

**CLARION COUNTY COMMUNITY BANK**

**FINANCIAL STATEMENTS**

**December 31, 2015 and 2014**

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**CLARION COUNTY COMMUNITY BANK**

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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 sheet as of December 31, 2015; the related statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the year 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 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 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, 2015, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matter**

The financial statements of Clarion County Community Bank, as of and for the year ended December 31, 2014, were audited by other auditors whose report dated April 2, 2015, expressed an unmodified opinion on those statements.

DRAFT
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Wexford, Pennsylvania  
March XX, 2016

## BALANCE SHEETS

### CLARION COUNTY COMMUNITY BANK

	December 31,	
	2015	2014
<b>ASSETS</b>		
Cash and due from banks	\$ 932,292	\$ 983,611
Interest bearing deposits with banks	2,372,851	1,937,796
Cash and cash equivalents	3,305,143	2,921,407
Certificates of deposit	100,000	1,842,000
Securities available for sale	15,273,777	18,329,661
Restricted bank stock, at cost	791,200	688,900
Loans receivable, net of allowance for loan losses of \$1,011,557 in 2015 and \$947,140 in 2014	106,669,936	97,373,955
Premises and equipment, net	1,922,360	2,023,705
Other real estate owned, net	300,000	-
Bank owned life insurance	1,510,182	1,471,307
Deferred taxes	451,887	409,822
Other assets	638,422	662,331
<b>Total Assets</b>	<b>\$ 130,962,907</b>	<b>\$ 125,723,088</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Liabilities</b>		
Deposits		
Non-interest bearing	\$ 17,640,250	\$ 17,148,981
Interest bearing	92,846,368	88,719,148
Total deposits	110,486,618	105,868,129
Federal Home Loan Bank advances	5,000,000	5,000,000
Accrued interest and other liabilities	858,586	866,410
Total liabilities	116,345,204	111,734,539
<b>Stockholders' Equity</b>		
Preferred stock: 1,000,000 shares authorized, no shares issued	-	-
Common stock; par value \$1; 10,000,000 shares authorized; 1,665,667 issued and outstanding in 2015 and 2014	1,665,667	1,665,667
Surplus	10,647,455	10,647,455
Retained earnings	2,371,443	1,766,192
Accumulated other comprehensive loss	(66,862)	(90,765)
Total stockholders' equity	14,617,703	13,988,549
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 130,962,907</b>	<b>\$ 125,723,088</b>

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

# STATEMENTS OF INCOME

## CLARION COUNTY COMMUNITY BANK

	Years Ended December 31,	
	2015	2014
<b>Interest Income</b>		
Loans, including fees	\$ 5,068,213	\$ 4,563,947
Taxable securities	121,890	171,104
Tax exempt securities	293,106	342,551
Interest bearing deposits	8,755	19,422
Total interest income	<u>5,491,964</u>	<u>5,097,024</u>
<b>Interest Expense</b>		
Deposits	645,349	658,109
Federal Home Loan Bank advances	42,026	7,348
Total interest expense	<u>687,375</u>	<u>665,457</u>
<b>Net Interest Income</b>	4,804,589	4,431,567
<b>Provision for Loan Losses</b>	<u>250,000</u>	<u>160,000</u>
<b>Net Interest Income after Provision for Loan Losses</b>	4,554,589	4,271,567
<b>Other Income</b>		
Service fees	115,982	118,386
Bank owned life insurance	38,875	40,415
Net gains on sales of loans held for sale	107,278	131,638
Net loss on securities available for sale	(6,697)	(3,742)
Other	147,101	122,847
Total other income	<u>402,539</u>	<u>409,544</u>
<b>Other Expenses</b>		
Salaries and employee benefits	2,183,065	2,119,555
Professional fees	144,463	156,355
FDIC insurance	76,036	78,318
Occupancy and equipment	344,896	339,597
Data processing	474,440	423,435
Other (see Note 11)	729,232	730,611
Total other expenses	<u>3,952,132</u>	<u>3,847,871</u>
<b>Income Before Income Tax Expense</b>	1,004,996	833,240
<b>Income Tax Expense</b>	<u>233,178</u>	<u>158,070</u>
<b>Net Income</b>	<u>\$ 771,818</u>	<u>\$ 675,170</u>
<b>Earnings per Common Share:</b>		
Basic	<u>\$ 0.46</u>	<u>\$ 0.41</u>
Diluted	<u>\$ 0.46</u>	<u>\$ 0.41</u>

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

**STATEMENTS OF COMPREHENSIVE INCOME****CLARION COUNTY COMMUNITY BANK**

	<u>2015</u>	<u>2014</u>
<b>Net income</b>	<b>\$ 771,818</b>	<b>\$ 675,170</b>
Unrealized holding gains on available for sale securities	<b>22,319</b>	818,829
Reclassification adjustment for loss realized in income	<b>6,697</b>	3,742
Net unrealized gains	<b>29,016</b>	822,571
Tax effect	<b>(9,865)</b>	(279,674)
Net-of-tax amount	<b>19,151</b>	542,897
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	<b>23,903</b>	547,649
Total comprehensive income	<b>\$ 795,721</b>	<b>\$ 1,222,819</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, 2015 and 2014**

	<u>Common Stock</u>	<u>Surplus</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Loss</u>	<u>Total</u>
<b>Balance at January 1, 2014</b>	\$ 1,661,255	\$ 10,621,461	\$ 1,190,886	\$ (638,414)	\$ 12,835,188
Exercise of 3,147 stock options	3,147	19,354	-	-	22,501
Issuance of 1,265 shares through the dividend reinvestment plan	1,265	6,640	-	-	7,905
Net income	-	-	675,170	-	675,170
Cash dividend, \$0.06 per share	-	-	(99,864)	-	(99,864)
Other comprehensive income	-	-	-	547,649	547,649
<b>Balance at December 31, 2014</b>	<u>1,665,667</u>	<u>10,647,455</u>	<u>1,766,192</u>	<u>(90,765)</u>	<u>13,988,549</u>
Net income	-	-	771,818	-	771,818
Cash dividend, \$0.10 per share	-	-	(166,567)	-	(166,567)
Other comprehensive income	-	-	-	23,903	23,903
<b>Balance at December 31, 2015</b>	<u>\$ 1,665,667</u>	<u>\$ 10,647,455</u>	<u>\$ 2,371,443</u>	<u>\$ (66,862)</u>	<u>\$ 14,617,703</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, 2015 and 2014

