Appalachian Community Capital Corporation

Consolidated Financial Report

December 31, 2024

BROWNEDWARDS
certified public accountants

Appalachian Community Capital Corporation

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BROWN EDWARDS
certified public accountants

Independent Auditor's Report

Board of Directors
Appalachian Community Capital Corporation
Christiansburg, Virginia

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Appalachian Community Capital Corporation (the "Company"), which comprise the consolidated statements of financial position as of December 31, 2024 and 2023, and the related consolidated statements of activities and cash flows for the years 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, 2024 and 2023, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 Consolidated 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 Consolidated 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 consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated 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 30, 2025, 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 30, 2025

Consolidated Financial Statements

Appalachian Community Capital Corporation

Consolidated Statements of Financial Position

December 31, 2024 and 2023

	2024	2023
ASSETS		
Cash and cash equivalents	$ 1,699,108	$ 686,398
Cash and cash equivalents – restricted	522,179,281	2,224,323
Cash funded loan loss reserve	300,000	300,000
Loans receivable, net of allowance for credit losses of $222,324 and $141,324 at December 31, 2024 and 2023, respectively	32,151,415	25,032,306
Grants receivable	645,730	801,649
Accrued interest receivable	1,572,089	56,832
Property and equipment, net	6,502	2,296
Prepaid expenses and other assets	32,029	44,446
Total assets	**$ 558,586,154**	**$ 29,148,250**
LIABILITIES AND NET ASSETS		
Notes payable	$ 31,718,352	$ 22,603,112
Accrued interest payable	67,817	58,921
Accounts payable	568,089	68,574
Deferred revenue	520,262,505	1,398,327
Accrued expenses and other liabilities	776,984	36,031
Total liabilities	553,393,747	24,164,965
Net assets – without donor restrictions	2,205,407	1,996,285
Net assets – with donor restrictions	2,987,000	2,987,000
Total net assets	5,192,407	4,983,285
Total liabilities and net assets	**$ 558,586,154**	**$ 29,148,250**

Appalachian Community Capital Corporation

Consolidated Statements of Activities

Years Ended December 31, 2024

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Grant income	$ -	$ 10,995,875	$ 10,995,875
Interest income – loans	987,427	-	987,427
Interest income – certificates of deposits	111,023	-	111,023
Other operating income	71,019	-	71,019
Net assets released from restrictions	10,995,875	(10,995,875)	-
Total support and revenue	12,165,344	-	12,165,344
EXPENSES			
Program Services			
Interest expense	707,246	-	707,246
Provision for loan losses	81,000	-	81,000
Salaries and employee benefits	524,464	-	524,464
Data processing	55,293	-	55,293
Office and administrative	11,342	-	11,342
Professional fees	2,707,668	-	2,707,668
Travel expense	56,960	-	56,960
Dues and subscriptions	74,141	-	74,141
Pass through grant expense	7,017,000	-	7,017,000
Other expense	28,106	-	28,106
Total program services expenses	11,263,220	-	11,263,220
Management and General			
Salaries and employee benefits	92,553	-	92,553
Data processing	9,758	-	9,758
Office and administrative	2,001	-	2,001
Professional fees	477,824	-	477,824
Travel expense	10,052	-	10,052
Dues and subscriptions	13,084	-	13,084
Other expense	87,730	-	87,730
Total management and general expenses	693,002	-	693,002
Total expenses	11,956,222	-	11,956,222
CHANGE IN NET ASSETS FROM NET INCOME	209,122	-	209,122
NET ASSETS – BEGINNING OF YEAR	1,996,285	2,987,000	4,983,285
NET ASSETS – END OF YEAR	**$ 2,205,407**	**$ 2,987,000**	**$ 5,192,407**

