Appalachian Community Capital Corporation

Report on Consolidated Financial Statements

As of and for the years ended December 31, 2020 and 2019

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Independent Auditor's Report

To the Board of Directors
Appalachian Community Capital Corporation
Christiansburg, Virginia

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Appalachian Community Capital Corporation (the "Company"), which comprise the consolidated statements of financial position as of December 31, 2020 and 2019, the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the "financial statements").

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Appalachian Community Capital Corporation as of December 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 26, 2021 on our consideration of Appalachian Community Capital Corporation'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 Appalachian Community Capital Corporation'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 Appalachian Community Capital Corporation's internal control over financial reporting and compliance.

Elliott Davis, PLLC

Raleigh, North Carolina
June 18, 2021

Appalachian Community Capital Corporation

Consolidated Statements of Financial Position

As of December 31, 2020 and 2019

		2020		2019
Assets				
Cash and cash equivalents	$	3,780,953	$	1,656,965
Cash funded loan loss reserves		150,000		150,000
Loans receivable, net of allowance for loan losses of $202,137 and $200,829 at December 31, 2020 and 2019, respectively		18,160,800		18,052,021
Grants receivable		925,591		1,635,189
Accrued interest receivable		38,155		44,715
Property and equipment, net		786		1,547
Prepaid expenses and other assets		29,597		34,712
Total assets	$	23,085,882	$	21,575,149
Liabilities and Net Assets				
Notes payable	$	17,300,000	$	16,000,000
Accrued interest payable		42,492		8,991
Accounts payable		11,500		8,500
Deferred revenue		1,378,738		1,676,442
Accrued expenses and other liabilities		28,103		25,989
Total liabilities		18,760,833		17,719,922
Net assets - without donor restrictions		1,338,049		868,227
Net assets - with donor restrictions		2,987,000		2,987,000
Total net assets		4,325,049		3,855,227
Total liabilities and net assets	$	23,085,882	$	21,575,149

See Notes to Consolidated Financial Statements

Appalachian Community Capital Corporation

Consolidated Statements of Activities

For the year ended December 31, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue			
Grant income	$ 682,581	$ 4,058,623	$ 4,741,204
Interest income - loans	574,404	-	574,404
Interest income - certificates of deposits	6,944	-	6,944
Other operating income	7,806	-	7,806
Net assets released from restrictions	4,058,623	(4,058,623)	-
Total support and revenue	5,330,358	-	5,330,358
Expenses			
Program Services			
Interest expense	378,492	-	378,492
Provision for loan losses	1,308	-	1,308
Salaries and employee benefits	168,123	-	168,123
Data processing	38,675	-	38,675
Office and administrative	935	-	935
Professional fees	501,510	-	501,510
Travel expense	930	-	930
Dues and subscriptions	22,309	-	22,309
Board of Directors' expense	1,949	-	1,949
Pass through grant expense	3,569,825	-	-
Other expense	39,843	-	39,843
Total program services expenses	4,723,900	-	4,723,900
Management and General			
Salaries and employee benefits	29,669	-	29,669
Data processing	6,825	-	6,825
Office and administrative	165	-	165
Professional fees	88,502	-	88,502
Travel expense	164	-	164
Dues and subscriptions	3,937	-	3,937
Board of Directors' expense	344	-	344
Other expense	7,031	-	7,031
Total management and general expenses	136,637	-	136,637
Total expenses	4,860,536	-	4,860,536
Change in net assets	469,821	-	469,821
Net assets - beginning of year	868,227	2,987,000	3,855,227
Net assets - end of year	$ 1,338,049	$ 2,987,000	$ 4,325,049

