

NATURAL CAPITAL INVESTMENT FUND, INC.

FINANCIAL STATEMENTS

Years Ended December 31, 2014 and 2013



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
NATURAL CAPITAL INVESTMENT FUND, INC.

Report on the Financial Statements

We have audited the accompanying financial statements of Natural Capital Investment Fund, Inc., which comprise the statements of financial position as of December 31, 2014 and 2013, and the related statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Natural Capital Investment Fund, Inc. as of December 31, 2014 and 2013, 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 9, 2015 on our consideration of Natural Capital Investment Fund, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Natural Capital Investment Fund, Inc.'s internal control over financial reporting and compliance.

Bethesda, Maryland
April 9, 2015

NATURAL CAPITAL INVESTMENT FUND, INC.

STATEMENTS OF FINANCIAL POSITION

December 31, 2014 and 2013

	2014	2013
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 5,916,379	\$ 5,572,324
Promises to Give	242,949	125,863
Notes Receivable, Net of Allowance for Possible Losses of \$240,630 in 2014 and 2013	1,472,034	1,808,071
Contracts Receivable	94,381	44,685
Accrued Interest and Fees Receivable	53,618	43,766
TOTAL CURRENT ASSETS	7,779,361	7,594,709
OTHER ASSETS		
Cash - Restricted	1,889,719	1,426,131
Certificates of Deposit	-	75,000
Investment	50,000	50,000
Cash Held as Collateral	50,000	50,000
Notes Receivable, Net of Allowance for Possible Losses of \$765,221 in 2014 and 2013	7,184,957	5,749,796
Other	20,121	-
TOTAL OTHER ASSETS	9,194,797	7,350,927
TOTAL ASSETS	\$ 16,974,158	\$ 14,945,636
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Line of Credit, Related Party	\$ 854,406	\$ -
Accounts Payable	36,164	22,641
Accounts payable, related party	986,000	809,000
Funds Held for Others	35,040	321,000
Accrued Interest Payable	14,453	12,620
Current Maturities of Notes Payable	26,095	325,838
TOTAL CURRENT LIABILITIES	1,952,158	1,491,099
LONG-TERM LIABILITIES		
Notes Payable, Net of Implied Interest	4,745,043	4,711,676
Funds Held for Others	-	75,000
TOTAL LONG-TERM LIABILITIES	4,745,043	4,786,676
TOTAL LIABILITIES	6,697,201	6,277,775
NET ASSETS		
Unrestricted	2,762,570	1,959,833
Temporarily restricted	4,187,543	3,481,166
Permanently restricted - Loan Capital Revolving Fund	3,326,844	3,226,862
TOTAL NET ASSETS	10,276,957	8,667,861
TOTAL LIABILITIES AND NET ASSETS	\$ 16,974,158	\$ 14,945,636

See Notes to Financial Statements

NATURAL CAPITAL INVESTMENT FUND, INC.

STATEMENTS OF FINANCIAL POSITION

December 31, 2014 and 2013

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See Notes to Financial Statements

NATURAL CAPITAL INVESTMENT FUND, INC.

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

Years Ended December 31, 2014 and 2013

	2014				2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUE								
Contributions and Grants	\$ 10,525	\$ 1,215,125	\$ -	\$ 1,225,650	\$ 25,250	\$ 1,615,930	\$ 425,000	\$ 2,066,180
Federal Grants	-	1,655,495	99,982	1,755,477	-	152,792	57,518	210,310
Investment and Other Program Income	718,677	73,422	-	792,099	542,209	156,489	-	698,698
Net Assets Released from Restrictions	2,237,665	(2,237,665)	-	-	1,840,449	(1,612,296)	(228,153)	-
TOTAL SUPPORT AND REVENUE	<u>2,966,867</u>	<u>706,377</u>	<u>99,982</u>	<u>3,773,226</u>	<u>2,407,908</u>	<u>312,915</u>	<u>254,365</u>	<u>2,975,188</u>
EXPENSES								
Program	2,052,698	-	-	2,052,698	1,879,112	-	-	1,879,112
Management and General	104,470	-	-	104,470	85,360	-	-	85,360
Fundraising	6,962	-	-	6,962	6,962	-	-	6,962
TOTAL EXPENSES	<u>2,164,130</u>	<u>-</u>	<u>-</u>	<u>2,164,130</u>	<u>1,971,434</u>	<u>-</u>	<u>-</u>	<u>1,971,434</u>
CHANGE IN NET ASSETS	802,737	706,377	99,982	1,609,096	436,474	312,915	254,365	1,003,754
NET ASSETS, BEGINNING OF YEAR	<u>1,959,833</u>	<u>3,481,166</u>	<u>3,226,862</u>	<u>8,667,861</u>	<u>1,523,359</u>	<u>3,168,251</u>	<u>2,972,497</u>	<u>7,664,107</u>
NET ASSETS, END OF YEAR	<u>\$ 2,762,570</u>	<u>\$ 4,187,543</u>	<u>\$ 3,326,844</u>	<u>\$ 10,276,957</u>	<u>\$ 1,959,833</u>	<u>\$ 3,481,166</u>	<u>\$ 3,226,862</u>	<u>\$ 8,667,861</u>