	For the Years Ended December 31,	
	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 771,818	\$ 675,170
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	177,306	166,221
Net amortization of premiums and discounts	101,671	103,441
Net losses on securities available for sale	6,697	3,742
Provision for loan losses	250,000	160,000
Net gains on sale of loans held for sale	(107,278)	(131,638)
Loans originated for sale	(3,144,049)	(3,324,961)
Proceeds from sale of loans held for sale	3,251,327	3,427,497
Gain on OREO	-	(4,862)
Deferred taxes	(53,140)	(1,762)
Earnings in bank owned life insurance	(38,875)	(40,415)
Change in:		
Deferred loan fees	(22,891)	5,488
Other assets	29,872	24,388
Accrued interest and other liabilities	(7,824)	124,504
<b>Net Cash From Operating Activities</b>	<b>1,214,634</b>	<b>1,186,813</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of available for sale securities	-	(4,687,807)
Proceeds from sales of securities available for sale	1,488,533	6,795,376
Maturities and calls of available for sale securities	200,591	1,295,000
Principal payments from mortgage-backed securities	1,287,407	1,271,795
Purchase of restricted bank stock	(480,000)	(150,400)
Redemption or call of restricted bank stock	377,700	-
Purchases of certificates of deposit	(100,000)	(1,345,000)
Maturities of certificates of deposit	1,842,000	1,843,000
Proceeds from sale of foreclosed assets	-	669,123
Loan originations and repayments, net	(9,823,090)	(8,604,354)
Purchases of premises and equipment	(75,961)	(471,635)
<b>Net Cash Used By Investing Activities</b>	<b>(5,282,820)</b>	<b>(3,384,902)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net change in deposits	4,618,489	(4,194,944)
Proceeds from FHLB borrowings	-	5,000,000
Proceeds from issuing common stock	-	30,406
Cash dividends paid on common stock	(166,567)	(99,864)
<b>Net Cash From Financing Activities</b>	<b>4,451,922</b>	<b>735,598</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>383,736</b>	<b>(1,462,491)</b>
<b>Cash and Cash Equivalents at Beginning of Year</b>	<b>2,921,407</b>	<b>4,383,898</b>
<b>Cash and Cash Equivalents at End of Year</b>	<b>\$ 3,305,143</b>	<b>\$ 2,921,407</b>
<b>SUPPLEMENTAL DISCLOSURES</b>		
Interest paid	\$ 702,705	\$ 681,175
Income taxes paid	225,000	155,000
Non-cash disclosures:		
Other real estate acquired in settlement of loans	\$ 300,000	\$ 512,261

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, 2015 and 2014

#### 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 four locations; the main office in Clarion, Pennsylvania, full service branch offices in New Bethlehem, Pennsylvania and Rimersburg, Pennsylvania, and a loan production office in Franklin, Pennsylvania.

**Nature of Operations:** The Bank provides financial services through its offices in Clarion County and loan services through its office in Venango 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.

**Subsequent Events:** The Bank has evaluated subsequent events for recognition and disclosure through April 1, 2016 which is the date the financial statements were available to be issued.

**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.

**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

## NOTES TO FINANCIAL STATEMENTS

### CLARION COUNTY COMMUNITY BANK

For the Years Ended December 31, 2015 and 2014

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

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 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 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 and Venango County and their 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.

## NOTES TO FINANCIAL STATEMENTS

### CLARION COUNTY COMMUNITY BANK

For the Years Ended December 31, 2015 and 2014

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

**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 nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, 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 management does not expect to collect principal and interest in accordance with the original contractual agreement. 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, unless such loans are modified in a troubled debt restructuring.

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

## NOTES TO FINANCIAL STATEMENTS

### CLARION COUNTY COMMUNITY BANK

For the Years Ended December 31, 2015 and 2014

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

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-one 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.

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 \$24,846 and \$17,448 for the years ended December 31, 2015 and 2014, respectively. Amortization of mortgage servicing rights which are also recorded in other non-interest income totaled \$9,619 and \$5,652 for the years ended December 31, 2015 and 2014. No impairment was recorded in 2015 or 2014.

**Foreclosed Assets:** Foreclosed assets are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. Physical possession of residential real estate property collateralizing a consumer mortgage loan occurs when legal title is obtained upon completion of foreclosure or when the borrower conveys all interest in the property to satisfy the loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. These assets are

## NOTES TO FINANCIAL STATEMENTS

### CLARION COUNTY COMMUNITY BANK

For the Years Ended December 31, 2015 and 2014

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

subsequently accounted for at lower of cost or fair value less estimated costs to sell. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Operating costs after acquisition are expensed.

**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.

**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

## NOTES TO FINANCIAL STATEMENTS

### CLARION COUNTY COMMUNITY BANK

For the Years Ended December 31, 2015 and 2014

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

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.

**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 dividends through the date of issuance of the financial statements.

**Comprehensive Income:** Comprehensive income consists of net income and other comprehensive income. Other comprehensive income 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.

## NOTES TO FINANCIAL STATEMENTS

### CLARION COUNTY COMMUNITY BANK

For the Years Ended December 31, 2015 and 2014

#### NOTE 2 – INVESTMENT SECURITIES

The following table summarizes the amortized cost and fair value of securities available-for-sale at December 31, 2015 and 2014 and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive income:

	December 31, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government sponsored entities and agencies	\$ 3,697,109	\$ 3,901	\$ (60,482)	\$ 3,640,528
State and municipal bonds-tax free	7,861,817	95,381	(36,241)	7,920,957
Residential mortgage-backed securities	3,725,757	22,690	(36,155)	3,712,292
	<u>\$ 15,284,683</u>	<u>\$ 121,972</u>	<u>\$ (132,878)</u>	<u>\$ 15,273,777</u>

	December 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government sponsored entities and agencies	\$ 4,129,730	-	\$ (91,114)	\$ 4,038,616
State and municipal bonds-tax free	9,559,717	143,979	(82,820)	9,620,876
Residential mortgage-backed securities	4,680,136	40,598	(50,565)	4,670,169
	<u>\$ 18,369,583</u>	<u>\$ 184,577</u>	<u>\$ (224,499)</u>	<u>\$ 18,329,661</u>

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

	2015	2014
Proceeds	\$ 1,488,533	\$ 6,795,376
Gross gains	5,023	61,349
Gross losses	(11,720)	(37,594)
Gross losses on securities called prior to maturity	-	(27,497)

The tax (benefit)/provision related to these net realized losses/gains was \$(2,277) and \$(1,272), respectively.



