

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

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

DECEMBER 31, 2019 AND 2018

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

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

DECEMBER 31, 2019 AND 2018

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**Southeast Community Capital Corporation  
and Subsidiary d/b/a Pathway Lending  
Board of Directors and Executive Management 2019**

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Tom Hunter - Chairman

Jon Davies

Dr. William H. (Herb) Byrd, III – Vice Chairman

Cindy Herron

Andre Gist

Kelly Magill

Dave Berezov

Hugh Queener

Ivanetta Davis-Samuels

Clint Gwin, President and CEO

Barbara Harris, EVP, Chief Financial Officer

Amy Bunton, EVP, Chief Operating Officer

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

## INDEPENDENT AUDITOR'S REPORT

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

### REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of Southeast Community Capital Corporation and Subsidiary d/b/a Pathway Lending ("Corporation") which comprise the consolidated statements of financial position as of December 31, 2019 and 2018, and the related consolidated statements of activities, cash flows and functional expenses for the years then ended, and the related notes to the consolidated financial statements.

### MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

### AUDITOR'S RESPONSIBILITY

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

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

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

## OPINION

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Southeast Community Capital Corporation and Subsidiary d/b/a Pathway Lending as of December 31, 2019 and 2018, 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

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information on pages i and on pages 35 - 41 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. The accompanying schedule of expenditures of federal and state awards on page 41, as required by Title 2 U.S. Code of Federal Regulations 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 consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

## OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated April 2, 2020, on our consideration of Southeast Community Capital Corporation and Subsidiary d/b/a Pathway Lending's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Southeast Community Capital Corporation and Subsidiary d/b/a Pathway's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Southeast Community Capital Corporation and Subsidiary d/b/a Pathway Lending's internal control over financial reporting and compliance.

K. J. Kraft CPAs PLLC

Nashville, Tennessee  
April 2, 2020

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

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

**DECEMBER 31, 2019 AND 2018**

	<b><u>2019</u></b>	<b><u>2018</u></b>
<b><u>ASSETS</u></b>		
Cash and cash equivalents	\$ 3,983,487	\$ 4,056,764
Restricted cash - lending	63,480,830	44,728,690
Restricted cash - loan loss reserve funds	5,328,269	5,694,782
Due from grantors	1,101,697	2,302,645
Interest receivable	569,893	524,673
Loans receivable, net of allowance for possible loan losses of \$8,026,446 and \$9,805,552, respectively	108,899,230	95,328,542
Federal Home Loan Bank stock, at cost	249,000	164,300
Property and equipment, net	3,216,211	1,517,039
Other real estate owned	1,030,941	992,648
Other assets	<u>347,775</u>	<u>294,755</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 188,207,333</u></b>	<b><u>\$ 155,604,838</u></b>
<b><u>LIABILITIES AND NET ASSETS</u></b>		
<b>LIABILITIES</b>		
Accounts payable	\$ 117,811	\$ 100,943
Interest payable	472,302	422,669
Lines of credit payable	36,211,861	27,000,000
Mortgage payable	2,042,712	829,693
Notes payable	115,691,819	97,635,975
Deferred revenue	430,589	315,461
Other liabilities	<u>877,102</u>	<u>758,472</u>
<b>TOTAL LIABILITIES</b>	<b><u>155,844,196</u></b>	<b><u>127,063,213</u></b>
<b>NET ASSETS</b>		
Without donor restrictions	30,523,935	26,099,969
With donor restrictions	<u>1,839,202</u>	<u>2,441,656</u>
<b>TOTAL NET ASSETS</b>	<b><u>32,363,137</u></b>	<b><u>28,541,625</u></b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 188,207,333</u></b>	<b><u>\$ 155,604,838</u></b>

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

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

**CONSOLIDATED STATEMENTS OF ACTIVITIES**

**DECEMBER 31, 2019 AND 2018**

	<b>2019</b>		
	<b><u>Without Donor Restrictions</u></b>	<b><u>With Donor Restrictions</u></b>	<b><u>Total</u></b>
REVENUE AND OTHER SUPPORT			
Grant and Contribution Revenue			
U.S. Small Business Administration	\$ 331,935	\$ -	\$ 331,935
U.S. Treasury CDFI Award	964,000	-	964,000
U.S. Small Business Administration WBC	150,000	-	150,000
U.S. Small Business Administration VBOC	291,217	-	291,217
Metropolitan Development and Housing Agency			
Community Development Block Grant	193,438	-	193,438
State of Tennessee - Rural Opportunity Fund	3,627,826	-	3,627,826
Appalachian Regional Commission	19,560	-	19,560
Memphis corporate grant - Epicenter	238,862	-	238,862
Kresge operating grant	4,180	-	4,180
800 Initiative grant	237,500	-	237,500
United Way	18,000	18,000	36,000
Contributed loan capital	225,000	-	225,000
Total Grant and Contribution Revenue	6,301,518	18,000	6,319,518
Interest and Program Service Revenue			
Interest income - loans	6,351,698	-	6,351,698
Interest income - bank deposits	682,455	-	682,455
Financing fees and charges	373,922	-	373,922
Fee income	123,584	-	123,584
Total Interest and Program Services Revenue	7,531,659	-	7,531,659
Other Support			
Miscellaneous and in-kind contributions	251,937	-	251,937
Rental income	67,779	-	67,779
Net Assets Released From Restrictions			
Loan loss reserve usage	602,454	(602,454)	-
Women's business center	18,000	(18,000)	-
TOTAL REVENUE AND OTHER SUPPORT	14,773,347	(602,454)	14,170,893
EXPENSES			
Program activities			
Lending and education programs	9,531,965	-	9,531,965
Supporting services			
Administrative and general	814,918	-	814,918
Fundraising activities	2,498	-	2,498
TOTAL EXPENSES	10,349,381	-	10,349,381
CHANGE IN NET ASSETS	4,423,966	(602,454)	3,821,512
NET ASSETS - BEGINNING OF YEAR	26,099,969	2,441,656	28,541,625
NET ASSETS - END OF YEAR	\$ 30,523,935	\$ 1,839,202	\$ 32,363,137

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

2018		
Without Donor Restrictions	With Donor Restrictions	Total
\$ 328,899	\$ -	\$ 328,899
387,535	779,370	1,166,905
150,000	-	150,000
132,955	-	132,955
110,505	-	110,505
1,260,550	-	1,260,550
5,440	-	5,440
197,592	1,000,000	1,197,592
-	-	-
-	-	-
-	18,000	18,000
1,500,000	-	1,500,000
4,073,476	1,797,370	5,870,846
5,934,474	-	5,934,474
417,670	-	417,670
506,655	-	506,655
88,467	-	88,467
6,947,266	-	6,947,266
198,061	-	198,061
-	-	-
-	-	-
-	-	-
11,218,803	1,797,370	13,016,173
13,142,740	-	13,142,740
570,618	-	570,618
1,199	-	1,199
13,714,557	-	13,714,557
(2,495,754)	1,797,370	(698,384)
28,595,723	644,286	29,240,009
\$ 26,099,969	\$ 2,441,656	\$ 28,541,625



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

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**DECEMBER 31, 2019 AND 2018**