See Notes to Financial Statements

NATURAL CAPITAL INVESTMENT FUND, INC.

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2014 and 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 1,609,096	\$ 1,003,754
Adjustments to Reconcile Change in Net Assets to Net Cash		
Flows from Operating Activities		
Allowance for Possible Losses and Notes Receivable Write-Offs	275,020	368,737
Implied Interest Expense	57,274	59,044
Contributions Restricted for Long-Term Purposes	(99,982)	(482,518)
Decrease (Increase) in Operating Assets		
Promises to Give	(117,086)	390,034
Other Receivables	(79,669)	(32,956)
Increase (Decrease) in Operating Liabilities		
Funds Held for Others	(360,960)	321,000
Accounts Payable	13,523	5,938
Accounts Payable, Related Party	177,000	154,000
Deferred Revenue	-	(31,579)
Accrued Interest Payable	1,833	151
NET CASH FLOWS FROM OPERATING ACTIVITIES	1,476,049	1,755,605
CASH FLOWS FROM INVESTING ACTIVITIES		
(Decrease) Increase in Cash - Restricted	(463,588)	295,085
Purchase of Investments	-	(50,000)
Sale of Investments	75,000	-
Increase in Notes Receivable	(4,507,617)	(2,944,981)
Repayments of Principal on Notes Receivable	3,133,473	936,270
NET CASH FLOWS USED IN INVESTING ACTIVITIES	(1,762,732)	(1,763,626)
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions Restricted for Long-Term Purposes	99,982	482,518
Proceeds from Line of Credit	854,406	-
Proceeds from Long-Term Debt	300,000	125,000
Repayments of Long-Term Debt	(623,650)	(25,326)
NET CASH FLOWS FROM FINANCING ACTIVITIES	630,738	582,192
NET INCREASE IN CASH AND CASH EQUIVALENTS	344,055	574,171
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	5,572,324	4,998,153
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 5,916,379	\$ 5,572,324

See Notes to Financial Statements

NATURAL CAPITAL INVESTMENT FUND, INC.

NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies

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

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

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

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

Permanently restricted net assets – Resources accumulated through donations or grants that are subject to a restriction that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of NCIF. Donor contributions to be used for loan capital are recorded by NCIF in its Loan Capital Revolving Fund as permanently restricted. The funds are used to provide financing capital to qualifying businesses. The Loan Capital Revolving Fund is replenished as the loan principal is repaid. In the event that a note receivable funded by permanently restricted contributions becomes uncollectible, NCIF writes-off the uncollectible amount against the permanently restricted net assets via a transfer to unrestricted net assets.

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

Classifications of net assets – NCIF’s net assets and activities that increase or decrease net assets are classified as unrestricted, temporarily restricted, or permanently restricted.

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

NATURAL CAPITAL INVESTMENT FUND, INC.

NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies (continued)

Cash and cash equivalents – NCIF classifies cash, money market funds, and sweep accounts with original maturities of ninety days or less as cash and cash equivalents. Certificates of deposit with original maturities over ninety days held by investment custodians are considered investments.

Cash in bank – restricted – In order to secure its obligations in existing loan agreements, NCIF is required to maintain certain bank accounts and balances, wherein the proceeds of the loans shall be held in separate custodial accounts established at a mutually acceptable financial institution. The borrower agrees to deposit in the foundation account on the closing date the full amount of the proceeds of the loan and thereafter, principal or proceeds received by the borrower, and all interest, dividends or other earnings. The amounts deposited in the account shall not be commingled with any other funds.

