APPALACHIAN COMMUNITY CAPITAL CORPORATION

CONSOLIDATED FINANCIAL REPORT

December 31, 2022

CONTENTS

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Appalachian Community Capital Corporation
Christiansburg, Virginia

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of Appalachian Community Capital Corporation (the "Company"), which comprise the consolidated statement of financial position as of December 31, 2022 and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The consolidated financial statements of Appalachian Community Capital Corporation as of December 31, 2021 were audited by other auditors whose report dated May 19, 2022 expressed an unmodified opinion on those statements.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Report on the Audit of the Financial Statements (Continued)

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 generally accepted auditing standards 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, intentional 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 generally accepted auditing standards 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 the Company'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 the Company'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 Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 24, 2023, on our consideration of the Company'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 the Company'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 the Company's internal control over financial reporting and compliance.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Christiansburg, Virginia
April 24, 2023

APPALACHIAN COMMUNITY CAPITAL CORPORATION

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
December 31, 2022 and 2021

	2022	2021
ASSETS		
Cash and cash equivalents	$ 2,325,410	$ 3,266,704
Cash and cash equivalents – restricted	5,603,109	7,381,843
Cash funded loan loss reserve	300,000	450,000
Loans receivable, net of allowance for loan losses of $228,324 and $157,129 at December 31, 2022 and 2021, respectively	20,520,382	15,967,102
Grants receivable	336,852	349,906
Accrued interest receivable	39,502	31,250
Property and equipment, net	1,468	91
Prepaid expenses and other assets	28,231	24,025
Total assets	$ 29,154,954	$ 27,470,921
LIABILITIES AND NET ASSETS		
Notes payable	$ 21,933,055	$ 19,250,000
Accrued interest payable	80,583	66,160
Accounts payable	127,471	22,425
Deferred revenue	2,188,101	3,354,000
Accrued expenses and other liabilities	26,719	33,156
Total liabilities	24,355,929	22,725,741
Net assets – without donor restrictions	1,812,025	1,758,180
Net assets – with donor restrictions	2,987,000	2,987,000
Total net assets	4,799,025	4,745,180
Total liabilities and net assets	$ 29,154,954	$ 27,470,921

The Notes to Consolidated Financial Statements are an integral part of these statements.

APPALACHIAN COMMUNITY CAPITAL CORPORATION

CONSOLIDATED STATEMENT OF ACTIVITIES
Years Ended December 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Grant income	$ 513,405	$ 1,982,754	$ 2,496,159
Interest income – loans	483,243	-	483,243
Interest income – certificates of deposits	22,069	-	22,069
Other operating income	5,850	-	5,850
Net assets released from restrictions	1,982,754	(1,982,754)	-
Total support and revenue	3,007,321	-	3,007,321
EXPENSES			
Program Services			
Interest expense	497,102	-	497,102
Provision for loan losses	71,195	-	71,195
Salaries and employee benefits	234,833	-	234,833
Data processing	38,878	-	38,878
Office and administrative	25,809	-	25,809
Professional fees	522,751	-	522,751
Travel expense	3,820	-	3,820
Dues and subscriptions	30,071	-	30,071
Pass through grant expense	925,000	-	925,000
Other expense	313	-	313
Total program services expenses	2,349,772	-	2,349,772
Management and General			
Salaries and employee benefits	41,441	-	41,441
Data processing	6,861	-	6,861
Office and administrative	4,555	-	4,555
Professional fees	491,389	-	491,389
Travel expense	674	-	674
Dues and subscriptions	5,307	-	5,307
Other expense	53,477	-	53,477
Total management and general expenses	603,704	-	603,704
Total expenses	2,953,476	-	2,953,476
CHANGE IN NET ASSETS	53,845	-	53,845
NET ASSETS – BEGINNING OF YEAR	1,758,180	2,987,000	4,745,180
NET ASSETS – END OF YEAR	$ 1,812,025	$ 2,987,000	$ 4,799,025

The Notes to Consolidated Financial Statements are an integral part of these statements.

