SOUTHEAST COMMUNITY CAPITAL
CORPORATION AND SUBSIDIARIES
d/b/a PATHWAY LENDING

CONSOLIDATED FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION
AND
INDEPENDENT AUDITOR'S REPORTS

DECEMBER 31, 2021 AND 2020

SOUTHEAST COMMUNITY CAPITAL CORPORATION
AND SUBSIDIARIES d/b/a PATHWAY LENDING
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DECEMBER 31, 2021 AND 2020

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Southeast Community Capital Corporation
and Subsidiaries d/b/a Pathway Lending
Board of Directors and Executive Management 2021

Dr. William H. (Herb) Byrd, III - Chairman	Dave Berezov
Jon Davies - Vice Chairman	Tom Hunter
Andre Gist	Cindy Herron
Ivanetta Davis-Samuels	Hugh Queener

Clint Gwin, President and CEO

Barbara Harris, EVP, Chief Financial Officer

Amy Bunton, EVP, Chief Operating Officer

Holland (Hank) Helton, EVP, Chief Stakeholder Officer, Secretary

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Southeast Community Capital Corporation and Subsidiaries d/b/a Pathway Lending
Nashville, Tennessee

REPORT ON THE AUDITS OF THE CONSOLIDATED FINANCIAL STATEMENTS

OPINION

We have audited the accompanying consolidated financial statements of Southeast Community Capital Corporation and Subsidiaries d/b/a Pathway Lending ("Corporation") which comprise the consolidated statements of financial position as of December 31, 2021 and 2020, and the related consolidated statements of activities, cash flows and functional expenses for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Southeast Community Capital Corporation and Subsidiaries d/b/a Pathway Lending as of December 31, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

BASIS FOR OPINION

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

RESPONSIBILITIES OF MANAGEMENT FOR THE 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, and for 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.

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern for a reasonable period of time.

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

REPORT ON SUPPLEMENTARY INFORMATION

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The other information on pages i and the additional information on pages 40 - 48 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. The accompanying schedule of expenditures of federal awards on pages 47 - 48 is required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance). The board of directors listing on page i and the schedule of expenditures of state financial assistance on page 47 - 48, is required by the *Audit Manual* issued by the Comptroller of the Treasury of the State of Tennessee. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information on pages 40 - 48 has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

The board of directors listing on page i has not been subjected to the auditing procedures in the audit of the consolidated financial statements and, accordingly, we express no opinion or provide any assurance on it.

OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2022, on our consideration of Southeast Community Capital Corporation and Subsidiaries d/b/a Pathway Lending's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Southeast Community Capital Corporation and Subsidiaries d/b/a Pathway's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Southeast Community Capital Corporation and Subsidiaries d/b/a Pathway Lending's internal control over financial reporting and compliance.

Kraft CPAs PLLC

Nashville, Tennessee
March 31, 2022

SOUTHEAST COMMUNITY CAPITAL CORPORATION
AND SUBSIDIARIES d/b/a PATHWAY LENDING

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2021 AND 2020

	2021	2020
ASSETS		
Cash and cash equivalents	$ 7,628,648	$ 6,154,211
Restricted cash - lending	84,580,935	33,214,858
Restricted cash - loan loss reserve funds	15,973,874	13,790,021
Restricted cash - other	4,420,228	1,737,442
Due from grantors	681,181	955,007
Other accounts receivable	1,789,852	941,296
Interest receivable	608,256	1,024,568
Loans receivable, net of allowance for possible loan losses of $8,937,137 and $9,474,717 at 2021 and 2020, respectively	144,663,416	128,852,358
Federal Home Loan Bank stock, at cost	301,200	301,200
Property and equipment, net	3,033,151	3,113,783
Other assets	716,137	607,919
TOTAL ASSETS	$ 264,396,878	$ 190,692,663
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	$ 337,738	$ 213,064
Interest payable	561,248	987,933
Lines of credit payable	57,000,000	37,000,000
Mortgages payable	1,714,025	1,883,189
Notes payable	153,112,565	112,239,118
Deferred revenue	7,005,960	3,122,293
Other liabilities	1,245,377	1,122,345
TOTAL LIABILITIES	220,976,913	156,567,942
NET ASSETS		
Without donor restrictions	41,409,254	32,114,010
With donor restrictions	2,010,711	2,010,711
TOTAL NET ASSETS	43,419,965	34,124,721
TOTAL LIABILITIES AND NET ASSETS	$ 264,396,878	$ 190,692,663

The accompanying notes are an integral part of these financial statements.

AND SUBSIDIARIES d/b/a PATHWAY LENDING

CONSOLIDATED STATEMENT OF ACTIVITIES

DECEMBER 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND OTHER SUPPORT			
Grant and Contribution Revenue			
U.S. Treasury CDFI Award	$ 1,826,265	$ -	$ 1,826,265
U.S. Small Business Administration - Technical Assistance	331,225	-	331,225
U.S. Small Business Administration WBC	124,405	-	124,405
U.S. Small Business Administration WBC COVID	95,186	-	95,186
U.S. Small Business Administration VBOC	284,056	-	284,056
U.S. Small Business Administration SBA Prime	183,043	-	183,043
Metropolitan Development and Housing Agency			
Community Development Block Grant	127,891	-	127,891
State of Tennessee - Rural Opportunity Fund	40,085	-	40,085
State of Tennessee - Tennessee Placemakers	13,212	-	13,212
Appalachian Regional Commission	10,063	-	10,063
Metropolitan Government of Nashville and Davidson County - operating	150,000	-	150,000
Metropolitan Government of Nashville and Davidson County - passthrough	1,850,000	-	1,850,000
TVA passthrough funds	1,323,264	-	1,323,264
Truist - passthrough loan funds	47,864	-	47,864
United Way	18,000	18,000	36,000
Corporate and foundation operational grants	1,194,014	-	1,194,014
Contributed loan capital	4,838,337	-	4,838,337
Total Grant and Contribution Revenue	12,456,910	18,000	12,474,910
Interest and Program Service Revenue			
Interest income - loans	7,496,442	-	7,496,442
Interest income - bank deposits	250,416	-	250,416
Financing fees and charges	1,347,170	-	1,347,170
Fee income	410,988	-	410,988
Total Interest and Program Services Revenue	9,505,016	-	9,505,016
Other Support			
Inkind and other contributions	440,877	-	440,877
Miscellaneous	89,077	-	89,077
Rental income	168,062	-	168,062
Net Assets Released From Restrictions			
Women's business center	18,000	(18,000)	-
TOTAL REVENUE AND OTHER SUPPORT	22,677,942	-	22,677,942
EXPENSES			
Program activities			
Lending and education programs	12,416,361	-	12,416,361
Supporting services			
Administrative and general	966,208	-	966,208
Fundraising activities	129	-	129
TOTAL EXPENSES	13,382,698	-	13,382,698
CHANGE IN NET ASSETS	9,295,244	-	9,295,244
NET ASSETS - BEGINNING OF YEAR	32,114,010	2,010,711	34,124,721
NET ASSETS - END OF YEAR	$ 41,409,254	$ 2,010,711	$ 43,419,965

The accompanying notes are an integral part of these financial statements.

SOUTHEAST COMMUNITY CAPITAL CORPORATION
AND SUBSIDIARIES d/b/a PATHWAY LENDING

CONSOLIDATED STATEMENT OF ACTIVITIES

DECEMBER 31, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND OTHER SUPPORT			
Grant and Contribution Revenue			
U.S. Treasury CDFI Award	$ 657,000	$ -	$ 657,000
U.S. Small Business Administration - Technical Assistance	300,337	-	300,337
U.S. Small Business Administration WBC	138,095	-	138,095
U.S. Small Business Administration WBC COVID	252,333	-	252,333
U.S. Small Business Administration VBOC	268,214	-	268,214
U.S. Small Business Administration SBA Prime	3,821	-	3,821
Metropolitan Development and Housing Agency			
Community Development Block Grant	67,202	-	67,202
State of Tennessee - Rural Opportunity Fund	130,430	-	130,430
State of Tennessee - Tennessee Placemakers	2,152	-	2,152
Appalachian Regional Commission	155,937	-	155,937
Coronavirus Relief Funds - Metro CARES Act - operating support	244,744	-	244,744
Coronavirus Relief Funds - Metro CARES Act - passthrough	5,620,610	-	5,620,610
United Way	28,000	18,000	46,000
Corporate and foundation operational grants	537,390	-	537,390
Truist - passthrough loan funds	352,136	-	352,136
Contributed loan capital	2,635,000	-	2,635,000
Total Grant and Contribution Revenue	11,393,401	18,000	11,411,401
Interest and Program Service Revenue			
Interest income - loans	7,039,240	-	7,039,240
Interest income - bank deposits	350,498	-	350,498
Financing fees and charges	419,332	-	419,332
Fee income	182,446	-	182,446
Total Interest and Program Services Revenue	7,991,516	-	7,991,516
Other Support			
Inkind and other contributions	894,689	-	894,689
Miscellaneous	96,346	-	96,346
Rental income	157,194	-	157,194
Net Assets Released From Restrictions			
Loan loss reserve usage (recovered)	(171,509)	171,509	-
Women's business center	18,000	(18,000)	-
TOTAL REVENUE AND OTHER SUPPORT	20,379,637	171,509	20,551,146
EXPENSES			
Program activities			
Lending and education programs	17,973,984	-	17,973,984
Supporting services			
Administrative and general	813,740	-	813,740
Fundraising activities	1,838	-	1,838
TOTAL EXPENSES	18,789,562	-	18,789,562
CHANGE IN NET ASSETS	1,590,075	171,509	1,761,584
NET ASSETS - BEGINNING OF YEAR	30,523,935	1,839,202	32,363,137
NET ASSETS - END OF YEAR	$ 32,114,010	$ 2,010,711	$ 34,124,721

The accompanying notes are an integral part of these financial statements.

SOUTHEAST COMMUNITY CAPITAL CORPORATION
AND SUBSIDIARIES d/b/a PATHWAY LENDING

CONSOLIDATED STATEMENTS OF CASH FLOWS

DECEMBER 31, 2021 AND 2020

	2021	2020
OPERATING ACTIVITIES		
Change in net assets	$ 9,295,244	$ 1,761,584
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	114,937	121,973
Contributed loan capital from equity equivalent agreements	(3,938,337)	(2,500,000)
Loan loss provision (recovery)	(462,725)	2,682,615
Provision for writedown of other real estate owned	-	586,784
Loss on disposal of fixed assets	-	2,131
Net changes in:		
Due from grantors	73,826	(211,147)
Interest receivable	416,312	(454,675)
Other accounts receivable	(848,556)	(885,813)
Other assets	(108,218)	(315,627)
Accounts payable	124,674	95,253
Interest payable	(426,685)	515,631
Deferred revenue	3,883,667	2,691,704
Other liabilities	123,032	245,243
NET CASH PROVIDED BY OPERATING ACTIVITIES	8,247,171	4,335,656
INVESTING ACTIVITIES		
Changes in loans receivable, net of charge offs	(15,348,333)	(22,635,743)
Purchase of FHLB stock	-	(52,200)
Proceeds from sale of property and equipment	-	1,252
Acquisition of property and equipment	(34,305)	(22,928)
Due from grantors	200,000	357,837
Proceeds from sale of other real estate owned	-	444,157
NET CASH USED IN INVESTING ACTIVITIES	(15,182,638)	(21,907,625)
FINANCING ACTIVITIES		
Net change in lines of credit	20,000,000	788,139
Payments on mortgage and notes payable	(2,796,528)	(3,612,224)
Proceeds from mortgage and notes payable	47,439,148	2,500,000
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	64,642,620	(324,085)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	57,707,153	(17,896,054)
CASH AND RESTRICTED CASH - BEGINNING OF YEAR	54,896,532	72,792,586
CASH AND RESTRICTED CASH - END OF YEAR	$ 112,603,685	$ 54,896,532
Cash and cash equivalents	$ 7,628,648	$ 6,154,211
Restricted cash - lending	84,580,935	33,214,858
Restricted cash - loan loss reserve funds	15,973,874	13,790,021
Restricted cash - other	4,420,228	1,737,442
TOTAL CASH	$ 112,603,685	$ 54,896,532
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	$ 2,387,976	$ 1,528,520

The accompanying notes are an integral part of these financial statements.

