

Virginia Community Capital, Incorporated



Annual Report

December 31, 2009

2009 Annual Report

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Independent Auditor's Report

Board of Directors
Virginia Community Capital, Inc.
Christiansburg, Virginia

We have audited the consolidated statements of financial position of Virginia Community Capital, Inc. and its subsidiary as of December 31, 2009 and 2008 and the related consolidated statements of activities and consolidated cash flows for the years 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 audits 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 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Virginia Community Capital, Inc. and its subsidiary as of December 31, 2009 and 2008, and the results of its consolidated operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Elliott Davis, LLC

Galax, Virginia
April 2, 2010

Consolidated Statements of Financial Position

December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Assets		
Cash and due from banks	\$ 363,817	\$ 1,930,433
Interest-bearing deposits	3,154,463	2,426,997
Federal funds sold	1,677,000	6,117,000
Designated cash on deposit	1,000,000	500,000
Investment securities available for sale	1,417,516	2,007,360
Investment securities held to maturity (fair value approximates \$13,852,482 and \$4,786,333 at December 31, 2009 and 2008, respectively)	13,898,402	5,449,023
Restricted equity securities	263,300	211,500
Loans, net of allowance for loan losses of \$424,148 and \$660,956 at December 31, 2009 and 2008, respectively	21,847,166	14,539,975
Grants receivable	688,856	626,000
Accrued interest receivable	119,220	116,399
Premises and equipment	83,496	113,137
Other assets	415,220	73,913
Total assets	<u>\$ 44,928,456</u>	<u>\$ 34,111,737</u>
Liabilities		
Noninterest-bearing deposits	\$ 252,679	\$ 2,431,092
Interest-bearing deposits	<u>16,750,275</u>	<u>1,967,562</u>
Total deposits	17,002,954	4,398,654
Borrowings	7,899,667	9,999,667
Deferred revenue	688,856	626,000
Accrued interest payable	14,838	4,875
Minority interest in subsidiary	53,241	50,000
Other liabilities	<u>122,983</u>	<u>85,371</u>
Total liabilities	<u>25,782,539</u>	<u>15,164,567</u>
Net Assets		
Temporarily restricted	-	-
Unrestricted	19,153,156	18,939,810
Accumulated other comprehensive income (loss)	<u>(7,239)</u>	<u>7,360</u>
Total net assets	<u>19,145,917</u>	<u>18,947,170</u>
Total liabilities and net assets	<u>\$ 44,928,456</u>	<u>\$ 34,111,737</u>

See Notes to Financial Statements

Consolidated Statements of Activities

For the years ended December 31, 2009 and 2008

	December 31, 2009		
	Unrestricted	Temporarily Restricted	Total
Revenue and Support			
Grants and contract income	\$ 223,739	\$ 187,144	\$ 410,883
Interest and fees on loans	932,682	-	932,682
Interest income	447,275	-	447,275
Miscellaneous income	15,031	-	15,031
Net assets released from restrictions	187,144	(187,144)	-
Total revenue and support	<u>1,805,871</u>	<u>-</u>	<u>1,805,871</u>
Expenses			
Program Services			
Salaries and wages	337,699	-	337,699
Payroll taxes	34,343	-	34,343
Employee benefits	45,330	-	45,330
Program services	315,767	-	315,767
Office expense	97,011	-	97,011
Professional fees	174,929	-	174,929
Depreciation expense	65,855	-	65,855
Interest expense	253,549	-	253,549
Recovery of loan losses	(198,711)	-	(198,711)
Other expenses	37,856	-	37,856
Total program services expenses	<u>1,163,628</u>	<u>-</u>	<u>1,163,628</u>
Management and General			
Salaries and wages	245,748	-	245,748
Payroll taxes	24,992	-	24,992
Employee benefits	32,988	-	32,988
Office and administrative expenses	32,337	-	32,337
Professional fees	58,310	-	58,310
Depreciation expense	21,952	-	21,952
Other expenses	12,570	-	12,570
Total management and general expenses	<u>428,897</u>	<u>-</u>	<u>428,897</u>
Total expenses	<u>1,592,525</u>	<u>-</u>	<u>1,592,525</u>
Change in net assets	213,346	-	213,346
Change in accumulated other comprehensive income (loss)	(14,599)	-	(14,599)
Net assets beginning of year	18,947,170	-	18,947,170
Net assets end of year	<u>\$ 19,145,917</u>	<u>\$ -</u>	<u>\$ 19,145,917</u>

Continued

Consolidated Statements of Activities, continued

For the years ended December 31, 2009 and 2008

	December 31, 2008		
	Unrestricted	Temporarily Restricted	Total
Revenue and Support			
Grants and contract income	\$ 342,500	\$ 250,000	\$ 592,500
Interest and fees on loans	575,671	-	575,671
Interest income	647,122	-	647,122
Miscellaneous loss	(20,758)	-	(20,758)
Net assets released from restrictions	250,000	(250,000)	-
Total revenue and support	<u>1,794,535</u>	<u>-</u>	<u>1,794,535</u>
Expenses			
<i>Program Services</i>			
Salaries and wages	364,065	-	364,065
Payroll taxes	27,061	-	27,061
Employee benefits	33,712	-	33,712
Program services	273,320	-	273,320
Office expense	90,365	-	90,365
Professional fees	161,355	-	161,355
Depreciation expense	52,819	-	52,819
Interest expense	286,224	-	286,224
Provision for loan losses	191,487	-	191,487
Other expenses	48,928	-	48,928
Total program services expenses	<u>1,529,336</u>	<u>-</u>	<u>1,529,336</u>
<i>Management and General</i>			
Salaries and wages	264,934	-	264,934
Payroll taxes	19,692	-	19,692
Employee benefits	24,519	-	24,519
Office and administrative expenses	30,037	-	30,037
Professional fees	53,785	-	53,785
Depreciation expense	17,691	-	17,691
Other expenses	16,257	-	16,257
Total management and general expenses	<u>426,915</u>	<u>-</u>	<u>426,915</u>
Total expenses	<u>1,956,251</u>	<u>-</u>	<u>1,956,251</u>
Change in net assets	(161,716)	-	(161,716)
Change in accumulated other comprehensive income	7,360	-	7,360
Net assets beginning of year	<u>19,101,526</u>	<u>-</u>	<u>19,101,526</u>
Net assets end of year	<u>\$ 18,947,170</u>	<u>\$ -</u>	<u>\$ 18,947,170</u>

