KISH BANCORP, INC.

Consolidated Audited Financial Statements

December 31, 2015

KISH BANCORP

expect more

INDEPENDENT AUDITOR'S REPORT

Board of Directors and Stockholders
Kish Bancorp, Inc.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Kish Bancorp, Inc. and subsidiaries which comprise the consolidated balance sheet as of December 31, 2015 and 2014; the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended; and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our 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 consolidated financial statements are free of material misstatement.

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

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

Opinion

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

S.R. Snodgrass, P.C.

Wexford, Pennsylvania
March 2, 2016

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KISH BANCORP, INC.
CONSOLIDATED BALANCE SHEET

	December 31, 2015	December 31, 2014
ASSETS		
Cash and due from banks	$ 7,077,874	$ 7,008,968
Interest-bearing deposits with other institutions	9,977,646	8,680,120
Cash and cash equivalents	17,055,520	15,689,088
Certificates of deposit in other financial institutions	3,002,319	2,753,312
Securities available for sale, at fair value	183,906,227	184,323,726
Securities held to maturity, at amortized cost	3,250,000	-
Loans held for sale	1,272,840	75,050
Loans	451,177,040	420,069,812
Less allowance for loan losses	5,752,046	6,008,601
Net loans	445,424,994	414,061,211
Premises and equipment	12,907,171	13,392,122
Goodwill	1,668,699	1,668,699
Regulatory stock	6,509,400	6,634,200
Bank-owned life insurance	14,566,884	14,120,894
Accrued interest and other assets	7,331,097	6,881,312
TOTAL ASSETS	$ 696,895,151	$ 659,599,614
LIABILITIES		
Deposits:		
Noninterest-bearing	$ 69,159,662	$ 65,435,614
Interest-bearing demand	8,683,711	10,465,169
Savings	61,269,253	53,877,709
Money market	208,363,252	195,721,101
Time	195,152,817	183,115,908
Total deposits	542,628,695	508,615,501
Short-term borrowings	10,012,365	11,206,134
Other borrowings	88,131,955	86,195,352
Accrued interest and other liabilities	4,841,387	4,729,471
TOTAL LIABILITIES	645,614,402	610,746,458
STOCKHOLDERS' EQUITY		
Preferred stock, $.50 par value; 500,000 shares authorized, no shares issued and outstanding	-	-
Common stock, $.50 par value; 2,000,000 shares authorized, 1,348,750 shares issued	674,375	674,375
Additional paid-in capital	2,706,651	2,932,003
Retained earnings	51,965,949	49,584,308
Accumulated other comprehensive income	427,106	550,729
Treasury stock, at cost (118,596 and 124,778 shares in 2015 and 2014, respectively)	(4,493,332)	(4,888,259)
TOTAL STOCKHOLDERS' EQUITY	51,280,749	48,853,156
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 696,895,151	$ 659,599,614

See accompanying notes to consolidated financial statements.

KISH BANCORP, INC.
CONSOLIDATED STATEMENT OF INCOME

	Year Ended December 31, 2015	Year Ended December 31, 2014
INTEREST AND DIVIDEND INCOME		
Interest and fees on loans:		
Taxable	$ 17,781,049	$ 17,323,124
Exempt from federal income tax	1,377,759	1,152,588
Interest and dividends on investment securities:		
Taxable	3,182,055	3,273,010
Exempt from federal income tax	1,467,225	1,474,594
Interest-bearing deposits with other institutions	107,099	58,284
Other dividend income	630,573	310,561
Total interest and dividend income	24,545,760	23,592,161
INTEREST EXPENSE		
Deposits	3,180,441	3,220,026
Short-term borrowings	72,826	111,283
Other borrowings	1,631,625	1,630,742
Total interest expense	4,884,893	4,962,051
NET INTEREST INCOME	19,660,867	18,630,110
Provision for loan losses	235,000	300,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	19,425,867	18,330,110
NONINTEREST INCOME		
Service fees on deposit accounts	1,653,881	1,709,309
Investment securities gains, net	535,080	519,346
Gain on sale of loans	820,689	649,675
Earnings on bank-owned life insurance	445,010	424,465
Insurance commissions	1,093,733	1,067,665
Travel agency commissions	246,884	286,797
Other	1,953,054	1,834,912
Total noninterest income	6,748,331	6,492,169
NONINTEREST EXPENSE		
Salaries and employee benefits	12,946,065	11,568,198
Occupancy and equipment	2,763,464	2,630,711
Data processing	1,563,929	1,702,035
Professional fees	394,668	403,077
Advertising	267,785	256,269
Federal deposit insurance	378,989	373,062
Pennsylvania shares tax	455,000	384,973
Other	2,279,145	2,373,830
Total noninterest expense	21,049,047	19,692,155
Income before income taxes	5,125,151	5,130,124
Income taxes	630,910	771,521
NET INCOME	$ 4,494,241	$ 4,358,603
EARNINGS PER SHARE		
Basic	$ 3.73	$ 3.63
Diluted	3.69	3.60

See accompanying notes to the consolidated financial statements.

