VCC Social Enterprises

Annual Report

December 31, 2021 and 2020

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elliott davis

Independent Auditor's Report

Board of Directors
VCC Social Enterprises, Inc.
Richmond, Virginia

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of VCC Social Enterprises, Inc. and Subsidiaries (the Organization), which comprise the consolidated statements of financial position as of December 31, 2021, and 2020, 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).

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Organization as of December 31, 2021, and 2020, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued when applicable).

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards,* we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards,* we have also issued our report dated April 29, 2022, on our consideration of the Organization's 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 Organization's 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 the Organization's internal control over financial reporting and compliance.

Elliott Davis, PLLC

Raleigh, North Carolina
April 29, 2022

Consolidated Statements of Financial Position

As of December 31, 2021 and 2020

	2021	2020
Assets		
Cash and due from banks	$ 2,444,250	$ 920,167
Interest-bearing deposits	13,814,350	8,619,241
Federal funds sold	228,000	222,000
Certificates of deposit	6,100,488	9,753,935
Investment securities available for sale	28,589,608	16,619,411
Investment securities held to maturity	4,901,352	5,386,284
Restricted equity securities	1,128,350	1,307,450
Cash funded loan loss reserves	1,896,630	1,121,630
Loans, net of allowance for loan losses of $2,235,719 and $3,323,018 at December 31, 2021 and 2020, respectively	209,678,285	218,617,760
Grants receivable	674,682	222,097
Accrued interest receivable	656,207	1,035,250
Premises and equipment, net	2,590,653	2,685,540
Other real estate owned	2,557,500	2,850,000
Bank owned life insurance	3,798,333	3,723,912
Other assets	3,632,903	1,334,449
Total assets	$ 282,691,591	$ 274,419,126
Liabilities		
Noninterest-bearing deposits	$ 10,395,946	$ 4,596,532
Interest-bearing deposits	166,487,606	152,346,587
Total deposits	176,883,552	156,943,119
Secured borrowings	10,004,557	29,595,825
Unsecured borrowings	30,566,032	35,128,206
Deferred revenue	9,865,883	8,405,920
Accrued interest payable	192,571	324,510
Other liabilities	2,700,095	1,951,872
Total liabilities	230,212,690	232,349,452
Net Assets		
Net assets with donor restrictions	8,632,067	9,213,684
Net assets without donor restrictions	35,835,965	26,740,645
Accumulated other comprehensive income (loss)	(222,957)	205,409
Total consolidated net assets before noncontrolling interest in subsidiary	44,245,075	36,159,738
Noncontrolling interest in subsidiary	8,233,826	5,909,936
Total net assets	52,478,901	42,069,674
Total liabilities and net assets	$ 282,691,591	$ 274,419,126

See Notes to Consolidated Financial Statements

Consolidated Statements of Activities

For the year ended December 31, 2021

	December 31, 2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support			
Grant and contribution income	$ 1,802,370	$ 6,501,778	$ 8,304,148
Interest and fees on loans	10,462,912	-	10,462,912
Gain on extinguishment of debt	1,016,571	-	1,016,571
Other interest income	728,998	-	728,998
Program administration fee income	6,883,552	-	6,883,552
Project revenues	340,802	-	340,802
Asset servicing income	388,071	-	388,071
Miscellaneous income	188,199	-	188,199
Net gain on sale of available for sale securities	44,874	-	44,874
Net assets released from restrictions	7,083,395	(7,083,395)	-
Total revenue and support	28,939,744	(581,617)	28,358,127
Expenses			
Program Services			
Salaries and wages	5,306,757	-	5,306,757
Payroll taxes	353,159	-	353,159
Employee benefits	634,266	-	634,266
Program services	4,519,914	-	4,519,914
Office expense	304,638	-	304,638
Professional fees	818,218	-	818,218
Depreciation expense	207,875	-	207,875
Interest expense	2,257,841	-	2,257,841
Recovery of loan losses	(1,014,980)	-	(1,014,980)
Other real estate owned expenses	357,429		357,429
Charitable contributions	1,798,908	-	1,798,908
Other expenses	664,789	-	664,789
Total program services expenses	16,208,814	-	16,208,814
Management and General			
Salaries and wages	1,684,008	-	1,684,008
Payroll taxes	112,420	-	112,420
Employee benefits	196,439	-	196,439
Office and administrative expenses	98,034	-	98,034
Professional fees	272,167	-	272,167
Depreciation expense	69,509	-	69,509
Other expenses	368,099	-	368,099
Total management and general expenses	2,800,676	-	2,800,676
Total expenses	19,009,490	-	19,009,490
Change in net assets/net income before provision for income taxes	9,930,254	(581,617)	9,348,637
Provision for income tax expense	604,973	-	604,973
Change in net assets/net income	9,325,281	(581,617)	8,743,664
Change in accumulated other comprehensive loss, net of tax	(428,366)	-	(428,366)
Change in net assets/net income and accumulated other comprehensive loss	8,896,915	(581,617)	8,315,298
Dividends paid on subsidiary's preferred stock	(24,000)	-	(24,000)
Dividends paid to minority shareholders on subsidiary's common stock class A	(1,484)	-	(1,484)
Dividends paid to minority shareholders on subsidiary's common stock class B	(204,477)	-	(204,477)
Change in net assets/net income before noncontrolling interest in subsidiary	8,666,954	(581,617)	8,085,337
Net assets before noncontrolling interest in subsidiary beginning of year	26,946,054	9,213,684	36,159,738
Net assets before noncontrolling interest in subsidiary end of year	$ 35,613,008	$ 8,632,067	$ 44,245,075

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
Net 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 Cash Flows

For the years ended December 31, 2021 and 2020

	2021	2020
Cash flows from operating activities		
Change in net assets	$ 8,743,664	$ 4,156,068
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	277,384	333,315
(Recovery of) provision for loan losses	(1,014,980)	1,385,423
Net amortization of premiums on investment securities	155,006	128,785
Net gain on sale of securities available for sale	(44,874)	(100,884)
Loss on sale/writedown of other real estate owned	310,892	1,515,000
Increase in cash surrender value of bank owned life insurance	(74,421)	(66,726)
Increase in noncontrolling interest in subsidiary	335,575	675,451
Loss (gain) on disposal/sale of fixed assets	15,757	(36,983)
Changes in assets and liabilities:		
Accrued interest receivable	379,043	(207,529)
Cash funded loan loss reserve	(775,000)	270,000
Grants receivable	(452,585)	877,488
Other assets	(2,188,831)	(116,223)
Accrued interest payable	(121,361)	5,491
Deferred revenue	1,459,963	3,877,758
Other liabilities	748,224	123,195
Net cash provided by operating activities	7,753,456	12,819,629
Cash flows from investing activities		
Net decrease in certificates of deposit	3,653,447	8,620,348
Purchases of securities available for sale	(19,818,273)	(10,594,258)
Proceeds from maturities/calls of securities	865,000	250,000
Proceeds from paydowns on securities available for sale	3,886,903	5,144,427
Proceeds from paydowns on securities held to maturity	230,981	101,557
Proceeds from sale of securities available for sale	2,702,002	4,281,917
Sale of restricted equity securities	179,100	562,050
Proceeds from sale of other real estate owned	446,008	-
Net decrease (increase) in loans	9,490,055	(19,256,837)
Proceeds from sale of premises and equipment	-	82,380
Purchase of bank owned life insurance	-	(973,449)
Purchases of premises and equipment	(198,254)	(214,137)
Net cash provided by (used in) investing activities	1,436,969	(11,996,002)
Cash flows from financing activities		
Net increase (decrease) in deposits	19,940,433	(4,553,860)
Net decrease in unsecured borrowings	(3,556,181)	(3,703,930)
Net (decrease) increase in secured borrowings	(19,591,268)	1,690,498
Gain on extinguishment of debt	(1,016,571)	-
Dividends paid on subsidiary preferred stock	(24,000)	(40,000)
Dividends paid on subsidiary common stock class A	(1,484)	(1,190)
Dividends paid on subsidiary common stock class B	(204,477)	(115,759)
Redemption of preferred stock of the subsidiary	(1,050,000)	-
Proceeds from sale of common stock of the subsidiary	3,038,315	51,520
Net cash (used in) financing activities	(2,465,233)	(6,672,722)
Net (decrease) increase in cash and cash equivalents	6,725,192	(5,849,095)
Cash and cash equivalents, beginning	9,761,408	15,610,503
Cash and cash equivalents, ending	$ 16,486,600	$ 9,761,408
Supplemental disclosure of cash flow information		
Interest paid	$ 2,389,780	$ 3,987,161
Income taxes paid	$ 485,000	$ 319,673
Transfer to other real estate owned	$ 464,400	$ 4,350,000

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

Nature of Business

VCC Social Enterprises, (the Organization or VCCSE) 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.