See Notes to Financial Statements

Consolidated Statements of Cash Flows

For the year ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
<i>Cash flows from operating activities</i>		
Change in net assets	\$ 213,346	\$ (161,716)
Adjustments to reconcile change in net assets to net cash (used in) provided by operations:		
Depreciation and amortization	87,807	70,510
(Recovery of) provision for loan losses	(198,711)	191,487
Net realized losses on sales of securities	-	24,480
Accretion of discount on securities, net of amortization of premiums	(5)	-
Noncash grants received	10,000	-
Changes in assets and liabilities:		
Accrued income	(2,821)	(59,142)
Grants receivable	(72,856)	(276,000)
Other assets	(341,307)	93,989
Accrued interest payable	9,963	4,410
Deferred revenue	62,856	276,000
Other liabilities	40,853	(19,878)
Net cash (used in) provided by operating activities	<u>(190,875)</u>	<u>144,140</u>
<i>Cash flows from investing activities</i>		
Net (increase) decrease in federal funds sold	4,440,000	(6,117,000)
Net (increase) decrease in interest-bearing deposits	(727,466)	4,911,872
Net (increase) decrease in designated cash	(500,000)	-
Purchases of securities available for sale	(1,424,750)	(2,000,000)
Proceeds from sales, maturities, calls, and principal paydown of securities available for sale	2,000,000	-
Purchases of securities held to maturity	(8,449,379)	-
Proceeds from maturities, calls and principal paydowns of securities held to maturity	-	4,426,497
Purchases of restricted equity securities	(61,200)	(211,500)
Redemption of restricted equity securities	9,400	-
Net increase in loans	(7,108,480)	(5,216,418)
Purchase of premises and equipment	(58,166)	(38,110)
Net cash used in investing activities	<u>(11,880,041)</u>	<u>(4,244,659)</u>
<i>Cash flows from financing activities</i>		
Net increase in deposits	12,604,300	4,398,654
Net increase (decrease) in borrowings	(2,100,000)	919,667
Proceeds from sale of capital stock	5,000	-
Net cash provided by financing activities	<u>10,509,300</u>	<u>5,318,321</u>
Net increase (decrease) in cash and cash equivalents	(1,561,616)	1,217,802
<i>Cash and cash equivalents, beginning</i>	<u>1,930,433</u>	<u>712,631</u>
<i>Cash and cash equivalents, ending</i>	<u>\$ 363,817</u>	<u>\$ 1,930,433</u>
<i>Supplemental disclosure of cash flow information</i>		
Interest paid	<u>\$ 243,586</u>	<u>\$ 281,814</u>
Income taxes paid	<u>\$ -</u>	<u>\$ -</u>

Notes to Financial Statements

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

Nature of Business

Virginia Community Capital Inc., (the Organization) is a non-profit, non-stock entity dedicated to revitalizing communities, facilitating the creation of jobs, and increasing the amount of affordable housing throughout Virginia. 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.

The Organization completed a merger, effective January 1, 2007 with The Virginia Foundation for Housing Preservation (VFHP) a non-profit organization. Virginia Community Capital acquired all assets and mainly markets the loan products offered by VFHP.

The Organization formed a subsidiary for-profit community development bank, Community Capital Bank of Virginia (the Bank). The Organization funded the subsidiary with a purchase of its common stock in the amount of \$7,000,000 on December 31, 2007. The Bank received regulatory approval and opened for business on August 20, 2008. As a state chartered, Federal Reserve member bank, the Bank is subject to regulation by the Virginia Bureau of Financial Institutions and the Federal Deposit Insurance Corporation. This regulated banking entity operates under the same mission guidelines as the Organization. The Banks eleven member Board of Directors purchased common stock in the Bank at \$5,000 each as mandated by State Law, thus establishing a minority interest in the Bank.

The accounting and reporting policies of the Organization and the Bank follow generally accepted accounting principles and general practices within the non-profit and financial services industry. Following is a summary of the more significant policies:

Critical Accounting 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 results to differ materially. These critical policies and their application are periodically reviewed with the Audit Committee and Board of Directors.

Principles of Consolidation

The consolidated financial statements include the accounts of the Organization and its subsidiary. All significant intercompany balances and transactions have been eliminated in consolidation. The Organization consolidates subsidiaries in which it holds, directly or indirectly, more than 50 percent of the voting rights or where it exercises control. Entities where the Organization holds 20 percent to 50 percent of the voting rights, or has the ability to exercise significant influence, or both, are accounted for under the equity method.

Use of Estimates

In preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated statements of financial position and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses and the valuation of deferred tax assets.

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.

Notes to Financial Statements

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

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 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.

Permanently Restricted – Net assets subject to donor-imposed stipulations that are to be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on related investments for general or specific purposes. There were no permanently restricted net assets at December 31, 2009 or 2008.

Reclassification

Certain amounts in the 2008 consolidated financial statements have been reclassified to conform to the 2009 presentation.

Cash and Cash Equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents are defined as those amounts included in the consolidated statements of financial position caption "cash and cash equivalents" and all unrestricted investments with original maturities of three months or less.

Securities

Certain debt securities that management has the positive intent and ability to hold to maturity are classified as "held to maturity" and recorded at amortized cost. Trading securities are recorded at fair value with changes in fair value included in earnings. Securities not classified as held to maturity or trading, including equity securities with readily determinable fair values, are classified as "available for sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income. Restricted equity securities consist of stock in the Federal Reserve Bank and Community Banker's Bank and are carried at cost.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the fair value of held to maturity and available for sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In determining whether other-than-temporary impairment exists, management considers many factors, including (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Organization to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Loans Receivable

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at their outstanding principal amount adjusted for any charge-offs and the allowance for loan losses. Loan origination fees, net of certain direct origination costs, are deferred and recognized, as an adjustment of the related loan yield using the interest method. Discounts and premiums on any purchased loans are amortized to income using the interest method over the remaining period to contractual maturity, adjusted for anticipated prepayments.

