



**NATURAL CAPITAL INVESTMENT
FUND, INC.**

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

*As of and for the Years Ended December 31, 2015
and 2014*

And Report of Independent Auditor

NATURAL CAPITAL INVESTMENT FUND, INC.
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Report of Independent Auditor

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

We have audited the accompanying financial statements of Natural Capital Investment Fund, Inc., which comprise the statement of financial position as of December 31, 2015, and the related statements of activities and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The financial statements of Natural Capital Investment Fund, Inc. for the year ended December 31, 2014, were audited by another auditor who expressed an unmodified opinion on those statements on April 9, 2015.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 6, 2016 on our consideration of Natural Capital Investment Fund, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Natural Capital Investment Fund, Inc.'s internal control over financial reporting and compliance.

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

Bethesda, Maryland
May 6, 2016

NATURAL CAPITAL INVESTMENT FUND, INC.
STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 6,374,104	\$ 5,916,379
Promises to give	1,847,370	242,949
Notes receivables, net allowance for possible losses of \$156,405 in 2015 (\$240,630 in 2014)	2,577,672	1,472,034
Contracts receivable	36,380	94,381
Accrued interest and fees receivable	58,629	53,618
Total Current Assets	<u>10,894,155</u>	<u>7,779,361</u>
Other Assets:		
Cash-restricted	4,433,655	1,889,719
Investment	99,995	50,000
Cash held as collateral	59,000	50,000
Notes receivable, net allowance for possible losses of \$953,691 in 2015 (\$765,221 in 2014)	10,142,690	7,184,957
Other receivables	1,692	20,121
Total Other Assets	<u>14,737,032</u>	<u>9,194,797</u>
Total Assets	<u><u>\$ 25,631,187</u></u>	<u><u>\$ 16,974,158</u></u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Line of credit	\$ 150,000	\$ -
Accounts payable	24,076	36,164
Accounts payable, related party	1,218,551	986,000
Funds held for others	14,957	35,040
Accrued interest payable	36,758	14,453
Deferred revenue	22,260	-
Current maturities of notes payable	-	26,095
Total Current Liabilities	<u>1,466,602</u>	<u>1,097,752</u>
Long-Term Liabilities:		
Line of credit, related party	2,500,000	854,406
Notes payable, net of implied interest	9,844,043	4,745,043
Total Long-Term Liabilities	<u>12,344,043</u>	<u>5,599,449</u>
Total Liabilities	<u>13,810,645</u>	<u>6,697,201</u>
Net Assets:		
Unrestricted	3,206,238	2,762,570
Temporarily restricted	5,287,460	4,187,543
Permanently restricted-Loan Capital Revolving Fund	3,326,844	3,326,844
Total Net Assets	<u>11,820,542</u>	<u>10,276,957</u>
Total Liabilities and Net Assets	<u><u>\$ 25,631,187</u></u>	<u><u>\$ 16,974,158</u></u>

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

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

YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015				2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Revenue:								
Contributions and grants	\$ 72,210	\$ 748,232	\$ -	\$ 820,442	\$ 10,525	\$ 1,215,125	\$ -	\$ 1,225,650
Federal grants	-	1,998,320	-	1,998,320	-	1,655,495	99,982	1,755,477
Investment and other program income	800,336	128,020	-	928,356	718,677	73,422	-	792,099
Net assets released from restrictions	1,774,655	(1,774,655)	-	-	2,237,665	(2,237,665)	-	-
Total Support and Revenue	2,647,201	1,099,917	-	3,747,118	2,966,867	706,377	99,982	3,773,226
Expenses:								
Program	2,138,357	-	-	2,138,357	2,052,698	-	-	2,052,698
Management and general	62,959	-	-	62,959	104,470	-	-	104,470
Fundraising	2,217	-	-	2,217	6,962	-	-	6,962
Total Expenses	2,203,533	-	-	2,203,533	2,164,130	-	-	2,164,130
Change in net assets	443,668	1,099,917	-	1,543,585	802,737	706,377	99,982	1,609,096
Net assets, beginning of year	2,762,570	4,187,543	3,326,844	10,276,957	1,959,833	3,481,166	3,226,862	8,667,861
Net assets, end of year	\$ 3,206,238	\$ 5,287,460	\$ 3,326,844	11,820,542	\$ 2,762,570	\$ 4,187,543	\$ 3,326,844	\$ 10,276,957

