SOUTHEAST COMMUNITY CAPITAL CORPORATION
d/b/a PATHWAY LENDING

FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION
AND
INDEPENDENT AUDITOR'S REPORTS

DECEMBER 31, 2017 AND 2016

SOUTHEAST COMMUNITY CAPITAL CORPORATION
d/b/a PATHWAY LENDING

FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION
AND
INDEPENDENT AUDITOR'S REPORTS

DECEMBER 31, 2017 AND 2016

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Southeast Community Capital Corporation
d/b/a Pathway Lending
Board of Directors and Executive Management 2017

Dave Berezov – Chairman	Dr. William H. (Herb) Byrd, III
Tom Hunter - Vice Chairman	Jon Davies
Andre Gist	Cindy Herron
Sam Howard (retired 4/2017)	Kelly Magill
Ivanetta Davis-Samuels	Hugh Queener

Clint Gwin, President and CEO

Barbara Harris, Chief Financial Officer

Amy Bunton, Senior Vice President

Holland (Hank) Helton, Senior Vice President, Secretary

INDEPENDENT AUDITOR'S REPORT

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

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Southeast Community Capital Corporation, d/b/a Pathway Lending, which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities, cash flows and functional expenses for the years then ended, and the related notes to the financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

KraftCPAs PLLC • Certified Public Accountants and Consultants
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OPINION

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Southeast Community Capital Corporation d/b/a Pathway Lending as of December 31, 2017 and 2016, 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.

OTHER MATTERS

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of federal and state awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, (*Uniform Administrative Requirements, Cost Principles and Requirements for Federal Awards*) is presented for purposes of additional analysis and is not a required part of the financial statements. 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2018, on our consideration of Southeast Community Capital Corporation 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 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 d/b/a Pathway Lending's internal control over financial reporting and compliance.

Kraft CPAs PLLC

Nashville, Tennessee
March 29, 2018

SOUTHEAST COMMUNITY CAPITAL CORPORATION
d/b/a PATHWAY LENDING

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2017 AND 2016

	2017	2016
ASSETS		
Cash and cash equivalents	$ 2,447,794	$ 1,624,991
Restricted cash - lending	39,024,895	35,290,530
Restricted cash - loan loss reserve funds	5,446,431	4,703,179
Due from government grantors	2,639,553	310,768
Interest receivable	438,604	358,358
Loans receivable, net of allowance for possible loan losses of $4,949,712 and $4,450,606, respectively	84,940,712	73,616,081
Property and equipment, net	1,535,357	1,575,165
Other real estate owned	434,370	434,370
Other assets	177,763	159,010
TOTAL ASSETS	$ 137,085,479	$ 118,072,452
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	$ 78,242	$ 93,000
Interest payable	499,754	496,392
Lines of credit payable	26,000,000	20,500,000
Mortgage payable	934,589	1,058,557
Notes payable	78,892,744	72,146,071
Deferred revenue	299,643	289,181
Funds managed for third parties	-	106,484
Other liabilities	1,140,498	717,030
TOTAL LIABILITIES	107,845,470	95,406,715
NET ASSETS		
Unrestricted	28,595,723	22,060,958
Temporarily restricted	644,286	604,779
TOTAL NET ASSETS	29,240,009	22,665,737
TOTAL LIABILITIES AND NET ASSETS	$ 137,085,479	$ 118,072,452

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

SOUTHEAST COMMUNITY CAPITAL CORPORATION
d/b/a PATHWAY LENDING

STATEMENTS OF ACTIVITIES

DECEMBER 31, 2017 AND 2016

	2017		
	Unrestricted	**Temporarily Restricted**	**Total**
REVENUE AND OTHER SUPPORT			
Grant and Contribution Revenue			
U.S. Small Business Administration	$ 360,903	$ -	$ 360,903
U.S. Treasury CDFI Award	250,000	-	250,000
U.S. Small Business Administration WBC	150,000	-	150,000
Metropolitan Development and Housing Agency			
Community Development Block Grant	239,031	-	239,031
State of Tennessee - Rural Opportunity Fund	2,375,000	-	2,375,000
Appalachian Regional Commission	5,370	105,000	110,370
Contributed loan capital	6,200,000	-	6,200,000
Total Grant and Contribution Revenue	9,580,304	105,000	9,685,304
Interest and Program Service Revenue			
Interest income - loans	4,993,588	-	4,993,588
Interest income - bank deposits	163,810	-	163,810
Financing fees and charges	321,995	-	321,995
Fee income	88,550	-	88,550
Total Interest and Program Services Revenue	5,567,943	-	5,567,943
Other Support			
Miscellaneous and in-kind contributions	205,382		205,382
Net Assets Released From Restrictions			
Loan loss reserve usage	40,493	(40,493)	-
Womens business center	25,000	(25,000)	-
TOTAL REVENUE AND OTHER SUPPORT	15,419,122	39,507	15,458,629
EXPENSES			
Program activities			
Lending and education programs	8,336,844	-	8,336,844
Supporting services			
Administrative and general	542,402	-	542,402
Fundraising activities	5,111	-	5,111
TOTAL EXPENSES	8,884,357	-	8,884,357
CHANGE IN NET ASSETS	6,534,765	39,507	6,574,272
NET ASSETS - BEGINNING OF YEAR (RESTATED)	22,060,958	604,779	22,665,737
NET ASSETS - END OF YEAR	$ 28,595,723	$ 644,286	$ 29,240,009

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

2016 (Restated)		
Unrestricted	Temporarily Restricted	Total
$ 271,945	$ -	$ 271,945
-	-	-
150,000	-	150,000
109,454	-	109,454
-	-	-
144,630	145,000	289,630
40,000	-	40,000
716,029	145,000	861,029
4,120,297	-	4,120,297
97,455	-	97,455
455,667	-	455,667
149,576	-	149,576
4,822,995	-	4,822,995
612,048	-	612,048
28,653	(28,653)	-
50,000	(50,000)	-
6,229,725	66,347	6,296,072
6,065,092	-	6,065,092
520,756	-	520,756
36,021	-	36,021
6,621,869	-	6,621,869
(392,144)	66,347	(325,797)
22,453,102	538,432	22,991,534
$ 22,060,958	$ 604,779	$ 22,665,737

