

SOUTHEAST COMMUNITY CAPITAL  
CORPORATION  
d/b/a PATHWAY LENDING

FINANCIAL STATEMENTS,  
SUPPLEMENTARY INFORMATION  
AND  
INDEPENDENT AUDITOR'S REPORTS

DECEMBER 31, 2014 AND 2013

SOUTHEAST COMMUNITY CAPITAL CORPORATION  
d/b/a PATHWAY LENDING

FINANCIAL STATEMENTS,  
SUPPLEMENTARY INFORMATION  
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DECEMBER 31, 2014 AND 2013

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## INDEPENDENT AUDITOR'S REPORT

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

### REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Southeast Community Capital Corporation d/b/a Pathway Lending, which comprise the statements of financial position as of December 31, 2014 and 2013, and the related statements of activities, cash flows and functional expenses for the years then ended, and the related notes to the financial statements.

### MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

### AUDITOR'S RESPONSIBILITY

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

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

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

## OPINION

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Southeast Community Capital Corporation d/b/a Pathway Lending as of December 31, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## OTHER MATTERS

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of federal and state awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* is presented for purposes of additional analysis and is also not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

## OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2015 on our consideration of Southeast Community Capital Corporation d/b/a Pathway Lending's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Southeast Community Capital Corporation d/b/a Pathway Lending's internal control over financial reporting and compliance.

Kraft CPAs PLLC

Nashville, Tennessee  
March 27, 2015

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

**STATEMENTS OF FINANCIAL POSITION**

**DECEMBER 31, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 4,991,828	\$ 1,912,353
Restricted cash - lending	20,227,404	26,095,462
Restricted cash - loan loss reserve funds	1,397,205	3,905,318
Certificate of deposit	180,000	180,000
Due from federal and state grantors	58,928	31,204
Accrued interest receivable	208,703	180,761
Loans receivable, net of allowance for possible loan losses of \$2,223,043 and \$1,623,965, respectively	46,550,976	35,496,815
Property and equipment, net	1,610,091	1,582,356
Other real estate owned	434,370	-
Other assets	92,474	96,035
<b>TOTAL ASSETS</b>	<b><u>\$ 75,751,979</u></b>	<b><u>\$ 69,480,304</u></b>
<u>LIABILITIES AND NET ASSETS</u>		
<b>LIABILITIES</b>		
Accounts payable	\$ 52,116	\$ 94,117
Interest payable	397,051	364,539
Lines of credit payable	4,000,000	700,000
Mortgage payable	1,099,277	1,199,969
Notes payable	44,418,472	41,936,700
Deferred revenue attributable to state grants	2,532,954	3,956,099
Other deferred revenue	527,423	610,255
Funds managed for third parties	106,484	106,484
Other liabilities	307,409	292,078
<b>TOTAL LIABILITIES</b>	<b><u>53,441,186</u></b>	<b><u>49,260,241</u></b>
<b>NET ASSETS</b>		
Unrestricted	21,833,252	19,743,122
Temporarily restricted	477,541	476,941
<b>TOTAL NET ASSETS</b>	<b><u>22,310,793</u></b>	<b><u>20,220,063</u></b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 75,751,979</u></b>	<b><u>\$ 69,480,304</u></b>

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

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

**STATEMENTS OF ACTIVITIES**

**FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

	2014		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUE AND OTHER SUPPORT			
Grant and Contribution Revenue			
U.S. Small Business Administration	\$ 105,335	\$ -	\$ 105,335
U.S. Treasury CDFI Award	3,097,000	-	3,097,000
Tennessee Energy State Grant	-	-	-
Tennessee Energy TVA Grant	-	-	-
TVA SWMOB Technical Assistance Grant	20,000	-	20,000
State of Tennessee - Power of Tennessee Initiative	-	-	-
State of Tennessee - Energy Efficiency Fund	1,423,145	-	1,423,145
Community Reuse Organization of East Tennessee Grant	-	-	-
U.S Small Business Administration WBC	31,682	-	31,682
Total Grant and Contribution Revenue	4,677,162	-	4,677,162
Interest and Program Service Revenue			
Interest income - loans	2,677,867	-	2,677,867
Interest income - bank deposits	105,711	-	105,711
Financing fees and charges	222,979	-	222,979
Fee Income	143,566	-	143,566
Total Interest and Program Services Revenue	3,150,123	-	3,150,123
Other Support			
Miscellaneous and in-kind contributions	207,514	-	207,514
Net Assets Released From Restrictions			
Loan loss reserve usage	(600)	600	-
TOTAL REVENUE AND OTHER SUPPORT	8,034,199	600	8,034,799
EXPENSES			
Program activities			
Lending programs	5,634,564	-	5,634,564
Supporting services			
Administrative and general	309,505	-	309,505
TOTAL EXPENSES	5,944,069	-	5,944,069
CHANGE IN NET ASSETS	2,090,130	600	2,090,730
NET ASSETS - BEGINNING OF YEAR	19,743,122	476,941	20,220,063
NET ASSETS - END OF YEAR	\$ 21,833,252	\$ 477,541	\$ 22,310,793

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

**2013**

<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Total</b>
\$ 61,448	\$ -	\$ 61,448
-	-	-
158,528	-	158,528
141,418	-	141,418
20,000	-	20,000
1,612,585	-	1,612,585
2,778,335	-	2,778,335
(190,636)	-	(190,636)
-	-	-
4,581,678	-	4,581,678
2,487,965	-	2,487,965
107,574	-	107,574
127,632	-	127,632
113,249	-	113,249
2,836,420	-	2,836,420
115,227	-	115,227
202,659	(202,659)	-
7,735,984	(202,659)	7,533,325
4,930,336	-	4,930,336
284,367	-	284,367
5,214,703	-	5,214,703
2,521,281	(202,659)	2,318,622
17,221,841	679,600	17,901,441
<u>\$ 19,743,122</u>	<u>\$ 476,941</u>	<u>\$ 20,220,063</u>

