Virginia Community Capital, Incorporated

Let's do more, together.

Annual Report

December 31, 2010

2010 Annual Report

Table of Contents

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, 2010 and 2009 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 consolidated 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 consolidated 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, 2010 and 2009, and the changes in net assets 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
March 24, 2011

104 Cranberry Road, P.O. Box 760, Galax, VA 24333 Phone: 276.238.1800 Fax: 276.238.1801 elliottdavis.com

Consolidated Statements of Financial Position

December 31, 2010 and 2009

	2010	2009
Assets		
Cash and due from banks	$ 109,995	$ 363,817
Interest-bearing deposits	6,830,516	3,154,463
Federal funds sold	2,437,000	1,677,000
Certificates of deposit	13,885,675	12,898,402
Investment securities available for sale	3,753,677	1,417,516
Investment securities held to maturity (fair value approximates $1,954,080 at December 31, 2009)	-	2,000,000
Restricted equity securities	320,850	263,300
Loans, net of allowance for loan losses of $795,736 and $424,148 at December 31, 2010 and 2009, respectively	42,403,185	21,847,166
Grants receivable	337,571	688,856
Accrued interest receivable	221,186	119,220
Premises and equipment	92,859	83,496
Other assets	285,787	415,220
Total assets	$ 70,678,301	$ 44,928,456
Liabilities		
Noninterest-bearing deposits	$ 581,557	$ 252,679
Interest-bearing deposits	38,693,787	16,750,275
Total deposits	39,275,344	17,002,954
Borrowings	10,114,403	7,899,667
Secured borrowings	1,354,064	-
Deferred revenue	337,571	688,856
Accrued interest payable	33,373	14,838
Other liabilities	231,820	122,983
Total liabilities	51,346,575	25,729,298
Net Assets		
Unrestricted	19,431,575	19,153,156
Accumulated other comprehensive income (loss)	(155,026)	(7,239)
Total consolidated net assets before noncontrolling interest in subsidiary	19,276,549	19,145,917
Noncontrolling interest in subsidiary	55,177	53,241
Total net assets	19,331,726	19,199,158
Total liabilities and net assets	$ 70,678,301	$ 44,928,456

See Notes to Consolidated Financial Statements

Consolidated Statements of Activities

For the years ended December 31, 2010 and 2009

	December 31, 2010		
	Unrestricted	Temporarily Restricted	Total
Revenue and Support			
Grants and contract income	$ 733,775	$ 378,786	$ 1,112,561
Interest and fees on loans	2,063,677	-	2,063,677
Interest income	479,967	-	479,967
Realized gains on sales of securities	47,596	-	47,596
Miscellaneous income	102,979	-	102,979
Net assets released from restrictions	378,786	(378,786)	-
Total revenue and support	3,806,780	-	3,806,780
Expenses			
Program Services			
Salaries and wages	437,714	-	437,714
Payroll taxes	54,236	-	54,236
Employee benefits	67,753	-	67,753
Program services	258,378	-	258,378
Office expense	105,555	-	105,555
Professional fees	302,135	-	302,135
Depreciation expense	64,333	-	64,333
Interest expense	816,208	-	816,208
Provision for loan losses	366,788	-	366,788
Other expenses	178,472	-	178,472
Total program services expenses	2,651,572	-	2,651,572
Management and General			
Salaries and wages	318,530	-	318,530
Payroll taxes	39,468	-	39,468
Employee benefits	49,304	-	49,304
Office and administrative expenses	35,185	-	35,185
Professional fees	100,712	-	100,712
Depreciation expense	21,444	-	21,444
Other expenses	59,491	-	59,491
Total management and general expenses	624,134	-	624,134
Total expenses	3,275,706	-	3,275,706
Change in net assets/net income before provision for income taxes	531,074	-	531,074
Provision for income tax expense	250,718	-	250,718
Change in net assets/net income	280,356	-	280,356
Change in accumulated other comprehensive income (loss)	(147,787)	-	(147,787)
Change in net assets/net income and accumulated other comprehensive income (loss)	132,569	-	132,569
Change in net assets/net income attributable to noncontrolling interest	(1,937)	-	(1,937)
Change in net assets/net income attributable to Virginia Community Capital, Inc.	130,632	-	130,632
Net assets beginning of year	19,145,917	-	19,145,917
Net assets end of year	$ 19,276,549	$ -	$ 19,276,549

