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

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

DECEMBER 31, 2020 AND 2019

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

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DECEMBER 31, 2020 AND 2019

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Southeast Community Capital Corporation
and Subsidiary d/b/a Pathway Lending
Board of Directors and Executive Management 2020

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

Clint Gwin, President and CEO

Barbara Harris, EVP, Chief Financial Officer

Amy Bunton, EVP, Chief Operating Officer

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

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Southeast Community Capital Corporation and 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, 2020 and 2019, 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.

KraftCPAs PLLC • Certified Public Accountants and Consultants
555 Great Circle Road • Nashville, TN 37228 • phone: 615-242-7351 • fax: 615-782-4271 • kraftcpas.com

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, 2020 and 2019, 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 other information on pages i and the additional information on pages 36 - 44 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 pages 43 - 44 is required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance). The board of directors listing on page i and the schedule of expenditures of state financial assistance on page 43 - 44, is required by the *Audit Manual* issued by the Comptroller of the Treasury of the State of Tennessee. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information on pages 36 - 44 has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

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

OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2021, 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.

Kraft CPAs PLLC

Nashville, Tennessee
March 30, 2021

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2020 AND 2019

	2020	2019
ASSETS		
Cash and cash equivalents	$ 6,153,761	$ 3,983,487
Restricted cash - lending	34,952,750	63,480,830
Restricted cash - loan loss reserve funds	13,790,021	5,328,269
Due from grantors	955,007	1,101,697
Other accounts receivable	941,296	55,483
Interest receivable	1,024,568	569,893
Loans receivable, net of allowance for possible loan losses of $9,474,717 and $8,026,446, respectively	128,852,358	108,899,230
Federal Home Loan Bank stock, at cost	301,200	249,000
Property and equipment, net	3,113,783	3,216,211
Other real estate owned	-	1,030,941
Other assets	607,919	292,292
TOTAL ASSETS	$ 190,692,663	$ 188,207,333
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	$ 213,064	$ 117,811
Interest payable	987,933	472,302
Lines of credit payable	37,000,000	36,211,861
Mortgage payable	1,883,189	2,042,712
Notes payable	112,239,118	115,691,819
Deferred revenue	3,122,293	430,589
Other liabilities	1,122,345	877,102
TOTAL LIABILITIES	156,567,942	155,844,196
NET ASSETS		
Without donor restrictions	32,114,010	30,523,935
With donor restrictions	2,010,711	1,839,202
TOTAL NET ASSETS	34,124,721	32,363,137
TOTAL LIABILITIES AND NET ASSETS	$ 190,692,663	$ 188,207,333

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, 2020 AND 2019

	2020		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**
REVENUE AND OTHER SUPPORT			
Grant and Contribution Revenue			
U.S. Treasury CDFI Award	$ 657,000	$ -	$ 657,000
U.S. Small Business Administration - Technical Assistance	300,337	-	300,337
U.S. Small Business Administration WBC	138,095	-	138,095
U.S. Small Business Administration WBC COVID	252,333	-	252,333
U.S. Small Business Administration VBOC	268,214	-	268,214
U.S. Small Business Administration SBA Prime	3,821	-	3,821
Metropolitan Development and Housing Agency			
Community Development Block Grant	67,202	-	67,202
State of Tennessee - Rural Opportunity Fund	130,430	-	130,430
State of Tennessee - Tennessee Placemakers	2,152	-	2,152
Appalachian Regional Commission	155,937	-	155,937
Coronavirus Relief Funds - Metro CARES Act - operating support	244,744	-	244,744
Coronavirus Relief Funds - Metro CARES Act - passthrough	5,620,610	-	5,620,610
United Way	28,000	18,000	46,000
Corporate and foundation operational grants	537,390	-	537,390
Truist - passthrough loan funds	352,136		352,136
Contributed loan capital	2,635,000	-	2,635,000
Total Grant and Contribution Revenue	11,393,401	18,000	11,411,401
Interest and Program Service Revenue			
Interest income - loans	7,039,240	-	7,039,240
Interest income - bank deposits	350,498	-	350,498
Financing fees and charges	419,332	-	419,332
Fee income	182,446	-	182,446
Total Interest and Program Services Revenue	7,991,516	-	7,991,516
Other Support			
Inkind and other contributions	894,689	-	894,689
Miscellaneous	96,346	-	96,346
Rental income	157,194	-	157,194
Net Assets Released From Restrictions			
Loan loss reserve usage (recovered)	(171,509)	171,509	-
Women's business center	18,000	(18,000)	-
TOTAL REVENUE AND OTHER SUPPORT	20,379,637	171,509	20,551,146
EXPENSES			
Program activities			
Lending and education programs	17,973,984	-	17,973,984
Supporting services			
Administrative and general	813,740	-	813,740
Fundraising activities	1,838	-	1,838
TOTAL EXPENSES	18,789,562	-	18,789,562
CHANGE IN NET ASSETS	1,590,075	171,509	1,761,584
NET ASSETS - BEGINNING OF YEAR	30,523,935	1,839,202	32,363,137
NET ASSETS - END OF YEAR	$ 32,114,010	$ 2,010,711	$ 34,124,721

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

2019		
Without Donor Restrictions	With Donor Restrictions	Total
$ 964,000	$ -	$ 964,000
331,935	-	331,935
150,000	-	150,000
-	-	-
291,217	-	291,217
-	-	-
193,438	-	193,438
3,627,826	-	3,627,826
-	-	-
19,560	-	19,560
-	-	-
-	-	-
18,000	18,000	36,000
480,542	-	480,542
-	-	-
225,000	-	225,000
6,301,518	18,000	6,319,518
6,351,698	-	6,351,698
682,455	-	682,455
373,922	-	373,922
123,584	-	123,584
7,531,659	-	7,531,659
214,137	-	214,137
37,800	-	37,800
67,779		67,779
602,454	(602,454)	-
18,000	(18,000)	-
14,773,347	(602,454)	14,170,893
9,531,965	-	9,531,965
814,918	-	814,918
2,498	-	2,498
10,349,381	-	10,349,381
4,423,966	(602,454)	3,821,512
26,099,969	2,441,656	28,541,625
$ 30,523,935	$ 1,839,202	$ 32,363,137

