

**CLARION COUNTY COMMUNITY BANK**

**FINANCIAL STATEMENTS**

**December 31, 2013 and 2012**

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**CLARION COUNTY COMMUNITY BANK**

**December 31, 2013 and 2012**

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Clarion County Community Bank  
Clarion, Pennsylvania

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

We have audited the accompanying financial statements of Clarion County Community Bank, which comprise the balance sheets as of December 31, 2013 and 2012, and the related statements of income, comprehensive income (loss), changes in stockholders' equity, and cash flows 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Clarion County Community Bank as of December 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Crowe Horwath LLP

## BALANCE SHEETS

### CLARION COUNTY COMMUNITY BANK

	December 31,	
	2013	2012
<b>ASSETS</b>		
Cash and due from banks	\$ 1,277,310	\$ 1,030,130
Interest bearing deposits with banks	3,106,588	6,718,652
Cash and cash equivalents	4,383,898	7,748,782
Certificates of deposit	2,340,000	2,340,000
Securities available for sale	22,288,637	25,132,270
Restricted bank stock, at cost	538,500	417,200
Loans receivable, net of allowance for loan losses of \$909,433 in 2013 and \$1,054,655 in 2012	89,447,350	84,002,854
Premises and equipment, net	1,718,291	1,701,950
Other real estate owned, net	152,000	193,000
Bank owned life insurance	1,430,892	1,387,373
Deferred taxes	690,182	191,730
Other assets	657,617	632,507
<b>Total Assets</b>	<b>\$ 123,647,367</b>	<b>\$ 123,747,666</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Liabilities</b>		
Deposits		
Non-interest bearing	\$ 14,801,169	\$ 14,136,639
Interest bearing	95,261,904	96,003,278
Total deposits	110,063,073	110,139,917
Accrued interest and other liabilities	749,106	514,315
Total liabilities	110,812,179	110,654,232
Commitment and contingent liabilities	-	-
<b>Stockholders' Equity</b>		
Preferred stock: 1,000,000 shares authorized, no shares issued	-	-
Common stock; par value \$1; 10,000,000 shares authorized; 1,661,255 issued and outstanding in 2013 and 2012	1,661,255	1,661,255
Surplus	10,621,461	10,621,461
Retained earnings	1,190,886	343,054
Accumulated other comprehensive income (loss)	(638,414)	467,664
Total stockholders' equity	12,835,188	13,093,434
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 123,647,367</b>	<b>\$ 123,747,666</b>

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

# STATEMENTS OF INCOME

## CLARION COUNTY COMMUNITY BANK

	<b>Years Ended December 31,</b>	
	<b>2013</b>	<b>2012</b>
<b>Interest Income</b>		
Loans, including fees	\$ 4,535,921	\$ 4,960,905
Taxable securities	208,353	222,624
Tax exempt securities	423,234	374,657
Interest bearing deposits	24,063	20,825
Total interest income	<u>5,191,571</u>	<u>5,579,011</u>
<b>Interest Expense</b>		
Deposits	759,408	1,027,237
Short-term borrowings	333	-
Total interest expense	<u>759,741</u>	<u>1,027,237</u>
<b>Net Interest Income</b>	<u>4,431,830</u>	<u>4,551,774</u>
<b>Provision for Loan Losses</b>	<u>84,000</u>	<u>163,000</u>
<b>Net Interest Income after Provision for Loan Losses</b>	<u>4,347,830</u>	<u>4,388,774</u>
<b>Other Income</b>		
Service fees	140,563	136,184
Bank owned life insurance	43,519	45,696
Net gains on sales of loans held for sale	101,502	140,414
Net gains on securities available for sale	10,686	14,913
Other	90,567	104,531
Total other income	<u>386,837</u>	<u>441,738</u>
<b>Other Expenses</b>		
Salaries and employee benefits	1,888,011	1,664,977
Professional fees	140,994	184,947
FDIC insurance	75,766	84,105
Occupancy and equipment	292,413	282,826
Data processing	465,690	449,197
Other (see Note 11)	667,426	776,512
Total other expenses	<u>3,530,300</u>	<u>3,442,564</u>
<b>Income Before Income Tax Expense</b>	<u>1,204,367</u>	<u>1,387,948</u>
<b>Income Tax Expense</b>	<u>256,860</u>	<u>335,902</u>
<b>Net Income</b>	<u>\$ 947,507</u>	<u>\$ 1,052,046</u>
<b>Earnings per Common Share:</b>		
Basic	<u>\$ 0.57</u>	<u>\$ 0.63</u>
Diluted	<u>\$ 0.57</u>	<u>\$ 0.63</u>

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

**STATEMENTS OF COMPREHENSIVE INCOME (LOSS)****CLARION COUNTY COMMUNITY BANK**

	<u>2013</u>	<u>2012</u>
<b>Net income</b>	<b>\$ 947,507</b>	<b>\$ 1,052,046</b>
Unrealized holding gains (losses) on available for sale securities	<b>(1,672,388)</b>	403,153
Reclassification adjustment for gains realized in income	<b>(10,686)</b>	(14,913)
Net unrealized gains (losses)	<b>(1,683,074)</b>	388,240
Tax effect	<b>572,244</b>	(132,001)
Net-of-tax amount	<b>(1,110,830)</b>	256,239
Amortization of prior service cost	<b>7,200</b>	7,200
Tax effect	<b>(2,448)</b>	(2,448)
Net-of-tax amount	<b>4,752</b>	4,752
Other comprehensive income (loss)	<b>(1,106,078)</b>	260,991
Total comprehensive income (loss)	<b>\$ (158,571)</b>	<b>\$ 1,313,037</b>

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

**STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**

**CLARION COUNTY COMMUNITY BANK**

**For the Years Ended December 31, 2013 and 2012**

	<u>Common Stock</u>	<u>Surplus</u>	<u>Retained Earnings (Accumulated Deficit)</u>	<u>Accumulated Other Comprehensive Income/(Loss)</u>	<u>Total</u>
<b>Balance at January 1, 2012</b>	\$ 1,661,255	\$ 10,621,461	\$ (642,542)	\$ 206,673	\$ 11,846,847
Net income	-	-	1,052,046	-	1,052,046
Cash dividend, \$0.04 per share			(66,450)		(66,450)
Other comprehensive income	-	-	-	260,991	260,991
<b>Balance at December 31, 2012</b>	1,661,255	10,621,461	343,054	467,664	13,093,434
Net income	-	-	<b>947,507</b>	-	<b>947,507</b>
Cash dividend, \$0.06 per share			<b>(99,675)</b>		<b>(99,675)</b>
Other comprehensive loss	-	-	-	<b>(1,106,078)</b>	<b>(1,106,078)</b>
<b>Balance at December 31, 2013</b>	<u>\$ 1,661,255</u>	<u>\$ 10,621,461</u>	<u>\$ 1,190,886</u>	<u>\$ (638,414)</u>	<u>\$ 12,835,188</u>

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

# STATEMENTS OF CASH FLOWS

## CLARION COUNTY COMMUNITY BANK

For the Years Ended December 31, 2013 and 2012

	<u>For the Years Ended December 31,</u>	
	<u>2013</u>	<u>2012</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 947,507	\$ 1,052,046
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	144,615	154,442
Net amortization of premiums and discounts	142,898	140,810
Net gains on securities available for sale	(10,686)	(14,913)
Provision for loan losses	84,000	163,000
Net gains on sale of loans held for sale	(101,502)	(140,414)
Loans originated for sale	(3,392,117)	(2,369,267)
Proceeds from sale of loans held for sale	3,461,862	2,477,339
Loss on sale and writedowns of OREO	(3,434)	86,473
Deferred taxes	71,344	21,694
Earnings in bank owned life insurance	(43,519)	(45,696)
Change in:		
Deferred loan fees	(6,145)	(14,466)
Other assets	6,647	128,728
Accrued interest and other liabilities	241,991	(1,345)
<b>Net Cash From Operating Activities</b>	<u>1,543,461</u>	<u>1,638,431</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of available for sale securities	(6,189,321)	(9,778,439)
Proceeds from sales of securities available for sale	3,145,500	1,150,522
Maturities and calls of available for sale securities	2,050,000	1,001,343
Principal payments from mortgage-backed securities	2,022,168	2,070,853
Purchase of restricted bank stock	(121,300)	(88,600)
Purchases of certificates of deposit	(1,594,000)	(1,991,000)
Maturities of certificates of deposit	1,594,000	1,993,000
Proceeds from sale of foreclosed assets	196,434	167,527
Loan originations and repayments, net	(5,674,351)	5,044,460
Purchases of premises and equipment	(160,956)	(232,325)
<b>Net Cash Used By Investing Activities</b>	<u>(4,731,826)</u>	<u>(662,659)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net change in deposits	(76,844)	2,191,842
Cash dividends paid on common stock	(99,675)	(66,450)
<b>Net Cash From Financing Activities</b>	<u>(176,519)</u>	<u>2,125,392</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<u>(3,364,884)</u>	<u>3,101,164</u>
<b>Cash and Cash Equivalents at Beginning of Year</b>	<u>7,748,782</u>	<u>4,647,618</u>
<b>Cash and Cash Equivalents at End of Year</b>	<u>\$ 4,383,898</u>	<u>\$ 7,748,782</u>
<b>SUPPLEMENTAL DISCLOSURES</b>		
Interest paid	\$ 761,983	\$ 1,048,866
Income taxes paid	260,000	310,000
Non-cash disclosures:		
Other real estate acquired in settlement of loans	\$ 152,000	\$ 130,500
Capitalization of mortgage servicing rights	\$ 31,757	\$ 32,342