	<b><u>2019</u></b>	<b><u>2018</u></b>
OPERATING ACTIVITIES		
Increase (decrease) in net assets	\$ 3,821,512	\$ (698,384)
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	108,120	79,262
Contributed loan capital	(225,000)	(1,500,000)
Loan loss provision	313,243	5,980,774
Loan loss reserve grants received	-	(1,779,370)
Provision for writedown of other real estate owned	1,204,007	34,370
Gain on sale of fixed assets	721	-
Net changes in:		
Due from grantors	619,253	(45,377)
Interest receivable	(45,220)	(86,069)
Other assets	(53,020)	(116,992)
Accounts payable	16,868	22,701
Interest payable	49,633	(77,085)
Deferred revenue	115,128	15,818
Other liabilities	118,630	(382,026)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>6,043,875</u>	<u>1,447,622</u>
INVESTING ACTIVITIES		
Changes in loans receivable, net of charge offs	(15,126,231)	(16,961,252)
Purchase of FHLB stock	(84,700)	(164,300)
Acquisition of property and equipment, net	(1,808,013)	(60,944)
Due from grantors	<u>581,695</u>	<u>2,161,655</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(16,437,249)</u>	<u>(15,024,841)</u>
FINANCING ACTIVITIES		
Net proceeds on lines of credit	9,211,861	1,000,000
Payments on mortgage and notes payable	831,709	(2,244,523)
Proceeds from mortgage and notes payable	<u>18,662,154</u>	<u>22,382,858</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>28,705,724</u>	<u>21,138,335</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	18,312,350	7,561,116
CASH AND RESTRICTED CASH - BEGINNING OF YEAR	<u>54,480,236</u>	<u>46,919,120</u>
CASH AND RESTRICTED CASH - END OF YEAR	<u>\$ 72,792,586</u>	<u>\$ 54,480,236</u>
Cash and cash equivalents	\$ 3,983,487	\$ 4,056,764
Restricted cash - lending	63,480,830	44,728,690
Restricted cash - loan loss reserve funds	<u>5,328,269</u>	<u>5,694,782</u>
TOTAL CASH	<u>\$ 72,792,586</u>	<u>\$ 54,480,236</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	<u>\$ 2,391,934</u>	<u>\$ 1,846,987</u>
Non-cash investing activities:		
Loans transferred to other real estate owned	<u>\$ (1,242,300)</u>	<u>\$ (592,648)</u>

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

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

**CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES**

**DECEMBER 31, 2019 AND 2018**

	<b>2019</b>			
	<b><u>Program Activities</u></b>	<b><u>Supporting Services</u></b>	<b><u>Fundraising Activities</u></b>	<b><u>Total</u></b>
Salaries and benefits	\$ 4,583,945	\$ 597,175	\$ 2,133	\$ 5,183,253
Travel	234,043	1,955	365	236,363
Dues, licenses, permits	40,018	2,323	-	42,341
Office expenses	103,894	8,543	-	112,437
Telecommunications	62,036	5,419	-	67,455
Postage and freight	3,722	144	-	3,866
Equipment maintenance	-	-	-	-
Professional services	522,187	32,057	-	554,244
Consulting	316,413	42,370	-	358,783
Marketing	10,115	580	-	10,695
Insurance	106,910	19,572	-	126,482
Occupancy	132,206	53,065	-	185,271
Depreciation	77,824	30,296	-	108,120
Conferences and meetings	156,518	4,819	-	161,337
Loan loss provision	313,243	-	-	313,243
Foreclosure carrying costs	408,284	-	-	408,284
Miscellaneous	34,052	1,588	-	35,640
Interest expense	2,426,555	15,012	-	2,441,567
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total	\$ 9,531,965	\$ 814,918	\$ 2,498	\$ 10,349,381
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

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

**2018**

<b>Program Activities</b>	<b>Supporting Services</b>	<b>Fundraising Activities</b>	<b>Total</b>
\$ 3,624,217	\$ 485,426	\$ 445	\$ 4,110,088
214,633	12,142	-	226,775
35,520	1,859	-	37,379
154,829	6,264	-	161,093
49,752	3,431	-	53,183
4,138	226	-	4,364
1,265	140	-	1,405
329,325	16,644	-	345,969
249,493	4,041	-	253,534
68,960	3	-	68,963
113,911	12,643	-	126,554
117,827	10,640	-	128,467
71,583	7,679	-	79,262
153,607	6,811	754	161,172
5,980,774	-	-	5,980,774
-	-	-	-
204,026	1,647	-	205,673
1,768,880	1,022	-	1,769,902
<u>\$ 13,142,740</u>	<u>\$ 570,618</u>	<u>\$ 1,199</u>	<u>\$ 13,714,557</u>

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

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, the U.S. Small Business Administration Office of Veterans Business Development, and the Metropolitan Development Housing Agency and various foundations. The assistance includes access to financial services, access to capital needs and includes classroom education, one-on-one assistance and peer learning.

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2019 AND 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

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

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

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

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

Revenue Recognition

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2019 AND 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

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

Donated Services, Goods and Facilities

Volunteers donate time to the Corporation's program services during the year. For the year ended December 31, 2019, \$31,025 in specialized services were contributed to the Corporation and are reflected in the consolidated financial statements (\$25,010 as of December 31, 2018). Other donated services may not be reflected in the consolidated financial statements since the services do not require specialized skills. Materials and other assets received as donations are recorded and reflected in the accompanying consolidated 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 maturities within 330 days of audited year end.

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

Cash restricted for lending purposes is intended only to fund loans. Restricted cash for loan loss reserves is intended only to be used to replenish loan funds in the event of a loan charge off. Restricted cash includes donor restricted net assets amounting to \$1,839,202 at December 31, 2019 (\$2,441,656 at December 31, 2018).

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.

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2019 AND 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans Receivable and Allowance for Loan Losses (Continued)

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 principle 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.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2019 AND 2018

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

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

Advertising Costs

Advertising costs are expensed as incurred. Advertising expense was \$4,451 and \$10,692 for the years ended December 31, 2019 and 2018, respectively.



SOUTHEAST COMMUNITY CAPITAL CORPORATION  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2019 AND 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

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

Allocation of Functional Expenses

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

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.

Adoption of New Accounting Pronouncement

On January 1, 2019, the Association adopted ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This guidance is intended to clarify and improve the scope and the accounting guidance for contributions received and contributions made. Key provisions in this guidance include clarification regarding the accounting for grants and contracts as exchange transactions or contributions and improve guidance to better distinguish between conditional and unconditional contributions. The adoption of this ASU did not materially impact the consolidated financial statements and related disclosures.

SOUTHEAST COMMUNITY CAPITAL CORPORATION  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2019 AND 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Authoritative Accounting Guidance

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

An entity may adopt the guidance either (1) retrospectively to each prior reporting period presented in the financial statements with a cumulative-effect adjustment recognized at the beginning of the earliest comparative period presented or (2) retrospectively at the beginning of the period of adoption through a cumulative-effect adjustment. The Corporation expects to adopt the guidance retrospectively at the beginning of the period of adoption, January 1, 2021, through a cumulative-effect adjustment, if an adjustment is necessary based on review of the Corporation's leases on that date.

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

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

SOUTHEAST COMMUNITY CAPITAL CORPORATION  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2019 AND 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Authoritative Accounting Guidance (Continued)

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

Events Occurring After Reporting Date

The Corporation has evaluated events and transactions that occurred between December 31, 2019 and April 2, 2020, the date the consolidated financial statements were available to be issued, for possible recognition or disclosure in the consolidated financial statements.

NOTE 3 - LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The Corporation's unrestricted cash and cash equivalents as presented on the consolidated statements of financial position have a balance of \$3,983,487 and \$4,056,764 at December 31, 2019 and 2018, respectively.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2019 AND 2018

NOTE 3 - LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS (CONTINUED)

The Corporation's financial assets available within one year of December 31, 2019 for general expenditures are as follows:

	<u>2019</u>
Cash and cash equivalents	\$ 3,983,487
Restricted cash - lending	4,200,000
Interest receivable	569,893
Due from grantors for operations	<u>343,860</u>
Financial assets available to meet cash needs for general expenditures within one year	<u><u>\$ 9,097,240</u></u>

Operating cash and cash equivalents include a draw of \$1,800,000 on the \$6,000,000 InsBank line of credit as discussed in Note 7. The remaining \$4,200,000 of the InsBank line of credit was classified as restricted cash - lending as of December 31, 2019 but was available to meet the Corporation's general operational obligations if needed. Additionally, the "Restricted cash - loan loss reserve funds" can be used to fund the loan loss provision.