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

DECEMBER 31, 2020 AND 2019

	2020	2019
OPERATING ACTIVITIES		
Change in net assets	$ 1,761,584	$ 3,821,512
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	121,973	108,120
Contributed loan capital	(2,500,000)	(225,000)
Loan loss provision	2,682,615	313,243
Provision for writedown of other real estate owned	586,784	265,228
Loss on disposal of fixed assets	2,131	721
Net changes in:		
Due from grantors	(211,147)	619,253
Interest receivable	(454,675)	(45,220)
Other accounts receivable	(885,813)	(55,483)
Other assets	(315,627)	2,463
Accounts payable	95,253	16,868
Interest payable	515,631	49,633
Deferred revenue	2,691,704	115,128
Other liabilities	245,243	118,630
NET CASH PROVIDED BY OPERATING ACTIVITIES	4,335,656	5,105,096
INVESTING ACTIVITIES		
Changes in loans receivable, net of charge offs	(22,635,743)	(15,126,231)
Purchase of FHLB stock	(52,200)	(84,700)
Proceeds from sale of property and equipment	1,252	-
Acquisition of property and equipment, net	(22,928)	(1,808,013)
Due from grantors	357,837	581,695
Proceeds from sale of other real estate owned	444,157	938,779
NET CASH USED IN INVESTING ACTIVITIES	(21,907,625)	(15,498,470)
FINANCING ACTIVITIES		
Net change in lines of credit	788,139	9,211,861
Payments on mortgage and notes payable	(3,612,224)	(536,792)
Proceeds from mortgage and notes payable	2,500,000	20,030,655
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(324,085)	28,705,724
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(17,896,054)	18,312,350
CASH AND RESTRICTED CASH - BEGINNING OF YEAR	72,792,586	54,480,236
CASH AND RESTRICTED CASH - END OF YEAR	$ 54,896,532	$ 72,792,586
Cash and cash equivalents	$ 6,153,761	$ 3,983,487
Restricted cash - lending	34,952,750	63,480,830
Restricted cash - loan loss reserve funds	13,790,021	5,328,269
TOTAL CASH	$ 54,896,532	$ 72,792,586
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	$ 1,528,520	$ 2,391,934
Non-cash investing activities:		
Loans transferred to other real estate owned	$ -	$ (1,242,300)

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, 2020 AND 2019

	2020			
	Program Activities	Supporting Services	Fundraising Activities	Total
Salaries and benefits	$ 5,245,996	$ 616,794	$ 1,528	$ 5,864,318
Travel	40,819	544	310	41,673
Dues, licenses, permits	30,258	5,482	-	35,740
Office expenses	93,014	4,530	-	97,544
Telecommunications	60,588	5,652	-	66,240
Postage and freight	2,843	142	-	2,985
Equipment maintenance	919	102	-	1,021
Professional services	583,031	40,305	-	623,336
Consulting	357,350	10,642	-	367,992
Marketing	2,587	160	-	2,747
Insurance	73,725	18,110	-	91,835
Occupancy	104,228	67,913	-	172,141
Depreciation	84,266	37,707	-	121,973
Conferences and meetings	67,041	920	-	67,961
Loan loss provision	2,682,615	-	-	2,682,615
Foreclosure carrying costs	465,010	-	-	465,010
Miscellaneous	65,847	1,687	-	67,534
Interest expense	2,041,101	3,050	-	2,044,151
Passthrough grants awarded				
Coronavirus relief funds	5,620,610	-	-	5,620,610
Truist awards	352,136	-	-	352,136
Total	$ 17,973,984	$ 813,740	$ 1,838	$ 18,789,562

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

2019			
Program Activities	**Supporting Services**	**Fundraising Activities**	**Total**
$ 4,583,945	$ 597,175	$ 2,133	$ 5,183,253
234,043	1,955	365	236,363
40,018	2,323	-	42,341
103,894	8,543	-	112,437
62,036	5,419	-	67,455
3,722	144	-	3,866
-	-	-	-
522,187	32,057	-	554,244
316,413	42,370	-	358,783
10,115	580	-	10,695
106,910	19,572	-	126,482
132,206	53,065	-	185,271
77,824	30,296	-	108,120
156,518	4,819	-	161,337
313,243	-	-	313,243
408,284	-	-	408,284
34,052	1,588	-	35,640
2,426,555	15,012	-	2,441,567
-	-	-	-
-	-	-	-
$ 9,531,965	$ 814,918	$ 2,498	$ 10,349,381

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 and is Tennessee's only state-wide economic development and business-focused certified Community Development Financial Institution (CDFI). The mission of the Corporation is to provide lending solutions and educational services that support the development, growth, and preservation of underserved businesses, affordable housing and sustainable communities; to help stimulate economic development and job creation through small business lending to low income, disadvantaged and start-up companies that lack access to traditional banking credit; and to provide educational services to these small businesses to help them grow and achieve sustainability. The Corporation provides loans to target markets including: 1) small businesses in low and moderate-income areas, 2) low and moderate-income entrepreneurs, 3) African-American owned businesses, and 4) small businesses that hire low and moderate-income individuals throughout Tennessee, Alabama and portions of Mississippi, Arkansas and Kentucky. Loan types include term notes, lines of credit, purchase order financing, contract and accounts receivable financing, business real estate, and bridge financing (in limited cases).