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

## NOTES TO FINANCIAL STATEMENTS

### CLARION COUNTY COMMUNITY BANK

For the Years Ended December 31, 2013 and 2012

#### NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

**Organization:** The Bank received its Pennsylvania banking charter on January 6, 2004. The Bank was incorporated under the laws of the Commonwealth of Pennsylvania on June 18, 2003, to operate as a state chartered banking institution named CNB Community Bank. The Bank has subsequently changed its name to Clarion County Community Bank. On January 6, 2004, the Pennsylvania Department of Banking granted the Bank the necessary approvals to commence operations. The Bank opened for business on January 8, 2004 and currently has three locations; the main office in Clarion, Pennsylvania and branch offices in New Bethlehem, Pennsylvania and Rimersburg, Pennsylvania.

**Nature of Operations:** The Bank provides financial services through its offices in Clarion County. Its primary deposit products are checking, savings, and term certificate accounts, and its primary lending products are residential mortgage, commercial real estate, commercial, and consumer loans. Substantially all loans are secured by specific items of collateral including business assets, consumer assets, and commercial and residential real estate. Commercial loans are expected to be repaid from cash flow from operations of businesses. There are no significant concentrations of loans to any one industry or customer. However, the customers' ability to repay their loans is dependent on the real estate and general economic conditions in the area.

**Use of Estimates:** To prepare financial statements in conformity with U.S. generally accepted accounting principles management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and actual results could differ. The allowance for loan losses, loan servicing rights, deferred tax assets, and fair values of financial instruments are particularly subject to change.

**Cash Flows:** Cash and cash equivalents include cash, deposits with other financial institutions with original maturities fewer than 90 days, and federal funds sold. Net cash flows are reported for customer loan and deposit transactions.

**Certificates of Deposit:** Certificates of deposit in other financial institutions are carried at cost.

**Securities:** Debt securities are classified as held to maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Debt securities are classified as available for sale when they might be sold before maturity. Equity securities with readily determinable fair values are classified as available for sale. Securities available for sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income, net of tax.

Interest income includes amortization of purchase premium or discount. Premiums and discounts on securities are amortized on the level-yield method without anticipating prepayments, except for mortgage backed securities where prepayments are anticipated. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

Management evaluates securities for other-than-temporary impairment ("OTTI") at least on a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria

## NOTES TO FINANCIAL STATEMENTS

### CLARION COUNTY COMMUNITY BANK

For the Years Ended December 31, 2013 and 2012

#### NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) OTTI related to other factors, which is recognized in other comprehensive income (loss) and 2) OTTI related to credit loss, which must be recognized in the income statement. The credit loss is determined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis. For equity securities, the entire amount of impairment is recognized through earnings.

**Loan Held for Sale:** Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or fair value, as determined by outstanding commitments from investors. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings.

Mortgage loans held for sale are generally sold with servicing rights retained. The carrying value of mortgage loans sold is reduced by the amount allocated to the servicing right. Gains and losses on sales of mortgage loans are based on the difference between the selling price and the carrying value of the related loan sold.

**Loans:** Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, less deferred loan fees and costs, and an allowance for loan losses. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using the level-yield method without anticipating prepayments.

Interest income on loans is discontinued at the time the loan is 90 days delinquent unless the loan is well-secured and in process of collection. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful. Nonaccrual loans and loans past due 90 or more days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

All interest accrued but not received for loans placed on nonaccrual is reversed against interest income. Interest received on such loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured. A loan is moved to non-accrual status in accordance with the Bank's policy, typically after 90 days of non-payment.

**Concentration of Credit Risk:** Most of the Bank's business activity is with customers located within Clarion County and its contiguous counties. Therefore, the Bank's exposure to credit risk is significantly affected by changes in the economy in these counties. The Bank has no significant concentration of loans with any particular industry.

**Allowance for Loan Losses:** The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience, the

## NOTES TO FINANCIAL STATEMENTS

### CLARION COUNTY COMMUNITY BANK

For the Years Ended December 31, 2013 and 2012

#### NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

nature and volume of the portfolio, information about specific borrower situations and estimated collateral, economic conditions, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged off.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Loans for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired.

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. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

Commercial and commercial real estate loans over \$50,000 are individually evaluated for impairment. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Large groups of smaller balance homogeneous loans, such as consumer and residential real estate loans, are collectively evaluated for impairment, and accordingly, they are not separately identified for impairment disclosures.

Troubled debt restructurings are separately identified for impairment disclosures and are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a troubled debt restructuring is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral. For troubled debt restructurings that subsequently default, the Bank determines the amount of reserve in accordance with the accounting policy for the allowance for loan losses.

The general component covers non-impaired loans and is based on consideration of historical loss experience and peer data adjusted for current factors. This actual and peer loss experience is supplemented with other economic factors based on the risks present for each portfolio segment. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations. The following portfolio segments have been identified: Residential Real Estate, Commercial Real Estate, Commercial, and Consumer. Thirty-six percent of the Bank's loan portfolio is 1-4 family real estate, home equity lines of credit, and consumer installment loans made to individuals in the Bank's market area. These loans are largely secured by underlying real estate or consumer collateral. Repayment of these loans is dependent on general economic conditions and unemployment levels in the Bank's market area.

## NOTES TO FINANCIAL STATEMENTS

### CLARION COUNTY COMMUNITY BANK

For the Years Ended December 31, 2013 and 2012

#### NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

Commercial loans primarily consist of income producing real estate and business related assets. Repayment of these loans depends, to a large degree, on the results of operations, cash flow and management of the related businesses. These loans may be affected to a greater extent by adverse commerce conditions or the economy in general. Accordingly, the nature of these loans makes them more difficult for management to monitor and evaluate.

**Servicing Rights:** When mortgage loans are sold with servicing retained, servicing rights are initially recorded at fair value with the income statement effect recorded in gains on sales of loans. Fair value is based on market prices for comparable mortgage servicing contracts, when available or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. All classes of servicing assets are subsequently measured using the amortization method which requires servicing rights to be amortized into non-interest income in proportion to, and over the period of, the estimated future net servicing income of the underlying loans.

Servicing rights are evaluated for impairment based upon the fair value of the rights as compared to carrying amount. Impairment is determined by stratifying rights into groupings based on predominant risk characteristics, such as interest rate, loan type and investor type. Impairment is recognized through a valuation allowance for an individual grouping, to the extent that fair value is less than the carrying amount. If the Bank later determines that all or a portion of the impairment no longer exists for a particular grouping, a reduction of the allowance may be recorded as an increase to income. Changes in valuation allowances are reported with other non-interest income on the income statement. The fair values of servicing rights are subject to significant fluctuations as a result of changes in estimated and actual prepayment speeds and default rates and losses

Servicing fee income, which is reported on the income statement as other non-interest income, is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal; or a fixed amount per loan and are recorded as income when earned. Servicing fees totaled \$11,495 and \$4,902 for the years ended December 31, 2013 and 2012, respectively. Amortization of mortgage servicing rights which are also recorded in other non-interest income totaled \$3,305 and \$1,630 for the years ended December 31, 2013 and 2012.

