Virginia Community Capital, Incorporated

Annual Report

December 31, 2020 and 2019

Table of Contents

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, Inc. and its subsidiaries (the Company), which comprise the consolidated statements of financial position as of December 31, 2020 and 2019, 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, 2020 and 2019, 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 25, 2021 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 29, 2021

Consolidated Statements of Financial Position

As of December 31, 2020 and 2019

	2020	2019
Assets		
Cash and due from banks	$ 920,167	$ 335,500
Interest-bearing deposits	8,619,241	15,023,003
Federal funds sold	222,000	252,000
Certificates of deposit	9,753,935	18,374,283
Investment securities available for sale	16,619,411	15,582,463
Investment securities held to maturity	5,386,284	5,502,521
Restricted equity securities	1,307,450	1,869,500
Cash funded loan loss reserves	1,121,630	1,391,630
Loans, net of allowance for loan losses of $3,323,018 and $2,426,604 at December 31, 2020 and 2019, respectively	218,617,760	205,111,346
Grants receivable	222,097	1,099,585
Accrued interest receivable	1,035,250	827,721
Premises and equipment, net	2,685,540	2,850,115
Other real estate owned	2,850,000	-
Bank owned life insurance	3,723,912	2,683,737
Other assets	1,334,449	1,247,105
Total assets	$ 274,419,126	$ 272,150,509
Liabilities		
Noninterest-bearing deposits	$ 4,596,532	$ 4,093,964
Interest-bearing deposits	152,346,587	157,403,015
Total deposits	156,943,119	161,496,979
Secured borrowings	29,595,825	27,905,327
Unsecured borrowings	35,128,206	38,832,136
Deferred revenue	8,405,920	4,528,162
Accrued interest payable	324,510	319,019
Other liabilities	1,951,872	1,828,677
Total liabilities	232,349,452	234,910,300
Net Assets		
Net assets with donor restrictions	9,213,684	7,664,713
Net assets without donor restrictions	26,740,645	24,290,497
Accumulated other comprehensive income	205,409	102,034
Total consolidated net assets before noncontrolling interest in subsidiary	36,159,738	32,057,244
Noncontrolling interest in subsidiary	5,909,936	5,182,965
Total net assets	42,069,674	37,240,209
Total liabilities and net assets	$ 274,419,126	$ 272,150,509

See Notes to Consolidated Financial Statements

Consolidated Statements of Activities

For the year ended December 31, 2020

	December 31, 2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support			
Grant and contribution income	$ 2,047,729	$ 5,526,214	$ 7,573,943
Interest and fees on loans	11,590,426	-	11,590,426
Other interest income	1,021,701	-	1,021,701
Program administration fee income	3,908,051	-	3,908,051
Project revenues	416,702	-	416,702
Asset servicing income	405,262	-	405,262
Miscellaneous income	94,695	-	94,695
Gain on sale of available for sale securities	100,884	-	100,884
Net assets released from restrictions	3,977,243	(3,977,243)	-
Total revenue and support	23,562,693	1,548,971	25,111,664
Expenses			
Program Services			
Salaries and wages	4,869,904	-	4,869,904
Payroll taxes	288,769	-	288,769
Employee benefits	703,688	-	703,688
Program services	3,015,830	-	3,015,830
Office expense	301,380	-	301,380
Professional fees	732,143	-	732,143
Depreciation expense	249,266	-	249,266
Interest expense	3,992,652	-	3,992,652
Provision for loan losses	1,385,423	-	1,385,423
Other real estate owned expenses	1,396,589		1,396,589
Charitable contributions	499,545	-	499,545
Other expenses	689,493	-	689,493
Total program services expenses	18,124,682	-	18,124,682
Management and General			
Salaries and wages	1,543,807	-	1,543,807
Payroll taxes	91,706	-	91,706
Employee benefits	225,223	-	225,223
Office and administrative expenses	86,854	-	86,854
Professional fees	207,337	-	207,337
Depreciation expense	84,049	-	84,049
Other expenses	222,190	-	222,190
Total management and general expenses	2,461,166	-	2,461,166
Total expenses	20,585,848	-	20,585,848
Change in net assets/net income before provision for income taxes	2,976,845	1,548,971	4,525,816
Provision for income tax expense	369,748	-	369,748
Change in net assets/net income	2,607,097	1,548,971	4,156,068
Change in accumulated other comprehensive income, net of tax	103,375	-	103,375
Change in net assets/net income and accumulated other comprehensive income	2,710,472	1,548,971	4,259,443
Dividends paid on subsidiary's preferred stock	(40,000)	-	(40,000)
Dividends paid to minority shareholders on subsidiary's common stock class A	(1,190)	-	(1,190)
Dividends paid to minority shareholders on subsidiary's common stock class B	(115,759)	-	(115,759)
Change in net assets/net income before noncontrolling interest in subsidiary	2,553,523	1,548,971	4,102,494
Net assets before noncontrolling interest in subsidiary beginning of year	24,392,531	7,664,713	32,057,244
Net assets before noncontrolling interest in subsidiary end of year	$ 26,946,054	$ 9,213,684	$ 36,159,738

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 class A	(438)	-	(438)
Dividends paid to minority shareholders on subsidiary's common stock class 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 Cash Flows

For the years ended December 31, 2020 and 2019

	2020	2019
Cash flows from operating activities		
Change in net assets	$ 4,156,068	$ 2,062,049
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	333,315	365,101
Provision for loan losses	1,385,423	1,262,856
Gain on sale of SBA loans	-	(323,966)
Net amortization of premiums on investment securities	128,785	104,090
Gain on sale of securities available for sale	(100,884)	(118,996)
Loss on sale/writedown of other real estate owned	1,515,000	28,515
Increase in cash surrender value of bank owned life insurance	(66,726)	(60,291)
Increase in noncontrolling interest in subsidiary	675,451	238,873
Gain on sale of fixed assets	(36,983)	-
Changes in assets and liabilities:		
Accrued interest receivable	(207,529)	(89,846)
Cash funded loan loss reserve	270,000	(235,294)
Grants receivable	877,488	222,622
Other assets	(116,223)	146,323
Accrued interest payable	5,491	6,805
Deferred revenue	3,877,758	(2,319,467)
Other liabilities	123,195	(83,909)
Net cash provided by operating activities	12,819,629	1,205,465
Cash flows from investing activities		
Net decrease (increase) in certificates of deposit	8,620,348	(2,011,000)
Purchases of securities available for sale	(10,594,258)	(10,574,548)
Purchases of securities held to maturity	-	(2,695,541)
Proceeds from maturities of securities available for sale	250,000	250,000
Proceeds from paydowns on securities available for sale	5,144,427	2,517,340
Proceeds from paydowns on securities held to maturity	101,557	78,954
Proceeds from sale of securities available for sale	4,281,917	8,216,778
Purchase (sale) of restricted equity securities	562,050	(358,700)
Proceeds from sale of other real estate owned	-	923,985
Proceeds from sale of SBA loans	-	4,093,084
Net increase in loans	(19,256,837)	(26,997,454)
Proceeds from sale of premises and equiment	82,380	500,000
Purchase of bank owned life insurance	(973,449)	-
Purchases of premises and equipment	(214,137)	(96,568)
Net cash used in investing activities	(11,996,002)	(26,153,670)
Cash flows from financing activities		
Net (decrease) increase in deposits	(4,553,860)	16,308,480
Net (decrease) increase in unsecured borrowings	(3,703,930)	4,058,995
Net increase in secured borrowings	1,690,498	7,148,154
Dividends paid on subsidiary preferred stock	(40,000)	(43,000)
Dividends paid on subsidiary common stock class A	(115,759)	(120,862)
Dividends paid on subsidiary common stock class B	(1,190)	(438)
Proceeds from sale of common stock of the subsidiary	51,520	1,242,918
Net cash (used in) provided by financing activities	(6,672,722)	28,594,427
Net (decrease) increase in cash and cash equivalents	(5,849,095)	3,646,042
Cash and cash equivalents, beginning	15,610,503	11,964,461
Cash and cash equivalents, ending	$ 9,761,408	$ 15,610,503
Supplemental disclosure of cash flow information		
Interest paid	$ 3,987,161	$ 4,707,499
Income taxes paid	$ 319,673	$ -
Transfer to other real estate owned	$ 4,350,000	$ -

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, 2020, CIGP has secured $38.1 million in guarantee commitments from 12 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, 2020, $7.1 million in guarantees have been committed to qualifying Community Development Financial Institutions.