See Notes to Consolidated Financial Statements

Appalachian Community Capital Corporation

Consolidated Statements of Activities

For the year ended December 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue			
Grant income	$ 552,327	$ -	$ 552,327
Interest income - loans	633,029	-	633,029
Interest income - certificates of deposits	10,242	-	10,242
Other operating income	490	-	490
Total support and revenue	1,196,088	-	1,196,088
Expenses			
Program Services			
Interest expense	478,475	-	478,475
Provision for loan losses	14,779	-	14,779
Salaries and employee benefits	149,549	-	149,549
Data processing	38,675	-	38,675
Office and administrative	633	-	633
Professional fees	146,831	-	146,831
Travel expense	7,904	-	7,904
Dues and subscriptions	24,438	-	24,438
Board of Directors' expense	5,851	-	5,851
Other expense	39,698	-	39,698
Total program services expenses	906,833	-	906,833
Management and General			
Salaries and employee benefits	26,391	-	26,391
Data processing	6,825	-	6,825
Office and administrative	112	-	112
Professional fees	25,911	-	25,911
Travel expense	1,395	-	1,395
Dues and subscriptions	4,313	-	4,313
Board of Directors' expense	1,033	-	1,033
Other expense	7,005	-	7,005
Total management and general expenses	72,985	-	72,985
Total expenses	979,818	-	979,818
Change in net assets	216,271	-	216,271
Net assets - beginning of year	651,956	2,987,000	3,638,956
Net assets - end of year	$ 868,227	$ 2,987,000	$ 3,855,227

See Notes to Consolidated Financial Statements

Appalachian Community Capital Corporation

Consolidated Statements of Cash Flows

For the years ended December 31, 2020 and 2019

	2020	2019
Cash flows from operating activities		
Change in net assets	$ 469,821	$ 216,271
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	761	670
Provision for loan losses	1,308	14,779
Change in assets and liabilities:		
Grants receivable	709,598	(803,576)
Accrued interest receivable	6,560	(13,654)
Prepaid expenses and other assets	5,115	1,581
Accrued interest payable	33,501	(35,529)
Accounts payable	3,000	(550)
Deferred revenue	(297,704)	1,038,673
Accrued expenses and other liabilities	2,114	(6,091)
Net cash provided by operating activities	934,075	412,574
Cash flows from investing activities		
Net increase in loans	(110,087)	(2,384,678)
Purchase of property, plant, and equipment	-	(1,091)
Net cash used in investing activities	(110,087)	(2,385,769)
Cash flows from financing activities		
Increase in notes payable	1,300,000	1,165,000
Net cash provided by financing activities	1,300,000	1,165,000
Change in cash and cash equivalents	2,123,988	(808,196)
Cash and cash equivalents - beginning of year	1,656,965	2,465,160
Cash and cash equivalents - end of year	$ 3,780,953	$ 1,656,965
Supplemental disclosure of cash flow information		
Interest paid	$ 344,991	$ 514,004

See Notes to Consolidated Financial Statements

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

Nature of Activities

Appalachian Community Capital Corporation ("ACC" or the “Company") is a non-profit, wholesale capital intermediary created to increase business lending in Appalachia by providing community loan funds with a new source of capital. Formed in 2013, ACC’s mission is to increase business lending by providing member institutions, which serve underserved people and communities, with new sources of capital. The Company provides financing, as well as educational programs and technical assistance to its members and to small businesses throughout the thirteen-state Appalachian Region. ACC’s work enables reliable and sufficient capital for all of its members, leading to a growing economy, increased entrepreneurship, higher quality jobs, and increased local wealth in the Appalachian region. Appalachian Community Capital Development Foundation is a non-profit organization that is under common control by ACC and is therefore consolidated for financial reporting purposes. The consolidation of this organization does not have a material impact on the financial statements of ACC.

COVID-19 or Coronavirus Impact

The World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and declared it to be a pandemic in March 2020. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, and quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate the spread of it have had an adverse impact on the economies and financial markets of many countries, including the geographical area in which the Company operates. During 2020, Congress passed the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) and various other acts extending and supplementing the benefits which amongst other provisions, provide emergency assistance for individuals, families and businesses affected by the coronavirus pandemic.

It is unknown how long the adverse conditions associated with the coronavirus will last and what the complete financial effect will be to the Company.

Critical Accounting Policies

The accounting and reporting policies of the Company follow generally accepted accounting principles and general practices within the non-profit and financial services industries. The following is a summary of the more significant policies:

Management believes the policies with respect to the methodology for the determination of the allowance for loan losses and asset impairment judgments involve a high degree of complexity. Management must make difficult and subjective judgments which require assumptions or estimates about highly uncertain matters. Changes in these judgments, assumptions or estimates could cause reported totals to differ materially from actual results. These critical policies and their application are periodically reviewed with the Board of Directors.

