Natural Capital Investment Fund, Inc.

Financial Report
December 31, 2019

Contents

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, 2019 and 2018, 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, 2019 and 2018, 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 13, 2020, 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 13, 2020

Natural Capital Investment Fund, Inc.

Statements of Financial Position
December 31, 2019 and 2018

	2019	2018
Assets		
Current assets:		
Cash and cash equivalents	**$ 8,744,923**	$ 10,664,659
Accounts receivable	**132,353**	36,469
Promises to give	**204,579**	315,140
Loans receivable, net	**4,801,695**	5,286,287
Accrued interest and fees receivable	**218,139**	187,027
Total current assets	**14,101,689**	16,489,582
Noncurrent assets:		
Cash – restricted	**2,508,103**	1,577,011
Cash equivalents held as collateral	**42,000**	42,000
Other asset	**202,600**	202,600
Investment – restricted	**201,508**	-
Investment (U.S. Endowment Fuel Project)	**99,995**	99,995
Loans receivable, net	**33,282,413**	27,879,905
Total noncurrent assets	**36,336,619**	29,801,511
Total assets	**$ 50,438,308**	$ 46,291,093
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	**$ 98,979**	$ 89,966
Line of credit	**500,000**	150,000
Accounts payable, related party	**426,576**	1,742,727
Funds held for others	**144,245**	13,269
Current maturities of secured borrowings, participations	**82,619**	173,587
Accrued interest payable	**77,532**	67,718
Current maturities of notes payable, net	**4,140,135**	273,239
Total current liabilities	**5,470,086**	2,510,506
Revolving line of credit, related party	**-**	5,000,000
Secured borrowings, participations	**2,732,652**	2,024,462
Notes payable, net	**22,700,450**	17,184,315
Subordinated notes payable	**3,296,040**	3,292,118
Total noncurrent liabilities	**28,729,142**	27,500,895
Total liabilities	**34,199,228**	30,011,401
Commitments and contingencies (Note 12)		
Net assets:		
Without donor restrictions	**10,379,563**	9,990,768
With donor restrictions	**5,859,517**	6,288,924
Total net assets	**16,239,080**	16,279,692
Total liabilities and net assets	**$ 50,438,308**	$ 46,291,093

See notes to financial statements.

Natural Capital Investment Fund, Inc.

Statements of Activities
Years Ended December 31, 2019 and 2018

	2019			2018		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**	Without Donor Restrictions	With Donor Restrictions	Total
Financial activity:						
Financial income:						
Loan interest revenue	**$ 2,343,514**	**$ -**	**$ 2,343,514**	$ 1,982,469	$ -	$ 1,982,469
Fee income on loans	**180,039**	**-**	**180,039**	171,630	-	171,630
Interest income	**185,205**	**-**	**185,205**	100,687	-	100,687
Total financial income	**2,708,758**	**-**	**2,708,758**	2,254,786	-	2,254,786
Financial expenses:						
Provision for loan losses	**907,780**	**-**	**907,780**	1,167,348	-	1,167,348
Interest expense	**883,005**	**-**	**883,005**	669,459	-	669,459
Total financial expenses	**1,790,785**	**-**	**1,790,785**	1,836,807	-	1,836,807
Net financial income	**917,973**	**-**	**917,973**	417,979	-	417,979
Revenue and support:						
Grants and contributions	**63,895**	**1,089,528**	**1,153,423**	13,720	694,656	708,376
Government grants	**-**	**592,784**	**592,784**	-	1,812,434	1,812,434
Project income	**88,762**	**23,725**	**112,487**	73,542	73,739	147,281
Other income	**14,363**	**-**	**14,363**	34,131	-	34,131
Net assets released from restriction	**2,135,444**	**(2,135,444)**	**-**	1,989,124	(1,989,124)	-
Total revenue and support	**2,302,464**	**(429,407)**	**1,873,057**	2,110,517	591,705	2,702,222
Expenses:						
Program services:						
Lending	**1,842,981**	**-**	**1,842,981**	1,393,750	-	1,393,750
Strategic initiatives	**760,185**	**-**	**760,185**	830,004	-	830,004
Total program services	**2,603,166**	**-**	**2,603,166**	2,223,754	-	2,223,754
Supporting services:						
Management and general	**187,948**	**-**	**187,948**	208,075	-	208,075
Fundraising	**40,528**	**-**	**40,528**	57,439	-	57,439
Total supporting services	**228,476**	**-**	**228,476**	265,514	-	265,514
Total expenses	**2,831,642**	**-**	**2,831,642**	2,489,268	-	2,489,268
Change in net assets	**388,795**	**(429,407)**	**(40,612)**	39,228	591,705	630,933
Net assets:						
Beginning of year	**9,990,768**	**6,288,924**	**16,279,692**	9,951,540	5,697,219	15,648,759
End of year	**$ 10,379,563**	**$ 5,859,517**	**$ 16,239,080**	$ 9,990,768	$ 6,288,924	$ 16,279,692

See notes to financial statements.