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, on-line training 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.

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 assts without donor restrictions in the consolidated statements of activities.

Revenue Recognition

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

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

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

Donated Services, Goods and Facilities

Volunteers donate time to the Corporation's program services during the year. For the year ended December 31, 2020, $9,130 in specialized services were contributed to the Corporation and are reflected in the consolidated financial statements ($31,025 as of December 31, 2019). 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.

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

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

Loans Receivable and Allowance for Loan Losses

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans Receivable and Allowance for Loan Losses (Continued)

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

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

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

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

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans Receivable and Allowance for Loan Losses (Continued)

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

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

Property and Equipment

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

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

Income Taxes

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

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Advertising Costs

Advertising costs are expensed as incurred. Advertising expense was $590 and $4,451 for the years ended December 31, 2020 and 2019, respectively.

Use of Estimates

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

Allocation of Functional Expenses

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Authoritative Accounting Guidance

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

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

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Authoritative Accounting Guidance (Continued)

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

Reclassifications

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

Events Occurring After Reporting Date

The Corporation has evaluated events and transactions that occurred between December 31, 2020 and March 30, 2021, the date the consolidated financial statements were available to be issued, for possible recognition or disclosure in the consolidated financial statements.

NOTE 3 - LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The Corporation’s financial assets available for general expenditure within one year of December 31:

	2020	2019
Cash and cash equivalents	$ 6,153,761	$ 3,983,487
Restricted cash - lending	4,200,000	4,200,000
Interest receivable	1,024,568	569,893
Due from grantors for operations	317,507	343,860
Financial assets available to meet cash needs for general expenditures within one year	$ 11,695,836	$ 9,097,240

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, 2020 and 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:

	2020	2019
U.S. Small Business Administration Technical Assistance Grant	$ 60,802	$ 155,523
U.S. Small Business Administration Women's Business Ownership Assistance	177,928	37,500
U.S. Small Business Administration Veteran Business Outreach Center	40,989	110,601
U.S. Small Business Administration SBA Prime	3,821	-
Metropolitan Development and Housing Agency Community Development Block Grant	10,641	10,972
State of Tennessee Department of Economic and Community Development	7,263	167,848
Christian Brothers University	237,500	-
Memphis Corporate Grant - Epicenter	416,063	619,253
	$ 955,007	$ 1,101,697

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, 2020 and 2019 is summarized in the table below:

	At December 31,			
	Commercial Real Estate Loans	Commercial Loans	Energy Efficiency Loans	Total
2020				
Performing loans	$ 62,334,531	$ 49,000,624	$ 19,637,848	$ 130,973,003
Impaired loans	2,808,771	4,480,312	64,989	7,354,072
	$ 65,143,302	$ 53,480,936	$ 19,702,837	$ 138,327,075
2019				
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
	$ 52,397,992	$ 48,774,379	$ 15,753,305	$ 116,925,676

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
2020				
Allowance related to:				
Performing Loans	$ 913,240	$ 4,652,416	$ 363,300	$ 5,928,956
Impaired Loans	313,640	3,167,132	64,989	3,545,761
	$ 1,226,880	$ 7,819,548	$ 428,289	$ 9,474,717
2019				
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
	$ 915,229	$ 6,745,198	$ 366,019	$ 8,026,446

NOTE 5 - LOANS RECEIVABLE (CONTINUED)

Changes in the allowance for loan losses for the year ended December 31, 2020 and 2019 are summarized in the table below:

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

	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	$ 915,229	$ 6,745,198	$ 366,019	$ 8,026,446

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

NOTE 5 - LOANS RECEIVABLE (CONTINUED)

The allowance for loan losses at December 31, 2020 and 2019 is $9,474,717 or 6.85% of gross loans and $8,026,446 or 6.86% of gross loans, respectively.

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

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

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

- Pass Two/Watch - Assets in this category have deteriorated from the Pass Two category. Assets in this category have had an occurrence of an event or an occurrence of an event is imminent that has increased the level of risk. Events include continued weakening of financial performance, loss of customers or contracts, that if continued will impair the client's ability to repay. These credits are placed on the watch-list for additional monitoring along with the implementation, if possible, of advisory services. This grade was added during 2013.

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

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

NOTE 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, 2020 and 2019:

	At December 31,			
	Commercial Real Estate Loans		Commercial Loans	
	2020	2019	2020	2019
Loan Risk Ratings:				
Pass One	$ 55,486,213	$ 48,928,342	$ 39,798,956	$ 34,256,762
Pass Two	6,848,318	831,277	9,201,668	9,963,807
Substandard	2,808,771	2,638,373	4,288,007	3,703,810
Doubtful/Loss	-	-	192,305	850,000
	$ 65,143,302	$ 52,397,992	$ 53,480,936	$ 48,774,379

	Energy Efficiency Loans		Total	
	2020	2019	2020	2019
Pass One	$ 19,605,428	$ 15,625,288	$ 114,890,597	$ 98,810,392
Pass Two	32,420	52,028	16,082,406	10,847,112
Substandard	-	-	7,096,778	6,342,183
Doubtful/Loss	64,989	75,989	257,294	925,989
	$ 19,702,837	$ 15,753,305	$ 138,327,075	$ 116,925,676

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 $7,354,072 and $7,268,172 at December 31, 2020 and 2019, respectively and are included in the risk-rated tables.

