

**AUDITED FINANCIAL STATEMENTS**  
**OF**  
**VIRGINIA COMMUNITY CAPITAL, INC.**  
**DECEMBER 31, 2006**

**AUDITED FINANCIAL STATEMENTS**

**OF**

**VIRGINIA COMMUNITY CAPITAL, INC.**

**DECEMBER 31, 2006**

## TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report .....	1
Financial Statements:	
Statements of Financial Position .....	2
Statements of Activities .....	4
Statement of Cash Flows .....	6
Notes to Financial Statements .....	8



**Dooley & Vicars**  
Certified Public Accountants, L.L.P.

Burnice C. Dooley, C.P.A.  
Michael H. Vicars, C.P.A.

1

**INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors  
Virginia Community Capital Inc.

We have audited the accompanying statements of financial position of Virginia Community Capital, Inc., as of December 31, 2006, and the related statements of activities, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Virginia Community Capital, Inc., as of December 31, 2006, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*Dooley + Vicars*

Dooley & Vicars  
Certified Public Accountants, L.L.P.

February 8, 2007

**VIRGINIA COMMUNITY CAPITAL, INC.  
STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2006**

**ASSETS**

Current Assets

Cash and Cash Equivalents	\$ 9,531,475
Other Current Assets	13,354
Accrued Interest Receivable	19,757
Short-Term Loans Receivable	<u>779,572</u>
Total Current Assets	<u>10,344,158</u>

Fixed Assets

Leasehold	<u>45,680</u>
Total Fixed Assets	<u>45,680</u>

Other Assets

Investment	1,622,767
Long-Term Loans Receivable	4,839,147
Loan Loss Reserve	<u>(270,216)</u>
Total Other Assets	<u>6,191,698</u>

TOTAL ASSETS	<u><u>\$ 16,581,536</u></u>
--------------	-----------------------------

The accompanying notes are an integral part of these financial statements.

**VIRGINIA COMMUNITY CAPITAL, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2006**  
**(CONTINUED)**

**LIABILITIES AND NET ASSETS**

Current Liabilities

Accounts Payable	\$	3,345
Accrued Expenses		46,549
Deferred Revenue		<u>50,000</u>
 Total Current Liabilities		 <u>99,894</u>
 Total Liabilities		 <u>99,894</u>

Net Assets

Unrestricted		16,472,497
Temporarily Restricted		<u>9,145</u>
 Net Assets		 <u>16,481,642</u>
  TOTAL LIABILITIES AND NET ASSETS		  <u><u>\$ 16,581,536</u></u>

The accompanying notes are an integral part of these financial statements.

**VIRGINIA COMMUNITY CAPITAL, INC.**  
**STATEMENTS OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Revenue and Support			
Grants and Contract Income	\$ 342,424	\$ 750,000	\$ 1,092,424
Loan Portfolio Income	221,575	-	221,575
Interest Income	499,572	-	499,572
IDA Program Income	7,684	-	7,684
Donation Income	195,000	-	195,000
Miscellaneous Income	515	-	515
	<hr/>	<hr/>	<hr/>
Total Revenue and Support	1,266,770	750,000	2,016,770
	<hr/>	<hr/>	<hr/>
Net Assets Released from Restrictions	825,615	(825,615)	-
	<hr/>	<hr/>	<hr/>
<u>Expenses</u>			
Program Services			
Salaries and Wages	74,394	-	74,394
Payroll Taxes	6,058	-	6,058
Employee Benefits	4,234	-	4,234
Program Services	349,289	-	349,289
Office Expense	32,214	-	32,214
Travel	7,470	-	7,470
Staff Expenses	9,364	-	9,364
Professional Fees	82,967	-	82,967
Miscellaneous	4,542	-	4,542
	<hr/>	<hr/>	<hr/>
Total Program Services Expenses	570,532	-	570,532
	<hr/>	<hr/>	<hr/>
Management and General			
Salaries and Wages	54,138	-	54,138
Payroll Taxes	4,408	-	4,408
Employee Benefits	3,081	-	3,081
Office and Administrative Expense	94,581	-	94,581
Postage	429	-	429
Travel	3,201	-	3,201
Staff Expenses	3,927	-	3,927
Professional Fees	14,374	-	14,374
Taxes and Insurance	4,192	-	4,192
	<hr/>	<hr/>	<hr/>
Total Management and General Expenses	182,331	-	182,331
	<hr/>	<hr/>	<hr/>

The accompanying notes are an integral part of these financial statements.

