confidentiality and conflict of interest. IEDC employees and Board members are not permitted to disclose confidential or proprietary information until information is made available to the public or until the information is publicly disclosed by the corporation.

The IEDC's conflict of interest policy requires that IEDC employees and Board members seek to avoid a real or potential conflict of interest with regard to either the Corporation or State of Indiana's interests. Upon identification of a real or potential conflict of interest, the individual is responsible for disclosing the potential conflict to the IEDC CEO. Such individuals identifying a potential conflict may not participate in IEDC-related discussions of the matter, participate in Board discussions of the matter, and may not vote on the matter.

The State Ethics Commission released an advisory opinion in June 2013 regarding the IEDC Board's requirement to balance the disclosure requirements of the ethics rules with the confidential nature of certain Board negotiations. The IEDC proposed filing conflict of interest disclosure forms for board members with the State Ethics Commission and updating these forms as new information is available. The IEDC would then implement a proposed screen when a conflict of interest arises. The Commission found that the proposed solution complied with the IEDC's conflicts of interest rules while maintaining the confidential nature of discussions.

Finally, each Board member is also responsible for completing a Conflicts of Interest Disclosure Statement indicating the member and his immediate family members': full-time positions of employment; official capacities serving as a director, an officer, or member of the Board of Directors; material ownership or investment interest in business entities or operations; and other information the individual deems necessary to share with the IEDC.

Elevate Ventures Policies

Elevate Ventures adopted its initial Confidentiality and Conflict of Interest Policy in July 2011 and adopted a revised version in October 2012. The IEDC EC formally endorsed the October 2012 policy in May 2013. Since that date, Elevate Ventures has updated its system with additional controls but has not formally adopted a revised Confidentiality and Conflict of Interest Policy or procedures as of August 15, 2013.

Elevate Ventures developed a policy to protect the interests of Elevate Ventures and customers/funders (its stakeholders) where Elevate Ventures may enter into a transaction or investment that may appear or actually have a benefit to the private interests of, or impair the objectivity of, an employee, director, officer, or other fiduciary of Elevate Ventures.

All Elevate Ventures members, including officers, directors, and consultants, are required to sign and submit a Conflict of Interest Acknowledgement Form indicating that they have read and understood Elevate Ventures' procedure. This procedure requires that an Interested Person discloses a potential conflict prior to any financial arrangements using the Conflict of Interest Disclosure Form, and that the Interested Person be recused from the investment evaluation process.

Elevate Ventures members are also required to provide annual disclosures of potential conflicts of interest to the Chief Executive Officer. As the staff reviews a potential investment that has reached the due diligence phase, they compare both the annual disclosures and specific Conflict of Interest Disclosure Forms against the provided capitalization tables to assess if a potential conflict of interest exists.

The Investment Committee has added a step to the conflict of interest procedure since July 2013. The Investment Committee shares its meeting agenda with Elevate Ventures staff and Board on a bi-weekly basis to make deal information available to all personnel to allow for timely disclosure of potential conflicts. The staff and Board are also required to take a final, affirmative "no-conflict" action through an online portal before any deal is closed.

If a conflict of interest may be present, the Compliance Officer, a member of the Board or the Chief Executive Officer by default, is responsible for investigating, assembling, and considering all material information related to the potential conflict of interest. If the Compliance Officer determines that a potential conflict of interest is likely to arise, he presents the information to the Board. The Board is responsible for imposing procedures necessary to avoid the conflict of interest. In cases where the Interested Person is a director (i.e., member of the Board of Directors), he or she may not be present, or participate in any way, in any discussion related to the potential conflict of interest matter.

Conflict of Interest Policy Compliance

KPMG reviewed Elevate Ventures' practices against the related conflict of interest policies for overall compliance. Investment-level compliance was reviewed during investment testing and is discussed in the *Investment Testing* section of this report.

No documentation related to investments in the scope of this review came to the attention of KPMG to indicate that a conflict existed under the IEDC Conflict of Interest Policy. Therefore, the IEDC appeared to be compliant with its policy in relation to the investment transactions completed by Elevate Ventures.

The Elevate Ventures Confidentiality and Conflict of Interest Policy has five areas that specifically relate to potential conflicts. KPMG determined that Elevate Ventures appears to be in compliance with four of the five areas:

1. **Conflicts of Interest System:** In compliance with the policy, Elevate Ventures implemented a system in July 2011 to allow employees and Board members to identify potential conflicts of interest. This system includes annual disclosure forms, procedural acknowledgement forms, and procedural disclosure forms. Recently, in August 2013, Elevate Ventures added functionality to the system that requires all employees and Board members to disclose whether they have a financial interest in a company before that company presents to the Investment Committee.

2. **Duty to Disclose Actual or Potential Conflicts of Interest:** KPMG observed six instances where Interested Parties disclosed potential conflicts to the Board. Three of those disclosures related to companies who received investments from the IANF. Based on documentation reviewed, the Interested Parties involved appeared to be compliant in their disclosure.

3. **Duty of Compliance Officer:** Based on documentation reviewed, it appears that the duty of the Compliance Officer was not fulfilled in compliance with the policy. The definition of the Compliance Officer is below:

   > Compliance Officer. The individual [designated] by the Board of the Corporation, from time to time, to serve as the primary administrator of this Policy and to report on matters directly to Board as needed. If no Compliance Officer has been designated or the matter involves the Compliance Officer, the Chief Executive Officer shall serve as the acting Compliance Officer.

   At the time the four potential conflicts were disclosed to the Board, no Compliance Officer had been designated by the Board of Directors. Under the definition of "Compliance Officer," the duties of the Compliance Officer then resided with the CEO. These duties are described below:

   > Duty of Compliance Officer. The Compliance Officer shall investigate, assemble and consider all material information related to a potential conflict of interest. If an existing conflict of interest may exist, the Compliance Officer shall assemble and present all material information to the Board. If the Compliance Officer determines that a potential conflict of interest may exist or predictably arise, the Compliance Officer shall inform the Interested Person, and if the proposal is not withdrawn, the Compliance Officer shall assemble and present all material information to the Board. The Compliance Officer may utilize outside experts as reasonably appropriate to ensure a sufficient and independent review of the matter.

   KPMG's first finding resulted from the fact that KPMG did not observe documentation to support that the CEO was recognized as the acting Compliance Officer by the Board members or that he was the person who assembled and presented all material information to the Board. However, information was presented to the Board, and the CEO was present at the Board meeting where the conflict disclosures occurred. Additionally, the Board designated a Compliance Officer at the end of this meeting, and the Compliance Officer was also part of these discussions. Further information can be found in the *Findings, Observations, and Recommendations* section of this report.

4. **Conflict of Interest Determination:** KPMG observed four instances where Interested Parties disclosed potential conflicts to the Board and the Board made a determination on such disclosures. According to KPMG's review of the Board meeting minutes, Interested Parties were recused from the discussions. The determinations appear to be in compliance with the policy.

5. **Prohibited Activities:** KPMG did not observe any instances where an interested person took any action that violated additional restrictions or requirements imposed by the State or a portfolio company in relation to particular uses of such funding provided to Elevate Ventures.

Nepotism

The State has specific laws related to nepotism (IC 4-2-6-16). These laws apply to IEDC as a body politic and corporate that is an independent instrumentality exercising essential public functions. However, they do not appear to apply to Elevate Ventures, as a non-profit corporation in a partnership with and providing services to the IEDC.

Elevate Ventures has its own policy related to Hiring of Relatives located in its Employee Handbook. Elevate Ventures adopted the original Handbook on August 13, 2012. (Elevate Ventures amended the handbook as of September 1, 2013.)

> Hiring of Relatives
>
> Although we do not prohibit hiring of relatives, we are committed to eliminating situations in which a conflict of interest may exist. Therefore, it is unlikely that we would hire a person if he or she would perform under or have supervisory authority over a relative, whether actual or perceived. We define a relative as any person who is related by blood or marriage, or whose relationship with the employee is similar to that of persons who are related by blood or marriage.

As shown above, this section of the handbook shows a preference against hiring relatives, but it does not expressly prohibit the action. Additionally, it shows a preference against allowing supervisors to have authority over a relative, but it does not expressly prohibit the action.

KPMG observed one instance of employment that related to this policy. Elevate Ventures hired the CEO's relative as the IT Portfolio Manager on December 6, 2012. This instance does not appear to violate Elevate Ventures' policy or violate terms of Elevate Ventures' Agreement with IEDC.

It should be noted that, in this instance, Elevate Ventures took additional steps to mitigate risks associated with hiring relatives. The steps that were taken are listed below:

1. The VP of Investments and Chief Technology Officer (CTO) identified the IT Portfolio Manager role as a need, and these two roles developed a job description July 2012.
2. Elevate Ventures interviewed several candidates for this position over the course of four months before approaching the CEO's relative.
3. The VP of Investments and CTO approached the CEO's relative to discuss the IT Portfolio Manager position in November 2012. The CEO did not appear to be involved in these conversations.
4. The Venture Partner interviewed the CEO's relative on November 30, 2012. Later that day, the CEO was recused from a portion of an Investment Committee meeting, and the VP of Investments, CTO, and Venture Partner discussed whether the CEO's relative should be hired for the IT Portfolio Manager position.
5. The VP of Investments hired the CEO's relative on December 6, 2012 with a start date of January 2, 2013 as the IT Portfolio Manager. Although the CEO is the signatory on all other Elevate Ventures employment contracts, the CEO is not the signatory on his relative's contract.
6. The IT Portfolio Manager reports directly to the VP of Investments and the CTO, who are responsible for conducting his performance reviews. The CEO is not involved in discussions about his relative's performance.