SOUTHEAST COMMUNITY CAPITAL CORPORATION
AND SUBSIDIARIES d/b/a PATHWAY LENDING

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

DECEMBER 31, 2021

	Lending and Education Programs	Administrative and General	Fundraising Activities	Total
Salaries and benefits	$ 5,838,330	$ 771,016	$ 129	$ 6,609,475
Travel	102,012	943	-	102,955
Dues, licenses, permits	36,788	5,546	-	42,334
Office expenses	132,297	6,383	-	138,680
Telecommunications	67,717	6,644	-	74,361
Postage and freight	2,599	105	-	2,704
Professional services	574,281	36,700	-	610,981
Consulting	537,978	6,866	-	544,844
Marketing	4,297	22	-	4,319
Insurance	83,846	20,213	-	104,059
Occupancy	97,987	68,976	-	166,963
Depreciation	77,341	37,596	-	114,937
Conferences and meetings	102,216	2,914	-	105,130
Loan loss provision (recovery)	(462,725)	-	-	(462,725)
Miscellaneous	38,978	2,284	-	41,262
Interest expense	1,961,291	-	-	1,961,291
Passthrough grants awarded				
Metro Nashville grants	1,850,000	-	-	1,850,000
TVA passthrough expenses	1,323,264	-	-	1,323,264
Truist awards	47,864	-	-	47,864
Total	$ 12,416,361	$ 966,208	$ 129	$ 13,382,698

The accompanying notes are an integral part of these financial statements.

SOUTHEAST COMMUNITY CAPITAL CORPORATION
AND SUBSIDIARIES d/b/a PATHWAY LENDING

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

DECEMBER 31, 2020

	Lending and Education Programs	Administrative and General	Fundraising Activities	Total
Salaries and benefits	$ 5,245,996	$ 616,794	$ 1,528	$ 5,864,318
Travel	40,819	544	310	41,673
Dues, licenses, permits	30,258	5,482	-	35,740
Office expenses	93,014	4,530	-	97,544
Telecommunications	60,588	5,652	-	66,240
Postage and freight	2,843	142	-	2,985
Equipment maintenance	919	102	-	1,021
Professional services	583,031	40,305	-	623,336
Consulting	357,350	10,642	-	367,992
Marketing	2,587	160	-	2,747
Insurance	73,725	18,110	-	91,835
Occupancy	104,228	67,913	-	172,141
Depreciation	84,266	37,707	-	121,973
Conferences and meetings	67,041	920	-	67,961
Loan loss provision	2,682,615	-	-	2,682,615
Foreclosure carrying costs	465,010	-	-	465,010
Miscellaneous	65,847	1,687	-	67,534
Interest expense	2,041,101	3,050	-	2,044,151
Passthrough grants awarded				
Coronavirus relief funds	5,620,610	-	-	5,620,610
Truist awards	352,136	-	-	352,136
Total	$ 17,973,984	$ 813,740	$ 1,838	$ 18,789,562

The accompanying notes are an integral part of these financial statements.

NOTE 1 - GENERAL AND ORGANIZATION

Nature of Organization

Southeast Community Capital Corporation d/b/a Pathway Lending ("Pathway" or the "Corporation") is a Tennessee not-for-profit corporation and is Tennessee's only state-wide economic development and business-focused certified Community Development Financial Institution (CDFI). The mission of the Corporation is to provide lending solutions and educational services that support the development, growth, and preservation of underserved businesses, affordable housing and sustainable communities; to help stimulate economic development and job creation through small business lending to low income, disadvantaged and start-up companies that lack access to traditional banking credit; and to provide educational services to these small businesses to help them grow and achieve sustainability. The Corporation provides loans to target markets including: 1) small businesses in low and moderate-income areas, 2) low and moderate-income entrepreneurs, 3) African-American owned businesses, and 4) small businesses that hire low and moderate-income individuals throughout Tennessee, Alabama and portions of Mississippi, Arkansas and Kentucky. Loan types include term notes, lines of credit, purchase order financing, contract and accounts receivable financing, business real estate, and bridge financing (in limited cases).

Pathway began operations on December 21, 1999 as a wholly owned subsidiary of Technology 2020. Pathway was approved on February 16, 2001, as a CDFI by the Community Development Financial Institution's Fund of the United States Department of Treasury (the CDFI Fund). The Corporation provides business education and technical assistance to small and disadvantaged businesses through various government and non-profit support programs, including: the U.S. Small Business Administration Technical Assistance Division, the U.S. Small Business Administration Women's Business Ownership Assistance Division, the U.S. Small Business Administration Office of Veterans Business Development, and the Metropolitan Development Housing Agency and various foundations. The assistance includes access to financial services, access to capital needs and includes classroom education, one-on-one assistance, on-line training and peer learning.

On April 11, 2019, Pathway established Pathway Memphis, LLC ("Memphis"), a Tennessee not-for-profit corporation wholly owned by Pathway with a mission of the relief of poverty, the elimination of prejudice, the lessening of neighborhood tensions, and the combating of community deterioration in certain economically depressed areas located within the Memphis Metropolitan Statistical Area and enhancing minority-owned and/or women-owned businesses, small businesses and disadvantaged businesses operating or located within the Memphis Metropolitan Statistical Area through a program of financial assistance and other aid designed to improve economic conditions and economic opportunities in these areas, and other charitable programs and engaging in any and all actions necessary or incidental to the foregoing.

In 2021, Pathway Lending NMTC, LLC ("PWL NMTC") was certified by the CDFI Fund as a Community Development Entity (CDE) under its New Market Tax Credit (NMTC) program.

NOTE 1 - GENERAL AND ORGANIZATION (CONTINUED)

PWL NMTC is a 99% owned subsidiary of Pathway Lending. PWL NMTC was formed to further Pathway's activities in the NMTC program. Pathway Lending is the managing member of Pathway Lending NMTC, LLC.

The NMTC program is a federal program created by Congress in 2002 and managed by the Treasury Department's CDFI Fund. The NMTC program is designed to encourage private capital investment in low-income communities by providing tax credits to investors who make qualified equity investments as defined in Section 45D of the Internal Revenue Code in privately managed investment vehicles called Community Development Entities (CDEs). The CDEs then invest the proceeds of the qualified equity investments in low-income communities. The tax credits provided to the investors total 39% of the cost of the investments and are claimed over a seven-year credit allowance period.

The subsidiaries of Pathway Lending NMTC, LLC (Sub CDEs) are certified by the U.S. Treasury's Community Development Financial Institutions Funds (CDFI) as Community Development Entities. As a CDE, the Sub CDEs' primary mission is to provide loans to qualified businesses in low-income communities of the Sub CDEs' service area.

Pathway Lending CDE Advisors, LLC ("PWL Advisors") was formed in 2021 to function as the administrative member or administrative manager of the Sub CDEs. PWL Advisors is 50.01% owned by Pathway and 49.99% by an unrelated entity. In accordance with operating agreements of PWL Advisors, profits, losses and cash flows are allocated consistent with ownership percentage.

In accordance with accounting guidance from the Financial Accounting Standards Board (FASB) on Recognition of Control Partnerships and Similar Entities, the presumption is established that the managing member in a limited liability company controls the entity regardless of the extent of the managing member's ownership interest. The presumption of control may be overcome if the investor members have either (i) substantive participating rights or (ii) the substantive ability to dissolve the entity or otherwise remove the managing member without cause. The Organization determined that the presumption of control for the limited liability companies in which PWL NMTC is a managing member were overcome as the investor members have substantial participating rights. Accordingly, the investments and related activities of the Sub CDEs have not been consolidated with these consolidated financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements present the financial position and changes in net assets of the Corporation on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (GAAP).

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Consolidation

The consolidated financial statements include the accounts of Southeast Community Capital Corporation d/b/a Pathway Lending and its subsidiaries, Pathway Memphis, LLC, Pathway Lending NMTC, LLC and Pathway Lending CDE Advisors, collectively referred to as the "Corporation". All significant intercompany transactions have been eliminated in consolidation.

Resources are classified as net assets without donor restrictions and with donor restrictions based on the existence or absence of donor-imposed restrictions, as follows:

Net assets without donor restrictions - Net assets that are free of donor-imposed restrictions. All revenues, gains, and losses that are not restricted by donors are included in this classification. These net assets may be used at the discretion of the Corporation's management and the Board of Directors.

Net Assets with donor restrictions - Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Corporation or by the passage of time. There are currently no donor restrictions that are perpetual in nature.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assts without donor restrictions in the consolidated statements of activities.

Revenue Recognition

Grants - Revenues from government grant and contract agreements, which are generally considered non-exchange transactions, are recognized when qualifying expenditures are incurred and conditions under the agreements are met. Payments received in advance of conditions being met are recorded as deferred revenues on the consolidated statements of financial position.

Lending operations - The Corporation receives some grant awards in the form of loans which require repayment of the loaned amounts under various conditions and are reported as notes payable. Some of these awards allow the Corporation to earn revenue when certain conditions are fulfilled.

Contributions - Unconditional contributions of cash and other assets, including contributions receivable (unconditional promises to give), are recorded as revenue based upon any donor-imposed restrictions on the date of the donor's commitment or gift. Noncash contributions are recorded at the estimated fair value at the date of the gift. Contributions receivable, if any, are recorded at the estimated present value, net of an allowance for uncollectible amounts, if deemed necessary. Contributions, including unconditional promises to give, are recognized as revenues in the period received.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (continued)

A contribution is conditional if an agreement includes a barrier that must be overcome and either a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets exists. The presence of both a barrier and a right of return or right of release indicates that a recipient is not entitled to the contribution until it has overcome the barrier(s) in the agreement. Conditional promises to give are not recognized until the barrier(s) in the agreement are overcome.

Donated Services, Goods and Facilities

Volunteers donate time to the Corporation's program services during the year. For the year ended December 31, 2021 $6,783 in specialized services were contributed to the Corporation and are reflected in the consolidated financial statements ($9,130 as of December 31, 2020). Other donated services may not be reflected in the consolidated financial statements since the services do not require specialized skills.

Cash and Cash Equivalents and Restricted Cash

Cash and cash equivalents consist of cash held in checking and money market accounts.

Restricted cash consists of discretely managed accounts maintained to comply with contractual requirements imposed by grantors, contribution restrictions imposed by donors and internal designations by management and the Board of Directors.

Cash restricted for lending purposes is intended only to fund loans. Restricted cash for loan loss reserves is intended only to be used to replenish loan funds in the event of a loan charge off.

Loans Receivable and Allowance for Loan Losses

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding principal balances adjusted for any charge-offs and any deferred fees or costs on originated loans. Interest income is accrued on the unpaid balance. Past due status is determined based on the contractual terms of the note.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans Receivable and Allowance for Loan Losses (Continued)

Interest on loans is computed on a daily basis based on the principal amount outstanding using the interest method. Interest accruals are discontinued when management believes, after considering economic and business conditions and collection efforts, that it is not reasonable to expect that such interest will be collected. Interest income on loans in nonaccrual status is subsequently recognized only to the extent cash payments are received over principal payments due. Loan fees and costs are deferred and amortized as an adjustment to the related loan yield over the contractual life of the loan.