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

	<u>December 31,</u>	
	<u>2014</u>	<u>2013</u>
Cash and Cash Equivalents	\$ 5,916,379	\$ 5,572,324
Cash - Restricted	1,889,719	1,426,131
Cash Held for Collateral	<u>50,000</u>	<u>50,000</u>
Total Cash	<u>\$ 7,856,098</u>	<u>\$ 7,048,455</u>

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

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

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

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

NATURAL CAPITAL INVESTMENT FUND, INC.

NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies (continued)

Level 3 – Inputs to the valuation methodology are unobservable and significant to the overall fair value measurement. The inputs into the determination of fair value require significant management judgment or estimation. The type of investment included in Level 3 includes the U.S. Endowment Fuel Project Investment that totaled \$50,000 as of December 31, 2014 and 2013.

Notes receivable, allowance for possible losses – Notes receivable are carried at unpaid principal balances, less an allowance for loan losses. Management provides for estimates of possible losses through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual loans, the borrower's ability to repay, and current economic conditions. The evaluation of the allowance is inherently subjective, and it is reasonably possible that a change in the estimate would occur in the near term, as additional information becomes available. As of December 31, 2014, the allowance was calculated at 10.4% of the unpaid principal balances (11.7% as of December 31, 2013). The allowance was \$1,005,851 at December 31, 2014 and 2013, respectively.

Promises to give – Unconditional promises to give are recognized as revenue or gains in the period acknowledged. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Promises to give are carried at present value less an estimate made for doubtful promises based on a review of all outstanding promises on a monthly basis. Management determines the allowance for doubtful promises by regularly evaluating individual promises to give and considering the prior history of the donor and proven collectibility of past donations. Promises to give are written-off when deemed uncollectible. Recoveries of promises to give previously written-off are recorded when received. There was no allowance for doubtful promises at December 31, 2014 or 2013.

Notes payable – NCIF uses debt primarily for financing for natural resource-based businesses. Most debt is in the form of notes payable from foundations and various government agencies. NCIF records a discount and contribution revenue when note interest rates are considered below-market and amortizes the discount to interest expense over the term of the related notes.

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

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

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

NATURAL CAPITAL INVESTMENT FUND, INC.

NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies (continued)

NCIF is not currently under examination by any taxing jurisdiction. NCIF's federal and state tax returns are generally open for examination for three years following the filing date.

Income taxes – NCIF is a nonprofit corporation exempt from income taxes under Section 501(c)(3) and is a supporting organization to The Conservation Fund under Section 509(a)(3) of the Internal Revenue Code. Income which is not related to exempt purposes, less applicable deductions, is subject to federal and state income taxes. For the years ended December 31, 2014 and 2013, there was no unrelated business income.

Subsequent events – Management has evaluated subsequent events through April 9, 2015, the date on which the financial statements were available to be issued, and determined that no adjustments or disclosures to the financial statements were required.

Reclassifications – Certain 2013 financial information has been reclassified to conform to the 2014 presentation. The reclassifications have no impact on the previously reported change in net assets.

(2) Promises to give

Unconditional promises to give in one year or more are measured using the present value of future cash flows based on a discount rate of 3%. As of December 31, 2014 and 2013, unconditional promises to give totaling \$242,949 and \$125,863, respectively, were due in less than one year.

At December 31, 2014, NCIF also had seven conditional promises to give totaling \$761,605 (twelve conditional promises totaling \$1,270,251 at December 31, 2013).

(3) Notes receivable, equity investments

NCIF has advanced funds in the form of notes receivable to help finance various businesses. At December 31, 2014, NCIF had notes receivable outstanding totaling \$8,656,991 (\$7,557,867 at December 31, 2013). The notes have various interest rates and maturity dates, with the latest note maturing in 2034.

	December 31, 2014		
	Current	Long-Term	Total
Face Value	\$ 1,712,664	\$ 7,950,178	\$ 9,662,842
Allowance for Possible Losses	(240,630)	(765,221)	(1,005,851)
Carrying Value	<u>\$ 1,472,034</u>	<u>\$ 7,184,957</u>	<u>\$ 8,656,991</u>

See Notes to Financial Statements

NATURAL CAPITAL INVESTMENT FUND, INC.

NOTES TO FINANCIAL STATEMENTS

(3) Notes receivable, equity investments (continued)

	December 31, 2013		
	Current	Long-Term	Total
Face Value	\$ 2,048,701	\$ 6,515,017	\$ 8,563,718
Allowance for Possible Losses	(240,630)	(765,221)	(1,005,851)
Carrying Value	\$ 1,808,071	\$ 5,749,796	\$ 7,557,867

For the year ended December 31, 2014, interest income from these notes was \$530,994 (\$423,113 for the year ended December 31, 2013).