Notes to Financial Statements

Note 1. Organization and Summary of Significant Accounting Policies, continued

Loans Receivable, continued

Interest is accrued and credited to income based on the principal amount outstanding. The accrual of interest on impaired loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due. When interest accrual is discontinued, all unpaid accrued interest for the current year is reversed. Interest income is subsequently recognized on the cash basis or cost recovery method, as appropriate. 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 uncollectibility 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 collectibility 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, general and unallocated components. The specific component relates to loans that are classified as impaired. For such loans an allowance is established when the discounted cash flows (or collateral 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 is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating losses in the portfolio.

A loan is considered impaired when, based on current information and events, it is probable that the Organization 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 commercial and construction 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 fair value of the collateral if the loan is collateral dependent.

Premises and Equipment

Organization premises, furniture and equipment, and leasehold improvements are carried at cost, less accumulated depreciation and amortization computed by the straight-line method over the following estimated useful lives:

	<u>Years</u>
Buildings and improvements	3-20
Furniture and equipment	3-10
Vehicle	4-10

Notes to Financial Statements

Note 1. Organization and Summary of Significant Accounting Policies, continued

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.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Organization, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of the right) to pledge or exchange the transferred assets, and (3) the Organization does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Income Taxes

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Bank, however, is a taxable entity, and will be subject to federal income taxes when it begins to generate income, and has exhausted any net operating loss carryforwards.

Provision for income taxes is based on amounts reported in the statement of operations (after exclusion of non-taxable income such as interest on state and municipal securities) and consists of taxes currently due plus deferred taxes on temporary differences in the recognition of income and expenses for tax and financial statement purposes. Deferred tax assets and liabilities are included in the financial statements at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

Deferred income tax liability relating to unrealized appreciation (or the deferred tax asset in the case of unrealized depreciation) on investment securities available for sale is recorded in other liabilities (assets) when applicable. Such unrealized appreciation or depreciation is recorded as an adjustment to equity in the financial statements and not included in income determination until realized. Accordingly, the resulting deferred income tax liability or asset is also recorded as an adjustment to equity when realization is determined to be probable.

A valuation allowance is provided for any deferred tax asset for which the ultimate realization is uncertain. Given the uncertainty regarding future taxable income, the Bank has recorded a valuation allowance to the extent the net deferred tax asset exceeds cumulative income tax expense. Accordingly, the net recorded deferred tax asset approximates the amount of tax refund the Bank would receive if losses were carried back for tax purposes.

Note 2. Restrictions on Cash and Amounts Due From Banks

The Bank is required to maintain average balances on hand or with certain correspondents. At December 31, 2008, and December 31, 2009 these reserve balances amounted to \$275,000 and \$300,000, respectively.

Notes to Financial Statements

Note 3. Investments

Investments have been classified in the consolidated statements of financial position according to management's intent. The carrying amount of securities and their approximate fair values at December 31 are:

Available for Sale	<u>Amortized Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>
<u>2009</u>				
U.S. Government sponsored entities	\$ 1,424,755	\$ -	\$ 7,239	\$ 1,417,516
<u>2008</u>				
U.S. Government sponsored entities	\$ 2,000,000	\$ 7,360	\$ -	\$ 2,007,360
Held to Maturity	<u>Amortized Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>
<u>2009</u>				
Corporate bonds	\$ 2,000,000	\$ -	\$ 45,920	\$ 1,954,080
Certificates of deposits	11,898,402	-	-	11,898,402
	<u>\$ 13,898,402</u>	<u>\$ -</u>	<u>\$ 45,920</u>	<u>\$ 13,852,482</u>
<u>2008</u>				
U.S. Government sponsored entities	\$ 1,000,000	\$ 7,050	\$ -	\$ 1,007,050
Corporate bonds	2,000,000	-	669,740	1,330,260
Certificates of deposits	2,449,023	-	-	2,449,023
	<u>\$ 5,449,023</u>	<u>\$ 7,050</u>	<u>\$ 669,740</u>	<u>\$ 4,786,333</u>

Securities with an amortized cost of \$2,361,402 and \$4,861,023 were pledged or otherwise restricted at December 31, 2009 and 2008, respectively.

In 2008, the Organization had realized losses of \$24,480 on sales of securities. These losses are included as miscellaneous income/(loss) on the consolidated statements of activity. There were no realized gains or losses on the sales of securities in 2009.

The scheduled maturities of securities at December 31, 2009 are as follows:

	<u>Amortized Cost</u>	<u>Fair Value</u>
Due in 2010	9,646,403	9,600,483
Due in 2011	698,000	698,000
Due in 2012	4,554,000	4,554,000
Due in 2013	-	-
Due in 2014 and beyond	1,424,755	1,417,515
Restricted	263,300	263,300
	<u>\$ 16,586,458</u>	<u>\$ 16,533,298</u>

As of December 31, 2009, the Organization had one security with an unrealized loss position where such position had existed for 12 months or more, consecutively. The security is current on all interest payments and will mature in June 2010. The Organization expects to receive all principal and interest due at maturity. The Organization has evaluated this security and determined that the security is not other-than-temporarily impaired.

Notes to Financial Statements

Note 3. Investments, continued

The following table details unrealized losses and related fair values in the Organization's available-for-sale investment securities portfolios. This information is aggregated by the length of time that individual securities have been in a continuous unrealized loss position as of December 31, 2009. There were no individual securities with unrealized losses at December 31, 2008.

	<u>Less Than 12 Months</u>		<u>12 Months or Greater</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
2009						
Municipal securities	\$1,417,516	\$ 7,239	\$ -	\$ -	\$1,417,516	\$ 7,239
Total temporarily impaired securities	\$1,417,516	\$ 7,239	\$ -	\$ -	\$1,417,516	\$ 7,239

Restricted equity securities consist of investments in common stock of the Federal Reserve Bank of Richmond and investments in common stock of Community Bankers Bank. The Federal Reserve Bank of Richmond requires banks to purchase stock as a condition for membership in the Federal Reserve System.

