Virginia Community Capital, Incorporated

Annual Report

December 31, 2019 and 2018

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Independent Auditor's Report

To the Board of Directors
Virginia Community Capital, Inc.
Richmond, Virginia

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Virginia Community Capital and its subsidiaries (the Company), which comprise the consolidated statement of financial position as of December 31, 2019 and 2018, the related consolidated statements of activities, and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Virginia Community Capital, Inc. and its subsidiaries as of December 31, 2019 and 2018, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 9, 2020 on our consideration of Virginia Community Capital, Inc. and its subsidiaries internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Virginia Community Capital, Inc. and its subsidiaries internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Virginia Community Capital, Inc. and its subsidiaries internal control over financial reporting and compliance.

Elliott Davis, PLLC

Raleigh, North Carolina
March 9, 2020

Consolidated Statements of Financial Position

As of December 31, 2019 and 2018

	2019	2018
Assets		
Cash and due from banks	$ 335,500	$ 1,461,876
Interest-bearing deposits	15,023,003	10,238,585
Federal funds sold	252,000	264,000
Certificates of deposit	18,374,283	16,363,283
Investment securities available for sale	15,582,463	15,492,762
Investment securities held to maturity	5,502,521	2,894,809
Restricted equity securities	1,869,500	1,510,800
Cash funded loan loss reserves	1,391,630	1,156,336
Loans, net of allowance for loan losses of $2,426,604 and $1,788,299 at December 31, 2019 and 2018, respectively	205,111,346	183,145,867
Grants receivable	1,099,585	1,322,207
Accrued interest receivable	827,721	737,875
Premises and equipment, net	2,850,115	3,118,648
Building held for sale	-	500,000
Other real estate owned	-	952,500
Bank owned life insurance	2,683,737	2,623,446
Other assets	1,247,105	1,493,215
Total assets	$ 272,150,509	$ 243,276,209
Liabilities		
Noninterest-bearing deposits	$ 4,093,964	$ 5,695,798
Interest-bearing deposits	157,403,015	139,492,701
Total deposits	161,496,979	145,188,499
Secured borrowings	27,905,327	20,757,173
Unsecured borrowings	38,832,136	34,773,141
Deferred revenue	4,528,162	6,847,629
Accrued interest payable	319,019	312,214
Other liabilities	1,828,677	1,912,586
Total liabilities	234,910,300	209,791,242
Net Assets		
Net assets with donor restrictions	7,664,713	7,086,575
Net assets without donor restrictions	24,290,497	22,970,886
Accumulated other comprehensive income (loss)	102,034	(273,668)
Total consolidated net assets before noncontrolling interest in subsidiary	32,057,244	29,783,793
Noncontrolling interest in subsidiary	5,182,965	3,701,174
Total net assets	37,240,209	33,484,967
Total liabilities and net assets	$ 272,150,509	$ 243,276,209

See Notes to Consolidated Financial Statements

Consolidated Statements of Activities

For the year ended December 31, 2019

	December 31, 2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support			
Grant and contribution income	$ 2,553,615	$ 4,227,101	$ 6,780,716
Interest and fees on loans	9,846,507	-	9,846,507
Other interest income	1,274,850	-	1,274,850
Miscellaneous income	292,690	-	292,690
Project revenues	396,945	-	396,945
Gain on sale of SBA loans	323,966	-	323,966
Gain on sale of available for sale securities	118,996	-	118,996
Net assets released from restrictions	3,648,963	(3,648,963)	-
Total revenue and support	18,456,532	578,138	19,034,670
Expenses			
Program Services			
Salaries and wages	3,903,200	-	3,903,200
Payroll taxes	296,231	-	296,231
Employee benefits	497,659	-	497,659
Program services	1,821,453	-	1,821,453
Office expense	310,389	-	310,389
Professional fees	546,468	-	546,468
Depreciation expense	272,757	-	272,757
Interest expense	4,714,304	-	4,714,304
Provision for loan losses	1,262,856	-	1,262,856
Charitable contributions	300,000	-	300,000
Other expenses	755,673	-	755,673
Total program services expenses	14,680,990	-	14,680,990
Management and General			
Salaries and wages	1,251,677	-	1,251,677
Payroll taxes	95,767	-	95,767
Employee benefits	163,195	-	163,195
Office and administrative expenses	104,251	-	104,251
Professional fees	182,308	-	182,308
Depreciation expense	92,344	-	92,344
Other expenses	254,485	-	254,485
Total management and general expenses	2,144,027	-	2,144,027
Total expenses	16,825,017	-	16,825,017
Change in net assets/net income before provision for income taxes	1,631,515	578,138	2,209,653
Provision for income tax expense	147,604	-	147,604
Change in net assets/net income	1,483,911	578,138	2,062,049
Change in accumulated other comprehensive income, net of tax	375,702	-	375,702
Change in net assets/net income and accumulated other comprehensive income	1,859,613	578,138	2,437,751
Dividends paid on subsidiary's preferred stock	(43,000)	-	(43,000)
Dividends paid to minority shareholders on subsidiary's common stock A	(438)		(438)
Dividends paid to minority shareholders on subsidiary's common stock B	(120,862)	-	(120,862)
Change in net assets/net income before noncontrolling interest in subsidiary	1,695,313	578,138	2,273,451
Net assets before noncontrolling interest in subsidiary beginning of year	22,697,218	7,086,575	29,783,793
Net assets before noncontrolling interest in subsidiary end of year	$ 24,392,531	$ 7,664,713	$ 32,057,244

See Notes to Consolidated Financial Statements

Consolidated Statements of Activities

For the year ended December 31, 2018

	December 31, 2018		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**
Revenue and Support			
Grant and contribution income	$ 2,538,002	$ 4,228,684	$ 6,766,686
Interest and fees on loans	8,637,873	-	8,637,873
Other interest income	903,337	-	903,337
Miscellaneous income	716,874	-	716,874
Project revenues	716,450	-	716,450
Gain on sale of SBA loans	183,353	-	183,353
Net assets released from restrictions	1,593,684	(1,593,684)	-
Total revenue and support	15,289,573	2,635,000	17,924,573
Expenses			
Program Services			
Salaries and wages	3,088,712	-	3,088,712
Payroll taxes	241,033	-	241,033
Employee benefits	426,263	-	426,263
Program services	1,512,194	-	1,512,194
Office expense	329,613	-	329,613
Professional fees	478,182	-	478,182
Depreciation expense	213,013	-	213,013
Interest expense	3,345,643	-	3,345,643
Recovery of loan losses	(65,828)	-	(65,828)
Charitable contributions	375,000	-	375,000
Other expenses	748,725	-	748,725
Total program services expenses	10,692,550	-	10,692,550
Management and General			
Salaries and wages	1,812,276	-	1,812,276
Payroll taxes	144,474	-	144,474
Employee benefits	265,760	-	265,760
Office and administrative expenses	201,497	-	201,497
Professional fees	314,160	-	314,160
Depreciation expense	139,906	-	139,906
Other expenses	470,265	-	470,265
Total management and general expenses	3,348,338	-	3,348,338
Total expenses	14,040,888	-	14,040,888
Change in net assets/net income before provision for income taxes	1,248,685	2,635,000	3,883,685
Provision for income tax expense	221,316	-	221,316
Change in net assets/net income	1,027,369	2,635,000	3,662,369
Change in accumulated other comprehensive loss, net of tax	(98,759)	-	(98,759)
Change in net assets/net income and accumulated other comprehensive income	928,610	2,635,000	3,563,610
Dividends paid on subsidiary’s preferred stock	(104,500)	-	(104,500)
Dividends paid on subsidiary’s common stock B	(2,743)	-	(2,743)
Change in net assets/net income before noncontrolling interest in subsidiary	821,367	2,635,000	3,456,367
Net assets before noncontrolling interest in subsidiary beginning of year	21,875,851	4,451,575	26,327,426
Net assets before noncontrolling interest in subsidiary end of year	$ 22,697,218	$ 7,086,575	$ 29,783,793

See Notes to Consolidated Financial Statements

Consolidated Statements of Cash Flows

For the years ended December 31, 2019 and 2018

	2019	2018
Cash flows from operating activities		
Change in net assets	$ 2,062,049	$ 3,662,369
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	365,101	352,919
Provision for (recovery of) loan losses	1,262,856	(65,828)
Fair value adjustment of building received in grant	-	99,093
Gain on sale of SBA loans	(323,966)	(183,353)
Net amortization on investment securities	104,090	129,581
Gain on sale of securities available for sale	(118,996)	-
Loss on sale of other real estate owned	28,515	-
Increase in cash surrender value of bank owned life insurance	(60,291)	(58,557)
Loss on sale of fixed assets	-	(4,073)
Changes in assets and liabilities:		
Accrued interest receivable	(89,846)	106,273
Cash funded loan loss reserve	(235,294)	(486,336)
Grants receivable	222,622	(267,283)
Other assets	146,323	(837,786)
Accrued interest payable	6,805	85,047
Deferred revenue	(2,319,467)	2,383,291
Other liabilities	(83,909)	294,299
Net cash provided by operating activities	966,592	5,209,656
Cash flows from investing activities		
Net increase in certificates of deposit	(2,011,000)	(670,000)
Purchases of securities available for sale	(10,574,548)	(5,566,479)
Purchases of securities held to maturity	(2,695,541)	-
Proceeds from maturities of securities available for sale	250,000	150,000
Proceeds from investment paydowns	2,596,294	1,649,736
Proceeds from sale of securities available for sale	8,216,778	-
Purchase of restricted equity securities	(358,700)	(542,600)
Proceeds from sale of other real estate owned	923,985	-
Proceeds from sale of SBA loans	4,093,084	2,388,883
Net increase in loans	(26,997,454)	(21,026,913)
Proceeds from sale of fixed assets	500,000	-
Purchases of premises and equipment	(96,568)	(129,154)
Net cash used in investing activities	(26,153,670)	(23,746,527)
Cash flows from financing activities		
Net increase in deposits	16,308,480	11,652,762
Net increase in unsecured borrowings	4,058,995	4,225,971
Net increase in secured borrowings	7,148,154	11,965,506
Increase in noncontrolling interest in subsidiary	238,873	109,290
Dividends paid on subsidiary preferred stock	(43,000)	(104,500)
Dividends paid on subsidiary common stock A	(120,862)	-
Dividends paid on subsidiary common stock B	(438)	(2,743)
Proceeds from sale of common stock of the subsidiary	1,242,918	2,531,506
Redemption of preferred stock of the subsidiary	-	(2,150,000)
Net cash provided by financing activities	28,833,120	28,227,792
Net increase in cash and cash equivalents	3,646,042	9,690,921
Cash and cash equivalents, beginning	11,964,461	2,273,540
Cash and cash equivalents, ending	$ 15,610,503	$ 11,964,461
Supplemental disclosure of cash flow information		
Interest paid	$ 4,707,499	$ 3,260,596
Income taxes paid	$ -	$ 206,620
Fair value adjustment of building received in grant	$ -	$ (2,200,000)

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

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

Nature of Business

Virginia Community Capital Inc., (the Organization or VCC) is a non-profit, non-stock Virginia corporation headquartered in Richmond, Virginia 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, VCC Bank (formerly 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 Federal Reserve, 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 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 Bank is an independently verified B-certified company, meeting the rigorous standards of social and environmental performance, accountability and transparency as rated by B-Lab, the nonprofit rating agency. The Bank is also legally organized as a Benefit Corporation.

River City Real Estate 1001, LLC was formed in 2014 as a wholly-owned real estate holdings subsidiary of the Organization. Mountain Real Estate 2001, LLC, was also formed in 2014 as a wholly-owned real estate holdings subsidiary of the Bank. Both were formed to hold and manage foreclosed real estate.

CCB Real Estate Holdings, Inc. was formed in 2015 as a real estate holdings subsidiary of the Bank. The corporation was formed to hold property purchased for the relocation of the Christiansburg branch and administrative offices at 110 Peppers Ferry Road in Christiansburg, Virginia. The Organization relocated its Christiansburg branch to this new location in July of 2016. CCB Real Estate Holdings, Inc. issued 164 shares of common stock valued at $10,000 per share on December 31, 2015. All the stock is owned by VCC Bank.