KISH BANCORP, INC.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year Ended December 31, 2015	2014
Net income	$ 4,494,241	$ 4,358,603
Other comprehensive income (loss)		
Securities available for sale:		
Change in unrealized holding gains on available-for-sale securities	347,773	8,993,241
Tax effect	(118,243)	(3,057,702)
Reclassification adjustment for net gains realized in net income	(535,080)	(519,346)
Tax effect	181,927	176,578
Total other comprehensive income (loss)	(123,623)	5,592,771
Total comprehensive income (loss)	$ 4,370,618	$ 9,951,374

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

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
Balance, December 31, 2013	$ 674,375	$ 3,126,097	$ 47,231,553	$ (5,042,042)	$ (5,309,348)	$ 40,680,635
Net income			4,358,603			4,358,603
Other comprehensive income				5,592,771		5,592,771
Stock option compensation expense		24,058				24,058
Purchase of shares by restricted stock plan (9,250 shares)		(442,543)			442,543	-
Exercise of Stock Options		(36,421)				(36,421)
Forfeiture of shares by restricted stock plan (4,469 shares)		143,357			(143,357)	-
Amortization of unearned restricted stock plan shares		202,835				202,835
Cash dividends ($1.64 per share)			(2,005,848)			(2,005,848)
Purchase of treasury stock (6,803 shares)					(255,898)	(255,898)
Sale of treasury stock (7,970 shares)		(85,380)			377,801	292,421
Balance, December 31, 2014	674,375	2,932,003	49,584,308	550,729	(4,888,259)	48,853,156
Net income			4,494,241			4,494,241
Other comprehensive loss				(123,623)		(123,623)
Stock option compensation expense		17,780				17,780
Purchase of shares by restricted stock plan (10,182 shares)		(468,925)			468,925	-
Exercise of Stock Options		(75,286)				(75,286)
Forfeiture of shares by restricted stock plan (5,642 shares)		183,200			(183,200)	-
Amortization of unearned restricted stock plan shares		180,924				180,924
Cash dividends ($1.72 per share)			(2,112,600)			(2,112,600)
Purchase of treasury stock (6,713 shares)					(276,668)	(276,668)
Sale of treasury stock (8,355 shares)		(63,045)			385,870	322,825
Balance, December 31, 2015	$ 674,375	$ 2,706,651	$ 51,965,949	$ 427,106	$ (4,493,332)	$ 51,280,749

See accompanying notes to the consolidated financial statements.

KISH BANCORP, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended December 31, 2015	2014
OPERATING ACTIVITIES		
Net income	$ 4,494,241	$ 4,358,603
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	235,000	300,000
Investment securities gains, net	(535,080)	(519,346)
Proceeds from sale of loans held for sale	27,354,743	17,094,834
Origination of loans held for sale	(27,731,844)	(16,447,059)
Gain on sales of loans	(820,689)	(649,675)
Depreciation, amortization, and accretion	1,339,045	1,283,772
Deferred income taxes	(25,665)	(73,365)
Increase in accrued interest receivable	(101,344)	(19,473)
Increase (decrease) in accrued interest payable	21,306	(29,450)
Earnings on bank-owned life insurance	(445,010)	(424,465)
Loss on sale of other assets	3,548	(46,151)
Other, net	(30,183)	416,512
Net cash provided by operating activities	3,758,068	5,244,737
INVESTING ACTIVITIES		
Maturities of certificates of deposit	490,000	490,000
Purchase of certificates of deposit	(739,000)	(2,263,312)
Purchase of bank-owned life insurance	-	(775,943)
Investment securities available for sale:		
Proceeds from sale of investments	11,939,378	24,782,208
Proceeds from repayments and maturities	28,995,311	13,367,014
Purchases	(40,421,198)	(25,622,254)
Investment held to maturity:		
Purchases	(3,250,000)	-
Increase in loans, net	(31,598,783)	(33,138,681)
Purchase of regulatory stock	(1,177,800)	(982,400)
Redemption of regulatory stock	1,302,600	1,215,600
Purchase of premises and equipment	(605,868)	(274,006)
Proceeds from sale of other real estate owned	59,426	57,372
Net cash used for investing activities	(35,005,934)	(23,144,402)
FINANCING ACTIVITIES		
Increase in deposits, net	34,013,194	14,241,886
Increase in short-term borrowings, net	(1,193,769)	6,791,555
Proceeds from other borrowings	18,115,499	17,394,587
Repayments of other borrowings	(16,178,896)	(17,273,077)
Purchases of treasury stock	(276,668)	(255,898)
Proceeds from sale of treasury stock	322,824	292,421
Exercise of stock options	(75,286)	(36,421)
Cash dividends	(2,112,600)	(2,005,848)
Net cash provided by financing activities	32,614,298	19,149,205
Increase in cash and cash equivalents	1,366,432	1,249,540
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	15,689,088	14,439,548
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 17,055,520	$ 15,689,088
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for:		
Interest on deposits and borrowings	$ 4,863,587	$ 4,991,500
Income taxes	875,000	985,000
SUPPLEMENTAL DISCLOSURE OF NON-CASH CASH FLOW INFORMATION		
Real estate acquired in settlement of loans	$ -	$ 38,000