Note 4. Loans Receivable

The major components of loans in the consolidated statements of financial position at December 31, 2009 and 2008 are as follows:

	<u>2009</u>	<u>2008</u>
Real estate loans	\$ 18,974,634	\$ 11,048,307
Commercial and industrial loans	3,301,997	4,203,705
Deferred loan fees	(5,317)	(51,081)
	<u>22,271,314</u>	<u>15,200,931</u>
Allowance for loan losses	(424,148)	(660,956)
Loans, net of allowance	<u>\$ 21,847,166</u>	<u>\$ 14,539,975</u>

Loans with balances of \$4,109,989 and \$4,007,746 were pledged at December 31, 2009 and 2008, respectively.

Note 5. Allowance for Loan Losses

An analysis of the allowance for loan losses is as follows:

	<u>2009</u>	<u>2008</u>
Balance at beginning of period	\$ 660,956	\$ 490,022
(Recovery of) provision for loan losses	(198,711)	191,487
Charge-offs	(48,227)	(22,783)
Recoveries	10,130	2,230
Balance at end of period	<u>\$ 424,148</u>	<u>\$ 660,956</u>

Notes to Financial Statements

Note 5. Allowance for Loan Losses, continued

The following is a summary of information pertaining to impaired and nonaccrual loans (in thousands):

	December 31,	
	2009	2008
Impaired loans without a valuation allowance	\$ 294	\$ -
Impaired loans with a valuation allowance	553	277
Total impaired loans	<u>\$ 847</u>	<u>\$ 277</u>
Valuation allowance related to impaired loans	<u>\$ 209</u>	<u>\$ 193</u>
Total nonaccrual loans	<u>\$ -</u>	<u>\$ -</u>
Total loans past due ninety days or more and still accruing	<u>\$ -</u>	<u>\$ -</u>
Average investment in impaired loans	<u>\$ 646</u>	<u>\$ 262</u>
Interest income recognized on impaired loans	<u>\$ 64</u>	<u>\$ 22</u>
Interest income recognized on a cash basis on impaired loans	<u>\$ 56</u>	<u>\$ 21</u>

No additional funds are committed to be advanced in connection with impaired loans.

Note 6. Grants Receivable

Grants receivable consist of the following:

	2009	2008
Department of Health and Human Services	<u>\$ 688,856</u>	<u>\$ 626,000</u>

Revenue from the grants has been presented as deferred revenue on the consolidated statements of financial position.

Note 7. Premises and Equipment

Components of Premises and Equipment

Components of premises and equipment and total accumulated depreciation at December 31, 2009 and 2008 are as follows:

	2009	2008
Furniture and equipment	\$ 185,479	\$ 129,689
Leasehold improvements	33,904	24,167
Vehicle	<u>14,862</u>	<u>13,502</u>
Property and equipment, total	234,245	167,358
Less accumulated depreciation	<u>150,749</u>	<u>54,221</u>
Property and equipment, net of depreciation	<u>\$ 83,496</u>	<u>\$ 113,137</u>

Depreciation and amortization expense for the years ending December 31, 2009 and 2008 was \$87,807 and \$70,510, respectively.

Notes to Financial Statements

Note 7. Premises and Equipment, continued

Leases

The Organization leases office space in Christiansburg and Richmond, Virginia. The leases in Richmond and Christiansburg expire December 31, 2011 and February 28, 2012, respectively. Future lease payments are as follows:

	<u>Richmond Office</u>	<u>Christiansburg Office</u>
2010	\$ 39,071	\$ 47,847
2011	40,244	49,282
2012	-	8,254
	<u>\$ 79,315</u>	<u>\$ 105,383</u>

Rent expense for the years ended December 31, 2009 and 2008 was \$86,760 and \$72,454, respectively.

Note 8. Deposits

The major components of deposits in the consolidated statements of financial position at December 31, 2009 and 2008 are as follows:

	<u>2009</u>	<u>2008</u>
Noninterest-bearing demand	\$ 252,679	\$ 2,431,091
Interest-bearing demand	1,295,420	1,025,331
Time deposits	<u>15,454,855</u>	<u>942,232</u>
Total deposits	<u>\$ 17,002,954</u>	<u>\$ 4,398,654</u>

The aggregate amount of time deposits in denomination of \$100,000 or more at December 31, 2009 and 2008 was \$10,223,472 and \$350,712, respectively.

At December 31, 2009, the scheduled maturities of time deposits are as follows:

2010	\$ 10,094,187
2011	1,942,462
2012	2,421,000
2013	500,076
2014	497,130
Thereafter	-
	<u>\$ 15,454,855</u>

Note 9. Borrowings

Borrowings at December 31, 2009 consist of the following:

	<u>Rate</u>	<u>Maturity</u>	<u>2009</u>
Wachovia	2.00%	01/01/2013	\$ 1,000,000
Wachovia*	3.98%	03/23/2013	1,300,000
BB&T	4.25%	06/10/2010	500,000
City First Bank	3.75%	12/30/2012	100,000
SunTrust	3.00%	04/19/2010	1,499,667
Bank of America	4.00%	06/26/2018	<u>3,500,000</u>
			<u>\$ 7,899,667</u>

Notes to Financial Statements

Note 9. Borrowings, continued

*The borrowing facility the Organization has with Wachovia under their Preservation Acquisition Loan Program (PAL) is a \$2,500,000 total commitment. The Organization's ability to draw against these funds will expire on March 23, 2011. Each advance is priced at the date the funds are disbursed, at current 1-month LIBOR plus 3.75%, and matures 30 months from the date of disbursement.

Note 10. 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.

Financial Instruments Measured at Fair Value

The following sections provide a description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the fair value hierarchy:

Securities: Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities would include highly liquid government bonds, mortgage products and exchange traded equities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flow. Level 2 securities would include U.S. agency securities, mortgage-backed agency securities, obligations of states and political subdivisions and certain corporate, asset backed and other securities. In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy.

Impaired Loans: Where impairment of a loan is based on a loan's observable market price or the fair value of the collateral of a collateral-dependent loan. Fair value of the loan's collateral, when the loan is dependent on collateral, is determined by appraisals or independent valuation which is then adjusted for the cost related to liquidation of the collateral.