## NOTES TO FINANCIAL STATEMENTS

### CLARION COUNTY COMMUNITY BANK

For the Years Ended December 31, 2015 and 2014

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

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, 2015 and 2014, the Bank held \$726,200 and \$623,900, 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, 2015 or 2014.

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, 2015	
	Amortized Cost	Fair Value
Debt securities available for sale		
Due in one year or less	\$ -	\$ -
Due after one year through five years	500,000	496,330
Due after five years through ten years	3,888,278	3,922,275
Due after ten years	7,170,648	7,142,880
Residential mortgage-backed securities	3,725,757	3,712,292
	<u>\$ 15,284,683</u>	<u>\$ 15,273,777</u>

## NOTES TO FINANCIAL STATEMENTS

### CLARION COUNTY COMMUNITY BANK

For the Years Ended December 31, 2015 and 2014

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

The following table summarizes investment securities with unrealized losses at December 31, 2015 and 2014 by major security type and length of time in a continuous unrealized loss position:

	December 31, 2015					
	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	\$ -	\$ -	\$ 3,266,361	\$ (60,482)	\$ 3,266,361	\$ (60,482)
State and municipal bonds-tax free	250,785	(2,373)	2,350,821	(33,868)	2,601,606	(36,241)
Residential mortgage-backed securities	-	-	1,753,925	(36,155)	1,753,925	(36,155)
	<u>\$ 250,785</u>	<u>\$ (2,373)</u>	<u>\$ 7,371,107</u>	<u>\$ (130,505)</u>	<u>\$ 7,621,892</u>	<u>\$ (132,878)</u>

	December 31, 2014					
	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	\$ -	\$ -	\$ 4,038,616	\$ (91,114)	\$ 4,038,616	\$ (91,114)
State and municipal bonds-tax free	768,677	(15,656)	2,326,071	(67,164)	3,094,748	(82,820)
Residential mortgage-backed securities	479,897	(4,313)	2,103,714	(46,252)	2,583,611	(50,565)
	<u>\$ 1,248,574</u>	<u>\$ (19,969)</u>	<u>\$ 8,468,401</u>	<u>\$ (204,530)</u>	<u>\$ 9,716,975</u>	<u>\$ (224,499)</u>

Unrealized losses on the twenty securities at December 31, 2015 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, 2015.

All of the mortgage-backed and agency 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.

## NOTES TO FINANCIAL STATEMENTS

### CLARION COUNTY COMMUNITY BANK

For the Years Ended December 31, 2015 and 2014

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

Because the decline in fair value at December 31, 2015 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, 2015.

The Bank has pledged approximately \$8,409,000 and \$6,626,000 as of December 31, 2015 and 2014, 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>2015</u>	<u>2014</u>
Commercial	\$ 14,255,969	\$ 12,482,678
Commercial real estate	61,780,531	55,384,216
Residential real estate	23,535,969	23,591,788
Consumer:		
Auto	1,519,157	1,571,819
Other	<u>6,661,622</u>	<u>5,385,240</u>
	<b>107,753,248</b>	98,415,741
Net deferred loan fees	(71,755)	(94,646)
Allowance for loan losses	<u>(1,011,557)</u>	<u>(947,140)</u>
Loans, net	<u>\$ 106,669,936</u>	<u>\$ 97,373,955</u>

The following table presents the activity in the allowance for loan losses by portfolio segment for the years ending December 31, 2015 and 2014:

December 31, 2015	Commercial		Residential		Consumer	Unallocated	Total
	Commercial	Real Estate	Real Estate				
Beginning balance, January 1, 2015	\$ 63,615	\$ 405,280	\$ 336,251	\$ 16,590	\$ 125,404	\$ 947,140	
Provision for loan losses	29,630	192,542	39,059	23,769	(35,000)	250,000	
Loans charged-off	-	(100,745)	(76,502)	(11,080)	-	(188,327)	
Recoveries	-	-	1,882	862	-	2,744	
Total ending balance, December 31, 2015	<u>\$ 93,245</u>	<u>\$ 497,077</u>	<u>\$ 300,690</u>	<u>\$ 30,141</u>	<u>\$ 90,404</u>	<u>\$ 1,011,557</u>	

**NOTES TO FINANCIAL STATEMENTS**

**CLARION COUNTY COMMUNITY BANK**

**For the Years Ended December 31, 2015 and 2014**

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

December 31, 2014	Commercial	Commercial Real Estate	Residential Real Estate	Consumer	Unallocated	Total
Allowance for loan losses:						
Beginning balance, January 1, 2014	\$ 23,168	\$ 372,571	\$ 354,737	\$ 66,846	\$ 92,111	\$ 909,433
Provision for loan losses	91,534	32,709	49,457	(46,993)	33,293	160,000
Loans charged-off	(51,087)	-	(69,089)	(3,263)	-	(123,439)
Recoveries	-	-	1,146	-	-	1,146
<b>Total ending balance, December 31, 2014</b>	<b>\$ 63,615</b>	<b>\$ 405,280</b>	<b>\$ 336,251</b>	<b>\$ 16,590</b>	<b>\$ 125,404</b>	<b>\$ 947,140</b>

The next several tables exclude accrued interest receivable and net deferred loan fees in the recorded investment. Accrued interest receivable totaled \$250,151 and \$230,948 at December 31, 2015 and 2014. Net deferred loan fees totaled \$(71,755) and \$(94,646) at December 31, 2015 and 2014, 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, 2015:

2015	Commercial	Commercial Real Estate	Residential Real Estate	Consumer	Unallocated	Total
Allowance for loan losses:						
Individually evaluated for impairment	\$ -	\$ 96,799	\$ -	\$ -	\$ -	\$ 96,799
Collectively evaluated for impairment	93,245	400,278	300,690	30,141	90,404	914,758
<b>Total ending allowance balance</b>	<b>\$ 93,245</b>	<b>\$ 497,077</b>	<b>\$ 300,690</b>	<b>\$ 30,141</b>	<b>\$ 90,404</b>	<b>\$ 1,011,557</b>
Loans:						
Individually evaluated for impairment	\$ -	\$ 493,516	\$ -	\$ -	\$ -	\$ 493,516
Collectively evaluated for impairment	14,255,969	61,287,015	23,535,969	8,180,779	-	107,259,732
<b>Total</b>	<b>\$ 14,255,969</b>	<b>\$ 61,780,531</b>	<b>\$ 23,535,969</b>	<b>\$ 8,180,779</b>	<b>\$ -</b>	<b>\$ 107,753,248</b>

**NOTES TO FINANCIAL STATEMENTS**

**CLARION COUNTY COMMUNITY BANK**

**For the Years Ended December 31, 2015 and 2014**

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

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, 2014:

2014	Commercial	Commercial Real Estate	Residential Real Estate	Consumer	Unallocated	Total
Allowance for loan losses:						
Individually evaluated for impairment	\$ -	\$ 130,663	\$ -	\$ -	\$ -	130,663
Collectively evaluated for impairment	63,615	274,617	336,251	16,590	125,404	816,477
Total ending allowance balance	<u>\$ 63,615</u>	<u>\$ 405,280</u>	<u>\$ 336,251</u>	<u>\$ 16,590</u>	<u>\$ 125,404</u>	<u>\$ 947,140</u>
Loans:						
Individually evaluated for impairment	\$ -	\$ 582,389	\$ -	\$ -	\$ -	582,389
Collectively evaluated for impairment	12,482,678	54,801,827	23,591,788	6,957,059	-	97,833,352
Total	<u>\$ 12,482,678</u>	<u>\$ 55,384,216</u>	<u>\$ 23,591,788</u>	<u>\$ 6,957,059</u>	<u>\$ -</u>	<u>\$ 98,415,741</u>

The following table presents information related to impaired loans as of and for the year ended December 31, 2015:

	As of December 31, 2015			Year Ended December 31, 2015		
	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized
With an allowance recorded:						
Commercial real estate	\$ 493,516	\$ 493,516	\$ 96,799	\$ 556,640	\$ 17,162	\$ 17,162
Subtotal	<u>493,516</u>	<u>493,516</u>	<u>96,799</u>	<u>556,640</u>	<u>17,162</u>	<u>17,162</u>
Total	<u>\$ 493,516</u>	<u>\$ 493,516</u>	<u>\$ 96,799</u>	<u>\$ 556,640</u>	<u>\$ 17,162</u>	<u>\$ 17,162</u>

**NOTES TO FINANCIAL STATEMENTS**

**CLARION COUNTY COMMUNITY BANK**

**For the Years Ended December 31, 2015 and 2014**

**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, 2014:

	<u>As of December 31, 2014</u>			<u>Year Ended December 31, 2014</u>		
	<u>Unpaid Principal Balance</u>	<u>Recorded Investment</u>	<u>Allowance for Loan Losses Allocated</u>	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>	<u>Cash Basis Interest Recognized</u>
With an allowance recorded:						
Commercial real estate	\$ 582,389	\$ 582,389	\$ 130,663	\$ 670,201	\$ 24,301	\$ 24,301
Subtotal	<u>582,389</u>	<u>582,389</u>	<u>130,663</u>	<u>670,201</u>	<u>24,301</u>	<u>24,301</u>
Total	<u>\$ 582,389</u>	<u>\$ 582,389</u>	<u>\$ 130,663</u>	<u>\$ 670,201</u>	<u>\$ 24,301</u>	<u>\$ 24,301</u>

As of December 31, 2015 and 2014, there were no loans that were impaired that did not have an allowance allocated. 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, 2015 and December 31, 2014:

	<u>Nonaccrual</u>	
	<u>2015</u>	<u>2014</u>
Commercial	\$ -	\$ -
Commercial real estate	-	47,363
Residential real estate	147,566	287,791
Consumer:		
Auto	-	-
Other	-	-
Total	<u>\$ 147,566</u>	<u>\$ 335,154</u>

As of December 31, 2015 and 2014, there were no loans past due 90 days or more and still accruing.

## NOTES TO FINANCIAL STATEMENTS

### CLARION COUNTY COMMUNITY BANK

For the Years Ended December 31, 2015 and 2014

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

The following tables present the aging of the recorded investment in past due loans as of December 31, 2015 and 2014 by class of loan:

2015	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	\$ 14,255,969	\$ 26,002	\$ -	\$ -	\$ 26,002	\$ 14,229,967
Commercial real estate	61,780,531	325,213	-	-	325,213	61,455,318
Residential real estate	23,535,969	571,518	-	147,566	719,084	22,816,885
Consumer:						
Auto	1,519,157	22,536	-	-	22,536	1,496,621
Other	6,661,622	15,039	-	-	15,039	6,646,583
<b>Total</b>	<b>\$ 107,753,248</b>	<b>\$ 960,308</b>	<b>\$ -</b>	<b>\$ 147,566</b>	<b>\$ 1,107,874</b>	<b>\$ 106,645,374</b>

2014	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	\$ 12,482,678	\$ 19,986	\$ -	\$ -	\$ 19,986	\$ 12,462,692
Commercial real estate	55,384,216	1	-	47,363	47,364	55,336,852
Residential real estate	23,591,788	527,031	180,542	287,791	995,364	22,596,424
Consumer						
Auto	1,571,819	288	-	-	288	1,571,531
Other	5,385,240	-	6,253	-	6,253	5,378,987
<b>Total</b>	<b>\$ 98,415,741</b>	<b>\$ 547,306</b>	<b>\$ 186,795</b>	<b>\$ 335,154</b>	<b>\$ 1,069,255</b>	<b>\$ 97,346,486</b>

At December 31, 2015 and 2014, there were no loans that were impaired that did not have an allowance allocated.

#### Troubled Debt Restructurings:

As of December 31, 2015 and 2014, the Bank had a recorded investment in troubled debt restructurings of \$493,516 and \$582,389, respectively.

The Bank has allocated \$96,799 and \$130,663 of specific reserves to customers whose loan terms have been modified in troubled debt restructurings as of December 31, 2015 and 2014. The Bank chose to lend additional amounts totaling \$199,147 and \$755,223 during the years ended December 31, 2015 and 2014, respectively, due to the borrower's financial troubles being corrected.