APPALACHIAN COMMUNITY CAPITAL CORPORATION

CONSOLIDATED STATEMENT OF ACTIVITIES
Years Ended December 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Grant income	$ 215,500	$ 1,990,650	$ 2,206,150
Interest income – loans	469,732	-	469,732
Interest income – certificates of deposits	14,755	-	14,755
Other operating income	50,480	-	50,480
Recovery for loan losses	45,008	-	45,008
Net assets released from restrictions	1,990,650	(1,990,650)	-
Total support and revenue	2,786,125	-	2,786,125
EXPENSES			
Program Services			
Interest expense	439,496	-	439,496
Salaries and employee benefits	196,866	-	196,866
Data processing	38,675	-	38,675
Office and administrative	1,311	-	1,311
Professional fees	842,795	-	842,795
Travel expense	1,715	-	1,715
Dues and subscriptions	18,487	-	18,487
Pass through grant expense	600,000	-	600,000
Other expense	27,674	-	27,674
Total program services expenses	2,167,019	-	2,167,019
Management and General			
Salaries and employee benefits	34,741	-	34,741
Data processing	6,825	-	6,825
Office and administrative	231	-	231
Professional fees	148,728	-	148,728
Travel expense	303	-	303
Dues and subscriptions	3,263	-	3,263
Other expense	4,884	-	4,884
Total management and general expenses	198,975	-	198,975
Total expenses	2,365,994	-	2,365,994
CHANGE IN NET ASSETS	420,131	-	420,131
NET ASSETS – BEGINNING OF YEAR	1,338,049	2,987,000	4,325,049
NET ASSETS – END OF YEAR	$ 1,758,180	$ 2,987,000	$ 4,745,180

The Notes to Consolidated Financial Statements are an integral part of these statements.

APPALACHIAN COMMUNITY CAPITAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2022 and 2021

	2022	2021
OPERATING ACTIVITIES		
Change in net assets	$ 53,845	$ 420,131
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation expense	580	695
Provision (recovery) for loan losses	71,195	(45,008)
Change in current assets and liabilities:		
(Increase) decrease in:		
Grants receivable	13,054	(112,337)
Cash funded loan loss reserves	150,000	(300,000)
Accrued interest receivable	(8,252)	6,905
Prepaid expenses and other assets	(4,206)	5,572
Increase (decrease) in:		
Accrued interest payable	14,423	23,668
Accounts payable	105,046	10,925
Deferred revenue	(1,165,899)	2,663,284
Accrued expenses and other liabilities	(6,437)	5,053
Net cash provided by (used in) operating activities	(776,651)	2,678,888
INVESTING ACTIVITIES		
Net decrease (increase) in loans	(4,624,475)	2,238,706
Purchase of premises and equipment	(1,957)	-
Net cash provided by (used in) investing activities	(4,626,432)	2,238,706
FINANCING ACTIVITIES		
Increase in notes payable	2,683,055	1,950,000
Net cash provided by financing activities	2,683,055	1,950,000
Net change in cash and cash equivalents	(2,720,028)	6,867,594
CASH AND CASH EQUIVALENTS		
Beginning	10,648,547	3,780,953
Ending	$ 7,928,519	$ 10,648,547
Cash and cash equivalents	$ 2,325,410	$ 3,266,704
Cash and cash equivalents – restricted	5,603,109	7,381,843
Cash and cash equivalents – end of year	$ 7,928,519	$ 10,648,547
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Interest paid	$ 643,845	$ 415,828

The Notes to Consolidated Financial Statements are an integral part of these 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 Company that is under common control by ACC and is therefore consolidated for financial reporting purposes. The consolidation of this Company does not have a material impact on the financial statements of ACC.

COVID-19 or coronavirus impact

The World Health Company 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, 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.

(Continued)

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.

Restricted cash and cash equivalents

Restricted cash represents cash on hand used to fulfill the Company's obligations in grant and loan agreements. The largest restrictions on cash relate to lending, technical assistance, and loan loss reserves.

(Continued)

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

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.

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. This grant expired in 2022. 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. In 2021, the Company allocated an additional $300,000 of grant funding received from the CDFI Fund to the cash funded loan loss reserve.

(Continued)

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

Allowance for loan losses (Continued)

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.

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. In 2020, the Company granted deferrals on 3 loans totaling $6 million. As of December 31, 2022, 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.

(Continued)

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

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, 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.

Income taxes

The Company is a non-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, 2022 and 2021. Tax years beginning in 2019 are open to examination by taxing authorities.

Revenue from contracts with customers

All of the Company'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, excluding interest and fees on loans and other interest income.

	2022	2021
Grant income	$ 2,496,159	$ 2,206,150
	$ 2,496,159	$ 2,206,150

A description of the Company's revenue streams accounted for under ASC 606 follows:

Grant income: The Company receives grants 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.

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, non-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.

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. 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, 2022 and 2021 totaled $2,325,410 and $3,266,704, respectively. Restricted cash and cash equivalents at December 31, 2022 and 2021 totaled $5,603,109 and $7,381,843, respectively. Of this balance, $7,416,877 exceeded the federally insured limit as of December 31, 2022.