NOTE 4 - DUE FROM GRANTORS

Due from grantors consisted of the following at December 31:

	<u>2019</u>	<u>2018</u>
U.S. Small Business Administration Technical Assistance Grant	\$ 155,523	\$ 109,840
U.S. Small Business Administration Women's Business Ownership Assistance	37,500	75,000
U.S. Small Business Administration Veteran Business Outreach Center	110,601	91,014
Appalachian Regional Commission	-	5,440
Metropolitan Development and Housing Agency Community Development Block Grant	10,972	-
State of Tennessee Department of Economic and Community Development	167,848	1,176,064
Memphis Corporate Grant - Epicenter	<u>619,253</u>	<u>845,287</u>
	<u><u>\$ 1,101,697</u></u>	<u><u>\$ 2,302,645</u></u>

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**DECEMBER 31, 2019 AND 2018**

**NOTE 5 - LOANS RECEIVABLE**

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

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

The composition of loans by primary loan classification as well as impaired and performing loan status at December 31, 2019 and 2018 is summarized in the table below:

	At December 31,			
	Commercial Real Estate Loans	Commercial Loans	Energy Efficiency Loans	Total
<b>2019</b>				
Performing loans	\$ 49,759,619	\$ 44,220,569	\$ 15,677,316	\$ 109,657,504
Impaired loans	2,638,373	4,553,810	75,989	7,268,172
	<u>\$ 52,397,992</u>	<u>\$ 48,774,379</u>	<u>\$ 15,753,305</u>	<u>\$ 116,925,676</u>
<b>2018</b>				
Performing loans	\$ 42,432,749	\$ 42,031,471	\$ 12,275,022	\$ 96,739,242
Impaired loans	2,256,061	5,933,644	205,147	8,394,852
	<u>\$ 44,688,810</u>	<u>\$ 47,965,115</u>	<u>\$ 12,480,169</u>	<u>\$ 105,134,094</u>

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
<b>2019</b>				
Allowance related to:				
Performing Loans	\$ 608,365	\$ 3,988,717	\$ 290,030	\$ 4,887,112
Impaired Loans	306,864	2,756,481	75,989	3,139,334
	<u>\$ 915,229</u>	<u>\$ 6,745,198</u>	<u>\$ 366,019</u>	<u>\$ 8,026,446</u>
<b>2018</b>				
Allowance related to:				
Performing Loans	\$ 609,938	\$ 3,799,571	\$ 245,500	\$ 4,655,009
Impaired Loans	424,274	4,630,012	96,257	5,150,543
	<u>\$ 1,034,212</u>	<u>\$ 8,429,583</u>	<u>\$ 341,757</u>	<u>\$ 9,805,552</u>

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2019 AND 2018

NOTE 5 - LOANS RECEIVABLE (CONTINUED)

Changes in the allowance for loan losses for the year ended December 31, 2019 and 2018 are summarized in the table below:

	For the year ended December 31, 2019			
	Commercial Real Estate Loans	Commercial Loans	Energy Efficiency Loans	Total
Beginning Balance	\$ 1,034,212	\$ 8,429,583	\$ 341,757	\$ 9,805,552
Charged off loans	-	(2,513,240)	-	(2,513,240)
Recoveries	-	420,890	-	420,890
Provision for loan losses	(118,983)	407,965	24,262	313,244
Ending Balance	<u>\$ 915,229</u>	<u>\$ 6,745,198</u>	<u>\$ 366,019</u>	<u>\$ 8,026,446</u>

  

	For the year ended December 31, 2018			
	Commercial Real Estate Loans	Commercial Loans	Energy Efficiency Loans	Total
Beginning Balance	\$ 940,732	\$ 3,693,164	\$ 315,816	\$ 4,949,712
Charged off loans	-	(1,353,612)	-	(1,353,612)
Recoveries	-	228,678	-	228,678
Provision for loan losses	93,480	5,861,353	25,941	5,980,774
Ending Balance	<u>\$ 1,034,212</u>	<u>\$ 8,429,583</u>	<u>\$ 341,757</u>	<u>\$ 9,805,552</u>

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.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2019 AND 2018

NOTE 5 - LOANS RECEIVABLE (CONTINUED)

The allowance for loan losses at December 31, 2019 and 2018 is \$8,026,446 or 6.86% of gross loans and \$9,805,552 or 9.33% 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 is required by the Portfolio Manager. Loans assigned to this risk rating must be upgraded or downgraded within 12 months.
- Pass Two/Watch - Assets in this category have deteriorated from the Pass Two category. Assets in this category have had an occurrence of an event or an occurrence of an event is imminent that has increased the level of risk. Events include continued weakening of financial performance, loss of customers or contracts, that if continued will impair the client's ability to repay. These credits are placed on the watch-list for additional monitoring along with the implementation, if possible, of advisory services. 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.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2019 AND 2018

NOTE 5 - LOANS RECEIVABLE (CONTINUED)

The following table outlines the amount of each loan classification and the amount categorized into each risk rating class as of December 31, 2019 and 2018:

	At December 31,			
	Commercial Real Estate Loans		Commercial Loans	
	2019	2018	2019	2018
Loan Risk Ratings:				
Pass One	\$ 48,928,342	\$ 39,513,661	\$ 34,256,762	\$ 38,902,114
Pass Two	831,277	2,919,088	9,963,807	3,129,357
Substandard	2,638,373	2,256,061	3,703,810	5,933,644
Doubtful/Loss	-	-	850,000	-
	<u>\$ 52,397,992</u>	<u>\$ 44,688,810</u>	<u>\$ 48,774,379</u>	<u>\$ 47,965,115</u>
	Energy Efficiency Loans		Total	
	2019	2018	2019	2018
Pass One	\$ 15,625,288	\$ 12,255,261	\$ 98,810,392	\$ 90,671,036
Pass Two	52,028	19,761	10,847,112	6,068,206
Substandard	-	118,159	6,342,183	8,307,864
Doubtful/Loss	75,989	86,988	925,989	86,988
	<u>\$ 15,753,305</u>	<u>\$ 12,480,169</u>	<u>\$ 116,925,676</u>	<u>\$ 105,134,094</u>

Impaired loans are individually evaluated for impairment. The Corporation does not have any loans that are collectively evaluated for impairment. The principal balance of loans considered for impairment amounted to \$7,268,172 and \$8,394,852 at December 31, 2019 and 2018, respectively and are included in the risk rated tables.



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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2019 AND 2018

NOTE 5 - LOANS RECEIVABLE (CONTINUED)

The following table details the recorded investment, unpaid principal balance and related allowance and average recorded investment of our impaired loans at December 31, 2019 and 2018 by loan category and the amount of interest income recognized on these loans on a cash basis throughout 2019 and 2018:

	At December 31, 2019			For the year ended December 31, 2019	
	Recorded Investment	Unpaid principal balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Impaired loans with no recorded allowance:					
Commercial Real Estate Loan	\$ 1,328,571	\$ 1,328,571	\$ -	\$ 1,306,405	\$ 77,779
Commercial Loans	860,389	860,389	-	1,349,110	3,562
Energy Efficiency Loans	-	-	-	-	-
Total	<u>\$ 2,188,960</u>	<u>\$ 2,188,960</u>	<u>\$ -</u>	<u>\$ 2,655,515</u>	<u>\$ 81,341</u>
Impaired loans with a recorded allowance:					
Commercial Real Estate Loan	\$ 1,309,802	\$ 1,309,802	\$ 306,864	\$ 1,309,802	\$ 25,574
Commercial Loans	3,693,421	3,693,421	2,756,481	3,553,293	57,409
Energy Efficiency Loans	75,989	75,989	75,989	80,739	-
Total	<u>\$ 5,079,212</u>	<u>\$ 5,079,212</u>	<u>\$ 3,139,334</u>	<u>\$ 4,943,834</u>	<u>\$ 82,983</u>
	At December 31, 2018			For the year ended December 31, 2018	
	Recorded Investment	Unpaid principal balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Impaired loans with no recorded allowance:					
Commercial Real Estate Loan	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial Loans	-	-	-	-	-
Energy Efficiency Loans	-	-	-	-	-
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Impaired loans with a recorded allowance:					
Commercial Real Estate Loan	\$ 2,256,061	\$ 2,256,061	\$ 424,274	\$ 2,298,330	\$ 18,791
Commercial Loans	5,933,644	5,933,644	4,630,012	5,823,416	253,302
Energy Efficiency Loans	205,147	205,147	96,257	214,331	591
Total	<u>\$ 8,394,852</u>	<u>\$ 8,394,852</u>	<u>\$ 5,150,543</u>	<u>\$ 8,336,077</u>	<u>\$ 272,684</u>

SOUTHEAST COMMUNITY CAPITAL CORPORATION  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2019 AND 2018

NOTE 5 - LOANS RECEIVABLE (CONTINUED)

The tables below present past due balances at December 31, 2019 and 2018, by loan classification allocated between performing and impaired status:

At December 31, 2019						
	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	\$ -	\$ -	\$ -	\$ 2,638,373	\$ 49,759,619	\$ 52,397,992
Commercial Loans	10,396	-	10,396	4,553,810	44,210,173	48,774,379
Energy Efficiency Loans	-	-	-	75,989	15,677,316	15,753,305
	<u>\$ 10,396</u>	<u>\$ -</u>	<u>\$ 10,396</u>	<u>\$ 7,268,172</u>	<u>\$ 109,647,108</u>	<u>\$ 116,925,676</u>

  

At December 31, 2018						
	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	\$ -	\$ -	\$ -	\$ 2,256,061	\$ 42,432,749	\$ 44,688,810
Commercial Loans	-	30,000	30,000	5,933,644	42,001,471	47,965,115
Energy Efficiency Loans	-	-	-	205,147	12,275,022	12,480,169
	<u>\$ -</u>	<u>\$ 30,000</u>	<u>\$ 30,000</u>	<u>\$ 8,394,852</u>	<u>\$ 96,709,242</u>	<u>\$ 105,134,094</u>

Nonaccrual loans totaled \$5,606,850 and \$8,359,692 as of December 31, 2019 and 2018, 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 2019 the Corporation had eight commercial restructurings that qualified as troubled debt restructurings with a total balance of \$333,908 as of December 31, 2019. All troubled debt restructurings are considered impaired and included in the tables above. Specific reserves attributed to troubled debt restructurings totaled \$45,240 as of December 31, 2019. During 2018 the Corporation had seven commercial restructurings that qualified as troubled debt restructurings with a total balance of \$1,048,782 as of December 31, 2018. All troubled debt restructurings are considered impaired and included in the tables above. Specific reserves attributed to troubled debt restructurings totaled \$46,744 as of December 31, 2018.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2019 AND 2018

NOTE 5 - LOANS RECEIVABLE (CONTINUED)

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

Loans receivable consist of 558 loans at December 31, 2019 with principal balances ranging from \$1,000 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 of Directors) were customers of and had loans with the Corporation in the ordinary course of business. These loan transactions were made on substantially the same terms as those prevailing at the time for comparable loans to other customers. They did not involve more than the normal risk of collectability or present other unfavorable terms. Loans to related parties as of December 31, 2019 and 2018 were as follows:

	<u>2019</u>	<u>2018</u>
Balance, January 1	\$ 44,871	\$ 77,826
Advances and other additions	-	-
Repayments and other reductions	<u>(44,871)</u>	<u>(32,955)</u>
Balance, December 31	<u>\$ -</u>	<u>\$ 44,871</u>

A schedule, by year, of principal maturities of loans receivable as of December 31, 2019 follows:

Year ending December 31,

2020	\$ 24,489,877
2021	16,083,010
2022	12,860,974
2023	16,499,063
2024	12,780,408
Thereafter	<u>34,212,344</u>
	116,925,676
Less: Allowance for loan losses	<u>(8,026,446)</u>
Total	<u>\$ 108,899,230</u>

SOUTHEAST COMMUNITY CAPITAL CORPORATION  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2019 AND 2018

NOTE 6 - PROPERTY AND EQUIPMENT

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

	<u>2019</u>	<u>2018</u>
Buildings and improvements	\$ 3,642,180	\$ 1,908,824
Equipment	<u>284,687</u>	<u>236,430</u>
	3,926,867	2,145,254
Less: accumulated depreciation	<u>(710,656)</u>	<u>(628,215)</u>
Property and equipment - net	<u>\$ 3,216,211</u>	<u>\$ 1,517,039</u>

NOTE 7 - LINES OF CREDIT

The Corporation entered into a \$1,000,000 secured line of credit with a financial institution on December 9, 2011 for working capital. The line of credit is collateralized by loans receivable and equipment. On December 30, 2014, this line was increased to \$4,000,000. On August 4, 2016, the line was extended until August 4, 2017 and the interest rate was amended to the WSJ prime rate minus 4%. On August 4, 2017, the line was increased to \$5,000,000 and extended until August 4, 2018. On August 4, 2018, the line was increased to \$6,000,000 and extended until August 5, 2019. On August 5, 2019, the line was extended to August 5, 2020. At December 31, 2019 and 2018, the rate was 0.75% and 1.5%, respectively. The amount borrowed and outstanding for the years ended December 31, 2019 and 2018 was \$6,000,000.

The Corporation established a \$10,000,000 secured line of credit with a financial institution on March 31, 2015. This line is part of the SBJOF portfolio and has a rate of WSJ prime rate minus 4%. On July 25, 2016, this line was increased to \$13,000,000 and the maturity was extended to June 30, 2017. On June 30, 2017, the line was increased to \$16,000,000 and extended until June 29, 2018. On June 29, 2018 the line was extended until June 29, 2019. On July 12, 2019, the line was extended to July 11, 2020. At December 31, 2019 and 2018, the rate was 0.75% and 1.5%, respectively. The amount borrowed and outstanding for the years ended December 31, 2019 and 2018 was \$15,977,734 and \$16,000,000, 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%. On December 28, 2017, the line was increased to \$5,000,000 and extended until June 29, 2019. On June 26, 2019, the line was extended to September 27, 2019. On September 27, 2019, the line was extended to January 24, 2020. On January 24, 2020, the line was extended to May 24, 2020. At December 31, 2019 and 2018, the rate was 0.75% and 1.5%, respectively. The amount borrowed and outstanding for the years ended December 31, 2019 and 2018 was \$5,000,000.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2019 AND 2018

NOTE 7 - LINES OF CREDIT (CONTINUED)

The Corporation entered into a \$10,000,000 secured line of credit with a financial institution on November 26, 2019. This line is part of the MFIPT portfolio and has a rate of WSJ prime rate minus 4%. The line has a maturity date of December 5, 2020. At December 31, 2019, the rate was 0.75%. The amount borrowed and outstanding for the year ended December 31, 2019 was \$9,234,127.

The Corporation's line of credit agreement with a financial institution requires the maintenance of certain financial and non-financial covenants. The Corporation is in compliance with all covenants as of December 31, 2019.

The Corporation has a blanket agreement for advances and related security agreement (the "Blanket Agreement") with the Federal Home Loan Bank ("FHLB") of Cincinnati. Advances made to the Corporation under the Blanket Agreement would be collateralized by FHLB stock and unidentified qualifying multi-family residential mortgage loans. These collateralization matters are outlined in the Blanket Agreement dated December 3, 2018, between the Corporation and the FHLB. There were no borrowings as of 2019.