**Foreclosed Assets:** Foreclosed assets acquired through or in lieu of loan foreclosures are initially recorded at fair value less estimated selling costs at the date of foreclosure, establishing a new cost basis. Any write-downs based on the asset's fair value at the date of acquisition are charged to the allowance for loan losses. After foreclosure, these assets are carried at the lower of their new cost basis or fair value less estimated selling costs. Costs of significant property improvements are capitalized, whereas costs relating to holding the property are expensed. Management performs periodic valuations and any subsequent write-downs are recorded as a charge to operations, if necessary, to reduce the carrying value of a property to the lower of its cost or fair value less estimated selling costs.

**Premises and Equipment:** Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Buildings and related components are depreciated using the straight-line method for 30 years. Furniture, fixtures and equipment are depreciated using the straight-line method with useful lives ranging from 3 to 10 years.

## NOTES TO FINANCIAL STATEMENTS

### CLARION COUNTY COMMUNITY BANK

For the Years Ended December 31, 2013 and 2012

#### NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

**Federal Home Loan Bank (FHLB) Stock:** The Bank is a member of the FHLB of Pittsburgh. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

**Stock-Based Compensation:** Compensation cost is recognized for stock options issued to employees and directors, based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options. Compensation cost is recognized over the requisite service period, generally defined as the vesting period.

**Bank Owned Life Insurance:** The Bank purchased life insurance policies on certain key executives. Bank owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement. The Bank is the sole beneficiary, without further encumbrance, of the insurance proceeds aside from split dollar agreements promising a death benefit of \$150,000 to the beneficiary of a certain officer of the Bank while under Bank employment. As the officer's projected mortality extends beyond Bank employment, no accrual has been established for this potential benefit.

**Loan Commitments and Related Financial Instruments:** Financial instruments include off-balance-sheet credit instruments, such as commitments to make loans and commercial letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

**Retirement Plans:** Employee 401(k) and profit sharing plan expense is the amount of matching contributions. Supplemental retirement plan expense allocates the benefits over the years of service.

**Income Taxes:** Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount more likely than not to be realized.

A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded.

The Bank recognizes interest and/or penalties related to income tax matters in income tax expense.

## NOTES TO FINANCIAL STATEMENTS

### CLARION COUNTY COMMUNITY BANK

For the Years Ended December 31, 2013 and 2012

#### NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

**Earnings Per Share:** Basic earnings per share is calculated as net income divided by the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated on the basis of the weighted average number of shares outstanding assuming dilution of the exercisable stock options using the treasury stock method. Earnings and dividends per share are restated for all stock splits and stock dividends through the date of issuance of the financial statements.

**Comprehensive Income (Loss):** Comprehensive income (loss) consists of net income and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses on securities available for sale and changes in the funded status of the supplemental retirement plan which are also recognized as separate components of stockholders' equity.

**Loss Contingencies:** Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there now are such matters that will have a material effect on the financial statements.

**Dividend Restriction:** Banking regulations require maintaining certain capital levels and may limit the dividends paid by the Bank to its stockholders.

**Fair Value of Financial Instruments:** Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

**Reclassifications:** Some items in the prior year financial statements were reclassified to conform to the current presentation. Reclassifications had no effect on prior year net income or stockholders' equity.

**Adoption of New Accounting Standards:** In February 2013, the FASB amended existing guidance related to reporting amounts reclassified out of other comprehensive income out of accumulated other comprehensive income. These amendments do not change the current requirements for reporting net income or other comprehensive income in financial statements. These amendments require an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under U.S. GAAP that provide additional details about those amounts. These amendments are effective prospectively for fiscal years beginning after December 15, 2013. The effect of adopting this standard is not expected to have a material effect on the Bank's operating results or financial condition.

**NOTES TO FINANCIAL STATEMENTS**

**CLARION COUNTY COMMUNITY BANK**

**For the Years Ended December 31, 2013 and 2012**

**NOTE 2 – INVESTMENT SECURITIES**

The following table summarizes the amortized cost and fair value of securities available-for-sale at December 31, 2013 and 2012 and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive income (loss):

	<b>December 31, 2013</b>			
	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
U.S. government sponsored entities and agencies	\$ 5,510,821	\$ -	\$ (316,287)	\$ 5,194,534
State and municipal bonds-tax free	11,766,865	89,451	(531,273)	11,325,043
Residential mortgage-backed securities	5,873,444	46,450	(150,834)	5,769,060
	<b>\$ 23,151,130</b>	<b>\$ 135,901</b>	<b>\$ (998,394)</b>	<b>\$ 22,288,637</b>

	<b>December 31, 2012</b>			
	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
U.S. government sponsored entities and agencies	\$ 4,567,931	\$ 182,683	\$ -	\$ 4,750,614
State and municipal bonds-tax free	11,592,571	417,215	(28,318)	11,981,468
Residential mortgage-backed securities	8,151,187	249,001	-	8,400,188
	<b>\$ 24,311,689</b>	<b>\$ 848,899</b>	<b>\$ (28,318)</b>	<b>\$ 25,132,270</b>

The proceeds from sales of securities and the associated gross gains and losses are listed below:

	<b>2013</b>	<b>2012</b>
Proceeds	\$ 3,145,500	\$ 1,150,522
Gross gains	45,380	16,256
Gross losses	(14,511)	-
Gross losses on securities called prior to maturity	(20,183)	(1,343)

## NOTES TO FINANCIAL STATEMENTS

### CLARION COUNTY COMMUNITY BANK

For the Years Ended December 31, 2013 and 2012

#### NOTE 2 – INVESTMENT SECURITIES (continued)

The tax provision related to these net realized gains was \$3,633 and \$5,070, respectively.

As a member of the Federal Home Loan Bank of Pittsburgh (FHLB), the Bank is required to maintain a minimum amount of FHLB stock. The minimum amount is calculated based on the level of the Bank's assets, residential real estate loans, and FHLB advances. At December 31, 2013 and 2012, the Bank held \$473,500 and \$352,200, respectively, of FHLB stock which is carried at cost.

Management evaluates the FHLB stock for impairment in accordance with accounting guidance issued by the Financial Accounting Standards Board. Management's determination of whether this investment is impaired is based on their assessment of the ultimate recoverability of their cost basis rather than by recognizing temporary declines in value. The determination of whether a decline affects the ultimate recoverability of their cost basis is influenced by criteria such as (1) the significance of the decline in net assets of the FHLB as compared to the capital stock amount for the FHLB and the length of time this situation has persisted, (2) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance of the FHLB, and (3) the impact of legislative and regulatory changes on institutions and, accordingly, on the customer base of the FHLB.

Management believes no impairment charge is necessary related to the FHLB stock as of December 31, 2013 or 2012.

The amortized cost and fair value of investment securities by contractual maturity are shown below. Actual investment maturities will differ from contractual maturities because issuers have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date are shown separate.

	December 31, 2013	
	Amortized Cost	Fair Value
Debt securities available for sale		
Due in one year or less	\$ -	\$ -
Due after one year through five years	375,568	377,241
Due after five years through ten years	3,836,300	3,733,999
Due after ten years	13,065,818	12,408,337
Residential mortgage-backed securities	5,873,444	5,769,060
	<u>\$ 23,151,130</u>	<u>\$ 22,288,637</u>

**NOTES TO FINANCIAL STATEMENTS**

**CLARION COUNTY COMMUNITY BANK**

**For the Years Ended December 31, 2013 and 2012**

**NOTE 2 – INVESTMENT SECURITIES (continued)**

The following table summarizes investment securities with unrealized losses at December 31, 2013 and 2012 by major security type and length of time in a continuous unrealized loss position:

	December 31, 2013					
	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. government sponsored entities and agencies	\$ 5,194,534	\$ (316,287)	-	-	\$ 5,194,534	\$ (316,287)
State and municipal bonds-tax free	6,287,485	(414,407)	867,771	(116,866)	7,155,256	(531,273)
Residential mortgage-backed securities	3,737,271	(150,834)	-	-	3,737,271	(150,834)
	<u>\$ 15,219,290</u>	<u>\$ (881,528)</u>	<u>\$ 867,771</u>	<u>\$ (116,866)</u>	<u>\$ 16,087,061</u>	<u>\$ (998,394)</u>

	December 31, 2012					
	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
State and municipal bonds-tax free	\$ 1,276,156	\$ (19,941)	\$ 630,415	\$ (8,377)	\$ 1,906,571	\$ (28,318)
	<u>\$ 1,276,156</u>	<u>\$ (19,941)</u>	<u>\$ 630,415</u>	<u>\$ (8,377)</u>	<u>\$ 1,906,571</u>	<u>\$ (28,318)</u>

Unrealized losses on the nineteen state and municipal bonds at December 31, 2013 and six state and municipal bonds at December 31, 2012 have not been recognized into income because the securities are of high credit quality (rated AA or higher), management does not intend to sell and it is not more likely than not that management would be required to sell the securities prior to their anticipated recoveries, and the decline in fair value is largely due to changes in interest rates and other market conditions. The fair value is expected to recover as the securities approach their maturities. The Bank does not consider these securities to be other-than-temporarily impaired at December 31, 2013.