**VIRGINIA COMMUNITY CAPITAL, INC.**  
**STATEMENTS OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**  
**(CONTINUED)**

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Total Expenses	<u>\$ 752,863</u>	<u>\$ -</u>	<u>\$ 752,863</u>
Change in Net Assets	<u>\$ 1,339,522</u>	<u>\$ (75,615)</u>	<u>\$ 1,263,907</u>
Net Assets, Beginning of Year	<u>15,132,975</u>	<u>84,760</u>	<u>15,217,735</u>
Net Assets, End of Year	<u><u>\$ 16,472,497</u></u>	<u><u>\$ 9,145</u></u>	<u><u>\$ 16,481,642</u></u>

The accompanying notes are an integral part of these financial statements.

**VIRGINIA COMMUNITY CAPITAL, INC.**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**

Cash Flows from Operating Activities

Grants and Contract Income Received	\$ 1,142,424
Loan Portfolio Income Received	90,503
Interest Income Received	489,899
IDA Program Income Received	7,684
Donation Income Received	195,000
Miscellaneous Income Received.	515
	<u>1,926,025</u>
Salaries and Wages	128,532
Payroll Taxes	10,466
Employee Benefits	7,315
Office Expense	149,972
Other Administrative Expense	429
Program Expense	349,289
Travel	9,582
Staff Expenses	11,776
Professional Fees	97,341
Taxes and Insurance	7,992
Miscellaneous Expenses	4,542
	<u>777,236</u>
Net Cash Provided by (Used in) Operating Activities	<u>1,148,789</u>

Cash Flows from Investing Activities

Purchase of Fixed Assets	(45,680)
Investments	<u>(1,622,767)</u>
Net Cash (Used In) Investing Activities	<u>(1,668,447)</u>
Net Increase/(Decrease) in Cash	(519,658)
Cash - Beginning of Year	<u>10,051,133</u>
CASH - END OF YEAR	<u><u>\$ 9,531,475</u></u>

The accompanying notes are an integral part of these financial statements.

**VIRGINIA COMMUNITY CAPITAL, INC.**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**  
**(CONTINUED)**

Reconciliation of Cash to Operating Activities

Change in Net Assets	\$ 1,263,907
----------------------	--------------

Add <Deduct> Adjustment to Reconcile Net <Loss> Income  
to Net Cash Provided by Operating Activities

(Increase) Decrease in Other Current Assets	(13,354)
(Increase) Decrease in Accrued Interest Receivable	(9,673)
(Increase) Decrease in Short-Term Loans Receivable	(779,572)
(Increase) Decrease in Long-Term Loans Receivable	885,284
Increase (Decrease) in Loan Loss Reserve	(236,784)
Increase (Decrease) in Accounts Payable	3,345
Increase (Decrease) in Accrued Expenses	(14,364)
Increase (Decrease) in Deferred Revenue	<u>50,000</u>

Net Cash Provided by Operating Activities	<u><u>\$ 1,148,789</u></u>
---	----------------------------

The accompanying notes are an integral part of these financial statements.

**VIRGINIA COMMUNITY CAPITAL, INC.  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

**Note 1: Nature of Business and Significant Accounting Policies**

Nature of Business - Virginia Community Capital Inc., (the Organization), formerly New Enterprises Fund, Incorporated, is a non-profit, non-stock corporation dedicated to revitalizing communities, facilitating the creation of jobs, and increasing the stock of affordable housing. Its mission is to create an innovative financing system that offers financial products designed to increase economic diversity, development and sustainability in economically depressed communities in the Commonwealth of Virginia

A summary of the Organization's significant accounting policies follows:

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

Financial Statement Presentation - The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Net assets, revenues and expenses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted - All resources over which the governing board has discretionary control. The board of the Organization may elect to designate such resources for specific purposes. This designation may be removed at the board's discretion.