In July 2021, Virginia Community Capital, Inc. (VCC) established VCC Social Enterprises to serve as the nonprofit financial holding company for VCC Bank and controlling entity of VCC, LOCUS Capital, LOCUS Impact Investing and LOCUS Foundation. After receiving approval from the Federal Reserve and Virginia Bureau of Financial Institutions, VCC transferred ownership of its controlling shares of VCC Bank Class A Voting Common Stock, which represented 99.6% of total shares outstanding. Additionally, VCC also transferred ownership of its controlling stock in LOCUS Capital, Inc. and established VCCSE's control over VCC, LOCUS Impact Investing and LOCUS Foundation by granting the board of VCCSE the ability to hold a majority of board seats on all of the aforementioned non-profit boards of directors. The reorganization and related change of control is not anticipated to have any significant impact on the Organization's financial condition or mission-focused activities.

In connection with the reorganization, VCC transferred certain of its assets, including investments in subsidiaries, cash, available for sale securities and CDs in banks, to VCCSE.

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 VCC. 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., a Virginia corporation was formed to hold real estate located at 110 Peppers Ferry Road in Christiansburg, Virginia, which was purchased for the relocation of the Organization's Christiansburg offices to this new location in July 2015. VCC Bank owns 100% of the 164 issued and outstanding shares of CCB Real Estate's common stock, which was issued at $10,000 per share in 2015.

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

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

Nature of Business, continued

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, 2021, 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, 2021, $16.6 million in guarantees have been committed to qualified beneficiaries.

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. As of December 31, 2021, VCC owns approximately 89% of the entity, with the remaining 11% owned by an external stakeholder, which had a participation interest in the leverage loan of the NMTC deal. 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, 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 industries. 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.

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

Basis of Accounting

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

Financial Statement Presentation

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

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

With Donor Restrictions – Resources accumulated through donations or grants for specific operating or capital purposes. Such resources will be without restrictions when the requirements of the donor or grantee have been satisfied through expenditures for the specified purpose or program or through the passage of time. Also includes resources accumulated through donations or grants subject to donor-imposed stipulations that are to be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on related investments for general or specific purposes.

Reclassification

Certain amounts in the 2020 consolidated financial statements have been reclassified to conform to the 2021 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.

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

Loans Receivable, continued

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 period in which the sale was executed.

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%. The PPP program was opened for a second round in 2021.

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, 2021 and December 31, 2020 were $8,061,521 and $19,800,609, respectively, with $27,853 and $171,326 in net 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

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

Allowance for Loan Losses, continued

measured on a loan-by-loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the net realizable value of the collateral if the loan is collateral dependent.

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. No deferrals were granted in 2021. As of December 31, 2021, all COVID related deferred 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 generated from a contract between LOCUS Impact Investing and the Commonwealth of Virginia and other local municipalities to 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 non-profits during the second half of 2020. In 2021, the program was extended, with nearly $102 million in grant funds deployed to over 1,800 recipients.

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

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

Functional Allocation of Expenses

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.

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 $8,157,423 and $10,505,322 borrowed against this facility at December 31, 2021 and December 31, 2020, 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 $0 and $17,173,090 borrowed against this facility at December 31, 2021 and December 31, 2020, respectively.

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 $1,847,133 and $1,917,413 for the years ended December 31, 2021 and 2020, respectively. There were no loans pledged at December 31, 2021 and December 31, 2020, 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 the Organization 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, 2022, and interim periods within fiscal years beginning after December 15, 2023. 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, 2021 future minimum lease payments were $1.7 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 and interim periods beginning after December 15, 2022. Early adoption is permitted. The Organization 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 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 were 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 Organization's 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.

In November 2021, the FASB issued ASU 2021-09, *Leases (Topic 842): Discount Rate for Lessees That Are Not Public Business Entities*, which allows lessees that are not public business entities to make the ASC 842 risk-free discount rate accounting policy election by class of underlying asset, rather than at the entity-wide level.

In October 2021, the FASB issued ASU 2021-10, *Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance*, which aims to provide increased transparency by requiring business entities to disclose information about certain types of government assistance they receive in the notes to the financial statements. The effective date is for annual periods beginning after December 15, 2021. 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, 2021 and 2020, 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, 2021, and 2020, the balance of these was $6,100,488 and $9,753,935, respectively. The majority of these deposits are FDIC-insured. As of December 31, 2021, and 2020, $303,488 and $269,935 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:

2021	**Amortized Cost**	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**
Available for sale				
Treasury	$ 998,202	$ -	$ (4,530)	$ 993,672
U.S. Government sponsored entities	12,611,081	15,798	(147,375)	12,479,504
Obligations of states and political subdivisions	6,592,465	27,907	(113,250)	6,507,122
Collateralized mortgage obligations	882,025	23,771	-	905,796
Mortgage backed securities	7,783,010	25,086	(104,581)	7,703,515
Total	$ 28,866,783	$ 92,562	$ (369,736)	$ 28,589,608
Held to maturity				
Obligations of states and political subdivisions	$ 4,901,352	$ 650,106	$ -	$ 5,551,458
2020				
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

Securities with an amortized cost of $9,379,414 and $11,161,882 were pledged as collateral or otherwise restricted at December 31, 2021 and 2020, respectively. Proceeds from the sale of available for sale securities for the years ended December 31, 2021 and 2020 were $2,702,002 and $4,281,917, respectively. The Organization had realized gains on sales of securities in 2021 of $44,874 and $100,884 in 2020. There were no realized losses on sales in 2021 or 2020.

Note 4. Investments, continued

The scheduled maturities of securities at December 31, 2021 are as follows:

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Treasury:				
Due one to five years	$ 998,202	$ 993,672	$ -	$ -
	$ 998,202	993,672	$ -	$ -
U.S. Government sponsored entities:				
Due one to five years	$ 3,033,606	$ 3,027,366	$ -	$ -
Due after five years but within ten years	4,408,119	4,326,744	-	-
Due after ten years	5,169,356	5,125,393	-	-
	$ 12,611,081	12,479,503	$ -	$ -
Obligations of states and political subdivisions:				
Due one to five years	$ 252,854	$ 249,135	$ 613,557	$ 641,660
Due after five years but within ten years	5,912,220	5,837,783	4,287,795	4,909,798
Due after ten years	427,391	420,204	-	-
	$ 6,592,465	$ 6,507,122	$ 4,901,352	$ 5,551,458
Collateralized mortgage obligations:				
Due after ten years	882,025	905,796	-	-
	$ 882,025	$ 905,796	$ -	$ -
Mortgage backed securities:				
Due one to five years	$ 409,397	$ 404,700	-	-
Due after five years but within ten years	1,481,514	1,461,925	-	-
Due after ten years	5,892,099	5,836,890	-	-
	$ 7,783,010	$ 7,703,515	$ -	$ -
Total Securities				
Due one to five years	$ 4,694,059	$ 4,674,873	$ 613,557	$ 641,660
Due after five years but within ten years	11,801,853	11,626,452	4,287,795	4,909,798
Due after ten years	12,370,871	12,288,283	-	-
	$ 28,866,783	$ 28,589,608	$ 4,901,352	$ 5,551,458

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, 2021, the Organization had $1,537,941 in securities that had been in an unrealized loss position for 12 or more consecutive months, with an unrealized loss position totaling $50,721. 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, 2021 and 2020.