Natural Capital Investment Fund, Inc.

Statement of Functional Expenses
Year Ended December 31, 2019

	Program Services			Supporting Services		
	Lending	Strategic Initiatives	Total Program	Management and General	Fundraising	Total
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	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
	$ 3,633,766	$ 760,185	$ 4,393,951	$ 187,948	$ 40,528	$ 4,622,427

See notes to financial statements.

Natural Capital Investment Fund, Inc.

Statement of Functional Expenses
Year Ended December 31, 2018

	Program Services			Supporting Services		
	Lending	Strategic Initiatives	Total Program	Management and General	Fundraising	Total
Management fee contract	$ 1,141,487	$ 402,072	$ 1,543,559	$ 148,131	$ 51,037	$ 1,742,727
Provision for loan losses	1,167,348	-	1,167,348	-	-	1,167,348
Interest expense	669,459	-	669,459	-	-	669,459
Grant and contract expense	-	221,651	221,651	-	-	221,651
Technical assistance	-	155,827	155,827	-	-	155,827
Loan origination expense	61,900		61,900	-	-	61,900
Employee travel	42,064	16,022	58,086	9,326	2,034	69,446
Computer software maintenance services	40,547	15,444	55,991	8,989	1,960	66,940
Office expense	17,408	6,631	24,039	3,859	841	28,739
Loan workout expense – non-legal	27,826	-	27,826	-	-	27,826
Rent	15,719	5,987	21,706	3,485	760	25,951
Professional fees	-	-	-	21,494	-	21,494
Conference, convention, meeting	8,919	3,397	12,316	1,977	431	14,724
Legal fees	11,561	-	11,561	-	-	11,561
Other lending costs	11,276	-	11,276	-	-	11,276
Bank charges	-	-	-	9,084	-	9,084
Marketing	4,733	1,803	6,536	1,049	229	7,814
Reporting and filing fees	7,239	-	7,239	-	-	7,239
Employee training and development	3,071	1,170	4,241	681	147	5,069
	$ 3,230,557	$ 830,004	$ 4,060,561	$ 208,075	$ 57,439	$ 4,326,075

See notes to financial statements.

Natural Capital Investment Fund, Inc.

Statements of Cash Flows
Years Ended December 31, 2019 and 2018

		2019		2018
Cash flows from operating activities:				
Change in net assets	**$**	**(40,612)**	$	630,933
Adjustments to reconcile increase in net assets to				
net cash (used in) provided by operating activities:				
Provision for loan losses		**907,780**		1,167,348
Bad debt expense		**10,525**		-
Implied interest expense		**38,310**		90,723
Contributions restricted for long-term purposes		**(271,650)**		(337,625)
Changes in operating assets and liabilities:				
Accounts receivable		**(106,409)**		(2,525)
Promises to give		**110,561**		(56,586)
Accrued interest and fees receivable		**(31,112)**		(54,944)
Accounts payable		**9,013**		46,942
Accounts payable, related party		**(1,316,151)**		276,337
Funds held for others		**130,976**		5,825
Accrued interest payable		**9,814**		6,948
Net cash (used in) provided by operating activities		**(548,955)**		1,773,376
Cash flows from investing activities:				
Cash disbursements on loans receivable		**(10,002,676)**		(11,688,722)
Principal collections on loans receivable		**4,176,980**		4,266,464
Purchase of restricted investment		**(201,508)**		-
Proceeds from sale of OREO		**-**		73,716
Net cash used in investing activities		**(6,027,204)**		(7,348,542)
Cash flows from financing activities:				
Proceeds from issuance of notes payable		**10,262,125**		7,757,904
Repayments of notes payable		**(5,455,454)**		(804,802)
Payment of debt acquisition costs		**(108,028)**		-
Advances on secured borrowings, participations		**832,758**		1,313,152
Repayments on secured borrowings, participations		**(215,536)**		(41,340)
Contributions restricted for long-term purposes		**271,650**		337,625
Net cash provided by financing activities		**5,587,515**		8,562,539
Net (decrease) increase in cash and cash equivalents		**(988,644)**		2,987,373
Cash and cash equivalents:				
Beginning of year		**12,283,670**		9,296,297
End of year	**$**	**11,295,026**	$	12,283,670
Cash and cash equivalents – unrestricted	**$**	**8,744,923**	$	10,664,659
Cash – restricted		**2,508,103**		1,577,011
Cash equivalents held as collateral		**42,000**		42,000
	$	**11,295,026**		12,283,670
Supplemental disclosure of cash flow information:				
Cash paid for interest	**$**	**834,881**	$	571,788
Supplemental schedule of noncash investing activities:				
Loans receivable transferred to OREO	**$**	**118,250**	$	73,716
Sale of OREO included in accounts receivable	**$**	**118,250**	$	-

