



**NATURAL CAPITAL INVESTMENT
FUND, INC.**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

*As of and for the Years Ended December 31, 2016
and 2015*

And Report of Independent Auditor

NATURAL CAPITAL INVESTMENT FUND, INC.

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Report of Independent Auditor

To the Board of Directors of
Natural Capital Investment Fund, Inc.
Shepherdstown, West Virginia

We have audited the accompanying financial statements of the Natural Capital Investment Fund, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities and changes in net assets 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 the 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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 the Natural Capital Investment Fund, Inc. as of December 31, 2016 and 2015, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses on page 15 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 26, 2017 on our consideration of Natural Capital Investment Fund, Inc.'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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Natural Capital Investment Fund, Inc.'s internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Cheng Akers LLP".

Bethesda, Maryland
April 26, 2017

NATURAL CAPITAL INVESTMENT FUND, INC.
STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 4,750,001	\$ 6,374,104
Promises to give	2,180,742	1,847,370
Notes receivables, net allowance for possible losses of \$93,744 in 2016 (\$156,405 in 2015)	1,281,703	2,577,672
Contracts receivable	17,722	36,380
Accrued interest and fees receivable	70,388	58,629
Total Current Assets	<u>8,300,556</u>	<u>10,894,155</u>
Other Assets:		
Cash-restricted	5,191,533	4,433,655
Investment	99,995	99,995
Cash held as collateral	92,000	59,000
Notes receivable, net allowance for possible losses of \$1,264,867 in 2016 (\$953,691 in 2015)	16,502,034	10,142,690
Other receivables	2,386	1,692
Total Other Assets	<u>21,887,948</u>	<u>14,737,032</u>
Total Assets	<u>\$ 30,188,504</u>	<u>\$ 25,631,187</u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Line of credit	\$ 150,000	\$ 150,000
Accounts payable	39,896	24,076
Accounts payable, related party	1,163,550	1,218,551
Funds held for others	4,875	14,957
Accrued interest payable	48,573	36,758
Deferred revenue	-	22,260
Current maturities of notes payable	151,235	-
Total Current Liabilities	<u>1,558,129</u>	<u>1,466,602</u>
Long-Term Liabilities:		
Line of credit, related party	2,500,000	2,500,000
Notes payable, net of implied interest	11,418,717	9,844,043
Total Long-Term Liabilities	<u>13,918,717</u>	<u>12,344,043</u>
Total Liabilities	<u>15,476,846</u>	<u>13,810,645</u>
Net Assets:		
Unrestricted	4,887,187	3,206,238
Temporarily restricted	6,497,627	5,287,460
Permanently restricted-Loan Capital Revolving Fund	3,326,844	3,326,844
Total Net Assets	<u>14,711,658</u>	<u>11,820,542</u>
Total Liabilities and Net Assets	<u>\$ 30,188,504</u>	<u>\$ 25,631,187</u>

The accompanying notes to the financial statements are an integral part of these statements.

NATURAL CAPITAL INVESTMENT FUND, INC.
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016				2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Revenue:								
Contributions and grants	\$ 164,485	\$ 1,817,880	\$ -	\$ 1,982,365	\$ 72,210	\$ 748,232	\$ -	\$ 820,442
Federal grants	-	2,335,851	-	2,335,851	-	1,998,320	-	1,998,320
Investment and other program income	1,068,333	73,580	-	1,141,913	800,336	128,020	-	928,356
Net assets released from restrictions	3,017,144	(3,017,144)	-	-	1,774,655	(1,774,655)	-	-
Total Support and Revenue	4,249,962	1,210,167	-	5,460,129	2,647,201	1,099,917	-	3,747,118
Expenses:								
Program	2,505,682	-	-	2,505,682	2,138,357	-	-	2,138,357
Management and general	61,288	-	-	61,288	62,959	-	-	62,959
Fundraising	2,043	-	-	2,043	2,217	-	-	2,217
Total Expenses	2,569,013	-	-	2,569,013	2,203,533	-	-	2,203,533
Change in net assets	1,680,949	1,210,167	-	2,891,116	443,668	1,099,917	-	1,543,585
Net assets, beginning of year	3,206,238	5,287,460	3,326,844	11,820,542	2,762,570	4,187,543	3,326,844	10,276,957
Net assets, end of year	\$ 4,887,187	\$ 6,497,627	\$ 3,326,844	14,711,658	\$ 3,206,238	\$ 5,287,460	\$ 3,326,844	\$ 11,820,542

The accompanying notes to the financial statements are an integral part of these statements.