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

Use of Estimates

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

The determination of whether or not grant conditions have been met has a significant impact on revenue and is, in some cases, an estimate.

Basis of Accounting

The financial statements are prepared on the accrual basis of accounting. Under this basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

Financial Statement Presentation

Net assets, revenues and expenses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Company and changes therein are classified and reported as follows:

- Without Donor Restrictions – All resources over which the governing board has discretionary control. The Board of Directors of the Company may elect to designate such resources for specific purposes. This designation may be removed at the Board of Directors' discretion.

- With Donor Restrictions – Resources accumulated through donations or grants for specific operating or capital purposes. Such resources will be without restrictions when the requirements of the donor or grantee have been satisfied through expenditures for the specified purpose or program or through the passage of time. Also includes resources accumulated through donations or grants subject to donor-imposed stipulations that are to be maintained permanently by the Company. Generally, the donors of these assets permit the Company to use all or part of the income earned on related investments for general or specific purposes.

Cash and Cash Equivalents

For purposes of the statements of cash flows, cash and cash equivalents are considered to include those amounts included in "cash and cash equivalents" on the statements of financial position. Cash and cash equivalents are considered to be highly liquid investments with maturities of 90 days or less.

Loans Receivable

Loans receivable that management has the intent and ability to hold for the foreseeable future, until maturity or pay-off are reported at their outstanding principal amount adjusted for any charge-offs. Loan origination fees, net of certain direct origination costs, are deferred and recognized, as an adjustment of the related loan yield using the effective interest method.

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

Loans Receivable, continued

Interest is accrued and credited to income based on the principal amount outstanding. The accrual of interest on impaired loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due. When interest accrual is discontinued, all unpaid accrued interest for the current year is reversed and any subsequent payments received are applied only to the loan's outstanding principal balance. When facts and circumstances indicate the borrower has regained the ability to meet the required payments, the loan is returned to accrual status. Past due status of loans is determined based on contractual terms.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of specific and general components. The specific component relates to loans that are classified as impaired. For such loans, an allowance is established when the discounted cash flows, collateral's net realizable value or observable market price of the impaired loan is lower than the carrying value of that loan. The general component covers non-impaired loans and includes both a quantitative and qualitative component. The quantitative component is based on historical loss experience, while the qualitative component is based on specific internal and external factors that may have a negative impact on the performance of the loan portfolio.

In 2017, the Company had allocated $150,000 of a grant funding received from the Community Development Financial Institutions ("CDFI") Fund to create a cash funded loan loss reserve in order to offset losses in the Small/Emerging CDFI loan portfolio. The portion of the allowance for loan losses attributable to the Small/Emerging CDFI's will be a reduction against the overall allowance of loan losses as the funds can be used to offset small business loan losses and provisions per the grant document.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status and other circumstances impacting the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the net realizable value of the collateral if the loan is collateral dependent.

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

Allowance for Loan Losses, continued

The CARES Act provides financial institutions optional temporary relief from troubled debt restructures ("TDRs") and impairment accounting for certain loan modifications related to the COVID-19 pandemic. Under section 4013 of the CARES Act, institutions may elect not to categorize loan modifications as TDRs if they are (1) related to COVID-19; (2) executed on a loan that was not more than 30 days past due as of December 31, 2019; and (3) executed between March 1, 2020 and the earlier of (A) 60 days after the date of termination of the National Emergency or (B) December 31, 2020.

All other short-term modifications made on a good faith basis in response to COVID-19 to borrowers who were current prior to any relief, are not TDRs. This includes short-term modifications such as payment deferrals, fee waivers, extensions of repayment terms, or other delays in payment that are insignificant. Borrowers considered current are those that are less than 30 days past due on their contractual payments at the time a modification program is implemented. The Company adopted the provision and granted deferrals on 3 loans totaling $6 million during 2020. As of December 31, 2020, there were no loans still in deferment. All loans resumed payments according to contractual terms.

