

Natural Capital Investment Fund, Inc. d/b/a Partner Community Capital

Financial Report
December 31, 2021 and 2020

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Natural Capital Investment Fund, Inc. d/b/a Partner Community Capital

REPORT ON THE AUDITS OF THE FINANCIAL STATEMENTS

Opinion

We have audited the accompanying financial statements of Natural Capital Investment Fund, Inc. d/b/a Partner Community Capital ("PCAP") which comprise the statement of financial position as of December 31, 2021 and the related statements of activities, cash flows and functional expenses for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Natural Capital Investment Fund, Inc. d/b/a Partner Community Capital as of December 31, 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis of Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of PCAP and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 2 to the financial statements, PCAP has elected to change its method of accounting for the allowance for credit losses for the year ended December 31, 2021. Our opinion is not modified with respect to this matter.

Other Matter

The financial statements of Natural Capital Investment Fund, Inc. d/b/a Partner Community Capital as of December 31, 2020 were audited by other auditors whose report dated April 15, 2021 expressed an unmodified opinion on those statements.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about PCAP's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards*, will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, internal omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 PCAP's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about PCAP's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control-related matters that we identified during the audit.

Other Reporting Requirements by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2022, on our consideration of PCAP'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 PCAP'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 PCAP's internal control over financial reporting and compliance.

K. J. Ruff CPAs PLLC

Nashville, Tennessee
March 30, 2022

Natural Capital Investment Fund, Inc.
d/b/a Partner Community Capital

Statements of Financial Position
December 31, 2021 and 2020

	2021	2020
Assets		
Current assets:		
Cash and cash equivalents	\$ 16,715,441	\$ 9,690,049
Accounts receivable	5,493	16,400
Prepaid expenses	82,353	-
Promises to give	1,047,859	971,203
Loans receivable, net of \$255,319 and \$311,080 at December 31, 2021 and 2020, respectively)	7,220,933	4,985,558
Accrued interest and fees receivable	283,061	371,343
Total current assets	25,355,140	16,034,553
Noncurrent assets:		
Cash - restricted	3,241,291	2,630,987
Cash equivalents held as collateral	23,398	32,398
Other asset	202,600	202,600
Investment - restricted	-	206,089
Investment (U.S. Endowment Fuel Project)	99,995	99,995
Loans receivable, net of \$1,521,062 and \$2,513,052 at December 31, 2021 and 2020, respectively)	42,914,596	40,095,271
Total noncurrent assets	46,481,880	43,267,340
Total assets	\$ 71,837,020	\$ 59,301,893
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 113,773	\$ 34,154
Lines of credit	281,877	149,500
Accounts payable, related party	100,000	-
Funds held for others	62,735	94,106
Current maturities of secured borrowings, participations	705,409	322,949
Accrued interest payable	101,505	77,489
Deferred revenue	1,011,665	57,636
Current maturities of notes payable	2,075,436	2,765,800
Total current liabilities	4,452,400	3,501,634
Secured borrowings, participations	10,118,005	8,210,358
Notes payable, net	29,960,996	24,995,765
Subordinated notes payable	3,300,000	3,300,000
Total noncurrent liabilities	43,379,001	36,506,123
Total liabilities	47,831,401	40,007,757
Commitments and contingencies (Note 13)		
Net assets:		
Without donor restrictions	15,233,898	11,632,144
With donor restrictions	8,771,721	7,661,992
Total net assets	24,005,619	19,294,136
Total liabilities and net assets	\$ 71,837,020	\$ 59,301,893

See notes to financial statements.

Natural Capital Investment Fund, Inc.
d/b/a Partner Community Capital

Statements of Activities
Years Ended December 31, 2021 and 2020

	2021			2020		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Financial activity:						
Financial income:						
Loan interest revenue	\$ 2,930,285	\$ -	\$ 2,930,285	\$ 2,746,862	\$ -	\$ 2,746,862
Fee income on loans, net	629,084	-	629,084	90,098	-	90,098
Interest income	6,329	-	6,329	53,077	-	53,077
Total financial income	3,565,698	-	3,565,698	2,890,037	-	2,890,037
Financial expenses:						
Provision for credit losses	(313,212)	-	(313,212)	433,388	-	433,388
Interest expense	1,159,581	-	1,159,581	1,020,907	-	1,020,907
Total financial expenses	846,369	-	846,369	1,454,295	-	1,454,295
Net financial income	2,719,329	-	2,719,329	1,435,742	-	1,435,742
Revenue and support:						
Grants and contributions	16,830	870,000	886,830	162,620	1,712,919	1,875,539
In-kind services - Forgiven interest	84,152	-	84,152	108,119	-	108,119
Government grants	-	4,304,044	4,304,044	-	2,035,731	2,035,731
Project income	19,549	-	19,549	33,002	-	33,002
Other income	15,211	-	15,211	10,897	-	10,897
Net assets released from restriction	4,064,315	(4,064,315)	-	1,946,175	(1,946,175)	-
Total revenue and support	4,200,057	1,109,729	5,309,786	2,260,813	1,802,475	4,063,288
Expenses:						
Program services:						
Lending	2,320,110	-	2,320,110	1,379,794	-	1,379,794
Strategic initiatives	1,388,247	-	1,388,247	852,704	-	852,704
Total program services	3,708,357	-	3,708,357	2,232,498	-	2,232,498
Supporting services:						
Management and general	320,701	-	320,701	193,537	-	193,537
Fundraising	31,172	-	31,172	17,939	-	17,939
Total supporting services	351,873	-	351,873	211,476	-	211,476
Total expenses	4,060,230	-	4,060,230	2,443,974	-	2,443,974
Change in net assets	2,859,156	1,109,729	3,968,885	1,252,581	1,802,475	3,055,056
Net assets:						
Beginning of year	11,632,144	7,661,992	19,294,136	10,379,563	5,859,517	16,239,080
Impact of adopting ASC 326	742,598	-	742,598	-	-	-
End of year	\$ 15,233,898	\$ 8,771,721	\$ 24,005,619	\$ 11,632,144	\$ 7,661,992	\$ 19,294,136

See notes to financial statements.

Natural Capital Investment Fund, Inc.
d/b/a Partner Community Capital

Statement of Functional Expenses
Year Ended December 31, 2021

	Program Services			Total Program	Supporting Services		Total
	Lending	Strategic Initiatives			Management and General	Fundraising	
Management fee contract, net	\$ 1,741,415	\$ 712,397	\$ 2,453,812	\$ 158,310	\$ 26,385	\$ 2,638,507	
Provision for credit loss	(313,212)	-	(313,212)	-	-	(313,212)	
Interest expense	1,075,429	-	1,075,429	-	-	1,075,429	
In-kind - Interest expense	84,152	-	84,152	-	-	84,152	
Technical assistance	-	470,738	470,738	-	-	470,738	
Grant and contract expense	-	75,877	75,877	-	-	75,877	
Loan workout expense:							
non-legal	4,889	-	4,889	-	-	4,889	
Legal fees	51,983	-	51,983	-	-	51,983	
Professional fees	3,500	-	3,500	84,131	-	87,631	
Employee travel	10,866	4,445	15,311	988	165	16,464	
Loan origination expense, net	129,497	-	129,497	-	-	129,497	
Office expense	85,475	34,967	120,442	7,770	1,295	129,507	
Computer software maintenance services	53,213	21,769	74,982	4,838	806	80,626	
Rent	50,076	20,486	70,562	4,552	759	75,873	
Conference, convention, meeting	2,220	908	3,128	202	34	3,364	
Insurance	-	-	-	31,419	-	31,419	
Reporting and filing fees	21,957	-	21,957	-	-	21,957	
Bank charges	-	-	-	18,122	-	18,122	
Marketing	109,980	44,992	154,972	9,998	1,666	166,636	
Employee training and development	4,077	1,668	5,745	371	62	6,178	
Other lending costs	50,962	-	50,962	-	-	50,962	
Total expense	3,166,479	1,388,247	4,554,726	320,701	31,172	4,906,599	
Less expenses included with financial activity on the statement of activities	(846,369)	-	(846,369)	-	-	(846,369)	
Total expense included with expenses on the statement of activities	\$ 2,320,110	\$ 1,388,247	\$ 3,708,357	\$ 320,701	\$ 31,172	\$ 4,060,230	

See notes to financial statements.

