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**SUPPLEMENT
TO
OFFERING MEMORANDUM DATED JUNE 1, 2021**

The following information supplements and updates the Offering Memorandum of Natural Capital Investment Fund, Inc. dated June 1, 2021 ("Offering Memorandum") and should be read in conjunction with the more detailed information about us and our offering, including the Risk Factors, set forth in our Offering Memorandum.

We are now doing business under the name **Partner Community Capital™**. Any references in the Offering Memorandum (including any amendments or supplements thereto) to Natural Capital Investment Fund, Inc. are hereby deleted and replaced with references to Natural Capital Investment Fund, Inc. doing business as Partner Community Capital™ and references to NCIFund are hereby replaced with references to PCAP, respectively.

This Supplement is qualified in its entirety by reference to the Offering Memorandum (including any amendments or supplements thereto), except to the extent that the information in this Supplement supersedes or amends information set forth in the Offering Circular. Capitalized terms used in this Supplement that are not defined in this Supplement will have the meanings given to them in our Offering Memorandum. Please keep this Supplement with your Offering Memorandum for future reference.

The date of this Supplement is August 1, 2021.



Natural Capital Investment Fund

106 W. Washington Street | Charles Town, WV 25414

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OFFERING MEMORANDUM

June 1, 2021

Community Impact Notes	
Total Aggregate Offering	\$20,000,000 in aggregate principal amount of Notes issued and outstanding
Term/Maturity	1 year, 2 years, 3 years, 5 years, 7 years, or 10 years
Interest Rate	0.00% to 3.50%, depending on term*
Minimum Investment	\$25,000**

**Interest rates change from time to time and are set forth on a separate Interest Rate Sheet.*

***Minimum investment requirement may be changed in the future.*

Natural Capital Investment Fund, Inc. ("**NCIFund**"), doing business as Partner Community Capital™, is offering up to \$20,000,000 in unsecured promissory term notes, also referred to as Community Impact Notes ("**Notes**") to "accredited investors" as defined in Rule 501(a) of Regulation D under the Securities Act of 1933, as amended (this "**Offering**"). NCIFund may increase or decrease the size of the Offering in its sole discretion. The minimum investment amount for each new investor is \$25,000, and Notes may be purchased in integral multiples of \$5,000 in excess thereof. As long as an investor holds Notes with an aggregate principal amount of at least \$25,000, that investor may purchase additional Notes in any integral multiple of \$5,000, at then-current interest rates. The issuance of the Notes is not contingent upon receiving any minimum aggregate number or dollar amount of commitments from investors. As of the date of this Offering Memorandum, the aggregate principal amount of all issued and outstanding Notes is \$4,539,183. Accordingly, an aggregate principal amount of \$15,460,817 of Notes remains available for purchase.

NCIFund is a certified Community Development Financial Institution (CDFI) organized as a Maryland nonstock corporation and has received a determination letter from the U.S. Internal Revenue Service granting it tax-exempt status as a charitable non-profit organization under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "**Code**").

A summary of the terms of the Notes is set forth in the accompanying Description of Notes and includes the Notes' term/maturity, minimum investment, options at maturity, and prepayment terms, among other items. NCIFund may determine to offer Notes with different or varying terms, and in such case will issue a revised or additional Description of Notes.

The Notes are NCIFund's general unsecured and unsubordinated obligations and rank equally in right of payment with all of NCIFund's other existing and future unsecured and unsubordinated obligations. The Notes will be effectively subordinated to any of NCIFund's existing or future secured debt to the extent of the value of the assets securing such debt.

NCIFund intends to use the proceeds from this Offering to make loans to start-up, early-stage, and growth-stage small businesses and vital community service infrastructure located predominantly in economically distressed and underserved communities that are unable to access traditional sources of capital. NCIFund may also use proceeds for the repayment or refinancing of debt.

As a CDFI, NCIFund lends to underserved small businesses and entrepreneurs that create jobs in economically distressed communities. Over the three-year period ending December 31, 2020, approximately 50% of NCIFund's loans were to women or people of color, and approximately 92% of our loans were made in rural or economically distressed census tracts. NCIFund specializes in providing access to capital to small businesses or non-profits that provide environmentally beneficial services, are natural resource-based, or provide vital human services necessary for the

maintenance of resilient rural and urban communities. NCIFund also provides strategic advisory services to its borrowers and to prospective borrowers, either through its lending staff, through contracted third parties, or as part of its Strategic Initiatives. NCIFund's Strategic Initiatives use targeted funds and partnerships with industry and community partners to devote additional resources to particular sectors or constituencies within NCIFund's mission. See "Use of Proceeds" beginning at page 17 for more information.

Interest rates currently offered on new issuances of Notes are as set forth on the accompanying Interest Rate Sheet, which may be amended from time to time by NCIFund. Interest rates for Notes are fixed for the term of the Note, although an investor's election to reinvest the principal upon maturity will result in a new Note being issued at then-current rates.

Interest begins to accrue upon NCIFund's successful receipt of the investor's funds and the issuance of the Note by NCIFund. Investors may make payments in U.S. dollars by certified check, cashier's check, or wire transfer of immediately available funds. Applications will be accepted via U.S. mail to NCIFund, or by any other means NCIFund determines to be acceptable.

The expenses of this Offering, which NCIFund expects to be less than 1% of the total offering amount, will be paid from NCIFund's operating capital and not from the proceeds of this Offering. This Offering is not underwritten, and no commissions will be paid for the sale of the Notes. As a result, NCIFund will receive 100% of the proceeds from this Offering.

THIS OFFERING IS SUBJECT TO CERTAIN RISKS, WHICH ARE DESCRIBED BEGINNING AT PAGE 10. PROSPECTIVE INVESTORS SHOULD CAREFULLY CONSIDER SUCH RISKS BEFORE MAKING A DECISION REGARDING AN INVESTMENT IN THE NOTES.

The Offering will be made in reliance upon exemptions from registration provided by Section 4(a)(2) of the Securities Act of 1933, as amended (the "**Securities Act**"), and Rule 506(c) of Regulation D promulgated thereunder.

The Notes have not been recommended by any federal or state securities commission or regulatory authority. Furthermore, the foregoing authorities have not determined the accuracy, adequacy, truthfulness, or completeness of this document and have not passed upon the merit or value of the Notes, or approved, disapproved or endorsed the Offering. Any representation to the contrary is a criminal offense.

In order for you to purchase any Notes, you must be an "**accredited investor**," as defined in Rule 501(a) of Regulation D under the Securities Act. You must acquire the Notes for your own account for investment purposes only, without a view to distribution or resale. You must have no contract, undertaking, agreement or arrangement to sell, pledge, assign or otherwise transfer or dispose of any of the Notes to any other person.

In making an investment decision, investors must rely on their own examination of NCIFund and the terms of the Offering, including the disclosure, merits, and risks involved.

The Notes are not insured by the Federal Deposit Insurance Corporation, the Securities Investor Protection Corporation or any other state or federally regulated institution. The Notes are also not certificates of deposit or deposit accounts with a bank, savings and loan association, credit union or other financial institution regulated by federal or state authorities. The payment of principal and interest to an investor in the Notes is dependent upon NCIFund's financial condition, which is in turn dependent upon repayment of principal and payment of interest by its borrowers. A purchase of the Notes is subject to investment risks, including possible loss of the entire principal amount invested.

NCIFund has been recognized under the Code as a supporting organization to The Conservation Fund ("**TCF**"). NCIFund is not, however, a subsidiary of TCF. TCF does not guarantee or support any third-party indebtedness of NCIFund, including the Notes, and TCF is not obligated with respect to or otherwise liable for the Notes or any other third-party indebtedness of NCIFund.

No person has been authorized to give any information or to make any representation in connection with this Offering other than those contained in this Offering Memorandum, and if given or made, such information or representation must not be relied on as having been made by NCIFund or any of its employees or agents.

Investors are encouraged to consider the concept of investment diversification when determining the amount of Notes that would be appropriate for them in relation to their overall investment portfolio and/or financial needs.

The date of this Offering Memorandum is June 1, 2021. NCIFund has not set a date for termination of this Offering.

FORWARD-LOOKING STATEMENTS

This Offering Memorandum contains forward-looking statements that are subject to risks and uncertainties and that address, among other things, the impact of COVID-19 on NCIFund and its borrowers, the ability of NCIFund to repay the Notes, the use of proceeds from the sale of the Notes, and NCIFund's loan underwriting standards and procedures. Forward-looking statements relate to expectations, beliefs, projections, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts. In some cases, you can identify forward looking statements by terms such as "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "plan," "potential," "should," "will," "would," or other comparable terminology. The forward-looking statements are based on NCIFund's beliefs, assumptions and expectations, taking into account information available to NCIFund. These beliefs, assumptions and expectations can change as a result of many possible events or factors, not all of which are known to NCIFund or are within NCIFund's control. Consequently, actual results, performance, achievements or events may vary materially from those expressed in NCIFund's forward-looking statements. NCIFund does not undertake, and specifically disclaims, any obligation to update any forward-looking statements to reflect occurrences or unanticipated events or circumstances after the date of such statements. Potential investors should carefully consider these risks, along with the risks and information set forth elsewhere in this Offering Memorandum, before making an investment decision with respect to the Notes.

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OFFERING SUMMARY

Issuer	Natural Capital Investment Fund, Inc., a Maryland nonstock corporation and 501(c)(3) non-profit organization. (See "Natural Capital Investment Fund" on page 7.)
Securities Offered	Community Impact Notes. (See Appendix D, Description of Notes and Form of Unsecured Promissory Note.) Interest rates are fixed at the time of issue and range from 0.00% to 3.50%. (See Appendix E, Interest Rate Sheet.) Terms are fixed for one, two, three, five, seven or ten years.
Offering Size	Up to \$20,000,000. As of the date of this Offering Memorandum, the aggregate principal amount of all issued and outstanding Notes is \$4,539,183, which means \$15,460,817 of Notes remain available for purchase.
Investment Amount	Notes are available in \$5,000 increments, with a minimum investment of \$25,000 by each noteholder.
Security	Notes are unsecured general obligations of NCIFund. No specific assets or revenues are pledged by NCIFund for the payment of Note obligations when due, and no reserve fund is established for the Notes.
Who May Invest	Accredited investors, as defined in Rule 501 of Regulation D promulgated under the Securities Act. In accordance with applicable securities regulations, all investors must submit financial information that allows NCIFund to verify the investor's status as meeting the definition above. (See Appendix C, Application to Purchase Note and Investor Questionnaire.)
How to Invest	Prospective noteholders must execute an Application to Purchase Note and Investor Questionnaire, in the forms accompanying this Offering Memorandum. (See Appendix C.) If an Application to Purchase Note is accepted, NCIFund will execute and deliver a Note. (See Appendix D.) NCIFund may reject any offer to purchase a Note in its sole discretion. Payment may be made by certified check, cashier's check, or wire transfer of immediately available funds. Applications will be accepted via U.S. mail to NCIFund or by email to President and Chief Executive Officer Marten Jenkins. (See "Method of Offering" on page 18.)
Use of Proceeds	NCIFund intends to use the proceeds from this Offering to make loans to start-up, early-stage, and growth-stage small businesses and vital community service infrastructure (health care, childcare, education) located predominantly in economically distressed communities that are unable to access traditional sources of capital. For the three-year period ending December 31, 2020, approximately 50% of NCIFund's loans were to women or people of color, and approximately 92% of our loans were made in rural or economically distressed census tracts. NCIFund also provides strategic advisory services to its borrowers and to prospective borrowers, either through its lending staff, through contracted third parties, or as part of its Strategic Initiatives. NCIFund's Strategic Initiatives use targeted funds and partnerships with industry and community partners to devote additional resources to particular sectors or constituencies within NCIFund's mission. NCIFund may also use proceeds for the repayment or refinancing of debt. (See "Use of Proceeds" on page 17.)
Restrictions on Transfer	Investors may not sell or transfer their Notes without NCIFund's prior written consent, which may be withheld in NCIFund's sole discretion.

SUMMARY OF SELECTED FINANCIAL HIGHLIGHTS OF NCIFund

The following table is a summary of selected financial highlights of NCIFund on a consolidated basis for the years ended December 31, 2016, 2017, 2018, 2019 and 2020. See Appendix A of this Offering Memorandum for more detailed audited financial information for 2020. See Appendix B of this Offering Memorandum for more detailed unaudited interim financial information as of and for the three months ended March 31, 2021.

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Cash and cash equivalents	\$ 4,750,001	7,446,799	10,664,659	8,744,923	9,690,049
Restricted cash	\$ 5,191,533	1,787,498	1,577,011	2,508,103	2,630,987
Total loans receivable*	\$ 17,783,737	26,261,361	33,166,192	38,084,108	45,080,829
Unsecured loans receivable**	\$ 1,506	73,953	154,795	169,298	50,125
Total Assets	\$ 30,188,504	36,082,234	46,291,093	50,438,308	59,301,893
Total Liabilities	\$ 15,476,846	20,433,475	30,011,401	34,199,228	40,007,757
Total Net Assets	<u>\$ 14,711,658</u>	<u>15,648,795</u>	<u>16,279,692</u>	<u>16,239,080</u>	<u>19,294,136</u>

*Loans are presented on a net basis, and the figures above reflect adjustment for NCIFund's allowance for loan losses, which totaled \$1,358,611, \$1,430,044, \$2,188,822, \$2,392,565 and \$2,824,132 as of December 31, 2016, 2017, 2018, 2019 and 2020, respectively, as well as deferred loan costs of \$207,552 for the year 2020. For additional information about NCIFund's allowance for loan losses, see Notes 1 and 5 to the 2020 Audited Financial Statements attached as Appendix A to this Offering Memorandum.

**Net of loan loss allowance of \$79, \$3,892, \$8,147, \$8,910 and \$2,259 as of December 31, 2016, 2017, 2018, 2019 and 2020, respectively.

NATURAL CAPITAL INVESTMENT FUND

Overview

Natural Capital Investment Fund, Inc. ("**NCIFund**") lends and delivers strategic advisory services to businesses and non-profit organizations located in underserved rural and urban communities in Central Appalachia and the Southeast U.S.

NCIFund was formed on October 2, 2001 as a Maryland nonstock corporation and is organized and operated for tax-exempt purposes within the meaning of Section 501(c)(3) of the Internal Revenue Code of 1986, as amended ("**Code**").

NCIFund is certified by the U.S. Department of Treasury as a Community Development Financial Institution ("**CDFI**"). Certified CDFIs are qualified to apply for technical assistance and financial assistance awards, as well as training provided by the U.S. Department of the Treasury's CDFI Fund through its Capacity Building Initiative. NCIFund is also a participating lender in several federally subsidized programs, including the U.S. Department of Agriculture's Intermediary Relending Program, the Rural Microentrepreneur Assistance Program, and Business and Industry Loan Guarantees, as well an authorized lender of U.S. Small Business Administration loans under the Community Advantage program and loans under the Paycheck Protection Program.