SOUTHEAST COMMUNITY CAPITAL CORPORATION
d/b/a PATHWAY LENDING

STATEMENTS OF CASH FLOWS

DECEMBER 31, 2017 AND 2016

	2017	2016
OPERATING ACTIVITIES		
Increase in net assets	$ 6,574,272	$ (325,797)
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities:		
Depreciation	72,378	74,412
Contributed loan capital	(6,200,000)	(40,000)
Loan loss provision	2,437,250	1,041,400
Net changes in:		
Due from government grantors	46,215	(275,096)
Interest receivable	(80,246)	(130,537)
Other assets	(18,753)	(70,948)
Accounts payable	(14,758)	18,127
Interest payable	3,362	66,164
Deferred revenue	10,462	66,887
Other liabilities	423,468	518,321
NET CASH PROVIDED BY OPERATING ACTIVITIES	3,253,650	942,933
INVESTING ACTIVITIES		
Changes in loans receivable, net of charge offs	(13,761,881)	(20,209,229)
Acquisition of property and equipment, net	(32,570)	(15,764)
Change in restricted cash	(4,477,617)	(9,312,859)
Due from federal and state grantors	(2,375,000)	-
NET CASH USED IN INVESTING ACTIVITIES	(20,647,068)	(29,537,852)
FINANCING ACTIVITIES		
Net proceeds on lines of credit	5,500,000	6,500,000
Payments on mortgage and notes payable	(1,127,295)	(605,863)
Proceeds from mortgage and notes payable	13,950,000	22,318,930
Decrease in funds managed for third parties	(106,484)	-
NET CASH PROVIDED BY FINANCING ACTIVITIES	18,216,221	28,213,067
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	822,803	(381,852)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	1,624,991	2,006,843
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 2,447,794	$ 1,624,991
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	$ 1,347,855	$ 1,119,903

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

SOUTHEAST COMMUNITY CAPITAL CORPORATION
d/b/a PATHWAY LENDING

STATEMENTS OF FUNCTIONAL EXPENSES

DECEMBER 31, 2017 AND 2016

	2017			
	Program Activities	Supporting Services	Fundraising Activities	Total
Salaries and benefits	$ 2,943,254	$ 475,604	$ 4,576	$ 3,423,434
Travel	146,399	782	19	147,200
Dues, licenses, permits	34,117	1,840	200	36,157
Office expenses	270,941	3,871	-	274,812
Telecommunications	46,277	3,181	-	49,458
Postage and freight	3,341	136	-	3,477
Equipment maintenance	923	103	-	1,026
Professional services	250,064	15,204	316	265,584
Consulting	346,879	6,750	-	353,629
Marketing	19,282	6	-	19,288
Insurance	115,312	12,779	-	128,091
Occupancy	106,105	10,638	-	116,743
Depreciation	65,199	7,179	-	72,378
Conferences and meetings	128,840	2,778	-	131,618
Loan loss provision	2,437,250	-	-	2,437,250
Miscellaneous	71,820	1,175	-	72,995
Interest expense	1,350,841	376	-	1,351,217
Total	$ 8,336,844	$ 542,402	$ 5,111	$ 8,884,357

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

2016			
Program Activities	Supporting Services	Fundraising Activities	Total
$ 2,393,061	$ 460,489	$ 13,939	$ 2,867,489
115,328	2,415	1,346	119,089
24,966	1,100	1,000	27,066
125,304	3,589	1,326	130,219
40,705	2,991	-	43,696
2,605	127	-	2,732
898	100	-	998
291,673	13,458	869	306,000
388,230	3,870	16,235	408,335
3,893	122	-	4,015
109,474	12,126	-	121,600
74,597	8,055	-	82,652
67,030	7,382	-	74,412
120,070	3,641	1,306	125,017
1,041,400	-	-	1,041,400
80,128	954	-	81,082
1,185,730	337	-	1,186,067
$ 6,065,092	$ 520,756	$ 36,021	$ 6,621,869

NOTE 1 - GENERAL AND ORGANIZATION

Nature of Organization

Southeast Community Capital Corporation d/b/a Pathway Lending (the Corporation) is a Tennessee not-for-profit corporation, with offices in Tennessee and Alabama, 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 and the southeastern United States. 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). The Corporation began operations on December 21, 1999 as a wholly owned subsidiary of Technology 2020. The Corporation 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, 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 and peer learning.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying 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 Unites States of America (GAAP).

Resources are classified as unrestricted, temporarily restricted or permanently restricted net assets, based on the existence or absence of donor-imposed restrictions, as follows:

Unrestricted net assets are free of donor-imposed restrictions. All revenues, gains and losses that are not temporarily or permanently restricted by donors are included in this classification. All expenditures are reported in the unrestricted class of net assets since the use of restricted contributions in accordance with the donors' stipulations results in the release of the restriction.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

Temporarily restricted net assets are limited as to use by donor-imposed restrictions that expire with the passage of time or that can be satisfied by use for the specific purpose.

Permanently restricted net assets are amounts required by donors to be held in perpetuity, including gifts requiring that the principal be invested and the income or specific portions thereof be used for operations. There were no permanently restricted net assets as of December 31, 2017 and 2016.

Revenue and Other Support

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Contributions are considered to be unrestricted support unless restricted by the donor. Restricted contributions are reported as temporarily restricted support until the donor time or purpose restriction is fulfilled, at which time the temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support. Grants and awards from federal, state and private sources may be accounted for as contributions when conditions of the grant or award give the Corporation substantially complete variance as to their use.

The Corporation also receives revenue in the form of grants or awards from federal, state and other governmental agencies. Grants and awards are recognized as revenue when the Corporation has incurred a liability or used the revenue for the purpose prescribed by the grant or award. Until then, grant and awards received are recorded as deferred revenue.

Some awards are received by the Corporation in the form of loans and 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.

The Corporation reports gifts of goods and equipment as unrestricted support unless explicit donor restrictions specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor restrictions regarding the usage period of donated long-lived assets, donor restrictions are released when the donated or acquired long-lived assets are placed in service.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Donated Services, Goods and Facilities

Volunteers donate time to the Corporation's program services during the year. For the year ended December 31, 2017, $19,069 in specialized services were contributed to the Corporation and are reflected in the financial statements ($33,435 as of December 31, 2016). Other donated services may not be reflected in the financial statements since the services do not require specialized skills. Materials and other assets received as donations are recorded and reflected in the accompanying financial statements at their estimated fair values at the date of receipt.