Note 3. Loans Receivable

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

	2022	2021
Loans to CDFI's	$ 20,140,063	$ 15,437,991
Small business loans*	608,643	686,240
Allowance for loan losses	(228,324)	(157,129)
	$ 20,520,382	$ 15,967,102

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

There were no loans pledged at December 31, 2022 or 2021.

(Continued)

Note 3. Loans Receivable (Continued)

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 statements of financial position. The contractual or notional amounts of this instrument reflect the extent of involvement the Company has in particular classes of financial instruments.

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 counterparty.

Note 4. Allowance for Loan Losses

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

	2022		
	Loans to CDFI's	**Small Business Loans**	**Total**
Allowance for loan losses:			
December 31, 2021	$ 157,129	$ -	$ 157,129
Provision for loan losses	71,195	-	71,195
December 31, 2022	$ 228,324	$ -	$ 228,324
Ending balance:			
Individually evaluated for impairment	$ -	$ -	$ -
Collectively evaluated for impairment	$ 228,324	$ -	$ 228,324
Loans receivable			
Ending balance:			
Individually evaluated for impairment	$ -	$ -	$ -
Collectively evaluated for impairment	$ 20,140,063	$ 608,643	$ 20,748,706

(Continued)

Note 4. Allowance for Loan Losses (Continued)

	2021		
	Loans to CDFI's	**Small Business Loans**	**Total**
Allowance for loan losses:			
December 31, 2020	$ 202,137	$ -	$ 202,137
Recovery of loan losses	(45,008)	-	(45,008)
December 31, 2021	$ 157,129	$ -	$ 157,129
Ending balance:			
Individually evaluated for impairment	$ -	$ -	$ -
Collectively evaluated for impairment	$ 157,129	$ -	$ 157,129
Loans receivable			
Ending balance:			$
Individually evaluated for impairment	$ -	$ -	$ -
Collectively evaluated for impairment	$ 15,437,991	$ 686,240	$ 16,124,231

The Company utilizes a cash funded loan loss reserve in the amount of $300,000 as of December 31, 2022 and $450,000 as of December 31, 2021 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, 2022 and 2021.

There were no impaired loans as of December 31, 2022 and 2021. In addition, there were no loans identified as impaired during the years ended December 31, 2022 and 2021. 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, 2022 and 2021. In addition, there were no nonaccrual loans as of December 31, 2022 and 2021.

As of December 31, 2022 and 2021, there were no loans past due.

<u>Credit quality indicators</u>

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.

(Continued)

Note 4. Allowance for Loan Losses (Continued)

Credit quality indicators (Continued)

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. The Company uses the following definitions for risk ratings:

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.

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.

(Continued)

Note 4. Allowance for Loan Losses (Continued)

Credit quality indicators (Continued)

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.

	2022		
	Loans to CDFI's	**Small Business Loans**	**Total**
Loans by risk rating:			
Pass	$ 20,140,063	$ 608,643	$ 20,748,706
Watch	-	-	-
	$ 20,140,063	$ 608,643	$ 20,748,706

	2021		
	Loans to CDFI's	**Small Business Loans**	**Total**
Loans by risk rating:			
Pass	$ 15,387,991	$ 686,240	$ 16,074,231
Watch	50,000	-	50,000
	$ 15,437,991	$ 686,240	$ 16,124,231

(Continued)

Note 4. Allowance for Loan Losses (Continued)

Troubled debt restructurings

There were no loans modified in a troubled debt restructuring in 2022 or 2021.

Note 5. Grants Receivable

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

	2022	2021
Appalachian Regional Commission- 2018 Operating Grant	$ 24,114	$ 53,477
Appalachian Regional Commission – COVID-19 Response*	61,418	61,418
Opportunity Appalachia Grant – 2019	-	353,777
USDA RCDI TA Grant	114,040	134,052
Appalachian Regional Commission – 2022 Operating Grant	977,425	-
Robert Wood Johnson Foundation	266,667	-
	1,443,664	602,724
Unearned grants receivable	(1,106,812)	(252,818)
Total grants receivable, net	$ 336,852	$ 349,906

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

Note 6. Property and Equipment

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

	2022	2021
Computer equipment	$ 3,049	$ 4,101
Less: accumulated depreciation	(1,581)	(4,010)
	$ 1,468	$ 91

Depreciation for the years ended December 31, 2022 and 2021 was $580 and $695, 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, consist of the following:

Description	Rate	Maturity	2022	2021
Bank of America[1]	LIBOR+2.00%	05/01/2023	$ 750,000	$ 2,000,000
Calvert Foundation[1]	4.50%	05/06/2023	750,000	2,000,000
Deutsche Bank[1]	LIBOR+0.50%	05/06/2023	750,000	2,000,000
Ford Foundation[1]	1.00%	05/06/2023	750,000	2,000,000
Opportunity Finance Network[2]	3.00%	05/01/2023	400,000	400,000
BBVA Compass Bank[2]	2.50%	08/06/2025	400,000	400,000
PNC Bank[2]	1.00%	06/30/2024	500,000	500,000
Northern Trust[3]	2.00%	11/26/2023	1,000,000	1,000,000
Northern Trust[3]	2.00%	12/18/2024	1,000,000	1,000,000
RCIF[2]	2.00%	03/15/2024	200,000	200,000
CNote[2]	1.50%	10/24/2026	750,000	750,000
Olamina Fund[4]	3.50%	09/30/2026	2,000,000	2,000,000
Opportunity Finance Network Google Endeavor[5]	3.00%	05/31/2030	5,000,000	5,000,000
Ford Foundation[6]	2.00%	12/6/2032	3,000,000	-
Truist Bank[2]	2.00%	12/9/2026	1,483,055	-
U.S. Bancorp Community Development Corporation[7]	2.35%	11/11/2024	1,500,000	-
SK2 Fund[8]	2.00%	12/1/2032	600,000	-
Arthur B. Shultz Foundation[8]	2.00%	12/1/2032	100,000	-
Kalliopeia[9]	2.00%	11/1/2027	1,000,000	-
			$ 21,933,055	$ 19,250,000

1. 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.
2. Each loan is unsecured with interest payments due on a quarterly basis, with the remaining principal due at maturity.
3. The loan is unsecured with interest payments due on a semi-annual basis, with the remaining principal due at maturity.
4. The loan is unsecured with interest payable monthly in arrears, with the remaining principal due at maturity.
5. The loan is unsecured with interest payable quarterly in arrears, with the remaining principal due at maturity.
6. The loan is unsecured with interest payable annually. Principal payments of $750,000 are due on the seventh, eighth, ninth, and tenth anniversaries the loan closing date.
7. The loan is unsecured with interest payable quarterly in arrears, with the remaining principal due three years from the initial disbursement date. However, at the end of each of the three years during the initial term, the loan's maturity date will automatically be extended for three years.

(Continued)

Note 8. Borrowings (Continued)

8. The loan is unsecured with interest payable annually in arrears, with the remaining principal due at maturity.
9. The loan is unsecured with interest payable quarterly in arrears. Principal payments of $500,000 are due on November 1, 2026 and 2027.

Performance against debt covenants is measured on a quarterly basis. As of December 31, 2022 and 2021, ACC was in compliance with all covenants related to its long-term borrowings.

As of December 31, 2022, the Company had unused lines of credit totaling $1,500,000 and unfunded term loans totaling $8,516,945.

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, 2022 or 2021.

Non-recurring fair value

The Company had no financial assets recorded at fair value on a non-recurring basis as of December 31, 2022 or 2021.

Note 10. Significant Contracts

During 2014, the Company entered into an agreement with another CDFI, Virginia Community Capital (“VCC”), to provide data processing services. Under the terms of the contract, ACC pays a monthly fee of $3,792, as well as additional fees for out of scope services as needed. For the years ended December 31, 2022 and 2021, ACC paid $45,500 each year under this agreement. 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 thirty-three 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.

	2022	2021
Subject to expenditure for specified purpose:		
Community development lending	$ 2,987,000	$ 2,987,000
	$ 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:

	2022	2021
Cash and cash equivalents	$ 7,928,519	$ 10,648,547
Loans and interest receivable, current portion	3,280,481	2,838,948
Grants receivable	336,852	349,906
	$ 11,545,852	$ 13,837,401

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 April 24, 2023.

APPALACHIAN COMMUNITY CAPITAL CORPORATIONS

MEMBER ORGANIZATION
December 31, 2022

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 (Alabama)
Business Seed Capital/Total Action for Progress (Virginia)
Carolina Small Business Development Fund (North Carolina)
CommunityWorks (South Carolina)
Finance Fund Capital Corporation (Ohio)
Foodshed Capital (Virginia)
Hampton Roads Ventures, LLC (Virginia)
Institute Capital (ICAP) (North Carolina)
InvestPGH (PA)
Kentucky Highlands Investment Corporation (Kentucky)
LiftFund (Alabama)
Mountain Association for Community Economic Development (Kentucky)
Mountain BizWorks (North Carolina)
Neighborhood Community Development Fund (Pennsylvania)
North Alabama Revolving Loan Fund (Alabama)
Park Community Credit Union (Kentucky)
Partner Community Capital (West Virginia)
Pathway Lending (Tennessee)
People, Inc. (Virginia)
Piedmont Business Capital (North Carolina)
Renaissance Community Loan Fund (Mississippi)
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)