See 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 Georgia, and the Appalachian counties in Maryland, Virginia, Tennessee, 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.

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. A private lender requires NCIFund to hold a loan loss reserve and the same lender also holds 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, 2019 or 2018.

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, Tennessee, Virginia, South Carolina and Georgia. The ability of NCIFund's debtors to honor their contracts is dependent upon general economic conditions in the respective area.

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 $355,776 and $327,094 at December 31, 2019 and 2018, respectively, is included in the allowance for loan losses. NCIFund also maintains a 6% cash reserve on IRP loans of $102,197 and $86,229 at December 31, 2019 and 2018, respectively, which is classified with restricted cash.

The RMAP requires a 5% general reserve on loans issued on its program of which $8,191 and $4,129 at December 31, 2019 and 2018, respectively, is included in the allowance for loan losses. NCIFund also maintains a 5% cash reserve on RMAP loans of $19,468 and $7,484 at December 31, 2019 and 2018, respectively, 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, 2019 and 2018, was $19,996 and $6,096, respectively, and reported with restricted cash. The balance of the SBA loan reserve at December 31, 2019 and 2018, was $17,015 and $6,799, respectively, and reported with the allowance for loan losses.

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

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.

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 $2,815,271 and $2,198,049 as of December 31, 2019 and 2018, 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.

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

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.

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, 2019 and 2018.

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 2016.

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.

Reclassifications: Certain reclassifications were made in the 2018 financial statements to conform to the current year presentation with no effect on the changes in net assets or net assets.

Adopted accounting pronouncements: As of January 1, 2019, NCIFund adopted Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU clarifies the guidance for evaluating whether a transaction is reciprocal (i.e., an exchange transaction) or nonreciprocal (i.e., a contribution) and for distinguishing between conditional and unconditional contributions. NCIFund applied the requirements on a modified prospective basis to agreements entered in after January 1, 2019, as a resource recipient and resource provider. There was not a material impact of the new standard on the financial statements for the year ended December 31, 2019.

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

As of January 1, 2019, NCIFund adopted ASU 2014-09, *Revenue from Contracts with Customers – Topic 606,* and all subsequent ASUs that modified Accounting Standards Codification (ASC) 606. NCIFund has elected to apply the modified retrospective method to adopt the new standard. There were no material changes in the timing of recognition of revenue and therefore no impact to the statement of financial position upon adoption.

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, 2020. 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 Financial Accounting Standards Board (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, 2020, for NCIFund). NCIFund is currently evaluating the impact of the pending adoption of the new standard on the financial statements.

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

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 nonlease 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.

In August 2018, the FASB issued 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 ASC Topic 820. The ASU is effective for NCIFund as of January 1, 2020. NCIFund is currently evaluating the effect that this guidance will have on its financial statements.

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 in the guidance contain several effective dates and are effective for NCIFund as of January 1, 2020, through January 1, 2023. 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.