In January 2017, the Organization absorbed Center for Rural Entrepreneurship ("CRE"), a non-profit, non-stock Nebraska corporation with offices and staff in Nebraska and North Carolina. In July 2018, the Organization formed LOCUS Impact Investing, a non-profit, non-stock Virginia corporation, which merged with CRE. CRE was then dissolved as a Nebraska corporation.

In May 2017, the Organization launched LOCUS, encompassing LOCUS Impact Investing (formerly CRE) and two newly formed entities, LOCUS Capital, Inc., a Virginia corporation, and LOCUS Foundation, a non-profit, non-stock Virginia corporation. Headquartered in Richmond, this social enterprise was created to empower place-focused foundations and individuals across the nation to invest their capital locally to build prosperous, vibrant communities. LOCUS Capital is a Benefit Corporation and registered impact investment advisor regulated by the Securities and Exchange Commission and the State Corporation Commission Division of Securities and Retail Franchising that provides financial services such as investment due diligence, loan servicing, credit monitoring and impact tracking for direct mission investments. LOCUS Foundation assists individuals and other foundations in using donor-advised funds for direct economic and community development investments. LOCUS Impact Investing helps place-focused foundations build their capacity and leadership for local direct impact investing. All three entities are direct subsidiaries of the Organization.

In October 2019, LOCUS Impact Investing launched the Community Investment Guarantee Pool, LLC (CIGP), a nationally focused, single-member limited liability company organized in Virginia. CIGP's purpose is to make a new and innovative financial tool available to the community development industry in the form of guarantees which are backed by the balance sheets of several philanthropic organizations. CIGP is wholly-owned by LOCUS Impact Investing and consolidated for reporting purposes in their financial statements in Note 21. These guarantees will be used to catalyze investments in small business, climate and affordable housing. As of December 31, 2019, CIGP has secured $33.1 million in guarantee commitments from 11 organizations, including nine philanthropic organizations, one community lender and one health system, which can be deployed in the form of individual guarantees to qualified community development organizations throughout the United States. As of December 31, 2019, no guarantees have been committed or disbursed.

The accounting and reporting policies of the Organization, Bank and all subsidiaries 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:

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

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 subsidiaries. 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.

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:

Without Donor Restrictions – All resources over which the governing board has discretionary control. The Board of Directors of the Organization may elect to designate such resources for specific purposes. This designation may be removed at the Board of Directors' discretion.

With Donor Restrictions – Resources accumulated through donations or grants for specific operating or capital purposes. Such resources will be without restrictions when the requirements of the donor or grantee have been satisfied through expenditures for the specified purpose or program or through the passage of time. Also includes resources accumulated through donations or grants subject to donor-imposed stipulations that are to be maintained permanently by the 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.

Reclassification

Certain amounts in the 2018 consolidated financial statements have been reclassified to conform to the 2019 presentation. None of these reclassifications had an impact on Net Assets or Net Income.

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 captions "cash and due from banks," "interest-bearing deposits," and "federal funds sold."

Interest-Bearing Deposits with Banks

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

Certificates of Deposit

Certificates of deposit consist primarily of FDIC-insured non-negotiable deposits in other financial institutions.

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

Investment 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. Debt securities not classified as held to maturity or trading 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 of Richmond, the Federal Home Loan Bank of Atlanta and Community Bankers 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, 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.

The Bank originates SBA guaranteed loans as part of its small business lending efforts. From time-to-time, the Bank may sell the guaranteed portion of these loans on the secondary market as a means of managing various aspects of its financial condition or financial performance metrics. Any premium on the sale is recognized in the period in which the sale was executed. This premium income is presented in the Consolidated Statements of Activities and Subsidiary Financial Information in Note 21 as "Gain on sale of SBA loans".

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 or when a loan displays potential loss characteristics. When interest accrual is discontinued, all unpaid accrued interest for the current year is reversed and the loan is placed on non-accrual. 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 collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of specific and general components. The specific component relates to loans that are classified as impaired. For such loans an allowance is established when the discounted cash flows, collateral's net realizable value or observable market price of the impaired loan is lower than the carrying value of that loan. The general component covers non-impaired loans and is based on historical loss experience adjusted for qualitative factors. A qualitative component is maintained to cover uncertainties that could affect management's estimate of probable losses. The qualitative component reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating losses in the portfolio. Factors taken into consideration for the qualitative component include housing vacancy and unemployment rates in Virginia, levels and trends in the Organization's delinquencies, impaired loans and net charge offs, risk rating of portfolio, experience of lending team and average loan size.

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

Allowance for Loan Losses, continued

A loan is considered impaired when, based on current information and events, it is probable that the 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 net realizable value of the collateral if the loan is collateral dependent.

Grants Receivable and Revenue Recognition

Grants receivable and related deferred revenue are recorded at the time of notification from a grantor. Grants are classified in one of two categories, with donor restrictions and without donor restrictions. Classification is determined based on the designation by the grantor for the use of funds. Grant revenue is recognized when earned by the Organization through performance as specified in each grant award.

Project Revenues

Project revenues are obtained through LOCUS Impact Investing and utilized to help foundations understand economic opportunities, strategy formulation related to economic development philanthropy and continuing with servicing, executing and monitoring impact investments. These revenues are without donor restrictions and are recognized as income in accordance with ASC 606.

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	3-40
Furniture and equipment	3-10
Vehicle	4-7

Functional Allocation of Expenses

Functional expenses are allocated between the Organization based on factors such volume, usage, or time, depending on the individual functional expense.

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

Expenses such as salaries and wages, payroll taxes, employee benefits, and some items classified in Other expenses, such as meals and lodging, training, are allocated based on estimates of how employee time is split between Program Services and Management and General and allocated according to those estimates. Expenses such as interest expense, provision for loan losses, and program services are assigned directly to Program services as they are directly related to the Organization’s lending program. Professional fees are analyzed on a transaction/invoice level and assigned to either Program Expenses or Management and General based on the nature of the specific charges. Depreciation expense, office expense, and the remaining items in other expense are allocated based on estimates of usage. During 2019, the Organization hired additional personnel allocated almost entirely to program services. This significantly changed the percentages of Program service expenses to total expenses from 2018 to 2019.

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

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.

Secured Borrowings

The Bank has a credit facility with the Federal Home Loan Bank of Atlanta (“FHLB”). This facility provides secured funding to help manage liquidity, interest rate risk and daily funding needs. The Bank had $25,918,221 and $18,701,120 borrowed against this facility at December 31, 2019 and December 31, 2018, respectively, secured by investment securities and certain loans in its portfolio that meet FHLB collateral requirements.

The Organization has one additional credit facility it classifies as secured. The Organization’s borrowing agreement from the United States Department of Agriculture (“USDA”) requires that all loans funded with these proceeds are pledged to the USDA. Borrowings outstanding under this facility were $1,987,106 and $2,056,053 for the years ended December 31, 2019 and 2018, respectively.

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 is subject to federal income taxes and Virginia Franchise Taxes. LOCUS Capital is also subject to state and federal income taxes.

Provision for income taxes is based on amounts reported in the Bank’s and LOCUS Capital’s statements of activities (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 or other assets when applicable. Such unrealized gains or losses are recorded as adjustments to equity in the financial statements as a component of accumulated other comprehensive income and not included in income until realized.

A valuation allowance may be provided for any deferred tax asset for which the ultimate realization is uncertain. No valuation allowance was necessary for the periods presented for the Bank. A valuation allowance for the entire deferred tax asset was recorded for LOCUS Capital.

Other Real Estate Owned

Assets acquired through, or in lieu of, loan foreclosures are to be sold and are initially recorded at the lower of the investment in the loan or fair value less anticipated costs to sell at the date of foreclosure establishing a new cost basis. After foreclosure, valuations are periodically performed by management, and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in foreclosed asset expense.

Recent Accounting Pronouncements

The following accounting standards may affect the future financial reporting by Virginia Community Capital Inc. and its subsidiaries:

In February 2016, the FASB amended the Leases topic of the Accounting Standards Codification to revise certain aspects of recognition, measurement, presentation, and disclosure of leasing transactions. The amendments will be effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted.

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

Recent Accounting Pronouncements, continued

We expect to adopt the guidance using the modified retrospective method and practical expedients for transition. The practical expedients allow us to largely account for our existing leases consistent with current guidance except for the incremental balance sheet recognition for lessees. We have started an initial evaluation of our leasing contracts and activities. We have also started developing our methodology to estimate the right-of use assets and lease liabilities, which is based on the present value of lease payments (the December 31, 2018 future minimum lease payments were $1.88 million). We do not expect a material change to the timing of expense recognition, but we are early in the implementation process and will continue to evaluate the impact. We are evaluating our existing disclosures and may need to provide additional information as a result of adoption of the ASU.

In June 2016, the FASB issued guidance to change the accounting for credit losses and modify the impairment model for certain debt securities. The amendments will be effective for the Organization for annual periods beginning after December 15, 2020, and interim periods within annual reporting periods beginning after December 15, 2021. Early adoption is permitted.

The Organization will apply the amendments to the Accounting Standards Update ("ASU") through a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption. While early adoption is permitted beginning in first quarter 2019, the Organization does not expect to elect that option. The Organization is evaluating the impact of the ASU on our consolidated financial statements. The Organization has not formed an expectation of what, if any impact the implementation of the ASU would have on the recorded allowance for loan losses given the change to estimated losses over the contractual life of the loans adjusted for expected prepayments. In addition to our allowance for loan losses, we will also record an allowance for credit losses on debt securities instead of applying the impairment model currently utilized. The amount of the adjustments will be impacted by each portfolio's composition and credit quality at the adoption date as well as economic conditions and forecasts at that time.

In July 2018, the FASB amended the Leases Topic of the Accounting Standards Codification to give entities another option for transition and to provide lessors with a practical expedient. The amendments will be effective for the Organization for annual periods beginning after December 15, 2019, and interim periods within annual reporting periods beginning after December 15, 2020.

In April 2019, the FASB issued guidance that clarifies and improves areas of guidance related to the recently issued standards on credit losses, hedging, and recognition and measurement of financial instruments. The amendments related to credit losses will be effective for the Organization for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. The amendments related to recognition and measurement of financial instruments will be effective for the Organization for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Organization does not expect these amendments to have a material effect on its financial statements.

In November 2019, the FASB issued guidance to defer the effective dates for private companies, not-for-profit organizations, and certain smaller reporting companies applying standards on current expected credit losses (CECL), leases, hedging. The new effective dates will be CECL: fiscal years beginning after December 15, 2022 including interim periods within those fiscal years. Leases: fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. The Organization does not expect these amendments to have a material effect on its financial statements.

In November 2019, the FASB issued guidance that addresses issues raised by stakeholders during the implementation of ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The amendments affect a variety of Topics in the Accounting Standards Codification. For entities that have not yet adopted the amendments in ASU 2016-13, the amendments are effective for fiscal years beginning after December 15, 2022 including interim periods within those fiscal years. Early adoption is permitted in any interim period as long as an entity has adopted the amendments in ASU 2016-13. The Organization does not expect these amendments to have a material effect on its financial statements.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies are not expected to have a material impact on the Organization's financial position, results of operations or cash flows.

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, 2019 and 2018, these reserve balances amounted to $250,000.

Note 3. Certificates of Deposits in Other Banks

The Organization maintains a portfolio of certificates of deposits in other banks. As of December 31, 2019, and 2018, the balance of these was $18,374,283 and $16,363,283, respectively. The majority of these deposits are FDIC-insured. As of December 31, 2019, and 2018, $396,283 were uninsured.