See Notes to Consolidated Financial Statements

Consolidated Statements of Activities

For the years ended December 31, 2010 and 2009

	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	1,805,871	-	1,805,871
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	230,735	-	230,735
Total program services expenses	1,356,507	-	1,356,507
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	76,911	-	76,911
Total management and general expenses	493,238	-	493,238
Total expenses	1,849,745	-	1,849,745
Change in net assets/net income before provision for income tax benefit	(43,874)	-	(43,874)
Provision for income tax benefit	256,335	-	256,335
Change in net assets/net income	212,461	-	212,461
Change in accumulated other comprehensive income (loss)	(14,599)	-	(14,599)
Change in net assets/net income and accumulated other comprehensive income (loss)	197,862	-	197,862
Change in net assets/net income attributable to noncontrolling interest	885	-	885
Change in net assets/net income attributable to Virginia Community Capital, Inc.	198,747	-	198,747
Net assets beginning of year	18,947,170	-	18,947,170
Net assets end of year	$ 19,145,917	$ -	$ 19,145,917

See Notes to Consolidated Financial Statements

Consolidated Statements of Cash Flows

For the year ended December 31, 2010 and 2009

	2010	2009
Cash flows from operating activities		
Change in net assets	$ 280,356	$ 212,461
Adjustments to reconcile change in net assets to net cash (used in) provided by operations:		
Depreciation and amortization	85,777	87,807
Provision for (recovery of) loan losses	366,788	(198,711)
Net realized (gains) losses on sales of securities	(47,596)	-
Loss on disposal of premises and equipment	622	-
Accretion of discount on securities, net of amortization of premiums	(4,339)	(5)
Noncash grants received	-	10,000
Changes in assets and liabilities:		
Accrued income	(101,966)	(2,821)
Grants receivable	351,285	(72,856)
Other assets	94,606	(341,307)
Accrued interest payable	18,535	9,963
Deferred revenue	(351,285)	62,856
Other liabilities	108,536	41,738
Net cash (used in) provided by operating activities	801,319	(190,875)
Cash flows from investing activities		
Net (increase) decrease in federal funds sold	(760,000)	4,440,000
Net (increase) decrease in interest-bearing deposits	(3,676,053)	(727,466)
Net (increase) decrease in certificates of deposit	(987,273)	(500,000)
Purchases of securities available for sale	(15,668,415)	(1,424,750)
Proceeds from sales of securities available for sale	6,986,402	1,499,500
Proceeds from maturities, calls, and principal paydown of securities available for sale	6,250,000	500,500
Purchases of securities held to maturity	-	(8,449,379)
Proceeds from maturities, calls and principal paydowns of securities held to maturity	2,000,000	-
Purchases of restricted equity securities	(57,550)	(61,200)
Redemption of restricted equity securities	-	9,400
Net increase in loans	(20,922,807)	(7,108,480)
Purchase of premises and equipment	(66,375)	(63,166)
Proceeds of premises and equipment	440	-
Net cash used in investing activities	(26,901,631)	(11,885,041)
Cash flows from financing activities		
Net increase in deposits	22,272,690	12,604,300
Net increase (decrease) in borrowings	2,214,736	(2,100,000)
Net increase in secured borrowings	1,354,064	-
Proceeds from sale of capital stock	5,000	5,000
Net cash provided by financing activities	25,846,490	10,509,300
Net increase (decrease) in cash and cash equivalents	(253,822)	(1,566,616)
Cash and cash equivalents, beginning	363,817	1,930,433
Cash and cash equivalents, ending	$ 109,995	$ 363,817
Supplemental disclosure of cash flow information		
Interest paid	$ 797,272	$ 243,586
Income taxes paid	$ 250,719	$ -

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 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 Bank's eleven member Board of Directors purchased common stock in the Bank at $5,000 each as mandated by State Law, thus establishing a noncontrolling 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.

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, 2010 or 2009.