All of the mortgage-backed securities held by the Bank were issued by U.S. government-sponsored entities and agencies, institutions which the government has affirmed its commitment to support. Because the decline in fair value at December 31, 2013 is attributable to changes in interest rates and illiquidity, and not credit quality, and because the Bank does not have the intent to sell these mortgage-backed securities and it is likely that it will not be required to sell the securities before their anticipated recovery, the Bank does not consider these securities to be other-than-temporarily impaired at December 31, 2013.

## NOTES TO FINANCIAL STATEMENTS

### CLARION COUNTY COMMUNITY BANK

For the Years Ended December 31, 2013 and 2012

#### NOTE 2 – INVESTMENT SECURITIES (continued)

The Bank has pledged approximately \$7,912,000 and \$6,642,000 as of December 31, 2013 and 2012, respectively, of its investment securities, at amortized cost, to qualify for fiduciary powers in securing public monies as required by law and for other purposes.

#### NOTE 3 – LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES

Loans at year end were as follows:

	<u>2013</u>	<u>2012</u>
Residential real estate	\$ 25,117,171	\$ 27,634,326
Commercial real estate	48,074,514	38,608,977
Commercial	9,712,613	11,851,148
Consumer:		
Auto	1,789,040	1,846,885
Other	<u>5,752,603</u>	<u>5,211,476</u>
	<b>90,445,941</b>	85,152,812
Less: Net deferred loan fees	<b>(89,158)</b>	(95,303)
Allowance for loan losses	<u><b>(909,433)</b></u>	<u>(1,054,655)</u>
Loans, net	<u><b>\$ 89,447,350</b></u>	<u>\$ 84,002,854</u>

The following table presents the activity in the allowance for loan losses by portfolio segment for the years ending December 31, 2013 and 2012:

December 31, 2013	Commercial		Residential			
	Commercial	Real Estate	Real Estate	Consumer	Unallocated	Total
Allowance for loan losses:						
Beginning balance, January 1, 2013	\$ 40,158	\$ 531,141	\$ 377,559	\$ 15,350	\$ 90,447	\$ 1,054,655
Provision for loan losses	(6,925)	(72,431)	77,175	84,517	1,664	84,000
Loans charged-off	(10,065)	(86,139)	(100,485)	(33,021)	-	(229,710)
Recoveries	-	-	488	-	-	488
Total ending balance, December 31, 2013	<u>\$ 23,168</u>	<u>\$ 372,571</u>	<u>\$ 354,737</u>	<u>\$ 66,846</u>	<u>\$ 92,111</u>	<u>\$ 909,433</u>

**NOTES TO FINANCIAL STATEMENTS**

**CLARION COUNTY COMMUNITY BANK**

**For the Years Ended December 31, 2013 and 2012**

**NOTE 3 – LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES (continued)**

December 31, 2012	Commercial	Commercial Real Estate	Residential Real Estate	Consumer	Unallocated	Total
<b>Allowance for loan losses:</b>						
Beginning balance, January 1, 2012	\$ 319,668	\$ 471,331	\$ 192,655	\$ 93,719	\$ 90,255	\$ 1,167,628
Provision for loan losses	(279,510)	239,192	277,071	(73,945)	192	163,000
Loans charged-off	-	(179,382)	(92,167)	(5,593)	-	(277,142)
Recoveries	-	-	-	1,169	-	1,169
<b>Total ending balance, December 31, 2012</b>	<b>\$ 40,158</b>	<b>\$ 531,141</b>	<b>\$ 377,559</b>	<b>\$ 15,350</b>	<b>\$ 90,447</b>	<b>\$ 1,054,655</b>

The next several tables exclude accrued interest receivable and net deferred loan fees in the recorded investment. Accrued interest receivable totaled \$202,295 and \$232,613 at December 31, 2013 and 2012. Net deferred loan fees totaled \$(89,158) and \$(95,303) at December 31, 2013 and 2012, which are not considered to be material to the loan balances.

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of December 31, 2013 and 2012:

2013	Commercial	Commercial Real Estate	Residential Real Estate	Consumer	Unallocated	Total
<b>Allowance for loan losses:</b>						
Ending allowance balance attributable to loans:						
Individually evaluated for impairment	\$ -	\$ 86,959	\$ -	\$ -	\$ -	\$ 86,959
Collectively evaluated for impairment	23,168	285,612	354,737	66,846	92,111	822,474
<b>Total ending allowance balance</b>	<b>\$ 23,168</b>	<b>\$ 372,571</b>	<b>\$ 354,737</b>	<b>\$ 66,846</b>	<b>\$ 92,111</b>	<b>\$ 909,433</b>
<b>Loans:</b>						
Loans individually evaluated for impairment	\$ -	\$ 700,057	\$ -	\$ -	\$ -	\$ 700,057
Loans collectively evaluated for impairment	9,712,613	47,374,457	25,117,171	7,541,643	-	89,745,884
<b>Total</b>	<b>\$ 9,712,613</b>	<b>\$ 48,074,514</b>	<b>\$ 25,117,171</b>	<b>\$ 7,541,643</b>	<b>\$ -</b>	<b>\$ 90,445,941</b>

**NOTES TO FINANCIAL STATEMENTS**

**CLARION COUNTY COMMUNITY BANK**

**For the Years Ended December 31, 2013 and 2012**

**NOTE 3 – LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES (continued)**

<b>2012</b>	<b>Commercial</b>	<b>Commercial Real Estate</b>	<b>Residential Real Estate</b>	<b>Consumer</b>	<b>Unallocated</b>	<b>Total</b>
Allowance for loan losses:						
Ending allowance balance attributable to loans:						
Individually evaluated for impairment	\$ 1,673	\$ 232,060	\$ -	\$ 2,960	\$ -	\$ 236,693
Collectively evaluated for impairment	<u>38,485</u>	<u>299,081</u>	<u>377,559</u>	<u>12,390</u>	<u>90,447</u>	<u>817,962</u>
Total ending allowance balance	<u>\$ 40,158</u>	<u>\$ 531,141</u>	<u>\$ 377,559</u>	<u>\$ 15,350</u>	<u>\$ 90,447</u>	<u>\$ 1,054,655</u>
Loans:						
Loans individually evaluated for impairment	\$ 11,155	\$ 1,032,693	\$ -	\$ 19,729	\$ -	\$ 1,063,577
Loans collectively evaluated for impairment	<u>11,839,993</u>	<u>37,576,284</u>	<u>27,634,326</u>	<u>7,038,632</u>	<u>-</u>	<u>84,089,235</u>
Total	<u>\$ 11,851,148</u>	<u>\$ 38,608,977</u>	<u>\$ 27,634,326</u>	<u>\$ 7,058,361</u>	<u>\$ -</u>	<u>\$ 85,152,812</u>

The following table presents information related to impaired loans as of and for the year ended December 31, 2013:

	<b>As of December 31, 2013</b>			<b>Year Ended December 31, 2013</b>		
	<b>Unpaid Principal Balance</b>	<b>Recorded Investment</b>	<b>Allowance for Loan Losses Allocated</b>	<b>Average Recorded Investment</b>	<b>Interest Income Recognized</b>	<b>Cash Basis Interest Recognized</b>
With no related allowance recorded:						
Commercial	\$ -	\$ -	\$ -	\$ 6,016	\$ 648	\$ 648
Commercial real estate	<u>480,183</u>	<u>480,183</u>	<u>-</u>	<u>480,348</u>	<u>15,745</u>	<u>15,745</u>
Subtotal	<u>480,183</u>	<u>480,183</u>	<u>-</u>	<u>486,364</u>	<u>16,393</u>	<u>16,393</u>
With an allowance recorded:						
Commercial real estate	<u>219,874</u>	<u>219,874</u>	<u>86,959</u>	<u>429,361</u>	<u>9,359</u>	<u>9,359</u>
Consumer:						
Auto	-	-	-	10,251	366	366
Other	-	-	-	3,442	109	109
Subtotal	<u>219,874</u>	<u>219,874</u>	<u>86,959</u>	<u>443,054</u>	<u>9,834</u>	<u>9,834</u>
Total	<u>\$ 700,057</u>	<u>\$ 700,057</u>	<u>\$ 86,959</u>	<u>\$ 929,418</u>	<u>\$ 26,227</u>	<u>\$ 26,227</u>

