

ORBISONIA COMMUNITY BANCORP, INC.

ORBISONIA, PENNSYLVANIA

AUDIT REPORT  
DECEMBER 31, 2015

ORBISONIA COMMUNITY BANCORP, INC.  
AUDITED FINANCIAL STATEMENTS  
DECEMBER 31, 2015

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Orbisonia Community Bancorp, Inc.

### **Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of Orbisonia Community Bancorp, Inc. and its wholly owned subsidiary, which comprise the consolidated balance sheet as of December 31, 2015 and 2014; the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended; and the related notes to the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

### **Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Orbisonia Community Bancorp, Inc. and its wholly owned subsidiary as of December 31, 2015 and 2014, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Wexford, Pennsylvania  
March 4, 2016

ORBISONIA COMMUNITY BANCORP. INC.  
CONSOLIDATED BALANCE SHEET

	December 31,	
	2015	2014
<b>ASSETS</b>		
Cash and due from banks	\$ 9,660,263	\$ 9,329,012
Interest-bearing deposits in other banks	703,265	691,761
Federal funds sold	-	3,896,000
Total cash and cash equivalents	10,363,528	13,916,773
Certificates of deposit	2,728,000	-
Investment securities available for sale	16,341,179	17,719,058
Loans, net of unearned discount and allowance for loan losses (\$2,883,643 and \$3,263,631 at 2015 and 2014, respectively)	269,460,966	275,449,895
Premises and equipment	5,728,192	5,968,963
Restricted bank stock	320,800	196,900
Accrued interest receivable	610,808	667,505
Bank-owned life insurance	5,819,451	5,672,716
Foreclosed assets	158,499	465,866
Other assets	2,082,540	1,631,658
<b>TOTAL ASSETS</b>	<b>\$ 313,613,963</b>	<b>\$ 321,689,334</b>
 <b>LIABILITIES</b>		
Deposits:		
Noninterest bearing	\$ 16,723,896	\$ 17,297,199
Interest bearing	259,535,072	271,942,325
Total deposits	276,258,968	289,239,524
Federal Home Loan Bank borrowings	3,000,000	-
Accrued interest payable	66,180	100,917
Other liabilities	1,097,336	891,299
<b>TOTAL LIABILITIES</b>	280,422,484	290,231,740
 <b>STOCKHOLDERS' EQUITY</b>		
Capital stock, voting common, par value \$0.25; authorized and issued 800,000 shares	200,000	200,000
Additional paid-in-capital	2,041,532	2,041,223
Retained earnings	31,343,191	29,568,345
Accumulated other comprehensive income	398,415	386,615
Less cost of treasury stock (22,161 shares 2015; 20,934 shares 2014)	(791,659)	(738,589)
<b>TOTAL STOCKHOLDERS' EQUITY</b>	33,191,479	31,457,594
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 313,613,963</b>	<b>\$ 321,689,334</b>

See accompanying notes to the consolidated financial statements.

ORBISONIA COMMUNITY BANCORP, INC.  
CONSOLIDATED STATEMENT OF INCOME

	Year Ended December 31,	
	2015	2014
<b>INTEREST AND DIVIDEND INCOME</b>		
Interest and fees on loans	\$ 14,090,177	\$ 14,616,270
Interest and dividends on investment securities	346,442	304,335
Interest on federal funds sold	3,721	9,608
Total interest and dividend income	14,440,340	14,930,213
<b>INTEREST EXPENSE</b>		
Interest on deposits	2,898,324	3,572,704
Interest on borrowings	13,411	481
Total interest expense	2,911,735	3,573,185
Net interest income	11,528,605	11,357,028
<b>PROVISION FOR LOAN LOSSES</b>		
Net interest income after provision for loan losses	780,000	780,000
Net interest income after provision for loan losses	10,748,605	10,577,028
<b>OTHER INCOME</b>		
Service charges on deposit accounts	574,784	557,978
Other service charges	1,114,404	1,068,478
Earnings on bank-owned life insurance	146,734	154,588
Loss on sales of foreclosed assets	(54,522)	(41,750)
Other income	33,258	7,671
Total other income	1,814,658	1,746,965
<b>OTHER EXPENSE</b>		
Salaries and wages	3,823,721	3,657,097
Pensions and other employee benefits	1,215,016	1,187,751
Occupancy expense (including depreciation of \$456,825 - 2015 and \$532,536 - 2014)	872,518	1,016,994
Data processing	1,350,124	1,321,585
Pennsylvania shares tax	269,975	301,756
Professional fees	122,544	198,757
Other operating expenses	1,480,770	1,380,468
Total other expense	9,134,668	9,064,408
Income before income taxes	3,428,595	3,259,585
<b>APPLICABLE INCOME TAXES</b>		
Net income	999,310	947,390
Net income	\$ 2,429,285	\$ 2,312,195
<b>Earnings per share of common stock:</b>		
Net income	\$ 3.12	\$ 2.97
Weighted-average shares outstanding	779,025	779,066

See accompanying notes to the consolidated financial statements.

ORBISONIA COMMUNITY BANCORP, INC.  
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year Ended December 31,	
	2015	2014
Net income	\$ 2,429,285	\$ 2,312,195
Other comprehensive income:		
Unrealized holding gains on securities available for sale arising during the year	17,878	128,543
Tax effect	(6,078)	(43,704)
Total other comprehensive income	11,800	84,839
Total comprehensive income	\$ 2,441,085	\$ 2,397,034

See accompanying notes to the consolidated financial statements.

ORBISONIA COMMUNITY BANCORP, INC.  
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total Stockholders' Equity
Balance December 31, 2013	\$ 200,000	\$ 2,039,934	\$ 27,910,426	\$ 301,776	\$ (744,481)	\$ 29,707,655
Net income			2,312,195			2,312,195
Other comprehensive income, net of taxes				84,839		84,839
Sale of treasury stock (167 shares)		1,289			5,892	7,181
Cash dividends declared on common stock (\$0.84 per share)			(654,276)			(654,276)
Balance, December 31, 2014	200,000	2,041,223	29,568,345	386,615	(738,589)	31,457,594
Net income			2,429,285			2,429,285
Other comprehensive income, net of taxes				11,800		11,800
Sale of treasury stock (40 shares)		309			1,411	1,720
Purchase of treasury stock (1,267 shares)					(54,481)	(54,481)
Cash dividends declared on common stock (\$0.84 per share)			(654,439)			(654,439)
Balance December 31, 2015	\$ 200,000	\$ 2,041,532	\$ 31,343,191	\$ 398,415	\$ (791,659)	\$ 33,191,479

See accompanying notes to the consolidated financial statements.

ORBISONIA COMMUNITY BANCORP, INC.  
CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended December 31,	
	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 2,429,285	\$ 2,312,195
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	391,981	505,196
Provision for loan losses	780,000	780,000
Loss on sale of foreclosed assets	54,522	41,750
Deferred income taxes	164,877	(68,981)
Earnings on bank-owned life insurance	(146,734)	(154,588)
Decrease in accrued interest receivable	56,697	20,420
Decrease in accrued interest payable	(34,737)	(12,401)
Other, net	(415,802)	585,038
Net cash provided by operating activities	3,280,089	4,008,629
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of certificates of deposit	(2,728,000)	-
Proceeds from maturities of available-for-sale securities	7,649,742	1,920,000
Purchases of available-for-sale securities	(6,253,984)	(5,498,076)
Proceeds from redemption of restricted bank stock	-	562,100
Purchases of restricted bank stock	(123,900)	(28,500)
Net decrease (increase) in loans	5,097,274	(275,407)
Purchases of bank premises and equipment	(216,054)	(91,701)
Proceeds from sale of other real estate	429,344	303,910
Net cash provided by (used for) investing activities	3,854,422	(3,107,674)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net increase (decrease) in deposits	(12,980,556)	7,100,794
Advances on Federal Home Loan Bank borrowings	3,000,000	-
Net decrease from short-term borrowings	-	(576,000)
Dividends paid	(654,439)	(654,276)
Purchases of treasury stock	(54,481)	-
Proceeds from sale of treasury stock	1,720	7,181
Net cash provided by (used for) financing activities	(10,687,756)	5,877,699
Net increase (decrease) in cash and cash equivalents	(3,553,245)	6,778,654
Cash and cash equivalents, beginning balance	13,916,773	7,138,119
Cash and cash equivalents, ending balance	\$ 10,363,528	\$ 13,916,773
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:</b>		
Cash paid during the year for:		
Interest	\$ 2,946,472	\$ 3,585,586
Income taxes	1,070,000	908,250
<b>SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:</b>		
Other real estate acquired in settlement of loans	\$ 176,499	\$ 717,015

See accompanying notes to the consolidated financial statements.



ORBISONIA COMMUNITY BANCORP, INC.  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Operations**

Orbisonia Community Bancorp, Inc. (the “Corporation”)’s primary activity consists of owning and supervising its subsidiary, Community State Bank of Orbisonia (the “Bank”), which is engaged in providing banking and bank-related services in South Central Pennsylvania, principally Fulton, Huntingdon, and Juniata Counties. Its seven offices are located in Orbisonia, Waterfall, Mount Union, Smithfield, Saxton, Three Springs, and McConnellsburg, Pennsylvania.

**Principles of Consolidation and Basis of Accounting**

The consolidated financial statements include the accounts of the Corporation and the Bank, Community State Bank of Orbisonia. All significant intercompany transactions and accounts have been eliminated. See Note 11 for parent company financial statements. The Corporation uses the accrual basis of accounting.

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles 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.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for losses on loans and the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans. In connection with the determination of the allowance for losses on loans and foreclosed real estate, management obtains independent appraisals for significant properties.

While management uses available information to recognize losses on loans and foreclosed real estate, future additions to the allowance may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Corporation's allowance for losses on loans and foreclosed real estate. Such agencies may require the Corporation to recognize additions to the allowance based on their judgments about information available to them at the time of their examination. Because of these factors, management's estimate of credit losses inherent in the loan portfolio and the related allowance may change in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

**Cash and Cash Equivalents**

For purposes of the Consolidated Statement of Cash Flows, cash and cash equivalents include those amounts included in the Consolidated Balance Sheet captions “cash and due from banks,” “interest-bearing deposits in other banks,” and “federal funds sold,” which all have original maturities of 90 days or less. The Corporation has elected to present the net increase or decrease in loans and deposits in the Consolidated Statement of Cash Flows.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### **Investment Securities**

The Corporation's investments in securities are classified in three specific categories and accounted for as follows:

*Trading Securities.* Securities held principally for resale in the near term are classified as trading securities and recorded at their fair values. Unrealized gains and losses on trading securities are included in other income.

*Securities to Be Held to Maturity.* Bonds and notes for which the Corporation has the positive intent and ability to hold to maturity are reported at cost, adjusted for amortization of premiums and accretion of discounts, which are recognized in interest income using the interest method over the period to maturity.

*Securities Available for Sale.* Securities available for sale consist of bonds and notes not classified as trading securities nor as securities to be held to maturity. These are securities that management intends to use as part of its asset and liability management strategy and may be sold in response to changes in interest rates, resultant prepayment risk, and other related factors.

Management determines the appropriate classification of securities at the time of purchase. The Corporation had only available-for-sale securities in 2015 and 2014.

Securities are periodically reviewed for other-than-temporary impairment based upon a number of factors, including, but not limited to, the length of time and extent to which the fair value has been less than cost, the financial condition of the underlying issuer, the ability of the issuer to meet contractual obligations, the likelihood of the security's ability to recover any decline in its fair value, the Corporation's intent and ability to hold the security for a period of time sufficient to allow for a recovery in fair value, and whether or not the Corporation intends to sell the security or whether it's more likely than not that the Corporation would be required to sell the security before its anticipated recovery in fair value. A decline in value that is considered to be other than temporary is recorded as a loss within noninterest income in the Consolidated Statement of Income.

### **Loans and Allowance for Loan Losses**

Loans are stated at the amount of unpaid principal, reduced by unearned discount and an allowance for loan losses. Interest on other loans is calculated by using the simple interest method on daily balances of the principal amount outstanding.

The Corporation segments its loan portfolio into commercial, residential mortgage, home equity loans and lines of credit, and installment and other consumer loans with each segment having varying risk characteristics.

Commercial loans can consist of a variety of loan types and purposes ranging from commercial owner occupied and non-owner occupied real estate loans, commercial construction and land development, farm and agricultural, and general commercial and industrial loans. Commercial loans are generally dependent upon the successful operation of the borrower's business, with the cash flows generated from the business being the primary source of repayment of the loan. If the business suffers a downturn in sales or profitability, the borrower's ability to repay the loan could be in jeopardy, which could increase the risk of loss. Other risks associated with commercial loans include the borrower's ability to generate a sufficient level of occupancy to produce rental income that exceeds debt service requirements and operating expenses; assessment of the property's value at the completion of construction projects and changing real estate market conditions; unfavorable weather conditions that can affect the production of crops for sale or feed, milk production and prices, and mortality rates of cattle; and general downturns in the value of underlying commercial assets.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Loans and Allowance for Loan Losses (Continued)

Residential mortgage loans include fixed-rate and adjustable first lien mortgage loans with the underlying one-to-four family owner-occupied residential property securing the loan. Risk exposure is mitigated somewhat through the evaluation of the credit worthiness of the borrower, including credit scores and debt-to-income ratios, and limits on the loan-to-value ratios. The credit worthiness of the borrower is considered, including credit scores and debt-to-income ratios.

Home equity loans and lines of credit represent a slightly higher risk than residential family first liens, as these loans can be first or second liens on residential family owner-occupied residential property, but the loan-to-value ratios on collateral limit some of the risk. The credit worthiness of the borrower is considered including credit scores and debt-to-income ratios.

Installment and other consumer loans' credit risk is mitigated through evaluation of the credit worthiness of the borrower through credit scores and debt-to-income ratios and, if secured, the collateral value of the assets. However, these loans can be unsecured or secured by assets that may depreciate quickly or may fluctuate and represent a greater risk than one-to-four family residential loans.

The Corporation evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Corporation upon the extension of credit, is based on management's credit evaluation of the customer. Collateral held varies, but generally includes equipment, inventory, accounts receivable, and real estate.

The accrual of interest income on loans in all loan segments (including impaired loans) is discontinued when principal or interest is past due 90 days or more and, in the opinion of management, after considering economic and business conditions and collection efforts, the borrower's financial condition is such that collection of all principal and interest is unlikely. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. Interest accrued but not collected as of the date of placement on nonaccrual status is reversed and charged against current income unless fully collateralized. Subsequent payments received are either applied to the outstanding principal balance or recorded as interest income, depending on management's assessment of the ultimate collectability of principal.

The allowance for loan losses is increased through a provision for loan losses charged to expense and reduced by charge-offs, net of recoveries. Loans are charged against the allowance for loan losses when management believes that the collectability of the principal is unlikely. Subsequent recoveries, if any, are credited to the allowance. The allowance for loan losses is an amount that management believes will be adequate to absorb possible losses on existing loans that may become uncollectible based on management's evaluation of the collectability of loans in light of historical loss experience, the nature and volume of the loan portfolio, overall loan portfolio quality, review of specific problem loans, loan delinquencies, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. Loan delinquencies for all loan segments are determined based on contractual terms of the loan.

The allowance for loan losses is estimated based on management's evaluation of historical loss factors and other environmental factors for each loan segment. Historical losses (net charge-offs) are calculated on each loan segment as a percentage of outstanding loans in each loan segment using a 24-month average that is evaluated each quarter.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### **Bank Building, Equipment, Furniture, and Fixtures and Depreciation**

Bank building, equipment, furniture, and fixtures are carried at cost less accumulated depreciation. Expenditures for replacements are capitalized and any replaced items are retired. Depreciation is computed based on a straight-line method over the estimated useful lives of the related assets as follows:

	<b>Years</b>
Bank building	25 - 40
Premises and equipment	3 - 10
Land improvements	15 - 20

The cost of computer software is amortized over a three- to five-year period.

Repairs and maintenance are charged to operations as incurred. Interest costs incurred during construction of Bank premises are capitalized unless they are determined to be insignificant.

### **Restricted Stock**

Restricted investments in bank stock, which represent required investments in the common stock of correspondent banks, are carried at cost and as of December 31, 2015 and 2014; consist of the common stock of the Federal Home Loan Bank ("FHLB") of Pittsburgh and Atlantic Community Bankers Bank ("ACBB"). Federal law requires a member institution of the FHLB to hold stock of its district FHLB according to a predetermined formula.

Management evaluates the restricted stock for impairment at least annually, or more frequently, if necessary. Management's determination of whether these investments are impaired is based on their assessment of the ultimate recoverability of their cost rather than by recognizing temporary declines in value.

The determination of whether the par value will ultimately be recovered is influenced by criteria such as the following: (a) the significance of the decline in net assets of the restricted stock as compared with the capital stock amount and the length of time this situation has persisted, (b) commitments by the FHLB and ACBB to make payments required by law or regulation and the level of such payments in relation to the operating performance, (c) the impact of legislative and regulatory changes on the customer base of the FHLB and ACBB, and (d) the liquidity position of the FHLB and ACBB. There was no impairment of the FHLB and ACBB stock as of December 31, 2015 or 2014.

