KraftCPAs PLLC

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, 2012 and 2011, and the related statements of activities, cash flows and functional expenses for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

KraftCPAs PLLC - Certified Public Accountants and Consultants
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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Southeast Community Capital Corporation d/b/a Pathway Lending as of December 31, 2012 and 2011, 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

Supplementary Information

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 basic 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, 2013 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, 2013

SOUTHEAST COMMUNITY CAPITAL CORPORATION
d/b/a PATHWAY LENDING

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2012 AND 2011

	2012	2011
ASSETS		
Cash and cash equivalents	$ 2,536,577	$ 1,819,975
Restricted cash - lending	24,539,788	30,166,547
Restricted cash - loan loss reserve funds	4,044,883	3,947,290
Certificate of deposit	180,000	275,000
Due from federal and state grantors	10,267	748,469
Accrued interest receivable	135,479	136,072
Loans receivable, net of allowance for possible loan losses of $1,674,074 and $1,690,943, respectively	28,430,926	23,200,888
Property and equipment, net	1,528,902	1,547,326
Other assets	87,576	58,827
TOTAL ASSETS	$ 61,494,398	$ 61,900,394
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	$ 180,046	$ 79,929
Interest payable	354,073	415,836
Lines of credit payable	336,276	336,287
Mortgage payable	1,300,661	1,401,353
Notes payable	33,644,590	37,191,898
Deferred revenue attributable to state grants	6,734,434	9,363,583
Other deferred revenue	669,954	379,092
Funds managed for third parties	106,484	106,484
Other liabilities	266,439	218,924
TOTAL LIABILITIES	43,592,957	49,493,386
NET ASSETS		
Unrestricted	17,221,841	11,696,968
Temporarily restricted	679,600	710,040
TOTAL NET ASSETS	17,901,441	12,407,008
TOTAL LIABILITIES AND NET ASSETS	$ 61,494,398	$ 61,900,394

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, 2012 AND 2011

	2012		
	Unrestricted	Temporarily Restricted	Total
REVENUE AND OTHER SUPPORT			
Grant and Contribution Revenue			
U.S. Small Business Administration	$ 81,542	$ -	$ 81,542
U.S. Treasury CDFI Award	1,453,806	-	1,453,806
Knox Co. Technology and Jobs Fund	-	-	-
Tennessee Energy State Grant	180,076	-	180,076
Tennessee Energy TVA Grant	111,727	-	111,727
TVA SWMOB Technical Assistance Grant	25,000	-	25,000
State of Tennessee - Rural Opportunity Fund	-	-	-
State of Tennessee - Energy Efficiency Fund	2,629,149	-	2,629,149
State of Tennessee - Small Business Jobs Opportunity Fund	1,311,663	-	1,311,663
Contributed Loan Capital - Tennessee Commerce Bank	875,000	-	875,000
Contributed Loan Capital - Community South Bank	630,000	-	630,000
Contributed Loan Capital - Create Jobs USA	230,000	-	230,000
Total Grant and Contribution Revenue	7,527,963	-	7,527,963
Interest and Program Service Revenue			
Interest income - loans	1,891,009	-	1,891,009
Interest income - bank deposits	224,526	-	224,526
Financing fees and charges	152,874	-	152,874
Management fees	74,963	-	74,963
Total Interest and Program Services Revenue	2,343,372	-	2,343,372
Other Support			
Miscellaneous and in-kind contributions	228,935	-	228,935
Net Assets Released From Restrictions			
Loan loss reserve usage	30,440	(30,440)	-
TOTAL REVENUE AND OTHER SUPPORT	10,130,710	(30,440)	10,100,270
EXPENSES			
Program activities			
Lending programs	4,377,731	-	4,377,731
Supporting services			
Administrative and general	228,106	-	228,106
TOTAL EXPENSES	4,605,837	-	4,605,837
CHANGE IN NET ASSETS	5,524,873	(30,440)	5,494,433
NET ASSETS - BEGINNING OF YEAR	11,696,968	710,040	12,407,008
NET ASSETS - END OF YEAR	$ 17,221,841	$ 679,600	$ 17,901,441