In August 2013, Elevate Ventures engaged an external HR consulting firm to strengthen its policies and procedures and help avoid the appearance of conflict in the future. The "Hiring of Relatives" section was revised on September 1, 2013 to a more broad section titled "Relationships at Work." The revised language is included below:

> Relationships at Work
>
> No relative of any of the company's current employees can be hired in any position within the organization without the approval of two non-related managers. For purposes of this policy, relatives include the following: spouse, parent, child, sibling, in-law, grandparent, grandchild, aunt, uncle, cousin, niece, nephew, or step-relative. The term related also includes individuals with whom an employee has a close personal relationship, such as domestic partners, cohabitants, and significant others.
>
> In situations where employees marry, become related, or otherwise establish a close relationship—for example, domestic partner or significant other—the company reserves the right to take whatever action it deems necessary to prevent a real or perceived conflict of interest.

> Employees are expected to disclose relationships covered by this policy whenever they come into existence. An employee's failure to provide such information can lead to discipline. Where such relationships develop after employment, the affected employees cannot continue working in positions that involve a supervisor/subordinate relationship, financial or audit oversight or control, or any other possible conflict of interest. While the company will consider requests for a transfer or change in work assignments or responsibilities, it reserves the right to take whatever action it considers necessary to resolve a real or perceived conflict.

Post Employment

The State has specific laws related to post employment (IC 4-2-6-11). These laws apply to IEDC employees, as employees of a State Agency. However, they do not appear to apply to Elevate Ventures employees, as employees of a non-profit corporation.

Certain individuals currently employed by Elevate Ventures were previously employees of IEDC. During the formation of Elevate Ventures, the General Counsel of the IEDC requested a formal advisory opinion from the Indiana State Ethics Commission related to conflict of interest, confidentiality, and post employment rules for three IEDC positions. The Commission's decision that the post employment rule did not appear to apply was previously discussed in the *Formation of Elevate Ventures, Inc: Organizational Structure* section of this report.

Outside Employment

The State has specific laws related to outside employment (IC 4-2-6-5.5). These laws apply to IEDC employees. However, they do not apply to Elevate Ventures employees.

Elevate Ventures has its own policy related to Outside Employment located in its Employee Handbook. Elevate Ventures adopted the original handbook on August 13, 2012. Elevate Ventures amended the handbook as of September 1, 2013, but no changes were made to the Outside Employment section.

> Outside Employment
>
> Although we do not prohibit outside employment, you must ensure that any outside employment does not present a conflict of interest or interfere with your job performance. A conflict of interest could arise if the outside employer does business with us, if the work adversely affects our image, or if the work is for one of our customers or competitors. Please direct questions regarding outside employment to your manager.

In addition, Elevate Ventures includes a clause in each employment contract that addresses potential conflicts through outside employment. This clause is below:

> Additionally, I will not:
> a. Solicit or attempt to solicit any business or trade from Company's actual or prospective customers or clients;

Elevate Ventures' process requires employees to disclose any potential conflicts of interest on an annual basis but does not require disclosure of outside employment that does not pose a potential conflict. KPMG did not observe any conflicts related to outside employment, and this policy was not tested under the scope of KPMG's review.

Executive Compensation and Intermediate Sanctions Policy

The Executive Compensation and Intermediate Sanctions Policy ("the Policy") was adopted by the Elevate Ventures Board of Directors on July 29, 2011. The purpose of the Policy is:

> To ensure that [Elevate Ventures'] compensation arrangements with related parties are evaluated and entered at arms' length and that any compensation that is paid to a related party is reasonable and reflects fair market value. More specifically, this Policy is intended to manage and avoid any transaction that would constitute an "excess benefit transaction" as that term is defined in Section 4958 of the Internal Revenue Code of 1986, as amended.

KPMG identified this policy through review of Elevate Ventures' background documentation and determined it was comparable subject matter to other materials under review.

In an Excess Benefit Transaction, the value of the economic benefit provided by the organization exceeds the value of the consideration received by the organization. There is a risk of bestowing Excess Benefit in a compensation arrangement with a related party, and there are procedures set forth in the Policy to manage this risk should such a transaction arise.

KPMG observed one transaction that presented this risk after implementation of the policy. The transaction is described below:

Elevate Ventures needed to fill an Entrepreneur-In-Residence (EIR) role to serve Indiana companies in a specific region of the State. On December 21, 2011, the Board resolved that Elevate Ventures was authorized to hire a member of the Board as the interim EIR until a successor was elected.

In order for this Board Member to serve in this capacity and be compensated for his services, the Board was required to develop a "Rebuttable Presumption That A Transaction Is Not An Excess Benefit Transaction" under the Policy.

The Board took action to fulfill the Policy as described below:

Policy Requirement	Action
The transaction shall be approved in advance by the Corporation's Board, a committee of the Board, or other parties authorized by the Board to act on its behalf (to the extent permitted by state law) composed entirely of individuals who do not have a conflict of interest with respect to the transaction at issue.	Elevate Ventures' Board of Directors approved the transaction on December 21, 2011, which was prior to the transaction on January 21, 2011. The Board member being considered to serve as the interim EIR abstained from voting in this matter
The Decision Making Body shall obtain and rely upon appropriate data as to the comparability of the terms of the transaction prior to making its decision.	The Decision Making Body had appropriate comparability data, considering the knowledge and expertise of its members, and had sufficient information to determine that the transaction in its entirety was reasonable due to the fact that the members of the Decision Making Body had previously discussed compensation of other EIRs and had been provided with proposed compensation prior to the meeting.

Policy Requirement	Action
The Decision Making Body shall adequately document the basis for its determination concurrently with making that decision. 1. Adequate documentation must include: (1) the terms of the transaction approved; (2) the date the transaction is approved; (3) the members of the Decision Making Body present during debate and who participated in voting; (4) the comparability data obtained and relied upon and how it was obtained; and (5) any actions taken by anyone on the Decision Making Body who had a conflict of interest with respect to the transaction.	The Decision Making Body documented the basis for its determination in its resolution. The documentation included: 1) the terms of the transaction approved 2) the date the transaction was approved 3) the members of the Decision Making Body present during debate and voting 4) the comparability data obtained and relied upon and how it was obtained 5) Actions taken by the person on the Decision Making Body who had a conflict of interest with respect to the transaction had not been documented in the appropriate meeting notes. However, upon review of the meeting minutes, the person immediately informed the Board via email that the required documentation was missing.
The Corporation shall report the economic benefit given…as compensation on an original Federal tax information return (e.g., Form 990, Form W-2, or Form 1099)	The Contract with the Board Member includes this statement: “For tax purposes, you will be treated as an independent contractor and will be provided with a Form 1099 for the consulting fees and unsubstantiated expense reimbursements, if any, paid to you by the Company each year.”
The Corporation shall reflect its intent that the economic benefit be considered compensation for services through: i. An approved written employment or consulting contract executed on or before the date of the compensation payment; or ii. Written resolutions of the Decision Making Body indicating that it approved the compensation payment for services on or before the date of the payment.	The written consulting contract was executed on January 21, 2013. The Board Member did not begin work as a consultant until January 28, 2013. Additionally, the contract includes the following statement: “Such consulting fees will be billed to the Company by Consultant no less frequently than monthly and no more frequently than semi-monthly. Billings will be paid through the Company’s payroll system, after such time is rendered, has been billed by the Consultant and approved by [the Consultant’s supervisor].” The first compensation was invoiced on March 8, 2013 and paid on March 15, 2013.

Outcome: The Decision Making Body fulfilled most of the requirements in the Policy. However, it did not originally document the recusal of the conflicted member, as required in the Policy. However, the Board member with the conflict emailed the rest of the Board within 2 hours after meeting minutes were distributed to point out the missing documentation.

The documentation error does not cause this to become an Excess Benefit Transaction. Instead, it is a procedural error that could impact the strength of the “rebuttable presumption” required in the Policy.

Investment Testing

Investment Testing

As defined by the scope of work, KPMG tested both 21 Fund and IANF investments for compliance with investment policies, business practices, and conflict of interest policies. KPMG tested 100% of the investments made under Elevate Ventures' purview to-date, including fourteen IANF investments, ten 21 Fund investments, and two pending 21 Fund investments.

