Virginia Community Capital, Incorporated

Annual Report

December 31, 2016 and 2015

Table of Contents

elliott davis decosimo

Independent Auditor's Report

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Virginia Community Capital, Inc. and its subsidiaries (the "Organization"), which comprise the consolidated statements of financial position as of December 31, 2016 and 2015, the related consolidated statements of activities, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Virginia Community Capital, Inc. and its subsidiaries as of December 31, 2016 and 2015, and the results of its activities and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Elliott Davis Decosimo, PLLC

Raleigh, North Carolina
March 27, 2017

Consolidated Statements of Financial Position

As of December 31, 2016 and 2015

	2016	2015
Assets		
Cash and due from banks	$ 451,676	$ 274,577
Interest-bearing deposits	7,603,156	16,088,137
Federal funds sold	80,000	16,000
Certificates of deposit	12,936,775	15,246,957
Investment securities available for sale	10,426,761	2,486,183
Investment securities held to maturity	3,989,059	2,401,460
Restricted equity securities	602,300	627,900
Cash funded loan loss reserves	647,250	333,019
Loans, net of allowance for loan losses of $2,321,461 and $1,730,763 at December 31, 2016 and 2015, respectively	127,741,522	107,428,412
Grants receivable	634,421	815,591
Accrued interest receivable	641,953	515,229
Premises and equipment, net	2,152,720	2,189,620
Other real estate owned	221,760	478,289
Other assets	1,923,920	306,279
Total assets	$ 170,053,273	$ 149,207,653
Liabilities		
Noninterest-bearing deposits	$ 6,363,332	$ 3,353,830
Interest-bearing deposits	105,527,875	86,369,323
Total deposits	111,891,207	89,723,153
Borrowings	26,902,393	32,291,818
Deferred revenue	2,460,042	1,249,620
Accrued interest payable	152,526	101,139
Other liabilities	650,287	426,653
Total liabilities	142,056,455	123,792,383
Commitments and contingencies		
Net Assets		
Temporarily restricted	541,592	594,611
Permanently restricted	1,991,575	1,032,200
Unrestricted	22,491,770	22,521,712
Accumulated other comprehensive income (loss)	(285,733)	11,305
Total consolidated net assets before noncontrolling interest in subsidiary	24,739,204	24,159,828
Noncontrolling interest in subsidiary	3,257,614	1,255,442
Total net assets	27,996,818	25,415,270
Total liabilities and net assets	$ 170,053,273	$ 149,207,653

See Notes to Consolidated Financial Statements

Consolidated Statements of Activities

For the year ended December 31, 2016

	December 31, 2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and Support				
Grants and contract income	$ 1,710,366	$ 1,300,000	$ 959,375	$ 3,969,741
Interest and fees on loans	5,888,170	-	-	5,888,170
Other interest income	457,013	-	-	457,013
Miscellaneous income	559,477	-	-	559,477
Net assets released from restrictions	1,353,019	(1,353,019)	-	-
Total revenue and support	9,968,045	(53,019)	959,375	10,874,401
Expenses				
Program Services				
Salaries and wages	1,808,555	-	-	1,808,555
Payroll taxes	153,733	-	-	153,733
Employee benefits	287,086	-	-	287,086
Program services	585,657	-	-	585,657
Office expense	190,931	-	-	190,931
Professional fees	361,770	-	-	361,770
Depreciation expense	153,117	-	-	153,117
Interest expense	1,603,245	-	-	1,603,245
Provision for loan losses	1,846,029	-	-	1,846,029
Other expenses	430,063	-	-	430,063
Total program services expenses	7,420,186	-	-	7,420,186
Management and General				
Salaries and wages	1,194,692	-	-	1,194,692
Payroll taxes	101,552	-	-	101,552
Employee benefits	189,643	-	-	189,643
Office and administrative expenses	126,125	-	-	126,125
Professional fees	238,977	-	-	238,977
Depreciation expense	101,145	-	-	101,145
Other expenses	284,090	-	-	284,090
Total management and general expenses	2,236,224	-	-	2,236,224
Total expenses	9,656,410	-	-	9,656,410
Change in net assets/net income before provision for income taxes	311,635	(53,019)	959,375	1,217,991
Provision for income tax expense	214,910	-	-	214,910
Change in net assets/net income	96,725	(53,019)	959,375	1,003,081
Change in accumulated other comprehensive loss, net of tax	(297,038)	-	-	(297,038)
Change in net assets/net income and accumulated other comprehensive loss	(200,313)	(53,019)	959,375	706,043
Dividends paid on subsidiary’s preferred stock	(126,667)	-	-	(126,667)
Change in net assets/net income before noncontrolling interest in subsidiary	(326,980)	(53,019)	959,375	579,376
Net assets before noncontrolling interest in subsidiary beginning of year	22,533,017	594,611	1,032,200	24,159,828
Net assets before noncontrolling interest in subsidiary end of year	$ 22,206,037	$ 541,592	$ 1,991,575	$ 24,739,204

See Notes to Consolidated Financial Statements

Consolidated Statements of Activities

For the year ended December 31, 2015

	December 31, 2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and Support				
Grants and contract income	$ 2,492,297	$ 128,841	$ -	$ 2,621,138
Interest and fees on loans	5,232,640	-	-	5,232,640
Other interest income	275,193	-	-	275,193
Miscellaneous income	147,841	-	-	147,841
Net assets released from restrictions	244,230	(244,230)	-	-
Total revenue and support	8,392,201	(115,389)	-	8,276,812
Expenses				
Program Services				
Salaries and wages	1,512,664	-	-	1,512,664
Payroll taxes	138,529	-	-	138,529
Employee benefits	232,177	-	-	232,177
Program services	418,884	-	-	418,884
Office expense	194,768	-	-	194,768
Professional fees	310,670	-	-	310,670
Depreciation expense	106,685	-	-	106,685
Interest expense	1,458,634	-	-	1,458,634
Provision for loan losses	710,680	-	-	710,680
Other expenses	382,029	-	-	382,029
Total program services expenses	5,465,720	-	-	5,465,720
Management and General				
Salaries and wages	999,232	-	-	999,232
Payroll taxes	91,510	-	-	91,510
Employee benefits	153,371	-	-	153,371
Office and administrative expenses	128,660	-	-	128,660
Professional fees	205,222	-	-	205,222
Depreciation expense	70,473	-	-	70,473
Other expenses	252,360	-	-	252,360
Total management and general expenses	1,900,828	-	-	1,900,828
Total expenses	7,366,548	-	-	7,366,548
Change in net assets/net income before provision for income taxes	1,025,653	(115,389)	-	910,264
Provision for income tax expense	78,419	-	-	78,419
Change in net assets/net income	947,234	(115,389)	-	831,845
Change in accumulated other comprehensive loss, net of tax	(8,292)	-	-	(8,292)
Change in net assets/net income and accumulated other comprehensive income	938,942	(115,389)	-	823,553
Dividends paid on subsidiary's preferred stock	(48,000)	-	-	(48,000)
Change in net assets/net income before noncontrolling interest in subsidiary	890,942	(115,389)	-	775,553
Net assets before noncontrolling interest in subsidiary beginning of year	21,642,075	710,000	1,032,200	23,384,275
Net assets before noncontrolling interest in subsidiary end of year	$ 22,533,017	$ 594,611	$ 1,032,200	$ 24,159,828

See Notes to Consolidated Financial Statements

Consolidated Statements of Cash Flows

For the years ended December 31, 2016 and 2015

	2016	2015
Cash flows from operating activities		
Change in net assets	$ 1,003,081	$ 831,845
Adjustments to reconcile change in net assets to net cash provided by operations:		
Depreciation and amortization	254,262	177,158
Provision for loan losses	1,846,029	710,680
Loss on sale of other real estate owned	40,522	8,444
Impairment write-downs on other real estate owned	-	9,968
Net accretion on securities	(177,909)	(24,277)
Changes in assets and liabilities:		
Accrued interest receivable	(126,724)	(44,134)
Grants receivable	181,170	38,559
Other assets	(1,617,641)	(97,089)
Noncontrolling interest in subsidiary	2,172	(3,675)
Accrued interest payable	51,386	(18,708)
Deferred revenue	1,210,422	(26,885)
Other liabilities	223,636	(81,843)
Net cash provided by operating activities	2,890,406	1,480,043
Cash flows from investing activities		
Net decrease in certificates of deposit	2,310,182	26,065
Purchases of securities available for sale	(8,662,614)	(1,831,252)
Purchases of securities held to maturity	(1,795,000)	(2,134,000)
Proceeds from maturities of securities available for sale	-	350,000
Proceeds from maturities of securities held to maturity	-	500,000
Proceeds from investment paydowns	810,307	27,882
(Redemption) purchase of restricted equity securities	25,600	(194,500)
Proceeds from sale of other real estate owned	216,007	331,312
Net increase in loans	(22,159,139)	(14,535,666)
Decrease (increase) in cash funded loan loss reserve	(314,231)	116,981
Net purchases of premises and equipment	(217,362)	(1,217,026)
Net cash used in investing activities	(29,786,250)	(18,560,204)
Cash flows from financing activities		
Net increase in deposits	22,168,054	23,130,942
Net (decrease) increase in borrowings	(1,389,425)	930,620
Net (decrease) increase in FHLB borrowings	(4,000,000)	4,000,000
Dividends paid on subsidiary preferred stock	(126,667)	(48,000)
Proceeds from the sale of preferred stock of the subsidiary	2,000,000	-
Net cash provided by financing activities	18,651,962	28,013,562
Net (decrease) increase in cash and cash equivalents	(8,243,882)	10,933,401
Cash and cash equivalents, beginning	16,378,714	5,445,313
Cash and cash equivalents, ending	$ 8,134,832	$ 16,378,714
Supplemental disclosure of cash flow information		
Interest paid	$ 1,597,926	$ 1,477,341
Income taxes paid	$ 263,891	$ 321,003
Supplemental disclosure of noncash investing and financing activities		
Transfer of foreclosed properties	$ -	$ 135,360

See Notes to Consolidated Financial Statements

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

Nature of Business

Virginia Community Capital Inc., (the Organization) is a non-profit, non-stock entity dedicated to revitalizing communities, facilitating the creation of jobs, and increasing the amount of affordable housing throughout Virginia. Its mission is to create an innovative financing system that offers financial products designed to increase economic diversity, development and sustainability in economically depressed communities.

The Organization formed a subsidiary for-profit community development bank, Community Capital Bank of Virginia (the Bank). The Organization funded the subsidiary with a purchase of its common stock in the amount of $7,000,000 on December 31, 2007. The Bank received regulatory approval and opened for business on August 20, 2008. As a state chartered, Federal Reserve member bank, the Bank is subject to regulation by the 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.

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

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

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

Critical Accounting Policies

Management believes the policies with respect to the methodology for the determination of the allowance for loan losses and asset impairment judgments involve a high degree of complexity. Management must make difficult and subjective judgments which require assumptions or estimates about highly uncertain matters. Changes in these judgments, assumptions or estimates could cause reported results to differ materially. These critical policies and their application are periodically reviewed with the Audit Committee and Board of Directors.

Principles of Consolidation

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

Use of Estimates

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

Basis of Accounting

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

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

Financial Statement Presentation

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

> Unrestricted – 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 Director's discretion.
>
> Temporarily Restricted – Resources accumulated through donations or grants for specific operating or capital purposes. Such resources will become unrestricted when the requirements of the donor or grantee have been satisfied through expenditures for the specified purpose or program or through the passage of time.
>
> Permanently Restricted – Net assets subject to donor-imposed stipulations that are to be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on related investments for general or specific purposes.

Reclassification

Certain amounts in the 2015 consolidated financial statements have been reclassified to conform to the 2016 presentation.

Cash and Cash Equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents are defined as those amounts included in the consolidated statements of financial position captions "cash and due from banks," "interest-bearing deposits," and "fed 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. Securities not classified as held to maturity or trading, including equity securities with readily determinable fair values, are classified as "available for sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income. Restricted equity securities consist of stock in the Federal Reserve Bank 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, management considers many factors, including (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Organization to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

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

Loans Receivable

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

Interest is accrued and credited to income based on the principal amount outstanding. The accrual of interest on impaired loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due. When interest accrual is discontinued, all unpaid accrued interest for the current year is reversed. Interest income is subsequently recognized on the cash basis or cost recovery method, as appropriate. When facts and circumstances indicate the borrower has regained the ability to meet the required payments, the loan is returned to accrual status. Past due status of loans is determined based on contractual terms.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as impaired. For such loans an allowance is established when the discounted cash flows, 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. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating losses in the portfolio. Factors taken into consideration for the unallocated component include housing vacancy and unemployment rates in Virginia, levels and trends in the Organizations delinquencies, impaired loans and net charge offs, risk rating of portfolio, experience of lending team and average loan size.

A loan is considered impaired when, based on current information and events, it is probable that the Organization will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status and other circumstances impacting the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the net realizable value of the collateral if the loan is collateral dependent.

Grants Receivable and Revenue Recognition

Grants receivable and related deferred revenue are recorded at the time of notification from a grantor. Grants are classified in one of three categories, permanently restricted, temporarily restricted and unrestricted. 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.

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

Premises and Equipment

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

	Years
Buildings and improvements	3-40
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.

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 facility with the Federal Home Loan Bank of Atlanta for Daily Rate Credit. This provides secured, short-term funding to help manage liquidity and daily funding needs. The Bank did not have any borrowings under this facility at December 31, 2016. At December 31, 2015, the Bank had $4,000,000 borrowed against this facility, secured by cash.

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.

Provision for income taxes is based on amounts reported in the Bank'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.

Other Real Estate Owned

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

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

Recent Accounting Pronouncements

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

In February 2015, the Financial Accounting Standards Board ("FASB") issued guidance which amends the consolidation requirements and significantly changes the consolidation analysis required under U.S. GAAP. Although the amendments are expected to result in the deconsolidation of many entities, the Organization will need to reevaluate all its previous consolidation conclusions. The amendments will be effective for fiscal years beginning after December 15, 2016, and interim periods beginning after December 15, 2017, with early adoption permitted (including during an interim period), provided that the guidance is applied as of the beginning of the annual period containing the adoption date. The Organization does not expect these amendments to have a material effect on its financial statements.

In January 2016, the FASB amended the Financial Instruments topic of the Accounting Standards Codification to address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The amendments will be effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. The Organization will apply the guidance by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. The amendments related to equity securities without readily determinable fair values will be applied prospectively to equity investments that exist as of the date of adoption of the amendments. The Organization does not expect these amendments to have a material effect on its financial statements.

In February 2016, the FASB amended the Leases topic of the Accounting Standards Codification to revise certain aspects of recognition, measurement, presentation, and disclosure of leasing transactions. The amendments will be effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted. The Organization is currently evaluating the effect that implementation of the new standard will have on its financial position, results of operations, and cash flows.

In April 2016, the FASB amended the Revenue from Contracts with Customers topic of the Accounting Standards Codification to clarify guidance related to identifying performance obligations and accounting for licenses of intellectual property. The amendments will be effective for the Organization for annual periods beginning after December 15, 2018, and interim periods within annual reporting periods beginning after December 15, 2019. The Organization does not expect these amendments to have a material effect on its financial statements.

In May 2016, the FASB amended the Revenue from Contracts with Customers topic of the Accounting Standards Codification to clarify guidance related to collectability, noncash consideration, presentation of sales tax, and transition. The amendments will be effective for the Organization for annual periods beginning after December 15, 2018, and interim periods within annual reporting periods beginning after December 15, 2019. The Organization does not expect these amendments to have a material effect on its financial statements.

In June 2016, the FASB issued guidance to change the accounting for credit losses and modify the impairment model for certain debt securities. The amendments will be effective for the Organization for annual periods beginning after December 15, 2020, and interim periods within annual reporting periods beginning after December 15, 2021. Early adoption is permitted for all organizations for periods beginning after December 15, 2018. The Organization is currently evaluating the effect that implementation of the new standard will have on its financial position, results of operations, and cash flows.

In August 2016, the FASB issued guidance to make targeted improvements to the not-for-profit financial reporting model, including changes in how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. The amendments will be effective for the Organization for fiscal years beginning after December 15, 2017 and interim periods within fiscal years beginning after December 15, 2018. The Organization is currently evaluating the effect that implementation of the new standard will have on its financial position, results of operations, and cash flows.

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

Recent Accounting Pronouncements, continued

In October 2016, the FASB amended the Consolidation topic of the Accounting Standards Codification to revise the consolidation guidance on how a reporting entity that is the single decision maker of a variable interest entity (VIE) should treat indirect interests in the entity held through related parties that are under common control with the reporting entity when determining whether it is the primary beneficiary of that VIE. The amendments will be effective for the Organization for fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017. Early adoption is permitted. The Organization does not expect these amendments to have a material effect on its financial statements.

In November 2016, the FASB amended the Statement of Cash Flows topic of the Accounting Standards Codification to clarify how restricted cash is presented and classified in the statement of cash flows. The amendments will be effective for the Organization for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted. 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, 2016 and 2015, these reserve balances amounted to $250,000. Additionally, at December 31, 2016 and 2015, the Organization was required to maintain a certificate of deposit with a balance of no less than $350,000 with Bank of America as collateral for credit extended to the Organization.

Note 3. Certificates of Deposits in Other Banks

The Organization maintains a portfolio of certificates of deposits in other banks. As of December 31, 2016 and 2015, the balance of these was $12,936,775 and $15,246,957, respectively. The majority of these deposits are FDIC-insured. As of December 31, 2016 and 2015, $395,775 and $397,957, respectively, were uninsured.

Note 4. Investments

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

2016	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available for sale				
U.S. Government sponsored entities	$ 1,453,720	$ -	$ (8,946)	$ 1,444,774
Obligations of states and political subdivisions	3,766,603	9,169	(342,479)	3,433,293
Collateralized mortgage obligations	1,613,736	-	(53,254)	1,560,482
Mortgage backed securities	4,027,667	7,898	(47,353)	3,988,212
Total	$ 10,861,726	$ 17,067	$ (452,032)	$ 10,426,761
Held to maturity				
Obligations of states and political subdivisions	$ 3,989,059	$ 68,278	$ (140,780)	$ 3,916,557

2015	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available for sale				
U.S. Government sponsored entities	$ 251,449	$ -	$ (986)	$ 250,463
Obligations of states and political subdivisions	650,000	18,244	-	668,244
Collateralized mortgage obligations	1,263,865	-	(1,899)	1,261,966
Mortgage backed securities	307,652	-	(2,142)	305,510
Total	$ 2,472,966	$ 18,244	$ (5,027)	$ 2,486,183
Held to maturity				
Obligations of states and political subdivisions	$ 2,401,460	$ 77,310	$ (2,185)	$ 2,476,585

Securities with an amortized cost of $10,272,043 and $2,560,796 were pledged as collateral or otherwise restricted at December 31, 2016 and 2015, respectively. The Organization had no realized gains or losses on sales of securities in 2016 and 2015, respectively.

The scheduled maturities of securities at December 31, 2016 are as follows:

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
U.S. Government sponsored entities:				
Due one to five years	$ 251,030	$ 251,004	$ -	$ -
Due after ten years	1,202,690	1,193,770	-	-
	$ 1,453,720	$ 1,444,774	$ -	$ -
Obligations of states and political subdivisions:				
Due one to five years	$ 650,000	$ 659,169	$ -	$ -
Due after five years but within ten years	-	-	1,661,689	1,673,039
Due after ten years	3,116,603	2,774,124	2,327,370	2,243,519
	$ 3,766,603	$ 3,433,293	$ 3,989,059	$ 3,916,558
Collateralized mortgage obligations:				
Due after ten years	$ 1,613,736	$ 1,560,482	$ -	$ -
Mortgage backed securities:				
Due after five years but within ten years	$ 1,257,559	$ 1,256,130	$ -	$ -
Due after ten years	2,770,108	2,732,082	-	-
	$ 4,027,667	$ 3,988,212	-	-
Total Securities				
Due one to five years	$ 901,030	$ 910,173	$ -	$ -
Due after five years but within ten years	1,257,559	1,256,130	1,661,689	1,673,039
Due after ten years	8,703,137	8,260,458	2,327,370	2,243,519
	$ 10,861,726	$ 10,426,761	$ 3,989,059	$ 3,916,558

Note 4. Investments, continued

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, 2016, the Organization did not have any securities that had been in an unrealized loss position for 12 or more consecutive months and management determined that the securities are not other-than-temporarily impaired. 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, 2016 and 2015.

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
2016						
U.S. Government sponsored entities	$ 1,444,774	$ (8,946)	$ -	$ -	$ 1,444,774	$ (8,946)
Obligations of state and political subdivisions	4,733,004	(483,259)	-	-	4,733,004	(483,259)
Collateralized mortgage obligations	1,560,482	(53,254)	-	-	1,560,482	(53,254)
Mortgage backed securities	1,626,600	(47,353)	-	-	1,626,600	(47,353)
Total temporarily impaired securities	$ 9,364,860	$ (592,812)	$ -	$ -	$ 9,364,860	$ (592,812)
2015						
U.S. Government sponsored entities	$ 250,463	$ (986)	$ -	$ -	$ 250,463	$ (986)
Obligations of state and political subdivisions	265,275	(2,185)	-	-	265,275	(2,185)
Collateralized mortgage obligations	1,261,966	(1,899)	-	-	1,261,966	(1,899)
Mortgage backed securities	305,510	(2,142)	-	-	305,510	(2,142)
Total temporarily impaired securities	$ 2,083,214	$ (7,212)	$ -	$ -	$ 2,083,214	$ (7,212)

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

Note 5. Loans Receivable

The major components of loans in the consolidated statements of financial position at December 31, 2016 and 2015 are as follows:

	2016	2015
Commercial, industrial and other loans	$ 35,589,059	$ 32,147,888
Commercial real estate construction	20,372,349	28,205,474
Commercial real estate other	74,101,575	48,805,813
	130,062,983	109,159,175
Allowance for loan losses	(2,321,461)	(1,730,763)
Loans, net of allowance	$ 127,741,522	$ 107,428,412

At December 31, 2016 and 2015, $1,875,563 and $1,090,798 in loans, respectively, were pledged to the United States Department of Agriculture.

Note 6. Allowance for Loan Losses

The allocation of the allowance for loan losses by loan components at December 31, 2016 was as follows:

	Commercial, Industrial and Other Loans	Commercial Real Estate-Construction	Commercial Real Estate-Other	Unallocated	Total
2016					
Allowance for loan losses:					
Beginning balance	$ 145,630	$ 643,184	$ 140,985	$ 800,964	$ 1,730,763
Charge-offs	(126,785)	(1,128,546)	-	-	(1,255,331)
Recoveries	-	-	-	-	-
Provision	314,146	724,446	687,720	119,717	1,846,029
Ending balance	$ 332,991	$ 239,084	$ 828,705	$ 920,681	$ 2,321,461
Ending balance:					
Individually evaluated for impairment	$ 136,154	$ -	$ 406,081	$ -	$ 542,235
Collectively evaluated for impairment	$ 196,837	$ 239,084	$ 422,624	$ 920,681	$ 1,779,226
Loans Receivable:					
Ending balance	$ 35,589,059	$ 20,372,349	$ 74,101,575		$ 130,062,983
Ending balance:					
Individually evaluated for impairment	$ 4,682,347	$ 74,729	$ 2,584,982		$ 7,342,058
Collectively evaluated for impairment	$ 30,906,712	$ 20,297,620	$ 71,516,593		$ 122,720,925

The following table presents impaired loans by class of loans as of December 31, 2016:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
2016					
With no related allowance recorded:					
Commercial, industrial, and other loans	$ 4,169,798	$ 4,169,798	$ -	$ 2,856,026	$ 106,618
Commercial real estate construction	74,729	74,729	-	64,083	3,395
Commercial real estate-other	1,019,896	1,033,302	-	864,203	37,362
	5,264,423	5,277,829	-	3,784,312	147,375
With allowance recorded:					
Commercial, industrial, and other loans	502,587	512,549	136,154	28,889	27,073
Commercial real estate construction	-	-	-	-	-
Commercial real estate-other	1,551,681	1,551,681	406,081	136,038	73,197
	2,054,268	2,064,230	542,235	164,927	100,270
Total					
Commercial, industrial, and other loans	4,672,385	4,682,347	136,154	2,884,915	133,691
Commercial real estate construction	74,729	74,729	-	64,083	3,395
Commercial real estate-other	2,571,577	2,584,983	406,081	1,000,241	110,559
	$ 7,318,691	$ 7,342,059	$ 542,235	$ 3,949,239	$ 247,645

During 2016, a large relationship totaling $4,274,330 became impaired. This contributed to the significant increase in impaired and substandard loans from 2015 to 2016. The relationship is well collateralized and currently being worked out.

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.

2016	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater	Total Past Due	Current	Total Loans Receivable	Recorded Investment >90 Days Accruing
Commercial, industrial, and other loans	$ -	$ -	$ 4,155,495	$ 4,155,495	$ 31,433,564	$ 35,589,059	$ -
Commercial real estate construction	-	-	74,729	74,729	20,297,620	20,372,349	-
Commercial real estate other	5,026,863	1,551,681	1,247,514	7,826,058	66,275,517	74,101,575	-
Total	$ 5,026,863	$ 1,551,681	$ 5,477,738	$ 12,056,282	$118,006,701	$130,062,983	$ -

Note 6. Allowance for Loan Losses, continued

The allocation of the allowance for loan losses by loan components at December 31, 2015 was as follows:

	Commercial, Industrial and Other Loans	Commercial Real Estate-Construction	Commercial Real Estate-Other	Unallocated	Total
2015					
Allowance for loan losses:					
Beginning balance	$ 64,112	$ 126,326	$ 215,899	$ 613,746	$ 1,020,083
Charge-offs	-	-	-	-	-
Recoveries	-	-	-	-	-
Provision	81,518	516,858	(74,914)	187,218	710,680
Ending balance	$ 145,630	$ 643,184	$ 140,985	$ 800,964	$ 1,730,763
Ending balance:					
Individually evaluated for impairment	$ 17,546	$ 615,310	$ -	$ -	$ 632,856
Collectively evaluated for impairment	$ 128,084	$ 27,874	$ 140,985	$ 800,964	$ 1,097,907
Loans Receivable:					
Ending balance	$ 32,147,888	$ 28,205,474	$ 48,805,813		$ 109,159,175
Ending balance:					
Individually evaluated for impairment	$ 39,829	$ 2,462,792	$ 67,505		$ 2,570,126
Collectively evaluated for impairment	$ 32,108,059	$ 25,742,682	$ 48,738,308		$ 106,589,049

The following table presents impaired loans by class of loans as of December 31, 2015:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
2015					
With no related allowance recorded:					
Commercial, industrial, and other loans	$ -	$ -	$ -	$ -	$ -
Commercial real estate construction	1,056,694	1,042,935	-	1,056,694	45,798
Commercial real estate-other	54,100	67,505	-	54,100	-
	1,110,794	1,110,440	-	1,110,794	45,798
With allowance recorded:					
Commercial, industrial, and other loans	17,414	39,829	17,546	17,414	2,290
Commercial real estate construction	1,419,857	1,419,857	615,310	742,994	27,979
Commercial real estate-other	-	-	-	-	-
	1,437,271	1,459,686	632,856	760,408	30,269
Total					
Commercial, industrial, and other loans	17,414	39,829	17,546	17,414	2,290
Commercial real estate construction	2,476,551	2,462,792	615,310	1,799,688	73,777
Commercial real estate-other	54,100	67,505	-	54,100	-
	$ 2,548,065	$ 2,570,126	$ 632,856	$ 1,871,202	$ 76,067

At December 31, 2016 and 2015, the Organization had $647,250 and $333,019, respectively of cash funded loan loss reserves, received by grants, which are not included in the above tables. This amount is presented separately on the Consolidated Statements of Financial Position. At December 31, 2016, the entire balance is unallocated.

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.

2015	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater	Total Past Due	Current	Total Loans Receivable	Recorded Investment >90 Days Accruing
Commercial, industrial, and other loans	$ 34,875	$ -	$ -	$ 34,875	$ 32,113,013	$ 32,147,888	$ -
Commercial real estate construction	1,004,949	-	1,571,838	2,576,787	25,628,687	28,205,474	155,925
Commercial real estate other	-	-	932,489	932,489	47,873,324	48,805,813	895,904
Total	$ 1,039,824	$ -	$ 2,504,327	$ 3,544,151	$ 105,615,024	$ 109,159,175	$ 1,051,829

Note 6. Allowance for Loan Losses, continued

Credit Quality Indicators:

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

Loans graded Prime, Excellent, Good or Average are excluded from the scope of the annual review and considered "Pass Credits" until: (a) they become past due; (b) management becomes aware of a deterioration in the credit worthiness of the borrower; or (c) the customer contacts the Organization for a modification. In these circumstances, the loan is specifically evaluated for potential classification as Marginal, 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 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.

Note 6. Allowance for Loan Losses, continued

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. Loans in this category may be considered Watch List accounts.

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. Customers in this category have well defined weaknesses and the possibility exists that the Organization will sustain some loss if the deficiencies are not corrected. Characteristics of a substandard loan include one or more of the following characteristics: a significant deterioration in earnings, cash flow or balance sheet composition, a deficient equity position, insufficient cash flow to meet maturity obligations, recent evidence of slow payments, a lack of adequate collateral or a dependence on illiquid collateral for repayment.

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

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

Loans by Risk Rating December 31, 2016	**Commercial Industrial and Other Loans**	**Commercial Real Estate-Construction**	**Commercial Real Estate-Other**	**Total**
Pass Credits	$ 30,560,815	$ 18,927,682	$ 71,156,827	$ 120,645,324
Marginal	151,039	1,369,938	-	1,520,977
Special Mention	475,417	-	365,516	840,933
Substandard	4,401,788	74,729	2,579,232	7,055,749
Total	$ 35,589,059	$ 20,372,349	$ 74,101,575	$ 130,062,983

Note 6. Allowance for Loan Losses, continued

Loans by Risk Rating December 31, 2015	**Commercial Industrial and Other Loans**	**Commercial Real Estate-Construction**	**Commercial Real Estate-Other**	**Total**
Pass Credits	$ 27,274,495	$ 25,061,234	$ 47,604,370	$ 99,940,099
Marginal	4,379,627	535,210	116,154	5,030,991
Special Mention	493,766	806,973	1,031,589	2,332,328
Substandard	-	1,802,057	53,700	1,855,757
Total	$ 32,147,888	$ 28,205,474	$ 48,805,813	$ 109,159,175

Troubled Debt Restructurings

During 2016, one loan that was previously reported as a troubled debt restructuring was modified through a payment reduction. During 2015, one loan was modified through a deferred payment plan and was considered to be a troubled debt restructuring.

Information regarding loans modified in a troubled debt restructuring for the years ended December 31, 2016 and 2015, respectively, is as follows:

	December 31, 2016			**December 31, 2015**		
	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	$ 385,470	$ 398,984
Commercial, industrial and other loans	1	39,951	39,299	-	-	-
Total	1	$ 39,951	$ 39,299	1	$ 385,470	$ 398,984

Note 7. Grants Receivable

Grants receivable consist of the following:

	December 31, 2016	**December 31, 2015**
Community Development Financial Institutions Capital Magnet Grant	$ 3,700,000	$ -
Norfolk Community Development Block Grant	650,000	-
Northern Trust Grant	5,000	-
Community Development Financial Institutions Financial Assistance	-	1,623,256
Healthy Foods Financing Initiative Financial Assistance Award	-	1,000,000
Alleghany Foundation	399,725	500,000
Hopewell EDA	850	850
Total grants receivable	4,755,575	3,124,106
Unearned grants receivable	(4,121,154)	(2,308,515)
Total grants receivable, net	$ 634,421	$ 815,591

Note 8. Premises and Equipment

Components of Premises and Equipment

Components of premises and equipment and total accumulated depreciation at December 31, 2016 and 2015 are as follows:

	2016	2015
Furniture and equipment	$ 992,499	$ 869,861
Leasehold improvements	62,217	62,217
Vehicle	88,223	86,502
Buildings and improvements	1,242,132	1,242,132
Land	390,606	390,606
Fixed assets in process	21,042	-
Premises and equipment, total	2,796,719	2,651,318
Less accumulated depreciation	(643,999)	(461,698)
Premises and equipment, net of depreciation	$ 2,152,720	$ 2,189,620

Depreciation and amortization expense for the years ended December 31, 2016 and 2015 was $254,262 and $177,158, respectively.

Leases

The Organization leases office space in Richmond and Norfolk, Virginia. The leases in Richmond and Norfolk expire May 31, 2017 and June 30, 2021, respectively. The Richmond office will be moving in May 2017. The lease for the new office expires July 31, 2027. A security deposit in the amount of $17,248 was paid in 2016. Future lease payments are as follows:

	Richmond Office	Norfolk Office	Total
2017	$ 209,908	$ 48,035	$ 257,943
2018	206,972	49,236	256,208
2019	206,972	50,467	257,439
2020	206,971	51,729	258,700
Thereafter	1,362,562	4,391	1,366,953
Total	$ 2,193,385	$ 203,858	$ 2,397,243

Rent expense for the years ended December 31, 2016 and 2015 was $176,600 and $192,434, respectively.

Note 9. Deposits

The major components of deposits in the Consolidated Statements of Financial Position at December 31, 2016 and 2015 are as follows:

	2016	2015
Noninterest-bearing demand	$ 6,363,332	$ 3,353,830
Interest-bearing demand	15,105,958	13,940,744
Time deposits	90,421,917	72,428,579
Total deposits	$ 111,891,207	$ 89,723,153

The aggregate amount of time deposits in denomination of $250,000 or more at December 31, 2016 and 2015 was $14,108,785 and $21,638,801, respectively. At December 31, 2016, the scheduled maturities of time deposits are as follows:

2017	$ 60,583,425
2018	16,915,911
2019	6,891,570
2020	4,705,862
Thereafter	1,325,149
	$ 90,421,917

Note 10. Borrowings

Borrowings at December 31, 2016 and 2015, respectively, consist of the following:

Description	Rate	Maturity	2016	2015
FHLB Daily Rate Credit	0.54%	On Demand	$ -	$ 4,000,000
Bon Secours Health Systems	2.00%	04/01/2016	-	500,000
Bank of America	3.10%	05/31/2016	-	1,000,000
Impact PRI	2.75%	07/29/2016	-	225,000
Bank of Botetourt	2.50%	On Demand	2,000,000	2,000,000
PNC LOC	2.25%	03/15/2017	3,000,000	3,000,000
Local Impact Opportunity Notes (subordinated)	Various*	Various*	7,275,000	1,000,000
Bank of America	3.10%	05/31/2017	-	1,000,000
CDFI Fund	2.25%	08/01/2017	1,177,056	1,177,056
Appalachian Community Capital	2.41%	10/13/2017	3,000,000	3,000,000
WoodForest Bank	2.75%	05/10/2018	174,728	222,688
Bank of America	3.10%	05/31/2018	-	1,000,000
Community Development Capital Initiative** (subordinated)	2.00%	09/25/2018	-	1,915,000
Capital One	3.00%	01/01/2019	-	496,209
Bon Secours Health Systems	2.25%	04/01/2019	1,300,000	300,000
CDFI Fund	2.00%	04/16/2019	989,450	989,450
Bank of America	3.10%	05/31/2019	1,500,000	1,500,000
HSBC	2.08%	10/31/2019	-	1,500,000
Bank of America	3.10%	05/31/2020	1,500,000	1,500,000
Jessie Ball DuPont	2.00%	07/08/2020	1,500,000	1,500,000
Wells Fargo EQ2 (subordinated)	2.00%	02/02/2021	500,000	500,000
Wells Fargo	LIBOR+2.90%	03/27/2016	-	1,000,000
Wells Fargo EQ2 (subordinated)	2.00%	03/20/2024	500,000	500,000
CDFI Fund	1.95%	12/30/2027	341,415	341,415
CDFI Fund	2.50%	01/31/2029	19,744	-
United States Department of Agriculture	1.00%	03/31/2044	2,125,000	2,125,000
			$ 26,902,393	$ 32,291,818

*Local Impact Opportunity Notes range in size from $25,000-$3,000,000, with rates of 1.50%-3.00%. The first of these notes matures on 01/03/2017, with the final note maturing on 05/05/2023.

**The Organization received approval from the United States Treasury and the Federal Reserve to repay the Community Development Capital Initiative funds in full prior to the maturity date.

Performance against debt covenants is measured on a quarterly basis. As of December 31, 2016, the Organization was out of compliance with its delinquency loan covenants. The Organization has notified the investors and is working to reduce delinquent loans to return to compliance.

At December 31, 2016, the scheduled maturities of borrowings are as follows:

2017	$ 9,552,056
2018	419,728
2019	5,169,450
2020	3,050,000
2021	725,000
Thereafter	7,986,159
	$ 26,902,393

At December 31, 2016, the Organization had unused Federal Fund lines of credit of $2,500,000, and other various unused commitments of $8,250,000 with rates ranging from 1.50% to Overnight LIBOR + 2.90%. In addition, the Organization had approximately $4,793,126 in lendable collateral value pledged with the Federal Home Loan Bank of Atlanta and available for use.

Note 11. Fair Value of Financial Instruments

Fair Value Hierarchy

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

Recurring Fair Value

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

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

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

December 31, 2016	**Total**	**Level 1**	**Level 2**	**Level 3**
Investment securities available for sale:				
U.S. Government sponsored entities	$ 1,444,774	$ -	$ 1,444,774	$ -
Obligations of states and political subdivisions	3,433,293	-	3,433,293	-
Collateralized mortgage obligation	1,560,482	-	1,560,482	-
Mortgage backed securities	3,988,212	-	3,988,212	-
Total assets measured at fair value	$ 10,426,761	$ -	$ 10,426,761	$ -
December 31, 2015				
Investment securities available for sale:				
U.S. Government sponsored entities	$ 250,463	$ -	$ 250,463	$ -
Obligations of states and political subdivisions	668,244	-	668,244	-
Collateralized mortgage obligation	1,261,966	-	1,261,966	-
Mortgage backed securities	305,510	-	305,510	-
Total assets measured at fair value	$ 2,486,183	$ -	$ 2,486,183	$ -

Non-recurring Fair Value

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

Impaired Loans: Impairment of a loan is based on a loan’s observable market price or the fair value of the collateral of a collateral-dependent loan. Fair value of the loan's collateral, when the loan is dependent on collateral, is determined by appraisals or independent valuation which is then adjusted for the cost related to liquidation of the collateral. The value of business equipment is based upon an outside appraisal, if deemed significant, or the net book value on the applicable business’ financial statements if not considered significant using observable market data. Likewise, values for inventory and accounts receivables collateral are based on financial statement balances or aging reports.

Note 11. Fair Value of Financial Instruments, continued

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, 2016	Total	Level 1	Level 2	Level 3
Impaired loans	$ 6,799,824	$ -	$ -	$ 6,799,824
Other real estate owned	221,760	-	-	221,760
Total assets measured at fair value	$ 7,021,584	$ -	$ -	$ 7,021,584
December 31, 2015				
Impaired loans	$ 1,937,270	$ -	$ -	$ 2,570,126
Other real estate owned	478,289	-	-	478,289
Total assets measured at fair value	$ 2,415,559	$ -	$ -	$ 3,048,415

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, 2016 and 2015, respectively.

	December 31, 2016	Valuation Techniques	Unobservable Inputs	Range (Wtd Avg)
Impaired loans:				
Commercial real estate - other	2,178,902	Appraisals and/or sales of comparable properties	Management discount to reflect current market conditions	0.00%-13.34% (9.61%)
Commercial, industrial and other loans	4,546,193	Appraisals and/or sales of comparable properties	Management discount to reflect current market conditions and type of collateral	0.00%-70.00% (25.53%)
Commercial real estate - construction	74,729	Appraisals and/or sales of comparable properties	Management discount to reflect current market conditions	13.34% (13.34%)
Other real estate owned:				
Commercial real estate - other	221,760	Appraisals and/or sales of comparable properties	Management discount to reflect current market conditions	0.00%-6.67% (0.89%)

	December 31, 2015	Valuation Techniques	Unobservable Inputs	Range (Wtd Avg)
Impaired loans:				
Commercial real estate - other	67,505	Appraisals and/or sales of comparable properties	Management discount to reflect current market conditions	47.61% (47.61%)
Commercial, industrial and other loans	22,283	Appraisals and/or sales of comparable properties	Management discount to reflect current market conditions	0.00% (0.00%)
Commercial real estate - construction	1,847,482	Appraisals and/or sales of comparable properties	Management discount to reflect current market conditions	6.00%-23.64% (12.94%)
Other real estate owned:				
Commercial real estate - other	478,289	Appraisals and/or sales of comparable properties	Management discount to reflect current market conditions	0.00%-6.67% (1.05%)

Note 12. 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, 2016 and 2015 amounted to $107,902 and $93,707, respectively.

Note 13. Income Taxes

Current and Deferred Income Tax Components

The components of income tax expense, all federal, for the period ended December 31, 2016 and 2015 is as follows:

	2016	2015
Current	$ 328,386	$ 171,511
Deferred benefit	(113,476)	(93,092)
Income tax expense	$ 214,910	$ 78,419

Expense Reconciliation

The Bank is subject to income taxation only at the Federal level. A reconciliation of income tax expense computed at the statutory federal income tax rate to income tax expense included in the Consolidated Statement of Activities for the years ended December 31, 2016 and 2015 is as follows:

	2016	2015
Tax at statutory federal rate	$ 263,924	$ 111,451
Other	(49,014)	(33,032)
	$ 214,910	$ 78,419

Deferred Income Tax Analysis

The significant components of net deferred tax assets at December 31, 2016 and 2015 are summarized as follows:

	2016	2015
Deferred tax assets		
Allowance for loan losses	$ 479,235	$ 307,838
Other real estate owned	1,919	8,201
Pre-opening expenses	20,183	23,249
Unrealized losses on securities available for sale, net	149,233	-
Deferred tax asset	650,570	339,288
Deferred tax liabilities		
Deferred loan costs	(201,031)	(143,246)
Prepaid expenses	(13,205)	(14,108)
Depreciation	(64,517)	(77,440)
Investment in Low Income HousingTax Credits	(865)	-
Unrealized gains on securities available for sale, net	-	(1,911)
Deferred tax liability	(279,618)	(236,705)
Net deferred tax asset	$ 370,952	$ 102,583

The Organization classifies 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 2013 through 2016 are subject to examination by the Internal Revenue Service. The Organization 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 14. 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, 2016 and 2015.

Financial Instruments with Off-Balance Sheet Risk

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

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

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

	2016	2015
Commitments to grant loans	$ 20,083	$ 11,713
Unfunded commitments under lines of credit	30,971	20,057
Commitment to investment fund	475	-
	$ 51,529	$ 31,770

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.

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 15. 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, 2016 or 2015.

Deposits from related parties held by the Bank at December 31, 2016 and 2015 amounted to $49,558 and $24,985, respectively.

Note 16. 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" conservation buffer will be phased in), (ii) minimum ratio of Tier 1 capital to risk-weighted assets of at least 6.0%, (iii) a minimum ratio of total capital to risk-weighted assets of at least 8.0%, and (iv) a minimum leverage ratio of 4.0%. A transition period for the capital conservation buffer under Basel III for all banking organizations began on January 1, 2016 and ends January 1, 2019. The conservation buffer will begin at the 0.625% level and be phased in over a four-year period (increasing on each subsequent January 1, until it reaches 2.5% on January 1, 2019). The conservation buffer at December 31, 2016 is 0.625%.

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

As of December 31, 2016, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain minimum total risk-based, Tier I risk-based, Tier I leverage and Common equity tier I ratios as set forth in the following table. There are no conditions or events since the notification that management believes have significantly impacted the Bank's category. At December 31, 2016, management believes the Bank's Basel III capital calculations exceed requirements. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital.

Below is a summary of the Bank's capital ratios for December 31, 2016 and December 31, 2015. (Dollars in thousands)

	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2016						
Total Capital						
(to Risk-Weighted Assets)	$ 21,346	18.60%	$ 8,914	8.0%	$ 11,143	10.0%
Tier I Capital						
(to Risk-Weighted Assets)	$ 13,751	11.98%	$ 6,686	6.0%	$ 8,914	8.0%
Common Equity Tier I Capital						
(to Average Assets)	$ 13,751	11.98%	$ 5,014	4.5%	$ 7,243	6.5%
Tier I Capital						
(to Average Assets)	$ 13,751	10.41%	$ 5,281	4.0%	$ 6,602	5.0%
December 31, 2015						
Total Capital						
(to Risk-Weighted Assets)	$ 16,594	18.29%	$ 7,258	8.0%	$ 9,073	10.0%
Tier I Capital						
(to Risk-Weighted Assets)	$ 11,360	12.52%	$ 5,444	6.0%	$ 7,258	8.0%
Common Equity Tier I Capital						
(to Average Assets)	$ 11,360	12.52%	$ 4,083	4.5%	$ 5,897	6.5%
Tier I Capital						
(to Average Assets)	$ 11,360	11.73%	$ 3,873	4.0%	$ 4,841	5.0%

Note 17. Subsequent Events

These financial statements have been updated for subsequent events occurring through March 22, 2017 which is the date these financial statements were available to be issued.

Effective January 1, 2017, the Organization took effective control of Center for Rural Entrepreneurship ("CRE"), a not-for-profit 501(c)3 incorporated in Nebraska, operating as a virtual organization with offices and staff in Nebraska and North Carolina. The absorption does not have a material effect on the financial statements of the Organization.

Note 18. Parent Company Financial Information

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

Statements of Financial Position
December 31, 2016 and 2015

	2016	2015
Assets		
Cash and due from banks	$ 737,786	$ 199,840
Interest-bearing deposits	2,999,393	1,987,039
Certificates of deposit	1,124,840	1,128,022
Investment securities available for sale	253,955	257,598
Cash funded loan loss reserves	647,250	333,019
Loans, net of allowance for loan losses of $700,424 and $696,396 at December 31, 2016 and 2015, respectively	34,046,334	37,253,397
Grants receivable	634,421	815,591
Accrued interest receivable	131,416	170,606
Premises and equipment	323,047	314,212
Investment in subsidiaries	16,665,194	12,567,844
Other real estate owned	11,088	17,645
Other assets	90,199	80,768
Total assets	$ 57,664,923	$ 55,125,581
Liabilities		
Borrowings	26,902,393	28,291,818
Deferred revenue	2,451,972	1,241,551
Accrued interest payable	98,475	57,804
Other liabilities	215,265	119,138
Total liabilities	29,668,105	29,710,311
Commitments and contingencies		
Net Assets		
Temporarily restricted	$ 541,592	$ 594,611
Permanently restricted	1,991,575	1,032,200
Unrestricted	22,491,770	22,521,711
Accumulated other comprehensive income	(285,733)	11,306
Total net assets before noncontrolling interest in subsidiary	24,739,204	24,159,828
Equity in noncontrolling interest	3,257,614	1,255,442
Total net assets	27,996,818	25,415,270
Total liabilities and net assets	$ 57,664,923	$ 55,125,581

Note 18. Parent Company Only Financial Information, continued

Statements of Activities
For the year ended December 31, 2016

	December 31, 2016			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Revenue and Support				
Grants and contract income	$ 1,444,871	$ 1,300,000	$ 959,375	$ 3,704,246
Interest and fees on loans	1,497,109	-	-	1,497,109
Interest income	32,083	-	-	32,083
Miscellaneous income	73,485	-	-	73,485
Net assets released from restrictions	1,353,019	(1,353,019)	-	-
Total revenue and support	4,400,567	(53,019)	959,375	5,306,923
Expenses				
Program Services				
Salaries and wages	1,078,391	-	-	1,078,391
Payroll taxes	79,238	-	-	79,238
Employee benefits	152,692	-	-	152,692
Program services	261,438	-	-	261,438
Office expense	101,717	-	-	101,717
Professional fees	258,013	-	-	258,013
Depreciation expense	78,572	-	-	78,572
Interest expense	625,489	-	-	625,489
Provision for loan losses	737,732	-	-	737,732
Other expenses	175,400	-	-	175,400
Total program services expenses	3,548,682	-	-	3,548,682
Management and General				
Salaries and wages	712,361	-	-	712,361
Payroll taxes	52,343	-	-	52,343
Employee benefits	100,865	-	-	100,865
Office and administrative expenses	67,192	-	-	67,192
Professional fees	170,438	-	-	170,438
Depreciation expense	51,903	-	-	51,903
Other expenses	115,866	-	-	115,866
Total management and general expenses	1,270,968	-	-	1,270,968
Total expenses	4,819,650	-	-	4,819,650
Change in net assets/net income before undistributed income of subsidiaries	(419,083)	(53,019)	959,375	487,273
Change in equity from undistributed income of bank subsidiary	517,413	-	-	517,413
Change in equity from undistributed income of subsidiary LLC	(1,605)	-	-	(1,605)
Change in net assets/net income	96,725	(53,019)	959,375	1,003,081
Change in accumulated other comprehensive loss	(297,038)	-	-	(297,038)
Dividends paid on subsidiary’s preferred stock	(126,667)	-	-	(126,667)
Change in net assets/net income attributable to Virginia Community Capital, Inc.	(326,980)	(53,019)	959,375	579,376
Net assets beginning of year	22,533,017	594,611	1,032,200	24,159,828
Net assets end of year	$ 22,206,037	$ 541,592	$ 1,991,575	$ 24,739,204

Note 18. Parent Company Only Financial Information, continued

Statements of Activities
For the year ended December 31, 2015

	December 31, 2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and Support				
Grants and contract income	$ 2,492,297	$ 128,841	$ -	$ 2,621,138
Interest and fees on loans	1,774,375	-	-	1,774,375
Interest income	31,664	-	-	31,664
Miscellaneous income	9,850	-	-	9,850
Net assets released from restrictions	244,230	(244,230)	-	-
Total revenue and support	4,552,416	(115,389)	-	4,437,027
Expenses				
Program Services				
Salaries and wages	885,132	-	-	885,132
Payroll taxes	71,953	-	-	71,953
Employee benefits	121,325	-	-	121,325
Program services	169,114	-	-	169,114
Office expense	103,931	-	-	103,931
Professional fees	212,269	-	-	212,269
Depreciation expense	50,666	-	-	50,666
Interest expense	688,508	-	-	688,508
Provision for loan losses	300,284	-	-	300,284
Other expenses	178,650	-	-	178,650
Total program services expenses	2,781,832	-	-	2,781,832
Management and General				
Salaries and wages	584,698	-	-	584,698
Payroll taxes	47,531	-	-	47,531
Employee benefits	80,145	-	-	80,145
Office and administrative expenses	68,655	-	-	68,655
Professional fees	140,220	-	-	140,220
Depreciation expense	33,468	-	-	33,468
Other expenses	118,012	-	-	118,012
Total management and general expenses	1,072,729	-	-	1,072,729
Total expenses	3,854,561	-	-	3,854,561
Change in net assets/net income before undistributed income of subsidiaries	697,855	(115,389)	-	582,466
Change in equity from undistributed income of bank subsidiary	249,379	-	-	249,379
Change in equity from undistributed income of subsidiary LLC	-	-	-	-
Change in net assets/net income	947,234	(115,389)	-	831,845
Change in accumulated other comprehensive income (loss)	(8,292)	-	-	(8,292)
Dividends paid on subsidiary's preferred stock	(48,000)	-	-	(48,000)
Change in net assets/net income attributable to Virginia Community Capital, Inc.	890,942	(115,389)	-	775,553
Net assets beginning of year	21,642,075	710,000	1,032,200	23,384,275
Net assets end of year	$ 22,533,017	$ 594,611	$ 1,032,200	$ 24,159,828

Note 18. Parent Company Only Financial Information, continued

Statements of Cash Flows
For the years ended December 31, 2016 and 2015

	2016	2015
Cash flows from operating activities		
Change in net assets	$ 1,003,081	$ 831,845
Adjustments to reconcile change in net assets to net cash provided by operations:		
Depreciation and amortization	130,476	84,134
Provision for loan losses	737,732	300,284
Loss on sale of other real estate owned	1,164	422
Changes in assets and liabilities:		
Accrued interest receivable	39,190	(34,865)
Grants receivable	181,170	38,559
Other assets	(9,431)	26,390
Investment in subsidiaries	(2,390,746)	(201,358)
Accrued interest payable	40,671	(22,645)
Deferred revenue	1,210,422	(34,954)
Noncontrolling interest in subsidiary	2,002,172	(3,675)
Other liabilities	96,127	2,655
Net cash provided by operating activities	3,042,028	986,792
Cash flows from investing activities		
Net increase in certificates of deposit	3,182	-
Proceeds from sale of other real estate owned	5,393	16,565
Net decrease (increase) in loans	2,469,331	(210,808)
(Increase) decrease in cash funded loan loss reserves	(314,231)	116,981
Net purchases of premises and equipment	(139,311)	(224,980)
Net cash provided by (used in) investing activities	2,024,364	(302,242)
Cash flows from financing activities		
Dividends paid on subsidiary’s preferred stock	(126,667)	(48,000)
Net (decrease) increase in borrowings	(1,389,425)	930,620
Proceeds from the sale of preferred stock of the subsidiary	(2,000,000)	-
Net cash (used in) provided by financing activities	(3,516,092)	882,620
Net increase in cash and cash equivalents	1,550,300	1,567,170
Cash and cash equivalents, beginning	2,186,879	619,709
Cash and cash equivalents, ending	$ 3,737,179	$ 2,186,879
Supplemental disclosure of cash flow information		
Interest paid	$ 584,818	$ 711,153

Note 19. Subsidiary Bank Financial Information

Financial information of Community Capital Bank of Virginia as of, and for the years ended December 31, 2016 and 2015 are as follows:

Balance Sheets
December 31, 2016 and 2015

	2016	2015
Assets		
Cash and due from banks	$ 173,371	$ 332,074
Interest-bearing deposits	4,956,477	14,204,639
Federal funds sold	80,000	16,000
Certificates of deposit	11,811,935	14,118,935
Investment securities available for sale	10,172,806	2,228,586
Investment securities held to maturity	3,989,059	2,401,460
Restricted equity securities	602,300	627,900
Loans, net of allowance for loan losses of $1,621,037 and $1,034,367 at December 31, 2016 and 2015, respectively	96,695,187	73,175,015
Accrued interest receivable	525,870	344,623
Premises and equipment	1,829,673	1,875,408
Other real estate owned	210,672	460,644
Other assets	1,830,144	221,933
Total assets	$ 132,877,494	$ 110,007,217
Liabilities		
Noninterest-bearing deposits	6,822,814	3,611,168
Interest-bearing deposits	105,880,588	86,472,864
Total deposits	112,703,402	90,084,032
FHLB borrowings	-	4,000,000
Subordinated debt	3,000,000	3,000,000
Deferred revenue	8,069	8,069
Accrued interest payable	69,384	43,336
Other liabilities	435,023	307,514
Total liabilities	116,215,878	97,442,951
Commitments and contingencies		
Shareholders' equity		
Preferred stock, 1,000 shares authorized; Series A, perpetual, no par value, $50,000 liquidation value, 4% nonconvertible, noncumulative: 64 and 24 shares issued and outstanding for 2016 and 2015, respectively	3,200,000	1,200,000
Common stock, $2,500 par value, 4,000 shares authorized; 2,336 and 1,936 shares issued and outstanding for 2016 and 2015	5,839,725	4,839,725
Additional paid in capital	5,692,568	4,692,568
Retained earnings	2,219,010	1,828,264
Accumulated other comprehensive income (loss)	(289,687)	3,709
Total shareholders' equity	16,661,616	12,564,266
Total liabilities and shareholders' equity	$ 132,877,494	$ 110,007,217

Note 19. Subsidiary Bank Financial Information, continued

Statements of Operations
For the years ended December 31, 2016 and 2015

	2016	2015
Interest and dividend income		
Loans and fees on loans	$ 4,452,060	$ 3,388,807
Federal funds sold	124	2,236
Investment securities-taxable	86,165	41,720
Investment securities-nontaxable	147,441	24,093
Deposits with other banks	191,200	175,733
Total interest and dividend income	4,876,990	3,632,589
Interest expense		
Deposits	974,196	769,999
Federal funds purchased	242	260
Secured borrowings	3,318	120
Subordinated debt	61,000	60,833
Total interest expense	1,038,756	831,212
Net interest income	3,838,234	2,801,377
Provision for loan losses	1,108,297	410,396
Net interest income after provision for loan losses	2,729,937	2,390,981
Noninterest income		
Gain on sale of other real estate owned	-	2,025
Bank enterprise award	265,496	-
Other noninterest income	293,933	240,069
Total noninterest income	559,429	242,094
Noninterest expense		
Salaries and employee benefits	1,559,369	1,336,699
Occupancy and equipment	266,339	231,895
Data processing	75,273	61,021
Advertising and marketing	4,674	18,305
Audit	26,390	37,885
Legal	22,257	3,555
Consulting	123,649	121,962
FDIC insurance	108,958	83,483
Franchise tax expense	137,721	91,064
Other real estate owned expense, net	44,683	10,413
Other expenses	187,730	308,995
Total noninterest expense	2,557,043	2,305,277
Net income before income tax expense	732,323	327,798
Income tax expense	214,910	78,419
Net income	517,413	249,379
Dividends paid to preferred shareholders	(126,667)	(48,000)
Net income available to common shareholders	$ 390,746	$ 201,379
Basic income per common share	$ 174.52	$ 104.02
Weighted average common shares outstanding	2,239	1,936

Note 19. Subsidiary Bank Financial Information, continued

Statements of Comprehensive Income
For the years ended December 31, 2016 and 2015

	2016	2015
Net income	$ 517,413	$ 249,379
Other comprehensive income (loss):		
Unrealized losses on available for sale securities, net	(444,540)	(8,995)
Tax benefit from unrealized losses on available for sale securities	151,144	3,058
Other comprehensive loss	(293,396)	(5,937)
Comprehensive income	$ 224,017	$ 243,442

Note 19. Subsidiary Bank Financial Information, continued

Statements of Changes in Shareholders' Equity
For the years ended December 31, 2016 and 2015

	Preferred Stock	Common Stock Shares	Common Stock Amount	Additional Paid In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, January 1, 2015	$ 1,200,000	1,936	$ 4,839,725	$ 4,692,568	$ 1,626,885	$ 9,646	$ 12,368,824
Issuance of common stock	-	-	-	-	-	-	-
Dividends paid on preferred stock	-	-	-	-	(48,000)	-	(48,000)
Net income	-	-	-	-	249,379	-	249,379
Comprehensive loss	-	-	-	-	-	(5,937)	(5,937)
Balance, December 31, 2015	**$** 1,200,000	1,936	$ 4,839,725	$ 4,692,568	$ 1,828,264	$ 3,709	$ 12,564,266
Issuance of preferred stock	2,000,000	-	-	-	-	-	2,000,000
Issuance of common stock		400	1,000,000	1,000,000	-	-	2,000,000
Dividends paid on preferred stock	-	-	-	-	(126,667)	-	(126,667)
Net income	-	-	-	-	517,413	-	517,413
Comprehensive loss	-	-	-	-	-	(293,396)	(293,396)
Balance, December 31, 2016	**$** 3,200,000	2,336	$ 5,839,725	$ 5,692,568	$ 2,219,010	$ (289,687)	$ 16,661,616

Note 19. Subsidiary Bank Financial Information, continued

Statements of Cash Flows
For the years ended December 31, 2016 and 2015

	2016	2015
Cash flows from operating activities		
Net income	$ 517,413	$ 249,379
Adjustments to reconcile net income to		
net cash provided by (used in) operations:		
Depreciation and amortization	123,786	93,024
Provision for loan losses	1,108,297	410,396
Loss on sale of other real estate owned	39,358	8,022
Impairment write downs on other real estate owned	-	9,968
Net accretion on securities	(329,054)	(18,340)
Changes in assets and liabilities:		
Accrued interest receivable	(181,247)	(9,269)
Deferred income tax	(268,369)	(96,149)
Other assets	(1,188,696)	(33,288)
Accrued interest payable	26,048	3,938
Deferred revenue	-	8,069
Other liabilities	127,509	(84,499)
Net cash (used in) provided by operating activities	(24,955)	541,251
Cash flows from investing activities		
Net decrease in certificates of deposit	2,307,000	26,065
Purchases of securities available for sale	(8,662,614)	(1,831,252)
Purchases of securities held to maturity	(1,795,000)	(2,134,000)
Proceeds from maturities of securities available for sale	-	350,000
Proceeds from maturity of securities held to maturity	-	500,000
Proceeds from investment paydowns	810,307	27,881
Redemption (purchase) of restricted equity securities	25,600	(194,500)
Proceeds from sale of other real estate owned	210,614	314,747
Net increase in loans	(24,628,469)	(14,324,858)
Net purchases of premises and equipment	(78,051)	(992,046)
Net cash used in investing activities	(31,810,613)	(18,257,963)
Cash flows from financing activities		
Net increase in deposits	22,619,370	23,056,771
(Decrease) increase in FHLB borrowings	(4,000,000)	4,000,000
Proceeds from sale of common stock	2,000,000	-
Proceeds from sale of preferred stock	2,000,000	-
Dividends paid on preferred stock	(126,667)	(48,000)
Net cash provided by financing activities	22,492,703	27,008,771
Net (decrease) increase in cash and cash equivalents	(9,342,865)	9,292,059
Cash and cash equivalents, beginning	14,552,713	5,260,654
Cash and cash equivalents, ending	$ 5,209,848	$ 14,552,713
Supplemental disclosure of cash flow information		
Interest paid	$ 1,012,708	$ 827,275
Taxes paid	$ 263,891	$ 321,003
Supplemental disclosure of noncash investing and financing activities		
Other real estate acquired in settlement of loans	$ -	$ 135,360