Additional information about NCIFund is available via its website at ncifund.org. Information included on NCIFund's website is not a part of, nor is it incorporated by reference into, this Offering Memorandum.

Vision and Mission

NCIFund believes that environmentally and socially responsible small business development is crucial to helping coal-impacted and other single-industry dependent communities in Appalachia and the Southeast transition to more diversified, resilient and sustainable economies. NCIFund's goal is to foster small business-based, diversified economies. Accordingly, it specializes in providing access to capital to small businesses or non-profits that create wealth through local ownership; nurture healthier communities by supporting families with vital services; and ensure good stewardship of the regions' natural, historical and cultural resources.

NCIFund's role as a CDFI is to marshal and deliver the resources that small businesses and first-time entrepreneurs need to succeed. Helping entrepreneurs flourish is the first phase of a longer-term strategy to diversify the regions' economies. Building an effective entrepreneurial "ecosystem" is necessary to help existing businesses and entrepreneurs succeed; success will bring additional capital and support resources to the region. Supporting traditionally underserved entrepreneurs is a priority. Over the three-year period ending December 31, 2020, approximately 50% of NCIFund's loans were to women or people of color, and approximately 92% of our loans were made in rural or economically distressed census tracts.

NCIFund believes that businesses need both smart capital and smart help to succeed, so it frequently provides strategic advisory services to its borrowers or to prospective borrowers, through its staff, contracted third-party experts, or via its Strategic Initiatives. NCIFund's Strategic Initiatives use loan capital, strategic advisory services, and partnerships with industry and community partners to deliver additional resources to regions or constituencies within NCIFund's mission.

NCIFund employs a holistic approach—through business support, field-building and policy activities—to address the interconnected issues of poverty alleviation, economic development and environmental sustainability. NCIFund's long-term vision is that well-supported home-grown talent can take the lead in growing businesses across a diverse range of sectors, with the potential to replace the resource extraction and low wage manufacturing industries that have dominated the Southeast's and Appalachia's economies for generations.

Capital Sources

NCIFund has a diverse array of capital sources, including funds received from the issuance of notes payable, loans and other borrowings, and funds received from government agencies, financial institutions, corporations, foundations, and civic organizations. For additional information about NCIFund's capitalization and borrowings, see "Capitalization" and

"Schedule of Borrowings Payable Outstanding" on page 25 of this Offering Memorandum, and Notes 8 and 9 to the 2020 Audited Financial Statements attached as Appendix A.

Revenue Sources

Historically, NCIFund's sources of revenue include net interest earnings, loan fees, and contract revenue, as well as grant support from foundations and public sector entities and donations from individuals. During the year ended December 31, 2020, NCIFund's financial income (i.e., interest income on loans receivable, fee income on loans, and short-term investment income) covered 78.81% of the cost of its core lending operations (including making, servicing and refinancing loans, but not including strategic advisory services and special projects). Of NCIFund's total revenue of \$6,953,325 in 2020, \$2,035,731, or approximately 29.2%, came from federal government grants. For more information, see the 2020 Audited Financial Statements attached as Appendix A.

Relationship with and Proposed Separation from The Conservation Fund

NCIFund receives no direct financial support from TCF. TCF does not guarantee or support any third-party indebtedness of NCIFund, including the Notes, and TCF is not obligated with respect to or otherwise liable for the Notes or any other third-party indebtedness of NCIFund.

In January 2021, the Board of Directors of NCIFund approved a pending reorganization under which NCIFund would legally separate from TCF and no longer be a supporting organization of TCF. As of the date of this Offering Memorandum, NCIFund's request to the Internal Revenue Service ("**IRS**") for a determination as to NCIFund's federal tax exemption after the pending separation remains outstanding. NCIFund will amend and restate its Articles of Incorporation and Bylaws to reflect the separation from TCF. NCIFund expects that this separation will involve the termination of the management services agreement between NCIFund and TCF and the reconfiguration of staff, including NCIFund's hiring of certain TCF employees as its own, establishment of standalone benefits plan documents, an assignment of certain intellectual property rights (including the use of the name "NCIFund"), and other changes. TCF has agreed to this reorganization. NCIFund does not expect the separation to materially impact its activities, results of operations or financial position. See also "Related Party Transactions" on page 30.

Response to COVID-19 Pandemic

NCIFund has remained operational throughout the outbreak of the novel coronavirus disease, COVID-19. NCIFund's employees continue to conduct business remotely without a material impact on operations. As a mission-based lender and a CDFI, an important part of NCIFund's charitable mission is to work closely with its borrowers, especially in difficult times. NCIFund's response to COVID included grants, emergency loan programs, and deferments for its existing portfolio.

NCIFund received a grant of \$1 million from Truist Bank in April 2020 to fund grants of up to \$25,000 to small businesses in Truist's service area. NCIFund deployed these funds to a total of 83 recipients, of which 25 were existing NCIFund borrowers.

NCIFund participated as a lender in both the 2020 and 2021 rounds of the Paycheck Protection Program ("**PPP**") enacted under the Coronavirus Aid, Relief and Economic Security (CARES) Act. As of March 31, 2021, NCIFund had made 23 PPP loans (of which 15 were to existing NCIFund borrowers) with an aggregate principal balance of approximately \$852,514.50. We expect to continue as a participating lender in the PPP until such time as the federally allocated funds for CDFIs are exhausted.

In 2020, NCIFund joined the COVID-related North Carolina Rapid Recovery Loan Program in partnership with other CDFIs and community lenders. As of March 31, 2021, NCIFund had made 78 loans to North Carolina-based borrowers under the program, with an aggregate principal balance of approximately \$6,265,291.01, of which 14 were to existing NCIFund borrowers. NCIFund may make up to 10 additional loans under this program to borrowers whose applications were on the waiting list as of December 31, 2020.

In West Virginia, with funding from the Appalachian Regional Commission and the U.S. Economic Development Administration, NCIFund launched an Emergency Loan Program for COVID-affected businesses. As of March 31, 2021, NCIFund had made 17 loans to West Virginia-based borrowers under the program, with an aggregate principal balance of approximately \$654,500.

During the first six months of 2020, NCIFund provided payment deferrals on 103 (or approximately 45%) of its 262 active loans, representing an aggregate of approximately \$1,100,000 in deferred principal and interest payments that would have come due during the months of April, May and June 2020. These loans had an aggregate outstanding principal balance of \$25,868,856, representing 59% of the total principal balance of the loan portfolio at June 30, 2020. NCIFund recognized the deferred interest income as revenue for the affected months, so the primary impact of the deferments on its 2020 financial performance was a decline in the capital available for lending (due to lower principal and interest repayments) and a reduction in available cash.

To reflect the possibility of increased loan losses, during the first six months of 2020, NCIFund increased its provision for loan losses on all loans that were granted a deferment, as well as all loans to borrowers in the restaurant and hospitality industries, from its standard 5% of the outstanding amount to 10% of the outstanding amount of the loan. As of March 31, 2021, most of the borrowers granted deferments in 2020 have returned to making full principal and interest payments; deferments were still in effect for eight borrowers with an aggregate outstanding principal balance of \$3,465,000 (representing approximately 7% of NCIFund's gross total loans outstanding as of March 31, 2021). Loan charge-offs during the year ended December 31, 2020 totaled only \$23,972 (or 0.05% of NCIFund's gross total loans outstanding as of December 31, 2021), as compared to \$704,037 (or 1.7%) for the year ended December 31, 2019. The allowance for loan losses was \$2,824,132 as of December 31, 2020, an increase from \$2,392,565 as of December 31, 2019.

RISK FACTORS

Risk is inherent in all investing, including the risk that you may receive little or no return on your investment or even that you may lose part or all of your investment. Therefore, before investing you should consider carefully the following risks that you assume when you purchase the Notes. The section below does not describe all of the risks associated with an investment in the Notes. Additional risks and uncertainties may also adversely affect NCIFund or the Notes.

Risks Related to Outbreak of COVID-19

Outbreak of COVID-19 and Economic Fallout. The continuing outbreak of COVID-19 is significantly disrupting the economy, financial markets and societal norms in the United States and across the world. It is impossible to predict the ultimate adverse impact COVID-19 could have on NCIFund or its borrowers. NCIFund continues to work proactively with its borrowers, many of which have been adversely impacted by the COVID-19 pandemic due to government-mandated temporary closures of the economy and the general decline in business activity. See “Response to COVID-19 Pandemic” beginning on page 8 for more information regarding the impacts of the virus on NCIFund’s business. In sum, the effects of COVID-19 could, among other risks, result in a material increase in additional requests from NCIFund’s borrowers for loan deferrals, modifications to the terms of loans from NCIFund, or other borrower accommodations; have a material adverse impact on the financial condition of NCIFund’s borrowers or their customers, potentially impacting their ability to make payments to NCIFund as scheduled and driving an increase in delinquencies, loan impairments, and loan losses; result in additional material provisions for loan losses; result in a decreased demand for NCIFund’s loans and investments; cause an unusually large number of noteholders to elect not to renew their Notes upon maturity; negatively impact NCIFund’s ability to access capital on attractive terms or at all; and/or lead to an unmanageable decrease in NCIFund’s liquidity. These effects could have a material adverse impact on NCIFund’s business, financial condition, results of operations and/or cash flows, which could negatively affect NCIFund’s ability to meet its payment obligations under the Notes.

Risks Specific to the Notes and this Offering

Notes are Unsecured Obligations of NCIFund. The Notes are unsecured obligations of NCIFund. You must depend solely upon NCIFund’s financial condition and operations for principal repayments and interest payments on the Notes. The Notes are not certificates of deposit or deposit accounts with or obligations of, or guaranteed or endorsed by, any bank, savings and loan association, credit union or other financial institution regulated by federal or state authorities. The Notes are not insured by the Federal Deposit Insurance Corporation (FDIC), the Securities Investor Protection Corporation (SIPC) or any other state or federally regulated institution. In the event NCIFund becomes insolvent and is unable to pay its debts as they become due, all Notes that are issued as part of this Offering will rank equally in priority of repayment among one another and to NCIFund’s other unsecured debt, except for subordinated debt, which is junior to all unsubordinated Notes.

TCF Not Liable for Notes. NCIFund has been recognized under the Code as a supporting organization to TCF. NCIFund is not, however, a subsidiary of TCF. TCF does not guarantee or support any third-party indebtedness of NCIFund, including the Notes, and TCF is not obligated with respect to or otherwise liable for the Notes or any other third-party indebtedness of NCIFund. You must depend solely on NCIFund’s financial condition and operations for repayments of principal and interest on the Notes. See “Related Party Transactions” beginning on 30 for more information regarding NCIFund’s relationship with TCF.

Loss of Principal. The Notes are subject to investment risks, including possible loss of the entire principal amount invested.

No Sinking Fund or Trust Indenture. NCIFund has not established any sinking fund or trust indenture to provide for repayment of the Notes and has no plans to do so in the future. No trustee monitors NCIFund’s affairs on your behalf, no agreement provides for joint action by investors in the event NCIFund defaults on the Notes, and you do not have the other protections a trust indenture would provide. The lack of a sinking fund or trust indenture may adversely affect NCIFund’s ability to repay the principal and interest on the Notes when due. Therefore, the relative risk level may be higher for the Notes than for other securities with a sinking fund or a trust indenture.

Lack of Market; Transfer Restrictions. The Notes are not transferable without NCIFund’s consent. In addition, state and federal securities laws impose conditions on transfer of the Notes. Therefore, the nature of this Offering does not

afford the opportunity of a public or secondary market for the Notes, and it is highly unlikely that such a market will develop. You should view the purchase of a Note as an investment for its full term and should not expect to be able to liquidate your investment in the Notes prior to the maturity date.

No Right to Redeem Prior to Maturity. NCIFund is not legally obligated to redeem your Note prior to its maturity. You should view the purchase of a Note as an investment for its full term.

NCIFund Reserves the Right to Prepay Your Note. NCIFund reserves the right to prepay the Notes. In the event your Note is called for prepayment, there can be no assurance that you will be able to reinvest your prepayment proceeds in other securities having terms (and associated risks) as favorable as the prepaid Notes, which may result in a decline of income for you. The calling of Notes for prepayment may also have an adverse regulatory and/or tax impact on investors.

No Firm Commitment for This Offering. NCIFund is offering the Notes directly and there is no commitment by anyone to invest in the Notes. NCIFund cannot give any assurance that all of the Notes will be sold. The sale of Notes is on a best-efforts basis, and the issuance of the Notes is not contingent on any minimum aggregate number or dollar amount of commitments from investors. Because NCIFund has already established the appropriate systems and processes to administer this Offering along with its existing Notes, a low sales volume will likely not prompt cancellation of this Offering or cause NCIFund to refund Note purchases to existing noteholders. NCIFund cannot give any assurance as to the principal amount of Notes that will be sold and whether the proceeds will be sufficient to accomplish the purposes of this Offering.

Issuance of Senior Secured Indebtedness. NCIFund may incur indebtedness secured by a lien on some or all of NCIFund's assets, which indebtedness would rank senior to the Notes in right of repayment or in the event of a liquidation, insolvency or bankruptcy event. See the risk factor entitled "Senior Secured Debt" on page 13 below.

Issuance of Additional Notes of Equal Rank. NCIFund may issue additional notes under subsequent offerings, without the consent or approval of the owners of any Notes then outstanding. Those additional notes, when issued, may be of equal priority of repayment as the Notes.

Limitations on Subordination of NCIFund's Other Debt. The Notes are senior in the right of payment to NCIFund's subordinated loans only if the Notes are in default or if there is an event of bankruptcy or other liquidation proceeding against NCIFund. Short of these circumstances, investors in the Notes have no ability to block payment to subordinated debt holders, including accelerated payment triggered by a default under any of the subordinated loan documents. A default under any of the subordinated loan documents does not automatically constitute a default pursuant to the terms of the Notes.

Rate of Return. Other issuers may offer notes or other debt securities with a higher rate of return and/or that provide greater security and less risk than the Notes. NCIFund also may offer other debt securities that provide a higher rate of return and/or greater security and less risk than the Notes. In addition, interest rates are fixed at the time of issue. Interest rates offered for the sale of Notes may change at NCIFund's discretion. Should commercial rates rise, NCIFund is not legally obligated to pay a higher rate or to redeem the principal or allow an early redemption of a Note prior to its maturity.

Alignment of Maturity Dates. The Notes may be sold with maturities between one (1) and ten (10) years. NCIFund is not obligated to limit the amount of debt that may mature in any given period. If a substantial portion of NCIFund's repayment obligations under the Notes were to come due in a limited period of time or if the maturities of the Notes are not sufficiently staggered, NCIFund's ability to repay Notes that come due during any given period could be adversely impacted.

No Voting or Governance Rights. Under NCIFund's bylaws and the terms of the Notes, noteholders have no ability to remove or replace directors or committee members. In addition, noteholders do not have any right to participate in the management or control of NCIFund or any right or authority to act for or bind NCIFund.