## NOTES TO FINANCIAL STATEMENTS

### CLARION COUNTY COMMUNITY BANK

For the Years Ended December 31, 2013 and 2012

#### NOTE 3 – LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES (continued)

The following table presents information related to impaired loans by class of loans as of and for the year ended December 31, 2012:

	As of December 31, 2012			Year Ended December 31, 2012		
	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized
With no related allowance recorded:						
Commercial	\$ -	\$ -	\$ -	\$ 1,286	\$ -	\$ -
Commercial real estate	480,487	480,487	-	480,578	15,395	15,395
Subtotal	480,487	480,487	-	481,864	15,395	15,395
With an allowance recorded:						
Commercial	11,155	11,155	1,673	46,989	966	966
Commercial real estate	552,206	552,206	232,060	749,346	12,480	12,480
Consumer:						
Auto	14,699	14,699	2,205	19,899	487	487
Other	5,030	5,030	755	5,699	195	195
Subtotal	583,090	583,090	236,693	821,933	14,128	14,128
Total	\$ 1,063,577	\$ 1,063,577	\$ 236,693	\$ 1,303,797	\$ 29,523	\$ 29,523

Nonaccrual loans and loans past due 90 days or more still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

The following tables present the recorded investment in nonaccrual and loans past due 90 days or more still on accrual by class of loans as of December 31, 2013 and December 31, 2012:

	Nonaccrual		Loans Past Due 90 Days or More Still Accruing	
	2013	2012	2013	2012
Commercial	\$ -	\$ 29,012	\$ -	\$ -
Commercial real estate	-	332,703	-	-
Consumer:				
Auto	2,684	-	-	-
Other	-	-	-	-
Residential real estate	396,658	219,101	-	-
Total	\$ 399,342	\$ 580,816	\$ -	\$ -

The following tables present the aging of the recorded investment in past due loans as of December 31, 2013 and 2012 by class of loan:

## NOTES TO FINANCIAL STATEMENTS

### CLARION COUNTY COMMUNITY BANK

For the Years Ended December 31, 2013 and 2012

#### NOTE 3 – LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES (continued)

2013	Total	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Loans Not Past Due
Commercial	\$ 9,712,613	\$ 12,953	\$ -	\$ -	\$ 12,953	\$ 9,699,660
Commercial real estate	48,074,514	386,728	120,001	-	506,729	47,567,785
Consumer:						
Auto	1,789,040	22,352	-	-	22,352	1,766,688
Other	5,752,603	-	-	-	-	5,752,603
Residential real estate	25,117,171	586,946	10,314	396,658	993,918	24,123,253
Total	<u>\$ 90,445,941</u>	<u>\$ 1,008,979</u>	<u>\$ 130,315</u>	<u>\$ 396,658</u>	<u>\$ 1,535,952</u>	<u>\$ 88,909,989</u>

2012	Total	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Loans Not Past Due
Commercial	\$ 11,851,148	\$ 34,001	\$ -	\$ 29,012	\$ 63,013	\$ 11,788,135
Commercial real estate	38,608,977	319,958	-	332,703	652,661	37,956,316
Consumer						
Auto	1,846,885	24,861	-	-	24,861	1,822,024
Other	5,211,476	-	-	-	-	5,211,476
Residential real estate	27,634,326	648,776	189,172	219,101	1,057,049	26,577,277
Total	<u>\$ 85,152,812</u>	<u>\$ 1,027,596</u>	<u>\$ 189,172</u>	<u>\$ 580,816</u>	<u>\$ 1,797,584</u>	<u>\$ 83,355,228</u>

#### Troubled Debt Restructurings:

As of December 31, 2013 and 2012, the Bank had a recorded investment in troubled debt restructurings of \$700,000 and \$887,000, respectively.

The Bank has allocated \$87,000 and \$177,000 of specific reserves to customers whose loan terms have been modified in troubled debt restructurings as of December 31, 2013 and 2012. The Bank has not committed to lend additional amounts as of December 31, 2013 and 2012 to customers with outstanding loans that are classified as troubled debt restructurings.

There were no loans modified as troubled debt restructurings that occurred during the year ending December 31, 2013 or 2012. There were charge offs of restructured troubled debt of \$89,000 during the year ended December 31, 2013. There were no charge offs of restructured troubled debt during the year ending December 31, 2012.

In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed under the Bank's internal underwriting policy.

## NOTES TO FINANCIAL STATEMENTS

### CLARION COUNTY COMMUNITY BANK

For the Years Ended December 31, 2013 and 2012

#### NOTE 3 – LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES (continued)

##### Credit Quality Indicators:

The Bank categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Bank analyzes loans individually by classifying the loans as to credit risk. This analysis typically includes non-homogeneous loans, such as commercial and commercial real estate loans. This analysis is performed on a quarterly basis. The Bank uses the following definitions for risk ratings:

**Special Mention.** Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

**Substandard.** Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

**Doubtful.** Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans. Loans listed as not rated are evaluated for credit quality based on aging status, which was previously presented.

Based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

December 31, 2013	Total Loans	Not Rated	Pass	Special Mention	Substandard	Doubtful
Commercial	\$ 9,712,613	\$ -	\$ 9,635,185	\$ -	\$ 77,428	\$ -
Commercial real estate	48,074,514	-	46,679,026	-	1,395,488	-
Residential real estate	25,117,171	24,615,348	-	75,391	426,432	-
Consumer-auto	1,789,040	1,771,522	-	-	17,518	-
Other	5,752,603	5,752,603	-	-	-	-
Total	<u>\$ 90,445,941</u>	<u>\$ 32,139,473</u>	<u>\$ 56,314,211</u>	<u>\$ 75,391</u>	<u>\$ 1,916,866</u>	<u>\$ -</u>

**NOTES TO FINANCIAL STATEMENTS**

**CLARION COUNTY COMMUNITY BANK**

**For the Years Ended December 31, 2013 and 2012**

**NOTE 3 – LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES (continued)**

December 31, 2012	<u>Total Loans</u>	<u>Not Rated</u>	<u>Pass</u>	<u>Special Mention</u>	<u>Substandard</u>	<u>Doubtful</u>
Commercial	\$ 11,851,148	\$ -	\$ 11,810,981	\$ -	\$ 40,167	\$ -
Commercial real estate	38,608,977	-	36,970,402	-	1,638,575	-
Residential real estate	27,634,326	26,860,111	-	164,251	609,964	-
Consumer-auto	1,846,885	1,787,188	-	-	59,697	-
Other	5,211,476	5,206,446	-	-	5,030	-
<b>Total</b>	<b>\$ 85,152,812</b>	<b>\$ 33,853,745</b>	<b>\$ 48,781,383</b>	<b>\$ 164,251</b>	<b>\$ 2,353,433</b>	<b>\$ -</b>

The Bank considers the performance of the loan portfolio and its impact on the allowance for loan losses. For residential and consumer loan classes, the Bank also evaluates credit quality based on the performing status of the loan, which was previously presented, and by payment activity. Nonperforming loans includes loans on nonaccrual status and loans past due 90 days or more still accruing interest.