See accompanying notes to consolidated financial statements.

KISH BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting and reporting policies applied in the presentation of the accompanying consolidated financial statements follows:

Nature of Operations and Basis of Presentation

Kish Bancorp, Inc. (the "Company") is a diversified financial services organization whose principal activity is the ownership and management of its subsidiaries, Kish Bank (the "Bank"), Kish Travel Services, Inc., and the Bank's subsidiary, Kish Agency, Inc. The Company generates commercial and industrial, agricultural, commercial mortgage, residential real estate, and consumer loans and deposit services to its customers located primarily in central Pennsylvania and the surrounding areas. The Bank operates under a Pennsylvania Department of Banking and Securities bank charter and provides full banking services. Deposits are insured by the Federal Deposit Insurance Corporation ("FDIC") to the extent provided by law. Kish Agency, Inc. provides insurance products and services. Kish Travel Services, Inc. is a Pennsylvania business established to provide travel services to its customers.

The consolidated financial statements include the accounts of Kish Bancorp, Inc., and its subsidiaries, Kish Bank and Kish Travel Services, Inc., after elimination of all intercompany transactions.

The accounting principles followed by the Company and the methods of applying these principles conform to U.S. generally accepted accounting principles ("GAAP") and to general practice within the banking industry. Management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the Consolidated Balance Sheet date and revenues and expenses for that period. Actual results could differ from those estimates.

Investment Securities

Investment securities are classified at the time of purchase, based on management's intention and ability, as securities held to maturity, available for sale, or trading. Debt securities acquired with the intent and ability to hold to maturity are stated at cost, adjusted for amortization of premium and accretion of discount, which are computed using the interest method and recognized as adjustments of interest income. Debt securities which are held principally as a source of liquidity are classified as available for sale. Unrealized holding gains and losses for available-for-sale securities are reported as a separate component of stockholders' equity, net of tax, until realized. Realized security gains and losses are computed using the specific identification method for debt securities and the average cost method for marketable equity securities. Debt and equity securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities and reported at fair value, with unrealized gains and losses included in current earnings. Realized securities gains and losses are computed using the specific identification method. The Company does not have trading securities as of December 31, 2015 and 2014. Interest and dividends on investment securities are recognized as income when earned.

Securities are evaluated at least on a quarterly basis and more frequently when economic or market conditions warrant such an evaluation to determine whether a decline in their value is other than temporary. For debt securities, management considers whether the present value of cash flows expected to be collected are less than the security's amortized cost basis (the difference defined as the credit loss), the magnitude and duration of the decline, the reasons underlying the decline and the Company's intent to sell the security or whether it is more likely than not that the Company would be required to sell the security before its anticipated recovery in market value, to determine whether the loss in value is other than temporary. Once a decline in value is determined to be other than temporary, if the investor does not intend to sell the security, and it is more likely than not that it will not be required to sell the security before recovery of the security's amortized cost basis, the charge to earnings is limited to the amount of credit loss. Any remaining difference between fair value and amortized cost (the difference

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment Securities (Continued)

defined as the non-credit portion) is recognized in other comprehensive income, net of applicable taxes. Otherwise, the entire difference between fair value and amortized cost is charged to earnings.

Common stock of the Federal Home Loan Bank ("FHLB") of Pittsburgh represents ownership in an institution that is wholly owned by other financial institutions. These equity securities are accounted for at cost and are shown separately on the Consolidated Balance Sheet as regulatory stock.