In June 2020, VCC became the majority owner of Patrick County Real Estate, LLC ("PCRE") a special purpose limited liability corporation that was created in 2017 to hold the collateral related to a New Market Tax Credit ("NMTC") entity where VCC served as the managing member. The NMTC entity wound down in June 2020 resulting in VCC taking majority ownership as the sub-Community Development Entity parent was dissolved. VCC owns approximately 88% of the entity, with the remaining 12% owned by an external stakeholder, which had a participation interest in the leverage loan of the NMTC deal.

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

Nature of Business, continued

The value of PCRE is presented on the Statement of Financial Position as other real estate owned.

COVID-19 or Coronavirus Impact

The World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and declared it to be a pandemic in March 2020. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, and quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate the spread of it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical area in which the Organization operates. During 2020, Congress passed the *Coronavirus Aid, Relief, and Economic Security Act* ("CARES Act") and various other acts extending and supplementing the benefits which amongst other provisions, provide emergency assistance for individuals, families and businesses affected by the coronavirus pandemic.

It is unknown how long the adverse conditions associated with the coronavirus will last and what the complete financial effect will be to the Organization. To date, the Organization is experiencing an increase in its allowance for loan losses due to a factor added to loans considered in higher risk of loss due to COVID-19. These industries include hospitality, event centers, non-essential retail, or other non-essential businesses.

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:

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.

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

Financial Statement Presentation

Net assets, revenues and expenses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

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 2019 consolidated financial statements have been reclassified to conform to the 2020 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.

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 Small Business Association ("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

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

Loans Receivable, continued

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.

Small Business Administration Paycheck Protection Program

The Small Business Administration Paycheck Protection Program ("PPP") is part of the CARES Act. Overseen by the United States Treasury Department, the PPP offered cash-flow assistance to nonprofit and small business employers through guaranteed loans for expenses incurred between February 15, 2020, and August 8, 2020. Borrowers are eligible for forgiveness of principal and accrued interest on PPP loans to the extent that the proceeds are used to cover eligible payroll costs, interest costs, rent and utility costs over a period between eight and 24-weeks after the loan is made as long as the borrower retains its employees and their compensation levels. The CARES Act authorizes the SBA to fully guarantee these loans. Loans are originated with a three-year term with an interest rate of 1%.

Origination fees received by the SBA are capitalized into the carrying amount of the loans. The deferred fee income is recognized over the estimated life of the loan as an adjustment to yield using the effective interest method. PPP loans receivable as of December 31, 2020 were $19,800,609 with $171,326 in unearned fees. These loans are fully guaranteed by the SBA; therefore the Organization does not carry any reserve in the allowance for loan losses related to PPP loans.

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 (with a specific evaluation of COVID-19 impact). 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, loans identified as high-risk industry loans related to COVID-19 and average loan size.

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

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

Allowance for Loan Losses, continued

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.

The CARES Act provides financial institutions optional temporary relief from troubled debt restructures and impairment accounting for certain loan modifications related to the COVID-19 pandemic. Under section 4013 of the CARES Act, banks may elect not to categorize loan modifications as TDRs if they are (1) related to COVID-19; (2) executed on a loan that was not more than 30 days past due as of December 31, 2019; and (3) executed between March 1, 2020 and the earlier of (A) 60 days after the date of termination of the National Emergency or (B) December 31, 2020.

All other short-term modifications made on a good faith basis in response to COVID-19 to borrowers who were current prior to any relief, are not TDRs. This includes short-term modifications such as payment deferrals, fee waivers, extensions of repayment terms, or other delays in payment that are insignificant. Borrowers considered current are those that are less than 30 days past due on their contractual payments at the time a modification program is implemented. The Organization adopted the provision and granted deferrals on 41 loans totaling $33,240,679 during 2020. As of December 31, 2020, one loan with a balance of $70,137 was still in deferment. All other loans resumed payments according to contractual terms.

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 LOCUS Capital 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 when contractual performance criteria are met.

Program Administration Fee Income

Program administration fee income is obtained through LOCUS Impact Investing by assisting the State of Virginia and other municipalities within the state administer and deploy CARES Act funding as grant income to eligible businesses and nonprofits impacted by COVID-19. The most significant source of this income was from the administration and servicing of Rebuild VA. Launched by the Department of Small Business and Supplier Diversity of the Commonwealth of Virginia, Rebuild VA deployed $70 million in grant funds to over 2,500 qualifying Small Businesses and Nonprofits during the second half of 2020.

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.

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 $10,505,322 and $25,918,221 borrowed against this facility at December 31, 2020 and December 31, 2019, respectively, secured by investment securities and certain loans in its portfolio that meet FHLB collateral requirements.

The Bank opened a credit facility with the Federal Reserve Paycheck Protection Loan Liquidity facility in 2020 to provide funding for the PPP loan program. The facility is secured by PPP loans. The Bank had $17,173,090 borrowed against this facility at December 31, 2020.

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 $1,917,413 and $1,987,106 for the years ended December 31, 2020 and 2019, respectively. There were no loans pledged at December 31 2020 and December 31, 2019, 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 other real estate owned expenses.

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

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, 2020, and interim periods within fiscal years beginning after December 15, 2021. Early adoption is permitted.

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, 2020 future minimum lease payments were $2.1 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 guidance requires a financial asset (including trade receivables) measured at amortized cost basis to be presented at the net amount expected to be collected. Thus, the income statement will reflect the measurement of credit losses for newly-recognized financial assets as well as the expected increases or decreases of expected credit losses that have taken place during the period. The amendments will be effective for the Organization for annual periods beginning after December 15, 2022, and interim periods within annual reporting periods beginning after December 15, 2022. Early adoption is permitted. The Company is currently in the process of evaluating the impact of adoption of this guidance on the financial statements.

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. The Organization does not expect these amendments to have a material effect on its financial statements.

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 Organization does not expect these amendments to have a material effect on its financial statements. 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. This amendment did not have a material effect on the Organizations 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.

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

Recent Accounting Pronouncements, continued

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.

In March 2020, the FASB issued guidance that makes narrow-scope improvements to various aspects of the financial instrument guidance, including the current expected credit losses (CECL) guidance issued in 2016. The amendments related to conforming amendments: the Organization should adopt the amendments in ASU 2016-13 during 2023. Early adoption will continue to be permitted. For entities that have not yet adopted the guidance in ASU 2016-13, the effective dates and the transition requirements for these amendments are the same as the effective date and transition requirements in ASU 2016-13. For those entities, the amendments should be applied on a modified-retrospective basis by means of a cumulative-effect adjustment to opening retained earnings in the statement of financial position as of the date that an entity adopted the amendments in ASU 2016-13. The Organization does not expect these amendments to have a material effect on its financial statements.

In June 2020, the FASB issued guidance to defer the effective dates for certain companies and organizations which have not yet applied the revenue recognition and leases guidance by one year. The new effective dates for entities that have not already adopted will be: Revenue Recognition: annual reporting periods beginning after December 15, 2019, and interim reporting periods within annual reporting periods beginning after December 15, 2020; Leases: fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. The Organization does not expect these amendments to have a material effect on its financial statements.

In October 2020, the FASB issued amendments to clarify the Accounting Standards Codification and make minor improvements that are not expected to have a significant effect on current accounting practice or create a significant administrative cost to most entities. The amendments are effective for annual periods beginning after December 15, 2021, and interim periods within annual periods beginning after December 15, 2022. Early application is permitted for any annual or interim period for which financial statements are available to be issued. 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, 2020 and 2019, 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, 2020, and 2019, the balance of these was $9,753,935 and $18,374,283, respectively. The majority of these deposits are FDIC-insured. As of December 31, 2020, and 2019, $269,935 and $396,283 were uninsured, respectively.

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:

2020	**Amortized Cost**	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**
Available for sale				
U.S. Government sponsored entities	$ 2,012,275	$ 1,571	$ (7,618)	$ 2,006,228
Obligations of states and political subdivisions	6,280,194	78,479	(34,197)	6,324,476
Collateralized mortgage obligations	3,110,331	89,924	-	3,200,255
Mortgage backed securities	4,955,796	132,656	-	5,088,452
Total	$ 16,358,596	$ 302,630	$ (41,815)	$ 16,619,411
Held to maturity				
Obligations of states and political subdivisions	$ 5,386,284	$ 535,976	$ -	$ 5,922,260
2019				
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

Securities with an amortized cost of $11,161,882 and $16,705,810 were pledged as collateral or otherwise restricted at December 31, 2020 and 2019, respectively. Proceeds from the sale of available for sale securities for the years ended December 31, 2020 and 2019 were $4,281,917 and $8,216,778, respectively. The Organization had realized gains on sales of securities in 2020 of $100,884 and $118,996 in 2019. There were no realized losses on sales in 2020 or 2019.