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
2021						
Treasury	$ 993,672	$ (4,530)	$ -	$ -	$ 993,672	$ (4,530)
U.S. Government sponsored entities	10,898,508	(147,375)	-	-	10,898,508	(147,375)
Obligations of state and political subdivisions	3,758,907	(62,529)	1,537,941	(50,721)	5,296,848	(113,250)
Mortgage backed securities	6,817,742	(104,581)	-	-	6,817,742	(104,581)
Total temporarily impaired securities	$22,468,829	$ (319,015)	$ 1,537,941	$ (50,721)	$ 24,006,770	$ (369,736)
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)

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 Banker's Bank.

Note 5. Loans Receivable

The major components of loans in the consolidated statements of financial position at December 31, 2021 and 2020 are as follows:

	2021	2020
Commercial, industrial and other loans	$ 56,416,436	$ 57,750,415
Commercial real estate construction	13,442,975	24,104,426
Commercial real estate other	142,054,593	140,085,937
Total loans	211,914,004	221,940,778
Allowance for loan losses	(2,235,719)	(3,323,018)
Loans, net of allowance	$ 209,678,285	$ 218,617,760

All PPP loans are included in the commercial, industrial and other loans component of loans receivable. At December 31, 2021 and 2020, $0 and $17,173,090 in loans, respectively, were pledged to the Federal Reserve PPP Liquidity Facility as collateral for borrowings.

At December 31, 2021 and 2020, $32,013,504 and $45,926,504 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, 2021 was as follows:

	Commercial, Industrial and Other Loans	Commercial Real Estate-Construction	Commercial Real Estate-Other	Total
Allowance for loan losses:				
Beginning balance	$ 593,747	$ 1,467,013	$ 1,262,258	$ 3,323,018
Charge-offs	(23,664)	-	(65,420)	(89,084)
Recoveries	2,418	-	14,347	16,765
Provision	(34,591)	(1,372,957)	392,568	(1,014,980)
Ending balance	$ 537,910	$ 94,056	$ 1,603,753	$ 2,235,719
Ending balance:				
Individually evaluated for impairment	$ 51,411	$ -	$ 398,000	$ 449,411
Collectively evaluated for impairment	$ 486,499	$ 94,056	$ 1,205,753	$ 1,786,308
Loans Receivable:				
Ending balance	$ 56,416,436	$ 13,442,975	$ 142,054,593	$ 211,914,004
Ending balance:				
Individually evaluated for impairment	$ 262,390	$ 74,391	$ 4,106,040	$ 4,442,821
Collectively evaluated for impairment	$ 56,154,046	$ 13,368,584	$ 137,948,553	$ 207,471,183

The following table presents impaired loans by class of loans as of December 31, 2021:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial, industrial, and other loans	$ 78,185	$ 78,185	$ -	$ 78,185	$ 5,743
Commercial real estate construction	74,391	74,391	-	62,978	4,619
Commercial real estate-other	423,040	423,040	-	423,040	44,593
	575,616	575,616	-	564,203	54,955
With allowance recorded:					
Commercial, industrial, and other loans	$ 184,205	$ 184,205	$ 51,411	$ 45,441	$ 32,374
Commercial real estate-other	3,683,000	3,683,000	398,000	3,683,000	-
	3,867,205	3,867,205	449,411	3,728,441	32,374
Total					
Commercial, industrial, and other loans	262,390	262,390	51,411	123,626	38,117
Commercial real estate construction	74,391	74,391	-	62,978	4,619
Commercial real estate-other	4,106,040	4,106,040	398,000	4,106,040	44,593
	$ 4,442,821	$ 4,442,821	$ 449,411	$ 4,292,644	$ 87,329

Note 6. Allowance for Loan Losses, continued

At December 31, 2021 and 2020, the Organization had $1,896,630 and $1,121,630, 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 $6,499,370 and $3,602,654 at December 31, 2021 and 2020, 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, 2021.

	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	$ 57,062	$ -	$ 119,305	$ 176,367	$ 49,649,301	$ 49,825,668	$ 302,900
Commercial real estate construction	-	-	-	-	10,024,020	10,024,020	74,391
Commercial real estate other	-	-	4,029,489	4,029,489	148,034,827	152,064,316	4,029,490
Total	$ 57,062	$ -	$ 4,148,794	$ 4,205,856	$ 207,708,148	$ 211,914,004	$ 4,406,781

There were no loans over 90 days past due and still accruing at December 31, 2021 and 2020, respectively.

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
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

Note 6. Allowance for Loan Losses, continued

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

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

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, 2021	**Commercial Industrial and Other Loans**	**Commercial Real Estate-Construction**	**Commercial Real Estate-Other**	**Total**
Pass Credits	$ 53,478,467	$ 12,490,520	$ 130,613,475	$ 196,582,462
Watch	2,635,180	882,000	3,902,978	7,420,158
Special Mention	-	-	3,432,302	3,432,302
Substandard	302,789	70,455	4,105,838	4,479,082
Total	$ 56,416,436	$ 13,442,975	$ 142,054,593	$ 211,914,004

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

Note 6. Allowance for Loan Losses, continued

Troubled Debt Restructurings

During 2021, there was one loan restructured that through a payment extension, classified as a troubled debt restructure ("TDR"). During 2020, there were no loans restructured classified as a TDR. Information regarding loans modified in a troubled debt restructuring for the years ended December 31, 2021 and 2020, respectively, is as follows:

	December 31, 2021			December 31, 2020		
	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	$ 79,105	$ 79,105	-	$ -	$ -
Total	1	$ 79,105	$ 79,105	-	$ -	$ -

The TDR modified in 2021 is current and paying as agreed.

Note 7. Grants Receivable

Grants receivable consists of the following:

	December 31, 2021	December 31, 2020
Healthy Foods Financing Initiative Financial Assistance Award	$ 1,500,000	$ -
Robert Woods Johnson Foundation Grants	642,316	978,769
Community Development Financial Institutions Financial Assistance Award	625,000	-
Small Business Administration	173,155	192,000
Appalachian Regional Commission Area Development	149,223	-
Altria	125,000	-
Thompson Charitable Foundation	83,333	166,666
Virginia Housing Development Authority Opportunity Zone Award	75,000	393,461
City of Richmond	41,257	-
Dignity Health	10,000	55,000
Wells Fargo	-	250,000
The Kresge Foundation	-	220,000
Kansas Health Foundation Grant	-	205,986
Weingart Foundation	-	115,000
Appalachian Regional Commission Power Grants	-	70,278
Total grants receivable	3,424,284	2,647,160
Unearned grants receivable	(2,749,601)	(2,425,063)
Total grants receivable, net	$ 674,682	$ 222,097

Note 8. Premises and Equipment

Components of premises and equipment and total accumulated depreciation at December 31, 2021 and 2020 are as follows:

	2021	2020
Land	$ 401,491	$ 393,491
Buildings and improvements	1,294,571	1,247,936
Leasehold improvements	1,052,022	1,020,914
Furniture and equipment	1,454,406	1,757,850
Fixed assets in process	11,459	-
Premises and equipment, total	4,213,949	4,420,191
Less accumulated depreciation	(1,623,296)	(1,734,651)
Premises and equipment, net of depreciation	$ 2,590,653	$ 2,685,540

Depreciation and amortization expense for the years ended December 31, 2021 and 2020 was $277,384 and $333,315 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
2022	232,741	55,828	288,569
2023	238,560	57,223	295,783
2024	244,524	58,654	303,178
2025	250,637	14,753	303,178
Thereafter	409,836	257,950	933,177
Total	$ 1,376,298	$ 444,408	$ 1,820,706

Rent expense for the years ended December 31, 2021 and 2020 was $272,179 and $250,742, respectively.