Note 2. Cash and Cash Equivalents

Cash and cash equivalents held by NCIFund at December 31, 2019 and 2018, consist of the following:

	2019	2018
Cash	$ 3,220,217	$ 2,316,214
U.S. government money market fund	8,032,809	9,925,456
Certificates of deposit	42,000	42,000
	$ 11,295,026	$ 12,283,670
Unrestricted cash and cash equivalents	$ 8,744,923	$ 10,664,659
Restricted cash	2,508,103	1,577,011
Restricted cash equivalents	42,000	42,000
	$ 11,295,026	$ 12,283,670

Note 2. Cash and Cash Equivalents (Continued)

Restricted cash balances at December 31, 2019 and 2018 are held for the following purposes:

	2019	2018
Revolving loan funds:		
Intermediary Relending Program	$ 1,120,723	$ 806,249
Rural Microentrepreneur Assistance Program	229,416	61,293
	1,350,139	867,542
Cash required to be segregated by lender:		
Financial institution lenders	520,054	318,693
Private lender	396,249	190,967
	916,303	509,660
Cash loan loss reserves:		
Intermediary Relending Program	102,197	86,229
Private lender – held by lender	50,000	50,000
Private lender – held by NCIF	50,000	50,000
Rural Microentrepreneur Assistance Program	19,468	7,484
Small Business Administration	19,996	6,096
	241,661	199,809
	$ 2,508,103	$ 1,577,011

Note 3. Other Asset

At December 31, 2019 and 2018, 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, 2019 and 2018, unconditional promises to give totaling $204,579 and $315,140, respectively, are due in less than one year. At December 31, 2019 and 2018, NCIFund also had six and 10 conditional promises to give totaling $2,062,952 and $2,650,291, respectively.

Note 5. Loans Receivable

Loans receivable consist primarily of loans made to small businesses at December 31, 2019 and 2018, as follows:

	2019		
	Current Portion	Noncurrent Portion	Total
Loans receivable, gross	$ 5,054,416	$ 35,451,275	$ 40,505,691
Less allowance for loan losses	252,721	2,139,844	2,392,565
Less deferred loan fees	-	29,018	29,018
Loans receivable, net	$ 4,801,695	$ 33,282,413	$ 38,084,108

	2018		
	Current Portion	Noncurrent Portion	Total
Loans receivable, gross	$ 5,550,601	$ 29,804,413	$ 35,355,014
Less allowance for loan losses	264,314	1,924,508	2,188,822
Loans receivable, net	$ 5,286,287	$ 27,879,905	$ 33,166,192

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, 2019 and 2018:

	2019			
	Number of Loans	Gross Loans*	Allowance for Loan Losses	Net Loans
Lien position:				
Unsecured	8	$ 178,208	$ (8,910)	$ 169,298
Secured	231	40,298,465	(2,383,655)	37,914,810
	239	$ 40,476,673	$ (2,392,565)	$ 38,084,108

	2018			
	Number of Loans	Gross Loans	Allowance for Loan Losses	Net Loans
Lien position:				
Unsecured	4	$ 162,942	$ (8,147)	$ 154,795
Secured	215	35,192,072	(2,180,675)	33,011,397
	219	$ 35,355,014	$ (2,188,822)	$ 33,166,192

*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.

Note 5. Loans Receivable (Continued)

Loans receivable totaling $2,764,429 and $2,483,822 and restricted cash of $1,120,723 and $806,249 serve as collateral on IRP notes payable at December 31, 2019 and 2018, respectively. Loans receivable totaling $277,345 and $73,397 and restricted cash of $229,416 and $61,293 serve as collateral on RMAP notes payable at December 31, 2019 and 2018, respectively.

Accrued interest receivable amounted to $216,918 and $185,812 at December 31, 2019 and 2018, respectively.

Non-accrual loans totaled $0 and $684,022 at December 31, 2019 and 2018, respectively.

Aging: The following table represent an aging of loans as of December 31, 2019 and 2018. The table presents the principal amount outstanding on the loans that may be past due for principal and/or interest payments contractually due:

	2019					
	30-60 Days Past Due	61-90 Days Past Due	91+ Days Past Due	Total Past Due	Current	Total Loans
Business loans	$ -	$ -	$ 890,830	$ 890,830	$ 39,614,861	$ 40,505,691

	2018					
	30-60 Days Past Due	61-90 Days Past Due	91+ Days Past Due	Total Past Due	Current	Total Loans
Business loans	$ 484,858	$ -	$ 1,215,667	$ 1,700,525	$ 33,654,489	$ 35,355,014

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.

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.