Grants Receivable, Revenue Recognition, and Deferred Revenue

Grants receivable and related deferred revenue are recorded at the time of award from a grantor. Grants are classified in one of two categories, with donor restrictions and without donor restrictions. Classification is determined based on the designation by the grantor for the use of funds. Grant revenue is recognized when earned by the Company through performance as specified in each grant award.

Property and Equipment

Property and equipment consists of computer equipment and is carried at cost, less accumulated depreciation computed by the straight-line method over three years. When items of property and equipment are sold or retired, the related costs and accumulated depreciation are removed from the accounts and any gain or loss is included in income. Maintenance and repairs are charged to expenses as incurred; major renewals and betterments are capitalized.

Functional Allocation of Expenses

The consolidated financial statements report certain categories of expenses that are attributable to one or more program or supporting functions of the Company. Those expenses include salaries and employee benefits, the data processing, office and administrative, professional fees, travel, dues and subscriptions, Board of Directors', and other expenses. These costs are allocated either based on the actual nature of the expense or estimates of time and effort.

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

Income Taxes

The Company is a not-for-profit organization that is exempt from income taxes under Section 501(c)(4) of the Internal Revenue Code. Management is not aware of any uncertain tax positions and has not accrued any expense for the effect of an uncertain tax position as of December 31, 2020 and 2019. Tax years beginning in 2017 are open to examination by taxing authorities.

Revenue from Contracts with Customers

All of the Organization's revenue from contracts with customers in the scope of ASC 606 is recognized within total revenue and support. The following table presents the Company's income by revenue stream for the years ended December 31, 2020 and 2019, excluding interest and fees on loans and other interest income.

	2020	2019
Grant Income	$ 4,741,204	$ 552,327
Other Operating Income	7,806	490
Total	$ 4,749,010	$ 18,052,021

A description of the Organization's revenue streams account for under ASC 606 follows:

Grant and contribution income: The Organization receives grants and contributions from several types of entities for a range of purposes. In some instances, grant income is recognized as deliverables and performance criteria are met as the contract is considered an exchange transaction. The Organization also received contribution income that is recognized upon receipt of the award and is not within the scope of ASC 606.

Other Operating income: Other Operating Income includes real estate loan income and miscellaneous loan fees.

Recent Accounting Pronouncements

The following accounting standards may affect the future financial reporting by Appalachian Community Capital Corporation:

In November 2019, the FASB issued guidance to defer the effective dates for private companies, not-for-profit organizations, and certain smaller reporting companies applying standards on current expected credit losses (CECL), and leases. The new effective dates will be CECL: fiscal years beginning after December 15, 2022 including interim periods within those fiscal years; Leases: fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022.

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

Recent Accounting Pronouncements, continued

The Company will apply the amendments to the ASU related to CECL through a cumulative-effect adjustment to net assets as of the beginning of the year of adoption. The Company is evaluating the impact of the ASU on the financial statements. The Company has not formed an expectation of what, if any impact on the recorded allowance for loan losses given the change to estimated losses over the contractual life of the loans adjusted for expected prepayments. The amount of the adjustments will be impacted by each portfolio's composition and credit quality at the adoption date as well as economic conditions and forecasts at that time. As of December 31, 2020, the Company does not have any leases. The adoption of the accounting standard is not expected to have a significant impact.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies are not expected to have a material impact on the Company's financial position, results of operations or cash flows.

Reclassifications

Certain items in the prior year have been reclassified to conform to the current year presentation. These reclassifications had no impact on net assets, changes in net assets, or cash flows.

Note 2. Cash and Cash Equivalents

Cash and cash equivalents at December 31, 2020 and 2019 totaled $3,680,953 and $1,656,965, respectively. Of this balance, $3,021,527 exceeded the federally insured limit as of December 31, 2020.