Foreclosed Properties: Foreclosed assets are adjusted to fair value upon transfer of the loans to other real estate owned. Real estate acquired in settlement of loans is recorded initially at estimated fair value of the property less estimated selling costs at the date of foreclosure. The initial recorded value may be subsequently reduced by additional allowances, which are charged to earnings if the estimated fair value of the property less estimated selling costs declines below the initial recorded value. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price or a current appraised value, the Bank records the foreclosed asset as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Bank records the foreclosed asset as nonrecurring Level 3.

Notes to Financial Statements

Note 10. Fair Value of Financial Instruments, continued

Recurring Fair Value

The table below presents the recorded amount of assets and liabilities measured at fair value on a recurring basis.

<u>December 31, 2009</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investment securities available-for-sale	\$ 1,417,516	\$ -	\$ 1,417,516	\$ -
Total assets measured at fair value	<u>\$ 1,417,516</u>	<u>\$ -</u>	<u>\$ 1,417,516</u>	<u>\$ -</u>
Total liabilities measured at fair value	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>December 31, 2008</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investment securities available-for-sale	\$ 2,007,360	\$ -	\$ 2,007,360	\$ -
Total assets measured at fair value	<u>\$ 2,007,360</u>	<u>\$ -</u>	<u>\$ 2,007,360</u>	<u>\$ -</u>
Total liabilities measured at fair value	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Non-recurring Fair Value

The table below presents the recorded amount of assets and liabilities measured at fair value on a non-recurring basis.

<u>December 31, 2009</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Impaired loans	\$ 343,973	\$ -	\$ 343,973	\$ -
Total assets measured at fair value	<u>\$ 343,973</u>	<u>\$ -</u>	<u>\$ 343,973</u>	<u>\$ -</u>
Total liabilities measured at fair value	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>December 31, 2008</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Impaired loans	\$ 276,623	\$ -	\$ 276,623	\$ -
Total assets measured at fair value	<u>\$ 276,623</u>	<u>\$ -</u>	<u>\$ 276,623</u>	<u>\$ -</u>

There were no liabilities measured at fair value on a non-recurring basis at December 31, 2008.

Note 11 Benefit Plans

The Organization introduced a profit sharing plan (the Plan) in 2008 pursuant to Section 401(k) of the Internal Revenue Code (the Code). Any employee who has at least 3 months of service is eligible to participate in the Plan.

Participants may contribute a percentage of compensation, subject to a maximum allowed under the Code. In addition, the Organization makes certain matching contributions and may make additional contributions at the discretion of the Board of Directors. The Organization's expenses relating to the Plan for the years ended December 31, 2009 and 2008 amounted to \$25,105 and \$20,732, respectively.

Notes to Financial Statements

Note 12. Income Taxes

Operating Loss Carryforwards

At December 31, 2009, the Bank had a loss carryforward of approximately \$477,000 for federal income tax purposes that may be used to offset future taxable income. If not previously utilized, the federal loss carryforward will begin to expire in 2028.

Current and Deferred Income Tax Components

The components of income tax expense (benefit), all federal, for the period ended December 31, 2009 and 2008 is as follows:

	<u>2009</u>	<u>2008</u>
Current	\$ -	\$ -
Deferred benefit	(180,076)	(76,218)
Deferred tax asset valuation allowance change	(76,218)	76,218
Income tax benefit	<u>\$ (256,294)</u>	<u>\$ -</u>

Deferred Income Tax Analysis

The significant components of net deferred tax assets at December 31, 2009 and 2008 are summarized as follows:

	<u>2009</u>	<u>2008</u>
<i>Deferred tax assets</i>		
Allowance for loan losses	\$ 27,705	\$ 7,468
Net operating losses	162,171	34,903
Pre-opening expenses	41,644	44,965
Other	31,775	6,442
Deferred tax asset	<u>263,295</u>	<u>93,778</u>
<i>Deferred tax liabilities</i>		
Unrealized gains on securities	-	2,502
Prepaid expenses	5,563	-
Depreciation	1,438	15,058
Deferred tax liability	<u>7,001</u>	<u>17,560</u>
Deferred tax asset valuation allowance	-	76,218
Net deferred tax asset	<u>\$ 256,294</u>	<u>\$ -</u>

Note 13. Commitments and Contingencies

Litigation

In the normal course of business the Organization may be involved in various legal proceedings. The Organization was not involved in any litigation during the years ended December 31, 2009 and 2008.

Financial Instruments with Off-Balance Sheet Risk

The Organization is party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, credit risk in excess of the amount recognized in the consolidated statements of financial position.

The Organization's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Organization uses the same credit policies in making commitments and conditional obligations as for on-balance sheet instruments.

Notes to Financial Statements

Note 13. Commitments and Contingencies, continued

Financial Instruments with Off-Balance Sheet Risk, continued

At December 31, the following financial instruments were outstanding whose contract amounts represent credit risk:

	<u>2009</u>	<u>2008</u>
Commitments to grant loans	\$ 12,035,500	\$ 3,447,828
Unfunded commitments under lines of credit	<u>2,738,783</u>	<u>1,850,865</u>
	<u>\$ 14,774,283</u>	<u>\$ 5,298,693</u>

The Organization has made certain loans that included pass-through grant subsidies to the borrowers. If these loans cease to qualify for their intended use during their expected terms, the grants are to be repaid to the Organization and become the property of the Organization. Any amounts recovered under these provisions are to be reported by the Organization as grant income in the period received. No provision has been made in the financial records for this contingent receivable due to the uncertain nature of timing and amount of any receipts.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Organization evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Organization upon extension of credit, is based on management's credit evaluation of the party. Collateral held varies, but may include accounts receivable, inventory, property and equipment, residential real estate and income-producing commercial properties.

Standby letters of credit are conditional financial commitments issued by the Organization to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Collateral held varies as specified above and is required in instances which the Organization deems necessary.

Concentrations of Credit Risk

All of the Organization's loans and commitments to extend credit have been granted to businesses throughout the Commonwealth of Virginia. The concentrations of credit by type of loan are set forth in Note 5. The Organization's focus is toward commercial and small business transactions, and accordingly, it does not have a material number of credits to any single borrower or group of related borrowers.