NATURAL CAPITAL INVESTMENT FUND, INC.
STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Change in net assets	\$ 2,891,116	\$ 1,543,585
Adjustments to reconcile change in net assets to net cash flows provided by operating activities:		
Allowance for possible losses and notes receivable write-offs	248,515	115,172
Contributions from implied interest discount, net	95,383	60,867
Gain on debt forgiveness	-	(100,000)
Decrease (Increase) in operating assets:		
Promises to give	(333,372)	(1,604,421)
Other receivables	(694)	71,419
Cash held as collateral	(33,000)	(9,000)
Accrued interest receivable	(11,759)	-
Increase (decrease) in operating liabilities:		
Funds held for others	(10,082)	(20,083)
Accounts payable	15,820	(12,088)
Accounts payable, related party	(55,001)	232,551
Deferred revenue	(22,260)	22,260
Accrued interest payable	11,815	22,305
Cash flows provided by operating activities	<u>2,796,481</u>	<u>322,567</u>
Cash flows from investing activities:		
Increase in cash-restricted	(757,878)	(2,543,936)
Purchase of investments	-	(49,995)
Increase in notes receivable	(8,731,859)	(8,211,015)
Repayments of principal on notes receivable	3,438,627	4,032,472
Cash flows used in investing activities	<u>(6,051,110)</u>	<u>(6,772,474)</u>
Cash flows from financing activities:		
Proceeds from line of credit	-	1,795,594
Proceeds from long-term debt	2,112,111	5,172,184
Repayment of long-term debt	(481,585)	(60,146)
Cash flows provided by financing activities	<u>1,630,526</u>	<u>6,907,632</u>
Net change in cash and cash equivalents	(1,624,103)	457,725
Cash and cash equivalents, beginning of year	6,374,104	5,916,379
Cash and cash equivalents, end of year	<u>\$ 4,750,001</u>	<u>\$ 6,374,104</u>

The accompanying notes to the financial statements are an integral part of these statements.

NATURAL CAPITAL INVESTMENT FUND, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

Note 1—Summary of significant accounting policies

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

Basis of Presentation – The financial statements of NCIF have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles. NCIF presents information regarding its financial position and activities according to three classes of net assets described as follows:

Unrestricted - All resources over which the governing board has discretionary control. The governing board of the NCIF may elect to designate such resources for specific purposes. This designation may be removed at the Board's discretion.

Temporarily Restricted - Resources accumulated through donations or grants for specific operating or capital purposes. Such resources will become unrestricted when the requirements of the donor or grantee have been satisfied through expenditure for the specified purpose of the program or through the passage of time.

Permanently Restricted - Resources accumulated through donations or grants that are subject to a restriction that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of NCIF. Donor contributions to be used for loan capital are recorded by NCIF in its Loan Capital Revolving Fund as permanently restricted. 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 permanently restricted contributions becomes uncollectible, NCIF writes-off the uncollectible amount against the permanently restricted net assets via a transfer to unrestricted net assets.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Contributed Services – Contributed services using specialized skills that would have been required to be purchased if not provided by donation are recognized under GAAP.

Cash and Cash Equivalents – NCIF classifies cash, money market funds, and sweep accounts with original maturities of ninety days or less as cash and cash equivalents.

NATURAL CAPITAL INVESTMENT FUND, INC.
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

Note 1—Summary of significant accounting policies (continued)

Cash - Restricted – In order to secure its obligations in existing loan agreements, NCIF 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. The borrower agrees to deposit in the custodial account on the closing date the full amount of the proceeds of the loan and thereafter, principal or proceeds received by the borrower, and all interest, dividends or other earnings. The amounts deposited in the account shall not be commingled with any other funds.

Total cash included in the statements of financial position includes the following:

	<u>2016</u>	<u>2015</u>
Cash and cash equivalents	\$ 4,750,001	\$ 6,374,104
Cash-restricted	5,191,533	4,433,655
Cash held for collateral	92,000	59,000
Total cash	<u>\$ 10,033,534</u>	<u>\$ 10,866,759</u>

Fair Value Measurements – "Financial Instruments-Overall-Disclosure" requires disclosure of an estimate of fair value of certain financial instruments. NCIF's significant financial instruments are cash, a certificate of deposit, the U.S. Endowment Fuel Project Investment, promises to give, notes receivable, accounts payable and notes payable. For these instruments, carrying values approximate fair values.