Note 3. Loans Receivable

The major components of loans receivable as of December 31, 2020 and 2019 are as follows:

	2020	**2019**
Loans to CDFI's	$ 17,685,563	$ 17,295,675
Small business loans*	677,374	957,175
Allowance for loan losses	(202,137)	(200,829)
Total	$ 18,160,800	$ 18,052,021

*Small business loans represent small business participation loans purchased from member organizations

There were no loans pledged at December 31, 2020 or 2019.

The Company is party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its members. This financial instrument includes commitments to extend credit. This instrument involves, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized on the balance sheets position. The contractual or notional amounts of this instrument reflect the extent of involvement the Company has in particular classes of financial instruments.

Note 3. Loans Receivable, continued

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual or notional amount of this instrument. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Company upon extension of credit is based on management's credit evaluation of the counter-party.

Note 4. Allowance for Loan Losses

The allocation of the allowance for loan losses by loan components at December 31, 2020 was as follows:

Allowance for loan losses:	**Loans to CDFI's**	**Small business loans**	**Total**
December 31, 2019	$ 200,829	$ -	$ 200,829
Provision for loan losses	1,308	-	2,408
December 31, 2020	$ 203,237	$ -	$ 203,237
Ending Balance:			
Individually evaluated for impairment	$ -	$ -	$ -
Collectively evaluated for impairment	$ 203,237	$ -	$ 203,237
Loans Receivable			
Ending Balance:			
Individually evaluated for impairment	$ -	$ -	$ -
Collectively evaluated for impairment	$ 17,785,563	$ 677,374	$ 18,462,937

The allocation of the allowance for loan losses by loan components at December 31, 2019 was as follows:

Allowance for loan losses:	**Loans to CDFI's**	**Small business loans**	**Total**
December 31, 2018	$ 186,050	$ -	$ 186,050
Provision for loan losses	14,779	-	14,779
December 31, 2019	$ 200,829	$ -	$ 200,829
Ending Balance:			
Individually evaluated for impairment	$ -	$ -	$ -
Collectively evaluated for impairment	$ 200,829	$ -	$ 200,829
Loans Receivable			
Ending Balance:			
Individually evaluated for impairment	$ -	$ -	$ -
Collectively evaluated for impairment	$ 17,295,675	$ 957,175	$ 18,252,850

Note 4. Allowance for Loan Losses, continued

The Company utilizes a cash funded loan loss reserve in the amount of $150,000 to offset reserves related to small business loans. This has resulted in a reserve balance of $0 related to “Small business” loans as of December 31, 2020 and 2019.

There were no impaired loans as of December 31, 2020 and 2019. In addition, there were no loans identified as impaired during the years ended December 31, 2020 and 2019. As a result, there was no average recorded investment in impaired loans or interest income recognized on impaired loans for the years ended December 31, 2020 and 2019. In addition, there were no nonaccrual loans as of December 31, 2020 and 2019.

As of December 31, 2020 and 2019, there were no loans past due.

Credit Quality Indicators:

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans as to credit risk.

Loans graded Good or Satisfactory are excluded from the scope of the annual review and considered “Pass Credits” until: (a) they become past due; (b) management becomes aware of a deterioration in the credit worthiness of the borrower; or (c) the customer contacts the Company for a modification. In these circumstances, the loan is specifically evaluated for potential classification as Watch, Substandard, Doubtful or Loss. Loans are graded as loss are charged off. The Company uses the following definitions for risk ratings:

Credit Quality Indicators, continued

Good - Loans in this category are of good quality. The borrower has a history of successful performance, but may be susceptible to economic changes. Asset quality and liquidity are considered good. Overall leverage is normal for the industry in which the borrower operates and is stable. Cash flow levels may fluctuate but are sufficient to meet obligations. Margins and ratios are generally in line with or exceed industry norms. Earnings may have been inconsistent in the past, but have now stabilized and are equivalent to or better than the industry average. Other sources of financing, particularly from a number of other financial institutions, should be obtainable.