Stock held in the FHLB totaling \$249,000 at December 31, 2019 is carried at cost. The stock is restricted and can only be sold back to the FHLB at par.

NOTE 8 - MORTGAGES AND NOTES PAYABLE

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

	<u>2019</u>	<u>2018</u>
General corporate debt:		
Mortgages payable	\$ 2,042,712	\$ 829,693
Other payable	<u>285,132</u>	<u>131,601</u>
	<u>2,327,844</u>	<u>961,294</u>
Lending program debt:		
SBA notes payable	1,751,111	1,473,798
Other notes payable	15,850,000	15,600,000
Equity equivalent agreements	<u>97,805,576</u>	<u>80,430,576</u>
	<u>115,406,687</u>	<u>97,504,374</u>
Total mortgages and notes payable	<u>\$ 117,734,531</u>	<u>\$ 98,465,668</u>

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2019 AND 2018

NOTE 8 - MORTGAGES AND NOTES PAYABLE (CONTINUED)

Mortgages 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% (0.75% and 1.5% at December 31, 2019 and 2018, respectively), maturing April 1, 2020. The mortgage payable is secured by the building with a net book value of \$1,372,804. The mortgage balance for the years ended December 31, 2019 and 2018 was \$829,693 and \$715,261, respectively.

On February 25, 2019, the Corporation secured financing in the amount of \$1,368,500 for the purchase of a building on an adjacent lot. Terms require monthly payments of principal and interest for 59 months and a final payment of all principal and interest, at a floating rate equal to prime minus 4% (0.75% and 1.5% at December 31, 2019 and 2018, respectively), maturing February 25, 2024. The mortgage payable is secured by the building with a net book value of \$1,711,082. The mortgage balance for the year ended December 31, 2019 was \$1,327,451.

Other Payable

The Corporation has a note payable related to severance fees paid to Tech 20/20 during 2015. On September 7, 2019, the Corporation refinanced the note payable to reduce the note payable on the new building. The new terms require principal and interest payments for 60 months, with a final payment of all unpaid principal and interest on September 6, 2024. Interest is calculated as prime minus 4% (0.75% and 1.5% at December 31, 2019 and 2018, respectively).

SBA Notes Payable

Notes payable to SBA are specific to fund the SBA Micro Loan program. These notes have a first year 2% rate buy down, and no principal or interest payments are required for the first 12 months. Beginning in month 13, principal and interest are amortized over the next 108 months. The interest rates range from 1.5% to 0% at December 31, 2019 and 2018. The loans mature at the end of 10 years.

<u>SBA Notes Payable</u>	<u>Origination Date</u>	<u>Note Amount</u>	<u>2019</u>	<u>2018</u>
5050905002	4/13/2012	\$ 200,000	\$ -	\$ 74,075
5274865002	8/30/2012	550,000	162,963	224,074
7508625003	6/20/2015	750,000	453,886	536,760
8478565001	8/1/2016	750,000	555,556	638,889
2856927006	8/27/2018	600,000	578,706	-
		<u>\$ 2,850,000</u>	<u>\$ 1,751,111</u>	<u>\$ 1,473,798</u>

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2019 AND 2018

NOTE 8 - MORTGAGES AND NOTES PAYABLE (CONTINUED)

Other Notes Payable

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

	Origination Date	Interest Rate	Note Amount	Principal Balance Outstanding	
				2019	2018
TVA - 10 Years, No Interest (Principal due upon maturity)	9/30/2010	0.00%	\$ 10,000,000	\$ 10,000,000	\$ 10,000,000
RLF US Bank note (Principal due upon maturity)	10/23/2018	3.00%	2,000,000	2,000,000	2,000,000
Appalachian Community Capital note (Principal due upon maturity)	9/28/2015	3.35%	3,000,000	3,000,000	3,000,000
Woodforest National Bank (Principal due upon maturity)	10/9/2018	3.50%	600,000	600,000	600,000
Kresge Foundation (Principal due upon maturity)	12/12/2019	2.00%	250,000	250,000	-
Total			<u>\$ 15,850,000</u>	<u>\$ 15,850,000</u>	<u>\$ 15,600,000</u>

Equity Equivalent Agreements

Equity equivalent agreements are bank debt instruments that are subordinated to all other debt except similar subordinated equity equivalent type notes. The Corporation uses these notes to fund their TN-SBJOF, ROF, KCTJF, NOF, MFIPT, ARC, ASBOF, MSBOF, and RLF loan funds. Loan fund descriptions can be found in the supplemental information section of these financial statements. Notes have maturity dates of five or ten years from the date of origination and include automatic extension features that begin on the second or seventh anniversary of the note. Absent prior notice by the lender, the maturity date is automatically extended for one additional year, so that upon each extension the remaining three-year maturity is extended to four years. Interest is compounded on a quarterly basis and principal and unpaid interest is due at maturity. For the lending financial institutions, the agreements meet the investment requirements of the Community Reinvestment Act and carry a below market interest rate based on the community development purpose of relending the loan proceeds to certain disadvantaged businesses. Agreements that fund the Corporation's ROF and the TN-SBJOF attribute certain State of Tennessee tax benefits to participating financial institutions that require forgiveness of the debt at the tenth anniversary of the note, or forfeiture of all previously claimed tax credits, plus interest and penalties, relating to the lender's investment. It is anticipated that ROF and TN-SBJOF agreements will be forgiven at their tenth anniversary. During the year ended December 31, 2019, \$225,000 of ROF debt was forgiven (\$1,500,000 as of December 31, 2018) and the contributed amount received was recognized accordingly.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2019 AND 2018

NOTE 8 - MORTGAGES AND NOTES PAYABLE (CONTINUED)

Equity Equivalent Agreements (Continued)

The notes have interest rates ranging from .75% to 3% per annum. Maturity dates range from January 2020 to December 2029.

Principal advanced during 2019 and 2018 was \$17,600,000 and \$19,782,858, respectively. The principal balance outstanding at December 31, 2019 and 2018 was \$97,805,576 and \$80,430,576, respectively.

Maturities of mortgages and notes payable as of December 31, 2019 are as follows:

2020	\$ 14,120,618
2021	2,406,941
2022	388,208
2023	349,122
2024	1,985,122
Thereafter	678,944
Equity equivalent agreements	<u>97,805,576</u>
	<u>\$ 117,734,531</u>

NOTE 9 - NET ASSETS

Net Assets:

Without donor restrictions:

Undesignated	\$ 3,181,945
Designated by the board of directors for loan capital	<u>27,341,990</u>
	30,523,935

With donor restrictions:

Purpose restricted	<u>1,839,202</u>
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Total Net Assets	<u>\$ 32,363,137</u>
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SOUTHEAST COMMUNITY CAPITAL CORPORATION  
AND SUBSIDIARY d/b/a PATHWAY LENDING

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2019 AND 2018

NOTE 9 - NET ASSETS (CONTINUED)

Net assets designated by the Board of Directors for loan capital is composed of the following items as of December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
SBJOF State Grant (net of losses and recoveries)	\$ 5,779,459	\$ 6,397,721
TNEEF State Grant 2010 (net of losses and recoveries)	14,000,000	14,000,000
TNROF State Grant 2017-2019 (net of losses and recoveries)	7,095,031	3,541,667
OFN Contribution (Starbucks Initiative)	230,000	230,000
UCB Contribution (Pathway Memphis LLC)	<u>237,500</u>	<u>-</u>
	<u>\$ 27,341,990</u>	<u>\$ 24,169,388</u>