Loans are placed on non-accrual status when the loan has become 90 days past due and any of the following conditions exist:

- It becomes evident that the borrower will not make payments or will not or cannot meet the Corporation’s terms for the renewal of a matured loan;
- When full repayment of principal and interest is not expected;
- When the borrower files bankruptcy and an approved plan of reorganization or liquidation is not anticipated in the near future; or
- When foreclosure action is initiated

When a loan is placed on non-accrual status, all existing accrued interest is reversed against interest income, and accrual of interest for financial statement purposes is discontinued. The Corporation continues to track the contractual interest for purposes of customer reporting and any potential litigation or later collection of the loan. Subsequent payments of interest can be recognized as income on a cash basis provided that full collection of principal is expected. Otherwise, all payments received are applied to principal only.

In the event of a loan charge-off related to a loan fund with such provisions, restricted cash for loan loss reserves is transferred to restricted cash for lending purposes to maintain loan-making potential.

The allowance for possible loan losses is established by charges to operations and is maintained at an amount which management believes adequate to absorb possible losses on existing loans that may be uncollectible, based on evaluations of loan collectability and on prior loan loss experience. The evaluations consider such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, reviews of specific problem loans, and current economic conditions that may affect a borrower’s ability to pay. Factors considered as part of the current economic conditions include, but are not limited to interest rate trends, local business conditions, national economic and political movement, past due ratios and concentrations.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans Receivable and Allowance for Loan Losses (Continued)

Uncollectible loans are charged to the allowance account in the period such determination is made. Subsequent recoveries on loans previously charged off are credited to the allowance account in the period received. While management uses available information to recognize losses on loans, future losses on loans may be accruable based on changes in economic conditions.

A loan is considered impaired when, based on current information; it is probable that all amounts of principal and interest due will not be collected according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. The amount of impairment is measured based on the present value of expected future cash flows discounted at the loan’s effective interest rate, or for collateral dependent loans, based on a loan’s observable market price or the fair value of the collateral.

Property and Equipment

Property and equipment are capitalized at cost for purchases greater than $5,000 with an estimated useful life of greater than one year. Depreciation of property and equipment is provided over the estimated useful lives of the respective assets on a straight-line basis summarized as follows:

Buildings	40 Years
Building Improvements	15-25 Years
Equipment	3-12 Years

Income Taxes

The Corporation qualifies as a not-for-profit organization exempt from federal and state income taxes under Internal Revenue Code Section 501(c)(3). The Corporation is classified as other than a private foundation. Accordingly, income taxes are not provided.

The Corporation files a U.S. Federal Form 990 for organizations exempt from income tax, and U.S. Federal Form 990-T for organizations exempt from income tax with unrelated business income. In addition, the Corporation files an income tax return in the State of Tennessee.

Management performs an evaluation of all income tax positions taken or expected to be taken in the course of preparing the Corporation’s income tax returns to determine whether the income tax positions meet a “more likely than not” standard of being sustained under examination by the applicable taxing authorities. Management has performed its evaluation of all income tax positions taken on all open income tax returns and has determined that there were no positions taken that do not meet the “more likely than not” standard. Accordingly, there is no provision for income taxes, penalties or interest receivable or payable relating to uncertain income tax positions in the accompanying consolidated financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Advertising Costs

Advertising costs are expensed as incurred. Advertising expense was $4,215 and $590 for the years ended December 31, 2021 and 2020, respectively.

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Allocation of Functional Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statements of functional expenses as required by professional standards for not-for-profit organizations. Accordingly, expenses have been allocated among the program activities consisting of the Corporation’s loan programs and related supervisory and advisory services and supporting services consisting of the Corporation’s administration and management functions. Functional expenses may be direct or indirect. Direct expenses, including loan loss provision and interest expense, are incurred only to benefit specific programs and are classified as program or fundraising activities accordingly. Indirect expenses include administrative support and shared operational expenses and are allocated to program and administration activities using management estimates based upon personnel time and effort.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Authoritative Accounting Guidance

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, *Leases (Topic 842)*, which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e. lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating lease. In July 2018, the FASB issued ASU 2018-10, *Codification Improvements to Topic 842, Leases*, which makes narrow scope improvements to the standard for specific issues. In July 2018, the FASB also issued ASU 2018-11, *Leases (Topic 842): Targeted Improvements*, which provided an additional transition option that allows companies to continue applying the guidance under the current lease standard in the comparative periods presented in the consolidated financial statements. ASU 2018-11 also provides lessors with a practical expedient, in certain circumstances, to not separate nonlease components from the associated lease component, similar to the expedient provided for lessees. In December 2018, the FASB issued ASU 2018-20, *Narrow-Scope Improvements for Lessors*. This ASU provides an election for lessors to exclude sales and related taxes from consideration in the contract, requires lessors to exclude from revenue and expense lessor costs paid directly to a third party by lessees, and clarifies lessors' accounting for variable payments related to both lease and nonlease components.

An entity may adopt the guidance either (1) retrospectively to each prior reporting period presented in the financial statements with a cumulative-effect adjustment recognized at the beginning of the earliest comparative period presented or (2) retrospectively at the beginning of the period of adoption through a cumulative-effect adjustment. The Corporation expects to adopt the guidance retrospectively at the beginning of the period of adoption, January 1, 2022, through a cumulative-effect adjustment, if an adjustment is necessary based on review of the Corporation's leases on that date.

The new standard provides a number of practical expedients. Upon adoption, the Corporation expects to elect all the practical expedients available.

The Corporation continues to assess the effect the guidance will have on its existing accounting policies and the consolidated financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Authoritative Accounting Guidance (Continued)

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. ASU 2016-13 creates a new credit impairment standard for financial assets measured at amortized cost and available sale debt securities. The ASU requires financial assets measured at amortized cost (including loans, trade receivables and held-to-maturity debt securities) to be presented at the net amount expected to be collected, through an allowance for credit losses that are expected to occur over the remaining life of the asset, rather than incurred losses. The ASU requires that credit losses on available-for-sale debt securities be presented as an allowance rather than as a direct write-down. The measurement of credit losses for newly recognized financial assets (other than certain purchased assets) and subsequent changes in the allowance for credit losses are recorded in the consolidated statement of activities as the amounts expected to be collected change. The ASU is effective for fiscal years beginning after December 15, 2022. The Corporation is currently evaluating the impact of adopting this new guidance on its consolidated financial statements.

Reclassifications

Certain prior year amounts have been reclassified to conform with current year presentation. These reclassifications had no effect on the prior year change in net assets.

Events Occurring After Reporting Date

The Corporation has evaluated events and transactions that occurred between December 31, 2021 and March 31, 2022, the date the consolidated financial statements were available to be issued, for possible recognition or disclosure in the consolidated financial statements.

NOTE 3 - LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The Corporation's financial assets available for general expenditure within one year of December 31 are as follows:

	2021	2020
Cash and cash equivalents	$ 7,628,648	$ 6,154,211
Restricted cash - lending	4,200,000	4,200,000
Interest receivable	608,256	1,024,568
Due from grantors for operations	243,681	317,507
Financial assets available to meet cash needs for general expenditures within one year	$ 12,680,585	$ 11,696,286

Operating cash and cash equivalents include a draw of $1,800,000 on the $6,000,000 InsBank line of credit as discussed in Note 7. The remaining $4,200,000 of the InsBank line of credit was classified as restricted cash - lending as of December 31, 2021 and 2020 but was available to meet the Corporation's general operational obligations if needed. Additionally, the "Restricted cash - loan loss reserve funds" can be used to fund the loan loss provision.

NOTE 4 - DUE FROM GRANTORS

Due from grantors consist of the following at December 31:

	2021	2020
U.S. Small Business Administration Technical Assistance Grant	$ 73,411	$ 60,802
U.S. Small Business Administration Women's Business Ownership Assistance	37,500	177,928
U.S. Small Business Administration Veteran Business Outreach Center	49,776	40,989
U.S. Small Business Administration SBA Prime	39,794	3,821
Metropolitan Development and Housing Agency Community Development Block Grant	24,200	10,641
State of Tennessee Department of Economic and Community Development	19,000	7,263
Christian Brothers University	237,500	237,500
Memphis Corporate Grant - Epicenter	200,000	416,063
	$ 681,181	$ 955,007

NOTE 5 - LOANS RECEIVABLE

The Corporation's primary business is small business lending. As a result, the Corporation's primary assets are loans receivable from borrowers.

Loan terms range from 2 to 252 months for term loans and 12 to 76 months for lines of credit. Interest rates range from 2.0% to 15.0%. Interest rates are both fixed and floating above the prime rate.

The composition of loans by primary loan classification as well as impaired and performing loan status at December 31, 2021 and 2020 is summarized in the table below:

	At December 31,			
	Commercial Real Estate Loans	Commercial Loans	Energy Efficiency Loans	Total
2021				
Performing loans	$ 87,352,094	$ 42,777,377	$ 16,853,868	$ 146,983,339
Impaired loans	2,840,544	3,722,681	53,989	6,617,214
	$ 90,192,638	$ 46,500,058	$ 16,907,857	$ 153,600,553
2020				
Performing loans	$ 62,334,531	$ 49,000,624	$ 19,637,848	$ 130,973,003
Impaired loans	2,808,771	4,480,312	64,989	7,354,072
	$ 65,143,302	$ 53,480,936	$ 19,702,837	$ 138,327,075

The allowance for possible loan losses allocation by loan classification for impaired and performing loans is summarized in the table below:

	At December 31,			
	Commercial Real Estate Loans	Commercial Loans	Energy Efficiency Loans	Total
2021				
Allowance related to:				
Performing loans	$ 1,344,757	$ 4,051,613	$ 311,797	$ 5,708,167
Impaired loans	296,253	2,878,728	53,989	3,228,970
	$ 1,641,010	$ 6,930,341	$ 365,786	$ 8,937,137
2020				
Allowance related to:				
Performing loans	$ 913,240	$ 4,652,416	$ 363,300	$ 5,928,956
Impaired loans	313,640	3,167,132	64,989	3,545,761
	$ 1,226,880	$ 7,819,548	$ 428,289	$ 9,474,717

NOTE 5 - LOANS RECEIVABLE (CONTINUED)

Changes in the allowance for loan losses for the year ended December 31, 2021 and 2020 are summarized in the table below:

	For the year ended December 31, 2021			
	Commercial Real Estate Loans	Commercial Loans	Energy Efficiency Loans	Total
Beginning Balance	$ 1,226,880	$ 7,819,548	$ 428,289	$ 9,474,717
Charged off loans	-	(365,634)	(20,052)	(385,686)
Recoveries	1,165	309,666	-	310,831
Provision for loan losses	412,965	(833,239)	(42,451)	(462,725)
Ending Balance	$ 1,641,010	$ 6,930,341	$ 365,786	$ 8,937,137

	For the year ended December 31, 2020			
	Commercial Real Estate Loans	Commercial Loans	Energy Efficiency Loans	Total
Beginning Balance	$ 915,229	$ 6,745,198	$ 366,019	$ 8,026,446
Charged off loans	-	(1,559,860)	-	(1,559,860)
Recoveries	-	325,516	-	325,516
Provision for loan losses	311,651	2,308,694	62,270	2,682,615
Ending Balance	$ 1,226,880	$ 7,819,548	$ 428,289	$ 9,474,717

All loans in the loan portfolio are commercial and industrial loans to commercial customers for use in normal business operations to finance real estate purchases, working capital needs, equipment purchases or other expansion projects. Collection risk in the portfolio is driven by the creditworthiness of the underlying borrowers, particularly cash flow from customers' business operations. The cash flow from borrowers' operations, however, may not be as expected and the borrower's repayment ability could suffer. The Commercial Real Estate loans may be more adversely affected by economic conditions in the business as opposed to general real estate market conditions due to these transactions having complete or significant levels of owner occupancy. While they may have higher economic risk, they typically have loan to values below 80 percent. The primary risk in these loans is the successful operation of the business. The risk in the loans to borrowers receiving funding for energy efficiency improvements is also primarily associated with the successful operation of the underlying business and its ability to service debt through business cash flow as most of these transactions are secured by equipment or subordinated lien positions on business assets or real property.