### **Other Real Estate Owned ("OREO")**

Real estate properties acquired through, or in lieu of, loan foreclosure are to be sold and are initially recorded at fair value based on an independent appraisal, less estimated cost to sell, which becomes the property's new basis. Any write-downs based on the asset's fair value at acquisition are charged to the allowance for loan losses. If an increase in basis results, it is classified as noninterest income unless there has been a prior charge-off, in which case a recovery to the allowance for loan losses is recorded. Improvements to the property are added to the basis of the assets. Costs incurred in obtaining and maintaining foreclosed properties and subsequent fair value adjustments to the carrying amount of the property are classified as "other operating expenses."

During 2015, the Corporation adopted Accounting Standards Update ("ASU") 2014-04, *Receivables – Troubled Debt Restructuring by Creditors*. As of December 31, 2015, the Bank had \$158,499 of foreclosed residential real estate property obtained by physical possession and \$600,757 of loans secured by residential real estate properties for which foreclosure proceedings are in process according to local jurisdictions.

### **Earnings Per Share**

Earnings per common share were computed based upon weighted-average shares of common stock outstanding of 779,025 and 779,066 for 2015 and 2014, respectively.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Federal Income Taxes

As a result of certain timing differences between financial statement and federal income tax reporting, including depreciation, loan losses, and nonaccrual loan interest, deferred income taxes are provided in the financial statements. Deferred tax assets and liabilities are included in the financial statements at currently enacted income tax rates applicable to the period in which the deferred tax assets and liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. See Note 10 for further details.

### Advertising

The Corporation expenses advertising costs as they are incurred. Advertising expense was \$96,594 and \$76,195 for the years ended December 31, 2015 and 2014, respectively, which are included in other operating expenses on the Consolidated Statement of Income.

### Comprehensive Income

Comprehensive income includes all changes in equity except those resulting from investments by stockholders and distributions to shareholders. For the Corporation, comprehensive income includes net income and certain elements of "other comprehensive income" such as unrealized gains and losses on investment securities available for sale.

The only element of "other comprehensive income" that the Corporation has is unrealized gains or losses on available-for-sale securities.

### Reclassifications

Certain amounts in the prior-year financial statements have been reclassified for comparative purposes to conform to the presentation in the current-year financial statements.

### Correspondent Bank Accounts

The Corporation maintains balances with its correspondent banks that may exceed federally insured limits, which management considers being a normal business risk.

## 2. INVESTMENT SECURITIES

The amortized cost and fair values of investment securities available for sale at December 31, 2015 and 2014 were:

	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
<b>2015</b>				
Obligations of other U.S. government agencies and corporations	\$ 7,748,182	\$ -	\$ (53,142)	\$ 7,695,040
Obligations of state and political subdivisions	7,966,526	45,515	(6,068)	8,005,973
Equity securities - financial services	22,813	617,353	-	640,166
	<u>\$ 15,737,521</u>	<u>\$ 662,868</u>	<u>\$ (59,210)</u>	<u>\$ 16,341,179</u>
<b>2014</b>				
Obligations of other U.S. government agencies and corporations	\$ 8,350,000	\$ 398	\$ (91,432)	\$ 8,258,966
Obligations of state and political subdivisions	8,760,465	54,794	(17,083)	8,798,176
Equity securities - financial services	22,813	639,103	-	661,916
	<u>\$ 17,133,278</u>	<u>\$ 694,295</u>	<u>\$ (108,515)</u>	<u>\$ 17,719,058</u>

## 2. INVESTMENT SECURITIES (Continued)

The amortized cost and fair values of investment securities available for sale at December 31, 2015, by contractual maturity are shown in the following table. Contractual maturities will differ from expected maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	<b>Amortized</b>	
	<b>Cost</b>	<b>Fair Value</b>
Due in one year or less	\$ 624,872	\$ 627,295
Due after one year through five years	12,933,026	12,909,545
Due after five years through ten years	2,156,810	2,164,173
Total debt securities	<u>15,714,708</u>	<u>15,701,013</u>
Equity securities - financial services	22,813	640,166
Total	<u>\$ 15,737,521</u>	<u>\$ 16,341,179</u>

There were no sales of available-for-sale securities in 2015 or 2014.

The Corporation's investments are exposed to various risks, such as interest rate, market, currency, and credit risks. Due to the level of risk associated with certain investments and the level of uncertainty related to changes in the value of investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment assets reported in the financial statements.

The following table shows the Corporation's gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous loss position, at December 31, 2015 and 2014, respectively:

Description	12 Months or Less		More than 12 Months		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
<b>2015</b>						
Obligations of other U.S government agencies and corporations	\$ 6,455,515	\$ (42,667)	\$ 1,239,525	\$ (10,475)	\$ 7,695,040	\$ (53,142)
Obligations of state and political subdivisions	363,659	(464)	921,634	(5,604)	1,285,293	(6,068)
Total	<u>\$ 6,819,174</u>	<u>\$ (43,131)</u>	<u>\$ 2,161,159</u>	<u>\$ (16,079)</u>	<u>\$ 8,980,333</u>	<u>\$ (59,210)</u>
<b>2014</b>						
Obligations of other U.S government agencies and corporations	\$ 3,283,973	\$ (16,027)	\$ 4,424,595	\$ (75,405)	\$ 7,708,568	\$ (91,432)
Obligations of state and political subdivisions	678,520	(5,708)	1,907,976	(11,375)	2,586,496	(17,083)
Total	<u>\$ 3,962,493</u>	<u>\$ (21,735)</u>	<u>\$ 6,332,571</u>	<u>\$ (86,780)</u>	<u>\$ 10,295,064</u>	<u>\$ (108,515)</u>

## 2. INVESTMENT SECURITIES (Continued)

Management evaluates securities for other-than-temporary impairment on at least a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Corporation to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

At December 31, 2015, sixteen U.S. government agencies and seven obligations of state and political subdivision securities had unrealized losses. These securities are considered temporarily impaired. The unrealized losses on these securities have not been recognized into income because the issuers' bonds are of high-credit quality, management has the intent and ability to hold these securities for the foreseeable future, and the decline in fair value is largely due to changes in market interest rates. The Corporation also considers sector-specific credit rating changes in its analysis. The fair value is expected to recover as the securities approach their maturity date or reset date. The Corporation does not intend to sell until recovery and does not believe selling will be required before recovery

Investment securities that are pledged to secure public funds and for other purposes as required or permitted by law are as follows:

	<b>December 31, 2015</b>	<b>December 31, 2014</b>
Amortized cost	\$ 11,561,632	\$ 16,310,465
Fair value	\$ 11,598,031	\$ 16,260,103

## 3. LOANS

Loans receivable consist of the following at December 31:

	<b>2015</b>	<b>2014</b>
Commercial	\$ 41,366,055	\$ 40,247,708
Residential mortgage	193,686,955	195,205,765
HELOC/jr. liens/lines of credit	19,227,206	20,943,311
Installment/individuals	<u>18,064,393</u>	<u>22,316,742</u>
Total	<u>\$ 272,344,609</u>	<u>\$ 278,713,526</u>

The loan balances above are net of deferred loan fees and unearned discounts of \$301,776 and \$184,607 for 2015 and 2014, respectively.

Following is an aging analysis of past-due loans at December 31, 2015 and 2014:

	<b>30 - 59 Days Past Due</b>	<b>60 - 89 Days Past Due</b>	<b>Greater than 90 days</b>	<b>Total Past Due</b>	<b>Current</b>	<b>Total Gross Loans</b>	<b>Recorded Investment &gt; 90 Days and Accruing</b>
<b>2015</b>							
Commercial	\$ 172,626	\$ 32,135	\$ 117,252	\$ 322,013	\$ 41,044,042	\$ 41,366,055	\$ -
Residential mortgage	3,047,780	345,401	1,262,186	4,655,367	189,031,588	193,686,955	-
HELOC/jr. liens/lines of credit	26,169	4,325	-	30,494	19,196,712	19,227,206	-
Installment/individuals	466,044	147,201	138,653	751,898	17,312,495	18,064,393	-
Total	<u>\$ 3,712,619</u>	<u>\$ 529,062</u>	<u>\$ 1,518,091</u>	<u>\$ 5,759,772</u>	<u>\$ 266,584,837</u>	<u>\$ 272,344,609</u>	<u>\$ -</u>
<b>2014</b>							
Commercial	\$ 197,212	\$ 41,807	\$ 113,441	\$ 352,460	\$ 39,895,248	\$ 40,247,708	\$ -
Residential mortgage	3,132,965	113,553	1,750,196	4,996,714	190,209,051	195,205,765	-
HELOC/jr. liens/lines of credit	101,718	-	36,009	137,727	20,805,584	20,943,311	-
Installment/individuals	328,116	52,554	70,620	451,290	21,865,452	22,316,742	-
Total	<u>\$ 3,760,011</u>	<u>\$ 207,914</u>	<u>\$ 1,970,266</u>	<u>\$ 5,938,191</u>	<u>\$ 272,775,335</u>	<u>\$ 278,713,526</u>	<u>\$ -</u>

### 3. LOANS (Continued)

Loans on nonaccrual status were as follows at December 31, 2015 and 2014:

	<b>2015</b>	<b>2014</b>
Commercial	\$ 179,266	\$ 154,916
Residential mortgage	1,766,782	2,321,215
HELOC/jr. liens/lines of credit	81,389	216,656
Installments/individuals	270,051	70,620
Total	<u>\$ 2,297,488</u>	<u>\$ 2,763,407</u>

The amount of foregone interest on nonaccrual loans was \$121,715 and \$101,490 for 2015 and 2014, respectively.