Methodology

KPMG tested both 21 Fund and IANF investments against each fund's relevant investment policies, investment procedures, and conflict of interest policies. KPMG also reviewed Indiana Code, specifically 35-44-1-3 (for transactions prior to July 1, 2012), 35-44.1-1-4 (for transactions after July 1, 2012), 4-2-6, and 4-2-7, to determine if Elevate Ventures, as an entity, was in compliance with provisions related to public servants and entities with business relationships to the state. At the investment level, KPMG reviewed the following documentation for the three test areas:

Testing Sources for IANF

Test Area	Source	Version(s) Dated
Investment Policies	Indiana Angel Network Fund, LLC Investment Policies	December 8, 2011 May 11, 2012
	SSBCI Policy Guidelines	October 21, 2011
Investment Procedures	Elevate Investment Process	January 2012 July 2012
Conflict of Interest	Elevate Ventures Confidentiality & Conflict of Interest Policy	July 15, 2011 October 12, 2012
	IEDC Conflict of Interest Policy	March 17, 2005

Testing Sources for 21 Fund

Test Area	Source	Version(s) Dated
Investment Policies	Investment Policy Statement	May 2011
	21st Century Research & Technology Fund Description	January 2012
	IEDC Board Minutes	July 2013
Investment Procedures	Elevate Investment Process	January 2012 July 2012
Conflict of Interest	Elevate Ventures Confidentiality & Conflict of Interest Policy	July 15, 2011 October 12, 2012
	IEDC Conflict of Interest Policy	March 17, 2005

KPMG identified each requirement stemming from the policies, practices, and procedures above and positioned each requirement into a test script. KPMG then identified the 21 Fund investments made after March 28, 2011, when Elevate Ventures' contract commenced, and all IANF investments and included these in the testing process.

At the time of this report, two 21 Fund investments were pending review by the State Budget Committee: SteadyServ and CurriculumLoft. As such, KPMG included both investments in the investment sample, but could not evaluate all aspects of alignment with investment policies and business practices. Investments tested as a part of this review are indicated below.

IANF

Company	Date	Value	Tested?
SteadyServ	8/29/2013	$125,000	✓
BabyPlus Company, LLC	7/24/2013	$125,000	✓
Curvo Labs LLC	6/28/2013	$50,000	✓
SteadyServ	5/31/2013	$250,000	✓
MaxTradeIn*	5/22/2013	$200,000	✓
PharmacoPhotonics, Inc (d/b/a FAST BioMedical)	4/15/2013	$500,000	✓
MaxTradeIn*	2/28/2013	$100,000	✓
SteadyServ	1/8/2013	$125,000	✓
Smarter Remarketer*	11/2/2012	$499,986	✓
RedPost, Inc.*	11/1/2012	$37,500	✓
Wolfpack Chassis LLC	10/4/2012	$125,000	✓
Sound Decision, Inc (d/b/a CloudOne Corporation)	4/26/2012	$125,000	✓
Wolfe Diversified Industries	3/16/2012	$125,000	✓
My Best Friend's Hair LLC	2/17/2012	$124,999.98	✓

*Potential conflicts disclosed and actions followed for recusal of Interested Parties.

21 Fund

Company	Date	Value	Tested?
CurriculumLoft	Pending	$2,000,000	✓
SteadyServ	Pending	$1,000,000	✓
Compendium Software, LLC (d/b/a Compendium)	1/14/2013	$500,000	✓
Compendium Software, LLC (d/b/a Compendium)	1/14/2013	$500,000	✓
Sound Decision, Inc (d/b/a CloudOne Corporation)	12/20/2012	$500,000	✓
PartTec, Ltd.	9/17/2012	$1,000,000	✓
Wolfe Diversified Industries	9/12/2012	$250,000	✓
Sound Decision, Inc (d/b/a CloudOne Corporation)	5/31/2012	$700,000	✓
Wellfount Corporation (d/b/a Wellfount Pharmacy)	5/29/2012	$1,000,000	✓
Emerging Threats Pro, LLC	1/26/2012	$500,000	✓
hc1.com (f/k/a Bostech Corporation)	12/16/2011	$1,000,000	✓
Courseload, Inc.	11/18/2011	$500,000	✓

KPMG reviewed documentation and conducted meetings with relevant individuals to test each investment against the applicable requirements. Elevate Ventures provided access to documents from each company's investment file and provided clarification and commentary for follow-up questions as requested.

Results

Overall, Elevate Ventures' management of State and Federal investment dollars has been in line with requirements. Summaries of the results for each fund are provided below.

IANF

- **Investment Policies**

  KPMG found that all IANF investment agreements complied with the IANF investment policy and Federal SSBCI guidelines. All fourteen investments contained the applicable provisions related to investment criteria, qualified investors, prohibited use of funds, and ineligible recipients. All IANF investments also contained the required assurances as imposed by the SSBCI guidelines.

  It is important to note that one criterion for each investment is that "the investment will result in a ratio of private investment to IANF's investment of no less than 1:1 and has a reasonable expectation, when considering follow-on investments, to result in at least a [3:1] ratio of awarded funds to new private, non-governmental capital by December 31, 2016." KPMG confirmed that each investment resulted in a 1:1 ratio of private investment to IANF's investment, but KPMG is unable to confirm that each investment will meet a 3:1 ratio of private investment to IANF investment before 2016.

- **Investment Procedures**

  KPMG found that Elevate Ventures followed each stage of the investment process for its IANF investments with one specific exception and one general exception. In one specific case with the Community Development sub-fund, Elevate Ventures worked on an investment agreement with another angel investor firm. The other firm was the lead for due diligence, meaning that Elevate Ventures did not use its internal due diligence form. Elevate Ventures is not currently in possession of any due diligence forms for that particular investment, although the process step was completed, meaning that they did not follow their own procedure.

  Secondly, KPMG observed that IANF awardees may also receive funding from the 21 Fund. Because the investment processes are similar, Elevate Ventures has leveraged documentation from the 21 Fund to meet documentation needs for the IANF investment process. Thus, documentation may have originated from the 21 Fund, but KPMG determined that Elevate Ventures still completed all stages of its pre-defined process for the IANF.

- **Conflict of Interest Policies**

  KPMG observed six instances of disclosed potential conflicts of interest related to five different companies. Two instances related to investments made prior to the period covered by KPMG's review, which indicates that the investments were made when the program was managed by the IEDC. The remaining instances dealt with relationships with RedPost, Inc., SmarterRemarketer, and MaxTradeIn.

  KPMG observed that Interested Parties disclosed two instances of financial interests prior to investment activity with SmarterRemarketer and MaxTradeIn, and an Interested Party disclosed an indirect economic interest with RedPost, Inc prior to investment activity. In each of these instances, the Interested Party followed the Elevate Ventures' Confidentiality and Conflict of Interest Policy through the process of disclosure, evidence of Board discussion, Compliance Officer review, recusal from investment process, and recusal from the investment decision.

21 Fund

- **Investment Policies**

  KPMG found that all 21 Fund investments, including the two pending investment decisions, are in compliance with the 21 Fund investment guidelines. Each investment met various award value guidelines, contingencies, and investment criteria.

  It is important to note that certain investment criteria, such as “large and identifiable market opportunities,” “clear and sustainable competitive advantages, including technical superiority,” “coach-able management team with strong commitment and execution capabilities,” “willingness to work with Elevate Ventures’ Entrepreneur-in-Residence,” and “achievable growth and exit strategies,” are subjective criteria which may not be explicitly identified or explained in investment documentation. KPMG observed evidence that these guidelines were considered and documented, although they are not objectively measurable.

- **Investment Procedures**

  KPMG found that Elevate Ventures followed each step of its self-determined investment process. KPMG observed that 21 Fund awardees may also receive funding from the IANF. Because the investment processes are similar, Elevate Ventures has leveraged documentation from the IANF to meet documentation needs for the 21 Fund process. As such, documentation may have originated from IANF but meets all stages of the process defined for 21 Fund awards.

  Additionally, KPMG observed that four companies who applied for 21 Fund investments did so prior to January 2012, when Elevate Ventures did not have a documented investment procedure in place. Therefore, while each investment is compliant with the investment procedures in place at the time of award/investment, not all investments were required to have the same documentation.

- **Conflict of Interest Policies**

  KPMG did not observe any disclosed potential conflicts of interest related to 21 Fund investments. No conflicts were disclosed related to any of the 21 Fund investments, nor were additional conflicts identified through documentation review.

This page intentionally left blank.

Findings, Observations, and Recommendations

Findings, Observations, and Recommendations

KPMG defines a finding as “an instance of non-compliance with policies and/or procedures,” of which KPMG identified two related to this review. An observation is defined as “an opportunity to strengthen a policy, procedure, or process,” of which KPMG identified twenty-two related to this review.

All findings and recommendations are followed by actionable recommendations intended to help enable compliance with policies and procedures and strengthen the relationship between the IEDC and Elevate Ventures. Such observations and recommendations are directed to the entity most affected by the recommendation. Recommendations are separated into the following categories: governance structure, investment process, conflicts policy, conflicts process, and other ethics policies.

Findings

KPMG identified two findings in the course of its review. Both of these findings directly related to errors in meeting documentation requirements under the company’s own policies.

In order to avoid documentation errors in the future, the Elevate Ventures Board of Directors and staff should be required to review related policies prior to entering into discussions about related party transactions, conflicts of interest, hiring or managing relatives, outside employment, and any other business that might appear to involve a potential conflict of interest. The purpose of these reviews will be to help ensure that 1) each aspect of the policy is considered and followed in discussions, and 2) all required information is documented. Such a review may be documented in the form of a checklist required to be filled out and signed by each Board member.

1. **Document the duties of the Compliance Officer, and fulfillment thereof, in Elevate Ventures Board Minutes.**

   As described on page 38, KPMG did not observe documentation to support that the CEO was recognized as the acting Compliance Officer by the Board Members that were present at the Board meeting when four potential conflict disclosures were made. Without documentation that the CEO was acting as the Compliance Officer, it appears as if the Board functioned with no Compliance Officer during these disclosures.

   Currently, the Elevate Ventures Board of Directors has designated a Compliance Officer. The Board should take steps to document whether this person has investigated, assembled, and presented all material information to the Board, as required in the policy. If the Board is ever without a Compliance Officer, which causes the CEO to serve as the acting Compliance Officer, the Board should clearly document instances when the CEO fulfills the necessary duties.

Responsible Party:	Elevate Ventures

2. **Require that all material information related to transactions that fall under the Executive Compensation and Intermediate Sanctions Policy be investigated, assembled, and presented to the Board by the Compliance Officer.**

As described on pages 41 – 42, KPMG observed that a Board member abstained from voting in a discussion about a related party transaction; however, the documentation of that Board member's recusal was not originally documented in the appropriate Board Meeting Minutes. Documentation of this recusal is required under the Executive Compensation and Intermediate Sanctions Policy of Elevate Ventures.

Elevate Ventures should amend its policy to require that all material information related to transactions that fall under this policy be investigated, assembled, and presented to the Board by the Compliance Officer. This will help ensure that the same level of review is achieved for all potential conflicts.

Responsible Party:	**Elevate Ventures**

Observations

Each observation below includes a summary description of the actions or information observed; a recommended policy, procedure, or process change; and a summary table indicating the issue, responsible party, and management response. A summary table of all 25 observations can be found in *Appendix D*.

Governance Structure

KPMG identified five opportunities to enhance the governance structure around IEDC and Elevate Ventures' relationship.

1. **Establish an Executive Committee with certain powers and revise the Board Chairperson and CEO's powers accordingly.**

According to Elevate Ventures' bylaws, the Chairperson of the Board of Directors "shall possess and exercise general executive and supervisory authority over the Corporation's affairs and its employees and other officers, manage and supervise all of the affairs of the Corporation and shall perform all of the usual duties of the chief executive officer of a corporation."

Due to the fact that the Chairperson has authority over all employees of Elevate Ventures, the Chairperson may also have direct or indirect impact on the day-to-day operations of the business. Such impact may create the opportunity for the Chairperson to exert undue influence over the Investment Committee, which is composed of Elevate Ventures employees. While KPMG did not observe such influence, extending executive powers to a committee will reduce the appearance of, and opportunity for, undue influence.

KPMG recommends that Elevate Ventures establish an Executive Committee of the Board of Directors and give powers of the CEO to this committee. Doing so would decrease the likelihood of an individual Board member disproportionately influencing the daily operations of Elevate Ventures. With this change, KPMG also recommends that the CEO reserve the rights to make initial employment decisions for Elevate Ventures personnel, with ultimate review and approval by the Executive Committee.

Responsible Party:	**Elevate Ventures**

2. **Increase communication between Elevate Ventures and the IEDC.**

   Although Elevate Ventures' client has remained as the State of Indiana since the contract commenced in March 2011, the administration of the State has changed. Due to this fact, and giving additional consideration to the nature of Elevate Ventures' contract with the IEDC to manage the 21 Fund, KPMG recommends that Elevate Ventures develop a process to keep the IEDC, and therefore the State, informed of business activities.

   Elevate Ventures may want to consider developing a dashboard to report metrics and business activities, such as those listed below, on a regular (e.g., biweekly or monthly) basis.

   - Number of 21 Fund awards made/dollar value of awards year-to-date (YTD)
   - Number of IANF awards/dollar value of awards made YTD
   - Return on investment (as applicable)
   - Number of companies currently in the investment pipeline, from application to approval
   - Business decisions made or currently being discussed, including potential conflicts of interest
   - Upcoming meetings (Investment Committee, Elevate Ventures Board, IEDC Board)

   Currently, the IEDC President, Secretary of Commerce, Vice President, CFO, and General Counsel review 21 Fund investment recommendations before the IEDC Board votes on such recommendations. The IEDC may want to designate one of these positions as the recipient of the update dashboard, after one of the IEDC roles within Elevate Ventures reviews the document.

Responsible Party:	**Elevate Ventures**

3. **Define review responsibilities for IEDC roles within Elevate Ventures.**

   IEDC currently maintains three positions that work with Elevate Ventures personnel on a daily basis: 21 Fund Deputy Director, 21 Fund General Counsel (outside contractor), and 21 Fund Program Manager. The first two positions are physically located in the same office as Elevate Ventures. However, neither of these positions is involved in funding decisions, nor is it responsible for fulfilling any oversight roles.

   Through the process of KPMG's review, Elevate Ventures indicated that it could improve relations with the IEDC and State of Indiana by improving communications with both parties. KPMG determined that an initial step in accomplishing this objective would be to add a formal oversight component to the IEDC roles physically located in the same offices.

   As a result, KPMG recommends that the IEDC review the roles of 21 Fund Deputy Director and 21 Fund General Counsel to include such a component. IEDC may want to consider requiring these roles to observe Elevate Ventures management and Investment Committee meetings and provide regular updates to IEDC management. Ultimately, this recommendation will allow the IEDC to help ensure that the State's interests are prioritized on a day-to-day basis.

Responsible Party:	**IEDC**

4. **Evaluate the need to increase Elevate Ventures Board participation and involvement.**

Elevate Ventures' bylaws state, "The officers of the Corporation shall receive no compensation for their services in such offices." As such, Elevate Ventures' Board members are responsible for paying expenses associated with attending Board meetings and are not compensated in any way for the time they dedicate to serving the company.

Consequently, Elevate Board members fulfill positions in other companies or work in other roles in order to gain compensation. Because Board members participate in multiple roles, it may be difficult to prioritize their Elevate Ventures duties. Board meeting minutes from late 2010 to July 2013 show irregularly scheduled meetings with as few as one and as many as six months in between meetings. Also during this time, Board participation has ranged from seven directors in attendance to as few as three. Low participation and lack of Board meetings delays investment decisions, which are time-critical for companies requesting funding from Elevate Ventures in the first place.

KPMG's research efforts conducted to gather information from similar entities revealed that at least one other similar entity incentivizes or reimburses Board members for their involvement. KPMG recommends that Elevate Ventures evaluate the need to offer incentives, such as public recognition or positive publicity, and amend its bylaws as appropriate.

Responsible Party:	**Elevate Ventures**

5. **Evaluate the need to require a third party to review Elevate Ventures' Conflict of Interest policy and related procedures when changes are made in the future.**

Considering Elevate Ventures' unique relationship with the IEDC and its status as a nonprofit, multiple conflict of interest policies could be used to inform Elevate Ventures' own conflict of interest policy.

KPMG recommends that a third party review any revised Conflict of Interest Policies from Elevate Ventures as well as the related procedures for executing the policy. Such review will help assess the reasonableness of the policy as well as its alignment with nonprofit and potentially certain governmental standards.

Responsible Party:	**IEDC**

Investment Policies and Process

KPMG identified five opportunities to enhance the investment policies and process for 21 Fund and IANF investments.

6. **Require IEDC Management review of IANF investments.**

The IEDC Board approved the current IANF investment policy on May 11, 2012. This policy does not require the IEDC to review any IANF investment recommendations, as is required by the 21 Fund investment guidelines. However, the IEDC is ultimately the steward of the dollars for both funds.

For two main reasons, KPMG recommends that the IEDC play a more active role in the IANF investment review process. First, the Federal government allocates funds to the IEDC, who in turn allows the IANF LLC to draw down the funds in tranches; the funds are not held by Elevate Ventures or the 21 Fund LP. As a result, the IEDC bears a certain degree of risk with fund draw downs. Secondly, it is possible that an Elevate Ventures Board member or employee may have disclosed a real or perceived conflict of interest with regard to the IANF investment in question. In this case, the IEDC would serve as an external reviewer to confirm that a conflict did not influence the investment recommendation and that Elevate Ventures followed its conflicts procedure accurately and completely. IEDC may want to consider giving this role to its General Counsel.

Responsible Party:	IEDC

7. Define the State Budget Agency's role in approving 21 Fund investment decisions.

According to Indiana Code 5-28-16-2(e), "The budget agency shall review each recommendation. The budget agency, after review by the budget committee, may approve, deny, or modify grants and loans recommended by the board." Beyond this review and approval requirement, Indiana Code does not offer additional guidance on the substance of the review.

In order to help ensure high quality investments and that value is added in all steps of the investment process, KPMG recommends that the State revisit the Budget Agency's role and consider developing a set of review and approval guidelines to help facilitate the review.

Responsible Party:	IEDC

8. Update documentation requirements related to due diligence.

A critical step in determining whether Elevate Ventures will invest in a company is the due diligence stage. Elevate Ventures currently maintains two due diligence checklists; a 29-item list for the IANF and a 46-item list for the 21 Fund. Elevate Ventures requests all related documentation from the potential awardee. However, certain documentation may not be available due to the age of the company, type of product or service, or current business plan and structure. KPMG observed that many due diligence checklists indicated that documents were "not applicable" for a given company but did not provide an explanation for that determination.

Elevate Ventures provided post hoc explanations for documents that were determined to be "not applicable" for each given 21 Fund and IANF company. In the future, KPMG recommends that Elevate Ventures use its "comments" column to document the business reasons for unnecessary documentation.

Responsible Party:	Elevate Ventures

9. **Develop a singular 21 Fund investment policy document.**

KPMG observed that Elevate Ventures has a singular IANF investment policy but does not have a singular 21 Fund investment policy. Rather, criteria used to test the 21 Fund investment were identified in the following separate documentation:

- Investment Policy Statement, dated May 2011: Describes the fund's background, objectives, themes, and both subjective and objective criteria.
- Description of Elevate Ventures' Four Funds, dated January 2012: Includes the 21 Fund's background and both subjective and objective criteria.
- IEDC Board Meeting Minutes, dated July 2013: Documents approval of increasing the maximum investment to $2 million.

KPMG recommends that Elevate Ventures update the Investment Policy Statement for the 21 Fund to include all criteria, including the updated maximum investment size.

Responsible Party:	Elevate Ventures

10. **Revise 21 Fund investment criteria to help ensure all criteria are objective and measurable.**

Elevate Ventures' criteria for 21 Fund investments is largely subjective. Criteria includes elements such as "large and identifiable market opportunities," "clear and sustainable competitive advantages, including technical superiority," "coach-able management team with strong commitment and execution capabilities," "willingness to work with Elevate Ventures' Entrepreneur-in-Residence," and "achievable growth and exit strategies," which are subjective criteria and may not be explicitly identified in investment documentation.

In order to help ensure a consistent application of investment criteria, KPMG recommends that Elevate Ventures revise its investment criteria so that all elements are objective and measurable. KPMG recommends that the updated criteria is included in the 21 Fund investment policy and ultimately reviewed and approved by the IEDC.

Responsible Party:	Elevate Ventures

11. **Document the investment process requirements for cases where existing portfolio companies re-apply for funding.**

Many Indiana companies are eligible for both 21 Fund and IANF awards. For example, a company may be awarded an IANF award and return to Elevate Ventures a year later for additional 21 Fund or IANF awards. In the course of Elevate Ventures' tenure as the fund manager, two companies have received multiple IANF awards; two companies have received multiple 21 Fund awards; and three companies have received, or are currently pending receipt, of both 21 Fund and IANF awards.

It is not a part of Elevate Ventures' current investment policy to conduct a new round of due diligence when an existing investment company requests an additional award. This is because a member of Elevate Ventures is always appointed to the Board of Directors for each investment company, meaning that Elevate Ventures personnel remains aware of the progress of the business and can communicate any critical changes to the Investment Committee.

KPMG recommends that Elevate Ventures revise its investment policy to require investment-specific, point-in-time documentation for all awards. If documentation from a previous award meets the requirements for a future award, Elevate Ventures should document this decision in the investment file in each instance.

Responsible Party:	Elevate Ventures

Conflicts Policy

KPMG identified two opportunities to enhance the Elevate Ventures' conflict of interest policy.

12. Disallow investments in companies in which the Compliance Officer has a financial interest.

The Elevate Ventures Board appoints a Compliance Officer from its members. If no Compliance Officer is designated, the duties fall to the Chief Executive Officer. Because of the oversight role that this individual is responsible for and the potential result of an actual conflict of interest, KPMG recommends that Elevate Ventures disallow investments in companies in which the Compliance Officer has a financial interest.

This recommendation stems from a strict conflicts of interest policy adopted by a similar entity, JumpStart. JumpStart's policy is if any employee holds a financial interest in a company, JumpStart is precluded from investing in that company. While KPMG does not recommend that Elevate Ventures adopt as stringent of a policy, it does recommend this policy apply to the Compliance Officer.

A Compliance Officer free of conflicts will help ensure consistent review and independent investigation of all potential conflicts. It will also help ensure that a level of professional skepticism is retained over all potential conflicts, leading to conflict-free investments made on behalf of the State. For additional information on the duties of the Compliance Officer, see observation number one.

Responsible Party:	Elevate Ventures

13. Define the word "proposal" in the context of Elevate Ventures' Confidentiality and Conflict of Interest Policy.

Elevate Ventures adopted its current Confidentiality and Conflict of interest Policy on October 12, 2012. The policy states, with regard to the development of a conflicts of interest system:

> The Corporation shall develop and maintain a system to mitigate potential conflicts of interest and ensure compliance with this Policy and all applicable Corporation requirements. Upon receipt of a proposal, the Corporation shall conduct a preliminary review to determine whether a potential conflict of interest may arise. If a potential conflict of interest exists or may predictably arise, the matter shall be referred to the Compliance Officer for consideration.

However, the policy does not provide a definition of the word "proposal" as used in the description above. Through discussions with multiple Elevate Ventures personnel, KPMG determined that a consistent implied definition does not exist. As a result, there is not an identifiable point in time during the investment process that is the explicit trigger for Elevate Ventures to conduct a preliminary review for potential conflicts of interest.

KPMG recommends that Elevate Ventures amend its policy to include a definition of the word "proposal." Potential definitions include:

- Online application submission
- Initial piece of due diligence
- In-person company presentation
- First draft of an investment agreement

With a consistent definition of the word “proposal,” Elevate Ventures will be able to perform an internal check of its conflict of interest system, and an external party would be able to easily identify the date when an initial conflicts check occurred. KPMG also recommends that the amended policy and definition be approved by the IEDC Board and an external third party.

Responsible Party:	Elevate Ventures

14. Require Elevate Ventures personnel and Board to disclose potential conflicts of interest to IEDC Management and IEDC Board of Directors.

Elevate Ventures’ current Confidentiality and Conflicts of Interest Policy does not require the company to inform the IEDC of disclosed financial interests. While most financial interests do not manifest in a conflict of interest, occasions have arisen in the past where the IEDC was not aware that investment decisions were made when potential conflicts of interests had been disclosed.

Because the IEDC is the ultimate steward of both State and Federal funds, KPMG recommends that IEDC Management and the Board of Directors be made aware of all disclosed conflicts of interest pertaining to investment decisions. The IEDC should consider amending its contract with Elevate Ventures to require that all potential conflicts of interest be disclosed to the IEDC.

Responsible Party:	IEDC

15. Conduct compliance audits to help ensure alignment with conflict of interest and other relevant policies.

Elevate Ventures’ professional services contract with the IEDC requires that Elevate Ventures contract with an independent audit firm to prepare audited financial statements annually. Additionally, the contract allows the IEDC or an outside contractor the right to inspect or audit Elevate Ventures’ use of funds related to the contract.

KPMG recommends that the IEDC amend its contract with Elevate Ventures to specifically allow IEDC to conduct compliance audits of Elevate Ventures with regard to conflicts of interest and other employment policies as determined necessary. While Elevate Ventures may not be subject to the same policies as the IEDC, such an activity will help ensure that Elevate Ventures is in compliance with the policies they are subject to.

Responsible Party:	IEDC

Conflicts Process

KPMG identified eight opportunities to strengthen the Elevate Ventures' conflicts of interest disclosure and recusal process, in support of its existing policy and recommended policy changes.

16. **Maintain a confidential database of Elevate Ventures personnel and IEDC Board Member financial interests.**

Elevate Ventures' conflict disclosure process is three-fold: first, employees and board members are required to sign procedural acknowledgement forms indicating they have read and understood the conflict of interest procedures; second, employees and board members are required to sign annual disclosure forms identifying any business or financial relationships with Elevate Ventures portfolio companies; and third, employees and board members are required to sign procedural disclosure forms for each individual company for which a financial conflict of interest has been identified.

Elevate Ventures' current process does not allow a central location where all financial interest information is located. Therefore, there is no easy way to check for potential conflicts of interest between existing employees/Board members and potential portfolio companies. The current process also does not check against IEDC Board member interests, which is relevant since IEDC Board members currently approve 21 Fund investments.

KPMG recommends that Elevate Ventures maintain its personnel's financial interest information in a confidential database. KPMG further recommends that this database house both Elevate Ventures' personnel and IEDC Board member financial interest data. Doing so will allow Elevate Ventures to perform an automated check against any new applicants and will create an automatic paper trail for all disclosures.

Elevate Ventures may also want to consider requiring personnel to disclose a material change in their financial interests. A material change may be defined as any change that has an effect on an individual's ownership status in a company. Once the policy is updated to include this provision, KPMG recommends that an external third party review the new policy.

Due to the highly sensitive and confidential nature of financial interest disclosures, KPMG recommends that one individual with the appropriate level of authority be responsible for maintaining and accessing the database, such as the Compliance Officer or his delegate. KPMG observed that JumpStart, a similar entity, has designated its Chief Financial Officer as the authority on conflicts of interest. Elevate Ventures may consider adopting a similar approach and naming its Controller as the individual responsible for the database.