Satisfactory - Loans in this category are of satisfactory quality and risk is well within the Company’s range of acceptability. They may differ from loans rated “Good” because the borrower may be entering an expansion mode, acquiring another company, introducing new products or investing large amounts of capital in upgrading equipment or the facility. The borrower’s business may be cyclical or its customer base may have concentrations. Asset quality is acceptable. Liquidity levels fluctuate and usage of short term credit may be needed on a regular basis to finance growth or fluctuations in revenues and current assets. Leverage may be slightly to moderately higher than the industry, but is stable. Cash flow may fluctuate, but is evident in sales and earnings. The long-term outlook should be favorable. Management and owners have unquestioned character, although depth of management may be an issue.

Note 4. Allowance for Loan Losses, continued

Credit Quality Indicators, continued

Watch - Loans in this grade are considered to have a higher than normal credit risk and servicing needs. Asset quality is marginally acceptable. Leverage may fluctuate and is above normal for the industry. Cash flow is marginally adequate, but is not clearly sufficient to ensure continued performance of contractual obligations without improving trends. A loss year or earnings decline may occur, but the borrower has sufficient strength and financial flexibility to offset these events. A reasonable expectation exists that operating performance will improve in the near future. Some management weaknesses may exist. These borrowers are currently performing as agreed, but may be adversely affected by deteriorating industry conditions, competition, operating deficiencies, pending litigation of a significant nature, or declining asset quality, and therefore should be monitored closely. Access to alternative financing sources may not be possible or limited to asset-based lenders and other institutions specializing in high risk financing. Management has determined these loans require enhanced monitoring.

Substandard - Substandard assets are inadequately protected by the net worth and paying capacity of the borrower or the collateral pledged. Sound worth and paying capacity of a guarantor should be considered only if judged to be strong and dependable. Customers in this category have well defined weaknesses and the possibility exists that the Company will sustain some loss if the deficiencies are not corrected. Characteristics of a substandard loan include one or more of the following characteristics: a significant deterioration in earnings, cash flow or balance sheet composition, a deficient equity position, insufficient cash flow to meet maturity obligations, recent evidence of slow payments, a lack of adequate collateral or a dependence on illiquid collateral for repayment.

Doubtful - Doubtful ratings are applied to loans that exhibit weaknesses that make collection or liquidation in full improbable. This rating is used when the expected loss cannot be calculated, but estimates indicate that the loss will be significant in relation to the outstanding loan balance. The possibility of loss is extremely high, but because of certain important and reasonably specific pending factors which may work to the advantage and strengthening of the loan, its classification as a loss is deferred until its more exact status may be determined. Pending factors include proposed merger, acquisition, or liquidation procedures, capital injection, perfecting liens on additional collateral, and refinancing plans.

Loss - This rating is applied when the borrower's outstanding debt is considered uncollectible or of such little value that continuance as a Company asset is not warranted. This rating does not suggest that there is absolutely no recovery or salvage value, but that it is not practical or desirable to defer charging off the loan.

Note 4. Allowance for Loan Losses, continued

Loans by Risk Rating as of December 31, 2020	Loans to CDFI's	Small business loans	Total
Pass	$ 17,635,563	$ 677,374	$ 18,312,937
Watch	50,000	-	50,000
Total	$ 17,685,563	$ 677,374	$ 18,362,937

Loans by Risk Rating as of December 31, 2019	Loans to CDFI's	Small business loans	Total
Pass	$ 17,245,675	$ 957,175	$ 18,202,850
Watch	50,000	-	50,000
Total	$ 17,295,675	$ 957,175	$ 18,252,850

Troubled Debt Restructurings

There were no loans modified in a troubled debt restructuring in 2020 or 2019.

Note 5. Grants Receivable

ACC was due to receive grant awards from outside funding agencies as of December 31, 2020 as follows:

Funding Agency	Amount Awarded	Amount Received	Amount Receivable
Appalachian Regional Commission – 2017 Operating Grant	$ 250,000	$ 239,965	$ 10,035
Appalachian Regional Commission – 2018 Operating Grant	175,000	29,253	145,747
Appalachian Regional Commission – COVID-19 Response*	3,750,000	3,604,975	145,025
Opportunity Appalachia Grant – 2019	1,039,500	685,723	353,777
USDA RCDI TA Grant	150,000	3,993	146,007
BB&T Grant	125,000	-	125,000
Total	$ 5,489,500	$ 4,563,909	$ 925,591

*ARC-COVID-19 Response Grant funds were passed through to sub recipients.