Natural Capital Investment Fund, Inc.
d/b/a Partner Community Capital

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
Total expense	2,834,089	852,704		3,686,793	193,537	17,939	3,898,269
Less expenses included with financial activity on the statement of activities	(1,454,295)	-		(1,454,295)	-	-	(1,454,295)
Total expense included with expenses on the statement of activities	\$ 1,379,794	\$ 852,704		\$ 2,232,498	\$ 193,537	\$ 17,939	\$ 2,443,974

See notes to financial statements.

Natural Capital Investment Fund, Inc.
d/b/a Partner Community Capital

Statements of Cash Flows
Years Ended December 31, 2021 and 2020

	2021	2020
Cash flows from operating activities:		
Change in net assets	\$ 3,968,885	\$ 3,055,056
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Provision for credit losses	(313,212)	433,388
Implied interest expense	5,059	25,317
Contributions restricted for long-term purposes	(1,262,910)	(853,074)
Conversion of notes payable to unrestricted contribution	-	(150,000)
Amortization of debt acquisition costs	50,962	-
Amortization of deferred loan costs (fees)	63,578	(236,570)
Changes in operating assets and liabilities:		
Accounts receivable	10,907	115,953
Prepaid expenses	(82,353)	-
Promises to give	(76,656)	(766,624)
Accrued interest and fees receivable	88,282	(153,204)
Accounts payable	79,619	(64,825)
Accounts payable, related party	100,000	(426,576)
Funds held for others	(31,371)	(50,139)
Accrued interest payable	24,016	(43)
Refundable advance	954,029	57,636
Net cash provided by operating activities	3,578,835	986,295
Cash flows from investing activities:		
Cash disbursements on loans receivable	(18,220,450)	(15,201,846)
Principal collections on loans receivable	13,064,085	8,008,307
Proceeds from the sale of loans receivable	1,094,020	-
Repayment on the sale of loans receivable	(123)	-
Purchase of restricted investment	-	(4,581)
Sale of restricted investment	206,089	-
Net cash used in investing activities	(3,856,379)	(7,198,120)
Cash flows from financing activities:		
Proceeds from lines of credit	763,127	150,000
Repayments of lines of credit	(630,750)	(500,500)
Proceeds from issuance of notes payable	5,781,906	3,744,330
Repayments of notes payable	(1,515,811)	(2,686,573)
Payment of debt acquisition costs	(47,249)	(8,134)
Advances on secured borrowings, participations	2,950,944	6,090,706
Repayments on secured borrowings, participations	(660,837)	(372,670)
Contributions restricted for long-term purposes	1,262,910	853,074
Net cash provided by financing activities	7,904,240	7,270,233
Net increase in cash and cash equivalents	7,626,696	1,058,408
Cash and cash equivalents:		
Beginning of year	12,353,434	11,295,026
End of year	\$ 19,980,130	\$ 12,353,434
Cash and cash equivalents-unrestricted	\$ 16,715,441	\$ 9,690,049
Cash-restricted	3,241,291	2,630,987
Cash equivalents held as collateral	23,398	32,398
	\$ 19,980,130	12,353,434
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 1,130,506	\$ 995,633

See notes to financial statements.

Natural Capital Investment Fund, Inc. d/b/a Partner Community Capital

Notes to Financial Statements

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

Natural Capital Investment Fund, Inc. d/b/a Partner Community Capital (PCAP) is a certified community development financial institution that provides financing for and technical assistance to triple-bottom line small businesses and critical community infrastructure. PCAP'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, Tennessee, Ohio and Kentucky.

PCAP's activities include the following two program areas:

Lending program: PCAP 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. PCAP provides microloans in amounts from \$1,000 to \$50,000 and business loans sized from \$50,000 to \$1 million. PCAP 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.

PCAP's business clients are predominantly located in economically distressed rural communities that 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.

PCAP 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 PCAP specializes in financing TBL companies, it recognizes that economically and environmentally healthy communities require a diverse range of businesses and services, so PCAP expanded its work.

Strategic initiatives program: PCAP'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 PCAP's stated mission. These initiatives frequently combine PCAP'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 PCAP seeks to serve.

Basis of presentation: PCAP 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 PCAP 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. d/b/a Partner Community Capital

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 PCAP 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, PCAP writes off the uncollectible amount (loss) against the net assets.

Cash and cash equivalents: PCAP classifies cash and money market funds with original maturities of 90 days or less as cash and cash equivalents. Money market funds consist of US treasury obligations, which are recorded at cost which approximates fair value.

Restricted cash: In order to secure its obligations in existing loan agreements, PCAP 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), PCAP 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. Refer to *Note 3 – Cash and cash equivalents*.

Restricted investment: In order to secure its obligations in its existing loan agreement, PCAP 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, PCAP records certificates of deposit as collateral. The certificates of deposit are held at cost and have short-term maturities.

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

Promises to give and contribution revenue: 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, 2021 or 2020.

Loans receivable: PCAP 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, Tennessee, and South Carolina. The ability of PCAP's debtors to honor their contracts is dependent upon general economic conditions in the respective area.

Natural Capital Investment Fund, Inc. d/b/a Partner Community Capital

Notes to Financial Statements

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

PCAP uses the following loan segments for financial reporting purposes: Real Estate – First Position, Real Estate – Subordinated, Other Collateral, Non Risk Rated (Payroll Protection Program, NC COVID-19 Rapid Recovery, WV Emergency), and Unsecured. 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: As described below under *Note 2. - Recently Adopted Accounting Pronouncements*, PCAP adopted Financial Accounting Standards Board (FASB) ASC 326 effective January 1, 2021, which requires the estimation of an allowance for credit losses in accordance with the current expected credit loss (CECL) methodology. PCAP's management assesses the adequacy of the allowance on a quarterly basis. This assessment includes procedures to estimate the allowance and test the adequacy and appropriateness of the resulting balance. The level of the allowance is based upon management's evaluation of historical default and loss experience, current and projected general economic outlook, composition of the loan portfolio, industry and peer bank loan quality indications and other pertinent factors, including regulatory recommendations and analysis of key lending staff. The level of the allowance for credit losses maintained by management is believed adequate to absorb all expected future losses inherent in the loan portfolio at the balance sheet date. The allowance is increased through provision for credit losses and decreased by charge-offs, net of recoveries of amounts previously charged-off.

The allowance for credit losses is measured on a collective (pool) basis when similar risk characteristics exists. PCAP has identified the following portfolio segments for analysis and measurement of allowance for credit losses: Startup, Non-Startup High Credit Risk as measured by credit score, Non-Startup Acceptable Credit Risk as measured by credit score, Payroll Protection Program, and NC COVID-19 Rapid Recovery loans.