Note 4. Investments, continued

The scheduled maturities of securities at December 31, 2020 are as follows:

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
U.S. Government sponsored entities:				
Due one to five years	$ 895,035	$ 894,184	$ -	$ -
Due after five years but within ten years	711,304	709,723	-	-
Due after ten years	405,936	402,321	-	-
	$ 2,012,275	2,006,228	$ -	$ -
Obligations of states and political subdivisions:				
Due after five years but within ten years	4,822,612	4,833,508	5,386,284	5,922,260
Due after ten years	1,457,582	1,490,968	-	-
	$ 6,280,194	$ 6,324,476	$ 5,386,284	$ 5,922,260
Collateralized mortgage obligations:				
Due after five years but within ten years	$ 801,814	$ 802,101	$ -	$ -
Due after ten years	2,308,517	2,398,154	-	-
	$ 3,110,331	$ 3,200,255	$ -	$ -
Mortgage backed securities:				
Due after five years but within ten years	$ 1,157,936	$ 1,177,060	-	-
Due after ten years	3,797,860	3,911,392	-	-
	$ 4,955,796	$ 5,088,452	$ -	$ -
Total Securities				
Due one to five years	$ 895,035	$ 894,184	$ -	$ -
Due after five years but within ten years	7,493,666	7,522,392	5,386,284	5,922,260
Due after ten years	7,969,895	8,202,835	-	-
	$ 16,358,596	$ 16,619,411	$ 5,386,284	$ 5,922,260

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, 2020, the Organization had $793,751 in securities that had been in an unrealized loss position for 12 or more consecutive months, with an unrealized loss position totaling $6,037. 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, 2020 and 2019.

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
2020						
U.S. Government sponsored entities	$ 709,723	$ (1,581)	$ 793,751	$ (6,037)	$ 1,503,474	$ (7,618)
Obligations of state and political subdivisions	1,993,402	(34,197)	-	-	1,993,402	(34,197)
Total temporarily impaired securities	$ 2,703,125	$ (35,778)	$ 793,751	$ (6,037)	$ 3,496,876	$ (41,815)
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	(7,646)
Collateralized mortgage obligations	829,775	(6,682)	-	-	829,775	(6,682)
Mortgage backed securities	1,005,543	(9,574)	75,044	(96)	1,080,587	(9,670)
Total temporarily impaired securities	$ 3,159,253	$ (22,172)	$ 1,553,753	$ (10,883)	$ 4,713,006	$ (33,055)

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, 2020 and 2019 are as follows:

	2020	2019
Commercial, industrial and other loans	$ 57,750,415	$ 42,659,518
Commercial real estate construction	24,104,426	20,919,831
Commercial real estate other	140,085,937	143,958,601
Total loans	221,940,778	207,537,950
Allowance for loan losses	(3,323,018)	(2,426,604)
Loans, net of allowance	$ 218,617,760	$ 205,111,346

All PPP loans are included in the commercial, industrial and other loans component of loans receivable. At December 31, 2020 and 2019, $17,173,090 and $0 in loans, respectively, were pledged to the Federal Reserve Liquidity Facility as collateral for borrowings.

At December 31, 2020 and 2019, $45,926,504 and $31,421,827 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, 2020 was as follows:

	Commercial, Industrial and Other Loans	Commercial Real Estate-Construction	Commercial Real Estate-Other	Total
Allowance for loan losses:				
Beginning balance	$ 332,936	$ 1,063,625	$ 1,030,043	$ 2,426,604
Charge-offs	(505,243)	-	-	(505,243)
Recoveries	2,305	-	13,929	16,234
Provision	763,749	403,388	218,286	1,385,423
Ending balance	$ 593,747	$ 1,467,013	$ 1,262,258	$ 3,323,018
Ending balance:				
Individually evaluated for impairment	$ 104,521	$ 923,019	$ -	$ 1,027,540
Collectively evaluated for impairment	$ 489,226	$ 573,994	$ 1,262,258	$ 2,295,478
Loans Receivable:				
Ending balance	$ 57,750,415	$ 24,104,426	$ 140,085,937	$ 221,940,778
Ending balance:				
Individually evaluated for impairment	$ 346,991	$ 4,230,069	$ 560,289	$ 5,137,349
Collectively evaluated for impairment	$ 57,403,424	$ 19,874,357	$ 139,525,648	$ 216,803,429

The following table presents impaired loans by class of loans as of December 31, 2020:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial, industrial, and other loans	$ 83,929	$ 83,929	$ -	$ 83,929	$ 3,160
Commercial real estate construction	-	-	-	-	-
Commercial real estate-other	560,289	560,289	-	560,289	8,541
	644,218	644,218	-	644,218	11,701
With allowance recorded:					
Commercial, industrial, and other loans	$ 263,062	$ 263,062	$ 104,521	$ 90,591	$ 36,536
Commercial real estate construction	4,230,069	4,230,069	923,019	4,230,069	30,312
Commercial real estate-other	-	-	-	-	-
	4,493,131	4,493,131	1,027,540	4,320,660	66,848
Total					
Commercial, industrial, and other loans	346,991	346,991	104,521	174,520	39,696
Commercial real estate construction	4,230,069	4,230,069	923,019	4,230,069	30,312
Commercial real estate-other	560,289	560,289	-	560,289	8,541
	$ 5,137,349	$ 5,137,349	$ 1,027,540	$ 4,964,878	$ 78,549

Note 6. Allowance for Loan Losses, continued

At December 31, 2020 and 2019, the Organization had $1,121,630 and $1,391,630, respectively of cash funded loan loss reserves, received by grants, which are not included in the above tables. These amounts are 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 $3,602,654 and $4,266,666 at December 31, 2020 and 2019, 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, 2020.

	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	$ -	$ -	$ 330,855	$ 330,855	$ 57,419,560	$ 57,750,415	$ 331,554
Commercial real estate construction	-	-	-	-	24,104,426	24,104,426	-
Commercial real estate other	-	-	3,683,000	3,683,000	136,402,937	140,085,937	4,687,864
Total	$ -	$ -	$ 4,013,855	$ 4,013,855	$ 217,926,923	$ 221,940,778	$ 5,019,418

Recorded investment in loans over 90 days past due and still accruing were $0 and $39,688 at December 31, 2020 and 2019, respectively.

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

Note 6. Allowance for Loan Losses, continued

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

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

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, Watch 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 and under $500,000 are excluded from the scope of the annual review. Loans graded Prime, Excellent, Good, Average and Marginal 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 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

Credit Quality Indicators, 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.

The table below presents loans grouped by risk category, with Pass including Prime, Excellent, Good, Average and Marginal:

Loans by Risk Rating December 31, 2020	**Commercial Industrial and Other Loans**	**Commercial Real Estate-Construction**	**Commercial Real Estate-Other**	**Total**
Pass Credits	$ 54,930,233	$ 24,104,426	$ 117,366,642	$ 196,401,301
Watch	2,489,327	-	6,138,495	8,627,822
Special Mention	-	-	11,790,442	11,790,442
Substandard	330,855	-	4,790,358	5,121,213
Total	$ 57,750,415	$ 24,104,426	$ 140,085,937	$ 221,940,778

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
Watch	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

Note 6. Allowance for Loan Losses, continued

Troubled Debt Restructurings

During 2020, there were no loans restructured that were classified as a troubled debt restructuring ("TDR"). During 2019, one loan classified as a TDR was modified through a payment reduction, and one loan classified as a TDR was modified through deferrals of principal and interest until maturity. Information regarding loans modified in a troubled debt restructuring for the years ended December 31, 2020 and 2019, respectively, is as follows:

	December 31, 2020			December 31, 2019		
	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	-	$ -	$ -	-	$ -	$ -
Commercial, industrial and other loans	-	$ -	$ -	1	$ 10,920	$ 10,920
Total	-	$ -	$ -	2	$ 3,308,947	$ 3,308,947

The commercial, industrial and other TDR modified in 2019 paid off during 2020. The commercial real estate construction TDR modified during 2019 is currently past due and remains in workout.

