NEVADA CAPITAL INVESTMENT CORPORATION

FINANCIAL STATEMENTS

June 30, 2013

NEVADA CAPITAL INVESTMENT CORPORATION
JUNE 30, 2013

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KAFOURY, ARMSTRONG & CO.
A PROFESSIONAL CORPORATION
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report

To the Board of Directors of
the Nevada Capital Investment Corporation

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of the Nevada Capital Investment Corporation (the NCIC), a component unit of the State of Nevada, as of June 30, 2013 and for the period from October 1, 2011 (inception) through June 30, 2013, and the related notes to the financial statements, which collectively comprise the NCIC's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 auditor's 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the NCIC, as of June 30, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3A through 3D be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 2013, on our consideration of the NCIC's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the NCIC's internal control over financial reporting and compliance.

Kafoury, Armstrong & Co.

Reno, Nevada
November 4, 2013

State of Nevada, Office of the State Treasurer, Nevada Capital Investment Corporation, Management's Discussion and Analysis

During the 2011 Legislative Session, Senate Bill 75 (SB 75) created the Nevada Capital Investment Corporation (NCIC), a nonprofit corporation comprised of a seven member Board of Directors, including appointees by the Governor and legislative leadership. The State Treasurer serves as Chair of the Board of Directors (Board).

The primary goal of the program is provide greater diversification of the investment portfolio of the Permanent School Fund of the State of Nevada and thereby enhance the risk-adjusted return of the Permanent School Fund portfolio. Prior to passage of SB 75, the entire Permanent School Fund was invested in fixed income securities. SB 75 authorizes the State Treasurer to transfer up to $50 million from the Permanent School Fund to NCIC for Nevada-based private equity investments. Based on the private equity program's Nevada orientation, an ancillary benefit will be to grow and diversify the state's economic base, potentially leading to increased employment in Nevada.

Following up on actions taken in Fiscal Year 2012 to establish NCIC as a non-profit corporation including approving bylaws and articles of incorporation, there were a number of significant accomplishments made in Fiscal Year 2013. In August 2012, a contract with a fund-of-funds manager, Hamilton Lane, to provide investment management services for NCIC was approved by the NCIC Board and the State Board of Examiners. Under its contract with NCIC, Hamilton Lane, a global private equity manager headquartered in Pennsylvania, has complete discretionary authority to invest NCIC's monies. A limited liability company to fund investments called the Silver State Opportunities Fund (SSOF), which includes monies invested by NCIC and Hamilton Lane, was also established. In December 2012, the Board approved a strategic plan for SSOF, which established asset allocation targets for investments in venture capital, growth equity, and buyout opportunities. Lastly, final regulations were adopted by the State Treasurer and approved by the Legislative Commission in February 2013.

FINANCIAL HIGHLIGHTS

In Fiscal Year 2013, NCIC invested capital for the first time and began the process of making fund commitments to private equity funds that make a commitment to investing in Nevada.

- NCIC invested nearly $2 million in Miller Heiman, Inc., a global sales performance company headquartered in Reno for the past 30 years.

- NCIC announced its first fund commitment of $5 million to Huntington Capital Fund III. Huntington Capital provides debt and equity financing to established, small and medium sized companies in the Southwestern United States.

- The subordinated debt portion of the NCIC investment in Miller Heiman, Inc. returned a principal and interest payment during fiscal year 2013.

OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statements contained in this section consist of:

- The Statement of Net Position and Governmental Fund Balance Sheet, which reports assets at fair value, liabilities and the Fund's net position, where Assets – Liabilities = Fund Balance at the end of the fiscal year.

- The Statement of Activities and Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance, which reports changes to the fund balance that include earnings paid back to the Permanent School Fund and transfers from the Permanent School Fund to NCIC.

- The Notes to the Financial Statements are an integral part of the above financial statements and include additional information not readily evident in the statements themselves.

Fund Balance/Net Position

The NCIC receives transfers periodically from the Permanent School Fund either to fund investments in underlying private equity funds selected by Hamilton Lane or directly in co-investments; pay Hamilton Lane's management fees; or to pay certain partnership expenses associated with the Silver State Opportunities Fund. The total amount of transfers from the Permanent School Fund to NCIC at any one time may not exceed $50 million.

As of June 30, 2013, the NCIC has reported a deficit balance of $316,325. This represents NCIC's share of Fund expenses minus interest returned to the Permanent School Fund plus NCIC's share of unrealized appreciation on investments. It does not represent a loss in fair market value of investments made by NCIC, but an existing cash flow deficit. Due to the nature of private equity investments, typically there exists a period of time after an initial investment where initial cash flow outlays are not yet offset by investment returns. This is commonly called the "J curve effect" for private equity. Private equity investors are aware of the "J curve"; in return for the lack of liquidity and longer investment horizon associated with private equity, investors expect higher returns as an illiquidity premium than other asset classes such as fixed income, which generate regular coupon payments.

