

NATURAL CAPITAL INVESTMENT FUND, INC.

FINANCIAL STATEMENTS

Years Ended December 31, 2013 and 2012



Mayer Hoffman McCann P.C.
An Independent CPA Firm

3 Bethesda Metro Center, Suite 600
Bethesda, Maryland 20814
301-951-3636 ph
301-951-0425 fx
www.mhm-pc.com

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, 2013 and 2012, 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, 2013 and 2012, 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 May 12, 2014 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
May 12, 2014

NATURAL CAPITAL INVESTMENT FUND, INC.

STATEMENTS OF FINANCIAL POSITION

December 31, 2013 and 2012

| | 2013 | 2012 |
|--|----------------------|----------------------|
| <u>ASSETS</u> | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 5,572,324 | \$ 4,998,153 |
| Promises to give | 125,863 | 515,897 |
| Notes receivable, net of allowance for possible losses of \$240,630 (\$91,221 in 2012) | 1,808,071 | 732,261 |
| Contracts receivable | 44,685 | 18,500 |
| Accrued interest and fees receivable | 43,766 | 36,995 |
| TOTAL CURRENT ASSETS | 7,594,709 | 6,301,806 |
| OTHER ASSETS | | |
| Cash - restricted | 1,426,131 | 1,721,216 |
| Certificates of deposit | 75,000 | 75,000 |
| Investment | 50,000 | - |
| Cash held as collateral | 50,000 | 50,000 |
| Notes receivable, net of allowance for possible losses of \$765,221 (\$668,952 in 2012) | 5,749,796 | 5,185,632 |
| TOTAL OTHER ASSETS | 7,350,927 | 7,031,848 |
| TOTAL ASSETS | \$ 14,945,636 | \$ 13,333,654 |
| <u>LIABILITIES AND NET ASSETS</u> | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 22,641 | \$ 16,703 |
| Accounts payable, related party | 809,000 | 655,000 |
| Deferred revenue | - | 31,579 |
| Funds held for others | 321,000 | - |
| Accrued interest payable | 12,620 | 12,469 |
| Current maturities of notes payable | 325,838 | 25,622 |
| TOTAL CURRENT LIABILITIES | 1,491,099 | 741,373 |
| LONG-TERM LIABILITIES | | |
| Notes payable, net of implied interest of \$463,347 (\$522,391 in 2012) | 4,711,676 | 4,853,174 |
| Funds held for others | 75,000 | 75,000 |
| TOTAL LONG-TERM LIABILITIES | 4,786,676 | 4,928,174 |
| TOTAL LIABILITIES | 6,277,775 | 5,669,547 |
| NET ASSETS | | |
| Unrestricted | 1,959,833 | 1,523,359 |
| Temporarily restricted | 3,481,166 | 3,168,251 |
| Permanently restricted - Loan Capital Revolving Fund | 3,226,862 | 2,972,497 |
| TOTAL NET ASSETS | 8,667,861 | 7,664,107 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 14,945,636 | \$ 13,333,654 |

See Notes to Financial Statements

NATURAL CAPITAL INVESTMENT FUND, INC.

