

Natural Capital Investment Fund, Inc.

Financial Report
December 31, 2020

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RSM US LLP

Independent Auditor's Report

Board of Directors
Natural Capital Investment Fund, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Natural Capital Investment Fund, Inc. (NCIFund), which comprise the statements of financial position as of December 31, 2020 and 2019, the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the 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 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 audits. We conducted our audits 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of NCIFund as of December 31, 2020 and 2019, and the changes in its net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Governmental Auditing Standards*, we have also issued our report dated April 15, 2021, on our consideration of NCIFund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 the effectiveness of NCIFund's 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 NCIFund's internal control over financial reporting and compliance.

RSM US LLP

Gaithersburg, Maryland
April 15, 2021

Natural Capital Investment Fund, Inc.

**Statements of Financial Position
December 31, 2020 and 2019**

	2020	2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 9,690,049	\$ 8,744,923
Accounts receivable	16,400	132,353
Promises to give	971,203	204,579
Loans receivable, net	4,985,558	4,801,695
Accrued interest and fees receivable	371,343	218,139
Total current assets	16,034,553	14,101,689
Noncurrent assets:		
Cash – restricted	2,630,987	2,508,103
Cash equivalents held as collateral	32,398	42,000
Other asset	202,600	202,600
Investment – restricted	206,089	201,508
Investment (U.S. Endowment Fuel Project)	99,995	99,995
Loans receivable, net	40,095,271	33,282,413
Total noncurrent assets	43,267,340	36,336,619
Total assets	\$ 59,301,893	\$ 50,438,308
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 34,154	\$ 98,979
Line of credit	149,500	500,000
Accounts payable, related party	-	426,576
Funds held for others	94,106	144,245
Current maturities of secured borrowings, participations	322,949	82,619
Accrued interest payable	77,489	77,532
Refundable advance	57,636	-
Current maturities of notes payable, net	2,765,800	4,140,135
Total current liabilities	3,501,634	5,470,086
Secured borrowings, participations	8,210,358	2,732,652
Notes payable, net	24,995,765	22,700,450
Subordinated notes payable	3,300,000	3,296,040
Total noncurrent liabilities	36,506,123	28,729,142
Total liabilities	40,007,757	34,199,228
Commitments and contingencies (Note 13)		
Net assets:		
Without donor restrictions	11,632,144	10,379,563
With donor restrictions	7,661,992	5,859,517
Total net assets	19,294,136	16,239,080
Total liabilities and net assets	\$ 59,301,893	\$ 50,438,308

See notes to financial statements.

Natural Capital Investment Fund, Inc.

Statements of Activities Years Ended December 31, 2020 and 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Financial activity:						
Financial income:						
Loan interest revenue	\$ 2,746,862	\$ -	\$ 2,746,862	\$ 2,343,514	\$ -	\$ 2,343,514
Fee income on loans, net	90,098	-	90,098	180,039	-	180,039
Interest income	53,077	-	53,077	185,205	-	185,205
Total financial income	2,890,037	-	2,890,037	2,708,758	-	2,708,758
Financial expenses:						
Provision for loan losses	433,388	-	433,388	907,780	-	907,780
Interest expense	1,020,907	-	1,020,907	883,005	-	883,005
Total financial expenses	1,454,295	-	1,454,295	1,790,785	-	1,790,785
Net financial income	1,435,742	-	1,435,742	917,973	-	917,973
Revenue and support:						
Grants and contributions	270,739	1,712,919	1,983,658	63,895	1,089,528	1,153,423
Government grants	-	2,035,731	2,035,731	-	592,784	592,784
Project income	33,002	-	33,002	88,762	23,725	112,487
Other income	10,897	-	10,897	14,363	-	14,363
Net assets released from restriction	1,946,175	(1,946,175)	-	2,135,444	(2,135,444)	-
Total revenue and support	2,260,813	1,802,475	4,063,288	2,302,464	(429,407)	1,873,057
Expenses:						
Program services:						
Lending	1,379,794	-	1,379,794	1,842,981	-	1,842,981
Strategic initiatives	852,704	-	852,704	760,185	-	760,185
Total program services	2,232,498	-	2,232,498	2,603,166	-	2,603,166
Supporting services:						
Management and general	193,537	-	193,537	187,948	-	187,948
Fundraising	17,939	-	17,939	40,528	-	40,528
Total supporting services	211,476	-	211,476	228,476	-	228,476
Total expenses	2,443,974	-	2,443,974	2,831,642	-	2,831,642
Change in net assets	1,252,581	1,802,475	3,055,056	388,795	(429,407)	(40,612)
Net assets:						
Beginning of year	10,379,563	5,859,517	16,239,080	9,990,768	6,288,924	16,279,692
End of year	\$ 11,632,144	\$ 7,661,992	\$ 19,294,136	\$ 10,379,563	\$ 5,859,517	\$ 16,239,080

See notes to financial statements.

Natural Capital Investment Fund, Inc.

**Statement of Functional Expenses
Year Ended December 31, 2020**

	Program Services		Total Program	Supporting Services		Total
	Lending	Strategic Initiatives		Management and General	Fundraising	
Management fee contract, net	\$ 1,125,854	\$ 364,713	\$ 1,490,567	\$ 79,286	\$ 15,857	\$ 1,585,710
Provision for loan losses	433,388	-	433,388	-	-	433,388
Interest expense	1,020,907	-	1,020,907	-	-	1,020,907
Technical assistance	-	402,502	402,502	-	-	402,502
Grant and contract expense	-	34,042	34,042	-	-	34,042
Loan workout expense –						
non-legal	3,665	-	3,665	-	-	3,665
Legal fees	36,621	-	36,621	-	-	36,621
Professional fees	3,325	-	3,325	67,247	-	70,572
Employee travel	8,409	2,724	11,133	592	118	11,843
Loan origination expense, net	19,574	-	19,574	-	-	19,574
Office expense	38,662	12,524	51,186	2,723	546	54,455
Computer software						
maintenance services	28,974	9,386	38,360	2,040	408	40,808
Rent	55,335	17,926	73,261	3,897	779	77,937
Conference, convention, meeting	3,925	1,271	5,196	276	55	5,527
Insurance	-	-	-	17,524	-	17,524
Reporting and filing fees	15,475	-	15,475	-	-	15,475
Bad debt expense	-	3,566	3,566	-	-	3,566
Bank charges	-	-	-	19,071	-	19,071
Marketing	4,183	1,355	5,538	295	59	5,892
Employee training and development	8,318	2,695	11,013	586	117	11,716
Other lending costs	27,474	-	27,474	-	-	27,474
	\$ 2,834,089	\$ 852,704	\$ 3,686,793	\$ 193,537	\$ 17,939	\$ 3,898,269

See notes to financial statements.

Natural Capital Investment Fund, Inc.

**Statement of Functional Expenses
Year Ended December 31, 2019**

	Program Services		Total Program	Supporting Services		Total
	Lending	Strategic Initiatives		Management and General	Fundraising	
Management fee contract	\$ 1,429,182	\$ 362,059	\$ 1,791,241	\$ 76,223	\$ 38,112	\$ 1,905,576
Provision for loan losses	907,780	-	907,780	-	-	907,780
Interest expense	883,005	-	883,005	-	-	883,005
Technical assistance	-	205,336	205,336	-	-	205,336
Grant and contract expense	-	136,449	136,449	-	-	136,449
Loan workout expense – non-legal	103,230	-	103,230	-	-	103,230
Legal fees	43,728	-	43,728	-	-	43,728
Professional fees	7,880	-	7,880	74,807	-	82,687
Employee travel	46,504	11,781	58,285	3,100	620	62,005
Loan origination expense, net	61,071	-	61,071	-	-	61,071
Office expense	45,577	11,546	57,123	3,038	611	60,772
Computer software maintenance services	34,913	8,845	43,758	2,328	466	46,552
Rent	33,570	8,504	42,074	2,238	448	44,760
Conference, convention, meeting	13,211	3,347	16,558	881	176	17,615
Insurance	-	-	-	16,632	-	16,632
Reporting and filing fees	15,750	-	15,750	-	-	15,750
Bad debt expense	-	10,525	10,525	-	-	10,525
Bank charges	-	-	-	8,229	-	8,229
Marketing	5,820	1,474	7,294	388	78	7,760
Employee training and development	1,259	319	1,578	84	17	1,679
Other lending costs	1,286	-	1,286	-	-	1,286
	<u>\$ 3,633,766</u>	<u>\$ 760,185</u>	<u>\$ 4,393,951</u>	<u>\$ 187,948</u>	<u>\$ 40,528</u>	<u>\$ 4,622,427</u>

See notes to financial statements.

Natural Capital Investment Fund, Inc.

Statements of Cash Flows Years Ended December 31, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Change in net assets	\$ 3,055,056	\$ (40,612)
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities:		
Provision for loan losses	433,388	907,780
Bad debt expense	-	10,525
Implied interest expense	25,317	38,310
Contributions restricted for long-term purposes	(853,074)	(271,650)
Conversion of notes payable to unrestricted contribution	(150,000)	-
Amortization of deferred loan fees (costs)	(236,570)	-
Changes in operating assets and liabilities:		
Accounts receivable	115,953	(106,409)
Promises to give	(766,624)	110,561
Accrued interest and fees receivable	(153,204)	(31,112)
Accounts payable	(64,825)	9,013
Accounts payable, related party	(426,576)	(1,316,151)
Funds held for others	(50,139)	130,976
Accrued interest payable	(43)	9,814
Refundable advance	57,636	-
Net cash provided by (used in) operating activities	986,295	(548,955)
Cash flows from investing activities:		
Cash disbursements on loans receivable	(15,201,846)	(10,002,676)
Principal collections on loans receivable	8,008,307	4,176,980
Purchase of restricted investment	(4,581)	(201,508)
Net cash used in investing activities	(7,198,120)	(6,027,204)
Cash flows from financing activities:		
Proceeds from issuance of notes payable	3,894,330	10,262,125
Repayments of notes payable	(3,187,073)	(5,455,454)
Payment of debt acquisition costs	(8,134)	(108,028)
Advances on secured borrowings, participations	6,090,706	832,758
Repayments on secured borrowings, participations	(372,670)	(215,536)
Contributions restricted for long-term purposes	853,074	271,650
Net cash provided by financing activities	7,270,233	5,587,515
Net increase (decrease) in cash and cash equivalents	1,058,408	(988,644)
Cash and cash equivalents:		
Beginning of year	11,295,026	12,283,670
End of year	\$ 12,353,434	\$ 11,295,026
Cash and cash equivalents – unrestricted	\$ 9,690,049	\$ 8,744,923
Cash – restricted	2,630,987	2,508,103
Cash equivalents held as collateral	32,398	42,000
	\$ 12,353,434	\$ 11,295,026
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 995,633	\$ 834,881
Supplemental schedule of noncash investing activities:		
Loans receivable transferred to OREO	\$ -	\$ 118,250
Sale of OREO included in accounts receivable	\$ -	\$ 118,250

See notes to financial statements.