Note 9. Deposits

The major components of deposits in the Consolidated Statements of Financial Position at December 31, 2021 and 2020 are as follows:

	2021	2020
Noninterest-bearing demand	$ 10,395,946	$ 4,596,532
Interest-bearing demand	88,839,247	63,321,747
Time deposits	77,648,359	89,024,840
Total deposits	$ 176,883,552	$ 156,943,119

The aggregate amount of time deposits in denomination of $250,000 or more at December 31, 2021 and 2020 was $37,701,864 and $35,219,448, respectively. At December 31, 2021, the scheduled maturities of time deposits are as follows:

2022	$ 41,189,378
2023	10,598,930
2024	25,255,670
2025	603,576
Thereafter	805
	$ 77,648,359

Note 10. Borrowings

Borrowings at December 31, 2021 and 2020, respectively, consist of the following:

Description	Rate	Maturity	2021	2020
Atlantic Union	2.44%	On Demand	-	1,000,000
Federal Reserve PPP Liquidity Facility	0.35%	Various	-	17,173,090
Local Impact Opportunity Notes (subordinated)	Various*	Various*	10,015,000	10,065,000
Northern Trust	0.25%	04/20/2022	2,000,000	2,000,000
WoodForest Bank	3.25%	07/24/2022	1,489,917	1,496,114
Federal Home Loan Bank **	2.79%	08/26/2022	1,176,471	2,352,941
Federal Home Loan Bank ***	2.22%	12/07/2022	600,000	1,200,000
Appalachian Community Capital	2.58%	12/31/2022	2,000,000	3,000,000
Wells Fargo EQ2 (subordinated)	2.00%	02/16/2023	-	500,000
Bon Secours Health Systems	1.75%	04/01/2023	2,000,000	2,000,000
Northern Trust	0.01%	06/14/2023	2,000,000	2,000,000
Branch Banking & Trust	1.90%	11/07/2023	1,000,000	1,000,000
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
HSBC	2.08%	12/31/2023	3,000,000	3,000,000
Wells Fargo EQ2 (subordinated)	2.00%	03/20/2024	-	500,000
Federal Home Loan Bank ****	2.07%	05/31/2024	1,380,952	1,952,381
Bank of America*****	3.50%	12/28/2024	500,000	2,000,000
US Bank	2.71%	12/31/2024	1,000,000	-
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
Dollar Bank	1.00%	12/30/2029	999,957	1,000,000
Wells Fargo Patient Capital (subordinated)	2.00%	06/07/2033	1,000,000	-
United States Department of Agriculture	1.00%	03/31/2044	1,847,133	1,917,413
			$ 40,570,589	$ 64,724,031

*Local Impact Opportunity Notes range in size from $25,000-$2,150,000, with rates of 1.00%-3.25%. The first of these notes matures on 01/13/2022, 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.
*****Debt facility includes a guarantee from the Holding Company and guarantee covenant, measured annually.

Performance against debt covenants is measured on either a quarterly, semi-annual or annual basis. As of December 31, 2021, management believes the Organization was in compliance with all debt covenants. The Organization was out of compliance with its guarantee covenant with one investor. A waiver was provided by the investor and the Organization expects to meet this covenant going forward.

At December 31, 2021, the scheduled maturities of borrowings are as follows:

2022	$ 7,912,816
2023	18,701,429
2024	4,668,095
2025	310,000
2026	3,170,000
Thereafter	5,808,250
	$ 40,570,589

At December 31, 2021, the Organization had unused Federal Fund lines of credit of $4,000,000, and other various unused commitments of $10,500,000 with rates ranging from 2.44-3.50%. In addition, the Organization had approximately $23,476,638 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 subsidiary, 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 recognized the entire loan amount as a liability on the balance sheet as of December 31,2020. 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.

Forgiveness of the loan was granted during 2021, at which time the VCC recognized the income as a gain on extinguishment of debt in the amount of $1,016,571, including principal repayment of $1,005,933 and interest of $10,638.

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, 2021	Total	Level 1	Level 2	Level 3
Investment securities available for sale:				
Treasury	$ 993,672	$ -	$ 993,672	$ -
U.S. Government sponsored entities	12,479,504	-	12,479,504	-
Obligations of states and political subdivisions	6,507,122	-	6,507,122	-
Collateralized mortgage obligation	905,796	-	905,796	-
Mortgage backed securities	7,703,515	-	7,703,515	-
Total assets measured at fair value	$ 28,589,608	$ -	$ 28,589,608	$ -

Note 11. Fair Value of Financial Instruments, continued

Recurring Fair Value, continued

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	$ -

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, 2021	Total	Level 1	Level 2	Level 3
Impaired loans	$ 3,993,410	$ -	$ -	$ 3,993,410
Other real estate owned	2,557,500	-	-	2,557,500
Total assets measured at fair value	$ 6,550,910	$ -	$ -	$ 6,550,910
December 31, 2020				
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

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, 2021 and 2020, respectively.

	December 31, 2021	Valuation Techniques	Unobservable Inputs	Range (Wtd Avg)
Impaired loans:				
Commercial real estate - other	$ 3,708,040	Appraisals and/or sales of comparable properties	Management discount to reflect current market conditions and type of collateral	6.00%-35.81% (14.87%)
Commercial, industrial and other loans	210,979	Appraisals and/or sales of comparable properties Bankruptcy decree	Management discount to reflect current market conditions and type of collateral	0.00%-90.00% (83.29%)
Commercial real estate - construction	74,391	Appraisals and/or sales of comparable properties	Management discount to reflect current market conditions	10.00% (10.00%)
Other real estate owned:				
Commercial real estate - other	2,557,500	Letter of intent and brokerage agreement	Condition and limited use of collateral	7.00% (7.00%)

Note 11. Fair Value of Financial Instruments, continued

Recurring Fair Value, continued

	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	Condition and limited use of collateral	0.00%

Note 12. Net Assets with Donor Restrictions

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

	2021	2020
Subject to expenditure for specified purpose:		
Community development lending	$ 7,367,597	$ 8,247,940
Industrial Revitalization Fund Redeployment Funds	1,264,470	965,744
Total net assets with donor restrictions	$ 8,632,067	$ 9,213,684

Net assets released from restrictions during the year by purpose:

	2021	2020
Community development lending	$ 3,659,382	$ 2,327,935
Program consulting and technical assistance	3,424,014	1,649,308
Total net assets with donor restrictions	$ 7,083,396	$ 3,977,243

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:

	2021	2020
Cash and cash equivalents	$ 16,486,600	$ 9,761,4080
Loans and interest receivable	37,589,434	40,471,549
Grants receivable	674,682	222,097
Short-term investments	3,998,000	4,195,004
Cash funded loan loss reserves	1,896,630	1,121,630
Financial assets available within one year	$ 60,645,346	$ 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 $38.5 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, 2021 and 2020 amounted to $137,112 and $358,570, 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, 2021 and December 31, 2020, the plan value was $226,155, and $230,531, respectively. No elective deferrals by participants, non-elective deferrals by employer or matching contributions by employer were made in 2021 or 2020. Plan expense for 2021 and 2020 was $2,356 and $2,109, 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 2021 totaled $52,125, and $71,402 for 2020. The Organization made no non-elective deferrals or matching contributions on behalf of participants in 2020 or 2021. Plan expense was $3,796 and $7,499 for 2021 and 2020, 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 2021, the Organization did not contribute to the plan and plan expenses for the year were $1,540. As of December 31, 2021, the plan balance was $136,372. 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. At December 31, 2021 and December 31, 2020, $0 and $0 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, 2021 and 2020 is as follows:

	2021	2020
Current expense	$ 699,217	$ 469,171
Deferred benefit	(94,244)	(99,423)
Income tax expense	$ 604,973	$ 369,748

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, 2021 and 2020 is as follows:

	2021	2020
Tax at statutory federal rate	$ 708,000	$ 467,687
Tax credits	(43,757)	(43,757)
Other	(59,270)	(54,182)
	$ 604,973	$ 369,748

Note 15. Income Taxes, continued

Deferred Income Tax Analysis

The significant components of net deferred tax assets at December 31, 2021 and 2020 are summarized as follows:

	2021	2020
Deferred tax assets		
Allowance for loan losses	$ 214,535	$ 322,613
Pre-opening expenses	2,998	4,892
Investments in Low Income Housing Tax Credits, net	38,686	38,686
Lease incentive obligation	37,827	40,280
Deferred Paycheck Protection Program loan fee income	5,849	35,978
Unrealized losses on securities available for sale, net	54,217	-
Investment in title company	26	26
Deferred tax asset	354,138	442,475
Deferred tax liabilities		
Deferred loan costs	(140,334)	(175,529)
Prepaid expenses	(22,296)	(30,036)
Depreciation	(83,272)	(92,225)
Unrealized gains on securities available for sale, net	-	(55,406)
Deferred tax liability	(245,902)	(353,196)
Net deferred tax asset	$ 108,236	$ 89,279

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, 2021 and 2020, 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 2018 through 2021 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, 2021 and 2020, excluding interest and fees on loans and other interest income. Items outside the scope of ASC 606 are noted as such.