Reclassification

Certain amounts in the 2009 consolidated financial statements have been reclassified to conform to the 2010 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 due from banks."

Interest Bearing Deposits with Banks

Interest bearing deposits with banks include savings and money market accounts with correspondents with no stated maturity.

Certificates of Deposits

Non-negotiable investments in FDIC-insured certificates of deposit with other financial institutions.

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.

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

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.

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.

Notes to Financial Statements

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

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:

	Years
Buildings and improvements	3-20
Furniture and equipment	3-10
Vehicle	4-10

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 liabilities relating to unrealized gains, or the deferred tax asset in the case of unrealized loss on investment securities available for sale is recorded in other liabilities, assets, or other assets when applicable. Such unrealized gains or loss is recorded as an adjustment to equity in the financial statements as a component of accumulated other comprehensive income (loss) and not included in income until realized.

A valuation allowance is provided for any deferred tax asset for which the ultimate realization is uncertain.

Revenue Recognition

Grant revenue is recognized when earned by the Organization through performance as specified in each grant award.

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, 2009, and December 31, 2010 these reserve balances amounted to $300,000 and $75,000, respectively.

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	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
2010				
U.S. Government treasuries	$ 3,500,000	$ -	$ 182,658	$ 3,317,342
Obligations of states and political subdivisions	96,319	-	6,259	90,060
U.S. Government sponsored entities	350,000	-	3,725	346,275
Total	$ 3,946,319	$ -	$ 192,642	$ 3,753,677
2009				
U.S. Government sponsored entities	$ 1,424,755	$ -	$ 7,239	$ 1,417,516

Held to Maturity	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
2010				
Corporate bonds	$ -	$ -	$ -	$ -
2009				
Corporate bonds	$ 2,000,000	$ -	$ 45,920	$ 1,954,080

Securities with an amortized cost of $365,292 and $1,361,402 were pledged or otherwise restricted at December 31, 2010 and 2009, respectively.

In 2010, the Organization had realized gains of $47,596 on sales of securities. These gains 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, 2010 are as follows:

	Amortized Cost	Fair Value
Due in 2011-2014	$ -	$ -
Due in 2015 and beyond	3,946,319	3,753,677
	$ 3,946,319	$ 3,753,677

As of December 31, 2010, the Organization had no securities with unrealized loss positions where such positions had existed for 12 months or more, consecutively.

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, 2010.

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
2010						
U.S. Government treasuries	$3,317,342	$ 182,658	$ -	$ -	$3,317,342	$ 182,658
U.S. Government sponsored entities	346,275	3,725	-	-	346,275	3,725
Obligations of states and political subdivisions	90,060	6,259	-	-	90,060	6,259
Total temporarily impaired securities	$3,753,677	$ 192,642	$ -	$ -	$3,753,677	$ 192,642
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, 2010 and 2009 are as follows:

	2010	2009
Real estate loans	$ 35,509,205	$ 18,974,634
Commercial and industrial loans	7,366,188	3,301,997
Municipal loans	290,000	-
Net deferred loan (fees) cost	33,528	(5,317)
	43,198,921	22,271,314
Allowance for loan losses	(795,736)	(424,148)
Loans, net of allowance	$ 42,403,185	$ 21,847,166

Loans with balances of $6,198,697 and $4,109,989 were pledged at December 31, 2010 and 2009, respectively.

Note 5. Allowance for Loan Losses

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

	2010	2009
Balance at beginning of period	$ 424,148	$ 660,956
(Recovery of) provision for loan losses	366,788	(198,711)
Charge-offs	-	(48,227)
Recoveries	4,800	10,130
Balance at end of period	$ 795,736	$ 424,148

Note 5. Allowance for Loan Losses, continued

The following is a summary of information pertaining to impaired and nonaccrual loans:

	December 31, 2010	December 31, 2009
Impaired loans without a valuation allowance	$ 252,928	$ 293,915
Impaired loans with a valuation allowance	387,029	553,093
Total impaired loans	$ 639,957	$ 847,008
Valuation allowance related to impaired loans	$ 244,012	$ 209,120
Total nonaccrual loans	$ -	$ -
Total loans past due ninety days or more and still accruing	$ -	$ -
Average investment in impaired loans	$ 599,935	$ 646,045
Interest income recognized on impaired loans	$ 66,688	$ 64,066
Interest income recognized on a cash basis on impaired loans	$ 64,721	$ 55,611

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

Note 6. Grants Awards

During the year, the Organization has been awarded contracts totaling $337,571 for which they have not incurred any reimbursable expenses at December 31, 2010. These amounts will be recorded as revenue in future periods in which the grant requirements are met.