Income Tax Considerations. There is risk that the federal, state, and local income tax results of your ownership of Notes may not be as you expect. Additionally, there is always a risk that changes may be made in the tax laws, which changes could have an adverse effect on your ownership of Notes. See "Tax Matters" on page 31 for more information.

Tax Treatment. The purchase of a Note is an investment. It is not a donation to a charitable organization and is therefore not deductible for tax purposes. Interest paid on the Notes is income to each noteholder, and will be subject to income tax, unless the noteholder is eligible for an exemption from federal income tax with respect to such interest. If an investor elects to have accrued interest treated as a donation to NCIFund, the investor may be eligible for a deduction from taxable income based on NCIFund's status as a 501(c)(3) organization.

No Independent Custodian. NCIFund serves as the custodian for the Notes, which exposes NCIFund to fiduciary risks and related claims. Although unlikely, if a claim like this were made and upheld, NCIFund's financial condition may be negatively affected.

No Independent Legal Counsel. No independent counsel has been retained to represent investors. All investors are encouraged to consult with their legal, financial and tax advisors prior to making an investment in the Notes.

Risks Specific to NCIFund

Economic Environment. NCIFund's activities and its ability to repay the Notes may be adversely affected by the future economic environment. During economic slowdowns or recessions there is a greater likelihood that more of NCIFund's borrowers or counterparties will be unable to repay their obligations at stated terms and maturities and could require NCIFund to extend the payment period of borrowers' loans. Additionally, NCIFund's borrowers could become delinquent on their loans or other obligations to NCIFund, which, in turn, could result in a higher level of charge-offs and provision for loan losses, all of which would adversely affect NCIFund's income and ability to repay the Notes. Furthermore, a poor economic environment may also make it more difficult for NCIFund to maintain its new loan origination volume and the credit quality of such loans at levels previously attained, which could also result in a higher level of charge-offs and provision for credit losses. For additional information about NCIFund's loan portfolio and its allowance for loan losses, see Note 5 to the 2020 Audited Financial Statements attached as Appendix A.

Insufficient Opportunities with Borrowers. NCIFund's lending strategy is dependent upon its ability to deploy the proceeds from the Notes into lending opportunities that generate social, economic, and/or environmental impact. NCIFund may be unable to execute on its strategy if lending opportunities with borrowers are limited or delayed. To mitigate this risk, NCIFund continually seeks to expand its network of borrowers and referral sources and its offering of loan products, including offering emergency loan programs during the current response to the pandemic.

Relatively Forgiving Lending Policies and Practices. NCIFund provides financing to borrowers whose organizations, businesses, and/or projects support and complement the mission of NCIFund. In some situations, NCIFund's borrowers may be unable to obtain financing from conventional commercial lenders, and NCIFund may make loans to borrowers on terms less stringent than those imposed by commercial lenders. NCIFund may make exceptions to its lending policies when a particular borrower's circumstances warrant such deviation, and may, per its Lending Policy, accommodate partial, deferred or late payments, or restructure or refinance outstanding loans in situations where a typical commercial lender may not. The quality and performance of the loans made by NCIFund may adversely impact the ability of NCIFund to repay the Notes. See "Lending Policies and Procedures" beginning on page 19 for more information generally, and see "Response to COVID-19 Pandemic" on page 8 for information regarding NCIFund's deferral of payments in response to the coronavirus pandemic.

Credit Market. NCIFund is and will continue to be dependent upon the availability of credit from financing sources in order to conduct its activities and to satisfy its working capital needs. If NCIFund is unable to obtain additional financing or if any of its current credit facilities become unavailable on acceptable terms or at all, NCIFund may not have access to the funds it requires to pay its debts as they come due or to continue to make new loans, which would limit NCIFund's ability to generate income. Similarly, if necessary financing becomes unavailable on acceptable terms, or at all, to NCIFund's borrowers and other counterparties, such parties may be unable to repay their loans and satisfy their other obligations to NCIFund as they come due, which could adversely affect NCIFund's ability to repay the Notes.

Federal, State and Local Laws. NCIFund and its operations and assets are subject to regulation, certification and licensing by various federal, state and local government agencies, including regulation related to its designation as a CDFI by the United States Department of the Treasury's CDFI Fund. Such regulations and requirements are subject to change, and there can be no assurances that in the future NCIFund will meet any changed regulations and requirements or that

NCIFund will not be required to expend significant sums to comply with changed regulations and requirements. No assurance can be given as to the effect on NCIFund's future operations of existing laws, regulations and requirements for licensing, certification or accreditation, or of any future changes in such laws, regulations and standards, including as a result of changes in the leadership of the federal, state and local governments. A loss of CDFI status by NCIFund could result in a loss of access to favorable funding sources and reputational harm, which could impact NCIFund's ability to repay the Notes.

Other possible federal or state legislation which could have an adverse effect on NCIFund would include, among others: (i) limitations on the amount of charitable contributions which are deductible for income tax purposes; and (ii) regulatory limitations affecting NCIFund's ability to undertake its programs or develop new programs. You are urged to consult with your own tax advisor regarding how applicable tax laws affect an investment in the Notes.

Qualification for Federally Funded Programs. In order to successfully fund its lending activities, NCIFund relies in part on maintaining its qualification as an intermediary under the U.S. Department of Agriculture's (USDA) Intermediary Relending Program; as a Microenterprise Development Organization under the USDA's Rural Microentrepreneur Assistance Program; and as a certified lender of U.S. Small Business Administration (SBA) loans under the Community Advantage program and Paycheck Protection Program. If NCIFund loses its status under any of those federally funded programs, NCIFund may be unable to make loans on the same terms and/or in the same volume, thereby adversely affecting NCIFund's results of operations. Any changes to such programs, including changes to the level of funds appropriated by the federal government to fund such programs, may also have an adverse effect on the success of NCIFund's lending activities.

Non-Compliance under Debt Agreements. NCIFund has certain debt agreements that contain financial covenants requiring NCIFund to maintain minimum leverage, liquidity and certain financial ratios. As of December 31, 2020, NCIFund was in compliance with all of its financial covenants. A failure to be in compliance could have a material adverse effect on NCIFund by limiting its access to credit and capital markets, driving up its costs of borrowing or triggering defaults and the exercise of remedies by creditors.

Senior Secured Debt. As a condition of certain debt agreements to which NCIFund is a party, NCIFund has granted to certain of its lenders a lien on, and a security interest in, all of NCIFund's rights, title, and interest to specific loans receivable and certain cash reserves. As of December 31, 2020, the aggregate principal balance of senior secured indebtedness was \$3,713,189, or 11.89% of NCIFund's total borrowings. If NCIFund becomes insolvent, any secured lenders will be entitled to payment before the holders of the Notes and other unsecured creditors to the extent of the value of NCIFund's assets that are encumbered. NCIFund may also incur other debt obligations that may be senior to the Notes in terms of collateral or repayment, through the sale, securitization, syndication or participation of NCIFund's portfolio of loans.

Viability of NCIFund. A portion of NCIFund's assets is restricted and may not be used to make principal or interest payments under the Notes. As of December 31, 2020, NCIFund had total assets of \$59,301,893 and total net assets of \$19,294,136. Total net assets include \$11,632,114 of net assets without donor restrictions and \$7,661,992 of net assets with donor restrictions that are restricted as to use and are not available for principal or interest payments under the Notes. NCIFund's total liabilities as of December 31, 2020 totaled \$40,007,757. If NCIFund is unsuccessful in obtaining the repayment of loans receivable and/or unsuccessful in obtaining grants and contributions for the payment of operating expenses, NCIFund's viability and ability to make principal and interest payments under the Notes may be adversely affected.

Reliance on Grants and Contributions. NCIFund relies on grants and contributions for a portion of its revenues. During 2020, federal grant revenue accounted for 29.2% of NCIFund's revenue. These grants and contributions are used to finance NCIFund's lending activities, provision of strategic advisory services, special projects and operating expenses. Without these grants and contributions, NCIFund would have to find other sources of capital to fund its operations. Historically, NCIFund has received significant support for both its operations and capital needs from the public sector, including the U.S. Department of Treasury, U.S. Department of Agriculture, and various other federal, state, and local agencies and philanthropic sources. NCIFund's ability to repay the Notes may be adversely affected if the amount of grants and contributions available to NCIFund is diminished or if NCIFund is not successful at obtaining such grants and contributions. See Notes 1 and 10 to the 2020 Audited Financial Statements attached as Appendix A for more information.

Related Party Transactions / Conflicts of Interest. NCIFund may be subject to conflicts of interest arising from its relationship with TCF, to which NCIFund is a supporting organization under the Code. Through its right to appoint a majority of NCIFund's directors and its provision of management services, TCF could effect a change of control at NCIFund.

Conflicts could also arise with respect to NCIFund's management services agreement with TCF or any other commercial arrangements that TCF and NCIFund may enter into from time to time. If TCF experiences negative performance or financial difficulties, NCIFund may experience operational issues related to its management services agreement. See "Related Party Transactions" beginning on page 30 for more information.

Allowance for Loan Losses. When NCIFund originates loans and leases, it incurs credit risk, or the risk of losses if its borrowers do not repay their loans. NCIFund provides for credit losses by establishing an allowance for loan losses. The amount of this loan loss allowance is based on NCIFund's assessment of potential credit losses inherent in its loans receivable portfolio. This process, which is critical to NCIFund's operating results and financial condition, requires difficult, subjective and complex judgments, including forecasts of economic conditions and how these economic predictions might impair the ability of NCIFund's borrowers to repay their loans. As is the case with any such assessments, there is always the chance that NCIFund will fail to identify the proper factors or that it will fail to accurately estimate the impacts of factors that it identifies. If NCIFund underestimates the credit losses inherent in its loans receivable portfolio, it will incur credit losses in excess of the amount of its allowance for loan losses, which may adversely affect NCIFund's ability to repay the Notes. For more information, see "Lending Policies and Procedures" beginning on page 19, "Response to COVID-19 Pandemic" beginning on page 8, and Notes 1 and 5 to the 2020 Audited Financial Statements attached as Appendix A.

Loan Concentration. NCIFund's loans receivable consist primarily of loans made to businesses that provide environmentally beneficial or vital human services necessary for the maintenance of resilient rural and urban communities. At December 31, 2020, NCIFund's ten largest borrowers constituted approximately \$8,000,000 or 17% of total loans outstanding (net of participation interests), and its top 25 largest borrowers comprised \$14,400,000 or 31% of total loans outstanding (net of participation interests). In addition, as of December 31, 2020, 72% of NCIFund's loans receivable were due from borrowers located within North Carolina, and 22% of its loans were to borrowers in West Virginia. NCIFund's ability to repay the Notes may be adversely affected by economic, business and political conditions that uniquely or disproportionately affect such borrowers or North Carolina and West Virginia.

Limits on NCIFund's Remedies as a Creditor. NCIFund's remedies as a creditor upon default by any of its borrowers will be subject to various laws, regulations and legal principles that provide protections to borrowers. Under existing laws (including, without limitation, the Federal Bankruptcy Code), the remedies specified by NCIFund's loan agreements and collateral documents (if any) may not be readily available or may be limited. Furthermore, the laws of a particular jurisdiction may change or make it impractical or impossible to enforce specific covenants in the loan agreements and collateral documents (if any). In addition, NCIFund's legal and contractual remedies, including those specified in its loan agreements and collateral documents (if any), typically require judicial actions, which are often subject to discretion and delay. A court may refuse to order the specific performance of the covenants contained in the loan agreements and collateral documents.

Some Loans may be Under-Collateralized. Consistent with NCIFund's mission to provide financing to small businesses that generally cannot access traditional bank loans, borrowers may not have sufficient, or any, collateral to fully secure a loan. In the event of a loan default, the collateral securing such loan may not be adequate, and there is no assurance that NCIFund could successfully recover an amount equal to the amount of the defaulted loan. A declining market in the relevant collateral could further depress the value of NCIFund's loan collateral or delay or limit NCIFund's ability to dispose of the loan collateral and increase the possibility of a loss following a foreclosure. Under such circumstances, NCIFund may not have the ability to make principal or interest payments under the Notes.

Discretion to Make Loans. An investor will have no control over, and the Notes do not restrict, the types of loans that may be made by NCIFund, other than an intention to use the proceeds from this Offering as described under "Use of Proceeds" beginning on page 17. In addition, an investor will not be able to evaluate all of the specific loans and investments to be made by NCIFund. NCIFund's Board of Directors has authorized specific senior management personnel to approve transactions within specific guidelines set by the Board, with a Board Investment Committee, Agriculture Investment Committee, and the Board approving or disapproving other proposed loans. An investor will not have input into, and the Notes do not restrict, such loan decisions. These factors increase the risk of investing in the Notes. See "Lending Policies and Procedures" beginning on page 19 for more information.

Interest Rate Risk. In general, interest rates are subject to significant fluctuations depending upon various economic and market factors over which NCIFund has no control, and which could affect NCIFund's ability to repay the

Notes. Interest rate fluctuations will adversely affect NCIFund's financial performance if NCIFund is unable to maintain a sufficient spread between the interest rates it pays on the Notes and borrowed funds and the interest rates NCIFund receives on its outstanding loans and investments. In particular, rapid changes in interest rates can significantly and adversely affect NCIFund's operating results and financial condition.

Borrowers May Prepay Borrowed Funds. A borrower may decide to prepay its borrowed funds. At present, NCIFund imposes no prepayment penalty for borrowers who prepay their loans. If borrowers choose to prepay their loans, NCIFund may not receive some or all of the interest payments on its loans, which may impair its ability to make principal and interest payments under the Notes.

Reliance on Management. NCIFund relies heavily on its management team and other key personnel. There can be no assurance of continuity in NCIFund's key personnel, nor does NCIFund maintain key person insurance. The loss of any one of them may adversely affect NCIFund's operations.

Indemnification Obligations. NCIFund is required under its bylaws to indemnify each person who may serve as a director or officer of NCIFund. Although unlikely, such indemnification may adversely impact NCIFund's operating results and financial condition.

Litigation. NCIFund may be involved from time to time in a variety of litigation arising out of its activities. NCIFund's insurance may not cover all claims that may be asserted against it, and any claims asserted against NCIFund, regardless of merit or eventual outcome, may result in reputational harm or unexpected material expenses. Should the ultimate expenses, judgments or settlements in any litigation exceed NCIFund's insurance coverage, they could have a material adverse effect on NCIFund's financial condition and results of operations. In addition, NCIFund may not be able to obtain appropriate types or levels of insurance in the future, and NCIFund may not be able to obtain adequate replacement of its existing insurance policies with acceptable terms, if at all.

Accuracy of Information. In deciding whether to extend credit to borrowers, NCIFund relies on information provided to it by its borrowers, including financial statements and other financial information. NCIFund also relies on representations of borrowers as to the accuracy and completeness of that information and, with respect to financial statements, on reports of independent auditors. NCIFund's financial condition and results of operations could be negatively impacted to the extent that NCIFund extends credit in reliance on financial statements or other information provided by borrowers that is false, misleading or incomplete.

