



# 2015 Annual Report





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This report was prepared in accordance with Hawaii Revised Statutes §211F-15, §211F-15.5 and Act 170 SLH 2012 §2(e).

HRS Section §211F-15 requires HSDC to submit a complete and detailed report of its activities to the legislature on an annual basis.

HRS Section §211F-15.5 requires HSDC to submit a report on the specific annual outcome achieved through the activities and expenditures of the HI Growth Initiative.

Act 170 SLH 2012 §2(e) requires HSDC to submit a report on the specific annual outcome achieved through the activities and expenditures of the venture accelerator funding program (LAVA).

The annual report required by each of these statutes have been combined into this single, comprehensive report.



## Message from the Chairman

HSDC has committed most of the HI Growth Initiative investment funds entrusted to us by the State Legislature and the U.S. Department of the Treasury. Our last significant investment, expected to close at the end of 2015, will position HI Growth as a co-investor alongside capable private investors supporting three accelerator programs in the software, film and media, and the clean technology sectors. Hawaii is competitive in these industry sectors and all three of these accelerators have received national recognition. Their programs and funding are helping to launch over 30 companies a year. Many of these companies are attracting follow-on investment and beginning to scale.

HI Growth is also a key investor in five Hawaii based investment funds. In addition to two funds affiliated with two accelerator programs, HSDC has helped to capitalize a university commercialization fund, a seed stage fund, and a Series A fund. These funds have quality private sector co-investors and are managed by fund managers with a passion for Hawaii. Collectively, along with the accelerator programs, these investment funds provide a continuum of funding from inception to expansion. They also network Hawaii entrepreneurs with a broader universe of mentors, collaborators and investors inside and outside of Hawaii.

This past year, HSDC also committed to support a broadband initiative and funded GVS Connect, a company that established two shared working facilities, one in Kona and one in Honolulu, that provide access to gigabit connectivity to data intensive businesses that desire to use Hawaii as a base for content creation. The gigabit connectivity will enable real time, and secure, virtual collaboration with global partners for Hawaii entrepreneurs.

I would like to recognize HSDC Associate, Lauren Primiano, who left this past year to return to the private sector. She was instrumental in helping to modernize HSDC's systems and reporting as well as engaging with Hawaii's startup community.

HSDC welcomes Sara Lin who joined HSDC this year as the new HSDC Associate. HSDC also welcomes new Directors to HSDC's Board of Directors, Ann Chung, Director of Special Projects at Navatek, Michael O'Malley, a Partner with Goodwill Anderson Quinn & Stifel, Fred Hemmings, esteemed waterman, Luis Salaveria, DBEDT Director, and Roderick Becker, Deputy Director, Budget and Finance. We bid a warm Aloha to Alan Hayashi, Philip Bossert, Danton Wong, John DeLong, Craig Nakanishi and Richard Lim who left HSDC's Board this year after providing years of valuable service.

I thank my fellow board members for their efforts over the past year to meet and evaluate the various investment initiatives and execute on our investment strategy. All of us at HSDC thank our many co-investors and partners for your support and efforts to make Hawaii an innovation hub of the Pacific.



H. Brian Moore, Chairman, Board of Directors



# HI Growth Initiative

## Investing to Create the Innovation Hub of the Pacific

As an economic development agency of the State, the Hawaii Strategic Development Corporation (HSDC) used its mandate to catalyze private sector capital to invest in Hawaii as the rationale to pursue a return driven, entrepreneur-focused strategy of economic development.

Launched in 2011 with a \$13 million grant from the U.S. Department of the Treasury's State Small Business Credit Initiative (SSBCI), the HI Growth Initiative is a State equity investment program designed to catalyze the development of an innovation ecosystem.

Subsequently, the Hawaii State Legislature provided \$2 million through the Launch Akamai Venture Accelerator (LAVA) program and \$6 million through the HI Growth Initiative. HSDC consolidated all of these programs under the HI Growth Initiative Investment program.