Grants awards consist of the following:

	2010	2009
Mary Babcock Reynolds Foundation	$ 22,500	-
Department of Health and Human Services	315,071	688,856
Total	$ 337,571	$ 688,856

Grant receivable has also 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, 2010 and 2009 are as follows:

	2010	2009
Furniture and equipment	$ 222,081	$ 185,479
Leasehold improvements	33,904	33,904
Vehicle	38,414	14,862
Property and equipment, total	294,399	234,245
Less accumulated depreciation	201,540	150,749
Property and equipment, net of depreciation	$ 92,859	$ 83,496

Depreciation and amortization expense for the years ending December 31, 2010 and 2009 was $85,777 and $87,807, respectively.

Note 7. Premises and Equipment, continued

Leases

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

	Richmond Office	Christiansburg Office	Total
2011	$ 40,244	$ 49,282	$ 89,526
2012	-	8,254	8,254
	$ 40,244	$ 57,536	$ 97,780

Rent expense for the years ended December 31, 2010 and 2009 was $88,796 and $86,760, respectively.

Note 8. Deposits

The major components of deposits in the consolidated statements of financial position at December 31, 2010 and 2009 are as follows:

	2010	2009
Noninterest-bearing demand	$ 581,857	$ 252,679
Interest-bearing demand	2,499,661	1,295,420
Time deposits	36,194,126	15,454,855
Total deposits	$ 39,275,644	$ 17,002,954

The aggregate amount of time deposits in denomination of $100,000 or more at December 31, 2010 and 2009 was $19,336,172 and $10,223,472, respectively.

At December 31, 2010, the scheduled maturities of time deposits are as follows:

2011	$ 14,799,813
2012	8,999,328
2013	2,607,288
2014	506,433
2015	7,581,086
Thereafter	1,700,178
	$ 36,194,126

Note 9. Borrowings

Borrowings at December 31, 2010 consist of the following:

	Rate	Maturity	2010	2009
SunTrust	3.00%	04/19/2010	$ -	$ 1,499,667
BB&T	4.25%	06/10/2010	-	500,000
City First Bank	3.75%	12/30/2012	-	100,000
Wachovia	2.00%	01/01/2013	1,000,000	1,000,000
Wachovia	3.98%	03/23/2013	2,499,403	1,300,000
Calvert Foundation	4.50%	03/05/2014	1,000,000	-
Communities at Work Fund	4.30%	10/07/2015	200,000	-
Community Development Capital Initiative	2.00%	09/23/2018	1,915,000	-
Bank of America	4.00%	06/26/2018	3,500,000	3,500,000
			$ 10,114,403	$ 7,899,677

Note 9. Borrowings, continued

At December 31, 2010, the Organization had unused Federal Fund lines of Credit of $2,500,000, and other various unused commitments of $8,800,000 with rates ranging from 3.75% to 4.30%.

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.

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.

December 31, 2010	Total	Level 1	Level 2	Level 3
Investment securities available-for-sale	$ 3,753,677	$ -	$ 3,753,677	$ -
Total assets measured at fair value	$ 3,753,677	$ -	$ 3,753,677	$ -
Total liabilities measured at fair value	$ -	$ -	$ -	$ -

December 31, 2009	Total	Level 1	Level 2	Level 3
Investment securities available-for-sale	$ 1,417,516	$ -	$ 1,417,516	$ -
Total assets measured at fair value	$ 1,417,516	$ -	$ 1,417,516	$ -
Total liabilities measured at fair value	$ -	$ -	$ -	$ -

Non-recurring Fair Value

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

December 31, 2010	Total	Level 1	Level 2	Level 3
Impaired loans	$ 395,945	$ -	$ 395,945	$ -
Total assets measured at fair value	$ 395,945	$ -	$ 395,945	$ -
Total liabilities measured at fair value	$ -	$ -	$ -	$ -

December 31, 2009	Total	Level 1	Level 2	Level 3
Impaired loans	$ 343,973	$ -	$ 343,973	$ -
Total assets measured at fair value	$ 343,973	$ -	$ 343,973	$ -
Total liabilities measured at fair value	$ -	$ -	$ -	$ -

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, 2010 and 2009 amounted to $37,583 and $25,105, respectively.