Note 14. Transactions with Related Parties

The Organization has entered into transactions with its directors, significant shareholders and their affiliates (related parties). Such transactions were made in ordinary course of business on substantially the same terms and conditions, including interest rates, as those prevailing at the same time for comparable transactions with other customers, and did not, in the opinion of management, involve more than normal credit risk or present other unfavorable features. The Organization had no extensions of credit to related parties at December 31, 2009 or 2008.

Deposits from related parties held by the Bank at December 31, 2009 and 2008 amounted to \$142,528 and \$8,352, respectively.

Notes to Financial Statements

Note 15. Minimum Regulatory Capital Requirements

The Bank is subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory (and possibly additional discretionary) actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2009, that the Bank meets all capital adequacy requirements to which it is subject. Below is a summary of the Bank's capital ratios for December 31, 2009 and December 31, 2008.

As of December 31, 2009, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain minimum total risk-based, Tier I risk-based and Tier I leverage ratios as set forth in the following table. There are no conditions or events since the notification that management believes have changed the Bank's category.

	<u>Actual</u>		<u>Minimum Capital Requirement</u>		<u>Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
December 31, 2009						
Total Capital						
(to Risk-Weighted Assets)	\$ 6,566	28.9%	\$ 1,560	8.0%	\$ 1,949	10.0%
Tier I Capital						
(to Risk-Weighted Assets)	\$ 6,460	33.1%	\$ 780	4.0%	\$ 1,170	6.0%
Tier I Capital						
(to Average Assets)	\$ 6,460	33.7%	\$ 780	4.0%	\$ 975	5.0%
December 31, 2008						
Total Capital						
(to Risk-Weighted Assets)	\$ 6,861	113.4%	\$ 484	8.0%	\$ 605	10.0%
Tier I Capital						
(to Risk-Weighted Assets)	\$ 6,818	112.7%	\$ 242	4.0%	\$ 363	6.0%
Tier I Capital						
(to Average Assets)	\$ 6,818	73.5%	\$ 371	4.0%	\$ 464	5.0%

Note 16. Subsequent Events

In March 2010, the Organization invested an additional \$2,000,000 in Community Capital Bank of Virginia through the purchase of 422.85 shares of common stock.

These financial statements have not been updated for subsequent events occurring after April 2, 2010 which is the date these financial statements were available to be issued.

Notes to Financial Statements

Note 17. Parent Company Financial Information

Condensed financial information of Virginia Community Capital, Inc. is presented as follows:

Statements of Financial Position
December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Assets		
Cash and due from banks	\$ 2,184,381	\$ 3,931,838
Interest-bearing deposits	906,192	351,117
Investment securities held to maturity (fair value approximates \$3,557,482 and \$5,329,283 at December 31, 2009 and 2008, respectively)	3,603,402	5,999,023
Loans, net of allowance for loan losses of \$318,183 and \$617,924 at December 31, 2009 and 2008, respectively	13,521,360	11,724,420
Accrued interest receivable	58,169	68,273
Premises and equipment	40,008	55,285
Grants receivable	688,856	626,000
Investment in subsidiary	6,709,856	6,825,515
Other assets	163,742	129,936
Total assets	<u>\$ 27,875,966</u>	<u>\$ 29,711,407</u>
Liabilities		
Borrowings	\$ 7,899,667	\$ 9,999,667
Deferred revenue	688,856	626,000
Accrued interest payable	430	3,199
Minority interest in subsidiary	53,241	50,000
Other liabilities	87,726	85,371
Total liabilities	<u>8,729,920</u>	<u>10,764,237</u>
Net Assets		
Temporarily restricted	-	-
Unrestricted	19,153,285	18,939,810
Accumulated other comprehensive income (loss)	(7,239)	7,360
Total net assets	<u>19,146,046</u>	<u>18,947,170</u>
Total liabilities and net assets	<u>\$ 27,875,966</u>	<u>\$ 29,711,407</u>

Notes to Financial Statements

Note 17. Parent Company Financial Information, continued

Statements of Activities
For the year ended December 31, 2009

	December 31, 2009		
	Unrestricted	Temporarily Restricted	Total
Revenue and Support			
Grants and contract income	\$ 170,000	\$ 187,144	\$ 357,144
Interest and fees on loans	604,232	-	604,232
Interest income	257,217	-	257,217
Miscellaneous income	14,974	-	14,974
Net assets released from restrictions	187,144	(187,144)	-
Total revenue and support	<u>1,233,567</u>	<u>-</u>	<u>1,233,567</u>
Expenses			
<i>Program Services</i>			
Salaries and wages	180,458	-	180,458
Payroll taxes	17,062	-	17,062
Employee benefits	22,661	-	22,661
Program services	222,087	-	222,087
Office expense	47,490	-	47,490
Professional fees	117,701	-	117,701
Depreciation expense	35,418	-	35,418
Interest expense	253,545	-	253,545
Recovery of loan losses	(261,644)	-	(261,644)
Other expenses	34,520	-	34,520
Total program services expenses	<u>669,298</u>	<u>-</u>	<u>669,298</u>
<i>Management and General</i>			
Salaries and wages	131,322	-	131,322
Payroll taxes	12,416	-	12,416
Employee benefits	16,490	-	16,490
Office and administrative expenses	15,830	-	15,830
Professional fees	39,234	-	39,234
Depreciation expense	11,806	-	11,806
Other expenses	10,623	-	10,623
Total management and general expenses	<u>237,721</u>	<u>-</u>	<u>237,721</u>
Total expenses	<u>907,019</u>	<u>-</u>	<u>907,019</u>
Change in net assets	326,548	-	326,548
Equity from undistributed loss in subsidiary	(113,073)	-	(113,073)
Change in accumulated other comprehensive income (loss)	(14,599)	-	(14,599)
Net assets beginning of year	<u>18,947,170</u>	<u>-</u>	<u>18,947,170</u>
Net assets end of year	<u>\$ 19,146,046</u>	<u>\$ -</u>	<u>\$ 19,146,046</u>