Natural Capital Investment Fund, Inc.

Notes to Financial Statements

Note 1. Nature of Activities and Summary of Significant Accounting Policies

Natural Capital Investment Fund, Inc. (NCIFund) is a certified community development financial institution that provides financing for and technical assistance to natural resource-based businesses. NCIFund's base is in West Virginia, but it also conducts lending and investing activities in North Carolina, portions of South Carolina, and the Appalachian counties in Maryland, Virginia, Ohio and Kentucky.

NCIFund's activities include the following two program areas:

Lending program: NCIFund is a specialized, niche lender for start-up and early stage small businesses in underserved markets. The primary goal of its loan programs is to create or retain full-time private sector jobs. NCIFund provides microloans in amounts from \$1,000 to \$50,000 and business loans sized from \$50,000 to \$750,000. NCIFund is approved as a United States Department of Agriculture (USDA) Business & Industry (B&I) Guaranteed Lender, giving it the ability to participate in transactions up to \$2.5 million.

NCIFund's business clients are predominantly located in economically distressed rural communities and are unable to access capital from traditional sources. Target sectors include, but are not limited to: environmental services, local food system infrastructure, heritage and recreation-based tourism, value-added agriculture, renewable energy, energy efficiency, recycling, water conservation and treatment, secondary forest products, natural medicines, green building, critical community services and technologies that support the sustainable use of natural resources.

NCIFund pursues Triple Bottom Line (TBL) small business development as a means to responsibly create wealth in distressed communities. Small and mid-sized businesses can demonstrate the viability of utilizing natural assets responsibly, while offering opportunities in low income communities to build wealth through the creation of living wage jobs with benefits and skill building opportunities. While NCIFund specializes in financing TBL companies, it recognizes that economically and environmentally healthy communities require a diverse range of businesses and services, so NCIFund expanded its work.

Strategic initiatives program: NCIFund's strategic initiatives use targeted funding and partnerships with small business-related or sector-specific community partners to devote added resources to particular sectors or constituencies within NCIFund's stated mission. These initiatives frequently combine NCIFund's loan capital with a) targeted business advisory services and/or b) grant funding from partners in order to ensure borrower success and "buy down" the cost of critical infrastructure or services for the constituencies NCIFund seeks to serve.

Basis of presentation: NCIFund prepares its financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP), which have been applied on a consistent basis and follow general practices within the nonprofit industry. A description of the net asset classes is as follows:

Net assets without donor restrictions: All resources over which the governing board has discretionary control. The governing board of NCIFund may elect to designate such resources for specific purposes. This designation may be removed at the Board's discretion.

Net assets with donor restrictions: Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Restriction will be released when the requirements of the donor or grantor have been satisfied through expenditure for the specified purpose of the program or through the passage of time.

Natural Capital Investment Fund, Inc.

Notes to Financial Statements

Note 1. Nature of Activities and Summary of Significant Accounting Policies (Continued)

Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor contributions to be used for loan capital are recorded by NCIFund in its loan capital revolving fund as perpetual in nature. The funds are used to provide financing capital to qualifying businesses. The Loan Capital Revolving Fund is replenished as the loan principal is repaid. In the event that a note receivable funded by contributions that are perpetual in nature, becomes uncollectible, NCIFund writes off the uncollectible amount (loss) against the net assets.

Cash and cash equivalents: NCIFund classifies cash, money market funds and sweep accounts with original maturities of 90 days or less as cash and cash equivalents. The cash held in the sweep account is held in U.S. government money market fund, which is recorded at cost which approximates fair value.

Restricted cash: In order to secure its obligations in existing loan agreements, NCIFund is required to maintain certain bank accounts and balances, wherein the proceeds of the loans shall be held in separate custodial accounts established at a mutually acceptable financial institution. This requirement includes two federal programs, two financial institution lenders and one private lender. For the Intermediary Relending Program (IRP) which includes the Rural Microentrepreneur Assistance Program (RMAP), NCIFund agrees to deposit in a custodial account on the closing date the full amount of the proceeds of the loan and thereafter, principal or proceeds received by the ultimate recipient, and all interest, dividends or other earnings. The amounts deposited in the account shall not be commingled with any other funds. In addition, IRP, RMAP and the Small Business Administration (SBA) require cash to be restricted for loan loss reserves as described in the allowance for loan loss policy on the following page. In 2019, a private lender required NCIFund to hold a loan loss reserve and the same lender also held a loan loss reserve in the same amount. See Note 2.

Restricted investment: In order to secure its obligations in its existing loan agreement, NCIFund is required to maintain certain balances in such account with a financial institution lender until all its obligations to the lender have been satisfied. The investment consists of a long-term certificate of deposit.

Cash equivalents held as collateral: In order to meet certain private lenders' requirements for loans receivable, NCIFund records certificates of deposit as collateral. The certificates of deposit are held at cost and have short-term maturities.

Investment: NCIFund holds investments in the U.S. Endowment Fuel Project. NCIFund provided two investments totaling \$99,995 to finance fuel stations in logging communities in South Carolina for the members of a certain cooperative. NCIFund earns minimal revenues on fuel sold.

Promises to give: Unconditional contributions, including unconditional promises to give, are recognized at fair value as support in the period received. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Management determines the allowance for doubtful promises by regularly evaluating individual promises to give and considering the prior history of the donor and proven collectability of past donations. Promises to give are written off when deemed uncollectible. Recoveries of promises to give previously written off are recorded when received. There was no allowance for doubtful promises to give at December 31, 2020 or 2019.

Loans receivable: NCIFund makes small business loans to customers. These loans are made in West Virginia, North Carolina and the Appalachian and rural areas of Maryland, Ohio, Kentucky, Virginia and South Carolina. The ability of NCIFund's debtors to honor their contracts is dependent upon general economic conditions in the respective area.

Natural Capital Investment Fund, Inc.

Notes to Financial Statements

Note 1. Nature of Activities and Summary of Significant Accounting Policies (Continued)

Loans receivable are stated at the principal amount outstanding, net of allowance for losses and deferred loan origination fees. Interest income on loans is accrued on the principal outstanding at the loans' stated interest rate unless the loan is in default. Direct origination fees, net of direct costs, are deferred and amortized using the effective interest method over the respective lives of the related and are recorded as an adjustment to fee income on loans. Fees relating to expired commitments are recognized as non-interest income. If a commitment is exercised during the commitment period, the fee at the time of exercise is recognized over the life of the loan as an adjustment of yield.

Loans are considered past due if the required principal and interest payments have not been received 30 days from the date such payments were due. If it otherwise appears doubtful that the loan will be repaid or if the cash flow of the business can only support a principal payment, management may place the loan on nonaccrual status. Generally, loans on non-accrual status are 90 days or more past due and are moving toward foreclosure/liquidation.

Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for loan losses: The allowance for loan losses is a valuation reserve that management believes will be adequate to absorb possible losses on existing loans that may become uncollectible. It is established through a provision for loan losses charged to expense. In addition, loans deemed to be uncollectible are charged against the allowance. The allowance is based upon management's periodic review of the collectability of loans and is maintained at a level believed adequate by management to absorb estimated potential losses after considering changes in internal and external factors, past loss experience, the nature and volume of the portfolio and current economic conditions. However, the allowance is an estimate that could change if there are significant changes in the portfolio and/or economic conditions.

A specific reserve component is calculated for watch list loans by assessing the probability of default, which is determined based on internal factors such as borrower financial position strength, lien position, charge-offs, and non-accruals; together with external factors like national and local economic conditions and industry trends.

The IRP requires a 6% general reserve on loans issued on its program of which \$406,776 and \$355,776 at December 31, 2020 and 2019, respectively, is included in the allowance for loan losses. NCIFund also maintains a 6% cash reserve on IRP loans of \$102,197 at December 31, 2020 and 2019, which is classified with restricted cash.

The RMAP requires a 5% general reserve on loans issued on its program of which \$12,411 and \$8,191 at December 31, 2020 and 2019, respectively, is included in the allowance for loan losses. NCIFund also maintains a 5% cash reserve on RMAP loans of \$19,468 at December 31, 2020 and 2019, which is classified with restricted cash.

The Small Business Administration (SBA) 7A program requires the establishment of cash loan reserves equal to 5% and 3%, respectively, of the unguaranteed and guaranteed portion of the SBA 7A portfolio. The required balance reserve at December 31, 2020 and 2019, was \$24,941 and \$19,996, respectively, and reported with restricted cash. The balance of the SBA loan reserve at December 31, 2020 and 2019, was \$23,463 and \$17,015, respectively, and reported with the allowance for loan losses.

Natural Capital Investment Fund, Inc.

Notes to Financial Statements

Note 1. Nature of Activities and Summary of Significant Accounting Policies (Continued)

Management has categorized loans into risk categories generally based on the nature of the project. These risk categories and the relevant risk characteristics are as follows:

Real Estate – First Position: Real estate secured loans where NCIFund is in a first position on real estate. These loans could be owner-occupied real estate or investment real estate. If the loan is secured by investment real estate, NCIFund reduces its risk by assessing current tenants through a review of rent rolls or a review of prospective tenants by obtaining copies of letters of intent to rent. NCIFund also reduces its risk on investment real estate secured loans by evaluating the assumptions behind projections and vacancy rates. For owner occupied loans, at times NCIFund pursues a participation from a lender that will have a participation that is subordinated to NCIFund's loan.