Ensuring that Hawaii residents can access greater opportunities for high-wage employment to improve their living standards is a key economic policy objective of the state. Innovation and entrepreneurship are core to this effort, a fact that lawmakers formally recognized through Act 133 SLH 2014. Amendments to the State Plan specifically highlighted three key areas:

- Transform and maintain Hawaii as a place that welcomes and facilitates innovative activity that may lead to commercial opportunities.
- Facilitate investment in innovative activities that may pose risks or be less labor-intensive than other traditional business activity, but if successful, will generate revenue in Hawaii through the export of services or products or substitution of imported services or products.
- Recognize that broadband and wireless communication capability and infrastructure are foundations for an innovative economy

In support of the state economic policy objectives to foster innovation and entrepreneurship, HSDC's HI Growth Initiative has been investing in efforts that address one of three areas of the innovation ecosystem: infrastructure, workforce, and access to capital. A thriving ecosystem requires investment in all of these areas.

### **Accelerator Investment Program**

Venture accelerators are catalytic entities that empower entrepreneurs to launch new businesses by providing a collaborative workspace to engage with other entrepreneurs, access to business mentors and customers to quickly achieve market validation and seed capital to launch their businesses. For an economy that lacks a critical mass of entrepreneurial business development resources and investment

capital, bringing entrepreneurs, mentors and investors together in a collaborative enterprise is an efficient community building mechanism to jumpstart an innovation ecosystem.

HI Growth supported the creation of venture accelerators Blue Startups and GVS Transmedia. Accelerators are a critical component of the innovation ecosystem, providing entrepreneurs with the business mentoring and seed capital needed to launch their businesses. These accelerators have become hubs of entrepreneurial activity and collaboration, attracting other related businesses to cluster around them.

GVS, focused on film and digital media, has twice won national recognition from the U.S. Small Business Administration while Blue Startups, specializing in software and technology, was ranked number 17 nationally among startup accelerators.

Given our island way of life, sustainability is an important issue and HI Growth has made financial commitments that will support accelerators in the clean tech and value added agriculture sectors.

### **Coworking Investment Program**

Coworking spaces are key components of a strategy to develop an entrepreneurial ecosystem. Entrepreneurs who work in startups thrive in nontraditional workspaces. Coworking spaces address a gap in the workplace market and enable idea sharing and serendipitous collaboration. Coworking spaces often feature mentoring, programming geared toward entrepreneurial development and a central event space. They provide a pipeline of new startups that can feed into accelerator programs as well as provide cost efficient work spaces for companies graduating from accelerator programs to locate and scale their operations.

As a result, these spaces become community hubs for entrepreneurs and investors to gather and network. Such hubs are ideal locations to enable with gigabit broadband.

HI Growth has identified investment in Gigabit connectivity as an important means of transforming Hawaii into an attractive place to start and build a company. A recent investment in GVS Connect is bringing state of the art, gigabit connectivity to entrepreneurs in the film and media industry through two coworking spaces, one in Kona and one in Honolulu.

### **Establish Proof of Concept Centers**

Proof of Concept Centers (POC) were developed to address the funding gap that exists for companies attempting to commercialize an innovation or invention: research grants can't be used for this activity and angel and venture investors largely focus on companies with proven customers and revenues.

Hawaii has a competitive research community of both university supported research and private sector firms utilizing SBIR grants. However, Hawaii has not yet established a commercialization center to lead the effort to commercialize the fruits of this research activity.

Successful POCs work to identify and prioritize technologies most likely to provide commercialization opportunities. They are able to mobilize industry advisors and mentors that assist in this evaluation and help the inventor/entrepreneur devise an efficient commercialization program that will result in an investment in the technology from the private sector.

The POC provides seed funding to support the commercial evaluation of an invention: product development and testing, prototype construction, and market research. The goal is to foster industry collaboration that may lead to licensing the technology or the formation of a new company to exploit the market potential of the technology.

### **Venture Investment Programs**

With the sunset of Act 221 in 2010, there was almost no venture capital activity in Hawaii. Through public-private partnerships, HI Growth has since facilitated the establishment of three Hawaii-based venture funds: mbloom, an early stage technology investment fund; UPSIDE II, a seed venture fund supporting the commercialization of innovative University of Hawaii technologies; and Startup Capital II, which provides Series A financing.