	2021	2020
Grant and contribution income	$ 8,304,148	$ 7,572,943
Gain on extinguishment of debt*	1,016,571	-
Miscellaneous income	188,199	94,695
Program administration fees	6,883,552	3,908,051
Project revenues	340,802	416,702
Asset servicing income	388,071	405,262
Gain on sale of available for sale securities*	44,874	100,884
Total non-interest income	$ 17,166,217	$ 12,499,537

*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.

Note 16. Revenue from Contracts with Customer, continued

Asset servicing income: The Organization earns fees by providing loan sub-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.

Program administration fee income: The Organization earned fee income through a contract with the Commonwealth of Virginia and other local municipalities to 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, 2021 and 2020.

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, 2021 the following table provides a summary of the contractual amount of the Organization's exposure to off-balance sheet commitments (in thousands):

	2021	2020
Commitments to grant loans	$ 37,139	$ 4,659
Unfunded commitments under lines of credit	35,625	30,179
Guarantees placed to qualifying beneficiaries	16,600	7,100
Outstanding capital calls associated with tax credit investments	103	163
Unfunded guarantees	100	100
	$ 89,567	$ 42,201

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.

Commitments extended as part of CIGP's normal course of business are off-balance sheet. Outstanding commitments to qualified community development organizations were $16,600,000 and $7,100,000 as of December 31, 2021 and 2020, respectively.

The accounting for guarantees falls under ASC 460. The guarantees result in a noncontingent liability, as the Program has the obligation to stand ready to perform over the term of the agreement if a loss occurs and a contingent liability, where the Program would make future payments if the loss occurs. In addition, ASC 460-10-25-2 does not require bifurcation of the contingent and noncontingent liabilities.

A noncontingent liability is calculated based on the discounted cash flows of the projected cash flows expected to be received from the guarantee fee. The contingent liability is calculated as the total amount guaranteed times the historical loss values of each qualified beneficiary's loan portfolio and additional qualitative factors.

The foundations providing the master guarantees will pay for any and all loss events on a pro rata basis. The master guarantees provide an offsetting reserve for all liabilities that are calculated, resulting in no on-balance sheet reserves.

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, 2021 or 2020.

Deposits from related parties held by the Bank at December 31, 2021 and 2020 amounted to $24,273,201 and $11,572,471, respectively. The Organization performed loan and accounting services for related parties resulting in income of $73,380 and $236,409 as of December 31, 2021 and 2020, 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%.

Note 20. Minimum Regulatory Capital Requirements, continued

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.

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, 2021 and December 31, 2020, the Bank's CBLR was 12.91% and 11.53%, respectively.

Note 21. Emergency Capital Investment Program

On December 14, 2021, VCC Bank was awarded $36.4 million from the United States Treasury's Emergency Capital Investment Program ("ECIP"). This program was established to assist low and moderate-income community development financial institutions in their efforts to support small businesses and consumers in their communities. ECIP will be injected as capital to depository institutions that are certified Community Development Financial Institutions (CDFIs) or minority depository institutions (MDIs) for qualified lending, which can include providing loans, grants, and forbearance for small businesses, minority-owned businesses, and consumers, especially in low-income and underserved communities, that may be disproportionately impacted by the economic effects of the COVID-19 pandemic.

VCC Bank will receive ECIP funds as Senior Preferred Stock, that will be eligible for Tier 1 capital treatment. No dividends shall accrue or be due for the first 24 months following the Investment Date. Dividends will begin to accrue on the 2-year anniversary of the Investment Date, at a rate dependent upon the issuer's additional qualified lending compared to baseline and will adjust annually. Issuance and corresponding receipt of funds is expected to happen in the second quarter of 2022.

Note 22. Subsequent Events

In February 2022, the Organization entered into a contract for the sale of the property presented as other real estate owned on the Statement of Condition. The sale consummated on April 7th, 2022, resulting in a loss on sale of approximately $590,000. These financial statements were not updated for this subsequent event, as it was not known as of December 31, 2021.

These financial statements have been updated for all other subsequent events occurring through April 29, 2022 which is the date these financial statements were available to be issued.

Note 23. Parent Company Only Financial Information

Condensed financial information of VCC Social Enterprises is presented as follows:

VCC Social Enterprises
Statement of Financial Position
As of December 31, 2021

	2021
Assets	
Interest-bearing deposits	$ 2,043,484
Certificates of deposit	299,000
Investment securities available for sale	1,109,358
Accrued interest receivable	2,057
Other assets	49,025,002
Total assets	$ 52,478,901
Net Assets	
Net assets with donor restrictions	8,632,067
Net assets without donor restrictions	35,835,965
Accumulated other comprehensive loss	(222,957)
Total net assets before noncontrolling interest in subsidiary	44,245,075
Noncontrolling interest in subsidiary	8,233,826
Total net assets	52,478,901
Total liabilities and net assets	$ 52,478,901

Note 23. Parent Company Only Financial Information

VCC Social Enterprises
Statements of Activities
For the period beginning July 29, 2021 and ending December 31, 2021

	December 31, 2021		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**
Revenue and Support			
Interest income	$ 8,793	$ -	$ 8,793
Total revenue and support	8,793	-	8,793
Expenses			
Management and General			
Other expenses	600	-	600
Total management and general expenses	600	-	600
Total expenses	600	-	600
Change in net assets/net income before activity from subsidiaries	8,193	-	8,193
Transfer of net assets of bank subsidiary, net of minority interest	19,934,536	-	19,934,536
Transfer of net assets of non-bank subsidiaries	2,446,834		2,446,834
Transfer of net assets from Virginia Community Capital, Inc.	2,691,620	9,213,684	11,905,304
Change in net assets/net income before undistributed income of subsidiaries	25,081,183	9,213,684	34,294,867
Change in net assets from undistributed income of bank subsidiary, net of minority interest	2,095,273	-	2,095,273
Change in net assets from undistributed loss of non-bank subsidiaries	7,274,360	(581,617)	6,665,743
Change in net assets/net income	34,423,816	-	43,055,883
Change in accumulated other comprehensive loss	(222,957)	-	(222,957)
Capital upstream from non-bank subsidiary	1,642,110		1,642,110
Dividends paid on subsidiary's preferred stock	(24,000)	-	(24,000)
Dividends paid to minority shareholders on subsidiary's common stock class A	(1,484)	-	(1,484)
Dividends paid to minority shareholders on subsidiary's common stock class B	(204,477)	-	(204,477)
Change in net assets/net income attributable to VCC Social Enterprises	35,613,008	8,632,067	44,245,075
Net assets beginning of year	-	-	-
Net assets end of year	$ 35,613,008	$ 8,632,067	$ 44,245,075

Note 23. Parent Company Only Financial Information

VCC Social Enterprises
Statements of Cash Flows
For the period ended December 31, 2021

	2021
Cash flows from operating activities	
Change in net assets	$ 8,769,209
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Net amortization of discount/premium on investment securities	4,644
Increase in noncontrolling interest in subsidiary	677,076
Changes in assets and liabilities:	
Accrued interest receivable	(2,057)
Investment in subsidiary	(9,373,852)
Net cash provided by operating activities	75,020
Cash flows from investing activities	
Purchases of securities available for sale	(931,231)
Transfer of investments from subsidiary	(431,765)
Proceeds from maturities of securities available for sale	225,000
Proceeds from investment paydowns	4,997
Transfer of certificates of deposit from subsidiary	(749,000)
Purchases of certificates of deposit	(50,000)
Proceeds from maturities of certificates of deposit	500,000
Net cash used in investing activities	(1,431,999)
Cash flows from financing activities	
Dividends paid on subsidiary's preferred stock	(24,000)
Dividends paid on subsidiary's common stock class A	(1,484)
Dividends paid on subsidiary's common stock class B	(204,477)
Transfer of equity from subsidiaries	34,286,674
Capital upstream from subsidiaries	1,642,110
Redemption of subsidiaries preferred shares	(1,050,000)
Redemption of subsidiaries common stock class A share	(5,000)
Proceeds from the sale of common stock of the subsidiary	3,043,314
Net cash provided by financing activities	3,400,463
Net increase in cash and cash equivalents	2,043,484
Cash and cash equivalents, beginning	-
Cash and cash equivalents, ending	$ 2,043,484
Supplemental disclosure of cash flow information	
Interest paid	$ -
Supplemental disclosure of noncash investing and financing activities	
Transfer of equity investments in subsidiaries	$ 34,286,674