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

**STATEMENTS OF CASH FLOWS**

**FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
OPERATING ACTIVITIES		
Increase in net assets	\$ 2,090,730	\$ 2,318,622
Adjustments to reconcile increase in net assets to net cash (used in) provided by operating activities:		
Depreciation	71,120	67,175
Loan loss provision	1,402,426	(293,026)
Net changes in:		
Due from federal and state grantors	(27,724)	(20,937)
Interest receivable	(27,942)	(45,282)
Other assets	3,561	(8,459)
Accounts payable	(42,001)	(85,929)
Interest payable	32,512	10,466
Deferred revenue from state grantors	(1,423,145)	(2,778,335)
Other deferred revenue	(82,832)	(59,699)
Other liabilities	15,331	25,639
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	<u>2,012,036</u>	<u>(869,765)</u>
INVESTING ACTIVITIES		
Changes in loans receivable, net of charge offs	(12,890,957)	(6,772,863)
Acquisition of property and equipment, net	(98,855)	(120,629)
Change in restricted cash	<u>8,376,171</u>	<u>(1,416,109)</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(4,613,641)</u>	<u>(8,309,601)</u>
FINANCING ACTIVITIES		
Net proceeds (repayments) on lines of credit	3,300,000	363,724
Payments on mortgage and notes payable	(618,920)	(458,582)
Proceeds from notes payable	<u>3,000,000</u>	<u>8,650,000</u>
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	<u>5,681,080</u>	<u>8,555,142</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	3,079,475	(624,224)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>1,912,353</u>	<u>2,536,577</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 4,991,828</u>	<u>\$ 1,912,353</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Loan transferred to other real estate owned	<u>\$ 434,370</u>	<u>\$ -</u>
Cash paid for interest	<u>\$ 875,729</u>	<u>\$ 771,370</u>

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



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

**STATEMENTS OF FUNCTIONAL EXPENSES**

**FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

	<b>2014</b>		
	<b><u>Program Activities</u></b>	<b><u>Supporting Services</u></b>	<b><u>Total</u></b>
Salaries and benefits	\$ 2,068,208	\$ 209,862	\$ 2,278,070
Travel	95,420	3,349	98,769
Training	347	72	419
Dues, licenses, permits	22,482	3,102	25,584
Office expenses	38,287	8,103	46,390
Telecommunications	37,540	6,943	44,483
Postage and freight	2,389	310	2,699
Equipment maintenance	2,502	625	3,127
Professional services	487,047	21,968	509,015
Consulting	166,183	4,106	170,289
Marketing	8,442	1,303	9,745
Insurance	60,522	15,065	75,587
Occupancy	58,845	12,130	70,975
Depreciation	57,492	13,627	71,119
Conferences and meetings	82,442	6,842	89,284
Loan loss provision	1,402,426	-	1,402,426
Miscellaneous	136,802	1,045	137,847
Interest expense	907,188	1,053	908,241
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total	<u>\$ 5,634,564</u>	<u>\$ 309,505</u>	<u>\$ 5,944,069</u>

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

**2013**

<b>Program Activities</b>	<b>Supporting Services</b>	<b>Total</b>
\$ 2,269,778	\$ 167,993	\$ 2,437,771
110,683	5,392	116,075
11,916	1,289	13,205
23,037	2,571	25,608
241,714	18,442	260,156
42,372	6,468	48,840
3,731	291	4,022
905	226	1,131
357,935	21,403	379,338
770,847	10,552	781,399
16,532	2,490	19,022
54,281	13,496	67,777
82,905	14,102	97,007
55,374	11,801	67,175
329,023	5,629	334,652
(293,026)	-	(293,026)
72,227	488	72,715
780,102	1,734	781,836
<u>\$ 4,930,336</u>	<u>\$ 284,367</u>	<u>\$ 5,214,703</u>

SOUTHEAST COMMUNITY CAPITAL CORPORATION  
d/b/a PATHWAY LENDING

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014 AND 2013

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 the state's only state-wide economic development and business-focused certified Community Development Financial Institution (CDFI). The mission of the Corporation is to provide under-served small businesses with lending solutions and educational services resulting in economic development and job creation. The Corporation provides loans to target markets including: 1) small businesses in low and moderate-income areas, 2) low and moderate-income entrepreneurs, 3) African-American owned businesses, and 4) small businesses that hire low and moderate-income individuals throughout Tennessee and the southeastern United States. Loan types include term notes, lines of credit, purchase order financing, contract and accounts receivable financing, business real estate, and bridge financing (in limited cases). The Corporation began operations on December 21, 1999 as a wholly owned subsidiary of Technology 2020. The Corporation was approved on February 16, 2001, as a CDFI by the Community Development Financial Institution's Fund of the United States Department of Treasury (the CDFI Fund). Working in conjunction with other community, regional, state, and federal partners, the Corporation develops access to capital programs and offers loans to small businesses to support growth opportunities and provides technical assistance for enhancing business planning, marketing, management, financial management, and entrepreneurial skills to small business owners.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

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

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

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

SOUTHEAST COMMUNITY CAPITAL CORPORATION  
d/b/a PATHWAY LENDING

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2014 AND 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

*Permanently restricted net assets* are amounts required by donors to be held in perpetuity, including gifts requiring that the principal be invested and the income or specific portions thereof be used for operations. There were no permanently restricted net assets as of December 31, 2014 and 2013.

Revenue and Other Support

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

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

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

Some awards are received by the Corporation in the form of loans and require repayment of the loaned amounts under various conditions and are reported as notes payable. Some of these awards allow the Corporation to earn revenue when certain conditions are fulfilled.

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

SOUTHEAST COMMUNITY CAPITAL CORPORATION  
d/b/a PATHWAY LENDING

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2014 AND 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Donated Services, Goods and Facilities

Volunteers donate time to the Corporation's program services during the year; however, these donated services are not reflected in the financial statements since the services do not require specialized skills. Materials and other assets received as donations are recorded and reflected in the accompanying financial statements at their estimated fair values at the date of receipt.

Cash and Cash Equivalents and Restricted Cash

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

Restricted cash consists of discretely managed accounts maintained to comply with contractual requirements imposed by grantors or contribution restrictions imposed by donors.

Cash restricted for lending purposes may be used only to fund loans. Restricted cash for loan loss reserves may be used to replenish loan funds in the event of a loan charge off. Restricted cash includes temporarily restricted net assets, \$477,541 at December 31, 2014 (\$476,941 at December 31, 2013).

Due from Federal and State Grantors

Due from federal and state grantors are collectible from certain agencies and generally represent funds owed to the Corporation for establishing and maintaining loan pools.

Deferred Revenue

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

Loans Receivable and Allowance for Loan Losses

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

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.