The following table presents the recorded investment in residential and consumer loans based on performing status as of December 31, 2013 and 2012:

December 31, 2013	<u>Consumer</u>		<u>Residential Real Estate</u>
	<u>Auto</u>	<u>Other</u>	
Performing	\$ 1,786,356	\$ 5,752,603	\$ 24,720,513
Nonperforming	2,684	-	396,658
<b>Total</b>	<b>\$ 1,789,040</b>	<b>\$ 5,752,603</b>	<b>\$ 25,117,171</b>

December 31, 2012	<u>Consumer</u>		<u>Residential Real Estate</u>
	<u>Auto</u>	<u>Other</u>	
Performing	\$ 1,846,885	\$ 5,211,476	\$ 27,415,225
Nonperforming	-	-	219,101
<b>Total</b>	<b>\$ 1,846,885</b>	<b>\$ 5,211,476</b>	<b>\$ 27,634,326</b>

## NOTES TO FINANCIAL STATEMENTS

### CLARION COUNTY COMMUNITY BANK

For the Years Ended December 31, 2013 and 2012

#### NOTE 4 – OTHER REAL ESTATE OWNED

Activity for other real estate owned was as follows:

	<u>2013</u>	<u>2012</u>
Beginning of year	\$ 193,000	\$ 316,500
Additions to OREO	152,000	130,500
Disposition of OREO	(193,000)	(152,500)
Direct write-downs	<u>-</u>	<u>(101,500)</u>
End of year	<u>\$ 152,000</u>	<u>\$ 193,000</u>

Expenses related to foreclosed assets include:

	<u>2013</u>	<u>2012</u>
Net loss (gain) on sales	\$ (3,434)	\$ (15,027)
Direct writedowns recorded in expense	-	101,500
Operating expenses, net of rental income	5,353	25,898

#### NOTE 5 - LOAN SERVICING

Mortgage loans serviced for others are not reported as assets. The principal balances of these loans at years ended December 31, 2013 and 2012 are \$6,141,000 and \$3,230,000.

Custodial escrow balances maintained in connection with serviced loans were \$64,900 and \$26,800 at year end 2013 and 2012.

Activity for loan servicing rights and the related valuation allowance follows:

	<u>2013</u>	<u>2012</u>
Beginning of year	\$ 30,712	\$ -
Additions	31,757	32,342
Amortized to expense	<u>(3,305)</u>	<u>(1,630)</u>
	<u>\$ 59,164</u>	<u>\$ 30,712</u>

## NOTES TO FINANCIAL STATEMENTS

### CLARION COUNTY COMMUNITY BANK

For the Years Ended December 31, 2013 and 2012

#### NOTE 6 – PREMISES AND EQUIPMENT

Year-end premises and equipment were as follows:

	<u>2013</u>	<u>2012</u>
Land	\$ 165,327	\$ 170,327
Buildings and improvements	1,834,232	1,776,789
Furniture and equipment	<u>1,157,146</u>	<u>1,048,633</u>
	3,156,705	2,995,749
Accumulated depreciation	<u>(1,438,414)</u>	<u>(1,293,799)</u>
	<u>\$ 1,718,291</u>	<u>\$ 1,701,950</u>

Depreciation expense was \$144,615 and \$154,442 for 2013 and 2012, respectively.

#### NOTE 7 – DEPOSITS

Scheduled maturities of time deposits over the next five years as of December 31, 2013 were as follows:

	<u>Amount</u>	<u>Percent</u>
2014	\$ 22,346,581	45.6 %
2015	15,408,855	31.5
2016	6,366,324	13.0
2017	3,652,888	7.5
2018	<u>1,175,229</u>	<u>2.4</u>
	<u>\$ 48,949,877</u>	<u>100.0 %</u>

The Bank had time deposits of \$100,000 or more of approximately \$23,546,000 and \$22,185,000 at December 31, 2013 and 2012, respectively.

#### NOTE 8 – FEDERAL HOME LOAN BANK ADVANCES

At December 31, 2013 and 2012, the Bank did not have any advances outstanding from the FHLB. The Bank has access to FHLB borrowings in the amount of approximately \$54.0 million.

## NOTES TO FINANCIAL STATEMENTS

### CLARION COUNTY COMMUNITY BANK

For the Years Ended December 31, 2013 and 2012

#### NOTE 9 – INCOME TAXES

The provision for income taxes for the years ended December 31, 2013 and 2012 consists of the following:

	<u>2013</u>	<u>2012</u>
Current	\$ 185,516	\$ 314,208
Deferred	<u>71,344</u>	<u>21,694</u>
	<u>\$ 256,860</u>	<u>\$ 335,902</u>

The differences between the expected and actual tax provision expressed as percentages of income before income tax for the years ended December 31, 2013 and 2012 are as follows:

	<u>2013</u>		<u>2012</u>	
	<u>Amount</u>	<u>% of Pre-tax Income</u>	<u>Amount</u>	<u>% of Pre-tax Income</u>
Provision at statutory rate	\$ 409,485	34.0 %	\$ 471,902	34.0 %
Tax exempt interest income, net of disallowed interest expense	(138,876)	(11.5)	(121,539)	(8.8)
Earnings from bank owned life insurance	(14,796)	(1.2)	(15,537)	(1.1)
Other, net	<u>1,047</u>	<u>-</u>	<u>1,076</u>	<u>0.1</u>
Actual tax expense and effective rate	<u>\$ 256,860</u>	<u>21.3 %</u>	<u>\$ 335,902</u>	<u>24.2 %</u>

## NOTES TO FINANCIAL STATEMENTS

### CLARION COUNTY COMMUNITY BANK

For the Years Ended December 31, 2013 and 2012

#### NOTE 9 – INCOME TAXES (continued)

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities as of December 31, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Deferred tax assets:		
Allowance for loan losses	244,522	304,568
Unrealized loss on securities	293,248	-
Accrued supplemental retirement	165,831	104,847
Nonaccrual loan interest	12,535	11,621
Deferred loan origination fees	30,314	32,403
Other real estate owned	-	55,633
	<u>746,450</u>	<u>509,072</u>
Total deferred tax assets		
	746,450	509,072
Deferred tax liabilities:		
Unrealized gain on securities	-	(278,998)
Mortgage servicing rights	(20,116)	(10,442)
Premises and equipment	(36,152)	(27,902)
	<u>(56,268)</u>	<u>(317,342)</u>
Total deferred tax liabilities		
	(56,268)	(317,342)
Total net deferred tax asset	<u>\$ 690,182</u>	<u>\$ 191,730</u>

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods which the deferred tax assets are deductible, management believes it is more likely than not the Bank will realize the benefits of these deductible differences. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced.

There were no unrecognized tax benefits recorded as of December 31, 2013 and 2012, as a result no provision has been taken in the financial statements for possible interest and penalties related to unrecognized tax benefits and the Bank has not recorded an accrual for the payment of interest and penalties as of December 31, 2013 and 2012. The Bank does not expect the amount of unrecognized tax benefits to materially change in the next twelve months.

The Bank is subject to U.S. Federal income tax as well as a capital based franchise tax in the State of Pennsylvania. The Bank is no longer subject to examination by the taxing authorities for 2009 and prior.

## NOTES TO FINANCIAL STATEMENTS

### CLARION COUNTY COMMUNITY BANK

For the Years Ended December 31, 2013 and 2012

#### NOTE 10 – EMPLOYEE RETIREMENT PLANS

The Bank sponsors a 401(k) Profit Sharing Plan for the benefit of its employees, substantially all of whom are eligible to participate after meeting minimum qualifying standards. The Plan permits employees to make elective contributions to the Plan through pre-tax payroll deductions. The Bank has elected to make matching contributions on behalf of participating employees of 25% of employee contributions to the plan up to 4% of their total wages. The Bank incurred expense for matching contributions to the plan totaling \$5,790 and \$6,197 in 2013 and 2012, respectively.

The Board of Directors adopted a supplemental employee retirement plan for certain officers of the Bank on April 15, 2010. Participants will receive 30% of their final base salary annually for fifteen years beginning with the later of retirement or age 65 subject to vesting provisions for years of service. The plan requires ten years of service to be fully vested. Upon adoption, each participant was credited with service for years they have been with the Bank which resulted in participants being 35% vested. The prior service cost upon adoption of the supplemental retirement plan was approximately \$130,000. The prior service cost is being amortized over the estimated future service period on a straight line basis. Total expense related to the plan for the years ended December 31, 2013 and 2012 was \$186,564 and \$88,624. The accrued supplemental retirement liability for this plan was \$487,739 and \$308,375 at December 31, 2013 and December 31, 2012. Amortization of prior service cost for the years ended December 31, 2013 and 2012 was \$7,200. At December 31, 2013, the unamortized prior service cost from the supplemental retirement plan was \$104,800, for an after tax amount of \$69,168 recorded in accumulated other comprehensive income.