Note 5. Loans Receivable (Continued)

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, 2019 and 2018:

	2019	2018
1 - Strong	$ -	$ -
2 - Low Risk	5,852,646	3,745,788
3 - Acceptable Risk	16,530,217	17,846,513
4 - Moderate Risk/Start-Up	16,363,560	12,249,013
5 - High Risk	1,260,913	409,716
6 - Problem Asset	498,355	883,433
7 - Written Off	-	220,551
	$ 40,505,691	$ 35,355,014

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

	2019	2018
Beginning balance	$ 2,188,822	$ 1,431,844
Provision charged to operations	907,780	1,167,348
Less charge-offs	704,037	410,370
Ending balance	$ 2,392,565	$ 2,188,822
Allowance for loan losses allocated:		
Individually evaluated for impairment	$ 360,380	$ 403,413
Collectively evaluated for impairment	2,032,185	1,785,409
	$ 2,392,565	$ 2,188,822
Loans receivable:		
Individually evaluated for impairment	$ 687,530	$ 684,022
Collectively evaluated for impairment	39,818,161	34,670,992
	$ 40,505,691	$ 35,355,014

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, 2019 and 2018:

	2019				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Business loans	$ 687,530	$ 1,047,910	$ 360,380	$ 687,530	$ 48,726

	2018				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Business loans	$ 280,609	$ 684,022	$ 403,413	$ 280,609	$ 38,351

Troubled debt restructures: 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.

As of December 31, 2018, the outstanding principal balance of troubled debt restructures was $1,793,632. The associated allowance for loan losses for troubled debt restructures was $535,237 as of December 31, 2018. During the year ended December 31, 2018, five loans were modified and considered to be troubled debt restructures. The loans had pre-modification balance and post-modification balance of $614,688. The modifications in 2018 included rate reductions and extension of maturity dates. There were no unfunded commitments on troubled debt restructures as of December 31, 2018. During the year ended December 31, 2019, no troubled debt restructures subsequently defaulted.

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.

Note 6. Investments and Fair Value Measurements (Continued)

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, 2019 and 2018, 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, 2019 and 2018.

Restricted Investment: NCIFund has a certificate of deposit with Woodforest Bank in the amount of $200,000 as of December 31, 2019, as a requirement to hold during the duration of the $500,000 financing provided.

Note 6. Investments and Fair Value Measurements (Continued)

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, 2019 and 2018, was $360,380 and $403,413, respectively.

	2019			
	Level 1	Level 2	Level 3	Total
Impaired loans	$ -	$ -	$ 687,531	$ 687,531
	$ -	$ -	$ 687,531	$ 687,531

	2018			
	Level 1	Level 2	Level 3	Total
Impaired loans	$ -	$ -	$ 280,609	$ 280,609
	$ -	$ -	$ 280,609	$ 280,609

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 $1,905,576 and $1,742,727 for the year ended December 31, 2019 and 2018, respectively, and amount payable as of December 31, 2019 and 2018, was $426,576 and $1,742,727, respectively. The agreement is for one year and is renewable for successive one-year terms unless either party provides written notice not to renew.

TCF provided a $5,000,000 revolving line of credit to NCIFund to help finance its short-term capital needs. The balance outstanding as of December 31, 2019 and 2018, was $0 and $5,000,000, respectively. The line of credit was closed by TCF before expiration on December 31, 2019. See Note 9.

On March 15, 2018, TCF provided another $2,000,000 revolving line of credit to NCIFund for additional financing. There is no outstanding balance at December 31, 2019 and 2018. The line of credit was closed by TCF before expiration on December 31, 2019. See Note 9.

Note 8. Notes Payable and Subordinated Notes Payable

Notes payable consist of the following at December 31, 2019 and 2018:

Lender		Undrawn Amounts	2019 Balance	2018 Balance
U.S. Department of Agriculture – IRP	Six 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 $49,113 and $54,673 for the years ended December 31, 2019 and 2018, respectively.	$ 65,625	$ 2,602,659	$ 2,389,676
U.S. Department of Agriculture – RMAP	Note is payable over a 20-year term with 2% simple interest. Monthly principal and interest payments began 2 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.	-	482,036	125,559
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.	-	150,463	183,560
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.	-	481,468	135,269
	Total secured notes payable		3,716,626	2,834,064
Mary Reynolds Babcock Foundation	Principal payments are deferred for 10 years. Simple interest of 2% is due semi-annually in arrears over 10 years. The principal sum plus final interest payment is payable at the end of 10 years on August 2023. The implied interest rate is 3% resulting in a remaining discount of $2,970 and $5,911 for the years ended December 31, 2019 and 2018, respectively.	-	747,030	744,089
One Foundation	Note matures December 2025. Interest only payments started in March 2016 through December 2018 at the rate of 2%. After which, principal and interest is paid quarterly of $3,836 until note maturity.	-	86,554	100,000
McKnight Foundation	Note matures May 2028. Refinanced note with additional funds borrowed. Simple interest of 2% paid annually. Yearly principal payments of $500,000 begin May 1, 2025, the 7th anniversary of the note closing and continue until note is paid.	-	2,000,000	2,000,000
Appalachian Community Capital	Note was extended on December 31, 2019, to mature June 2022. Floating interest is based on its cost of funds plus 1% payable monthly. Interest rate was 3.36% and 3.55% at December 31, 2019 and 2018, respectively.	-	2,000,000	2,000,000