Note 7. Grants Receivable

Grants receivable consists of the following:

	December 31, 2020	December 31, 2019
Robert Wood Johnson Foundation Grants	$ 978,769	$ 588,869
Virginia Housing Development Authority Opportunity Zone Award	393,461	938,400
Wells Fargo	250,000	-
The Kresge Foundation	220,000	100,000
Kansas Health Foundation Grant	205,986	530,365
Small Business Administration	192,000	-
Thompson Charitable Foundation	166,666	66,666
Weingart Foundation	115,000	23,000
Appalachian Regional Commission Power Grants	70,278	307,765
Dignity Health	55,000	69,000
Healthy Foods Financing Initiative Financial Assistance Award	-	950,000
Community Development Financial Institutions Financial Assistance Award	-	714,000
Phillips Foundation	-	440,000
Norfolk Community Development Block Grant	-	360,133
The Piton Foundation	-	230,000
Bank Enterprise Award	-	104,646
United States Department of Agriculture Rural Business Development Grant	-	67,541
Alleghany Foundation	-	12,735
Miscellaneous pledges	-	2,000
Total grants receivable	2,647,160	5,505,120
Unearned grants receivable	(2,425,063)	(4,405,535)
Total grants receivable, net	$ 222,097	$ 1,099,585

Note 8. Premises and Equipment

Components of premises and equipment and total accumulated depreciation at December 31, 2020 and 2019 are as follows:

	2020	2019
Land	$ 393,491	$ 393,491
Buildings and improvements	1,247,936	1,246,966
Leasehold improvements	1,020,914	1,020,914
Furniture and equipment	1,757,850	1,512,643
Vehicle	-	145,294
Fixed assets in process	-	38,411
Premises and equipment, total	4,420,191	4,357,719
Less accumulated depreciation	(1,734,651)	(1,507,604)
Premises and equipment, net of depreciation	$ 2,685,540	$ 2,850,115

Depreciation and amortization expense for the years ended December 31, 2020 and 2019 was $333,315 and $365,101, respectively.

The Organization leases office space in Richmond and Norfolk, Virginia. The leases in Richmond and Norfolk expire July 31, 2027 and April 30, 2031, respectively. Future lease payments are as follows:

	Richmond Office	Norfolk Office	Total
2021	227,065	54,273	281,338
2022	232,741	55,828	288,569
2023	238,560	57,223	295,783
2024	244,524	58,654	303,178
Thereafter	660,474	272,703	933,177
Total	$ 1,603,364	$ 498,681	$ 2,102,045

Rent expense for the years ended December 31, 2020 and 2019 was $250,742 and $241,065, respectively.

Note 9. Deposits

The major components of deposits in the Consolidated Statements of Financial Position at December 31, 2020 and 2019 are as follows:

	2020	2019
Noninterest-bearing demand	$ 4,596,532	$ 4,093,964
Interest-bearing demand	63,321,747	34,431,572
Time deposits	89,024,840	122,971,443
Total deposits	$ 156,943,119	$ 161,496,979

The aggregate amount of time deposits in denomination of $250,000 or more at December 31, 2020 and 2019 was $35,219,448 and $52,969,480, respectively. At December 31, 2020, the scheduled maturities of time deposits are as follows:

2021	$ 51,808,232
2022	17,579,666
2023	6,886,560
2024	11,747,678
Thereafter	1,002,704
	$ 89,024,840

Note 10. Borrowings

Borrowings at December 31, 2020 and 2019, respectively, consist of the following:

Description	Rate	Maturity	2020	2019
Atlantic Union	2.44%	On Demand	1,000,000	2,000,000
Federal Reserve PPP Liquidity Facility	0.35%	Various*	17,173,090	-
Local Impact Opportunity Notes (subordinated)	Various**	Various**	10,065,000	11,225,000
Bank of America	3.50%	05/31/2020	-	1,500,000
Federal Home Loan Bank	2.92%	09/21/2020	-	2,000,000
Federal Home Loan Bank	1.72%	10/11/2020	-	65,000
Federal Home Loan Bank	1.73%	11/30/2020	-	6,000,000
Wells Fargo EQ2 (subordinated)	2.00%	02/02/2021	500,000	500,000
Branch Banking & Trust	2.00%	11/07/2021	1,000,000	-
HSBC	2.08%	12/31/2021	3,000,000	3,000,000
Northern Trust	0.25%	04/20/2022	2,000,000	-
WoodForest Bank	3.25%	07/24/2022	1,496,114	1,495,977
Federal Home Loan Bank ***	2.79%	08/26/2022	2,352,941	3,529,412
Federal Home Loan Bank ****	2.22%	12/07/2022	1,200,000	1,800,000
Bank of America	3.50%	12/28/2022	-	2,000,000
Appalachian Community Capital	2.74%	12/31/2022	3,000,000	3,000,000
Bon Secours Health Systems	1.75%	04/01/2023	2,000,000	2,050,000
Northern Trust	0.01%	06/14/2023	2,000,000	2,000,000
Jessie Ball DuPont	0.25%	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	1,000,000	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	1,952,381	2,523,809
Federal Home Loan Bank	1.71%	08/23/2024	-	5,000,000
Bank of America	3.50%	12/28/2024	2,000,000	2,000,000
Skyline National Bank	1.00%	06/19/2025	1,005,933	-
Jessie Ball DuPont	0.25%	07/08/2027	1,500,000	1,500,000
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	1.00%	12/30/2029	1,000,000	1,000,000
United States Department of Agriculture	1.00%	03/31/2044	1,917,413	1,987,106
			$ 64,724,031	$ 66,737,463

*The Federal Reserve PPP Liquidity Facility matures three years from the origination of each pool pledged for an advance. The first pool matures on 04/10/2023 with the last pool maturing on 05/06/2023. Repayments are made as pledged loans are forgiven.
**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 01/31/2021, with the final note maturing on 01/03/2027.
***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, 2020, management believes the Organization was in compliance with all covenants.

At December 31, 2020, the scheduled maturities of borrowings are as follows:

2021	$ 11,244,013
2022	7,422,899
2023	15,627,362
2024	20,541,185
2025	2,310,000
Thereafter	7,578,572
	$ 64,724,031

At December 31, 2020, 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 2.44-3.75%. In addition, the Organization had approximately $29,165,548 in lendable collateral value pledged with the Federal Home Loan Bank of Atlanta ("FHLB") and available for use.

Note 10. Borrowings, continued

Paycheck Protection Program (PPP) Loan

On June 16, 2020, the Organization's holding company, VCC, received a loan in the amount of $1,005,933 as part of the Paycheck Protection Program (PPP) offered by the Small Business Administration (SBA).

The Organization has elected to account for the loan pursuant to FASB Accounting Standards Codification (ASC) 470, *Debt*, or as a government grant by analogy to International Accounting Standard (IAS) 20, *Accounting for Government Grants and Disclosure of Government Assistance*.

Following the guidance in ASC 470, the Organization has recognized the entire loan amount as a liability on the balance sheet. For purposes of derecognizing the liability, ASC 470 refers to the extinguishment guidance in ASC 405, *Liabilities*. Based on that guidance, the loan would remain recorded as a liability until either of the following criteria are met:

- The Organization has been legally released from being the primary obligor under the liability.
- The Organization pays the lender and is relieved of its obligation for the liability.

Because the Organization will not be legally released from being the primary obligor of the PPP loan until forgiveness is actually granted, income from the extinguishment of the loan would only be recognized once the Organization's application for forgiveness is approved. If the forgiveness application is approved, any resulting amount forgiven would be recognized and separately disclosed in the income statement as a gain on extinguishment.

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, 2020	Total	Level 1	Level 2	Level 3
Investment securities available for sale:				
U.S. Government sponsored entities	$ 2,006,228	$ -	$ 2,006,228	$ -
Obligations of states and political subdivisions	6,324,476	-	6,324,476	-
Collateralized mortgage obligation	3,200,255	-	3,200,255	-
Mortgage backed securities	5,088,452	-	5,088,452	-
Total assets measured at fair value	$ 16,619,411	$ -	$ 16,619,411	$ -

Note 11. Fair Value of Financial Instruments, continued

Recurring Fair Value, continued

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	$ -

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.

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, 2020	Total	Level 1	Level 2	Level 3
Impaired loans	$ 4,109,809	$ -	$ -	$ 4,109,809
Other real estate owned	2,850,000	-	-	2,850,000
Total assets measured at fair value	$ 6,959,809	$ -	$ -	$ 6,959,809
December 31, 2019				
Impaired loans	$ 9,703,619	$ -	$ -	$ 9,703,619
Total assets measured at fair value	$ 9,703,619	$ -	$ -	$ 9,703,619

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, 2020 and 2019, respectively.