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

	<u>ARC</u>	<u>KCTJF</u>	<u>NOF</u>	<u>WBC</u>	<u>ASBOF</u>	<u>MSBOF</u>	<u>Total</u>
Net Assets with Donor Restrictions							
January 1, 2018	\$ 250,000	\$ 394,286	\$ -	\$ -	\$ -	\$ -	\$ 644,286
Increases	-	-	-	18,000	779,370	1,000,000	1,797,370
Releases from restriction	-	-	-	-	-	-	-
Bad debt recoveries	-	-	-	-	-	-	-
Loan loss reserve usage (release)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
December 31, 2018	250,000	394,286	-	18,000	779,370	1,000,000	2,441,656
Increases (decreases)	-	-	-	18,000	-	-	18,000
Releases from restriction	-	-	-	(18,000)	-	-	(18,000)
Bad debt recoveries	-	-	-	-	-	-	-
Loan loss reserve usage (release)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(602,454)</u>	<u>-</u>	<u>(602,454)</u>
December 31, 2019	<u>\$ 250,000</u>	<u>\$ 394,286</u>	<u>\$ -</u>	<u>\$ 18,000</u>	<u>\$ 176,916</u>	<u>\$ 1,000,000</u>	<u>\$ 1,839,202</u>

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2019 AND 2018

NOTE 10 - CREDIT RISK AND ECONOMIC CONCENTRATION

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

Loans receivable are subject to the risk that borrowers may not be able to make payments. The Corporation manages this risk by educating borrowers in budget and credit management before and after making the loan, subjecting borrowers to certain credit and income standards consistently applied by its loan committee, verifying the credit rating, income, assets and collateral of borrowers and monitoring borrower compliance with loan agreements. In addition, the Corporation may use its loan loss reserve funds, which totaled \$5,328,269 and \$5,694,782 as of December 31, 2019 and 2018, respectively, to cover any loan losses.

The Corporation's various programs receive funding from several federal, state and local grants. During 2019 and 2018, the Corporation recognized revenue from the State of Tennessee in the amount of \$3,627,826 and \$1,260,550, respectively, which constitutes 26% and 10%, respectively, 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.

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.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2019 AND 2018

NOTE 11 - FAIR VALUE MEASUREMENTS (CONTINUED)

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.

There have been no changes in the valuation methodologies used at December 31, 2019 and 2018.

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.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2019 AND 2018

NOTE 11 - FAIR VALUE MEASUREMENTS (CONTINUED)

The following table sets forth the Corporation's major category of assets measured at fair value on a nonrecurring basis at December 31, 2019 and 2018:

	Total reported value in the Statement of Financial Position	Level 1	Level 2	Level 3
<b>2019</b>				
Impaired Loans (included in loans receivable)	\$ 1,939,878	\$ -	\$ -	\$ 1,939,878
Other real estate owned	<u>1,030,941</u>	<u>-</u>	<u>-</u>	<u>1,030,941</u>
Total assets at fair value	<u>\$ 2,970,819</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,970,819</u>
<b>2018</b>				
Impaired Loans (included in loans receivable)	\$ 3,244,309	\$ -	\$ -	\$ 3,244,309
Other real estate owned	<u>992,648</u>	<u>-</u>	<u>-</u>	<u>992,648</u>
Total assets at fair value	<u>\$ 4,236,957</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,236,957</u>

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, 2019:

	Fair Value	Valuation Techniques	Significant Unobservable Inputs
Impaired Loans	\$ 1,939,878	Appraisal Present Value of Expected Future Cash Flows	Discounts for Costs to Sell and Marketability of Collateral Payment Streams and Discount Rates
Other Real Estate Owned	1,030,941	Appraisal	Discounts for Costs to Sell and Marketability of Collateral

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2019 AND 2018

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 \$116,203 for 2019 and \$95,957 for 2018.

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 65<sup>th</sup> 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 65<sup>th</sup> birthday, he shall be entitled to 25%-75% of the cash surrender value of the policy.

NOTE 14 - SUBSIDIARY ORGANIZATION

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2019 AND 2018

NOTE 14 - SUBSIDIARY ORGANIZATION (CONTINUED)

The following is a summary of financial position provided by Pathway Memphis, LLC as of December 31, 2019:

ASSETS

Restricted cash - lending	\$ 500,000
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TOTAL ASSETS	<u>\$ 500,000</u>
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LIABILITIES AND NET ASSETS

LIABILITIES

Interest payable	\$ 164
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Notes payable	250,000
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Other liabilities	<u>12,500</u>
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TOTAL LIABILITIES	<u>262,664</u>
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NET ASSETS

Undesignated	(164)
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Board designated	<u>237,500</u>
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TOTAL NET ASSETS	<u>237,336</u>
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TOTAL LIABILITIES AND NET ASSETS	<u>\$ 500,000</u>
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The following summarizes the activity of Pathway Memphis, LLC for the year ended December 31, 2019:

Contribution from Pathway Lending	\$ 237,500
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Interest income - bank deposits	13
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Financing fees and charges	<u>(13)</u>
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TOTAL REVENUE AND OTHER SUPPORT	237,500
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Less interest expense	<u>(164)</u>
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CHANGE IN NET ASSETS	<u>\$ 237,336</u>
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SOUTHEAST COMMUNITY CAPITAL CORPORATION  
AND SUBSIDIARY d/b/a PATHWAY LENDING

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2019 AND 2018

NOTE 15 - SUBSEQUENT EVENT

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 10, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, and quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical area in which the Corporation operates. While it is unknown how long these conditions will last and what the complete financial effect will be to the Corporation, to date, the Corporation may experience significant changes in the collectability of loans receivable and the related allowance for possible loan losses.

Additionally, it is reasonably possible that estimates made in the financial statements have been, or will be, materially and adversely impacted in the near term as a result of these conditions, including loans receivable and the related allowance for possible loan losses.

# **SUPPLEMENTARY INFORMATION**



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

**SCHEDULE OF EQUITY EQUIVALENT AGREEMENTS**

**DECEMBER 31, 2019 AND 2018**

	Origination Date	Original Note Amount	December 31 2019	December 31 2018
Synovus Bank (fka 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
Renasant Bank (fka Capital Bank & Trust)	12/28/2006	200,000	200,000	200,000
InsBank (Nashville, TN)	12/29/2006	300,000	300,000	300,000
First Horizon Bank (fka Capital Bank) (Memphis, TN)	12/20/2006	800,000	794,604	794,604
Pinnacle Bank (Nashville, TN)	12/18/2007	250,000	250,000	250,000
HomeTrust Bank (fka Jefferson Federal) (Morristown, TN)	7/14/2009	100,000	-	100,000
Pinnacle Bank (Nashville, TN)	12/3/2009	125,000	-	125,000
Legends Bank (Clarksville, TN)	10/28/2010	750,000	750,000	750,000
Tennessee Bank and Trust (fka 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 (fka Avenue Bank) (Nashville, TN)	12/18/2014	500,000	500,000	500,000
CapStar Bank (Nashville, TN)	8/24/2015	500,000	500,000	500,000
Wells Fargo (Minneapolis, MN)	9/29/2015	1,000,000	1,000,000	1,000,000
Pinnacle Bank (Nashville, TN)	12/16/2015	1,000,000	1,000,000	1,000,000
Truxton Trust (Nashville, TN)	12/29/2015	150,000	150,000	150,000
Citizens Bank (Elizabethton, TN)	12/30/2015	500,000	500,000	500,000
First Horizon (fka First Tennessee Bank (Memphis, TN)	4/5/2016	5,000,000	5,000,000	5,000,000
TriStar Bank (Dickson, TN)	7/29/2016	1,000,000	1,000,000	1,000,000