Loans of a commercial nature and non-commercial loans determined to be troubled debt restructurings (“TDRs”) are subject to impairment evaluation by management. Loans classified as Substandard are evaluated for possible impairment. A loan is considered impaired when, based on current information and events, it is probable that scheduled collections of principal and interest will not be made 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. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Impairment is normally measured on a loan-by-loan basis by either the present value of expected future cash flows discounted at the loan's original effective interest rate, the loan's obtainable market price, or the fair value of the underlying collateral. Interest income on such loans is recognized only to the extent of interest payments received. Large groups of smaller-balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Corporation does not separately identify individual consumer and residential loans for impairment disclosures, unless such loans are the subject of a restructuring agreement.

The following is a summary of information pertaining to impaired loans at December 31, 2015 and 2014:

	<b>Recorded Investment</b>	<b>Unpaid Principal Balance</b>	<b>Related Allowance</b>	<b>Average Recorded Investment</b>	<b>Interest Income Recognized</b>
<b>2015</b>					
<b>With no related allowance recorded</b>					
Commercial	\$ 1,512,775	\$ 1,512,775	\$ -	\$ 1,222,630	\$ 62,737
Residential mortgage	1,074,065	1,074,065	-	959,434	36,477
HELOC/jr. liens/lines of credit	114,636	114,636	-	120,398	7,640
Installment/individuals	109,102	109,102	-	110,317	7,425
	<u>2,810,578</u>	<u>2,810,578</u>	<u>-</u>	<u>2,412,779</u>	<u>114,279</u>
<b>With an allowance recorded</b>					
Commercial	63,752	63,752	7,578	5,313	-
Residential mortgage	438,329	438,652	57,127	233,529	7,687
Installment/individuals	40,468	40,468	27,686	17,522	87
	<u>542,549</u>	<u>542,872</u>	<u>92,391</u>	<u>256,364</u>	<u>7,774</u>
<b>Total</b>					
Commercial	1,576,527	1,576,527	7,578	1,227,943	62,737
Residential mortgage	1,512,394	1,512,717	57,127	1,192,963	44,164
HELOC/jr. liens/lines of credit	114,636	114,636	-	120,398	7,640
Installment/individuals	149,570	149,570	27,686	127,839	7,512
Total	<u>\$ 3,353,127</u>	<u>\$ 3,353,450</u>	<u>\$ 92,391</u>	<u>\$ 2,669,143</u>	<u>\$ 122,053</u>



### 3. LOANS (Continued)

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
<b>2014</b>					
<b>With no related allowance recorded</b>					
Commercial	\$ 989,780	\$ 989,780	\$ -	\$ 661,175	\$ 27,874
Residential mortgage	1,233,485	1,233,485	-	890,856	32,706
Installment/individuals	32,232	32,232	-	36,763	2,071
	<u>2,255,497</u>	<u>2,255,497</u>	<u>-</u>	<u>1,588,794</u>	<u>62,651</u>
<b>With an allowance recorded</b>					
Commercial	171,253	171,253	62,753	84,535	845
Residential mortgage	41,739	41,739	19,639	20,644	527
Installment/individuals	25,158	25,158	10,758	4,221	27
	<u>238,150</u>	<u>238,150</u>	<u>93,150</u>	<u>109,400</u>	<u>1,399</u>
<b>Total</b>					
Commercial	1,161,033	1,161,033	62,753	745,710	28,719
Residential mortgage	1,275,228	1,275,228	19,639	911,500	33,233
Installment/individuals	57,390	57,390	10,758	40,984	2,098
Total	<u>\$ 2,493,651</u>	<u>\$ 2,493,651</u>	<u>\$ 93,150</u>	<u>\$ 1,698,194</u>	<u>\$ 64,050</u>

The Corporation had six loans during the year ended December 31, 2015, that were considered troubled debt restructurings. All of these loans were refinanced in order to lower the monthly loan payments required and at times borrowers were extended additional credit as part of the restructuring agreement. The Corporation would not have typically originated these loans given the customers' financial condition.

The Corporation had eight loans during the year ended December 31, 2014, that were considered troubled debt restructurings. All of these loans were refinanced in order to lower the monthly loan payments required. The Corporation would not have typically originated these loans given the customers' financial condition.

### 3. LOANS (Continued)

Information about modified loans at December 31 is as follows:

	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	December 31 Outstanding Recorded Investment
<b>2015</b>				
Troubled debt restructurings:				
Residential mortgage	3	\$ 416,270	\$ 420,700	\$ 414,751
Installment/individuals	3	448,269	536,500	493,268
	<u>6</u>	<u>\$ 864,539</u>	<u>\$ 957,200</u>	<u>\$ 908,019</u>
<b>2014</b>				
Troubled debt restructurings:				
Residential mortgage	7	\$ 789,809	\$ 797,000	\$ 785,671
Installment/individuals	1	25,445	25,445	25,158
	<u>8</u>	<u>\$ 815,254</u>	<u>\$ 822,445</u>	<u>\$ 810,829</u>

There were no loans that were modified in 2014, which subsequently defaulted in 2015, nor were there any loans that were modified in 2013, which subsequently defaulted in 2014.

Troubled debt restructurings had specific reserves of \$2,035 and \$30,396 as of December 31, 2015 and 2014, respectively.

The Corporation did not have any commitments to loan additional funds to borrowers whose loans have been modified.

#### 4. ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses consists of specific, general, and unallocated components. The specific component relates to loans that are considered to be impaired, including troubled debt restructurings. For such loans, an impairment allowance is established when the present value of future cash flows, the loan's obtainable market price, or the fair value of the underlying collateral less costs to sell is lower than the carrying value of that loan.

The general component covers non-impaired loans and is based on management's internal risk ratings as well as historical loss experience adjusted for qualitative risk factors. The following qualitative risk factors relevant to each portfolio segment are reviewed and evaluated:

- Changes in lending policies and procedures which include underwriting standards and collection, charge-off, and recovery practices.
- Changes in national and local economic business conditions and developments, including the condition of various market segments.
- Changes in the nature and volume of the portfolio.
- Changes in the experience, ability, and depth of lending management and staff.
- Changes in the volume and severity of past-due and classified loans, trends in the volume of nonaccrual loans, troubled debt restructurings, and other loan modifications.
- Changes in the quality of the Bank's loan review system and degree of oversight by the Bank's Board of Directors.
- The existence and effect of any concentrations of credit and changes in the level of such concentrations.
- The effect of external factors such as competition and legal and regulatory requirements on the level of estimated credit losses.
- Changes in the value of collateral-dependent loans.

An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance for loan losses reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

There have been no significant changes in management's methodology for evaluating the allowance for loan losses from prior periods.

Credit quality of loans is monitored on an ongoing basis by risk rating commercial loan relationships in excess of \$175,000 on an annual basis.