NOTE 5 - LOANS RECEIVABLE (CONTINUED)

The following table details the recorded investment, unpaid principal balance and related allowance and average recorded investment of our impaired loans at December 31, 2020 and 2019 by loan category and the amount of interest income recognized on these loans on a cash basis throughout 2020 and 2019:

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

	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 Loans	$ 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	$ 2,188,960	$ 2,188,960	$ -	$ 2,655,515	$ 81,341
Impaired loans with a recorded allowance:					
Commercial Real Estate Loans	$ 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	$ 5,079,212	$ 5,079,212	$ 3,139,334	$ 4,943,834	$ 82,983

NOTE 5 - LOANS RECEIVABLE (CONTINUED)

The tables below present past due balances at December 31, 2020 and 2019, by loan classification allocated between performing and impaired status:

	At December 31, 2020					
	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	$ -	$ -	$ -	$ 2,808,771	$ 62,334,531	$ 65,143,302
Commercial Loans	98,220	-	98,220	4,480,312	48,902,404	53,480,936
Energy Efficiency Loans	-	-	-	64,989	19,637,848	19,702,837
	$ 98,220	$ -	$ 98,220	$ 7,354,072	$ 130,874,783	$ 138,327,075

	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
	$ 10,396	$ -	$ 10,396	$ 7,268,172	$ 109,647,108	$ 116,925,676

Nonaccrual loans totaled $1,570,569 and $5,606,850 as of December 31, 2020 and 2019, 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 2020 the Corporation had eight commercial restructurings that qualified as troubled debt restructurings with a total balance of $290,502 as of December 31, 2020. All troubled debt restructurings are considered impaired and included in the tables above. Specific reserves attributed to troubled debt restructurings totaled $43,787 as of December 31, 2020. 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.

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 653 loans at December 31, 2020 (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 were as follows:

	2020	2019
Balance, January 1	$ -	$ 44,871
Advances and other additions	193,360	-
Repayments and other reductions	(23,140)	(44,871)
Balance, December 31	$ 170,220	$ -

A schedule, by year, of principal maturities of loans receivable as of December 31, 2020 follows:

Year ending December 31,

2021	$ 27,249,516
2022	17,942,381
2023	19,442,827
2024	12,560,223
2025	17,507,766
Thereafter	43,624,362
	138,327,075
Less: Allowance for loan losses	(9,474,717)
Total	$ 128,852,358

NOTE 6 - PROPERTY AND EQUIPMENT

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

	2020	2019
Buildings and improvements	$ 3,646,387	$ 3,642,180
Equipment	298,673	284,687
	3,945,060	3,926,867
Less: accumulated depreciation	(831,277)	(710,656)
Property and equipment - net	$ 3,113,783	$ 3,216,211

NOTE 7 - LINES OF CREDIT

The Corporation entered into a $1,000,000 secured line of credit with a financial institution on December 9, 2011 for working capital. The line of credit is collateralized by loans receivable and equipment. On December 30, 2014, this line was increased to $4,000,000. On August 4, 2016, the line was extended until August 4, 2017 and the interest rate was amended to the WSJ prime rate minus 4%. On August 4, 2017, the line was increased to $5,000,000 and extended until August 4, 2018. On August 4, 2018, the line was increased to $6,000,000 and extended until August 5, 2019. On August 5, 2019, the line was extended to August 5, 2020 and on November 5, 2020, the line was extended to November 5, 2021. At December 31, 2020 and 2019, the rate was 0.00% and 0.75%, respectively. The amount borrowed and outstanding for the years ended December 31, 2020 and 2019 was $6,000,000.

The Corporation established a $10,000,000 secured line of credit with a financial institution on March 31, 2015. This line is part of the SBJOF portfolio and has a rate of WSJ prime rate minus 4%. On July 25, 2016, this line was increased to $13,000,000 and the maturity was extended to June 30, 2017. On June 30, 2017, the line was increased to $16,000,000 and extended until June 29, 2018. On June 29, 2018 the line was extended until June 29, 2019. On July 12, 2019, the line was extended to July 11, 2020. On July 11, 2020, the line was extended until July 10, 2021. At December 31, 2020 and 2019, the rate was 0.00% and 0.75%, respectively. The amount borrowed and outstanding for the years ended December 31, 2020 and 2019 was $16,000,000 and $15,977,734, respectively.

NOTE 7 - LINES OF CREDIT (CONTINUED)

The Corporation entered into a $3,500,000 secured line of credit with a financial institution on December 29, 2016. This line is part of the MFIPT portfolio and has a rate of WSJ prime rate minus 4%. On December 28, 2017, the line was increased to $5,000,000 and extended until June 29, 2019. On June 26, 2019, the line was extended to September 27, 2019. On September 27, 2019, the line was extended to January 24, 2020. On January 24, 2020, the line was extended to May 24, 2020. On May 24, 2020, the line was extended to May 31, 2021. At December 31, 2020 and 2019, the rate was 0.00% and 0.75%, respectively. The amount borrowed and outstanding for the years ended December 31, 2020 and 2019 was $5,000,000.

The Corporation entered into a $10,000,000 secured line of credit with a financial institution on November 26, 2019. This line is part of the MFIPT portfolio and has a rate of WSJ prime rate minus 4%. The line was extended in December 2020 and again in February 2021 and has a maturity date of April 5, 2021. At December 31, 2020 and 2019, the rate was 0.00% and 0.75%. The amount borrowed and outstanding for the years ended December 31, 2020 and 2019 was $10,000,000 and $9,234,127, respectively.

The Corporation's line of credit agreement with a financial institution requires the maintenance of certain financial and non-financial covenants. The Corporation is in compliance with all covenants as of December 31, 2020.

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 2020.