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

Years Ended December 31, 2013 and 2012

| | 2013 | | | | 2012 | | | |
|---------------------------------------|---------------------|---------------------------|---------------------------|---------------------|---------------------|---------------------------|---------------------------|---------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| SUPPORT AND REVENUE | | | | | | | | |
| Contributions and grants | \$ 25,250 | \$ 1,615,930 | \$ 425,000 | \$ 2,066,180 | \$ 26,750 | \$ 1,608,182 | \$ - | \$ 1,634,932 |
| Federal grants | - | 152,792 | 57,518 | 210,310 | - | 997,207 | 107,507 | 1,104,714 |
| Investment and other program income | 542,209 | 156,489 | - | 698,698 | 396,070 | 113,101 | - | 509,171 |
| Net assets released from restrictions | 1,840,449 | (1,612,296) | (228,153) | - | 1,293,775 | (1,287,191) | (6,584) | - |
| TOTAL SUPPORT AND REVENUE | 2,407,908 | 312,915 | 254,365 | 2,975,188 | 1,716,595 | 1,431,299 | 100,923 | 3,248,817 |
| EXPENSES | | | | | | | | |
| Program | 1,879,112 | - | - | 1,879,112 | 1,401,388 | - | - | 1,401,388 |
| Management and general | 85,360 | - | - | 85,360 | 63,680 | - | - | 63,680 |
| Fundraising | 6,962 | - | - | 6,962 | 8,130 | - | - | 8,130 |
| TOTAL EXPENSES | 1,971,434 | - | - | 1,971,434 | 1,473,198 | - | - | 1,473,198 |
| CHANGE IN NET ASSETS | 436,474 | 312,915 | 254,365 | 1,003,754 | 243,397 | 1,431,299 | 100,923 | 1,775,619 |
| NET ASSETS, BEGINNING OF YEAR | 1,523,359 | 3,168,251 | 2,972,497 | 7,664,107 | 1,279,962 | 1,736,952 | 2,871,574 | 5,888,488 |
| NET ASSETS, END OF YEAR | \$ 1,959,833 | \$ 3,481,166 | \$ 3,226,862 | \$ 8,667,861 | \$ 1,523,359 | \$ 3,168,251 | \$ 2,972,497 | \$ 7,664,107 |

See Notes to Financial Statements

NATURAL CAPITAL INVESTMENT FUND, INC.

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2013 and 2012

| | 2013 | 2012 |
|---|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | \$ 1,003,754 | \$ 1,775,619 |
| Adjustments to reconcile change in net assets to net cash flows from operating activities | | |
| Allowance for possible losses and notes receivable write-offs | 368,737 | 262,154 |
| Implied interest expense | 59,044 | 65,179 |
| Contributions restricted for long-term purposes | (482,518) | (107,507) |
| Decrease (increase) in operating assets | | |
| Promises to give | 390,034 | (182,111) |
| Other receivables | (32,956) | (27,203) |
| Cash held as collateral | - | (50,000) |
| Increase (decrease) in operating liabilities | | |
| Funds held for others | 321,000 | 75,000 |
| Accounts payable | 5,938 | (7,923) |
| Accounts payable, related party | 154,000 | 22,000 |
| Deferred revenue | (31,579) | 31,579 |
| Accrued interest payable | 151 | 1,791 |
| NET CASH FLOWS FROM OPERATING ACTIVITIES | 1,755,605 | 1,858,578 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Decrease in cash - restricted | 295,085 | 715,414 |
| Purchase of investments | (50,000) | (75,000) |
| (Increase) in notes receivable | (2,944,981) | (3,060,523) |
| Repayments of principal on notes receivable | 936,270 | 737,260 |
| NET CASH FLOWS FROM INVESTING ACTIVITIES | (1,763,626) | (1,682,849) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Contributions restricted for long-term purposes | 482,518 | 107,507 |
| Proceeds from long-term debt | 125,000 | 1,000,000 |
| Repayments of long-term debt | (25,326) | (25,390) |
| NET CASH FLOWS FROM FINANCING ACTIVITIES | 582,192 | 1,082,117 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 574,171 | 1,257,846 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | 4,998,153 | 3,740,307 |
| CASH AND CASH EQUIVALENTS, END OF YEAR | \$ 5,572,324 | \$ 4,998,153 |

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.

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.

NATURAL CAPITAL INVESTMENT FUND, INC.

NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies (continued)

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:

| | December 31, | |
|---------------------------|---------------------|---------------------|
| | 2013 | 2012 |
| Cash and cash equivalents | \$ 5,572,324 | \$ 4,998,153 |
| Cash - restricted | 1,426,131 | 1,721,216 |
| Cash held for collateral | 50,000 | 50,000 |
| | | |
| Total cash | <u>\$ 7,048,455</u> | <u>\$ 6,769,369</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. The type of investment included in Level 1 includes a certificate of deposit that totaled \$75,000 as of December 31, 2013 and 2012. NCIF does not adjust the quoted price for these investments, even in situations where NCIF holds a large position.