(Continued)

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

Lender		Undrawn Amounts	2019 Balance	2018 Balance
Ford Foundation PRI	Note matures January 2021. Note is 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 is payable at the rebate of 1% per annum, with an implied interest rate of 3% resulting in a remaining discount of $13,072 and $38,959 for the years ended December 31, 2019 and 2018, respectively.	$ -	$ 1,320,261	$ 1,294,374
Coastal Enterprises, Inc.	Note matures December 2022. Note is payable over a 10-year term, with principal payments deferred for 7 years. Annual principal repayments begin after 7 years with payments of approximately one-third each year for 3 years. Interest is payable at a rate of 4%. The lender holds $50,000 as collateral as described in Note 3.	-	1,000,000	1,000,000
Franconia II 2012 Trust	Note matures September 2021. General recourse balloon note payable in 4 years with simple interest payments only of 2.5% due quarterly in arrears over 4 years.	-	75,000	75,000
Laughing Gull Foundation	Consists of three notes all maturing in April 2020. Notes are over 4-year term for the full principal balance and all accrued interest. Interest is payable quarterly at the rate of 2% every January 31st, April 30th, July 31st and October 31st for the term of the notes.	-	500,000	500,000
Fresh Pond Capital	This investment firm relationship is made up of eleven individual impact investors. Notes range from $50,000 to $250,000 and mature between August 2020 and October 2022. Notes are payable over 4-year terms for the full principal balance. Simple interest is payable quarterly at 2%.	-	1,275,000	1,025,000
Giant Steps Foundation	Note matures September 2022 and is payable over 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 September 30, 2027. Note is payable over a 10-year term with interest only payments through September 30, 2022. Principal and interest payments for the remaining 5 years. Interest is payable at the rate of 2% quarterly during the term of the note.	-	300,000	300,000
PNC Bank	Note matures October 2020 and is payable over 3-year term for the full principal balance and all accrued interest. Interest is payable at the rate of 3.75% quarterly during the term of the note.	-	1,000,000	1,000,000
Woodforest Bank	Note matures May 2023 and is payable over 7-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.	-	400,716	500,000
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)

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

Lender		Undrawn Amounts	2019 Balance	2018 Balance
Loring Wolcott & Coolridge Trust	This investment firm relationship is made up of four individual impact investors. Notes range from $25,000 to $100,000 and mature between April 2023 and October 2024. Notes are payable over 4-year terms for the full principal balance. Simple interest is payable annually and quarterly at 2.25%.	$ -	$ 225,000	$ 50,000
Seton Fund	Note matures April 2023. Simple interest of 3%. Principal and interest due quarterly with a $75,000 balloon payment due April 2023.	-	124,906	139,452
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.	-	52,520	70,575
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. Simple interest of 2% due semi-annually. The principal sum plus final interest payment is payable at the maturity of the note.	-	2,000,000	2,000,000
Appalachian Community Capital	Note matures September 2021. Floating interest is based on its cost of funds plus 1% payable monthly. The interest rate at December 31, 2019 and 2018, was 3.34%. Principal due at maturity.	-	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	-
Calvert Impact Capital	Note matures December 2023. Simple interest of 4.15% due quarterly in arrears. Principal amount payable at maturity.	-	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	-
Greater Kanawha Valley Foundation	Note matures April 2024. Simple interest of 2% payable annually. Principal due at maturity.	-	300,000	-
Opportunity Finance Network	Note matures March 2024. Simple interest of 4% due quarterly in arrears. Principal due at maturity.	-	1,000,000	-
		$ 65,625	26,948,613	17,457,554
	Less debt acquisition costs		108,028	-
	Less current portion		4,140,135	273,239
	Noncurrent portion		$ 22,700,450	$ 17,184,315