#### 4. ALLOWANCE FOR LOAN LOSSES (Continued)

Following is an analysis of credit losses and credit quality at December 31, 2015 and 2014:

	Commercial	Residential Mortgage	HELOC/Jr. Liens/Lines of Credit	Installment/ Individuals	Unallocated	Total
<b>2015</b>						
Allowance for loan losses:						
Beginning balance	\$ 131,998	\$ 2,253,535	\$ 163,575	\$ 633,256	\$ 81,267	\$ 3,263,631
Recoveries credited to allowance	14,561	1,798	74	39,458	-	55,891
Current-year provision	36,957	587,846	113,029	123,435	(81,267)	780,000
Losses charged to allowance	(4,829)	(765,143)	(132,060)	(313,847)	-	(1,215,879)
Ending balance	<u>\$ 178,687</u>	<u>\$ 2,078,036</u>	<u>\$ 144,618</u>	<u>\$ 482,302</u>	<u>\$ -</u>	<u>\$ 2,883,643</u>
Ending balance individually evaluated for impairment	<u>\$ 7,578</u>	<u>\$ 57,127</u>	<u>\$ -</u>	<u>\$ 27,686</u>	<u>\$ -</u>	<u>\$ 92,391</u>
Ending balance collectively evaluated for impairment	<u>\$ 171,109</u>	<u>\$ 2,020,909</u>	<u>\$ 144,618</u>	<u>\$ 454,616</u>	<u>\$ -</u>	<u>\$ 2,791,252</u>
Loans receivable:						
Ending balance	<u>\$ 41,366,055</u>	<u>\$ 193,686,955</u>	<u>\$ 19,227,206</u>	<u>\$ 18,064,393</u>	<u>\$ -</u>	<u>\$ 272,344,609</u>
Ending balance: individually evaluated for impairment	<u>\$ 1,576,527</u>	<u>\$ 1,512,394</u>	<u>\$ 114,636</u>	<u>\$ 149,570</u>	<u>\$ -</u>	<u>\$ 3,353,127</u>
Ending balance: collectively evaluated for impairment	<u>\$ 39,789,528</u>	<u>\$ 192,174,561</u>	<u>\$ 19,112,570</u>	<u>\$ 17,914,823</u>	<u>\$ -</u>	<u>\$ 268,991,482</u>
<b>2014</b>						
Allowance for loan losses:						
Beginning balance	\$ 509,735	\$ 1,806,556	\$ 182,269	\$ 194,815	\$ 691,807	\$ 3,385,182
Recoveries credited to allowance	3,182	40	-	53,905	-	57,127
Current-year provision	(265,722)	939,430	(14,481)	731,313	(610,540)	780,000
Losses charged to allowance	(115,197)	(492,491)	(4,213)	(346,777)	-	(958,678)
Ending balance	<u>\$ 131,998</u>	<u>\$ 2,253,535</u>	<u>\$ 163,575</u>	<u>\$ 633,256</u>	<u>\$ 81,267</u>	<u>\$ 3,263,631</u>
Ending balance individually evaluated for impairment	<u>\$ 62,753</u>	<u>\$ 19,639</u>	<u>\$ -</u>	<u>\$ 10,758</u>	<u>\$ -</u>	<u>\$ 93,150</u>
Ending balance collectively evaluated for impairment	<u>\$ 69,245</u>	<u>\$ 2,233,896</u>	<u>\$ 163,575</u>	<u>\$ 622,498</u>	<u>\$ 81,267</u>	<u>\$ 3,170,481</u>
Loans receivable:						
Ending balance	<u>\$ 40,247,708</u>	<u>\$ 195,205,765</u>	<u>\$ 20,943,311</u>	<u>\$ 22,316,742</u>	<u>\$ -</u>	<u>\$ 278,713,526</u>
Ending balance: individually evaluated for impairment	<u>\$ 1,161,033</u>	<u>\$ 1,275,228</u>	<u>\$ -</u>	<u>\$ 57,390</u>	<u>\$ -</u>	<u>\$ 2,493,651</u>
Ending balance: collectively evaluated for impairment	<u>\$ 39,086,675</u>	<u>\$ 193,930,537</u>	<u>\$ 20,943,311</u>	<u>\$ 22,259,352</u>	<u>\$ -</u>	<u>\$ 276,219,875</u>

During 2015 decreases were made to the qualitative factors related to past-due and non-accrual loans within the Corporation's residential mortgage and installment/individual portfolios as past-due and non-accrual loans have declined over the preceding two years.

#### 4. ALLOWANCE FOR LOAN LOSSES (Continued)

Based on historical losses within the residential mortgage and the installment/individual portfolios, increased provisions were required for the year ended December 31, 2014. Due to the performance of the commercial portfolio, a credit provision was posted for the year ended December 31, 2014.

Following is the credit risk profile by internally assigned grade as of December 31, 2015 and 2014::

	Commercial	Residential Mortgage	HELOC/Jr. Liens/Lines of Credit	Installment/ Individuals	Total
<b>As of December 31, 2015</b>					
Not rated	\$ 13,727,601	\$ 186,400,660	\$ 18,383,587	\$ 11,536,413	\$ 230,048,261
Strong	-	-	-	-	-
Satisfactory/Pass	20,964,494	5,877,653	733,323	5,474,190	33,049,660
Watch	6,016,454	1,275,430	110,296	1,053,790	8,455,970
Substandard	657,507	133,211	-	-	790,718
Doubtful	-	-	-	-	-
Loss	-	-	-	-	-
Total	<u>\$ 41,366,056</u>	<u>\$ 193,686,954</u>	<u>\$ 19,227,206</u>	<u>\$ 18,064,393</u>	<u>\$ 272,344,609</u>
<b>As of December 31, 2014</b>					
Not rated	\$ 14,541,834	\$ 189,156,378	\$ 20,149,364	\$ 15,601,256	\$ 239,448,832
Strong	-	-	-	-	-
Satisfactory/Pass	21,778,044	5,270,614	729,067	5,322,113	33,099,838
Watch	3,163,096	547,006	64,880	1,393,373	5,168,355
Substandard	764,734	231,767	-	-	996,501
Doubtful	-	-	-	-	-
Loss	-	-	-	-	-
Total	<u>\$ 40,247,708</u>	<u>\$ 195,205,765</u>	<u>\$ 20,943,311</u>	<u>\$ 22,316,742</u>	<u>\$ 278,713,526</u>

Loans graded Strong and Satisfactory/Pass are loans with acceptable risk. Other internally assigned grades indicate the following:

Watch - These loans have weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of repayment prospects for the loan or in the Bank's credit position at some future date. They are exhibiting problem characteristics and downward trends, but the Bank remains adequately protected.

Substandard - These loans have weaknesses that deserve management's close attention. They are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. They are characterized by the distinct possibility that the Corporation will sustain some loss if the deficiencies are not corrected.

Doubtful - Weaknesses in these loans are so pronounced that the collection or liquidation of principal and interest is highly questionable or improbable. They contain most of the weaknesses of a Substandard loan and the probability of loss is great.

Loss - These loans are considered uncollectible and are charged off. Some recovery may be possible, but the extent of recovery and time frame involved are uncertain at best.

#### 4. ALLOWANCE FOR LOAN LOSSES (Continued)

The following tables present performing and nonperforming loans based on payment activity.

	<b>2015</b>		
	<b>HELOC/Jr.</b>		
	<b>Residential Mortgage</b>	<b>Liens/Lines of Credit</b>	<b>Installment/ Individuals</b>
Performing	\$ 191,743,542	\$ 19,107,914	\$ 18,008,876
Nonperforming	1,943,413	119,292	55,517
<b>Total</b>	<b>\$ 193,686,955</b>	<b>\$ 19,227,206</b>	<b>\$ 18,064,393</b>

	<b>2014</b>		
	<b>HELOC/Jr.</b>		
	<b>Residential Mortgage</b>	<b>Liens/Lines of Credit</b>	<b>Installment/ Individuals</b>
Performing	\$ 192,884,550	\$ 20,726,655	\$ 22,246,122
Nonperforming	2,321,215	216,656	70,620
<b>Total</b>	<b>\$ 195,205,765</b>	<b>\$ 20,943,311</b>	<b>\$ 22,316,742</b>

#### 5. BANK BUILDING, EQUIPMENT, FURNITURE, AND FIXTURES

Bank building, equipment, furniture, and fixtures consisted of the following at December 31, 2015 and 2014:

<b>Description</b>	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>Depreciated Cost</b>
<b>2015</b>			
Land	\$ 1,427,128	\$ -	\$ 1,427,128
Bank building	6,019,018	2,256,767	3,762,251
Premises and equipment	3,051,574	2,552,123	499,451
Land improvements	144,738	105,376	39,362
	<b>\$ 10,642,458</b>	<b>\$ 4,914,266</b>	<b>\$ 5,728,192</b>
<b>2014</b>			
Land	\$ 1,427,128	\$ -	\$ 1,427,128
Bank building	6,086,838	2,194,728	3,892,110
Premises and equipment	3,187,515	2,577,152	610,363
Land improvements	144,738	105,376	39,362
	<b>\$ 10,846,219</b>	<b>\$ 4,877,256</b>	<b>\$ 5,968,963</b>

## 6. DEPOSITS

Interest-bearing deposits as of December 31, 2015 and 2014, were as follows:

	<b>2015</b>	<b>2014</b>
Savings deposits	\$ 99,157,954	\$ 96,770,042
Time certificates	159,886,896	174,678,593
Other time deposits	490,222	493,690
	<u>\$ 259,535,072</u>	<u>\$ 271,942,325</u>

At December 31, 2015, the scheduled maturities of time certificates are as follows:

2016	\$ 56,708,910
2017	37,496,437
2018	15,421,769
2019	18,876,882
2020	21,320,081
Thereafter	10,062,817
	<u>\$ 159,886,896</u>

The aggregate amount of time deposit accounts that meet or exceeded the FDIC insurance limit of \$250,000 totaled \$16,965,037 and \$22,132,302 at December 31, 2015 and 2014 respectively.