Real Estate- Subordinated: Real estate secured loans where NCIFund is in a position behind a superior deed of trust or deeds of trust. Loans with subordinated deeds tend to involve a partnership with a bank or are smaller projects. NCIFund reduces its risk by a thorough analysis of the company's management team and assessment of the cash flow or by pursuing an SBA Community Advantage Guaranty or a participation from a lender that will have a participation that is subordinated to NCIFund. These loans could also be the interim loans in an SBA 504 project which will be paid off by the SBA.

Other Collateral: These are loans secured by business assets such as equipment, leasehold improvements, fixtures, furniture, inventory, accounts receivables, etc. They tend to be smaller loans. At times, NCIFund will pursue an SBA Community Advantage Guaranty for these loans or a participation from a lender that will have a participation that is subordinated to NCIFund.

Payroll Protection Program: These loans are unsecured but are to be forgiven by the SBA and are 100% guaranteed by the SBA.

NC COVID-19 Rapid Recovery: These loans are typically secured by business assets. These loans are 100% participations from The Rural Center and therefore none of NCIFund's capital is at risk.

WV Emergency: These loans are secured by business assets. None of NCIFund's capital is at risk by these loans because they are funded by grant funds from the Appalachian Regional Commission (ARC) or the Economic Development Authority (EDA).

Unsecured: A very small percentage of NCIFund's portfolio is comprised of unsecured loans. These loans tend to be under \$50,000 and good projects but the business had no assets to pledge.

Impaired loans: A loan is considered impaired when, based on current information and events, it is probable that NCIFund will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the original loan agreement and the loan has a high probability of moving into foreclosure/liquidation. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan or lease and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is generally measured on a case-by-case basis using the fair value of the collateral, if the loan is collateral dependent, the present value of expected future cash flows discounted at the loans effective interest rate or the loan's observable market price.

Natural Capital Investment Fund, Inc.

Notes to Financial Statements

Note 1. Nature of Activities and Summary of Significant Accounting Policies (Continued)

Troubled debt restructures (TDR): A loan that was restructured where the lender granted a concession that otherwise it would not consider due to the borrower's financial difficulties. The concession would allow for continued albeit lower or less frequent payments.

Other real estate owned (OREO): Real estate acquired through foreclosure is carried at estimated fair value, less estimated costs of disposal. Costs of improving OREO are capitalized to the extent that the carrying value does not exceed its fair value less estimated selling costs. Holding costs are charged to period expense. Gains and losses on sales, if any, are recognized in financial income (loss) as they occur.

Notes payable: NCIFund uses debt primarily for financing for natural resource-based businesses. Most debt is in the form of notes payable to foundations, financial institutions, and various government agencies. NCIFund records a discount and contribution revenue when note interest rates are considered below-market and amortizes the discount to interest expense over the term of the related notes. Debt acquisition costs are capitalized and amortized using the effective interest method over the term of the debt.

Transfers of financial assets: Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when: (1) the assets have been isolated from NCIFund, (2) the transferee obtains the right to pledge or exchange the transferred assets and no condition both constrains the transferee from taking advantage of that right and provides more than a trivial benefit for the transferor and (3) the transferor does not maintain effective control over the transferred assets through either: (a) an agreement that both entitles and obligates the transferor to repurchase or redeem the assets before maturity or (b) the ability to unilaterally cause the holder to return specific assets, other than through a cleanup call.

NCIFund sells participation loans to third parties that do not meet the criteria to be accounted for as sales as NCIFund has not surrendered control of the participation loans sold. As a result the participation loans are accounted for as secured borrowings, whereby NCIFund records cash received from the transferee and records a liability to repay the cash to the transferee. The transferees have no recourse to NCIFund for failure of the underlying borrowers to pay amounts contractually due. The outstanding balance of participation loans sold accounted for as secured borrowings is \$8,533,306 and \$2,815,271 as of December 31, 2020 and 2019, respectively.

Revenue recognition: NCIFund's primary revenues come from interest and fees earned on loans originated in connection with the execution of loans to third parties. These revenues are without donor restrictions and are an integral part of the funding of NCIFund operations. Interest income on loans is recognized over the term of the loan and is calculated using the simple interest method on principal amounts outstanding.

NCIFund also receives funding for its programs from federal grants and from corporations and foundations in the form of operating grants. NCIFund recognizes contributions received, including unconditional promises to give, as support in the period received. Contributions received are reported as support with or without donor restrictions.

Promises to contribute that stipulate conditions to be met before the contribution is made to NCIFund are not recognized until the conditions are met.

Natural Capital Investment Fund, Inc.

Notes to Financial Statements

Note 1. Nature of Activities and Summary of Significant Accounting Policies (Continued)

Functional allocation of expenses: The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Management and general expenses, such as the management fee, rent, employee travel and training and other office expenses that support programs are allocated to the programs based on full-time employee salaries and a percentage of time worked on program-specific duties.

Income taxes: NCIFund is a separate Maryland nonstock corporation that is a 501(c)(3) organization that is generally exempt from federal income taxes under the provisions of the Internal Revenue Code (IRC). It has been recognized under the IRC as a supporting organization to The Conservation Fund (TCF). In addition, NCIFund qualifies for charitable contribution deductions and has been classified as an organization that is not a private foundation. Income which is not related to exempt purposes, less applicable deductions, is subject to federal and state corporate income taxes. NCIFund had no net unrelated business income tax for the years ended December 31, 2020 and 2019.

Management evaluated NCIFund's tax positions and concluded that NCIFund had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance. NCIFund files income tax returns in the U.S. federal jurisdiction. Generally, NCIFund is no longer subject to income tax examinations for the U.S. federal, state or local tax authorities for the years before 2017.

Use of estimates: The preparation of financial statements in conformity with U.S. GAAP requires management to make a number of 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. Significant estimates made by management include the allowance for loan losses. Actual results could materially differ from those estimates.

Adopted accounting pronouncements: As of January 1, 2020, NCIFund adopted the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-13, *Fair Value Measurement – Topic 820: Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*. This ASU removes, modifies and adds certain disclosure requirements of Accounting Standards Codification (ASC) Topic 820. There was no impact to the financial statement disclosures upon adoption.

In April 2019, the issued ASU 2019-04, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments*. This ASU makes clarifying amendments to certain financial instrument standards. This guidance contains several effective dates. NCIFund adopted the amendments related to ASC 825 effective for annual reporting periods beginning after December 15, 2019, with no significant impact to the financial statements.

Natural Capital Investment Fund, Inc.

Notes to Financial Statements

Note 1. Nature of Activities and Summary of Significant Accounting Policies (Continued)

Recent accounting pronouncements not yet adopted: In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. The new standard is effective for annual reporting periods beginning after December 15, 2021. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. NCIFund is currently evaluating the impact of the pending adoption of the new standard on the financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which creates a new credit impairment standard for financial instruments. The existing incurred loss model will be replaced with a current expected credit loss (CECL) model for both originated and acquired financial instruments carried at amortized cost and off-balance sheet credit exposures, including loans, loan commitments, held-to-maturity debt securities, financial guarantees, net investment in leases and most receivables. Recognized amortized cost financial assets will be presented at the net amount expected to be collected through an allowance for credit losses. Expected credit losses on off-balance-sheet credit exposures will be recognized through a liability. Unlike current guidance, which requires certain favorable changes in expected cash flows to be accreted into interest income, both favorable and unfavorable changes in expected credit losses (and, therefore, the allowance) will be recognized through credit loss expense as they occur. With the exception of purchased financial assets with a more than insignificant amount of credit deterioration since origination, for which the initial allowance will be added to the purchase price of the assets, the initial allowance on financial assets subject to the scope (whether originated or acquired) will be recognized through credit loss expense. Expanded disclosures will also be required. The ASU is effective for fiscal years beginning after December 15, 2022. NCIFund is currently evaluating the impact of adopting this new guidance on its financial statements.

In July 2018, the FASB issued ASU 2018-10, *Codification Improvements to Topic 842, Leases*. This ASU clarifies and corrects unintended application of narrow aspects of the lease accounting guidance. For entities that early-adopted Topic 842, the amendments are effective upon issuance of ASU 2018-10, and the transition requirements are the same as those in Topic 842. For entities that have not adopted Topic 842, the effective date and transition requirements for ASU 2018-10 are the same as the effective date and transition requirements in Topic 842 (for annual reporting periods beginning after December 15, 2021, for NCIFund). NCIFund is currently evaluating the impact of the pending adoption of the new standard on the financial statements.

In July 2018, the FASB issued ASU 2018-11, *Leases (Topic 842): Targeted Improvements*. This ASU: (a) allows entities to initially apply ASC 842 at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption and (b) provides a practical expedient under which lessors may elect, by class of underlying assets, to not separate non-lease components from the associated lease component. For entities that have not adopted Topic 842 before the issuance of ASU 2018-11, the effective date and transition requirements for the amendments related to separating components of a contract are the same as those in ASU 2016-02. For entities that have adopted Topic 842 before the issuance of ASU 2018-11, the practical expedient for separating components may be elected either in the first reporting period following the issuance of ASU 2018-11 or at the original effective date of Topic 842 for that entity. NCIFund is currently evaluating the impact of the pending adoption of the new standard on the financial statements.

Natural Capital Investment Fund, Inc.

Notes to Financial Statements

Note 1. Nature of Activities and Summary of Significant Accounting Policies (Continued)

In April 2019, the FASB issued ASU 2019-04, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments*. This ASU was issued to clarify and improve areas of guidance related to recently issued financial instrument standards on credit losses, hedging, recognition and measurement. The amendments related to ASC 326 are effective for annual reporting periods beginning after December 15, 2022, and the amendments related to ASC 815 are effective for annual reporting periods beginning after December 15, 2020, for NCIFund. NCIFund is currently evaluating the effect that this guidance will have on its financial statements.

In May 2019, the FASB issued ASU 2019-05, *Credit Losses (Topic 326): Targeted Transition Relief*. This ASU provides entities that have certain instruments within the scope of Subtopic 326-20, *Financial Instruments – Credit Losses – Measured at Amortized Cost*, with an option to irrevocably elect the fair value option in Subtopic 825-10, *Financial Instruments – Overall*, applied on an instrument-by-instrument basis for eligible instruments, upon adoption of Topic 326. For entities that have not yet adopted the credit losses standard, the ASU is effective when they implement the credit losses standard. NCIFund is currently evaluating the effect that this guidance will have on its financial statements.