Responsible Party:	Elevate Ventures

17. **For investments with disclosed potential conflicts of interest, require the Board to develop a written process to avoid a conflict of interest.**

As required by Elevate Ventures' Confidentiality and Conflict of Interest policy, a potential Interested Person is required to "disclose all facts related to the existence and nature of a potential conflict of interest," or, in the event that an Interested Person has not disclosed a potential conflict, Elevate Ventures' system requires the company to "conduct a preliminary review to determine whether a potential conflict of interest may arise."

In whatever way the conflict is identified, Elevate Ventures' Compliance Officer, a director of the Board, is required to "investigate, assemble, and consider all material information related to a potential conflict of interest." After such investigation and consideration, the Board is responsible for determining and imposing a process for each potential conflict of interest, including but not limited to recusal from all discussions and votes regarding the investment, to help avoid a conflict of interest in the investment decision.

Elevate Ventures currently follows this process and has documented evidence in its Board meeting minutes. However, to strengthen the policy and remove the appearance of potential procedural discrepancies, KPMG recommends that Elevate Ventures require documentation of the company-specific process determined by the Board in the related meeting minutes. Doing so will allow for a more efficient confirmation at the end of the investment process that the conflict of interest process was followed.

Responsible Party:	**Elevate Ventures**

18. For investments with disclosed potential conflicts of interest, document the actions taken to follow the Board of Directors' process in each unique case.

In order to help ensure that the process identified in the recommendation above is consistently and accurately followed, KPMG recommends that Elevate Ventures maintain documentation for each action imposed. Such documentation may include a dated notice to the Interested Party with details of the imposed procedure, dated notice to IEDC staff indicating the Interested Party and potential Interested Business, dated notice to the investment applicant, Board meeting minutes, potential investee's meeting minutes, and Investment Committee meeting minutes. All related documentation should be maintained in Elevate Ventures' investment file for each investee.

Responsible Party:	**Elevate Ventures**

19. Continue to require potential investment companies to disclose potential conflicts of interest.

Elevate Ventures' current Confidentiality and Conflict of Interest Policy focuses on the responsibility of the Interested Party and Elevate Ventures itself to identify and disclose potential conflicts. Beginning in December 2012, Elevate Ventures adopted an additional procedure requiring potential investment companies to sign Elevate Ventures' Conflict of Interest Check form.

The Conflict of Interest Check form provides the potential investee with an opportunity to disclose known participation, financial or otherwise, between a member of the investee's company and Elevate Ventures. Such a check provides an external review in addition to the internal reviews for potential conflicts.

KPMG recommends that Elevate Ventures continue this practice. KPMG further recommends that Elevate Ventures revise its 21 Fund and IANF investment processes to make it mandatory for potential award recipients to disclose a potential conflict of interest at the time of application.

Responsible Party:	**Elevate Ventures**

20. Communicate potential conflicts to Elevate Ventures personnel and IEDC Board Members.

Elevate Ventures recently implemented a process to inform personnel, on a weekly basis, of companies that have been invited to make a presentation to the Elevate Ventures Investment Committee. Such a process provides the Elevate Ventures community with an opportunity to disclose new conflicts or potential conflicts of interest.

KPMG recommends that Elevate Ventures formalize their notification policy, modify the trigger action, and broaden the audience. Elevate Ventures should update its Conflicts of Interest Disclosure Procedure to state that all staff, Elevate Ventures Board Members, and IEDC Board Members will be notified automatically at a point to be aligned with Elevate Ventures' definition of the word "proposal" (see observation 13). Such action will allow for early conflict disclosure, will help reduce the potential appearance of a conflict of interest, and will help ensure full compliance with the recusal portion of the conflicts policy.

A second step to this recommendation is to require that, once a conflict is officially disclosed to the Elevate Ventures Board and a process is approved by an external third party, all Elevate Ventures personnel and IEDC Board Members are notified by the Compliance Officer (or other owner of the confidential conflicts database). Such notification will allow all personnel to help ensure the recusal policy is followed.

Responsible Party:	Elevate Ventures

21. Notify Compliance Officer of potential conflicts and require discussion and imposition of procedures at soonest Board meeting.

As stated in the Elevate Ventures Confidentiality and Conflicts of Interest Policy, "The Compliance Officer shall investigate, assemble and consider all material information related to a potential conflict of interest…The Board shall consider the matter including the imposition of any procedures necessary to avoid a conflict of interest."

In order for the above steps to be effective, the Compliance Officer must be made aware of any potential conflicts. Based on recommendations above that may be implemented, the Compliance Officer may be made aware via an automated notification when a company applies for funding which has already been identified as a financial interest of an Interested Person. Upon such notification, KPMG recommends that the Compliance Officer begin assembling and investigating documentation to review and present at the next Elevate Ventures Board meeting.

When Elevate Ventures Board members discuss potential conflicts of interest at Board meetings, KPMG recommends that all investigations and review are documented and summarized in the meeting minutes. The current policy states:

> The minutes of the Board shall contain:
>
> (a) The names of the persons who disclosed or otherwise were found to have a Financial Interest or conflict of loyalty in connection with an actual or possible conflict of interest, the nature of the Financial Interest or conflict of loyalty, any action taken to determine whether a conflict of interest was present, and the Board's decision as to whether a conflict of interest in fact existed; and
>
> (b) the names of the persons who were present for discussions and votes relating to the transaction or investment, the content of the discussion, and a record of any votes taken in connection therewith.

KPMG recommends that the content of the discussion include the specific procedural steps that will be imposed upon the Interested Party and the investment process to help ensure that a real or perceived conflict of interest is not present.

Responsible Party:	Elevate Ventures

22. **Include the Elevate Ventures Board in any investment decisions where a conflict has been identified.**

Elevate Ventures' investment process does not currently require the Elevate Ventures Board to assess investment decisions for either 21 Fund or IANF awards. As a result, the current process does not give a third party the opportunity to confirm that the disclosure and subsequent procedure has been followed.

KPMG recommends that Elevate Ventures revise its investment process to include a conflict disclosure and procedural review by the Elevate Ventures Board, after it has been reviewed and approved by the Investment Committee, if and when a real or perceived conflict of interest has been identified. This step would be followed by the IEDC's review and approval, as applicable, of the investment.

Responsible Party:	Elevate Ventures

23. **Disclose all potential conflicts to the IEDC.**

Although several recommendations encourage communication with and disclosure to the IEDC, KPMG further recommends that Elevate Ventures explicitly identify conflicts of interest pertaining to each investment, as applicable. Observation 14 indicates a policy change related to this observation, and this specific observation pertains to the process of disclosure to the IEDC.

Elevate Ventures currently uses a template when making a 21 Fund investment recommendation to the IEDC. KPMG recommends that Elevate Ventures modify the template to include a section on conflicts of interest, including a timeline of disclosure, the external third party's opinion of the defined process, and detailed information on the recusal and other steps taken to ensure that a conflict did not affect the investment decision.

KPMG has recommended that IEDC Management review IANF investments. As a result, it is also applicable to recommend that all IANF investment recommendations include a section on conflicts as well, including the information detailed above.

Responsible Party:	Elevate Ventures

Employment Policies

KPMG identified two observations related to employment policies.

24. **Document policies related to the management of, and separation with relatives at Elevate Ventures.**

Elevate Ventures has taken steps in the past that exceed the requirements set forth in its policy for the Hiring of Relatives. Additionally, the company has recently made changes to strengthen the policy, requiring the approval of two non-related managers before a relative of a current employee can be hired.

In order to continue strengthening its employment policies in this area, Elevate Ventures should also consider implementing policies that explicitly address performance management of relatives and separation from relatives. These policies should set forth guidelines to reduce potential conflicts that might arise if an employee is involved in managing a relative or if a relative chooses or is asked to separate from the company. Additionally, documents showing compliance with these policies should be maintained in the employee's Employment File.

Responsible Party:	Elevate Ventures

25. Require Elevate Ventures employees to report all outside employment.

Elevate Ventures does not currently prohibit outside employment and requires the employee to ensure that any outside employment does not present a conflict of interest or interfere with job performance. However, the company does not maintain information about employees' outside employment to help ensure that employees are compliant with this provision of employment.

In order to strengthen the management of conflicts of interest, Elevate Ventures should require employees to disclose all outside employment and require approval from the CEO and Compliance Officer for this outside employment to exist. This is a common business practices and this action will help reduce the risk that Elevate Ventures could enter into a transaction that creates a conflict of interest for an employee. Additionally, it will reduce the risk that employees could enter into a transaction that creates a conflict of interest for Elevate Ventures.