NOTE 5 - LOANS RECEIVABLE (CONTINUED)

The allowance for loan losses at December 31, 2021 and 2020 is $8,937,137 or 5.82% of gross loans and $9,474,717 or 6.85% of gross loans, respectively.

In assessing the adequacy of the allowance for loan losses, management analyzes three broad categories of loans: Commercial Real Estate, Commercial, and Energy Efficiency Loans. All loans are subject to underwriting standards and receive risk ratings by management. The Senior Vice President of Loan Operations and the Chief Credit Officer are responsible for monitoring credits and making recommendations to the Staff Loan Committee regarding accurate assignment of risk ratings throughout the life of the loan. A review of loan ratings takes place no less than quarterly. Risk ratings are categorized as Pass One, Pass Two, Pass Two/Watch, Substandard, or Doubtful/Loss which are defined as follows:

- Pass One - During the underwriting process, management will determine if a loan meets Pathway Lending's underwriting criteria. All approved loans will be assigned an initial risk rating of Pass One. If the borrower's repayment history and financial condition remains satisfactory, the risk rating will not change.

- Pass Two - Assets in this category have most of the same characteristics as a loan rated Pass One. However, the occurrence or potential occurrence of an event has been identified that would moderately increase the level of risk. Such events might include an adverse trend in financial performance or a specific event that has negatively impacted the borrower. Close supervision of these loans is required by the Portfolio Manager. Loans assigned to this risk rating must be upgraded or downgraded within 12 months.

- Pass Two/Watch - Assets in this category have deteriorated from the Pass Two category. Assets in this category have had an occurrence of an event or an occurrence of an event is imminent that has increased the level of risk. Events include continued weakening of financial performance, loss of customers or contracts, that if continued will impair the client's ability to repay. These credits are placed on the watch-list for additional monitoring along with the implementation, if possible, of advisory services.

- Substandard - Loans in this category have well-defined weaknesses that jeopardize the collection of the debt and expose Pathway Lending to increased risk of loss. These loans are marginally protected by the repayment capacity of the borrower, guarantors, and the collateral. These loans require special monitoring and management to mitigate increased losses.

- Doubtful/Loss - Assets in this category exhibit serious risks that will likely hinder the collection of the full loan balance and result in a loss. These loans are severely unprotected by the repayment capacity of the borrower, guarantors, and the collateral. Strict management attention is required.

NOTE 5 - LOANS RECEIVABLE (CONTINUED)

The following table outlines the amount of each loan classification and the amount categorized into each risk rating class as of December 31, 2021 and 2020:

	At December 31,			
	Commercial Real Estate Loans		Commercial Loans	
	2021	2020	2021	2020
Loan Risk Ratings:				
Pass One	$ 76,330,577	$ 55,486,213	$ 30,428,405	$ 39,798,956
Pass Two	11,021,517	6,848,318	12,348,972	9,201,668
Substandard	2,840,544	2,808,771	3,641,347	4,288,007
Doubtful/Loss	-	-	81,334	192,305
	$ 90,192,638	$ 65,143,302	$ 46,500,058	$ 53,480,936

	Energy Efficiency Loans		Total	
	2021	2020	2021	2020
Pass One	$ 16,834,251	$ 19,605,428	$ 123,593,233	$ 114,890,597
Pass Two	19,617	32,420	23,390,106	16,082,406
Substandard	-	-	6,481,891	7,096,778
Doubtful/Loss	53,989	64,989	135,323	257,294
	$ 16,907,857	$ 19,702,837	$ 153,600,553	$ 138,327,075

Impaired loans are individually evaluated for impairment. The Corporation does not have any loans that are collectively evaluated for impairment. The principal balance of loans considered for impairment amounted to $6,617,214 and $7,354,072 at December 31, 2021 and 2020, respectively and are included in the risk-rated tables.

NOTE 5 - LOANS RECEIVABLE (CONTINUED)

The following table details the recorded investment, unpaid principal balance and related allowance and average recorded investment of our impaired loans at December 31, 2021 and 2020 by loan category and the amount of interest income recognized on these loans on a cash basis throughout 2021 and 2020:

	At December 31, 2021			For the year ended December 31, 2021	
	Recorded Investment	Unpaid principal balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Impaired loans with no recorded allowance:					
Commercial Real Estate Loans	$ 1,734,071	$ 1,734,071	$ -	$ 1,734,071	$ 120,368
Commercial Loans	249,742	249,742	-	266,385	23,160
Energy Efficiency Loans	-	-	-	-	-
Total	$ 1,983,813	$ 1,983,813	$ -	$ 2,000,456	$ 143,528
Impaired loans with a recorded allowance:					
Commercial Real Estate Loans	$ 1,106,473	$ 1,106,473	$ 296,253	$ 1,108,110	$ 15,365
Commercial Loans	3,472,939	3,472,939	2,878,728	3,711,278	131,894
Energy Efficiency Loans	53,989	53,989	53,989	58,739	-
Total	$ 4,633,401	$ 4,633,401	$ 3,228,970	$ 4,878,127	$ 147,259

	At December 31, 2020			For the year ended December 31, 2020	
	Recorded Investment	Unpaid principal balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Impaired loans with no recorded allowance:					
Commercial Real Estate Loans	$ 1,328,571	$ 1,328,571	$ -	$ 1,328,571	$ 104,400
Commercial Loans	141,580	141,580	-	150,179	1,809
Energy Efficiency Loans	-	-	-	-	-
Total	$ 1,470,151	$ 1,470,151	$ -	$ 1,478,750	$ 106,209
Impaired loans with a recorded allowance:					
Commercial Real Estate Loans	$ 1,480,200	$ 1,480,200	$ 313,640	$ 1,479,559	$ 15,811
Commercial Loans	4,338,732	4,338,732	3,167,132	4,411,281	99,143
Energy Efficiency Loans	64,989	64,989	64,989	70,239	-
Total	$ 5,883,921	$ 5,883,921	$ 3,545,761	$ 5,961,079	$ 114,954

NOTE 5 - LOANS RECEIVABLE (CONTINUED)

The tables below present past due balances at December 31, 2021 and 2020, by loan classification allocated between performing and impaired status:

	At December 31, 2021					
	31-89 Days Past Due	Greater Than 90 Days and Performing	Total Past Due and Performing	Impaired	Current and Performing	Total Loans
Commercial Real Estate Loans	$ -	$ -	$ -	$ 2,840,544	$ 87,352,094	$ 90,192,638
Commercial Loans	16,062	-	16,062	3,722,681	42,761,315	46,500,058
Energy Efficiency Loans	-	-	-	53,989	16,853,868	16,907,857
	$ 16,062	$ -	$ 16,062	$ 6,617,214	$ 146,967,277	$ 153,600,553

	At December 31, 2020					
	31-89 Days Past Due	Greater Than 90 Days and Performing	Total Past Due and Performing	Impaired	Current and Performing	Total Loans
Commercial Real Estate Loans	$ -	$ -	$ -	$ 2,808,771	$ 62,334,531	$ 65,143,302
Commercial Loans	98,220	-	98,220	4,480,312	48,902,404	53,480,936
Energy Efficiency Loans	-	-	-	64,989	19,637,848	19,702,837
	$ 98,220	$ -	$ 98,220	$ 7,354,072	$ 130,874,783	$ 138,327,075

Nonaccrual loans totaled $4,288,414 and $5,783,504 as of December 31, 2021 and 2020, respectively. There are no loans past due more than 90 days and still accruing interest.

Due to the weakening credit status of a borrower, the Corporation may elect to formally restructure certain loan terms to facilitate a repayment plan that seeks to minimize potential losses. These loans are considered troubled debt restructurings. During 2021 the Corporation had nine commercial restructurings that qualified as troubled debt restructurings with a total balance of $523,237 as of December 31, 2021. All troubled debt restructurings are considered impaired and included in the tables above. Specific reserves attributed to troubled debt restructurings totaled $231,564 as of December 31, 2021. During 2020 the Corporation had eight commercial restructurings that qualified as troubled debt restructurings with a total balance of $290,502 as of December 31, 2020. All troubled debt restructurings are considered impaired and included in the tables above. Specific reserves attributed to troubled debt restructurings totaled $43,787 as of December 31, 2020.

NOTE 5 - LOANS RECEIVABLE (CONTINUED)

Loans receivable are typically collateralized by signed security agreements pledging assets of the business and personal guarantees.

Loans receivable consist of 733 loans at December 31, 2021 (653 loans at December 31, 2020) with principal balances ranging from $108 to $7,000,000. Terms vary from principal and interest due monthly to interest only with a balloon payment due at maturity. All SBA loans have been pledged as collateral to their respective federal programs according to their terms and conditions.

Certain parties (principally entities affiliated with members of our Board of Directors) were customers of and had loans with the Corporation in the ordinary course of business. These loan transactions were made on substantially the same terms as those prevailing at the time for comparable loans to other customers. They did not involve more than the normal risk of collectability or present other unfavorable terms. Loans to related parties as of December 31 were as follows:

	2021	2020
Balance, January 1	$ 170,220	$ -
Advances and other additions	298,500	193,360
Repayments and other reductions	(60,173)	(23,140)
Balance, December 31	$ 408,547	$ 170,220

A schedule, by year, of principal maturities of loans receivable as of December 31, 2021 follows:

<u>Year ending December 31,</u>

2022	$ 26,400,477
2023	20,289,066
2024	13,457,217
2025	18,770,190
2026	18,197,835
Thereafter	56,485,768
	153,600,553
Less: Allowance for loan losses	(8,937,137)
Total	$ 144,663,416

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of December 31:

	2021	2020
Buildings and improvements	$ 3,663,555	$ 3,646,387
Equipment	283,831	298,673
	3,947,386	3,945,060
Less: accumulated depreciation	(914,235)	(831,277)
Property and equipment - net	$ 3,033,151	$ 3,113,783

NOTE 7 - LINES OF CREDIT

The Corporation entered into a $1,000,000 secured line of credit with a financial institution on December 9, 2011 for working capital. The line of credit is collateralized by loans receivable and equipment. On December 30, 2014, this line was increased to $4,000,000. On August 4, 2016, the line was extended until August 4, 2017 and the interest rate was amended to the WSJ prime rate minus 4%. On August 4, 2017, the line was increased to $5,000,000 and extended until August 4, 2018. On August 4, 2018, the line was increased to $6,000,000 and extended until August 5, 2019. On August 5, 2019, the line was extended to August 5, 2020 and on November 5, 2020, the line was extended to November 5, 2021. On November 5, 2021, the line was extended to November 5, 2022. At December 31, 2021 and 2020, the rate was 0.00%. The amount borrowed and outstanding for the years ended December 31, 2021 and 2020 was $6,000,000.