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

2011		
restricted	Temporarily Restricted	Total
26,317	$ -	$ 26,317
-	-	-
12,500	-	12,500
485,046	-	485,046
306,031	-	306,031
20,000	-	20,000
58,556	-	58,556
1,306,282	-	1,306,282
3,938,337	-	3,938,337
-	-	-
-	-	-
-	-	-
6,153,069	-	6,153,069
1,432,676	-	1,432,676
397,927	-	397,927
87,732	-	87,732
69,169	-	69,169
1,987,504	-	1,987,504
18,338	-	18,338
104,781	(104,781)	-
8,263,692	(104,781)	8,158,911
4,232,767	-	4,232,767
191,322	-	191,322
4,424,089	-	4,424,089
3,839,603	(104,781)	3,734,822
7,857,365	814,821	8,672,186
11,696,968	$ 710,040	$ 12,407,008

SOUTHEAST COMMUNITY CAPITAL CORPORATION
d/b/a PATHWAY LENDING

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
OPERATING ACTIVITIES		
Increase in net assets	$ 5,494,433	$ 3,734,822
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	63,159	76,381
Loan loss provision	439,752	1,123,433
Non-cash contributions	(1,505,000)	-
Net changes in:		
Due from federal and state grantors	738,202	7,554,354
Interest receivable	593	17,305
Other assets	(28,749)	28,043
Accounts payable	100,117	(74,854)
Interest payable	(61,763)	23,774
Deferred revenue from state grantors	(2,629,149)	2,120,068
Other deferred revenue	290,862	302,417
Other liabilities	47,515	97,726
NET CASH PROVIDED BY OPERATING ACTIVITIES	2,949,972	15,003,469
INVESTING ACTIVITIES		
Changes in loans receivable, net of charge offs	(5,669,790)	(8,181,370)
Redemption of certificate of deposit	95,000	88,000
Acquisition of property and equipment, net	(44,735)	(10,027)
Change in restricted cash	5,529,166	(8,402,176)
NET CASH USED IN INVESTING ACTIVITIES	(90,359)	(16,505,573)
FINANCING ACTIVITIES		
Net (repayments) proceeds on lines of credit	(11)	37
Payments on notes payable	(5,613,847)	(2,465,584)
Proceeds from notes payable	3,470,847	4,188,337
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(2,143,011)	1,722,790
NET INCREASE IN CASH AND CASH EQUIVALENTS	716,602	220,686
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	1,819,975	1,599,289
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 2,536,577	$ 1,819,975
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	$ 799,194	$ 718,843

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, 2012 AND 2011

	2012		
	Program Activities	Supporting Services	Total
Salaries and benefits	$ 2,137,620	$ 122,187	$ 2,259,807
Travel	120,419	4,600	125,019
Training	17,607	2,531	20,138
Dues, licenses, permits	34,641	5,366	40,007
Office expenses	56,293	6,081	62,374
Telecommunications	37,685	4,162	41,847
Postage and freight	4,926	424	5,350
Equipment maintenance	988	247	1,235
Professional services	292,405	25,406	317,811
Consulting	170,727	9,189	179,916
Marketing	47,880	3,296	51,176
Insurance	46,367	15,517	61,884
Occupancy	81,312	11,264	92,576
Depreciation	53,180	9,979	63,159
Conferences and meetings	27,027	3,897	30,924
Loan loss provision	439,752	-	439,752
Miscellaneous	75,323	108	75,431
Interest expense	733,579	3,852	737,431
Total	$ 4,377,731	$ 228,106	$ 4,605,837

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

2011		
Program Activities	Supporting Services	Total
$ 1,587,032	$ 95,637	$ 1,682,669
88,568	7,295	95,863
13,466	869	14,335
29,356	3,253	32,609
33,254	2,746	36,000
79,449	13,530	92,979
7,690	265	7,955
3,327	2,111	5,438
117,020	12,493	129,513
55,960	9,962	65,922
87,315	4,110	91,425
42,479	10,500	52,979
78,944	9,726	88,670
65,474	10,907	76,381
21,787	2,961	24,748
1,123,433	-	1,123,433
59,302	1,251	60,553
738,911	3,706	742,617
$ 4,232,767	$ 191,322	$ 4,424,089

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 Corporation provides loans to: 1) small businesses in low and moderate-income areas, 2) low and moderate-income entrepreneurs, and 3) 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 Unites States of America ("GAAP").

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

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

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.

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, 2012 and 2011.

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.

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 contributions ($679,600 and $710,040 at December 31, 2012 and 2011, respectively).

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.

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.