Startup, Non-Startup High Credit Risk as measured by credit score, and Non-Startup Acceptable Credit Risk as measured by credit score portfolio segments measure utilize the Vintage model approach for estimation of an allowance for credit losses. The vintage model utilizes historical indications to develop future loss expectations. Portfolio loans are grouped by calendar year of origination (vintage) and a pattern of credit loss information is developed by averaging relevant historical indications. This loss pattern is applied on a forward looking basis to active vintages to develop loss expectations. All loan segments under the vintage model consider changes in the economic outlook obtained from an independent third party. The following qualitative adjustments are utilized in the analysis and estimation of allowance for credit losses: Changes in average term of portfolio loans, changes in volume and severity of past due loans, and analysis of key lending staff.

Natural Capital Investment Fund, Inc. d/b/a Partner Community Capital

Notes to Financial Statements

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

Payroll Protection Program and NC COVID-19 Rapid Recovery loans are considered standalone segments as there are no lifetime expected losses attributable to PCAP. Payroll Protection Program loans are fully guaranteed by the Small Business Administration and NC COVID-19 Rapid Recovery loans are participation loans sold in full to third parties as described in *Transfers of financial assets in Note 1. Nature of Activities and Summary of Significant Accounting Policies*.

Loans that do not share similar risk characteristics with the collectively evaluated pools are evaluated on an individual basis and are excluded from the collectively evaluated pools. Individual evaluations are performed for loans which have experienced significant credit deterioration. Such loans are evaluated for credit losses based on either discounted cash flows or the fair value of collateral. When management determines that foreclosure is probable, expected credit losses are based on the fair value of the collateral, less selling costs. For loans for which foreclosure is not probable, but for which repayment is expected to be provided substantially through the operation or sale of the collateral, PCAP has elected the practical expedient under ASC 326 to estimate expected credit losses based on the fair value of collateral, with selling costs considered in the event sale of the collateral is expected. Loans for which terms have been modified in a troubled debt restructures (TDR) are evaluated using these same individual evaluation methods. In the event the discounted cash flow method is used for a TDR, the original interest rate is used to discount expected cash flows.

In accordance with CECL, losses are estimated over the remaining contractual terms of loans, adjusted for prepayments. The contractual term excludes expected extensions, renewals and modifications unless management has a reasonable expectation at the reporting date that a TDR will be executed or such renewals, extensions or modifications are included in the original loan agreement and are not unconditionally cancellable by PCAP.

Credit losses are estimated on the amortized cost basis of loans, which includes the principal balance outstanding, deferred origination fees and costs and accrued interest receivable.

Prior to the adoption of FASB ASC 326 on January 1, 2021, the allowance for loan losses was determined pursuant to ASC 450-20 and ASC 310-10-35. 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.

Natural Capital Investment Fund, Inc. d/b/a Partner Community Capital

Notes to Financial Statements

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

Prior to the adoption of FASB ASC 326 on January 1, 2021, Management categorized loans into risk categories generally based on the nature of the project. These risk categories and the relevant risk characteristics were as follows:

Real Estate - First Position: Real estate secured loans where PCAP 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, PCAP 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. PCAP 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 PCAP pursues a participation from a lender that will have a participation that is subordinated to PCAP's loan.

Real Estate- Subordinated: Real estate secured loans where PCAP 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. PCAP 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 PCAP. 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, PCAP 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 PCAP.

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

Non Risk Rated: 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 PCAP's capital is at risk.

Non Risk Rated: WV Emergency: These loans are secured by business assets. None of PCAP'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 PCAP'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: Prior to the adoption of FASB ASC 326 on January 1, 2021, the impaired loan allowance was determined pursuant to ASC 310-10-35. A loan is considered impaired when, based on current information and events, it is probable that PCAP 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. d/b/a Partner Community Capital

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: PCAP uses debt primarily for financing for financing for triple-bottom line small businesses and critical community infrastructure. Most debt is in the form of notes payable to foundations, financial institutions, impact investors and various government agencies. PCAP 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 PCAP, (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. The outstanding balance of sales is \$1,093,897 as of December 31, 2021. There were no sales as of December 31, 2020.

PCAP sells participation loans to third parties that do not meet the criteria to be accounted for as sales as PCAP has not surrendered control of the participation loans sold. As a result the participation loans are accounted for as secured borrowings, whereby PCAP records cash received from the transferee and records a liability to repay the cash to the transferee. The transferees have no recourse to PCAP for failure of the underlying borrowers to pay amounts contractually due. The outstanding balance of participation loans sold accounted for as secured borrowings is \$10,823,414 and \$8,533,306 as of December 31, 2021 and 2020, respectively.

Revenue recognition: PCAP'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 PCAP 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.

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

Promises to contribute and grants that stipulate conditions to be met before the contribution or grant is made to PCAP are not recognized until the conditions are met.

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

Natural Capital Investment Fund, Inc. d/b/a Partner Community Capital

Notes to Financial Statements

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

Income taxes: PCAP is organized as a Maryland nonstock corporation and has received a determination letter from the U.S. Internal Revenue Services (IRS) granting it tax-exempt status as a charitable non-profit organization under IRC Sections 501(c)(3) and 170(b)(1)(A)(vi). Income which is not related to exempt purposes, less applicable deductions, is subject to federal and state corporate income taxes. PCAP had no net unrelated business income tax for the years ended December 31, 2021 and 2020.

Management evaluated PCAP's tax positions and concluded that PCAP had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance. PCAP files income tax returns in the U.S. federal jurisdiction. Generally, PCAP is no longer subject to income tax examinations for the U.S. federal, state or local tax authorities for the years before 2018.

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

Reclassifications: Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation. Such reclassifications had no effect on the results of activities or net assets as previously reported.

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 balance sheet 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. As a result of ASU 2020-05, the standard will now be effective for fiscal years beginning after December 15, 2021. PCAP is currently evaluating the impact the adoption of this guidance will have on its financial statements.

In September 2020, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which requires a not-for-profit entity to present contributed nonfinancial assets in the statement of activities as a line item that is separate from contributions of cash or other financial assets. ASU 2020-07 also requires additional qualitative and quantitative disclosures about contributed nonfinancial assets received, disaggregated by category. This guidance is effective for fiscal years beginning after June 15, 2021. The adoption of ASU 2020-07 is not expected to have a significant impact on PCAP's financial statements.

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Notes to Financial Statements

Note 2. Recently Adopted Accounting Pronouncements:

As of January 1, 2020, PCAP adopted the 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.

On January 1, 2021, PCAP adopted ASU 2016-13 *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which replaces the incurred loss methodology with an expected loss methodology that is referred to as the CECL methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized costs, including loan receivables and held-to-maturity debt securities. It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments) and net investments in leases recognized by a lessor in accordance with Topic 842 on leases. The total impact of adoption of ASC 326 was an increase in net assets without donor restriction of \$742,598.

PCAP adopted ASC 326 using the modified retrospective method for all financial assets measured at amortized costs and off-balance-sheet (OBS) credit exposures. Results for reporting periods beginning after January 1, 2021 are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable GAAP.