The Corporation established a $10,000,000 secured line of credit with a financial institution on March 31, 2015. This line is part of the SBJOF portfolio and has a rate of WSJ prime rate minus 4%. On July 25, 2016, this line was increased to $13,000,000 and the maturity was extended to June 30, 2017. On June 30, 2017, the line was increased to $16,000,000 and extended until June 29, 2018. On June 29, 2018 the line was extended until June 29, 2019. On July 12, 2019, the line was extended to July 11, 2020. On July 11, 2020, the line was extended until July 10, 2021 and on July 22, 2021 the line was extended to July 8, 2022. At December 31, 2021 and 2020, the rate was 0.00%. The amount borrowed and outstanding for the years ended December 31, 2021 and 2020 was $16,000,000.

NOTE 7 - LINES OF CREDIT (CONTINUED)

The Corporation entered into a $3,500,000 secured line of credit with a financial institution on December 29, 2016. This line is part of the MFIPT portfolio and has a rate of WSJ prime rate minus 4%. On December 28, 2017, the line was increased to $5,000,000 and extended until June 29, 2019. On June 26, 2019, the line was extended to September 27, 2019. On September 27, 2019, the line was extended to January 24, 2020. On January 24, 2020, the line was extended to May 24, 2020. On May 24, 2020, the line was extended to May 31, 2021 and on May 31, 2021 the line was extended to June 1, 2022. At December 31, 2021 and 2020, the rate was 0.00%. The amount borrowed and outstanding for the years ended December 31, 2021 and 2020 was $5,000,000.

The Corporation entered into a $10,000,000 secured line of credit with a financial institution on November 26, 2019. This line is part of the MFIPT portfolio and has a rate of WSJ prime rate minus 4%. The line was extended in December 2020 and again in February 2021. On May 28, 2021 the line was increased to $15,000,000 and extended to May 5, 2022. At December 31, 2021 and 2020, the rate was 0.00%. The amount borrowed and outstanding for the years ended December 31, 2021 and 2020 was $15,000,000 and $10,000,000, respectively.

The Corporation entered into a $15,000,000 secured line of credit with a financial institution on June 30, 2021. This line is part of the MFIPT portfolio and has a rate of WSJ prime rate minus 4%. The line matures on June 30, 2022. At December 31, 2021, the rate was 0.00%. The amount borrowed and outstanding for the years ended December 31, 2021 and 2020 was $15,000,000 and $0, respectively.

The Corporation’s line of credit agreement with a financial institution requires the maintenance of certain financial and non-financial covenants. The Corporation is in compliance with all covenants as of December 31, 2021.

The Corporation has a blanket agreement for advances and related security agreement (the “Blanket Agreement”) with the Federal Home Loan Bank (“FHLB”) of Cincinnati. Advances made to the Corporation under the Blanket Agreement would be collateralized by FHLB stock and unidentified qualifying multi-family residential mortgage loans. These collateralization matters are outlined in the Blanket Agreement dated December 3, 2018, between the Corporation and the FHLB. There were no borrowings as of 2021.

Stock held in the FHLB totaling $301,200 at December 31, 2021 is carried at cost. The stock is restricted and can only be sold back to the FHLB at par.

NOTE 8 - MORTGAGES AND NOTES PAYABLE

Mortgages and notes payable consist of the following at December 31:

	2021	2020
General corporate debt:		
Mortgages payable	$ 1,714,025	$ 1,883,189
Other payable	161,755	223,707
	1,875,780	2,106,896
Lending program debt:		
SBA notes payable	1,168,731	1,460,487
Other notes payable	46,215,492	16,250,000
Equity equivalent agreements	105,566,587	94,304,924
	152,950,810	112,015,411
Total mortgages and notes payable	$ 154,826,590	$ 114,122,307

The Corporation has a mortgage payable on its principal office building in Nashville. The mortgage was refinanced during 2020. Terms require monthly payments of principal and interest for 59 months and a final payment of all principal and interest, at a floating rate equal to prime minus 4% (0.00% at December 31, 2021 and 2020), maturing April 1, 2026. The mortgage payable is secured by the building with a net book value of $1,272,948. The mortgage balance for the years ended December 31, 2021 and 2020 was $496,038 and $610,470, respectively.

On February 25, 2019, the Corporation secured financing in the amount of $1,368,500 for the purchase of a building on an adjacent lot. Terms require monthly payments of principal and interest for 59 months and a final payment of all principal and interest, at a floating rate equal to prime minus 4% (0.00% at December 31, 2021 and 2020), maturing February 25, 2024. The mortgage payable is secured by the building with a net book value of $1,687,463. The mortgage balance for the years ended December 31, 2021 and 2020 was $1,217,987 and $1,272,719, respectively.

NOTE 8 - MORTGAGES AND NOTES PAYABLE (CONTINUED)

Other Payable

The Corporation has a note payable related to severance fees paid to Tech 20/20 during 2015. On September 7, 2019, the Corporation refinanced the note payable to reduce the note payable on the new building. The new terms require principal and interest payments for 60 months, with a final payment of all unpaid principal and interest on September 6, 2024. Interest is calculated as prime minus 4% (0.00% at December 31, 2021 and 2020). The balance for the years ended December 31, 2021 and 2020 was $161,755 and $223,707, respectively.

SBA Notes Payable

Notes payable to SBA are specific to fund the SBA Micro Loan program. These notes have a first year 2% rate buy down, and no principal or interest payments are required for the first 12 months. Beginning in month 13, principal and interest are amortized over the next 108 months. The interest rates range from 0% to 1.5% at December 31, 2021 and 2020. The loans mature at the end of 10 years.

SBA Notes Payable	Origination Date	Note Amount	2021	2020
5274865002	8/30/2012	$ 550,000	$ 40,741	$ 101,852
7508625003	5/26/2015	750,000	287,498	370,794
8478565001	8/1/2016	750,000	388,889	472,222
2856927006	8/30/2018	600,000	451,603	515,619
		$ 2,650,000	$ 1,168,731	$ 1,460,487

NOTE 8 - MORTGAGES AND NOTES PAYABLE (CONTINUED)

Other Notes Payable

Other notes payable are to the Tennessee Valley Authority (TVA) and other banks and foundations that provided financing for the Corporation's various loan programs.

	Origination Date	Interest Rate	Note Amount	Principal Balance Outstanding 2021	Principal Balance Outstanding 2020
Appalachian Community Capital note (Principal due $1,000,000 per year on March 31, 2021, 2022 and 2023)	9/28/2015	2.63%	$ 3,000,000	$ 2,000,000	$ 3,000,000
Regions Bank, 3% (Principal due upon maturity - June 30, 2022)	6/30/2017	3.00%	$ 1,000,000	$ 1,000,000	$ 1,000,000
US Bank note (Principal due upon maturity - October 2022)	10/23/2018	3.00%	2,000,000	2,000,000	2,000,000
Kresge Foundation (Principal due upon maturity - December 2029)	12/12/2019	2.00%	250,000	250,000	250,000
PNC Bank PPP Facilitation Loan 1% matures May 2026 payments subject to PPP forgiveness in 2022	3/12/2021	1.00%	765,492	765,492	-
TVA - 10 Years, No Interest (Principal due upon maturity - May 2031)	5/18/2021	0.00%	10,000,000	10,000,000	10,000,000
Regions Bank (Principal due upon maturity - July 2039)	7/9/2021	0.00%	10,000,000	10,000,000	-
Truist Bank (Principal due upon maturity - July 2039)	7/9/2021	0.00%	10,000,000	10,000,000	-
First Horizon (Principal due upon maturity - July 2039)	7/9/2021	0.00%	10,000,000	10,000,000	-
Veterans Loan Fund, 2.6% matures December 2028	12/31/2021	2.60%	200,000	200,000	-
Total			$ 47,215,492	$ 46,215,492	$ 16,250,000

NOTE 8 - MORTGAGES AND NOTES PAYABLE (CONTINUED)

Equity Equivalent Agreements

Equity equivalent agreements are bank debt instruments that are subordinated to all other debt except similar subordinated equity equivalent type notes. The Corporation uses these notes to fund their TN-SBJOF, ROF, KCTJF, NOF, MFIPT, ARC, ASBOF, MSBOF, and RLF loan funds. Loan fund descriptions can be found in the supplemental information section of these financial statements. Notes have maturity dates of five or ten years from the date of origination and include automatic extension features that begin on the second or seventh anniversary of the note. Absent prior notice by the lender, the maturity date is automatically extended for one additional year, so that upon each extension the remaining three-year maturity is extended to four years. Interest is compounded on a quarterly basis and principal and unpaid interest is due at maturity. For the lending financial institutions, the agreements meet the investment requirements of the Community Reinvestment Act and carry a below market interest rate based on the community development purpose of relending the loan proceeds to certain disadvantaged businesses. Agreements that fund the Corporation's ROF and the TN-SBJOF attribute certain State of Tennessee tax benefits to participating financial institutions that require forgiveness of the debt at the tenth anniversary of the note, or forfeiture of all previously claimed tax credits, plus interest and penalties, relating to the lender's investment. It is anticipated that ROF and TN-SBJOF agreements will be forgiven at their tenth anniversary. During the year ended December 31, 2021, $3,938,337 of TN-SBJOF debt was forgiven ($2,500,000 as of December 31, 2020) and the contributed amount received was recognized accordingly.

The notes have interest rates ranging from 0% to 3% per annum. Maturity dates range from August 2022 to July 2039.

Principal advanced during 2021 and 2020 amounted to $15,200,000 and $2,500,000, respectively. The principal balance outstanding at December 31, 2021 and 2020 was $105,566,587 and $94,304,924 respectively.

Maturities of mortgages and notes payable as of December 31, 2021 are as follows:

Year ending December 31,	
2022	$ 5,269,173
2023	1,464,129
2024	1,495,012
2025	302,094
2026	161,839
Thereafter	40,567,756
Equity equivalent agreements	105,566,587
	$ 154,826,590

NOTE 9 - NET ASSETS

Net assets consist of the following at December 31:

	2021	2020
Without donor restrictions:		
Undesignated	$ 14,980,026	$ 6,136,182
Designated by the board of directors for loan capital	26,429,228	25,977,828
	41,409,254	32,114,010
With donor restrictions:		
Purpose restricted	2,010,711	2,010,711
Total net assets	$ 43,419,965	$ 34,124,721

Net assets designated by the Board of Directors for loan capital is composed of the following items as of December 31, 2021 and 2020:

	2021	2020
SBJOF State Grant (net of losses and recoveries)	$ 3,989,228	$ 4,012,828
TNEEF State Grant 2010 (net of losses and recoveries)	14,000,000	14,000,000
TNROF State Grant 2017-2019 (net of losses and recoveries)	7,125,000	7,125,000
OFN Contribution (Starbucks Initiative)	230,000	230,000
UCB Contribution (Pathway Memphis LLC)	950,000	475,000
Regions Bank	135,000	135,000
	$ 26,429,228	$ 25,977,828

NOTE 9 - NET ASSETS (CONTINUED)

Net assets with donor restrictions consist of contributions received for the purpose of establishing cash reserves to cover future loan write offs for the KCTJF, MSBOF and ARC programs and operational expenses for the WBC programs. Operational revenues for the WBC are moved to net assets without donor restrictions as time passes. As actual loan losses are recognized, cash from these loan loss reserves is transferred to the corresponding lending accounts to replenish lending funds.