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

Subordinated notes payable consist of the following at December 31, 2019 and 2018:

Lender		2019 Balance	2018 Balance
Wells Fargo	Equity-equivalent debt investment maturing August 2020. Payable in 10 years with simple interest payments of 2% due quarterly in arrears over 10 years. The implied interest rate is 3%, resulting in a remaining discount of $3,960 and $7,882 for the years ended December 31, 2019 and 2018, respectively.	$ 396,040	$ 392,118
Wells Fargo EQ2	Equity-equivalent debt investment maturing May 2028. Simple interest only payments of 2% due quarterly for the first 10 years. Thereafter quarterly 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 quarterly 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, with interest payable quarterly that started July 1, 2015 and continue on the first day of each quarter until maturity. Interest is payable at the rate of 3% per annum. Payment of the principal amount was due and payable upon maturity of the note on April 1, 2020. Issuer exercised the one five-year extension on March 23, 2020, and extended the maturity to April 1, 2025.	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 quarterly 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	$ 3,296,040	$ 3,292,118

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 $69,115 and $107,425 at December 31, 2019 and 2018, respectively.

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

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

Years ending December 31:		
2020	$	4,140,135
2021		2,563,627
2022		3,573,246
2023		8,041,863
2024		2,051,874
Thereafter		9,943,023
	$	30,313,768

Notes payable, net of debt acquisition costs and implied interest consist of following at December 31, 2019 and 2018:

		2019		2018
Principal amount	$	30,313,768	$	20,857,097
Less debt acquisition costs		108,028		-
Less implied interest		69,115		107,425
	$	30,136,625	$	20,749,672

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.

Note 9. Revolving Lines of Credit

NCIFund has obtained a $5,000,000 revolving line of credit from TCF to help finance its short-term capital needs. Interest is payable quarterly on outstanding balances at an interest rate of 2%. Any outstanding principal and accrued interest was be payable on August 1, 2020. The line of credit was closed by TCF before expiration on December 31, 2019. The amount outstanding from the line amounted to $0 and $5,000,000 at December 31, 2019 and 2018, respectively.

On March 15, 2018, NCIFund obtained an additional $2,000,000 revolving line of credit from TCF for additional financing. Interest is payable quarterly on outstanding balances at an interest rate of 2.5%. Any outstanding principal and accrued interest was be payable on March 1, 2023. The line of credit was closed by TCF before expiration on December 31, 2019. There were no amounts drawn on the line as of December 31, 2019 and 2018.

Note 9. Revolving Lines of Credit (Continued)

During 2018, NCIFund maintained a $150,000 revolving line of credit with a lending institution, to be drawn upon as needed, with a variable rate equal to 0.250 percentage points below The Wall Street Journal Prime Rate, which shall not be more than 7% or less than 3% as of calendar year end. Interest is payable quarterly, with all unpaid principal and interest due at maturity on June 7, 2019. During 2019, NCIFund increased the available line of credit to $500,000 with an interest rate of 4% and extended the maturity to June 18, 2020. The total outstanding balance was $500,000 and $150,000 at December 31, 2019 and 2018, 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, 2019 and 2018. As of December 31, 2019 and 2018, NCIFund's cash and money market fund balances in excess of FDIC-insured amounts totaled $9,447,281 and $10,486,734, 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 2019 and 2018, federal grant revenue accounted for 32% and 67%, respectively, of NCIFund's revenue and support. During 2019 and 2018, NCIFund's expenses incurred to TCF accounted for 41% and 40%, 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, 2019 and 2018, donor restricted net assets consisted of the following:

	2019	2018
Restricted for specified purpose:		
Loan capital	$ 184,733	$ 1,114,084
Provide support for business development to natural resource-based enterprises and provide incentives to businesses to engage in sound environmental practices	1,570,016	1,341,721
	1,754,749	2,455,805
Perpetual in nature:		
Restricted for specified purpose:		
Loan capital revolving fund:		
Represents net assets dedicated to providing temporary financing to qualified businesses	4,104,768	3,833,119
	$ 5,859,517	$ 6,288,924

Note 12. 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 statement 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, 2019 and 2018, the following financial instruments were outstanding whose contract amounts represent credit risk:

	2019	2018
Loan commitments approved not disbursed	$ 4,422,601	$ 3,282,478

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:	
2020	$ 64,168
2021	42,302
2022	40,225
2023	42,261
2024	34,080
	$ 223,036

Rent expense for the years ended December 31, 2019 and 2018, was $44,760 and $25,951, respectively.