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

NATURAL CAPITAL INVESTMENT FUND, INC.
STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Change in net assets	\$ 1,543,585	\$ 1,609,096
Adjustments to reconcile change in net assets to net cash flows provided by operating activities:		
Allowance for possible losses and notes receivable write-offs	115,172	275,020
Contributions from implied interest discount, net	60,867	57,274
Gain on debt forgiveness	(100,000)	-
Contributions restricted for long-term purposes	-	(99,982)
Decrease (Increase) in operating assets:		
Promises to give	(1,604,421)	(117,086)
Other receivables	71,419	(79,669)
Cash held as collateral	(9,000)	-
Increase (decrease) in operating liabilities:		
Funds held for others	(20,083)	(360,960)
Accounts payable	(12,088)	13,523
Accounts payable, related party	232,551	177,000
Deferred revenue	22,260	-
Accrued interest payable	22,305	1,833
Cash flows provided by operating activities	<u>322,567</u>	<u>1,476,049</u>
Cash flows from investing activities:		
Increase in cash-restricted	(2,543,936)	(463,588)
(Purchase) sale of investments	(49,995)	75,000
Increase in notes receivable	(8,211,015)	(4,507,617)
Repayments of principal on notes receivable	4,032,472	3,133,473
Cash flows used in investing activities	<u>(6,772,474)</u>	<u>(1,762,732)</u>
Cash flows from financing activities:		
Contributions restricted for long-term purposes	-	99,982
Proceeds from line of credit	1,795,594	854,406
Proceeds from long-term debt	5,172,184	300,000
Repayment of long-term debt	(60,146)	(623,650)
Cash flows provided by financing activities	<u>6,907,632</u>	<u>630,738</u>
Net change in cash and cash equivalents	457,725	344,055
Cash and cash equivalents, beginning of year	5,916,379	5,572,324
Cash and cash equivalents, end of year	<u>\$ 6,374,104</u>	<u>\$ 5,916,379</u>

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

NATURAL CAPITAL INVESTMENT FUND, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

Note 1—Summary of significant accounting policies

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

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

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

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

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

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

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.

NATURAL CAPITAL INVESTMENT FUND, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

Note 1—Summary of significant accounting policies (continued)

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

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

	<u>2015</u>	<u>2014</u>
Cash and cash equivalents	\$ 6,374,104	\$ 5,916,379
Cash-restricted	4,433,655	1,889,719
Cash held for collateral	59,000	50,000
Total cash	<u>\$ 10,866,759</u>	<u>\$ 7,856,098</u>

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

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

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

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

Level 3 - Inputs to the valuation methodology are unobservable and significant to the overall fair value measurement. The inputs into the determination of fair value require significant management judgment or estimation. The type of investment included in Level 3 includes the U.S. Endowment Fuel Project Investment that totaled \$99,995 as of December 31, 2015 (\$50,000 as of December 31, 2014).

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, 2015, the allowance was calculated at 7.5% of the unpaid principal balances (10.4% as of December 31, 2014). The allowance was \$1,110,096 at December 31, 2015 (\$1,005,851 at December 31, 2014).

NATURAL CAPITAL INVESTMENT FUND, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

Note 1—Summary of significant accounting policies (continued)

Promises to Give – Unconditional promises to give are recognized as revenue or gains in the period acknowledged. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Promises to give are carried at present value less an estimate made for doubtful promises based on a review of all outstanding promises on a monthly basis. Management determines the allowance for doubtful promises by regularly evaluating individual promises to give and considering the prior history of the donor and proven collectability of past donations. Promises to give are written-off when deemed uncollectible. Recoveries of promises to give previously written-off are recorded when received. There was no allowance for doubtful promises at December 31, 2015 or 2014.

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.

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, 2015 and 2014, there was no unrelated business income.

Subsequent Events – Management has evaluated subsequent events through May 6, 2016, 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 2014 financial information has been reclassified to conform to the 2015 presentation. The reclassifications have no impact on the previously reported change in net assets.