Note 3. Cash and Cash Equivalents

Cash and cash equivalents held by PCAP at December 31, 2021 and 2020, consist of the following:

	2021	2020
Cash	\$ 5,094,427	\$ 3,956,015
U.S. government money market fund	14,862,305	8,365,021
Certificates of deposit	23,398	32,398
	<u>\$ 19,980,130</u>	<u>\$ 12,353,434</u>
Unrestricted cash and cash equivalents	\$ 16,715,441	\$ 9,690,049
Restricted cash	3,241,291	2,630,987
Restricted cash equivalents	23,398	32,398
	<u>\$ 19,980,130</u>	<u>\$ 12,353,434</u>

Natural Capital Investment Fund, Inc. d/b/a Partner Community Capital

Notes to Financial Statements

Note 3. Cash and Cash Equivalents (Continued)

Restricted cash balances at December 31, 2021 and 2020, are held for the following purposes:

	2021	2020
Revolving loan funds:		
Intermediary Relending Program	\$ 1,478,304	\$ 1,536,456
Economic Development Authority	4,360	-
Rural Microentrepreneur Assistance Program	333,978	279,364
	<u>1,816,642</u>	<u>1,815,820</u>
Cash required to be segregated by lender:		
Financial institution lenders	1,273,005	638,420
Private lender	-	30,141
	<u>1,273,005</u>	<u>668,561</u>
Cash loan loss reserves:		
Intermediary Relending Program	102,187	102,197
Rural Microentrepreneur Assistance Program	19,458	19,468
Small Business Administration	29,999	24,941
	<u>151,644</u>	<u>146,606</u>
	<u>\$ 3,241,291</u>	<u>\$ 2,630,987</u>

Note 4. Other Asset

At December 31, 2021 and 2020, PCAP 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 PCAP 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, PCAP would have two loans with the third-party for \$174,600 and \$28,000.

Note 5. Promises to Give

As of December 31, 2021 and 2020, unconditional promises to give totaling \$1,047,859 and \$971,203, respectively, are due in less than one year. At December 31, 2021 and 2020, PCAP also had sixteen and twelve conditional promises to give totaling \$5,521,729 and \$4,045,075, respectively.

Note 6. Loans Receivable

Loans receivable by category at December 31, 2021 and 2020, as follows:

	2021	2020
Real Estate - First Position	\$ 29,940,042	\$ 29,807,350
Real Estate - Subordinated	4,645,853	3,313,009
Other Collateral	8,066,434	8,342,429
Non Risk Rated		
Payroll Protection Program	1,068,081	472,140
North Carolina COVID 19 Rapid Recovery	6,363,809	5,616,106
West Virginia Emergency	1,667,056	301,543
Unsecured	160,635	52,384
Subtotal	<u>51,911,910</u>	<u>47,904,961</u>
Allowance for credit losses	<u>(1,776,381)</u>	<u>(2,824,132)</u>
Loans receivable, net	<u>\$ 50,135,529</u>	<u>\$ 45,080,829</u>

Natural Capital Investment Fund, Inc. d/b/a Partner Community Capital

Notes to Financial Statements

Note 6. Loans Receivable (Continued)

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.

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

Loans receivable totaling \$2,409,381 and \$2,354,918 and restricted cash of \$1,478,304 and \$1,536,455 serve as collateral on IRP notes payable at December 31, 2021 and 2020, respectively. Loans receivable totaling \$85,509 and \$183,848 and restricted cash of \$333,978 and \$279,364 serve as collateral on RMAP notes payable at December 31, 2021 and 2020, respectively.

Accrued interest receivable amounted to \$281,768 and \$370,180 at December 31, 2021 and 2020, respectively.

There were no non-accrual loans at December 31, 2021 or 2020.

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, PCAP funded \$3,699,072 in loans to 112 borrowers and deferred approximately \$8,613 of origination costs as of December 31, 2021, net of SBA processing fees, that will be recognized as origination expense over the term of the loans. As of December 31, 2021 and 2020, \$1,059,468 and \$464,295 of principal remained outstanding on these PPP loans, respectively.

With the support of the Appalachian Regional Commission (ARC) and the U.S. Department of Commerce's Economic Development Administration (EDA), PCAP 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, 2021, PCAP funded \$1,699,500 in loans to 32 borrowers and deferred approximately \$12,771 of net origination costs as of December 31, 2021, that will be recognized as origination expense over the term of the loans. As of December 31, 2021 and 2020, \$1,654,285 and \$296,500 of principal remained outstanding on the WV Emergency loans, respectively.

Natural Capital Investment Fund, Inc. d/b/a Partner Community Capital

Notes to Financial Statements

Note 6. Loans Receivable (Continued)

PCAP participated in the North Carolina Rapid Recovery (NCR) 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 NCR was provided by the Golden LEAF Foundation initially, supplemented by a \$125 million appropriation from the State of North Carolina. NCR served as a central point of contact for potential NCR borrowers; it then distributed applications to PCAP 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 PCAP secured borrowings. Repayments of principal at 100% and interest at 50% are returned to NC Rural Center. Under the NCR program, PCAP funded \$6,691,620 in loans to 73 borrowers and deferred approximately \$30,455 of net origination costs as of December 31, 2021, that will be recognized as origination expense over the term of the loans. As of December 31, 2021 and 2020, \$6,333,354 and \$5,570,719 of principal remained outstanding on the NCR loans, respectively.

Aging: The following table represent an aging of loans as of December 31, 2021 and 2020. The table presents the principal amount outstanding on the loans that may be past due for principal and/or interest payments contractually due:

	2021					
	31 - 60 Days Past Due	61 - 90 Days Past Due	91+ Days Past Due	Total Past Due	Current	Total Loans
Real Estate - First Position	\$ -	\$ -	\$ -	\$ -	\$ 29,940,042	\$ 29,940,042
Real Estate - Subordinated	-	-	-	-	4,645,853	4,645,853
Other Collateral	-	172,154	226,635	398,789	7,667,645	8,066,434
Non Risk Rated						
Payroll Protection Program	-	-	-	-	1,068,081	1,068,081
North Carolina COVID 19						
Rapid Recovery	-	-	-	-	6,363,809	6,363,809
West Virginia Emergency	-	-	-	-	1,667,056	1,667,056
Unsecured	-	-	-	-	160,635	160,635
Total	\$ -	\$ 172,154	\$ 226,635	\$ 398,789	\$ 51,513,121	\$ 51,911,910

	2020					
	30 - 60 Days Past Due	61 - 90 Days Past Due	91+ Days Past Due	Total Past Due	Current	Total Loans
Real Estate - First Position	\$ -	\$ -	\$ -	\$ -	\$ 29,807,350	\$ 29,807,350
Real Estate - Subordinated	-	-	-	-	3,313,009	3,313,009
Other Collateral	322,399	-	-	322,399	8,020,030	8,342,429
Non Risk Rated						
Payroll Protection Program	-	-	-	-	472,140	472,140
North Carolina COVID 19						
Rapid Recovery	-	-	-	-	5,616,106	5,616,106
West Virginia Emergency	-	-	-	-	301,543	301,543
Unsecured	-	-	-	-	52,384	52,384
Total	\$ 322,399	\$ -	\$ -	\$ 322,399	\$ 47,582,562	\$ 47,904,961

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. PCAP uses a loan grading system that follows its loan policy.

In evaluating the credit risk of the PCAP'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 PCAP'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. d/b/a Partner Community Capital

Notes to Financial Statements

Note 6. 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. PCAP is moving toward writing off the loan.

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

Non risk rated – The PCAP has certain loans that are not risk rated.

Natural Capital Investment Fund, Inc. d/b/a Partner Community Capital

Notes to Financial Statements

Note 6. Loans Receivable (Continued)

The following table summarizes the loan portfolio classified by internal credit risk rating by primary loan type and based on year of origination at December 31, 2021.