Stock held in the FHLB totaling $301,200 at December 31, 2020 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:

	2020	2019
General corporate debt:		
Mortgages payable	$ 1,883,189	$ 2,042,712
Other payable	223,707	285,132
	2,106,896	2,327,844
Lending program debt:		
SBA notes payable	1,460,487	1,751,111
Other notes payable	15,250,000	15,850,000
Equity equivalent agreements	95,304,924	97,805,576
	112,015,411	115,406,687
Total mortgages and notes payable	$ 114,122,307	$ 117,734,531

The Corporation has a mortgage payable on its principal office building in Nashville. The mortgage was refinanced during 2020. Terms require monthly payments of principal and interest for 59 months and a final payment of all principal and interest, at a floating rate equal to prime minus 4% (0.00% and 0.75% at December 31, 2020 and 2019, respectively), maturing April 1, 2026. The mortgage payable is secured by the building with a net book value of $1,322,876. The mortgage balance for the years ended December 31, 2020 and 2019 was $610,470 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% (0.00% and 0.75% at December 31, 2020 and 2019, respectively), maturing February 25, 2024. The mortgage payable is secured by the building with a net book value of $1,683,913. The mortgage balance for the years ended December 31, 2020 and 2019 was $1,272,719 and $1,327,451, respectively.

NOTE 8 - MORTGAGES AND NOTES PAYABLE (CONTINUED)

Other Payable

The Corporation has a note payable related to severance fees paid to Tech 20/20 during 2015. On September 7, 2019, the Corporation refinanced the note payable to reduce the note payable on the new building. The new terms require principal and interest payments for 60 months, with a final payment of all unpaid principal and interest on September 6, 2024. Interest is calculated as prime minus 4% (0.00% and 0.75% at December 31, 2020 and 2019, respectively). The balance for the years ended December 31, 2020 and 2019 was $223,707 and $285,132, respectively.

SBA Notes Payable

Notes payable to SBA are specific to fund the SBA Micro Loan program. These notes have a first year 2% rate buy down, and no principal or interest payments are required for the first 12 months. Beginning in month 13, principal and interest are amortized over the next 108 months. The interest rates range from 0% to 1.5% at December 31, 2020 and 2019. The loans mature at the end of 10 years.

SBA Notes Payable	Origination Date	Note Amount	2020	2019
5274865002	8/30/2012	$ 550,000	$ 101,852	$ 162,963
7508625003	5/26/2015	750,000	370,794	453,886
8478565001	8/1/2016	750,000	472,223	555,556
2856927006	8/30/2018	600,000	515,618	578,706
		$ 2,650,000	$ 1,460,487	$ 1,751,111

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 2020	Principal Balance Outstanding 2019
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 $1,000,000 per year on March 31, 2021, 2022 and 2023)	9/28/2015	2.63%	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
Kresge Foundation (Principal due upon maturity)	12/12/2019	2.00%	250,000	250,000	250,000
Total			$ 15,850,000	$ 15,250,000	$ 15,850,000

NOTE 8 - MORTGAGES AND NOTES PAYABLE (CONTINUED)

Equity Equivalent Agreements

Equity equivalent agreements are bank debt instruments that are subordinated to all other debt except similar subordinated equity equivalent type notes. The Corporation uses these notes to fund their TN-SBJOF, ROF, KCTJF, NOF, MFIPT, ARC, ASBOF, MSBOF, and RLF loan funds. Loan fund descriptions can be found in the supplemental information section of these financial statements. Notes have maturity dates of five or ten years from the date of origination and include automatic extension features that begin on the second or seventh anniversary of the note. Absent prior notice by the lender, the maturity date is automatically extended for one additional year, so that upon each extension the remaining three-year maturity is extended to four years. Interest is compounded on a quarterly basis and principal and unpaid interest is due at maturity. For the lending financial institutions, the agreements meet the investment requirements of the Community Reinvestment Act and carry a below market interest rate based on the community development purpose of relending the loan proceeds to certain disadvantaged businesses. Agreements that fund the Corporation’s ROF and the TN-SBJOF attribute certain State of Tennessee tax benefits to participating financial institutions that require forgiveness of the debt at the tenth anniversary of the note, or forfeiture of all previously claimed tax credits, plus interest and penalties, relating to the lender’s investment. It is anticipated that ROF and TN-SBJOF agreements will be forgiven at their tenth anniversary. During the year ended December 31, 2020, $2,500,000 of TN-SBJOF debt was forgiven ($225,000 as of December 31, 2019) and the contributed amount received was recognized accordingly.

The notes have interest rates ranging from .75% to 3% per annum. Maturity dates range from January 2021 to June 2030.

Principal advanced during 2020 and 2019 was $2,500,000 and $17,600,000, respectively. The principal balance outstanding at December 31, 2020 and 2019 was $95,304,924 and $97,805,576 respectively.

Maturities of mortgages and notes payable as of December 31, 2020 are as follows:

2021	$ 13,522,874
2022	1,503,680
2023	1,464,129
2024	1,495,011
2025	302,093
Thereafter	529,596
Equity equivalent agreements	95,304,924
	$ 114,122,307

NOTE 9 - NET ASSETS

Net assets consist of the following at December 31:

	2020	2019
Without donor restrictions:		
Undesignated	$ 5,665,264	$ 3,181,945
Designated by the board of directors for loan capital	26,448,746	27,341,990
	32,114,010	30,523,935
With donor restrictions:		
Purpose restricted	2,010,711	1,839,202
Total net assets	$ 34,124,721	$ 32,363,137

Net assets designated by the Board of Directors for loan capital is composed of the following items as of December 31, 2020 and 2019:

	2020	2019
SBJOF State Grant (net of losses and recoveries)	$ 4,483,746	$ 5,779,459
TNEEF State Grant 2010 (net of losses and recoveries)	14,000,000	14,000,000
TNROF State Grant 2017-2019 (net of losses and recoveries)	7,125,000	7,095,031
OFN Contribution (Starbucks Initiative)	230,000	230,000
UCB Contribution (Pathway Memphis LLC)	475,000	237,500
Regions Bank	135,000	-
	$ 26,448,746	$ 27,341,990