Note 4. Investments

Investments have been classified in the Consolidated Statements of Financial Position according to management's intent. The amortized cost of securities and their approximate fair values at December 31 are:

2019	**Amortized Cost**	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**
Available for sale				
U.S. Government sponsored entities	$ 2,313,696	$ 775	$ (9,057)	$ 2,305,414
Obligations of states and political subdivisions	3,349,637	40,396	(2,155)	3,387,878
Collateralized mortgage obligations	6,336,201	75,348	(6,684)	6,404,865
Mortgage backed securities	3,454,367	39,609	(9,670)	3,484,306
Total	$ 15,453,901	$ 156,128	$ (27,566)	$ 15,582,463
Held to maturity				
Obligations of states and political subdivisions	$ 5,502,521	$ 828,106	$ (5,489)	$ 6,325,138
2018				
Available for sale				
U.S. Government sponsored entities	$ 6,819,353	$ 8,561	$ (44,007)	$ 6,783,907
Obligations of states and political subdivisions	3,355,294	1,933	(232,586)	3,124,641
Collateralized mortgage obligations	2,596,941	-	(47,360)	2,549,581
Mortgage backed securities	3,068,103	14,743	(48,213)	3,034,633
Total	$ 15,839,691	$ 25,237	$ (372,166)	$ 15,492,762
Held to maturity				
Obligations of states and political subdivisions	$ 2,894,809	$ 36,921	$ (122,139)	$ 2,809,591

Securities with an amortized cost of $16,705,810 and $13,321,206 were pledged as collateral or otherwise restricted at December 31, 2019 and 2018, respectively. The Organization had realized gains on sales of securities in 2019 of $118,996 and $0 in 2018.

Note 4. Investments, continued

The scheduled maturities of securities at December 31, 2019 are as follows:

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
U.S. Government sponsored entities:				
Due in less than one year	$ -	$ -	$ -	$ -
Due one to five years	501,671	499,619	-	-
Due after five years but within ten years	1,340,403	1,337,214	-	-
Due after ten years	471,622	468,581	-	-
	$ 2,313,696	$ 2,305,414	$ -	$ -
Obligations of states and political subdivisions:				
Due in less than one year	$ 250,000	$ 252,245	$ -	$ -
Due after five years but within ten years	-	-	-	-
Due after five years but within ten years	1,178,342	1,202,535	4,732,853	5,538,436
Due after ten years	1,921,295	1,933,098	769,668	786,702
	$ 3,349,637	$ 3,387,878	$ 5,502,521	$ 6,325,138
Collateralized mortgage obligations:				
Due after five years but within ten years	$ 890,238	$ 896,611	$ -	$ -
Due after ten years	5,445,963	5,508,254	-	-
Due after ten years	$ 6,336,201	$ 6,404,865	$ -	$ -
Mortgage backed securities:				
Due one to five years	$ 75,139	$ 75,045	$ -	$ -
Due after five years but within ten years	249,140	251,867	-	-
Due after ten years	3,130,088	3,157,394	-	-
	$ 3,454,367	$ 3,484,306	$ -	$ -
Total Securities				
Due one to five years	$ 250,000	$ 252,245	$ -	$ -
Due one to five years	576,810	574,664	-	-
Due after five years but within ten years	3,658,123	3,688,227	4,732,853	5,538,436
Due after ten years	10,968,968	11,067,327	769,668	786,702
	$ 15,453,901	$ 15,582,463	$ 5,502,521	$ 6,325,138

Management performs an impairment analysis of the securities within its investment portfolio quarterly. An investment is considered impaired if the fair value of the investment is less than its cost. As of December 31, 2019, the Organization had $1,553,753 in securities that had been in an unrealized loss position for 12 or more consecutive months, with an unrealized loss position totaling $10,882. Management believes these securities are not other-than-temporarily impaired due to their nature and the loss position has been decreasing. The following table details unrealized losses and related fair values in the Organization's available for sale and held to maturity 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, 2019 and 2018.

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
2019						
U.S. Government sponsored entities	$ 499,619	$ (2,052)	$ 981,486	$ (7,005)	$ 1,481,105	$ (9,057)
Obligations of state and political subdivisions	824,316	(3.864)	497,223	(3,782)	1,321,539	(7,644)
Collateralized mortgage obligations	829,775	(6,682)	-	-	829,775	(6,684)
Mortgage backed securities	1,005,543	(9,574)	75,044	(95)	1,080,587	(9,670)
Total temporarily impaired securities	$ 3,159,253	$ (22,172)	$ 1,553,753	$ (10,882)	$ 4,713,006	$ (33,055)
2018						
U.S. Government sponsored entities	$ 2,303,173	$ (16,228)	$ 1,220,015	$ (27,779)	$ 3,523,188	$ (44,007)
Obligations of state and political subdivisions	-	-	4,576,657	(354,725)	4,576,657	(354,725)
Collateralized mortgage obligations	1,438,815	(6,931)	1,110,766	(40,429)	2,549,581	(47,360)
Mortgage backed securities	251,561	(662)	1,428,498	(47,551)	1,680,059	(48,213)
Total temporarily impaired securities	$ 3,993,549	$ (23,821)	$ 8,335,936	$ (470,484)	$ 12,329,485	$ (494,305)

Restricted equity securities consist of investments in common stock of the Federal Reserve Bank of Richmond, the Federal Home Loan Bank of Atlanta and Community Bankers Bank.

Note 5. Loans Receivable

The major components of loans in the consolidated statements of financial position at December 31, 2019 and 2018 are as follows:

	2019	2018
Commercial, industrial and other loans	$ 42,659,518	$ 33,157,953
Commercial real estate construction	20,919,831	22,895,339
Commercial real estate other	143,958,601	128,880,874
Total loans	207,537,950	184,934,166
Allowance for loan losses	(2,426,604)	(1,788,299)
Loans, net of allowance	$ 205,111,346	$ 183,145,867

At December 31, 2019 and 2018, $31,421,827 and $22,837,855 in loans, respectively, were pledged to the FHLB as collateral for borrowings.

Note 6. Allowance for Loan Losses

The allocation of the allowance for loan losses by loan components at December 31, 2019 was as follows:

	Commercial, Industrial and Other Loans	Commercial Real Estate-Construction	Commercial Real Estate-Other	Total
Allowance for loan losses:				
Beginning balance	$ 350,862	$ 497,493	$ 939,944	$ 1,788,299
Charge-offs	(270,938)	-	(486,880)	(757,818)
Recoveries	50,007	-	83,260	133,267
Provision	203,005	566,132	493,719	1,262,856
Ending balance	$ 332,936	$ 1,063,625	$ 1,030,043	$ 2,426,604
Ending balance:				
Individually evaluated for impairment	$ 50,915	$ 676,702	$ 5,912	$ 733,529
Collectively evaluated for impairment	$ 282,021	$ 386,923	$ 1,024,131	$ 1,693,075
Loans Receivable:				
Ending balance	$ 42,659,518	$ 20,919,831	$ 143,958,601	$ 207,537,950
Ending balance:				
Individually evaluated for impairment	$ 4,714,635	$ 4,222,797	$ 1,499,716	$ 10,437,148
Collectively evaluated for impairment	$ 37,944,883	$ 16,697,034	$ 142,458,885	$ 197,100,802

The following table presents impaired loans by class of loans as of December 31, 2019:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial, industrial, and other loans	$ 4,515,640	$ 5,515,662	$ -	$ 4,398,492	$ 9,108
Commercial real estate construction	576,095	576,095	-	576,095	34,240
Commercial real estate-other	713,204	713,204	-	713,204	7,486
	5,804,939	6,804,961	-	5,687,791	50,834
With allowance recorded:					
Commercial, industrial, and other loans	$ 198,995	$ 198,995	$ 50,915	$ 20,629	$ 13,800
Commercial real estate construction	3,646,702	3,646,702	676,702	919,169	83,467
Commercial real estate-other	786,512	786,512	5,912	204,709	60,988
	4,632,209	4,632,209	733,529	1,144,507	158,255
Total					
Commercial, industrial, and other loans	4,714,635	5,714,657	50,915	4,419,121	22,908
Commercial real estate construction	4,222,797	4,222,797	676,702	1,495,264	117,707
Commercial real estate-other	1,499,716	1,499,716	5,912	917,913	68,474
	$ 10,437,148	$ 11,437,170	$ 733,529	$ 6,832,298	$ 209,089

Note 6. Allowance for Loan Losses, continued

Nonperforming loans and impaired loans are defined differently. As such, some loans may be included in both categories, whereas other loans may only be included in one category. The following presents by class, an aging analysis of the recorded investment in loans as of December 31, 2019.

	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater	Total Past Due	Current	Total Loans Receivable	Non-Accrual
Commercial, industrial, and other loans	$ -	$ 114,910	$ 705,117	$ 820,027	$ 41,839,491	$ 42,659,518	$ 4,544,217
Commercial real estate construction	-	-	-	-	20,919,831	20,919,831	3,646,702
Commercial real estate other	-	118,963	541,692	660,655	143,297,946	143,958,601	1,387,129
Total	$ -	$ 233,873	$ 1,246,809	$ 1,480,682	$ 206,057,268	$ 207,537,950	$ 9,578,048

Recorded investment in loans over 90 days past due and still accruing were $39,688 and $0 at December 31, 2019 and 2018, respectively.

Note 6. Allowance for Loan Losses, continued

The allocation of the allowance for loan losses by loan components at December 31, 2018 was as follows:

	Commercial, Industrial and Other Loans	Commercial Real Estate-Construction	Commercial Real Estate-Other	Total
Allowance for loan losses:				
Beginning balance	$ 1,346,861	$ 514,394	$ 984,501	$ 2,845,756
Charge-offs	(799,672)	-	(191,957)	(991,629)
Recoveries	-	-	-	-
Provision	(196,327)	(16,901)	147,400	(65,828)
Ending balance	$ 350,862	$ 497,493	$ 939,944	$ 1,788,299
Ending balance:				
Individually evaluated for impairment	$ 18,087	$ -	$ -	$ 18,087
Collectively evaluated for impairment	$ 332,775	$ 497,493	$ 939,944	$ 1,770,212
Loans Receivable:				
Ending balance	$ 33,157,953	$ 22,895,339	$ 128,880,874	$ 184,934,166
Ending balance:				
Individually evaluated for impairment	$ 3,477,288	$ 595,904	$ 4,068,538	$ 8,141,730
Collectively evaluated for impairment	$ 29,680,665	$ 22,299,435	$ 124,812,336	$ 176,792,436

The following table presents impaired loans by class of loans as of December 31, 2018:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial, industrial, and other loans	$ 3,459,200	$ 4,239,414	$ -	$ 3,442,416	$ 1,630
Commercial real estate construction	595,904	595,904	-	16,326	35,355
Commercial real estate-other	4,068,538	4,068,538	-	2,478,290	26,623
	8,123,642	8,903,856	-	5,937,032	63,608
With allowance recorded:					
Commercial, industrial, and other loans	18,087	18,087	18,087	18,087	-
	18,087	18,087	18,087	18,087	-
Total					
Commercial, industrial, and other loans	3,477,288	4,257,501	18,087	3,460,503	1,630
Commercial real estate construction	595,904	595,904	-	16,326	35,355
Commercial real estate-other	4,068,538	4,068,538	-	2,478,920	26,623
	$ 8,141,730	$ 8,921,943	$ 18,087	$ 5,955,119	$ 63,608

At December 31, 2019 and 2018, the Organization had $1,391,630 and $1,156,336, respectively of cash funded loan loss reserves, received by grants, which are not included in the above tables. This amount is presented separately on the Consolidated Statements of Financial Position. All cash funded loan loss reserves are structured as first loss pools. Loans outstanding allocated to these reserves totaled $4,266,666 and $4,494,101 at December 31, 2019 and 2018, respectively.

Nonperforming loans and impaired loans are defined differently. As such, some loans may be included in both categories, whereas other loans may only be included in one category. The following presents by class, an aging analysis of the recorded investment in loans as of December 31, 2018.

	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater	Total Past Due	Current	Total Loans Receivable	Non-Accrual
Commercial, industrial, and other loans	$ 40,965	$ 53,880	$ 2,733	$ 97,578	$ 33,060,375	$ 33,157,953	$ 3,958,521
Commercial real estate construction	1,098,663	-	-	1,098,663	21,796,676	22,895,339	-
Commercial real estate other	-	-	3,351,109	3,351,109	125,529,765	128,880,874	3,452,915
Total	$ 1,139,628	$ 53,880	$ 3,353,842	$ 4,547,350	$ 180,386,816	$ 184,934,166	$ 7,411,436

Note 6. Allowance for Loan Losses, continued

Credit Quality Indicators:

The Organization categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The organization analyzes loans individually by classifying the loans as to credit risk. Loans graded Marginal, Special Mention, Substandard, Doubtful or Loss are reviewed at least quarterly by the Organization for further deterioration or improvement to determine appropriate classification, to determine if there is any impairment of the loan, and if impairment exists, the amount that should be reserved for anticipated losses. All other loans above $500,000 are reviewed annually to determine the appropriate loan grading. In addition, during the renewal process of any loan, as well as when a loan becomes past due, the Organization will evaluate the loan grade.