The Bank is a member of the FHLB and, as such, is required to maintain a minimum investment in stock of the FHLB that varies with the level of advances outstanding with the FHLB. The stock is bought from and sold to the FHLB based upon its $100 par value. The stock does not have a readily determinable fair value and, as such, is classified as restricted stock, carried at cost and evaluated by management. The stock's value is determined by the ultimate recoverability of the par value rather than by recognizing temporary declines. The determination of whether the par value will ultimately be recovered is influenced by criteria such as the following: (a) the significance of the decline in net assets of the FHLB as compared with the capital stock amount and the length of time this situation has persisted; (b) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance; (c) the impact of legislative and regulatory changes on the customer base of the FHLB; and (d) the liquidity position of the FHLB. Management evaluated the stock and concluded that the stock was not impaired for the periods presented herein.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff generally are reported at their principal amount net of the allowance for loan losses and deferred origination fees or costs. Interest on loans is recognized as income when earned on the accrual method. Generally, the policy has been to stop accruing interest on loans when it is determined that a reasonable doubt exists as to the collectability of additional interest. Interest previously accrued but deemed uncollectible is deducted from current interest income. Payments received on nonaccrual loans are recorded as income or applied against principal according to management's judgment as to the collectability of such principal. Nonaccrual loans will generally be put back on accrual status after demonstrating six consecutive months of no delinquency.

The allowance for loan losses is established through provisions for loan losses charged against income. Loans deemed to be uncollectible are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance.

Loan origination fees and certain direct loan origination costs are being deferred and the net amount amortized is accounted for as an adjustment of the related loan's yield. Management is amortizing these amounts over the contractual life of the related loans.

In general, fixed rate, permanent residential mortgage loans originated by the Bank are held for sale and are carried in the aggregate at the lower of cost or fair value. The Bank sells these loans to various other financial institutions. Currently, the Bank retains the servicing of those loans sold to the FHLB and releases the servicing of loans sold to all other institutions.

Allowance for Loan Losses

The allowance for loan losses represents the amount that management estimates is adequate to provide for probable losses inherent in its loan portfolio as of the Consolidated Balance Sheet date. The allowance method is used in providing for loan losses. Accordingly, all loan losses are charged to the allowance, and all recoveries are credited to it. The allowance for loan losses is established through a provision for loan losses charged to operations. The provision for loan losses is based on management's periodic evaluation of individual loans, economic factors, past loan loss experience, changes in the composition and volume of the portfolio, and other relevant factors. The estimates used in determining the adequacy of the allowance for loan losses, including the amounts and timing of future cash flows expected on impaired loans, are particularly susceptible to change in the near term.

Allowance for Loan Losses (Continued)

Impaired loans are those for which it is probable the Company will not be able to collect all amounts due according to the contractual terms of the loan agreement. The Company evaluates commercial and industrial, agricultural, state and political subdivisions, commercial real estate, and all troubled debt restructuring loans for possible impairment. Consumer and residential real estate loans are also evaluated if part of a commercial lending relationship. The Company individually evaluates such loans for impairment and does not aggregate loans by major risk classifications. The definition of "impaired loans" is not the same as the definition of "nonaccrual loans," although the two categories overlap. Factors considered by management in determining impairment include payment status and collateral value. The amount of impairment for these types of loans is determined by the difference between the present value of the expected cash flows related to the loan using the original interest rate and its recorded value, or as a practical expedient in the case of collateralized loans, the difference between the fair value of the collateral and the recorded amount of the loans. When foreclosure is probable, impairment is measured based on the fair value of the collateral.

Mortgage loans secured by one-to-four family properties and all consumer loans are large groups of smaller-balance homogenous loans and are measured for impairment collectively. Loans that experience insignificant payment delays, which are defined as 90 days or less, generally are not classified as impaired. Management determines the significance of payment delays on a case-by-case basis taking into consideration all circumstances concerning the loan, the creditworthiness and payment history of the borrower, the length of the payment delay, and the amount of shortfall in relation to the principal and interest owed.

In addition to the allowance for loan losses, the Company also estimates probable losses related to unfunded lending commitments, such as letters of credit, financial guarantees and unfunded loan commitments. Unfunded lending commitments are subject to individual reviews and are analyzed and segregated by risk according to the Company's internal risk rating scale. These risk classifications, in conjunction with an analysis of historical loss experience, current economic conditions, performance trends within specific portfolio segments and any other pertinent information, result in the estimation of the reserve for unfunded lending commitments. Provision for credit losses related to the loan portfolio and unfunded lending commitments are reported in the Consolidated Statement of Income.

Premises and Equipment

Land is carried at cost. Premises and equipment are stated at cost, less accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful lives of the related assets, which range from 3 to 7 years for furniture, fixtures, and equipment, and 31 to 39½ years for building premises. Leasehold improvements are depreciated over shorter of the term of the lease or useful life. Expenditures for maintenance and repairs are charged against income as incurred. Costs of major additions and improvements are capitalized.

Goodwill

The Company accounts for goodwill using a two-step process for testing the impairment of goodwill on at least an annual basis. This approach could cause more volatility in the Company's reported net income because impairment losses, if any, could occur irregularly and in varying amounts.

Bank-Owned Life Insurance ("BOLI")

The Company purchased life insurance policies on certain key employees. BOLI is recorded at its cash surrender value, or the amount that can be realized.