Note 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, 2015 and 2014, unconditional promises to give totaling \$1,847,370 and \$242,949, respectively, were due in less than one year.

At December 31, 2015, NCIF also had nine conditional promises to give totaling \$437,871 (seven conditional promises totaling \$761,605 at December 31, 2014).

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

DECEMBER 31, 2015 AND 2014

Note 3—Notes receivable

NCIF has advanced funds in the form of notes receivable to help finance various businesses. At December 31, 2015, NCIF had notes receivable outstanding totaling \$12,720,362 (\$8,656,991 at December 31, 2014). The notes have various interest rates and maturity dates, with the latest note maturing in 2040.

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

	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>

For the year ended December 31, 2015, interest income from these notes was \$644,390 (\$530,994 for the year ended December 31, 2014).

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

	2015	2014
Beginning balance	\$ 1,005,851	\$ 1,005,851
Provision charged to operations	104,245	-
Ending balance	<u>\$ 1,110,096</u>	<u>\$ 1,005,851</u>

At December 31, 2015, notes receivable serving as collateral on notes payable amounted to \$1,351,095 (\$577,155 at December 31, 2014). There were no non-performing loans at December 31, 2015 (\$283,267 at December 31, 2014). In addition, there are two loans totaling \$91,802 for which interest is currently not accruing for the year ended December 31, 2015 (\$100,018 for two loans for the year ended December 31, 2014).

At December 31, 2015, NCIF had 17 loan commitments for additional advances totaling \$3,688,790 (one loan commitment for \$161,130 at December 31, 2014).

Note 4—Accounts payable, related party

NCIF has entered into a management services agreement with its parent organization, The Conservation Fund. Under the terms of the agreement, The Conservation Fund provides all staffing and administrative services to NCIF. For 2015, the management fee under the agreement was \$1,168,572 (\$986,000 for 2014). The agreement is for one year and is renewable for successive one-year terms unless either party provides written notice not to renew.

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

DECEMBER 31, 2015 AND 2014

Note 5—Debt

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

Lender	Terms of Loan	Total Amounts Borrowed	Principal Balance as of 12/31/2015	Principal Balance as of 12/31/2014
U.S. Department of Agriculture	Loan is payable over a 30-year term, with interest at 1% per annum, with an implied interest rate of 3%. Payments of \$21,225 are due annually. Secured by funds held by NCIF under the intermediary Re-Lending Program ("IRP") and collateral obtained as a result of advancing loan funds.	\$ 2,002,000	\$ 1,644,784	\$ 323,323
West Virginia Infrastructure & Jobs Development Council	Used as matching funds for the U.S. Department of Agriculture loan. Loan is payable over a 15-year term, with interest at 1% per annum (discounting not considered material). Quarterly principal and interest payments on the note total \$3,907. Secured on a pro rate basis with USDA loan on funds held by NCIF under the IRP.	375,000	246,712	49,668
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	479,558	474,810
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	355,705	345,345
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	380,586	376,818
One Foundation	Loan matures on December 2025. Interest only payment starting on March 2016 thru December 2019 at the rate of 2%. After which, principal and interest shall be paid monthly of \$4,432 until loan maturity.	100,000	100,000	-
McKnight Foundation	Loan matures on November 2025. Interest is payable annually at the rate of 2% starting November 2016. The principal of the loan is payable on the ninth anniversary from October 2015 for which NCIF shall have already paid total principal installments of \$500,000 by that date. The unpaid principal amount and all accrued interest, if any, shall be due and payable on the maturity date.	1,000,000	1,000,000	-
Appalachian Community Capital	Interest only paid monthly in arrears at the rate of 2.37%. Loan is payable over 3-year term for the full principal balance and any accrued interest by September 28, 2018.	2,000,000	2,000,000	-
PNC Community Development Company	Equity-equivalent debt investment loan, with interest payable quarterly starting July 1, 2015 and continuing on the first day of each quarter until maturity. Interest is payable at the rate of 3% per annum. Payment of the principal amount is due and payable upon maturity of the loan on April 1, 2020. Issuer may exercise one five-year extension to extend the maturity to April 1, 2025.	500,000	500,000	-

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

DECEMBER 31, 2015 AND 2014

Note 5—Debt (continued)