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, 2013 (none as of December 31, 2012).

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, 2013, the allowance was calculated at 11.7% of the unpaid principal balances (11.4% as of December 31, 2012).

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, 2013 or 2012.

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. Amounts received but not yet earned are reported as deferred revenue.

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, 2013 and 2012, there was no unrelated business income.

Subsequent events – Management has evaluated subsequent events through May 12, 2014, 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 2012 financial information has been reclassified to conform to the 2013 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, 2013 and 2012, unconditional promises to give totaling \$125,863 and \$515,897, respectively, were due in less than one year.

At December 31, 2013, NCIF also had twelve conditional promises to give totaling \$1,270,251 (eight conditional promises totaling \$1,127,008 at December 31, 2012).

(3) Notes receivable, equity investments

NCIF has advanced funds in the form of notes receivable to help finance various businesses. At December 31, 2013, NCIF had notes receivable outstanding totaling \$7,557,867 (\$5,917,893 at December 31, 2012). The notes have various interest rates and maturity dates, with the latest note maturing in 2032.

| | 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 | <u>\$ 1,808,071</u> | <u>\$ 5,749,796</u> | <u>\$ 7,557,867</u> |

NATURAL CAPITAL INVESTMENT FUND, INC.

NOTES TO FINANCIAL STATEMENTS

(3) Notes receivable, equity investments (continued)

| | December 31, 2012 | | |
|-------------------------------|--------------------------|------------------|--------------|
| | Current | Long-Term | Total |
| Face value | \$ 823,482 | \$ 5,854,584 | \$ 6,678,066 |
| Allowance for possible losses | (91,221) | (668,952) | (760,173) |
| Carrying value | \$ 732,261 | \$ 5,185,632 | \$ 5,917,893 |

For the year ended December 31, 2013, interest income from these notes was \$423,113 (\$289,771 for the year ended December 31, 2012).

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

| | Years Ended December 31, | |
|---------------------------------|---------------------------------|-------------|
| | 2013 | 2012 |
| Beginning balance | \$ 760,173 | \$ 505,047 |
| Provision charged to operations | 245,678 | 255,126 |
| Ending balance | \$ 1,005,851 | \$ 760,173 |

At December 31, 2013, notes receivable serving as collateral on notes payable amounted to \$418,869 (\$610,103 at December 31, 2012). Non-performing loans totaled \$62,561 at December 31, 2013 (\$13,190 at December 31, 2012). In addition, there are two loans totaling \$203,000 for which interest is currently not accruing for the year ended December 31, 2013 (\$392,008 for six loans for the year ended December 31, 2012).

At December 31, 2013, NCIF had five loan commitments for additional advances totaling \$929,892 (two loan commitments for \$85,180 at December 31, 2012).

(4) Accounts payable, related party

NCIF has entered into a management service agreement with The Conservation Fund. Under the terms of the agreement, The Conservation Fund provides all staffing and administrative services to NCIF. For 2013, the management fee was \$809,000 (\$655,000 for 2012). The agreement is for one year and is renewable for successive one-year terms unless either party provides written notice not to renew.

NATURAL CAPITAL INVESTMENT FUND, INC.

NOTES TO FINANCIAL STATEMENTS

(5) Long-term debt

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

| Lender | Terms of Loan | Total Amounts Borrowed | Principal Balance as of 12/31/13 | Principal Balance as of 12/31/12 |
|---|--|------------------------|----------------------------------|----------------------------------|
| 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 | \$ 336,396 | \$ 346,215 |
| 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 | 56,288 | 65,009 |
| 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 | 470,109 | 465,454 |
| 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 | 335,286 | 325,521 |
| 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 | 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 | 373,087 | 369,393 |
| 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 | 1,741,348 | 1,707,204 |
| 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 | 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 |
| 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 | - |
| Laughing Gull Foundation | General recourse balloon loan payable in 4 years with simple interest payments of 2% due semi-annually in arrears over 4 years. | 50,000 | 50,000 | - |
| | | | <u>\$ 5,037,514</u> | <u>\$ 4,878,796</u> |

NATURAL CAPITAL INVESTMENT FUND, INC.