SOUTHEAST COMMUNITY CAPITAL CORPORATION  
d/b/a PATHWAY LENDING

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2014 AND 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans Receivable and Allowance for Loan Losses (Continued)

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

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

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

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

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

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

SOUTHEAST COMMUNITY CAPITAL CORPORATION  
d/b/a PATHWAY LENDING

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2014 AND 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans Receivable and Allowance for Loan Losses (Continued)

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

Property and Equipment

Property and equipment are capitalized at cost for purchases greater than \$2,500 with an estimated useful life of greater than one year. Depreciation of property and equipment is provided over the estimated useful lives of the respective assets on a straight-line basis summarized as follows:

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

Income Taxes

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

The Corporation files a U.S. Federal Form 990 for organizations exempt from income tax. Tax returns prior to fiscal year 2011 are no longer open for examination.

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

Advertising Costs

Advertising costs are expensed as incurred. Advertising expense was \$0 and \$9,487 for the years ended December 31, 2014 and 2013, respectively.

SOUTHEAST COMMUNITY CAPITAL CORPORATION  
d/b/a PATHWAY LENDING

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2014 AND 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

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

Allocation of Functional Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of functional expenses as required by professional standards for not-for-profit organizations. Accordingly, expenses have been allocated among the program activities consisting of the Corporation's loan programs and related supervisory and advisory services and supporting services consisting of the Corporation's administration and management functions.

Reclassification

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

Events Occurring After Reporting Date

The Corporation has evaluated events and transactions that occurred between December 31, 2014 and March 27, 2015 the date the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.



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

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**DECEMBER 31, 2014 AND 2013**

**NOTE 3 - DUE FROM FEDERAL AND STATE GRANTORS**

Due from federal and state grantors consisted of the following at December 31:

	<u>2014</u>	<u>2013</u>
U.S. Small Business Administration		
Technical Assistance Grant	\$ 58,928	\$ 31,204

The Corporation also has deferred revenue attributable to funds received and not earned from the State of Tennessee Department of Economic and Community Development's Energy Efficiency Fund in the amount of \$ 2,537,954 as of December 31, 2014. All funds as part of this program that are deferred at December 31, 2014 have been received.

**NOTE 4 - LOANS RECEIVABLE**

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

Loan terms range from 6 to 300 months for term loans and 3 to 60 months for lines of credit. Interest rates range from 2.0% to 12.00%. Interest rates are both fixed and floating above the prime rate.

The composition of loans by primary loan classification as well as impaired and performing loan status at December 31, 2014 and 2013 is summarized in the table below:

	<b>At December 31,</b>			
	<b>Commercial Real</b>		<b>Energy</b>	
	<b>Estate Loans</b>	<b>Commercial Loans</b>	<b>Efficiency Loans</b>	<b>Total</b>
<b>2014</b>				
Performing loans	\$ 25,274,957	\$ 12,360,558	\$ 8,846,176	\$ 46,481,691
Impaired loans	<u>1,859,507</u>	<u>298,636</u>	<u>134,185</u>	<u>2,292,328</u>
	<u>\$ 27,134,464</u>	<u>\$ 12,659,194</u>	<u>\$ 8,980,361</u>	<u>\$ 48,774,019</u>
<b>2013</b>				
Performing loans	\$ 15,366,363	\$ 11,955,051	\$ 8,803,670	\$ 36,125,084
Impaired loans	<u>740,679</u>	<u>255,017</u>	<u>-</u>	<u>995,696</u>
	<u>\$ 16,107,042</u>	<u>\$ 12,210,068</u>	<u>\$ 8,803,670</u>	<u>\$ 37,120,780</u>

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

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**DECEMBER 31, 2014 AND 2013**

**NOTE 4 - LOANS RECEIVABLE (CONTINUED)**

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

	At December 31,			
	Commercial Real Estate Loans	Commercial Loans	Energy Efficiency Loans	Total
<b>2014</b>				
Allowance related to:				
Performing Loans	\$ 324,031	\$ 1,002,889	\$ 157,328	\$ 1,484,248
Impaired Loans	390,331	214,279	134,185	738,795
	<u>\$ 714,362</u>	<u>\$ 1,217,168</u>	<u>\$ 291,513</u>	<u>\$ 2,223,043</u>
<b>2013</b>				
Allowance related to:				
Performing Loans	\$ 261,705	\$ 926,453	\$ 176,073	\$ 1,364,231
Impaired Loans	140,679	119,055	-	259,734
	<u>\$ 402,384</u>	<u>\$ 1,045,508</u>	<u>\$ 176,073</u>	<u>\$ 1,623,965</u>

Changes in the allowance for loan losses for the year ended December 31, 2014 and 2013 are summarized in the table below:

	For the year ended December 31, 2014			
	Commercial Real Estate Loans	Commercial Loans	Energy Efficiency Loans	Total
Beginning Balance	\$ 402,384	\$ 1,045,508	\$ 176,073	\$ 1,623,965
Charged Off Loans	(411,917)	(757,059)	-	(1,168,976)
Recoveries	32,261	333,367	-	365,628
Provision for loan losses	691,634	595,352	115,440	1,402,426
Ending Balance	<u>\$ 714,362</u>	<u>\$ 1,217,168</u>	<u>\$ 291,513</u>	<u>\$ 2,223,043</u>

  

	For the year ended December 31, 2013			
	Commercial Real Estate Loans	Commercial Loans	Energy Efficiency Loans	Total
Beginning Balance	\$ 234,702	\$ 1,362,044	\$ 77,328	\$ 1,674,074
Charged Off Loans	-	(281,412)	-	(281,412)
Recoveries	-	524,329	-	524,329
Provision for loan losses	167,682	(559,453)	98,745	(293,026)
Ending Balance	<u>\$ 402,384</u>	<u>\$ 1,045,508</u>	<u>\$ 176,073</u>	<u>\$ 1,623,965</u>

SOUTHEAST COMMUNITY CAPITAL CORPORATION  
d/b/a PATHWAY LENDING

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2014 AND 2013

NOTE 4 - LOANS RECEIVABLE (CONTINUED)

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

The allowance for loan losses at December 31, 2014 and 2013 is \$2,223,043 or 4.56% of gross loans and \$1,623,965 or 4.37% of gross loans, respectively.

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

- Pass One – During the underwriting process, management will determine if a loan meets Pathway Lending's underwriting criteria. All approved loans will be assigned an initial risk rating of Pass One. If the borrower's repayment history and financial condition remains satisfactory, the risk rating will not change.
- Pass Two – Assets in this category have most of the same characteristics as a loan rated Pass One. However, the occurrence or potential occurrence of an event has been identified that would moderately increase the level of risk. Such events might include an adverse trend in financial performance or a specific event that has negatively impacted the borrower. Close supervision of these loans are required by the Portfolio Manager. Loans assigned to this risk rating must be upgraded or downgraded within 12 months.