In November 2019, the FASB issued ASU 2019-11, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses*. This ASU provides narrow-scope improvements to Topic 326. For entities that have not yet adopted ASU 2016-13 as of November 26, 2019, the effective dates for ASU 2019-11 are the same as the effective dates and transition requirements in ASU 2016-13. As such, the ASU is effective for annual reporting periods beginning after December 15, 2022 for NCIFund.

In March 2020, the FASB issued ASU 2020-03, *Codification Improvements to Financial Instruments*. This ASU addresses various financial instruments topics. The amendments related to Issues 1, 2, 3, 4 and 5 within the ASU are conforming amendments and effective for annual reporting periods beginning after December 15, 2019 for NCIFund and have no significant impact to the NCIFund's financial statements. For entities that have not yet adopted ASU 2016-13, the effective dates for the amendments related to Issues 6 and 7 within ASU 2020-03 are the same as the effective dates in ASU 2016-13. As such, the amendments related to Issues 6 and 7 are effective for annual reporting periods beginning after December 15, 2022 for NCIFund.

Note 2. Cash and Cash Equivalents

Cash and cash equivalents held by NCIFund at December 31, 2020 and 2019, consist of the following:

	2020	2019
Cash	\$ 3,956,015	\$ 3,220,217
U.S. government money market fund	8,365,021	8,032,809
Certificates of deposit	32,398	42,000
	<u>\$ 12,353,434</u>	<u>\$ 11,295,026</u>
Unrestricted cash and cash equivalents	\$ 9,690,049	\$ 8,744,923
Restricted cash	2,630,987	2,508,103
Restricted cash equivalents	32,398	42,000
	<u>\$ 12,353,434</u>	<u>\$ 11,295,026</u>

Natural Capital Investment Fund, Inc.

Notes to Financial Statements

Note 2. Cash and Cash Equivalents (Continued)

Restricted cash balances at December 31, 2020 and 2019, are held for the following purposes:

	2020	2019
Revolving loan funds:		
Intermediary Relending Program	\$ 1,536,456	\$ 1,120,723
Rural Microentrepreneur Assistance Program	279,364	229,416
	<u>1,815,820</u>	<u>1,350,139</u>
Cash required to be segregated by lender:		
Financial institution lenders	638,420	520,054
Private lender	30,141	396,249
	<u>668,561</u>	<u>916,303</u>
Cash loan loss reserves:		
Intermediary Relending Program	102,197	102,197
Private lender – held by lender	-	50,000
Private lender – held by NCIF	-	50,000
Rural Microentrepreneur Assistance Program	19,468	19,468
Small Business Administration	24,941	19,996
	<u>146,606</u>	<u>241,661</u>
	<u>\$ 2,630,987</u>	<u>\$ 2,508,103</u>

Note 3. Other Asset

At December 31, 2020 and 2019, NCIFund holds two certificate of deposits (CDs) that are associated with a third-party; one CD is for \$174,600 and the other CD is for \$28,000. The CDs are in the name of NCIFund but are assigned as collateral to a bank that has two loans totaling approximately \$1 million with the third-party. In the event of default in the bank's loans, the bank would cash in the CDs and apply them to the balance of the bank's loans. Then, NCIFund would have two loans with the third-party for \$174,600 and \$28,000.

Note 4. Promises to Give

As of December 31, 2020 and 2019, unconditional promises to give totaling \$971,203 and \$204,579, respectively, are due in less than one year. At December 31, 2020 and 2019, NCIFund also had twelve and six conditional promises to give totaling \$4,045,075 and \$2,062,952, respectively.

Natural Capital Investment Fund, Inc.

Notes to Financial Statements

Note 5. Loans Receivable

Loans receivable consist primarily of loans made to small businesses at December 31, 2020 and 2019, as follows:

	2020		
	Current Portion	Noncurrent Portion	Total
Loans receivable, gross	\$ 5,253,896	\$ 42,443,513	\$ 47,697,409
Allowance for loan losses	(311,080)	(2,513,052)	(2,824,132)
Deferred loan (fees) costs, net	42,742	164,810	207,552
Loans receivable, net	<u>\$ 4,985,558</u>	<u>\$ 40,095,271</u>	<u>\$ 45,080,829</u>
	2019		
	Current Portion	Noncurrent Portion	Total
Loans receivable, gross	\$ 5,054,416	\$ 35,451,275	\$ 40,505,691
Allowance for loan losses	(252,721)	(2,139,844)	(2,392,565)
Deferred loan (fees) costs, net	-	(29,018)	(29,018)
Loans receivable, net	<u>\$ 4,801,695</u>	<u>\$ 33,282,413</u>	<u>\$ 38,084,108</u>

Loans carry remaining terms of less than one year to 22 years and carry interest rates of 0.5% to 8%. The loans are generally payable in monthly or quarterly installments of either interest-only (non-amortizing) or principal and interest (amortizing) over the term of each loan.

The following is a summary of lien priority on loans held by NCIFund at December 31, 2020 and 2019:

	2020			
	Number of Loans	Gross Loans*	Allowance for Loan Losses	Net Loans
Lien position:				
Real estate – First Position	97	\$ 29,807,350	\$ (2,092,727)	\$ 27,714,623
Real estate – Subordinated	23	3,313,009	(174,734)	3,138,275
Other collateral	103	8,342,429	(536,462)	7,805,967
Payroll Protection Program	14	472,140	-	472,140
North Carolina COVID-19				
Rapid Recovery	61	5,616,106	-	5,616,106
West Virginia Emergency	9	301,543	(17,950)	283,593
Unsecured	3	52,384	(2,259)	50,125
	<u>310</u>	<u>\$ 47,904,961</u>	<u>\$ (2,824,132)</u>	<u>\$ 45,080,829</u>

* Balance is presented net of deferred loan costs of \$207,552.

Natural Capital Investment Fund, Inc.

Notes to Financial Statements

Note 5. Loans Receivable (Continued)

	2019			
	Number of Loans	Gross Loans**	Allowance for Loan Losses	Net Loans
Lien position:				
Real estate – First Position	88	\$ 26,200,110	\$ (1,394,877)	\$ 24,805,233
Real estate – Subordinated	25	3,774,438	(196,686)	3,577,752
Other collateral	118	10,323,917	(792,092)	9,531,825
Unsecured	8	178,208	(8,910)	169,298
	<u>239</u>	<u>\$ 40,476,673</u>	<u>\$ (2,392,565)</u>	<u>\$ 38,084,108</u>

** Balance is presented net of unearned fees of \$29,018.

Loans are primarily secured by the underlying assets financed, such as real estate, equipment and inventory.

Loans receivable totaling \$2,354,918 and \$2,764,429 and restricted cash of \$1,536,456 and \$1,120,723 serve as collateral on IRP notes payable at December 31, 2020 and 2019, respectively. Loans receivable totaling \$183,848 and \$277,345 and restricted cash of \$279,364 and \$229,416 serve as collateral on RMAP notes payable at December 31, 2020 and 2019, respectively.

Accrued interest receivable amounted to \$370,180 and \$216,918 at December 31, 2020 and 2019, respectively.

There were no non-accrual loans at December 31, 2020 or 2019.

COVID-19 Response: The Coronavirus Aid, Relief and Economic Security (CARES) Act created funding for the Small Business Administration's (SBA) loan program providing forgiveness of up to the full principal amount of qualifying loans guaranteed under a new program called the Paycheck Protection Program (PPP). The intent of the PPP is to provide loans to small businesses in order to keep their employees on the payroll and make certain other eligible payments. Loans granted under the PPP are guaranteed by the SBA and are fully forgivable if used for qualifying expenses, such as payroll, rent, and utilities. If the loans are not forgiven, they must be repaid over a term not to exceed five years. Under the PPP, through December 31, 2020, NCIFund funded \$464,295 in loans to 14 borrowers and deferred approximately \$7,845 of SBA processing fees that will be recognized as interest income over the term of the loans. As of December 31, 2020, \$464,295 of principal remained outstanding on these PPP loans.

With the support of the Appalachian Regional Commission (ARC) and the U.S. Department of Commerce's Economic Development Administration (EDA), NCIFund launched the West Virginia Emergency Relief Lending Program to support West Virginia small businesses affected by the COVID-19 pandemic. The intent of the fund is to assist with the working capital needs of the affected businesses. Proceeds from the loan may not be used to refinance existing debts. Repayment of the loan is expected and personal guarantees are required. Under the West Virginia Emergency Relief Lending Program, through December 31, 2020, NCIFund funded \$296,500 in loans to 9 borrowers and deferred approximately \$ 5,043 of origination fees that will be recognized as interest income over the term of the loans. As of December 31, 2020, \$296,500 of principal remained outstanding on the WV Emergency loans.

Natural Capital Investment Fund, Inc.

Notes to Financial Statements

Note 5. Loans Receivable (Continued)

In 2020, NCIFund participated in the North Carolina Rapid Recovery (NCRR) loan program, an emergency loan program designed for NC borrowers affected by the COVID-19 pandemic. It was administered by the NC Rural Center. Capital for the NCRR was provided by the Golden LEAF Foundation initially, supplemented by a \$125 million appropriation from the State of North Carolina. NCRR served as a central point of contact for potential NCRR borrowers; it then distributed applications to NCIFund and other participating Community Development Financial Institutions and community lenders, which reviewed the applications, determined borrower eligibility, and underwrote loans. Repayment of the loans is expected and personal guarantees are required. This program is also a part of NCIFund secured borrowings. Repayments of principal at 100% and interest at 50% will be returned to NC Rural Center. Under the NCRR program, through December 31, 2020, NCIFund funded \$5,595,828 in loans to more than 61 borrowers and deferred approximately \$45,387 of origination fees that will be recognized as interest income over the term of the loans. As of December 31, 2020, \$5,570,719 of principal remained outstanding on the NCRR loans.