NOTES TO FINANCIAL STATEMENTS

(5) Long-term debt (continued)

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

Years Ending December 31,

| | |
|---|----------------------------|
| 2014 | \$ 325,838 |
| 2015 | 26,096 |
| 2016 | 26,357 |
| 2017 | 551,612 |
| 2018 | 526,888 |
| Later years | <u>4,044,070</u> |
| | 5,500,861 |
| Less amounts representing implied interest | <u>(463,347)</u> |
| | <u><u>\$ 5,037,514</u></u> |

NCIF was approved for a new loan from the USDA IRP in November 2010 in the amount of \$750,000. The proceeds will be used to fund eligible loan commitments as they are approved by the USDA. NCIF did not receive proceeds nor make loan commitments from this funding in 2013 or 2012. In 2012, NCIF was approved for two new loans from One Foundation in the amount of \$100,000 and from West Virginia Infrastructure & Jobs Development Council in the amount of \$250,000. NCIF did not receive proceeds nor make loan commitments from this funding in 2013 or 2012.

As of December 31, 2013, NCIF met requirements to satisfy certain debt covenants on two loan agreements.

(6) Temporarily and permanently restricted net assets

Temporarily and permanently restricted net assets consist of the following:

| | <u>December 31,</u> | |
|--|----------------------------|----------------------------|
| | <u>2013</u> | <u>2012</u> |
| Temporarily restricted net assets are available for the following purposes and periods: | | |
| Loan capital | \$ 2,308,245 | \$ 2,245,239 |
| Provide support for business development to natural resource-based enterprises and provide incentives to businesses to engage in sound environmental practices | <u>1,172,921</u> | <u>923,012</u> |
| | <u><u>\$ 3,481,166</u></u> | <u><u>\$ 3,168,251</u></u> |

NATURAL CAPITAL INVESTMENT FUND, INC.

NOTES TO FINANCIAL STATEMENTS

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

| | <u>December 31,</u> | |
|--|---------------------|---------------------|
| | <u>2013</u> | <u>2012</u> |
| Permanently restricted net assets consist of the following: | | |
| Loan Capital Revolving Fund: | | |
| Represents net assets dedicated to providing temporary financing of qualifying businesses with any loans required to be repaid | <u>\$ 3,226,862</u> | <u>\$ 2,972,497</u> |

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.

During 2012, after discussions with a donor, a \$533,000 grant and a \$95,000 grant that were originally classified as temporarily restricted net assets were reclassified to unrestricted net assets.

(7) **Concentrations of credit risk**

Financial instruments which potentially subject NCIF to concentrations of credit risk consist of cash held at 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 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 2012, NCIF had two contributors that accounted for 67% of revenue and other support. Additionally, three contributors accounted for 88% of promises to give as of December 31, 2012.

During 2013, NCIF's payable to The Conservation Fund accounted for 40% of total expenditures and 97% of accounts payable as of December 31, 2013. During 2012, NCIF's payable to The Conservation Fund accounted for 44% of total expenditures and 98% of accounts payable as of December 31, 2012.

NATURAL CAPITAL INVESTMENT FUND, INC.

NOTES TO FINANCIAL STATEMENTS

(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>2013</u> | <u>2012</u> |
| Program services: | | |
| Provide support for business development to West Virginia, Virginia, North Carolina, Kentucky, Ohio, Georgia, South Carolina and Tennessee natural resource-based enterprises and partner with government entities to provide incentives to businesses to engage in sound environmental practices. | <u>\$ 1,879,112</u> | <u>\$ 1,401,388</u> |

(9) **Operating leases**

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

Future minimum lease commitments are as follows:

| | <u>Years Ending December 31,</u> |
|--|----------------------------------|
| | <u>2014</u> |
| | <u>\$ 4,200</u> |
| | <u>\$ 4,200</u> |

Total rent expense for 2013 and 2012 was \$9,270 and \$9,755, respectively.