Notes to Financial Statements

Note 17. Parent Company Financial Information, continued

Statements of Activities, continued
For the year ended December 31, 2008

	December 31, 2008		
	Unrestricted	Temporarily Restricted	Total
Revenue and Support			
Grants and contract income	\$ 342,500	\$ 250,000	\$ 592,500
Interest and fees on loans	557,069	-	557,069
Interest income	418,968	-	418,968
Miscellaneous income	3,722	-	3,722
Net assets released from restrictions	<u>250,000</u>	<u>(250,000)</u>	<u>-</u>
Total revenue and support	<u>1,572,259</u>	<u>-</u>	<u>1,572,259</u>
Expenses			
Program Services			
Salaries and wages	291,496	-	291,496
Payroll taxes	21,997	-	21,997
Employee benefits	26,960	-	26,960
Program services	114,166	-	114,166
Office expense	73,885	-	73,885
Professional fees	139,379	-	139,379
Depreciation expense	29,119	-	29,119
Interest expense	274,370	-	274,370
Provision for loan losses	148,456	-	148,456
Other expenses	<u>40,328</u>	<u>-</u>	<u>40,377</u>
Total program services expenses	<u>1,160,156</u>	<u>-</u>	<u>1,160,156</u>
Management and General			
Salaries and wages	212,125	-	212,125
Payroll taxes	16,008	-	16,008
Employee benefits	19,619	-	19,619
Office and administrative expenses	24,628	-	24,628
Professional fees	46,460	-	46,460
Depreciation expense	9,706	-	9,706
Other expenses	<u>13,428</u>	<u>-</u>	<u>13,428</u>
Total management and general expenses	<u>341,974</u>	<u>-</u>	<u>341,974</u>
Total expenses	<u>1,502,130</u>	<u>-</u>	<u>1,502,130</u>
Change in net assets	70,129	-	70,129
Change in accumulated other comprehensive income	7,360	-	7,360
Equity from undistributed loss in subsidiary	(231,845)	-	(231,845)
Net assets beginning of year	<u>19,101,526</u>	<u>-</u>	<u>19,101,526</u>
Net assets end of year	<u>\$ 18,947,170</u>	<u>\$ -</u>	<u>\$ 18,947,170</u>

Notes to Financial Statements

Note 17. Parent Company Financial Information, continued

Statements of Cash Flows *For the years ended December 31, 2009 and 2008*

	2009	2008
<i>Cash flows from operating activities</i>		
Change in net assets	\$ 326,458	\$ 70,129
Adjustments to reconcile change in net assets to net cash provided by operations:		
Depreciation and amortization	47,224	56,178
(Recovery of) provision for loan losses	(261,644)	148,456
Net realized losses on sales of securities	-	-
Noncash grants received	10,000	-
Equity from undisturbed loss in subsidiary	(113,073)	(231,845)
Changes in assets and liabilities:		
Accrued income	10,104	(11,016)
Grants receivable	(72,856)	(276,000)
Other assets	81,853	244,291
Accrued interest payable	(2,769)	2,734
Deferred revenue	62,856	276,000
Other liabilities	2,355	(19,878)
Minority interest	3,241	50,000
Net cash provided by operating activities	93,839	309,049
<i>Cash flows from investing activities</i>		
Net (increase) decrease in interest-bearing deposits	(555,075)	737,752
Proceeds from maturities, calls and principal paydowns of securities held to maturity	2,381,022	3,376,497
Net increase in loans	(1,535,296)	(2,357,832)
Net purchases of premises and equipment	(31,947)	34,074
Net cash used in investing activities	258,704	1,790,491
<i>Cash flows from financing activities</i>		
Net increase (decrease) in borrowings	(2,100,000)	919,667
Net cash (used in) provided by financing activities	(2,100,000)	919,667
Net increase (decrease) in cash and cash equivalents	(1,747,457)	3,019,207
<i>Cash and cash equivalents, beginning</i>	3,431,838	412,631
<i>Cash and cash equivalents, ending</i>	\$ 2,184,381	\$ 3,431,838
<i>Supplemental disclosure of cash flow information</i>		
Interest paid	\$ 256,314	\$ 283,490
Income taxes paid	\$ -	\$ -

Notes to Financial Statements

Note 18. Subsidiary Bank Financial Information

Financial information of Community Capital Bank of Virginia as of, and for the years ended December 31, 2009 and 2008 are as follows:

Balance Sheets
December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Assets		
Cash and due from banks	\$ 329,759	\$ 387,954
Interest-bearing deposits	2,250,221	1,525,880
Federal funds sold	1,677,000	6,117,000
Investment securities available for sale	1,417,516	2,007,360
Investment securities held to maturity (fair value approximates \$10,295,000)	10,295,000	-
Restricted equity securities	263,300	211,500
Loans, net of allowance for loan losses of \$105,965 and \$43,032 at December 31, 2009 and 2008, respectively	8,325,806	2,815,555
Accrued interest receivable	61,052	48,126
Premises and equipment	43,489	57,851
Other assets	327,647	1,068
Total assets	<u>\$ 24,990,790</u>	<u>\$ 13,172,294</u>
Liabilities		
Noninterest-bearing deposits	\$ 1,403,003	\$ 4,320,446
Interest-bearing deposits	<u>16,752,225</u>	<u>1,967,563</u>
Total deposits	18,155,228	6,288,009
Accrued interest payable	14,407	1,676
Other liabilities	<u>111,299</u>	<u>57,094</u>
Total liabilities	<u>18,280,934</u>	<u>6,346,779</u>
Commitments and contingencies	-	-
Shareholders' equity		
Preferred stock, 1,000,000 shares authorized; no shares issued and outstanding	-	-
Common stock, \$2,500 par value, 10,000,000 shares authorized; 1,411 and 1,410 shares issued and outstanding for 2009 and 2008	3,527,600	3,525,000
Surplus	3,527,400	3,525,000
Retained deficit	(337,905)	(231,845)
Accumulated other comprehensive income (loss)	<u>(7,239)</u>	<u>7,360</u>
Total shareholder's equity	<u>6,709,856</u>	<u>6,825,515</u>
Total liabilities and shareholder's equity	<u>\$ 24,990,790</u>	<u>\$ 13,172,294</u>