These funds target companies at different stages of investment and growth and are designed specifically to support the development of successful high-growth companies from idea to market. These funds have engaged angel and institutional investors to support local entrepreneurs. With their participation, Hawaii entrepreneurs can now access the full spectrum of venture capital without leaving the islands.

### **Entrepreneurial Development Programs**

A thriving innovation ecosystem needs events that allow entrepreneurs and investors to network and share ideas. The HI Growth Connect and Network program has been a key facilitator of these types of events, which include Startup Weekends, pitch competitions, Startup Paradise demo days and venture capital summits like the East Meets West Conference, that brings together Asian and Western investors and startups, and the MaiTai Maui Tech Night, that brings Silicon Valley executives and investors to Hawaii.

HI Growth continually creates opportunities for Hawaii entrepreneurs to grow their businesses by exposing them to potential customers, partners and investors on a regular basis. In FY 2015, more than 1,500 people participated in HI Growth-

sponsored events. These activities are important to increasing the pipeline of entrepreneurs establishing new businesses and applying for funding from HI Growth’s pre-seed and seed stage investment programs. Continued support for these programs is important and a key component of an innovation action plan.

### HI Growth Initiative Investment Allocations as of June 30, 2015

	STATE		FEDERAL	Total HSDC Investment	Total Matching Investment
	LAVA	HI Growth	SSBCI		
Beginning Balance	\$2,000,000	\$6,000,000	\$13,168,350	\$21,168,350	
<b>Existing Obligations:</b>					
Blue Ventures	\$1,100,000		\$520,000	\$1,620,000	\$1,620,000
Blue Ventures II		\$120,000	\$650,000	\$770,000	\$770,000
GVS Development Fund	\$700,000	\$75,000	\$425,000	\$1,200,000	\$1,200,000
GVS Development Follow-on Fund		\$1,500,000		\$1,500,000	TBD
GVS Connect		\$300,000		\$300,000	TBD
mbloom Fund I		\$2,000,000	\$3,000,000	\$5,000,000	\$5,000,000
Startup Capital Ventures Fund II		\$500,000	\$4,000,000	\$4,500,000	\$21,300,000
UPSIDE Fund II			\$3,000,000	\$3,000,000	\$3,000,000
Connect and Network Program		\$369,595		\$369,595	TBD
<b>Subtotal</b>	<b>\$1,800,000</b>	<b>\$4,864,595</b>	<b>\$11,595,000</b>	<b>\$18,259,595</b>	<b>\$32,890,000</b>
<b>Current Investment Initiatives:</b>					
Energy Excelsator Follow-on Fund	\$150,000	\$150,000	\$1,350,000	\$1,650,000	TBD
<b>Admin/Legal Expenses:</b>					
Expended & Reserved	\$50,000	\$250,000	\$223,350	\$523,350	
Ending Balance	\$0	\$735,405	\$0	\$735,405	

## HI Growth Initiative Impact

Hawaii’s efforts to foster innovation-led economic growth through the HI Growth Initiative have gained traction. We are beginning to see success. From virtually nothing four years ago, Hawaii’s innovation ecosystem today includes six startup accelerators — three of which have received national recognition from the U.S. Small Business Administration and one ranked number 17 nationally, five Hawaii-based venture capital funds, coworking spaces, business incubation, commercialization programs and a full calendar of events and programming geared toward developing entrepreneurs.

A recent report by the Kauffman Foundation ranked Hawaii 12th in the nation for startup growth, just below New York and above California.

Private industry has been an active investment partner with the state in support of innovation and Hawaii's business community has gone on record identifying innovation as a sector that needs more investment.

## HI Growth Initiative Success Metrics

- Over 1,500 participants in 2015 Entrepreneurial Events
- Over 43 startups supported by Hawaii-based investment funds generating 178 jobs
- \$45 million in Hawaii-based investment capital available to Hawaii companies with private participation from angel investors, corporate investors, venture investors and institutional investors
- Over \$20 million in follow-on investments raised from private investors

The vibrant startup scene is starting to produce real life examples of mid-career kamaaina coming home from Silicon Valley. A software entrepreneur named Darius Monsef on the Big Island recently sold his company and is building a new one out of Waimea. Just recently he closed on a successful fundraising round. That's happening on Maui, too: a veteran tech entrepreneur named Tina Fitch has come home, hired local software developers to help her build a new mobile app and successfully raised funds to grow her business.