Appalachian Community Capital Corporation

Consolidated Statements of Activities

Years Ended December 31, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Grant income	$ 1,260,818	$ 2,366,741	$ 3,627,559
Interest income – loans	629,728	-	629,728
Interest income – certificates of deposits	60,407	-	60,407
Other operating income	33,458	-	33,458
Net assets released from restrictions	2,366,741	(2,366,741)	-
Total support and revenue	4,351,152	-	4,351,152
EXPENSES			
Program Services			
Interest expense	540,579	-	540,579
Provision for loan losses	20,000	-	20,000
Salaries and employee benefits	362,182	-	362,182
Data processing	53,497	-	53,497
Office and administrative	38,352	-	38,352
Professional fees	1,970,478	-	1,970,478
Travel expense	29,203	-	29,203
Dues and subscriptions	35,473	-	35,473
Pass through grant expense	55,000	-	55,000
Other expense	11,688	-	11,688
Total program services expenses	3,116,452	-	3,116,452
Management and General			
Salaries and employee benefits	63,914	-	63,914
Data processing	9,441	-	9,441
Office and administrative	6,768	-	6,768
Professional fees	980,497	-	980,497
Travel expense	5,154	-	5,154
Dues and subscriptions	6,260	-	6,260
Other expense	85,406	-	85,406
Total management and general expenses	1,157,440	-	1,157,440
Total expenses	4,273,892	-	4,273,892
CHANGE IN NET ASSETS	77,260	-	77,260
CHANGE IN NET ASSETS FROM THE ADOPTION OF ASC 326	107,000	-	107,000
NET ASSETS – BEGINNING OF YEAR	1,812,025	2,987,000	4,799,025
NET ASSETS – END OF YEAR	**$ 1,996,285**	**$ 2,987,000**	**$ 4,983,285**

Appalachian Community Capital Corporation

Consolidated Statements of Cash Flows

Years Ended December 31, 2024 and 2023

	2024	2023
OPERATING ACTIVITIES		
Change in net assets	$ 209,122	$ 77,260
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation expense	1,195	1,042
Provision for loan losses	81,000	20,000
Change in current assets and liabilities:		
(Increase) decrease in:		
Grants receivable	155,919	(464,797)
Accrued interest receivable	(1,515,257)	(17,330)
Prepaid expenses and other assets	12,417	(19,232)
Increase (decrease) in:		
Accrued interest payable	8,896	(21,662)
Accounts payable	499,515	(58,897)
Deferred revenue	518,864,178	(789,774)
Accrued expenses and other liabilities	740,953	9,312
Net cash provided by (used in) operating activities	519,057,938	(1,264,078)
INVESTING ACTIVITIES		
Net increase in loans	(7,200,109)	(4,424,924)
Purchase of premises and equipment	(5,401)	(1,871)
Net cash used in investing activities	(7,205,510)	(4,426,795)
FINANCING ACTIVITIES		
Increase in notes payable, net	9,115,240	673,075
Net cash provided by financing activities	9,115,240	673,075
Net change in cash and cash equivalents	520,967,668	(5,017,798)
CASH AND CASH EQUIVALENTS		
Beginning	2,910,721	7,928,519
Ending	**$ 523,878,389**	**$ 2,910,721**
Cash and cash equivalents	$ 1,699,108	$ 686,398
Cash and cash equivalents – restricted	522,179,281	2,224,323
Cash and cash equivalents – end of year	**$ 523,878,389**	**$ 2,910,721**
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Interest paid	**$ 698,350**	**$ 562,241**

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 and Green Bank for Rural America are non-profit companies that are under common control by ACC and are therefore consolidated for financial reporting purposes.

In 2024, the Company received a grant award for $500,000,000 from the Environmental Protection Agency (EPA), as part of the Inflation Reduction Act. The Company formed Green Bank for Rural America to accelerate economic restructuring and diversification in communities impacted by declines in the fossil fuel industry. As a result of this grant award, these funds of approximately $500.7 million are included in the restricted cash and cash equivalents line on the statement of condition with a corresponding amount as deferred revenue.

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 credit 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.

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 consolidated 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 consolidated 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" and "cash and cash equivalents – restricted" on the consolidated 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. Cash and cash equivalents restricted includes $500,651,670 in cash included in U.S. Treasury Securities Money Market Fund at December 31, 2024.