Loans graded Prime, Excellent, Good or Average are excluded from the scope of the annual review and considered "Pass Credits" until: (a) they become past due; (b) management becomes aware of a deterioration in the credit worthiness of the borrower; or (c) the customer contacts the Organization for a modification. In these circumstances, the loan is specifically evaluated for potential classification as Marginal, Watch, Special Mention, Substandard, Doubtful, Loss, or in some instances even charged-off. The Organization uses the following definitions for risk ratings:

Prime – Loans in this category are considered to be of the highest quality and carry minimal credit risk. Overall asset quality is excellent and the borrower is very liquid. Leverage is very low relative to the borrower's industry and is stable or decreasing. Cash flow is continually very high relative to all demands. Earnings are always strong and are stable or increasing even through economic swings. Multiple sources of financing/refinancing exist, including access to public markets. Loans fully secured by U.S. Government and Government Agency obligations, and deposit accounts (in our Organization) will also be rated as Prime.

Excellent – Loans in this category are considered to be of excellent quality. The borrower has very good liquidity and overall asset quality. Leverage is relatively low and is stable or declining. Margins and ratios are consistently above industry norms. Earnings are strong and stable, but the rate of growth may differ from year to year. Cash flow is more than sufficient to meet total demands. Multiple sources of financing are available.

Good - Loans in this category are of good quality. The borrower has a history of successful performance but may be susceptible to economic changes. Asset quality and liquidity are still considered good. Overall leverage is normal for the industry in which the borrower operates and is stable. Cash flow levels may fluctuate but are sufficient to meet obligations. Margins and ratios are generally in line with or exceed industry norms. Earnings may have been inconsistent in the past but have now stabilized and are equivalent to or better than the industry average. Other sources of financing, particularly from a number of other financial institutions, should be obtainable.

Average - Loans in this category are of average quality and risk is well within the Organization's range of acceptability. They may differ from loans rated "Good" because the borrower may be entering an expansion mode, acquiring another company, introducing new products or investing large amounts of capital in upgrading equipment or the facility. The borrower's business may be cyclical or its customer base may have concentrations. Asset quality is acceptable. Liquidity levels fluctuate and usage of short-term credit may be needed on a regular basis to finance growth needed on a regular basis to finance growth or fluctuations in revenues and current assets. Leverage may be slightly to moderately higher than the industry but is stable. Cash flow may fluctuate but is evident in sales and earnings. The long-term outlook should be favorable. Management and owners have unquestioned character, although depth of management may be an issue.

Marginal - Loans in this grade are considered to have a higher than normal credit risk and servicing needs. Asset quality is marginally acceptable. Leverage may fluctuate and is above normal for the industry. Cash flow is marginally adequate but is not clearly sufficient to ensure continued performance of contractual obligations without improving trends. A loss year or earnings decline may occur, but the borrower has sufficient strength and financial flexibility to offset these events. A reasonable expectation exists that operating performance will improve in the near future. Some management weaknesses may exist. These borrowers are currently performing as agreed, but may be adversely affected by deteriorating industry conditions, competition, operating deficiencies, pending litigation of a significant nature, or declining asset quality, and therefore should be monitored closely. Access to alternative financing sources may not be possible or limited to asset-based lenders and other institutions specializing in high risk financing.

Note 6. Allowance for Loan Losses, continued

Watch - Loans in this grade generally meet the definition of a "marginal" credit, but Management has determined these loans require enhanced monitoring through the Special Assets Committee. Typically, the concern(s) with these loans will include a forthcoming maturity where the Organization does not want to renew, a lack of current financial information in addition to marginal cash flow and/or pending action that requires management scrutiny.

Special Mention - Although repayment of principal and interest may continue, a loan in this category carries undesirable credit risk and possesses potential weaknesses which may, if not corrected, weaken the asset or inadequately protect the Organization's credit position at some future date. A customer in this rating will reflect one or more of the following characteristics: deterioration in revenues, earnings or cash flow, deterioration in the balance sheet composition, or adverse conditions are known which could substantially affect operations in the near future. In addition, these are credits that the Organization may be unable to manage properly because of an inadequate loan agreement, inability to control collateral, failure to obtain proper documentation, or any other deviation from sound lending principles may be placed in this category.

Substandard - Substandard assets are inadequately protected by the sound net worth and paying capacity of the borrower or the collateral pledged. Sound worth and paying capacity of a guarantor should be considered only if judged to be strong and dependable. Borrowers in this category have well defined weaknesses and the possibility exists that the Organization will sustain some loss if the deficiencies are not corrected. Characteristics of a substandard loan include one or more of the following characteristics: a significant deterioration in earnings, cash flow or balance sheet composition, a deficient equity position, insufficient cash flow to meet maturity obligations, recent evidence of slow payments, a lack of adequate collateral or a dependence on illiquid collateral for repayment.

Doubtful - Doubtful ratings are applied to loans that exhibit weaknesses that make collection or liquidation in full improbable. This rating is used when the expected loss cannot be calculated, but estimates indicate that the loss will be significant in relation to the outstanding loan balance. The possibility of loss is extremely high, but because of certain important and reasonably specific pending factors which my work to the advantage and strengthening of the loan, its classification as a loss is deferred until its more exact status may be determined. Pending factors include proposed merger, acquisition, or liquidation procedures, capital injection, perfecting liens on additional collateral, and refinancing plans.

Loss - This rating is applied when the borrower's outstanding debt is considered uncollectible or of such little value that continuance as an Organization asset is not warranted. This rating does not suggest that there is absolutely no recovery or salvage value, but that it is not practical or desirable to defer writing off the debt.

Loans by Risk Rating December 31, 2019	**Commercial Industrial and Other Loans**	**Commercial Real Estate-Construction**	**Commercial Real Estate-Other**	**Total**
Pass Credits	$ 37,365,959	$ 17,273,128	$ 135,592,628	$ 190,231,715
Marginal	634,432	-	1,727,644	2,362,076
Special Mention	-	-	4,556,141	4,556,141
Substandard	4,659,127	3,646,703	2,082,188	10,388,018
Total	$ 42,659,518	$ 20,919,831	$ 143,958,601	$ 207,537,950

Loans by Risk Rating December 31, 2018	**Commercial Industrial and Other Loans**	**Commercial Real Estate-Construction**	**Commercial Real Estate-Other**	**Total**
Pass Credits	$ 25,945,943	$ 21,052,056	$ 117,623,746	$ 164,621,745
Marginal	2,966,271	1,046,505	3,655,719	7,668,495
Special Mention	264,578	200,874	4,022,238	4,487,690
Substandard	3,981,161	595,904	3,579,171	8,156,236
Total	$ 33,157,953	$ 22,895,339	$ 128,880,874	$ 184,934,166

Note 6. Allowance for Loan Losses, continued

Troubled Debt Restructurings

During 2019, one loan classified as a troubled debt restructuring ("TDR") was modified through a payment reduction, and one loan classified as a TDR was modified through deferrals of principal and interest until maturity. During 2018, four loans classified as TDRs were modified through payment reductions and deferrals of past due payments to maturity and one loan was modified through a deferral of past due payments to maturity. Information regarding loans modified in a troubled debt restructuring for the years ended December 31, 2019 and 2018, respectively, is as follows:

	December 31, 2019			December 31, 2018		
	Number of Contracts	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment	Number of Contracts	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment
Commercial real estate – construction	1	$ 3,298,027	$ 3,298,027	-	$ -	$ -
Commercial real estate - other	-	$ -	$ -	3	$ 916,989	$ 916,989
Commercial, industrial and other loans	1	$ 10,920	$ 10,920	2	$ 71,994	$ 71,994
Total	2	$ 3,308,947	$ 3,308,947	5	$ 988,983	$ 988,983

Both TDRs modified during 2019 are performing within their modified terms. During 2018, all five TDRs modified during the year were in default of their modified terms.

Note 7. Grants Receivable

Grants receivable consist of the following:

	December 31, 2019	December 31, 2018
Healthy Foods Financing Initiative Financial Assistance Award	$ 950,000	$ 1,000,000
Virginia Housing Development Authority Opportunity Zone Award	938,400	-
Community Development Financial Institutions Financial Assistance Award	714,000	950,000
Robert Woods Johnson Foundation Grants	588,869	588,869
Kansas Health Foundation Grant	530,365	823,944
Phillips Foundation	440,000	-
Norfolk Community Development Block Grant	360,133	484,627
Appalachian Regional Commission Power Grants	307,765	769,546
The Piton Foundation	230,000	-
Bank Enterprise Award	104,646	233,244
The Kresge Foundation	100,000	-
Dignity Health	69,000	-
United States Department of Agriculture Rural Business Development Grant	67,541	75,000
Thompson Charitable Foundation	66,666	133,333
Weingart Foundation	23,000	-
Alleghany Foundation	12,735	232,443
Miscellaneous pledges	2,000	2,000
Total grants receivable	5,505,120	5,293,006
Unearned grants receivable	(4,405,535)	(3,970,799)
Total grants receivable, net	$ 1,099,585	$ 1,322,207

Note 8. Premises and Equipment

Components of premises and equipment and total accumulated depreciation at December 31, 2019 and 2018 are as follows:

	2019	2018
Land	$ 393,491	$ 393,491
Buildings and improvements	1,246,966	1,242,132
Leasehold improvements	1,020,914	1,020,914
Furniture and equipment	1,512,643	1,443,502
Vehicle	145,294	145,294
Fixed assets in process	38,411	32,850
Premises and equipment, total	4,357,719	4,278,183
Less accumulated depreciation	(1,507,604)	(1,159,535)
Premises and equipment, net of depreciation	$ 2,850,115	$ 3,118,648

Depreciation and amortization expense for the years ended December 31, 2019 and 2018 was $365,101 and $352,919, respectively.

Building Held for Sale

In 2017, a parcel of real estate with improvements located in Roanoke, Virginia, with an appraised value of $2,700,000 was granted to the Organization. The grant agreement allowed for the sale of the property by the Organization but contained specific terms that would limit the parties to which the property could be sold, as well as the use of the property for 5 years after the date of transfer. With these conditions, the property could not be sold at appraised value. The Organization received a purchase offer on the property of $500,000 in 2018 and adjusted the carrying value of the property to the contract purchase price. Since the parcel of real estate was a grant to the Organization and the performance criteria in the grant agreement had not yet been met, the offsetting entry to record the adjustment of the carrying value of the property was made to deferred revenue which is classified as a liability account on the Consolidated Statement of Financial Position, and therefore had no impact on the Consolidated Statement of Activities. The property was subsequently sold in early 2019 at the contract price of $500,000.

Note 8. Premises and Equipment, continued

The Organization leases office space in Richmond and Norfolk, Virginia. The leases in Richmond and Norfolk expire July 31, 2027 and June 30, 2021, respectively. Future lease payments are as follows:

	Richmond Office	Norfolk Office	Total
2020	221,527	51,729	273,256
2021	227,065	4,391	231,456
2022	232,741	-	232,741
2023	238,560	-	238,560
Thereafter	904,997	-	904,997
Total	$ 1,824,890	$ 56,120	$ 1,881,010

Rent expense for the years ended December 31, 2019 and 2018 was $241,065 and $209,800, respectively.