(10) **Cash flow disclosures**

The following is a summary of supplemental cash flow information:

| | <u>Years Ended December 31,</u> | |
|------------|---------------------------------|------------------|
| | <u>2013</u> | <u>2012</u> |
| Cash paid: | | |
| Interest | <u>\$ 112,600</u> | <u>\$ 74,900</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, 2013 and 2012, NCIF has recorded discounts or imputed interest of \$59,043 and \$65,179, respectively.

SUPPLEMENTARY INFORMATION



Mayer Hoffman McCann P.C.
An Independent CPA Firm

3 Bethesda Metro Center, Suite 600
Bethesda, Maryland 20814
301-951-3636 ph
301-951-0425 fx
www.mhm-pc.com

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, 2013 and 2012, and have issued our report thereon dated May 12, 2014, 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, 2013 and comparative totals for 2012, 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
May 12, 2014

NATURAL CAPITAL INVESTMENT FUND, INC.

SUPPLEMENTARY INFORMATION – SCHEDULES OF FUNCTIONAL EXPENSES

Year Ended December 31, 2013
(With Comparative Totals for the Year Ended December 31, 2012)

| | <u>Program</u> | <u>Management and General</u> | <u>Fundraising</u> | <u>Total 2013</u> | <u>Total 2012</u> |
|-----------------------------------|----------------------------|-----------------------------------|------------------------|----------------------------|----------------------------|
| Contractual services | \$ 1,211,992 | \$ 51,869 | \$ 6,117 | \$ 1,269,978 | * \$ 953,505 |
| Books and references | 74 | 5 | - | 79 | 43 |
| Employee training and development | 2,360 | 160 | 19 | 2,539 | 3,949 |
| Seminars and conferences | 9,237 | - | - | 9,237 | 5,744 |
| Professional fees | - | 26,334 | - | 26,334 | 24,146 |
| Supplies and equipment | 2,791 | 190 | 22 | 3,003 | 2,572 |
| Postage and shipping | 477 | 32 | 4 | 513 | 411 |
| Travel and subsistence | 37,831 | 2,568 | 303 | 40,702 | 34,494 |
| Telephone and utilities | 10,668 | 724 | 85 | 11,477 | 11,901 |
| Rent | 8,617 | 584 | 69 | 9,270 | 9,755 |
| Dues and subscriptions | 6,563 | 445 | 53 | 7,061 | 4,298 |
| Interest | 171,781 | - | - | 171,781 | 141,834 |
| Loan origination fees | 8,004 | - | - | 8,004 | 5,592 |
| Bank finance fees | 4,873 | 331 | 39 | 5,243 | 4,107 |
| Registration and filing fees | 1,183 | - | - | 1,183 | 612 |
| Marketing | 1,333 | 90 | 11 | 1,434 | 833 |
| Miscellaneous and office | 32,590 | 2,028 | 240 | 34,859 | 2,909 |
| Uncollected grant revenues | - | - | - | - | 4,338 |
| Loan loss reserve | 245,679 | - | - | 245,678 | 255,125 |
| Loss from notes receivable | 123,059 | - | - | 123,059 | 7,030 |
| TOTAL EXPENSES | <u>\$ 1,879,112</u> | <u>\$ 85,360</u> | <u>\$ 6,962</u> | <u>\$ 1,971,434</u> | <u>\$ 1,473,198</u> |

* For the year 2013, contractual services primarily consisted of management fees totaling \$809,000 to The Conservation Fund for personnel, overhead and direct program support, \$198,269 for direct grant expenses for the VC2 program, \$52,752 for various direct grants, \$21,254 for consulting expenses, \$47,229 of marketing expenses for the WVCAP program and \$141,474 for Third Party Technical Assistance to loan applicants and portfolio companies (contractual services primarily consisted of management fees totaling \$655,000 to The Conservation Fund for personnel, overhead and direct program support, \$34,688 for direct grant expenses, \$11,900 for consulting expenses, \$48,507 of marketing expenses for the WVCAP program, and \$203,410 for Third Party Technical Assistance to loan applicants and portfolio companies for 2012).