



Financial Statements  
June 30, 2016

# Nevada Capital Investment Corporation

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## Independent Auditor's Report

To the Board of Directors  
Nevada Capital Investment Corporation  
Carson City, Nevada

### 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 and for the year ended June 30, 2016, 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 an opinion on these financial statements based on our audit. We did not audit the financial statements of the Silver State Opportunities Fund LLC as of and for the year ended June 30, 2016, which represents 100% of the investments and income or loss of the governmental activities and the major fund. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Silver State Opportunities Fund LLC is based solely on the report of the other auditors. 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, based on our audit and the report of other auditors, 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, 2016, 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 3 through 6 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.

### **Report on Summarized Comparative Information**

We have previously audited NCIC's 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 11, 2015. In our opinion, the summarized comparative information presented herein as of, and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2016, 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.



Reno, Nevada  
November 1, 2016

**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. Private equity investments can range from venture capital to growth equity to buyout opportunities. 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.

In August 2012, NCIC contracted with the firm of Hamilton Lane to serve as the professional fund-of-funds manager for the program. Together with the NCIC, Hamilton Lane formed the Silver State Opportunities Fund (SSOF) LLC to serve as the investment vehicle to make private equity investments. Hamilton Lane also contributes equity to the SSOF. As the fund-of-funds manager for SSOF, Hamilton Lane has discretionary authority to make all investments within the statutory, regulatory and contractual parameters set by Nevada. Investments consist of both direct co-investments in businesses and investments in private equity funds that have made a commitment to invest in Nevada companies. Hamilton Lane's investment and outreach activity and compliance with the NCIC's investment policy are overseen by the Board.

## **FINANCIAL HIGHLIGHTS**

In Fiscal Year 2016, SSOF made several investments both in co-investments and private equity funds. The Fund has \$19.3 million committed to co-investments and \$23.6 million committed to partnerships or fund investments as of June 30, 2016.

SSOF's capital deployment is on pace, with approximately 86% (\$42.9 million) of the statutory allocation of \$50 million invested or committed as of June 30, 2016. The Fund is off to a good start both in terms of economic impact to the State and financial performance. By leveraging capital from other limited partners, the Fund, along with its general partners, has invested a total of \$529 million in twenty-five Nevada companies throughout the State.

The Fund is still early in its financial performance life cycle and is generating (4.81%) net annual return to the State's Permanent School Fund. On a gross basis, the Fund is generating a 0.96% annual return. As of June 30, 2016, the NCIC has contributed \$32.0 million and received \$1.7 million in distributions, resulting in \$30.3 million in net contributed capital. Over time, the gap between the gross and net returns is expected to narrow as the Fund matures. The performance is driven by yield-producing fund investments and the Fund's co-investments are expected to contribute future positive value to the Fund.

## 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 fund balance/net position, where Assets – Liabilities = Fund Balance/Net Position 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; to pay Hamilton Lane's management fees; or to pay certain partnership expenses associated with the SSOF. 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, 2016, the NCIC reported a negative fund balance/net position of \$(2,559,175). This represents NCIC's share of Fund expenses minus interest returned to the Permanent School Fund plus NCIC's share of unrealized appreciation/depreciation on investments.

### **Summary of NCIC's Fund Balance/Net Position**

|                                                 | <u>2016</u>          | <u>2015</u>         |
|-------------------------------------------------|----------------------|---------------------|
| Assets                                          |                      |                     |
| Investments at Fair Value                       | <u>\$ 32,012,617</u> | <u>\$21,332,396</u> |
| Liabilities                                     |                      |                     |
| Due to Permanent School Fund                    | 34,571,792           | 20,496,002          |
| Fund Balance/Net Position                       | <u>(2,559,175)</u>   | <u>836,394</u>      |
| Total Liabilities and Fund Balance/Net Position | <u>\$ 32,012,617</u> | <u>\$21,332,396</u> |