There were no loans modified as troubled debt restructurings that occurred during the year ending December 31, 2015 or 2014. There were charge offs of restructured troubled debt of \$26,311 during the year ending December 31, 2015. There were no charge offs of restructured troubled debt during the year ended December 31, 2014.

**NOTES TO FINANCIAL STATEMENTS**

**CLARION COUNTY COMMUNITY BANK**

**For the Years Ended December 31, 2015 and 2014**

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

**Credit Quality** 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 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 at December 31, 2015 is as follows:

<b>December 31, 2015</b>	<b>Total Loans</b>	<b>Not Rated</b>	<b>Pass</b>	<b>Special Mention</b>	<b>Substandard</b>	<b>Doubtful</b>
Commercial	\$ 14,255,969	\$ -	\$ 14,221,753	\$ -	\$ 34,216	\$ -
Commercial real estate	61,780,531	-	60,966,095	341,711	472,725	-
Residential real estate	23,535,969	23,185,090	-	-	350,879	-
Consumer-auto	1,519,157	1,519,157	-	-	-	-
Other	6,661,622	6,661,622	-	-	-	-
<b>Total</b>	<b>\$ 107,753,248</b>	<b>\$ 31,365,869</b>	<b>\$ 75,187,848</b>	<b>\$ 341,711</b>	<b>\$ 857,820</b>	<b>\$ -</b>



**NOTES TO FINANCIAL STATEMENTS**

**CLARION COUNTY COMMUNITY BANK**

**For the Years Ended December 31, 2015 and 2014**

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

Based on the most recent analysis performed, the risk category of loans by class of loans at December 31, 2014 was as follows:

December 31, 2014	<u>Total Loans</u>	<u>Not Rated</u>	<u>Pass</u>	<u>Special Mention</u>	<u>Substandard</u>	<u>Doubtful</u>
Commercial	\$ 12,482,678	\$ -	\$ 12,436,790	\$ -	\$ 45,888	\$ -
Commercial real estate	55,384,216	-	54,440,306	497,291	446,619	-
Residential real estate	23,591,788	23,274,479	-	81,305	236,004	-
Consumer-auto	1,571,819	1,571,819	-	-	-	-
Other	5,385,240	5,385,240	-	-	-	-
<b>Total</b>	<u>\$ 98,415,741</u>	<u>\$ 30,231,538</u>	<u>\$ 66,877,096</u>	<u>\$ 578,596</u>	<u>\$ 728,511</u>	<u>\$ -</u>

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, 2015 and 2014:

December 31, 2015	<u>Consumer</u>		<u>Residential Real Estate</u>
	<u>Auto</u>	<u>Other</u>	
Performing	\$ 1,519,157	\$ 6,661,622	\$ 23,388,403
Nonperforming	-	-	147,566
<b>Total</b>	<u>\$ 1,519,157</u>	<u>\$ 6,661,622</u>	<u>\$ 23,535,969</u>

December 31, 2014	<u>Consumer</u>		<u>Residential Real Estate</u>
	<u>Auto</u>	<u>Other</u>	
Performing	\$ 1,571,819	\$ 5,385,240	\$ 23,303,997
Nonperforming	-	-	287,791
<b>Total</b>	<u>\$ 1,571,819</u>	<u>\$ 5,385,240</u>	<u>\$ 23,591,788</u>

## NOTES TO FINANCIAL STATEMENTS

### CLARION COUNTY COMMUNITY BANK

For the Years Ended December 31, 2015 and 2014

#### NOTE 4 – OTHER REAL ESTATE OWNED

Activity for other real estate owned was as follows:

	<u>2015</u>	<u>2014</u>
Beginning of year	\$ -	\$ 152,000
Additions to OREO	<b>300,000</b>	512,261
Capitalized expenditures	-	4,802
Disposition of OREO	-	(669,063)
End of year	<u><b>\$ 300,000</b></u>	<u>\$ -</u>

Expenses related to other real estate owned include:

	<u>2015</u>	<u>2014</u>
Net gain (loss) on sales	\$ -	\$ 4,862
Operating expenses, net of rental income	<b>17,837</b>	10,544

Other real estate owned acquired in settlement of loans are carried at fair value, less estimated costs to sell, and are included in other assets on the Balance Sheet. As of December 31, 2015, there were no consumer residential mortgages that were foreclosed on or received via a deed in lieu transaction prior to the period end included with the other real estate owned. As of December 31, 2015, the Bank has initiated formal foreclosure proceeds on \$50,090 of consumer residential mortgages, which have not yet been transferred into foreclosed assets.

#### 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, 2015 and 2014 are \$11,410,000 and \$8,913,000.

Custodial escrow balances maintained in connection with serviced loans were \$134,700 and \$100,300 at year end 2015 and 2014.

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

	<u>2015</u>	<u>2014</u>
Beginning of year	\$ <b>82,614</b>	\$ <b>59,164</b>
Additions	<b>31,757</b>	<b>29,102</b>
Disposals	-	-
Amortized to expense	<b>(9,619)</b>	<b>(5,652)</b>
Other changes	-	-
Change in valuation allowance	-	-
	<u><b>\$ 104,752</b></u>	<u><b>\$ 82,614</b></u>

## NOTES TO FINANCIAL STATEMENTS

### CLARION COUNTY COMMUNITY BANK

For the Years Ended December 31, 2015 and 2014

#### NOTE 6 – PREMISES AND EQUIPMENT

Year-end premises and equipment were as follows:

	<u>2015</u>	<u>2014</u>
Land	\$ 182,047	\$ 182,047
Buildings and improvements	2,093,609	2,093,609
Furniture and equipment	<u>1,425,699</u>	<u>1,352,684</u>
	3,701,355	3,628,340
Accumulated depreciation	<u>(1,778,995)</u>	<u>(1,604,635)</u>
	<u>\$ 1,922,360</u>	<u>\$ 2,023,705</u>

Depreciation expense was \$177,306 and \$166,221 for 2015 and 2014, respectively.