Aging: The following table represent an aging of loans as of December 31, 2020 and 2019. The table presents the principal amount outstanding on the loans that may be past due for principal and/or interest payments contractually due:

	2020					
	30-60 Days Past Due	61-90 Days Past Due	91+ Days Past Due	Total Past Due	Current	Total Loans
Real estate – First Position	\$ -	\$ -	\$ -	\$ -	\$ 29,752,976	\$ 29,752,976
Real estate – Subordinated	-	-	-	-	3,294,025	3,294,025
Other collateral	322,399	-	-	322,399	7,951,325	8,273,724
Payroll Protection Program	-	-	-	-	464,295	464,295
North Carolina COVID 19 Rapid Recovery	-	-	-	-	5,570,719	5,570,719
West Virginia Emergency	-	-	-	-	296,500	296,500
Unsecured	-	-	-	-	45,170	45,170
Total	\$ 322,399	\$ -	\$ -	\$ 322,399	\$ 47,375,010	\$ 47,697,409

	2019					
	30-60 Days Past Due	61-90 Days Past Due	91+ Days Past Due	Total Past Due	Current	Total Loans
Real estate – First Position	\$ -	\$ -	\$ 485,040	\$ 485,040	\$ 25,732,949	\$ 26,217,989
Real estate – Subordinated	-	-	195,003	195,003	3,579,435	3,774,438
Other collateral	-	-	210,787	210,787	10,124,269	10,335,056
Unsecured	-	-	-	-	178,208	178,208
Business loans	\$ -	\$ -	\$ 890,830	\$ 890,830	\$ 39,614,861	\$ 40,505,691

Credit quality: Management uses internally assigned risk ratings as indicators of credit quality. Each loan's risk rating is assigned at origination and updated at least annually and more frequently if circumstances warrant a change in risk rating. NCIFund uses a loan grading system that follows its loan policy.

In evaluating the credit risk of the NCIFund's loan portfolio, management has developed an internal credit risk rating system based on a variety of risk factors that they believe represent leading indicators of credit quality. The NCIFund's internal credit risk ratings are categorized as one through seven, with the lowest credit risk rating representing the highest quality financing receivables.

Natural Capital Investment Fund, Inc.

Notes to Financial Statements

Note 5. Loans Receivable (Continued)

RR 1 – Strong: Loans categorized as RR 1 exhibit extremely high credit quality, with virtually no perceived credit risk, as evidenced by very strong cash flow, net worth, working capital, quality collateral and management.

RR 2 – Low risk: Loans categorized as RR 2 exhibit high credit quality, as evidenced by strong cash flow, an abundance of quality collateral, and borrowers with stable management and seasoned loan payment histories.

RR 3 – Acceptable risk: Loans categorized as RR 3 exhibit normal credit quality profiles, with acceptable overall credit characteristics related to capital, asset quality, management, earnings and liquidity.

RR 4 – Moderate risk/start-up: Loans categorized RR 4 exhibit identified some credit concerns (e.g., start-up with no proven performance, etc.), which warrant increased monitoring, but not necessarily expected to result in credit loss.

RR 5 – High risk: Loans categorized RR 5 exhibit deterioration in overall credit quality, such that some level of credit loss is reasonably expected to occur.

RR 6 – Problem asset: Loans categorized RR 6 exhibit significant deterioration in overall credit quality and collateral position is weak or non-existent. The loan is not performing as agreed and has been delinquent for at least 90 days or more. Current conditions indicate that full repayment is highly questionable or unlikely. NCIFund is moving toward writing off the loan.

RR 7 – Written off: Loans that have been determined are not collectible and will be written off.

The following table summarizes the loan portfolio by internal credit risk rating at December 31, 2020 and 2019:

	2020							Total
	Real Estate First Position	Real Estate Subordinated	Other Collateral	Payroll Protection Program	North Carolina COVID-19 Rapid Recovery	West Virginia Emergency	Unsecured	
1 – Strong	\$ -	\$ -	\$ 42,434	\$ -	\$ -	\$ -	\$ -	\$ 42,434
2 – Low risk	11,898,930	312,308	1,192,705	-	-	-	27,241	13,431,184
3 – Acceptable risk	10,052,930	1,703,754	2,983,440	-	-	-	1,300	14,741,424
4 – Moderate risk/start-up	6,712,715	1,277,963	3,364,141	-	-	-	16,629	11,371,448
5 – High risk	936,995	-	379,509	-	-	-	-	1,316,504
6 – Problem asset	151,406	-	311,495	-	-	-	-	462,901
7 – Written off	-	-	-	-	-	-	-	-
Non risk rated – Paycheck Protection Program	-	-	-	464,295	-	-	-	464,295
Non risk rated – North Carolina COVID-19 Rapid Recovery	-	-	-	-	5,570,719	-	-	5,570,719
Non risk rated – West Virginia Emergency	-	-	-	-	-	296,500	-	296,500
	<u>\$29,752,976</u>	<u>\$ 3,294,025</u>	<u>\$ 8,273,724</u>	<u>\$ 464,295</u>	<u>\$ 5,570,719</u>	<u>\$ 296,500</u>	<u>\$ 45,170</u>	<u>\$47,697,409</u>

Natural Capital Investment Fund, Inc.

Notes to Financial Statements

Note 5. Loans Receivable (Continued)

	2019				Total
	Real Estate First Position	Real Estate Subordinated	Other Collateral	Unsecured	
1 – Strong	\$ -	\$ -	\$ -	\$ -	\$ -
2 – Low risk	4,003,842	-	1,839,804	9,000	5,852,646
3 – Acceptable risk	11,725,930	1,973,858	2,756,616	73,813	16,530,217
4 – Moderate risk/start-up	9,842,486	1,800,580	4,655,100	65,395	16,363,561
5 – High risk	496,269	-	734,644	30,000	1,260,913
6 – Problem asset	149,462	-	348,892	-	498,354
7 – Written off	-	-	-	-	-
	<u>\$26,217,989</u>	<u>\$ 3,774,438</u>	<u>\$10,335,056</u>	<u>\$ 178,208</u>	<u>\$40,505,691</u>

Allowance for loan losses: The following is an analysis of the allowance for loan losses for the year ended December 31:

	2020							Total
	Real Estate First Position	Real Estate Subordinated	Other Collateral	Payroll Protection Program	North Carolina COVID-19 Rapid Recovery	West Virginia Emergency	Unsecured	
Beginning balance	\$ 1,394,877	\$ 196,686	\$ 792,092	\$ -	\$ -	\$ -	\$ 8,910	\$ 2,392,565
Provision charged to operations	713,970	(21,952)	(269,929)	-	-	17,950	(6,651)	433,388
Less charge-offs	20,346	-	3,626	-	-	-	-	23,972
Recoveries	4,226	-	17,925	-	-	-	-	22,151
Ending balance	<u>\$ 2,092,727</u>	<u>\$ 174,734</u>	<u>\$ 536,462</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17,950</u>	<u>\$ 2,259</u>	<u>\$ 2,824,132</u>
Allowance for loan losses allocated:								
Individually evaluated for impairment	\$ 72,598	\$ -	\$ 111,645	\$ -	\$ -	\$ -	\$ -	\$ 184,243
Collectively evaluated for impairment	2,020,129	174,734	424,817	-	-	17,950	2,259	2,639,889
	<u>\$ 2,092,727</u>	<u>\$ 174,734</u>	<u>\$ 536,462</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17,950</u>	<u>\$ 2,259</u>	<u>\$ 2,824,132</u>
Loans receivable:								
Individually evaluated for impairment	\$ 603,361	\$ -	\$ 424,233	\$ -	\$ -	\$ -	\$ -	\$ 1,027,594
Collectively evaluated for impairment	29,149,615	3,294,025	7,849,491	464,295	5,570,719	296,500	45,170	46,669,815
	<u>\$29,752,976</u>	<u>\$ 3,294,025</u>	<u>\$ 8,273,724</u>	<u>\$ 464,295</u>	<u>\$ 5,570,719</u>	<u>\$ 296,500</u>	<u>\$ 45,170</u>	<u>\$47,697,409</u>
	2019							Total
	Real Estate First Position	Real Estate Subordinated	Other Collateral	Payroll Protection Program	North Carolina COVID-19 Rapid Recovery	West Virginia Emergency	Unsecured	
Beginning balance	\$ 1,063,143	\$ 119,813	\$ 997,719	\$ -	\$ -	\$ -	\$ 8,147	\$ 2,188,822
Provision charged to operations	487,158	76,873	342,986	-	-	-	763	907,780
Less charge-offs	155,424	-	548,613	-	-	-	-	704,037
Recoveries	-	-	-	-	-	-	-	-
Ending balance	<u>\$ 1,394,877</u>	<u>\$ 196,686</u>	<u>\$ 792,092</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,910</u>	<u>\$ 2,392,565</u>
Allowance for loan losses allocated:								
Individually evaluated for impairment	\$ 74,813	\$ -	\$ 285,567	\$ -	\$ -	\$ -	\$ -	\$ 360,380
Collectively evaluated for impairment	1,320,064	196,686	506,525	-	-	-	8,910	2,032,185
	<u>\$ 1,394,877</u>	<u>\$ 196,686</u>	<u>\$ 792,092</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,910</u>	<u>\$ 2,392,565</u>
Loans receivable:								
Individually evaluated for impairment	\$ 645,730	\$ -	\$ 402,180	\$ -	\$ -	\$ -	\$ -	\$ 1,047,910
Collectively evaluated for impairment	25,572,259	3,774,438	9,932,876	-	-	-	178,208	39,457,781
	<u>\$26,217,989</u>	<u>\$ 3,774,438</u>	<u>\$10,335,056</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 178,208</u>	<u>\$40,505,691</u>

Natural Capital Investment Fund, Inc.