Note 23. Subsidiary Financial Information

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

Virginia Community Capital, Inc.
Statements of Financial Position
December 31, 2021 and 2020

	2021	2020
Assets		
Cash and due from banks	$ 1,901,976	$ 1,971,878
Interest-bearing deposits	2,070,196	2,438,448
Certificates of deposit	-	749,000
Investment securities available for sale	-	428,328
Cash funded loan loss reserves	1,896,630	1,121,630
Loans, net of allowance for loan losses of $776,839 and $1,284,172 at December 31, 2021 and 2020, respectively	45,903,643	47,556,152
Grants receivable	563,334	49,412
Accrued interest receivable	122,679	161,322
Premises and equipment	539,867	599,928
Investment in subsidiaries	-	28,158,238
Other real estate owned	2,557,500	2,850,000
Other assets	865,870	275,690
Total assets	$ 56,421,695	$ 86,360,026
Liabilities		
Secured borrowings	$ 1,847,134	$ 1,917,413
Unsecured borrowings	30,566,032	35,128,206
Deferred revenue	7,844,376	6,447,438
Accrued interest payable	123,681	167,304
Other liabilities	629,136	629,991
Total liabilities	41,010,359	44,290,352
Net Assets		
Net assets with donor restrictions	8,632,067	9,213,684
Net assets without donor restrictions	6,482,764	26,740,645
Accumulated other comprehensive income	-	205,409
Total net assets before noncontrolling interest in subsidiary	15,114,831	36,159,738
Noncontrolling interest in subsidiary	296,505	5,909,936
Total net assets	15,411,336	42,069,674
Total liabilities and net assets	$ 56,421,695	$ 86,360,026

Note 23. Subsidiary Financial Information, continued

Virginia Community Capital, Inc.
Statements of Activities
For the year ended December 31, 2021

	December 31, 2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support			
Grant and contribution income	$ 1,008,983	$ 5,142,705	$ 6,151,688
Interest and fees on loans	1,945,996	-	1,945,996
Gain on extinguishment of debt	1,016,571	-	1,016,571
Interest income	14,232	-	14,232
Miscellaneous income	395,122	-	395,122
Net assets released from restrictions	5,724,322	(5,724,322)	-
Total revenue and support	10,105,226	(581,617)	9,523,609
Expenses			
Program Services			
Salaries and wages	1,830,435	-	1,830,435
Payroll taxes	122,321	-	122,321
Employee benefits	219,784	-	219,784
Program services	278,991	-	278,991
Office expense	119,727	-	119,727
Professional fees	363,401	-	363,401
Depreciation expense	100,828	-	100,828
Interest expense	644,399	-	644,399
Recovery of loan losses	(448,896)	-	(448,896)
Charitable contributions	1,581,408	-	1,581,408
Other expenses	171,500	-	171,500
Total program services expenses	4,983,898	-	4,983,898
Management and General			
Salaries and wages	610,145	-	610,145
Payroll taxes	40,774	-	40,774
Employee benefits	73,261	-	73,261
Office and administrative expenses	39,909	-	39,909
Professional fees	121,134	-	121,134
Depreciation expense	33,610	-	33,610
Other expenses	57,167	-	57,167
Total management and general expenses	976,000	-	976,000
Total expenses	5,959,898	-	5,959,898
Change in net assets/net income before undistributed income of subsidiaries	4,145,328	(581,617)	3,563,711
Change in net assets from undistributed loss of non-bank subsidiaries	(357,430)	-	(357,430)
Change in net assets/net income	3,787,898	(581,617)	3,206,281
Transfer of investments to holding company	(1,405,320)	-	(1,405,320)
Transfer of undistributed income from bank subsidiary to holding company	(20,604,443)	-	(20,604,443)
Transfer of undistributed income from non-bank subsidiaries to holding company	(2,446,834)	-	(2,446,834)
Change in net assets/net income	(20,668,699)	(581,617)	(21,250,316)
Change in accumulated other comprehensive income	205,409	-	205,409
Change in net assets/net income attributable to Virginia Community Capital, Inc.	(20,463,290)	(581,617)	(21,044,907)
Net assets beginning of year	26,946,054	9,213,684	36,159,738
Net assets end of year	$ 6,482,764	$ 8,632,067	$ 15,114,831

Note 23. Subsidiary Financial Information, continued

Virginia Community Capital, Inc
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 23. Subsidiary Financial Information, continued

Virginia Community Capital, Inc
Statements of Cash Flows
For the years ended December 31, 2021 and 2020

	2021	2020
Cash flows from operating activities		
Change in net assets	$ 3,206,280	$ 4,156,068
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	134,438	169,996
(Recovery of) provision for loan losses	(448,896)	354,377
Loss on write down/sale of other real estate owned	310,892	1,515,000
Net accretion of discount/premium on investment securities	-	297
(Decrease) increase in noncontrolling interest in subsidiary	(44,995)	675,451
Loss (gain) on disposal/sale of fixed assets	(12,892)	(19,844)
Changes in assets and liabilities:		
Accrued interest receivable	38,643	(40,568)
Cash funded loan loss reserves	(775,000)	270,000
Grants receivable	(513,922)	577,425
Other assets	(590,180)	(29,948)
Investment in subsidiaries	-	(3,571,679)
Accrued interest payable	(33,045)	53,544
Deferred revenue	1,396,938	2,837,931
Other liabilities	(855)	91,293
Net cash provided by operating activities	2,667,407	7,039,343
Cash flows from investing activities		
Proceeds from sale of other real estate owned	446,008	-
Transfer of securities available for sale	428,328	-
Transfer of certificates of deposit	749,000	-
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 decrease (increase) in loans	1,637,005	(6,264,304)
Proceeds from sale of fixed assets	-	42,851
Purchases of premises and equipment	(61,485)	(95,536)
Net cash provided by (used in) investing activities	3,198,856	(6,122,289)
Cash flows from financing activities		
Dividends paid on subsidiary's preferred stock	-	(40,000)
Dividends paid on subsidiary's common stock class A	-	(1,190)
Dividends paid on subsidiary's common stock class B	-	(115,759)
Net decrease in borrowings	(3,626,460)	(2,773,622)
Gain on extinguishment of debt	(1,016,571)	-
Transfer of equity to holding company	(1,661,386)	-
Proceeds from the sale of common stock of the subsidiary	-	51,520
Net cash used in financing activities	(6,304,417)	(2,879,051)
Net (decrease) in cash and cash equivalents	(438,154)	(1,961,997)
Cash and cash equivalents, beginning	4,410,326	6,372,323
Cash and cash equivalents, ending	$ 3,972,172	$ 4,410,326
Supplemental disclosure of cash flow information		
Interest paid	$ 688,022	$ 777,626
Supplemental disclosure of noncash investing and financing activities		
Transfer to other real estate owned	$ 464,000	$ 4,350,000
Transfer of equity investments in subsidiaries to holding company	$ 22,381,370	$ -

Note 23. Subsidiary Financial Information

Financial information of VCC Bank as of, and for the years ended December 31, 2021 and 2020 are as follows:

VCC Bank
Balance Sheets
December 31, 2021 and 2020

	2021	2020
Assets		
Cash and due from banks	$ 2,443,364	$ 492,519
Interest-bearing deposits	15,500,725	9,231,431
Federal funds sold	228,000	222,000
Certificates of deposit	5,801,488	9,004,935
Investment securities available for sale	27,480,250	16,191,083
Investment securities held to maturity	4,901,352	5,386,284
Restricted equity securities	1,128,350	1,307,450
Loans, net of allowance for loan losses of $1,458,880 and $2,038,846 at December 31, 2021 and 2020, respectively	163,774,642	171,061,608
Accrued interest receivable	531,471	873,928
Premises and equipment	2,027,267	2,069,483
Bank owned life insurance	3,798,333	3,723,912
Other assets	1,152,385	937,132
Total assets	$ 228,767,627	$ 220,501,764
Liabilities		
Noninterest-bearing deposits	$ 16,648,254	$ 9,687,433
Interest-bearing deposits	173,003,592	156,351,525
Total deposits	189,651,846	166,038,958
Secured borrowings	8,157,423	27,678,412
Accrued interest payable	68,890	157,206
Other liabilities	1,467,938	915,784
Total liabilities	199,346,097	194,790,360
Shareholders' equity		
Preferred stock, 1,000 shares authorized; Series A, perpetual, no par value, $50,000 liquidation value, 4% nonconvertible, noncumulative: zero and 21 shares issued and outstanding at December 31, 2021 and 2020, respectively	-	1,050,000
Common stock; Class A, $2,500 par value, 4,000 shares authorized; 2,736 shares issued and outstanding for December 31, 2021 and 2020, respectively	6,839,725	6,839,725
Common stock; Class B, $2,500 par value, 3,500 shares authorized; 1,033 and 619 shares issued and outstanding at December 31, 2021 and 2020, respectively	2,582,500	1,547,500
Additional paid in capital	10,979,327	8,971,012
Retained earnings	9,223,938	7,094,735
Accumulated other comprehensive income (loss)	(203,960)	208,432
Total shareholders' equity	29,421,530	25,711,404
Total liabilities and shareholders' equity	$ 228,767,627	$ 220,501,764

Note 23. Subsidiary Financial Information, continued

VCC Bank
Statements of Operations
For the years ended December 31, 2021 and 2020

	2021	2020
Interest and dividend income		
Loans and fees on loans	$ 8,033,708	$ 9,210,553
Federal funds sold	330	688
Investment securities-taxable	257,105	330,518
Investment securities-nontaxable	250,968	286,178
Deposits with other banks	198,472	379,959
Total interest and dividend income	8,740,583	10,207,896
Interest expense		
Deposits	1,335,483	2,628,232
Federal funds purchased	113	268
Secured borrowings	286,296	518,459
Subordinated debt	-	28,333
Total interest expense	1,621,892	3,175,292
Net interest income	7,118,691	7,032,604
(Recovery of) provision for loan losses	(566,084)	1,031,046
Net interest income after provision for loan losses	7,684,775	6,001,558
Noninterest income		
Gain on sale of investments	44,874	100,884
Income on bank owned life insurance	74,421	66,726
Other noninterest income	281,244	388,694
Total noninterest income	400,539	556,304
Noninterest expense		
Salaries and employee benefits	3,080,391	2,781,556
Occupancy and equipment	313,560	297,543
Data processing	206,177	172,050
Advertising and marketing	7,797	10,826
Audit	29,250	24,967
Legal	15,979	8,030
Consulting	242,571	176,605
FDIC insurance	99,270	228,581
Franchise tax expense	292,471	243,281
Other expenses	426,421	387,344
Total noninterest expense	4,713,887	4,330,783
Net income before income tax expense	3,371,428	2,227,079
Income tax expense	(604,973)	(369,748)
Net income	2,766,455	1,857,331
Basic income per common share	$ 618.95	$ 425.97
Weighted average common shares outstanding	3,440	3,353

Note 23. Subsidiary Financial Information, continued

VCC Bank
Statements of Comprehensive Income
For the years ended December 31, 2021 and 2020

	2021	2020
Net income	$ 2,766,455	$ 1,857,331
Other comprehensive income:		
Unrealized (losses) gains on available for sale securities, net	(477,142)	238,406
Tax benefit (expense) from unrealized gains on available for sale securities	100,200	(50,065)
Realized gain on sale of available for sale securities	(44,874)	(100,884)
Tax expense from realized gains on sale of available for sale securities	9,424	21,186
Other comprehensive (loss) gain	(412,392)	108,643
Comprehensive income	$ 2,354,063	$ 1,965,974

Note 23. Subsidiary Financial Information, continued

VCC Bank
Statements of Changes in Shareholders' Equity
For the years ended December 31, 2021 and 2020

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, 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	$ 7,094,735	$ 208,432	$ 25,711,404
Issuance of common stock B	-	-	-	414	1,035,000	2,008,315	-	-	3,043,315
Redemption of preferred stock	(1,050,000)	-	-	-	-	-	-	-	(1,050,000)
Dividends paid on preferred stock	-	-	-	-	-	-	(25,200)	-	(25,200)
Dividends paid on common stock class A	-	-	-	-	-	-	(405,979)	-	(405,979)
Dividends paid on common stock class B	-	-	-	-	-	-	(206,073)	-	(206,073)
Net income	-	-	-	-	-	-	2,766,455	-	2,766,455
Comprehensive loss	-	-	-	-	-	-	-	(412,392)	(412,392)
Balance, December 31 2021	$ -	2,736	$ 6,839,725	1,033	$2,582,500	$10,979,327	$ 9,223,938	$ (203,960)	$ 29,421,530

Note 23. Subsidiary Financial Information, continued

VCC Bank
Statements of Cash Flows
For the years ended December 31, 2021 and 2020

	2021	2020
Cash flows from operating activities		
Net income	$ 2,766,455	$ 1,857,331
Adjustments to reconcile net income to		
net cash provided by operations:		
Depreciation and amortization	133,192	149,766
Provision for loan losses	(566,084)	1,031,046
Net amortization of premiums on investment securities	150,777	128,488
Increase in cash surrender value of bank owned life insurance	(74,421)	(66,726)
Net gain on sale of securities available for sale	(44,874)	(100,884)
Gain on sale of fixed assets	20,295	(17,140)
Changes in assets and liabilities:		
Accrued interest receivable	342,457	(166,960)
Deferred income tax	(18,957)	99,422
Other assets	(86,672)	47,997
Accrued interest payable	(88,317)	(48,052)
Grants receivable	-	104,646
Other liabilities	552,154	(219,031)
Net cash provided by operating activities	3,086,005	2,799,903
Cash flows from investing activities		
Net decrease in certificates of deposit	3,203,447	8,244,000
Purchases of securities available for sale	(18,887,042)	(10,162,610)
Proceeds from sales of securities available for sale	2,702,002	4,281,916
Proceeds from investment maturities and calls	640,000	-
Proceeds from investment paydowns	4,112,887	5,245,984
Redemption of restricted equity securities	179,100	562,050
Net decrease (increase) in loans	7,853,050	(12,992,533)
Proceeds from sale of fixed assets	-	39,529
Purchases of bank owned life insurance	-	(973,449)
Purchases of premises and equipment	(111,271)	(116,592)
Net cash used in investing activities	(307,828)	(5,871,705)
Cash flows from financing activities		
Net increase (decrease) in deposits	23,612,888	(3,807,831)
Decrease in unsecured borrowings	-	(1,000,000)
(Decrease) increase in secured borrowings	(19,520,989)	1,760,191
Proceeds from sale of common stock class B	3,043,315	51,519
Payments from redemption of preferred stock	(1,050,000)	-
Dividends paid on common stock class A	(405,979)	(271,290)
Dividends paid on common stock class B	(206,073)	(115,760)
Dividends paid on preferred stock	(25,200)	(42,000)
Net cash provided by (used in) financing activities	5,447,962	(3,425,171)
Net increase (decrease) in cash and cash equivalents	8,226,139	(6,496,973)
Cash and cash equivalents, beginning	9,945,950	16,442,923
Cash and cash equivalents, ending	18,172,089	9,945,950
Supplemental disclosure of cash flow information		
Interest paid	$ 1,710,206	$ 3,223,345
Taxes paid	$ 485,000	$ 319,673

Note 23. Subsidiary Financial Information, continued

Financial information of LOCUS Capital Inc. as of and for the years ended December 31, 2021 and 2020 are as follows:

LOCUS Capital, Inc.
Balance Sheets
December 31, 2021 and 2020

	2021	2020
Assets		
Cash and due from banks	$ 17,563	$ 214,808
Premises and equipment	6,564	5,287
Grants Receivable	34,091	-
Other assets	155,622	45,911
Total assets	$ 213,840	$ 266,066
Liabilities		
Deferred revenue	$ 2,205	$ 915
Other liabilities	129,623	105,236
Total liabilities	131,828	106,151
Shareholders' equity		
Common stock, no par value, 5,000 shares authorized; 1 share issued and outstanding for December 31, 2021 and 2020	-	-
Contributed capital	1,754,210	1,504,210
Accumulated deficit	(1,672,198)	(1,344,355)
Total shareholders' equity	82,012	159,855
Total liabilities and shareholders' equity	$ 213,840	$ 266,006