	2021	2020	2019	2018	2017	Prior	Total
Real Estate - First Position							
1 - Strong	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 77,640	\$ 77,640
2 - Low Risk	2,863,829	2,629,044	1,223,104	2,903,782	3,440,604	970,007	14,030,370
3 - Acceptable Risk	1,464,651	420,132	1,966,389	1,536,494	1,085,629	1,020,615	7,493,910
4 - Moderate Risk/Start-Up	3,504,313	921,197	882,415	617,106	-	336,509	6,261,540
5 - High Risk	-	215,655	1,415,545	-	-	445,382	2,076,582
6 - Problem Asset	-	-	-	-	-	-	-
7 - Written Off	-	-	-	-	-	-	-
Non Risk Rated	-	-	-	-	-	-	-
Total Real Estate - First Position	\$ 7,832,793	\$ 4,186,028	\$ 5,487,453	\$ 5,057,382	\$ 4,526,233	\$ 2,850,153	\$ 29,940,042
Real Estate - Subordinated							
1 - Strong	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2 - Low Risk	-	298,320	120,195	138,996	110,786	425,582	1,093,879
3 - Acceptable Risk	282,251	242,514	84,593	185,000	281,127	103,428	1,178,913
4 - Moderate Risk/Start-Up	1,134,058	223,615	764,012	-	33,324	-	2,155,009
5 - High Risk	-	-	-	-	-	158,956	158,956
6 - Problem Asset	59,096	-	-	-	-	-	59,096
7 - Written Off	-	-	-	-	-	-	-
Non Risk Rated	-	-	-	-	-	-	-
Total Real Estate - Subordinated	\$ 1,475,405	\$ 764,449	\$ 968,800	\$ 323,996	\$ 425,237	\$ 687,966	\$ 4,645,853
Other Collateral							
1 - Strong	\$ 24,843	\$ 39,786	\$ -	\$ -	\$ -	\$ 166,392	\$ 231,021
2 - Low Risk	150,048	53,163	537,468	-	89,565	359,104	1,189,348
3 - Acceptable Risk	721,219	788,409	526,672	135,345	194,861	1,194,992	3,561,498
4 - Moderate Risk/Start-Up	702,174	7,975	925,057	249,078	172,154	378,682	2,435,120
5 - High Risk	-	116,722	-	182,931	136,551	12,436	448,640
6 - Problem Asset	90,894	-	-	-	-	109,913	200,807
7 - Written Off	-	-	-	-	-	-	-
Non Risk Rated	-	-	-	-	-	-	-
Total Other Collateral	\$ 1,689,178	\$ 1,006,055	\$ 1,989,197	\$ 567,354	\$ 593,131	\$ 2,221,519	\$ 8,066,434
Non Risk Rated							
1 - Strong	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2 - Low Risk	-	-	-	-	-	-	-
3 - Acceptable Risk	-	-	-	-	-	-	-
4 - Moderate Risk/Start-Up	-	-	-	-	-	-	-
5 - High Risk	-	-	-	-	-	-	-
6 - Problem Asset	-	-	-	-	-	-	-
7 - Written Off	-	-	-	-	-	-	-
Non Risk Rated	3,511,613	5,587,333	-	-	-	-	9,098,946
Total Non Risk Rated	\$ 3,511,613	\$ 5,587,333	\$ -	\$ -	\$ -	\$ -	\$ 9,098,946
Unsecured							
1 - Strong	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2 - Low Risk	12,394	-	-	-	25,952	-	38,346
3 - Acceptable Risk	87,119	-	-	-	4,923	-	92,042
4 - Moderate Risk/Start-Up	3,599	15,902	-	-	-	-	19,501
5 - High Risk	10,746	-	-	-	-	-	10,746
6 - Problem Asset	-	-	-	-	-	-	-
7 - Written Off	-	-	-	-	-	-	-
Non Risk Rated	-	-	-	-	-	-	-
Total Unsecured	\$ 113,858	\$ 15,902	\$ -	\$ -	\$ 30,875	\$ -	\$ 160,635
Total Loans							
1 - Strong	\$ 24,843	\$ 39,786	\$ -	\$ -	\$ -	\$ 244,032	\$ 308,661
2 - Low Risk	3,026,271	2,980,527	1,880,767	3,042,778	3,666,907	1,754,693	16,351,943
3 - Acceptable Risk	2,555,240	1,451,055	2,577,654	1,856,839	1,566,540	2,319,035	12,326,363
4 - Moderate Risk/Start-Up	5,344,144	1,168,689	2,571,484	866,184	205,478	715,191	10,871,170
5 - High Risk	10,746	332,377	1,415,545	182,931	136,551	616,774	2,694,924
6 - Problem Asset	149,990	-	-	-	-	109,913	259,903
7 - Written Off	-	-	-	-	-	-	-
Non Risk Rated	3,511,613	5,587,333	-	-	-	-	9,098,946
Total Loans	\$ 14,622,847	\$ 11,559,767	\$ 8,445,450	\$ 5,948,732	\$ 5,575,476	\$ 5,759,638	\$ 51,911,910

Natural Capital Investment Fund, Inc. d/b/a Partner Community Capital

Notes to Financial Statements

Note 6. Loans Receivable (Continued)

The following table summarizes the loan portfolio classified by internal credit risk rating at December 31, 2020.

	Real Estate First Position	Real Estate Subordinated	Other Collateral	Non risk rated	Unsecured	Total
1 - Strong	\$ -	\$ -	\$ 42,994	\$ -	\$ -	\$ 42,994
2 - Low Risk	11,917,508	313,346	1,202,124	-	28,801	13,461,779
3 - Acceptable Risk	10,071,565	1,713,403	3,015,116	-	2,038	14,802,122
4 - Moderate Risk/Start-Up	6,729,611	1,286,260	3,389,062	-	17,190	11,422,123
5 - High Risk	937,260	-	381,353	-	4,355	1,322,968
6 - Problem Asset	151,406	-	311,780	-	-	463,186
7 - Written Off	-	-	-	-	-	-
Non Risk Rated	-	-	-	6,389,789	-	6,389,789
	<u>\$ 29,807,350</u>	<u>\$ 3,313,009</u>	<u>\$ 8,342,429</u>	<u>\$ 6,389,789</u>	<u>\$ 52,384</u>	<u>\$ 47,904,961</u>

Allowance for credit losses: The following is an analysis of the allowance for credit losses for the year ended December 31, 2021:

	Real Estate First Position	Real Estate Subordinated	Other Collateral	Non Risk Rated			Unsecured	Total
				Payroll Protection Program	North Carolina COVID 19 Rapid Recovery	West Virginia Emergency		
Beginning balance	\$ 2,092,727	\$ 174,734	\$ 536,462	\$ -	\$ -	\$ 17,950	\$ 2,259	\$ 2,824,132
Impact of adopting ASC 326	(769,670)	(19,748)	34,213	-	-	(8,764)	21,371	(742,598)
Provision charged to operations	(239,516)	76,937	(242,900)	-	-	53,031	39,236	(313,212)
Less charge-offs	-	-	-	-	-	-	-	-
Recoveries	-	-	8,059	-	-	-	-	8,059
Ending balance	<u>\$ 1,083,541</u>	<u>\$ 231,923</u>	<u>\$ 335,834</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 62,217</u>	<u>\$ 62,866</u>	<u>\$ 1,776,381</u>
Allowance for loan losses allocated:								
Individually evaluated for impairment	\$ 34,809	\$ 58,721	\$ 103,748	\$ -	\$ -	\$ -	\$ -	\$ 197,278
Collectively evaluated for impairment	1,048,732	173,202	232,086	-	-	62,217	62,866	1,579,103
	<u>\$ 1,083,541</u>	<u>\$ 231,923</u>	<u>\$ 335,834</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 62,217</u>	<u>\$ 62,866</u>	<u>\$ 1,776,381</u>
Loans receivable:								
Individually evaluated for impairment	\$ 445,380	\$ 58,721	\$ 403,256	\$ -	\$ -	\$ -	\$ -	\$ 907,357
Collectively evaluated for impairment	29,494,662	4,587,132	7,663,178	1,068,081	6,363,809	1,667,056	160,635	51,004,553
	<u>\$ 29,940,042</u>	<u>\$ 4,645,853</u>	<u>\$ 8,066,434</u>	<u>\$ 1,068,081</u>	<u>\$ 6,363,809</u>	<u>\$ 1,667,056</u>	<u>\$ 160,635</u>	<u>\$ 51,911,910</u>

The following is an analysis of the allowance for loan losses by impairment evaluation method as of December 31, 2020, as determined in accordance with ASC 310 prior to the adoption of ASU 2016-13.

	Real Estate First Position	Real Estate Subordinated	Other Collateral	Non Risk Rated			Unsecured	Total
				Payroll Protection Program	North Carolina COVID 19 Rapid Recovery	West Virginia Emergency		
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	29,203,989	3,313,009	7,918,196	472,140	5,616,106	301,543	52,384	46,877,367
	<u>\$ 29,807,350</u>	<u>\$ 3,313,009</u>	<u>\$ 8,342,429</u>	<u>\$ 472,140</u>	<u>\$ 5,616,106</u>	<u>\$ 301,543</u>	<u>\$ 52,384</u>	<u>\$ 47,904,961</u>

Natural Capital Investment Fund, Inc. d/b/a Partner Community Capital

Notes to Financial Statements

Note 6. Loans Receivable (Continued)

Impaired loans: The following is an analysis of impaired loans for which a specific reserve component has been calculated for the year ended December 31, 2020 as determined under ASC 310 prior to the adoption of ASU 2016-13.

	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>

Troubled debt restructures: As of December 31, 2021, the outstanding principal balance of troubled debt restructures was \$907,357. The associated allowance for loan losses for troubled debt restructures was \$197,279 as of December 31, 2021. During the year ended December 31, 2021, three loans were modified and considered to be troubled debt restructures. The loans had a pre-modification and post-modification balance of \$149,241. The modifications in 2021 included rate reductions and extension of maturity dates. There were no unfunded commitments on troubled debt restructures as of December 31, 2021.

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

During the years ended December 31, 2021 and 2020, PCAP had no troubled debt restructures that subsequently defaulted within twelve months of the restructuring.

In the first quarter of 2020, PCAP 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 of 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, PCAP elected to continue recognizing interest income during the modification periods. The outstanding principal balance on these modified loans was \$925,114 and \$1,079,890 at December 31, 2021 and 2020, respectively.

Note 7. 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 PCAP. 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.

Natural Capital Investment Fund, Inc. d/b/a Partner Community Capital

Notes to Financial Statements

Note 7. Investments and Fair Value Measurements (Continued)

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

Level 1: Valuations based on unadjusted quoted prices in active markets for identical assets that management has the ability to access. Valuation adjustments and block discounts are not applied to Level 1 instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.

Level 2: Valuations based on inputs that are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. At December 31, 2021 and 2020, 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: PCAP has investments in the U.S. Endowment Fuel Project in the amount of \$99,995 at December 31, 2021 and 2020.

Restricted investment: PCAP held a certificate of deposit with Woodforest Bank in the amount of \$206,089 at of December 31, 2020, as a requirement to hold during the duration of the \$500,000 financing provided. The certificate of deposit was redeemed during the year ended December 31, 2021 when the \$500,000 financing was paid in full.

Natural Capital Investment Fund, Inc. d/b/a Partner Community Capital

Notes to Financial Statements

Note 7. Investments and Fair Value Measurements (Continued)

Fair value on a nonrecurring basis:

Impaired loans: Prior to adoption of ASU 2016-13 in accordance with ASC 310 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, was \$184,243.

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

Note 8. Related Party Transactions

PCAP has entered into a management services agreement with TCF. Under the terms of the agreement, TCF provides certain staffing and administrative services to PCAP. The management fee under the agreement was \$2,570,638 and \$2,007,845 for the years ended December 31, 2021 and 2020, respectively, and amount payable as of December 31, 2021 and 2020, was \$100,000 and \$0, 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, PCAP deferred \$422,135 of loan costs associated with the 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. PCAP recognized \$67,869 of deferred costs associated with the origination of loans included within the 2021 management fee resulting in management fee expense of \$2,638,507 for the year ended December 31, 2021.

PCAP has entered into an agreement with a Board Member to provide marketing and consulting services. The fee under the agreement during year ended December 31, 2021 was \$79,223 and \$5,426 was payable as of December 31, 2021. The fee under the agreement during the year ended December 31, 2020 was \$39,576 and \$3,606 was payable as of December 31, 2020.

Natural Capital Investment Fund, Inc. d/b/a Partner Community Capital

Notes to Financial Statements

Note 9. Notes Payable and Subordinated Notes Payable

Notes payable consist of the following at December 31, 2021 and 2020:

Lender		Undrawn Amounts	2021 Balance	2020 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 from December 2031 to September 2050. Secured by funds held by PCAP 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 \$38,739 and \$43,798 for the years ended December 31, 2021 and 2020, respectively.	\$ 637,500	\$ 2,579,205	\$ 2,680,519
U.S. Department of Agriculture - RMAP	Note is payable over a 20-year term with 2% simple interest maturing May 2036. Monthly principal and interest payments began 2 years after closing date with Year 1 and Year 2 interest capitalized to the principal balance. Secured by funds held by PCAP under the RMAP program and collateral obtained as a result of advancing loan funds.	-	431,088	456,793
West Virginia Infrastructure & Jobs Development Council	Used as matching funds for the U.S. Department of Agriculture loan. Includes one note payable with a 15-year term with interest at 1% per annum. Quarterly principal and interest payments due on the note until maturity January 2026. Secured on a pro rata basis with USDA loan on funds held by PCAP under the IRP.	-	99,737	124,055
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 PCAP under the IRP.	-	421,274	451,822
	Total secured notes payable		3,531,304	3,713,189
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	600,000
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 note maturity.	-	60,817	75,935
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 annually until note is paid.	-	2,000,000	2,000,000
Appalachian Community Capital	Note matures March 2023. Floating interest is based on its cost of funds plus 1% payable monthly. Interest rate at December 31, 2021 and 2020 was 2.63%.	-	1,500,000	2,000,000
Franconia II 2012 Trust	Note renewed in September 2021. General recourse balloon note payable in September 2026 with simple interest payments only of 2.5% due quarterly in arrears through maturity.	-	75,000	75,000
Laughing Gull Foundation	During the year ended December 31, 2020, three notes were refinanced into one note with an interest rate of 2%. Note matures April 2025 and is payable over a 5-year term. The principal sum plus final interest payment is payable at the end of the note term.	-	500,000	500,000
Fresh Pond Capital	This investment firm relationship is made up of seventeen individual impact investors. Notes range from \$25,000 to \$500,000 maturing between March 2022 and December 2026. Notes are payable over one to five year terms with simple interest payable quarterly, semi-annually or annually ranging from 0% to 2.5%.	-	2,250,000	1,325,000
Giant Steps Foundation	Note matures September 2022 and is payable over 5-year term for the full principal balance and all accrued interest. Interest is payable at a rate of 2.5% quarterly during the term of the note.	-	25,000	25,000
One Foundation POWER	Note matures September 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