Note 9. Deposits

The major components of deposits in the Consolidated Statements of Financial Position at December 31, 2019 and 2018 are as follows:

	2019	2018
Noninterest-bearing demand	$ 4,093,964	$ 5,695,798
Interest-bearing demand	34,431,572	19,146,256
Time deposits	122,971,443	120,346,445
Total deposits	$ 161,496,979	$ 145,188,499

The aggregate amount of time deposits in denomination of $250,000 or more at December 31, 2019 and 2018 was $52,969,480 and $35,902,452, respectively. At December 31, 2019, the scheduled maturities of time deposits are as follows:

2020	$ 73,538,949
2021	28,138,747
2022	6,097,332
2023	2,655,003
Thereafter	12,541,412
	$ 122,971,443

Note 10. Borrowings

Borrowings at December 31, 2019 and 2018, respectively, consist of the following:

Description	Rate	Maturity	2019	2018
PNC	2.25%	12/31/2018	-	3,000,000
Capital One	2.00%	01/01/2019	-	750,000
CDFI Fund	2.00%	04/16/2019	-	989,450
Bank of America	3.50%	05/31/2019	-	1,500,000
Federal Home Loan Bank	2.41%	06/19/2019	-	1,500,000
Bank of Botetourt	4.00%	On Demand	-	2,000,000
Local Impact Opportunity Notes (subordinated)	Various*	Various*	11,225,000	8,200,000
Bon Secours Health Systems	2.25%	04/01/2020	2,050,000	2,050,000
Atlantic Union	3.14%	06/30/2020	2,000,000	2,000,000
Bank of America	3.50%	05/31/2020	1,500,000	1,500,000
Jessie Ball DuPont	2.00%	07/08/2020	1,500,000	1,500,000
Federal Home Loan Bank	2.92%	09/21/2020	2,000,000	2,000,000
Carter Bank & Trust	3.75%	10/01/2020	-	1,000,000
Federal Home Loan Bank	1.72%	10/11/2020	65,000	-
Federal Home Loan Bank	1.73%	11/30/2020	6,000,000	-
HSBC	2.08%	12/31/2020	3,000,000	3,000,000
Wells Fargo EQ2 (subordinated)	2.00%	02/02/2021	500,000	500,000
WoodForest Bank	3.00%	07/24/2022	1,495,977	222,532
Federal Home Loan Bank **	2.79%	08/26/2022	3,529,412	4,705,882
Federal Home Loan Bank ***	2.22%	12/07/2022	1,800,000	2,400,000
Bank of America	3.50%	12/28/2022	2,000,000	-
Appalachian Community Capital	2.41%	12/31/2022	3,000,000	3,000,000
Northern Trust	2.00%	06/14/2023	2,000,000	1,000,000
Jessie Ball DuPont	2.00%	12/09/2023	1,500,000	1,500,000
Richmond Memorial Health	2.00%	12/14/2023	200,000	200,000
Federal Home Loan Bank	3.04%	12/18/2023	5,000,000	5,000,000
Bank of America	3.50%	12/28/2023	2,000,000	-
Wells Fargo EQ2 (subordinated)	2.00%	03/20/2024	500,000	500,000
Federal Home Loan Bank ****	2.07%	05/31/2024	2,523,809	3,095,238
Federal Home Loan Bank	1.71%	08/23/2024	5,000,000	-
Bank of America	3.50%	12/28/2024	2,000,000	-
CDFI Fund	1.95%	12/30/2027	341,415	341,415
CDFI Fund	2.50%	01/31/2029	19,744	19,744
Good to Grow CDFI Investment Fund, LLC (subordinated)	3.00%	09/30/2029	1,000,000	-
Dollar Bank	2.50%	12/30/2029	1,000,000	-
United States Department of Agriculture	1.00%	03/31/2044	1,987,106	2,056,053
			$ 66,737,463	$ 55,530,314

*Local Impact Opportunity Notes range in size from $25,000-$2,150,000, with rates of 1.50%-3.25%. The first of these notes matures on 01/03/2020, with the final note maturing on 10/04/2026.
**Principal and interest payments are due quarterly in the amount of $294,118.
*** Principal and interest payments are due quarterly in the amount of $150,000.
****Principal and interest payments are due monthly in the amount of $47,619.

Performance against debt covenants is measured on either a quarterly, semi-annual or annual basis. As of December 31, 2019, management believes the Organization was in compliance with all covenants.

At December 31, 2019, the scheduled maturities of borrowings are as follows:

2020	$ 23,362,899
2021	4,767,899
2022	8,918,876
2023	13,271,429
2024	9,368,095
Thereafter	7,048,265
	$ 66,737,463

At December 31, 2019, the Organization had unused Federal Fund lines of credit of $4,000,000, and other various unused commitments of $5,000,000 with rates ranging from 3.50-4.00%. In addition, the Organization had approximately $6,499,279 in lendable collateral value pledged with the Federal Home Loan Bank of Atlanta ("FHLB") and available for use.

Note 11. Fair Value of Financial Instruments

Fair Value Hierarchy

There are three levels of inputs in the fair value hierarchy that may be used to measure fair value. Financial instruments are considered *Level 1* when valuation can be based on quoted prices in active markets for identical assets or liabilities. *Level 2* financial instruments are valued using quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or models using inputs that are observable or can be corroborated by observable market data of substantially the full term of the assets or liabilities. Financial instruments are considered *Level 3* when their values are determined using pricing models, discounted cash flow methodologies or similar techniques and at least one significant model assumption or input is unobservable and when determination of the fair value requires significant management judgment or estimation.

Recurring Fair Value

The following describes the valuation techniques used by the Organization to measure certain financial assets recorded at fair value on a recurring basis in the financial statements:

Investment 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.

The table below presents the recorded amount of assets measured at fair value on a recurring basis. There were no liabilities measured at fair value on a recurring basis.

December 31, 2019	**Total**	**Level 1**	**Level 2**	**Level 3**
Investment securities available for sale:				
U.S. Government sponsored entities	$ 2,305,414	$ -	$ 2,305,414	$ -
Obligations of states and political subdivisions	3,387,878	-	3,387,878	-
Collateralized mortgage obligation	6,404,865	-	6,404,865	-
Mortgage backed securities	3,484,306	-	3,484,306	-
Total assets measured at fair value	$ 15,582,463	$ -	$ 15,582,463	$ -
December 31, 2018				
Investment securities available for sale:				
U.S. Government sponsored entities	$ 6,783,907	$ -	$ 6,783,907	$ -
Obligations of states and political subdivisions	3,124,641	-	3,124,641	-
Collateralized mortgage obligation	2,549,581	-	2,549,581	-
Mortgage backed securities	3,034,633	-	3,034,633	-
Total assets measured at fair value	$ 15,492,762	$ -	$ 15,492,762	$ -

Non-recurring Fair Value

The following describes the valuation techniques used by the Organization to measure certain assets recorded at fair value on a nonrecurring basis in the financial statements:

Impaired loans: 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. The value of business equipment is based upon an outside appraisal, if deemed significant, or the net book value on the applicable business’ financial statements if not considered significant using observable market data. Likewise, values for inventory and accounts receivables collateral are based on financial statement balances or aging reports.

Note 11. Fair Value of Financial Instruments, continued

Building held for sale: The Building held for sale as outlined in Note 8 was adjusted to fair value, calculated based on an offer and subsequent purchase contract entered into during 2018.

Other real estate owned: Other real estate owned 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.

The table below presents the recorded amount of assets measured at fair value on a non-recurring basis. There were no liabilities measured at fair value on a non-recurring basis.

December 31, 2019	**Total**	**Level 1**	**Level 2**	**Level 3**
Impaired loans	$ 9,703,619	$ -	$ -	$ 9,703,619
Total assets measured at fair value	$ 9,703,619	$ -	$ -	$ 9,703,619
December 31, 2018				
Impaired loans	$ 8,123,642	$ -	$ -	$ 8,123,642
Building held for sale	500,000	-	-	$ 500,000
Other real estate owned	952,500	-	-	952,500
Total assets measured at fair value	$ 9,576,142	$ -	$ -	$ 9,576,142

The following table presents quantitative information about Level 3 fair value measurements for financial instruments measured at fair value on a non-recurring basis at December 31, 2019 and 2018, respectively.

	December 31, 2019	Valuation Techniques	Unobservable Inputs	Range (Wtd Avg)
Impaired loans:				
Commercial real estate - other	$ 1,493,804	Appraisals and/or sales of comparable properties	Management discount to reflect current market conditions and type of collateral	21.15%-39.53% (31.74%)
Commercial, industrial and other loans	4,663,720	Appraisals and/or sales of comparable properties	Management discount to reflect current market conditions and type of collateral	0.00%-50.00% (12.97%)
Commercial real estate - construction	3,546,095	Appraisals and/or sales of comparable properties	Management discount to reflect current market conditions	9.55%-10.00% (9.92%)

	December 31, 2018	Valuation Techniques	Unobservable Inputs	Range (Wtd Avg)
Impaired loans:				
Commercial real estate - other	$ 4,068,538	Appraisals and/or sales of comparable properties	Management discount to reflect current market conditions and type of collateral	0.00%-56.87% (17.40%)
Commercial, industrial and other loans	3,459,200	Appraisals and/or sales of comparable properties	Management discount to reflect current market conditions and type of collateral	0.00%-50.00% (14.85%)
Commercial real estate - construction	595,904	Appraisals and/or sales of comparable properties	Management discount to reflect current market conditions	10.00% (10.00%)
Building held for sale:	500,000	Contract value	Management discount to reflect current market conditions	81.48% (81.48%)
Other real estate owned:				
Commercial real estate - other	952,500	Appraisals and/or sales of comparable properties	Management discount to reflect current market conditions	0.00% (0.00%)

Note 12. Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods.

	2019	2018
Subject to expenditure for specified purpose:		
Community development lending	$ 6,905,661	$ 6,609,812
IRF Redeployment Funds	759,052	476,763
Total net assets with donor restrictions	$ 7,664,713	$ 7,086,575

Liquidity and Availability of Financial Assets

The Organization's financial assets available within one year of the balance sheet date for general expenditure are as follows:

	2019
Cash and due from banks	$ 15,610,503
Loans and interest receivable	35,191,594
Grants receivable	1,099,585
Short-term investments	8,494,000
Cash funded loan loss reserves	656,336
Financial assets available within one year	$ 61,052,018

The Organization's Fund Management Policy requires financial assets to be available as its general expenditures, liabilities, and other obligations come due. To help manage unanticipated liquidity needs, the Organization has committed lines of credit in the amount of $15.5 million which it could draw upon.

Note 13. 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, 2019 and 2018 amounted to $168,048 and $165,000, respectively.

In October 2012, Center for Rural Entrepreneurship (CRE) adopted the Center for Rural Entrepreneurship 457(b) Deferred Compensation Plan (the "Plan") pursuant to Section 457 of the Internal Revenue Code (IRC). Plans eligible under Section 457(b) of the IRC allow employees of sponsoring organizations to defer income taxation on retirement savings into future years. Under the terms of the Plan, eligible participants may make elective salary deferrals pursuant to a Salary Reduction Agreement with the employer. The employer may make non-elective contributions or matching contributions on behalf of participants in an amount determined by the Board, subject to limitations of the Plan and Code. A participant will be fully vested at all times in his or her elective deferrals. Employer non-elective deferrals or matching contributions, if any, are subject to a vesting schedule to be determined by the Board at the time the contribution is made by the Board. In December 2016, CRE's board, which sponsors the Plan, adopted an amendment to freeze the plan effective December 31, 2016, with the additional provisions that each of the Plan's two participants shall receive distributions as otherwise provided in the Plan and except as modified above, the Plan shall remain in full force and effect. As of December 31, 2019 and December 31, 2018, the plan value was $207,642, and $170,877, respectively. No elective deferrals by participants, non-elective deferrals by employer or matching contributions by employer were made in 2019 or 2018. Plan expense for 2019 and 2018 was $2,011 and $1,915, respectively.

Note 13. Benefit Plans, continued

In 2016, the Organization established the Virginia Community Capital Executive 457(b) Deferred Compensation Plan pursuant to Section 457 of the IRC. Under the terms of the Plan, eligible participants may make elective salary deferrals pursuant to a Salary Reduction Agreement with the employer. Under the terms of the Plan, eligible participants may make elective salary deferrals pursuant to a Salary Reduction Agreement with the employer. The employer may make non-elective contributions or matching contributions on behalf of participants in an amount determined by the Board, subject to limitations of the Plan and Code. A participant will always have a non-forfeitable right to 100% of his or her accrued benefit. Elective deferrals for 2019 totaled $54,749, and $58,825 for 2018. The Organization made no non-elective deferrals or matching contributions on behalf of participants in 2018 or 2019. Plan expense was $5,500 and $7,345 for 2019 and 2018, respectively.