	ARC	KCTJF	WBC	ASBOF	MSBOF	Total
Net Assets with Donor Restrictions						
January 1, 2020	$ 250,000	$ 394,286	$ 18,000	$ 176,916	$ 1,000,000	$ 1,839,202
Increases	-	-	18,000	-	-	18,000
Releases from restriction	-	-	(18,000)	-	-	(18,000)
Loan loss reserve usage (release)	-	-	-	171,509	-	171,509
December 31, 2020	250,000	394,286	18,000	348,425	1,000,000	2,010,711
Increases (decreases)	-	-	18,000	-	-	18,000
Releases from restriction	-	-	(18,000)	-	-	(18,000)
December 31, 2021	$ 250,000	$ 394,286	$ 18,000	$ 348,425	$ 1,000,000	$ 2,010,711

NOTE 10 - RISKS, CONTINGENCIES, AND ECONOMIC CONCENTRATION

The Corporation maintains cash balances at financial institutions whose accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to statutory limits. The Corporation's cash balances generally exceed statutory limits. Management performs a quarterly analysis on four of the financial institutions. This analysis is performed by using the Uniform Bank Performance Report to ensure continued financial health of the institutions. The Corporation reviews specific financial measures to determine the relative financial strength of the banks and to determine if there has been a change in the conditions of the banks. The Corporation has not experienced any losses in such accounts and management considers this to be a normal business risk.

Loans receivable are subject to the risk that borrowers may not be able to make payments. The Corporation manages this risk by educating borrowers in budget and credit management before and after making the loan, subjecting borrowers to certain credit and income standards consistently applied by its loan committee, verifying the credit rating, income, assets and collateral of borrowers and monitoring borrower compliance with loan agreements. In addition, the Corporation may use its loan loss reserve funds, which totaled $15,973,874 and $13,790,021 as of December 31, 2021 and 2020, respectively, to cover any loan losses.

NOTE 10 - RISKS, CONTINGENCIES, AND ECONOMIC CONCENTRATION

The Corporation's various programs receive funding from several federal, state and local grants. During 2020, the Corporation was the recipient of a Coronavirus Relief Fund grant passed through the Metropolitan Government of Nashville and Davidson County in the amount of $5,865,354 or 29% of 2020 total revenue and support. The majority of these funds (96%) were granted out to small businesses, arts organizations and music venues in response to the COVID pandemic.

NOTE 11 - FAIR VALUE MEASUREMENTS

The Corporation classifies its assets based on a hierarchy consisting of: Level 1 (assets valued using quoted prices from active markets for identical assets), Level 2 (assets not traded on an active market but for which observable market inputs are readily available), and Level 3 (assets valued based on significant unobservable inputs). The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value on a non-recurring basis:

Impaired Loans - A loan is considered to be impaired when collection of all principal and interest payments in accordance with the contractual terms of the loan agreement is not probable. Individually identified impaired loans are measured based on the present value of expected payments using the loan's original effective rate as the discount rate, the loan's observable market price, or the fair value of the collateral if the loan is collateral dependent. If the recorded investment in the impaired loan exceeds the measure of fair value, a valuation allowance may be established as a component of the allowance for loan losses. Impaired loans are recorded as nonrecurring Level 3 of the valuation hierarchy.

There have been no changes in the valuation methodologies used at December 31, 2021 and 2020.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Corporation's valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

NOTE 11 - FAIR VALUE MEASUREMENTS (CONTINUED)

The following table sets forth the Corporation's major category of assets measured at fair value on a nonrecurring basis at December 31, 2021 and 2020:

	Total reported value in the Statement of Financial Position	Level 1	Level 2	Level 3
2021				
Impaired Loans (included in loans receivable)	$ 1,404,431	$ -	$ -	$ 1,404,431
2020				
Impaired Loans (included in loans receivable)	$ 2,338,160	$ -	$ -	$ 2,338,160

The following table present additional quantitative information about assets measured at fair value on a non-recurring basis and for which we have utilized Level 3 inputs to determine fair value at December 31:

	2021 Fair Value	2020 Fair Value	Valuation Techniques	Significant Unobservable Inputs
Impaired Loans	$ 1,404,431	$ 2,338,160	Appraisal	Discounts for Costs to Sell and Marketability of Collateral
			Present Value of Expected Future Cash Flows	Payment Streams and Discount Rates

NOTE 12 - RETIREMENT PLAN

The Corporation has engaged an outsourced human resource firm to manage and provide benefits which includes a 401(k) program. Matching contributions are made on behalf of participants in an amount equal to 100% of the amount of the eligible participants’ elective deferrals up to 3% of their compensation and 50% of the amount of the participants’ elective deferrals that exceed 3% of their compensation, up to 5%. Amounts contributed to the plan by the Corporation were $146,192 for 2021 and $126,007 for 2020.

NOTE 13 - SUPPLEMENTAL EXECUTIVE RETIREMENT AGREEMENT

In January 2016, the Corporation entered into a supplemental executive retirement agreement with its President. In connection with this agreement, a life insurance policy was purchased on the life of the President. The agreement requires the policy, less $200,000 of cash surrender value to be retained by the Corporation, to be transferred to the President upon his 65th birthday. If, prior to age 65, the President voluntarily separates from the Corporation or is terminated for cause, all benefits are forfeited. If, prior to age 65, the President is terminated without cause or there is a change in control, the policy shall transfer to the President within 30 days of the event. Should the President become disabled prior to his 65th birthday, he shall be entitled to 25%-75% of the cash surrender value of the policy. The amount accrued for this agreement at December 31, 2021 was $3,863.

In December of 2020, the Corporation implemented a supplemental executive retirement plan for members of the executive and management group. The plan provides a benefit only after a participant has achieved 10 years of service for each year thereafter until retirement age. Vesting occurs when the employee attains retirement age unless there is an involuntary separation from service, a disability, a change in control, or a death of the participant prior to retirement age. Any voluntary separation from service by participant will result in forfeiture of all amounts and immediate termination of participation in the plan. The amount accrued for this agreement at December 31, 2021 was $122,000.

NOTE 14 - PATHWAY MEMPHIS, LLC

Pathway Memphis, LLC is a subsidiary organization of Southeast Community Capital Corporation d/b/a Pathway Lending, and was created in 2019, with a primary objective of the relief of poverty, the elimination of prejudice, the lessening of neighborhood tensions, and the combating of community deterioration in certain economically depressed areas located within the Memphis Metropolitan Area and enhancing minority-owned and/or women-owned businesses, small businesses, and disadvantaged businesses operating or located within the Memphis Metropolitan Statistical Area through a program of financial assistance and other aid designed to improve economic conditions and economic opportunities in these areas, and other charitable programs and engaging in any and all actions necessary or incidental to the foregoing. Accordingly, Pathway Memphis, continues to further the mission of Corporation and financial position and activities are consolidated on the Corporation's financial statements.

The following is a summary of financial position provided by Pathway Memphis, LLC as of December 31:

	2021	2020
ASSETS		
Restricted cash - lending	$ 594,544	$ 460,000
Interest receivable	3,707	627
Loans receivable	354,217	33,760
TOTAL ASSETS	$ 952,468	$ 494,387
LIABILITIES AND NET ASSETS		
LIABILITIES		
Interest payable	$ 10,178	$ 5,164
Notes payable	250,000	250,000
Other liabilities	50,000	12,500
TOTAL LIABILITIES	310,178	267,664
NET ASSETS		
Without donor restrictions:		
Undesignated (deficit)	(70,210)	(10,777)
Board designated	712,500	237,500
TOTAL NET ASSETS	642,290	226,723
TOTAL LIABILITIES AND NET ASSETS	$ 952,468	$ 494,387

NOTE 14 - PATHWAY MEMPHIS, LLC (CONTINUED)

The following summarizes the activity of Pathway Memphis, LLC for the year ended December 31:

	2021	2020
Contribution from Pathway Lending	$ 475,000	$ -
Interest income - bank deposits	3,081	627
TOTAL REVENUE AND OTHER SUPPORT	478,081	627
EXPENSES		
Program activities	62,514	11,240
CHANGE IN NET ASSETS	415,567	(10,613)
NET ASSETS - BEGINNING OF YEAR	226,723	237,336
NET ASSETS - END OF YEAR	$ 642,290	$ 226,723

NOTE 15 - NMTC PROGRAM

During 2021, PWL NMTC was awarded $30,000,000 in New Market Tax Credit allocations to support development in low-income areas throughout its service area. Pathway CDE has deployed $17 million of the $30 million NMTC allocation through its CDE.

SUPPLEMENTARY INFORMATION

SOUTHEAST COMMUNITY CAPITAL CORPORATION
AND SUBSIDIARIES d/b/a PATHWAY LENDING

SCHEDULE OF EQUITY EQUIVALENT AGREEMENTS

DECEMBER 31, 2021 AND 2020

	Origination Date	Original Note Amount	December 31 2021	December 31 2020
Synovus Bank (fka The Bank of Nashville) (Nashville, TN)	9/28/2006	$ 500,000	$ 500,000	$ 500,000
Pinnacle Bank (Nashville, TN)	1/15/2006	750,000	750,000	750,000
Renasant Bank (fka Capital Bank & Trust)	12/28/2006	200,000	200,000	200,000
InsBank (Nashville, TN)	12/29/2006	300,000	300,000	300,000
First Horizon Bank (fka Capital Bank) (Memphis, TN)	12/20/2006	800,000	794,604	794,604
Pinnacle Bank (Nashville, TN)	12/18/2007	250,000	250,000	250,000
Regions (Birmingham, AL)	5/22/2011	2,100,000	-	2,100,000
CapStar Bank (Nashville, TN)	12/30/2011	100,000	-	100,000
FirstBank	12/30/2011	538,337	-	538,337
Citizens Bank (Carthage, TN)	12/22/2011	1,200,000	-	1,200,000
Tennessee State Bank (Pigeon Forge, TN)	5/3/2012	1,270,847	1,270,847	1,270,847
Wilson Bank & Trust Company (Lebanon, TN)	6/5/2012	1,000,000	1,000,000	1,000,000
First Community (Shelbyville, TN)	8/15/2012	350,000	350,000	350,000
Regions (Birmingham, AL)	4/13/2013	5,000,000	5,000,000	5,000,000
CapStar Bank (Nashville, TN)	5/30/2013	900,000	900,000	900,000
Pinnacle Bank (Nashville, TN)	12/30/2013	1,000,000	1,000,000	1,000,000
Pinnacle Bank (Nashville, TN)	12/30/2013	1,000,000	1,000,000	1,000,000
CB&S Bank (Russellville, AL)	3/25/2014	1,000,000	1,000,000	1,000,000
Regions Bank (Birmingham, AL)	12/5/2014	1,500,000	1,500,000	1,500,000
Pinnacle Bank (fka Avenue Bank) (Nashville, TN)	12/18/2014	500,000	500,000	500,000
CapStar Bank (Nashville, TN)	8/24/2015	500,000	500,000	500,000
Wells Fargo (Minneapolis, MN)	9/29/2015	1,000,000	1,000,000	1,000,000
Pinnacle Bank (Nashville, TN)	12/16/2015	1,000,000	1,000,000	1,000,000
Truxton Trust (Nashville, TN)	12/29/2015	150,000	150,000	150,000
Citizens Bank (Elizabethton, TN)	12/30/2015	500,000	500,000	500,000
First Horizon (fka First Tennessee Bank (Memphis, TN)	4/5/2016	5,000,000	5,000,000	5,000,000
TriStar Bank (Dickson, TN)	7/29/2016	1,000,000	1,000,000	1,000,000
Reliant Bank (fka First Advantage Bank)	8/18/2016	1,000,000	1,000,000	1,000,000
First Horizon Bank (fka Capital Bank) Memphis, TN)	8/29/2016	4,000,000	4,000,000	4,000,000
InsBank (Nashville, TN)	9/8/2016	1,318,930	1,318,930	1,318,930
Pinnacle Bank (Nashville, TN)	12/22/2016	3,000,000	3,000,000	3,000,000
Pinnacle Bank (Nashville, TN)	12/22/2016	4,500,000	4,500,000	4,500,000
Wells Fargo (Minneapolis, MN)	12/27/2016	1,000,000	1,000,000	1,000,000
F&M Bank (Clarksville, TN)	4/13/2017	500,000	500,000	500,000
First Horizon Bank (fka Capital Bank) (Memphis, TN)	6/22/2017	2,000,000	1,999,348	1,999,348
CB&S Bank (Rogersville, AL)	6/28/2017	500,000	500,000	500,000
Commercial Bank & Trust (Paris, TN)	7/17/2017	500,000	500,000	500,000
Compass/BBVA (Houston, TX)	8/15/2017	5,000,000	2,500,000	2,500,000
Pinnacle Bank (Nashville, TN)	8/25/2017	500,000	500,000	500,000
Pinnacle Bank (fka Prime Trust Bank) (Nashville, TN)	8/25/2017	250,000	250,000	250,000
Peoples Bank of Alabama	10/16/2017	100,000	100,000	100,000
Reliant Bank (fka Community Bank & Trust)	12/13/2017	100,000	100,000	100,000
Decatur County Bank (Decaturville, TN)	12/15/2017	200,000	200,000	200,000

