Partner Community Capital, Inc.

Financial Report
December 31, 2022 and 2021

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Partner Community Capital, Inc.

REPORT ON THE AUDITS OF THE FINANCIAL STATEMENTS

Opinion
We have audited the accompanying financial statements of Partner Community Capital, Inc. ("PCAP") which comprise the statements of financial position as of December 31, 2022 and 2021 and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Partner Community Capital, Inc. as of December 31, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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

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

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

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Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of PCAP's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about PCAP's ability to continue as a going concern for a reasonable period of time.

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

Other Reporting Requirements by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2023, on our consideration of PCAP's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of PCAP's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering PCAP's internal control over financial reporting and compliance.

KraftCPAs PLLC

Nashville, Tennessee
March 31, 2023

Partner Community Capital, Inc.

Statements of Financial Position
December 31, 2022 and 2021

		2022		2021
Assets				
Current assets:				
Cash and cash equivalents	**$**	**13,885,195**	$	16,715,441
Accounts receivable		**25,345**		5,493
Prepaid expenses		**54,355**		82,353
Promises to give		**1,132,790**		1,047,859
Loans receivable, net of $292,014 and $255,319 at December 31, 2022 and 2021, respectively		**9,892,061**		7,220,933
Accrued interest and fees receivable		**296,005**		283,061
Total current assets		**25,285,751**		25,355,140
Noncurrent assets:				
Cash and cash equivalents – restricted		**2,938,132**		3,264,689
Other asset		**802,595**		302,595
Operating leases, right-of-use asset		**111,955**		-
Loans receivable, net of $1,413,904 and $1,521,062 at December 31, 2022 and 2021, respectively		**49,853,234**		42,914,596
Total noncurrent assets		**53,705,916**		46,481,880
Total assets	**$**	**78,991,667**	$	71,837,020
Liabilities and Net Assets				
Current liabilities:				
Accounts payable	**$**	**67,683**	$	113,773
Line of credit		**-**		281,877
Accounts payable, related party		**-**		100,000
Accrued personnel and related expenses		**422,413**		-
Funds held for others		**43,566**		62,735
Current maturities of operating lease liabilities		**64,429**		-
Current maturities of secured borrowings, participations		**1,525,565**		705,409
Accrued interest payable		**134,186**		101,505
Deferred revenue		**1,294,209**		1,011,665
Current maturities of notes payable		**7,060,152**		2,075,436
Total current liabilities		**10,612,203**		4,452,400
Operating lease liabilities, less current maturities		**48,622**		-
Secured borrowings, participations		**12,844,845**		10,118,005
Notes payable, net		**24,569,776**		29,960,996
Subordinated notes payable		**4,800,000**		3,300,000
Total noncurrent liabilities		**42,263,243**		43,379,001
Total liabilities		**52,875,446**		47,831,401
Commitments and contingencies (Note 15)				
Net assets:				
Without donor restrictions		**15,636,722**		15,233,898
With donor restrictions		**10,479,499**		8,771,721
Total net assets		**26,116,221**		24,005,619
Total liabilities and net assets	**$**	**78,991,667**	$	71,837,020

See notes to financial statements.

Partner Community Capital, Inc.

Statements of Activities
Years ended December 31, 2022 and 2021

	2022			2021		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**	Without Donor Restrictions	With Donor Restrictions	Total
Financial activity:						
Financial income:						
Loan interest revenue	**$ 3,605,567**	**$ -**	**$ 3,605,567**	$ 2,930,285	$ -	$ 2,930,285
Fee income on loans, net	**319,463**	**-**	**319,463**	629,084	-	629,084
Interest income	**155,822**	**-**	**155,822**	6,329	-	6,329
Total financial income	**4,080,852**	**-**	**4,080,852**	3,565,698	-	3,565,698
Financial expenses:						
Provision for (recovery of) credit losses	**413,230**	**-**	**413,230**	(313,212)	-	(313,212)
Interest expense	**1,473,837**	**-**	**1,473,837**	1,159,581	-	1,159,581
Total financial expenses	**1,887,067**	**-**	**1,887,067**	846,369	-	846,369
Net financial income	**2,193,785**	**-**	**2,193,785**	2,719,329	-	2,719,329
Revenue and support:						
Grants and contributions	**57,175**	**1,387,505**	**1,444,680**	16,830	870,000	886,830
In-kind services - Forgiven interest	**44,070**	**-**	**44,070**	84,152	-	84,152
Government grants	**-**	**3,033,835**	**3,033,835**	-	4,304,044	4,304,044
Project income	**58,092**	**-**	**58,092**	19,549	-	19,549
Other income	**150**	**-**	**150**	15,211	-	15,211
Net assets released from restriction	**2,713,562**	**(2,713,562)**	**-**	4,064,315	(4,064,315)	-
Total revenue and support	**2,873,049**	**1,707,778**	**4,580,827**	4,200,057	1,109,729	5,309,786
Expenses:						
Program services:						
Lending	**2,493,850**	**-**	**2,493,850**	2,320,110	-	2,320,110
Strategic initiatives	**1,780,555**	**-**	**1,780,555**	1,388,247	-	1,388,247
Total program services	**4,274,405**	**-**	**4,274,405**	3,708,357	-	3,708,357
Supporting services:						
Management and general	**353,071**	**-**	**353,071**	320,701	-	320,701
Fundraising	**36,534**	**-**	**36,534**	31,172	-	31,172
Total supporting services	**389,605**	**-**	**389,605**	351,873	-	351,873
Total expenses	**4,664,010**	**-**	**4,664,010**	4,060,230	-	4,060,230
Change in net assets	**402,824**	**1,707,778**	**2,110,602**	2,859,156	1,109,729	3,968,885
Net assets:						
Beginning of year	**15,233,898**	**8,771,721**	**24,005,619**	11,632,144	7,661,992	19,294,136
Impact of adopting ASC 326	**-**	**-**	**-**	742,598	-	742,598
End of year	**$ 15,636,722**	**$ 10,479,499**	**$ 26,116,221**	$ 15,233,898	$ 8,771,721	$ 24,005,619

See notes to financial statements.

Partner Community Capital, Inc.

Statement of Functional Expenses
Year Ended December 31, 2022

	Program Services			Supporting Services		
	Lending	Strategic Initiatives	Total Program	Management and General	Fundraising	Total
Management fee contract, net	$ 534,053	$ 254,311	$ 788,364	$ 50,862	$ 8,477	$ 847,703
Personnel and related expenses, net	1,332,673	634,606	1,967,279	126,921	21,154	2,115,354
Provision for credit loss	413,230	-	413,230	-	-	413,230
Interest expense	1,429,767	-	1,429,767	-	-	1,429,767
In-kind services - Interest expense	44,070	-	44,070	-	-	44,070
Technical assistance	-	567,553	567,553	-	-	567,553
Grant and contract expense	-	116,951	116,951	-	-	116,951
Loan workout expense - Non-legal	7,966	-	7,966	-	-	7,966
Legal fees	11,817	-	11,817	26,598	-	38,415
Professional fees	3,500	-	3,500	60,465	-	63,965
Employee travel	27,247	12,975	40,222	2,595	432	43,249
Loan origination expense, net	95,192	-	95,192	-	-	95,192
Office expense	104,072	49,558	153,630	9,912	1,652	165,194
Computer software maintenance services	110,503	52,620	163,123	10,524	1,754	175,401
Rent	73,547	35,022	108,569	7,005	1,167	116,741
Conference, convention, meeting	11,390	5,424	16,814	1,085	181	18,080
Insurance	-	-	-	32,300	-	32,300
Reporting and filing fees	16,988	-	16,988	-	-	16,988
Bank charges	-	-	-	14,497	-	14,497
Marketing	104,232	49,634	153,866	9,927	1,654	165,447
Employee training and development	3,992	1,901	5,893	380	63	6,336
Other lending costs	56,678	-	56,678	-	-	56,678
Total expense	$ 4,380,917	$ 1,780,555	$ 6,161,472	$ 353,071	$ 36,534	$ 6,551,077
Less expenses included with financial activity on the statement of activities	(1,887,067)	-	(1,887,067)	-	-	(1,887,067)
Total expense included with expenses on the statement of activities	$ 2,493,850	$ 1,780,555	$ 4,274,405	$ 353,071	$ 36,534	$ 4,664,010

See notes to financial statements.

Partner Community Capital, Inc.

Statement of Functional Expenses
Year Ended December 31, 2021

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

See notes to financial statements.

Partner Community Capital, Inc.

Statements of Cash Flows
Years Ended December 31, 2022 and 2021

		2022		2021
Cash flows from operating activities:				
Change in net assets	**$**	**2,110,602**	$	3,968,885
Adjustments to reconcile increase in net assets to				
net cash provided by operating activities:				
Provision for (recovery of) credit losses		**413,230**		(313,212)
Implied interest expense		**4,795**		5,059
Contributions restricted for long-term purposes		**(1,811,999)**		(1,262,910)
Amortization of debt acquisition costs		**56,678**		50,962
Amortization of deferred loan costs (fees)		**17,062**		63,578
Changes in operating assets and liabilities:				
Accounts receivable		**(19,852)**		10,907
Prepaid expenses		**27,998**		(82,353)
Promises to give		**(84,931)**		(76,656)
Accrued interest and fees receivable		**(12,944)**		88,282
Operating leases, right-of-use assets		**53,655**		-
Accounts payable		**(46,090)**		79,619
Accounts payable, related party		**(100,000)**		100,000
Accrued personnel and related expenses		**422,413**		-
Funds held for others		**(19,169)**		(31,371)
Accrued interest payable		**32,681**		24,016
Refundable advance		**282,544**		954,029
Operating lease liabilities		**(52,559)**		-
Net cash provided by operating activities		**1,274,114**		3,578,835
Cash flows from investing activities:				
Cash disbursements on loans receivable		**(21,417,132)**		(18,220,450)
Principal collections on loans receivable		**10,219,784**		13,064,085
Proceeds from the sale of loans receivable		**1,345,390**		1,094,020
Repayment on the sale of loans receivable		**(188,100)**		(123)
Purchase of other asset		**(500,000)**		-
Sale of restricted investment		**-**		206,089
Net cash used in investing activities		**(10,540,058)**		(3,856,379)
Cash flows from financing activities:				
Proceeds from lines of credit		**801,336**		763,127
Repayment of lines of credit		**(1,083,213)**		(630,750)
Proceeds from issuance of notes payable		**4,162,252**		5,781,906
Repayments of notes payable		**(3,099,485)**		(1,515,811)
Payment of debt acquisition costs		**(30,744)**		(47,249)
Advances on secured borrowings, participations		**4,775,332**		2,950,944
Repayments on secured borrowings, participations		**(1,228,336)**		(660,837)
Contributions restricted for long-term purposes		**1,811,999**		1,262,910
Net cash provided by financing activities		**6,109,141**		7,904,240
Net (decrease) increase in cash and cash equivalents		**(3,156,803)**		7,626,696
Cash and cash equivalents:				
Beginning of year		**19,980,130**		12,353,434
End of year	**$**	**16,823,327**	$	19,980,130
Cash and cash equivalents–unrestricted	**$**	**13,885,195**	$	16,715,441
Cash–restricted		**2,938,132**		3,241,291
	$	**16,823,327**		19,956,732
Supplemental disclosure of cash flow information:				
Cash paid for interest	**$**	**1,436,361**	$	1,130,506
Cash payment on operating leases	**$**	**61,809**	$	-
Supplemental schedule of noncash operating activities				
ROU asset obtained in exchange for new operating lease liability	**$**	**165,610**	$	-

See notes to financial statements.

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

Partner Community Capital, Inc. (PCAP) is a certified community development financial institution that provides financing for and technical assistance to triple-bottom line small businesses and critical community infrastructure. PCAP's base is in West Virginia, but it also conducts lending and investing activities in North Carolina, portions of South Carolina, and the Appalachian counties in Maryland, Virginia, Tennessee, Ohio and Kentucky.

PCAP's activities include the following two program areas:

Lending program: PCAP is a specialized, niche lender for start-up and early stage small businesses in underserved markets. The primary goal of its loan programs is to create or retain full-time private sector jobs. PCAP provides microloans in amounts from $1,000 to $50,000 and business loans sized from $50,000 to $1.5 million. PCAP is approved as a United States Department of Agriculture (USDA) Business & Industry (B&I) Guaranteed Lender, giving it the ability to participate in transactions up to $2.5 million.

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

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

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

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

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

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

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

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

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

Restricted cash: In order to secure its obligations in existing loan agreements, PCAP is required to maintain certain bank accounts and balances, wherein the proceeds of the loans shall be held in separate custodial accounts established at a mutually acceptable financial institution. This requirement includes two federal programs, two financial institution lenders and one private lender. For the Intermediary Relending Program (IRP) which includes the Rural Microentrepreneur Assistance Program (RMAP), PCAP agrees to deposit in a custodial account on the closing date the full amount of the proceeds of the loan and thereafter, principal or proceeds received by the ultimate recipient, and all interest, dividends or other earnings. The amounts deposited in the account shall not be commingled with any other funds. In addition, IRP, RMAP, and the Small Business Administration (SBA) require cash to be restricted for loan loss reserves. Refer to *Note 3 – Cash and cash equivalents*.

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

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

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

Promises to give and contribution revenue: Unconditional contributions, including unconditional promises to give, are recognized at fair value as support in the period received. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Management determines the allowance for doubtful promises by regularly evaluating individual promises to give and considering the prior history of the donor and proven collectability of past donations. Promises to give are written off when deemed uncollectible. Recoveries of promises to give previously written off are recorded when received. There was no allowance for doubtful promises to give at December 31, 2022 or 2021.

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

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

PCAP uses the following loan segments for financial reporting purposes: Real Estate – First Position, Real Estate – Subordinated, Other Collateral, Non Risk Rated (Payroll Protection Program, NC COVID-19 Rapid Recovery, WV Emergency), and Unsecured. Loans receivable are stated at the principal amount outstanding, net of allowance for losses and deferred loan origination fees. Interest income on loans is accrued on the principal outstanding at the loans' stated interest rate unless the loan is in default. Direct origination fees, net of direct costs, are deferred and amortized using the effective interest method over the respective lives of the related and are recorded as an adjustment to fee income on loans. Fees relating to expired commitments are recognized as non-interest income. If a commitment is exercised during the commitment period, the fee at the time of exercise is recognized over the life of the loan as an adjustment of yield.

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

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

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

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

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

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

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

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

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

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

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

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

Notes payable: PCAP uses debt primarily for financing for financing for triple-bottom line small businesses and critical community infrastructure. Most debt is in the form of notes payable to foundations, financial institutions, impact investors and various government agencies. PCAP records a discount and contribution revenue when note interest rates are considered below-market and amortizes the discount to interest expense over the term of the related notes. Debt acquisition costs are capitalized and amortized using the effective interest method over the term of the debt.

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

Transfers of financial assets: Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when: (1) the assets have been isolated from PCAP, (2) the transferee obtains the right to pledge or exchange the transferred assets and no condition both constrains the transferee from taking advantage of that right and provides more than a trivial benefit for the transferor and (3) the transferor does not maintain effective control over the transferred assets through either: (a) an agreement that both entitles and obligates the transferor to repurchase or redeem the assets before maturity or (b) the ability to unilaterally cause the holder to return specific assets, other than through a cleanup call. The outstanding balance of sales is $2,251,186 and $1,093,897 as of December 31, 2022 and 2021, respectively.

PCAP sells participation loans to third parties that do not meet the criteria to be accounted for as sales as PCAP has not surrendered control of the participation loans sold. As a result the participation loans are accounted for as secured borrowings, whereby PCAP records cash received from the transferee and records a liability to repay the cash to the transferee. The transferees have no recourse to PCAP for failure of the underlying borrowers to pay amounts contractually due. The outstanding balance of participation loans sold accounted for as secured borrowings is $14,370,410 and $10,823,414 as of December 31, 2022 and 2021, respectively.

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

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

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

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

Leases: PCAP made an accounting policy election available under Topic 842 not to recognize right-of-use ("ROU") assets and lease liabilities for leases with a term of 12 months or less. For all other leases, ROU assets and lease liabilities are measured based on the present value of future lease payments over the lease term at the commencement date of the lease (or January 1, 2022, for existing leases upon the adoption of Topic 842). The ROU assets also include any initial direct costs incurred and lease payments made at or before the commencement date and are reduced by any lease incentives. To determine the present value of lease payments, PCAP used the discount rate implicit in the lease agreement, if readily determinable. For leases in which the rate implicit in the lease agreement is not readily determinable, PCAP made an accounting policy election available to non-public companies to utilize a risk-free borrowing rate, which is aligned with the lease term at the lease commencement date (or remaining term for leases existing upon the adoption of Topic 842).

Residual value guarantees or payments for terminating the lease are included in the lease payments only when it is probable they will be incurred.

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

PCAP has made an accounting policy election to account for lease and non-lease components in its contracts as a single lease component for its real estate asset class. The non-lease components typically represent additional services transferred to PCAP, such as common area maintenance for office space), which are variable in nature and recorded in variable lease expense in the period incurred.

Income taxes: PCAP is organized as a Maryland nonstock corporation and has received a determination letter from the U.S. Internal Revenue Services (IRS) granting it tax-exempt status as a charitable non-provide organization under IRC Sections 501(c)(3) and 170(b)(1)(A)(vi). Income, which is not related to exempt purposes, less applicable deductions, is subject to federal and state corporate income taxes. PCAP had no net unrelated business income tax for the years ended December 31, 2022 and 2021.

Management evaluated PCAP's tax positions and concluded that PCAP had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance. PCAP files income tax returns in the U.S. federal jurisdiction. Generally, PCAP is no longer subject to income tax examinations for the U.S. federal, state or local tax authorities for the years before 2019.

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

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

Note 2. Recently Adopted Accounting Pronouncements:

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

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

Note 2. Recently Adopted Accounting Pronouncements (Continued):

In February 2016, the FASB issued ASC Topic 842, *Leases*, to increase transparency and comparability among organizations related to their leasing arrangements. The update requires lessees to recognize most leases on their statement of financial positions as a ROU asset representing the right to use an underlying asset and a lease liability representing the obligation to make lease payments over the lease term, measured on a discounted basis. Topic 842 also requires additional disclosure of key quantitative and qualitative information for leasing arrangements. Similar to the previous lease guidance, the update retains a distinction between finance leases (similar to capital leases in Topic 840, Leases) and operating leases, with classification affecting the pattern of expense recognition in the statements of activities. PCAP adopted Topic 842 on January 1, 2022, using the optional transition method to the modified retrospective approach, which eliminates the requirement to restate the prior-period financial statements. Under this transition provision, PCAP has applied Topic 842 to reporting periods beginning on January 1, 2022, while prior periods continue to be reported and disclosed in accordance with the Company's historical accounting treatment under ASC Topic 840, Leases. PCAP elected the "package of practical expedients" under the transition guidance within Topic 842, in which the PCAP does not reassess (1) the historical lease classification, (2) whether any existing contracts at transition are or contain leases, or (3) the initial direct costs for any existing leases.

PCAP has not elected to adopt the “hindsight” practical expedient, and therefore will measure the ROU asset and lease liability using the remaining portion of the lease term upon adoption of ASC 842 on January 1, 2022.

PCAP determines if an arrangement is or contains a lease at inception, which is the date on which the terms of the contract are agreed to, and the agreement creates enforceable rights and obligations. A contract is or contains a lease when (i) explicitly or implicitly identified assets have been deployed in the contract and (ii) PCAP obtains substantially all of the economic benefits from the use of that underlying asset and directs how and for what purpose the asset is used during the term of the contract. PCAP also considers whether its service arrangements include the right to control the use of an asset.

Adoption of Topic 842 resulted in the recording of additional ROU assets and lease liabilities related to the PCAP’s operating leases of approximately $122,213 at January 1, 2022. The adoption of the new lease standard did not materially impact net earnings or cash flows and did not result in a cumulative-effect adjustment to the opening balance of Net Assets.

Note 3. Cash and Cash Equivalents

Cash and cash equivalents held by PCAP at December 31, 2022 and 2021, consist of the following:

	2022	2021
Cash	$ 3,886,051	$ 5,094,427
U.S. government money market fund	12,913,878	14,862,305
Certificates of deposit	23,398	23,398
	$ 16,823,327	$ 19,980,130
Unrestricted cash and cash equivalents	$ 13,885,195	$ 16,715,441
Restricted cash	2,914,734	3,241,291
Restricted cash equivalents	23,398	23,398
	$ 16,823,327	$ 19,980,130

Note 3. Cash and Cash Equivalents (Continued)

Restricted cash balances at December 31, 2022 and 2021, are held for the following purposes:

	2022	2021
Revolving loan funds:		
Intermediary Relending Program	$ 1,255,958	$ 1,478,304
Economic Development Authority	89,908	4,360
Rural Microentrepreneur Assistance Program	340,887	333,978
	1,686,753	1,816,642
Cash required to be segregated by lender:		
Financial institution lenders	1,061,353	1,273,005
Private lender	-	-
	1,061,353	1,273,005
Cash loan loss reserves:		
Intermediary Relending Program	117,171	102,187
Rural Microentrepreneur Assistance Program	19,458	19,458
Small Business Administration	29,999	29,999
	166,628	151,644
	$ 2,914,734	$ 3,241,291

Note 4. Other Asset

At December 31, 2022, PCAP held three, certificate of deposits (CDs) that are associated with a third-party. The CDs range in amount from $28,000 to $500,000. The CDs are in the name of PCAP but are assigned as collateral to a financial institution that holds three loans totaling approximately $4 million with the third-party. In the event of default in the financial institution's loans, the financial institution would cash in the CDs and apply the balance towards the balance of the outstanding loans. Then, PCAP would have three loans with the third-party ranging from $28,000 to $500,000.

At December 31, 2021, PCAP held two CDs that are associated with a third-party; one CD is for $174,600 and the other CD is for $28,000. The CDs are in the name of PCAP but are assigned as collateral to a financial institution that holds two loans totaling approximately $1 million with the third party. In the event of default in the financial institution's loans, the financial institution would cash in the CDs and apply the balance towards the balance of the outstanding loans. Then, PCAP would have two loans with the third-party for $174,600 and $28,000.

Note 5. Promises to Give

As of December 31, 2022 and 2021, unconditional promises to give totaling $1,132,790 and $1,047,859, respectively, are due in less than one year. At December 31, 2022 and 2021, PCAP also had twelve and sixteen conditional promises to give totaling $5,264,660 and $5,521,729, respectively.

Note 6. Loans Receivable

Loans receivable by category at December 31, 2022 and 2021, as follows:

		2022		2021
Real Estate - First Position	$	34,895,429	$	29,940,042
Real Estate - Subordinated		6,628,675		4,645,853
Other Collateral		12,310,601		8,066,434
Non Risk Rated				
Payroll Protection Program		-		1,068,081
North Carolina COVID 19				
Rapid Recovery		5,878,769		6,363,809
West Virginia Emergency		1,634,389		1,667,056
Unsecured		103,350		160,635
Subtotal		61,451,213		51,911,910
Allowance for credit losses		(1,705,918)		(1,776,381)
Loans receivable, net	$	59,745,295	$	50,135,529

Loans carry remaining terms of less than one year to 18 years and carry interest rates of 0% to 12%. The loans are generally payable in monthly or quarterly installments of either interest-only (non-amortizing) or principal and interest (amortizing) over the term of each loan.

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

Loans receivable totaling $2,656,619 and $2,409,381 and restricted cash of $1,255,958 and $1,478,304 serve as collateral on IRP notes payable at December 31, 2022 and 2021, respectively. Loans receivable totaling $48,683 and $85,509 and restricted cash of $340,887 and $333,978 serve as collateral on RMAP notes payable at December 31, 2022 and 2021, respectively.

Accrued interest receivable amounted to $289,217 and $281,768 at December 31, 2022 and 2021, respectively.

There were no non-accrual loans at December 31, 2022 or 2021.

COVID-19 Response: The Coronavirus Aid, Relief and Economic Security (CARES) Act created funding for the Small Business Administration's (SBA) loan program providing forgiveness of up to the full principal amount of qualifying loans guaranteed under a new program called the Paycheck Protection Program (PPP). The intent of the PPP is to provide loans to small businesses in order to keep their employees on the payroll and make certain other eligible payments. Loans granted under the PPP are guaranteed by the SBA and are fully forgivable if used for qualifying expenses, such as payroll, rent, and utilities. If the loans are not forgiven, they must be repaid over a term not to exceed five years. Under the PPP, PCAP funded $3,699,072 in loans to 112 borrowers. As of December 31 2021, $1,059,468 of principal remained outstanding on these PPP loans. As of December 31, 2022, no principal remained outstanding.

With the support of the Appalachian Regional Commission (ARC) and the U.S. Department of Commerce's Economic Development Administration (EDA), PCAP launched the West Virginia Emergency Relief Lending Program to support West Virginia small businesses affected by the COVID-19 pandemic. The intent of the fund is to assist with the working capital needs of the affected businesses. Proceeds from the loan may not be used to refinance existing debts. Repayment of the loan is expected and personal guarantees are required. Under the West Virginia Emergency Relief Lending Program, through December 31, 2022, PCAP funded $1,991,290 in loans to 39 borrowers and deferred approximately $10,695 of net origination costs as of December 31, 2022 ($12,771 as of December 31, 2021), that will be recognized as origination expense over the term of the loans. As of December 31, 2022 and 2021, $1,623,694 and $1,654,285 of principal remained outstanding on the WV Emergency loans, respectively.

Note 6. Loans Receivable (Continued)

PCAP participated in the North Carolina Rapid Recovery (NCRR) loan program, an emergency loan program designed for NC borrowers affected by the COVID-19 pandemic. It was administered by the NC Rural Center. Capital for the NCRR was provided by the Golden LEAF Foundation initially, supplemented by a $125 million appropriation from the State of North Carolina. NCRR served as a central point of contact for potential NCRR borrowers; it then distributed applications to PCAP and other participating Community Development Financial Institutions and community lenders, which reviewed the applications, determined borrower eligibility, and underwrote loans. Repayment of the loans is expected and personal guarantees are required. This program is also a part of PCAP secured borrowings. Repayments of principal at 100% and interest at 50% are returned to NC Rural Center. Under the NCRR program, PCAP funded $6,691,620 in loans to 73 borrowers and deferred approximately $22,819 of net origination costs as of December 31, 2022 ($30,455 as of December 31, 2021), that will be recognized as origination expense over the term of the loans. As of December 31, 2022 and 2021, $5,855,950 and $6,333,354 of principal remained outstanding on the NCRR loans, respectively.

Aging: The following table represent an aging of loans as of December 31, 2022 and 2021. The table presents the principal amount outstanding on the loans that may be past due for principal and/or interest payments contractually due:

	2022					
	31 - 60 Days Past Due	61 - 90 Days Past Due	91+ Days Past Due	Total Past Due	Current	Total Loans
Real Estate - First Position	$ -	$ -	$ -	$ -	$ 34,895,429	$ 34,895,429
Real Estate - Subordinated	-	-	-	-	6,628,675	6,628,675
Other Collateral	159,361	-	100,006	259,367	12,051,234	12,310,601
Non Risk Rated						
Payroll Protection Program	-	-	-	-	-	-
North Carolina COVID 19 Rapid Recovery	171,796	-	99,485	-	5,878,769	5,878,769
West Virginia Emergency	90,084	-	-	-	1,634,389	1,634,389
Unsecured	-	-	100,084	100,084	3,266	103,350
Total	$ 421,241	$ -	$ 299,575	$ 359,451	$ 61,091,762	$ 61,451,213

	2021					
	30 - 60 Days Past Due	61 - 90 Days Past Due	91+ Days Past Due	Total Past Due	Current	Total Loans
Real Estate - First Position	$ -	$ -	$ -	$ -	$ 29,940,042	$ 29,940,042
Real Estate - Subordinated	-	-	-	-	4,645,853	4,645,853
Other Collateral	-	172,154	226,635	398,789	7,667,645	8,066,434
Non Risk Rated						
Payroll Protection Program	-	-	-	-	1,068,081	1,068,081
North Carolina COVID 19 Rapid Recovery	-	-	-	-	6,363,809	6,363,809
West Virginia Emergency	-	-	-	-	1,667,056	1,667,056
Unsecured	-	-	-	-	160,635	160,635
Total	$ -	$ 172,154	$ 226,635	$ 398,789	$ 51,513,121	$ 51,911,910

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

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

Note 6. Loans Receivable (Continued)

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

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

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

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

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

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

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

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

Note 6. Loans Receivable (Continued)

The following table summarizes the loan portfolio classified by internal credit risk rating by primary loan type and based on year of origination at December 31, 2022 and 2021.

	2022						
	2022	2021	2020	2019	2018	Prior	Total
Real Estate - First Position							
1 - Strong	$ -	$ -	$ -	$ -	$ -	$ 54,462	$ 54,462
2 - Low Risk	1,660,878	2,787,263	163,827	1,841,912	786,891	3,107,086	10,347,857
3 - Acceptable Risk	5,768,204	3,202,537	1,667,090	1,521,523	1,416,468	946,930	14,522,752
4 - Moderate Risk/Start-Up	2,452,222	2,728,603	564,028	-	1,214,324	938,289	7,897,466
5 - High Risk	73,048	-	880,453	-	680,957	438,434	2,072,892
6 - Problem Asset	-	-	-	-	-	-	-
7 - Written Off	-	-	-	-	-	-	-
Non risk rated	-	-	-	-	-	-	-
Total Real Estate - First Position	$ 9,954,352	$ 8,718,403	$ 3,275,398	$ 3,363,435	$ 4,098,640	$ 5,485,201	$ 34,895,429
Real Estate - Subordinated							
1 - Strong	$ -	$ -	$ -	$ -	$ -	$ -	$ -
2 - Low Risk	-	-	20,065	-	114,185	674,306	808,556
3 - Acceptable Risk	75,548	-	-	-	-	233,004	308,552
4 - Moderate Risk/Start-Up	2,764,048	1,164,927	454,078	750,919	40,898	28,607	5,203,477
5 - High Risk	250,548	-	-	-	-	-	250,548
6 - Problem Asset	-	57,542	-	-	-	-	57,542
7 - Written Off	-	-	-	-	-	-	-
Non risk rated	-	-	-	-	-	-	-
Total Real Estate - Subordinated	$ 3,090,144	$ 1,222,469	$ 474,143	$ 750,919	$ 155,083	$ 935,917	$ 6,628,675
Other Collateral							
1 - Strong	$ -	$ 18,953	$ 36,352	$ -	$ -	$ 129,046	$ 184,351
2 - Low Risk	520,896	666,633	45,795	448,926	-	355,718	2,037,968
3 - Acceptable Risk	1,561,197	165,801	92,209	175,580	115,275	525,672	2,635,734
4 - Moderate Risk/Start-Up	3,514,769	1,150,812	379,496	494,090	376,265	506,715	6,422,147
5 - High Risk	411,096	233,689	-	198,536	-	9,658	852,979
6 - Problem Asset	-	88,717	-	-	-	88,705	177,422
7 - Written Off	-	-	-	-	-	-	-
Non risk rated	-	-	-	-	-	-	-
Total Other Collateral	$ 6,007,958	$ 2,324,605	$ 553,852	$ 1,317,132	$ 491,540	$ 1,615,514	$ 12,310,601
Non risk rated							
1 - Strong	$ -	$ -	$ -	$ -	$ -	$ -	$ -
2 - Low Risk	-	-	-	-	-	-	-
3 - Acceptable Risk	-	-	-	-	-	-	-
4 - Moderate Risk/Start-Up	-	-	-	-	-	-	-
5 - High Risk	-	-	-	-	-	-	-
6 - Problem Asset	-	-	-	-	-	-	-
7 - Written Off	-	-	-	-	-	-	-
Non risk rated	101,095	2,350,311	5,061,752	-	-	-	7,513,158
Total Non risk rated	$ 101,095	$ 2,350,311	$ 5,061,752	$ -	$ -	$ -	$ 7,513,158
Unsecured							
1 - Strong	$ -	$ -	$ -	$ -	$ -	$ -	$ -
2 - Low Risk	-	12,087	-	-	-	-	12,087
3 - Acceptable Risk	-	15,420	-	-	-	-	15,420
4 - Moderate Risk/Start-Up	47,444	3,304	14,516	-	-	-	65,264
5 - High Risk	-	10,579	-	-	-	-	10,579
6 - Problem Asset	-	-	-	-	-	-	-
7 - Written Off	-	-	-	-	-	-	-
Non risk rated	-	-	-	-	-	-	-
Total Unsecured	$ 47,444	$ 41,390	$ 14,516	$ -	$ -	$ -	$ 103,350
Total Loans							
1 - Strong	$ -	$ 18,953	$ 36,352	$ -	$ -	$ 183,508	$ 238,813
2 - Low Risk	2,181,774	3,465,983	229,687	2,290,838	901,076	4,137,110	13,206,468
3 - Acceptable Risk	7,404,949	3,383,758	1,759,299	1,697,103	1,531,743	1,705,606	17,482,458
4 - Moderate Risk/Start-Up	8,778,483	5,047,646	1,412,118	1,245,009	1,631,487	1,473,611	19,588,354
5 - High Risk	734,692	244,268	880,453	198,536	680,957	448,092	3,186,998
6 - Problem Asset	-	146,259	-	-	-	88,705	234,964
7 - Written Off	-	-	-	-	-	-	-
Non risk rated	101,095	2,350,311	5,061,752	-	-	-	7,513,158
Total Loans	$ 19,200,993	$ 14,657,178	$ 9,379,661	$ 5,431,486	$ 4,745,263	$ 8,036,632	$ 61,451,213

Note 6. Loans Receivable (Continued)

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

Note 6. Loans Receivable (Continued)

Allowance for credit losses: The following is an analysis of the allowance for credit losses for the year ended December 31, 2022 and 2021:

2022	Real Estate First Position	Real Estate Subordinated	Other Collateral	Payroll Protection Program	North Carolina COVID 19 Rapid Recovery	West Virginia Emergency	Unsecured	Total
Beginning balance	$ 1,083,541	$ 231,923	$ 335,834	$ -	$ -	$ 62,217	$ 62,866	$ 1,776,381
Provision charged to operations	(122,447)	(40,687)	574,372	-	-	(8,817)	10,809	413,230
Less charge-offs	-	-	(485,599)	-	-	-	-	(485,599)
Recoveries	-	-	1,906	-	-	-	-	1,906
Ending balance	$ 961,094	$ 191,236	$ 426,513	$ -	$ -	$ 53,400	$ 73,675	$ 1,705,918
Allowance for loan losses allocated:								
Individually evaluated for impairment	$ 61,570	$ 6,416	$ 25,315	$ -	$ -	$ -	$ 1,121	$ 94,422
Collectively evaluated for impairment	899,524	184,820	401,198	-	-	53,400	72,554	1,611,496
	$ 961,094	$ 191,236	$ 426,513	$ -	$ -	$ 53,400	$ 73,675	$ 1,705,918
Loans receivable:								
Individually evaluated for impairment	$ 843,627	$ 57,251	$ 598,911	$ -	$ 148,237	$ -	$ 10,000	$ 1,658,026
Collectively evaluated for impairment	34,051,802	6,571,424	11,711,690	-	5,730,532	1,634,389	93,350	59,793,187
	$ 34,895,429	$ 6,628,675	$ 12,310,601	$ -	$ 5,878,769	$ 1,634,389	$ 103,350	$ 61,451,213

2021	Real Estate First Position	Real Estate Subordinated	Other Collateral	Payroll Protection Program	North Carolina COVID 19 Rapid Recovery	West Virginia Emergency	Unsecured	Total
Beginning balance	$ 2,092,727	$ 174,734	$ 536,462	$ -	$ -	$ 17,950	$ 2,259	$ 2,824,132
Impact of adopting ASC 326	(769,670)	(19,748)	34,213	-	-	(8,764)	21,371	(742,598)
Provision charged to operations	(239,516)	76,937	(242,900)	-	-	53,031	39,236	(313,212)
Less charge-offs	-	-	-	-	-	-	-	-
Recoveries	-	-	8,059	-	-	-	-	8,059
Ending balance	$ 1,083,541	$ 231,923	$ 335,834	$ -	$ -	$ 62,217	$ 62,866	$ 1,776,381
Allowance for loan losses allocated:								
Individually evaluated for impairment	$ 34,809	$ 58,721	$ 103,748	$ -	$ -	$ -	$ -	$ 197,278
Collectively evaluated for impairment	1,048,732	173,202	232,086	-	-	62,217	62,866	1,579,103
	$ 1,083,541	$ 231,923	$ 335,834	$ -	$ -	$ 62,217	$ 62,866	$ 1,776,381
Loans receivable:								
Individually evaluated for impairment	$ 445,380	$ 58,721	$ 403,256	$ -	$ -	$ -	$ -	$ 907,357
Collectively evaluated for impairment	29,494,662	4,587,132	7,663,178	1,068,081	6,363,809	1,667,056	160,635	51,004,553
	$ 29,940,042	$ 4,645,853	$ 8,066,434	$ 1,068,081	$ 6,363,809	$ 1,667,056	$ 160,635	$ 51,911,910

Troubled debt restructures: As of December 31, 2022, the outstanding principal balance of troubled debt restructures was $1,658,026. The associated allowance for loan losses for troubled debt restructures was $94,422 as of December 31, 2022. During the year ended December 31, 2022, fifteen loans were modified and considered to be troubled debt restructures. The loans had a pre-modification and post-modification balance of $1,299,974. The modifications in 2022 included rate reductions and extension of maturity dates. There were no unfunded commitments on troubled debt restructures as of December 31, 2022.

As of December 31, 2021, the outstanding principal balance of troubled debt restructures was $907,357. The associated allowance for loan losses for troubled debt restructures was $197,278 as of December 31, 2021. During the year ended December 31, 2021, three loans were modified and considered to be troubled debt restructures. The loans had a pre-modification and post-modification balance of $149,241. The modifications in 2021 included rate reductions and extension of maturity dates. There were no unfunded commitments on troubled debt restructures as of December 31, 2021.

During the years ended December 31, 2022 PCAP had 4 troubled debt restructures, with pre and post-modification outstanding recorded investments of $389,812, that subsequently defaulted within twelve months of the restructuring. During the year ended December 31, 2021, PCAP had no troubled debt restructures that subsequently defaulted within twelve months of the restructuring.

Note 6. Loans Receivable (Continued)

In the first quarter of 2020, PCAP elected to apply the guidance issued by Congress in the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) as wells as by the U.S. banking agencies stating that certain concessions granted to borrowers that are current on existing loans, either individually or as part of a program of creditworthy borrowers who are experiencing short-term financial or operational problems as a result of COVID-19, generally would not be considered troubled debt restructurings (TDRs). Additionally, these loans generally would not be considered nonaccrual status unless collectability concerns exist despite the modification provided. For loans remaining on accrual status, PCAP elected to continue recognizing interest income during the modification periods. The outstanding principal balance on these modified loans was $904,143 and $925,114 at December 31, 2022 and 2021, respectively.

Note 7. Related Party Transactions

PCAP has entered into a management services agreement with The Conservation Fund (TCF). Prior to October 28, 2021, PCAP was recognized under the IRC as a supporting organization to TCF and the management services agreement continued until March 31, 2022. Under the terms of the agreement, TCF provides certain staffing and administrative services to PCAP. The management fee under the agreement was $656,240 and $2,570,638 for the years ended December 31, 2022 and 2021, respectively, and amount payable as of December 31, 2022 and 2021, was $0 and $100,000, respectively. PCAP deferred loan costs associated with the origination of loans included within the management fee expense of $847,703 and $2,502,769 for the years ended December 31, 2022 and 2021, respectively. Effective April 1, 2022, TCF is no longer a related party and PCAP started paying payroll expenses directly.

PCAP has entered into an agreement with a Board Member to provide marketing and consulting services. The fee under the agreement during years ended December 31, 2022 was $28,916 and no balance was payable as of December 31, 2022. The fee under the agreement during the year ended December 31, 2021 was $79,223 and $5,426 was payable as of December 31, 2021.

Note 8. Notes Payable and Subordinated Notes Payable

Notes payable consist of the following at December 31, 2022 and 2021:

Lender	Origination Date	Maturity Date	Interest Rate	Note Amount	Undrawn Amounts	Principal Balance Outstanding 2022	Principal Balance Outstanding 2021
U.S. Department of Agriculture - IRP Net of implied interest (Principal and interest due annually)	2/23/2005	2/23/2035	1.00%	$ 500,000	$ -	$ 226,090	$ 239,733
U.S. Department of Agriculture - IRP (Principal and interest due annually)	11/15/2010	11/15/2040	1.00%	750,000	-	506,706	533,212
West Virginia Infrastructure & Jobs Development Council (Principal and interest due monthly)	1/1/2011	1/1/2026	2.00%	750,000	-	75,175	99,737
U.S. Department of Agriculture - IRP (Principal and interest due annually)	12/1/2015	12/01/2031	1.00%	495,000	-	349,443	386,377
U.S. Department of Agriculture - IRP (Principal and interest due annually)	12/1/2015	12/1/2036	1.00%	257,000	-	203,788	217,291
U.S. Department of Agriculture - IRP (Principal and interest due annually)	5/16/2016	5/16/2046	1.00%	364,104	-	328,300	340,354
U.S. Department of Agriculture - RMAP (Principal and interest due monthly)	6/29/2016	5/16/2036	2.00%	500,000	-	404,851	431,088
West Virginia Infrastructure & Jobs Development Council (Principal and interest due quarterly)	6/1/2018	6/1/2033	3.00%	500,000	-	389,797	421,274
U.S. Department of Agriculture - IRP (Principal and interest due annually)	9/4/2018	9/4/2048	1.00%	750,000	-	725,657	749,738
U.S. Department of Agriculture - IRP (Principal and interest due annually)	9/21/2020	9/21/2050	1.00%	750,000	637,500	112,500	112,500
Total secured notes payable						3,322,307	3,531,304

(Continued)

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

Lender	Origination Date	Maturity Date	Interest Rate	Note Amount	Undrawn Amounts	Principal Balance Outstanding 2022	2021
One Foundation (Principal due quarterly)	1/1/2016	12/31/2025	0.00%	$ 100,000	$ -	$ 45,699	$ 60,817
One Foundation POWER (Principal due quarterly)	7/26/2017	9/30/2027	0.00%	300,000	-	285,000	300,000
Giant Steps Foundation (Principal due at maturity and interest due quarterly)	9/25/2017	9/25/2022	2.50%	25,000	-	-	25,000
Seton Fund (Principal and interest due quarterly)	4/1/2018	4/1/2023	3.00%	150,000	-	79,022	94,813
McKnight Foundation (Principal due at matruity and interest due annually)	4/16/2018	5/1/2028	0.75%	2,000,000	-	2,000,000	2,000,000
Mary Reynolds Babcock Foundation (Principal due at maturity)	7/25/2018	8/31/2023	0.00%	750,000	-	600,000	600,000
Northern Trust (Principal due at maturity and interest due semi-annually)	7/25/2018	7/25/2023	2.00%	2,000,000	-	2,000,000	2,000,000
H. Shott Foundation (Principal due at maturity and interest due annually)	8/30/2018	8/30/2023	2.00%	100,000	-	100,000	100,000
Eastern WV Community Foundation (Principal due at maturity and interest due annually)	9/20/2018	9/20/2023	3.50%	200,000	-	200,000	200,000
New Vision Investment (Principal due at maturity and interest due quarterly)	9/30/2018	9/30/2022	3.00%	75,000	-	-	14,755
Opportunity Finance Network (Principal due at maturity and interest due quarterly)	3/31/2019	3/31/2024	4.00%	1,000,000	-	1,000,000	1,000,000
Greater Kanawha Valley Foundation (Principal due at maturity and interest due annually)	4/30/2019	4/30/2024	2.00%	300,000	-	300,000	300,000
Bank of America (Principal of $1,000,000 due in July 2025 and 2026 with the remaining principal due at maturity and interest due quarterly)	7/18/2019	7/18/2027	3.50%	3,000,000	-	3,000,000	3,000,000
Calvert Impact Capital (Principal due at maturity and interest due quarterly)	12/20/2019	12/31/2023	4.15%	3,500,000	-	1,500,000	3,500,000
CDFI FA 2019 (Principal due at maturity and interest due semi-annually)	2/20/2020	2/20/2033	3.00%	5,754	-	5,754	5,754
Silverio Trust (Principal due at maturity and interest due semi-annually)	3/12/2020	3/12/2025	2.50%	50,000	-	50,000	50,000
Silverio Trust (Principal due at maturity and interest due semi-annually)	3/12/2020	3/6/2023	2.00%	50,000	-	50,000	50,000
Impact Assets, Inc. (Principal due at maturity and interest due semi-annually)	3/27/2020	3/27/2025	1.00%	500,000	-	500,000	500,000
Impact Assets, Inc. (Principal due at maturity and interest due semi-annually)	3/27/2020	3/27/2027	1.00%	500,000	-	500,000	500,000
Laughing Gull Foundation (Principal due at maturity and interest due quarterly)	4/20/2020	4/20/2025	2.00%	500,000	-	500,000	500,000
Northern Trust (Principal due at maturity and interest due semi-annually)	9/25/2020	9/25/2025	2.00%	1,000,000	-	1,000,000	1,000,000
Opportunity Finance Network (Principal due at maturity and interest due quarterly)	1/8/2021	5/31/2030	3.00%	3,000,000	-	3,000,000	3,000,000
Truist Bank (Principal due at maturity and interest due quarterly)	2/12/2021	,2/12/2028	2.00%	3,000,000	3,000,000	-	-
Goulston & Storrs (One individual impact investor. Principal due at maturity and interest due semi-annually)	3/15/2021	3/15/2026	2.50%	125,000	-	125,000	125,000
Mercy Investment Services (Principal due at maturity and interest due quarterly)	3/15/2021	3/15/2026	3.00%	1,000,000	-	1,000,000	1,000,000

(Continued)

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

Lender	Origination Date	Maturity Date	Interest Rate	Note Amount	Undrawn Amounts	Principal Balance Outstanding 2022	Principal Balance Outstanding 2021
Appalachian Community Capital (Principal due at maturity and interest due monthly)	3/22/2021	3/31/2023	2.88%	$ 1,500,000	$ -	$ 750,000	$ 1,500,000
Impact Investor I (Principal due at maturity and interest due semi-annually)	4/6/2021	4/6/2031	3.50%	25,000	-	25,000	25,000
PNC Bank (Principal due at maturity and interest due quarterly)	4/26/2021	4/25/2024	2.47%	1,000,000	-	999,055	999,083
Impact Investor II (Principal due at maturity and interest due semi-annually)	5/26/2021	5/26/2026	2.50%	100,000	-	100,000	100,000
Impact Investor III (Principal due at maturity and interest due semi-annually)	7/31/2021	7/31/2024	2.00%	200,000	-	200,000	200,000
Franconia II 2012 Trust (Principal due at maturity and interest due quarterly)	9/25/2021	9/25/2026	2.50%	75,000	-	75,000	75,000
Appalachian Community Capital (Principal due at maturity and interest due monthly)	9/30/2021	9/30/2028	2.88%	1,000,000	-	1,000,000	1,000,000
Brown Advisory (One individual impact investor. Principal due at maturity and interest due semi-annually)	12/1/2021	12/1/2026	2.50%	150,000	-	150,000	150,000
William Josef Foundation, Inc. (Principal due at maturity and interest due semi-annually)	1/13/2022	1/13/2025	2.00%	250,000	-	250,000	-
Impact Investor IV (Principal due at maturity and interest due semi-annually)	2/5/2022	2/5/2025	2.00%	25,000	-	25,000	-
The Community Foundation of Western North Carolina (Principal due at maturity and interest due semi-annually)	3/14/2022	3/14/2025	2.00%	250,000	-	250,000	-
Cnote Group, Inc. (Fourteen individual notes ranging from $59,476 to $1,076,820 maturing between January 2023 and January 2025. Payable over 30 month terms with interest payable monthly ranging from 2.50% to 3.80%)	Various	Various	Various	3,594,607	-	3,594,607	1,982,356
Fresh Pond Capital (Eighteen impact investors with notes ranging from $50,000 to $500,000 maturing between March 2022 and March 2029. Payable over one to five year terms with interest payable quarterly, semi-annually or annually ranging from 0% to 3%)	Various	Various	Various	2,400,000	-	2,400,000	2,250,000
Loring Wolcott & Coolridge Trust (Nine impact investors with notes ranging from $10,000 to $250,000 maturing between April 2023 and December 2029. Payable over three to seven year terms with interest payable quarterly, semi-annually or annually ranging from 2% to 3%)	Various	Various	Various	610,000	-	610,000	360,000
Pacific Premier Trust (Two impact investors with notes ranging from $50,000 to $75,000 maturing between July 2027 and February 2028. Payable over five to seven year terms with interest payable semi-annually ranging from 2.5% to 3%)	Various	Various	Various	125,000	-	125,000	50,000
					$ 3,637,500	$ 31,716,444	$ 32,148,882
Less debt acquisition costs						86,516	112,450
Less current portion						7,060,152	2,075,436
Noncurrent portion						$ 24,569,776	$ 29,960,996

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

Subordinated notes payable consists of the following at December 31, 2022 and 2021:

Lender	Origination Date	Maturity Date	Interest Rate	Note Amount	Undrawn Amounts	Principal Balance Outstanding 2022	2021
PNC Community Development Company (Principal due at maturity and interest due quarterly)	4/1/2015	4/1/2025	1.00%	$ 500,000	$ -	$ 500,000	$ 500,000
Wells Fargo ENC (Interest due quarterly until August 2026. Thereafter principal payments of $125,000 and interest due quarterly)	5/4/2016	5/4/2028	2.00%	1,000,000	-	1,000,000	1,000,000
United Bank (Interest due quarterly until April 2027. Thereafter principal payments of $62,500 and interest due quarterly)	1/13/2017	1/12/2029	2.00%	500,000	-	500,000	500,000
United Bank (Interest due quarterly until April 2028. Thereafter principal payments of $62,500 and interest due quarterly)	2/5/2018	1/31/2030	2.00%	500,000	-	500,000	500,000
Capital Bank (Principal due at maturity and interest due quarterly)	10/30/2018	10/30/2023	3.50%	400,000	-	400,000	400,000
Wells Fargo (Interest due quarterly until September 2025. Thereafter principal payments of $50,000 and interest due quarterly)	7/23/2020	8/5/2027	2.00%	400,000	-	400,000	400,000
CIT Bank (Principal due at maturity and interest due quarterly)	10/25/2022	10/25/2027	2.50%	1,500,000	-	1,500,000	-
Total subordinated notes payable					$ -	$ 4,800,000	$ 3,300,000

U.S. GAAP requires interest expense and contribution revenue to be reported in connection with loans of cash to not-for-profit organizations that are interest free or that have below-market interest rates. The contribution is recognized at the time the loan is made and amortized using the effective interest method. The accretion increases interest expense and notes payable. Implied interest discount was $33,944 and $38,739 at December 31, 2022 and 2021, respectively.

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

Years ending December 31:	
2023	$ 7,060,152
2024	5,481,319
2025	6,156,892
2026	4,689,611
2027	4,890,169
Thereafter	8,272,245
	$ 36,550,388

Notes payable, net of debt acquisition costs and implied interest consist of following at December 31, 2022 and 2021:

	2022	2021
Principal amount	$ 36,550,388	$ 35,487,621
Less debt acquisition costs	86,516	112,450
Less implied interest	33,944	38,739
	$ 36,429,928	$ 35,336,432

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

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

PCAP is subject to a number of restrictive financial and non-financial covenants in its notes payable agreements, such as minimum net asset requirements, current liquidity ratios, loan performance ratios and other various leverage ratios. Audit financial statements are required to be submitted between 90 and 180 days depending on the lender.

Note 9. Revolving Lines of Credit

PCAP maintained a $500,000 revolving capital line of credit with a lending institution, to be drawn upon as needed, with an interest rate of 4% payable quarterly with all unpaid principal and interest due at maturity on June 7, 2020. During 2020, PCAP decreased the available line of credit to $150,000 with a variable rate equal to 0.50 percentage points above The Wall Street Journal Prime Rate, which shall not be more than 9% or less than 4% as of calendar year end, payable monthly with all unpaid principal and interest due at maturity on June 18, 2021. The revolving line of credit was paid in full during the year ended December 31, 2021.

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

During 2021, PCAP obtained a $750,000 revolving operating line of credit with a lending institution, to be drawn upon as needed, with a variable rate of the Secured Overnight Financing Rate (SOFR) rate plus 1.5% with a floor 2.5%. Interest is payable monthly, with all unpaid principal and interest due at maturity on October 31, 2023. There was no outstanding balance at December 31, 2022 and 2021.

Note 10. Concentrations of Credit Risk

PCAP maintains its cash in various banks. The bank account balances, at times, may exceed federally insured limits set by the Federal Deposit Insurance Corporation (FDIC) up to $250,000 for the years ended December 31, 2022 and 20210. As of December 31, 2022 and 2021, PCAP's cash and money market fund balances in excess of FDIC-insured amounts totaled $15,097,396 and $18,372,183, respectively. PCAP has not experienced any losses with these accounts. Management believes PCAP is not exposed to any significant credit risk on domestic cash balances.

During 2022 and 2021, federal grant revenue accounted for 66% and 81%, respectively, of PCAP's revenue and support. During 2022 and 2021, PCAP's expenses incurred to TCF accounted for 10% and 62%, respectively, of total expenses.

Note 11. Net Assets With Donor Restrictions

Net assets with donor restrictions are those net assets whose use by PCAP is limited by the donors for a special purpose or restricted to be used in a later period. At December 31, 2022 and 2021, donor restricted net assets consisted of the following:

	2022	2021
Restricted for specified purpose:		
Loan capital	$ 566,669	$ 215,550
Provide support for business development to natural resource-based enterprises and provide incentives to businesses to engage in sound environmental practices	1,680,077	2,135,418
	2,246,746	2,350,968
Perpetual in nature:		
Restricted for specified purpose:		
Loan capital revolving fund:		
Represents net assets dedicated to providing temporary financing to qualified businesses	8,232,753	6,420,753
	$ 10,479,499	$ 8,771,721

Note 12. Loan Origination Fees and Costs

PCAP accounts for nonrefundable fees and costs associated with origination loans in line with the Statement of Financial Account Standard 91 issued by the FASB. Fees and Costs are amortized over the life of the loans originated with the amortization netted in the accompanying financial statements.

Fee income on loans, net of loan origination fees consists of the following at December 31, 2022 and 2021:

	2022	2021
Fee income on loans	$ 337,087	$ 557,264
Loan origination fee amortization	(17,624)	71,820
Fee income on loans, net	$ 319,463	$ 629,084

Management fee, net of loan origination costs consists of the following at December 31, 2022 and 2021:

	2022	2021
Management fee contract	$ 656,240	$ 2,570,638
Loan origination cost amortization	191,463	67,869
Mangement fee contract, net	$ 847,703	$ 2,638,507

Personnel and related costs, net of loan origination costs consists of the following at December 31, 2022 and 2021:

	2022	2021
Personnel and related expenses	$ 2,325,848	$ -
Loan origination cost amortization	(210,494)	-
Personnel and related expenses, net	$ 2,115,354	$ -

Note 12. Loan Origination Fees and Costs (Continued)

Loan origination expense, net of loan origination costs consists of the following at December 31, 2022 and 2021:

	2022	2021
Loan origination expense	$ 76,723	$ 61,968
Loan origination cost amortization	18,469	67,529
Loan origination expense, net	$ 95,192	$ 129,497

Note 13. Leases

PCAP leases office space under operating lease agreements that have initial terms ranging from 2 to 5 years. Some leases include one or more options to renew, generally at PCAP's sole discretion, with renewal terms that can extend the lease term up to 2 years. This option to extend the lease is included in the lease terms when it is reasonably certain that PCAP will exercise that option. PCAP's operating leases generally do not contain any material restrictive covenants or residual value guarantees. Operating lease cost is recognized on a straight-line basis over the lease term.

PCAP does not have leases under finance lease agreements. PCAP does not have leases under operating or finance agreements with any affiliates.

The components of lease expense are as follows for the year ended December 31, 2022:

Operating lease expense	$ 55,876
Short-term lease expense	57,865
Variable lease expense	3,000
Total lease cost	$ 116,741

Additional information related to operating leases is as follows as of December 31, 2022:

Weighted-average remaining lease term in years for operating leases	1.74
Weighted-average discount rate for operating leases	3.79%

Future undiscounted cash flows and a reconciliation to the lease liabilities recognized on the statement of financial position are as follows as of December 31, 2022:

Years ending December 31:	
2023	$ 67,415
2024	49,288
Total undiscounted cash flows	116,703
Less: present value discount	(3,652)
Total lease liabilities	$ 113,051

Future minimum lease commitments, as determined under Topic 840, for all non-cancelable office space leases at December 31, 2021 was $69,139 in 2022, $46,961 in 2023 and $37,826 in 2024.

Rent expense on operating leases for the year ended December 31, 2021, was $75,873.

Note 14. Commitments and Contingencies

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

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

At December 31, 2022 and 2021, the following financial instruments were outstanding whose contract amounts represent credit risk:

	2022	2021
Loan commitments approved not disbursed	$ 4,395,656	$ 4,282,149

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

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

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

As more fully described in Note 3, PCAP holds three CDs that support a third-party loan made by a bank. If the loan with the bank defaults, the bank would cash in the CDs and apply them to the balance of the bank's loans. Then, PCAP would have three loans with the third-party for $174,600, $28,000 and $500,000.

Note 15. Liquidity and Availability of Financial Resources

PCAP financial assets available within one year of December 31, 2022 and 2021, for general expenditures are as follows:

	2022	2021
Cash and cash equivalents – unrestricted	$ 13,885,195	$ 16,715,441
Cash – restricted	2,914,734	3,241,291
Cash equivalents held as collateral	23,398	23,398
Accounts receivable	25,345	5,493
Promises to give	1,132,790	1,047,859
Loans receivable, net	59,745,295	50,135,529
Accrued interest and fees receivable	296,005	283,061
Other asset	702,600	202,600
Long-term investment (U.S. Endowment Fuel Project)	99,995	99,995
Total financial assets	78,825,357	71,754,667
Cash – restricted	(2,914,734)	(3,241,291)
Cash equivalents held as collateral	(23,398)	(23,398)
Donor restricted funds	(10,479,499)	(8,771,721)
Loans receivable, due after one year, net	(49,853,234)	(42,914,596)
Loans receivable due in next year restricted for federal relending program	(518,666)	(399,520)
Other asset	(702,600)	(202,600)
Long-term investment (U.S. Endowment Fuel Project)	(99,995)	(99,995)
Outstanding loan commitments, not disbursed	(4,395,656)	(4,282,149)
Amounts not available to be used within one year	(68,987,782)	(59,935,270)
Financial assets available to meet general expenditures within one year	$ 9,837,575	$ 11,819,397

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

PCAP has a goal to maintain unrestricted cash and cash equivalents to equal or exceed three months of cash operating expenses, which are, on average, approximately $1,200,000. In addition, as a part of its liquidity management, PCAP invests cash in excess of daily requirements in a U.S. government money market fund. In the event of an unanticipated liquidity need, PCAP has an available bank line of credit as described in *Note 9 – Revolving Lines of Credit*.

Note 16. Subsequent Events

Management evaluated subsequent events through March 31, 2023, the date the financial statements were available to be issued.