## 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.

### **Summary of Changes in NCIC's Fund Balance**

|                                                 | <u>2016</u>          | <u>2015</u>       |
|-------------------------------------------------|----------------------|-------------------|
| Net Change in Investments                       | \$(3,054,781)        | \$ 726,947        |
| Earnings paid to Permanent School Fund          | <u>(340,788)</u>     | <u>(235,224)</u>  |
| Net Change in Fund Balance                      | (3,395,569)          | 491,723           |
| Fund Balance/Net Position, Beginning of Year    | <u>836,394</u>       | <u>344,671</u>    |
| Total Liabilities and Fund Balance/Net Position | <u>\$(2,559,175)</u> | <u>\$ 836,394</u> |

### **ECONOMIC FACTORS AND CURRENTLY KNOWN FACTS**

The Fund's capital deployment is on pace, with approximately 86% (\$42.9 million) of the Fund invested/committed as of June 30, 2016. The Fund's impact on the State extends beyond the returns to the Permanent School Fund, employment, and economic activity directly attributable to portfolio companies. The Fund's activities are helping to create a new private equity ecosystem in the State and providing local companies with access to the broader private investment community. Since the program's launch in 2012, five new private equity investment offices have been opened in the State and four new investment professionals are now based in Nevada. The State has benefited from the two Silver State Investor Forums created by the Fund which has brought over 70 leading investment managers to the state, giving the local business community a change to showcase its strengths and improve connections between Nevada-based companies and broader sources of capital.

### **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, 2016  
(with comparative amounts for the Year Ended June 30, 2015)

|                                                    | 2016          | 2015          |
|----------------------------------------------------|---------------|---------------|
| Assets                                             |               |               |
| Noncurrent assets                                  |               |               |
| Investments, at fair value                         |               |               |
| Investment in Silver State Opportunities Fund, LLC | \$ 32,012,617 | \$ 21,332,396 |
|                                                    | \$ 32,012,617 | \$ 21,332,396 |
| Total Assets                                       |               |               |
| Liabilities and Fund Balances                      |               |               |
| Noncurrent Liabilities                             |               |               |
| Due to State of Nevada Permanent School Fund       | \$ 34,571,792 | \$ 20,496,002 |
|                                                    | 34,571,792    | 20,496,002    |
| Total Liabilities                                  |               |               |
| Fund balance/net position                          |               |               |
| Restricted                                         | (2,559,175)   | 836,394       |
|                                                    | \$ 32,012,617 | \$ 21,332,396 |
| Total Liabilities and Fund Balance                 |               |               |



Nevada Capital Investment Corporation  
Statement of Activities and Governmental Fund Statement of Revenues, Expenditures,  
and Changes in the Fund Balance  
Year Ended June 30, 2016  
(with comparative amounts for the Year Ended June 30, 2015)

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|                                                        | <u>2016</u>                  | <u>2015</u>              |
|--------------------------------------------------------|------------------------------|--------------------------|
| General Revenue                                        |                              |                          |
| Investment income/(loss)                               | <u>\$ (3,054,781)</u>        | <u>\$ 726,947</u>        |
| Expenditures/Expenses                                  |                              |                          |
| Earnings paid to State of Nevada Permanent School Fund | <u>340,788</u>               | <u>235,224</u>           |
| Net Change in Fund Balance/Net Position                | (3,395,569)                  | 491,723                  |
| Fund Balance/Net Position, Beginning of Year           | <u>836,394</u>               | <u>344,671</u>           |
| Fund Balance/Net Position, End of Year                 | <u><u>\$ (2,559,175)</u></u> | <u><u>\$ 836,394</u></u> |

## **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 Manager may extend the term of the SSOF for up to two successive one-year periods in its sole discretion.

### **Implementation of GASB Statement No. 72**

As of July 1, 2015 the NCIC adopted GASB Statement No. 72, *Fair Value Measurements and Application*. The implementation of this standard requires governments to measure investments at fair value. The additional disclosures required by this standard are included in Note 3.

### **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 measurable 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 Nevada Revised Statute (NRS) 335.060(2)(1), 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 NCIC's investment in SSOF is its equity interest of SSOF based on the net asset value of the entity of which the underlying investments as reported in the audited financial statements of SSOF are a significant input.

## 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.

The fund balance/net position of NCIC is restricted pursuant to Nevada Administrative Code (NAC) 355 which governs the program to invest in private equity a certain amount of money from the State Permanent School Fund, and requires the allocation of the returns on investments and the return of the corpus of investments to the Permanent School Fund after the defined investment period.