Responsible Party:	Elevate Ventures

Appendices

Appendix A: Original Scope of Work

Under the original agreement with the Indiana Finance Authority ("IFA"), KPMG was engaged to perform the scope of work included below:

1. Analyze the current Indiana Economic Development Corporation ("IEDC") contract negotiation and award process, with respect to Elevate Ventures and other contractors as needed, by reviewing policies and procedures.
2. Test selected contracts for compliance with policies and procedures identified in Task 1.
3. Analyze IEDC management and policies for investment in its various funds, but specifically the 21 Fund and Angel Fund.
4. Test selected investments for compliance with policies identified in Task 3.
5. Evaluate investment policies and business practices of selected Indiana (IEDC) contractors, including Elevate Ventures, against leading business practices.
6. Evaluate potential business and ethics conflicts of interests, nepotism, and post employment policies.
7. Review selected investments for appropriate documentation, as defined in policies and procedures identified in Tasks 5 and 6.
8. Review a sample of similar programs, including contract negotiation and award, investment allocation, contractor investment, and business ethics practices, in other states or municipalities such as Cleveland's JumpStart program.

After work commenced, KPMG reviewed background documentation and completed research, which helped develop a further understanding of the current business practices. KPMG and the Office of the Governor determined that the scope of specific project tasks needed to be modified in order to assess the actual circumstances. The modified scope of work is detailed in the Executive Summary.

Appendix B: Relevant Conflict of Interest Definitions

Definitions of key words from Elevate Ventures' Confidentiality and Conflict of Interest policy are included below:

- Compliance Officer: The individual designed by the Board of the Corporation, from time to time, to serve as the primary administrator of this Policy and to report on matters directly to the Board as needed. If no Compliance Officer has been designated or the matter involves the Compliance Officer, the Chief Executive Officer shall serve as the acting Compliance Officer.

- Immediate Family: An Interested Person's spouse (or domestic partner); children, stepchildren, and adoptees who are unemancipated and less than 18 (eighteen) years of age; and any other individual more than one-half (1/2) of whose support is provided during a year by an Interested Person.

- Interested Business: Any corporation, partnership or other for-profit legal entity in which the Interested Person (together with his or her Immediate Family):

    - Holds a position of influence or control, such as but not limited to, trustee, director, officer, president, chief executive officer, chief operating officer, chief financial officer, or treasurer;

    - Owns any voting power; or

    - Owns either directly or beneficially any beneficial interest.

- Interested Person: Any officer, employee, or member of the Corporation's Board of Directors, or Other Interested Party.

- Financial Interest. An Interested Person has a Financial Interest in a matter if the Interested Person (or his or her Immediate Family or an Interested Business) has:

    - a pecuniary interest in a purchase, sale, lease, contract, option, investment or other transaction between the Corporation and any other person;

    - an ownership interest or investment in any entity with which the Corporation has a transaction or arrangement;

    - a compensation arrangement with any entity with which the Corporation has a transaction or arrangement; or

    - a potential ownership interest or investment in, or a potential compensation arrangement with, any entity with which the Corporation has actively determined to enter into or is negotiating a transaction or arrangement.

  The term does not include an interest that is not greater than the interest of the general public or any other Interested Person.

- Other Interested Party. The Corporation may engage an agent, advisor, consultant, attorney, accountant or other fiduciary to assist the Corporation with a particular business decision or matter, and with regards to such particular matter, those individuals shall be treated as an Other Interested Party for the purposes of this Policy. To the extent that the engagement is governed by established rules of professional conduct that address conflict of interest, conflict of loyalty, and confidentiality, those rules of engagement shall control unless the Board of Directors determines that those rules fail to adequately protect the interests of the Corporation and its Stakeholders.

Definitions of key words from IEDC's Confidentiality and Conflict of Interest policy are included below:

- Interested Board Member: A member of the Board or a Corporation Employee who has disclosed an actual or potential conflict of interest or who is subject to any issue regarding an actual or potential conflict of interest.

- Immediate family: The spouse and children living in the same household as a member of the Board.

- Conflict of interest: Present when a position or a financial interest which the Board member or employee, or an immediate family member thereof, is the result of:

    - An ownership or investment interest in;

    - A compensation arrangement resulting from employment with; or

    - Serving as an officer or a member of the board of directors of any business entity or organization

Appendix C: Glossary of Terms

Term / Abbreviation	Name
21 Fund	21st Century Research and Technology Fund
CAP	Capital Access Programs
CICP	Central Indiana Corporate Partnership
IANF	Indiana Angel Network Fund LLC
ICDF	Indiana Community Development Fund
IDIF	Indiana Diversity Investment Fund
IHGF	Indiana High-Growth Fund LLC
ISFH	Indiana Seed Fund Holdings LLC
IEDC	Indiana Economic Development Corporation
IEDC EC	Indiana Economic Development Corporation Entrepreneurship Committee
IEDF	Indiana Economic Development Foundation
IFA	Indiana Finance Authority
OCSP	Other Credit Support Programs
REAP	Regional Entrepreneurship Action Plan
SBIR	Small Business Innovation Research program
SSBCI	State Small Business Credit Initiative
STTR	Small Business Technology Transfer program

Appendix D: Summary Table of Findings and Observations

KPMG identified two minor findings which are summarized below.

Finding	Recommendation	Responsible Party
1	Document the duties of the Compliance Officer, and fulfillment thereof, in Elevate Ventures Board Minutes.	Elevate Ventures
2	Require that all material information related to transactions that fall under the Executive Compensation and Intermediate Sanctions Policy be investigated, assembled, and presented to the Board by the Compliance Officer.	Elevate Ventures Board

KPMG also identified 25 observations which are summarized below.

Observation	Recommendation	Responsible Party
1	Establish an Executive Committee with certain powers and revise the Board Chairperson and CEO’s powers accordingly.	Elevate Ventures
2	Increase communication between Elevate Ventures and the IEDC.	Elevate Ventures
3	Define review responsibilities for IEDC roles within Elevate Ventures.	IEDC
4	Evaluate the need to increase Elevate Ventures Board participation and involvement.	Elevate Ventures
5	Evaluate the need to require a third party to review Elevate Ventures’ Conflict of Interest policy and related procedures when changes are made in the future.	IEDC
6	Require IEDC Management review of IANF investments.	IEDC Management
7	Define the State Budget Agency’s role in approving 21 Fund investment decisions.	IEDC
8	Update documentation requirements related to due diligence.	Elevate Ventures
9	Develop a singular 21 Fund investment policy document.	Elevate Ventures
10	Revise 21 Fund investment criteria to help ensure all criteria are objective and measurable.	Elevate Ventures
11	Document the investment process requirements for cases where existing portfolio companies re-apply for funding.	Elevate Ventures

Observation	Recommendation	Responsible Party
12	Disallow investments in companies in which the Compliance Officer has a financial interest.	Elevate Ventures
13	Define the word “proposal” in the context of Elevate Ventures’ Confidentiality and Conflict of Interest Policy.	Elevate Ventures
14	Require Elevate Ventures personnel and Board to disclose potential conflicts of interest to IEDC Management and IEDC Board of Directors.	IEDC
15	Conduct compliance audits to help ensure alignment with conflict of interest and other relevant policies.	IEDC
16	Maintain a confidential database of Elevate Ventures personnel and IEDC Board Member financial interests.	Elevate Ventures
17	For investments with disclosed potential conflicts of interest, require the Board to develop a written process to avoid a conflict of interest.	Elevate Ventures
18	For investments with disclosed potential conflicts of interest, document the actions taken to follow the Board of Directors’ process in each unique case.	Elevate Ventures
19	Continue to require potential investment companies to disclose potential conflicts of interest.	Elevate Ventures
20	Communicate potential conflicts to Elevate Ventures personnel and IEDC Board Members.	Elevate Ventures
21	Notify Compliance Officer of potential conflicts and require discussion and imposition of procedures at soonest Board meeting.	Elevate Ventures
22	Include the Elevate Ventures Board in any investment decisions where a conflict has been identified.	Elevate Ventures
23	Disclose all potential conflicts to the IEDC.	Elevate Ventures
24	Document policies related to the management of, and separation with relatives at Elevate Ventures.	Elevate Ventures
25	Require Elevate Ventures employees to report all outside employment.	Elevate Ventures

Appendix E: Research of Similar Entities

When developing Elevate Ventures' operating model, the IEDC looked to similar entities for ideas. Elevate Ventures' model was influenced significantly by JumpStart, Inc., a Northeast Ohio non-profit focused on job creation and economic development in Cleveland and surrounding communities, and a previous partner of the IEDC. While the State of Indiana's business relationship with Elevate Ventures is unique, other organizations conduct business similarly, including Oklahoma's Innovation to Enterprise (i2E).

Indiana's economic development operating model shares a few important similarities with and maintains a few important differences from JumpStart and i2E. Most prominently, Elevate Ventures is a not-for-profit, as are the other two organizations, and maintains a focus on job creation and economic development. Furthermore, like the other organizations, Elevate Ventures is largely (though not entirely) dependent on state funds to support its mission. Each of the not-for-profits evaluated has distinct funds for different funding initiatives and distributes awards in unique ways, but none of the organizations evaluated uses state personnel to make the entire investment decision.

KPMG conducted background research on each of the entities identified above and held follow-up interviews with executives from each entity. Using the information gathered and considering the differences and similarities between each entity's operating model and Elevate Ventures' operating model, KPMG identified certain policies and practices that supported the recommendations. Key information for each entity is summarized below, with more detailed information following.