Notes to Financial Statements

Note 18. Subsidiary Bank Financial Information, continued

Statements of Operations
For the years ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
<i>Interest and dividend income</i>		
Loans and fees on loans	\$ 328,451	\$ 18,602
Federal funds sold	5,304	5,612
Investment securities	37,297	145,456
Deposits with other banks	<u>149,407</u>	<u>77,087</u>
Total interest and dividend income	<u>520,459</u>	<u>246,757</u>
<i>Interest expense</i>		
Deposits	150,045	11,855
Federal funds purchased	<u>4</u>	<u>-</u>
Total interest expense	<u>150,049</u>	<u>11,855</u>
Net interest income	370,410	234,902
<i>Provision for loan losses</i>		
Net interest income after provision for loan losses	<u>62,933</u>	<u>43,032</u>
	307,477	191,870
<i>Noninterest income (loss)</i>		
Gains (losses) from sale of securities	-	(24,480)
Other noninterest income	<u>53,796</u>	<u>-</u>
Total noninterest income (loss)	<u>53,796</u>	<u>(24,480)</u>
<i>Noninterest expense</i>		
Salaries and employee benefits	340,690	145,787
Occupancy and equipment	96,449	39,800
Data processing	44,600	-
Advertising and marketing	14,333	-
Audit	26,542	1,235
Legal	6,252	-
Consulting	43,510	-
FDIC insurance	11,465	-
Franchise tax expense	65,468	-
Organizational costs and other events	-	172,930
Other expenses	<u>81,331</u>	<u>39,483</u>
Total noninterest expense	<u>730,640</u>	<u>399,235</u>
Net income (loss) before income tax expense benefit	(369,367)	(231,845)
Income tax benefit	<u>256,294</u>	<u>-</u>
Net income (loss)	<u>\$ (113,073)</u>	<u>\$ (231,845)</u>
<i>Basic loss per share</i>	<u>\$ (80.14)</u>	<u>\$ (164.43)</u>
<i>Weighted average shares outstanding</i>	<u>1,411</u>	<u>1,410</u>

Notes to Financial Statements

Note 18. Subsidiary Bank Financial Information, continued

*Statements of Changes in Shareholders' Equity
For the years ended December 31, 2009 and 2008*

	<u>Common Stock</u>		<u>Surplus</u>	<u>Retained</u>	<u>Accumulated</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>		<u>Earnings</u>	<u>Other</u>	
				<u>(Deficit)</u>	<u>Comprehensive</u>	
					<u>Income</u>	
					<u>(Loss)</u>	
<i>Balance, December 31, 2007</i>	1,410	\$3,525,000	\$3,525,000	\$ -	\$ -	\$ 7,050,000
<i>Comprehensive income (loss)</i>						
Net income (loss)	-	-	-	(231,845)	-	(231,845)
Net change in unrealized gain on investment securities available for sale	-	-	-	-	7,360	<u>7,360</u>
<i>Total comprehensive income (loss)</i>						<u>(224,485)</u>
<i>Balance, December 31, 2008</i>	<u>1,410</u>	<u>3,525,000</u>	<u>3,525,000</u>	<u>(231,845)</u>	<u>7,360</u>	<u>6,825,515</u>
<i>Comprehensive income (loss)</i>						
Net income (loss)	-	-	-	(113,073)	-	(113,073)
Net change in unrealized gain on investment securities available for sale	-	-	-	-	(14,599)	<u>(14,599)</u>
<i>Total comprehensive income (loss)</i>						<u>(127,672)</u>
Sale of common stock	1	2,600	2,400	-	-	5,000
Adjustment for immaterial difference from prior year audit				7,013		7,013
<i>Balance, December 31, 2009</i>	<u>1,411</u>	<u>\$3,527,600</u>	<u>\$3,527,400</u>	<u>\$ (337,905)</u>	<u>\$ (7,239)</u>	<u>\$ 6,709,856</u>

Notes to Financial Statements

Note 18. Subsidiary Bank Financial Information, continued

Statement of Cash Flows For the years ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
<i>Cash flows from operating activities</i>		
Net loss	\$ (113,073)	\$ (231,845)
Adjustments to reconcile net loss to net cash used by operations:		
Depreciation and amortization	40,583	14,332
Deferred income tax expense (benefit)	(256,294)	-
Provision for loan losses	62,933	43,032
Net realized gain on securities	-	24,480
Accretion of discount on securities, net of amortization of premiums	(5)	-
Changes in assets and liabilities:		
Accrued income	(12,925)	(48,126)
Other assets	(70,285)	(1,068)
Accrued interest payable	12,731	1,676
Other liabilities	<u>54,205</u>	<u>57,094</u>
Net cash used in operating activities	<u>(282,130)</u>	<u>(140,425)</u>
<i>Cash flows from investing activities</i>		
Net (increase) decrease in federal funds sold	4,440,000	(6,117,000)
Net increase in interest-bearing deposits	(724,341)	(1,525,880)
Purchases of securities available for sale	(1,424,750)	(6,400,000)
Proceeds from maturities, calls, and principal paydown of securities available for sale	2,000,000	-
Proceeds from sale of securities available for sale	-	4,375,520
Purchase of held to maturity securities	(10,295,000)	-
Purchases of restricted equity securities	(61,200)	(211,500)
Redemption of restricted equity securities	9,400	-
Net increase in loans	(5,573,185)	(2,858,587)
Purchases/disposal of premises and equipment	<u>(19,208)</u>	<u>(72,183)</u>
Net cash used in investing activities	<u>(11,648,284)</u>	<u>(12,809,630)</u>
<i>Cash flows from financing activities</i>		
Net increase in deposits	11,867,219	6,288,009
Proceeds from sale of common stock	<u>5,000</u>	<u>-</u>
Net cash provided by financing activities	<u>11,872,219</u>	<u>6,288,009</u>
Net decrease in cash and cash equivalents	(58,195)	(6,662,046)
<i>Cash and cash equivalents, beginning</i>	<u>387,954</u>	<u>7,050,000</u>
<i>Cash and cash equivalents, ending</i>	<u>\$ 329,759</u>	<u>\$ 387,954</u>
<i>Supplemental disclosure of cash flow information</i>		
Interest paid	<u>\$ 137,318</u>	<u>\$ 10,179</u>
Taxes paid	<u>\$ -</u>	<u>\$ -</u>