Environmental Liability. NCIFund may acquire, through foreclosure, properties securing loans NCIFund has originated that are in default. Although environmental due diligence is conducted on the collateral in connection with the lending process, there is a risk that hazardous substances could be discovered on these properties. In this event, NCIFund might incur substantial costs associated with removing these substances or in connection with third-party claims seeking damages for environmental contamination emanating from the site. NCIFund may not have adequate remedies against the prior owner or other responsible parties and could find it difficult or impossible to sell the affected properties. If NCIFund were to become subject to significant environmental liabilities or costs, NCIFund's results of operations and financial condition could be materially and adversely affected.

Reliance on Technology and Cybersecurity. The majority of NCIFund's records are stored and processed electronically, including records of its Notes receivable and Notes payable. NCIFund relies to a certain extent upon third party vendors for providing hardware, software, and services for processing, storing, and delivering information. NCIFund's electronic records include confidential noteholder information and proprietary information regarding NCIFund's operations. Electronic processing, storage, and delivery has inherent risks such as the potential for hardware failure, virus or malware infection, input or programming errors, inability to access data when needed, permanent loss of data, and/or unauthorized access to data or theft of data. Global cybersecurity threats and incidents can range from uncoordinated individual attempts to gain unauthorized access to information technology (IT) systems to sophisticated and targeted measures known as advanced persistent threats, directed at NCIFund and/or its third-party service providers. While NCIFund and its vendors take measures to prevent, detect, address and mitigate these risks (including access controls, employee training, data encryption, vulnerability assessments, continuous monitoring of NCIFund's IT networks and systems and maintenance of backup and protective systems), it is possible that these measures will not be completely effective and that there may be other risks that have not been identified because they are different or unknown or that may emerge in the future. If NCIFund

were to experience large-scale data inaccuracy, inability to access data for an extended time period, permanent loss of data, data breach, failure of its vendors to perform as contracted, or other significant issues regarding data, it could adversely affect all aspects of NCIFund's operations. The potential consequences of a material cybersecurity incident include reputational damage, litigation with third parties and increased cybersecurity protection and remediation costs, which in turn could have a material adverse effect on NCIFund's results of operations.

Securities Law Compliance. This Offering is being made in reliance upon exemptions from registration provided by Section 4(a)(2) of the Securities Act of 1933, as amended (the "**Securities Act**"), Rule 506(c) of Regulation D promulgated thereunder, and Section 3(c)(10) of the Investment Company Act. Reliance on these exemptions does not, however, constitute a representation or guarantee that such exemptions are indeed available. NCIFund may seek to qualify or register this Offering in certain jurisdictions where NCIFund believes such qualification or registration is required.

If for any reason the offering is deemed not to qualify for exemption from registration under the securities exemptions referred to above (and if no other exemption from registration is available), and the offering is not registered or qualified with the applicable federal or state authorities, the sale of the Notes will be deemed to have been made in violation of the applicable laws requiring registration. As a remedy for such a violation, penalties and fines may be assessed against NCIFund, and noteholders will typically have the right to rescind their purchase and to have their purchase price returned, together with interest at statutorily prescribed rates. If noteholders request the return of their investment, funds may not be available for that purpose and NCIFund may be unable to repay all noteholders. Any refunds made would also reduce funds available for NCIFund's operations. A significant number of requests for rescission could leave NCIFund without funds sufficient to respond to rescission requests or to proceed successfully with NCIFund's activities.

Federal and state securities laws are subject to change and frequently do change. Future changes in federal or state securities laws, rules, or regulations regarding the sale of securities by NCIFund as contemplated by this Offering, or the policies, practices and procedures under which regulators review registration materials or exemption applications, may make it more costly and difficult for NCIFund to offer and adversely affect its ability to sell the Notes. Such an occurrence could result in a decrease in the amount of Notes that NCIFund sells, which could adversely affect NCIFund's operations and its ability to meet its obligations under the Notes.

Limited Regulatory Oversight. NCIFund does not intend to register as an investment company under the Investment Company Act, in reliance upon Section 3(c)(10) of the Investment Company Act. Accordingly, the provisions of the Investment Company Act, which, among other matters, require investment companies to have a majority of disinterested directors, will not apply. In addition, the Notes are being offered under an exemption from federal registration pursuant to Section 4(a)(2) of the Securities Act, Rule 506(c) of Regulation D promulgated thereunder, and Section 3(c)(10) of the Investment Company Act. As such, this Offering Memorandum will not be submitted to or reviewed by the U.S. Securities and Exchange Commission or any state securities regulator.

Change in Operations. NCIFund is not obligated to continue offering the Notes or to continue its current operations or existence as a non-profit organization. Any such change in its operations or status could negatively impact its ability to repay the Notes.

Policies and Procedures Subject to Change. At various points in this Offering Memorandum, NCIFund describes its policies and procedures, such as its Lending Policy. These descriptions are intended to help investors understand NCIFund's current operations. NCIFund, however, may deviate from those policies when circumstances warrant and reserves the right to change its policies and procedures at any time.

Effects of Loss of 501(c)(3) Tax-Exempt Status. NCIFund is an organization as described in Code Section 501(c)(3). A loss of such tax-exempt status may adversely affect NCIFund, by making donations to it ineligible for a deduction for federal income tax purposes and subjecting NCIFund's income to federal taxes. A loss of federal tax-exempt status may also impact NCIFund's state tax exemptions.

USE OF PROCEEDS

NCIFund is offering up to \$20,000,000 in aggregate principal amount of Notes issued and outstanding to “accredited investors” as defined in Rule 501(a) of Regulation D under the Securities Act. NCIFund may increase or decrease the size of this Offering in its sole discretion. The Notes are offered in principal amounts of a minimum of \$25,000 and integral multiples of \$5,000 in excess thereof and are subject to automatic reinvestment if an investor fails to elect to have the principal amount of such investor’s Notes repaid at maturity. The issuance of Notes is not contingent upon receiving a minimum number or dollar amount of commitments from investors. As of the date of this Offering Memorandum, NCIFund has issued and outstanding Notes under this Offering with an aggregate principal amount of \$4,539,183.

NCIFund intends to use the proceeds from this Offering to make loans to start-up, early-stage, and growth-stage small businesses located predominantly in economically distressed communities that are unable to access traditional sources of capital. Over the three-year period ending December 31, 2020, approximately 50% of NCIFund’s loans were to women or people of color, and approximately 92% of our loans were made in rural or economically distressed census tracts. NCIFund specializes in lending to businesses that provide environmentally beneficial services, are natural resource-based, or provide vital human services necessary for the maintenance of resilient rural and urban communities.

NCIFund’s borrowers operate in sectors such as renewable energy and energy efficiency, local food systems, value-added agriculture, vital community services (e.g., childcare, healthcare, education), heritage and recreation-based tourism, environmental services, and small town mainstreet redevelopment and green building. NCIFund has also lent to small businesses that recycle, conserve and treat water, producers of sustainably harvested secondary forest products, and businesses that make natural medicines. NCIFund’s ability to use the proceeds in its target regions and sectors is not guaranteed and is dependent upon the availability of attractive loan opportunities.

NCIFund also provides strategic advisory services to its borrowers and to prospective borrowers, either through its lending staff, through contracted third parties, or as part of its Strategic Initiatives. NCIFund’s Strategic Initiatives use loan capital, strategic advisory services, and partnerships with industry and community partners to deliver additional resources to regions or constituencies within NCIFund’s mission. For example, NCIFund’s current Strategic Initiatives support the growth of tourism infrastructure and mainstreet redevelopment in southern West Virginia communities seeking to transition away from dependence on the coal industry; assist small businesses and farms in deploying solar energy; and help independent agricultural producers acquire cold storage so they can better serve local food systems.

NCIFund may also elect to use proceeds from this Offering for repayment or refinancing of debt, and reserves the right to keep a portion of proceeds in cash reserves, money market accounts, certificates of deposit, treasury bills, and other short-term investments. If revenues from NCIFund’s loans receivable are less than anticipated, or if repayment on maturity of existing Notes exceed NCIFund’s historical experience, then it may be necessary to use a portion of the proceeds from this Offering, along with other available funds, to repay the Notes. Proceeds from the sale of Notes may be commingled with the proceeds from loans, grants, and donations to NCIFund.

The expenses of this Offering, including attorneys’ fees, accountants’ fees, and securities exemption, registration or filing fees, will be paid from NCIFund’s general operating capital and not from the proceeds of this Offering. NCIFund expects the aggregate amount of such expenses to be less than 1% of the total offering amount. This Offering is not underwritten, and no commissions will be paid for the sale of the Notes. As a result, NCIFund will receive 100% of the proceeds from this Offering.

METHOD OF OFFERING

All sales will be made by certain of NCIFund's executive officers, pursuant to broker-dealer, issuer or agent licensing or applicable exemptions, and they receive no commissions, fees or special remuneration in connection with the sale of the Notes.

If you wish to purchase a Note, you must complete an Application to Purchase Note and Investor Questionnaire, in the form attached as Appendix B. If your Application to Purchase Note is accepted, NCIFund will return an executed Note to you. See Appendix C for a Form of the Promissory Note. NCIFund may reject any offer to purchase a Note in its sole discretion. Payment may be made by certified check, cashier's check, or wire transfer of immediately available funds. Applications will be accepted via U.S. mail to Natural Capital Investment Fund, Inc., P.O. Box 839, 106 W. Washington Street, Charles Town, WV 25414, by email to Marten Jenkins, President and Chief Executive Officer of NCIFund, at mjenkins@conservationfund.org, or by any other means NCIFund determines to be acceptable.

In order for you to purchase any Notes, you must be an "accredited investor," as defined in Rule 501(a) of Regulation D under the Securities Act. You must acquire the Notes for your own account for investment purposes only without a view to public distribution or resale. You must have no contract, undertaking, agreement or arrangement to sell, pledge, assign or otherwise transfer or dispose of any Note or any portion thereof to any other person.

LENDING POLICIES AND PROCEDURES

Overview

Following is a brief summary of NCIFund's policies and procedures with respect to lending, risk and portfolio management, and investment underwriting (the "**Lending Policy**"). The Lending Policy is fully set forth in the "Risk & Portfolio Management Policies & Investment Underwriting Guidelines," which NCIFund's Board of Directors may amend from time to time in its sole discretion. For more information regarding NCIFund's lending activities, see also Notes 1, 5, 12, and 13 to the Audited Financial Statements attached as Appendix A.

NCIFund generally extends term loans of up to \$1,000,000 to small businesses with job creation potential. NCIFund's loans may be made in conjunction with another lender, and NCIFund uses its best efforts to find co-lenders in order to maximize the impact of its loan. NCIFund generally seeks a first priority lien position, but at times makes loans that are secured by a subordinated interest or, in rare cases, loans that are unsecured by any collateral. Loan proceeds generally may be used by borrowers for inventory, machinery and equipment, real estate acquisition and development, and other working capital purposes.

In general, the terms of NCIFund's loans range from less than one year up to 20 years. In general, loans for working capital have terms of up to seven years; equipment loans have terms of up to 10 years; and mortgage loans have terms of up to 20 years. When circumstances warrant, NCIFund may make mortgage loans for up to 30 years.

The interest rates on NCIFund's loans may be fixed or variable. Interest rates depend on factors including NCIFund's assessment of the risk inherent in the transaction, the borrower's risk profile, and NCIFund's own cost of capital. NCIFund may set interest rates below prevailing market rates offered by commercial lenders, though it has no obligation to do so. NCIFund does not set interest rates below its own cost of capital.

Repayment schedules for NCIFund's loans are tailored to each borrower's business and projected cash flow and may feature deferred obligations of repayment of principal and interest, interest-only payments, and/or "balloon" payments. In general, all of NCIFund's loans may be repaid by the borrower without premium or penalty.

NCIFund charges its borrowers fees of at least 1% of the loan amount, half of which is due upon the borrower's signing of a loan commitment letter, and the remainder of which is paid at closing (or amortized over the term of the loan). Borrowers must pay additional fees for loan modifications and renewals, loans made in multiple disbursements, as well as a late fee of 5% of any required payment amount that is paid more than 10 days after its given due date.

When circumstances warrant, NCIFund may adjust, amend, waive, deviate from or allow exceptions to the Lending Policy at any time with respect to any particular lending decision.

Federal Programs

NCIFund is a participating lender in several federally funded programs, including the USDA Intermediary Relending Program, the USDA Rural Microentrepreneur Assistance Program, and the USDA Business and Industry Loan Guarantees, and it is authorized by the SBA to issue Community Advantage loans.

USDA Intermediary Relending Program. Under the USDA Rural Development's (RD) Intermediary Relending Program (IRP), NCIFund borrows funds from RD at 1% interest and relends to businesses in rural areas outside a city or town with a population of less than 50,000. NCIFund's activities in connection with its participation in the IRP are governed by federal regulations, codified at 7 C.F.R. Part 4274, Subpart D and Part 1951 (the "**IRP Rules**"), which can be accessed via www.ecfr.gov. A summary of the IRP Rules can be found at <https://www.rd.usda.gov/programs-services/intermediary-relending-program>. NCIFund monitors any changes to the IRP Rules to ensure that its IRP activities are compliant; to the extent that there is any conflict or inconsistency between the Lending Policy and the IRP Rules, the IRP Rules control.

USDA Rural Microentrepreneur Assistance Program. Under RD's Rural Microentrepreneur Assistance Program (RMAP), NCIFund borrows funds and/or receives grant funds from RD and provides microloans and technical assistance to businesses located in RMAP-eligible areas with 10 or fewer full-time employees. NCIFund's activities in connection with its participation in the RMAP are governed by federal regulations, codified at 7 C.F.R. Part 4280, Subpart D (the "**RMAP Rules**"), which can be accessed via www.ecfr.gov. A summary of the RMAP Rules can be found at <https://www.rd.usda.gov/programs-services/rmap>.

[services/rural-microentrepreneur-assistance-program](#). NCIFund monitors any changes to the RMAP Rules in an effort to ensure that its RMAP activities are compliant; to the extent that there is any conflict or inconsistency between the Lending Policy and the RMAP Rules, the RMAP Rules control.

USDA Business and Industry Loan Guarantees. Under RD's Business and Industry Loan Guarantee program (B&I), the USDA guarantees loans extended by NCIFund to rural businesses, up to 85% for loans up to NCIFund's limit of \$2.5 million. NCIFund's lending activities in connection with B&I loans are governed by federal regulations, codified at 7 C.F.R. Part 4279, Subparts A and B and Part 4287, Subpart B (the "**B&I Rules**"), which can be accessed via www.ecfr.gov. A summary of the B&I Rules can be found at <https://www.rd.usda.gov/programs-services/business-industry-loan-guarantees>. NCIFund monitors any changes to the B&I Rules to ensure that its B&I activities are compliant; to the extent that there is any conflict or inconsistency between the Lending Policy and the B&I Rules, the B&I Rules control.