Cash and Cash Equivalents and Restricted Cash

Cash and cash equivalents consist of cash held in checking and money market accounts and certificates of deposit with initial maturities of less than ninety days.

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 may be used only to fund loans. Restricted cash for loan loss reserves may be used to replenish loan funds in the event of a loan charge off. Restricted cash includes temporarily restricted net assets amounting to $644,286 at December 31, 2017 ($604,779 at December 31, 2016).

Deferred Revenue

Deferred revenue consists of government grant income received prior to year-end to fund loan pools in subsequent years. Such revenues are recognized in the year earned.

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;
- 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.

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans Receivable and Allowance for Loan Losses (Continued)

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. Tax returns prior to fiscal year 2013 are no longer open for examination.

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 financial statements.

Advertising Costs

Advertising costs are expensed as incurred. Advertising expense was $7,385 and $4,015 for the years ended December 31, 2017 and 2016, respectively.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

The preparation of 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 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 statement 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.

Reclassifications

Certain amounts in prior year financial statements have been reclassified for comparative purposes to conform to the current year presentation. The reclassifications had no effect on prior year's change in net assets.

Recent Authoritative Accounting Guidance

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606). This guidance outlines a single comprehensive model for companies to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that revenue is recognized when a customer obtains control of a good or service. A customer obtains control when it has the ability to direct the use of and obtain the benefits from the good or service. Transfer of control is not the same as transfer of risks and rewards, as it is considered in current guidance. The Corporation will also need to apply new guidance to determine whether revenue should be recognized over time or at a point in time. In August 2015, the FASB issued ASU 2015-14 which defers the effective date of ASU 2014-09 one year making it effective for annual reporting periods beginning after December 15, 2018. The Corporation has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on the financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The guidance in this ASU supersedes the leasing guidance in Topic 840, Leases. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Corporation is currently evaluating the impact of the pending adoption of the new standard on its financial statements.

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 statement of income as the amounts expected to be collected change. The ASU is effective for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. Early adoption is permitted for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. The Corporation does not intend to early adopt. The Corporation is currently evaluating the impact of adopting this new guidance on its financial statements.

In August 2016, the FASB issued ASU 2016-14, Not for Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities, which simplifies and improves how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. Among other changes, the ASU replaces the three current classes of net assets with two new classes, “net assets with donor restrictions” and “net assets without donor restrictions”, and expands disclosures about the nature and amount of any donor restrictions. ASU 2016-14 is effective for annual periods beginning after December 15, 2017 and interim periods within fiscal years beginning after December 15, 2018, with early adoption permitted. The Corporation is currently evaluating the impact the adoption of this guidance will have on its financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. ASU 2016-15 provides guidance on how certain cash receipts and cash payments should be presented and classified in the statement of cash flows with the objective of reducing existing diversity in practice with respect to these items. ASU 2016-15 will be effective for the Corporation on January 1, 2019. ASU 2016-15 requires a retrospective transition method. However, if it is impracticable to apply the amendments retrospectively for some of the issues, the amendments for those issues would be applied prospectively as of the earliest date practicable. The Corporation is currently evaluating the impact the adoption of this guidance will have on its statement of cash flows.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force), which provides guidance on the presentation of restricted cash or restricted cash equivalents in the statement of cash flows. ASU 2016-18 will be effective for the Corporation beginning on January 1, 2019. ASU 2016-18 must be applied using a retrospective transition method with early adoption permitted. The Corporation is currently evaluating the impact of the adoption of this guidance on its financial statements.

Events Occurring After Reporting Date

The Corporation has evaluated events and transactions that occurred between December 31, 2017 and March 29, 2018, the date the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

NOTE 3 - DUE FROM GOVERNMENT GRANTORS

Due from government grantors consisted of the following at December 31:

	2017	2016
U.S. Small Business Administration Technical Assistance Grant	$ 178,728	$ 115,133
Appalachian Regional Commission	54,752	178,400
Metropolitan Development and Housing Agency Community Development Block Grant	31,073	17,235
State of Tennessee Department of Economic and Community Development	2,375,000	-
	$ 2,639,553	$ 310,768

NOTE 4 - 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 180 months for term loans and 12 to 76 months for lines of credit. Interest rates range from 2.0% to 15.00%. 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, 2017 and 2016 is summarized in the table below:

	At December 31,			
	Commercial Real Estate Loans	Commercial Loans	Energy Efficiency Loans	Total
2017				
Performing loans	$ 36,449,376	$ 38,224,640	$ 10,753,285	$ 85,427,301
Impaired loans	3,713,227	650,907	98,989	4,463,123
	$ 40,162,603	$ 38,875,547	$ 10,852,274	$ 89,890,424
2016				
Performing loans	$ 30,682,181	$ 31,678,396	$ 10,316,144	$ 72,676,721
Impaired loans	3,599,943	1,681,034	108,989	5,389,966
	$ 34,282,124	$ 33,359,430	$ 10,425,133	$ 78,066,687

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
2017				
Allowance related to:				
Performing Loans	$ 524,812	$ 3,150,731	$ 216,827	$ 3,892,370
Impaired Loans	415,920	542,433	98,989	1,057,342
	$ 940,732	$ 3,693,164	$ 315,816	$ 4,949,712
2016				
Allowance related to:				
Performing Loans	$ 371,080	$ 2,699,596	$ 174,473	$ 3,245,149
Impaired Loans	202,658	893,810	108,989	1,205,457
	$ 573,738	$ 3,593,406	$ 283,462	$ 4,450,606

NOTE 4 - LOANS RECEIVABLE (CONTINUED)

Changes in the allowance for loan losses for the year ended December 31, 2017 and 2016 are summarized in the table below:

	For the year ended December 31, 2017			
	Commercial Real Estate Loans	Commercial Loans	Energy Efficiency Loans	Total
Beginning Balance	$ 573,738	$ 3,593,406	$ 283,462	$ 4,450,606
Charged Off Loans	-	(2,006,201)	-	(2,006,201)
Recoveries	-	68,057	-	68,057
Provision for loan losses	366,994	2,037,902	32,354	2,437,250
Ending Balance	$ 940,732	$ 3,693,164	$ 315,816	$ 4,949,712

	For the year ended December 31, 2016			
	Commercial Real Estate Loans	Commercial Loans	Energy Efficiency Loans	Total
Beginning Balance	$ 725,247	$ 2,237,160	$ 317,767	$ 3,280,174
Charged Off Loans	-	(58,694)	-	(58,694)
Recoveries	-	187,726	-	187,726
Provision for loan losses	(151,509)	1,227,214	(34,305)	1,041,400
Ending Balance	$ 573,738	$ 3,593,406	$ 283,462	$ 4,450,606

NOTE 4 - LOANS RECEIVABLE (CONTINUED)

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.