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

	Years Ended December 31,	
	2014	2013
Beginning Balance	\$ 1,005,851	\$ 760,173
Provision Charged to Operations	-	245,678
Ending Balance	\$ 1,005,851	\$ 1,005,851

At December 31, 2014, notes receivable serving as collateral on notes payable amounted to \$577,155 (\$418,869 at December 31, 2013). Non-performing loans totaled \$283,267 at December 31, 2014 (\$62,561 at December 31, 2013). In addition, there are two loans totaling \$100,018 for which interest is currently not accruing for the year ended December 31, 2014 (\$203,000 for two loans for the year ended December 31, 2013).

At December 31, 2014, NCIF had one loan commitment for additional advances totaling \$161,130 (five loan commitments for \$929,892 at December 31, 2013).

(4) Accounts payable, related party

NCIF has entered into a management services agreement with its parent company, The Conservation Fund. Under the terms of the agreement, The Conservation Fund provides all staffing and administrative services to NCIF. For 2014, the management fee contractual agreement was \$986,000 (\$809,000 for 2013). The agreement is for one year and is renewable for successive one-year terms unless either party provides written notice not to renew.

(5) Long-term debt

The table on the next page summarizes the significant terms for NCIF's long-term debt:

NATURAL CAPITAL INVESTMENT FUND, INC.

NOTES TO FINANCIAL STATEMENTS

(5) Long-term debt (continued)

Lender	Terms of Loan	Total Amounts Borrowed	Principal Balance as of 12/31/14	Principal Balance as of 12/31/13
U.S. Department of Agriculture	Loan is payable over a 30-year term, with interest at 1% per annum, with an implied interest rate of 3% (discounted by \$103,920). Payments of \$21,225 are due annually. Secured by funds held by NCIF under the Intermediary Re-Lending Program ("IRP") and collateral obtained as a result of advancing loan funds.	\$ 500,000	\$ 323,323	\$ 336,396
West Virginia Infrastructure & Jobs Development Council	Used as matching funds for the U.S. Department of Agriculture loan. Loan is payable over a 15-year term, with interest at 1% per annum (discounting not considered material). Quarterly principal and interest payments on the note total \$3,907. Secured on a pro rata basis with USDA loan on funds held by NCIF under the IRP.	125,000	49,668	56,288
Babcock PRI	Principal payments are deferred for 10 years. Simple interest of 2% is due semi-annually in arrears over 10 years. The implied interest rate is 3% resulting in a discount of \$39,154. The principal sum plus final interest payment is payable at the end of 10 years after each disbursement.	500,000	474,810	470,109
Benedum PRI	Principal payments are deferred for 10 years. Annual principal repayments begin after 10 years with payments of 20% due each year for 5 years. Non-interest bearing with an implied interest rate of 3%, resulting in a discount of \$83,960.	400,000	345,345	335,286
Calvert Foundation	General recourse balloon loan will be payable in 5 years with simple interest payments of 4.5% due semi-annually in arrears over 5 years.	300,000	-	300,000
Wells Fargo	Equity-equivalent debt investment balloon loan payable in 10 years with simple interest payments of 2% due quarterly in arrears over 10 years. The implied interest rate is 3%, resulting in a discount of \$34,264. The loan is subordinate to all other liabilities.	400,000	376,818	373,087
Ford Foundation PRI	Loan is payable over a 10-year term, with principal payments deferred for 7 years. Annual principal repayments begin after 7 years with payments of one-third due each year for 3 years. Interest is payable at the rate of 1% per annum, with an implied interest rate of 3%, resulting in a discount of \$326,271.	2,000,000	1,776,174	1,741,348
Communities at Work Fund	General recourse balloon loan payable in 7 years with simple interest payments of 4.3% due monthly in arrears over 7 years.	300,000	-	300,000
Coastal Enterprises, Inc.	Loan is payable over a 10-year term, with principal payments deferred for 7 years. Annual principal repayments begin after 7 years with payments of approximately one-third due each year for 3 years. Interest is payable at the rate of 4%. \$50,000 of the loan will be held as collateral.	1,000,000	1,000,000	1,000,000
Fay M. Chandler Trust	Loan is payable over 3-year term for the full principal balance and all accrued interest. Interest is payable at the rate of 1.5% every January 31st and July 31st during the term of the note.	100,000	100,000	-
Franconia II 2012 Trust	General recourse balloon loan payable in 4 years with simple interest payments of 2% due semi-annually in arrears over 4 years.	75,000	75,000	75,000
Laughing Gull Foundation	Loan is payable over 4-year term for the full principal balance and all accrued interest. Interest is payable at the rate of 2% every January 31st and July 31st during the term of the note.	250,000	250,000	50,000
			<u>\$ 4,771,138</u>	<u>\$ 5,037,514</u>

See Notes to Financial Statements

NATURAL CAPITAL INVESTMENT FUND, INC.