	December 31, 2020	Valuation Techniques	Unobservable Inputs	Range (Wtd Avg)
Impaired loans:				
Commercial real estate - other	$ 560,289	Appraisals and/or sales of comparable properties	Management discount to reflect current market conditions and type of collateral	10.23%-35.81% (31.50%)
Commercial, industrial and other loans	242,470	Appraisals and/or sales of comparable properties	Management discount to reflect current market conditions and type of collateral	0.00%-42.94% (24.83%)
Commercial real estate - construction	3,307,050	Appraisals and/or sales of comparable properties	Management discount to reflect current market conditions	14.50%-25.15% (16.25%)
Other real estate owned:				
Commercial real estate - other	2,850,000	Letter of intent and brokerage agreement	None	0.00% (0.00%)

Note 11. Fair Value of Financial Instruments, continued

Recurring Fair Value, continued

	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%)

Note 12. Net Assets with Donor Restrictions

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

	2020	2019
Subject to expenditure for specified purpose:		
Community development lending	$ 8,247,940	$ 6,905,661
Industrial Revitalization Fund Redeployment Funds	965,744	759,052
Total net assets with donor restrictions	$ 9,213,684	$ 7,664,713

Net assets released from restrictions during the year by purpose:

	2020	2019
Community development lending	$ 2,327,935	$ 2,468,416
Program consulting	1,649,308	1,180,547
Total net assets with donor restrictions	$ 3,977,243	$ 3,648,963

Note 13. 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:

	2020
Cash and cash equivalents	$ 9,761,408
Loans and interest receivable	40,471,549
Grants receivable	222,097
Short-term investments	4,195,004
Cash funded loan loss reserves	1,121,630
Financial assets available within one year	$ 55,771,688

The Organization's Funds 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 $36.7 million which it could draw upon.

Note 14. 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, 2020 and 2019 amounted to $358,570 and $168,048, respectively.

Note 14. Benefit Plans, continued

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, 2020 and December 31, 2019, the plan value was $230,531, and $207,642, respectively. No elective deferrals by participants, non-elective deferrals by employer or matching contributions by employer were made in 2020 or 2019. Plan expense for 2020 and 2019 was $527 and $2,011, respectively.

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 2020 totaled $71,402, and $54,749 for 2019. The Organization made no non-elective deferrals or matching contributions on behalf of participants in 2019 or 2020. Plan expense was $7,499 and $5,500 for 2020 and 2019, 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 2020, the Organization contributed $150,000 to the plan and plan expenses for the year were $3,185. As of December 31, 2020, the plan balance was $122,421. In 2019, the Organization contributed $149,999 to the plan and plan expenses for the year was $3,660. As of December 31, 2019, the plan balance was $197,245. At December 31, 2020 and December 31, 2019, $0 and $150,000 in contributions were accrued, respectively.

Note 15. Income Taxes

Current and Deferred Income Tax Components

The components of income tax expense for VCC Bank, all federal, for the period ended December 31, 2020 and 2019 is as follows:

	2020	2019
Current expense	$ 469,171	$ 54,374
Deferred expense (benefit)	(99,423)	93,230
Income tax expense	$ 369,748	$ 147,604

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 for VCC Bank included in the Consolidated Statement of Activities for the years ended December 31, 2020 and 2019 is as follows:

	2020	2019
Tax at statutory federal rate	$ 467,687	$ 326,766
Tax credits	(43,757)	(43,757)
Other	(54,182)	(135,405)
	$ 369,748	$ 147,604

Note 15. Income Taxes, continued

Deferred Income Tax Analysis

The significant components of net deferred tax assets at December 31, 2020 and 2019 are summarized as follows:

	2020	2019
Deferred tax assets		
Allowance for loan losses	$ 322,613	$ 221,062
Pre-opening expenses	4,892	6,786
Investments in Low Income Housing Tax Credits, net	38,686	280,632
Lease incentive obligation	40,280	42,734
Deferred Paycheck Protection Program loan fee income	35,978	-
Investment in title company	26	-
Deferred tax asset	442,475	551,214
Deferred tax liabilities		
Deferred loan costs	(175,529)	(220,318)
Prepaid expenses	(30,036)	(26,914)
Depreciation	(92,225)	(88,722)
Unrealized gains on securities available for sale, net	(55,406)	(26,526)
Investment in title company	-	(32)
Deferred tax liability	(353,196)	(362,512)
Net deferred tax asset	$ 89,279	$ 188,702

Individual components for LOCUS Capital are not significant, and a valuation allowance for the entire deferred tax asset was recorded for LOCUS Capital as of December 31, 2020 and 2019, respectively.

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 2017 through 2020 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 16. Revenue from Contracts with Customers

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, 2020 and 2019, excluding interest and fees on loans and other interest income. Items outside the scope of ASC 606 are noted as such.

	2020	2019
Grant and contribution income	$ 7,573,943	$ 6,780,716
Miscellaneous income	94,695	292,690
Program administration fees	3,908,051	-
Project revenues	416,702	396,945
Gain on sale of SBA loans*	-	323,966
Asset servicing income	405,262	-
Gain on sale of available for sale securities*	100,884	118,996
Total non-interest income	$ 12,499,537	$ 7,913,313

*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 and performance criteria 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.

Asset servicing income: The Organization earns fees by providing loan servicing to external parties, as well as fees for servicing portions of SBA loans it has sold to third parties. This fee is determined based on the size of each loan in the pool.

Note 16. Revenue from Contracts with Customer, continued

Program administration fee income: The Organization earned fee income by assisting the Commonwealth of Virginia and other municipalities within the state administer and deploy CARES Act funding as grant income to eligible businesses and nonprofits impacted by COVID-19.

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 17. 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, 2020 and 2019.

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, 2020 the following table provides a summary of the contractual amount of the Organization's exposure to off-balance sheet commitments (in thousands):

	2020	2019
Commitments to grant loans	$ 4,659	$ 17,265
Unfunded commitments under lines of credit	30,179	38,246
Guarantees placed to qualifying beneficiaries	7,100	-
Outstanding capital calls associated with tax credit investments	163	219
Unfunded guarantees	100	100
	$ 42,201	$ 55,830

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.

Note 17. Commitments and Contingencies, continued

In December 2019, the Organization made an unfunded guarantee commitment of $100,000 to CIGP, which was 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. Guarantees outstanding to qualified community development organizations were $7,100,000 and $0 as of December 31, 2020 and 2019, respectively.

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 18. 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, 2020 or 2019.

Deposits from related parties held by the Bank at December 31, 2020 and 2019 amounted to $11,572,471 and $11,285,553, respectively. The Organization performed loan and accounting services for related parties resulting in income of $236,409 and $180,419 as of December 31, 2020 and 2019, respectively.

Note 19. 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%.

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.

On September 17, 2019, the federal banking agencies finalized a rule that introduces a simplified measure of capital adequacy for qualifying banking organizations, as directed by the Economic Growth, Regulatory Relief and Consumer Protection Act ("EGRRCPA"). The community bank leverage ratio ("CBLR") framework removes the requirement to measure capital adequacy based on risk-based capital ratios for those qualifying banking organizations that opt into the CBLR framework. Qualifying banking organizations will have met the well-capitalized ratio requirement for purposes of section 38 of the Federal Deposit Insurance Act if the banking organization (1) has less than $10 billion in total consolidated assets and (2) maintains a tier 1 leverage ratio greater than 9.0%. The Bank opted into the CBLR framework, effective January 1, 2020.

Note 20. Minimum Regulatory Capital Requirements, continued

On March 27, 2020, the CARES Act was passed into law. Section 4012 of the CARES Act provided direction to the federal banking agencies to issue an interim rule that modified the requirements under section 201 of the EGRRCPA. Under the interim rule, the required minimum CBLR ratio is 8.0%. For qualifying banking organizations whose CBLR ratios fall below the minimum requirement, but not below 7.0%, the interim rule allows for a two-quarter grace period to meet the minimum requirement of 8.0% as of December 31, 2020. Under the interim rule, the minimum requirement is 8.5% for calendar year 2021 and 9.0% for calendar years 2022 and beyond. The two-quarter grace period requirement for calendar year 2021 is 7.5% and 8% for calendar years 2022 and beyond.