The allowance for loan losses at December 31, 2017 and 2016 is $4,949,712 or 5.51% of gross loans and $4,450,606 or 5.70% of gross loans, respectively.

In assessing the adequacy of our 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 are required by the Portfolio Manager. Loans assigned to this risk rating must be upgraded or downgraded within 12 months.

NOTE 4 - LOANS RECEIVABLE (CONTINUED)

- 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. This grade was added during 2013.

- 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 4 - 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, 2017 and 2016.

	At December 31,			
	Commercial Real Estate Loans		Commercial Loans	
	2017	2016	2017	2016
Loan Risk Ratings:				
Pass One	$ 35,187,457	$ 28,329,783	$ 36,151,652	$ 28,821,880
Pass Two	1,261,919	3,072,502	2,072,988	2,856,516
Substandard	3,713,227	2,879,839	650,907	1,046,837
Doubtful/Loss	-	-	-	634,197
	$ 40,162,603	$ 34,282,124	$ 38,875,547	$ 33,359,430

	Energy Efficiency Loans		Total	
	2017	2016	2017	2016
Pass One	$ 10,753,285	$ 10,316,144	$ 82,092,394	$ 67,467,807
Pass Two	-	-	3,334,907	5,929,018
Substandard	-	-	4,364,134	3,926,676
Doubtful/Loss	98,989	108,989	98,989	743,186
	$ 10,852,274	$ 10,425,133	$ 89,890,424	$ 78,066,687

Impaired loans are individually evaluated for impairment. Pathway Lending does not have any loans that are collectively evaluated for impairment. The principal balance of loans considered for impairment amounted to $4,463,123 and $5,389,966 at December 31, 2017 and 2016, respectively and are included in the risk rated tables.

NOTE 4 - 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, 2017 and 2016 by loan category and the amount of interest income recognized on these loans on a cash basis throughout 2017 and 2016:

	At December 31, 2017			For the year ended December 31, 2017	
	Recorded Investment	Unpaid principal balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Impaired loans with no recorded allowance:					
Commercial Real Estate Loans	$ -	$ -	$ -	$ 714,903	$ 28,546
Commercial Loans	-	-	-	-	-
Energy Efficiency Loans	-	-	-	-	-
Total	$ -	$ -	$ -	$ 714,903	$ 28,546
Impaired loans with a recorded allowance:					
Commercial Real Estate Loans	$ 3,713,227	$ 3,713,227	$ 415,920	$ 3,296,533	$ 11,186
Commercial Loans	650,907	650,907	542,433	1,165,971	54,156
Energy Efficiency Loans	98,989	98,989	98,989	103,989	-
Total	$ 4,463,123	$ 4,463,123	$ 1,057,342	$ 4,566,493	$ 65,342

	At December 31, 2016			For the year ended December 31, 2016	
	Recorded Investment	Unpaid principal balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Impaired loans with no recorded allowance:					
Commercial Real Estate Loans	$ 720,104	$ 720,104	$ -	$ 728,254	$ 79,376
Commercial Loans	-	-	-	-	-
Energy Efficiency Loans	-	-	-	-	-
Total	$ 720,104	$ 720,104	$ -	$ 728,254	$ 79,376
Impaired loans with a recorded allowance:					
Commercial Real Estate Loans	$ 2,879,839	$ 2,879,839	$ 202,658	$ 2,794,046	$ 64,612
Commercial Loans	1,681,034	1,681,034	893,810	1,093,842	75,519
Energy Efficiency Loans	108,989	108,989	108,989	114,489	-
Total	$ 4,669,862	$ 4,669,862	$ 1,205,457	$ 4,002,377	$ 140,131

NOTE 4 - LOANS RECEIVABLE (CONTINUED)

The tables below present past due balances at December 31, 2017 and 2016, by loan classification allocated between performing and impaired status:

	At December 31, 2017					
	30-89 Days Past Due	Greater Than 90 Days and Performing	Total Past Due and Performing	Impaired	Current and Performing	Total Loans
Commercial Real Estate Loans	$ -	$ -	$ -	$3,713,227	$36,449,376	$40,162,603
Commercial Loans	-	-	-	650,907	38,224,640	38,875,547
Energy Efficiency Loans	-	-	-	98,989	10,753,285	10,852,274
	$ -	$ -	$ -	$4,463,123	$85,427,301	$89,890,424

	At December 31, 2016					
	30-89 Days Past Due	Greater Than 90 Days and Performing	Total Past Due and Performing	Impaired	Current and Performing	Total Loans
Commercial Real Estate Loans	$ -	$ -	$ -	$3,599,943	$30,682,181	$34,282,124
Commercial Loans	-	-	-	1,681,034	31,678,396	33,359,430
Energy Efficiency Loans	-	-	-	108,989	10,316,144	10,425,133
	$ -	$ -	$ -	$5,389,966	$72,676,721	$78,066,687

Nonaccrual loans totaled $4,083,691 and $3,979,545 as of December 31, 2017 and 2016, 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 2017 the Corporation had four commercial restructurings that qualified as troubled debt restructurings with a total balance of $554,451 as of December 31, 2017. All troubled debt restructurings are considered impaired and included in the tables above. Specific reserves attributed to troubled debt restructurings totaled $516,779 as of December 31, 2017. During 2016 the Corporation had six commercial restructurings that qualified as troubled debt restructurings with a total balance of $1,009,492 as of December 31, 2016. All troubled debt restructurings are considered impaired and included in the tables above. Specific reserves attributed to troubled debt restructurings totaled $130,939 as of December 31, 2016.