SBA Community Advantage Program. NCIFund is an authorized lender of SBA Community Advantage loans, which are guaranteed by the SBA up to 85% of the loan, depending on the amount of the loan and the borrower's qualifications. NCIFund is authorized under the program to make 7(a) loans, in amounts up to \$250,000 per borrower, to small businesses located in underserved communities and meeting the SBA's and NCIFund's other requirements. NCIFund's lending activities in connection with SBA Community Advantage loans are governed by federal regulations, codified at 13 C.F.R. Part 120, which can be accessed via www.ecfr.gov, as well as SBA's Standard Operating Procedures 50 10 5 (collectively, the "**SBA Rules**"). NCIFund monitors any changes to the SBA Rules to ensure that its SBA lending activities are compliant; to the extent that there is any conflict or inconsistency between the Lending Policy and the SBA Rules, the SBA Rules control.

SBA Paycheck Protection Program. In response to the outbreak of COVID-19, NCIFund has participated as a PPP lender under the CARES Act. PPP loans are 100% guaranteed by the SBA and forgivable up to the full amount if the applicable conditions are met.

Underwriting Criteria

NCIFund's lending activities are intended to fill a gap in the capital formation markets for early-stage businesses in underserved communities that might not have access to traditional funding sources. This necessarily entails a greater level of risk than that experienced by a typical commercial lender. NCIFund generally evaluates loan applicants along six key criteria:

1. Management Capacity and Organizational Track Record. A borrower must have a mission that is consistent with NCIFund's and management personnel that inspire a high level of trust. NCIFund examines each loan applicant's ability to understand and address potential obstacles and risks inherent in its business. Where circumstances warrant, NCIFund will leverage its own talent and connections to assist the borrower in addressing any skills gaps to help the borrower's leadership be better equipped to grow the business.
2. Business and Financial Viability. NCIFund thoroughly evaluates each loan applicant's business plan, strategic plan, pro forma financial projections, financial controls and internal systems, and in the case of more established businesses, historical financial performance reflected in the applicant's tax returns and accountant-prepared financial statements.
3. Collateral and Loan to Value Requirements. The majority of NCIFund's loans are secured by some form of collateral, even if NCIFund is in a junior lien position. NCIFund generally requires any party that owns more than 20% of the outstanding equity interests of the borrower to guarantee the loan, and depending on the nature of the transaction, NCIFund may require other guarantors. For mortgage loans, NCIFund may require an independent appraisal or rely on another valuation method (e.g., letter of opinion prepared by a licensed real estate broker substantiated by comparable sales, tax card) to determine the underlying property's market value.
4. Repayment Ability. NCIFund closely assesses each loan applicant's debt capacity and projected cash flow, including the reasonableness of the assumptions upon which any financial projections are based. NCIFund strives to lend to businesses that have a historical or projected debt service coverage ratio of 1.2 or greater (calculated by subtracting cash operating expenses from gross cash income and dividing the result by the borrower's total debt service obligations).
5. Current and Prospective Economic, Environmental and Social Impact. NCIFund assesses each loan applicant's social and environmental impact on a holistic basis in view of NCIFund's entire loan portfolio. NCIFund

determines an "impact rating" for each borrower that considers job growth, employee wages and benefits, waste reduction efforts, water and energy conservation, supply chain development, restoration and protection of natural resources, location in an area designated for economic development or tax incentives, overall community benefit, promotion of ecological, historical or cultural tourism, redevelopment of blighted areas, promotion of public health, and provision of services to a historically disadvantaged population.

6. Personal Guarantees. Owners who own 20% or more of the loan applicant are generally required to provide a personal guarantee securing the loan. If no one owner has a 20% ownership interest, then a group of owners selected by NCIFund is generally required to provide personal guarantees from each owner.

In addition, NCIFund's borrowers must demonstrate an acceptable history of repaying debt in a timely manner, a reasonable plan for use and repayment of loan proceeds, sufficient internal expertise or external assistance to manage the business successfully, payment of taxes, license fees and other legally required amounts, and evidence that the borrower has obtained all necessary zoning, business licensing and government approvals necessary to carry out its activities. The Board Investment Committee, Agricultural Investment Committee, or the Board of Directors may also apply additional requirements or criteria on a case-by-case basis.

Depending on the nature of the transaction, NCIFund generally requires that its borrowers maintain minimum insurance coverage, including general liability insurance and workers' compensation insurance. Where the loan is secured by real property, NCIFund requires title insurance and fire and hazard insurance. If there is little equity value in the real property, then NCIFund may waive the title search and insurance requirements. In some cases, NCIFund also requires its borrowers to maintain business interruption insurance and key person life insurance.

For any borrower whose loan is secured by real property, prior to closing, NCIFund orders a Records Search with Risk Assessment from a third-party environmental consultant to assess whether the property is "low risk" or "high risk," consistent with the requirements of the SBA Rules. If a property is deemed "high risk," NCIFund will determine which further environmental assessments are needed, such as a Phase I Environmental Site Assessment.

Approval Process

NCIFund generally follows a four-step process for reviewing a prospective borrower's application and determining whether to extend a loan:

1. Analysis and recommendation from NCIFund staff;
2. *For loans up to \$200,000*: Review and approval by two of NCIFund's President, Senior Vice President – Director of Lending, and Senior Vice President – Director of Strategic Initiatives;
3. *For loans greater than \$200,000*: Review and approval by the Board Investment Committee or Agriculture Investment Committee, depending on the type and amount of the loan; and
4. Approval or ratification by the Board of Directors.

The table below describes the approval authority required under the Lending Policy with respect to loans based upon the type and amount of the loan.

Type and Amount of Loan	Approval Authority
General business loans up to \$200,000	At least two (2) of the following: President, SVP – Director of Lending, and SVP – Director of Strategic Initiatives.
<ul style="list-style-type: none"> General business loans (non-agriculture) up to \$1,000,000 USDA B&I loans (non-agriculture) up to \$2.5 million 	Board Investment Committee (BIC).
<ul style="list-style-type: none"> Agriculture general business loans up to \$750,000 Agriculture USDA B&I loans up to \$2.5 million 	Agriculture Investment Committee (AIC).
All loans	Board of Directors ratifies and/or approves all loans. It approves loans when the BIC or AIC recommends a loan that exceeds the investment limits set forth in the Lending Policy.
<ul style="list-style-type: none"> General business loans up to \$100,000 during a federal- or state-declared emergency SBA Paycheck Protection Program loans up to \$250,000 North Carolina Rapid Recovery COVID-19 loans up to \$250,000 	At least one (1) of the following: President, SVP – Director of Lending, or SVP – Director of Strategic Initiatives

Closing Documentation

Each borrower approved for a loan executes such legal instruments as NCIFund deems necessary to provide for the repayment of principal and interest. Depending on the nature and amount of the loan, closing documents may include, but are not limited to, the commitment letter, loan and security agreement, deed(s) of trust, assignment of rents, promissory note, mortgage of real estate, certificate of insurance, evidence of other financing commitments, UCC-1 financing statements, title insurance, disclosures, and attorney's opinion letter.

Risk Monitoring and Management

Monitoring of NCIFund's borrowers is critical to both protecting NCIFund's financial interests and assisting the borrower to successfully grow its business and manage its assets. NCIFund generally collects and reviews financial and operational information from each borrower, reviews the assigned risk rating, and deploys appropriate forms of strategic advisory services when circumstances warrant. The nature and frequency of monitoring activities are based on the type of loan, the life cycle of the business, financial and operating performance, repayment track record, and overall risk evaluation.

NCIFund's credit risk rating system examines different areas of risk affecting the borrowers. Under the risk rating system, NCIFund applies a weighting formula to obtain the overall rating, expressed as an integer value between 1 and 7, for the loan at the time of origination, after 12 months of being in the portfolio, and thereafter as needed. The areas of risk analyzed with respect to each borrower are:

- operating margins and cash flow;
- tangible net worth;
- working capital;
- credit history of the borrower's principals;
- management experience/expertise;
- adequacy of collateral (or other source of repayment); and
- the borrower's industry, market segment, and competitive advantage.

NCIFund's risk rating system is summarized in tabular form on Exhibit 1.

From the outset of the lending relationship, NCIFund establishes the borrower's risk rating and reporting requirements, which are incorporated into the commitment letter and closing documentation. On a semi-monthly basis, the Senior Vice President – Director of Lending or Loan Fund and Servicing Manager provides the President and the lending staff with a portfolio activity report that describes potential transactions in the pipeline and discusses delinquent loans and actions being taken to resolve the delinquency.

Each quarter, NCIFund staff compiles and sends to the Board, the Board Investment Committee and the Agriculture Investment Committee a portfolio report summarizing data on loans that have payment obligations that are more than 30 days past due, total capital committed, total capital available for investing, average cost of funds, present interest spread, risk rating of loans, the percentage of loans that are delinquent, the percentage of loans written off, exceptions to the underwriting guidelines, and a breakdown of the portfolio by sector and geography. In addition, the Loan Fund and Servicing Manager ensures that the President, Senior Vice President – Director of Lending, and Business Lenders are provided quarterly with an updated loan loss report and an update on borrower's compliance with financial reporting obligations.

On an annual basis, a Credit Analyst updates the financials obtained from NCIFund's borrowers and updates the risk rating of the loan in a brief memo to file. Once the risk rating is updated, the rating is discussed with the Business Lenders, and if adjustments are needed thereafter, the risk rating is updated.

NCIFund considers a borrower delinquent if a payment is past due for more than 10 days. However, in some cases this policy will vary depending on the source of financing for the loan. At that time, the following steps shall ordinarily be taken:

- A notice of late payment will be sent to the borrower. This notice could be in written, verbal or email format. Late payment fees may be assessed in accordance with the closing documents;
- If a payment has not been received by 20 days after the due date, the assigned Business Lender or another staff member will follow-up with a phone call and/or email. Depending upon the response to the phone call or email, a site visit may be arranged;
- By the 30th day after the required payment due date, the assigned Business Lender, together with the SVP – Director of Lending, shall discuss the nature of the problem and determine a course of action, which may include, but is not limited to:
 - Corresponding or meeting with the borrower;
 - Inspecting the borrower's operations, asking for updated financial statements;
 - Sending of a notice of default;
 - Sending of a late charge notice; or
 - Developing a re-structuring plan.

However, NCIFund may bypass the aforementioned steps and accelerate the process, to the point of a lawsuit or foreclosure if deemed necessary.

- In any event, if, by the 90th day, no payment has been received, NCIFund staff will recommend action to the AIC or BIC for approval, which may include:
 - A deal restructuring;
 - A foreclosure;
 - A further forbearance of action based upon certainty of repayment; or
 - A recommendation of downgrade in risk rating.

Any loan at least 90 days past due or where future payments are in doubt is generally placed on non-accrual status, its risk rating downgraded, and becomes subject to review every 30 days to determine if additional allowance for loan losses should be made or if other actions should be taken.

NCIFund records an allowance for loan losses as an expense, in an amount that it believes will be adequate to absorb possible losses on existing loans that may become uncollectible in the future. Loans actually deemed to be uncollectible are charged against the allowance. The allowance is an estimate that changes from time to time based upon past loss experience or changes to NCIFund's loan portfolio or economic conditions. NCIFund has a policy of holding the loan loss allowance at 5% of the total loan portfolio, subject to certain minimum requirements with respect to certain loans under the

IRP, RMAP, and SBA lending programs. See also "Response to COVID-19 Pandemic" on page 8 for information regarding NCIFund's adjustments to its allowance for loan losses in response to the pandemic.

The following table summarizes NCIFund's loan portfolio by internal credit risk rating as of December 31, 2020:

1 – Strong	\$ 42,434
2 – Low Risk	13,431,184
3 – Acceptable Risk	14,741,424
4 – Moderate Risk / Start-Up	11,371,448
5 – High Risk	1,316,504
6 – Problem Asset	462,901
7 – Written Off	-
Non-risk rated (Paycheck Protection Program loans)*	464,295
Non-risk rated (NC COVID-19 Rapid Recovery loans)*	5,570,719
Non-risk rated (WV Emergency loans)*	<u>296,500</u>
Total	<u>\$ 47,697,409</u>

*Non-risk rated because loans are, as applicable, guaranteed by the SBA and fully forgivable if used for qualifying expenses (in the case of Paycheck Protection Program loans), fully participated out to the North Carolina Rural Center (in the case of NC COVID-19 Rapid Recovery loans), or backed by a grant from the state of West Virginia (in the case of WV Emergency loans).

For more information regarding NCIFund's loan portfolio, including the collateral securing the loans, analysis of the allowance for loan losses, impaired loans and troubled debt restructures, see Note 5 to the Audited Financial Statements attached as Appendix A.

CAPITALIZATION

The following table sets forth the capitalization of NCIFund as of December 31, 2020:

Cash and cash equivalents	\$ 9,690,049
Noncurrent liabilities:	
Secured loan participations (noncurrent)	8,210,358
Notes payable (noncurrent)	24,995,765
Subordinated notes payable	<u>3,300,000</u>
Total Noncurrent Liabilities	<u>36,506,123</u>
Net Assets:	
Without donor restrictions	11,632,144
With donor restrictions	<u>7,661,992</u>
Total Net Assets	<u>19,294,136</u>
Total Capitalization	<u>\$ 55,800,259</u>

SCHEDULE OF BORROWINGS PAYABLE OUTSTANDING

The aggregate annual principal payments applicable to NCIFund's notes payable and subordinated notes payable* at December 31, 2020 are as follows, summarized by the year in which the principal installment or repayment matures:

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

SCHEDULE OF LIABILITIES

The Notes are unsecured obligations of NCIFund. The following table summarizes NCIFund's total current and noncurrent liabilities at December 31, 2020:

Secured	\$ 3,713,189
Unsecured	32,994,568
Subordinated*	<u>3,300,000</u>
Total	<u>\$ 40,007,757</u>

*NCIFund has entered into equity equivalent transactions with financial institutions as a way to increase its lending capacity. These equity equivalents are reflected above and in NCIFund's financial statements as subordinated notes payable. They represent a general obligation of NCIFund, are not secured by any assets, are fully subordinate to the right of repayment of all other creditors (including holders of Notes) and do not allow for acceleration of repayment, except in very limited circumstances.

GOVERNANCE AND MANAGEMENT

Board of Directors

NCIFund's Board of Directors (the "**Board**") is responsible for its overall policy and direction. The bylaws of NCIFund, as amended (the "**Bylaws**") do not require a specific number of directors to be on the Board. The Board currently has 11 directors. The Bylaws provide that a majority of the directors may be appointed by TCF, at TCF's discretion, with the remaining directors not appointed by TCF appointed by the Board. NCIFund expects to separate from TCF and begin appointing all directors during 2021—see "Related Party Transactions" beginning on page 30 for more information. A majority of the Board constitutes a quorum for the transaction of business.

Each Board-elected director serves for a term of three years and may be elected for up to two additional three-year terms; TCF's nominees are not subject to term limits. If a vacancy occurs for any reason, then the vacancy shall be filled by either TCF or the Board, based on the method by which the director who vacated his or her seat was appointed or elected.

No director or officer of NCIFund has been convicted of any criminal activity, is the subject of any pending criminal proceedings, or has been the subject of any order, judgment or decree of any court enjoining such person from any activities associated with the offer or sale of securities.