Real Estate Owned

Real estate acquired by foreclosure is included with other assets on the Consolidated Balance Sheet at the lower of the recorded investment in the property or its fair value less estimated costs of sale. Prior to foreclosure, the value of the underlying collateral is written down by a charge to the allowance for loan losses if necessary. Any subsequent write-downs are charged against operating expenses. Operating expenses of such properties, net of related income and losses on their disposition, are included in other noninterest expense.

Treasury Stock

Treasury stock is carried at cost. Sales are determined by the first-in, first-out method.

Advertising Costs

Advertising costs are expensed as the costs are incurred.

Income Taxes

The Company and its subsidiaries file a consolidated federal income tax return. Deferred tax assets and liabilities are reflected at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

Earnings Per Share

The Company provides dual presentation of basic and diluted earnings per share. Basic earnings per share are calculated utilizing net income as reported in the numerator and average shares outstanding in the denominator. The computation of diluted earnings per share differs in that the dilutive effects of any stock options, warrants, and convertible securities are adjusted in the denominator. Treasury shares are not deemed outstanding for earnings per share calculations.

Stock Options

As of December 31, 2015 and 2014, the Company recorded compensation expense of $17,780 and $24,058 related to share-based compensation awards. At December 31, 2015, there was approximately $13,366 in unrecognized compensation cost related to unvested share-based compensation awards granted. That cost is expected to be recognized over the next three years.

For purposes of computing stock compensation expense, the Company estimated the fair values of stock options using the Black-Scholes option-pricing model. The model requires the use of subjective assumptions that can materially affect fair value estimates. The fair value of each option is amortized into compensation expense on a straight-line basis between the grant date for the option and each vesting date. The fair value of each stock option granted was estimated using the following weighted-average assumptions:

Grant Year	Expected Dividend Yield	Risk-Free Interest Rate	Expected Volatility	Expected Life (in Years)
2015	4.26 %	1.94 %	8.83 %	10.00
2014	4.44 %	2.74 %	10.52 %	10.00

The weighted-average fair value of each stock option granted for 2015 and 2014 was $0.90 and $1.63, respectively. Stock options exercised during the years ended December 31, 2015 and 2014 were 11,628 and 5,481.

Mortgage Servicing Rights (“MSRs”)

The Company has agreements for the express purpose of selling loans in the secondary market. The Company retains servicing rights for certain loans. Originated MSRs are recorded by allocating total costs incurred between the loan and servicing rights based on their relative fair values. MSRs are amortized in proportion to the estimated servicing income over the estimated life of the servicing portfolio. The Company performs an impairment review of the MSRs and recognizes impairment through a valuation account. MSRs are a component of accrued interest and other assets on the Consolidated Balance Sheet. Gains and losses on sales of loans are recognized at settlement dates and are determined by the difference between the sales proceeds and the carrying value of the loans. All sales are made with limited recourse. For the years ended December 31, 2015 and 2014, the Company recorded gross servicing rights of $720,304 and $732,590 with a reserve for impairment of $233,401 and $257,685, respectively.

Transfer of Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when: (1) the assets have been isolated from the Company; (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets; and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Cash Flow Information

The Company has defined cash and cash equivalents as those amounts included in the balance sheet captions “Cash and due from banks” and “Interest-bearing deposits with other institutions” that have original maturities of less than 90 days.

Reclassification of Comparative Amounts

Certain items previously reported have been reclassified to conform to the current year’s format. Such reclassifications did not affect net income or stockholders’ equity.

2. EARNINGS PER SHARE

There are no convertible securities that would affect the numerator in calculating basic and diluted earnings per share; therefore, net income as presented on the Consolidated Statement of Income will be used as the numerator. The following table sets forth the composition of the weighted-average common shares (denominator) used in the basic and diluted earnings per share computation.

	2015	2014
Weighted-average common shares outstanding	1,348,750	1,348,750
Average treasury stock shares	(121,311)	(126,184)
Average unearned nonvested restricted share plan shares	(23,809)	(23,359)
Weighted-average common shares and common stock equivalents used to calculate basic earnings per share	1,203,630	1,199,207
Additional common stock equivalents (nonvested stock) used to calculate diluted earnings per share	495	228
Additional common stock equivalents (stock options) used to calculate diluted earnings per share	13,953	10,052
Weighted-average common shares and common stock equivalents used to calculate diluted earnings per share	1,218,078	1,209,487

Options to purchase 112,849 shares of common stock at a price of $25.50 to $45.00, as of December 31, 2015, and 19,292 shares of restricted stock ranging in price from $29.75 to $42.75 were not included in the computation of diluted earnings per share. To include these shares would have been antidilutive.