Note 12. Income Taxes

Current and Deferred Income Tax Components

The components of income tax expense (benefit), all federal, for the period ended December 31, 2010 and 2009 is as follows:

	2010	2009
Current	$ 80,856	$ -
Deferred expense (benefit)	169,862	(180,076)
Deferred tax asset valuation allowance change	-	(76,218)
Income tax expense (benefit)	$ 250,718	$ (256,294)

Deferred Income Tax Analysis

The significant components of net deferred tax assets at December 31, 2010 and 2009 are summarized as follows:

	2010	2009
Deferred tax assets		
Allowance for loan losses	$ 140,012	$ 27,705
Net operating losses	-	162,171
Pre-opening expenses	38,578	41,644
Depreciation	1,864	-
Unrealized losses on securities available for sale	37,616	-
Other	-	31,775
Deferred tax asset	218,070	263,295
Deferred tax liabilities		
Deferred loan costs	87,120	-
Prepaid expenses	6,902	5,563
Depreciation	-	1,438
Deferred tax liability	94,022	7,001
Deferred tax asset valuation allowance	-	-
Net deferred tax asset	$ 124,048	$ 256,294

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, 2010 and 2009.

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.

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 (in thousands):

	2010	2009
Commitments to grant loans	$ 17,961	$ 12,036
Unfunded commitments under lines of credit	16,658	2,739
	$ 34,619	$ 14,775

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, 2010 or 2009.

Deposits from related parties held by the Bank at December 31, 2010 and 2009 amounted to $125,528 and $142,528, respectively.

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, 2010 and December 31, 2009.

As of December 31, 2010, 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. (Dollars in thousands)

	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
December 31, 2010						
Total Capital (to Risk-Weighted Assets)	$ 9,146	30.3%	$ 2,418	8.0%	$ 3,023	10.0%
Tier I Capital (to Risk-Weighted Assets)	$ 8,926	29.5%	$ 1,209	4.0%	$ 1,814	6.0%
Tier I Capital (to Average Assets)	$ 8,926	19.4%	$ 1,844	4.0%	$ 2,305	5.0%
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%

Note 16. Subsequent Events

These financial statements have not been updated for subsequent events occurring after March 24, 2011 which is the date these financial statements were available to be issued.

Note 17. Parent Company Financial Information

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

Statements of Financial Position
December 31, 2010 and 2009

	2010	2009
Assets		
Cash and due from banks	$ 402,486	$ 1,184,381
Interest-bearing deposits	1,322,523	906,192
Certificates of deposit	1,219,945	2,603,402
Investment securities available for sale	1,767,993	-
Investment securities held to maturity (fair value approximates $1,954,080 at December 31, 2009)	-	2,000,000
Loans, net of allowance for loan losses of $338,414 and $318,183 at December 31, 2010 and 2009, respectively	15,591,017	13,521,360
Accrued interest receivable	77,525	58,169
Premises and equipment	45,449	40,008
Grants receivable	337,571	688,856
Investment in subsidiary	8,976,727	6,709,856
Other assets	97,069	163,742
Total assets	$ 29,838,305	$ 27,875,966
Liabilities		
Borrowings	$ 10,114,403	$ 7,899,667
Deferred revenue	337,571	688,856
Accrued interest payable	4,637	430
Other liabilities	49,967	87,726
Total liabilities	10,506,578	8,676,679
Net Assets		
Temporarily restricted	-	-
Unrestricted	19,431,575	19,153,285
Accumulated other comprehensive income (loss)	(155,026)	(7,239)
Total net assets of Virginia Community Capital, Inc.	19,276,549	19,146,046
Equity in noncontrolling interest	55,178	53,241
Total net assets	19,331,727	19,199,287
Total liabilities and net assets	$ 29,838,305	$ 27,875,966