#### NOTE 11 – OTHER EXPENSES

Other expenses are as follows:

	<u>2013</u>		<u>2012</u>
Advertising	\$ 58,794	\$	62,588
Pennsylvania bank shares tax	84,659		73,989
Charitable contributions	61,664		65,915
Postage and courier	49,283		54,787
Stationary and printing	70,970		71,285
Telephone	38,713		36,913
Directors fees	110,050		92,750
Insurance	39,671		37,570
Miscellaneous	153,622		280,715
	<u>\$ 667,426</u>	\$	<u>776,512</u>

## NOTES TO FINANCIAL STATEMENTS

### CLARION COUNTY COMMUNITY BANK

For the Years Ended December 31, 2013 and 2012

#### NOTE 12 – FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

Some financial instruments, such as loan commitments, credit lines, letters of credit, and overdraft protection, are issued to meet customer financing needs. These are agreements to provide credit or to support the credit of others, as long as conditions established in the contract are met, and usually have expiration dates. Commitments may expire without being used. Off-balance-sheet risk to credit loss exists up to the face amount of these instruments, although material losses are not anticipated. The same credit policies are used to make such commitments as are used for loans, including obtaining collateral at exercise of the commitment.

The contractual amounts of financial instruments with off-balance-sheet risk at year end were as follows:

	<u>2013</u> <u>Fixed</u> <u>Rate</u>	<u>2013</u> <u>Variable</u> <u>Rate</u>	<u>2012</u> <u>Fixed</u> <u>Rate</u>	<u>2012</u> <u>Variable</u> <u>Rate</u>
Commitments to make loans	\$ 669,000	\$ 559,000	\$ 1,275,000	\$ 3,817,000
Unused lines of credit	359,000	10,808,000	378,000	6,945,000
Standby letters of credit	336,000	-	339,000	-

Commitments to make loans are generally made for periods of 60 days or less. The fixed rate loan commitments at December 31, 2013 have interest rates ranging from 3.63% to 5.75% and maturities ranging from five years to fifteen years. The fixed rate loan commitments at December 31, 2012 had interest rates ranging from 2.88% to 6.75% and maturities ranging from five years to fifteen years.

#### NOTE 13 – CONCENTRATIONS, RISKS AND UNCERTAINTIES

The Bank primarily grants loans to customers in Clarion and Armstrong counties of Pennsylvania and maintains a diversified loan portfolio. The ability of its debtors to honor their contracts is not substantially dependent on any particular economic business sector.

The Bank has certain risks associated with deposit concentrations. The Bank had 218 accounts greater than \$100,000 representing \$54.7 million in deposits as of December 31, 2013 (49.7% of deposits as of December 31, 2013). As of December 31, 2012, the Bank had 210 accounts greater than \$100,000 representing \$53.2 million in deposits (48.3% of deposits as of December 31, 2012).

At December 31, 2013, approximately \$2.9 million of the Bank's cash and cash equivalents was maintained at various financial institutions in amounts that exceeded the \$250,000 limit on FDIC insured accounts. At December 31, 2012, approximately \$6.5 million of the Bank's cash and cash equivalents was maintained at various financial institutions in amounts that exceeded the \$250,000 limit on FDIC insured accounts.

The Bank is involved in various legal actions from normal business activities. Management believes that any liability arising from such actions will not have a material effect on the Bank's financial position.

## NOTES TO FINANCIAL STATEMENTS

### CLARION COUNTY COMMUNITY BANK

For the Years Ended December 31, 2013 and 2012

#### NOTE 14 – RELATED PARTIES

Certain executive officers, directors and principal shareholders of the Bank, and companies in which they have beneficial ownership, were indebted (including loans, available lines of credit, open letters of credit, and third party co-signors) to the Bank. Activity during 2013 was as follows:

Beginning balance	\$	2,350,000
New loans		907,000
Repayments		<u>(89,000)</u>
Ending balance	\$	<u><u>3,168,000</u></u>

There was one open letter of credit by related parties in 2013 totaling \$2,500.

Deposits from principal officers, directors, and their affiliates at year-end 2013 and 2012 were \$3.4 million and \$4.8 million.

#### NOTE 15 – REGULATORY MATTERS

Banks are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. Management believes as of December 31, 2013, the Bank meets all capital adequacy requirements to which it is subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If only adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At year-end 2013 and 2012, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category.

## NOTES TO FINANCIAL STATEMENTS

### CLARION COUNTY COMMUNITY BANK

For the Years Ended December 31, 2013 and 2012

#### NOTE 15 – REGULATORY MATTERS (continued)

Actual and required capital amounts and ratios are presented below at year end.

	Actual		Required for Capital Adequacy Puposes		To be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars in thousands)						
As of December 31, 2013:						
Total capital (to risk-weighted assets)	\$ 14,346	17.51%	\$ 6,555	8.0%	\$ 8,194	10.0%
Tier 1 capital (to risk-weighted assets)	13,437	16.40%	3,278	4.0%	4,917	6.0%
Tier 1 capital (to average assets)	13,437	10.85%	4,953	4.0%	6,191	5.0%
As of December 31, 2012:						
Total capital (to risk-weighted assets)	\$ 13,568	17.68%	\$ 6,140	8.0%	\$ 7,675	10.0%
Tier 1 capital (to risk-weighted assets)	12,587	16.40%	3,070	4.0%	4,605	6.0%
Tier 1 capital (to average assets)	12,587	10.17%	4,949	4.0%	6,187	5.0%

Banking regulations limit the amount of dividends that may be paid without prior approval of regulatory agencies. Under these regulations, the amount of dividends that may be paid in any calendar year is limited to the current year's net profits, combined with the retained net profits of the preceding two years, subject to the capital requirements described above. Under Pennsylvania law the Bank is only permitted to pay cash dividends out of retained earnings. During 2014, the Bank could, without prior approval, declare dividends of approximately \$1,191,000 plus any 2014 net profits retained to the date of the dividend declaration.

#### NOTE 16 – STOCK OPTIONS

The Bank's stock option program authorized granting stock options to Bank directors and employees for up to 384,410 shares of common stock. Stock options granted under the program have a ten year expiration period. Under the program, the original exercise price was \$10 per share. After giving effect to the 10% stock dividends declared in 2005, 2006 and 2007, and the 5% stock dividend of 2010, the current weighted average exercise price of all options is \$7.25 per share. Options constitute both incentive and non-qualified stock options. The term of the Plan was in effect for ten years following the adoption date of December 4, 2003. Unissued shares existing in the Plan at December 4, 2013 may no longer be issued.

## NOTES TO FINANCIAL STATEMENTS

### CLARION COUNTY COMMUNITY BANK

For the Years Ended December 31, 2013 and 2012

#### NOTE 16 – STOCK OPTIONS (continued)

A summary of the Bank's stock option plan is presented below:

	2013	
	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	296,945	\$ 7.25
Forfeiture of stock options	-	\$ -
Outstanding at end of year	<u>296,945</u>	\$ 7.25
Exercisable at end of year	<u>296,945</u>	\$ 7.25

There was no aggregate intrinsic value for outstanding or exercisable options at December 31, 2013 and 2012. The options outstanding at December 31, 2013 and 2012 had a weighted average remaining life of 0.2 and 1.2 years, respectively. All expenses associated with the accounting for stock options were recognized as of December 31, 2006. The market value of common stock at December 31, 2013 was \$5.80 per share.

#### NOTE 17 – FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

Level 1 – Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2 – Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 – Significant unobservable inputs that reflect a bank's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The Bank used the following methods and significant assumptions to estimate the fair value of each type of financial instrument:

## NOTES TO FINANCIAL STATEMENTS

### CLARION COUNTY COMMUNITY BANK

For the Years Ended December 31, 2013 and 2012

#### NOTE 17 – FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Investment Securities: The fair values for investment securities are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2). For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators (Level 3).

Impaired Loans: The fair value of impaired loans with specific allocations of the allowance for loan losses is generally based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. Non-real estate collateral may be valued using an appraisal, net book value per the borrower's financial statements, or aging reports, adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and management's expertise and knowledge of the client and client's business, resulting in a Level 3 fair value classification. Impaired loans are evaluated on a quarterly basis for additional impairment and adjusted accordingly.

Other Real Estate Owned: Assets acquired through or instead of loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. Fair value is commonly based on recent real estate appraisals which are updated no less frequently than annually. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. Real estate owned properties are evaluated on a quarterly basis for additional impairment and adjusted accordingly.