ACC was due to receive grant awards from outside funding agencies as of December 31, 2019 as follows:

Funding Agency	Amount Awarded	Amount Received	Amount Receivable
Appalachian Regional Commission – 2017 Operating Grant	250,000	239,965	10,035
Appalachian Regional Commission – 2018 Operating Grant	175,000	13,346	161,654
Opportunity Appalachia Grant – 2019	1,039,500	-	1,039,500
CDFI – 2019 Financial Assistance Award	424,000	-	424,000
Total	$ 1,888,500	$ 253,311	$ 1,635,189

Note 6. Property and Equipment

Detail related to property and equipment as of December 31, 2020 and 2019 is as follows:

	2020	2019
Computer equipment	$ 4,101	$ 4,101
Less, accumulated depreciation	(3,315)	(2,554)
Total	$ 786	$ 1,547

Depreciation for the years ended December 31, 2020 and 2019 was $761 and $670, respectively.

Note 7. Concentration Risks

ACC has a potential risk associated with the concentration of support received from governmental agencies. Any change in future funding could have an adverse impact on ACC. The Company also has little diversification in its loan portfolio with the significant portion of loans outstanding to CDFIs as discussed in Note 3.

Note 8. Borrowings

Borrowings at December 31, 2020 and 2019, respectively, consist of the following:

Description	Rate	Maturity	2020	2019
Bank of America*	LIBOR+2.00%	05/01/2023	$ 3,000,000	$ 3,000,000
Calvert Foundation*	4.50%	05/06/2023	3,000,000	3,000,000
Deutsche Bank*	LIBOR+0.50%	05/06/2023	3,000,000	3,000,000
Ford Foundation*	1.00%	05/06/2023	3,000,000	3,000,000
Regions Bank**	LIBOR+2.50%	10/16/2020	-	-
Opportunity Finance Network**	3.00%	05/01/2023	400,000	400,000
BBVA Compass Bank**	2.50%	08/07/2025	400,000	400,000
PNC Bank**	1.00%	06/30/2024	500,000	500,000
Northern Trust***	2.00%	11/26/2023	2,000,000	2,000,000
RCIF**	2.00%	3/15/2024	200,000	200,000
Amalgamated Bank****	4.25%	9/27/2021	-	500,000
M&T Bank*****	4.50%	9/01/2022	-	-
CNote**	4.00%	11/23/2025	1,800,000	-
			$ 17,300,000	$ 16,000,000

*Disbursements on each loan are not to exceed $3 million. Each loan is unsecured with interest payments due on a quarterly basis. Each loan requires principal payments of $1 million due in May 2021 and May 2022, the sixth and seventh anniversary of the loan closing date, with the remaining principal due at maturity.
** Each loan is unsecured with interest payments due on a quarterly basis, with the remaining principal due at maturity.
***The loan is unsecured with interest payments due on a semi-annual basis, with the remaining principal due at maturity.
****The loan is unsecured with interest payable monthly in arrears, with the remaining principal due at maturity.
*****The loan is unsecured with interest payable quarterly in arrears, with the remaining principal due at maturity.

Performance against debt covenants is measured on a quarterly basis. As of December 31, 2020, ACC was not in compliance with all covenants related to the long-term borrowing with CNote. ACC received a waiver of the covenant violation from CNote for the period ended December 31, 2020.

Note 8. Borrowings, continued

As of December 31, 2020, the Company had unused lines of credit of $2,000,000 related to Regions Bank and Amalgamated Bank. The Company also has a term loan with M&T Bank in the amount of $500,000 that was not yet funded as of December 31, 2020.

Note 9. Fair Value of Financial Instruments

Fair Value Hierarchy

There are three levels of inputs in the fair value hierarchy that may be used to measure fair value. Financial instruments are considered *Level 1* when valuation can be based on quoted prices in active markets for identical assets or liabilities. *Level 2* financial instruments are valued using quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or models using inputs that are observable or can be corroborated by observable market data of substantially the full term of the assets or liabilities. Financial instruments are considered *Level 3* when their values are determined using pricing models, discounted cash flow methodologies or similar techniques and at least one significant model assumption or input is unobservable and when determination of the fair value requires significant management judgment or estimation.