In 2017, the Organization established the Virginia Community Capital Inc. Retention Payment Plan, a nonqualified deferred compensation plan, pursuant to 26 U.S.C Section 457(f), for specially designated key employees. Under the terms of the Plan, the Organization may, at the discretion of the Board of Directors, make credits to the plan on February 15th each year beginning in 2018 and ending in 2020. Benefits will vest on February 15th each year beginning 2018 through 2020 at the lesser of 20% of Projected Total Credits, or the Account balance as of the Vesting Date. In 2019, the Organization contributed $149,999 to the plan and plan expenses for the year were $3,660. As of December 31, 2019, the plan balance was $197,245. In 2018, the Organization contributed $149,999 to the plan and plan expenses for the year was $1,641. As of December 31, 2018, the plan balance was $106,890. At December 31, 2019 and December 31, 2018, $150,000 and $150,000 in contributions were accrued, respectively.

Note 14. Income Taxes

Current and Deferred Income Tax Components

The components of income tax expense, all federal, for the period ended December 31, 2019 and 2018 is as follows:

	2019	2018
Current expense	$ 54,374	$ 414,514
Deferred expense (benefit)	93,230	(193,198)
Income tax expense	$ 147,604	$ 221,316

Expense Reconciliation

The Bank is subject to income taxation only at the Federal level while LOCUS Capital is subject to both State and Federal taxes. The effective tax rate differs from the statutory rate resulting from permanent adjustments.

A reconciliation of income tax expense computed at the statutory federal income tax rate to income tax expense included in the Consolidated Statement of Activities for the years ended December 31, 2019 and 2018 is as follows:

	2019	2018
Tax at statutory federal rate	$ 326,766	$ 404,583
Tax credits	(43,757)	(123,432)
Other	(135,405)	(59,835)
	$ 147,604	$ 221,316

Note 14. Income Taxes, continued

Deferred Income Tax Analysis

The significant components of net deferred tax assets at December 31, 2019 and 2018 are summarized as follows:

	2019	2018
Deferred tax assets		
Allowance for loan losses	$ 221,062	$ 144,720
Other real estate owned	-	8,519
Pre-opening expenses	6,786	8,679
Unrealized losses on securities available for sale, net	-	73,261
Investments in Low Income Housing Tax Credits, net	280,632	377,504
Lease incentive obligation	42,734	45,187
Deferred tax asset	551,214	657,870
Deferred tax liabilities		
Deferred loan costs	(220,318)	(197,980)
Prepaid expenses	(26,914)	(17,830)
Depreciation	(88,722)	(60,262)
Unrealized gains on securities available for sale, net	(26,526)	-
Investment in title company	(32)	(79)
Deferred tax liability	(362,512)	(276,151)
Net deferred tax asset	$ 188,702	$ 381,719

The Bank and LOCUS Capital classify interest and penalties related to income tax assessments, if any, in interest expense or noninterest expense, respectively in the consolidated statements of activities. Tax years 2016 through 2019 are subject to examination by the Internal Revenue Service. The Bank has analyzed the tax positions taken or expected to be taken in its tax returns and has concluded it has no liability related to uncertain tax positions.

Note 15. Revenue from Contracts with Customer

All of the Organization's revenue from contracts with customers in the scope of ASC 606 is recognized within total revenue and support. The following table presents the Organization's income by revenue stream for the years ended December 31, 2019 and 2018, excluding interest and fees on loans and other interest income. Items outside the scope of ASC 606 are noted as such.

	2019	2018
Grant and contribution income	$ 6,780,716	$ 6,766,686
Miscellaneous income	292,690	716,874
Project revenues	396,945	716,450
Gain on sale of SBA loans*	323,966	183,353
Gain on sale of available for sale securities*	118,996	-
Total non-interest income	$ 7,913,313	$ 8,383,363

*These revenue categories are not within the scope of ASC 606.

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

Grant and contribution income: The Organization receives grants and contributions from several types of entities for a range of purposes. In some instances, grant income is recognized as deliverables are met as the contract is considered an exchange transaction. The Organization also received contribution income that is recognized upon receipt of the award and is not within the scope of ASC 606.

Miscellaneous income: Miscellaneous income includes backroom servicing income, which includes bookkeeping, cash management, grant tracking and reporting and financial reporting services for clients. Also included in miscellaneous income is Asset Servicing income and rental income on other real estate owned, both of which are not within the scope of ASC 606.

Project Revenues: The Organization earns project revenues through contracts with customer for Consulting as well as Analytics and Due Diligence. Consulting engagements help the client build capacity and leadership for local direct impact investing. These engagements provide an ongoing benefit to the client over the period of performance, and revenue is recognized on a percentage of completion basis according to an agreed upon scope of work with each client. Analytics and due diligence consist of a research phase with a final customized report delivered at the end of the contract period, at which time revenue is recognized.

Note 16. 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, 2019 and 2018.

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.

At December 31, the following table provides a summary of the contractual amount of the Organization's exposure to off-balance sheet commitments (in thousands):

	2019	2018
Commitments to grant loans	$ 17,265	$ 26,677
Unfunded commitments under lines of credit	38,246	30,393
Outstanding capital calls associated with tax credit investments	219	295
Unfunded guarantees	100	-
	$ 55,830	$ 57,365

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.

In December 2019, the Organization made an unfunded guarantee commitment to CIGP, which is a newly formed single-member LLC of its subsidiary LOCUS Impact Investing. This guarantee is subject to periodic calls by CIGP for its prorated share of guarantee losses CIGP may incur on guarantees it has placed with qualified community development organizations in accordance with specific program underwriting guideline and expires in December 2034. As of December 31, 2019, CIGP has not yet issued any guarantees to qualified community development organizations.

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 17. Transactions with Related Parties

The Organization has entered into transactions with its directors, officers and their affiliates (related parties). Such transactions were made in the 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, 2019 or 2018.

Deposits from related parties held by the Bank at December 31, 2019 and 2018 amounted to $11,285,553 and $2,382,373, respectively. The Organization performed loan and accounting services for related parties resulting in income of $180,419 and $222,436 as of December 31, 2019 and 2018, respectively.

Note 18. Minimum Regulatory Capital Requirements

The Bank is subject to regulatory capital requirements administered by the federal banking agencies. Capital adequacy guidelines and prompt corrective action regulations involve quantitative measure of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet minimum capital requirements can initiate regulatory actions.

In July 2013, the FDIC and other federal banking agencies approved the final rules implementing the Basel Committee on Banking Supervision's capital guidelines for U.S. banks (commonly known as Basel III). On January 1, 2015, the Bank became subject to the Basel III Capital Rules which revises definitions of regulatory capital, the new minimum regulatory capital ratios, and various regulatory capital adjustments and deductions according to transition provision and timelines.

The revised rules now require the Bank to maintain (i) a minimum ratio of Common Tier 1 capital to risk-weighted assets of at least 4.5%, plus 2.5% "capital conservation buffer"), (ii) minimum ratio of Tier 1 capital to risk-weighted assets of at least 6.0%, (iii) a minimum ratio of total capital to risk-weighted assets of at least 8.0%, and (iv) a minimum leverage ratio of 4.0%. A transition period for the capital conservation buffer under Basel III for all banking organizations began on January 1, 2016 and ends January 1, 2019. The conservation buffer began at the 0.625% level and was phased in over a four-year period (increasing on each subsequent January 1, until it reached 2.5% on January 1, 2019). The conservation buffer at December 31, 2019 is 2.5%.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required.

As of December 31, 2019, 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, Tier I leverage and Common equity tier I ratios as set forth in the following table. There are no conditions or events since the notification that management believes have significantly impacted the Bank's category. At December 31, 2019, management believes the Bank's Basel III capital calculations exceed requirements. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital. Below is a summary of the Bank's capital ratios for December 31, 2019 and December 31, 2018. (Dollars in thousands)

	Actual		Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
December 31, 2019	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
Total Capital (to Risk-Weighted Assets)	$ 24,474	14.49%	$ 13,512	8.0%	$ 16,889	10.0%
Tier I Capital (to Risk-Weighted Assets)	$ 22,972	13.60%	$ 10,134	6.0%	$ 13,512	8.0%
Common Equity Tier I Capital (to Average Assets)	$ 22,972	13.60%	$ 7,600	4.5%	$ 10,978	6.5%
Tier I Capital (to Average Assets)	$ 22,972	10.54%	$ 8,717	4.0%	$ 10,896	5.0%
December 31, 2018						
Total Capital (to Risk-Weighted Assets)	$ 25,063	15.88%	$ 12,629	8.0%	$ 15,787	10.0%
Tier I Capital (to Risk-Weighted Assets)	$ 20,588	13.04%	$ 9,472	6.0%	$ 12,629	8.0%
Common Equity Tier I Capital (to Average Assets)	$ 20,588	13.04%	$ 7,104	4.5%	$ 10,261	6.5%
Tier I Capital (to Average Assets)	$ 20,588	10.93%	$ 7,536	4.0%	$ 9,419	5.0%

Note 19. Subsequent Events

These financial statements have been updated for subsequent events occurring through March 26, 2020 which is the date these financial statements were available to be issued.

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

Note 20. Parent Company Only Financial Information

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

Statements of Financial Position
December 31, 2019 and 2018

	2019	2018
Assets		
Cash and due from banks	$ 3,868,352	$ 172,589
Interest-bearing deposits	2,503,971	3,288,556
Certificates of deposit	1,125,348	1,125,348
Investment securities available for sale	252,245	251,933
Restricted stock	50,000	50,000
Cash funded loan loss reserves	1,391,630	1,156,336
Loans, net of allowance for loan losses of $924,535 and $763,211 at December 31, 2019 and 2018, respectively	46,011,225	45,881,630
Grants receivable	626,837	1,088,963
Accrued interest receivable	120,754	143,533
Premises and equipment	697,395	813,803
Building held for sale	-	500,000
Investment in subsidiaries	24,427,916	21,242,127
Other real estate owned	-	881,250
Other assets	245,742	485,874
Total assets	$ 81,321,415	$ 77,081,942
Liabilities		
Secured borrowings	$ 1,987,106	$ 2,056,053
Unsecured borrowings	37,832,135	34,773,141
Deferred revenue	3,609,507	5,889,884
Accrued interest payable	113,760	108,369
Other liabilities	538,698	769,528
Total liabilities	44,081,206	43,596,975
Net Assets		
Net assets with donor restrictions	7,664,713	7,086,575
Net assets without donor restrictions	24,290,497	22,970,886
Accumulated other comprehensive income (loss)	102,034	(273,668)
Total net assets before noncontrolling interest in subsidiary	32,057,244	29,783,793
Noncontrolling interest in subsidiary	5,182,965	3,701,174
Total net assets	37,240,209	33,484,967
Total liabilities and net assets	$ 81,321,415	$ 77,081,942