NOTE 9 - NET ASSETS (CONTINUED)

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

	ARC	KCTJF	WBC	ASBOF	MSBOF	Total
Net Assets with Donor Restrictions						
January 1, 2019	$ 250,000	$ 394,286	$ 18,000	$ 779,370	$ 1,000,000	$ 2,441,656
Increases	-	-	18,000	-	-	18,000
Releases from restriction	-	-	(18,000)	-	-	(18,000)
Loan loss reserve usage (release)	-	-	-	(602,454)	-	(602,454)
December 31, 2019	250,000	394,286	18,000	176,916	1,000,000	1,839,202
Increases (decreases)	-	-	18,000	-	-	18,000
Releases from restriction	-	-	(18,000)	-	-	(18,000)
Bad debt recoveries	-	-	-	171,509	-	171,509
December 31, 2020	$ 250,000	$ 394,286	$ 18,000	$ 348,425	$ 1,000,000	$ 2,010,711

NOTE 10 - RISKS, CONTINGENCIES, AND ECONOMIC CONCENTRATION

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

Loans receivable are subject to the risk that borrowers may not be able to make payments. The Corporation manages this risk by educating borrowers in budget and credit management before and after making the loan, subjecting borrowers to certain credit and income standards consistently applied by its loan committee, verifying the credit rating, income, assets and collateral of borrowers and monitoring borrower compliance with loan agreements. In addition, the Corporation may use its loan loss reserve funds, which totaled $13,790,021 and $5,328,269 as of December 31, 2020 and 2019, respectively, to cover any loan losses.

NOTE 10 - RISKS, CONTINGENCIES, AND ECONOMIC CONCENTRATION

The Corporation's various programs receive funding from several federal, state and local grants. During 2020, the Corporation was the recipient of a Coronavirus Relief Fund grant passed through the Metropolitan Government of Nashville and Davidson County in the amount of $5,865,354 or 29% of 2020 total revenue and support. The majority of these funds (96%) were granted out to small businesses, arts organizations and music venues in response to the COVID pandemic. During 2019, the Corporation recognized revenue from the State of Tennessee in the amount of $3,627,826, which constituted 26% 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.

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.

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.

NOTE 11 - FAIR VALUE MEASUREMENTS

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

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

NOTE 11 - FAIR VALUE MEASUREMENTS (CONTINUED)

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, 2020 and 2019.

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

The following table sets forth the Corporation's major category of assets measured at fair value on a nonrecurring basis at December 31, 2020 and 2019:

	Total reported value in the Statement of Financial Position	Level 1	Level 2	Level 3
2020				
Impaired Loans (included in loans receivable)	$ 2,338,160	$ -	$ -	$ 2,338,160
Other real estate owned	-	-	-	-
Total assets at fair value	$ 2,338,160	$ -	$ -	$ 2,338,160
2019				
Impaired Loans (included in loans receivable)	$ 1,939,878	$ -	$ -	$ 1,939,878
Other real estate owned	1,030,941	-	-	1,030,941
Total assets at fair value	$ 2,970,819	$ -	$ -	$ 2,970,819

NOTE 11 - FAIR VALUE MEASUREMENTS (CONTINUED)

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

	2020 Fair Value	2019 Fair Value	Valuation Techniques	Significant Unobservable Inputs
Impaired Loans	$ 2,338,160	$ 1,939,878	Appraisal	Discounts for Costs to Sell and Marketability of Collateral
			Present Value of Expected Future Cash Flows	Payment Streams and Discount Rates
Other Real Estate Owned	-	1,030,941	Appraisal	Discounts for Costs to Sell and Marketability of Collateral

NOTE 12 - RETIREMENT PLAN

The Corporation has engaged an outsourced human resource firm to manage and provide benefits which includes a 401(k) program. Matching contributions are made on behalf of participants in an amount equal to 100% of the amount of the eligible participants' elective deferrals up to 3% of their compensation and 50% of the amount of the participants' elective deferrals that exceed 3% of their compensation, up to 5%. Amounts contributed to the plan by the Corporation were $126,007 for 2020 and $116,203 for 2019.

NOTE 13 - SUPPLEMENTAL EXECUTIVE RETIREMENT AGREEMENT

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

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

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.

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

ASSETS	2020	2019
Restricted cash - lending	$ 460,000	$ 500,000
Interest receivable	627	-
Loans receivable	33,760	-
TOTAL ASSETS	$ 494,387	$ 500,000
LIABILITIES AND NET ASSETS		
LIABILITIES		
Interest payable	$ 5,164	$ 164
Notes payable	250,000	250,000
Other liabilities	12,500	12,500
TOTAL LIABILITIES	267,664	262,664
NET ASSETS		
Undesignated	(10,777)	(164)
Board designated	237,500	237,500
TOTAL NET ASSETS	226,723	237,336
TOTAL LIABILITIES AND NET ASSETS	$ 494,387	$ 500,000

NOTE 14 - SUBSIDIARY ORGANIZATION

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

	2020	2019
Contribution from Pathway Lending	$ -	$ 237,500
Interest income - bank deposits	627	13
Financing fees and charges	-	(13)
TOTAL REVENUE AND OTHER SUPPORT	627	237,500
EXPENSES		
Program services	11,240	164
CHANGE IN NET ASSETS	$ (10,613)	$ 237,336

SUPPLEMENTARY INFORMATION

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

SCHEDULE OF EQUITY EQUIVALENT AGREEMENTS

DECEMBER 31, 2020 AND 2019

	Origination Date	Original Note Amount	December 31 2020	December 31 2019
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
Legends Bank (Clarksville, TN)	10/28/2010	750,000	-	750,000
Tennessee Bank and Trust (fka Farmers Bank & Trust) (Blytheville, AR)	11/30/2010	750,000	-	750,000
F&M Bank (Clarksville, TN)	12/1/2010	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
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