# Financial Report

## **HSDC Revolving Fund Annual Statement**

HSDC funds its operations and investments through the HSDC Revolving Fund and from returns on investment generated through the HSDC Capital Fund, LLC. The annual statement includes the amounts detailed in the LAVA and HI Growth Annual Statements.

<b>FY Ending (thousands)</b>	<b>6/30/2014</b>	<b>6/30/2015</b>
Beginning Balance	\$1,681	\$8036
General Fund Transfer in	\$6,000	\$0
Revenues	\$1,665	\$37
Investments	(\$1,028)	(\$865)
Administrative Expenses	(\$277)	(\$303)
Ending Balance	\$8,040	\$6,904
Remaining Funds Obligated	(\$2,777)	(\$4,592)
Ending Balance Less Remaining Funds Obligated	\$5,264	\$2,313

## **HI Growth Initiative Annual Statement**

Act 274 SLH 2013 established the HI Growth Initiative and appropriated \$6 million to HSDC.

<b>FY Ending (thousands)</b>	<b>6/30/2014</b>	<b>6/30/2015</b>
Beginning Balance	0	\$5,260
General Fund Transfer In	\$6,000	\$0
Investments	(\$728)	(\$465)
Administrative Expenses	(\$13)	(\$15)
Ending Balance	\$5,260	\$4,779
Remaining Funds Obligated	(\$1,872)	(\$3,672)
Ending Balance Less Remaining Funds Obligated	\$3,387	\$1,107

## **LAVA Annual Statement**

Act 170 SLH 2012 established the Launch Akamai Venture Accelerator (LAVA) Program and appropriated \$2 million to HSDC.

<b>FY Ending (thousands)</b>	<b>6/30/2014</b>	<b>6/30/2015</b>
Beginning Balance	\$1,800	\$1474
General Fund Transfer In	\$0	\$0
Investments	(\$300)	(\$400)
Administrative Expenses	(\$26)	(\$5)
Ending Balance	\$1,474	\$1,069
Remaining Funds Obligated	(\$900)	(\$900)
Ending Balance Less Remaining Funds Obligated	\$574	\$169

### **State Small Business Credit Initiative Annual Statement**

In May 2011, HSDC was awarded a \$13 million allocation from the U.S. Department of Treasury's State Small Business Credit Initiative (SSBCI) for a venture capital fund of funds investment program.

<b>FY Ending (thousands)</b>	<b>6/30/2014</b>	<b>6/30/2015</b>
Beginning Balance	\$3,771	\$7,138
Transfer In From U.S. Department of the Treasury	\$4,346	\$4,477
Revenues		
Investments	(\$955)	(\$1,521)
Administrative Expenses	(\$37)	(\$51)
Ending Balance	\$7,138	\$10,080
Remaining Funds Obligated	(\$9,415)	(\$8,544)
Ending Balance Less Remaining Funds Obligated	(\$2,277)	\$1,536

### **Hydrogen Capital Investment Special Fund Annual Statement**

Act 240, SLH 2006 established the Hydrogen Investment Capital Special Fund within HSDC. \$8.7 million was expended by the Department of Business, Economic Development and Tourism to provide grants to hydrogen related projects and to invest in the Kolohala Hydrogen Fund.

<b>FY Ending (thousands)</b>	<b>6/30/2014</b>	<b>6/30/2015</b>
Beginning Balance	\$159	\$159
General Fund Transfer In	\$0	\$0
Revenues	\$0.4	\$0.7
Investments	\$0	\$0
Administrative Expenses	(\$0)	(\$19)
Ending Balance	\$159	\$141
Remaining Funds Obligated	\$0	\$0
Ending Balance Less Remaining Funds Obligated	\$159	\$141

**HSDC Capital Fund, LLC Financial Statement**

HSDC invests via a fund of funds entity, HSDC Capital Fund, LLC. The financial statements for HSDC Capital Fund, LLC for the years ending December 31, 2013 and December 31, 2014 are presented in Attachment 1.