Fair value standards establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 - Inputs to the valuation methodology are quoted prices available in active markets for identical investments as of the reporting date. At this time, NCIF does not hold any investments which would be included in this category.

Level 2 - Inputs to the valuation methodology are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date. At this time, NCIF does not hold any investments which would be included in this category.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the overall fair value measurement. The inputs into the determination of fair value require significant management judgment or estimation. The type of investment included in Level 3 includes the U.S. Endowment Fuel Project Investment that totaled \$99,995 as of December 31, 2016 (\$99,995 as of December 31, 2015).

Notes Receivable, Allowance for Possible Losses – Notes receivable are carried at unpaid principal balances, less an allowance for loan losses. Management provides for estimates of possible losses through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual loans, the borrower's ability to repay, and current economic conditions. The evaluation of the allowance is inherently subjective, and it is reasonably possible that a change in the estimate would occur in the near term, as additional information becomes available. As of December 31, 2016, the allowance was calculated at 6.9% of the unpaid principal balances (7.5% as of December 31, 2015). The allowance was \$1,358,611 at December 31, 2016 (\$1,110,096 at December 31, 2015).

NATURAL CAPITAL INVESTMENT FUND, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

Note 1—Summary of significant accounting policies (continued)

Promises to Give – Unconditional promises to give are recognized as revenue or gains in the period acknowledged. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Promises to give are carried at present value less an estimate made for doubtful promises based on a review of all outstanding promises on a monthly basis. 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 at December 31, 2016 and 2015.

Notes Payable – NCIF uses debt primarily for financing for natural resource-based businesses. Most debt is in the form of notes payable to foundations and various government agencies. NCIF 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.

Revenue Recognition – Program revenue is recognized as revenue when earned.

Expenses – Direct costs associated with specific programs are recorded as program expenses.

Accounting for Uncertainty in Income Taxes – NCIF accounts for the effect of any uncertain tax positions based on a "more likely than not" threshold to the recognition of the tax positions being sustained based on the technical merits of the position under scrutiny by the applicable taxing authority. If a tax position or positions are deemed to result in uncertainties of those positions, the unrecognized tax benefit is estimated based on a "cumulative probability assessment" that aggregates the estimated tax liability for all uncertain tax positions. NCIF has identified its tax status as a tax-exempt entity as its only significant tax position; however, NCIF has determined that such tax position does not result in an uncertainty requiring recognition.

Income Taxes – NCIF is a nonprofit corporation exempt from income taxes under Section 501 (c)(3) and is a supporting organization to The Conservation Fund under Section 509(a)(3) of the Internal Revenue Code. Income which is not related to exempt purposes, less applicable deductions, is subject to federal and state income taxes. For the years ended December 31, 2016 and 2015, there was no unrelated business income.

Subsequent Events – Management has evaluated subsequent events through April 26, 2017, the date on which the financial statements were available to be issued, and determined that no adjustments or disclosures to the financial statements were required.

Note 2—Promises to give

As of December 31, 2016 and 2015, unconditional promises to give totaling \$2,180,742 and \$1,847,370, respectively, were due in less than one year.

At December 31, 2016, NCIF also had twelve conditional promises to give totaling \$2,196,105 (nine conditional promises totaling \$437,871 at December 31, 2015).

NATURAL CAPITAL INVESTMENT FUND, INC.
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

Note 3—Notes receivable

NCIF has advanced funds in the form of notes receivable to help finance various businesses. At December 31, 2016, NCIF had notes receivable outstanding totaling \$17,783,737 (\$12,720,362 at December 31, 2015). The notes have various interest rates and maturity dates, with the latest note maturing in 2040.

	December 31, 2016		
	Current	Long-term	Total
Face value	\$ 1,375,447	\$ 17,766,901	\$ 19,142,348
Allowance for possible losses	(93,744)	(1,264,867)	(1,358,611)
Carrying value	<u>\$ 1,281,703</u>	<u>\$ 16,502,034</u>	<u>\$ 17,783,737</u>

	December 31, 2015		
	Current	Long-term	Total
Face value	\$ 2,734,077	\$ 11,096,381	\$ 13,830,458
Allowance for possible losses	(156,405)	(953,691)	(1,110,096)
Carrying value	<u>\$ 2,577,672</u>	<u>\$ 10,142,690</u>	<u>\$ 12,720,362</u>

For the year ended December 31, 2016, interest income from these notes was \$881,984 (\$644,390 for the year ended December 31, 2015).