Note 17. Parent Company Financial Information, continued

Statements of Activities
For the year ended December 31, 2010

	December 31, 2010		
	Unrestricted	**Temporarily Restricted**	**Total**
Revenue and Support			
Grants and contract income	$ 133,775	$ 378,786	$ 512,561
Interest and fees on loans	834,429	-	834,429
Interest income	118,021	-	118,021
Realized gain on sale of securities	20,398	-	20,398
Miscellaneous income	93,111	-	93,111
Net assets released from restrictions	378,786	(378,786)	-
Total revenue and support	1,578,520	-	1,578,520
Expenses			
Program Services			
Salaries and wages	309,876	-	309,876
Payroll taxes	30,149	-	30,149
Employee benefits	37,999	-	37,999
Program services	107,068	-	107,068
Office expense	50,873	-	50,873
Professional fees	242,886	-	242,886
Depreciation expense	34,840	-	34,840
Interest expense	329,726	-	329,726
Provision for loan losses	15,431	-	15,431
Other expenses	65,603	-	65,603
Total program services expenses	1,224,451	-	1,224,451
Management and General			
Salaries and wages	225,500	-	225,500
Payroll taxes	21,940	-	21,940
Employee benefits	27,652	-	27,652
Office and administrative expenses	16,958	-	16,958
Professional fees	80,962	-	80,962
Depreciation expense	11,613	-	11,613
Other expenses	21,868	-	21,868
Total management and general expenses	406,493	-	406,493
Total expenses	1,630,944	-	1,630,944
Change in net assets/net income	(52,424)	-	(52,424)
Change in accumulated other comprehensive income (loss)	(147,787)	-	(147,787)
Change in equity from undistributed income of subsidiary	332,651	-	332,651
Change in net assets/net income and accumulated other comprehensive income (loss)	132,440	-	132,440
Change in net assets/net income attributable to noncontrolling interest	(1,937)	-	(1,937)
Change in net assets/net income attributable to Virginia Community Capital, Inc.	130,503	-	130,503
Net assets beginning of year	19,146,046	-	19,146,046
Net assets end of year	$ 19,276,549	$ -	$ 19,276,549

Note 17. Parent Company Financial Information, continued

Statements of Activities, continued
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	1,233,567	-	1,233,567
Expenses			
Program Services			
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	35,184	-	35,184
Total program services expenses	669,962	-	669,962
Management and General			
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	10,844	-	10,844
Total management and general expenses	237,942	-	237,942
Total expenses	907,904	-	907,904
Change in net assets/net income	325,663	-	325,663
Change in accumulated other comprehensive income (loss)	(14,599)	-	(14,599)
Change in equity from undistributed income of subsidiary	(113,073)	-	(113,073)
Change in net assets/net income and accumulated other comprehensive income (loss)	197,991	-	197,991
Change in net assets/net income attributable to noncontrolling interest	885	-	885
Change in net assets/net income attributable to Virginia Community Capital, Inc.	198,876	-	198,876
Net assets beginning of year	18,947,170	-	18,947,170
Net assets end of year	$ 19,146,046	$ -	$ 19,146,046