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 non-performing 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 Credit Losses – Loans

The allowance for credit losses is a valuation account that is deducted from the loans amortized cost basis to present the net amount expected to be collected on the loans. Loans are charged off against the allowance when management believes the un-collectability of a loan balance is confirmed. Expected recoveries do not exceed the aggregate of amounts previously charged off and expected to be charged off.

Management estimates the allowance balance using relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts.

The allowance for credit losses is measured on a collective (pool) basis when similar risk characteristics exist. The Company utilizes the Weighted Average Remaining Maturity (WARM) approach to calculate the expected loss for each pool. The WARM is based on every individual loan in the pool. Each loan's remaining life is determined based on contracted loan payments, expected prepayments, and maturity dates. Lifetime losses for each pool are calculated by multiplying the loan pool balance by the lifetime balance multiplier, the annual loss rate, and the calculated uncollected percentage. Qualitative adjustments are a combination of forward looking projections for each pool based on objective economic data and custom qualitative factors as determined by the Company, such as economic trends, and conditions and underwriting standards. The total loss rate is the lifetime loss.

Loans that do not share risk characteristics are evaluated on an individual basis. Loans evaluated individually are not included in the collective evaluation.

Expected credit losses are estimated over the contractual term of the loans, adjusted for expected prepayments when appropriate. The contractual term excludes expected extensions, renewals, and modifications unless either of the following applies: management has a reasonable expectation at the reporting date that a loan modification will be executed with an individual borrower or the extension or renewal options are included in the original or modified at the reporting date are not unconditionally cancellable by the Company.

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 credit 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.

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, 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, 2024 and 2023. Tax years beginning in 2020 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.

	2024	2023
Grant income	**$ 10,995,875**	**$ 3,627,559**

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

Accounting standards have been issued by the FASB that are not currently applicable to the Company or are not expected to have a material impact on the Company's consolidated financial statements.

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, 2024 and 2023 totaled $1,699,108 and $686,398, respectively. Restricted cash and cash equivalents at December 31, 2024 and 2023 totaled $522,179,281 and $2,224,323, respectively. The Company regularly maintains cash balances in excess of FDIC insured limits. The Company has not experienced any losses in such accounts.

Note 3 – Loans Receivable

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

	2024	2023
Loans to CDFI's	$ 31,690,293	$ 24,468,347
Small business loans*	683,446	705,283
Allowance for loan losses	(222,324)	(141,324)
	$ 32,151,415	**$ 25,032,306**

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

There were no loans pledged at December 31, 2024 or 2023.

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 consolidated 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 Credit Losses

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

	2024		
	Loans to CDFI's	**Small Business Loans**	**Total**
Allowance for credit losses			
December 31, 2023	$ 141,324	$ -	$ 141,324
Provision for loan losses	44,000	37,000	81,000
December 31, 2024	**$ 185,324**	**$ 37,000**	**$ 222,324**

	2023		
	Loans to CDFI's	**Small Business Loans**	**Total**
Allowance for credit losses			
December 31, 2022	$ 228,324	$ -	$ 228,324
Impact of adoption of ASC 326	(107,000)	-	(107,000)
Provision for loan losses	20,000	-	20,000
December 31, 2023	**$ 141,324**	**$ -**	**$ 141,324**

The Company utilizes a cash funded loan loss reserve in the amount of $300,000 and $300,000 as of December 31, 2024 and 2023, respectively, to offset reserves related to small business loans.

As of December 31, 2024 or 2023, there were no nonaccrual, past due loans, collateral dependent loans, or troubled loan modifications.

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. 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.

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.