(Continued)

Natural Capital Investment Fund, Inc. d/b/a Partner Community Capital

Notes to Financial Statements

Note 9. Notes Payable and Subordinated Notes Payable (Continued)

Lender		Undrawn Amounts	2021 Balance	2020 Balance
PNC Bank	Note refinanced in April 2021 maturing April 2024. Simple interest of 2.465% due monthly with the principal and all outstanding interest due at maturity.	\$ -	\$ 999,083	\$ 1,000,000
Woodforest Bank	Note matures May 2023 and is payable over 7-year term with interest only paid monthly until March 2019 at the rate of 3%. Thereafter principal and interest payments are due monthly during the term of the note. The note was paid in full during the year ended December 31, 2021.	-	-	278,339
Mercy Investment Services	Note matures March 2026. Simple interest of 3% paid quarterly. The principal sum plus final interest payment is payable at maturity.	-	1,000,000	500,000
Loring Wolcott & Coolridge Trust	This investment firm relationship is made up of eight individual impact investors. Notes range from \$10,000 to \$100,000 maturing between April 2023 and October 2025. Notes are payable over 4-year terms for the full principal balance. Simple interest is payable annually or quarterly at rates between 2.0% or 2.5%.	-	360,000	335,000
Seton Fund	Principal and interest due quarterly with a \$75,000 balloon payment due April 2023. Interest accrues at a fixed rate of 3%.	-	94,813	110,140
Eastern WV Community Foundation	Note matures on September 2023. Simple interest of 3.5% paid annually. The principal sum plus final interest payment is payable at the maturity.	-	200,000	200,000
New Vision Investment	Note matures on September 2022. Simple interest of 3%. Quarterly principal and interest payments due monthly until maturity.	-	14,755	33,920
H. Shott Foundation	Note matures on August 2023. Simple interest of 2% due annually. The principal sum plus final interest payment is payable at 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 increased 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 September 2025. Simple interest of 2% due semi-annually. The principal sum plus final interest payment is payable at the maturity of the note.	-	1,000,000	1,000,000
Appalachian Community Capital	Note refinanced in September 2021 maturing September 2028. Floating interest is based on its cost of funds plus 1% payable monthly. Interest rate at December 31, 2021 was 2.63%.	-	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. Loan due and payable in full on 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 and outstanding interest due 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 until maturity. The note was paid in full during the year ended December 31, 2021.	-	-	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 on March 2024. Simple interest of 4% due quarterly in arrears. Principal and outstanding interest due at maturity.	-	1,000,000	1,000,000
Cnote Group, Inc.	This investment firm relationship is made up of 14 individual notes. Notes range from \$59,476 to \$250,000 maturing between July 2022 and April 2024. Simple interest of 3.25% or 3.8% is payable quarterly full principal balance. Simple interest is payable annually or quarterly.	-	1,982,356	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	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	1,000,000
Silverio Trust	Consists of two notes 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	100,000

(Continued)

Natural Capital Investment Fund, Inc. d/b/a Partner Community Capital

Notes to Financial Statements

Note 9. Notes Payable and Subordinated Notes Payable (Continued)

Lender		Undrawn Amounts	2021 Balance	2020 Balance
Opportunity Finance Network	Note matures May 2030. Simple interest of 3% due quarterly in arrears. Principal and outstanding interest due at maturity.	-	3,000,000	-
Pacific Premier Trust	This investment firm relationship is made up of one individual impact investor. Note matures February 2028. Simple interest at 3% payable semi-annually. The principal sum and final interest payment due at maturity.	-	50,000	-
Goulston & Storrs	This investment firm relationship is made up of one individual impact investor. Note matures March 2026. Simple interest at 2.5% payable semi-annually. The principal sum and final interest payment due at maturity.	-	125,000	-
Impact Investor I	Individual impact investor note maturing in April 2031. Simple interest at 3.5% due semi-annually. The principal sum and final interest payment due at maturity.	-	25,000	-
Impact Investor II	Individual impact investor note maturing in May 2026. Simple interest at 2.5% due semi-annually. The principal sum and final interest payment due at maturity.	-	100,000	-
Impact Investor III	Individual impact investor note maturing in July 2024. Simple interest at 2% due semi-annually. The principal sum and final interest payment due at maturity.	-	200,000	-
Truist Bank	Note matures on February 2028. Simple interest of 2% payable quarterly, in arrears. The principal sum and final interest due at maturity.	3,000,000	-	-
Brown Advisory	This investment firm relationship is made up of one individual impact investor. Note matures December 2026. Simple interest at 2.5% payable semi-annually. The principal sum and final interest payment due at maturity.	-	150,000	-
		<u>\$ 3,637,500</u>	<u>32,148,882</u>	<u>27,877,727</u>
	Less debt acquisition costs		112,450	116,162
	Less current portion		<u>2,075,436</u>	<u>2,765,800</u>
	Noncurrent portion		<u>\$ 29,960,996</u>	<u>\$ 24,995,765</u>

Subordinated notes payable consist of the following at December 31, 2021 and 2020:

Lender		2021 Balance	2020 Balance
Wells Fargo	Equity-equivalent debt investment renewed during the year ended December 31, 2020 maturing August 2027. Payable in 7 years with simple interest payments of 2% due quarterly in arrears over 7 years.	\$ 400,000	400,000
Wells Fargo ENC	Equity-equivalent debt investment maturing May 2028. Simple interest only payments of 2% due quarterly for the first 10 years. Thereafter quarterly principal payments due of \$125,000 quarterly for the last two years until the end of the note.	1,000,000	1,000,000
United Bank	Equity-equivalent debt investment maturing January 2029. Simple interest only payments of 2% due quarterly for the first 10 years. Thereafter quarterly principal payments due of \$62,500 quarterly for the last two years until the end 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 starting 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 of April 1, 2020 to October 1, 2020, the interest rate was reduced to 1%. The principal sum plus final interest payment 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 end of the note.	400,000	400,000
United Bank	Equity equivalent debt investment note maturing January 2030. Simple interest only payments of 2% due quarterly for the first 10 years. Thereafter quarterly principal payments due of \$62,500 quarterly for the last two years until the end of the note.	500,000	500,000
	Total subordinated notes payable	<u>\$ 3,300,000</u>	<u>\$ 3,300,000</u>

Natural Capital Investment Fund, Inc. d/b/a Partner Community Capital

Notes to Financial Statements

Note 9. 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 \$38,739 and \$43,798 at December 31, 2021 and 2020, respectively.

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

Years ending December 31:		
2022	\$	2,075,436
2023		8,816,804
2024		3,904,526
2025		5,089,075
2026		4,639,611
Thereafter		10,962,169
	\$	<u>35,487,621</u>

Notes payable, net of debt acquisition costs and implied interest consist of following at December 31, 2021 and 2020:

	2021	2020
Principal amount	\$ 35,487,621	\$ 31,221,525
Less debt acquisition costs	112,450	116,162
Less implied interest	38,739	43,798
	<u>35,336,432</u>	<u>\$ 31,061,565</u>

Subordinated notes payable: PCAP 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 PCAP 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.