Note 17. Parent Company Financial Information, continued

Statements of Cash Flows
For the years ended December 31, 2010 and 2009

	2010	2009
Cash flows from operating activities		
Change in net assets	$ (52,424)	$ 325,663
Adjustments to reconcile change in net assets to net cash provided by operations:		
Depreciation and amortization	46,453	47,224
Provision for (recovery of) loan losses	15,431	(261,644)
Realized gains on sales of securities	(20,398)	-
Accretion of discount on securities, net of amortization of premiums	(4,085)	-
Loss on disposal of premises and equipment	311	-
Noncash grants received	-	10,000
Changes in assets and liabilities:		
Accrued income	(19,356)	10,104
Grants receivable	351,285	(72,856)
Other assets	47,435	81,853
Accrued interest payable	4,207	(2,769)
Deferred revenue	(351,285)	62,856
Other liabilities	(37,759)	6,481
Net cash (used in) provided by operating activities	(20,185)	206,912
Cash flows from investing activities		
Net (increase) decrease in interest-bearing deposits	(416,331)	(555,075)
Net (increase) decrease in certificates of deposit	1,383,457	(2,103,402)
Purchases of securities available for sale	(6,170,915)	-
Proceeds from sales of available for sale securities	3,020,398	-
Proceeds from calls and maturities of available for sale securities	1,325,000	-
Purchases and proceeds from maturities, calls and principal paydowns of securities held to maturity	2,000,000	3,984,424
Capital downstreamed to subsidiary bank	(2,000,000)	-
Net change in investment with subsidiary	-	(113,073)
Net increase in loans	(2,085,088)	(1,535,296)
Purchases of premises and equipment	(33,187)	(31,947)
Disposals of premises and equipment	220	-
Net cash (used in) provided by investing activities	(2,976,446)	(354,369)
Cash flows from financing activities		
Net increase (decrease) in borrowings	2,214,736	(2,100,000)
Net cash (used in) provided by financing activities	2,214,736	(2,100,000)
Net increase (decrease) in cash and cash equivalents	(781,895)	(2,247,457)
Cash and cash equivalents, beginning	1,184,381	3,431,838
Cash and cash equivalents, ending	$ 402,486	$ 1,184,381
Supplemental disclosure of cash flow information		
Interest paid	$ 325,519	$ 256,314
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, 2010 and 2009 are as follows:

Balance Sheets
December 31, 2010 and 2009

	2010	2009
Assets		
Cash and due from banks	$ 102,227	$ 329,759
Interest-bearing deposits	5,560,344	2,250,221
Federal funds sold	2,437,000	1,677,000
Investment securities available for sale	1,985,684	1,417,516
Certificates of deposit	12,665,729	10,295,000
Restricted equity securities	320,850	263,300
Loans, net of allowance for loan losses of $457,322 and $105,965 at December 31, 2010 and 2009, respectively	26,812,169	8,325,806
Accrued interest receivable	143,661	61,052
Premises and equipment	47,410	43,489
Other assets	188,719	327,647
Total assets	$ 50,263,793	$ 24,990,790
Liabilities		
Noninterest-bearing deposits	$ 976,275	$ 1,403,003
Interest-bearing deposits	38,746,139	16,752,225
Total deposits	39,722,414	18,155,228
Secured borrowings	1,354,064	-
Accrued interest payable	28,736	14,407
Other liabilities	181,852	111,299
Total liabilities	41,287,066	18,280,934
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; 1,834 and 1,411 shares issued and outstanding for 2010 and 2009	4,584,725	3,527,600
Additional paid in capital	4,470,275	3,527,400
Retained deficit	(5,254)	(337,905)
Accumulated other comprehensive income (loss)	(73,019)	(7,239)
Total shareholder's equity	8,976,727	6,709,856
Total liabilities and shareholder's equity	$ 50,263,793	$ 24,990,790

Notes to Financial Statements

Note 18. Subsidiary Bank Financial Information, continued

Statements of Operations
For the years ended December 31, 2010 and 2009

	2010	2009
Interest and dividend income		
Loans and fees on loans	$ 1,229,248	$ 328,451
Federal funds sold	3,899	5,304
Investment securities-taxable	59,443	37,297
Investment securities-nontaxable	5,233	-
Deposits with other banks	293,772	149,407
Total interest and dividend income	1,591,595	520,459
Interest expense		
Deposits	486,482	150,045
Federal funds purchased	-	4
Total interest expense	486,482	150,049
Net interest income	1,105,113	370,410
Provision for loan losses	351,357	62,933
Net interest income after provision for loan losses	753,756	307,477
Noninterest income		
Gains from sale of securities	27,198	-
Bank enterprise award	600,000	-
Other noninterest income	9,867	53,796
Total noninterest income	637,065	53,796
Noninterest expense		
Salaries and employee benefits	313,888	340,690
Occupancy and equipment	99,837	96,449
Data processing	53,530	44,600
Advertising and marketing	26,672	14,333
Audit	23,646	26,542
Legal	7,184	6,252
Consulting	48,170	43,510
FDIC insurance	53,890	11,465
Franchise tax expense	88,712	65,468
Other expenses	91,923	81,331
Total noninterest expense	807,452	730,640
Net income (loss) before income tax expense (benefit)	583,369	(369,367)
Income tax expense (benefit)	250,718	(256,294)
Net income (loss)	$ 332,651	$ (113,073)
Basic income (loss) per share	$ 190.29	$ (80.14)
Weighted average shares outstanding	1,748	1,411