NOTES TO FINANCIAL STATEMENTS

(5) Long-term debt (continued)

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

<u>Years Ending December 31,</u>		
2015	\$	26,095
2016		26,268
2017		651,520
2018		426,797
2019		693,732
Later years		<u>3,352,799</u>
		5,177,211
Less Amounts Representing Implied Interest		<u>(406,073)</u>
		<u><u>\$ 4,771,138</u></u>

Implied interest was \$406,073 and \$463,347 at December 31, 2014 and 2013, respectively.

As of December 31, 2014, NCIF met requirements to satisfy certain debt covenants on the two loan agreements that had covenants.

In July 2014, NCIF obtained a \$2,500,000 revolving line of credit from a related party to help finance its short-term capital needs. Interest is payable quarterly on outstanding balances at an interest rate of 2%. Any outstanding principal and accrued interest will be payable on August 1, 2019. At December 31, 2014, total drawings from the line amounted to \$854,406.

(6) Temporarily and permanently restricted net assets

Temporarily and permanently restricted net assets consist of the following:

	<u>December 31,</u>	
	<u>2014</u>	<u>2013</u>
Temporarily restricted net assets are available for the following purposes and periods:		
Loan capital	\$ 2,896,300	\$ 2,308,245
Provide support for business development to natural resource-based enterprises and provide incentives to businesses to engage in sound environmental practices	<u>1,291,243</u>	<u>1,172,921</u>
	<u>\$ 4,187,543</u>	<u>\$ 3,481,166</u>
Permanently restricted net assets consist of the following:		
Loan Capital Revolving Fund:		
Represents net assets dedicated to providing temporary financing to qualifying businesses with loans required to be repaid	<u>\$ 3,326,844</u>	<u>\$ 3,226,862</u>

See Notes to Financial Statements

NATURAL CAPITAL INVESTMENT FUND, INC.

NOTES TO FINANCIAL STATEMENTS

(6) Temporarily and permanently restricted net assets (continued)

During 2013, after discussions with a donor, a grant for \$653,340 that was originally classified as a temporarily restricted net asset and a grant for \$150,000 that was originally classified as a permanently restricted net asset were reclassified to unrestricted net assets. Additionally, \$78,153 was released from permanently restricted net assets to unrestricted net assets to fund uncollectible bad debts.

(7) Concentrations of credit risk

Financial instruments which potentially subject NCIF to concentrations of credit risk consist of cash held in two operating bank accounts at a commercial bank that is a high credit quality financial institution. The bank account balances, at times, may exceed federally insured limits. NCIF has not experienced any losses with these accounts. Management believes NCIF is not exposed to any significant credit risk on domestic cash balances.

During 2014, NCIF had two contributors that accounted for 50% of revenue and other support. Additionally, three contributors made up 73% of promises to give as of December 31, 2014. During 2013, NCIF had three contributors that accounted for 54% of revenue and other support. Additionally, four contributors made up 59% of promises to give as of December 31, 2013.

During 2014, NCIF's payments to The Conservation Fund accounted for 46% of total expenditures and 96% of accounts payable were attributable to The Conservation Fund as of December 31, 2014. During 2013, NCIF's payments to The Conservation Fund accounted for 40% of total expenditures and 97% of accounts payable were attributable to The Conservation Fund as of December 31, 2013.

(8) Functional allocation of expenses

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

	<u>Years Ended December 31,</u>	
	<u>2014</u>	<u>2013</u>
Program services:		
Provide support for business development to West Virginia, Virginia, North Carolina, Kentucky, Ohio, Georgia, South Carolina and Maryland natural resource-based enterprises and partner with government entities to provide incentives to businesses to engage in sound environmental practices.	<u>\$ 2,052,698</u>	<u>\$ 1,879,112</u>

See Notes to Financial Statements

NATURAL CAPITAL INVESTMENT FUND, INC.