NOTE 4 - LOANS RECEIVABLE (CONTINUED)

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

Loans receivable consist of 466 loans at December 31, 2017 with principal balances ranging from $1,266 to $7,150,000. 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) 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, 2017 and 2016 were as follows:

	2017	2016
Balance, January 1	$ 122,384	$ 74,113
Advances and other additions	411,173	644,343
Repayments and other reductions	(455,731)	(596,072)
Balance, December 31	$ 77,826	$ 122,384

A schedule, by year, of principal maturities of loans receivable as of December 31, 2017 follows:

Year ending December 31,	
2018	$ 21,345,291
2019	11,611,456
2020	10,122,632
2021	12,259,182
2022	6,774,257
Thereafter	27,777,606
	89,890,424
Less: Allowance for loan losses	(4,949,712)
Total	$ 84,940,712

NOTE 5 - PROPERTY AND EQUIPMENT

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

	2017	2016
Buildings and improvements	$ 1,912,969	$ 1,912,969
Equipment	252,321	219,751
	2,165,290	2,132,720
Less: accumulated depreciation	(629,933)	(557,555)
Property and equipment - net	$ 1,535,357	$ 1,575,165

NOTE 6 - 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 all 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%. At December 31, 2017 and 2016, the rate was 0.5% and 0%, respectively. On August 4, 2017, the line was increased to $5,000,000 and extended until August 4, 2018. The amount borrowed and outstanding for the years ended December 31, 2017 and 2016 was $5,000,000 and $4,000,000, respectively.

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%. At December 31, 2017 and 2016, the rate was 0.5% and 0%, respectively. 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. The amount borrowed and outstanding for the years ended December 31, 2017 and 2016 was $16,000,000 and $13,000,000, respectively.

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%. At December 31, 2017 and 2016, the rate was 0.5% and 0%, respectively. On December 28, 2017, the line was increased to $5,000,000 and extended until June 29, 2019. The amount borrowed and outstanding for the years ended December 31, 2017 and 2016 was $5,000,000 and $3,500,000, respectively.

NOTE 7 - MORTGAGE AND NOTES PAYABLE

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

	2017	2016
General corporate debt:		
Mortgage payable	$ 934,589	$ 1,058,557
Other payable	190,252	250,000
	1,124,841	1,308,557
Lending program debt:		
SBA notes payable	1,723,138	1,666,717
Other notes payable	14,181,636	14,181,636
Equity equivalent agreements	62,797,718	56,047,718
	78,702,492	71,896,071
Total mortgage and notes payable	$ 79,827,333	$ 73,204,628

Mortgage Payable

The Corporation has a mortgage payable on its principal office building in Nashville. The mortgage was refinanced during 2015. 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% (0.5% and 0% at December 31, 2017 and 2016, respectively), maturing April 1, 2020.

Other Payable

The Corporation has a note payable related to severance fees paid to Tech 20/20 during 2015. Terms require interest payments for 6 months followed by principal and interest payments for 60 months, with a final payment of all unpaid principal and interest on February 7, 2021. Interest is calculated as prime minus 4% (0.5% and 0% at December 31, 2017 and 2016, respectively).

NOTE 7 - MORTGAGE AND NOTES PAYABLE (CONTINUED)

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 .25% at December 31, 2017. The loans mature at the end of 10 years.

SBA Notes Payable	Origination Date	Note Amount	2017	2016
5050905002	4/13/2012	$ 200,000	$ 96,297	$ 118,519
5274865002	8/30/2012	550,000	285,185	346,296
7508625003	6/20/2015	750,000	619,434	701,902
8478565001	8/1/2016	750,000	722,222	500,000
		$ 2,250,000	$ 1,723,138	$ 1,666,717

Other Notes Payable

Other notes payable are to the Tennessee Valley Authority (TVA), the State of Tennessee, and US Bank that provided financing for the Corporation's various loan programs.

	Origination Date	Interest Rate	Note Amount	Principal Balance Outstanding 2017	Principal Balance Outstanding 2016
TVA - 10 Years, No Interest (Principal due upon maturity)	9/30/2010	0.00%	10,000,000	10,000,000	10,000,000
State of Tenn. Dept. of Treasury SMOB Assistance Loan Program - 10 Years, No Interest (Principal May Be Forgiven)	12/28/2007	0.00%	2,000,000	431,636	431,636
RLF US Bank note (Principal due upon maturity)	10/23/2013	3.00%	750,000	750,000	750,000
Appalachian Community Capital note (Principal due upon maturity)	9/28/2015	2.37%	3,000,000	3,000,000	3,000,000
Total			$ 15,750,000	$ 14,181,636	$ 14,181,636

NOTE 7 - MORTGAGE 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, 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, 2017, $6,200,000 of ROF debt was forgiven and the contributed amount received was recognized accordingly.

The notes have interest rates ranging from .5% to 3.5% per annum. Maturity dates range from January 2021 to December 2028.

Principal advanced during 2017 and 2016 was $13,700,000 and $20,818,930, respectively. The principal balance outstanding at December 31, 2017 and 2016 was $62,797,718 and $56,047,718, respectively.

Maturities of mortgage and notes payable as of December 31, 2017 are as follows:

2018	$ 1,599,123
2019	424,431
2020	14,015,724
2021	260,252
2022	214,815
Thereafter	515,270
Equity equivalent agreements	62,797,718
	$ 79,827,333

NOTE 8 - FUNDS MANAGED FOR THIRD PARTIES

The Corporation is contracted by certain third parties to manage their small business lending programs. The Corporation was awarded a contract by the Tennessee Valley Authority (TVA) in November 2006 to provide loan documentation and closing services for TVA's Economic Development Loan Fund programs. The contract was expanded to include collateral and insurance monitoring in 2008. Under both programs, the Corporation is compensated at nominal amounts.

The Corporation is also contracted by the Memphis Business Opportunity Fund (MBOF) - to manage their small and disadvantaged business lending programs. Cash and cash equivalents deposited with the Corporation under these contracts are included in restricted cash. Loans originated from these programs are included in loans receivable. The amount of obligations under these contracts to return funds to the third parties at the expiration of the agreements is reported as liabilities. The obligations are adjusted periodically for earnings and charges that affect the balance of the obligation. Loan losses incurred reduce the obligation and are not considered Corporation expenses.