The NCIC expects that ultimately returns for the program will more than offset cash flow outlays for expenses and other items and that the reported fund balance will be positive. This typically occurs three to five years after the initial commitment to funds as underlying investments appreciate in value over time. For a program that has been in existence for less than a year, it is almost inconceivable to expect a positive fund balance given the time it takes for fund managers to screen and make investments and then develop the underlying businesses to the point that they generate positive returns.

Summary of NCIC's Fund Balance/Net Position		
Assets		
Investments at Fair Value	$	1,969,579
Liabilities		
Due to Permanent School Fund	$	2,285,904
Fund Balance/Net Position	$	(316,325)
Total Liabilities and Fund Balance	$	1,969,579

Summary of Changes In Fund Balance/Net Position

The Statement of Activities and Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance reports changes to the fund balance/net position, which include earnings paid back to the Permanent School Fund and transfers from the Permanent School Fund to NCIC. Because Fiscal Year 2013 was the first year of NCIC's operations, NCIC began the fiscal year with a fund balance of zero.

Summary of Changes in NCIC's Fund Balance		
Expenditures		
Net Change in Investments	$	300,325
Earnings paid to Permanent School Fund	$	16,000
Net Change in Fund Balance	$	316,325
Fund Balance - Beginning of Fiscal Year	$	-
Fund Balance - End of Fiscal Year	$	(316,325)

ECONOMIC FACTORS AND CURRENTLY KNOWN FACTS

In August 2013, the Board approved an investment policy for NCIC, which among other items codifies and establishes roles and responsibilities for the Board, fund-of-funds manager and the State Treasurer. In addition, the policy sets an asset allocation for NCIC investments of:

- Buyout/Corporate Finance - 20% - 40%
- Mezzanine/Debt - 20% - 40%
- Growth Equity/Venture Capital - 20% – 40%
- Special Situations - 0% - 20%

Since its initial co-investment in Miller Heiman, Inc. and the commitment of $5 million to Huntington Capital, Hamilton Lane has subsequently made a $2.6 million commitment to a $225 million fund managed by Enhanced Capital that focuses on financing lower middle market companies. Hamilton Lane expects to continue to build out the NCIC private equity program with both co-investments and fund investments the next several years. The Board's contract with Hamilton Lane calls for a commitment period--the period of time the manager has to commit funds for future investments--of three to four years. The drawdown of funds by fund managers to make actual investments in underlying businesses can take several years after the initial fund raising period is completed and fund commitments are made.

REQUESTS FOR INFORMATION

The financial report is designed to provide a general overview of the Nevada Capital Investment Corporation's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the State of Nevada Treasurer's Office, NCIC Program, 101 N. Carson Street., Suite 4, Carson City, NV 89701.

NEVADA CAPITAL INVESTMENT CORPORATION
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUND BALANCE SHEET
JUNE 30, 2013

	2013
ASSETS	
Investments, at fair value:	
Investment in Silver State Opportunities Fund, LLC	$ 1,969,579
LIABILITIES AND FUND BALANCES	
Liabilities	
Due to State of Nevada Permanent	
School Fund	$ 2,285,904
Fund balance/Net Position	
Unassigned/Unrestricted	(316,325)
Total Liabilities and Fund Balance	$ 1,969,579

The accompanying notes are an integral part of this statement.

NEVADA CAPITAL INVESTMENT CORPORATION
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND STATEMENT
OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
FOR THE PERIOD FROM OCTOBER 1, 2011 (INCEPTION)
THROUGH JUNE 30, 2013

	2013
GENERAL REVENUE	
Investment income	$ (300,325)
EXPENDITURES/EXPENSES	
Earnings paid to State of Nevada	
Permanent School Fund	16,000
Net Change in Fund Balance/Net Position	(316,325)
FUND BALANCE/NET POSITION, BEGINNING OF YEAR	-
FUND BALANCE/NET POSITION, END OF YEAR	$ (316,325)

The accompanying notes are an integral part of this statement.

NOTE 1 – Summary of Significant Accounting Policies:

Reporting Entity and Purpose:

The Nevada Capital Investment Corporation (the NCIC), a not-for-profit organization, was formed in 2011 and headquartered in Carson City, Nevada. The NCIC is supported through commitments from the State of Nevada Permanent School Fund. The mission of the NCIC is to invest in private companies, primarily located in Nevada, through the services of a professional fund manager whose investment objectives must promote greater returns for the Permanent School Fund and secondarily increase economic development and employment in Nevada.