Notes to Financial Statements

Note 5. Loans Receivable (Continued)

Impaired loans: The following is an analysis of impaired loans for which a specific reserve component has been calculated for the years ended December 31, 2020 and 2019:

	2020				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Real estate – First Position	\$ 530,763	\$ 603,361	\$ 72,598	\$ 550,840	\$ 32,547
Other collateral	312,588	424,233	111,645	214,601	25,013
	<u>\$ 843,351</u>	<u>\$ 1,027,594</u>	<u>\$ 184,243</u>	<u>\$ 765,441</u>	<u>\$ 57,560</u>

	2019				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Real estate – First Position	\$ 570,917	\$ 645,730	\$ 74,813	\$ 285,459	\$ 27,611
Other collateral	116,613	402,180	285,567	198,611	21,115
	<u>\$ 687,530</u>	<u>\$ 1,047,910</u>	<u>\$ 360,380</u>	<u>\$ 484,070</u>	<u>\$ 48,726</u>

Troubled debt restructures: As of December 31, 2020, the outstanding principal balance of troubled debt restructures was \$1,022,192. The associated allowance for loan losses for troubled debt restructures was \$178,840 as of December 31, 2020. During the year ended December 31, 2020, no loans were modified and considered to be troubled debt restructures. There were no unfunded commitments on troubled debt restructures as of December 31, 2020. During the year ended December 31, 2020, no troubled debt restructures subsequently defaulted.

In the first quarter of 2020, the Company elected to apply the guidance issued by Congress in the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) as well as by the U.S. banking agencies stating that certain concessions granted to borrowers that are current on existing loans, either individually or as part of a program for creditworthy borrowers who are experiencing short-term financial or operational problems as a result of COVID-19, generally would not be considered troubled debt restructurings (TDRs). Additionally, these loans generally would not be considered nonaccrual status unless collectability concerns exist despite the modification provided. For loans remaining on accrual status, the Company elected to continue recognizing interest income during the modification periods. The outstanding principal balance on these modified loans was \$1,079,890 at December 31, 2020.

As of December 31, 2019, the outstanding principal balance of troubled debt restructures was \$1,016,743. The associated allowance for loan losses for troubled debt restructures was \$340,705 as of December 31, 2019. During the year ended December 31, 2019, four loans were modified and considered to be troubled debt restructures. The loans had pre-modification balance and post-modification balance of \$843,852. The modifications in 2019 included rate reductions and extension of maturity dates. There were no unfunded commitments on troubled debt restructures as of December 31, 2019. During the year ended December 31, 2019, one troubled debt restructure with a balance of \$169,992 subsequently defaulted.

Natural Capital Investment Fund, Inc.

Notes to Financial Statements

Note 6. Investments and Fair Value Measurements

In accordance with accounting guidance on fair value measurements, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the exit price) in an orderly transaction between market participants at the measurement date.

In determining fair value, management uses various valuation approaches, as may be appropriate in the circumstance, including market, income and or cost approaches. Accounting guidance establishes a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset developed based on market data obtained from sources independent of NCIFund. Unobservable inputs are those that reflect management's assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The fair value hierarchy is broken down into three levels based on the reliability of inputs as follows:

- Level 1:** Valuations based on unadjusted quoted prices in active markets for identical assets that management has the ability to access. Valuation adjustments and block discounts are not applied to Level 1 instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.
- Level 2:** Valuations based on inputs that are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. At December 31, 2020 and 2019, management determined that all of its investments measured at fair value fell into this category.
- Level 3:** Valuations based on inputs that are unobservable 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 and estimation.

The availability of valuation techniques and observable inputs can vary from instrument to instrument and is affected by a wide variety of factors, including, for example, the type of instrument, whether the instrument is new and not yet established in the marketplace, and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Those estimated values do not necessarily represent the amounts that may be ultimately realized due to the occurrence of future circumstances that cannot be reasonably determined.

Because of the inherent uncertainty of valuation, those estimated values may be materially higher or lower than the values that would have been used had a ready market for the securities existed.

Fair value is a market-based measure considered from the perspective of a market participant who holds the asset or owes the liability rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, management's own assumptions are set to reflect those that market participants would use in pricing the asset or liability at the measurement date.

Investments at cost consist of the following:

U.S. Endowment Fuel Project: NCIFund has investments in the U.S. Endowment Fuel Project in the amount of \$99,995 at December 31, 2020 and 2019.

Natural Capital Investment Fund, Inc.

Notes to Financial Statements

Note 6. Investments and Fair Value Measurements (Continued)

Restricted investment: NCIFund has a certificate of deposit with Woodforest Bank in the amount of \$206,089 and \$201,508 as of December 31, 2020 and 2019, respectively, as a requirement to hold during the duration of the \$500,000 financing provided.

Fair value on a nonrecurring basis:

Impaired loans: The fair value of impaired loans is determined based on the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. The valuation allowance for impaired loans is included in the allowance for losses in the statement of financial position. The valuation allowance for impaired loans at December 31, 2020 and 2019, was \$184,243 and \$360,380, respectively.

	2020			
	Level 1	Level 2	Level 3	Total
Impaired loans	\$ -	\$ -	\$ 843,351	\$ 843,351
	\$ -	\$ -	\$ 843,351	\$ 843,351

	2019			
	Level 1	Level 2	Level 3	Total
Impaired loans	\$ -	\$ -	\$ 687,530	\$ 687,530
	\$ -	\$ -	\$ 687,530	\$ 687,530

Note 7. Related Party Transactions

NCIFund has entered into a management services agreement with TCF. Under the terms of the agreement, TCF provides certain staffing and administrative services to NCIFund. The management fee under the agreement was \$2,007,845 and \$1,905,576 for the years ended December 31, 2020 and 2019, respectively, and amount payable as of December 31, 2020 and 2019, was \$0 and \$426,576, respectively. The agreement is for one year and is renewable for successive one-year terms unless either party provides written notice not to renew. Beginning with the year ended December 31, 2020, NCIFund deferred \$422,135 of loan costs associated with origination of loans included within the 2020 management fee resulting in management fee expense of \$1,585,710 for the year ended December 31, 2020.

During the year ended December 31, 2020, TCF sub-granted an award to NCIFund for \$250,000 of which \$125,000 is included in grant receivable at December 31, 2020.

Natural Capital Investment Fund, Inc.

Notes to Financial Statements

Note 8. Notes Payable and Subordinated Notes Payable

Notes payable consist of the following at December 31, 2020 and 2019:

Lender		Undrawn Amounts	2020 Balance	2019 Balance
U.S. Department of Agriculture – IRP	Seven notes are payable over a 30-year term with 1% simple interest. Payments of principal and interest are due annually. Secured by funds held by NCIFund under the IRP and collateral obtained as a result of advancing loan funds. One note from 2014 includes an implied interest rate of 3% with a remaining discount of \$43,798 and \$49,113 for the years ended December 31, 2020 and 2019, respectively.	\$ 637,500	\$ 2,680,519	\$ 2,602,659
U.S. Department of Agriculture – RMAP	Note is payable over a 20-year term with 2% simple interest. Monthly principal and interest payments began two years after closing date with Year 1 and Year 2 interest capitalized to the principal balance. Secured by funds held by NCIFund under the RMAP program and collateral obtained as a result of advancing loan funds.	-	456,793	482,036
West Virginia Infrastructure & Jobs Development Council	Used as matching funds for the U.S. Department of Agriculture loan. Includes two notes payable each over a 15-year term with interest at 1% per annum. Quarterly principal and interest payments due on the notes until maturity February 2020 and January 2026. Secured on a pro-rata basis with USDA loan on funds held by NCIFund under the IRP.	-	124,055	150,463
West Virginia Infrastructure & Jobs Development Council	Used as matching funds for the U.S. Department of Agriculture loan. Note is payable over a 15-year term, with interest at 3% per annum. Monthly principal and interest payments due on the note until maturity June 2033. Secured on a pro-rata basis with USDA loan on funds held by NCIFund under the IRP.	-	451,822	481,468
	Total secured notes payable		3,713,189	3,716,626
Mary Reynolds Babcock Foundation	Principal payments are deferred for 10 years. In April 2020, the interest rate was reduced from 2% to 0% for the remaining three years of the note term and \$150,000 of principal was converted to an unrestricted contribution. The remaining principal sum is payable at the end of the note term in August 2023.	-	600,000	747,030
One Foundation	Note matures December 2025. Interest only payments started in March 2016 through December 2018 at the rate of 2%. As of April 1, 2020, the interest rate was reduced to 0% for the remaining note term. Principal payments shall be paid quarterly until not maturity.	-	75,935	86,554
McKnight Foundation	Note matures May 2028. Refinanced note with additional funds borrowed. Simple interest of 2% paid annually. During the year ended December 31, 2020, the interest rate was reduced to 0.75% for the remaining term of the note. Payments of \$500,000 begin May 1, 2025, the seventh anniversary of the note closing and continue until the note is paid.	-	2,000,000	2,000,000
Appalachian Community Capital	Note matures June 2022. Floating interest is based on its cost of funds plus 1% payable monthly. Interest rate at December 31, 2020 and 2019 was 2.63% and 3.36%, respectively.	-	2,000,000	2,000,000

(Continued)

Natural Capital Investment Fund, Inc.

Notes to Financial Statements

Note 8. Notes Payable and Subordinated Notes Payable (Continued)

Lender		Undrawn Amounts	2020 Balance	2019 Balance
Ford Foundation PRI	Note was payable over a 10-year term with principal payments deferred for 7 years. Remaining annual principal payments of \$666,667 due in Years 9 and 10. Interest was payable at the interest rate of 1% per annum. Note was paid in full during the year ended December 31, 2020.	\$ -	\$ -	\$ 1,320,261
Coastal Enterprises, Inc.	Note was payable over a 10-year term, with principal payments deferred for 7 years. Annual principal repayments begin after seven years with payments of approximately one-third each year for three years. Interest was payable at a rate of 4%. The note was paid in full during the year ended December 31, 2020. The private lender previously held \$50,000 as collateral as detailed in Note 2.	-	-	1,000,000
Franconia II 2012 Trust	Note matures September 2021. General recourse balloon note payable in four years with simple interest payments only of 2.5% due quarterly in arrears over four years.	-	75,000	75,000
Laughing Gull Foundation	During the year ended December 31, 2020, three notes were refinanced into one note that matures April 2025 at a fixed interest rate of 2% per annum. Interest only is payable semi-annually over a 5-year term. The principal sum plus final interest payment is at the end of the note term.	-	500,000	500,000
Fresh Pond Capital	This investment firm relationship is made up of twelve individual impact investors. Notes range from \$25,000 to \$250,000 maturing between September 2021 and December 2025. Notes are payable over 4 to 5-year terms for the full principal balance. Simple interest is payable quarterly, semi-annually or annually ranging from 0% to 2.5%.	-	1,325,000	1,275,000
Giant Steps Foundation	Note matures September 2022 and is payable over a 5-year term for the full principal balance and all accrued interest. Interest is payable at a rate of 2.5% quarterly during the term of the note.	-	25,000	25,000
One Foundation POWER	Note matures October 2027. Note is payable over a 10-year term with interest only payments through October 31, 2019. As of April 1, 2020, the interest rate was reduced from 2% to 0% for the remaining term of the note. Quarterly principal payments of \$15,000 are due beginning December 2022 until maturity.	-	300,000	300,000
PNC Bank	Note was scheduled to mature in January 2021. Subsequent to year end it was extended until April 2021. Full principal and all interest at a rate of 1% is due at maturity.	-	1,000,000	1,000,000
Woodforest Bank	Note matures May 2023 and is payable over seven-year term with interest only paid monthly until March 2019 at the rate of 3%. Thereafter principal and interest payments are due monthly during the term of the note.	-	278,339	400,716
Mercy Investment Services	Note matures March 2023. Simple interest of 3% paid quarterly. The principal sum plus final interest payment is payable at the maturity of the note.	-	500,000	500,000

(Continued)

Natural Capital Investment Fund, Inc.