**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.

**Note 3 - Investments**

The NCIC categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The NCIC does not have any investments that are measured using Level 1 or 2 inputs.

As of June 30, 2016, the NCIC had the following investment:

| Investment | Fair Value Measurement<br>Using Level 3 Inputs |
|------------|------------------------------------------------|
| SSOF       | \$ 32,012,617                                  |

Investments categorized as Level 3 are valued using pricing inputs that are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation. Those unobservable inputs are not corroborated by market data, generally reflect the reporting entities own assumptions about the assumptions market participants would use in determining the fair value of the investment. The types of investment which would generally be included in Level 3 include equity and/or debt securities issued by private entities and investments in private equity investment funds.

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, 2016, the following investment exceeded 5% of the NCIC's total:

| Investment | Fair Value    | Percentage |
|------------|---------------|------------|
| SSOF       | \$ 32,012,617 | 100%       |

The NCIC's investment in SSOF is its equity interest of SSOF based on the net asset value of the entity of which the underlying investments as reported in the audited financial statements of SSOF are a significant input. 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, 2016, the NCIC has fulfilled \$35,918,926 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**

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 \$35,918,926 of its \$50,000,000 commitment to the SSOF, of which \$34,571,792 is due to the State of Nevada Permanent School Fund as of June 30, 2016.



**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  
Nevada Capital Investment Corporation  
Carson City, Nevada

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 and for the year ended June 30, 2016, 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 1, 2016. Our report includes a reference to other auditors who audited the financial statements of the Silver State Opportunities Fund LLC, as described in our report on the NCIC's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

**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 financial 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.

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.

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. We consider Finding 2016-A described in the accompanying Schedule of Findings and Responses to be a material weakness.

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.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the NCIC's financial statements are free from 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*.

### **Nevada Capital Investment Corporation's Response to Findings**

The Nevada Capital Investment Corporation's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Responses. The Nevada Capital Investment Corporation's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **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.

The image shows a handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Reno, Nevada  
November 1, 2016



**Finding 2016-A**  
**Material Weakness**

|                        |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
|------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <i>Criteria:</i>       | Management is responsible for establishing and maintaining an effective system of internal control over financial reporting. One of the key components of an effective system of internal control is finance staff capable of preparing full disclosure financial statements and capable of maintaining accounting records that do not require adjustments as part of the audit process.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| <i>Condition:</i>      | The staff maintains accounting records that are adequate for the recording of financial activity throughout the year. Eide Bailly posted a material journal entry to the trial balance in order to adjust the investment to fair market value. The NCIC does not have an internal control system designed to provide for the preparation of the full disclosure financial statements being audited. In conjunction with the completion of our audit, we were requested to draft the financial statements and accompanying notes to those financial statements. The preparation of financial statements as part of the audit engagement may result in financial statements and related information included in financial statement disclosures not being available for management purposes as timely as it would be if prepared by NCIC personnel. In addition, the absence of controls over the preparation of the full disclosure financial statements increases the possibility that a misstatement of the financial statements could occur and not be prevented, or detected and corrected, by the NCIC's internal control. It is the responsibility of management and those charged with governance to determine whether to accept the risk associated with this condition because of cost or other considerations. |
| <i>Effect:</i>         | The NCIC's internally prepared trial balance was not materially correct in accordance with generally accepted accounting principles and internally prepared financial information may not be accurate and full disclosure financial statements may not be available as timely as they would be if prepared by NCIC personnel.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| <i>Cause:</i>          | Given the current level of staffing at NCIC and the daily responsibilities of the State Treasurer's Office staff, the resources of time and training necessary to keep accounting records and prepare the financial statements in accordance with generally accepted accounting principles are not available. As a result, NCIC has chosen to contract with Eide Bailly LLP to prepare its financial statements.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| <i>Recommendation:</i> | We recommend NCIC personnel obtain training in the preparation of full disclosure governmental financial statements in order to gain the knowledge needed to prepare the full disclosure financial statements internally.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| Management's Response: | Management is in agreement with the finding and recommendation.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |