

Partner Community Capital, Inc.

Financial Report
December 31, 2023 and 2022

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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, 2023 and 2022 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, 2023 and 2022, 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.

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 28, 2024, 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.

Kraft CPAs PLLC

Nashville, Tennessee
March 28, 2024

Partner Community Capital, Inc.

**Statements of Financial Position
December 31, 2023 and 2022**

	2023	2022
Assets		
Current assets:		
Cash and cash equivalents	\$ 20,568,299	\$ 13,885,195
Accounts receivable	3,478	25,345
Prepaid expenses	57,716	54,355
Promises to give	2,325,462	1,132,790
Loans receivable, net of \$373,358 and \$292,014 at December 31, 2023 and 2022, respectively	12,603,606	9,892,061
Accrued interest and fees receivable	519,532	296,005
Total current assets	36,078,093	25,285,751
Noncurrent assets:		
Cash and cash equivalents – restricted	3,694,272	2,938,132
Intangible assets	27,791	-
Other asset	2,736,842	802,595
Operating leases, right-of-use asset	47,634	111,955
Loans receivable, net of \$1,647,292 and \$1,413,904 at December 31, 2023 and 2022, respectively	55,518,553	49,853,234
Total noncurrent assets	62,025,092	53,705,916
Total assets	\$ 98,103,185	\$ 78,991,667
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 116,803	\$ 67,683
Accrued personnel and related expenses	545,959	422,413
Funds held for others	42,139	43,566
Current maturities of operating lease liabilities	48,622	64,429
Current maturities of secured borrowings, participations	3,793,186	1,525,565
Accrued interest payable	185,629	134,186
Deferred revenue	1,669,843	1,294,209
Current maturities of notes payable	7,324,485	7,060,152
Current maturities of subordinated notes payable	400,000	-
Total current liabilities	14,126,666	10,612,203
Operating lease liabilities, less current maturities	-	48,622
Secured borrowings, participations	13,320,686	12,844,845
Notes payable, net	28,684,010	24,569,776
Subordinated notes payable	5,400,000	4,800,000
Total noncurrent liabilities	47,404,696	42,263,243
Total liabilities	61,531,362	52,875,446
Commitments and contingencies (Note 15)		
Net assets:		
Without donor restrictions	22,027,859	15,636,722
With donor restrictions	14,543,964	10,479,499
Total net assets	36,571,823	26,116,221
Total liabilities and net assets	\$ 98,103,185	\$ 78,991,667

See notes to financial statements.

Partner Community Capital, Inc.

Statements of Activities
Years ended December 31, 2023 and 2022

	2023			2022		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Financial activity:						
Financial income:						
Loan interest revenue	\$ 4,465,045	\$ -	\$ 4,465,045	\$ 3,605,567	\$ -	\$ 3,605,567
Fee income on loans, net	303,560	-	303,560	319,463	-	319,463
Interest income	676,791	-	676,791	155,822	-	155,822
Total financial income	5,445,396	-	5,445,396	4,080,852	-	4,080,852
Financial expenses:						
Provision for credit losses	442,634	-	442,634	413,230	-	413,230
Interest expense	1,733,786	-	1,733,786	1,473,837	-	1,473,837
Total financial expenses	2,176,420	-	2,176,420	1,887,067	-	1,887,067
Net financial income	3,268,976	-	3,268,976	2,193,785	-	2,193,785
Revenue and support:						
Grants and contributions	128,691	4,430,354	4,559,045	57,175	1,387,505	1,444,680
In-kind services - Forgiven interest	43,063	-	43,063	44,070	-	44,070
Government grants	4,530,694	3,000,474	7,531,168	-	3,033,835	3,033,835
Project income	53,211	-	53,211	58,092	-	58,092
Other income	-	-	-	150	-	150
Net assets released						
from restriction	3,366,363	(3,366,363)	-	2,713,562	(2,713,562)	-
Total revenue and support	8,122,022	4,064,465	12,186,487	2,873,049	1,707,778	4,580,827
Expenses:						
Program services:						
Lending	2,449,658	-	2,449,658	2,493,850	-	2,493,850
Strategic initiatives	2,124,134	-	2,124,134	1,780,555	-	1,780,555
Total program services	4,573,792	-	4,573,792	4,274,405	-	4,274,405
Supporting services:						
Management and general	388,035	-	388,035	353,071	-	353,071
Fundraising	38,034	-	38,034	36,534	-	36,534
Total supporting services	426,069	-	426,069	389,605	-	389,605
Total expenses	4,999,861	-	4,999,861	4,664,010	-	4,664,010
Change in net assets	6,391,137	4,064,465	10,455,602	402,824	1,707,778	2,110,602
Net assets:						
Beginning of year	15,636,722	10,479,499	26,116,221	15,233,898	8,771,721	24,005,619
End of year	\$ 22,027,859	\$ 14,543,964	\$ 36,571,823	\$ 15,636,722	\$ 10,479,499	\$ 26,116,221

See notes to financial statements.

Partner Community Capital, Inc.

**Statement of Functional Expenses
Year Ended December 31, 2023**

	Program Services			Supporting Services		
	Lending	Strategic Initiatives	Total Program	Management and General	Fundraising	Total
Personnel and related expenses, net	\$ 1,905,197	\$ 1,065,619	\$ 2,970,816	\$ 226,040	\$ 32,291	\$ 3,229,147
Provision for credit loss	442,634	-	442,634	-	-	442,634
Interest expense	1,690,723	-	1,690,723	-	-	1,690,723
In-kind services - Interest expense	43,063	-	43,063	-	-	43,063
Technical assistance	-	731,973	731,973	-	-	731,973
Grant and contract expense	-	136,941	136,941	-	-	136,941
Loan workout expense - Non-legal	19,313	-	19,313	-	-	19,313
Legal fees	74,980	-	74,980	21,946	-	96,926
Professional fees	1,466	-	1,466	50,123	-	51,589
Employee travel	46,578	26,052	72,630	5,526	789	78,945
Loan origination expense, net	40,950	-	40,950	-	-	40,950
Office expense	59,324	33,181	92,505	7,039	1,005	100,549
Computer software						
maintenance services	102,206	57,166	159,372	12,127	1,732	173,231
Rent	79,671	44,562	124,233	9,452	1,350	135,035
Conference, convention, meeting	11,523	6,445	17,968	1,367	195	19,530
Insurance	-	-	-	34,560	-	34,560
Reporting and filing fees	14,903	-	14,903	-	-	14,903
Bank charges	-	-	-	15,146	-	15,146
Marketing	37,662	21,065	58,727	4,469	638	63,834
Employee training and development	2,021	1,130	3,151	240	34	3,425
Other lending costs	53,864	-	53,864	-	-	53,864
Total expense	\$ 4,626,078	\$ 2,124,134	\$ 6,750,212	\$ 388,035	\$ 38,034	\$ 7,176,281
Less expenses included with financial activity on the statement of activities	(2,176,420)	-	(2,176,420)	-	-	(2,176,420)
Total expense included with expenses on the statement of activities	\$ 2,449,658	\$ 2,124,134	\$ 4,573,792	\$ 388,035	\$ 38,034	\$ 4,999,861

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.

**Statements of Cash Flows
Years Ended December 31, 2023 and 2022**

	2023	2022
Cash flows from operating activities:		
Change in net assets	\$ 10,455,602	\$ 2,110,602
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Provision for (recovery of) credit losses	442,634	413,230
Implied interest expense	4,522	4,795
Contributions restricted for long-term purposes	(704,599)	(1,811,999)
Amortization of debt acquisition costs	54,739	56,678
Amortization of deferred loan costs (fees)	(68,486)	17,062
Capitalization of interest expense	37,858	-
Changes in operating assets and liabilities:		
Accounts receivable	21,867	(19,852)
Prepaid expenses	(3,361)	27,998
Promises to give	(1,192,672)	(84,931)
Accrued interest and fees receivable	(223,527)	(12,944)
Operating leases, right-of-use assets	64,321	53,655
Accounts payable	49,120	(46,090)
Accounts payable, related party	-	(100,000)
Accrued personnel and related expenses	123,546	422,413
Funds held for others	(1,427)	(19,169)
Accrued interest payable	51,443	32,681
Refundable advance	375,634	282,544
Operating lease liabilities	(64,429)	(52,559)
Net cash provided by operating activities	9,422,785	1,274,114
Cash flows from investing activities:		
Cash disbursements on loans receivable	(17,955,931)	(21,417,132)
Principal collections on loans receivable	9,389,989	10,219,784
Proceeds from the sale of loans receivable	-	1,345,390
Repayment on the sale of loans receivable	(290,608)	(188,100)
Purchase of other asset	(1,934,247)	(500,000)
Purchase of intangible asset	(27,791)	-
Net cash used in investing activities	(10,818,588)	(10,540,058)
Cash flows from financing activities:		
Proceeds from lines of credit	-	801,336
Repayment of lines of credit	-	(1,083,213)
Proceeds from issuance of notes payable	7,387,995	4,162,252
Repayments of notes payable	(2,055,419)	(3,099,485)
Payment of debt acquisition costs	(51,128)	(30,744)
Advances on secured borrowings, participations	4,262,944	4,775,332
Repayments on secured borrowings, participations	(1,413,944)	(1,228,336)
Contributions restricted for long-term purposes	704,599	1,811,999
Net cash provided by financing activities	8,835,047	6,109,141
Net increase (decrease) in cash and cash equivalents	7,439,244	(3,156,803)
Cash and cash equivalents:		
Beginning of year	16,823,327	19,980,130
End of year	\$ 24,262,571	\$ 16,823,327
Cash and cash equivalents—unrestricted	\$ 20,568,299	\$ 13,885,195
Cash and cash equivalents—restricted	3,694,272	2,938,132
	\$ 24,262,571	\$ 16,823,327
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 1,682,343	\$ 1,436,361
Cash payment on operating leases	\$ 71,219	\$ 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.

Partner Community Capital, Inc.

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 is headquartered in West Virginia, but it also conducts business 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 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.

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.

Partner Community Capital, Inc.

Notes to Financial Statements

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

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 three federal programs and two financial institution lenders. For the EDA Revolving Loan Funds (RLF) and 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*.

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 long-term maturities.

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, 2023 or 2022.

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.

PCAP uses the following loan segments for financial reporting purposes: Real Estate – First Position, Real Estate – Subordinated, Other Collateral, Non Risk Rated (NC COVID-19 Rapid Recovery and 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.

Partner Community Capital, Inc.

Notes to Financial Statements

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

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: PCAP adheres to Financial Accounting Standards Board (FASB) ASC 326 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, 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.

NC COVID-19 Rapid Recovery loans are considered standalone segments as there are no lifetime expected losses attributable to PCAP. 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 loan modification are evaluated using these same individual evaluation methods. In the event the discounted cash flow method is used for a loan modification, 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 loan modification will be executed or such renewals, extensions or modifications are included in the original loan agreement and are not unconditionally cancellable by PCAP.

Partner Community Capital, Inc.

Notes to Financial Statements

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

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.

The SBA 7A program requires the establishment of cash loan reserves equal to 5% or 3%, respectively, of the unguaranteed and guaranteed portion of the SBA 7A portfolio. The required balance of cash loan reserves at December 31, 2023 and 2022, was \$23,087 and \$26,811, respectively. The balance of the SBA loan reserve was \$29,999 at December 31, 2023 and 2022, respectively, which is reported with cash and cash equivalents - restricted.

Loan Modification: 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. PCAP had no OREO at December 31, 2023 and 2022.

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

Transfers of financial assets: Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when: (1) the assets have been isolated from PCAP, (2) the transferee obtains the right to pledge or exchange the transferred assets and no condition both constrains the transferee from taking advantage of that right and provides more than a trivial benefit for the transferor and (3) the transferor does not maintain effective control over the transferred assets through either: (a) an agreement that both entitles and obligates the transferor to repurchase or redeem the assets before maturity or (b) the ability to unilaterally cause the holder to return specific assets, other than through a cleanup call. The outstanding balance of sales is \$1,519,668 and \$2,251,186 as of December 31, 2023 and 2022, 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 \$17,113,872 and \$14,370,410 as of December 31, 2023 and 2022, 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.

Partner Community Capital, Inc.

Notes to Financial Statements

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

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, 2023, 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.

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 Internal Revenue Code 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, 2023 and 2022.

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 2020.

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.

Partner Community Capital, Inc.

Notes to Financial Statements

Note 2. Recently Adopted Accounting Pronouncements:

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, 2023, 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, 2023, 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, 2023.

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, 2023 and 2022, consist of the following:

	2023	2022
Cash	\$ 4,670,471	\$ 3,886,051
U.S. government money market fund	19,568,346	12,913,878
Certificates of deposit	23,754	23,398
	<u>\$ 24,262,571</u>	<u>\$ 16,823,327</u>
Unrestricted cash and cash equivalents	\$ 20,568,299	\$ 13,885,195
Restricted cash	3,670,518	2,914,734
Restricted cash equivalents	23,754	23,398
	<u>\$ 24,262,571</u>	<u>\$ 16,823,327</u>

Partner Community Capital, Inc.

Notes to Financial Statements

Note 3. Cash and Cash Equivalents (Continued)

Restricted cash balances at December 31, 2023 and 2022, are held for the following purposes:

	2023	2022
Revolving loan funds:		
Intermediary Relending Program	\$ 1,348,927	\$ 1,255,958
Economic Development Authority	398,281	89,908
Rural Microentrepreneur Assistance Program	329,928	340,887
	<u>2,077,136</u>	<u>1,686,753</u>
Cash required to be segregated by lender:		
Financial institution lenders	<u>1,426,754</u>	<u>1,061,353</u>
Cash loan loss reserves:		
Intermediary Relending Program	117,171	117,171
Rural Microentrepreneur Assistance Program	19,458	19,458
Small Business Administration	29,999	29,999
	<u>166,628</u>	<u>166,628</u>
	<u>\$ 3,670,518</u>	<u>\$ 2,914,734</u>

Note 4. Intangible Assets

Intangible assets at December 31, 2023 pertain to the deployment in progress of a grant and donation software. The estimated date of the project completion is the second quarter of 2024 with total estimated costs of approximately \$136,000.

Note 5. Other Asset

At December 31, 2023, PCAP held seventeen certificate of deposits (CDs) that are associated with a third-party. The CDs range in amount from \$17,200 to \$500,000. The CDs are in the name of PCAP but are assigned as collateral to a financial institution that holds seventeen loans totaling approximately \$14 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 seventeen loans with the third-party ranging from \$17,200 to \$500,000.

At December 31, 2022, PCAP held three 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.

Note 6. Promises to Give

As of December 31, 2023 and 2022, unconditional promises to give totaling \$2,325,462 and \$1,132,790, respectively, are due in less than one year. At December 31, 2023 and 2022, PCAP also had ten and twelve conditional promises to give totaling \$6,398,630 and \$5,264,660, respectively.

Partner Community Capital, Inc.

Notes to Financial Statements

Note 7. Loans Receivable

Loans receivable by category at December 31, 2023 and 2022, as follows:

	2023	2022
Real Estate - First Position	\$ 38,270,887	\$ 34,895,429
Real Estate - Subordinated	10,592,124	6,628,675
Other Collateral	14,633,170	12,310,601
Non Risk Rated		
North Carolina COVID 19		
Rapid Recovery	5,036,754	5,878,769
West Virginia Emergency	1,379,626	1,634,389
Unsecured	230,248	103,350
Subtotal	70,142,809	61,451,213
Allowance for credit losses	(2,020,650)	(1,705,918)
Loans receivable, net	\$ 68,122,159	\$ 59,745,295

Loans carry remaining terms of less than one year to 17 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 \$2,836,084 and \$2,656,619 and restricted cash of \$1,348,927 and \$1,255,958 serve as collateral on IRP notes payable at December 31, 2023 and 2022, respectively. Loans receivable totaling \$27,790 and \$48,683 and restricted cash of \$329,928 and \$340,887 serve as collateral on RMAP notes payable at December 31, 2023 and 2022, respectively.

Accrued interest receivable amounted to \$510,407 and \$289,217 at December 31, 2023 and 2022, respectively.

There were no non-accrual loans at December 31, 2023 or 2022.

COVID-19 Response: 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, 2023, PCAP funded \$1,991,290 in loans to 39 borrowers and deferred approximately \$7,305 of net origination costs as of December 31, 2023 (\$10,695 as of December 31, 2022), that will be recognized as origination expense over the term of the loans. As of December 31, 2023 and 2022, \$1,372,321 and \$1,623,694 of principal remained outstanding on the WV Emergency loans, respectively.

Partner Community Capital, Inc.

Notes to Financial Statements

Note 7. 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 \$16,304 of net origination costs as of December 31, 2023 (\$22,819 as of December 31, 2022), that will be recognized as origination expense over the term of the loans. As of December 31, 2023 and 2022, \$5,020,450 and \$5,855,950 of principal remained outstanding on the NCRR loans, respectively.

Aging: The following table represent an aging of loans as of December 31, 2023 and 2022. The table presents the principal amount outstanding on the loans that may be past due for principal and/or interest payments contractually due:

	2023					
	31 - 60 Days	61 - 90 Days	91+ Days	Total	Current	Total Loans
	Past Due	Past Due	Past Due	Past Due		
Real Estate - First Position	\$ 489,219	\$ 555,811	\$ 1,762,162	\$ 2,807,192	\$ 35,463,695	\$ 38,270,887
Real Estate - Subordinated	-	-	234,444	234,444	10,357,680	10,592,124
Other Collateral	419,103	44,438	516,016	979,557	13,653,613	14,633,170
Non Risk Rated						
North Carolina COVID 19						
Rapid Recovery	17,227	-	421,652	438,879	4,597,875	5,036,754
West Virginia Emergency	50,208	-	185,331	235,539	1,144,087	1,379,626
Unsecured	-	-	32,569	32,569	197,679	230,248
Total	\$ 975,757	\$ 600,249	\$ 3,152,174	\$ 4,728,180	\$ 65,414,629	\$ 70,142,809

	2022					
	30 - 60 Days	61 - 90 Days	91+ Days	Total	Current	Total Loans
	Past Due	Past Due	Past Due	Past Due		
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						
North Carolina COVID 19						
Rapid Recovery	171,796	-	99,485	271,281	5,607,488	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	\$ 630,732	\$ 60,820,481	\$ 61,451,213

Partner Community Capital, Inc.

Notes to Financial Statements

Note 7. Loans Receivable (Continued)

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.

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.

Partner Community Capital, Inc.

Notes to Financial Statements

Note 7. Loans Receivable (Continued)

The following table summarizes the loan portfolio classified by internal credit risk rating by primary loan type at December 31, 2023 and 2022.

	2023					
	Real Estate First Position	Real Estate Subordinated	Other Collateral	Non risk rated	Unsecured	Total
1 - Strong	\$ 47,535	\$ -	\$ 135,047	\$ -	\$ -	\$ 182,582
2 - Low Risk	6,193,141	1,602,529	1,476,021	-	-	9,271,691
3 - Acceptable Risk	15,054,619	3,354,135	3,975,724	-	32,569	22,417,047
4 - Moderate Risk/Start-Up	12,694,935	4,811,654	6,686,004	-	197,679	24,390,272
5 - High Risk	3,723,653	558,057	1,696,215	-	-	5,977,925
6 - Problem Asset	557,004	265,749	664,159	-	-	1,486,912
7 - Written Off	-	-	-	-	-	-
Non risk rated	-	-	-	6,416,380	-	6,416,380
	<u>\$ 38,270,887</u>	<u>\$ 10,592,124</u>	<u>\$ 14,633,170</u>	<u>\$ 6,416,380</u>	<u>\$ 230,248</u>	<u>\$ 70,142,809</u>

	2022					
	Real Estate First Position	Real Estate Subordinated	Other Collateral	Non risk rated	Unsecured	Total
1 - Strong	\$ 54,462	\$ -	\$ 184,351	\$ -	\$ -	\$ 238,813
2 - Low Risk	10,347,857	808,556	2,037,968	-	12,087	13,206,468
3 - Acceptable Risk	14,522,752	308,552	2,635,734	-	15,420	17,482,458
4 - Moderate Risk/Start-Up	7,897,466	5,203,477	6,422,147	-	65,264	19,588,354
5 - High Risk	2,072,892	250,548	852,979	-	10,579	3,186,998
6 - Problem Asset	-	57,542	177,422	-	-	234,964
7 - Written Off	-	-	-	-	-	-
Non risk rated	-	-	-	7,513,158	-	7,513,158
	<u>\$ 34,895,429</u>	<u>\$ 6,628,675</u>	<u>\$ 12,310,601</u>	<u>\$ 7,513,158</u>	<u>\$ 103,350</u>	<u>\$ 61,451,213</u>

Partner Community Capital, Inc.

Notes to Financial Statements

Note 7. Loans Receivable (Continued)

Allowance for credit losses: The following is an analysis of the allowance for credit losses for the years ended December 31, 2023 and 2022:

	2023							
	Real Estate		North Carolina			West Virginia	Unsecured	Total
	First Position	Subordinated	Other Collateral	COVID 19 Rapid Recovery	Emergency			
Beginning balance	\$ 961,094	\$ 191,236	\$ 426,513	\$ -	\$ 53,400	\$ 73,675	\$ 1,705,918	
Provision charged to operations	39,800	147,262	142,433	-	145,977	(32,838)	442,634	
Less charge-offs	-	(55,082)	(39,201)	-	(50,000)	(14,997)	(159,280)	
Recoveries	-	-	25,994	-	-	5,384	31,378	
Ending balance	\$ 1,000,894	\$ 283,416	\$ 555,739	\$ -	\$ 149,377	\$ 31,224	\$ 2,020,650	
Allowance for loan losses allocated:								
Individually evaluated for impairment	\$ 69,099	\$ 7,674	\$ 37,914	\$ -	\$ 3,154	\$ -	\$ 117,841	
Collectively evaluated for impairment	931,795	275,742	517,825	-	146,223	31,224	1,902,809	
	\$ 1,000,894	\$ 283,416	\$ 555,739	\$ -	\$ 149,377	\$ 31,224	\$ 2,020,650	
Loans receivable:								
Individually evaluated for impairment	\$ 2,638,442	\$ 265,749	\$ 992,963	\$ 398,706	\$ 44,652	\$ -	\$ 4,340,512	
Collectively evaluated for impairment	35,632,445	10,326,375	13,640,207	4,638,048	1,334,974	230,248	65,802,297	
	\$ 38,270,887	\$ 10,592,124	\$ 14,633,170	\$ 5,036,754	\$ 1,379,626	\$ 230,248	\$ 70,142,809	
	2022							
	Real Estate		North Carolina			West Virginia	Unsecured	Total
	First Position	Subordinated	Other Collateral	COVID 19 Rapid Recovery	Emergency			
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	

Partner Community Capital, Inc.

Notes to Financial Statements

Note 7. Loans Receivable (Continued)

Loan modifications: As of December 31, 2023, the outstanding principal balance of loan modifications was \$4,340,512. The associated allowance for loan losses for loan modifications was \$117,841 as of December 31, 2023. During the year ended December 31, 2023, twenty-one loans were modified. The loans had a pre-modification and post-modification balance of \$3,301,527. The modifications in 2023 included rate reductions and extension of maturity dates. There were no unfunded commitments on loan modifications as of December 31, 2023.

As of December 31, 2022, the outstanding principal balance of loan modifications was \$1,658,026. The associated allowance for loan losses for loan modifications was \$94,422 as of December 31, 2023. During the year ended December 31, 2023, fifteen loans were modified. The loans had a pre-modification and post-modification balance of \$1,299,974. The modifications in 2023 included rate reductions and extension of maturity dates. There were no unfunded commitments on loan modifications as of December 31, 2023.

During the years ended December 31, 2023 PCAP had 7 loan modifications, with pre and post-modification outstanding recorded investments of \$405,962, that subsequently defaulted within twelve months of the restructuring. During the year ended December 31, 2022, PCAP had 4 loan modifications, with pre and post-modification outstanding recorded investments of \$389,812, that subsequently defaulted within twelve months of the restructuring.

In the first quarter of 2020, PCAP elected to apply the guidance issued by Congress in the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) as well as by the U.S. banking agencies stating that certain concessions granted to borrowers that are current on existing loans, either individually or as part of a program of creditworthy borrowers who are experiencing short-term financial or operational problems as a result of COVID-19, generally would not be considered loan modifications. 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 \$873,854 and \$904,143 at December 31, 2023 and 2022, respectively.

Note 8. Related Party Transactions

PCAP entered into a management services agreement with The Conservation Fund (TCF). Prior to October 28, 2022, PCAP was recognized under the Internal Revenue Code as a supporting organization to TCF and the management services agreement continued until March 31, 2023. Under the terms of the agreement, TCF provides certain staffing and administrative services to PCAP. Effective April 1, 2023, TCF is no longer a related party and PCAP started paying payroll expenses directly. No management fee under the agreement during the year ended December 31, 2023. The management fee under the agreement was \$656,240 for the year ended December 31, 2022, with no amount payable as of December 31, 2023 and 2022. PCAP deferred loan costs associated with the origination of loans included within the management fee expense of \$651,520 and \$847,703 for the years ended December 31, 2023 and 2022, respectively.

PCAP entered into an agreement with a Board Member to provide marketing and consulting services. The agreement ended in 2022 and had no balance payable as of December 31, 2023. The fee under the agreement during the year ended December 31, 2022 was \$28,916 and had no balance payable as of as of December 31, 2022.

Partner Community Capital, Inc.

Notes to Financial Statements

Note 9. Notes Payable and Subordinated Notes Payable

Notes payable consist of the following at December 31, 2023 and 2022:

Lender	Origination Date	Maturity Date	Interest Rate	Note Amount	Undrawn Amounts	Principal Balance Outstanding	
						2023	2022
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	\$ -	\$ 211,988	\$ 226,090
U.S. Department of Agriculture - IRP (Principal and interest due annually)	11/15/2010	11/15/2040	1.00%	750,000	-	479,936	506,706
West Virginia Infrastructure & Jobs Development Council (Principal and interest due monthly)	1/1/2011	1/1/2026	2.00%	750,000	-	50,367	75,175
U.S. Department of Agriculture - IRP (Principal and interest due annually)	12/1/2015	12/01/2031	1.00%	495,000	-	312,139	349,443
U.S. Department of Agriculture - IRP (Principal and interest due annually)	12/1/2015	12/1/2036	1.00%	257,000	-	190,151	203,788
U.S. Department of Agriculture - IRP (Principal and interest due annually)	5/16/2016	5/16/2046	1.00%	364,104	-	316,126	328,300
U.S. Department of Agriculture - RMAP (Principal and interest due monthly)	6/29/2016	5/16/2036	2.00%	500,000	-	378,083	404,851
West Virginia Infrastructure & Jobs Development Council (Principal and interest due quarterly)	6/1/2018	6/1/2033	3.00%	500,000	-	357,362	389,797
U.S. Department of Agriculture - IRP (Principal and interest due annually)	9/4/2018	9/4/2048	1.00%	750,000	-	701,075	725,657
U.S. Department of Agriculture - IRP (Principal and interest due annually)	9/21/2020	9/21/2050	1.00%	750,000	267,500	482,500	112,500
Total secured notes payable						3,479,727	3,322,307
Highgate, LLC (One individual impact investor. Principal due at maturity and interest due semi-annually)	8/5/2016	8/5/2025	0.00%	50,000	-	50,000	50,000
One Foundation (Principal due quarterly)	1/1/2016	12/31/2025	0.00%	100,000	-	30,581	45,699
One Foundation POWER (Principal due quarterly)	7/26/2017	9/30/2027	0.00%	300,000	-	225,000	285,000
Seton Fund (Principal and interest due quarterly)	4/1/2018	4/1/2023	3.00%	150,000	-	-	79,022
McKnight Foundation (Principal due at maturity 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	8/31/2024	0.00%	750,000	-	600,000	600,000
Northern Trust (Principal due at maturity and interest due semi-annually)	7/25/2018	9/22/2028	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
Eastern WV Community Foundation (Principal due at maturity and interest due annually)	9/20/2018	9/20/2023	3.50%	200,000	-	-	200,000
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	6/30/2024	4.15%	3,500,000	-	1,500,000	1,500,000
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

(Continued)

Partner Community Capital, Inc.

Notes to Financial Statements

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

Lender	Origination Date	Maturity Date	Interest Rate	Note Amount	Undrawn Amounts	Principal Balance Outstanding	
						2023	2022
Silverio Trust (Principal due at maturity and interest due semi-annually)	3/12/2020	2/22/2025	1.85%	\$ 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 & Stoms (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
Appalachian Community Capital (Principal due at maturity and interest due monthly)	3/22/2021	3/31/2023	2.75%	1,500,000	-	-	750,000
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
Chicory Wealth (One individual impact investor. Principal due at maturity and interest due semi-annually)	4/8/2021	4/8/2026	2.50%	50,000	-	50,000	50,000
PNC Bank (Principal due at maturity and interest due quarterly)	4/26/2021	4/25/2024	2.47%	1,000,000	-	999,055	999,055
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	2.37%	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	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	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	250,000
Appalachian Community Capital (Principal due at maturity and interest due monthly)	4/30/2023	4/30/2030	2.76%	2,000,000	-	2,000,000	-
Opportunity Finance Network (Principal due at maturity and interest due quarterly)	11/21/2023	12/07/2033	3.00%	1,000,000	-	1,000,000	-

(Continued)

Partner Community Capital, Inc.

Notes to Financial Statements

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

Lender	Origination Date	Maturity Date	Interest Rate	Note Amount	Undrawn Amounts	Principal Balance Outstanding	
						2023	2022
Cnote Group, Inc. (Fourteen individual notes ranging from \$59,476 to \$1,076,820 maturing between March 2024 and November 2025. Payable over 30 month terms with interest payable monthly ranging from 2.5% to 4%)	Various	Various	Various	\$ 3,650,461	\$ -	\$ 3,266,283	\$ 3,594,607
Reynders, McVeigh Capital Management f/k/a Fresh Pond Capital (Thirteen impact investors with notes ranging from \$50,000 to \$500,000 maturing between March 2024 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	1,950,000	-	1,700,000	1,950,000
Loring Wolcott & Coolidge Trust (Seven impact investors with notes ranging from \$10,000 to \$250,000 maturing between June 2024 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	610,000
Nia Impact Capital (Three impact investors with notes ranging from \$50,000 to \$250,000 maturing between July 2025 and July 2027. Payable over five year terms with interest payable quarterly or semi-annually)	Various	Various	2.50%	350,000	-	350,000	350,000
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	125,000
					\$ 267,500	\$ 36,091,400	\$ 31,716,444
						82,905	86,516
						7,324,485	7,060,152
						\$ 28,684,010	\$ 24,569,776

Subordinated notes payable consists of the following at December 31, 2023 and 2022:

Lender	Origination Date	Maturity Date	Interest Rate	Note Amount	Undrawn Amounts	Principal Balance Outstanding	
						2023	2022
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
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
First Horizon Bank f/k/a Capital Bank (Principal due at maturity and interest due quarterly)	10/30/2018	10/30/2024	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
CIT Bank (Principal due at maturity and interest due quarterly)	10/25/2022	10/25/2027	2.50%	1,500,000	-	1,500,000	1,500,000
Wells Fargo ENC (Interest due quarterly until January 2024. Thereafter principal payments of \$300,000 and interest due quarterly)	10/06/2023	10/04/2028	2.00%	2,400,000	-	2,400,000	-
Total subordinated notes payable					\$ -	\$ 5,800,000	\$ 4,800,000
						400,000	-
						\$ 5,400,000	\$ 4,800,000

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 \$29,422 and \$33,944 at December 31, 2023 and 2022, respectively.

Partner Community Capital, Inc.

Notes to Financial Statements

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

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

Years ending December 31:		
2023	\$	7,724,485
2024		6,848,450
2025		4,251,859
2026		4,302,539
2027		7,260,711
Thereafter		11,532,778
	\$	<u>41,920,822</u>

Notes payable, net of debt acquisition costs and implied interest consist of following at December 31, 2023 and 2022:

	2023	2022
Principal amount	\$ 41,920,822	\$ 36,550,388
Less debt acquisition costs	82,905	86,516
Less implied interest	29,422	33,944
	<u>\$ 41,808,495</u>	<u>\$ 36,429,928</u>

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

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

Note 10. Revolving Lines of Credit

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, 2023. The line of credit is utilized to finance the short-term portion of SBA 504 program loans and are repaid to the lending institution under in line with the related loan receivable. There was no outstanding balance at December 31, 2022. The revolving line of credit was paid in full and closed during the year ended December 31, 2023.

During 2022, 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%. The revolving operating line of credit was reduced to \$300,000 as of November 30, 2023. Interest is payable monthly, with all unpaid principal and interest due at maturity on October 29, 2024. There was no outstanding balance at December 31, 2023 and 2022.

Partner Community Capital, Inc.

Notes to Financial Statements

Note 11. Concentrations of Credit Risk

PCAP maintains its cash in various banks. The bank account balances, at times, may exceed federally insured limits set by the Federal Deposit Insurance Corporation (FDIC) statutory limits. Management believes PCAP is not exposed to any significant credit risk on domestic cash balances.

During 2023 and 2022, government grants accounted for 62% and 66%, respectively, of PCAP's revenue and support and 40% and 100%, respectively, of PCAP's promises to give. Promises to give from a non-government organization accounted for 60% of PCAP's promises to give as of December 31, 2023. During 2022, PCAP's expenses incurred to TCF accounted for 62% of total expenses. No expenses were incurred by PCAP to TCF during 2023.

Note 12. Net Assets With Donor Restrictions

Net assets with donor restrictions are those net assets whose use by PCAP is limited by the donors for a special purpose or restricted to be used in a later period. At December 31, 2023 and 2022, donor restricted net assets consisted of the following:

	2023	2022
Restricted for specified purpose:		
Loan capital	\$ 3,303,743	\$ 566,669
Provide support for business development to natural resource-based enterprises and provide incentives to businesses to engage in sound environmental practices	2,352,870	1,680,077
	<u>5,656,613</u>	<u>2,246,746</u>
Perpetual in nature:		
Restricted for specified purpose:		
Loan capital revolving fund:		
Represents net assets dedicated to providing temporary financing to qualified businesses	8,887,351	8,232,753
	<u>\$ 14,543,964</u>	<u>\$ 10,479,499</u>

Note 13. Loan Origination Fees and Costs

PCAP accounts for nonrefundable fees and costs associated with origination loans in line with ASC 310-20 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, 2023 and 2022:

	2023	2022
Fee income on loans	\$ 329,674	\$ 337,087
Loan origination fee amortization	(26,114)	(17,624)
Fee income on loans, net	<u>\$ 303,560</u>	<u>\$ 319,463</u>

Partner Community Capital, Inc.

Notes to Financial Statements

Note 13. Loan Origination Fees and Costs (Continued)

Management fee, net of loan origination costs consists of the following at December 31, 2023 and 2022:

	2023	2022
Management fee contract	\$ -	\$ 656,240
Loan origination cost amortization	-	191,463
Management fee contract, net	<u>\$ -</u>	<u>\$ 847,703</u>

Personnel and related costs, net of loan origination costs consists of the following at December 31, 2023 and 2022:

	2023	2022
Personnel and related expenses	\$ 3,291,349	\$ 2,325,848
Loan origination cost amortization	(62,202)	(210,494)
Personnel and related expenses, net	<u>\$ 3,229,147</u>	<u>\$ 2,115,354</u>

Loan origination expense, net of loan origination costs consists of the following at December 31, 2023 and 2022:

	2023	2022
Loan origination expense	\$ 73,348	\$ 76,723
Loan origination cost amortization	(32,398)	18,469
Loan origination expense, net	<u>\$ 40,950</u>	<u>\$ 95,192</u>

Note 14. 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 years ended December 31, 2023 and 2022:

	2023	2022
Lease expense		
Operating lease expense	\$ 67,306	\$ 55,876
Short-term lease expense	64,729	57,865
Variable lease expense	3,000	3,000
Total lease cost	<u>\$ 135,035</u>	<u>\$ 116,741</u>

Additional information related to operating leases are as follows as of December 31, 2023 and 2022:

	2023	2022
Weighted-average remaining lease term in years for operating leases	0.77	1.74
Weighted-average discount rate for operating leases	3.89%	3.79%

Partner Community Capital, Inc.

Notes to Financial Statements

Note 14. Leases (Continued)

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, 2023:

Years ending December 31:	
2024	\$ 49,289
Total undiscounted cash flows	49,289
Less: present value discount	(667)
Total lease liabilities	<u>\$ 48,622</u>

Note 15. 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, 2023 and 2022, the following financial instruments were outstanding whose contract amounts represent credit risk:

	2023	2022
Loan commitments approved not disbursed	<u>\$ 6,577,749</u>	<u>\$ 4,395,656</u>

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 seventeen 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 seventeen loans with the third-party ranging from \$17,200 to \$500,000.

Partner Community Capital, Inc.

Notes to Financial Statements

Note 16. Liquidity and Availability of Financial Resources

PCAP financial assets available within one year of December 31, 2023 and 2022, for general expenditures are as follows:

	2023	2022
Cash and cash equivalents – unrestricted	\$ 20,568,299	\$ 13,885,195
Cash – restricted	3,670,518	2,914,734
Cash equivalents held as collateral	23,754	23,398
Accounts receivable	3,478	25,345
Promises to give	2,325,462	1,132,790
Loans receivable, net	68,122,159	59,745,295
Accrued interest and fees receivable	519,532	296,005
Other asset	2,636,847	702,600
Long-term investment (U.S. Endowment Fuel Project)	99,995	99,995
Total financial assets	<u>97,970,044</u>	<u>78,825,357</u>
Cash – restricted	(3,670,518)	(2,914,734)
Cash equivalents held as collateral	(23,754)	(23,398)
Donor restricted funds	(14,543,964)	(10,479,499)
Loans receivable, due after one year, net	(55,518,553)	(49,853,234)
Loans receivable due in next year restricted for federal relending program	(387,560)	(518,666)
Other asset	(2,636,847)	(702,600)
Long-term investment (U.S. Endowment Fuel Project)	(99,995)	(99,995)
Outstanding loan commitments, not disbursed	(6,577,749)	(4,395,656)
Amounts not available to be used within one year	<u>(83,458,940)</u>	<u>(68,987,782)</u>
Financial assets available to meet general expenditures within one year	<u>\$ 14,511,104</u>	<u>\$ 9,837,575</u>

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

PCAP has a goal to maintain unrestricted cash and cash equivalents to equal or exceed three months of cash operating expenses, which are, on average, approximately \$1,300,000. In addition, as a part of its liquidity management, PCAP invests cash in excess of daily requirements in a U.S. government money market fund. In the event of an unanticipated liquidity need, PCAP has an available bank line of credit as described in *Note 10 – Revolving Lines of Credit*.

Note 17. Subsequent Events

Management evaluated subsequent events through March 28, 2024, the date the financial statements were available to be issued.