In 2003, the City of Memphis through the Memphis Business Opportunity Fund (MBOF) deposited $1,000,000 with the Corporation for the purpose of lending to small businesses in the Memphis area. In addition, three financial institutions contributed $450,000 each. An investment committee comprised of representatives from each of the parties in the Memphis Business Opportunity Partnership that are contributing lendable funds serve to assist and facilitate the activities in the Memphis area. The Corporation receives all earnings on the loans as compensation for its services. The MBOF program has been closed since 2010.

During 2005, at the direction of the City of Memphis, the Corporation transferred $739,342 of the funds back to the City. In 2010, loan loss reserve capital and loan capital provided by the City of Memphis and the three financial institutions was returned in full to the investing parties. The MBOF managed funds obligation at December 31, 2017 and 2016 was $0 and $106,484, respectively. MBOF managed funds program closed in 2017.

There were no loans receivable outstanding at December 31, 2017 and 2016.

NOTE 9 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of contributions received for the purpose of establishing cash reserves to cover future loan write offs for the KCTJF, NOF and ARC programs and for the WBC programs. As actual loan losses are recognized, cash from these loan loss reserves is transferred to the corresponding lending accounts to fund replacement loans.

	(Restated) ARC	KCTJF	NOF	WBC	Total
Temp. Restricted Net Assets - January 1, 2016	$ -	$394,286	$69,146	$75,000	$538,432
Increases (decreases)	145,000	-	-	(50,000)	95,000
Bad debt recoveries	-	-	350	-	350
Loan loss reserve usage (release)	-	-	(29,003)	-	(29,003)
Temp. Restricted Net Assets - December 31, 2016 (Restated)	145,000	394,286	40,493	25,000	604,779
Increases (decreases)	105,000	-	-	(25,000)	80,000
Bad debt recoveries	-	-	-	-	-
Loan loss reserve usage (release)	-	-	(40,493)	-	(40,493)
Temp. Restricted Net Assets - December 31, 2017	$250,000	$394,286	$ -	$ -	$644,286

NOTE 10 - CREDIT RISK AND ECONOMIC CONCENTRATION

The Corporation maintains cash at two 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 of the two 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.

NOTE 10 - CREDIT RISK AND ECONOMIC CONCENTRATION (CONTINUED)

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 $ 5,446,431 and $4,703,179 as of December 31, 2017 and 2016, respectively, to cover any loan losses.

The Corporation's various programs receive funding from several federal, state and local grants. During 2017, the Corporation recognized revenue in the amount of $2,375,000 which constitutes 15% of the Corporation's total unrestricted revenue and support for the year. This revenue is to be used for loan capital for the Tennessee Rural Opportunity Fund and operational expenses as stated in the award documents. The interest income that results from the granted loan capital will provide ongoing support for the Corporation's future operations and will reduce the Corporation's dependency on operational grants from outside sources in order to maintain sustainability. During 2016, there were no concentrations of funding sources.

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.

Other Real Estate Owned - Other real estate owned, consisting of properties obtained through foreclosure or in satisfaction of loans, is initially recorded at fair value, determined on the basis of current appraisals, comparable sales, and other estimates of value obtained principally from independent sources, adjusted for estimated selling costs. Other real estate owned is recorded as nonrecurring Level 3 of the valuation hierarchy.

NOTE 11 - FAIR VALUE MEASUREMENTS (CONTINUED)

There have been no changes in the valuation methodologies used at December 31, 2017 and 2016.

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.

The following table sets forth the Corporation's major category of assets measured at fair value on a nonrecurring basis at December 31, 2017 and 2016:

	Total reported value in the Statement of Financial Position	Level 1	Level 2	Level 3
2017				
Impaired Loans (included in loans receivable)	$ 3,405,781	$ -	$ -	$ 3,405,781
Other real estate owned	434,370	-	-	434,370
Total assets at fair value	$ 3,840,151	$ -	$ -	$ 3,840,151
2016				
Impaired Loans (included in loans receivable)	$ 3,464,405	$ -	$ -	$ 3,464,405
Other real estate owned	434,370	-	-	434,370
Total assets at fair value	$ 3,898,775	$ -	$ -	$ 3,898,775

NOTE 11 - FAIR VALUE MEASUREMENTS (CONTINUED)

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, 2017:

	Fair Value	Valuation Techniques	Significant Unobservable Inputs
Impaired Loans	$ 3,405,781	Appraisal	Discounts for Costs to Sell and Marketability of Collateral
		Present Value of Expected Future Cash Flows	Payment Streams and Discount Rates
Other Real Estate Owned	434,370	Appraisal	Discounts for Costs to Sell and Marketability of Collateral

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 $95,550 for 2017 and $62,946 for 2016.

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.

NOTE 14 - PRIOR PERIOD ADJUSTMENT

An adjustment was made to reclassify $145,000 from unrestricted to temporarily restricted revenue to properly account for the activity in the ARC program in 2016. There was no change to 2016 ending net assets in total.