## 7. BORROWED FUNDS

The Corporation has pledged certain securities, loans, and other assets as collateral on the Federal Home Loan Bank borrowings in the approximate amount of \$123,130,000 at December 31, 2015. The maximum borrowing capacity from the Federal Home Loan Bank is approximately \$83,852,600 at December 31, 2015.

During the year ended December 31, 2015, the Corporation entered into an unsecured agreement related to federal funds purchased through the Atlantic Community Bankers Bank for up to \$4,000,000. The federal funds purchased agreement includes a variable interest rate of 0.50 percent at December 31, 2015. There were no federal funds purchased at December 31, 2015.

The Corporation had \$3,000,000 in FHLB borrowings outstanding as of December 31, 2015. The total consisted of an advance of \$1,500,000 at a rate of 1.12 percent maturing in 2017 and an advance of \$1,500,000 at a rate of 1.42 percent maturing in 2018. There were no FHLB borrowings outstanding as of December 31, 2014.

## 8. FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

The Corporation is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financial needs of its customers and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. The contract amounts of those instruments reflect the extent of involvement the Corporation has in particular classes of financial instruments.

The Corporation's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit, standby letters of credit, and financial guarantees written is represented by the contractual amount of those instruments. The Corporation uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

Financial instruments whose contract amounts represent credit risk at December 31 consist of:

	<b>Contract or Notional Amount</b>	
	<b>2015</b>	<b>2014</b>
Commitments to extend credit	\$ 16,764,372	\$ 13,843,815
Standby letters of credit and financial guarantees written	125,832	139,745
	<u>\$ 16,890,204</u>	<u>\$ 13,983,560</u>

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Corporation evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Corporation upon extension of credit, is based on management's credit evaluation of the customer. Collateral held varies but may include accounts receivable, inventory, real estate, equipment, and income-producing commercial properties.

Standby letters of credit and financial guarantees written are conditional commitments issued by the Corporation to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. The Corporation holds collateral supporting those commitments when deemed necessary by management.



## 9. RETIREMENT PLANS

### **Defined Contribution Retirement Plan**

The Corporation has a 401(k) profit-sharing plan covering all full-time employees who have attained the age of 18 and have completed 12 months of service. The plan provides for the Corporation to make contributions that will match employee deferrals on a one-to-one basis up to 3 percent of employees' eligible compensation. Additional contributions can be made at the discretion of the Board of Directors based on the Corporation's performance. The contributions for the years ended December 31, 2015 and 2014, were \$103,217 and \$98,127, respectively.

### **Bank-Owned Life Insurance**

The Corporation has purchased life insurance covering directors and executive officers. The policies were funded with single premium life insurance contracts. The cash surrender value of the life insurance policies is an unrestricted asset of the Corporation, which totaled \$5,819,451 and \$5,672,716 at December 31, 2015 and 2014, respectively.

The Corporation has promised a continuation of life insurance coverage to persons post-retirement through a split-dollar feature of the bank-owned life insurance policies. The total liability related to this post-retirement benefit was \$400,906 at December 31, 2015 and 2014.

### **Supplemental Executive Retirement Agreement**

The Corporation established a supplemental executive retirement agreement in 2013 for which the Corporation will fund a future benefit to certain executives upon retirement. A net expense of \$3,059 and \$5,598 was recorded for the years ended December 31, 2015 and 2014, respectively, for deferred compensation costs. The total liability related to this executive retirement benefit was \$89,493 and \$100,037 at December 31, 2015 and 2014, respectively.

## 10. FEDERAL INCOME TAXES

The components of federal income tax expense are summarized as follows:

	<b>2015</b>	<b>2014</b>
Current-year provisions	\$ 834,433	\$ 1,015,553
Deferred income taxes	164,877	(68,981)
Applicable income tax	<u>\$ 999,310</u>	<u>\$ 946,572</u>

Federal income taxes were computed after adjusting pretax accounting income for nontaxable interest income in the amounts of \$339,929 and \$328,789 for 2015 and 2014, respectively.

A reconciliation of the effective applicable income tax rate to the federal statutory rate is as follows:

	<b>2015</b>	<b>2014</b>
Federal income tax rate	34.0 %	34.0 %
Reduction resulting from:		
Nontaxable interest income (net of nondeductible interest)	(3.1)	(3.4)
Life insurance income	(1.5)	(1.3)
Other	(0.3)	(0.2)
Effective income tax rate	<u>29.1 %</u>	<u>29.1 %</u>

Deferred tax liabilities have been provided for taxable temporary differences related to accumulated depreciation and unrealized gains on available-for-sale securities. Deferred tax assets have been provided for deductible temporary differences related to the allowance for loan losses, deferred compensation plans, and nonaccrual interest on loans. The net deferred tax assets included in other assets in the accompanying Consolidated Balance Sheet include the following components:

	<b>2015</b>	<b>2014</b>
Total deferred tax assets:		
Loan loss provision	\$ 783,863	\$ 965,269
Nonaccrual interest	51,239	42,377
Deferred compensation	33,210	35,281
Total deferred tax liabilities:		
Depreciation expense	(209,003)	(218,742)
Unrealized gains on available-for-sales securities	(205,243)	(199,165)
Net deferred tax assets	<u>\$ 454,066</u>	<u>\$ 625,020</u>

The Corporation has not recorded a valuation allowance for the deferred tax assets as management feels that it is more likely than not that they will be ultimately realized.

### *Uncertain Tax Positions*

The Corporation files income tax returns in the U.S. federal jurisdiction and the state of Pennsylvania. With few exceptions, the Corporation is no longer subject to U.S. federal, state, or local income tax examinations by tax authorities for years before 2012.

## 10. FEDERAL INCOME TAXES (Continued)

The Corporation follows the FASB Accounting Standards Codification, which provides guidance on accounting for uncertainty in income taxes recognized in the financial statements. When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above would be reflected as a liability for unrecognized tax benefits in the accompanying consolidated balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination. Interest and penalties associated with unrecognized tax benefits would be classified as additional income taxes in the Consolidated Statement of Income. As of December 31, 2015 and 2014, there was no liability for unrecognized tax benefits.

## 11. ORBISONIA COMMUNITY BANCORP, INC. (PARENT COMPANY ONLY) FINANCIAL STATEMENTS

The following are the condensed balance sheets, statements of income, and statements of cash flows for the parent company:

<b>Balance Sheets</b>		
	<b>December 31,</b>	
	<b>2015</b>	<b>2014</b>
<b>Assets</b>		
Cash	\$ 136,331	\$ 50,248
Equity securities available for sale	640,166	661,916
Investment in wholly owned subsidiary	32,624,882	30,962,729
Total assets	<u>\$ 33,401,379</u>	<u>\$ 31,674,893</u>
<b>Liabilities</b>		
Deferred taxes	<u>\$ 209,900</u>	<u>\$ 217,299</u>
<b>Stockholders' equity</b>		
Common stock, par value \$0.25; authorized and issued 800,000 shares	200,000	200,000
Additional paid-in capital	2,041,532	2,041,223
Retained earnings	31,343,191	29,568,345
Accumulated other comprehensive income	398,415	386,615
Less cost of treasury stock (22,161 shares 2015; 20,934 shares 2014)	<u>(791,659)</u>	<u>(738,589)</u>
Total stockholders' equity	<u>33,191,479</u>	<u>31,457,594</u>
Total liabilities and stockholders' equity	<u>\$ 33,401,379</u>	<u>\$ 31,674,893</u>