The following is an analysis of the allowance for possible loan losses:

	2016	2015
Beginning balance	\$ 1,110,096	\$ 1,005,851
Provision charged to operations	248,515	104,245
Ending balance	<u>\$ 1,358,611</u>	<u>\$ 1,110,096</u>

At December 31, 2016, notes receivable serving as collateral on notes payable amounted to \$1,351,095 (\$1,351,095 at December 31, 2015). There were no non-performing loans at December 31, 2016 (\$0 at December 31, 2015). In addition, there are two loans totaling \$91,802 for which interest is currently not accruing for the years ended December 31, 2016 and 2015.

Note 4—Accounts payable, related party

NCIF has entered into a management services agreement with its parent organization, The Conservation Fund. Under the terms of the agreement, The Conservation Fund provides all staffing and administrative services to NCIF. For 2016, the management fee under the agreement was \$1,163,549 (\$1,168,572 for 2015). The agreement is for one year and is renewable for successive one-year terms unless either party provides written notice not to renew.

NATURAL CAPITAL INVESTMENT FUND, INC.
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

Note 5—Debt

The table below summarizes the significant terms for NCIF's long-term debt:

Lender	Terms of Loan	Total Amounts Borrowed	Principal Balance as of 12/31/2016	Principal Balance as of 12/31/2015
U.S. Department of Agriculture	Loan is payable over a 30-year term, with interest at 1% per annum, with an implied interest rate of 3%. Payments of \$21,225 are due annually. Secured by funds held by NCIF under the intermediary Re-Lending Program ("IRP") and collateral obtained as a result of advancing loan funds.	\$ 2,002,000	\$ 1,731,002	\$ 1,644,784
West Virginia Infrastructure & Jobs Development Council	Used as matching funds for the U.S. Department of Agriculture loan. Loan is payable over a 15-year term, with interest at 1% per annum (discounting not considered material). Quarterly principal and interest payments on the note total \$3,907. Secured on a pro rate basis with USDA loan on funds held by NCIF under the IRP.	384,283	247,272	246,712
Babcock PRI	Principal payments are deferred for 10 years. Simple interest of 2% is due semi-annually in arrears over 10 years. The implied interest rate is 3% resulting in a discount of \$39,154. The principal sum plus final interest payment is payable at the end of 10 years after each disbursement.	500,000	484,353	479,558
Benedum PRI	Principal payments deferred for 10 years. Annual principal repayments begin after 10 years with payments of 20% due each year for 5 years. This note was forgiven in March 2016.	400,000	-	355,705
Wells Fargo	Equity-equivalent debt investment balloon loan 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 discount of \$34,264. The loan is subordinate to all other liabilities.	400,000	384,392	380,586
One Foundation	Loan matures on December 2025. Interest only payment starting on March 2016 thru December 2019 at the rate of 2%. After which, principal and interest shall be paid monthly of \$4,432 until loan maturity.	100,000	100,000	100,000
McKnight Foundation	Loan matures on November 2025. Interest is payable annually at the rate of 2% starting November 2016. NCIF shall have already paid total principal installments of \$500,000 by that date. The unpaid principal amount and all accrued interest, if any, shall be due and payable on the maturity date.	1,000,000	1,000,000	1,000,000
Appalachian Community Capital	Interest only paid monthly in arrears at the rate of 2.37%. Loan is payable over 3-year term for the full principal balance and any accrued interest by September 28, 2018.	2,000,000	2,000,000	2,000,000
PNC Community Development Company	Equity-equivalent debt investment loan, with interest payable quarterly starting July 1, 2015 and continuing on the first day of each quarter until maturity. Interest is payable at the rate of 3% per annum. Payment of the principal amount is due and payable upon maturity of the loan on April 1, 2020. Issuer may exercise one five-year extension to extend the maturity to April 1, 2025.	500,000	500,000	500,000

NATURAL CAPITAL INVESTMENT FUND, INC.
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

Note 5—Debt (continued)