William A. (Tony) Hayes, Board Chair, Executive Committee, Audit Committee, and Governance Committee (*Board member since 2012*) – Tony Hayes is the President and Chief Executive Officer of Trancas, a leading business strategy and consulting firm that focuses on small firm growth within North Carolina's American Indian community. He has over 30 years of management experience, having served in senior leadership roles at organizations like Texfi, Starwood Hotels, and Duke University. He recently joined CMC Building, Inc. as Senior VP of Marketing/Communications. His guiding principle in both personal and professional life is a commitment to prosperity and equity for all who seek it. In the last decade, Mr. Hayes led the NC Indian Economic Development Initiative, a community economic development entity that supports and advocates for the state's eight recognized American Indian tribes and other underserved constituencies. He is Chairman of the Occaneechi Band of the Saponi Nation Indian Tribe in Alamance County. Mr. Hayes was honored by MBDA's National Minority Business Awards Program as the 2016/17 North Carolina Minority Business Advocate of the Year. He attended Bethune Cookman College, majoring in History. He lives in Creedmoor, North Carolina.

Ray Daffner, Board Member, New Products Committee (*Board member since 2019*) – Ray Daffner is an independent consultant with a deep commitment to creating economic opportunity in areas outside of the economic mainstream. Mr. Daffner has a range of experience in the non-profit, public and private sectors. He has been involved in start-up ventures in software development and food systems, served in management positions in automotive manufacturing supply, and led the start-up of a non-profit development group in the wood products industry. He has worked with a range of organizational structures including VC-backed startups, minority-owned enterprises, social enterprises, and cooperatively owned businesses; he led the transition of a public entity to a private non-profit.

Most recently, Mr. Daffner was Director of the Entrepreneurship Initiative for the Appalachian Regional Commission (ARC), where he led policy and program efforts to build capacity in the areas of Entrepreneurship and Finance in rural communities. He oversaw grant deployments totaling over \$200 million and led efforts to support new programming in the areas of entrepreneurship education; business acceleration and technical assistance; community engagement and leadership; and business financing. To support this work, Ray extensively engaged leading national organizations including philanthropies; federal regulators and agencies; state and local development organizations; national non-profit organizations; policy partners; investors; and research organizations. Ray has a comprehensive understanding of the development and financing challenges facing underserved communities, and he works closely with the investing community, including tax credit-enhanced investors, philanthropies, CDFIs, angel investors, and public investors. He was a founding member / Steering Committee member of the Appalachian Funders Network, a network of over 60 private and public funders with \$5 billion in assets. He has served on the advisory boards of seven New Markets CDEs that have deployed over \$1 billion of investment in low-income communities. Through ARC's Entrepreneurship Initiative, he led efforts to bring needed financing to Appalachia resulting in the formation of eight regional Angel Investment Funds that have syndicated more than \$60 million in transactions. He also supported the formation of four Development Venture Capital Funds that raised and deployed over \$75 million in financing, and he helped lead the formation and capital raise of a regional CDFI Intermediary—Appalachian Community Capital—whose 19 members manage over \$1 billion in assets. Mr. Daffner received his Bachelor's

Degree from Duke University in biochemistry, and his Master of Business Administration from Yale University. He lives in Waterford, Virginia.

Jerrell Deaver, Jr., Board Member, Audit Committee, and Board Investment Committee Chair (*Board member since 2015*) – Jerrell Deaver is a retired commercial lender, last serving as Senior Vice President and Manager of Business Banking at First Citizens Bank, where he led a team of business bankers in the 12 westernmost counties of North Carolina. A career banker, Mr. Deaver's purpose is to help farmers and small business owners as they seek to create, nurture and protect the economic engines that provide livelihood to their families and communities. He is active in several southeastern North Carolina communities, building relationships with individuals engaged in economic development and identifying opportunities for the application of loaned capital. He serves as a mentor through the University of North Carolina at Wilmington Center for Innovation and Entrepreneurship. He is a native of western North Carolina and a graduate of Mars Hill University, located in Madison County, North Carolina. He is familiar with the workings of the securities industry and currently holds Series 7 and Series 66 licenses. He is currently serving on the Board for the Grand Strand Boys and Girls Club. He is a published author. Mr. Deaver owns a home in Rutherfordton, North Carolina and currently resides in North Myrtle Beach, South Carolina. He also provides consulting services to NCIFund, as described under "Related Party Transactions" beginning on page 30.

Lisa Dennison, Board Member, Audit Committee (*Board member since 2020*) – Lisa Dennison is a Senior Vice President of Commercial Lending at Summit Community Bank in Charleston, West Virginia. She grew up in Michigan and moved to West Virginia in 1990. She started her career at One Valley Bank in 1990 in the credit department and later moved to a commercial lending position. She held that position until 2000 when One Valley Bank merged with Branch Banking & Trust and she became a Regional Small Business Lending Manager and later a Senior Commercial Lender until leaving that position in 2015 to become a Senior Lender with Summit Community Bank.

Ms. Dennison earned her degree in Accounting from the University of Michigan–Dearborn and later earned her Executive Masters of Business Administration from West Virginia University. Ms. Dennison is involved in her community and has served on several Boards, including Goodwill Industries of Kanawha Valley, Thomas Health Systems, and Black Diamond Girl Scout Council.

Archie Hart, Board Member, Governance Committee, and Agriculture Investment Committee Chair (*Board member since 2010*) – Archie Hart is the Special Assistant to the Commissioner of Agriculture for Small Farm Policy at the North Carolina Department of Agriculture and Consumer Services in Raleigh, North Carolina. While at the Department, Mr. Hart has held a number of advisory positions. He served as a Policy Advisor to the United States Department of Agriculture under two Presidential administrations and as chair on his last appointment. He served on the Agriculture Advisory Board for the Environmental Protection Agency, and he has also served as an advisor on small farms issues and policy to the North Carolina General Assembly and to members of the North Carolina Congressional delegation. He served as an advisor to three land grant universities. Prior to joining the North Carolina Department of Agriculture and Consumer Services, Mr. Hart served for nine years as a Cooperative Extension Agent, where he worked with small farmers, home and commercial horticulture, and 4-H. Mr. Hart attended North Carolina A&T State University as a student athlete and graduated with a Bachelor of Science in Agricultural Education with a concentration in Animal Science. He also earned a Master of Science in Agricultural Education with a concentration in Plant Science. He lives in Wake County, North Carolina.

Jeffrey Lusk, Board Vice Chair, Executive Committee, Board Investment Committee (*Board member since 2019*) – Jeffrey Lusk is the Executive Director of the Hatfield-McCoy Regional Recreational Authority in Charleston, West Virginia. The Authority is a multi-county economic development agency in charge of managing the over 700-mile Hatfield-McCoy Recreational Trail System in southern West Virginia. Mr. Lusk has worked as an economic development and business financing professional for over 25 years. He is a Certified Economic Developer and Certified Community Developer, and he has obtained the designation as an Economic Development Financing Professional. He currently serves as Chairman of the West Virginia Tourism Commission. Mr. Lusk's formal education includes a Master's Degree in Public Administration from Marshall University and undergraduate degrees from Penn State University and West Virginia University Institute of Technology. He lives in Charleston, West Virginia.

Julia Malinowski, Board Member, New Products Committee (*Board member since 2019*) – Julia Malinowski is the Director of Strategic Initiatives for Small Business Credit Initiatives at NC Rural Center and the Director of Strategic Initiatives at CornerSquare Community Capital, a subsidiary of NC Rural Center. In those roles, she oversees much of the organizations'

respective relationship management and fundraising efforts, as well as supporting asset management, underwriting and approval of loan participation. Prior to joining NC Rural Center, Ms. Malinowski was a Senior Program Officer, Economic Development & Lending for Rural LISC, where she oversaw the organization's economic development strategy and programs focused on family wealth and income building, small business, workforce development, and district development. She also underwrites commercial and small business loans for rural communities. She also has prior experience as a commercial loan officer at Self-Help Credit Union, where she underwrote and originated tens of millions of dollars in commercial loans to community facilities, non-profits, and small businesses and provided technical assistance to charter school and small business borrowers with a focus on facilities financing and financial management best practices. From 2010-2013, she was Senior Community Development Officer at Southern Bancorp Community Partners, in Helena, Arkansas, where she developed and managed all programs and projects within Delta Bridge Project, a \$150 million comprehensive rural economic development initiative. She managed countywide planning and infrastructure projects and wrote and administered over 30 grants funding tourism, economic development, education and health projects. Other previous non-profit and public sector experience includes serving as Board member and President of Main Street Helena (AR) and as Tourism Director for the City of Helena, where she led the development of a tourism strategy for a small rural community, built regional partnerships for large-scale tourism projects, and provided and facilitated small business consulting services for downtown businesses. Ms. Malinowski earned a Bachelor of Arts degree in Business Administration from the University of Washington. She lives in Durham, North Carolina.

Roberta McCullough, Board Member, Executive Committee, Audit Committee Chair (*Board member since 2019*) – Roberta McCullough is the Senior Vice President, Operations at Institute Capital. She galvanizes her vast statewide network of business advocates to create a robust business environment that is welcoming to women entrepreneurs. For the past 30 years, Roberta McCullough has continually served in leadership roles in the non-profit and financial institution industries to implement programs that address structural and systemic economic injustices. She was Vice President for Business Services at The Support Center in Raleigh, North Carolina, where she managed the Center's small business lending team in deploying the Center's revolving loan fund designed to foster economic development in low-to-moderate income communities. Before serving in her current role at Institute Capital, Ms. McCullough was Executive Director of the Women's Business Center of North Carolina, where she led a team to empower women-owned/led businesses around the world, by offering tools to support and establish new business, and generate sustainable profits and future growth. Prior to holding that position, she served as Regional Director at Self-Help Credit Union, managing commercial and home mortgage lending teams, and she originated commercial loans using USDA and SBA credit enhancement and guarantee programs in a 16-county region of western North Carolina. She currently serves as a consultant to the Gethsemane Community Development Corporation, whose mission is to provide and improve housing, educational and nutritional assistance in communities across Franklin County, North Carolina, where she lives. Ms. McCullough earned a Bachelor of Science in Mathematics at Shaw University and has completed Master's studies in Math Education at NC State University.

Erik Meyers, Board Member, Executive Committee, Audit Committee, and Governance Committee Chair (*Board member since 2010*) – Erik Meyers is a Vice President for The Conservation Fund in Arlington, Virginia. In his role at TCF, Erik currently leads projects on climate adaptation and resiliency, leads urban conservation and water sustainability initiatives, and assists the TCF's mitigation work. Recent projects include pioneering coastal marsh adaptation work at Blackwater National Wildlife Refuge and a national nature-based coastal protection initiative led by the U.S. Army Corps of Engineers and the National Oceanic and Atmospheric Administration. He currently serves on the U.S. Water Alliance Board and previously chaired the U.S. Environmental Protection Agency's National Advisory Council for Environmental Policy and Technology, the American National Standards Institute's Environmental Management Systems Council, and Earth Share. The EPA and ANSI have awarded him for his service. Mr. Meyers has been with The Conservation Fund since 2004. Previously, he was Vice President and General Counsel for the Environmental Law Institute, where he created its corporate environmental management program; directed its legal education, recognition, and wetlands programs; and served as chief legal officer. He also directed a national public health policy organization and staffed another. He holds a Juris Doctor from Fordham University School of Law and a Bachelor's of Science in Foreign Service from Georgetown University and is admitted to the bar in New York, District of Columbia and Virginia. He lives in Arlington, Virginia.

Mikki Sager, Board Member, Executive Committee, Governance Committee, and Agriculture Investment Committee Vice Chair (*Board member since 2010*) – Mikki Sager is a Vice President for The Conservation Fund in Chapel Hill, North Carolina. She leads TCF's Resourceful Communities Program, where she is responsible for program oversight, fundraising, partner support and scaling the Triple Bottom Line approaches that are helping communities generate economic, social and

environmental returns. In her role, she helps communities implement natural resource-based economic development projects, including ecotourism, community forestry and conservation-based affordable housing. Ms. Sager also helps Resourceful Communities' 300-plus community partner groups access funding and technical assistance and carries out special initiatives that address critical issues, such as access to healthy food in low-income communities. She has been recognized by the USDA-Forest Service and was selected as a 2012 Purpose Prize Fellow. She served on the North Carolina Rural Prosperity Task and Rural Health Task Forces and was recognized as "Tarheel of the Week" in January 2013. Ms. Sager is a graduate of The Pennsylvania State University with a Bachelor's degree in Health and Physical Education. She lives in Chapel Hill, North Carolina.

Evan Smith, Board Member and Board Investment Committee (*Board member since 2013*) – Evan Smith is the Senior Vice President, Conservation Ventures for The Conservation Fund in Los Angeles, California, where he lives. Mr. Smith oversees programs that invest in green business and working forests to generate both economic and environmental return, giving an entrepreneurial twist to classic conservation. Since joining The Conservation Fund in 1995, he has worked to demonstrate that non-profits can successfully acquire and sustainably manage large tracts of forestland, most recently through launch of the Working Forest Fund. Mr. Smith serves on the Board of Directors for Starker Forests and Center for Diversity and the Environment and serves on the Advisory Councils for the Conservation Finance Network and for the College of Forestry at Oregon State University. He holds a Bachelor's degree in Geology and a Master's of Forestry from Yale University.

Committees

The Bylaws allow the Board to appoint standing or temporary committees by the vote of a majority of the entire Board. NCIFund currently has the following committees: the Executive Committee, the Audit Committee, the Governance Committee, the New Products Committee, the Board Investment Committee, and the Agriculture Investment Committee.

Executive Committee. The purpose of the Executive Committee is to exercise the authority of the Board in the governance and management of NCIFund between meetings of the Board. The Chair of the Executive Committee is the Chair of the Board.

Audit Committee. The purpose of the Audit Committee is to oversee and advise the Board regarding the broad range of issues surrounding the accounting, financial reporting and internal controls of NCIFund. Audit Committee members are appointed by the Board and, to be eligible for appointment, must not be employed by NCIFund or TCF.

Governance Committee. The purpose of the Governance Committee is to advise the Board regarding the sound governance of NCIFund, including by making recommendations regarding changes to NCIFund's Articles of Incorporation, the Bylaws, committee charters, and other policies and procedures; reviewing and recommending nominees for appointment to the Board or committees; and reviewing and recommending changes to the terms of NCIFund's contractual relationship with TCF. Governance Committee Members are appointed by the Board.

New Products Committee. The purpose of the New Products Committee is to assist NCIFund staff with developing new products and services; review and provide guidance on the design of products/services to determine the staffing and financial resources needed and the fit with NCIFund's mission and strategies; and review and report to the Board on existing and new products and programs.

Board Investment Committee. The purpose of the Board Investment Committee ("**BIC**") is to review and determine whether to recommend for action by the Board all lending transactions undertaken by NCIFund, except for those transactions within the purview of the Agriculture Investment Committee (as described below). The BIC must consist of banking, finance and investment professionals knowledgeable about lending and equity investment transactions and about economic conditions in the areas served by NCIFund. At least one member of the BIC must be a member of the Board.