Notes to Financial Statements

Note 8. Notes Payable and Subordinated Notes Payable (Continued)

Lender		Undrawn Amounts	2020 Balance	2019 Balance
Loring Wolcott & Coolridge Trust	This investment firm relationship is made up of seven individual impact investors. Notes range from \$10,000 to \$100,000 maturing between April 2023 and October 2025. Notes are payable over 4 or 5-year terms for the full principal balance. Simple interest is payable annually, semi-annually or quarterly at rates between 2.25% to 2.5%.	\$ -	\$ 335,000	\$ 225,000
Seton Fund	Principal and interest due quarterly with a \$75,000 balloon payment due April 2023. Interest accrues at a fixed rate of 3%.	-	110,140	124,906
Eastern WV Community Foundation	Note matures September 2023. Simple interest of 3.5% paid annually. The principal sum plus final interest payment is payable at the end of the note.	-	200,000	200,000
New Vision Treatment	Note matures September 2022. Simple interest of 3%. Quarterly principal and interest payments due monthly until maturity.	-	33,920	52,520
H. Shott Foundation	Note matures August 2023. Simple interest of 2% due annually. The principal sum plus final interest payment is payable at the maturity of the note.	-	100,000	100,000
Northern Trust	Note matures July 2023. Interest is due semi-annually. During 2020, the interest rate was reduced from 2% to .01% until December 2021 at which time the rate increases to 2%. The principal sum plus final interest payment is payable at the end of the note.	-	2,000,000	2,000,000
Northern Trust	Note matures on September 2025. Simple interest of 2% due semi-annually. The principal sum plus final interest payment is payable at the end of the note.	-	1,000,000	-
Appalachian Community Capital	Note matures September 2021. Simple interest of 3.34% due monthly. The principal sum plus final interest payment is payable at the end of the note.	-	1,000,000	1,000,000
Bank of America	Note matures July 2027. Simple interest of 3.5% paid quarterly in arrears. Annual principal payments of \$1,000,000 are due and payable July 2025 and July 2026. Principal amount is due and payable in full in July 2027.	-	3,000,000	3,000,000
Calvert Impact Capital	Note matures December 2023. Simple interest of 4.15% due quarterly in arrears. Principal amount payable at maturity.	-	3,500,000	3,500,000
Woodforest Bank	Note matures September 2024. Simple interest of 4% payable monthly in arrears until September 2021. Monthly principal and interest payments due from October 2021 until maturity.	-	500,000	500,000
Greater Kanawha Valley Foundation	Note matures April 2024. Simple interest of 2% payable annually. Principal due at maturity.	-	300,000	300,000
Opportunity Finance Network	Note matures March 2024. Simple interest of 4% due quarterly in arrears. Principal due at maturity.	-	1,000,000	1,000,000

(Continued)

Natural Capital Investment Fund, Inc.

Notes to Financial Statements

Note 8. Notes Payable and Subordinated Notes Payable (Continued)

Lender		Undrawn Amounts	2020 Balance	2019 Balance
Cnote Group, Inc.	This investment firm relationship is made up of eight individual notes. Notes range from \$59,476 to \$250,000 maturing between July 2022 and May 2023. Simple interest of 3.8% is payable annually or quarterly on the full principal balance.	-	1,300,450	-
CDFI FA 2019	Note matures February 2033. Simple interest of 3% payable semi-annually. The principal sum and final interest payment due at maturity.	-	5,754	-
Impact Assets, Inc.	Consists of two notes maturing on March 2025 and 2027. Simple interest of 1% due semi-annually. The principal sum plus final interest payment due at maturity.	-	1,000,000	-
Silverio Trust	Consists of two notes of \$50,000 each maturing on March 2023 and 2025. Simple interest of 2% and 2.5%, respectively, due semi-annually. The principal sum plus final interest payment due at maturity.	-	100,000	-
		<u>\$ 637,500</u>	<u>27,877,727</u>	<u>26,948,613</u>
	Less debt acquisition costs		116,162	108,028
	Less current portion		2,765,800	4,140,135
	Noncurrent portion		<u>\$24,995,765</u>	<u>\$22,700,450</u>

Subordinated notes payable consist of the following at December 31, 2020 and 2019:

Lender		2020 Balance	2019 Balance
Wells Fargo	Equity-equivalent debt investment renewed in July 2020 maturing August 2027. Payable in 7 years with simple interest payments of 2% due quarterly in arrears over 7 years.	\$ 400,000	\$ 396,040
Wells Fargo EQ2	Equity-equivalent debt investment maturing May 2028. Simple interest only payments of 2% due quarterly for the first 10 years. Thereafter principal payments due of \$125,000 quarterly for the last two years until the maturity of the note.	1,000,000	1,000,000
United Bank	Equity-equivalent debt investment maturing January 2029. Simple interest only payments of 2% due quarterly for the first 10 years. Thereafter, principal payments due of \$62,500 quarterly for the last two years until the maturity of the note.	500,000	500,000
PNC Community Development Company	Equity-equivalent debt investment note extended in May 2020 to April 1, 2025, with interest payable quarterly that started July 1, 2020 and continue on the first day of each quarter until maturity. Interest is payable at the rate of 3% per annum, however for the period April 1, 2020 to October 1, 2020, the interest rate was reduced to 1%. The principal balance plus final interest payment is due at maturity.	500,000	500,000
Capital Bank	Equity-equivalent debt investment note with an initial target maturity date of October 2023. Bank has option of extending maturity date. Simple interest of 3.5% payable quarterly. The principal sum plus final interest payment is payable at the maturity of the note.	400,000	400,000
United Bank	Equity-equivalent debt investment note maturing January 2030. Simple interest only payments of 2% due quarterly for the first 10 years. Thereafter principal payments due of \$62,500 quarterly for the last two years until the maturity of the note.	500,000	500,000
	Total subordinated notes payable	<u>\$ 3,300,000</u>	<u>\$ 3,296,040</u>

Natural Capital Investment Fund, Inc.

Notes to Financial Statements

Note 8. Notes Payable and Subordinated Notes Payable (Continued)

U.S. GAAP requires interest expense and contribution revenue to be reported in connection with loans of cash to not-for-profit organizations that are interest free or that have below-market interest rates. The contribution is recognized at the time the loan is made and amortized using the effective interest method. The accretion increases interest expense and notes payable. Implied interest discount was \$43,798 and \$69,115 at December 31, 2020 and 2019, respectively.

Aggregate annual principal payments applicable to notes payable and subordinated notes payable in future fiscal years is as follows:

Years ending December 31:

2021	\$ 2,765,800
2022	3,373,409
2023	8,757,288
2024	2,154,238
2025	4,565,162
Thereafter	9,605,628
	<u>\$ 31,221,525</u>

Notes payable, net of debt acquisition costs and implied interest consist of following at December 31, 2020 and 2019:

	2020	2019
Principal amount	\$ 31,221,525	\$ 30,313,768
Less debt acquisition costs	116,162	108,028
Less implied interest	43,798	69,115
	<u>\$ 31,061,565</u>	<u>\$ 30,136,625</u>

Subordinated notes payable: NCIFund has entered into equity equivalent transactions with financial institutions as a way to increase its lending capacity and also protect its senior lenders. These equity equivalents are reflected above and in the statement of financial position as subordinated notes payable. The notes represent a general obligation of NCIFund and are not secured by any of the entity's assets. They are fully subordinate to the right of repayment of all other creditors and do not allow for acceleration of repayment except in very limited circumstances.

NCIFund is subject to a number of restrictive financial and non-financial covenants in its notes payable agreements, such as minimum net asset requirements, current liquidity ratios, loan performance ratios and other various leverage ratios. Audit financial statements are required to be submitted between 90 and 180 days depending on the lender. NCIFund did not meet the requirement to submit audited financial statements for those due within 90 days of year end, however, it received waivers from those lenders.

Natural Capital Investment Fund, Inc.

Notes to Financial Statements

Note 9. Revolving Lines of Credit

During 2019, NCIFund maintained a \$500,000 revolving line of credit with a lending institution, to be drawn upon as needed, with an interest rate of 4% payable quarterly with all unpaid principal and interest due at maturity on June 18, 2020. During 2020, NCIFund decreased the available line of credit to \$150,000 with a variable rate equal to 0.50 percentage points above The Wall Street Journal Prime Rate, which shall not be more than 9% or less than 4% as of calendar year end, payable monthly with all unpaid principal and interest due at maturity on June 18, 2021. As of December 31, 2020 the interest rate of the revolving line of credit is 4%. The total outstanding balance of the revolving line of credit was \$149,500 and \$500,000 at December 31, 2020 and 2019, respectively.