Lender	Terms of Loan	Total Amounts Borrowed	Principal Balance as of 12/31/2016	Principal Balance as of 12/31/2015
Ford Foundation PRI	Loan is payable over a 10-year term, with principal payments deferred for 7 years. Annual principal repayments begin after 7 years with payments of one-third due each year for 3 years. Interest is payable at the rebate of 1% per annum, with an implied interest rate of 3%, resulting in a discount of \$326,271.	2,000,000	1,847,933	1,811,698
Coastal Enterprises, Inc.	Loan 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 due each year for 3 years. Interest is payable at the rate of 4%. \$50,000 of the loan will be held as collateral.	1,000,000	1,000,000	1,000,000
Franconia II 2012 Trust	General recourse balloon loan payable in 4 years with simple interest payments of 2% due semi-annually in arrears over 4 years.	75,000	75,000	75,000
Laughing Gull Foundation	Loan is payable over 4-year term for the full principal balance and all accrued interest. Interest is payable at the rate of 2% every January 31st and July 31st during the term of the note.	500,000	500,000	250,000
Wells Fargo ENC	Equity-equivalent debt investment balloon loan payable in 12 years with simple interest payments of 2% due quarterly in arrears over 12 years.	1,000,000	1,000,000	-
Fresh Pond Capital	Loan is payable over 4-year term for the full principal balance and all accrued interest. Interest is payable at the rate of 2% quarterly.	700,000	700,000	-
			<u>\$ 11,569,952</u>	<u>\$ 9,844,043</u>

Future principal maturities of long-term debt are as follows:

Years Ending December 31,

2017	\$ 151,235
2018	2,281,371
2019	1,127,274
2020	3,524,239
2021	1,197,119
Thereafter	<u>3,538,538</u>
	11,819,776
Less amounts representing implied interest	<u>(249,824)</u>
	<u>\$ 11,569,952</u>

Implied interest was \$249,824 and \$345,207 at December 31, 2016 and 2015, respectively.

NATURAL CAPITAL INVESTMENT FUND, INC.
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

Note 5—Debt (continued)

As of December 31, 2016, NCIF met requirements to satisfy certain debt covenants on the loan agreement that had a covenant.

In July 2014, NCIF obtained a \$2,500,000 revolving line of credit from its parent, The Conservation Fund, 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 will be payable on August 1, 2019. At December 31, 2016, total drawings from the line amounted to \$2,500,000 (\$2,500,000 at December 31, 2015).

NCIF maintains 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 December 31, 2016. Interest is payable quarterly, with all unpaid principal and interest due at maturity. The total outstanding loan balance was \$150,000 at December 31, 2016 (\$150,000 at December 31, 2015).

Note 6—Temporarily and permanently restricted net assets

Temporarily and permanently restricted net assets consist of the following:

	<u>2016</u>	<u>2015</u>
Temporarily restricted net assets are available for the following purposes and periods:		
Loan capital	\$ 4,849,438	\$ 3,908,313
Provide support for business development to natural resource-based enterprises and provide incentives to businesses to engage in sound environmental practices	<u>1,648,189</u>	<u>1,379,147</u>
Total temporarily restricted net assets	<u>\$ 6,497,627</u>	<u>\$ 5,287,460</u>
Permanently restricted net assets consist of the following:		
Loan Capital Revolving Fund:		
Represents net assets dedicated to providing temporary financing to qualified businesses	<u>\$ 3,326,844</u>	<u>\$ 3,326,844</u>

NATURAL CAPITAL INVESTMENT FUND, INC.
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

Note 7—Concentrations of credit risk

Financial instruments which potentially subject NCIF to concentrations of credit risk consist of cash held in two operating bank accounts at a commercial bank. 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, 2016 and 2015. As of December 31, 2016, NCIF’s cash balances in excess of FDIC-insured amounts totaled \$8,656,709 (\$9,567,110 as of December 31, 2015). NCIF has not experienced any losses with these accounts. Management believes NCIF is not exposed to any significant credit risk on domestic cash balances.

During 2016, NCIF had two contributors that accounted for 64% of revenue and other support. Additionally, one contributor made up 66% of promises to give as of December 31, 2016. During 2015, NCIF had one contributor that accounted for 90% of revenue and other support.

During 2016, NCIF’s payments to The Conservation Fund accounted for 45% of total expenditures. As of December 31, 2016, 90% of accounts payable were attributable to The Conservation Fund. During 2015, NCIF’s payments to The Conservation Fund accounted for 53% of total expenditures. As of December 31, 2015, 98% of accounts payable were attributable to The Conservation Fund.