The Board of Directors approved an Amended and Restated Limited Liability Company Agreement (the Agreement) on August 1, 2012 between the NCIC and HL Nevada Fund Manager LLC (the Manager), which created the Silver State Opportunities Fund LLC (SSOF), a Nevada limited liability company. NCIC owns a 99% equity interest in SSOF for the purpose of obtaining income, and therefore is required to report its equity interest as an investment in SSOF (see Note 3). The Manager owns the other 1%. Separate financial statements of SSOF can be obtained from the State of Nevada Treasurer's Office, NCIC Program, 101 N. Carson Street., Suite 4, Carson City, NV 89701.

The SSOF will ensure that 70% of all portfolio investments are located, or are seeking to be located in Nevada, and that 100% of venture capital investments are located in Nevada. Generally, companies will be considered to be located in Nevada if they (1) have their headquarters in Nevada, (2) have a significant percentage of their employees in Nevada, or (3) are in the process of planning an expansion into or relocation to Nevada.

Hamilton Lane Advisors, LLC (Hamilton Lane), an affiliate of the Manager, serves as the investment manager of the SSOF.

The Agreement provides that the SSOF shall terminate on the earlier of (1) one year after the date on which the last portfolio investment has been liquidated, or (2) either August 1, 2022 (if the option to make capital commitments to the Second Tranche (see Note 4) is not exercised by the NCIC) or the tenth anniversary of the first day of the commitment period of the Second Tranche (if the option to make capital commitments to the Second Tranche is exercised by the NCIC), provided that, in either case, the Manger may extend the term of the SSOF for up to two successive one-year periods in its sole discretion.

Basis of Presentation:

The NCIC is considered a governmental not-for-profit because of its relationship with the State of Nevada Permanent School Fund, a permanent fund of the State of Nevada. The financial statements have been prepared in accordance with generally accepted accounting principles prescribed by Government Accounting Standards (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments.*

The NCIC is a component unit of the State of Nevada as defined in GASB Statement No. 61, *The Financials Reporting Entity: Omnibus and amendment of GASB Statements No. 14 and 34*, and thus included in the State of Nevada's *Comprehensive Annual Financial Report.*

Government-Wide and Governmental Fund Financial Statements:

The basic financial statements include both government-wide and fund financial statements. The government-wide financial statements are prepared using the economic resources measurement focus and the full accrual basis of accounting.

The governmental fund financial statements for the NCIC have been prepared using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measureable and available. Revenues are considered to be measurable when the amount of the transaction can be determined and available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the NCIC considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Investment earnings associated with the current fiscal period are considered to be susceptible to accrual and so have been recognized as revenues in the current fiscal period. Expenditures generally are recorded when the related liabilities are incurred, as under accrual accounting.

Assets, Liabilities and Fund Balance/Net Position:

Cash and Investments:

Cash equivalents are considered to be short-term highly liquid investments (3 months or less) that are both readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value. Investments are carried at fair value.

Pursuant to NRS 335.060(2)(l), the NCIC is permitted to invest in limited partnerships or limited-liability companies described in NRS 355.280 for the purpose of making private equity investments. Requirements for investments are as follows:

- At least 70% of all private equity funding provided by the NCIC is provided to businesses located in the State of Nevada, or seeking to locate to the State of Nevada.

- Businesses are primarily engaged in the following industries:
    - Health care and life sciences
    - Cyber security
    - Homeland security and defense
    - Alternative energy
    - Advanced materials and manufacturing
    - Information technology
    - Any other industry the Board of Directors of the NCIC determines will likely meet the targets for investment returns established by the NCIC for investments authorized by NRS 355.250 to NRS 355.285, and comply with sound fiduciary principles.

Valuation of Investments:

The fair value of investments is based on other than quoted market prices. The NCIC's investment in SSOF is its equity interest of SSOF based on the underlying investments as reported in the audited financial statements of SSOF.

Equity Classifications:

In the governmental fund financial statements, equity is classified as fund balance. Fund balance is further classified in the following components:

- Nonspendable – Amounts that cannot be spent because they are either not spendable in form or are legally or contractually required to be maintained intact.

- Restricted – Amounts that can be spent only for specific purposes because of constitutional provisions, enabling legislation, or because of constraints that are externally imposed by creditors, grantors, contributors, or the law or regulations of other governments.

- Committed – Amounts that can only be used for specific purposes determined by formal approval of the Board of Directors. A similar action would be required to rescind or modify a commitment.