Agriculture Investment Committee. The purpose of the Agriculture Investment Committee ("**AIC**") is to review and determine whether to recommend for action by the Board all lending transactions undertaken by NCIFund that pertain to businesses primarily focused on agricultural activities or businesses operated by an applicant that derive most of their income from primary agriculture (i.e., row crop production, dairy and livestock operations, and fruit, vegetable and specialty crop production). Lending decisions pertaining to value-added agricultural business, such as food or beverage processing, are considered by the BIC. The AIC must consist of individuals who have demonstrated knowledge and experience with

primary agricultural business as described above, including those with relevant banking, finance and investment experience in this sector. At least one member of the AIC must be a member of the Board.

Management

Marten R. Jenkins, Jr., President and Chief Executive Officer. Marten is NCIFund's founder and is responsible for developing, implementing and overseeing all business strategies and fund operations. Specific responsibilities include investment fund capitalization, developing and managing the annual operating budget, supervising all investment underwriting, managing the portfolio, and implementing the business plan. He earned a Master's in Environmental Management from Duke University's School of the Environment and holds a Bachelor of Arts in Economic and Administrative Science from Colby College. Marten works full-time for NCIFund and is based in Charles Town, West Virginia. Marten serves on the Boards of Appalachian Community Capital and CDFI Coalition and on the Advisory Boards of the West Virginia Manufacturing Extension Partnership, Appalachian Fund for Growth, and MVB Community Development Partnership, Inc.

Rosalind Black, Senior Vice President and Director of Finance. Rosalind joined NCIFund in November 2014 and is based in Charles Town, West Virginia. She is responsible for financial and grant accounting and all financial reporting to management, board and outside investors. Prior to joining NCIFund, she held senior accounting related positions with Shepherd University, Pittsburgh Partnership for Neighborhood Development and PNC Bank. She is a certified public accountant and holds a Master of Business Administration and Bachelor of Science from Waynesburg University.

Anna Tefft, Senior Vice President and Director of Lending. Anna joined NCIFund in October 2009 and is based in Winston-Salem, North Carolina. Anna came to NCIFund with considerable financial analysis, lending and business development experience. She has primary responsibility for supervising NCIFund's business lending and marketing, deal origination, underwriting and due diligence across NCIFund's nine-state region. She also sources and originates loans across North Carolina. Immediately prior to joining NCIFund, she was a senior lender with Self-Help Ventures, one of the country's most successful and largest CDFIs. During her nearly ten years at Self-Help, Anna originated SBA 504 loans to small business owners for large fixed-asset financing (buildings and equipment), as well as originating SBA 7(a) and microloans. She also spent three years at the North Carolina Office of State Budget & Management, where she provided budget oversight for several state agencies. Anna holds a Master in Public Administration from Duke University's Sanford Institute of Public Policy and a Bachelor of Arts in Political Science and Spanish from Wake Forest University. Anna serves on the Credit Committee of the SBA 504 Lending program at Self-Help Ventures Fund.

Rick Larson, Senior Vice President and Director of Strategic Initiatives. Rick joined NCIFund in May 2007 and is based in Durham, North Carolina. His primary activities are to oversee NCIFund's Strategic Initiatives; assist NCIFund's President with fundraising and outreach; and direct NCIFund's impact measurement and reporting, marketing, and communications. Prior to joining NCIFund, Rick was a Managing Director for SJF Ventures, L.P., a \$135 million mission-driven venture capital fund; previously he was the Executive Director of the REAL Enterprises program. Rick holds a Master of Business Administration from the Yale School of Management and a Bachelor of Arts in History & French from Amherst College. He is an advisor on the FreshWorks Credit Enhancement Program of CommunityVision.

Roberta McCullough, Treasurer. Ms. McCullough also serves on the Executive Committee and Audit Committee. For Ms. McCullough's biography, see above.

RELATED PARTY TRANSACTIONS

The Conservation Fund, a non-profit organization incorporated as a nonstock corporation in the State of Maryland ("TCF"), has the right to exercise control over NCIFund, primarily through its right under NCIFund's Bylaws to appoint a majority of NCIFund's Board of Directors.

As described above, NCIFund has been recognized under the Code as a supporting organization to TCF. NCIFund is not, however, a subsidiary of TCF. TCF does not guarantee or support any third-party indebtedness of NCIFund, including the Notes, and TCF is not obligated with respect to or otherwise liable for the Notes or any other third-party indebtedness of NCIFund. You must depend solely on NCIFund's financial condition and operations for repayments of principal and interest on the Notes.

NCIFund has entered into a management services agreement with TCF. Under the agreement, TCF provides to NCIFund certain technical, management, and administrative support services and employs all of NCIFund's employees. In exchange, NCIFund pays TCF for its actual costs associated with NCIFund staff salaries, benefits management and an allocated portion of rent, indirect support and other overhead costs. During the year ended December 31, 2020, NCIFund paid TCF a total of \$2,007,845 for its program services and supporting services. For additional information regarding NCIFund's relationship with TCF, see Note 7 to the 2020 Audited Financial Statements attached as Appendix A.

In January 2021, the Board of Directors of NCIFund approved a pending reorganization under which NCIFund would legally separate from TCF and no longer be a supporting organization of TCF. As of the date of this Offering Memorandum, NCIFund's request to the IRS for a determination as to NCIFund's federal tax exemption after the pending separation remains outstanding. NCIFund will amend and restate its Articles of Incorporation and Bylaws to reflect the separation from TCF. NCIFund expects that this separation will involve the termination of the management services agreement between NCIFund and TCF and the reconfiguration of staff, including NCIFund's hiring of certain TCF employees as its own, establishment of standalone benefits plan documents, an assignment of certain intellectual property rights (including the use of the name "NCIFund"), and other changes. TCF has agreed to this reorganization. NCIFund receives no direct financial support from TCF and does not expect the separation to materially impact its activities, results of operations or financial position. See also "Relationship with and Proposed Separation from The Conservation Fund" on page 8.

Jerrell Deaver, Jr., who serves on the NCIFund Board of Directors, has been engaged by NCIFund as a paid consultant to provide NCIFund with market outreach services in southeastern North Carolina. During the year ended December 31, 2020, NCIFund incurred \$39,041 in expenses for Mr. Deaver's consulting services.

TAX MATTERS

By purchasing a Note, you may be subject to certain income tax provisions of the Code or other tax laws. The following tax risks discuss only general income tax matters under the Code. You are advised to consult your own tax counsel or advisor to determine the particular federal, state, local, or foreign income or other tax consequences particular to your investment in the Notes.

Although NCIFund is a Code Section 501(c)(3) organization, you will not be entitled to a charitable contribution deduction for the principal amount of Notes you purchase, and interest paid to you is fully taxable as ordinary income. You have the right to either receive periodic payments of interest or have those interest payments donated to NCIFund. The interest will be taxable to you whether you actually receive it or donate it, as of the time it is received or donated, as the case may be, although you may be entitled to a charitable contribution deduction for donated interest, in light of NCIFund's status as a Code Section 501(c)(3) organization. You will not be taxed on the return of any principal amount of your Note or on the receipt by you of interest that was previously taxed and reinvested. Payments of principal and interest may be subject to "back-up withholding" of federal income tax if you fail to furnish NCIFund with a correct tax identification number, or if you or the IRS has informed NCIFund that you are subject to back-up withholding.

In addition, if you have invested or loaned more than \$250,000 in the aggregate with or to NCIFund and other charitable organizations that control, are controlled by or under common control with NCIFund, you may be deemed to receive additional taxable interest under Code Section 7872 if the interest paid to you is below the applicable federal rate, which is a minimum rate of interest which the IRS requires be included in certain loan transactions. In that situation, the IRS may impute income up to that applicable federal rate. If you believe this applies to you, you should consult your tax advisor.

If any law creating the tax consequences described in this summary changes, this summary could become inaccurate. This summary is based on the Code, the regulations promulgated under the Code and administrative interpretations and court decisions existing as of the date of this Offering Memorandum. These authorities could be changed either prospectively or retroactively by future legislation, regulations, administrative interpretations, or court decisions. Accordingly, this summary may not accurately reflect the tax consequences of an investment in the Notes after the date of this Offering Memorandum.

This summary does not address every aspect of tax law that may be significant to your particular circumstances. For instance, it does not address special rules that may apply if you are a financial institution or tax-exempt organization, or if you are a non-U.S. entity. Nor does it address any aspect of state or local tax law that may apply to you.

LEGAL PROCEEDINGS

There are no material legal or administrative proceedings now pending against NCIFund, any of its directors, officers or employees acting in their capacity representing NCIFund, nor are there any such proceedings known to be threatened or contemplated. In the normal course of activities, NCIFund is subject to various pending or threatened litigation.

FINANCIAL STATEMENTS

Before making an investment decision, you should read and carefully consider NCIFund's Audited Annual Financial Statements as of and for the year ended December 31, 2020, attached as Appendix A, and its Unaudited Interim Financial Statements as of and for the three-month period ended March 31, 2021, attached as Appendix B. Additional financial information about NCIFund is available via NCIFund's website at ncifund.org. The financial information included on NCIFund's website is not a part of, nor is it incorporated by reference into, this Offering Memorandum.

RSM US LLP, NCIFund's independent auditor, has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on the financial statements attached as Appendix A. RSM US LLP also has not performed any procedures relating to this Offering Memorandum.

Exhibit 1
Summary of Credit Risk Rating System

Risk Level	Weight	1 Strong	2 Low Risk	3 Acceptable Risk	4 Moderate Risk / Startup	5 High Risk	6 Problem Asset	7 Written Off
Loan Loss Reserve (% of principal)	—	5%	5%	5% and up	5% and up	Greater than 5%	Up to 100%	100%
Operating Margins / Cash Flow	20.0%	DSC* = 1.6 or greater	DSC = 1.3 to 1.59	DSC = 1.1 to 1.29	DSC = 0.80 to 1.09	DSC = 0.50 to 0.79	DSC = 0.49 or less	NCIFund's collateral position is weak or non-existent, the loan has been delinquent for at least 90 days, and current conditions indicate that repayment is unlikely.
Tangible Net Worth	12.5%	Equity to Assets = 0.25 or greater	Equity to Assets = 0.20 to 0.24	Equity to Assets = 0.17 to 0.19	Equity to Assets = 0.13 to 0.16	Equity to Assets = 0.10 to 0.12	Equity Assets = 0.09 or less	
Working Capital	12.5%	Current ratio = 2x or greater	Current ratio = 1.5 to 1.99	Current ratio = 1 to 1.49	Current ratio = 0.9 to 0.99	Current ratio = 0.75 to 0.89	Current ratio = 0.74 or less	
Credit History of Principal(s)	10.0%	Not an option	FICO score = 750 or greater	FICO score = 725 to 749	FICO score = 660 to 724	FICO score = 620 to 659	FICO score = 619 or less	
Management (all points must be true)	15.0%	Not an option	<ul style="list-style-type: none"> Proven experience in the same business. CEO recognizes value of quality workforce; provides employee training and benefits (including retirement plan). Good financial systems; timely submits requested financials with little to no prompting from NCIFund. Positive financial trends. 	<ul style="list-style-type: none"> Proven experience in another business. Company provides employee training and benefits. Good financial systems; timely submits requested financials after some prompting from NCIFund. Stable financial trends. 	<ul style="list-style-type: none"> Unproven ability to manage firms of this type. CEO understands the need for good financial systems and submits requested financials, but sometimes late. Financial trends may be negative, but CEO has demonstrated that s/he understands what it takes to improve results. 	<ul style="list-style-type: none"> CEO has not demonstrated adequate knowledge or resources to help company become more profitable. Financial systems are not adequate, financials are not reliable, or requested financials are not submitted regularly. 	<ul style="list-style-type: none"> CEO is struggling to demonstrate a viable business model. Financial systems are not in place, and management cannot produce reliable financial statements. 	
Collateral / Source of Repayment	15.0%	LTV** = 50% or lower	LTV = 51% to 75%	LTV = 75.1% to 100%	LTV = 100.1% to 120%	LTV = 120.1% to 150%	LTV = greater than 150%	
Industry, Market, Competitive Advantage	15.0%	Not an option	Niche market: high barriers to entry results in mild competition.	Competitive industry, but firms can control costs to manage market downturns.	Very tough competition, reliant on commodity prices, and difficult to control costs.	Significant deterioration in market conditions; borrower struggling to manage changes in industry (30 to 60 days past due).	Deterioration in markets has manifested itself in severe weakness in the borrower's financial condition (60 to 90 days past due).	

*DSC refers to Debt Service Coverage ratio, calculated by subtracting cash operating expenses from gross cash income and dividing the result by the borrower's total debt service obligations, based on most recent fiscal year cash flows.

**LTV refers to Loan to Value ratio, which equals the amount of the borrower's loans (including the NCIFund loan) that are secured by the collateral that serves as collateral for NCIFund's loan, divided by the total value of the borrower's collateral.

Natural Capital Investment Fund, Inc.

Financial Report
December 31, 2020

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Independent Auditor's Report

Board of Directors
Natural Capital Investment Fund, Inc.

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Governmental Auditing Standards*, we have also issued our report dated April 15, 2021, on our consideration of NCIFund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of NCIFund's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering NCIFund's internal control over financial reporting and compliance.

RSM US LLP

Gaithersburg, Maryland
April 15, 2021

Natural Capital Investment Fund, Inc.

Statements of Financial Position December 31, 2020 and 2019

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

See notes to financial statements.

Natural Capital Investment Fund, Inc.

Statements of Activities Years Ended December 31, 2020 and 2019

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

See notes to financial statements.

Natural Capital Investment Fund, Inc.

Statement of Functional Expenses
Year Ended December 31, 2020

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

See notes to financial statements.

Natural Capital Investment Fund, Inc.

Statement of Functional Expenses
Year Ended December 31, 2019

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

See notes to financial statements.

Natural Capital Investment Fund, Inc.

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

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

See notes to financial statements.

Natural Capital Investment Fund, Inc.

Notes to Financial Statements

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

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

NCIFund's activities include the following two program areas:

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

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

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

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

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

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

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

Natural Capital Investment Fund, Inc.

Notes to Financial Statements

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

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

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

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

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

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

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

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

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

Natural Capital Investment Fund, Inc.

Notes to Financial Statements

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

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

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

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

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

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

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

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

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

Natural Capital Investment Fund, Inc.

Notes to Financial Statements

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

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

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

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

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

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

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

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

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

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

Natural Capital Investment Fund, Inc.

Notes to Financial Statements

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

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

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

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

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

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

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

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

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

Natural Capital Investment Fund, Inc.

Notes to Financial Statements

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

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

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

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

Use of estimates: The preparation of financial statements in conformity with U.S. GAAP requires management to make a number of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates made by management include the allowance for loan losses. Actual results could materially differ from those estimates.