Recurring Fair Value

The Company had no financial assets recorded at fair value on a recurring basis as of December 31, 2020 or 2019.

Non-Recurring Fair Value

The following describes the valuation techniques used by the Company to measure certain assets recorded at fair value on a nonrecurring basis in the financial statements:

Impaired Loans: Impairment of a loan is based on a loan's observable market price, the fair value of the collateral of a collateral-dependent loan or the discounted cash flow method. Fair value of the loan's collateral, when the loan is dependent on collateral, is determined by appraisals or independent valuation which is then adjusted for the cost related to liquidation of the collateral. The value of business equipment is based upon an outside appraisal, if deemed significant, or the net book value on the applicable business' financial statements if not considered significant using observable market data. Likewise, values for inventory and accounts receivables collateral are based on financial statement balances or aging reports. The Company had no impaired loans as of December 31, 2020 or 2019.

Note 10. Significant Contracts

During 2014, the Company entered into an agreement with another CDFI, Virginia Community Capital ("VCC"), to provide accounting and data processing services, including loan servicing. Under the terms of the contract, ACC paid an initial set-up fee and a monthly fee of $3,792, as well as additional fees for out of scope services as needed. ACC paid $45,500 under this agreement during the years ended December 31, 2020 and 2019, respectively. VCC is a member organization of ACC and a member of VCC's management team serves on the Board of Directors of the Company.

Note 11. Related Parties

The Company currently has twenty-four loans outstanding that have been made to CDFI's, each of which is a member organization of ACC. Certain CDFI's have a member of management who also serves on the Board of Directors of the Company. Each of these loans are on substantially the same terms as those prevailing for comparable transactions with persons not related to the Company and do not involve more than normal risk of collection or present other unfavorable terms.

Note 12. Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods.

	2020	2019
Subject to expenditure for specified purpose:		
Community development lending	$ 2,987,000	$ 2,987,000
Total net assets with donor restrictions	$ 2,987,000	$ 2,987,000

Note 13. Liquidity and Availability of Financial Assets

The Company's financial assets available within one year of the balance sheet date for general expenditure are as follows:

	2020
Cash and cash equivalents	$ 3,680,953
Loans and interest receivable, current portion	5,330,289
Grants receivable	925,591
Financial assets available within one year	$ 9,936,833

As part of ACC's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due. ACC invests excess cash in short-term investments, including money market accounts, and has the ability to redeem certain investments as necessary to meet its obligations.

Note 14. Subsequent Events

Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are issued. Recognized subsequent events are events or transactions that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements. Nonrecognized subsequent events are events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date.

The Company evaluated subsequent events through the date its financial statements were issued, and no subsequent events requiring accrual or disclosure were noted through June 18, 2021.

MEMBERS OF APPALACHIAN COMMUNITY CAPITAL INCLUDE:

Access to Capital for Entrepreneurs (Georgia)

Alternatives Federal Credit Union (New York)

Appalachian Development Corporation (South Carolina)

Appalachian Growth Capital (Ohio)

Bridgeway Capital (Pennsylvania)

Bronze Valley (Virginia)

Carolina Small Business Development Fund (North Carolina)

CommunityWorks (South Carolina)

Finance Fund Capital Corporation (Ohio)

Hampton Roads Ventures, LLC (Virginia)

Kentucky Highlands Investment Corporation (Kentucky)

LiftFund (Alabama)

Mountain Association for Community Economic Development (Kentucky)

Mountain BizWorks (North Carolina)

Natural Capital Investment Fund (West Virginia)

Pathway Lending (Tennessee)

People, Inc. (Virginia)

Piedmont Business Capital (North Carolina)

Sabre Financial (Alabama)

South Carolina Community Loan Fund (South Carolina)

Southeast Kentucky Economic Development Corporation (Kentucky)

Three Rivers Planning & Development District (Mississippi)

Virginia Community Capital (Virginia)

Woodlands Community Lenders (West Virginia)