Lender	Terms of Loan	Total Amounts Borrowed	Principal Balance as of 12/31/2015	Principal Balance as of 12/31/2014
Ford Foundation PRI	Loan is payable over a 10-year term, with principal payments deferred for 7 years. Annual principal repayments begin after 7 years with payments of one-third due each year for 3 years. Interest is payable at the rebate of 1% per annum, with an implied interest rate of 3%, resulting in a discount of \$326,271.	2,000,000	1,811,698	1,776,174
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	250,000
			<u>\$ 9,844,043</u>	<u>\$ 4,771,138</u>

In March 2016, the Board of Trustees of the Claude Worthington Benedum Foundation approved the forgiveness of a \$400,000 loan obtained by NCIF in 2007. The action converted the said loan to a grant which shall be used to fund NCIF's programs.

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

Years Ending December 31,

2016	\$ -
2017	525,000
2018	2,700,000
2019	-
2020	938,561
Thereafter	<u>6,025,689</u>
	10,189,250
Less: Amounts representing implied interest	<u>(345,207)</u>
	<u>\$ 9,844,043</u>

Implied interest was \$345,207 and \$406,073 at December 31, 2015 and 2014, respectively.

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

DECEMBER 31, 2015 AND 2014

Note 5—Debt (continued)

As of December 31, 2015, 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 its parent, The Conservation Fund, to help finance its short-term capital needs. Interest is payable quarterly on outstanding balances at an interest rate of 2%. Any outstanding principal and accrued interest will be payable on August 1, 2019. At December 31, 2015, total drawings from the line amounted to \$2,500,000 (\$854,406 at December 31, 2014).

NCIF maintains a \$150,000 revolving line of credit with a lending institution, to be drawn upon as needed, with a variable rate equal to 0.250 percentage points below The Wall Street Journal Prime Rate, which shall not be more than 7% or less than 3% as of December 31, 2015. Interest is payable quarterly, with all unpaid principal and interest due at maturity. The total outstanding loan balance was \$150,000 at December 31, 2015 (\$0 at December 31, 2014).

Note 6—Temporarily and permanently restricted net assets

Temporarily and permanently restricted net assets consist of the following:

	<u>2015</u>	<u>2014</u>
Temporarily restricted net assets are available for the following purposes and periods:		
Loan capital	\$ 3,908,313	\$ 2,896,300
Provide support for business development to natural resource-based enterprises and provide incentives to businesses to engage in sound environmental practices	<u>1,379,147</u>	<u>1,291,243</u>
Total temporarily restricted net assets	<u>\$ 5,287,460</u>	<u>\$ 4,187,543</u>
Permanently restricted net assets consist of the following:		
Loan Capital Revolving Fund:		
Represents net assets dedicated to providing temporary financing to qualified businesses	<u>\$ 3,326,844</u>	<u>\$ 3,326,844</u>

NATURAL CAPITAL INVESTMENT FUND, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

Note 7—Concentrations of credit risk

Financial instruments which potentially subject NCIF to concentrations of credit risk consist of cash held in two operating bank accounts at a commercial bank that is a high credit quality financial institution. 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, 2015 and 2014. As of December 31, 2015, NCIF’s cash balances in excess of FDIC insured amounts totaled \$9,567,110 (\$6,806,098 as of December 31, 2014). 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 2015, NCIF had two contributors that accounted for 64% of revenue and other support. Additionally, one contributor made up 90% of promises to give as of December 31, 2015. 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 2015, NCIF’s payments to The Conservation Fund accounted for 53% of total expenditures. As of December 31, 2015, 98% of accounts payable were attributable to The Conservation Fund. During 2014, NCIF’s payments to The Conservation Fund accounted for 46% of total expenditures. As of December 31, 2014, 96% of accounts payable were attributable to The Conservation Fund.

Note 8—Functional allocation of expenses

The costs of providing the various programs and supporting services have been summarized on a functional basis in the statements of activities and changes in net assets. 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>2015</u>	<u>2014</u>
Program Services:		
Provide support for business development to West Virginia, North Carolina, Virginia, Tennessee, Ohio, Kentucky Georgia, South Carolina and Maryland natural resource-based enterprises and partner with government entities to provide incentives to businesses to engage in sound environmental practices.	<u>\$ 2,138,357</u>	<u>\$ 2,052,698</u>

Note 9—Operating leases

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

NCIF has future minimum lease commitments through December 31, 2016 totaling \$7,656.