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

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

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

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

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

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

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

Natural Capital Investment Fund, Inc.

Notes to Financial Statements

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

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

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

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

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

Note 2. Cash and Cash Equivalents

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

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

Natural Capital Investment Fund, Inc.

Notes to Financial Statements

Note 2. Cash and Cash Equivalents (Continued)

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

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

Note 3. Other Asset

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

Note 4. Promises to Give

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

Natural Capital Investment Fund, Inc.

Notes to Financial Statements

Note 5. Loans Receivable

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

	2020		
	Current Portion	Noncurrent Portion	Total
Loans receivable, gross	\$ 5,253,896	\$ 42,443,513	\$ 47,697,409
Allowance for loan losses	(311,080)	(2,513,052)	(2,824,132)
Deferred loan (fees) costs, net	42,742	164,810	207,552
Loans receivable, net	<u>\$ 4,985,558</u>	<u>\$ 40,095,271</u>	<u>\$ 45,080,829</u>

	2019		
	Current Portion	Noncurrent Portion	Total
Loans receivable, gross	\$ 5,054,416	\$ 35,451,275	\$ 40,505,691
Allowance for loan losses	(252,721)	(2,139,844)	(2,392,565)
Deferred loan (fees) costs, net	-	(29,018)	(29,018)
Loans receivable, net	<u>\$ 4,801,695</u>	<u>\$ 33,282,413</u>	<u>\$ 38,084,108</u>

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

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

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

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

Natural Capital Investment Fund, Inc.

Notes to Financial Statements

Note 5. Loans Receivable (Continued)

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

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

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

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

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

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

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

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

Natural Capital Investment Fund, Inc.

Notes to Financial Statements

Note 5. Loans Receivable (Continued)

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

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

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

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

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

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

Natural Capital Investment Fund, Inc.

Notes to Financial Statements

Note 5. Loans Receivable (Continued)

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

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

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

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

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

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

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

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

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

Natural Capital Investment Fund, Inc.

Notes to Financial Statements

Note 5. Loans Receivable (Continued)

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

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

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

Natural Capital Investment Fund, Inc.

Notes to Financial Statements

Note 5. Loans Receivable (Continued)

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

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

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

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

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

As of December 31, 2019, the outstanding principal balance of troubled debt restructurings was \$1,016,743. The associated allowance for loan losses for troubled debt restructurings 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 restructurings. 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 restructurings as of December 31, 2019. During the year ended December 31, 2019, one troubled debt restructuring with a balance of \$169,992 subsequently defaulted.

Natural Capital Investment Fund, Inc.

Notes to Financial Statements

Note 6. Investments and Fair Value Measurements

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

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

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

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

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

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

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

Investments at cost consist of the following:

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

Natural Capital Investment Fund, Inc.

Notes to Financial Statements

Note 6. Investments and Fair Value Measurements (Continued)

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

Fair value on a nonrecurring basis:

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

		2020			
		Level 1	Level 2	Level 3	Total
Impaired loans	\$	-	\$	-	\$ 843,351
	\$	-	\$	-	\$ 843,351
		2019			
		Level 1	Level 2	Level 3	Total
Impaired loans	\$	-	\$	-	\$ 687,530
	\$	-	\$	-	\$ 687,530

Note 7. Related Party Transactions

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

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

Natural Capital Investment Fund, Inc.

Notes to Financial Statements

Note 8. Notes Payable and Subordinated Notes Payable

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

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

(Continued)

Natural Capital Investment Fund, Inc.

Notes to Financial Statements

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

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

(Continued)

Natural Capital Investment Fund, Inc.

Notes to Financial Statements

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

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

(Continued)

Natural Capital Investment Fund, Inc.

Notes to Financial Statements

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

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

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

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

Natural Capital Investment Fund, Inc.

Notes to Financial Statements

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

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

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

Years ending December 31:

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

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

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

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

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

Natural Capital Investment Fund, Inc.

Notes to Financial Statements

Note 9. Revolving Lines of Credit

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

Note 10. Concentrations of Credit Risk

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

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

Note 11. Net Assets With Donor Restrictions

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

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

Note 12. Loan Origination Fees and Costs

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

Natural Capital Investment Fund, Inc.**Notes to Financial Statements**

Note 12. Loan Origination Fees and Costs (Continued)

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

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

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

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

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

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

Note 13. Commitments and Contingencies

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

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

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

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

Natural Capital Investment Fund, Inc.

Notes to Financial Statements

Note 13. Commitments and Contingencies (Continued)

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

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

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

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

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

Years ending December 31:

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

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

Natural Capital Investment Fund, Inc.

Notes to Financial Statements

Note 14. Liquidity and Availability of Financial Resources

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

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

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

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

Natural Capital Investment Fund, Inc.

Notes to Financial Statements

Note 15. Subsequent Events

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

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

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

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

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

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

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

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

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

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

Natural Capital Investment Fund, Inc.

Notes to Financial Statements

Note 15. Subsequent Events (Continued)

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

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

Natural Capital Investment Fund, Inc.
Unaudited Financial Statements
March 31, 2021

Natural Capital Investment Fund, Inc.
Statements of Financial Position
as of March 31, 2021 and December 31, 2020

	Unaudited 2021	Audited 2020
Assets		
Current assets:		
Cash and cash equivalents	\$ 16,158,687	\$ 9,690,049
Accounts receivable	5,059	16,400
Promises to give	324,608	971,203
Loans receivable, net of deferred loan origination revenue of \$42,742	4,191,759	4,985,558
Accrued interest and fees receivable	344,379	371,343
Total current assets	<u>21,024,492</u>	<u>16,034,553</u>
Noncurrent assets:		
Cash-restricted	2,725,767	2,630,987
Cash equivalents held as collateral	32,398	32,398
Other asset	202,600	202,600
Investment - restricted	207,235	206,089
Investment (U.S. Endowment Fuel Project)	99,995	99,995
Loans receivable, net of deferred loan origination revenue of \$164,810	39,902,609	40,095,271
Total noncurrent assets	<u>43,170,604</u>	<u>43,267,340</u>
Total assets	<u>\$ 64,195,096</u>	<u>\$ 59,301,893</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 69,825	\$ 34,154
Line of credit	149,500	149,500
Accounts payable, related party	581,435	-
Funds held for others	96,474	94,106
Current maturities of secured borrowings, participations	322,949	322,949
Accrued interest payable	102,394	77,489
Deferred revenue	78,420	57,636
Current maturities of notes payable	3,760,294	2,765,800
Total current liabilities	<u>5,161,291</u>	<u>3,501,634</u>
Secured borrowings, participations	8,562,759	8,210,358
Notes payable, net of debt acquisition costs of \$112,462 and implied interest of \$42,533	27,923,601	24,995,765
Subordinated notes payable	3,300,000	3,300,000
Total noncurrent liabilities	<u>39,786,360</u>	<u>36,506,123</u>
Total liabilities	<u>44,947,651</u>	<u>40,007,757</u>
Commitments and contingencies (Note 13)		
Net assets:		
Without donor restrictions	12,076,083	11,632,144
With donor restrictions, operating	1,891,439	2,188,752
With donor restrictions, financing	272,079	515,396
With donor restrictions, revolving loan fund - perpetual	5,007,844	4,957,844
Total net assets	<u>19,247,445</u>	<u>19,294,136</u>
Total liabilities and net assets	<u>\$ 64,195,096</u>	<u>\$ 59,301,893</u>

Natural Capital Investment Fund, Inc.
Statements of Activities
For the period ended March 31, 2021 and year ended December 31, 2020

	Unaudited 2021					Audited 2020				
	Without Donor Restrictions	With Donor Rest. Operating	With Donor Rest. Financing	With Donor Rest. RLF - Perptual	Total	Without Donor Restrictions	With Donor Rest. Operating	With Donor Rest. Financing	With Donor Rest. RLF - Perptual	Total
Financial activity:										
Financial income:										
Loan interest revenue	\$ 689,271	\$ -	\$ -	\$ -	\$ 689,271	\$ 2,746,862	\$ -	\$ -	\$ -	\$ 2,746,862
Fee income on loans, net deferred	54,445	-	-	-	54,445	90,098	-	-	-	90,098
loan origination fees of \$226,123 for 2020										
Interest income	2,547	-	-	-	2,547	53,077	-	-	-	53,077
Total financial income	746,263	-	-	-	746,263	2,890,037	-	-	-	2,890,037
Financial expenses:										
Provision for loan losses	(1,079)	-	-	-	(1,079)	433,388	-	-	-	433,388
Interest expense	244,732	-	-	-	244,732	1,020,907	-	-	-	1,020,907
Total financial expenses	243,653	-	-	-	243,653	1,454,295	-	-	-	1,454,295
Net financial income	502,610	-	-	-	502,610	1,435,742	-	-	-	1,435,742
Revenue and support:										
Grants and contributions	10,600	75,000	125,000	-	210,600	270,739	1,552,500	160,419	-	1,983,658
Government grants	-	113,527	-	50,000	163,527	-	614,648	568,009	853,074	2,035,731
Project income	2,553	-	-	-	2,553	33,002	-	-	-	33,002
Other income	5,438	-	-	-	5,438	10,897	-	-	-	10,897
Net assets released										
from restriction	854,157	(485,840)	(368,317)	-	-	1,946,175	(1,548,410)	(397,765)	-	-
Total revenue and support	872,748	(297,313)	(243,317)	50,000	382,118	2,260,813	618,738	330,663	853,074	4,063,288
Expenses:										
Program services:										
Lending	488,794	-	-	-	488,794	1,379,794	-	-	-	1,379,794
Strategic initiatives	320,955	-	-	-	320,955	852,704	-	-	-	852,704
Total program services	809,749	-	-	-	809,749	2,232,498	-	-	-	2,232,498
Supporting services:										
Management and general	115,301	-	-	-	115,301	193,537	-	-	-	193,537
Fundraising	6,369	-	-	-	6,369	17,939	-	-	-	17,939
Total supporting services	121,670	-	-	-	121,670	211,476	-	-	-	211,476
Total expenses	931,419	-	-	-	931,419	2,443,974	-	-	-	2,443,974
Change in net assets	443,939	(297,313)	(243,317)	50,000	(46,691)	1,252,581	618,738	330,663	853,074	3,055,056
Net assets:										
Beginning of year	11,632,144	2,188,752	515,396	4,957,844	19,294,136	10,379,563	1,570,014	184,733	4,104,770	16,239,080
End of year	\$ 12,076,083	\$ 1,891,439	\$ 272,079	\$ 5,007,844	\$ 19,247,445	\$ 11,632,144	\$ 2,188,752	\$ 515,396	\$ 4,957,844	\$ 19,294,136

Natural Capital Investment Fund, Inc.
Statement of Functional Expenses
For the period ending March 31, 2021

	Unaudited 2021						Audited 2020
	Program Services			Supporting Services			
	Lending	Strategic Initiatives	Total Program	Management and General	Fundraising	Total	Total
11 Management fee contract	\$ 412,819	\$ 133,730	\$ 546,549	\$ 29,072	\$ 5,814	\$ 581,435	\$ 1,585,710
12 Provision for loan losses	(1,079)	-	(1,079)	-	-	(1,079)	433,388
13 Interest expense	244,732	-	244,732	-	-	244,732	1,020,907
14 Technical assistance	-	146,908	146,908	-	-	146,908	402,502
15 Grant and contract expense	-	27,557	27,557	-	-	27,557	34,042
16 Loan workout expense—							
17 non-legal	4,461	-	4,461	-	-	4,461	3,665
18 Legal fees	3,882	-	3,882	-	-	3,882	36,621
19 Professional fees	-	-	-	68,572	-	68,572	70,572
20 Employee travel	350	113	463	25	5	493	11,843
21 Loan origination expense	10,044	-	10,044	-	-	10,044	19,574
22 Office expense	12,034	3,899	15,933	848	170	16,951	54,455
23 Computer software							-
24 maintenance services	3,823	1,239	5,062	269	54	5,385	40,808
25 Rent	12,995	4,210	17,205	915	183	18,303	77,937
26 Conference, convention,							
27 meeting	944	306	1,250	66	13	1,329	5,527
28 Insurance	-	-	-	11,553	-	11,553	17,524
29 Reporting and filing fees	7,958	-	7,958	-	-	7,958	15,475
30 Bad debt expense	-	-	-	-	-	-	3,566
31 Bank charges	-	-	-	3,330	-	3,330	19,071
32 Marketing	6,831	2,213	9,044	481	96	9,621	5,892
33 Employee training and							
34 development	2,406	780	3,186	170	34	3,390	11,716
35 Other lending costs	10,247	-	10,247	-	-	10,247	27,474
36							
37	\$ 732,447	\$ 320,955	\$ 1,053,402	\$ 115,301	\$ 6,369	\$ 1,175,072	\$ 3,898,269

Natural Capital Investment Fund, Inc.
Statements of Cash Flows
For the period ended March 31, 2021 and year ended December 31, 2020

	Unaudited 2021	Audited 2020
Cash flows from operating activities:		
Change in net assets	\$ (46,691)	\$ 3,055,056
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Provision for loan losses	(1,079)	433,388
Bad debt expense	-	-
Implied interest expense	1,265	25,317
Contributions restricted for long-term purposes	-	(853,074)
Conversion of notes payable to unrestricted contribution	-	(150,000)
Amortization of debt acquisition costs	10,247	-
Amortization of deferred loan costs	-	(236,570)
Changes in operating assets and liabilities:		
Accounts receivable	11,341	115,953
Promises to give	646,595	(766,624)
Accrued interest and fees receivable	26,964	(153,204)
Accounts payable	35,671	(64,825)
Accounts payable, related party	581,435	(426,576)
Funds held for others	2,368	(50,139)
Accrued interest payable	24,905	(43)
Refundable advance	20,784	57,636
Net cash provided by operating activities	1,313,805	986,295
Cash flows from investing activities:		
Cash disbursements on loans receivable	(2,380,620)	(15,201,846)
Principal collections on loans receivable	3,368,160	8,008,307
Purchase of restricted investment	(1,146)	(4,581)
Net cash provided by (used in) investing activities	986,394	(7,198,120)
Cash flows from financing activities:		
Proceeds from issuance of notes payable	4,500,000	3,894,330
Repayments of notes payable	(582,635)	(3,187,073)
Payment of debt acquisition costs	(6,547)	(8,134)
Advances on secured borrowings, participations	393,913	6,090,706
Repayments on secured borrowings, participations	(41,512)	(372,670)
Contributions restricted for long-term purposes	-	853,074
Net cash provided by financing activities	4,263,219	7,270,233
Net increase in cash and cash equivalents	6,563,418	1,058,408
Cash and cash equivalents:		
Beginning of year	12,353,434	11,295,026
End of year	\$ 18,916,852	\$ 12,353,434
Cash and cash equivalents—unrestricted	\$ 16,158,687	\$ 9,690,049
Cash—restricted	2,725,767	2,630,987
Cash equivalents held as collateral	32,398	32,398
	\$ 18,916,852	12,353,434
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 218,562	\$ 995,633