Under the final rule, a qualifying banking organization may opt out of the CBLR framework at any time and revert back to measuring capital adequacy in accordance with the requirements set forth in the BASEL III regulatory capital framework.

As of December 31, 2020, the Bank's CBLR was 11.53%

As of December 31, 2019, the Bank was well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Bank must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the table.

	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%

Note 19. Subsequent Events

These financial statements have been updated for subsequent events occurring through March 29, 2021 which is the date these financial statements were available to be issued.

Note 21. Parent Company Only Financial Information

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

Statements of Financial Position
December 31, 2020 and 2019

	2020	2019
Assets		
Cash and due from banks	$ 1,971,878	$ 3,868,352
Interest-bearing deposits	2,438,448	2,503,971
Certificates of deposit	749,000	1,125,348
Investment securities available for sale	428,328	252,245
Cash funded loan loss reserves	1,121,630	1,391,630
Loans, net of allowance for loan losses of $1,284,172 and $924,535 at December 31, 2020 and 2019, respectively	47,556,152	46,011,225
Grants receivable	49,412	626,837
Accrued interest receivable	161,322	120,754
Premises and equipment	599,928	697,395
Investment in subsidiaries	28,158,238	24,477,916
Other real estate owned	2,850,000	-
Other assets	275,690	245,742
Total assets	$ 86,360,026	$ 81,321,415
Liabilities		
Secured borrowings	$ 1,917,413	$ 1,987,106
Unsecured borrowings	35,128,206	37,832,135
Deferred revenue	6,447,438	3,609,507
Accrued interest payable	167,304	113,760
Other liabilities	629,991	538,698
Total liabilities	44,290,352	44,081,206
Net Assets		
Net assets with donor restrictions	9,213,684	7,664,713
Net assets without donor restrictions	26,740,645	24,290,497
Accumulated other comprehensive income	205,409	102,034
Total net assets before noncontrolling interest in subsidiary	36,159,738	32,057,244
Noncontrolling interest in subsidiary	5,909,936	5,182,965
Total net assets	42,069,674	37,240,209
Total liabilities and net assets	$ 86,360,026	$ 81,321,415

Note 21. Parent Company Only Financial Information, continued

Statements of Activities
For the year ended December 31, 2020

	December 31, 2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support			
Grant and contribution income	$ 1,181,873	$ 4,298,007	$ 5,479,880
Interest and fees on loans	2,334,686	-	2,334,686
Interest income	26,310	-	26,310
Miscellaneous income	116,658	-	116,658
Net assets released from restrictions	2,749,036	(2,749,036)	-
Total revenue and support	6,408,563	1,548,971	7,957,534
Expenses			
Program Services			
Salaries and wages	1,664,544	-	1,664,544
Payroll taxes	81,631	-	81,631
Employee benefits	249,281	-	249,281
Program services	190,232	-	190,232
Office expense	93,350	-	93,350
Professional fees	321,095	-	321,095
Depreciation expense	127,497	-	127,497
Interest expense	831,470	-	831,470
Provision for loan losses	354,377	-	354,377
Charitable contributions	444,044	-	444,044
Other expenses	186,379	-	186,379
Total program services expenses	4,543,900	-	4,543,900
Management and General			
Salaries and wages	554,848	-	554,848
Payroll taxes	27,210	-	27,210
Employee benefits	83,094	-	83,094
Office and administrative expenses	31,117	-	31,117
Professional fees	107,032	-	107,032
Depreciation expense	42,499	-	42,499
Other expenses	62,126	-	62,126
Total management and general expenses	907,926	-	907,926
Total expenses	5,451,826	-	5,451,826
Change in net assets/net income before undistributed income of subsidiaries	956,737	1,548,971	2,505,708
Change in net assets from undistributed income of bank subsidiary, net of minority interest	1,508,579	-	1,508,579
Change in net assets from undistributed loss of non-bank subsidiaries	141,781	-	141,781
Change in net assets/net income	2,607,097	1,548,971	4,156,068
Change in accumulated other comprehensive income	103,375	-	103,375
Dividends paid on subsidiary's preferred stock	(40,000)	-	(40,000)
Dividends paid to minority shareholders on subsidiary's common stock class A	(1,190)	-	(1,190)
Dividends paid to minority shareholders on subsidiary's common stock class B	(115,759)	-	(115,759)
Change in net assets/net income attributable to Virginia Community Capital, Inc.	2,553,523	1,548,971	4,102,494
Net assets beginning of year	24,392,531	7,664,713	32,057,244
Net assets end of year	$ 26,946,054	$ 9,213,684	$ 36,159,738

Note 21. 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 class A	(438)	-	(438)
Dividends paid to minority shareholders on subsidiary's common stock class 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 21. Parent Company Only Financial Information, continued

Statements of Cash Flows
For the years ended December 31, 2020 and 2019

	2020	2019
Cash flows from operating activities		
Change in net assets	$ 4,156,068	$ 2,062,049
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	169,996	173,253
Provision for loan losses	354,377	277,405
Loss on write down/sale of other real estate owned	1,515,000	24,834
Net accretion (amortization) of discount/premium on investment securities	297	(312)
Increase in noncontrolling interest in subsidiary	675,451	238,873
Gain on sale of fixed assets	(19,844)	-
Changes in assets and liabilities:		
Accrued interest receivable	(40,568)	22,779
Cash funded loan loss reserves	270,000	(235,294)
Grants receivable	577,425	462,126
Other assets	(29,948)	240,132
Investment in subsidiaries	(3,571,679)	(2,810,087)
Accrued interest payable	53,544	5,391
Deferred revenue	2,837,931	(2,280,377)
Other liabilities	91,293	(230,830)
Net cash provided by (used in) operating activities	7,039,343	(2,050,058)
Cash flows from investing activities		
Proceeds from sale of other real estate owned	-	856,416
Purchases of securities available for sale	(431,648)	-
Proceeds from maturities of securities available for sale	250,000	-
Net decrease in certificates of deposit	376,348	-
Net increase in loans	(6,264,304)	(407,000)
Proceeds from sale of fixed assets	42,851	502,160
Purchases of premises and equipment	(95,536)	(59,005)
Net cash (used in) provided by investing activities	(6,122,289)	892,571
Cash flows from financing activities		
Dividends paid on subsidiary's preferred stock	(40,000)	(43,000)
Dividends paid on subsidiary's common stock class A	(1,190)	(438)
Dividends paid on subsidiary's common stock class B	(115,759)	(120,862)
Net (decrease) increase in borrowings	(2,773,622)	2,990,047
Proceeds from the sale of common stock of the subsidiary	51,520	1,242,918
Net cash (used in) provided by financing activities	(2,879,051)	4,068,665
Net (decrease) increase in cash and cash equivalents	(1,961,997)	2,911,178
Cash and cash equivalents, beginning	6,372,323	3,461,145
Cash and cash equivalents, ending	$ 4,410,326	$ 6,372,323
Supplemental disclosure of cash flow information		
Interest paid	$ 777,626	$ 959,157
Supplemental disclosure of noncash investing and financing activities		
Transfer to other real estate owned	$ 4,365,000	$ -

Note 22. Subsidiary Financial Information

Financial information of VCC Bank as of, and for the years ended December 31, 2020 and 2019 are as follows:

VCC Bank
Balance Sheets
December 31, 2020 and 2019

	2020	2019
Assets		
Cash and due from banks	$ 492,519	$ 283,515
Interest-bearing deposits	9,231,431	15,907,408
Federal funds sold	222,000	252,000
Certificates of deposit	9,004,935	17,248,935
Investment securities available for sale	16,191,083	15,330,217
Investment securities held to maturity	5,386,284	5,502,521
Restricted equity securities	1,307,450	1,869,500
Loans, net of allowance for loan losses of $2,038,846 and $1,502,069 at December 31, 2020 and 2019, respectively	171,061,608	159,100,121
Grants receivable	-	104,646
Accrued interest receivable	873,928	706,968
Premises and equipment	2,069,483	2,125,046
Bank owned life insurance	3,723,912	2,683,737
Other assets	937,132	1,113,430
Total assets	$ 220,501,764	$ 222,228,044
Liabilities		
Noninterest-bearing deposits	$ 9,687,433	$ 9,533,753
Interest-bearing deposits	156,351,525	160,313,036
Total deposits	166,038,958	169,846,789
Secured borrowings	27,678,412	25,918,221
Subordinated debt	-	1,000,000
Accrued interest payable	157,206	205,259
Other liabilities	915,784	1,134,815
Total liabilities	194,790,360	198,105,084
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, 2020 and 2019, 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, 2020 and 2019, respectively	6,839,725	6,839,725
Common stock; Class B, $2,500 par value, 3,500 shares authorized; 619 and 611 shares issued and outstanding at December 31, 2020 and 2019, respectively	1,547,500	1,527,500
Additional paid in capital	8,971,012	8,939,493
Retained earnings	7,094,735	5,666,453
Accumulated other comprehensive income	208,432	99,789
Total shareholders' equity	25,711,404	24,122,960
Total liabilities and shareholders' equity	$ 220,501,764	$ 222,228,044