	2024		
	Loans to CDFI's	**Small Business Loans**	**Total**
Loans by risk rating			
Pass	$ 31,690,293	$ 683,446	$ 32,373,739
Watch	-	-	-
	$ 31,690,293	**$ 683,446**	**$ 32,373,739**

	2023		
	Loans to CDFI's	**Small Business Loans**	**Total**
Loans by risk rating			
Pass	$ 24,468,347	$ 705,282	$ 25,173,629
Watch	-	-	-
	$ 24,468,347	**$ 705,282**	**$ 25,173,629**

Note 5 – Grants Receivable

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

	2024	2023
Appalachian Regional Commission – COVID-19 Response*	$ 61,418	$ 61,418
USDA RCDI TA Grant	-	68,712
Appalachian Regional Commission – 2022 Operating Grant	-	215,559
Robert Wood Johnson Foundation	133,334	266,667
CDFI FA Grant	260,000	260,000
Appalachian Regional Commission – 2023 Operating Grant	1,282,971	1,499,850
South State Grant	-	25,000
Appalachian Regional Commission – GGRF Startup	59,616	-
Mastercard Grant	250,000	-
Charles M and Mary D Foundation Grant	40,000	-
CDFI FA Grant 2024	800,000	-
	2,887,339	2,397,206
Unearned grants receivable	(2,241,609)	(1,595,557)
Total grants receivable, net	**$ 645,730**	**$ 801,649**

* 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:

	2024	2023
Computer equipment	$ 10,320	$ 4,919
Less accumulated depreciation	(3,818)	(2,623)
	$ 6,502	**$ 2,296**

Depreciation for the years ended December 31, 2024 and 2023 was $1,195 and $1,042, 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.

In 2024, ACC partnered with a private foundation to launch the Western North Carolina Small Business Initiative to offer grants to eligible businesses impacted by Hurricane Helene. In 2024, the program had raised $21,753,000 in funds, deploying approximately $7,000,000, resulting in grant income recognized of the same amount.

Note 8 – Borrowings

Borrowings at December 31, consist of the following:

Description	Rate	Maturity	2024	2023
Opportunity Finance Network[1]	3.00%	05/01/2027	$ 400,000	$ 400,000
BBVA Compass Bank[1]	2.50%	08/06/2025	400,000	400,000
PNC Bank[1]	1.00%	12/03/2029	1,000,000	500,000
Northern Trust[2]	2.00%	12/09/2029	1,000,000	1,000,000
Northern Trust[2]	2.00%	12/09/2029	1,000,000	1,000,000
RCIF[1]	2.00%	03/06/2029	200,000	200,000
Cnote[1]	1.50%	10/24/2026	750,000	750,000
Olamina Fund[3]	3.50%	09/30/2026	2,000,000	2,000,000
Opportunity Finance Network Google Endeavor[4]	3.00%	05/31/2030	5,000,000	5,000,000
Ford Foundation[5]	2.00%	12/06/2032	10,000,000	5,000,000
Truist Bank[1]	2.00%	12/09/2026	2,975,638	2,725,638
U.S. Bancorp Community Development Corporation[6]	2.35%	4/30/2025	1,500,000	1,500,000
U.S. Bancorp Community Development Corporation[6]	3.40%	7/10/2027	500,000	-
SK2 Fund[7]	2.00%	12/01/2032	600,000	600,000
Arthur B. Shultz Foundation[7]	2.00%	12/01/2032	100,000	100,000
Kalliopeia[8]	2.00%	11/01/2027	1,000,000	1,000,000
AMCREF Community Fund[3]	3.00%	11/22/2028	500,000	500,000
Isenberg Family Charitable Foundation, Inc.[4]	2.50%	06/21/2029	500,000	-
Dogwood[9]	0.00%	5/31/2025	1,053,000	-
M&T Bank[4]	3.00%	9/30/2025	500,000	-
Veteran Loan Fund[4]	4.00%	12/31/2031	1,000,000	-
Goldman Sachs[4]	3.50%	6/5/2031	-	-
			31,978,638	22,675,638
Less debt issuance costs			260,286	72,526
			$ 31,718,352	**$ 22,603,112**

1. Each loan is unsecured with interest payments due on a quarterly basis, with the remaining principal due at maturity.
2. The loan is unsecured with interest payments due on a semi-annual basis, with the remaining principal due at maturity.
3. The loan is unsecured with interest payable monthly in arrears, with the remaining principal due at maturity.
4. The loan is unsecured with interest payable quarterly in arrears, with the remaining principal due at maturity.
5. 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.
6. 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.
7. The loan is unsecured with interest payable annually in arrears, with the remaining principal due at maturity.