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

SCHEDULE OF EQUITY EQUIVALENT AGREEMENTS

DECEMBER 31, 2020 AND 2019

	Origination Date	Original Note Amount	December 31 2020	December 31 2019
InsBank (Nashville, TN)	9/8/2016	$ 1,318,930	$ 1,318,930	$ 1,318,930
Pinnacle Bank (Nashville, TN)	12/22/2016	3,000,000	3,000,000	3,000,000
Pinnacle Bank (Nashville, TN)	12/22/2016	4,500,000	4,500,000	4,500,000
Wells Fargo (Minneapolis, MN)	12/27/2016	1,000,000	1,000,000	1,000,000
F&M Bank (Clarksville, TN)	4/13/2017	500,000	500,000	500,000
First Horizon Bank (fka Capital Bank) (Memphis, TN)	6/22/2017	2,000,000	1,999,348	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	2,500,000	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
Legends Bank	12/27/2018	300,000	300,000	300,000
McKenzie Bank	2/15/2019	100,000	100,000	100,000
Security Bank and Trust Company	5/3/2019	1,500,000	1,500,000	1,500,000

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

SCHEDULE OF EQUITY EQUIVALENT AGREEMENTS

DECEMBER 31, 2020 AND 2019

	Origination Date	Original Note Amount	December 31 2020	December 31 2019
Security Bank and Trust Company	5/3/2019	$ 500,000	$ 500,000	$ 500,000
Regions Bank	6/24/2019	1,500,000	1,500,000	1,500,000
Regions Bank	6/24/2019	4,500,000	4,500,000	4,500,000
FirstBank	7/29/2019	500,000	500,000	500,000
FirstBank	7/29/2019	500,000	500,000	500,000
FirstBank	7/29/2019	1,000,000	1,000,000	1,000,000
Wilson Bank & Trust	11/12/2019	1,000,000	1,000,000	1,000,000
Andrew Johnson	11/25/2019	250,000	250,000	250,000
Wilson Bank & Trust	11/26/2019	1,500,000	1,500,000	1,500,000
Paragon	12/17/2019	500,000	500,000	500,000
Paragon	12/17/2019	250,000	250,000	250,000
FirstBank	12/18/2019	1,000,000	1,000,000	1,000,000
FirstBank	12/18/2019	1,000,000	1,000,000	1,000,000
InsBank	12/23/2019	2,000,000	2,000,000	2,000,000
Pinnacle Bank	6/15/2020	2,000,000	2,000,000	-
Legends Bank	6/25/2020	500,000	500,000	-
		$ 100,310,972	$ 95,304,924	$ 97,805,576

LOAN FUND DESCRIPTIONS

DECEMBER 31, 2020 AND 2019

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

Tennessee Energy Efficiency Loan Program

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

Tennessee Small Business Jobs Opportunity Fund

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

Nashville Opportunity Fund

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

Knox County Technology and Jobs Fund

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

Memphis Small Business Opportunity Fund

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

Tennessee Rural Opportunity Fund

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

Revolving Loan Fund

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

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

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

Affordable Multifamily Housing Loan Consortium

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

Appalachian Loan Fund

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

Alabama Small Business Opportunity Fund

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

Pathway Memphis LLC – Mezzanine Fund

Pathway Memphis, LLC is a subsidiary organization of Southeast Community Capital Corporation and 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 The Mezzanine Fund was established to provide patient capital for businesses located within the Memphis Metropolitan Area.

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

LOAN FUND DESCRIPTIONS (CONTINUED)

DECEMBER 31, 2020 AND 2019

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

	2020	2019
Nashville Opportunity Fund (NOF)	$ 8,749,963	$ 9,263,082
Knox County Technology and Jobs Fund (KCTJF)	4,010,694	3,863,658
Tennessee Rural Opportunity Fund (TNROF)	19,536,456	15,013,602
Tennessee Rural Opportunity Fund (TNROF-RR)	770,557	-
SCC Revolving Loan Fund (RLF)	2,909,046	2,876,256
SBA Micro Loan Funds (SBA)	1,114,162	1,175,402
Small Business Job Opportunity Fund (SBJOF)	36,387,749	40,680,562
Small Business Job Opportunity Fund (SBJOF-RRT)	193,830	-
Small Business Job Opportunity Fund (SBJOF-RR)	862,256	-
Small Business Job Opportunity Fund (SBJOF-RS)	114,215	-
Tennessee Energy Efficiency Fund (TNEEF)	19,702,837	15,753,305
Affordable Multifamily Housing Loan Program (MFIPT)	32,926,295	18,467,331
Appalachian Loan Fund (ARC)	2,211,778	2,281,181
Memphis Small Business Opportunity Fund (MSBOF)	5,193,711	3,588,659
Small Business Opportunity Fund Memphis (SBJOF-M-RS)	171,998	-
Alabama Small Business Opportunity Fund (ASBOF)	3,431,528	3,962,638
Pathway Memphis LLC - Mezzanine Fund	40,000	-
	138,327,075	116,925,676
Allowance for loan losses	(9,474,717)	(8,026,446)
	$ 128,852,358	$ 108,899,230