Note 20. Parent Company Only Financial Information, continued

Statements of Activities
For the year ended December 31, 2019

	December 31, 2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support			
Grant and contribution income	$ 1,162,263	$ 3,114,054	$ 4,276,317
Interest and fees on loans	2,190,443	-	2,190,443
Interest income	32,103	-	32,103
Miscellaneous income	136,390	-	136,390
Net assets released from restrictions	2,535,916	(2,535,916)	-
Total revenue and support	6,057,115	578,138	6,635,253
Expenses			
Program Services			
Salaries and wages	1,685,589	-	1,685,589
Payroll taxes	115,775	-	115,775
Employee benefits	201,564	-	201,564
Program services	286,109	-	286,109
Office expense	175,077	-	175,077
Professional fees	284,742	-	284,742
Depreciation expense	143,428	-	143,428
Interest expense	964,588	-	964,588
Provision for loan losses	277,405	-	277,405
Charitable contributions	300,000	-	300,000
Other expenses	238,789	-	238,789
Total program services expenses	4,673,066	-	4,673,066
Management and General			
Salaries and wages	561,862	-	561,862
Payroll taxes	38,592	-	38,592
Employee benefits	67,188	-	67,188
Office and administrative expenses	58,359	-	58,359
Professional fees	94,914	-	94,914
Depreciation expense	47,809	-	47,809
Other expenses	79,596	-	79,596
Total management and general expenses	948,320	-	948,320
Total expenses	5,621,386	-	5,621,386
Change in net assets/net income before undistributed income of subsidiaries	435,729	578,138	1,013,867
Change in net assets from undistributed income of bank subsidiary, net of minority interest	1,171,080	-	1,171,080
Change in net assets from undistributed loss of non-bank subsidiaries	(122,898)	-	(122,898)
Change in net assets/net income	1,483,911	578,138	2,062,049
Change in accumulated other comprehensive income	375,702	-	375,702
Dividends paid on subsidiary's preferred stock	(43,000)	-	(43,000)
Dividends paid to minority shareholders on subsidiary's common stock A	(438)	-	(438)
Dividends paid to minority shareholders on subsidiary's common stock B	(120,862)	-	(120,862)
Change in net assets/net income attributable to Virginia Community Capital, Inc.	1,695,313	578,138	2,273,451
Net assets beginning of year	22,697,218	7,086,575	29,783,793
Net assets end of year	$ 24,392,531	$ 7,664,713	$ 32,057,244

Note 20. Parent Company Only Financial Information, continued

Statements of Activities
For the year ended December 31, 2018

	December 31, 2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support			
Grant and contribution income	$ 1,505,949	$ 4,213,684	$ 5,719,633
Interest and fees on loans	1,956,803	-	1,956,803
Interest income	40,957	-	40,957
Miscellaneous income	453,422	-	453,422
Net assets released from restrictions	1,578,684	(1,578,684)	-
Total revenue and support	5,535,815	2,635,000	8,170,815
Expenses			
Program Services			
Salaries and wages	1,241,571	-	1,241,571
Payroll taxes	89,789	-	89,789
Employee benefits	170,505	-	170,505
Program services	383,195	-	383,195
Office expense	199,664	-	199,664
Professional fees	193,463	-	193,463
Depreciation expense	111,099	-	111,099
Interest expense	791,325	-	791,325
Provision for loan losses	195,544	-	195,544
Charitable contributions	200,000	-	200,000
Other expenses	346,198	-	346,198
Total program services expenses	3,922,353	-	3,922,353
Management and General			
Salaries and wages	820,154	-	820,154
Payroll taxes	59,313	-	59,313
Employee benefits	112,632	-	112,632
Office and administrative expenses	131,893	-	131,893
Professional fees	127,798	-	127,798
Depreciation expense	73,389	-	73,389
Other expenses	228,691	-	228,691
Total management and general expenses	1,553,870	-	1,553,870
Total expenses	5,476,223	-	5,476,223
Change in net assets/net income before undistributed income of subsidiaries	59,592	2,635,000	2,694,592
Change in net assets from undistributed income of bank subsidiary, net of minority interest	1,600,980	-	1,600,980
Change in net assets from undistributed loss of non-bank subsidiaries	(633,203)	-	(633,203)
Change in net assets/net income	1,027,369	2,635,000	3,662,369
Change in accumulated other comprehensive loss	(98,759)	-	(98,759)
Dividends paid on subsidiary's preferred stock	(104,500)	-	(104,500)
Dividends paid on subsidiary's common stock B	(2,743)	-	(2,743)
Change in net assets/net income attributable to Virginia Community Capital, Inc.	821,367	2,635,000	3,456,367
Net assets beginning of year	21,875,851	4,451,575	26,327,426
Net assets end of year	$ 22,697,218	$ 7,086,575	$ 29,783,793

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

Note 20. Parent Company Only Financial Information, continued

Statements of Cash Flows
For the years ended December 31, 2019 and 2018

	2019	2018
Cash flows from operating activities		
Change in net assets	$ 2,062,049	$ 3,662,369
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	173,253	184,488
Provision for loan losses	277,405	195,544
Loss on write down/sale of other real estate owned	24,834	60,903
Net amortization of investment securities	(312)	(95,318)
Loss on sale of fixed assets	-	(2,008)
Changes in assets and liabilities:		
Accrued interest receivable	22,779	43,338
Cash funded loan loss reserves	(235,294)	(486,336)
Grants receivable	462,126	(34,039)
Other assets	240,132	(256,625)
Investment in subsidiaries	(2,810,087)	(1,641,277)
Accrued interest payable	5,391	(30,738)
Deferred revenue	(2,280,377)	1,655,546
Other liabilities	(230,830)	182,124
Net cash (used in) provided by operating activities	(2,288,931)	3,437,971
Cash flows from investing activities		
Proceeds from sale of other real estate owned	856,416	-
Net increase in loans	(407,000)	(7,423,030)
Proceeds from sale of fixed assets	502,160	3,128
Purchases of premises and equipment	(59,005)	(80,117)
Net cash provided by (used in) investing activities	892,571	(7,500,019)
Cash flows from financing activities		
Dividends paid on subsidiary's preferred stock	(43,000)	(104,500)
Dividends paid on subsidiary's common stock class A	(438)	-
Dividends paid on subsidiary's common stock class B	(120,862)	(2,743)
Increase in noncontrolling interest in subsidiary	238,873	109,290
Net increase in borrowings	2,990,047	4,157,024
Proceeds from the sale of common stock of the subsidiary	1,242,918	2,531,505
Proceeds for the redemption of preferred stock of the subsidiary	-	(2,150,000)
Net cash provided by financing activities	4,307,538	4,540,576
Net increase in cash and cash equivalents	2,911,178	478,528
Cash and cash equivalents, beginning	3,461,145	2,982,617
Cash and cash equivalents, ending	$ 6,372,323	$ 3,461,145
Supplemental disclosure of cash flow information		
Interest paid	$ 959,157	$ 822,033
Supplemental disclosure of noncash investing and financing activities		
Building, fair value adjustment	$ -	$ (2,200,000)

Note 21. Subsidiary Financial Information

Financial information of VCC Bank as of, and for the years ended December 31, 2019 and 2018 are as follows:

VCC Bank
Balance Sheets
December 31, 2019 and 2018

	2019	2018
Assets		
Cash and due from banks	$ 283,515	$ 1,378,887
Interest-bearing deposits	15,907,408	10,194,105
Federal funds sold	252,000	264,000
Certificates of deposit	17,248,935	15,237,935
Investment securities available for sale	15,330,217	15,240,829
Investment securities held to maturity	5,502,521	2,894,809
Restricted equity securities	1,869,500	1,510,800
Loans, net of allowance for loan losses of $1,502,069 and $1,025,088 at December 31, 2019 and 2018, respectively	159,100,121	140,264,237
Grants receivable	104,646	233,244
Accrued interest receivable	706,968	609,675
Premises and equipment	2,125,046	2,276,519
Other real estate owned	-	71,250
Bank owned life insurance	2,683,737	2,623,446
Other assets	1,113,430	1,339,653
Total assets	$ 222,228,044	$ 194,139,389
Liabilities		
Noninterest-bearing deposits	$ 9,533,753	$ 8,273,507
Interest-bearing deposits	160,313,036	141,686,245
Total deposits	169,846,789	149,959,752
Secured borrowings	25,918,221	18,701,120
Subordinated debt	1,000,000	3,000,000
Accrued interest payable	205,259	219,179
Other liabilities	1,134,815	896,779
Total liabilities	198,105,084	172,776,830
Shareholders' equity		
Preferred stock, 1,000 shares authorized; Series A, perpetual, no par value, $50,000 liquidation value, 4% nonconvertible, noncumulative: 21 shares issued and outstanding at December 31, 2019 and 2018, respectively	1,050,000	1,050,000
Common stock; Class A, $2,500 par value, 4,000 shares authorized; 2,736 shares issued and outstanding for December 31, 2019 and 2018, respectively	6,839,725	6,839,725
Common stock; Class B, $2,500 par value, 3,500 shares authorized; 611 and 418 shares issued and outstanding at December 31, 2019 and 2018, respectively	1,527,500	1,045,000
Additional paid in capital	8,939,493	8,179,074
Retained earnings	5,666,453	4,524,361
Accumulated other comprehensive income (loss)	99,789	(275,601)
Total shareholders' equity	24,122,960	21,362,559
Total liabilities and shareholders' equity	$ 222,228,044	$ 194,139,389

Note 21. Subsidiary Financial Information, continued

VCC Bank
Statements of Operations
For the years ended December 31, 2019 and 2018

	2019	2018
Interest and dividend income		
Loans and fees on loans	$ 7,505,062	$ 6,714,291
Federal funds sold	4,584	2,668
Investment securities-taxable	516,357	305,500
Investment securities-nontaxable	138,548	143,203
Deposits with other banks	585,538	412,747
Total interest and dividend income	8,750,089	7,578,409
Interest expense		
Deposits	3,274,304	2,316,020
Federal funds purchased	2,183	2,465
Secured borrowings	494,305	227,296
Subordinated debt	40,111	60,833
Total interest expense	3,810,903	2,606,614
Net interest income	4,939,186	4,971,795
Provision for (recovery of) loan losses	985,451	(261,372)
Net interest income after provision for (recovery of) loan losses	3,953,735	5,233,167
Noninterest income		
Gain on sale of investments	118,996	-
Gain on sale of SBA loans	323,966	183,353
Bank enterprise award	245,547	233,244
Income on bank owned life insurance	60,291	58,557
Other noninterest income	302,650	151,541
Total noninterest income	1,051,450	626,695
Noninterest expense		
Salaries and employee benefits	1,948,672	2,316,877
Occupancy and equipment	320,228	329,406
Data processing	135,559	143,150
Advertising and marketing	21,147	19,789
Audit	22,338	33,967
Legal	9,360	20,180
Consulting	174,644	175,324
FDIC insurance	172,100	234,220
Franchise tax expense	207,790	212,524
Other real estate owned expense, net	5,626	38,617
Other expenses	435,166	409,223
Total noninterest expense	3,452,630	3,933,277
Net income before income tax expense	1,552,555	1,926,585
Income tax expense	(147,604)	(221,316)
Net income	1,404,951	1,705,269
Dividends paid to preferred shareholders	(42,000)	(106,500)
Dividends paid to common stock class A shareholders	(99,997)	-
Dividends paid to common stock class B shareholders	(120,862)	(2,743)
Net income available to common stock shareholders	$ 1,142,092	$ 1,596,026
Basic income per common share	$ 341.23	$ 561.19
Weighted average common shares outstanding	3,178	2,844

Note 21. Subsidiary Financial Information, continued

VCC Bank
Statements of Comprehensive Income
For the years ended December 31, 2019 and 2018

	2019	2018
Net income	$ 1,404,951	$ 1,705,269
Other comprehensive income (loss):		
Unrealized gains (losses) on available for sale securities, net	475,177	(120,656)
Tax benefit (expense) from unrealized losses on available for sale securities	(99,787)	25,338
Other comprehensive gain (loss)	375,390	(95,318)
Comprehensive income	$ 1,780,341	$ 1,609,951

Note 21. Subsidiary Financial Information, continued

VCC Bank
Statements of Changes in Shareholders' Equity
For the years ended December 31, 2019 and 2018