LOCUS Capital, Inc.
Statement of Operations
For the years ended December 31, 2021 and 2020

	2021	2020
Revenues		
Grant and contribution income	$ 151,676	$ 197,835
Asset servicing income	311,154	314,651
Fund management fee income	250,000	-
Fee income	444,563	-
Project revenues	61,038	46,800
Total revenues	1,218,431	559,286
Expenses		
Salaries and employee benefits	799,907	796,872
Occupancy and equipment	26,619	26,101
Data processing	28,610	16,365
Advertising and marketing	1,811	3,052
Audit	27,860	26,501
Legal	14,668	3,521
Consulting	608,166	29,459
Other expenses	38,633	41,643
Total expense	1,546,274	953,514
Net loss before income tax expense	(327,843)	(394,228)
Income tax expense	-	-
Net loss	$ (327,843)	$ (394,228)

Note 23. Subsidiary Financial Information, continued

LOCUS Capital, Inc.
Statements of Cash Flows
For the years ended December 31, 2021 and 2020

	2021	2020
Cash flows from operating activities		
Net loss	$ (327,843)	$ (394,228)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	3,357	4,128
Loss on sale of fixed assets	332	-
Changes in assets and liabilities:		
Deferred revenue	1,290	915
Other assets	(109,711)	(18,414)
Grants receivable	(34,091)	-
Other liabilities	24,387	30,232
Net cash used in operating activities	(442,279)	(377,367)
Cash flows from investing activities		
Purchases of premises and equipment	(4,966)	-
Net cash used in investing activities	(4,966)	-
Cash flows from financing activities		
Capital from parent company for operations	250,000	550,000
Net cash provided by financing activities	250,000	550,000
Net increase (decrease) in cash and cash equivalents	(197,245)	172,633
Cash and cash equivalents, beginning	214,808	42,175
Cash and cash equivalents, ending	$ 17,563	$ 214,808

Note 23. Subsidiary Financial Information, continued

Financial information of LOCUS Foundation as of and for the years ended December 31, 2021 and 2020 are as follows:

LOCUS Foundation
Statements of Financial Position
December 31, 2021 and 2020

	2021	2020
Assets		
Premises and equipment	$ -	2,868
Total assets	$ -	$ 2,868
Liabilities		
Accounts payable	$ -	$ 173,983
Other liabilities	-	2,100
Total liabilities	-	176,083
Net Assets		
Net assets without donor restrictions	-	(173,215)
Total net assets	-	(173,215)
Total liabilities and net assets	$ -	$ 2,868

LOCUS Foundation
Statements of Activities
For the years ended December 31, 2021 and 2020

	2021	2020
Changes in Net Assets Without Donor Restrictions		
Total Revenues	$ -	$ -
Management and General Expenses		
Professional fees	1,225	2,100
Depreciation expense	441	1,369
Other expenses	25	25
Total management and general expenses	1,691	3,494
Change in net assets before capital contribution	(1,691)	(3,494)
Capital contribution from related party	174,906	-
Change in net assets without donor restrictions	173,215	(3,494)
Net assets beginning of year	(173,215)	(169,721)
Net assets end of year	$ -	$ (173,215)

Note 23. Subsidiary Financial Information, continued

LOCUS Foundation
Statements of Cash Flows
For the years ended December 31, 2021 and 2020

	2021	2020
Cash flows from operating activities		
Change in net assets	$ (1,691)	$ (3,494)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	441	1,369
Loss on sale of fixed assets	2,427	-
Changes in assets and liabilities:		
Accounts payable	-	1,296
Other assets	-	-
Other liabilities	(176,083)	125
Net cash used in operating activities	(174,906)	(704)
Cash flows from investing activities		
Capital from related entity for operations	174,906	-
Net cash provided by investing activities	174,906	-
Net decrease in cash and cash equivalents	-	(704)
Cash and cash equivalents, beginning	-	704
Cash and cash equivalents, ending	$ -	$ -

Note 23. Subsidiary Financial Information, continued

Financial information of LOCUS Impact Investing, Consolidated as of, and for the years ended December 31, 2021 and 2020:

LOCUS Impact Investing, Consolidated
Statement of Financial Position
December 31, 2021 and 2020

	2021	2020
Assets		
Cash and due from banks	$ 2,437,026	$ 2,210,232
Interest-bearing deposits	2,612,561	2,075,931
Accounts receivable	1,870,645	243,684
Premises and equipment	16,956	7,975
Grants receivable	77,257	172,685
Other assets	8,980	8,979
Total assets	$ 7,023,425	$ 4,719,486
Liabilities		
Deferred revenue	$ 2,019,302	$ 1,957,567
Accrued expenses	220,523	106,179
Other liabilities	351,426	195,546
Total liabilities	2,591,251	2,259,292
Net Assets		
Net assets without donor restrictions	4,432,174	2,460,194
Total net assets	4,432,174	2,460,194
Total liabilities and net assets	$ 7,023,425	$ 4,719,486

Note 23. Subsidiary Financial Information, continued

LOCUS Impact Investing, Consolidated
Statement of Activities
For the year ended December 31, 2021

	December 31, 2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support			
Grant and contribution income	$ 793,387	$ 1,207,398	$ 2,000,785
Program administration fee income	6,883,552	-	6,883,552
Project revenues	279,764	-	279,764
Interest income	7,548	-	7,548
Miscellaneous income	168,106	-	168,106
Net assets released from restrictions	1,207,398	(1,207,398)	-
Total revenue and support	9,339,755	-	9,339,755
Expenses			
Program Services			
Salaries and wages	1,111,520	-	1,111,520
Payroll taxes	73,205	-	73,205
Employee benefits	129,881	-	129,881
Program services	3,327,981	-	3,327,981
Office expense	45,848	-	45,848
Professional fees	145,688	-	145,688
Depreciation expense	5,068	-	5,068
Charitable contributions	217,500	-	217,500
Other expenses	232,696	-	232,696
Total program services expenses	5,289,387	-	5,289,387
Management and General			
Salaries and wages	165,063	-	165,063
Payroll taxes	10,938	-	10,938
Employee benefits	19,423	-	19,423
Office and administrative expenses	6,872	-	6,872
Professional fees	20,930	-	20,930
Depreciation expense	888		888
Other expenses	37,258	-	37,258
Total management and general expenses	261,372	-	261,372
Total expenses	5,550,759	-	5,550,759
Change in net assets before transfers of capital	3,788,996	-	3,788,996
Capital upstream to holding company for earnings	(1,642,110)		(1,642,110)
Capital paid to related entity for operations	(174,906)	-	(174,906)
Change in net assets/net income	1,971,980	-	1,971,980
Net assets beginning of year	2,460,194	-	2,460,194
Net assets end of year	$ 4,432,174	$ -	$ 4,432,174

Note 23. Subsidiary Financial Information, continued

LOCUS Impact Investing, Consolidated
Statement 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 23. Subsidiary Financial Information, continued

LOCUS Impact Investing, Consolidated
Statements of Cash Flows
For the years ended December 31, 2021 and 2020

	2021	2020
Cash flows from operating activities		
Change in net assets	$ 3,788,996	$ 1,939,700
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	5,956	8,056
Loss on sale of fixed assets	5,595	-
Capital upstream to parent company for earnings	(1,642,110)	-
Capital paid to related entity for operations	(174,906)	-
Changes in assets and liabilities:		
Deferred revenue	61,735	1,038,911
Other assets	(1,626,962)	(216,293)
Grants receivable	95,428	195,418
Other liabilities	270,224	220,194
Net cash provided by operating activities	783,956	3,185,986
Cash flows from investing activities		
Purchases of premises and equipment	(20,532)	(2,009)
Net cash used in investing activities	(20,532)	(2,009)
Net increase in cash and cash equivalents	763,424	3,183,977
Cash and cash equivalents, beginning	4,286,163	1,102,186
Cash and cash equivalents, ending	$ 5,049,587	$ 4,286,163