SOUTHEAST COMMUNITY CAPITAL CORPORATION  
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2014 AND 2013

NOTE 4 - LOANS RECEIVABLE (CONTINUED)

- Pass Two/Watch – Assets in this category have deteriorated from the Pass Two category. Assets in this category have had an occurrence of an event or an occurrence of an event is imminent that has increased the level of risk. Events include continued weakening of financial performance, loss of customers or contracts, that if continued will impair the client's ability to repay. These credits are placed on the watch-list for additional monitoring along with the implementation, if possible, of advisory services. This grade was added during 2013.
- Substandard – Loans in this category have well-defined weaknesses that jeopardize the collection of the debt and expose Pathway Lending to increased risk of loss. These loans are marginally protected by the repayment capacity of the borrower, guarantors, and the collateral. These loans require special monitoring and management to mitigate increased losses.
- Doubtful/Loss – Assets in this category exhibit serious risks that will likely hinder the collection of the full loan balance and result in a loss. These loans are severely unprotected by the repayment capacity of the borrower, guarantors, and the collateral. Strict management attention is required.

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

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**DECEMBER 31, 2014 AND 2013**

**NOTE 4 - LOANS RECEIVABLE (CONTINUED)**

The following table outlines the amount of each loan classification and the amount categorized into each risk rating class as of December 31, 2014 and 2013.

	<b>At December 31,</b>			
	<b>Commercial Real Estate Loans</b>		<b>Commercial Loans</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Loan Risk Ratings:				
Pass One	\$ 23,177,727	\$ 14,669,341	\$ 10,456,328	\$ 10,819,185
Pass Two	2,097,230	697,022	1,904,230	1,135,866
Substandard	1,859,507	740,679	298,636	255,017
Doubtful/Loss	-	-	-	-
	<u>\$ 27,134,464</u>	<u>\$ 16,107,042</u>	<u>\$ 12,659,194</u>	<u>\$ 12,210,068</u>
	<b>Energy Efficiency Loans</b>		<b>Total</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Pass One	\$ 8,846,176	\$ 8,803,670	\$ 42,480,231	\$ 34,292,196
Pass Two	-	-	4,001,460	1,832,888
Substandard	134,185	-	2,292,328	995,696
Doubtful/Loss	-	-	-	-
	<u>\$ 8,980,361</u>	<u>\$ 8,803,670</u>	<u>\$ 48,774,019</u>	<u>\$ 37,120,780</u>

Impaired loans are individually evaluated for impairment. Pathway Lending does not have any loans that are collectively evaluated for impairment. The principal balance of loans considered for impairment amounted to \$2,292,320 and \$995,696 at December 31, 2014 and 2013, respectively and are included in the risk rated tables.

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

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**DECEMBER 31, 2014 AND 2013**

**NOTE 4 - LOANS RECEIVABLE (CONTINUED)**

The following table details the recorded investment, unpaid principal balance and related allowance and average recorded investment of our impaired loans at December 31, 2014 and 2013 by loan category and the amount of interest income recognized on these loans on a cash basis throughout 2014 and 2013:

	<b>At December 31, 2014</b>			<b>For the year ended December 31, 2014</b>	
	<b>Recorded Investment</b>	<b>Unpaid principal balance</b>		<b>Average Recorded Investment</b>	<b>Interest Income Recognized</b>
			<b>Related Allowance</b>		
Impaired loans with no recorded allowance:					
Commercial Real Estate Loans	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial Loans	-	-	-	13,646	848
Energy Efficiency Loans	-	-	-	-	-
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,646</u>	<u>\$ 848</u>
Impaired loans with a recorded allowance:					
Commercial Real Estate Loans	\$ 1,859,507	\$ 1,859,507	\$ 390,331	\$ 1,663,606	\$ 94,936
Commercial Loans	298,636	298,636	214,279	618,598	44,450
Energy Efficiency Loans	134,185	134,185	134,185	11,182	-
Total	<u>\$ 2,292,328</u>	<u>\$ 2,292,328</u>	<u>\$ 738,795</u>	<u>\$ 2,293,386</u>	<u>\$ 139,386</u>
	<b>At December 31, 2013</b>			<b>For the year ended December 31, 2013</b>	
	<b>Recorded Investment</b>	<b>Unpaid principal balance</b>		<b>Average Recorded Investment</b>	<b>Interest Income Recognized</b>
			<b>Related Allowance</b>		
Impaired loans with no recorded allowance:					
Commercial Real Estate Loans	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial Loans	35,965	35,965	-	56,314	1,042
Energy Efficiency Loans	-	-	-	-	-
Total	<u>\$ 35,965</u>	<u>\$ 35,965</u>	<u>\$ -</u>	<u>\$ 56,314</u>	<u>\$ 1,042</u>
Impaired loans with a recorded allowance:					
Commercial Real Estate Loans	\$ 740,679	\$ 740,679	\$ 140,679	\$ 746,488	\$ 36,265
Commercial Loans	219,052	219,052	119,055	262,193	15,430
Energy Efficiency Loans	-	-	-	-	-
Total	<u>\$ 959,731</u>	<u>\$ 959,731</u>	<u>\$ 259,734</u>	<u>\$ 1,008,681</u>	<u>\$ 51,695</u>

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

**DECEMBER 31, 2014 AND 2013**

**NOTE 4 - LOANS RECEIVABLE (CONTINUED)**

The tables below present past due balances at December 31, 2014 and 2013, by loan classification allocated between performing and impaired status:

<b>At December 31, 2014</b>						
	<b>30-89 Days Past Due</b>	<b>Greater Than 90 Days and Performing</b>	<b>Total Past Due and Performing</b>	<b>Impaired</b>	<b>Current and Performing</b>	<b>Total Loans</b>
Commercial Real Estate Loans	\$ -	\$ -	\$ -	\$ 1,859,507	\$ 25,274,957	\$ 27,134,464
Commercial Loans	-	-	-	298,636	12,360,558	12,659,194
Energy Efficiency Loans	-	-	-	134,185	8,846,176	8,980,361
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,292,328</u>	<u>\$ 46,481,691</u>	<u>\$ 48,774,019</u>