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 2009 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 are no provision 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 $8,800 and $4,324 for the years ended December 31, 2012 and 2011, respectively.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

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

Allocation of Functional Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of functional expenses as required by professional standards for not-for-profit organizations. Accordingly, expenses have been allocated among the program activities consisting of the Corporation's various loan programs 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, 2012 and March 27, 2013, the date the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

NOTE 3 - DUE FROM FEDERAL AND STATE GRANTORS

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

	2012	2011
U.S. Small Business Administration Technical Assistance Grant	$ 10,267	$ 16,560
State of Tennessee Department of Economic and Community Development - Small Business Job Opportunity Fund	-	638,338
State of Tennessee Department of Economic and Community Development - Energy Efficiency Fund	-	93,571
Total	$ 10,267	$ 748,469

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 $6,734,434 as of December 31, 2012. All funds as part of this program that are deferred at December 31, 2012 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 1 to 18 months for lines of credit. Interest rates range from 2.00% to 10.50%. Interest rates are both fixed and floating above the prime rate.

NOTE 4 - LOANS RECEIVABLE (CONTINUED)

The composition of loans by primary loan classification as well as impaired and performing loan status at December 31, 2012 and 2011 is summarized in the table below:

	At December 31,			
	Commercial Real Estate Loans	Commercial Loans	Energy EfficiencyLoans	Total
2012				
Performing loans	$ 14,475,951	$ 10,764,767	$ 3,892,708	$ 29,133,426
Impaired loans	-	971,574	-	971,574
	$ 14,475,951	$ 11,736,341	$ 3,892,708	$ 30,105,000
2011				
Performing loans	$ 7,726,704	$ 13,789,591	$ 2,193,449	$ 23,709,744
Impaired loans	-	1,182,087	-	1,182,087
	$ 7,726,704	$ 14,971,678	$ 2,193,449	$ 24,891,831

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 EfficiencyLoans	Total
2012				
Allowance related to:				
Performing Loans	$ 234,702	$ 855,447	$ 77,328	$ 1,167,477
Impaired Loans	-	506,597	-	506,597
	$ 234,702	$ 1,362,044	$ 77,328	$ 1,674,074
2011				
Allowance related to:				
Performing Loans	$ 135,217	$ 930,798	$ 87,738	$ 1,153,753
Impaired Loans	-	537,190	-	537,190
	$ 135,217	$ 1,467,988	$ 87,738	$ 1,690,943

NOTE 4 - LOANS RECEIVABLE (CONTINUED)

Changes in the allowance for loan losses for the year ended December 31, 2012 and 2011 are summarized in the table below:

	For the year ended December 31, 2012			
	Commercial Real Estate Loans	Commercial Loans	Energy EfficiencyLoans	Total
Beginning Balance	$ 135,217	$ 1,467,988	$ 87,738	$ 1,690,943
Charged Off Loans	-	(594,631)	-	(594,631)
Recoveries	-	138,010	-	138,010
Provision for loan losses	99,485	350,677	(10,410)	439,752
Ending Balance	$ 234,702	$ 1,362,044	$ 77,328	$ 1,674,074

	For the year ended December 31, 2011			
	Commercial Real Estate Loans	Commercial Loans	Energy EfficiencyLoans	Total
Beginning Balance	$ 159,040	$ 890,067	$ 18,962	$ 1,068,069
Charged Off Loans	-	(611,549)	-	(611,549)
Recoveries	-	110,990	-	110,990
Provision for loan losses	(23,823)	1,078,480	68,776	1,123,433
Ending Balance	$ 135,217	$ 1,467,988	$ 87,738	$ 1,690,943

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, 2012 and 2011 is $1,674,074 or 5.56% of gross loans and $1,690,943 or 6.79% of gross loans, respectively.

NOTE 4 - LOANS RECEIVABLE (CONTINUED)

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 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 loan officer. 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 is imminent that has increased the level of risk. These events include continued weakening of financial performance, loss of customers or contracts, that if continue 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 2012.

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

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

NOTE 4 - LOANS RECEIVABLE (CONTINUED)

The following table outlines the amount of each loan classification and the amount categorized into each risk rating class as of December 31, 2012 and 2011.