SUPPLEMENTARY INFORMATION

SOUTHEAST COMMUNITY CAPITAL CORPORATION
d/b/a PATHWAY LENDING

SCHEDULE OF EQUITY EQUIVALENT AGREEMENTS

DECEMBER 31, 2017 AND 2016

	Origination Date	Original Note Amount	December 31 2017	December 31 2016
SunTrust Bank (Nashville, TN)	1/4/2002	$ 300,000	$ 300,000	$ 300,000
SunTrust Bank (Knoxville, TN)	12/16/2004	250,000	250,000	250,000
The Bank of Nashville (Nashville, TN)	4/12/2006	500,000	500,000	500,000
Pinnacle Bank (Nashville, TN)	1/15/2006	750,000	750,000	750,000
Pinnacle Bank (f/k/a Prime Trust Bank)	12/1/2006	250,000	-	250,000
Renasant Bank (f/k/a Capital Bank & Trust)	12/28/2006	200,000	200,000	200,000
InsBank (Nashville, TN)	12/29/2006	300,000	300,000	300,000
Capital Bank (f/k/a GreenBank) (Greeneville, TN)	12/20/2006	800,000	794,604	794,604
Simmons Bank (f/k/a Citizens National Bank) (Athens, TN)	12/28/2006	100,000	100,000	100,000
Pinnacle Bank (Nashville, TN)	12/18/2007	250,000	250,000	250,000
Capital Bank (f/k/a GreenBank) (Greeneville, TN)	12/21/2007	500,000	-	500,000
FirstBank (Lexington, TN)	12/28/2007	1,000,000	-	1,000,000
Pinnacle Bank (Nashville, TN)	12/24/2007	750,000	-	750,000
Peoples Bank (Clifton, TN)	12/21/2007	100,000	-	100,000
F&M Bank (Clarksville, TN)	12/28/2007	500,000	-	500,000
Reliant Bank (Franklin, TN)	12/26/2007	300,000	-	300,000
Wayne County Bank (Waynesboro, TN)	12/26/2007	200,000	-	200,000
Citizens Bank (Elizabethton, TN)	12/21/2007	500,000	-	500,000
Citizens Bank (Carthage, TN)	12/21/2007	300,000	-	300,000
Commercial Bank & Trust (Paris, TN)	12/24/2007	500,000	-	500,000
Decatur County Bank (Decaturville, TN)	12/21/2007	200,000	-	200,000
Simmons Bank (f/k/a Citizens National Bank) (Athens, TN)	12/24/2007	100,000	-	100,000
Centennial Bank (f/k/a Farmers and Merchants) (Trezevant, TN)	12/20/2007	50,000	-	50,000
Community Bank & Trust (Ashland City, TN)	12/28/2007	100,000	-	100,000
Pinnacle Bank (f/k/a Avenue Bank) (Nashville, TN)	12/21/2007	100,000	-	100,000
Simmons Bank (f/k/a First State Bank) (Union City, TN)	12/26/2007	1,000,000	-	1,000,000
Macon Bank and Trust Company (Lafayette, TN)	10/1/2008	250,000	250,000	250,000
Foundation Bank (f/k/a McKenzie Banking Company) (McKenzie, TN)	10/1/2008	100,000	100,000	100,000
First National Bank (Oneida, TN)	10/17/2008	50,000	50,000	50,000
Legends Bank (Clarksville, TN)	12/22/2008	100,000	100,000	100,000
Pinnacle Bank (Nashville, TN)	12/26/2008	1,000,000	1,000,000	1,000,000
Pinnacle Bank (Nashville, TN)	6/30/2009	500,000	-	500,000

SOUTHEAST COMMUNITY CAPITAL CORPORATION
d/b/a PATHWAY LENDING

SCHEDULE OF EQUITY EQUIVALENT AGREEMENTS

DECEMBER 31, 2017 AND 2016

	Origination Date	Original Note Amount	December 31 2017	December 31 2016
HomeTrust Bank (f/k/a Jefferson Federal) (Morristown, TN)	7/14/2009	$ 100,000	$ 100,000	$ 100,000
Pinnacle Bank (Nashville, TN)	12/3/2009	125,000	125,000	125,000
Legends Bank (Clarksville, TN)	10/28/2010	750,000	750,000	750,000
Tennessee Bank and Trust (f/k/a Farmers Bank & Trust) (Blytheville, AR)	11/30/2010	750,000	750,000	750,000
F&M Bank (Clarksville, TN)	12/1/2010	1,000,000	1,000,000	1,000,000
Regions (Birmingham, AL)	5/22/2011	2,100,000	2,100,000	2,100,000
CapStar Bank (Nashville, TN)	12/30/2011	100,000	100,000	100,000
FirstBank (Lexington, TN)	12/30/2011	538,337	538,337	538,337
Citizens Bank (Carthage, TN)	12/22/2011	1,200,000	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 (f/k/a 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 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
First Advantage Bank (Clarksville, TN)	8/18/2016	1,000,000	1,000,000	1,000,000
Capital Bank (Franklin, 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

SOUTHEAST COMMUNITY CAPITAL CORPORATION
d/b/a PATHWAY LENDING

SCHEDULE OF EQUITY EQUIVALENT AGREEMENTS

DECEMBER 31, 2017 AND 2016

	Origination Date	Original Note Amount	December 31 2017	December 31 2016
F&M Bank (Clarksville,TN)	4/13/2017	500,000	500,000	-
Capital Bank (Franklin, TN)	6/22/2017	2,000,000	2,000,000	-
CB&S Bank (Rogersville, AL)	6/28/2017	500,000	500,000	-
Regions Bank (Birmingham, AL)	6/30/2017	1,000,000	1,000,000	-
Commercial Bank & Trust (Paris, TN)	7/17/2017	500,000	500,000	-
Compass/BBVA (Houston, TX)	8/15/2017	5,000,000	2,500,000	-
Pinnacle Bank (Nashville, TN)	8/25/2017	500,000	500,000	-
Pinnacle Bank (f/k/a Prime Trust Bank) (Nashville, TN)	8/25/2017	250,000	250,000	-
Peoples Bank of America (Birmingham, AL)	10/16/2017	100,000	100,000	-
Community Bank & Trust (Ashland City, TN)	12/13/2017	100,000	100,000	-
Decatur County Bank (Decaturville, TN)	12/15/2017	200,000	200,000	-
Citizen's Bank (Elizabethton, TN)	12/20/2017	500,000	500,000	-
Franklin Synergy (Franklin, TN)	12/21/2017	2,000,000	2,000,000	-
Franklin Synergy (Franklin, TN)	12/21/2017	1,000,000	1,000,000	-
Franklin Synergy (Franklin, TN)	12/21/2017	2,000,000	2,000,000	-
Centennial Bank (f/k/a Farmers and Merchants) (Trezevant, TN)	12/22/2017	50,000	50,000	-
		$ 72,253,114	$ 62,797,718	$ 56,047,718

LOAN FUND DESCRIPTIONS

DECEMBER 31, 2017 AND 2016

The Corporation operates ten 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 forgivable 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.

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.

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 is capitalized with $10 million of private bank capital and up to $2 million of forgivable loans from the State of Tennessee's Small and Minority Owned Business (SMOB) Program to create up to a $12 million fund. In 2017, TN-ROF was expanded with a new grant. 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.

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 Demonstration 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 Regional Commission Loan Fund

The Appalachian Regional Commission (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.