<b>At December 31, 2013</b>						
	<b>30-89 Days Past Due</b>	<b>Greater Than 90 Days and Performing</b>	<b>Total Past Due and Performing</b>	<b>Impaired</b>	<b>Current and Performing</b>	<b>Total Loans</b>
Commercial Real Estate Loans	\$ -	\$ -	\$ -	\$ 740,679	\$ 15,366,363	\$ 16,107,042
Commercial Loans	-	-	-	255,017	11,955,051	12,210,068
Energy Efficiency Loans	-	-	-	-	8,803,670	8,803,670
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 995,696</u>	<u>\$ 36,125,084</u>	<u>\$ 37,120,780</u>

Nonaccrual loans totaled \$132,955 and \$101,068 as of December 31, 2014 and 2013, respectively. Nonaccrual loans in both years consisted of commercial loans. There are no loans past due more than 90 day 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 2014 the Corporation had five commercial restructurings that qualified as troubled debt restructurings with a total balance of \$996,699 as of December 31, 2014. All troubled debt restructurings are considered impaired and included in the tables above. Specific reserves attributed to troubled debt restructurings totaled \$314,157 as of December 31, 2014. During 2013 the Corporation had five commercial restructurings that qualified as troubled debt restructurings with a total balance of \$882,558 as of December 31, 2013. All troubled debt restructurings are considered impaired and included in the tables above. Specific reserves attributed to troubled debt restructurings totaled \$207,808 as of December 31, 2013.

SOUTHEAST COMMUNITY CAPITAL CORPORATION  
d/b/a PATHWAY LENDING

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2014 AND 2013

NOTE 4 - LOANS RECEIVABLE (CONTINUED)

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

Loans receivable consist of 247 loans at December 31, 2014 with principal balances ranging from \$1,337 to \$2,775,000. Terms vary from principal and interest due monthly to interest only with a balloon payment due at maturity. All SBA loans have been pledged as collateral to their respective federal programs according to their terms and conditions.

Certain parties (principally entities affiliated with members of our Board) were customers of and had loans with the Corporation in the ordinary course of business. These loan transactions were made on substantially the same terms as those prevailing at the time for comparable loans to other customers. They did not involve more than the normal risk of collectability or present other unfavorable terms. Loans to related parties as of December 31, 2014 and 2013 were as follows:

	<u>2014</u>	<u>2013</u>
Balance, January 1	\$ 92,284	\$ 144,696
New loans	519,716	497,403
Repayments	<u>(545,072)</u>	<u>(549,815)</u>
Balance, December 31	<u>\$ 66,928</u>	<u>\$ 92,284</u>

A schedule, by year, of principal maturities of loans receivable as of December 31, 2014 follows:

Year ending December 31,

2015	\$ 8,058,753
2016	5,258,303
2017	4,081,530
2018	3,900,015
2019	4,587,082
Thereafter	<u>22,888,336</u>
	48,774,019
Less: Allowance for loan losses	<u>(2,223,043)</u>
Total	<u>\$ 46,550,976</u>



SOUTHEAST COMMUNITY CAPITAL CORPORATION  
d/b/a PATHWAY LENDING

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2014 AND 2013

NOTE 5 - PROPERTY AND EQUIPMENT

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

	<u>2014</u>	<u>2013</u>
Buildings and improvements	\$ 1,812,233	\$ 1,764,729
Equipment	<u>221,546</u>	<u>221,143</u>
	2,033,779	1,985,872
Less: accumulated depreciation	<u>(423,688)</u>	<u>(403,516)</u>
Property and equipment - net	<u><u>\$ 1,610,091</u></u>	<u><u>\$ 1,582,356</u></u>

NOTE 6 - LINES OF CREDIT

The Corporation entered into a \$1,000,000 secured line of credit with a financial institution on December 9, 2011 for working capital. The line of credit is collateralized by all loans receivable and equipment. The interest rate is the WSJ prime rate minus 2%. At December 31, 2014 and 2013, the rate was 1.25%. On December 30, 2014, this line was increased to \$4,000,000. The line matures on June 5, 2015. The amount borrowed and outstanding for the years ended December 31, 2014 and 2013 was \$4,000,000 and \$700,000, respectively.

The Corporation established a \$15,000,000 secured line of credit with Pinnacle Bank on November 30, 2013. This line is part of the energy efficiency loan program and has a rate of WSJ prime rate minus 4% (0% at December 31, 2014 and 2013). This line of credit was cancelled at the request of the Corporation on December 19, 2014. As of December 31, 2014 and 2013 there was no outstanding balance.

SOUTHEAST COMMUNITY CAPITAL CORPORATION  
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2014 AND 2013

NOTE 7 - MORTGAGE AND NOTES PAYABLE

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

	<u>2014</u>	<u>2013</u>
General corporate debt:		
Mortgage payable	\$ 1,099,277	\$ 1,199,969
Lending program debt:		
SBA notes payable	672,460	805,947
Other notes payable	11,317,224	11,496,569
Equity equivalent agreements	<u>32,428,788</u>	<u>29,634,184</u>
	<u>44,418,472</u>	<u>41,936,700</u>
Total mortgage and notes payable	<u>\$ 45,517,749</u>	<u>\$ 43,136,669</u>

Mortgage Payable

The Corporation has a \$1,099,277 mortgage payable on its principal office building in Nashville. Terms require monthly payments of principal and interest at a floating rate equal to prime minus 4% (0% at December 31, 2014) for 60 months, with the entire principal balance maturing November 30, 2015. The mortgage payable is also collateralized by a certificate of deposit held at Pinnacle Bank in the amount of \$180,000.

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 require monthly payments of interest only 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 2.75% at December 31, 2014. The loans mature at the end of 10 years.

<u>SBA Notes Payable</u>	<u>Origination Date</u>	<u>Note Amount</u>	<u>2014</u>	<u>2013</u>
4295924103	5/24/2005	\$ 500,000	\$ 40,978	\$ 91,132
5050905002	4/13/2012	200,000	162,963	185,185
5274865002	8/30/2012	<u>550,000</u>	<u>468,519</u>	<u>529,630</u>
		<u>\$ 1,250,000</u>	<u>\$ 672,460</u>	<u>\$ 805,947</u>

SOUTHEAST COMMUNITY CAPITAL CORPORATION  
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2014 AND 2013

NOTE 7 - MORTGAGE AND NOTES PAYABLE (CONTINUED)

Other Notes Payable

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

	Origination Date	Interest Rate	Note Amount	Principal Balance Outstanding	
				2014	2013
TVA - 10 Years, No Interest (Principal due upon maturity)	9/30/2010	0.00%	10,000,000	10,000,000	10,000,000
State of Tenn. Dept. of Treasury SMOB Assistance Loan Program - 10 Years, No Interest (Principal May Be Forgiven)	12/28/2007	0.00%	2,000,000	567,224	746,569
RLF US Bank note (Principle due upon maturity)	10/23/2013	3%	<u>750,000</u>	<u>750,000</u>	<u>750,000</u>
Total			<u>\$ 12,750,000</u>	<u>\$ 11,317,224</u>	<u>\$ 11,496,569</u>

Equity Equivalent Agreements

Equity equivalent agreements are bank debt instruments that are subordinated to all other debt except similar subordinated equity equivalent type notes. The Corporation uses these notes to fund their TN-SBJOF, ROF, KCTJF, NOF, and RLF loan funds. 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.