	At December 31,			
	Commercial Real Estate Loans		Commercial Loans	
	2012	2011	2012	2011
Risk Rate Loans				
Pass One	$ 14,475,951	$ 7,726,704	$ 8,891,049	$ 12,750,013
Pass Two	-	-	1,873,718	1,039,578
Substandard	-	-	898,069	1,182,087
Doubtful/Loss	-	-	73,505	-
	$ 14,475,951	$ 7,726,704	$ 11,736,341	$ 14,971,678

	Energy Efficiency Loans		Total	
	2012	2011	2012	2011
Pass One	$ 3,892,708	$ 2,193,449	$ 27,259,708	$ 22,670,166
Pass Two	-	-	1,873,718	1,039,578
Substandard	-	-	898,069	1,182,087
Doubtful/Loss	-	-	73,505	-
	$ 3,892,708	$ 2,193,449	$ 30,105,000	$ 24,891,831

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 $971,574 and $1,182,087 at December 31, 2012 and 2011, respectively and are included in the risk rated tables.

NOTE 4 - LOANS RECEIVABLE (CONTINUED)

The following table details the recorded investment, unpaid principal balance and related allowance and average recorded investment of our impaired loans at December 31, 2012 and 2011 by loan category and the amount of interest income recognized on these loans on a cash basis throughout 2012 and 2011:

	At December 31, 2012			For the year ended December 31, 2012	
	Recorded Investment	Unpaid principal balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Impaired loans with no recorded allowance:					
Commercial Real Estate Loans	$ -	$ -	$ -	$ -	$ -
Commercial Loans	9,229	9,229	-	13,182	796
Energy Efficiency Loans	-	-	-	-	-
Total	$ 9,229	$ 9,229	$ -	$ 13,182	$ 796
Impaired loans with a recorded allowance:					
Commercial Real Estate Loans	$ -	$ -	$ -	$ -	$ -
Commercial Loans	962,345	962,345	506,597	1,015,629	66,265
Energy Efficiency Loans	-	-	-	-	-
Total	$ 962,345	$ 962,345	$ 506,597	$ 1,015,629	$ 66,265

	At December 31, 2011			For the year ended December 31, 2011	
	Recorded Investment	Unpaid principal balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Impaired loans with no recorded allowance:					
Commercial Real Estate Loans	$ -	$ -	$ -	$ -	$ -
Commercial Loans	17,744	17,744	-	19,679	1,283
Energy Efficiency Loans	-	-	-	-	-
Total	$ 17,744	$ 17,744	$ -	$ 19,679	$ 1,283
Impaired loans with a recorded allowance:					
Commercial Real Estate Loans	$ -	$ -	$ -	$ -	$ -
Commercial Loans	1,164,343	1,164,343	537,190	1,312,040	84,717
Energy Efficiency Loans	-	-	-	-	-
Total	$ 1,164,343	$ 1,164,343	$ 537,190	$ 1,312,040	$ 84,717

NOTE 4 - LOANS RECEIVABLE (CONTINUED)

The tables below presents past due balances at December 31, 2012 and 2011, by loan classification allocated between performing and impaired status:

	At December 31, 2012					
	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	$ -	$ -	$ -	$ -	$ 14,475,951	$ 14,475,951
Commercial Loans	-	-	-	971,574	10,764,767	11,736,341
Energy Efficiency Loans	-	-	-	-	3,892,708	3,892,708
	$ -	$ -	$ -	$ 971,574	$ 29,133,426	$ 30,105,000

	At December 31, 2011					
	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	$ -	$ -	$ -	$ -	$ 7,726,704	$ 7,726,704
Commercial Loans	45,382	-	45,382	1,182,087	13,744,209	14,971,678
Energy Efficiency Loans	-	-	-	-	2,193,449	2,193,449
	$ 45,382	$ -	$ 45,382	$ 1,182,087	$ 23,664,362	$ 24,891,831

Nonaccrual loans totaled $318,216 and $415,585 as of December 31, 2012 and 2011, 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 2012 the Corporation had five commercial restructurings that qualified as troubled debt restructurings with a total balance of $399,494 as of December 31, 2012. All troubled debt restructurings are considered impaired and included in the tables above. Specific reserves attributed to troubled debt restructurings totaled $329,476 as of December 31, 2012. During 2011 the Corporation had three commercial restructurings that qualified as troubled debt restructurings with a total balance of $415,585 as of December 31, 2011. All troubled debt restructurings are considered impaired and included in the tables above. Specific reserves attributed to troubled debt restructurings totaled $208,014 as of December 31, 2011.