#### NOTE 7 – DEPOSITS

The following table presents a breakdown of deposit types at December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Non-interest bearing	\$ 17,640,250	\$ 17,148,981
Interest bearing:		
Demand deposit	4,487,397	4,794,722
Money market deposit account	18,569,577	20,211,702
Savings	18,545,994	19,508,881
Certificates of Deposit	<u>51,243,400</u>	<u>44,203,843</u>
Total interest bearing	<u>92,846,368</u>	<u>88,719,148</u>
Total deposits	<u>\$ 110,486,618</u>	<u>\$ 105,868,129</u>

Scheduled maturities of time deposits over the next five years as of December 31, 2015 were as follows:

	<u>Amount</u>	<u>Percent</u>
2016	\$ 21,364,034	41.7 %
2017	10,326,938	20.2
2018	12,709,348	24.8
2019	1,916,104	3.7
2020	<u>4,926,976</u>	<u>9.6</u>
	<u>\$ 51,243,400</u>	<u>100.0 %</u>

The Bank had time deposits that meet or exceed the FDIC limit of \$250,000 amount to \$8,714,000 and \$8,652,000 at December 31, 2015 and 2014, respectively.

## NOTES TO FINANCIAL STATEMENTS

### CLARION COUNTY COMMUNITY BANK

For the Years Ended December 31, 2015 and 2014

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

At December 31, 2015 and 2014, the Bank had FHLB advances outstanding as follows:

	<u>2015</u>	<u>2014</u>
Maturities April 7, 2016 through December 17, 2018, fixed rate at rates from 0.50% to 1.69%, averaging 0.94%.	\$ <u>5,000,000</u>	\$ 5,000,000
	\$ <u><u>5,000,000</u></u>	<u><u>5,000,000</u></u>

Each advance is payable at its maturity date, with a prepayment penalty for fixed rate advances. Based on available collateral and the Bank's holdings of FHLB stock, the Bank is eligible to borrow up to a total of \$65.5 million at year-end 2015. At December 31, 2015, the Bank had advances outstanding from the FHLB of \$5.0 million.

Payments over the next five years are as follows:

2016	\$ 3,000,000
2017	1,000,000
2018	<u>1,000,000</u>
	<u><u>\$ 5,000,000</u></u>

#### NOTE 9 – INCOME TAXES

The provision for income taxes for the years ended December 31, 2015 and 2014 consists of the following:

	<u>2015</u>	<u>2014</u>
Current	\$ 286,318	\$ 159,832
Deferred	<u>(53,140)</u>	<u>(1,762)</u>
	<u><u>\$ 233,178</u></u>	<u><u>\$ 158,070</u></u>

**NOTES TO FINANCIAL STATEMENTS**

**CLARION COUNTY COMMUNITY BANK**

**For the Years Ended December 31, 2015 and 2014**

**NOTE 9 – INCOME TAXES** (continued)

The differences between the expected and actual tax provision expressed as percentages of income before income tax for the years ended December 31, 2015 and 2014 are as follows:

	2015		2014	
	Amount	% of Pre-tax Income	Amount	% of Pre-tax Income
Provision at statutory rate	\$ 341,699	34.0 %	\$ 283,302	34.0 %
Tax exempt interest income, net of disallowed interest expense	(99,656)	(9.9)	(112,593)	(13.5)
Earnings from bank owned life insurance	(13,218)	(1.3)	(13,741)	(1.6)
Other, net	4,353	0.4	1,102	0.1
Actual tax expense and effective rate	<u>\$ 233,178</u>	<u>23.2 %</u>	<u>\$ 158,070</u>	<u>19.0 %</u>

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, 2015 and 2014 are as follows:

	2015	2014
Deferred tax assets:		
Allowance for loan losses	\$ 265,956	\$ 252,144
Unrealized loss on securities	3,708	13,574
Accrued supplemental retirement	209,551	187,409
Nonaccrual loan interest	30,067	15,415
Deferred loan origination fees	25,602	32,180
Total deferred tax assets	<u>534,884</u>	<u>500,722</u>
Deferred tax liabilities:		
Mortgage servicing rights	(35,616)	(28,089)
Premises and equipment	(47,381)	(62,811)
Total deferred tax liabilities	<u>(82,997)</u>	<u>(90,900)</u>
Total net deferred tax asset	<u>\$ 451,887</u>	<u>\$ 409,822</u>

## **NOTES TO FINANCIAL STATEMENTS**

### **CLARION COUNTY COMMUNITY BANK**

**For the Years Ended December 31, 2015 and 2014**

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

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, 2015 and 2014, 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, 2015 and 2014. 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 2011 and prior.

#### **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 \$7,309 and \$6,664 in 2015 and 2014, 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, 2015 and 2014 was \$72,323 and \$70,664. The accrued supplemental retirement liability for this plan was \$616,326 and \$551,203 at December 31, 2015 and December 31, 2014. Amortization of prior service cost for the years ended December 31, 2015 and 2014 was \$7,200. At December 31, 2015, the unamortized prior service cost from the supplemental retirement plan was \$90,400, for an after tax amount of \$59,664 recorded in accumulated other comprehensive income.

## NOTES TO FINANCIAL STATEMENTS

### CLARION COUNTY COMMUNITY BANK

For the Years Ended December 31, 2015 and 2014

#### NOTE 11 – OTHER EXPENSES

Other expenses are as follows:

	<u>2015</u>	<u>2014</u>
Advertising	\$ 70,499	\$ 74,212
Pennsylvania bank shares tax	97,000	71,513
Charitable contributions	27,122	55,265
Postage and courier	46,920	47,846
Stationary and printing	79,067	75,809
Telephone	57,148	49,079
Directors fees	120,300	122,200
Insurance	49,921	46,387
Miscellaneous	181,255	188,300
	<u>\$ 729,232</u>	<u>\$ 730,611</u>

#### 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>2015</u> <u>Fixed</u> <u>Rate</u>	<u>2015</u> <u>Variable</u> <u>Rate</u>	<u>2014</u> <u>Fixed</u> <u>Rate</u>	<u>2014</u> <u>Variable</u> <u>Rate</u>
Commitments to make loans	\$ 1,141,000	\$ 5,394,000	\$ 806,000	\$ 5,826,000
Unused lines of credit	323,000	9,882,000	245,000	9,312,000
Standby letters of credit	326,000	-	678,000	-

Commitments to make loans are generally made for periods of 60 days or less. The fixed rate loan commitments at December 31, 2015 have interest rates ranging from 3.63% to 6.50% and maturities ranging from five years to thirty years. The fixed rate loan commitments at December 31, 2014 had interest rates ranging from 3.50% to 6.88% and maturities ranging from five years to fifteen years.