NOTES TO FINANCIAL STATEMENTS

(9) **Operating leases**

NCIF leases various offices under operating leases with various expiration dates.

NCIF has future minimum lease commitments through December 31, 2015 totaling \$4,176.

Total rent expense for 2014 and 2013 was \$11,671 and \$9,270, respectively.

10) **Cash flow disclosures**

The following is a summary of supplemental cash flow information:

	<u>Years Ended December 31,</u>	
	<u>2014</u>	<u>2013</u>
Cash Paid:		
Interest	<u>107,600</u>	<u>\$ 112,600</u>

NCIF recorded a contribution in 2011 of \$587,570 from an implied interest discount on notes payable which is being imputed as the notes mature. For the years ended December 31, 2014 and 2013, NCIF has recorded discounts or imputed interest of \$57,274 and \$59,044, respectively.

SUPPLEMENTARY INFORMATION



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INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

To the Board of Directors
NATURAL CAPITAL INVESTMENT FUND, INC.

We have audited the financial statements of Natural Capital Investment Fund, Inc. as of and for the years ended December 31, 2014 and 2013, and have issued our report thereon dated April 9, 2015, which expressed an unmodified opinion on those financial statements. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedules of functional expenses for the year ended December 31, 2014 and comparative totals for 2013, which follow, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Bethesda, Maryland
April 9, 2015

NATURAL CAPITAL INVESTMENT FUND, INC.

SUPPLEMENTARY INFORMATION – SCHEDULES OF FUNCTIONAL EXPENSES

Year Ended December 31, 2014
(With Comparative Totals for the Year Ended December 31, 2013)

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total 2014</u>	<u>Total 2013</u>
Contractual Services - Management Contract	\$ 930,806	\$ 49,372	\$ 5,822	\$ 986,000	\$ 809,000
Contractual Services - Program	546,423	-	-	546,423	460,978
Books and References	78	6	-	84	79
Employee Training and Development	5,048	425	50	5,523	2,539
Seminars and Conferences	14,387	-	-	14,387	9,237
Professional Fees	-	45,425	-	45,425	26,334
Supplies and Equipment	2,615	220	26	2,861	3,003
Postage and Shipping	890	75	9	974	513
Travel and Subsistence	58,363	4,918	580	63,861	40,702
Telephone and Utilities	11,287	951	112	12,350	11,477
Rent	10,666	899	106	11,671	9,270
Dues and Subscriptions	7,092	598	70	7,760	7,061
Interest	165,411	-	-	165,411	171,781
Loan Origination Fees	3,501	-	-	3,501	8,004
Bank Finance Fees	5,297	446	53	5,796	5,243
Registration and Filing Fees	2,343	-	-	2,343	1,183
Marketing	6,899	581	69	7,549	1,434
Miscellaneous and Office	6,572	554	65	7,191	34,859
Loan Loss Reserve	-	-	-	-	245,678
Loss from Notes Receivable	275,020	-	-	275,020	123,059
	<u>\$ 2,052,698</u>	<u>\$ 104,470</u>	<u>\$ 6,962</u>	<u>\$ 2,164,130</u>	<u>\$ 1,971,434</u>
TOTAL EXPENSES	\$ 2,052,698	\$ 104,470	\$ 6,962	\$ 2,164,130	\$ 1,971,434

* Contractual services - NCIF contracts with its parent company, The Conservation Fund, to provide all administrative support services as well as hiring all NCIF employees. Accordingly, The Conservation Fund is paid for actual costs associated with NCIF staff salaries, benefits management, and an allocated portion of indirect support costs. The initial contractual agreement for 2014 with The Conservation Fund was \$986,000 (\$809,000 in 2013) (see below). Contractual services - Program includes direct grant expense for the VC2 program and Third Party Technical Assistance to loan applicants and portfolio companies.

Management Fee Breakdown

	<u>December 31,</u>	
<u>Direct Expenses</u>	<u>2014</u>	<u>2013</u>
Direct Labor Expenses	\$ 681,273	\$ 563,616
Fringe Benefits @ 25%	170,318	133,977
Occupancy/Telephone- WV, NC	45,249	37,771
Total Direct Expenses	896,840	735,364
 <u>Indirect Expenses</u>		
National Operating Support	89,160	73,636
Total Indirect Expenses	89,160	73,636
 Total Annual Services Agreement	\$ 986,000	\$ 809,000

See Independent Auditors' Report on Supplementary Information