Note 22. Subsidiary Financial Information, continued

VCC Bank
Statements of Operations
For the years ended December 31, 2020 and 2019

	2020	2019
Interest and dividend income		
Loans and fees on loans	$ 9,210,553	$ 7,505,062
Federal funds sold	688	4,584
Investment securities-taxable	330,518	516,357
Investment securities-nontaxable	286,178	138,548
Deposits with other banks	379,959	585,538
Total interest and dividend income	10,207,896	8,750,089
Interest expense		
Deposits	2,628,232	3,274,304
Federal funds purchased	268	2,183
Secured borrowings	518,459	494,305
Subordinated debt	28,333	40,111
Total interest expense	3,175,292	3,810,903
Net interest income	7,032,604	4,939,186
Provision for loan losses	1,031,046	985,451
Net interest income after provision for loan losses	6,001,558	3,953,735
Noninterest income		
Gain on sale of investments	100,884	118,996
Gain on sale of SBA loans	-	323,966
Bank enterprise award	-	245,547
Income on bank owned life insurance	66,726	60,291
Other noninterest income	388,694	302,650
Total noninterest income	556,304	1,051,450
Noninterest expense		
Salaries and employee benefits	2,781,556	1,948,672
Occupancy and equipment	297,543	320,228
Data processing	172,050	135,559
Advertising and marketing	10,826	21,147
Audit	24,967	22,338
Legal	8,030	9,360
Consulting	176,605	174,644
FDIC insurance	228,581	172,100
Franchise tax expense	243,281	207,790
Other real estate owned expense, net	-	5,626
Other expenses	387,344	435,166
Total noninterest expense	4,330,783	3,452,630
Net income before income tax expense	2,227,079	1,552,555
Income tax expense	(369,748)	(147,604)
Net income	1,857,331	1,404,951
Basic income per common share	$ 425.97	$ 341.23
Weighted average common shares outstanding	3,353	3,178

Note 22. Subsidiary Financial Information, continued

VCC Bank
Statements of Comprehensive Income
For the years ended December 31, 2020 and 2019

	2020	2019
Net income	$ 1,857,331	$ 1,404,951
Other comprehensive income:		
Unrealized gains on available for sale securities, net	137,523	475,177
Tax expense from unrealized gains on available for sale securities	(28,880)	(99,787)
Other comprehensive gain	108,643	375,390
Comprehensive income	$ 1,965,974	$ 1,780,341

Note 22. Subsidiary Financial Information, continued

VCC Bank
Statements of Changes in Shareholders' Equity
For the years ended December 31, 2020 and 2019

Total	Preferred Stock	Common Stock Class 'A' Shares	Common Stock Class 'A' Amount	Common Stock Class 'B' Shares	Common Stock Class 'B' Amount	Additional Paid In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
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 class A	-	-	-	-	-	-	(99,997)	-	(99,997)
Dividends paid on common stock class 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
Issuance of common stock B	-	-	-	8	20,000	31,519	-	-	51,519
Dividends paid on preferred stock	-	-	-	-	-	-	(42,000)	-	(42,000)
Dividends paid on common stock class A	-	-	-	-	-	-	(271,290)	-	(271,290)
Dividends paid on common stock class B	-	-	-	-	-	-	(115,759)	-	(115,759)
Net income	-	-	-	-	-	-	1,857,331	-	1,857,331
Comprehensive income	-	-	-	-	-	-	-	108,643	108,643
Balance, December 31 2020	$ 1,050,000	2,736	$ 6,839,725	619	$1,547,500	$ 8,971,012	$ 7,094,935	$ 208,432	$ 25,711,404

Note 22. Subsidiary Financial Information, continued

VCC Bank
Statements of Cash Flows
For the years ended December 31, 2020 and 2019

	2020	2019
Cash flows from operating activities		
Net income	$ 1,857,331	$ 1,404,951
Adjustments to reconcile net income to		
net cash provided by operations:		
Depreciation and amortization	149,766	178,413
Provision for loan losses	1,031,046	985,451
Net loss on sale/write down of other real estate owned	-	3,681
Gain on sale of SBA loans	-	(323,966)
Net amortization of premiums on investment securities	128,488	104,091
Increase in cash surrender value of bank owned life insurance	(66,726)	(60,291)
Gain on sale of securities available for sale	(100,884)	(118,996)
Gain on sale of fixed assets	(17,140)	-
Changes in assets and liabilities:		
Accrued interest receivable	(166,960)	(97,293)
Deferred income tax	99,422	193,017
Other assets	47,997	(66,581)
Accrued interest payable	(48,052)	(13,920)
Grants receivable	104,646	128,598
Other liabilities	(219,031)	238,036
Net cash provided by operating activities	2,799,903	2,555,191
Cash flows from investing activities		
Net decrease (increase) in certificates of deposit	8,244,000	(2,011,000)
Purchases of securities available for sale	(10,162,610)	(10,574,548)
Purchases of securities held to maturity	-	(2,695,541)
Proceeds from maturities of securities available for sale	-	250,000
Proceeds from sales of securities available for sale	4,281,916	8,216,778
Proceeds from investment paydowns	5,245,984	2,596,293
Redemption (purchases) of restricted equity securities	562,050	(358,700)
Proceeds from sale of other real estate owned	-	67,569
Proceeds from sale of SBA loans	-	4,093,085
Net increase in loans	(12,992,533)	(23,590,454)
Proceeds from sale of fixed assets	39,529	1,489
Purchases of bank owned life insurance	(973,449)	-
Purchases of premises and equipment	(116,592)	(28,429)
Net cash used in investing activities	(5,871,705)	(24,033,458)
Cash flows from financing activities		
Net increase in deposits	(3,807,831)	19,887,037
Decrease in unsecured borrowings	(1,000,000)	(2,000,000)
Increase in secured borrowings	1,760,191	7,217,101
Proceeds from sale of common stock class B	51,519	1,242,919
Dividends paid on common stock class A	(271,290)	(99,997)
Dividends paid on common stock class B	(115,760)	(120,862)
Dividends paid on preferred stock	(42,000)	(42,000)
Net cash (used in) provided by financing activities	(3,425,171)	26,084,198
Net (decrease) increase in cash and cash equivalents	(6,496,973)	4,605,931
Cash and cash equivalents, beginning	16,442,923	11,836,992
Cash and cash equivalents, ending	9,945,950	16,442,923
Supplemental disclosure of cash flow information		
Interest paid	$ 3,223,345	$ 3,824,823
Taxes paid	$ 319,673	$ -

Note 22. Subsidiary Financial Information, continued

Financial information of LOCUS Capital Inc. as of and for the years ended December 31, 2020 and 2019 are as follows:

LOCUS Capital, Inc.
Balance Sheets
December 31, 2020 and 2019

	2020	2019
Assets		
Cash and due from banks	$ 214,808	$ 42,175
Premises and equipment	5,287	9,415
Other assets	45,911	27,497
Total assets	$ 266,066	$ 79,087
Liabilities		
Deferred revenue	$ 915	$ -
Other liabilities	105,236	75,004
Total liabilities	106,151	75,004
Shareholders' equity		
Common stock, no par value, 5,000 shares authorized; 1 share issued and outstanding for December 31, 2020 and 2019	-	-
Contributed capital	1,504,210	954,210
Accumulated deficit	(1,344,355)	(950,127)
Total shareholders' equity	159,855	4,083
Total liabilities and shareholders' equity	$ 266,006	$ 79,087

LOCUS Capital, Inc.
Statement of Operations
For the years ended December 31, 2020 and 2019

	2020	2019
Revenues		
Grant and contribution income	$ 197,835	$ -
Asset servicing income	314,651	238,339
Project revenues	46,800	43,219
Total revenues	559,286	281,558
Expenses		
Salaries and employee benefits	796,872	543,591
Occupancy and equipment	26,101	19,103
Data processing	16,365	7,374
Advertising and marketing	3,052	5,255
Audit	26,501	24,145
Legal	3,521	946
Consulting	29,459	44,479
Other expenses	41,643	73,797
Total expense	953,514	718,690
Net loss before income tax expense	(394,228)	(437,132)
Income tax expense	-	-
Net loss attributed to shareholders	$ (394,228)	$ (437,132)