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

**SCHEDULE OF EQUITY EQUIVALENT AGREEMENTS**

**DECEMBER 31, 2019 AND 2018**

	Origination Date	Original Note Amount	December 31 2019	December 31 2018
First Advantage Bank (Clarksville, TN)	8/18/2016	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000
First Horizon Bank (fka Capital Bank) Memphis, TN)	8/29/2016	4,000,000	4,000,000	4,000,000
InsBank (Nashville, TN)	9/8/2016	1,318,930	1,318,930	1,318,930
Pinnacle Bank (Nashville, TN)	12/22/2016	3,000,000	3,000,000	3,000,000
Pinnacle Bank (Nashville, TN)	12/22/2016	4,500,000	4,500,000	4,500,000
Wells Fargo (Minneapolis, MN)	12/27/2016	1,000,000	1,000,000	1,000,000
F&M Bank (Clarksville, TN)	4/13/2017	500,000	500,000	500,000
First Horizon Bank (fka Capital Bank) (Memphis, TN)	6/22/2017	2,000,000	2,000,000	2,000,000
CB&S Bank (Rogersville, AL)	6/28/2017	500,000	500,000	500,000
Regions Bank (Birmingham, AL)	6/30/2017	1,000,000	1,000,000	1,000,000
Commercial Bank & Trust (Paris, TN)	7/17/2017	500,000	500,000	500,000
Compass/BBVA (Houston, TX)	8/15/2017	5,000,000	5,000,000	5,000,000
Pinnacle Bank (Nashville, TN)	8/25/2017	500,000	500,000	500,000
Pinnacle Bank (fka Prime Trust Bank) (Nashville, TN)	8/25/2017	250,000	250,000	250,000
Peoples Bank of America (Birmingham, AL)	10/16/2017	100,000	100,000	100,000
Community Bank & Trust (Ashland City, TN)	12/13/2017	100,000	100,000	100,000
Decatur County Bank (Decaturville, TN)	12/15/2017	200,000	200,000	200,000
Citizen's Bank (Elizabethton, TN)	12/20/2017	500,000	500,000	500,000
Franklin Synergy (Franklin, TN)	12/21/2017	2,000,000	2,000,000	2,000,000
Franklin Synergy (Franklin, TN)	12/21/2017	1,000,000	1,000,000	1,000,000
Franklin Synergy (Franklin, TN)	12/21/2017	2,000,000	2,000,000	2,000,000
Centennial Bank (fka Farmers and Merchants) (Trezevant, TN)	12/22/2017	50,000	50,000	50,000
Simmons	1/23/2018	100,000	100,000	100,000
Pinnacle Bank	5/24/2018	5,000,000	5,000,000	5,000,000
Pinnacle Bank	5/24/2018	2,500,000	2,500,000	2,500,000
Regions Bank	6/26/2018	2,500,000	2,500,000	2,500,000
SunTrust Bank	6/29/2018	732,858	732,858	732,858
First Horizon Bank (fka First Tennessee Bank) (Memphis, TN)	7/30/2018	5,000,000	5,000,000	5,000,000
First Citizens National Bank	12/3/2018	500,000	500,000	500,000
Truxton Trust	12/4/2018	400,000	400,000	400,000
Macon Bank and Trust Company	12/26/2018	250,000	250,000	250,000

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

**SCHEDULE OF EQUITY EQUIVALENT AGREEMENTS**

**DECEMBER 31, 2019 AND 2018**

	<u>Origination Date</u>	<u>Original Note Amount</u>	<u>December 31 2019</u>	<u>December 31 2018</u>
Legends Bank	12/27/2018	\$ 300,000	\$ 300,000	\$ 300,000
McKenzie Bank	2/15/2019	100,000	100,000	-
Security Bank and Trust Company	5/3/2019	1,500,000	1,500,000	-
Security Bank and Trust Company	5/3/2019	500,000	500,000	-
Regions Bank	6/24/2019	1,500,000	1,500,000	-
Regions Bank	6/24/2019	4,500,000	4,500,000	-
FirstBank	7/29/2019	500,000	500,000	-
FirstBank	7/29/2019	500,000	500,000	-
FirstBank	7/29/2019	1,000,000	1,000,000	-
Wilson Bank & Trust	11/12/2019	1,000,000	1,000,000	-
Andrew Johnson	11/25/2019	250,000	250,000	-
Wilson Bank & Trust	11/26/2019	1,500,000	1,500,000	-
Paragon	12/17/2019	500,000	500,000	-
Paragon	12/17/2019	250,000	250,000	-
FirstBank	12/18/2019	1,000,000	1,000,000	-
FirstBank	12/18/2019	1,000,000	1,000,000	-
InsBank	12/23/2019	2,000,000	2,000,000	-
		<u>\$ 98,035,972</u>	<u>\$ 97,805,576</u>	<u>\$ 80,430,576</u>

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

LOAN FUND DESCRIPTIONS

DECEMBER 31, 2019 AND 2018

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

Tennessee Energy Efficiency Loan Program

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

Tennessee Small Business Jobs Opportunity Fund

The Tennessee Small Business Jobs Opportunity Fund (SBJOF) was created with an appropriation from the Tennessee General Assembly of \$10 million. The condition of the grant creating the fund is that the Corporation must match dollar for dollar a minimum of \$10 million with private loan capital. The purpose of the fund is to provide loans to businesses in all Tennessee counties who are unable to access capital to expand operations and create or retain jobs. The fund has a goal of a minimum of 15% minority participation.

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.

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

LOAN FUND DESCRIPTIONS (CONTINUED)

DECEMBER 31, 2019 AND 2018

Memphis Small Business Opportunity Fund

The Memphis Small Business Opportunity Fund (MSBOF) was created to improve access to capital for underserved small businesses, particularly for minority-and women-owned businesses in the Memphis Region. The Memphis Region includes: Shelby County, Tipton County, and Fayette County in Tennessee; Crittenden County in Arkansas; and Benton County, Desoto County, Marshall County, Tate County, and Tunica County in Mississippi.

Tennessee Rural Opportunity Fund

The Tennessee Rural Opportunity Fund (TN-ROF) is targeted to ninety-two of Tennessee's ninety-five counties and provides loans to small businesses in rural Tennessee that are unable to access traditional bank financing. The TN-ROF was initially capitalized with \$10 million of private bank capital. In 2017, TN-ROF was expanded with a new grant from the State of Tennessee, Department of Economic and Community Development. The new expansion is for lending in the same target markets with a focus on DBE's and underserved and underrepresented populations in at-risk and distressed counties.

Revolving Loan Fund

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

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

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

Affordable Multifamily Housing Loan Consortium

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

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

LOAN FUND DESCRIPTIONS (CONTINUED)

DECEMBER 31, 2019 AND 2018

Appalachian Loan Fund

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

Alabama Small Business Opportunity Fund

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

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

	<u>2019</u>	<u>2018</u>
Nashville Opportunity Fund (NOF)	\$ 9,263,082	\$ 9,992,697
Knox County Technology and Jobs Fund (KCTJF)	3,863,658	4,116,971
Tennessee Rural Opportunity Fund (TNROF)	15,013,602	13,339,507
SCC Revolving Loan Fund (RLF)	3,636,978	2,170,188
SBA Micro Loan Funds (SBA)	1,175,402	1,213,175
Small Business Job Opportunity Fund (SBJOF)	43,882,478	45,429,732
Tennessee Energy Efficiency Fund (TNEEF)	15,753,305	12,480,168
Affordable Multifamily Housing Loan Program (MFIPT)	18,467,331	10,338,669
Appalachian Loan Fund (ARC)	2,281,181	1,827,999
Small Business Opportunity Fund Memphis (SBJOF-M)	3,347,922	3,936,336
Memphis Small Business Opportunity Fund (MSBOF)	<u>240,737</u>	<u>288,652</u>
	116,925,676	105,134,094
Allowance for loan losses	<u>(8,026,446)</u>	<u>(9,805,552)</u>
	<u>\$ 108,899,230</u>	<u>\$ 95,328,542</u>