## NOTES TO FINANCIAL STATEMENTS

### CLARION COUNTY COMMUNITY BANK

For the Years Ended December 31, 2015 and 2014

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

The Bank primarily grants loans to customers in Clarion, Armstrong and Venango 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 42 accounts greater than \$250,000 representing \$24.7 million in deposits as of December 31, 2015 (22.3% of deposits as of December 31, 2015). As of December 31, 2014, the Bank had 50 accounts greater than \$250,000 representing \$27.2 million in deposits (25.7% of deposits as of December 31, 2014).

At December 31, 2015, approximately \$2.1 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, 2014, approximately \$1.7 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.

#### 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 2015 was as follows:

Beginning balance	\$ 2,979,266
New loans	1,221,503
Repayments	<u>(380,378)</u>
Ending balance	<u>\$ 3,820,391</u>

There were two open letter of credit by related parties in 2015 totaling \$5,000.

Deposits from principal officers, directors, and their affiliates at year-end 2015 and 2014 were \$6.5 million and \$5.0 million.

#### NOTE 15 – REGULATORY MATTERS

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory-and possible additional discretionary-actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under U.S.



## NOTES TO FINANCIAL STATEMENTS

### CLARION COUNTY COMMUNITY BANK

For the Years Ended December 31, 2015 and 2014

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

GAAP, regulatory reporting requirements, and regulatory capital standards. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Qualitative measures established by regulatory capital standards to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of total and Tier 1 capital to risk-weighted assets, common equity Tier 1 capital to total risk-weighted assets, and of Tier 1 capital to average assets. Management believes, as of December 31, 2015, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2015, and December 31, 2014, the Bank is categorized 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 capital, Tier 1 risk-based capital, common equity Tier 1 risk-based capital, and Tier 1 leverage ratios of at least 10 percent, 8 percent, 6.5 percent, and 5 percent, respectively.

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

	Actual		For Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars in thousands)						
As of December 31, 2015:						
Total capital (to risk-weighted assets)	\$ 15,696	13.92%	\$ 9,018	8.0%	\$ 11,272	10.0%
Tier 1 capital (to risk-weighted assets)	14,684	13.03%	6,763	6.0%	9,018	8.0%
Common equity Tier 1 capital (to risk-weighted assets)	14,684	13.03%	5,073	4.5%	7,327	6.5%
Tier 1 capital (to average asset)	14,684	11.05%	5,315	4.0%	6,643	5.0%
As of December 31, 2014:						
Total capital (to risk-weighted assets)	\$ 14,992	16.11%	\$ 7,447	8.0%	\$ 9,308	10.0%
Tier 1 capital (to risk-weighted assets)	14,045	15.09%	3,723	4.0%	5,585	6.0%
Tier 1 capital (to average assets)	14,045	11.29%	4,976	4.0%	6,219	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 2016, the Bank could, without prior approval, declare dividends of approximately \$1,180,556 plus any 2016 net profits retained to the date of the dividend declaration.

## NOTES TO FINANCIAL STATEMENTS

### CLARION COUNTY COMMUNITY BANK

For the Years Ended December 31, 2015 and 2014

#### 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 \$10.75 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 \$9.30 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.

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

	<b>December 31, 2015</b>	
	<b>Shares</b>	<b>Weighted Average Exercise Price</b>
Outstanding at beginning of year	13,365	\$ 9.26
Forfeiture of stock options	(7,007)	\$ 9.22
Granted	-	\$ -
Forfeitures	-	\$ -
Exercised	-	\$ -
Outstanding at end of year	<u>6,358</u>	\$ 9.30
Exercisable at end of year	<u>6,358</u>	\$ 9.30

There was no aggregate intrinsic value for outstanding or exercisable options at December 31, 2015 and 2014. The options outstanding at December 31, 2015 and 2014 had a weighted average remaining life of 0.97 and 1.45 years, respectively. There were no option exercises in 2015. Cash received from option exercises in 2014 totaled \$22,501. There was no intrinsic value for the options exercised. 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, 2015 was \$6.45 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.

## NOTES TO FINANCIAL STATEMENTS

### CLARION COUNTY COMMUNITY BANK

For the Years Ended December 31, 2015 and 2014

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

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:

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 for similar loans and collateral underlying such loans. 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, 2015 and 2014**

**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, 2015 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	\$ 3,640,528	\$ 3,640,528	\$ -	-
State and municipal bonds-tax-free	7,920,957	-	7,920,957	-
Residential mortgage-backed securities	3,712,292	-	3,712,292	-
Total investment securities available-for-sale	<u>\$ 15,273,777</u>	<u>\$ 3,640,528</u>	<u>\$ 11,633,249</u>	<u>-</u>

Description	December 31, 2014 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	\$ 4,038,616	\$ 4,038,616	\$ -	-
State and municipal bonds-tax-free	9,620,876	-	9,620,876	-
Residential mortgage-backed securities	4,670,169	-	4,670,169	-
Total investment securities available-for-sale	<u>\$ 18,329,661</u>	<u>\$ 4,038,616</u>	<u>\$ 14,291,045</u>	<u>-</u>

## NOTES TO FINANCIAL STATEMENTS

### CLARION COUNTY COMMUNITY BANK

For the Years Ended December 31, 2015 and 2014

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

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

Description	December 31, 2015 Carrying Value	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
Impaired loans:				
Commercial real estate	\$ 396,717	\$ -	\$ -	\$ 396,717
Other real estate owned	\$ 300,000	\$ -	\$ -	\$ 300,000

Description	December 31, 2014 Carrying Value	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
Impaired loans:				
Commercial real estate	\$ 136,000	\$ -	\$ -	\$ 136,000

Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a recorded investment of \$493,516, with a valuation allowance of \$96,799 at December 31, 2015. At December 31, 2014, impaired loans had a carrying amount of \$211,000, with a valuation allowance of \$75,000, resulting in an additional provision for loan losses of \$3,000 for the year ending December 31, 2014.

At December 31, 2015, other real estate owned had a carrying amount of \$300,000 after writedowns of \$177,247 in 2015. There was no other real estate owned measured at fair value at December 31, 2014.