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

Loans receivable consist of 174 loans at December 31, 2012 with principal balances ranging from $3 to $1,795,216. Terms vary from principal and interest due monthly to interest only with a balloon payment due at maturity. All SBA and USDA loans have been pledged as collateral to their respective federal programs according to their terms and conditions.

NOTE 4 - LOANS RECEIVABLE (CONTINUED)

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, 2012 and 2011 were as follows:

	2012	2011
Balance, January 1	$ 104,612	$ 94,716
New loans	550,867	513,058
Repayments	(510,783)	(503,162)
Balance, December 31	$ 144,696	$ 104,612

A schedule, by year, of principal maturities of loans receivable as of December 31, 2012 follows:

Year ending December 31,	
2012	$ 5,912,836
2013	3,405,085
2014	3,745,033
2015	3,505,085
2016	3,594,923
Thereafter	9,942,038
	30,105,000
Less: Allowance for loan losses	(1,674,074)
Total	$ 28,430,926

NOTE 5 - PROPERTY AND EQUIPMENT

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

	2012	2011
Buildings and improvements	$ 1,639,439	$ 1,635,989
Equipment	359,824	318,539
	1,999,263	1,954,528
Less: accumulated depreciation	(470,361)	(407,202)
Property and equipment - net	$ 1,528,902	$ 1,547,326

NOTE 6 - LINES OF CREDIT

The Corporation renewed a $2,100,000 secured line of credit on January 5, 2011 as a warehouse loan facility. The line of credit was collateralized by all loans receivable and equipment. The interest rate was the Wall Street Journal (WSJ) prime rate minus 2%. At December 31, 2011 the rate was 1.25%. The line of credit matured on January 5, 2012 and was not renewed. There was no balance outstanding for the years ended December 31, 2012 and 2011.

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 was the WSJ prime rate minus 2%. At December 31, 2012 and 2011, the rate was 1.25%. The amount borrowed and outstanding for the years ended December 31, 2012 and 2011 was $336,276 and $336,287, respectively.

The Corporation established a $15,000,000 secured line of credit with Pinnacle Bank on November 30, 2011. This line is part of the energy efficiency loan program and has a rate of WSJ prime rate minus 4% (0% at December 31, 2012 and 2011) and matures on November 29, 2015. As of December 31, 2012 and 2011 there was no outstanding balance.

NOTE 7 - MORTGAGE AND NOTES PAYABLE

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

	2012	2011
General corporate debt:		
Mortgage payable	$ 1,300,661	$ 1,401,353
Lending program debt:		
SBA notes payable	899,765	206,735
USDA notes payable	-	633,771
Other notes payable	11,010,641	11,113,751
Equity equivalent agreements	21,734,184	25,237,641
	33,644,590	37,191,898
Total mortgage and notes payable	$ 34,945,251	$ 38,593,251

Mortgage Payable

The Corporation has a $1,300,661 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, 2012) 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.

NOTE 7 - MORTGAGE AND NOTES PAYABLE (CONTINUED)

SBA Notes Payable

Notes payable to SBA are specific to fund the SBA Micro Loan program. These notes have a first year 2% rate buy down and 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, 2012. The loans mature at the end of 10 years.

SBA Notes Payable	Origination Date	Note Amount	Principal Balance Outstanding 2012	Principal Balance Outstanding 2011
4295924103	5/24/2005	$ 500,000	$ 149,765	$ 206,735
5050905002	4/13/2012	200,000	200,000	-
5274865002	8/30/2012	550,000	550,000	-
		$ 1,250,000	$ 899,765	$ 206,735

USDA Notes Payable

Notes payable to the United States Department of Agriculture are 30-year notes that bear interest at 1% and are used to fund loans under the Intermediary Relending Program. The loans required interest only payments the first three years, and are secured by all USDA fund assets, including cash, investments, loans receivable and the Corporation's security interest in related collateral on loans receivable. This note was repaid in full during 2012.

USDA Notes Payable	Origination Date	Note Amount	Principal Balance Outstanding 2012	Principal Balance Outstanding 2011
480010621823596-02	8/5/2005	$ 750,000	$ -	$ 633,771

NOTE 7 - MORTGAGE AND NOTES PAYABLE (CONTINUED)

Other Notes Payable

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

	Origination Date	Interest Rate	Note Amount	Principal Balance Outstanding 2012	Principal Balance Outstanding 2011
TVA - 7 Years Interest Only for First 2 Years	6/26/2006	2.50%	$ 500,000	$ 79,220	$ 182,330
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	931,421	931,421
Total			$ 12,500,000	$ 11,010,641	$ 11,113,751

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, RLF, and USDA 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 are 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, amounting to $10,000,000, and the TN-SBJOF amounting to $10,000,000 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. However, during 2012 approximately $4,900,000 of these agreements were repaid for a total purchase price of approximately $3,395,000 resulting in capital contributions of approximately $1,505,000. These contributions were recorded in grant and contribution revenue in the Corporation's statements of activities.