(continued)

SOUTHEAST COMMUNITY CAPITAL CORPORATION
AND SUBSIDIARIES d/b/a PATHWAY LENDING

SCHEDULE OF EQUITY EQUIVALENT AGREEMENTS

DECEMBER 31, 2021 AND 2020

	Origination Date	Original Note Amount	December 31 2021	December 31 2020
Citizen's Bank (Elizabethton, TN)	12/20/2017	$ 500,000	$ 500,000	$ 500,000
FirstBank (fka Franklin Synergy)	12/21/2017	2,000,000	2,000,000	2,000,000
FirstBank (fka Franklin Synergy)	12/21/2017	1,000,000	1,000,000	1,000,000
FirstBank (fka Franklin Synergy)	12/21/2017	2,000,000	2,000,000	2,000,000
Centennial Bank (fka Farmers and Merchants) (Trezevant, TN)	12/22/2017	50,000	50,000	50,000
Simmons	1/23/2018	100,000	100,000	100,000
Pinnacle Bank	5/24/2018	5,000,000	5,000,000	5,000,000
Pinnacle Bank	5/24/2018	2,500,000	2,500,000	2,500,000
Regions Bank	6/26/2018	2,500,000	2,500,000	2,500,000
SunTrust Bank	6/29/2018	732,858	732,858	732,858
First Horizon Bank (fka First Tennessee Bank) (Memphis, TN)	7/30/2018	5,000,000	5,000,000	5,000,000
First Citizens National Bank	12/3/2018	500,000	500,000	500,000
Truxton Trust	12/4/2018	400,000	400,000	400,000
Macon Bank and Trust Company	12/26/2018	250,000	250,000	250,000
Legends Bank	12/27/2018	300,000	300,000	300,000
McKenzie Bank	2/15/2019	100,000	100,000	100,000
Security Bank and Trust Company	5/3/2019	1,500,000	1,500,000	1,500,000
Security Bank and Trust Company	5/3/2019	500,000	500,000	500,000
Regions Bank	6/24/2019	1,500,000	1,500,000	1,500,000
Regions Bank	6/24/2019	4,500,000	4,500,000	4,500,000
FirstBank	7/29/2019	500,000	500,000	500,000
FirstBank	7/29/2019	500,000	500,000	500,000
FirstBank	7/29/2019	1,000,000	1,000,000	1,000,000
Wilson Bank & Trust	11/12/2019	1,000,000	1,000,000	1,000,000
Andrew Johnson	11/25/2019	250,000	250,000	250,000
Wilson Bank & Trust	11/26/2019	1,500,000	1,500,000	1,500,000
Paragon	12/17/2019	500,000	500,000	500,000
Paragon	12/17/2019	250,000	250,000	250,000
FirstBank	12/18/2019	1,000,000	1,000,000	1,000,000
FirstBank	12/18/2019	1,000,000	1,000,000	1,000,000
InsBank	12/23/2019	2,000,000	2,000,000	2,000,000
Pinnacle Bank	6/15/2020	2,000,000	2,000,000	2,000,000
Legends Bank	6/25/2020	500,000	500,000	500,000
Legends Bank	2/19/2021	1,000,000	1,000,000	-
Cadence Bank, NA	12/17/2021	5,000,000	5,000,000	-
First Farmers and Merchants Bank	9/1/2021	500,000	500,000	-
Commercial Bank and Trust	3/25/2021	500,000	500,000	-
FirstBank	6/21/2021	2,600,000	2,600,000	-
Regions Bank	7/7/2021	2,100,000	2,100,000	-
TriStar Bank	5/20/2021	500,000	500,000	-
Bank3	12/23/2021	500,000	500,000	-
Pinnacle Bank	3/2/2021	2,500,000	2,500,000	-
		$ 112,010,972	$ 105,566,587	$ 94,304,924

SOUTHEAST COMMUNITY CAPITAL CORPORATION
AND SUBSIDIARIES d/b/a PATHWAY LENDING

LOAN FUND DESCRIPTIONS

DECEMBER 31, 2021 AND 2020

The Corporation and its Subsidiaries operate fourteen targeted revolving loan funds. Generally, the loan funds provide financing and other business consultative services to businesses that cannot access traditional sources of loan capital. A description of the funds operated and managed by the Corporation and the balances funded are detailed below:

Tennessee Energy Efficiency Loan Program

The Tennessee Energy Efficiency Loan Program (TN-EELP) provides financing for energy efficiency improvements and renewable energy projects for companies with Tennessee facilities. The Program is available for businesses of all sizes in all of Tennessee’s ninety-five counties for companies that are unable to access traditional financing for these projects. The TN-EELP represents a $35 million commitment in loan capital and operating support from public and private sources. Program participants are the state of Tennessee which provided a $15 million grant ($14 million in loan capital and $1 million in operating support); the Tennessee Valley Authority ($14 million in loan capital structured as a 0% interest loan and a $1 million grant for operating support); and Pathway Lending who will provide up to $5 million loan capital after the funding commitment of the others is complete for the remaining years of the program.

Tennessee Small Business Jobs Opportunity Fund

The Tennessee Small Business Jobs Opportunity Fund (SBJOF) was created with an appropriation from the Tennessee General Assembly of $10 million. The condition of the grant creating the fund is that the Corporation must match dollar for dollar a minimum of $10 million with private loan capital. The purpose of the fund is to provide loans to businesses in all Tennessee counties who are unable to access capital to expand operations and create or retain jobs. The fund has a goal of a minimum of 15% minority participation. In 2020, a portion of this fund was allocated to provide funding specifically related to Rapid Recovery after the Nashville Tornado of March 3, 2020 (SBJOF-RRT), Rapid Recovery (SBJOF-RR) and Rapid Restart (SBJOF-RS) for borrowers affected by the COVID19 pandemic. As these allocated amounts are paid back, the amounts will be returned to the primary loan fund.

Nashville Opportunity Fund

The Nashville Opportunity Fund (NOF) targets low and moderate-income census tracts in Nashville and Davidson County with a special emphasis on an identified “Pocket of Poverty” area extending out from downtown Nashville.

Knox County Technology and Jobs Fund

The Knox County Technology and Jobs Fund (KCTJF) targets Knox County and fourteen surrounding counties: Anderson, Blount, Campbell, Claiborne, Cocke, Grainger, Jefferson, Loudon, Monroe, Morgan, Roane, Sevier, Union, and Scott. The fund provides loan funding to companies throughout the fifteen-county region.

Memphis Small Business Opportunity Fund

The Memphis Small Business Opportunity Fund (MSBOF) was created to improve access to capital for underserved small businesses, particularly for minority-and women-owned businesses in the Memphis Region. The Memphis Region includes: Shelby County, Tipton County, and Fayette County in Tennessee; Crittenden County in Arkansas; and Benton County, Desoto County, Marshall County, Tate County, and Tunica County in Mississippi. In 2020, a portion of this fund was allocated to provide funding specifically related to Rapid Restart (SBJOF-M-RS) for borrowers affected by the COVID19 pandemic. As these allocated amounts are paid back, the amounts will be returned to the primary loan fund.

Tennessee Rural Opportunity Fund

The Tennessee Rural Opportunity Fund (TN-ROF) is targeted to ninety-two of Tennessee's ninety-five counties and provides loans to small businesses in rural Tennessee that are unable to access traditional bank financing. The TN-ROF was initially capitalized with $10 million of private bank capital. In 2017, TN-ROF was expanded with a new grant from the State of Tennessee, Department of Economic and Community Development. The new expansion is for lending in the same target markets with a focus on DBE's and underserved and underrepresented populations in at-risk and distressed counties. In 2020, a portion of this fund was allocated to provide funding specifically related to Rapid Recovery (TNROF-RR) for borrowers affected by the COVID19 pandemic. As these allocated amounts are paid back, the amounts will be returned to the primary loan fund.

Revolving Loan Fund

The Revolving Loan Fund (RLF) provides loans to businesses unable to access traditional loan capital throughout the Corporation's service areas.

U.S. Small Business Administration (SBA) Micro Loan Program

The SBA Micro Loan Program provides loan funds for re-lending to non-profit intermediaries, which then make loans (less than $50,000) to small business owners. This program places emphasis on economically distressed areas and individuals who have demonstrated a capability to successfully operate a business.

Affordable Multifamily Housing Loan Consortium

The Affordable Multifamily Housing Loan Consortium (the Consortium) represents a strategic public-private partnership that supports community needs through loans for construction, refinancing, and renovations on multifamily housing properties in low-to-moderate-income communities throughout Tennessee. The program fills a financing gap identified in the TN Housing Development Agency (THDA) December 2012 TN Housing Needs Assessment. The Consortium addresses housing needs by providing capital for construction, refinancing, and retrofits of multifamily housing in low-to-moderate-income communities. The Consortium provides developers of affordable housing loans that have terms unique to the market with amortization schedules to 30 years, and terms and fixed interest periods to 15 years. These significantly longer periods reduce carrying costs of the debt and increase sustainability of these hard to finance affordable housing developments. Pathway Lending leads the underwriting and offers participation in the loan to TN Bankers Association (TBA) Member Banks. Pathway Lending originates and services the loans for the participating institutions and also monitors the development for compliance with state and federal affordable housing requirements.

Appalachian Loan Fund

The Appalachian (ARC) Loan Fund targets small businesses located or primarily operating in chronically underserved and economically distressed areas of the Appalachian region of Tennessee and that are either owned by low-income individuals or engaged in a business enterprise that will create jobs or lead to the retention of jobs for low-income individuals.

Alabama Small Business Opportunity Fund

The Alabama Small Business Opportunity Fund (ASBOF) targets small businesses located or primarily operating in the Appalachian region of Alabama and that engage in a business enterprise that will create jobs or lead to the retention of jobs in this area.

Pathway Memphis LLC - Mezzanine Fund

Pathway Memphis, LLC is a subsidiary organization of Southeast Community Capital Corporation and Subsidiaries d/b/a Pathway Lending, and was created in 2019, with a primary objective of the relief of poverty, the elimination of prejudice, the lessening of neighborhood tensions, and the combating of community deterioration in certain economically depressed areas located within the Memphis Metropolitan Area and enhancing minority-owned and/or women-owned businesses, small businesses, and disadvantaged businesses operating or located within the Memphis Metropolitan Statistical Area through a program of financial assistance and other aid designed to improve economic conditions and economic opportunities in these areas, and other charitable programs and engaging in any and all actions necessary or incidental to the foregoing   The Mezzanine Fund was established to provide patient capital for businesses located within the Memphis Metropolitan Area.