8. The loan is unsecured with interest payable quarterly in arrears. Principal payments of $500,000 are due on November 1, 2026 and 2027.
9. Loan is unsecured and interest free.

Performance against debt covenants is measured on a quarterly basis. As a result of the large grant from the EPA in 2024, as of December 31, 2024, ACC is out of compliance with the net asset to total asset debt covenants. ACC is in the process of obtaining approval for excluding these grant funds from this debt covenant calculation. This would subject these borrowings to being called, because it is not known whether any ACC investor will disapprove the modification and subsequently request ACC to return the funds, the maturity dates in the table above have not been adjusted. As of December 31, 2023, ACC was in compliance with all debt covenants related to long-term borrowings.

As of December 31, 2024, the Company had unfunded term loans available totaling $1,574,362.

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, 2024 or 2023.

Non-Recurring Fair Value

The Company had no financial assets recorded at fair value on a non-recurring basis as of December 31, 2024 or 2023.

Note 10 – Significant Contracts

During 2014, the Company entered into an agreement to provide data processing services. Under the terms of the contract, ACC pays a monthly fee for backroom and loans servicing. For the years ended December 31, 2024 and December 31, 2023, ACC paid $144,823 and $114,523 for these services, respectively. Locus has a member of management that serves on the Board of Directors of the Company.

Note 11 – Related Parties

The Company currently has thirty-six 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.

	2024	2023
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:

	2024	2023
Cash and cash equivalents	$ 24,396,613	$ 2,910,721
Loans and interest receivable, current portion	1,431,880	334,318
Grants receivable	645,770	801,649
	$ 26,474,263	**$ 4,046,688**

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 consolidated 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 consolidated 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.

In March 2025, ACC was notified that the Environmental Protection Agency has moved to terminate the $500 million grant which was awarded in 2024 as part of the Greenhouse Gas Reduction Fund under the Inflation Reduction Act. This has been temporarily blocked by the court system, however the ultimate outcome and timeline remains unclear. These funds of approximately $500 million are currently not able to be accessed by ACC, and as of December 31, 2024 are located in the line item cash and cash equivalents- restricted, with a corresponding amount in deferred revenue, on the consolidated statements of financial position.

The Company evaluated subsequent events through the date its consolidated financial statements were issued, and no subsequent events requiring accrual or disclosure other than the above were noted through April 30, 2025.

Appalachian Community Capital Corporation

Member Organizations

December 31, 2024

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 Community Impact (North Carolina)
Carolina Small Business Development Fund (North Carolina)
Community Reinvestment Fund, USA (Minnesota)
CommunityWorks (South Carolina)
Finance Fund Capital Corporation (Ohio)
Foodshed Capital (Virginia)
Hampton Roads Ventures, LLC (Virginia)
Institute Capital (North Carolina)
InvestPGH (Pennsylvania)
Kentucky Highlands Investment Corporation (Kentucky)
LiftFund (Texas – Serving Selected Appalachian States)
Locus (Virginia)
Mountain Association (Kentucky)
Mountain BizWorks (North Carolina)
Neighborhood Community Development Fund (Pennsylvania)
North Alabama Revolving Loan Fund (Alabama)
Opportunity Alabama (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 Rural Community Assistance Project, Inc. (Virginia)
Southeast Kentucky Economic Development Corporation (Kentucky)
The Center for Rural Health Development, Inc. (West Virginia)
The Progress Fund (Pennsylvania)
Three Rivers Planning & Development District (Mississippi)
Woodlands Community Lenders (West Virginia)
CEI Inc.
Coalfield Development Corporation
Grow America
National Trust for Historic Preservation/MSA
West Virginia Community Development Hub