11. **ORBISONIA COMMUNITY BANCORP, INC. (PARENT COMPANY ONLY) FINANCIAL STATEMENTS (Continued)**

**Statements of Income**

	<b>Years Ended December 31</b>	
	<b>2015</b>	<b>2014</b>
<b>Income</b>		
Cash dividends from wholly owned subsidiary	\$ 784,439	\$ 654,276
Equity in undistributed income of subsidiary	1,636,002	1,674,074
Dividends from bank stock	31,918	31,918
Total income	<u>2,452,359</u>	<u>2,360,268</u>
<b>Expenses</b>		
Other expenses	<u>23,074</u>	<u>48,073</u>
Total expense	<u>23,074</u>	<u>48,073</u>
Income before equity in undistributed income of subsidiary	<u>2,429,285</u>	<u>2,312,195</u>
Net income	\$ <u>2,429,285</u>	\$ <u>2,312,195</u>
Comprehensive income	\$ <u>2,441,085</u>	\$ <u>2,397,034</u>

**Statements of Cash Flows**

	<b>Years Ended December 31,</b>	
	<b>2015</b>	<b>2014</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 2,429,285	\$ 2,312,195
Adjustments to reconcile net income to cash provided by operating activities		
Equity in undistributed income of subsidiary	<u>(1,636,002)</u>	<u>(1,674,074)</u>
Net cash provided by operating activities	<u>793,283</u>	<u>638,121</u>
<b>Cash flows from financing activities:</b>		
Proceeds from sale of treasury stock	1,720	7,181
Purchase of treasury stock	(54,481)	-
Dividends paid	<u>(654,439)</u>	<u>(654,276)</u>
Net cash used for financing activities	<u>(707,200)</u>	<u>(647,095)</u>
Net increase (decrease) in cash	86,083	(8,974)
Cash, beginning balance	<u>50,248</u>	<u>59,222</u>
Cash, ending balance	\$ <u>136,331</u>	\$ <u>50,248</u>

## 12. REGULATORY MATTERS

Dividends paid by the Corporation are provided from the Bank's dividends to the parent company. Under provisions of the Pennsylvania Banking Code, cash dividends may be paid from accumulated net earnings (retained earnings) as long as minimum capital requirements are met. The minimum capital requirements stipulate that the Bank's surplus or additional paid-in capital be equal to the amount of capital. The Bank is well above these requirements and the balance of \$29,649,480 in its retained earnings at December 31, 2015, is available for cash dividends. The Corporation's balance of retained earnings at December 31, 2015, is \$31,343,191 and would be available for cash dividends, although payment of dividends to such extent would not be prudent or likely. The Federal Reserve Board, which regulates bank holding companies, establishes guidelines which indicate that cash dividends should be covered by current period earnings. The Corporation is also subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary actions by regulators that, if undertaken, could have a direct and material effect on the Corporation's financial statements. Under capital adequacy guidelines, the Bank is required to maintain minimum capital ratios. The leverage ratio compares capital to total balance sheet assets, while the risk-based ratios compare capital to risk-weighted assets and off-balance sheet activity in order to make capital levels more sensitive to risk profiles of individual banks.

For December 31, 2015, the final Basel III rules require the Bank to maintain minimum amounts and ratios of common equity Tier 1 capital to risk-weighted assets. Additionally, under Basel III rules, the decision was made to opt-out of including accumulated other comprehensive income in regulatory capital. For December 31, 2014, regulatory capital ratios were calculated under Basel I rules, which required the Bank to maintain certain minimum dollar amounts and ratios of Total and Tier 1 capital to risk-weighted assets and of Tier 1 capital to average total assets. The capital ratios for the Bank do not differ significantly from those of the Corporation.

A comparison of the Corporation's capital ratios to regulatory minimums at December 31 is as follows (dollars in thousands)

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Rate	Amount	Rate
<b>As of December 31, 2015</b>						
Total capital (to risk-weighted assets)	\$ 35,307	18.3%	\$ 15,560	8.0%	\$ 19,450	10.0%
Common equity Tier 1 (to risk-weighted assets)	32,793	16.9%	8,753	4.5%	12,643	6.5%
Tier 1 capital (to risk-weighted assets)	32,793	16.9%	11,670	6.0%	15,560	8.0%
Tier 1 capital (to average assets)	32,793	10.4%	12,606	4.0%	15,758	5.0%
<b>As of December 31, 2014</b>						
Total capital (to risk-weighted assets)	\$ 33,459	16.2%	\$ 16,564	8.0%	\$ 20,705	10.0%
Tier 1 capital (to risk-weighted assets)	30,871	14.9%	8,282	4.0%	12,423	6.0%
Tier 1 capital (to average assets)	30,871	9.5%	12,955	4.0%	16,194	5.0%

As of December 31, 2015, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, common equity Tier 1, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the above table. There are no conditions or events since that notification that management believes have changed the Bank's category.

## 13. FAIR VALUE DISCLOSURES

### Fair Values of Financial Instruments

The Corporation meets the requirements for disclosure of fair value information about financial instruments, whether or not recognized on the Consolidated Balance Sheet. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instruments. Certain financial instruments and all nonfinancial instruments are excluded from disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Corporation.

The following methods and assumptions were used by the Corporation in estimating fair values of financial instruments as disclosed herein:

***Cash and Due from Banks, Federal Funds Sold, and Interest-Bearing Deposits in Other Banks.*** The carrying amounts of cash and short-term instruments approximate their fair value.

***Certificates of deposit.*** Fair values of certificates of deposit are estimated using a discounted cash flow calculation that applies market interest rates to a schedule of aggregated expected monthly maturities.

***Investment Securities Available for Sale.*** Fair values for investment securities are based on quoted market prices.

***Loans Receivable.*** For variable-rate loans that reprice frequently and have no significant change in credit risk, fair values are based on carrying values. Fair values for fixed-rate loans are estimated using discounted cash flow analyses, using market interest rates for loans with similar terms to borrowers of similar credit quality. Fair values for impaired loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable.

***Restricted Stock.*** These investments are carried at cost. The Corporation is required to maintain minimum investment balances in these stocks, which are not actively traded and therefore have no readily determinable market value.

***Bank-Owned Life Insurance.*** The fair value of bank-owned life insurance is based upon the cash surrender value of the underlying policies and matches the bank value.

***Deposits.*** The fair values disclosed for demand deposits are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts). The carrying amounts of variable-rate certificates of deposit and fixed-term money market accounts approximate their fair values at the reporting date. Fair values for fixed-rate certificates of deposit and IRAs are estimated using a discounted cash flow calculation that applies market interest rates to a schedule of aggregated expected monthly maturities on time deposits.

***Accrued Interest.*** The carrying amounts of accrued interest approximate their fair values.

***Short-term Borrowings.*** The carrying amounts of short-term borrowings approximate their fair value.

***Federal Home Loan Bank Borrowings.*** The fair value of FHLB borrowings was calculated using a discounted cash flow approach that applies a comparable FHLB advance rate to the weighted-average maturity of the borrowings.

***Off-Balance-Sheet Instruments.*** The Corporation generally does not charge commitment fees. Fees for standby letters of credit and other off-balance-sheet instruments are not significant.

### 13. FAIR VALUE DISCLOSURES (Continued)

#### Fair Values of Financial Instruments (Continued)

The estimated fair values of the Corporation's financial instruments were as follows at December 31, 2015 and 2014:

<b>2015</b>					
	<b>Carrying Amount</b>	<b>Fair Value</b>	<b>Level I</b>	<b>Level II</b>	<b>Level III</b>
<b>FINANCIAL ASSETS</b>					
Cash and due from banks and interest-bearing deposits in other banks	\$ 10,363,528	\$ 10,363,528	\$ 10,363,528	\$ -	\$ -
Certificates of deposit	2,728,000	2,735,356	-	2,735,356	-
Investment securities available for sale	16,341,179	16,341,179	640,166	15,701,013	-
Federal Home Loan Bank and Atlantic Community Bankers Bank stock	320,800	320,800	320,800	-	-
Loans receivable, net	269,460,966	271,103,357	-	-	271,103,357
Accrued interest receivable	610,808	610,808	610,808	-	-
<b>FINANCIAL LIABILITIES</b>					
Time certificates	159,886,896	161,152,525	-	-	161,152,525
Other deposits	116,372,072	116,372,072	116,372,072	-	-
Federal Home Loan Bank borrowings	3,000,000	2,991,341	-	-	2,991,341
Accrued interest payable	66,180	66,180	66,180	-	-
<b>2014</b>					
	<b>Carrying Amount</b>	<b>Fair Value</b>	<b>Level I</b>	<b>Level II</b>	<b>Level III</b>
<b>FINANCIAL ASSETS</b>					
Cash and due from banks and interest-bearing deposits in other banks	\$ 10,020,773	\$ 10,020,773	\$ 10,020,773	\$ -	\$ -
Federal funds sold	3,896,000	3,896,000	3,896,000	-	-
Investment securities available for sale	17,719,058	17,719,058	661,916	17,057,142	-
Federal Home Loan Bank and Atlantic Community Bankers Bank stock	196,900	196,900	196,900	-	-
Loans receivable, net	275,449,895	277,615,369	-	-	277,615,369
Accrued interest receivable	667,505	667,505	667,505	-	-
<b>FINANCIAL LIABILITIES</b>					
Time certificates	174,678,593	174,337,810	-	-	174,337,810
Other deposits	114,560,931	114,560,931	114,560,931	-	-
Short-term borrowings	-	-	-	-	-
Accrued interest payable	100,917	100,917	100,917	-	-