Total rent expense for 2015 and 2014 was \$10,084 and \$11,671, respectively.

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

DECEMBER 31, 2015 AND 2014

Note 10—Cash flow disclosures

The following is a summary of supplemental cash flow information:

	<u>2015</u>	<u>2014</u>
Cash paid:		
Interest	<u>\$ 145,000</u>	<u>\$ 107,600</u>

For the years ended December 31, 2015 and 2014, NCIF has recorded discounts or imputed interest of \$60,867 and \$57,274, respectively.

SUPPLEMENTARY INFORMATION



Report of Independent Auditor on Supplementary Information

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

We have audited the financial statements of Natural Capital Investment Fund, Inc. as of and for the year ended December 31, 2015, and have issued our report thereon dated May 6, 2016, which expressed an unmodified opinion on those financial statements. Our audit was 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, 2015, 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 audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

The financial statements of Natural Capital Investment Fund, Inc. as of and for the year ended December 31, 2014, were audited by another auditor who expressed an unmodified opinion on those financial statements in their report dated April 9, 2015. The 2014 supplementary information is consistent, in all material respects, with the audited financial statements from which they have been derived.

A handwritten signature in cursive script that reads "Cherry Bekaert LLP".

Bethesda, Maryland
May 6, 2016

NATURAL CAPITAL INVESTMENT FUND, INC.
SCHEDULES OF FUNCTIONAL EXPENSES

YEARS ENDED DECEMBER 31, 2015
(WITH COMPARATIVE TOTALS FOR 2014)

	Program	Management and General	Fundraising	Total 2015	Total 2014
Contractual services-Management contract	\$ 1,135,931	\$ 30,613	\$ 2,028	\$ 1,168,572 *	\$ 986,000
Contractual services-Program	514,590	-	-	514,590 **	546,423
Books and references	-	-	-	-	84
Employee training and development	4,635	125	8	4,768	5,523
Seminars and equipment	10,958	-	-	10,958	14,387
Professional fees	-	29,473	-	29,473	45,425
Supplies and equipment	1,811	49	3	1,863	2,861
Postage and shipping	1,134	31	2	1,167	974
Travel and subsistence	48,766	1,314	87	50,167	63,861
Telephone and utilities	11,872	320	21	12,213	12,350
Rent	9,802	264	18	10,084	11,671
Dues and subscriptions	4,828	130	9	4,967	7,760
Interest	227,887	-	-	227,887	165,411
Loan origination fees	24,395	-	-	24,395	3,501
Bank finance fees	7,738	209	14	7,961	5,796
Registration and filing fees	3,633	-	-	3,633	2,343
Marketing	3,263	88	6	3,357	7,549
Miscellaneous and office	11,942	343	21	12,306	7,191
Loan loss reserve	105,453	-	-	105,453	-
Loss from notes receivable	9,719	-	-	9,719	275,020
Total Expenses	<u>\$ 2,138,357</u>	<u>\$ 62,959</u>	<u>\$ 2,217</u>	<u>\$ 2,203,533</u>	<u>\$ 2,164,130</u>

*Contractual services - NCIF contracts with its parent company, The Conservation Fund, to provide all administrative support services as well as hiring all NCIF employees. Accordingly, The Conservation Fund is paid for actual costs associated with NCIF staff salaries, benefits management, and an allocated portion of indirect support costs. The contractual fee under the agreement for 2015 was \$1,168,572 (\$986,000 in 2014) (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

	2015	2014
Direct Expenses:		
Direct labor expenses	\$707,983	\$ 681,273
Fringe benefits at 35% in 2015 (25% in 2014)	247,794	170,318
Occupancy/telephone-WV, NC	58,095	45,249
Total Direct Expenses	<u>1,013,872</u>	<u>896,840</u>
Indirect Expenses:		
National operating support	154,700	89,160
Total Annual Service Agreement	<u>\$ 1,168,572</u>	<u>\$ 986,000</u>