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

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

DECEMBER 31, 2020

Program	Federal Catalog Number	Grant Contract Number	Grant Period	Balance 01/01/20	Amount Borrowed	Principal Paid	Balance 12/31/20
Direct Federal Loans							
U.S. Small Business Administration:							
Micro Loan Program	59.046	5274865002	08-30-12 to 08-30-22	$ 162,963	$ -	$ 61,111	$ 101,852
Micro Loan Program	59.046	7508625003	05-26-15 to 05-26-25	453,886	-	83,092	370,794
Micro Loan Program	59.046	8478565001	08-01-16 to 08-01-26	555,556	-	83,333	472,223
Micro Loan Program	59.046	2856927006	08-27-18 to 08-27-28	578,706	-	63,088	515,618
Total Federal Loans				$ 1,751,111	$ -	$ 290,624	$ 1,460,487
				Accrued (Deferred) Revenues	Cash Received/ Billings	Expenditures/ Amounts Earned	Accrued (Deferred) Revenues
Federal Awards							
U.S. Dept. of Treasury:							
CDFI Award-Community Development Financial Institutions	21.020	201FA054930	09-22-20 to 12-31-23	$ -	$ 657,000	$ 657,000	$ -
Passed through the Metropolitan Government of Nashville and Davidson County, Tennessee	* 21.019 COVID	L-4501 Operation portion	10-01-2020 to 12-31-2020	-	200,000	200,000	-
Coronavirus Relief Fund	* 21.019 COVID	L-4595 Operation portion	10-01-2020 to 12-31-2020	-	44,744	44,744	-
	* 21.019 COVID	L-4501 Specific Assistance to Individuals and Businesses	10-01-2020 to 12-31-2020	-	2,995,000	2,995,000	-
	* 21.019 COVID	L-4508 Specific Assistance to Individuals and Businesses	10-01-2020 to 12-31-2020	-	957,959	957,959	-
	* 21.019 COVID	L-4594 Specific Assistance to Individuals and Businesses	10-01-2020 to 12-31-2020	-	263,500	263,500	-
	* 21.019 COVID	L-4595 Specific Assistance to Individuals and Businesses	10-01-2020 to 12-31-2020	-	1,404,151	1,404,151	-
Total U.S. Dept. of Treasury				-	6,522,354	6,522,354	-
U.S. Small Business Administration							
SBA Micro Loan Intermediary Technical Assistance	59.046	SBAHQ-19-Y-0099	07-01-19 to 06-30-20	155,524	315,731	160,207	-
SBA Micro Loan Intermediary Technical Assistance	59.046	SBAOCAML200067-01-00	07-01-20 to 06-30-21	-	79,328	140,130	60,802
Women's Business Ownership Assistance	59.043	SBAHQ-19-W-0026	09-30-19 to 09-29-20	37,500	75,000	112,500	75,000
Women's Business Ownership Assistance	59.043	SBAHQ-19-W-0026	09-30-20 to 09-29-21	-	-	25,595	25,595
Women's Business Ownership Assistance	59.043 COVID	SBAHQ20CO151	05-01-20 to 04-30-21	-	175,000	252,333	77,333
Veteran Business Outreach Center	59.044	SBAHQ-19-V-0019	05-01-19 to 04-30-20	110,600	211,241	100,641	-
Veteran Business Outreach Center	59.044	SBAHQ-19-V-0019	05-01-20 to 04-30-21	-	126,584	167,573	40,989
SBA Prime	59.050	SBAOCAPR200019-01-00	09-30-20 to 09.29.21	-	-	3,821	3,821
Total U.S. Small Business Administration				303,624	982,884	962,800	283,540
Appalachian Regional Commission	23.011 COVID	ARC-ACC COVID-19 Business Assistance Response	06-01-20 to 05-31-21	-	166,000	155,937	(10,063)
U.S. Department of Housing and Urban Development							
Passed through the Metropolitan Development and Housing Agency	14.218	N/A	01-01-19 to 12-31-20	10,972	67,533	56,561	-
Community Development Block Grant	14.218	N/A	09-01-20 to 08-31-22	-	-	10,641	10,641
Total U.S. Department of Housing and Urban Development				10,972	67,533	67,202	10,641
Total Federal Awards				$ 314,596	$ 7,738,771	$ 7,708,293	$ 284,118

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

(continued)

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

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

DECEMBER 31, 2020

Program	Federal Catalog Number	Grant Contract Number	Grant Period	Accrued (Deferred) Revenues	Cash Received/ Billings	Expenditures/ Amounts Earned	Accrued (Deferred) Revenues
State Awards							
State of Tennessee Department of	N/A	08-17-17 GR	12-01-17 to 11-30-22	$ 167,848	$ 293,167	$ 130,430	$ 5,111
Economic and Community Development	N/A	02-20-20 GR	10-30-20 to 10-30-22	-	-	2,152	2,152
Total State Awards				$ 167,848	$ 293,167	$ 132,582	$ 7,263

NOTE 1 - BASIS OF PRESENTATION

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

Summary of expenditures by CFDA number

21.020	$ 657,000
59.046	2,051,448
59.044	268,214
59.043	390,428
59.050	3,821
23.011	155,937
14.218	67,202
21.019	5,865,354
Total	$ 9,459,404

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE 3 - SUBRECIPIENTS

The Corporation did not pass any federal funds to subrecipients. The Corporation was awarded funds through the Coronavirus Relief Fund (Metro CARES Act) to provide financial support to specific recipients who met certain program requirements. Those funds are not subject to further monitoring.

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, 2020, and the related consolidated statements of activities, cash flows and functional expenses for the year then ended and the related notes to the consolidated financial statements and have issued our report thereon dated March 30, 2021.

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) as a basis for designing the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Southeast Community Capital Corporation and 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.

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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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and 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.

Kraft CPAs PLLC

Nashville, Tennessee
March 30, 2021

KraftCPAs PLLC

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, 2020. 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, 2020.

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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.

Kraft CPAs PLLC

Nashville, Tennessee
March 30, 2021

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, 2020

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**
21.019	Coronavirus Relief Fund

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, 2020

Financial Statement Findings

Finding Number	Finding Title	Status

There were no prior year findings reported.

Federal Award Findings and Questioned Costs:

Finding Number	Finding Title	Status

There were no prior year findings reported.