Options to purchase 135,641 shares of common stock at a price of $25.50 to $48.00 as of December 31, 2014, and 19,556 shares of restricted stock ranging in price from $28.00 to $39.50 were not included in the computation of diluted earnings per share. To include these shares would have been antidilutive.

3. INVESTMENT SECURITIES

The amortized cost and fair value of investment securities are as follows:

	2015			
Available for Sale:	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. treasury securities	$ 9,934,176	$ -	$ (121,776)	$ 9,812,400
U.S. government agency securities	59,296,160	42,044	(764,208)	58,573,996
Obligations of states and political subdivisions	60,931,357	1,599,898	(38,582)	62,492,673
Corporate securities	25,177,319	223,200	(345,284)	25,055,235
Mortgage-backed securities in government-sponsored entities	24,177,619	188,006	(305,645)	24,059,980
Total debt securities	179,516,631	2,053,148	(1,575,495)	179,994,284
Equity securities	3,742,462	195,590	(26,110)	3,911,943
Total Available for Sale	$ 183,259,093	$ 2,248,739	$ (1,601,605)	$ 183,906,227
Held to Maturity:				
Corporate Securities	$ 3,250,000	$ -	$ -	$ 3,250,000

	2014			
Available for Sale:	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. treasury securities	$ 11,874,760	$ -	$ (123,180)	$ 11,751,580
U.S. government agency securities	64,166,317	110,599	(1,072,973)	63,203,943
Obligations of states and political subdivisions	62,818,588	1,804,696	(189,183)	64,434,101
Corporate securities	14,142,440	300,279	(174,093)	14,268,626
Mortgage-backed securities in government-sponsored entities	28,691,421	320,568	(246,266)	28,765,723
Total debt securities	181,693,526	2,536,142	(1,805,695)	182,423,973
Equity securities	1,795,759	122,875	(18,881)	1,899,753
Total Available for Sale	$ 183,489,285	$ 2,659,017	$ (1,824,576)	$ 184,323,726

3. INVESTMENT SECURITIES AVAILABLE FOR SALE (Continued)

The following tables show the Company's gross unrealized losses and fair value, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position, at December 31, 2015 and 2014.

	2015					
	Less than Twelve Months		Twelve Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. treasury securities	$ 9,812,400	$ (121,776)	$ -	$ -	$ 9,812,400	$ (121,776)
U.S. government agency securities	31,383,790	(415,839)	14,589,764	(348,369)	45,973,554	(764,208)
Obligations of states and political subdivisions	5,414,145	(28,027)	1,305,616	(10,555)	6,719,761	(38,582)
Corporate securities	15,426,266	(218,451)	2,649,402	(126,833)	18,075,668	(345,284)
Mortgage-backed securities in government-sponsored entities	16,160,116	(305,645)	-	-	16,160,116	(305,645)
Equity securities	884,336	(26,110)	-	-	884,336	(26,110)
Total	$ 79,081,052	$ (1,115,847)	$ 18,544,782	$ (485,757)	$ 97,625,834	$ (1,601,605)

	2014					
	Less than Twelve Months		Twelve Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. treasury securities	$ -	$ -	$ 11,751,580	$ (123,180)	$ 11,751,580	$ (123,180)
U.S. government agency securities	3,980,680	(19,078)	46,936,583	(1,053,895)	50,917,263	(1,072,973)
Obligations of states and political subdivisions	2,413,441	(7,058)	10,715,337	(182,125)	13,128,778	(189,183)
Corporate securities	321,794	(6,483)	4,786,877	(167,610)	5,108,671	(174,093)
Mortgage-backed securities in government-sponsored entities	2,764,210	(30,008)	13,041,453	(216,258)	15,805,663	(246,266)
Equity securities	730,617	(18,881)	-	-	730,617	(18,881)
Total	$ 10,210,742	$ (81,508)	$ 87,231,830	$ (1,743,068)	$ 97,442,572	$ (1,824,576)

3. INVESTMENT SECURITIES AVAILABLE FOR SALE (Continued)

U.S. treasury securities. The unrealized loss on 5 investments in U.S. treasury notes was caused by interest rate increases. The contractual terms of these investments do not permit the issuer to settle the securities at a price less than the amortized cost basis of the investments. Because the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost basis, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2015.

U.S. government agency securities. The unrealized loss on 38 investments in U.S. government obligations and direct obligations of U.S. government agencies was caused by interest rate increases. The contractual terms of these investments do not permit the issuer to settle the securities at a price less than the amortized cost basis of the investments. Because the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost basis, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2015.

Obligations of states and political subdivisions. The Company's unrealized losses on 13 municipal bonds relate to investments within the governmental service sector. The unrealized losses are primarily caused by interest rate increases. The contractual terms of these investments do not permit the issuer to settle the security at a price less than the par value of the investment. The Company currently does not believe it is probable that it will be unable to collect all amounts due according to the contractual terms of the investments. Because the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of their par value, which may be maturity, it does not consider these investments to be other-than-temporarily impaired at December 31, 2015.