- Assigned – Amounts that the NCIC intends to use for a specific purpose, that do not meet the definition of restricted or committed fund balance.

- Unassigned – All other spendable amounts.

In the government-wide financial statements, net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, reduced by accumulated depreciation and the outstanding balances of borrowings used for the acquisition, construction, or improvement of those assets, if any. Restricted net position consists of net position with constraints placed on their use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or (2) law through constitutional provisions or enabling legislation. Unrestricted net position is net position not meeting the definition of the other categories.

When an expenditure is incurred for purposes for which both restricted and unrestricted amounts are available, the NCIC considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned amounts are available, the NCIC considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Board of Directors has provided otherwise in its commitment or assignment actions.

Subsequent Events:

Management has evaluated subsequent events through November 4, 2013 which is the date these financial statements were available to be issued and these financial statements have not been updated for subsequent events occurring after that date.

NOTE 2 – Stewardship and Compliance:

Compliance with Nevada Revised Statutes and Nevada Administrative Code:

The NCIC conformed to all significant statutory constraints on its financial administration during the year.

Deficit Fund Balance:

At June 30, 2013, the NCIC has a deficit balance in fund equity in the amount of $316,325. This deficit is combination of NCIC's share of expenses of SSOF totaling $502,546, payments of interest earned to the State of Nevada Permanent School Fund,and NCIC's share of the net change in unrealized appreciation on investments held by SSOF of $202,221.

NOTE 3 –Investments:

As of June 30, 2013, the NCIC had the following investment:

	Fair Value
Investment:	
SSOF	$1,969,579

As previously noted, Nevada Revised Statutes (NRS 355.280) set forth acceptable investments for the NCIC. The SSOF has a formal investment policy that in the opinion of management is designed to ensure conformity with the State Statutes and seeks to limit exposure to investment risks.

All investments are governed by the Board of Directors' prudent investor policy. The prudent investor policy is a standard to guide with responsibility for investing money of others. Such fiduciaries, must act as a prudent person would be expected to act, exercising care, skill, and diligence appropriate to the task.

Concentration of Credit Risk:

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At June 30, 2013 the following investment exceeded 5% of the NCIC's total:

SSOF	$1,969,579	100%

The NCIC's investment in SSOF is its equity interest of SSOF based on the underlying investments as reported in the audited financial statements of SSOF. The underlying investments in SSOF are diversified to mitigate risk as indicated in the SSOF Investment Policy.

The Board of Directors has overall responsibility for the investment of the NCIC's funds, in accordance with NRS 355.280. The Manager of the SSOF is responsible for the daily operations of the SSOF and has complete discretionary authority in making fund investments.

NOTE 4 – Commitments:

The NCIC currently has commitments to the SSOF of $50,000,000 (the First Tranche). As of June 30, 2013, the NCIC has fulfilled $2,605,383 of its total commitment.

The NCIC has the right, but not the obligation, to increase its capital commitment by which would be effective after the end of the First Tranche (or such other date as the NCIC and the Manager may agree). If the NCIC elects to make such an additional commitment, both the amount of the NCIC's additional commitment and an additional commitment from the Manager shall be established by agreement between the NCIC and the Manager (the Second Tranche).

NOTE 5 – Related Party Transactions:

As compensation for services provided to the SSOF, the SSOF pays the Manager an annual management fee. The management fee, which is payable quarterly in advance, is solely funded by, and allocated to, the NCIC. Management fees of $440,217 were incurred as of June 30, 2013.

Pursuant to NRS 355.280 the State of Nevada Treasurer has the ability to transfer an amount not to exceed $50,000,000 from the State of Nevada Permanent School Fund to the NCIC. This transfer of funds will be returned to the State of Nevada Permanent School fund in addition to investment earnings by the termination of the NCIC. As stated in Note 4, the NCIC has fulfilled $2,605,383 of its $50,000,000 commitment to the SSOF, of which $2,285,904 is due to the State of Nevada Permanent School Fund as of June 30, 2013.

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors of
the Nevada Capital Investment Corporation

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of governmental activities and the major fund of the Nevada Capital Investment Corporation (the NCIC), a component unit of the State of Nevada as of June 30, 2013 and for the period from October 1, 2011 (inception) through June 30, 2013, and the related notes to the financial statements, which collectively comprise the NCIC's basic financial statements and have issued our report thereon dated November 4, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the NCIC's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the finical statements, but not for the purpose of expressing an opinion on the effectiveness of the NCIC's internal control. Accordingly, we do not express an opinion on the effectiveness of the NCIC's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the NCIC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Kafoury, Armstrong & Co.

Reno, Nevada
November 4, 2013