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

	2017	2016
Nashville Opportunity Fund (NOF)	$ 9,021,087	$ 4,833,970
Knox County Technology and Jobs Fund (KCTJF)	3,673,506	1,485,510
Tennessee Rural Opportunity Fund	8,282,903	7,803,734
SCC Revolving Loan Fund (RLF)	2,124,891	26,985
SBA Micro Loan Funds	1,213,129	1,209,979
Small Business Job Opportunity Fund (SBJOF)	41,424,319	45,135,501
Tennessee Energy Efficiency Fund	10,852,275	10,425,133
Affordable Multifamily Housing Loan Program (MFIPT)	10,483,247	4,764,226
Appalachian Regional Commission Loan Fund (ARC)	2,123,705	2,381,649
Alabama Small Business Opportunity Fund	691,362	-
	89,890,424	78,066,687
Allowance for loan losses	(4,949,712)	(4,450,606)
	$ 84,940,712	$ 73,616,081

SOUTHEAST COMMUNITY CAPITAL CORPORATION
d/b/a PATHWAY LENDING

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

DECEMBER 31, 2017 AND 2016

Program		Federal Catalog Number	Grant Contract Number	Grant Period	Balance 01/01/17	Amount Borrowed	Principal Paid	Balance 12/31/17
Direct Federal Loans								
U.S. Small Business Administration:	*	59.046	5050905002	04-13-12 to 04-13-22	$ 118,519	$ -	$ 22,222	$ 96,297
	*	59.046	5274865002	08-30-12 to 08-30-22	346,296	-	61,111	285,185
	*	59.046	7508625003	05-26-15 to 05-26-25	701,902	-	82,468	619,434
Micro Loan Program	*	59.046	8478565001	08-01-16 to 08-01-26	500,000	250,000	27,778	722,222
Total Federal Loans					$ 1,666,717	$ 250,000	$ 193,579	$ 1,723,138
					Accrued (Deferred) Revenues	Cash Received/ Billings	Expenditures/Amounts Earned	Accrued (Deferred) Revenues
Federal Awards								
U.S. Dept. of Treasury: CDFI Award-Community Development Financial Institutions		21.020	161FA020741	09-27-16 to 12-31-19	$ -	$ 250,000	$ 250,000	$ -
U.S. Small Business Administration	*	59.046	SBAHQ-16-Y-0062	07-01-16 to 09-30-17	62,951	180,214	140,119	22,856
SBA Micro Loan Intermediary	*	59.046	SBAHQ-17-Y-0052	07-01-17 to 06-30-18	-	-	85,466	85,466
Technical Assistance	*	59.046	SBAHQ-16-PR-0034	09-30-16 to 09-29-17	14,682	117,094	135,318	32,906
U.S. Small Business Administration								
Women's Business Ownership Assistance	*	59.046	SBAHQ-14-W-0046	09-30-16 to 09-29-17	37,500	150,000	112,500	-
Technical Assistance	*	59.046	SBAHQ-14-W-0046	09-30-17 to 09-29-18	-	-	37,500	37,500
Appalachian Regional Commission		23.011	AL-18405-16	04-01-16 to 03-31-17	178,400	234,018	110,370	54,752
U.S. Department of Housing and Urban Development Passed through the Metropolitan Development and Housing Agency Community Development Block Grant		14.218	N/A	10-01-15 to 06-30-18	17,235	225,193	239,031	31,073
Total Federal Awards					$ 310,768	$ 1,156,519	$ 1,110,304	$ 264,553
State Awards								
State of Tennessee Department of Economic and Community Development		N/A	08-17-17 GR	12-01-17 to 11-30-22	$ -	$ -	$ 2,375,000	$ 2,375,000
Total State Awards					$ -	$ -	$ 2,375,000	$ 2,375,000

(*) - Considered a major program under Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*

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 d/b/a Pathway Lending (the "Corporation") under programs of the federal government for the year ended Decemer 31, 2017. 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 financial position, changes in net assets, or cash flows of the Corporation.

Summary of expenditures by CFDA number

21.020	$ 250,000
59.046	510,903
23.011	110,370
14.218	239,031
Total	$ 1,110,304

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.

INTERNAL CONTROL AND COMPLIANCE

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 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 financial statements of Southeast Community Capital Corporation d/b/a Pathway Lending, which comprise the statement of financial position as of December 31, 2017, and the related statements of activities and cash flows for the year then ended and the related notes to the financial statements and have issued our report thereon dated March 29, 2018.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered Southeast Community Capital Corporation d/b/a Pathway Lending's internal control over financial reporting (internal control) to determine 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 d/b/a Pathway Lending's internal control. Accordingly, we do not express an opinion on the effectiveness of Southeast Community Capital Corporation 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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COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether Southeast Community Capital Corporation d/b/a Pathway Lending's 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 determination of financial statement amounts. 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 do not 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.

KraftCPAs PLLC

Nashville, Tennessee
March 29, 2018

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

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

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited Southeast Community Capital Corporation d/b/a Pathway Lending's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget ("OMB") *Compliance Supplement* that could have a direct and material effect on Southeast Community Capital Corporation d/b/a Pathway Lending's major federal program for the year ended December 31, 2017. Southeast Community Capital Corporation d/b/a Pathway Lending's major federal program is identified in the summary of auditor's results section of the accompanying *Schedule of Findings and Questioned Costs*.

MANAGEMENT'S RESPONSIBILITY

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on compliance for Southeast Community Capital Corporation d/b/a Pathway Lending's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; 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")*. Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the major federal program occurred. An audit includes examining, on a test basis, evidence about Southeast Community Capital Corporation d/b/a Pathway Lending's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination on Southeast Community Capital Corporation d/b/a Pathway Lending's compliance.

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OPINION ON EACH MAJOR FEDERAL PROGRAM

In our opinion, Southeast Community Capital Corporation d/b/a Pathway Lending complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2017.

INTERNAL CONTROL OVER COMPLIANCE

Management of Southeast Community Capital Corporation d/b/a Pathway Lending is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Southeast Community Capital Corporation d/b/a Pathway Lending's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major federal program 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 internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Southeast Community Capital Corporation d/b/a Pathway Lending's 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 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 first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 29, 2018

SOUTHEAST COMMUNITY CAPITAL CORPORATION
d/b/a PATHWAY LENDING

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

DECEMBER 31, 2017 AND 2016

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**
59.046	Small Business Administration Micro Loan Program

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

SOUTHEAST COMMUNITY CAPITAL CORPORATION
d/b/a PATHWAY LENDING

SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED DECEMBER 31, 2017

Financial Statement Findings

Finding Number	Finding Title	Status

There were no prior year findings reported.

Federal Award Findings and Questioned Costs:

Finding Number	Finding Title	Status

There were no prior year findings reported.