Corporate securities. The Company had unrealized losses on investments in 34 different debt securities that were primarily the result of interest rate increases. The Company currently does not believe it is probable that it will be unable to collect all amounts due, according to the contractual terms of the investments. Because the Company does not intend to sell these securities and it is not more likely than not that the Company will be required to sell the investments before recovery of the amortized cost basis, it does not consider these investments to be other-than-temporarily impaired at December 31, 2015.

Mortgage-backed securities in government-sponsored entities. The unrealized losses on 12 of the Company's investments in mortgage-backed securities were caused by interest rate increases. The Company purchased 11 of these investments at a premium relative to its face amount, and the contractual cash flows of the investments are guaranteed by an agency of the U.S. government. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost basis of the Company's investment. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of its amortized cost basis, which may be maturity, the Company does not consider these investments to be other-than-temporarily impaired at December 31, 2015.

Equity Securities. The Company had unrealized losses on investments in 6 different equity securities. The Company currently does not believe it is probable that it will be unable to collect all amounts due, according to the contractual terms of the investments. Because the Company does not intend to sell these securities and it is not more likely than not that the Company will be required to sell the investments before recovery of the book value, it does not consider these investments to be other-than-temporarily impaired at December 31, 2015

3. INVESTMENT SECURITIES AVAILABLE FOR SALE (Continued)

The amortized cost and fair value of debt securities at December 31, 2015, by contractual maturity, are shown below. Expected maturities of mortgage-backed securities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 1,834,934	$ 1,839,074	$ -	$ -
Due after one year through five years	30,609,103	30,710,787	-	-
Due after five years through ten years	102,480,611	102,665,314	3,250,000	3,250,000
Due after ten years	44,591,983	44,779,110	-	-
Total	$ 179,516,631	$ 179,994,284	$ 3,250,000	$ 3,250,000

Investment securities with a carrying value of $77,967,833 and $84,298,315 at December 31, 2015 and 2014, respectively, were pledged to secure deposits and other purposes as required by law.

The following is a summary of proceeds received, gross gains, and gross losses realized on the sale of investment securities available for sale for the years ended December 31:

	2015	2014
Proceeds from sales	$ 11,939,378	$ 24,782,208
Gross gains	545,140	615,334
Gross losses	10,060	95,988

4. LOANS

Major classifications of loans are summarized as follows:

	2015	2014
Commercial real estate	$ 136,394,740	$ 139,885,732
Commercial and industrial	71,063,238	57,253,972
Agricultural	20,031,110	19,504,821
State and political subdivisions	43,707,208	36,357,220
Consumer	9,420,842	8,097,292
Residential real estate	170,559,902	158,970,775
	451,177,040	420,069,812
Less allowance for loan losses	5,752,046	6,008,601
Net loans	$ 445,424,994	$ 414,061,211

Mortgage loans serviced by the Company for others amounted to $71,945,471 and $73,230,046 at December 31, 2015 and 2014, respectively.

The Company grants residential, commercial, and consumer loans to customers throughout its trade area, which is concentrated in central Pennsylvania. Such loans are subject to, at origination, credit risk assessment by management following the Company's lending policy. Although the Company has a diversified loan portfolio at December 31, 2015 and 2014, a substantial portion of its debtors' ability to honor their loan agreements is dependent upon the economic stability of its immediate trade area.

In the normal course of business, loans are extended to directors, executive officers, and their associates. A summary of loan activity for those directors, executive officers, and their associates with loan balances in excess of $60,000 for the year ended December 31, 2015, is as follows:

Balance 2013	Additions	Amounts Collected	Balance 2014	Additions	Amounts Collected	Balance 2015
$ 4,470,036	$ 8,319,121	$ 4,905,042	$ 7,884,115	$ 9,828,115	$ 3,890,003	$ 13,822,227

5. ALLOWANCE FOR LOAN LOSSES

Management has an established methodology to determine the adequacy of the allowance for loan losses that assesses the risks and losses inherent in the loan portfolio. For purposes of determining the allowance for loan losses, the Company has segmented certain loans in the portfolio by product type. Loans are segmented into the following pools: commercial real estate loans, commercial and industrial loans, agricultural loans, state and political subdivision loans, consumer loans, and residential real estate loans. Historical loss percentages for each risk category are calculated and used as the basis for calculating allowance allocations. These historical loss percentages are calculated over a five-year period for all portfolio segments. Certain qualitative factors are then added to the historical loss percentages to get the adjusted factor to be applied to non-classified loans.