	Preferred	Common Stock Class 'A'		Common Stock Class 'B'		Additional Paid In	Retained	Accumulated Other Comprehensive Income	
Total	**Stock**	**Shares**	**Amount**	**Shares**	**Amount**	**Capital**	**Earnings**	**(Loss)**	**Total**
Balance, December 31, 2017	$ 3,200,000	2,736	$ 6,839,725	-	$ -	$ 6,692,568	$ 2,928,335	$ (180,283)	$ 19,480,345
Redemption of preferred stock	(2,150,000)	-	-	-	-	-	-	-	(2,150,000)
Issuance of common stock B	-	-	-	418	1,045,000	1,486,506	-	-	2,531,506
Dividends paid on preferred stock	-	-	-	-	-	-	(106,500)	-	(106,500)
Dividends paid on common stock B	-	-	-	-	-	-	(2,743)		(2,743)
Net income	-					-	1,705,269	-	1,705,269
Comprehensive loss							-	(95,318)	(95,318)
Balance, December 31 2018	1,050,000	2,736	$ 6,839,725	418	$1,045,000	$ 8,179,074	$ 4,524,361	$ (275,601)	$ 21,362,559
Issuance of common stock B	-	-	-	193	482,500	760,419	-	-	1,242,919
Dividends paid on preferred stock	-	-	-	-	-	-	(42,000)	-	(42,000)
Dividends paid on common stock A	-	-	-	-	-	-	(99,997)	-	(99,997)
Dividends paid on common stock B	-	-	-	-	-	-	(120,862)	-	(120,862)
Net income	-	-	-	-	-	-	1,404,951	-	1,404,951
Comprehensive income	-	-	-	-	-	-	-	375,390	375,390
Balance, December 31 2019	$ 1,050,000	2,736	$ 6,839,725	611	$1,527,500	$ 8,939,493	$ 5,666,453	$ 99,789	$ 24,122,960

Note 21. Subsidiary Financial Information, continued

VCC Bank
Statements of Cash Flows
For the years ended December 31, 2019 and 2018

	2019	2018
Cash flows from operating activities		
Net income	$ 1,404,951	$ 1,705,269
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation and amortization	178,413	157,853
Provision for (recovery of) loan losses	985,451	(261,372)
Net loss on sale/write down of other real estate owned	3,681	38,190
Gain on sale of SBA loans	(323,966)	(183,353)
Net amortization on investment securities	104,091	104,243
Increase in cash surrender value of bank owned life insurance	(60,291)	(58,557)
Gain on sale of securities available for sale	(118,996)	-
Gain on sale of fixed assets	-	(2,065)
Changes in assets and liabilities:		
Accrued interest receivable	(97,293)	62,936
Deferred income tax	193,017	(218,536)
Other assets	(66,581)	(612,170)
Accrued interest payable	(13,920)	115,786
Grants receivable	128,598	(233,244)
Other liabilities	238,036	(17,496)
Net cash provided by operating activities	2,555,191	597,484
Cash flows from investing activities		
Net increase in certificates of deposit	(2,011,000)	(670,000)
Purchases of securities available for sale	(10,574,548)	(5,566,479)
Purchases of securities held to maturity	(2,695,541)	-
Proceeds from maturities of securities available for sale	250,000	150,000
Proceeds from sales of securities available for sale	8,216,778	-
Proceeds from investment paydowns	2,596,293	1,649,736
Purchases of restricted equity securities	(358,700)	(542,600)
Proceeds from sale of other real estate owned	67,569	-
Proceeds from sale of SBA loans	4,093,085	2,388,883
Net increase in loans	(23,590,454)	(13,603,883)
Proceeds from sale of equipment	1,489	3,048
Purchases of premises and equipment	(28,429)	(46,284)
Net cash used in investing activities	(24,033,458)	(16,237,579)
Cash flows from financing activities		
Net increase in deposits	19,887,037	12,704,402
Decrease in unsecured borrowings	(2,000,000)	-
Increase in FHLB borrowings	7,217,101	12,034,453
Proceeds from sale of common stock class B	1,242,919	2,531,506
Redemption of preferred stock	-	(2,150,000)
Dividends paid on common stock class A	(99,997)	-
Dividends paid on common stock class B	(120,862)	(2,743)
Dividends paid on preferred stock	(42,000)	(106,500)
Net cash provided by financing activities	26,084,198	25,011,118
Net increase in cash and cash equivalents	4,605,931	9,371,023
Cash and cash equivalents, beginning	11,836,992	2,465,969
Cash and cash equivalents, ending	$ 16,442,923	$ 11,836,992
Supplemental disclosure of cash flow information		
Interest paid	$ 3,824,823	$ 2,490,828
Taxes paid	$ -	$ 209,620

Note 21. Subsidiary Financial Information, continued

Financial information of LOCUS Capital Inc. as of and for the years ended December 31, 2019 and 2018 are as follows:

LOCUS Capital, Inc.
Balance Sheets
December 31, 2019 and 2018

	2019	2018
Assets		
Cash and due from banks	$ 42,175	$ 64,251
Premises and equipment	9,415	8,086
Other assets	27,497	20,699
Total assets	$ 79,087	$ 93,036
Liabilities		
Deferred revenue	$ -	$ 100,000
Other liabilities	75,004	55,931
Total liabilities	75,004	155,931
Shareholders' equity		
Common stock, no par value, 5,000 shares authorized; 1 share issued and outstanding for December 31, 2019 and 2018	-	-
Additional paid in capital	100	100
Contributed capital	954,110	450,000
Accumulated deficit	(950,127)	(512,995)
Total shareholders' equity (deficit)	4,083	(62,895)
Total liabilities and shareholders' equity (deficit)	$ 79,087	$ 93,036

LOCUS Capital, Inc.
Statement of Operations
For the years ended December 31, 2019 and 2018

	2019	2018
Revenues		
Grant and contribution income	$ -	$ 150,000
Loan servicing income	238,339	223,841
Project revenues	43,219	47,267
Total revenues	281,558	421,108
Expenses		
Salaries and employee benefits	543,591	520,590
Occupancy and equipment	19,103	12,674
Data processing	7,374	6,769
Advertising and marketing	5,255	13,085
Audit	24,145	26,320
Legal	946	3,640
Consulting	44,479	90,151
Other expenses	73,797	60,008
Total expense	718,690	733,237
Net loss before income tax expense	(437,132)	(312,129)
Income tax expense	-	-
Net loss available to shareholders	$ (437,132)	$ (312,129)

Note 21. Subsidiary Financial Information, continued

LOCUS Capital, Inc.
Statements of Cash Flows
For the years ended December 31, 2019 and 2018

	2019	2018
Cash flows from operating activities		
Net loss	$ (437,132)	$ (312,129)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	4,491	2,342
Changes in assets and liabilities:		
Deferred revenue	(100,000)	(90,000)
Other assets	(6,798)	(20,699)
Other liabilities	19,073	24,422
Net cash used in operating activities	(520,366)	(396,064)
Cash flows from investing activities		
Proceeds from sale of premises and equipment	3,877	-
Purchases of premises and equipment	(9,697)	(3,992)
Net cash used in investing activities	(5,820)	(3,992)
Cash flows from financing activities		
Capital downstream from parent company	504,110	300,000
Net cash provided by financing activities	504,110	300,000
Net decrease in cash and cash equivalents	(22,076)	(100,056)
Cash and cash equivalents, beginning	64,251	164,307
Cash and cash equivalents, ending	$ 42,175	$ 64,251

Note 21. Subsidiary Financial Information, continued

Financial information of LOCUS Foundation as of and for the years ended December 31, 2019 and 2018 are as follows:

LOCUS Foundation
Statements of Financial Position
December 31, 2019 and 2018

	2019	2018
Assets		
Cash and due from banks	$ 704	$ 1,758
Premises and equipment	4,237	6,101
Other assets	-	42
Total assets	$ 4,941	$ 7,901
Liabilities		
Accounts payable	$ 172,687	$ 167,060
Other liabilities	1,975	8,470
Total liabilities	174,662	175,530
Net Assets		
Net assets without donor restrictions	(169,721)	(167,629)
Total net assets	(169,721)	(167,629)
Total liabilities and net assets	$ 4,941	$ 7,901

LOCUS Foundation
Statements of Activities
For the years ended December 31, 2019 and 2018

	2019	2018
Changes in Net Assets Without Donor Restrictions		
Management and General		
Salaries and wages	$ -	$ 25,108
Payroll taxes	-	1,729
Employee benefits	-	2,117
Office and administrative expenses	-	2,195
Professional fees	389	10,139
Depreciation expense	1,637	1,717
Other expenses	66	3,332
Total management and general expenses	2,092	46,337
Change in net assets without donor restrictions	(2,092)	(46,337)
Net assets beginning of year	(167,629)	(121,292)
Net assets end of year	$ (169,721)	$ (167,629)

Note 21. Subsidiary Financial Information, continued

LOCUS Foundation
Statements of Cash Flows
For the years ended December 31, 2019 and 2018

	2019	2018
Cash flows from operating activities		
Change in net assets	$ (2,092)	$ (46,337)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	1,637	1,717
Changes in assets and liabilities:		
Accounts payable	5,627	45,096
Other assets	42	(42)
Other liabilities	(6,495)	(11,051)
Net cash used in operating activities	(1,281)	(10,617)
Cash flows from investing activities		
Proceeds from sale of premises and equipment	227	-
Purchases of premises and equipment	-	(1,571)
Net cash used in investing activities	227	(1,571)
Cash flows from financing activities		
Capital downstream from parent company	-	-
Net cash provided by financing activities	-	-
Net decrease in cash and cash equivalents	(1,054)	(12,188)
Cash and cash equivalents, beginning	1,758	13,946
Cash and cash equivalents, ending	$ 704	$ 1,758

Note 21. Subsidiary Financial Information, continued

Financial information of LOCUS Impact Investing as of, and for the years ended December 31, 2019 and 2018:

LOCUS Impact Investing, Consolidated
Statement of Financial Position
December 31, 2019 and 2018

	2019	2018
Assets		
Cash and due from banks	$ 188,912	$ 1,265,765
Interest-bearing deposits	913,274	105,803
Accounts receivable	11,326	23,579
Premises and equipment	14,022	14,138
Grants receivable	368,103	-
Other assets	25,044	1,447
Total assets	$ 1,520,681	$ 1,410,732
Liabilities		
Deferred revenue	$ 918,656	$ 857,744
Accrued expenses	43,654	46,665
Other liabilities	37,877	349,232
Total liabilities	1,000,187	1,253,641
Net Assets		
Net assets without donor restrictions	520,494	157,091
Total net assets	520,494	157,091
Total liabilities and net assets	$ 1,520,681	$ 1,410,732

Note 21. Subsidiary Financial Information, continued

LOCUS Impact Investing, Consolidated
Statements of Activities
For the years ended December 31, 2019 and 2018

	2019	2018
Changes in Net Assets Without Donor Restrictions		
Revenue and Support		
Grant and contribution income	$ 2,258,853	$ 663,810
Project revenues	353,726	716,450
Interest income	7,471	542
Miscellaneous income	20,905	-
Total revenue and support	2,640,955	1,380,802
Expenses		
Program Services		
Salaries and wages	778,395	439,942
Payroll taxes	51,044	28,631
Employee benefits	65,652	25,933
Program services	1,072,957	578,770
Office expense	10,167	17,355
Professional fees	63,765	89,089
Depreciation expense	6,218	5,216
Charitable contributions	-	175,000
Other expenses	58,268	43,037
Total program services expenses	2,106,466	1,402,973
Management and General		
Salaries and wages	129,960	109,986
Payroll taxes	8,706	7,158
Employee benefits	11,142	6,483
Office and administrative expenses	1,442	4,339
Professional fees	9,052	22,272
Depreciation expense	1,089	1,304
Other expenses	9,695	10,759
Total management and general expenses	171,086	162,301
Total expenses	2,277,552	1,565,274
Change in net assets without donor restrictions	363,403	(184,472)
Net assets beginning of year	157,091	341,563
Net assets end of year	$ 520,494	$ 157,091

Note 21. Subsidiary Financial Information, continued

LOCUS Impact Investing, Consolidated
Statements of Cash Flows
For the years ended December 31, 2019 and 2018

	2019	2018
Cash flows from operating activities		
Change in net assets	$ 363,403	$ (184,472)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	7,307	6,520
Changes in assets and liabilities:		
Deferred revenue	60,912	817,744
Other assets	(11,344)	63,299
Grants receivable	(368,103)	-
Other liabilities	(314,366)	305,528
Net cash (used in) provided by operating activities	(262,191)	1,008,619
Cash flows from investing activities		
Proceeds from sale of premises and equipment	3,496	-
Purchases of premises and equipment	(10,687)	(3,365)
Net cash used in investing activities	(7,191)	(3,365)
Net (decrease) increase in cash and cash equivalents	(269,382)	1,005,254
Cash and cash equivalents, beginning	1,371,568	366,314
Cash and cash equivalents, ending	$ 1,102,186	$ 1,371,568