NOTE 7 - MORTGAGE AND NOTES PAYABLE (CONTINUED)

The notes have interest rates ranging from 2.5% to 3.5% per annum. Maturity dates range from April 2015 to August 2022.

Principal advanced during 2012 and 2011 was $2,720,847 and $4,188,337, respectively. The principal balance outstanding at December 31, 2012 and 2011 was $21,734,184 and $25,237,641, respectively.

Maturities of mortgage and notes payable as of December 31, 2012 are as follows:

2013	$ 359,770
2014	184,025
2015	1,182,610
2016	83,333
2017	931,421
Thereafter	10,469,908
Equity equivalent agreements	21,734,184
	$ 34,945,251

NOTE 8 - FUNDS MANAGED FOR THIRD PARTIES

The Corporation is contracted by certain third parties to manage their small business lending programs. The Corporation also provides loan servicing to Technology 2020's Center for Entrepreneurial Growth (CEG) program for transactions with loan characteristics. 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.

NOTE 8 - FUNDS MANAGED FOR THIRD PARTIES (CONTINUED)

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

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

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, 2012 and 2011 was $102,353 and $102,290, respectively.

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

	2012	2011
MBOF		
Restricted cash - lending	$ 102,353	$ 102,290
Loans receivable, net of allowance	-	-
Total	$ 102,353	$ 102,290

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.

	KCTJF	NOF	Total
Loan loss reserve funds - January 1, 2011	$ 531,542	$ 283,279	$ 814,821
Bad debt recoveries	66,003	456	66,459
Contributions to loan loss reserve	-	-	-
Loan loss reserve usage (release)	-	(171,240)	(171,240)
Loan loss reserve funds - December 31, 2011	597,545	112,495	710,040
Bad debt recoveries	-	1,000	1,000
Contributions to loan loss reserve	-	-	-
Loan loss reserve usage (release)	-	(31,440)	(31,440)
Loan loss reserve funds - December 31, 2012	$ 597,545	$ 82,055	$ 679,600

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 $4,044,883 and $3,947,290 as of December 31, 2012 and 2011, respectively, to cover any loan losses.

NOTE 10 - CREDIT RISK AND ECONOMIC CONCENTRATION (CONTINUED)

The Corporation's various programs receive funding from several federal, state and local grants. During 2012, the Corporation received operational revenues of $372,720 ($901,919 in 2011) from various sources. Also, during 2012, the Corporation recognized revenue in the amount of $5,394,618 ($5,244,619 in 2011) from a two sources which constitute approximately 53% (64% in 2011 from a one source) 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.

There have been no changes in the valuation methodologies used at December 31, 2012 and 2011.

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

NOTE 11 - FAIR VALUE MEASUREMENTS (CONTINUED)

The following table sets forth the Corporation's major category of assets measured at fair value on a nonrecurring basis at December 31, 2012 and 2011:

	Total reported value in the Statement of Financial Position	Level 1	Level 2	Level 3
2012				
Impaired Loans (included in loans receivable)	$ 455,748	$ -	$ -	$ 455,748
2011				
Impaired Loans (included in loans receivable)	$ 627,153	$ -	$ -	$ 627,153

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, 2012:

	Fair Value	Valuation Techniques	Significant Unobservable Inputs
Impaired Loans	$ 455,748	Appraisal	Discounts for Costs to Sell and Marketability of Collateral
		Present Value of Expected Future Cash Flows	Payment Streams and Discount Rates

NOTE 12 - RETIREMENT PLAN

The Corporation has engaged an outsourced human resource firm to manage and provide benefits which includes a 401(k) program. Matching contributions are made on behalf of participants in an amount equal to 100% of the amount of the eligible participants' elective deferrals up to 3% of their compensation and 50% of the amount of the participants' elective deferrals that exceed 3% of their compensation, up to 5%. Amounts contributed to the plan by the Corporation were $39,317 for 2012 and $24,456 for 2011.