Appraisals for both collateral-dependent impaired loans and real estate owned are performed by certified general appraisers (for commercial properties) or certified residential appraisers (for residential properties) whose qualifications and licenses have been reviewed and verified by the Bank. Once received, the Appraisal Review Officer reviews the assumptions and approaches utilized.

**NOTES TO FINANCIAL STATEMENTS**

**CLARION COUNTY COMMUNITY BANK**

**For the Years Ended December 31, 2013 and 2012**

**NOTE 17 – FAIR VALUE OF FINANCIAL INSTRUMENTS** (continued)

Assets and liabilities measured at fair value on a recurring basis are summarized below:

Description	December 31, 2013 Carrying Value	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
US government sponsored entities and agencies	\$ 5,194,534	\$ 5,194,534	\$ -	-
State and municipal bonds-tax-free	11,325,043	-	11,325,043	-
Residential mortgage-backed securities	<u>5,769,060</u>	-	<u>5,769,060</u>	-
Total investment securities available-for-sale	<u>\$ 22,288,637</u>	<u>\$ 5,194,534</u>	<u>\$ 17,094,103</u>	<u>-</u>

Description	December 31, 2012 Carrying Value	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
US government sponsored entities and agencies	\$ 4,750,614	\$ 4,750,614	\$ -	-
State and municipal bonds-tax-free	11,981,468	-	11,981,468	-
Residential mortgage-backed securities	<u>8,400,188</u>	-	<u>8,400,188</u>	-
Total investment securities available-for-sale	<u>\$ 25,132,270</u>	<u>\$ 4,750,614</u>	<u>\$ 20,381,656</u>	<u>-</u>

**NOTES TO FINANCIAL STATEMENTS**

**CLARION COUNTY COMMUNITY BANK**

**For the Years Ended December 31, 2013 and 2012**

**NOTE 17 – FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)**

Assets measured at fair value on a nonrecurring basis are summarized below:

<u>Description</u>	<u>December 31, 2013 Carrying Value</u>	<u>(Level 1) Quoted Prices in Active Markets for Identical Assets</u>	<u>(Level 2) Significant Other Observable Inputs</u>	<u>(Level 3) Significant Unobservable Inputs</u>
Impaired loans:				
Commercial real estate	\$ 133,000	\$ -	\$ -	\$ 133,000

<u>Description</u>	<u>December 31, 2012 Carrying Value</u>	<u>(Level 1) Quoted Prices in Active Markets for Identical Assets</u>	<u>(Level 2) Significant Other Observable Inputs</u>	<u>(Level 3) Significant Unobservable Inputs</u>
Other real estate owned:				
Commercial real estate	\$ 155,000	\$ -	\$ -	\$ 155,000
Impaired loans:				
Commercial	\$ 9,000	\$ -	\$ -	\$ 9,000
Commercial real estate	320,000	-	-	320,000
Consumer:				
Auto	13,000	-	-	13,000
Other	4,000	-	-	4,000

Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a recorded investment of \$220,000, with a valuation allowance of \$87,000 at December 31, 2013, resulting in a provision for loan losses of \$26,000 for the year ending December 31, 2013. At December 31, 2012, impaired loans had a carrying amount of \$583,000, with a valuation allowance of \$237,000, resulting in an additional provision for loan losses of \$94,000 for the year ending December 31, 2012.

There was no other real estate owned measured at fair value at December 31, 2013. At December 31, 2012, other real estate owned had a carrying amount of \$155,000 after writedowns of \$102,000 during 2012.

## NOTES TO FINANCIAL STATEMENTS

### CLARION COUNTY COMMUNITY BANK

For the Years Ended December 31, 2013 and 2012

#### NOTE 17 – FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

The following table presents quantitative information about level 3 fair value measurements for financial instruments measured at fair value on a non-recurring basis at December 31, 2013 and 2012:

2013				
	<u>Fair Value</u>	<u>Valuation Techniques</u>	<u>Unobservable Inputs</u>	<u>Weighted Average</u>
Impaired loans:				
Commercial real estate	\$ 133,000	Sales comparison approach	Adjustment for differences between comparable sales	40%
2012				
	<u>Fair Value</u>	<u>Valuation Techniques</u>	<u>Unobservable Inputs</u>	<u>Weighted Average</u>
Impaired loans:				
Commercial real estate	\$ 320,000	Sales comparison approach	Adjustment for differences between comparable sales	42%
Commercial	\$ 9,000	Sales comparison approach	Adjustment for differences between comparable sales	15%
Residential real estate	\$ 16,000	Sales comparison approach	Adjustment for differences between comparable sales	15%
Consumer:				
Auto	\$ 13,000	Sales comparison approach	Adjustment for differences between comparable sales	15%
Other	\$ 4,000	Sales comparison approach	Adjustment for differences between comparable sales	15%
Other real estate owned:				
Commercial	\$ 155,000	Sales agreement	None	0%

The carrying amount and estimated fair values of financial instruments were as follows:

	<u>2013 Carrying Amount</u>	<u>2013 Fair Value</u>	<u>2012 Carrying Amount</u>	<u>2012 Fair Value</u>
Financial assets:				
Cash and cash equivalents	\$ 4,383,898	\$ 4,383,898	\$ 7,748,782	\$ 7,748,782
Certificates of deposit	2,340,000	2,347,000	2,340,000	2,349,126
Securities available for sale	22,288,637	22,288,637	25,132,270	25,132,270
Restricted bank stock	538,500	N/A	417,200	N/A
Loans receivable, net	89,447,350	89,640,000	84,002,854	84,612,611
Accrued interest receivable	362,903	362,903	390,940	390,940
Financial liabilities:				
Deposits	(110,063,073)	(110,522,000)	(110,139,918)	(110,698,395)
Accrued interest payable	(83,565)	(83,565)	(85,807)	(85,807)

## NOTES TO FINANCIAL STATEMENTS

### CLARION COUNTY COMMUNITY BANK

For the Years Ended December 31, 2013 and 2012

#### NOTE 17 – FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

The methods and assumptions, not previously presented, used to estimate fair value are described as follows:

Carrying amount is the estimated fair value for cash and cash equivalents, accrued interest receivable and payable, demand deposits, and variable rate loans or deposits that reprice frequently and fully. The methods for determining the fair values for securities available for sale were described previously. For certificates of deposit, fixed rate loans or deposits and for variable rate loans or deposits with infrequent repricing or repricing limits, fair value is based on discounted cash flows using current market rates applied to the estimated life and credit risk. It was not practicable to determine the fair value of restricted stock due to restrictions placed on its transferability. The fair value of off-balance-sheet items is not considered material.

#### NOTE 18 – EARNINGS PER COMMON SHARE

The factors used in the earnings per common share computation follows:

	<u>2013</u>	<u>2012</u>
Basic		
Net income	\$ <u>947,507</u>	\$ <u>1,052,046</u>
Weighted average common shares outstanding	<u>1,661,255</u>	<u>1,661,255</u>
Basic earnings per common share	\$ <u>0.57</u>	\$ <u>0.63</u>
Diluted		
Net income	\$ <u>947,507</u>	\$ <u>1,052,046</u>
Weighted average common shares outstanding for basic earnings per common share	1,661,255	1,661,255
Add: Dilutive effects of assumed exercises of stock options	<u>-</u>	<u>-</u>
Average shares and dilutive potential common shares	<u>1,661,255</u>	<u>1,661,255</u>
Dilutive earnings per common share	\$ <u>0.57</u>	\$ <u>0.63</u>

Stock options for 296,945 shares of common stock were not considered in computing diluted earnings per common share for 2013 and 2012, respectively, because they were antidilutive.

**NOTES TO FINANCIAL STATEMENTS**

**CLARION COUNTY COMMUNITY BANK**

**For the Years Ended December 31, 2013 and 2012**

**NOTE 19 – ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)**

The following is a summary of the accumulated other comprehensive income (loss) balances, net of tax:

	<u>Balance at December 31, 2012</u>	<u>Current Period Change</u>	<u>Balance at December 31, 2013</u>
Unrealized gains on securities available for sale	\$ 541,584	\$ (1,110,830)	\$ (569,246)
Unamortized prior service cost on supplemental retirement plan	<u>(73,920)</u>	<u>4,752</u>	<u>(69,168)</u>
Total	<u>\$ 467,664</u>	<u>\$ (1,106,078)</u>	<u>\$ (638,414)</u>