

Appalachian Community Capital Corporation
Subpart F of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)

Single Audit

Reports

For the year ended December 31, 2020

Appalachian Community Capital Corporation

Schedule of Expenditures of Federal Awards

For the Year ended December 31, 2020

Federal Grantor/Pass-Through Grantor Program Title	CFDA Number	Federal Grantor/Pass- Through Grantor's Number	Federal Expenditures
<u>U.S. DEPARTMENT OF AGRICULTURE:</u>			
Direct Assistance			
Rural Community Development Initiative (RCDI)	10.446		3,996
TOTAL U.S. DEPARTMENT OF AGRICULTURE			<u>3,996</u>
<u>U.S. DEPARTMENT OF THE TREASURY:</u>			
CDFI CLUSTER			
Direct Assistance			
Community Development			
Financial Institutions:			
FA - 2019	21.020	191FA051427	125,000
TOTAL U.S. DEPARTMENT OF THE TREASURY			<u>125,000</u>
<u>APPALACHIAN REGIONAL COMMISSION:</u>			
Direct Assistance:			
Appalachian Regional Commission Operating Grant	23.002	CO-17622-C3	108,177
Appalachian Regional Commission Opportunity Appalachia	23.002	PW-19707-IM	393,759
Appalachian Regional Commission COVID Relief	23.002	CO-19944	3,664,864
TOTAL APPALACHIAN REGIONAL COMMISSION			<u>4,166,800</u>
TOTAL FEDERAL ASSISTANCE EXPENDED			<u>\$ 4,295,796</u>

Appalachian Community Capital Corporation

Notes to Schedule of Expenditures of Federal Awards

For the year ended December 31, 2020

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Appalachian Community Capital Corporation, and its subsidiaries (the Company) under programs of the federal government for the year ended December 31, 2020. The information presented in this schedule is presented on the accrual basis of accounting in accordance with the requirement of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the Company, it is not intended and does not present the financial position, changes in net assets or cash flows of the Company.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Company has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Note 3. Subrecipients

Of the federal expenditures presented in the schedule, Appalachian Community Capital Corporation provided federal awards to subrecipients as follows:

<u>Program Title</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
ARC (COVID Relief)	23.002	\$3,569,825



**Independent Auditor's Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance with
*Government Auditing Standards***

The Board of Directors
Appalachian Community Capital Corporation
Christiansburg, Virginia

We have audited, in accordance with the 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, the consolidated financial statements of Appalachian Community Capital Corporation (the "Company") as of and for the year ended December 31, 2020, and the related notes to the consolidated financial statements, which collectively comprise the Company's basic financial statements, and have issued our report thereon dated June 18, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Company's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's consolidated financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying schedule of schedule of findings and questioned costs as item 2020-001 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Company's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Appalachian Community Capital's Response to Finding

The Company's response to the finding identified in our audit are described in the accompanying schedule of findings and questioned costs. The Company's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Company's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Company's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Elliott Davis, PLLC". The signature is written in a cursive style with a large, sweeping initial 'E'.

Raleigh, North Carolina
June 18, 2021



Independent Auditor’s Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance in Accordance with OMB Uniform Guidance

The Board of Directors
Appalachian Community Capital Corporation
Christiansburg, Virginia

Report on Compliance for Each Major Federal Program

We have audited Appalachian Community Capital Corporation’s and subsidiaries (the “Company”) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Company’s major federal programs for the year ended December 31, 2020. The Company’s major federal programs are identified in the summary of auditor’s results section of the accompanying *Schedule of Findings and Questioned Costs*.

Management’s Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor’s Responsibility

Our responsibility is to express an opinion on compliance for each of the Company’s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and audit requirements of the Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Company’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Company’s compliance.

Opinion on Each Major Federal Program

In our opinion, the Company complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2020.

Report on Internal Control over Compliance

Management of the Company is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit, we considered the Company's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weaknesses in internal control over compliance, yet important enough to merit attention by those charged with governance

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the consolidated financial statements of Appalachian Community Capital Corporation and its subsidiaries as of and for the year ended December 31, 2020 and the related notes to the financial statements. We issued our report thereon dated June 18, 2021, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.



Raleigh, North Carolina
June 18, 2021

Appalachian Community Capital Corporation

Schedule of Findings and Questioned Costs

For the year ended December 31, 2020

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness identified? Yes X No

Significant deficiency identified? X Yes None

Noncompliance material to the financial statements noted? Yes X No

Federal Awards

Internal control over major programs:

Material weakness identified? Yes X No

Significant deficiency identified? Yes X None

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings that are required to be reported in accordance with the 2 CFR 200.516(a)? Yes X No

Identification of major programs:

Appalachian Regional Commission 23.002

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? No

II. FINDINGS – FINANCIAL STATEMENT AUDIT

2020-001: Significant Deficiency over Debt Covenants

Criteria or specific requirement: The Company should have a process in place to identify all debt covenant requirements and ensure compliance with all covenant requirements.

Conditions: The Company did not have a process in place to ensure all debt covenants have been properly identified upon entering into new debt agreements.

Effect: The Company did not properly identify a debt covenant requirement and was in violation of the covenant as of December 31, 2020, thus causing the debt to be in default and the entire balance due to the lender. The Company was able to obtain a waiver of the debt covenant violation from the lender upon identification of the violation by the external auditors. The lender also agreed to modify the covenant by lowering the ratio requirement and making this covenant an annual measurement moving forward.

Cause: A formal process to identify debt covenant requirements for new debt agreements does not exist.

Recommendation: We recommend the Company develop a process to identify all debt covenant requirements with any new debt agreements entered into.

Appalachian Community Capital Corporation

Schedule of Findings and Questioned Costs

For the year ended December 31, 2020

III. FINDINGS – FEDERAL AWARDS

None reported.



Corrective Action Plan

Finding 2020-001, Significant Deficiency over Debt Covenants

Recommendation: We recommend the Company develop a process to identify all debt covenant requirements with any new debt agreements entered into.

Corrective Action Plan: In addition to the process already in place (which includes ACC's and Legal's review of all debt agreements and covenants) ACC's SVP-Finance will create a system to track all covenants for ACC investments, including any covenants that differ from the requirements in ACC's standard compliance form. ACC will summarize these covenants and compliance status at each board meeting.

Completion Date: June 30, 2021

Name of Contact Persons: Donna Gambrell, President and CEO

John McLean, SVP – Finance

Appalachian Community Capital Corporation

Summary Schedule of Prior Audit Findings

For the year ended December 31, 2020

No Prior Year Findings