# HSDC's Board of Directors

July 1, 2014

H. Brian Moore, Chairman  
Senior Vice President, Real Estate  
Investment  
Pacific Guardian Life Insurance Co.

Keiki-Pua Dancil, Vice Chairman  
Director, Business Strategy Development  
Hawaiian Electric Company

Jon Wallenstrom  
President  
Forest City Hawaii

James Moonier  
Managing Member  
Alpha Capital Research

Ann Chung  
Director of Special Projects  
Navatek

Michael O'Malley  
Partner  
Goodsill Anderson Quinn & Stifel

Fred Hemmings  
Retired lawmaker and  
Noted Waterman

Luis P. Salaveria  
Director  
Department of Business, Economic  
Development & Tourism

## **Corporate Staff & Contact**

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# ATTACHMENT 1



## **HSDC Capital Fund, LLC**

Financial Statements - Modified Cash Basis  
(With Independent Auditors' Report Thereon)

December 31, 2014 and 2013

# **HSDC CAPITAL FUND, LLC**

Financial Statements – Modified Cash Basis

December 31, 2014 and 2013

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## Independent Auditors' Report

The Member  
HSDC Capital Fund, LLC:

We have audited the accompanying financial statements of the HSDC Capital Fund, LLC (a Hawaii limited liability company), which comprise the statements of assets, liabilities, and member's capital – modified cash basis as of December 31, 2014 and 2013, and the related statements of revenues and expenses – modified cash basis, changes in member's capital – modified cash basis, and cash flows – modified cash basis for the years then ended, and the related notes to financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1 to the financial statements; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and member's capital of the HSDC Capital Fund, LLC as of December 31, 2014 and 2013, and its revenues and expenses, changes in member's capital, and cash flows for the years then ended, in accordance with the modified cash basis of accounting as described in Note 1 to the financial statements.

***Basis of Accounting***

We draw attention to Note 1 to the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

***KKDLY LLC***

Honolulu, Hawaii  
August 17, 2015

## HSDC CAPITAL FUND, LLC

### Statements of Assets, Liabilities, and Member's Capital – Modified Cash Basis

December 31, 2014 and 2013

<b>Assets</b>	<b>2014</b>	<b>2013</b>
Investments	\$ 15,151,491	\$ 13,463,551
Cash and cash equivalents	341,884	436,907
Total assets	<u>\$ 15,493,375</u>	<u>\$ 13,900,458</u>
<b>Liabilities and Member's Capital</b>		
Liabilities	<u>\$ -</u>	<u>\$ -</u>
Member's capital:		
Capital contributions	17,896,459	15,652,459
Capital distributions	(1,448,096)	(701,725)
Accumulated deficit	<u>(954,988)</u>	<u>(1,050,276)</u>
Total member's capital	<u>15,493,375</u>	<u>13,900,458</u>
Total liabilities and member's capital	<u>\$ 15,493,375</u>	<u>\$ 13,900,458</u>

See accompanying independent auditors' report and notes to financial statements.

## HSDC CAPITAL FUND, LLC

### Statements of Revenues and Expenses– Modified Cash Basis

Years Ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Revenues:		
Gain on investments	\$ 95,466	\$ 9,375
Interest income	43	37,607
Total revenues	<u>95,509</u>	<u>46,982</u>
Expenses:		
General excise taxes	33	1,693
Other	188	65
Total expenses	<u>221</u>	<u>1,758</u>
Net income	<u>\$ 95,288</u>	<u>\$ 45,224</u>

See accompanying independent auditors' report and notes to financial statements.

## HSDC CAPITAL FUND, LLC

### Statements of Changes in Member's Capital – Modified Cash Basis

Years Ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Member's capital, beginning of year	\$ 13,900,458	\$ 6,053,072
Net income	95,288	45,224
Contributions from member	2,244,000	8,503,887
Distributions to member	<u>(746,371)</u>	<u>(701,725)</u>
Member's capital, end of year	<u>\$ 15,493,375</u>	<u>\$ 13,900,458</u>

See accompanying independent auditors' report and notes to financial statements.