Memphis Medical District Improvement Fund

Memphis Medical District Investment Fund (MMDIF) is funded by a consortium of private foundations and banking partners. MMDIF is designed to invest in transformative real estate projects that advance the physical re-development of designated Memphis districts. The following project types are eligible for financing: Market rate rental housing; Affordable rental housing; Mixed-income housing (25% units designated affordable); Mixed use projects; Commercial; and Retail.

Chattanooga Small Business Opportunity Fund

The Chattanooga Small Business Opportunity Fund (CSBOF) was created to offer a new, flexible source of capital for small businesses to enhance the entrepreneurial ecosystem of Chattanooga with longstanding impact. Its purpose is to support financing for small and underserved businesses with an emphasis on minority-owned businesses, businesses located in low-income communities, low-income entrepreneurs, women-owned businesses, and veteran owned businesses.

SOUTHEAST COMMUNITY CAPITAL CORPORATION
AND SUBSIDIARIES d/b/a PATHWAY LENDING

LOAN FUND DESCRIPTIONS (CONTINUED)

DECEMBER 31, 2021 AND 2020

Loans receivable were funded from the following programs as of December 31:

	2021	2020
Nashville Opportunity Fund (NOF)	$ 5,925,556	$ 8,749,963
Knox County Technology and Jobs Fund (KCTJF)	3,436,187	4,010,694
Tennessee Rural Opportunity Fund (TNROF)	20,766,868	19,536,456
Tennessee Rural Opportunity Fund (TNROF-RR)	421,506	770,557
SCC Revolving Loan Fund (RLF)	6,125,478	2,909,046
SBA Micro Loan Funds (SBA)	1,174,954	1,114,162
Small Business Job Opportunity Fund (SBJOF)	36,847,640	36,387,749
Small Business Job Opportunity Fund (SBJOF-RRT)	116,988	193,830
Small Business Job Opportunity Fund (SBJOF-RR)	662,324	862,256
Small Business Job Opportunity Fund (SBJOF-RS)	99,055	114,215
Chattanooga Small Business Opportunity Fund	63,964	-
Memphis Medical District Initiative Fund (MMDIF)	3,532,650	-
Tennessee Energy Efficiency Fund (TNEEF)	16,907,857	19,702,837
Affordable Multifamily Housing Loan Program (MFIPT)	45,959,888	32,926,295
Appalachian Loan Fund (ARC)	1,920,042	2,211,778
Memphis Small Business Opportunity Fund (MSBOF)	6,390,519	5,193,711
Small Business Opportunity Fund Memphis (SBJOF-M-RS)	142,739	171,998
Alabama Small Business Opportunity Fund (ASBOF)	2,688,382	3,431,528
Pathway Memphis LLC - Mezzanine Fund	417,956	40,000
	153,600,553	138,327,075
Allowance for loan losses	(8,937,137)	(9,474,717)
	$ 144,663,416	$ 128,852,358

INTERNAL CONTROL AND COMPLIANCE

SOUTHEAST COMMUNITY CAPITAL CORPORATION
AND SUBSIDIARIES d/b/a PATHWAY LENDING

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

DECEMBER 31, 2021

Program		Federal Catalog Number	Grant Contract Number	Grant Period	Balance 01/01/21	Amount Borrowed	Principal Paid	Balance 12/31/21
Direct Federal Loans								
U.S. Small Business Administration:								
Micro Loan Program	*	59.046	5274865002	08-30-12 to 08-30-22	$ 101,852	$ -	$ 61,111	$ 40,741
Micro Loan Program	*	59.046	7508625003	05-26-15 to 05-26-25	370,794	-	83,296	287,498
Micro Loan Program	*	59.046	8478565001	08-01-16 to 08-01-26	472,222	-	83,333	388,889
Micro Loan Program	*	59.046	2856927006	08-27-18 to 08-27-28	515,619	-	64,016	451,603
Total Federal Loans					$ 1,460,487	$ -	$ 291,756	$ 1,168,731
					Accrued (Deferred) Revenues	Cash Received/ Billings	Expenditures/ Amounts Earned	Accrued (Deferred) Revenues
Federal Awards								
U.S. Dept. of Treasury (Direct):								
CDFI Award-Community Development Financial Institutions Rapid Response Program	*	21.024	21RRP057017	06-15-21 to 12-31-23	$ -	$ 1,826,265	$ 1,826,265	$ -
U.S. Small Business Administration (Direct):								
SBA Micro Loan Intermediary Technical Assistance	*	59.046	SBAOCAML200067-01-00	08-17-20 to 06-30-21	60,802	216,795	155,993	-
SBA Micro Loan Intermediary Technical Assistance	*	59.046	SBAOCAML210154-01-00	07-01-21 to 06-30-22	-	101,821	175,232	73,411
Women's Business Ownership Assistance		59.043	SBAHQ-19-W-0026	09-30-19 to 09-29-20	75,000	75,000	-	-
Women's Business Ownership Assistance		59.043	SBAHQ-19-W-0026	09-30-20 to 09-29-21	25,595	112,500	124,405	37,500
Women's Business Ownership Assistance		59.043 COVID	SBAHQ20CO151	05-01-20 to 04-30-21	77,333	175,000	95,186	(2,481)
Veteran Business Outreach Center		59.044	SBAOVVB200001-01-00	05-01-20 to 04-30-21	40,989	126,183	85,194	-
Veteran Business Outreach Center		59.044	SBAOVVB200001-02-00	05-01-21 to 04-30-22	-	149,086	198,862	49,776
SBA Prime		59.050	SBAOCAPR200019-01-00	09-30-20 to 09-29-21	3,821	147,070	143,249	-
SBA Prime		59.050	SBAOCAPR210043-01-00	09-30-21 to 09-29-22	-	-	39,794	39,794
Total U.S. Small Business Administration					283,540	1,103,455	1,017,915	198,000
Appalachian Regional Commission		23.011 COVID	ARC-ACC COVID-19 Business Assistance Response	06-01-20 to 05-31-21	(10,063)	-	10,063	-
U.S. Department of Housing and Urban Development								
Passed through the Metropolitan Development and Housing Agency Community Development Block Grant		14.218	N/A	09-01-20 to 08-31-22	10,641	114,332	127,891	24,200
Total Federal Awards					$ 284,118	$ 3,044,052	$ 2,982,134	$ 222,200

* - Audited as a major program under Title 2 U.S. Code of Federal Regulation Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*

(continued)

SOUTHEAST COMMUNITY CAPITAL CORPORATION
AND SUBSIDIARIES d/b/a PATHWAY LENDING

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS (CONTINUED)

DECEMBER 31, 2021

Program	Federal Catalog Number	Grant Contract Number	Grant Period	Accrued (Deferred) Revenues	Cash Received/ Billings	Expenditures/ Amounts Earned	Accrued (Deferred) Revenues
State Awards							
State of Tennessee Department of	N/A	08-17-17 GR	12-01-17 to 11-30-22	$ 5,111	$ 28,487	$ 40,085	$ 16,709
Economic and Community Development	N/A	02-20-20 GR	10-30-20 to 10-30-22	2,152	13,073	13,212	2,291
Total State Awards				$ 7,263	$ 41,560	$ 53,297	$ 19,000

NOTE 1 - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of Southeast Community Capital Corporation and Subsidiary d/b/a Pathway Lending (the Corporation) under programs of the federal government for the year ended December 31, 2020. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the Organization, it is not intended to and does not present the consolidated financial position, changes in net assets, or cash flows of the Corporation.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the costs principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Corporation has not elected to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

NOTE 3 - SUBRECIPIENTS

The Corporation did not pass any federal funds to subrecipients.

Summary of expenditures by CFDA number

21.024	$ 1,826,265
59.046	1,791,712
59.044	284,056
59.043	219,591
59.050	183,043
23.011	10,063
14.218	127,891
Total	$ 4,442,621

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Southeast Community Capital Corporation and Subsidiaries d/b/a Pathway Lending
Nashville, Tennessee

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Southeast Community Capital Corporation and Subsidiaries d/b/a Pathway Lending, which comprise the consolidated statement of financial position as of December 31, 2021, and the related consolidated statements of activities, cash flows and functional expenses for the year then ended and the related notes to the consolidated financial statements and have issued our report thereon dated March 31, 2022.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the consolidated financial statements, we considered Southeast Community Capital Corporation and Subsidiaries d/b/a Pathway Lending's internal control over financial reporting (internal control) as a basis for designing the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Southeast Community Capital Corporation and Subsidiaries d/b/a Pathway Lending's internal control. Accordingly, we do not express an opinion on the effectiveness of Southeast Community Capital Corporation and Subsidiaries d/b/a Pathway Lending's internal control.

A *deficiency in internal* control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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555 Great Circle Road • Nashville, TN 37228 • phone: 615-242-7351 • fax: 615-782-4271 • kraftcpas.com

REPORT ON COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether Southeast Community Capital Corporation and Subsidiaries d/b/a Pathway Lending's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Kraft CPAs PLLC

Nashville, Tennessee
March 31, 2022

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Board of Directors
Southeast Community Capital Corporation and Subsidiaries d/b/a Pathway Lending
Nashville, Tennessee

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

OPINION ON EACH MAJOR FEDERAL PROGRAM

We have audited Southeast Community Capital Corporation and Subsidiaries d/b/a Pathway Lending's (the "Corporation") compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the Corporation's major federal programs for the year ended December 31, 2021. The Corporation's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Corporation complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2021.

BASIS FOR OPINION ON EACH MAJOR FEDERAL PROGRAM

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Corporation and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Corporation's compliance with the compliance requirements referred to above.

RESPONSIBILITIES OF MANAGEMENT FOR COMPLIANCE

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the Corporation's federal programs.

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AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF COMPLIANCE

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Corporation's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Corporation's compliance with the requirements of each major federal program as a whole.

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

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Corporation's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- obtain an understanding of the Corporation's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Kraft CPAs PLLC

Nashville, Tennessee
March 31, 2022

SOUTHEAST COMMUNITY CAPITAL CORPORATION
AND SUBSIDIARIES d/b/a PATHWAY LENDING

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED DECEMBER 31, 2021

Section I - Summary of Auditors' Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:	Unmodified	
Internal control over financial reporting:		
• Material weakness(es) identified?	____ Yes	X No
• Significant deficiency(ies) identified?	____ Yes	X None reported
Noncompliance material to financial statements noted?	____ Yes	X No

Federal Awards

Internal control over major programs:		
• Material weakness(es) identified?	____ Yes	X No
• Significant deficiency(ies) identified?	____ Yes	X None reported
Type of auditor's report issued on compliance for major Federal programs:	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with Section 2 CFR 200.516(a)?	____ Yes	X No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
21.024	Community Development Financial Institutions Rapid Response Program (CDFI RRP)
59.046	SBA Microloan Program

Dollar threshold used to distinguish between type A and type B programs:	$750,000	
Auditee qualified as low-risk auditee?	X Yes	____ No

SOUTHEAST COMMUNITY CAPITAL CORPORATION
AND SUBSIDIARY d/b/a PATHWAY LENDING

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2021

Financial Statement Findings:

Finding Number	Finding Title	Status

There were no current year or prior year findings.

Federal Award Findings and Questioned Costs:

Finding Number	Finding Title	Status

There were no current year or prior year findings.