SOUTHEAST COMMUNITY CAPITAL CORPORATION  
d/b/a PATHWAY LENDING

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2014 AND 2013

NOTE 7 - MORTGAGE AND NOTES PAYABLE (CONTINUED)

Equity Equivalent Agreements (continued)

The notes have interest rates ranging from 1.5% to 3.5% per annum. Maturity dates range from January 2017 to December 2023.

Principal advanced during 2014 and 2013 was \$3,000,000 and \$8,650,000, respectively. The principal balance outstanding at December 31, 2014 and 2013 was \$32,428,789 and \$29,634,184, respectively.

Maturities of mortgage and notes payable as of December 31, 2014 are as follows:

2015	\$ 1,223,589
2016	83,333
2017	650,557
2018	833,333
2019	83,333
Thereafter	10,214,816
Equity equivalent agreements	<u>32,428,788</u>
	<u>\$ 45,517,749</u>

NOTE 8 - FUNDS MANAGED FOR THIRD PARTIES

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

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

SOUTHEAST COMMUNITY CAPITAL CORPORATION  
d/b/a PATHWAY LENDING

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2014 AND 2013

NOTE 8 - FUNDS MANAGED FOR THIRD PARTIES (CONTINUED)

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

During 2005, at the direction of the City of Memphis, the Corporation transferred \$739,342 of the funds back to the City. In 2010, loan loss reserve capital and loan capital provided by the City of Memphis and the three financial institutions was returned in full to the investing parties. The MBOF managed funds obligation at December 31, 2014 and 2013 was \$102,617 and \$102,594, respectively.

A summary of funds managed for third parties as of December 31 follows:

	<u>2014</u>	<u>2013</u>
MBOF		
Restricted cash - lending	\$ 102,617	\$ 102,594
Loans receivable, net of allowance	<u>-</u>	<u>-</u>
Total	<u>\$ 102,617</u>	<u>\$ 102,594</u>

SOUTHEAST COMMUNITY CAPITAL CORPORATION  
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2014 AND 2013

NOTE 9 - TEMPORARILY RESTRICTED NET ASSETS

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

	<u>KCTJF</u>	<u>NOF</u>	<u>Total</u>
Loan loss reserve funds - January 1, 2013	\$ 597,545	\$ 82,055	\$ 679,600
Bad debt recoveries	-	600	600
Contributions to loan loss reserve	-	-	-
Loan loss reserve usage (release)	<u>(203,259)</u>	<u>-</u>	<u>(203,259)</u>
Loan loss reserve funds - December 31, 2013	394,286	82,655	476,941
Bad debt recoveries	-	600	600
Contributions to loan loss reserve	-	-	-
Loan loss reserve usage (release)	<u>-</u>	<u>-</u>	<u>-</u>
Loan loss reserve funds - December 31, 2014	<u>\$ 394,286</u>	<u>\$ 83,255</u>	<u>\$ 477,541</u>

NOTE 10 - CREDIT RISK AND ECONOMIC CONCENTRATION

The Corporation maintains cash at two financial institutions whose accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to statutory limits. The Corporation's cash balances generally exceed statutory limits. 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 \$1,397,205 and \$3,905,318 as of December 31, 2014 and 2013, respectively, to cover any loan losses.

SOUTHEAST COMMUNITY CAPITAL CORPORATION  
d/b/a PATHWAY LENDING

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2014 AND 2013

NOTE 10 - CREDIT RISK AND ECONOMIC CONCENTRATION (CONTINUED)

The Corporation's various programs receive funding from several federal, state and local grants. During 2014, the Corporation recognized revenue in the amount of \$4,520,145 (\$4,390,920 in 2013) from two sources which constitutes approximately 56% (57% in 2013 from two sources) of the Corporation's total unrestricted revenue and support for the year. This revenue is to be used for loan capital for the Tennessee Energy Efficiency Fund, the SBJOF and operational expenses as stated in the award documents. The interest income that results from the granted loan capital will provide ongoing support for the Corporation's future operations and will reduce the Corporation's dependency on operational grants from outside sources in order to maintain sustainability.

NOTE 11 - FAIR VALUE MEASUREMENTS

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

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

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

*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, 2014 and 2013.

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

SOUTHEAST COMMUNITY CAPITAL CORPORATION  
d/b/a PATHWAY LENDING

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2014 AND 2013

NOTE 11 - FAIR VALUE MEASUREMENTS (CONTINUED)

The following table sets forth the Corporation's major category of assets measured at fair value on a nonrecurring basis at December 31, 2014 and 2013:

	Total reported value in the Statement of Financial Position	Level 1	Level 2	Level 3
<b>2014</b>				
Impaired Loans (included in loans receivable)	\$ 1,553,533	\$ -	\$ -	\$ 1,553,533
Other real estate owned	434,370	-	-	434,370
Total assets at fair value	<u>\$ 1,987,903</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,987,903</u>
<b>2013</b>				
Impaired Loans (included in loans receivable)	\$ 699,997	\$ -	\$ -	\$ 699,997

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, 2014:

	Fair Value	Valuation Techniques	Significant Unobservable Inputs
Impaired Loans	\$ 1,553,533	Appraisal Present Value of Expected Future Cash Flows	Discounts for Costs to Sell and Marketability of Collateral Payment Streams and Discount Rates
Other Real Estate Owned	434,370	Appraisal	Discounts for Costs to Sell and Marketability of Collateral



SOUTHEAST COMMUNITY CAPITAL CORPORATION  
d/b/a PATHWAY LENDING

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2014 AND 2013

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 \$48,244 for 2014 and \$52,001 for 2013.