## HSDC CAPITAL FUND, LLC

### Statements of Cash Flows– Modified Cash Basis

Years Ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Net income	\$ 95,288	\$ 45,224
Adjustments to reconcile net income to net cash used in operating activities:		
Purchases of investments	(2,374,311)	(665,000)
Return of capital	<u>686,371</u>	<u>359,750</u>
Net cash used in operating activities	<u>(1,592,652)</u>	<u>(260,026)</u>
Cash flows from financing activities:		
Contributions from member	2,244,000	665,000
Distributions to member	<u>(746,371)</u>	<u>(701,725)</u>
Net cash provided by (used in) financing activities	<u>1,497,629</u>	<u>(36,725)</u>
Net decrease in cash and cash equivalents	(95,023)	(296,751)
Cash and cash equivalents at beginning of year	<u>436,907</u>	<u>733,658</u>
Cash and cash equivalents at end of year	<u><u>\$ 341,884</u></u>	<u><u>\$ 436,907</u></u>

#### Supplemental disclosure of noncash operating and financing activities:

During the year ended December 31, 2013, Hawaii Strategic Development Corporation assigned its limited partner interest in Kolohala Hydrogen Fund, L.P. and PacifiCap Hawaii, L.P. with carrying values of \$5,386,000 and \$2,452,887, respectively to HSDC Capital Fund, LLC.

See accompanying independent auditors' report and notes to financial statements.

## **HSDC CAPITAL FUND, LLC**

Notes to Financial Statements

December 31, 2014 and 2013

### **(1) Nature of Business and Summary of Significant Accounting Policies**

#### ***Nature of Business***

HSDC Capital Fund, LLC (the Fund), a limited liability company, was established on May 25, 2001. The primary purpose of the Fund is to seek long-term compounded returns through investment in a portfolio of pooled venture capital investment vehicles investing in venture capital opportunities primarily in Hawaii. Hawaii Strategic Development Corporation (HSDC) is the sole and managing member.

#### ***Basis of Accounting***

The accompanying financial statements have been prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under the modified cash basis of accounting, revenues are recognized when received rather than when earned, and expenses are recognized when paid rather than when the obligation is incurred.

Investments in venture capital partnerships are recorded at cost in the accompanying statements of assets, liabilities, and member's capital – modified cash basis, except that assignment of investments from HSDC are recorded at the carrying value of those investments at the date of the assignment. Investment balances are reduced by distributions received from the respective investments to the extent that distributions do not exceed cost. Distributions received in excess of cost are reported as gains in the accompanying statements of revenues and expenses – modified cash basis. Upon sale or liquidation of an investment, the carrying value of investments is reduced and a gain or loss on sale of investment is recorded for the difference between the sales proceeds, if any, and the carrying value of the investment.

#### ***Use of Estimates***

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

#### ***Cash and Cash Equivalents***

The Company considers cash in operating bank accounts, cash on hand, and certificates of deposits with an initial maturity of three months or less to be cash and cash equivalents.

## HSDC CAPITAL FUND, LLC

### Notes to Financial Statements

December 31, 2014 and 2013

#### *Income Taxes*

The Company is a limited liability company and is treated as a partnership for income tax purposes. Management has determined that the Fund is a disregarded entity for income tax purposes and is not required to file tax returns.

#### *Subsequent Events*

Management has evaluated subsequent events through August 17, 2015, the date the financial statements were available to be issued.

## (2) Investments

The Fund's investments as of December 31, 2014 and 2013, and the related investment activity for the years then ended are summarized as follows:

	Percentage Interest	Total Capital Committed	Balance as of December 31, 2013	Capital Contributions	Distributions	Balance as of December 31, 2014
International Venture Fund I, L.P.	27.01%	\$ 4,500,000	\$ 4,500,000	\$ -	\$ (636,371)	\$ 3,863,629
Upside I	23.84%	117,693	117,693	-	-	117,693
Upside II	50.00%	3,000,000	425,000	100,000	-	525,000
HMS Hawaii III, L.P.	12.10%	360,612	191,721	6,311	-	198,032
Cardax Pharmaceuticals	N/A	N/A	250	-	-	250
Kolohala Hydrogen Fund, L.P.	99.00%	5,386,000	5,386,000	-	-	5,386,000
Blue Ventures, LLLP	49.02%	1,220,000	500,000	470,000	-	970,000
PacifiCap Hawaii, L.P.	99.00%	3,000,000	2,342,887	-	(50,000)	2,292,887
mBloom Fund I, L.P.	49.50%	5,000,000	-	1,188,000	-	1,188,000
GTA Development Fund, LLC	50.00%	2,625,000	-	385,000	-	385,000
Startup Capital Ventures Fund II, L.P.	22.00%	4,500,000	-	225,000	-	225,000
		<u>\$ 29,709,305</u>	<u>\$ 13,463,551</u>	<u>\$ 2,374,311</u>	<u>\$ (686,371)</u>	<u>\$ 15,151,491</u>