Name	JumpStart, Inc.	I2E, Inc.
Market	Cleveland and Northeast Ohio	Oklahoma
Population (2010)	4.45 million across 21 counties	3.75 million
Mission/Vision Statement	Increase the economic impact and sustainability of Northeast Ohio's entrepreneurial ecosystem, while leveraging JumpStart's experience and expertise to catalyze entrepreneurship nationally.	Nurturing entrepreneurs…building high growth companies in Oklahoma.

JumpStart, Inc.

JumpStart is a private, non-profit equally owned by NorTech (a technology-based economic development organization) and Case Western Reserve University. NorTech created an Entrepreneurship Task Force in 2003, which identified weaknesses in Northeast Ohio's entrepreneurial ecosystem and proposed initiatives to help develop such an ecosystem. JumpStart was a result of the task force, created to help develop entrepreneurs, increase networking opportunities, increase visibility into capital channels, and develop awareness of entrepreneurship in the business community, among other things.

JumpStart Programs and Funding Sources

JumpStart provides the following services to companies in Northeast Ohio:

- **Business Assistance**: Consulting assistance from Entrepreneurs-in-Residence and other business leaders. In some cases, Business Assistance includes financial investment.
- **Inclusion:** Technical assistance for minority business owners.
- **Talent Attraction:** Guidance on ways to identify, recruit, and retain talented employees.
- **Mentoring:** Connects new business leadership with successful entrepreneurs and executives.
- **PR and Marketing:** Assistance with messaging materials for young companies.
- **IdeaCrossing:** Free online community to assist entrepreneurs with identifying capable resources.
- **Evergreen Fund Investment:** Provide investments starting at $250,000 for companies that have shown high potential and who have agreed to work with an Entrepreneur-in-Residence.

JumpStart receives funding from two main sources: the State government and private fundraising. JumpStart has received Federal funding through the SSBCI program in the past but does not receiving any SSBCI funding currently. Approximately 95% of JumpStart's State funding has come from a competitive proposal process through the Ohio Third Frontier program which requires a minimum 1:1 match with private investors. When submitting proposals to the Ohio Third Frontier, JumpStart coordinates with its Entrepreneurial Network, 16 additional firms in Northeast Ohio, to develop the response.

State funding and private investments to JumpStart are used to fund the Evergreen Fund. If JumpStart determines that a company would be able to attract private capital without an investment first from its Evergreen Fund, it will direct the company to private investors or to another investor in the JumpStart Entrepreneurial Network.

Business Practices and Policies

JumpStart's business operations can be categorized into three main areas: entrepreneurial assistance, investment, and regional partnerships. JumpStart's entrepreneurial assistance programs include personalized business assistance; programs for minority, women, and inner-city based entrepreneurs; talent attraction services; mentoring programs; public relations and marketing services; connection to a free online networking and assistance resource; access to a network of entrepreneurial support organizations, and opportunities for student entrepreneurs.

Differing from Elevate Ventures' business model, it is JumpStart's policy to not invest in seed-stage companies that are able to receive funding from private investors. JumpStart will instead direct companies that it believes would receive funding from private sources to members of the JumpStart Entrepreneurial Network or a variety of private investors across the company.

JumpStart has created eight funds in addition to its Evergreen Fund, discussed in more detail below. A company will apply for funding through JumpStart's website and the JumpStart due diligence team will review and evaluate the opportunity. If the company meets baseline requirements, the team will conduct additional due diligence, totaling 100-200 hours of effort and resulting in an investment memo. The Investment Decision Committee, a subset of the Board of Directors, reviews the investment memo and vets the information presented therein. Finally, JumpStart performs a background check of the entrepreneur and an internal conflict of interest due diligence process

Business Ethics Policies

JumpStart maintains ethics policies related to conflicts of interest, conduct and honesty, access and usage of computing technology and professional relationships. Most notably, JumpStart maintains a rigid conflicts of interest policy, which is in line with the Federal Regulation O conflicts policy despite the fact that JumpStart does not currently receive Federal funds that require compliance with this section. The policy requires all employees, officers, and trustees to avoid financial dealings, membership equity, employment relationships, and acceptance of favors, money, or other considerations that would actually or appear to create a conflict of interest. JumpStart indicated that as a recipient of public funding, its goal is to remain above reproach for its use of the funds. JumpStart's conflict of interest policy helped inform aspects of KPMG's conflict of interest policy recommendations.

Innovation to Enterprise, Inc. (i2e)

Innovation to Enterprise (i2E) is a private not-for-profit corporation focused on growing innovative small businesses in Oklahoma. In 1997, the Oklahoma Center for the Advancement of Science and Technology (OCAST) introduced an initiative for the Oklahoma Technology Commercialization Center (OTCC). i2E manages OTCC for OCAST and provides enterprise, innovation, and commercialization services on behalf of the program.

i2E
INNOVATION TO ENTERPRISE

i2E Programs and Funding Sources

i2E makes available the following programs:

- **Advisors & Mentors:** Experienced business professionals who meet with and mentor entrepreneurs. Guidance comes in the form of one-on-one mentoring, networking assistance, and advice on access to capital.

- **Entrepreneur-in-Residence:** Lecture, advisory, and workshop assistance from experienced entrepreneurs for Oklahoma startups.

- **Immersion Program:** Class offered to innovative startups in tandem with matching investment funds.

In addition, i2E provides capital assistance using the funds listed below. I2E's funding sources are the State of Oklahoma, the Federal government, and private donors.

- **Concept Fund:** Pre-seed funding from $25k to $200k, requiring a company match, to allow for commercialization of new products and processes.

- **Accelerate Oklahoma!**: Three funds (StartOK, Oklahoma Angel Sidecar Fund, and GrowOK) that offer equity and growth investment capital, funded by the Federal SSBCI award.

- **Oklahoma Seed Capital Fund (OSCF):** Fund focused on industry sectors with advanced technologies and proprietary products, processes, and/or know-how.

- **SeedStep Angels:** Angel investments ranging from $50,000-$500,000.

- **Seed Capital:** Crafted to be an economic development tool with a goal of making investment in early stage companies engaged in the commercialization of promising new technologies in OK. Related statute/constitutional amendment allow the state to take an equity or debt position with firms (unique to OCAST as a state agency). *OCAST invests in Oklahoma Seed Capital Fund, currently managed as a wholly owned subsidiary of I2E, Inc. Other fund investors also exist. OCAST is the largest contributor and is the Class A member, which includes the right to review and approve all proposed term sheets with the advice of its investment committee.*

i2E receives funding from three main sources, as does Elevate Ventures: State government, Federal government, and private donors. Similarly to Elevate Ventures, the Oklahoma legislature appropriates funds to i2E which are managed by i2E but not house in an i2E account. i2E was the co-applicant with Oklahoma's State Department of Commerce for Federal SSBCI funding, which was approved for allocation into three funds as identified above.

Business Practices and Procedures

While i2E's operating model is very similar to that of Elevate Ventures in terms of its structure and funding sources, i2E differs in its use of contractors and in pieces of its investment policy.

i2E uses Federal grants to help fund its CFO-in-Residence, Sales Executive-in-Residence, and Entrepreneur-in-Residence programs. These groups of experienced experts will work with i2E's client companies to focus on developing basic accounting systems, understanding marketability and viability of products, and providing entrepreneurial assistance. While i2E's programs offer a wider variety of business services to its clients, these experts also spend less time with i2E's clients than Elevate Ventures' EIRs spend with their clients.

i2E's investment procedure consists of seven main steps, beginning with application intake and review by its Client Services and Underwriting groups. If approved, the next decision lies with the Investment and Underwriting groups. If approved, the Underwriting group will start its background work while the Advisory group begins working with the company to develop or improve its business plan, viability of concept, and cash flow projections. During the time that the company is receiving assistance, the Underwriting and Advisory groups meet weekly to inform one another of the progress being made for this specific client. When the Underwriting and Advisory groups agree that work during this phase is complete, i2E's management will meet to sign a term sheet and formally present the opportunity to the Underwriting and Client Services teams. The result of this meeting may be to decline the investment opportunity, continue with the due diligence phase, or move to a Board-level meeting to review the opportunity. If approved to move to the Board, i2E simultaneously begins seeking out private co-investors. A committee of the Board is responsible for making final investment approvals.

A member of OCAST sits on i2E's Board. While KPMG does not specifically recommend that a member of IEDC sit on Elevate Ventures' Board, OCAST's level of involvement informed KPMG's recommendations that the IEDC roles working with Elevate Ventures be responsible for review of Elevate Ventures' status dashboard.

Business Ethics Policies

Although i2E has not experienced any potential conflicts of interest with investments as of yet, it follows a disclose and recuse policy for its investment committee and a disclosure process for the remainder of its personnel. This policy is similar, but somewhat less restrictive than Elevate Ventures' current policy. It does, however, require that any outside employment be cleared through the Chief Executive Officer, and it is prohibited if it interferes with an employees' responsibilities at i2E. This information was used to inform KPMG's recommendation that all outside employment be disclosed and approved by the CEO and Compliance Officer of Elevate Ventures.

www.kpmg.com