# **SUPPLEMENTARY INFORMATION**

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

**SCHEDULE OF EQUITY EQUIVALENT AGREEMENTS**

**DECEMBER 31, 2014 AND 2013**

	Origination Date	Original Note Amount	Outstanding Principal Balance	
			December 31 2014	December 31 2013
SunTrust Bank (Nashville, TN)	1/4/2002	300,000	\$ 300,000	\$ 300,000
SunTrust Bank (Knoxville, TN)	12/16/2004	250,000	250,000	250,000
BB&T Bank (Winston Salem, NC)	4/1/2005	200,000	-	200,000
The Bank of Nashville (Nashville, TN)	4/12/2006	500,000	500,000	500,000
Pinnacle Bank (Nashville, TN)	1/15/2006	750,000	750,000	750,000
Pinnacle Bank (f/k/a Prime Trust Bank)	12/1/2006	250,000	250,000	250,000
Renasant Bank (f/k/a Capital Bank & Trust)	12/28/2006	200,000	200,000	200,000
InsBank (Nashville, TN)	12/29/2006	300,000	300,000	300,000
GreenBank (Greeneville, TN)	12/20/2006	800,000	794,604	800,000
Citizens National Bank (Athens, TN)	12/28/2006	100,000	100,000	100,000
Pinnacle Bank (Nashville, TN)	12/18/2007	250,000	250,000	250,000
GreenBank (Greeneville, TN)	12/21/2007	500,000	500,000	500,000
FirstBank (Lexington, TN)	12/28/2007	1,000,000	1,000,000	1,000,000
Pinnacle Bank (Nashville, TN)	12/24/2007	750,000	750,000	750,000
Peoples Bank (Clifton, TN)	12/21/2007	100,000	100,000	100,000
F&M Bank (Clarksville, TN)	12/28/2007	500,000	500,000	500,000
Reliant Bank (Franklin, TN)	12/26/2007	300,000	300,000	300,000
Wayne County Bank (Waynesboro, TN)	12/26/2007	200,000	200,000	200,000
Citizens Bank (Elizabethton, TN)	12/21/2007	500,000	500,000	500,000
Citizens Bank (Carthage, TN)	12/21/2007	300,000	300,000	300,000
Commercial Bank & Trust (Paris, TN)	12/24/2007	500,000	500,000	500,000
Decatur County Bank (Decaturville, TN)	12/21/2007	200,000	200,000	200,000
Citizens National Bank (Athens, TN)	12/24/2007	100,000	100,000	100,000
Farmers and Merchants (Trezevant, TN)	12/20/2007	50,000	50,000	50,000
Community Bank & Trust (Ashland City, TN)	12/28/2007	100,000	100,000	100,000
Avenue Bank (Nashville, TN)	12/21/2007	100,000	100,000	100,000
First State Bank (Union City, TN)	12/26/2007	1,000,000	1,000,000	1,000,000
Macon Bank and Trust Company (Lafayette, TN)	10/1/2008	250,000	250,000	250,000
McKenzie Banking Company (McKenzie, TN)	10/1/2008	100,000	100,000	100,000
First National Bank (Oneida, TN)	10/17/2008	50,000	50,000	50,000
Legends Bank (Clarksville, TN)	12/22/2008	100,000	100,000	100,000
Pinnacle Bank (Nashville, TN)	12/26/2008	1,000,000	1,000,000	1,000,000
Pinnacle Bank (Nashville, TN)	6/30/2009	500,000	500,000	500,000
Jefferson Federal (Morristown, TN)	7/14/2009	100,000	100,000	100,000

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

**SCHEDULE OF EQUITY EQUIVALENT AGREEMENTS**

**DECEMBER 31, 2014 AND 2013**

	Origination Date	Original Note Amount	Outstanding Principal Balance	
			December 31 2014	December 31 2013
Pinnacle Bank (Nashville, TN)	12/3/2009	125,000	125,000	125,000
Legends Bank (Clarksville, TN)	10/28/2010	750,000	750,000	750,000
Farmers Bank & Trust (Blytheville, AR)	11/30/2010	750,000	750,000	750,000
F&M Bank (Clarksville, TN)	12/1/2010	1,000,000	1,000,000	1,000,000
Regions (Birmingham, AL)	5/22/2011	2,100,000	2,100,000	2,100,000
CapStar Bank (Nashville, TN)	12/30/2011	100,000	100,000	100,000
FirstBank (Lexington, TN)	12/30/2011	538,337	538,337	538,337
Bank of Bartlett (Bartlett, TN)	12/30/2011	250,000	250,000	250,000
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
Trust Bank (Olney, Ill.)	7/17/2012	100,000	100,000	100,000
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	3/25/2014	1,000,000	1,000,000	-
Regions Bank (Birmingham, AL)	12/5/2014	1,500,000	1,500,000	-
Avenue Bank (Nashville, TN)	12/18/2014	500,000	500,000	-
		<u>\$ 32,634,184</u>	<u>\$ 32,428,788</u>	<u>\$ 29,634,184</u>

SOUTHEAST COMMUNITY CAPITAL CORPORATION  
d/b/a PATHWAY LENDING

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2014 AND 2013

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

Tennessee Energy Efficiency Loan Program

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

Tennessee Small Business Jobs Opportunity Fund

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

Nashville Opportunity Fund

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

Knox County Technology and Jobs Fund

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

SOUTHEAST COMMUNITY CAPITAL CORPORATION  
d/b/a PATHWAY LENDING

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2014 AND 2013

Tennessee Rural Opportunity Fund

The Tennessee Rural Opportunity Fund (TN-ROF) is targeted to ninety-two of Tennessee's ninety-five counties and provides loans to small businesses in rural Tennessee that are unable to access traditional bank financing. The TN-ROF is capitalized with \$10 million of private bank capital and up to \$2 million of forgivable loans from the State of Tennessee's Small and Minority Owned Business (SMOB) Program to create up to a \$12 million fund.

Revolving Loan Fund

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

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

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

Affordable Multifamily Housing Loan Consortium

The Affordable Multifamily Housing Loan Consortium (the Consortium) represents a strategic public-private partnership that supports community needs through loans for construction, refinancing, and renovations on multifamily housing properties in low-to-moderate-income communities throughout Tennessee. The program fills a financing gap identified in the TN Housing Development Agency (THDA) December 2012 TN Housing Needs Assessment. The Consortium addresses housing needs by providing capital for construction, refinancing, and retrofits of multifamily housing in low-to-moderate-income communities. The Consortium provides developers of affordable housing loans that have terms unique to the market: ranging from \$500,000-\$2,500,000 with amortization schedules to 30 years, and terms and fixed interest periods to 15 years. These significantly longer periods reduce carrying costs of the debt and increase sustainability of these hard to finance affordable housing developments. Pathway Lending leads the underwriting and offers participation in the loan to TN Bankers Association (TBA) Member Banks. Pathway Lending originates and services the loans for the participating institutions and also monitors the development for compliance with state and federal affordable housing requirements.