	Percentage Interest	Total Capital Committed	Balance as of December 31, 2012	Capital Contributions	Distributions	Balance as of December 31, 2013
International Venture Fund I, L.P.	27.01%	\$ 4,500,000	\$ 4,500,000	\$ -	\$ -	\$ 4,500,000
Upside I	23.84%	117,693	117,693	-	-	117,693
Upside II	50.00%	3,000,000	260,000	165,000	-	425,000
HMS Hawaii III, L.P.	12.10%	360,612	191,721	-	-	191,721
Cardax Pharmaceuticals	N/A	N/A	250,000	-	(249,750)	250
Kolohala Hydrogen Fund, L.P.	99.00%	5,386,000	-	5,386,000	-	5,386,000
Blue Ventures, LLLP	49.02%	1,220,000	-	500,000	-	500,000
PacifiCap Hawaii, L.P.	99.00%	3,000,000	-	2,452,887	(110,000)	2,342,887
		<u>\$ 17,584,305</u>	<u>\$ 5,319,414</u>	<u>\$ 8,503,887</u>	<u>\$ (359,750)</u>	<u>\$ 13,463,551</u>

## **HSDC CAPITAL FUND, LLC**

Notes to Financial Statements

December 31, 2014 and 2013

### ***Regional Venture Capital Funds***

#### ***International Venture Fund I, L.P.***

The Fund holds a 27.01% limited partnership interest in this California-based venture capital partnership. International Venture Fund I, L.P. is an investor in early stage companies operating in the states of Hawaii, New Mexico, Arizona, and Utah.

#### ***Startup Capital Ventures Fund II, L.P.***

The Fund holds a 22.00% limited partnership interest in this California-based venture capital partnership. Startup Capital Ventures Fund II, L.P. is an investor in early stage companies operating primarily in the states of California and Hawaii.

### ***Funds to Support Technology Transfer from the University of Hawaii***

#### ***Upside I***

The Fund holds a 23.84% interest in this pooled capital fund. The balance is held by the Research Corporation of the University of Hawaii (UH). The capital fund is tasked with investing in promising start-up companies using UH developed intellectual property.

#### ***Upside II***

The Fund holds a 50.00% interest in this pooled capital fund. The balance is held by the University of Hawaii Foundation. The capital fund is tasked with investing in promising start-up companies using UH developed intellectual property.

### ***Hawaii-Based Venture Capital Funds***

#### ***HMS Hawaii III, L.P.***

The Fund has a 12.10% limited partnership interest in this Hawaii based venture capital partnership. HMS Hawaii III, L.P. targets investments in early stage companies operating principally in the State of Hawaii.

#### ***Kolohala Hydrogen Fund, L.P.***

During the year ended December 31, 2013, HSDC assigned its limited partner interest in Kolohala Hydrogen Fund, L.P. with a carrying value of \$5,386,000 to the Fund. The Fund holds a 99.00% limited partnership interest in this Hawaii-based venture capital partnership. Kolohala Hydrogen Fund, L.P. invests in companies with technologies that have a pathway to renewable hydrogen.

## **HSDC CAPITAL FUND, LLC**

Notes to Financial Statements

December 31, 2014 and 2013

### *PacifiCap Hawaii, L.P.*

During the year ended December 31, 2013, HSDC assigned its limited partner interest in PacifiCap Hawaii, L.P. with a carrying value of \$2,452,887 to the Fund. The Fund holds a 99.00% limited partnership interest in this Hawaii-based venture capital partnership.

### *mBloom Fund I, L.P.*

The Fund has a 49.50% limited partnership interest in this Hawaii-based venture capital partnership. mBloom Fund I, L.P. is dedicated to investing in early stage technology companies operating in the State of Hawaii.