Note 10. Concentrations of Credit Risk

NCIFund maintains its cash in various banks. The bank account balances, at times, may exceed federally insured limits set by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 for the years ended December 31, 2020 and 2019. As of December 31, 2020 and 2019, NCIFund's cash and money market fund balances in excess of FDIC-insured amounts totaled \$10,774,169 and \$9,447,281, respectively. NCIFund has not experienced any losses with these accounts. Management believes NCIFund is not exposed to any significant credit risk on domestic cash balances.

During 2020 and 2019, federal grant revenue accounted for 52% and 32%, respectively, of NCIFund's revenue and support. During 2020 and 2019, NCIFund's expenses incurred to TCF accounted for 52% and 41%, respectively, of total expenses.

Note 11. Net Assets With Donor Restrictions

Net assets with donor restrictions are those net assets whose use by NCIFund is limited by the donors for a special purpose or restricted to be used in a later period. At December 31, 2020 and 2019, donor restricted net assets consisted of the following:

	2020	2019
Restricted for specified purpose:		
Loan capital	\$ 515,397	\$ 184,733
Provide support for business development to natural resource-based enterprises and provide incentives to businesses to engage in sound environmental practices	2,188,752	1,570,016
	<u>2,704,149</u>	<u>1,754,749</u>
Perpetual in nature:		
Restricted for specified purpose:		
Loan capital revolving fund:		
Represents net assets dedicated to providing temporary financing to qualified businesses	4,957,843	4,104,768
	<u>\$ 7,661,992</u>	<u>\$ 5,859,517</u>

Note 12. Loan Origination Fees and Costs

NCIFund accounts for nonrefundable fees and costs associated with origination loans in line with the Statement of Financial Account Standard 91 issued by the Financial Accounting Standards Board. During the year ended December 31, 2020 fees and costs are amortized over the life of the loans originated with the amortization netted in the accompanying financial statements.

Natural Capital Investment Fund, Inc.

Notes to Financial Statements

Note 12. Loan Origination Fees and Costs (Continued)

Fee income on loans, net of loan origination fees consists of following at December 31, 2020 and 2019:

	2020	2019
Fee income on loans	\$ 316,221	\$ 180,039
Less loan origination fee amortization	226,123	-
Fee income on loans, net	<u>\$ 90,098</u>	<u>\$ 180,039</u>

Management fee, net of loan origination costs consists of following at December 31, 2020 and 2019:

	2020	2019
Management fee contract	\$ 2,007,845	\$ 1,905,576
Less loan origination cost amortization	422,135	-
Management fee contract, net	<u>\$ 1,585,710</u>	<u>\$ 1,905,576</u>

Loan origination expense, net of loan origination costs consists of following at December 31, 2020 and 2019:

	2020	2019
Loan origination expense	\$ 60,132	\$ 61,071
Less loan origination cost amortization	40,558	-
Loan origination expense, net	<u>\$ 19,574</u>	<u>\$ 61,071</u>

Note 13. Commitments and Contingencies

NCIFund is a party to credit related financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the statements of activities.

NCIFund's exposure to credit loss is represented by the contractual amount of these commitments. NCIFund follows the same credit policies in making commitments as it does for on-balance-sheet instruments.

At December 31, 2020 and 2019, the following financial instruments were outstanding whose contract amounts represent credit risk:

	2020	2019
Loan commitments approved not disbursed	<u>\$ 2,827,151</u>	<u>\$ 4,422,601</u>

Natural Capital Investment Fund, Inc.

Notes to Financial Statements

Note 13. Commitments and Contingencies (Continued)

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The commitments for lines of credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by NCIFund, is based on management's credit evaluation of the customer.

Unfunded commitments under commercial lines of credit and revolving credit lines are commitments for possible future extensions of credit to existing customers. These lines of credit are uncollateralized and ultimately may not be drawn upon to the total extent to which NCIFund is committed.

NCIFund participates in a number of federal grant and contract programs which are subject to financial and compliance audits. Accordingly, NCIFund's compliance with applicable grant or contract requirements may be determined at some future date. The amount, if any, of expenditures which may be disallowed by the granting or contracting agencies cannot be determined at this time, although management expects such amounts, if any, to be immaterial.

As more fully described in Note 3, NCIFund holds two CDs that support a third-party loan made by a bank. If the loan with the bank defaults, the bank would cash in the CDs and apply them to the balance of the bank's loans. Then, NCIFund would have two loans with the third-party for \$174,600 and \$28,000.

Leases: NCIFund has operating lease agreements for office space through 2024. Future minimum payments required under these lease agreements are as follows:

Years ending December 31:	
2021	\$ 57,531
2022	41,059
2023	42,010
2024	33,834
	<u>\$ 174,434</u>

Rent expense for the years ended December 31, 2020 and 2019, was \$77,937 and \$44,760, respectively.

Natural Capital Investment Fund, Inc.

Notes to Financial Statements

Note 14. Liquidity and Availability of Financial Resources

NCIFund financial assets available within one year of December 31, 2020 and 2019, for general expenditures are as follows:

	2020	2019
Cash and cash equivalents – unrestricted	\$ 9,690,049	\$ 8,744,923
Cash – restricted	2,630,987	2,508,103
Cash equivalents held as collateral	32,398	42,000
Accounts receivable	16,400	132,353
Promises to give	971,203	204,579
Loans receivable, net	45,080,829	38,084,108
Accrued interest and fees receivable	371,343	218,139
Other asset	202,600	202,600
Investment-restricted	206,089	201,508
Long-term investment (U.S. Endowment Fuel Project)	99,995	99,995
Total financial assets	<u>59,301,893</u>	<u>50,438,308</u>
Cash – restricted	(2,630,987)	(2,508,103)
Cash equivalents held as collateral	(32,398)	(42,000)
Donor restricted funds	(7,661,992)	(5,859,517)
Loans receivable, due after one year, net	(40,095,271)	(33,282,413)
Loans receivable due in next year restricted for federal relending program	(431,519)	(176,981)
Other asset	(202,600)	(202,600)
Investment-restricted	(206,089)	(201,508)
Long-term investment (U.S. Endowment Fuel Project)	(99,995)	(99,995)
Outstanding loan commitments, not disbursed	(2,827,151)	(4,422,601)
Amounts not available to be used within one year	<u>(54,188,002)</u>	<u>(46,795,718)</u>
Financial assets available to meet general expenditures within one year	<u>\$ 5,113,891</u>	<u>\$ 3,642,590</u>

NCIFund is also supported by restricted programmatic funds that can be used to support programmatic and general expenditures. Because a donor's restriction requires funds to be used in a particular manner or in a future period, NCIFund must maintain sufficient resources to meet those responsibilities.

NCIFund has a goal to maintain unrestricted cash and cash equivalents to equal or exceed three months of cash operating expenses, which are, on average, approximately \$700,000. In addition, as a part of its liquidity management, NCIFund invests cash in excess of daily requirements in a U.S. government money market fund. In the event of an unanticipated liquidity need, NCIFund could obtain a bank line of credit.

Natural Capital Investment Fund, Inc.

Notes to Financial Statements

Note 15. Subsequent Events

Management evaluated subsequent events through April 15, 2021, the date the financial statements were available to be issued.

On September 1, 2020, NCIFund launched an offering of \$10,000,000 for Community Impact Notes (Notes) with a minimum investment of \$25,000 for terms of three years, five years, seven years or 10 years with interest rates varying between 2% and 3.5%. The following were issued under this offering in 2021 through report date:

- On February 8, 2021, NCIFund executed a note payable agreement with Fresh Pond Capital, as custodian, for \$150,000 with a 2.5% interest rate and maturity in five years of the date of the agreement.
- On February 11, 2021, NCIFund executed a note payable agreement with Fresh Pond Capital, as custodian, for \$100,000 with a 2.5% interest rate and maturity in five years of the date of the agreement.
- On March 1, 2021, NCIFund executed a note payable agreement with Fresh Pond Capital, as custodian, for \$75,000 with a 2.5% interest rate and maturity in five years of the date of the agreement.
- On March 24, 2021, NCIFund executed a note payable agreement with Fresh Pond Capital, as custodian, for \$500,000 with a 2.5% interest rate and maturity in five years of the date of the agreement.
- On April 8, 2021, NCIFund executed a note payable agreement with Fresh Pond Capital, as custodian, for \$50,000 with a 2.5% interest rate and maturity in five years of the date of the agreement.

On January 8, 2021, NCIFund executed a note payable with Opportunity Finance Network for \$3,000,000 with a 1% fixed interest rate through September 30, 2021, then 3% interest rate through maturity in May of 2030.

On January 23, 2021, NCIFund executed an extension to the note payable with PNC Bank, National Association, for \$1,000,000 with a 1% interest rate and maturity in April 2021.

On January 28, 2021, the NCIFund Board of Directors approved to pursue legal and financial separation from The Conservation Fund.

On February 12, 2021, NCIFund executed a note payable with Truist Bank for \$3,000,000 with a 2% interest rate and maturity in seven years of the date of the agreement.

On February 15, 2021, NCIFund executed a note payable with Pacific Premier Trust, as custodian, for \$50,000 with a 3% interest rate and maturity in seven years of the date of the agreement.

On March 15, 2021, NCIFund executed a note payable with Mercy Investment Services for \$1,000,000 with a 3% interest rate and maturity in five years of the date of the agreement. The note is a refinance of the existing \$500,000 note with Mercy Investment Services and an issuance of \$500,000 in new funds.

On March 15, 2021, NCIFund executed a note payable with Goulston & Storrs, as custodian, for \$125,000 with a 2.5% interest rate and maturity in five years of the date of the agreement.

Natural Capital Investment Fund, Inc.

Notes to Financial Statements

Note 15. Subsequent Events (Continued)

On March 22, 2021, NCIFund refinanced an existing \$2,000,000 note payable with Appalachian Community Capital extending the note through March 31, 2023 with principal payments due annually through maturity beginning March 31, 2021. On March 29, 2021, NCIFund wired the first principal payment of \$500,000 on the note.

NCIFund was a recipient of a 2020 award from the U.S. Department of Commerce Economic Development Administration, totaling \$1,500,000. The award is to provide assistance with the necessary operational expenses to launch a new COVID-19 Emergency Response Loan Fund (ERLF), expand existing technical assistance program, and support businesses through technical and financial assistance. The grant was fully executed on March 5, 2021.