Note 13. Liquidity and Availability of Financial Resources

NCIFund financial assets available within one year of December 31, 2019 and 2018, for general expenditures are as follows:

	2019	2018
Cash and cash equivalents – unrestricted	$ 8,744,923	$ 10,664,659
Cash – restricted	2,508,103	1,577,011
Cash equivalents held as collateral	42,000	42,000
Accounts receivable	132,353	36,469
Promises to give	204,579	315,140
Loans receivable, net	38,084,108	33,166,192
Accrued interest and fees receivable	218,139	187,027
Other asset	202,600	202,600
Investment-restricted	201,508	-
Long-term investment (U.S. Endowment Fuel Project)	99,995	99,995
Total financial assets	50,438,308	46,291,093
Cash – restricted	(2,508,103)	(1,577,011)
Cash equivalents held as collateral	(42,000)	(42,000)
Donor restricted funds	(5,859,517)	(6,288,924)
Loans receivable, due after one year, net	(33,282,413)	(27,879,905)
Loans receivable due in next year restricted for federal relending program	(176,981)	(146,676)
Other asset	(202,600)	(202,600)
Investment-restricted	(201,508)	-
Long-term investment (U.S. Endowment Fuel Project)	(99,995)	(99,995)
Outstanding loan commitments, not disbursed	(4,422,601)	(3,282,478)
Amounts not available to be used within one year	(46,795,718)	(39,519,589)
Financial assets available to meet general expenditures within one year	$ 3,642,590	$ 6,771,504

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.

Note 14. Subsequent Events

Management evaluated subsequent events through April 13, 2020, the date the financial statements were available to be issued.

On November 1, 2019, NCIFund launched an offering of $10,000,000 for Community Impact Notes (Notes) with a minimum investment of $25,000 for terms of 3 years, 5 years, 7 years or 10 years with interest rates varying between 2 and 3.5%. There were no issuances of Notes in 2019; however, the following were issued under this offering in 2020 through report date:

- On February 1, 2020, NCIFund executed a note payable agreement with Laura Ruth Ticciati for $50,000 with a 2.5% interest rate and maturity in five years of the date of the agreement.

- On March 6, 2020, NCIFund executed a note payable with Equity Trust Company (ETC) as custodian for Thomas J. Silverio for $50,000 with a 2% interest rate with maturity in three years from the date of the agreement. On March 12, 2020, NCIFund executed a 2nd note payable with ETC for $50,000 with a 2.5% interest rate and maturity in five years of the date of the agreement.

- On March 27, 2020, NCIFund executed two $500,000 note payables with ImpactAssets Inc. with a 1% interest rate. One note payable matures in five years and the other in seven years from date of the agreement.

On January 9, 2020, NCIFund wired a principal payment of $666,667 on the Ford Foundation note payable.

On January 24, 2020, NCIFund paid off the $500,000 line of credit with First Citizen's Bank.

NCIFund was a recipient of a 2019 award from the U.S. Department of the Treasury and CDFI Fund, totaling $674,000. The award consists of $525,000 for base financial assistance and $149,000 for persistent poverty counties financial assistance. The grant was fully executed on February 6, 2020.

On February 24, 2020, NCIFund paid off the $1,000,000 note payable to Coastal Enterprises, Inc. in full.

On March 10, 2020, the President declared that the coronavirus outbreak in the United States constitutes a national emergency. NCIFund's business could be materially and adversely affected by a widespread health epidemic, such as the 2020 coronavirus outbreak. The occurrence of such an outbreak or other adverse public health development could materially disrupt NCIFund's business and other businesses, including governmental offices, private foundations and NCIFund's borrowers. The outbreak of the 2020 coronavirus outbreak may lead to volatility and disruption in global financial markets, which could adversely affect NCIFund's ability to obtain financing to execute its business plan. The extent to which the coronavirus outbreak impacts NCIFund's results will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the coronavirus outbreak and actions taken to contain the coronavirus outbreak or its impact, among others.

On March 24, 2020, the Mary Reynolds Babcock Foundation committed to reducing the note payable balance of $750,000 to $500,000 and converting the $150,000 remaining balance of the note payable as of March 24, 2020 (subsequent to a $100,000 principal payment), to a grant to NCIFund and reduce the interest on the remaining note payable from 2% to 0%.