### 13. FAIR VALUE DISCLOSURES (Continued)

#### **Fair Value Measurement**

Fair value measurements and disclosures under generally accepting accounting principles define fair value, describe a framework for measuring fair value, and require disclosure about fair value measurements by establishing a three-level hierarchy that prioritizes the input to valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level I) and the lowest priority to unobservable inputs (Level III). If the inputs used to measure the assets or liabilities fall within different levels of the hierarchy, the classification is based on the lowest level input that is significant to the fair value measurement of the asset or liability. Classification of assets and liabilities within the hierarchy considers the markets in which the assets and liabilities are traded and the reliability and transparency of the assumptions used to determine fair value. The three levels are defined as follows:

Level I: Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level II: Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar instruments in markets that are not active or by model-based techniques in which all significant inputs are observable in the market for the asset or liability, for substantially the full term of the financial instrument.

Level III: The valuation methodology is derived from model-based techniques in which at least one significant input is unobservable to the fair value measurement and based on the corporation's own assumptions about market participants' assumptions.

Following is a description of the valuation methodologies used for financial assets and liabilities measured on a recurring basis at estimated fair value in the financial statements.

#### **Securities**

Where quoted prices are available in an active market, securities are classified within Level I of the valuation hierarchy. Level I securities would include highly liquid government bonds, mortgage products, and exchange-traded equities. If quoted market prices are not available, securities are classified within Level II and fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flow. Level II securities would include debt securities issues by U.S. agencies, mortgage-backed agency securities, obligations of state and political subdivisions, certain corporate assets backed, and other securities. In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level III of the valuation hierarchy. All of the Corporation's securities are classified as available for sale.

The Corporation had no liabilities reflected at estimated fair value at December 31, 2015 and 2014.



### 13. FAIR VALUE DISCLOSURES (Continued)

#### Securities (Continued)

A summary of assets at December 31, 2015 and 2014, measured at estimated fair value on a recurring basis follows:

	<b>Level I</b>	<b>Level II</b>	<b>Level III</b>	<b>Total Fair Value Measurements</b>
<b>2015</b>				
Obligations of other U.S. government agencies and corporations	\$ -	\$ 7,695,040	\$ -	\$ 7,695,040
Obligations of state and political subdivisions	-	8,005,973	-	8,005,973
Equity securities - financial services	640,166	-	-	640,166
	<u>\$ 640,166</u>	<u>\$ 15,701,013</u>	<u>\$ -</u>	<u>\$ 16,341,179</u>
<b>2014</b>				
Obligations of other U.S. government agencies and corporations	\$ -	\$ 8,258,966	\$ -	\$ 8,258,966
Obligations of state and political subdivisions	-	8,798,176	-	8,798,176
Equity securities - financial services	661,916	-	-	661,916
	<u>\$ 661,916</u>	<u>\$ 17,057,142</u>	<u>\$ -</u>	<u>\$ 17,719,058</u>

Certain financial assets are measured at fair value on a nonrecurring basis in accordance with accounting principles generally accepted in the United States of America. Adjustments to the fair value of these assets usually result from the application of lower-of-cost-or-market accounting or write-downs of individual assets.

The following describes the valuation techniques used by the Corporation to measure certain financial assets recorded at fair value on a nonrecurring basis in the financial statements.

### 13. FAIR VALUE DISCLOSURES (Continued)

#### Impaired Loans

Loans of a commercial nature are designated as impaired when, in the judgment of management based on current information and events, it is probable that all amounts due will not be collected according to the contractual terms of the loan agreement. The measurement of loss associated with impaired loans can be based on either the observable market price of the loan, the fair value of the collateral (if collateral-dependent), or the present value of expected future cash flows. Fair value is measured based on the value of the collateral securing the loan less estimated costs to sell or the expected present value of future cash flows. Collateral may be in the form of real estate or business assets including equipment, inventory, and accounts receivable. The value of the collateral is typically determined utilizing an income or market valuation approach based on an appraisal conducted by an independent, licensed appraiser outside of the Corporation using observable market data (Level II). However, if the collateral is a house or building in the process of construction or if an appraisal of the real estate property is over two years old, then the fair value is considered Level III. The value of business equipment is based upon an outside appraisal if deemed significant, or the net book value of the applicable business' financial statements if not considered significant using observable market data. Likewise, values for inventory and accounts receivable collateral are based on financial statement balances or aging reports (Level III). Impaired loans with an allocation to the allowance for loan losses are measured at fair value on a nonrecurring basis. Any fair value adjustments are recorded in the period incurred as provision for loan losses on the Consolidated Statement of Income. The fair value of impaired loans reported below is based on the total impaired loans with a specific allowance for loan losses allocation less the total allocations for such loans, while the fair value measurement level is based on the age of the underlying appraisal of the collateral securing the loans. Specific allocations to the allowance for loan losses for impaired loans were \$92,391 and \$93,150 at December 31, 2015 and 2014. The estimated holding and selling costs, which have not been included in fair value of the loan, but were included in the estimation of the specific allocation were \$73,600 and \$11,908 as of December 31, 2015 and 2014, respectively.

#### Other Real Estate Owned

Certain assets such as other real estate owned ("OREO") acquired through foreclosure are initially recorded at fair value of the property at the transfer date less estimated selling costs. At or near the time of foreclosure, real estate appraisals are obtained on the properties acquired through foreclosure. The real estate is then valued and subsequently carried at the lesser of the appraised value or the loan balance, including interest receivable at the time of foreclosure, less an estimate of costs to sell the property. Appraised values are typically determined utilizing an income or market valuation approach based on an appraisal conducted by an independent, licensed appraiser outside of the Corporation using observable market data or on a recent sales offer (Level II). However, if the acquired property is a house or building in the process of construction or if an appraisal of the real estate property is over two years old, then the fair value is considered Level III. The estimate of costs to sell the property is based on historical transactions of similar holdings.

### 13. FAIR VALUE DISCLOSURES (Continued)

A summary of assets at December 31, 2015 and 2014, measured at estimated fair value on a nonrecurring basis is as follows:

	Level I	Level II	Level III	Total Fair Value Measurements
<b>2015</b>				
Impaired loans	\$ -	\$ -	\$ 523,758	\$ 523,758
Other real estate owned	-	-	158,499	158,499
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 682,257</u>	<u>\$ 682,257</u>
<b>2014</b>				
Impaired loans	\$ -	\$ -	\$ 156,908	\$ 156,908
Other real estate owned	-	-	465,866	465,866
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 622,774</u>	<u>\$ 622,774</u>

The following table presents additional qualitative information about assets measured on a nonrecurring basis and how the Corporation has utilized Level III inputs to determine fair value:

	Fair Value Estimate	Valuation Techniques	Unobservable Input	Range
<b>2015</b>				
Impaired loans	\$ 523,758	Appraisal of collateral	Management adjustments for liquidation expenses	0% - 57% discount
Other real estate owned	158,499		Management adjustments for liquidation expenses	40% discount
<b>2014</b>				
Impaired loans	\$ 156,908	Appraisal of collateral	Management adjustments for liquidation expenses	25% - 28% discount
Other real estate owned	465,866		Management adjustments for liquidation expenses	40% discount

#### 14. ACCUMULATED OTHER COMPREHENSIVE INCOME

The following table presents the changes in accumulated other comprehensive income, net of tax, for the years ended December 31, 2015 and 2014:

	<u>Net Unrealized Gains on Investment Securities</u>
Accumulated other comprehensive income, December 31, 2013	\$ 301,776
Unrealized gain on available-for-sale securities	128,543
Tax effect	<u>(43,704)</u>
Net unrealized gain on available-for-sale securities	<u>84,839</u>
Accumulated other comprehensive income, December 31, 2014	<u>386,615</u>
Unrealized gain on available-for-sale securities	17,878
Tax effect	<u>(6,078)</u>
Net unrealized gain on available-for-sale securities	<u>11,800</u>
Accumulated other comprehensive income, December 31, 2015	<u><u>\$ 398,415</u></u>

#### 15. SUBSEQUENT EVENTS

Management has reviewed events occurring through March 4, 2016, the date the financial statements were issued, and no subsequent events occurred requiring accrual or disclosure.