## NOTES TO FINANCIAL STATEMENTS

### CLARION COUNTY COMMUNITY BANK

For the Years Ended December 31, 2015 and 2014

#### 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, 2015 and 2014:

2015				
	Fair Value	Valuation Techniques	Unobservable Inputs	Weighted Average
Impaired loans:				
Commercial real estate	\$ 396,717	Sales comparison approach	Adjustment for differences between comparable sales	20%
Other real estate owned:				
Commercial	\$ 300,000	Appraisals	Adjustment for differences between comparable sales	32%
2014				
	Fair Value	Valuation Techniques	Unobservable Inputs	Weighted Average
Impaired loans:				
Commercial real estate	\$ 136,000	Sales comparison approach	Adjustment for differences between comparable sales	36%

The carrying amount and estimated fair values of financial instruments for December 31, 2015 were as follows:

	2015 Carrying Amount	2015 Fair Value	Level 1	Level 2	Level 3
<b>Financial assets:</b>					
Cash and cash equivalents	\$ 3,305,143	\$ 3,305,143	\$ 3,305,143	\$ -	\$ -
Certificates of deposit	100,000	99,870	-	-	99,870
Securities available for sale	15,273,777	15,273,777	3,640,528	11,633,249	-
Restricted bank stock	791,200	N/A	N/A	-	-
Loans receivable, net	106,669,936	107,766,532	-	-	107,766,532
Accrued interest receivable	353,792	353,792	353,792	-	-
<b>Financial liabilities:</b>					
Deposits	110,486,618	110,313,489	59,168,888	-	51,144,601
Borrowings	5,000,000	5,013,000	-	-	5,013,000
Accrued interest payable	52,517	52,517	52,517	-	-

## NOTES TO FINANCIAL STATEMENTS

### CLARION COUNTY COMMUNITY BANK

For the Years Ended December 31, 2015 and 2014

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

The carrying amount and estimated fair values of financial instruments for December 31, 2014 were as follows:

	<u>2014 Carrying Amount</u>	<u>2014 Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<b>Financial assets:</b>					
Cash and cash equivalents	\$ 2,921,407	\$ 2,921,407	\$ 2,921,407	\$ -	\$ -
Certificates of deposit	1,842,000	1,842,737	-	-	1,842,737
Securities available for sale	18,329,661	18,329,661	4,038,616	14,291,045	-
Restricted bank stock	688,900	N/A	N/A	-	-
Loans receivable, net	97,373,955	99,906,000	-	-	99,906,000
Accrued interest receivable	357,511	357,511	357,511	-	-
<b>Financial liabilities:</b>					
Deposits	105,868,129	110,313,489	59,168,888	-	51,144,601
Borrowings	5,000,000	5,018,000	-	-	5,018,000
Accrued interest payable	67,847	67,847	67,847	-	-

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. 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.

## NOTES TO FINANCIAL STATEMENTS

### CLARION COUNTY COMMUNITY BANK

For the Years Ended December 31, 2015 and 2014

#### NOTE 18 – EARNINGS PER COMMON SHARE

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

	<u>2015</u>	<u>2014</u>
Basic		
Net income	\$ <u>771,818</u>	\$ <u>675,170</u>
Weighted average common shares outstanding	<u>1,665,667</u>	<u>1,664,408</u>
Basic earnings per common share	\$ <u>0.46</u>	\$ <u>0.41</u>
Diluted		
Net income	\$ <u>771,818</u>	\$ <u>675,170</u>
Weighted average common shares outstanding for basic earnings per common share	1,665,667	1,664,408
Add: Dilutive effects of assumed exercises of stock options	<u>-</u>	<u>-</u>
Average shares and dilutive potential common shares	<u>1,665,667</u>	<u>1,664,408</u>
Dilutive earnings per common share	\$ <u>0.46</u>	\$ <u>0.41</u>

Stock options for 6,358 shares and 13,365 shares of common stock were not considered in computing diluted earnings per common share for 2015 and 2014, respectively, because they were antidilutive.



## NOTES TO FINANCIAL STATEMENTS

### CLARION COUNTY COMMUNITY BANK

For the Years Ended December 31, 2015 and 2014

#### NOTE 19 – ACCUMULATED OTHER COMPREHENSIVE LOSS

The following is a changes in accumulated other comprehensive loss by component, net of tax, for the years ending December 31, 2015 and 2014:

	Unrealized Gains and Losses on Available-for-Sale Securities	Prior Service Cost on Supplemental Retirement Plan	Total
<u>December 31, 2015</u>			
Beginning banlance	\$ (26,349)	\$ (64,416)	\$ (90,765)
Other comprehensive income before reclassification	14,731	-	14,731
Amounts reclassified from accumulated other comprehensive income	<u>4,420</u>	<u>4,752</u>	<u>9,172</u>
Net current period other comprehensive income	<u>19,151</u>	<u>4,752</u>	<u>23,903</u>
Ending balance	<u>\$ (7,198)</u>	<u>\$ (59,664)</u>	<u>\$ (66,862)</u>

	Unrealized Gains and Losses on Available-for-Sale Securities	Prior Service Cost on Supplemental Retirement Plan	Total
<u>December 31, 2014</u>			
Beginning banlance	\$ (569,246)	\$ (69,168)	\$ (638,414)
Other comprehensive income before reclassification	540,427	-	540,427
Amounts reclassified from accumulated other comprehensive income	<u>2,470</u>	<u>4,752</u>	<u>7,222</u>
Net current period other comprehensive income	<u>542,897</u>	<u>4,752</u>	<u>547,649</u>
Ending balance	<u>\$ (26,349)</u>	<u>\$ (64,416)</u>	<u>\$ (90,765)</u>

The following table presents current period reclassifications out of accumulated other comprehensive loss and its impact on net income for the years ended December 31, 2015 and 2014:

	December 31, 2015	December 31, 2014
Net loss on securities available for sale	\$ (6,697)	\$ (3,742)
Income tax benefit	<u>2,277</u>	<u>1,272</u>
Reclassified amount, net of tax	<u>\$ (4,420)</u>	<u>\$ (2,470)</u>
Prior service cost on supplemental retirement plan (recorded in salaries and employee benefits)	\$ (7,200)	\$ (7,200)
Income tax benefit	<u>2,448</u>	<u>2,448</u>
Reclassified amount, net of tax	<u>\$ (4,752)</u>	<u>\$ (4,752)</u>