Note 22. Subsidiary Financial Information, continued

LOCUS Capital, Inc.
Statements of Cash Flows
For the years ended December 31, 2020 and 2019

	2020	2019
Cash flows from operating activities		
Net loss	$ (394,228)	$ (437,132)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	4,128	4,491
Changes in assets and liabilities:		
Deferred revenue	915	(100,000)
Other assets	(18,414)	(6,798)
Other liabilities	30,232	19,073
Net cash used in operating activities	(377,367)	(520,366)
Cash flows from investing activities		
Proceeds from sale of premises and equipment	-	3,877
Purchases of premises and equipment	-	(9,697)
Net cash used in investing activities	-	(5,820)
Cash flows from financing activities		
Capital contribution from parent company	550,000	504,110
Net cash provided by financing activities	550,000	504,110
Net increase (decrease) in cash and cash equivalents	172,633	(22,076)
Cash and cash equivalents, beginning	42,175	64,251
Cash and cash equivalents, ending	$ 214,808	$ 42,175

Note 22. Subsidiary Financial Information, continued

Financial information of LOCUS Foundation as of and for the years ended December 31, 2020 and 2019 are as follows:

LOCUS Foundation
Statements of Financial Position
December 31, 2020 and 2019

	2020	2019
Assets		
Cash and due from banks	$ -	$ 704
Premises and equipment	2,868	4,237
Total assets	$ 2,868	$ 4,941
Liabilities		
Accounts payable	$ 173,983	$ 172,687
Other liabilities	2,100	1,975
Total liabilities	176,083	174,662
Net Assets		
Net assets without donor restrictions	(173,215)	(169,721)
Total net assets	(173,215)	(169,721)
Total liabilities and net assets	$ 2,868	$ 4,941

LOCUS Foundation
Statements of Activities
For the years ended December 31, 2020 and 2019

	2020	2019
Changes in Net Assets Without Donor Restrictions		
Total Revenues	$ -	$ -
Management and General Expenses		
Professional fees	2,100	389
Depreciation expense	1,369	1,637
Other expenses	25	66
Total management and general expenses	3,494	2,092
Change in net assets without donor restrictions	(3,494)	(2,092)
Net assets beginning of year	(169,721)	(167,629)
Net assets end of year	$ (173,215)	$ (169,721)

Note 22. Subsidiary Financial Information, continued

LOCUS Foundation
Statements of Cash Flows
For the years ended December 31, 2020 and 2019

	2020	2019
Cash flows from operating activities		
Change in net assets	$ (3,494)	$ (2,092)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	1,369	1,637
Changes in assets and liabilities:		
Accounts payable	1,296	5,627
Other assets	-	42
Other liabilities	125	(6,495)
Net cash used in operating activities	(704)	(1,281)
Cash flows from investing activities		
Proceeds from sale of premises and equipment	-	227
Net cash provided by investing activities	-	227
Net decrease in cash and cash equivalents	(704)	(1,054)
Cash and cash equivalents, beginning	704	1,758
Cash and cash equivalents, ending	$ -	$ 704

Note 22. Subsidiary Financial Information, continued

Financial information of LOCUS Impact Investing, Consolidated as of, and for the years ended December 31, 2020 and 2019:

LOCUS Impact Investing, Consolidated
Statement of Financial Position
December 31, 2020 and 2019

	2020	2019
Assets		
Cash and due from banks	$ 2,210,232	$ 188,912
Interest-bearing deposits	2,075,931	913,274
Accounts receivable	243,684	11,326
Premises and equipment	7,975	14,022
Grants receivable	172,685	368,103
Other assets	8,979	25,044
Total assets	$ 4,719,486	$ 1,520,681
Liabilities		
Deferred revenue	$ 1,957,567	$ 918,656
Accrued expenses	106,179	43,654
Other liabilities	195,546	37,877
Total liabilities	2,259,292	1,000,187
Net Assets		
Net assets without donor restrictions	2,460,194	520,494
Total net assets	2,460,194	520,494
Total liabilities and net assets	$ 4,719,486	$ 1,520,681

Note 22. Subsidiary Financial Information, continued

LOCUS Impact Investing, Consolidated
Statements of Activities
For the year ended December 31, 2020

	December 31, 2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support			
Grant and contribution income	$ 865,856	$ 1,030,372	$ 1,896,228
Program administration fee income	3,908,051	-	3,908,051
Project revenues	369,902	-	369,902
Interest income	12,156	-	12,156
Miscellaneous income	11,676	-	11,676
Net assets released from restrictions	1,030,372	(1,030,372)	-
Total revenue and support	6,198,013	-	6,198,013
Expenses			
Program Services			
Salaries and wages	1,094,142	-	1,094,142
Payroll taxes	68,623	-	68,623
Employee benefits	123,107	-	123,107
Program services	2,273,671	-	2,273,671
Office expense	91,800	-	91,800
Professional fees	220,434	-	220,434
Depreciation expense	6,881	-	6,881
Charitable contributions	55,500	-	55,500
Other expenses	76,932	-	76,932
Total program services expenses	4,011,090	-	4,011,090
Management and General			
Salaries and wages	168,642	-	168,642
Payroll taxes	10,530	-	10,530
Employee benefits	19,006	-	19,006
Office and administrative expenses	12,533	-	12,533
Professional fees	25,413	-	25,413
Depreciation expense	1,175		1,175
Other expenses	9,924	-	9,924
Total management and general expenses	247,223	-	247,223
Total expenses	4,528,313	-	4,528,313
Change in net assets/net income	1,939,700	-	1,939,700
Net assets beginning of year	520,494	-	520,494
Net assets end of year	$ 2,460,194	$ -	$ 2,460,194

Note 22. Subsidiary Financial Information, continued

LOCUS Impact Investing, Consolidated
Statements of Activities
For the year ended December 31, 2019

	December 31, 2029		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support			
Grant and contribution income	$ 1,145,806	$ 1,113,047	$ 2,258,853
Project revenues	353,726	-	353,726
Interest income	7,471	-	7,471
Miscellaneous income	20,905	-	20,905
Net assets released from restrictions	1,113,047	(1,113,047)	-
Total revenue and support	2,640,955	-	2,640,955
Expenses			
Program Services			
Salaries and wages	778,395	-	778,395
Payroll taxes	51,044	-	51,044
Employee benefits	65,652	-	65,652
Program services	1,072,957	-	1,072,957
Office expense	10,167	-	10,167
Professional fees	63,765	-	63,765
Depreciation expense	6,218	-	6,218
Charitable contributions	-	-	-
Other expenses	58,268	-	58,268
Total program services expenses	2,106,466	-	2,106,466
Management and General			
Salaries and wages	129,960	-	129,960
Payroll taxes	8,706	-	8,706
Employee benefits	11,142	-	11,142
Office and administrative expenses	1,442	-	1,442
Professional fees	9,052	-	9,052
Depreciation expense	1,089		1,089
Other expenses	9,695	-	9,695
Total management and general expenses	171,086	-	171,086
Total expenses	2,277,552	-	2,277,552
Change in net assets/net income	363,403	-	363,403
Net assets beginning of year	157,091	-	157,091
Net assets end of year	$ 520,494	$ -	$ 520,494

Note 22. Subsidiary Financial Information, continued

LOCUS Impact Investing, Consolidated
Statements of Cash Flows
For the years ended December 31, 2020 and 2019

	2020	2019
Cash flows from operating activities		
Change in net assets	$ 1,939,700	$ 363,403
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	8,056	7,307
Changes in assets and liabilities:		
Deferred revenue	1,038,911	60,912
Other assets	(216,293)	(11,344)
Grants receivable	195,418	(368,103)
Other liabilities	220,194	(314,366)
Net cash provided by (used in) operating activities	3,185,986	(262,191)
Cash flows from investing activities		
Proceeds from sale of premises and equipment	-	3,496
Purchases of premises and equipment	(2,009)	(10,687)
Net cash used in investing activities	(2,009)	(7,191)
Net increase (decrease) in cash and cash equivalents	3,183,977	(269,382)
Cash and cash equivalents, beginning	1,102,186	1,371,568
Cash and cash equivalents, ending	$ 4,286,163	$ 1,102,186