Note 18. Subsidiary Bank Financial Information, continued

Statements of Changes in Shareholders' Equity
For the years ended December 31, 2010 and 2009

	Common Stock		Additional Pain In Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount				
Balance, December 31, 2008	1,410	$3,525,000	$3,525,000	$ (231,845)	$ 7,360	$ 6,825,515
Comprehensive income (loss)						
Net income (loss)	-	-	-	(113,073)	-	(113,073)
Net change in unrealized gain on investment securities available for sale	-	-	-	-	(14,599)	(14,599)
Total comprehensive income (loss)						(127,672)
Sale of common stock to minority investor	1	2,600	2,400	-	-	5,000
Adjustment for immaterial difference from prior year audit				7,013		7,013
Balance, December 31, 2009	1,411	3,527,600	3,527,400	(337,905)	(7,239)	6,709,856
Comprehensive income (loss)						
Net income (loss)	-	-	-	332,651	-	332,651
Change in unrealized loss on investment securities available for sale, net of income taxes	-	-	-	-	(65,780)	(65,780)
Total comprehensive income (loss)						266,871
Sale of common stock to holding company	423	1,057,125	942,875	-	-	2,000,000
Balance, December 31, 2010	1,834	$4,584,725	$4,470,275	$ (5,254)	$ (73,019)	$ 8,976,727

Notes to Financial Statements

Note 18. Subsidiary Bank Financial Information, continued

Statement of Cash Flows
For the years ended December 31, 2010 and 2009

	2010	2009
Cash flows from operating activities		
Net income (loss)	$ 332,651	$ (113,073)
Adjustments to reconcile net loss to net cash used by operations:		
Depreciation and amortization	39,324	40,583
Deferred income tax expense (benefit)	51,243	62,933
Provision for loan losses	351,357	(256,294)
Net realized gain on securities	(27,198)	-
Accretion of discount on securities, net of amortization of premiums	(254)	(5)
Loss on disposal of premises and equipment	311	-
Changes in assets and liabilities:		
Accrued income	(82,609)	(12,925)
Other assets	77,096	(70,285)
Accrued interest payable	14,329	12,731
Other liabilities	70,553	54,205
Net cash (used in) provided by operating activities	826,803	(282,130)
Cash flows from investing activities		
Net (increase) decrease in federal funds sold	(760,000)	4,440,000
Net increase in interest-bearing deposits	(3,310,123)	(724,341)
Net (increase) decrease in certificates of deposits	(2,370,729)	(10,295,000)
Purchases of securities available for sale	(9,497,500)	(1,424,750)
Proceeds from maturities and calls of securities available for sale	4,925,000	2,000,000
Proceeds from sales of available for sale securities	3,966,004	-
Purchases of restricted equity securities	(57,550)	(61,200)
Redemption of restricted equity securities	-	9,400
Net increase in loans	(18,837,720)	(5,573,185)
Purchases/disposal of premises and equipment	(33,187)	(19,208)
Disposals of premises and equipment	220	-
Net cash used in investing activities	(25,975,585)	(11,648,284)
Cash flows from financing activities		
Net increase in deposits	21,567,186	11,867,219
Net increase in secured borrowings	1,354,064	-
Proceeds from sale of common stock	2,000,000	5,000
Net cash provided by financing activities	24,921,250	11,872,219
Net decrease in cash and cash equivalents	(227,532)	(58,195)
Cash and cash equivalents, beginning	329,759	387,954
Cash and cash equivalents, ending	$ 102,227	$ 329,759
Supplemental disclosure of cash flow information		
Interest paid	$ 472,153	$ 137,318
Taxes paid	$ -	$ -