Temporarily Restricted - Resources accumulated through donations or grants for specific operating or capital purposes. Such resources will become unrestricted 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.

Cash and Cash Equivalents - For the statement of cash flows, all unrestricted investments with original maturities of three months or less are cash equivalents.

Bad Debts - Bad debts are accounted for using the allowance method.

Functional Allocation of Expenses - The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities.

Income Taxes - The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

**VIRGINIA COMMUNITY CAPITAL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**  
**(CONTINUED)**

**Note 1: Nature of Business and Significant Accounting Policies (Cont.)**

Use of Estimates in the Preparation of Financial Statements - Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Concentration of Credit Risk - The Organization maintains cash balances at several financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. At December 31, 2006 the Organization had cash deposits in excess of FDIC insurance.

**Note 2: Loans Receivable**

Loans Receivable consist of loans made to businesses through out the state of Virginia. The Organization requires collateral, consisting primarily of real estate and business equipment, to support the loans. Financing terms range from 24 to 420 months with monthly payments of principal and interest from 2% to 8%. Future maturities of notes receivable as of December 31, 2006 are as follows:

	2007	\$	779,572
	2008		511,388
	2009		661,586
	2010		245,057
	2011		123,508
	Thereafter		<u>3,297,608</u>
			5,618,719
Less: Allowance for Loan Losses			<u>(270,216)</u>
			<u><u>\$ 5,348,503</u></u>

**VIRGINIA COMMUNITY CAPITAL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**  
**(CONTINUED)**

**Note 3: Temporarily Restricted Net Assets**

Temporarily restricted net assets represent donor-restricted contributions which are restricted for the development of savings plans for individuals and businesses.

Temporarily restricted net assets are available for the following purposes:

Restricted for CDBG/AFI Matching Fund Programs:	<u>\$ 9,145</u>
--	-----------------

**Note 4: Investments**

The Organization has several investments. At December 31, 2006, the details of these investments are as follows:

<u>Bank</u>	<u>Type</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Amount</u>
First National	Certificate of Deposit	8/4/2007	5.39%	\$ 500,000
First National	Certificate of Deposit	11/10/2007	5.39%	150,000
U.S. Government Obligations		4/18/2007	4.50%	<u>972,767</u>
				<u>\$ 1,622,767</u>

**Note 5: Related Party Transactions**

The Organization is related to Community Housing Partners Corporation (CHPC) through membership with the Organization. CHPC provides services to the Organization. Expenses for 2006 are as follows:

Year Ended December 31, 2006	
Office Expense Allocations	\$ 14,235
Accounting Expense Allocations	24,000

The Organization loaned Central City Homes, L.P. \$400,000 on November 28, 2005. The Partnership is a related entity of CHPC. The loan has a stated interest rate of 2% and is amortized over 35 years. The loan is secured by real estate owned by the partnership. At December 31, 2006 the principal outstanding was \$392,115.

**VIRGINIA COMMUNITY CAPITAL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**  
**(CONTINUED)**

**Note 6: Lease**

The Organization leases office space in Richmond, Virginia. The lease expires December 31, 2011. Future lease payments amount to \$191,256.

**Note 7: Subsequent Event**

In December, VCC announced a merger with Virginia Foundation for Housing Preservation (VFHP), effective January 1, 2007. Under terms of the agreement, VCC acquired VFHP assets and will market the site acquisition loan product offered by VFHP. This loan product is originated in partnership with Virginia Housing Development Authority (VHDA) for purchasing and preserving affordable rental housing. The combined entity will have approximately \$27,000,000 in assets and will operate as a certified community development financial institution (CDFI) throughout the Commonwealth of Virginia.