### ***Direct Investments***

#### *Cardax Pharmaceuticals*

The Fund purchased secured promissory notes with attached warrants. Cardax Pharmaceuticals is a Hawaii-based bio technology company.

### ***Funds to Support Hawaii Angels***

#### *Blue Ventures, LLLP*

The Fund holds a 49.02% limited partnership interest in this Hawaii-based venture capital partnership. Co-investors in the fund are Hawaii Angel investors. This fund invests exclusively in the portfolio companies of the Blue Startups venture accelerator.

A portion of the Fund's capital commitment is used to pay the operating expenses of Blue Startups, LLC. This is subject to the achievement of certain milestones as determined by the Fund. For the years ended December 31, 2014 and 2013, the Fund made contributions of \$250,000 and \$200,000, respectively, to pay these operating expenses. Total capital committed of \$1,220,000 reported in the investment summary described in Note 2 includes \$700,000 for such operating expenses, of which \$250,000 will be paid in 2015 subject to the achievement of certain milestones.

### ***Funds to Support the Accelerator Program***

#### *GTA Development Fund, LLC*

The Fund holds a 50.00% limited partnership interest in this Hawaii-based investment fund. This fund was established to raise investment capital to seed portfolio companies going through the accelerator program.

## **HSDC CAPITAL FUND, LLC**

### Notes to Financial Statements

December 31, 2014 and 2013

A portion of the Fund's capital commitment is used to pay the operating expenses of GTA Development Fund, LLC. This is subject to the achievement of certain milestones as determined by the Fund. For the year ended December 31, 2014, the Fund made contributions of \$200,000 to pay these operating expenses. Total capital committed of \$2,625,000 reported in the investment summary described in Note 2 includes \$700,000 for such operating expenses, of which \$300,000 and \$200,000 will be paid in 2015 and 2016, respectively, subject to the achievement of certain milestones.

#### ***Other Investments***

##### *HMS Investments*

HMS Investments was assigned to the Fund from HSDC in 2001. The Fund holds an 80.00% limited partnership interest in this Hawaii based venture capital investment partnership. This investment has no carrying value as of December 31, 2014 and 2013. HMS Investments targets investments in early stage companies operating principally in the State of Hawaii.

##### *TAC Associates, L.P.*

The Fund received a 0.87% limited partnership interest in this California-based venture capital partnership as a distribution from the dissolution of Lava Ventures IV. This investment has no carrying value as of December 31, 2014 and 2013. The Fund received distributions from this investment during the year ended December 31, 2014, amounting to \$28,430. These distributions are included in gain on investments in the accompanying statements of revenues and expenses – modified cash basis.

##### *Three Arch Associates III, L.P.*

The Fund received a 1.58% limited partnership interest in this California-based venture capital partnership as a distribution from the dissolution of Lava Ventures IV. This investment has no carrying value as of December 31, 2014 and 2013. The Fund received distributions from this investment during the years ended December 31, 2014 and 2013, amounting to \$23,621 and \$9,375, respectively. These distributions are included in gain on investments in the accompanying statements of revenues and expenses – modified cash basis.

##### *Endologix, Inc.*

The Fund received an in-kind distribution of shares in Endologix, Inc. from the dissolution of Lava Ventures IV in 2010. During the year ended December 31, 2014, funds amounting to \$43,415 were received as a result of the sale of these shares in Endologix, Inc. and are included in gain on investments in the accompanying statements of revenues and expenses – modified cash basis.

## HSDC CAPITAL FUND, LLC

Notes to Financial Statements

December 31, 2014 and 2013

### *Perlan Therapeutics*

The Fund received securities in Perlan Therapeutics as in-kind distributions from the dissolution of Technology Gateway Partnership II, L.P. The Fund assigned no carrying values to these securities at the date of distribution. The Fund's 3.24% interest in Perlan Therapeutics preferred stock was held in a custodial account.

### **(3) Concentration of Credit Risk**

The Company maintains deposits with various financial institutions in Hawaii. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk. At times, cash and certificates of deposit balances may be in excess of the Federal Deposit Insurance Corporation (FDIC) limits.