Note 8—Functional allocation of expenses

The costs of providing the various programs and supporting services have been summarized on a functional basis in the statements of activities and changes in net assets. The following program services are included in the accompanying financial statements:

	<u>2016</u>	<u>2015</u>
Program Services:		
Provide support for business development to West Virginia, North Carolina, Virginia, Tennessee, Ohio, Kentucky Georgia, South Carolina, and Maryland natural resource-based enterprises and partner with government entities to provide incentives to businesses to engage in sound environmental practices.	<u>\$ 2,505,682</u>	<u>\$ 2,138,357</u>

Note 9—Operating leases

NCIF leases various offices under operating leases with various expiration dates through December 31, 2016. These leases renew automatically on an annual basis.

NCIF has future minimum lease commitments through December 31, 2017 totaling \$11,985.

Total rent expense for 2016 and 2015 was \$10,732 and \$10,084, respectively.

NATURAL CAPITAL INVESTMENT FUND, INC.
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

Note 10—Cash flow disclosures

The following is a summary of supplemental cash flow information:

	<u>2016</u>	<u>2015</u>
Cash paid:		
Interest	<u>\$ 250,970</u>	<u>\$ 145,000</u>

For the years ended December 31, 2016 and 2015, NCIF has recorded discounts or imputed interest of \$95,383 and \$60,867, respectively.

SUPPLEMENTARY INFORMATION

NATURAL CAPITAL INVESTMENT FUND, INC.
SCHEDULE OF FUNCTIONAL EXPENSES

YEARS ENDED DECEMBER 31, 2016
(WITH COMPARATIVE TOTALS FOR 2015)

	Program	Management and General	Fundraising	Total 2016		Total 2015
Contractual services-Management contract	\$ 1,134,436	\$ 27,304	\$ 1,809	\$ 1,163,549	*	\$ 1,168,572
Contractual services-Program	531,526	-	-	531,526	**	514,590
Employee training and development	1,783	43	3	1,829		4,768
Seminars and equipment	17,799	-	-	17,799		10,958
Professional fees	41,165	29,129	-	70,294		29,473
Supplies and equipment	3,565	86	6	3,657		1,863
Postage and shipping	2,077	50	3	2,130		1,167
Travel and subsistence	61,397	1,478	98	62,973		50,167
Telephone and utilities	11,301	272	18	11,591		12,213
Rent	10,463	252	17	10,732		10,084
Dues and subscriptions	7,394	176	12	7,582		4,967
Interest	358,168	-	-	358,168		227,887
Loan origination fees	39,274	-	-	39,274		24,395
Bank finance fees	10,362	249	17	10,628		7,961
Registration and filing fees	3,872	-	-	3,872		3,633
Marketing	14,448	348	23	14,819		3,357
Miscellaneous and office	23,137	1,901	37	25,075		12,306
Loan loss reserve	233,515	-	-	233,515		105,453
Loss from notes receivable	-	-	-	-		9,719
Total Expenses	<u>\$ 2,505,682</u>	<u>\$ 61,288</u>	<u>\$ 2,043</u>	<u>\$ 2,569,013</u>		<u>\$ 2,203,533</u>

*Contractual services - NCIF contracts with its parent company, The Conservation Fund, to provide all administrative support services as well as hiring all NCIF employees. Accordingly, The Conservation Fund is paid for actual costs associated with NCIF staff salaries, benefits management, and an allocated portion of indirect support costs. The contractual fee under the agreement for 2016 was \$1,163,549 (\$1,168,572 in 2015) (see below).

**Contractual services - Program includes direct grant expense for the VC2 program and Third Party Technical Assistance to loan applicants and portfolio companies.

Management Fee Breakdown

	<u>2016</u>	<u>2015</u>
Direct Expenses:		
Direct labor expenses	\$ 728,659	\$ 707,983
Fringe benefits at 35% in 2016 (35% in 2015)	255,778	247,794
Occupancy/telephone-WV, NC	40,202	58,095
Total Direct Expenses	<u>1,024,639</u>	<u>1,013,872</u>
Indirect Expenses:		
National operating support	<u>138,910</u>	<u>154,700</u>
Total Annual Service Agreement	<u>\$ 1,163,549</u>	<u>\$ 1,168,572</u>