PCAP 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.

Note 10. Revolving Lines of Credit

PCAP maintained a \$500,000 revolving capital 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 7, 2020. During 2020, PCAP 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 was 4%. The total outstanding balance of the revolving line of credit was \$149,500 at December 31, 2020. The revolving line of credit was paid in full during the year ended December 31, 2021.

Natural Capital Investment Fund, Inc. d/b/a Partner Community Capital

Notes to Financial Statements

Note 10. Revolving Lines of Credit (Continued)

During 2020, PCAP obtained a \$3,000,000 revolving capital line of credit with a lending institution, to be drawn upon as needed, with a variable rate equal to the One-Month LIBOR plus 270 basis points. Interest is payable monthly, with all unpaid principal and interest due at maturity on April 10, 2024. The line of credit is utilized to finance the short-term portion of Small Business Administration 504 program loans and are repaid to the lending institution under in line with the related loan receivable. The total outstanding balance was \$281,877 at December 31, 2021 and is classified as current on the statement of financial position since the corresponding loan receivable matures in 2022. There was no outstanding balance at December 31, 2020.

During 2021, PCAP obtained a \$750,000 revolving operating line of credit with a lending institution, to be drawn upon as needed, with a variable rate of the SOFR rate plus 1.5% with a floor 2.5%. Interest is payable monthly, with all unpaid principal and interest due at maturity on October 13, 2022. There was no outstanding balance at December 31, 2021 and 2020.

Note 11. Concentrations of Credit Risk

PCAP 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, 2021 and 2020. As of December 31, 2021 and 2020, PCAP's cash and money market fund balances in excess of FDIC-insured amounts totaled \$18,372,183 and \$10,774,169, respectively. PCAP has not experienced any losses with these accounts. Management believes PCAP is not exposed to any significant credit risk on domestic cash balances.

During 2021 and 2020, federal grant revenue accounted for 81% and 52%, respectively, of PCAP's revenue and support. During 2021 and 2020, PCAP's expenses incurred to TCF accounted for 62% and 52%, respectively, of total expenses.

Note 12. Net Assets With Donor Restrictions

Net assets with donor restrictions are those net assets whose use by PCAP is limited by the donors for a special purpose or restricted to be used in a later period. At December 31, 2021 and 2020, donor restricted net assets consisted of the following:

	2021	2020
Restricted for specified purpose:		
Loan capital	\$ 215,550	\$ 515,397
Provide support for business development to natural resource-based enterprises and provide incentives to businesses to engage in sound environmental practices	2,135,418	2,188,752
	<u>2,350,968</u>	<u>2,704,149</u>
Perpetual in nature:		
Restricted for specified purpose:		
Loan capital revolving fund:		
Represents net assets dedicated to providing temporary financing to qualified businesses	6,420,753	4,957,843
	<u>\$ 8,771,721</u>	<u>\$ 7,661,992</u>

Natural Capital Investment Fund, Inc. d/b/a Partner Community Capital

Notes to Financial Statements

Note 13. Loan Origination Fees and Costs

PCAP 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. Fees and Costs are amortized over the life of the loans originated with the amortization netted in the accompanying financial statements.

Fee income on loans, net of loan origination fees consists of following at December 31, 2021 and 2020:

	2021	2020
Fee income on loans	\$ 557,264	\$ 316,221
Loan origination fee amortization	71,820	(226,123)
Fee income on loans, net	<u>\$ 629,084</u>	<u>\$ 90,098</u>

Management fee, net of loan origination costs consists of following at December 31, 2021 and 2020:

	2021	2020
Management fee contract	\$ 2,570,638	\$ 2,007,845
Loan origination cost amortization	67,869	(422,135)
Management fee contract, net	<u>\$ 2,638,507</u>	<u>\$ 1,585,710</u>

Loan origination expense, net of loan origination costs consists of following at December 31, 2021 and 2020:

	2021	2020
Loan origination expense	\$ 61,968	\$ 60,132
Loan origination cost amortization	67,529	(40,558)
Loan origination expense, net	<u>\$ 129,497</u>	<u>\$ 19,574</u>

Note 14. Commitments and Contingencies

PCAP 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.

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

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Notes to Financial Statements

Note 14. Commitments and Contingencies (Continued)

At December 31, 2021 and 2020, the following financial instruments were outstanding whose contract amounts represent credit risk:

	2021	2020
Loan commitments approved not disbursed	\$ 4,282,149	\$ 2,827,151

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 PCAP, 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 PCAP is committed.

PCAP participates in a number of federal grant and contract programs which are subject to financial and compliance audits. Accordingly, PCAP'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, PCAP 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, PCAP would have two loans with the third-party for \$174,600 and \$28,000.

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

Years ending December 31:		
2022	\$	69,139
2023		46,961
2024		37,826
	\$	153,926

Rent expense for the years ended December 31, 2021 and 2020, was \$75,873 and \$77,937, respectively.

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Notes to Financial Statements

Note 15. Liquidity and Availability of Financial Resources

PCAP financial assets available within one year of December 31, 2021 and 2020, for general expenditures are as follows:

	2021	2020
Cash and cash equivalents – unrestricted	\$ 16,715,441	\$ 9,690,049
Cash – restricted	3,241,291	2,630,987
Cash equivalents held as collateral	23,398	32,398
Accounts receivable	5,493	16,400
Promises to give	1,047,859	971,203
Loans receivable, net	50,135,529	45,080,829
Accrued interest and fees receivable	283,061	371,343
Other asset	202,600	202,600
Investment-restricted	-	206,089
Long-term investment (U.S. Endowment Fuel Project)	99,995	99,995
Total financial assets	<u>71,754,667</u>	<u>59,301,893</u>
Cash – restricted	(3,241,291)	(2,630,987)
Cash equivalents held as collateral	(23,398)	(32,398)
Donor restricted funds	(8,771,721)	(7,661,992)
Loans receivable, due after one year, net	(42,914,596)	(40,095,271)
Loans receivable due in next year restricted for federal relending program	(399,520)	(431,519)
Other asset	(202,600)	(202,600)
Investment-restricted	-	(206,089)
Long-term investment (U.S. Endowment Fuel Project)	(99,995)	(99,995)
Outstanding loan commitments, not disbursed	(4,282,149)	(2,827,151)
Amounts not available to be used within one year	<u>(59,935,270)</u>	<u>(54,188,002)</u>
Financial assets available to meet general expenditures within one year	<u>\$ 11,819,397</u>	<u>\$ 5,113,891</u>

PCAP 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, PCAP must maintain sufficient resources to meet those responsibilities.

PCAP 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, PCAP invests cash in excess of daily requirements in a U.S. government money market fund. In the event of an unanticipated liquidity need, PCAP has an available bank line of credit as described in *Note 10 – Revolving Lines of Credit*.

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Notes to Financial Statements

Note 16. Subsequent Events

Management evaluated subsequent events through March 30, 2022, the date the financial statements were available to be issued.

On January 28, 2021, the PCAP Board of Directors approved to pursue legal and financial separation from The Conservation Fund. This is still ongoing with full separation expected to be completed in second quarter 2022. As part of the separation, PCAP will cease paying the management fee, hire the personnel who provide services full-time to PCAP, and begin maintaining its own payroll and information technology services. During, and as a result of the separation, there will be no disruptions in providing services nor will there be any disruption in business relationships.