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS**

**DECEMBER 31, 2019**

Program	Federal Catalog Number	Grant Contract Number	Grant Period	Balance 01/01/19	Amount Borrowed	Principal Paid	Balance 12/31/19
<b>Direct Federal Loans</b>							
U.S. Small Business Administration:							
Micro Loan Program	59.046	5050905002	04-13-12 to 04-13-22	\$ 74,075	\$ -	\$ 74,075	\$ -
Micro Loan Program	59.046	5274865002	08-30-12 to 08-30-22	224,074	-	61,111	162,963
Micro Loan Program	59.046	7508625003	05-26-15 to 05-26-25	536,760	-	82,874	453,886
Micro Loan Program	59.046	8478565001	08-01-16 to 08-01-26	638,889	-	83,333	555,556
Micro Loan Program	59.046	2856927006	08-27-18 to 08-27-28	-	600,000	21,294	578,706
Total Federal Loans				<u>\$ 1,473,798</u>	<u>\$ 600,000</u>	<u>\$ 322,687</u>	<u>\$ 1,751,111</u>
				Accrued (Deferred) Revenues	Cash Received/ Billings	Expenditures/ Amounts Earned	Accrued (Deferred) Revenues
<b>Federal Awards</b>							
U.S. Dept. of Treasury:							
CDFI Award-Community	* 21.020	161FA020741	09-27-17 to 12-31-19	\$ -	\$ 250,000	\$ 250,000	\$ -
Development Financial Institutions	* 21.020	191FA052377	09-19-17 to 12-31-22	-	714,000	714,000	-
U.S. Small Business Administration							
SBA Micro Loan Intermediary Technical Assistance	59.046	SBAHQ-17-Y-0052	07-01-17 to 06-30-18	11,016	11,016	-	-
SBA Micro Loan Intermediary Technical Assistance	59.046	SBAHQ-18-Y-0034	07-01-18 to 06-30-19	98,823	275,235	176,412	-
SBA Micro Loan Intermediary Technical Assistance	59.046	SBAHQ-19-Y-0099	07-01-19 to 06-30-20	-	-	155,523	155,523
U.S. Small Business Administration							
Women's Business Ownership Assistance	59.043	SBAHQ-14-W-0046	09-30-17 to 09-29-18	37,500	37,500	-	-
Women's Business Ownership Assistance	59.043	SBAHQ-19-W-0026	09-30-19 to 09-29-20	-	-	37,500	37,500
Women's Business Ownership Assistance	59.043	SBAHQ-14-W-0046	09-30-18 to 09-29-19	37,500	150,000	112,500	-
U.S. Small Business Administration							
Veteran Business Outreach Center	59.044	SBAHQ-18-V-0023	05-01-18 to 04-30-19	91,014	208,059	117,045	-
Veteran Business Outreach Center	59.044	SBAHQ-19-V-0019	05-01-19 to 04-30-20	-	63,571	174,172	110,601
Appalachian Regional Commission	23.011	TN-19417-19	10-01-18 to 09-30-19	5,440	25,000	19,560	-
U.S. Department of Housing and Urban Development							
Passed through the Metropolitan Development and Housing Agency							
Community Development Block Grant	14.218	N/A	01-01-19 to 12-31-20	-	182,466	193,438	10,972
Total Federal Awards				<u>\$ 281,293</u>	<u>\$ 1,916,847</u>	<u>\$ 1,950,150</u>	<u>\$ 314,596</u>
<b>State Awards</b>							
State of Tennessee Department of							
Economic and Community Development	N/A	08-17-17 GR	12-01-17 to 11-30-22	<u>\$ 1,176,064</u>	<u>\$ 4,636,042</u>	<u>\$ 3,627,826</u>	<u>\$ 167,848</u>
Total State Awards				<u>\$ 1,176,064</u>	<u>\$ 4,636,042</u>	<u>\$ 3,627,826</u>	<u>\$ 167,848</u>

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

**NOTE 1 - BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal award activity of Southeast Community Capital Corporation and Subsidiary d/b/a Pathway Lending (the "Corporation") under programs of the federal government for the year ended December 31, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the Organization, it is not intended to and does not present the consolidated financial position, changes in net assets, or cash flows of the Corporation.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**Summary of expenditures by CFDA number**

21.020	\$ 964,000
59.046	1,805,733
59.044	291,217
59.043	150,000
23.011	19,560
14.218	193,438

Total \$ 3,423,948

# **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 and Subsidiary d/b/a Pathway Lending  
Nashville, Tennessee

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Southeast Community Capital Corporation and Subsidiary d/b/a Pathway Lending, which comprise the consolidated statement of financial position as of December 31, 2019, and the related consolidated statements of activities, cash flows and functional expenses for the year then ended and the related notes to the consolidated financial statements and have issued our report thereon dated April 2, 2020.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the consolidated financial statements, we considered Southeast Community Capital Corporation and Subsidiary 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 and Subsidiary d/b/a Pathway Lending's internal control. Accordingly, we do not express an opinion on the effectiveness of Southeast Community Capital Corporation and Subsidiary 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.

## COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether Southeast Community Capital Corporation and Subsidiary d/b/a Pathway Lending's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the 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.

K. J. Ruff CPAs PLLC

Nashville, Tennessee  
April 2, 2020

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

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

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited Southeast Community Capital Corporation and Subsidiary d/b/a Pathway Lending's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on Southeast Community Capital Corporation and Subsidiary d/b/a Pathway Lending's major federal programs for the year ended December 31, 2019. Southeast Community Capital Corporation and Subsidiary d/b/a Pathway Lending's major federal programs are 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on compliance for each of Southeast Community Capital Corporation and Subsidiary d/b/a Pathway Lending's major federal programs 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 and Subsidiary 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 each major federal program. However, our audit does not provide a legal determination of Southeast Community Capital Corporation and Subsidiary d/b/a Pathway Lending's compliance.

## OPINION ON EACH MAJOR FEDERAL PROGRAM

In our opinion, Southeast Community Capital Corporation and Subsidiary 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 programs for the year ended December 31, 2019.

## INTERNAL CONTROL OVER COMPLIANCE

Management of Southeast Community Capital Corporation and Subsidiary 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 and Subsidiary d/b/a Pathway Lending's internal control over compliance with the types of requirements that could have a direct and material effect on each 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 and Subsidiary 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.

K. J. RABALA CPAs PLLC

Nashville, Tennessee  
April 2, 2020

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

DECEMBER 31, 2019

**Section I - Summary of Auditors' Results**

*Financial Statements*

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_\_\_ Yes \_\_\_\_\_ X No
- Significant deficiency(ies) identified? \_\_\_\_\_ Yes \_\_\_\_\_ X None reported

Noncompliance material to financial statements noted?

\_\_\_\_\_ Yes \_\_\_\_\_ X No

*Federal Awards*

Internal control over major programs:

- Material weakness(es) identified? \_\_\_\_\_ Yes \_\_\_\_\_ X No
- Significant deficiency(ies) identified? \_\_\_\_\_ Yes \_\_\_\_\_ X None reported

Type of auditor's report issued on compliance for major Federal programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 2 CFR 200.516(a)?

\_\_\_\_\_ Yes \_\_\_\_\_ X No

Identification of major programs:

**CFDA Number(s)      Name of Federal Program or Cluster**

21.020 CDFI Award-Community Development Financial Institutions

Dollar threshold used to distinguish between type A and type B programs:

\$750,000

Auditee qualified as low-risk auditee?

\_\_\_\_\_ X \_\_\_\_\_ Yes \_\_\_\_\_ No

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

SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED DECEMBER 31, 2019

Financial Statement Findings

Finding Number	Finding Title	Status
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There were no prior year findings reported.

Federal Award Findings and Questioned Costs:

Finding Number	Finding Title	Status
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There were no prior year findings reported.