SOUTHEAST COMMUNITY CAPITAL CORPORATION  
d/b/a PATHWAY LENDING

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2014 AND 2013

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

	<u>2014</u>	<u>2013</u>
Nashville Opportunity Fund (NOF)	\$ 4,066,059	\$ 2,199,261
Knox County Technology and Jobs Fund (KCTJF)	1,072,509	1,493,081
Tennessee Rural Opportunity Fund	7,556,957	5,934,503
SCC Revolving Loan Fund (RLF)	755,883	52,359
SBA Micro Loan Funds	534,359	378,812
Small Business Job Opportunity Fund (SBJOF)	25,284,860	18,259,094
Tennessee Energy Efficiency Fund	8,980,361	8,803,670
Affordable Multifamily Housing Loan Consortium (MFIPT)	<u>523,031</u>	<u>-</u>
	48,774,019	37,120,780
Allowance for loan losses	<u>(2,223,043)</u>	<u>(1,623,965)</u>
	<u>\$ 46,550,976</u>	<u>\$ 35,496,815</u>

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**

Program	Federal Catalog Number	Grant Contract Number	Grant Period	Balance 01/01/14	Amount Borrowed	Principal Paid	Balance 12/31/14
<b>Direct Federal Loans</b>							
U.S. Small Business Administration:	59.046	4295924103	05-24-05 to 05-24-15	\$ 91,132	\$ -	\$ 50,154	\$ 40,978
	59.046	5050905002	04-13-12 to 04-13-22	185,185	-	22,222	162,963
Micro Loan Program	59.046	5274865002	08-30-12 to 08-30-22	529,630	-	61,111	468,519
Total Federal Loans				<u>\$ 805,947</u>	<u>\$ -</u>	<u>\$ 133,487</u>	<u>\$ 672,460</u>
				Accrued (Deferred) Revenues	Cash Received/ Billings	Expenditures/Amounts Earned	Accrued (Deferred) Revenues
<b>Federal Awards</b>							
U.S. Dept. of Treasury: CDFI Award-Community Development Financial Institutions	21.02	131FA011478	01-13-14 to 12-31-17	\$ -	\$ 1,347,000	\$ 1,347,000	\$ -
U.S. Dept. of Treasury: CDFI Award-Community Development Financial Institutions	21.02	141FA012627	12-02-14 to 12-31-17	-	1,750,000	1,750,000	-
U.S. Small Business Administration SBA Micro Loan Intermediary Technical Assistance	59.046	SBAHQ-14-Y-0130	07-01-14 to 06-30-15	-	-	27,246	27,246
	59.046	SBAHQ-13-YR-0069	10-01-14 to 09-30-15	31,204	109,293	78,089	-
U.S. Small Business Administration Women's Business Ownership Assistance	59.046	SBAHQ-14-W-0046	09-30-14 to 09-29-19	-	-	31,682	31,682
Total Federal Awards				<u>\$ 31,204</u>	<u>\$ 3,206,293</u>	<u>\$ 3,234,017</u>	<u>\$ 58,928</u>
<b>State Awards</b>							
Tennessee Valley Authority Small, Women and Minority Owned Business Tech Assistance	N/A	00003820	09-01-14- to 08-31-15	\$ -	\$ 20,000	\$ 20,000	\$ -
Tennessee Dept of Economic and Community Development Tenn. Energy Efficiency Fund	N/A	GR-11-33415-00	07-01-10 to 06-30-13	(3,956,099)	-	1,423,145	(2,532,954)
Total State Awards				<u>\$ (3,956,099)</u>	<u>\$ 20,000</u>	<u>\$ 1,443,145</u>	<u>\$ (2,532,954)</u>

**Basis of Presentation**

This schedule of expenditures of federal awards includes the federal grant activity of Southeast Community Capital Corporation d/b/a Pathway Lending and is presented in accordance with accounting principles generally accepted in the United States of America, which is the same basis of accounting as the basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

\* - Tested as a major program



# **INTERNAL CONTROL AND COMPLAINE**

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Southeast Community Capital Corporation d/b/a Pathway Lending which comprise the statement of financial position as of December 31, 2014, and the related statements of activities and cash flows for the year then ended and the notes to the financial statements and have issued our report thereon dated March 27, 2015.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

## COMPLIANCE AND OTHER MATTERS

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

## PURPOSE OF THIS REPORT

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

Kreft CPAs PLLC

Nashville, Tennessee  
March 27, 2015

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

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

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited Southeast Community Capital Corporation d/b/a Pathway Lending's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget ("OMB") *Circular A-133 Compliance Supplement* that could have a direct and material effect on Southeast Community Capital Corporation d/b/a Pathway Lending's major federal program for the year ended December 31, 2014. Southeast Community Capital Corporation d/b/a Pathway Lending's major federal program is identified in the summary of auditor's results section of the accompanying *Schedule of Findings and Questioned Costs*.

MANAGEMENT'S RESPONSIBILITY

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on compliance for Southeast Community Capital Corporation d/b/a Pathway Lending's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the major federal program occurred. An audit includes examining, on a test basis, evidence about Southeast Community Capital Corporation d/b/a Pathway Lending's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

## OPINION ON EACH MAJOR FEDERAL PROGRAM

In our opinion, Southeast Community Capital Corporation d/b/a Pathway Lending complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2014.

## INTERNAL CONTROL OVER COMPLIANCE

Management of Southeast Community Capital Corporation d/b/a Pathway Lending is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Southeast Community Capital Corporation d/b/a Pathway Lending's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Southeast Community Capital Corporation d/b/a Pathway Lending's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Krist CPA's PLLC

Nashville, Tennessee  
March 27, 2015

SOUTHEAST COMMUNITY CAPITAL CORPORATION  
d/b/a PATHWAY LENDING

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

DECEMBER 31, 2014 AND 2013

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

*Financial Statements*

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_\_\_ Yes        X   No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? \_\_\_\_\_ 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 that are not considered to be material weaknesses? \_\_\_\_\_ Yes        X   None reported

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

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? \_\_\_\_\_ Yes        X   No

Identification of major programs:

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

21.020 U. S. Department of Treasury Community Development Financial Institutions Program

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee?   X   Yes      \_\_\_\_\_ No