5. ALLOWANCE FOR LOAN LOSSES (Continued)

The following qualitative factors are analyzed to determine allocations for non-classified loans for each portfolio segment:

- Changes in lending policies and procedures
- Changes in economic and business conditions
- Changes in nature and volume of the loan portfolio
- Changes in lending staff experience and ability
- Changes in past-due loans, nonaccrual loans, and classified loans
- Changes in loan review
- Changes in underlying value of collateral-dependent loans
- Levels of credit concentrations
- Effects of external factors, such as legal and regulatory requirements

These qualitative factors are reviewed each quarter and adjusted based upon relevant changes within the Bank's operating environment. During 2015, management decreased the qualitative factors reserve percentage for the commercial and industrial, commercial real estate and commercial agriculture pool of loans because of the changes in the volume and severity of past dues, non-accrual and classified loans as well as seasoning of the chief credit officer, credit underwriting staff and experienced commercial loan officer hired in 2014. A new chief credit officer was hired in 2014, along with additional credit staff with greater expertise in commercial and industrial lending, and an experienced commercial loan officer. While qualitative factors related to changes in credit risk management were kept at the same level for all the pools, they were decreased for commercial and industrial lending in 2014. In 2015, with the addition of a seasoned commercial loan officer, qualitative factors related to changes in lending staff were decreased for commercial real estate loans and commercial and industrial loans. The qualitative factor related to changes in volume of loans was decreased for commercial agriculture loans due to a decrease in the volume of these loans. All other pools of loans were left unchanged due to immaterial changes in the environmental trends. No significant changes have been noted in the market value of real estate or the unemployment numbers within the Bank's primary market area; accordingly, the reserve levels related to these factors were left unchanged from 2014.

We consider commercial real estate loans, commercial and industrial loans, agricultural loans, and consumer loans to be riskier than one-to-four family residential mortgage loans. Commercial real estate loans entail significant additional credit risks compared to one-to-four family residential mortgage loans, as they involve large loan balances concentrated with single borrowers or groups of related borrowers. In addition, the payment experience on loans secured by income-producing properties typically depends on the successful operation of the related real estate project and/or business operation of the borrower who is also the primary occupant, and thus may be subject to a greater extent to adverse conditions in the real estate market and in the general economy. Commercial and industrial loans, along with agricultural loans, involve a higher risk of default than residential mortgage loans of like duration since their repayment is generally dependent on the successful operation of the borrower's business and the sufficiency of collateral, if any. The repayment of agricultural loans can also be impacted by commodity prices going up and down. Although a customer's ability to repay for both one-to-four family residential mortgage loans and consumer loans is highly dependent on the local economy, especially employment levels, consumer loans as a group generally present a higher degree of risk because of the nature of collateral, if any.

5. ALLOWANCE FOR LOAN LOSSES (Continued)

State and political subdivision loans carry the lowest risk as most state and political subdivision loans are either backed by the full taxing authority of a municipality or the revenue of a municipal authority.

The following tables present, by portfolio segment, the changes in the allowance for loan losses and the recorded investment in loans as of and for the years ended December 31:

2015	Commercial Real Estate	Commercial and Industrial	Agricultural	State and Political Subdivisions	Consumer	Residential Real Estate	Unallocated	Total
Allowance for loan losses:								
Beginning balance	$ 2,978,458	$ 809,657	$ 210,380	$ 190,489	$ 66,042	$ 1,154,025	$ 599,550	$ 6,008,601
Charge-offs	(318,495)	(225,817)	-	-	(10,518)	-	-	(554,830)
Recoveries	28,624	32,854	-	-	1,797	-	-	63,275
Provision	(251,716)	311,629	(31,812)	27,119	14,681	99,875	65,224	235,000
Ending balance	$ 2,436,871	$ 928,323	$ 178,568	$ 217,608	$ 72,002	$ 1,253,900	$ 664,774	$ 5,752,046
Ending balance individually evaluated for impairment	$ 466,536	$ 5,000	$ -	$ -	$ -	$ 33,355	$ -	$ 504,891
Ending balance collectively evaluated for impairment	$ 1,970,333	$ 923,323	$ 178,568	$ 217,608	$ 72,004	$ 1,220,545	$ 664,772	$ 5,247,153
Loans:								
Individually evaluated for impairment	$ 5,923,986	$ 666,544	$ 341,351	$ -	$ -	$ 698,931		$ 7,630,812
Collectively evaluated for impairment	130,470,754	70,396,694	19,689,759	43,707,208	9,420,842	169,860,971		443,546,228
Ending balance	$ 136,394,740	$ 71,063,238	$ 20,031,110	$ 43,707,208	$ 9,420,842	$ 170,559,902		$ 451,177,040

2014	Commercial Real Estate	Commercial and Industrial	Agricultural	State and Political Subdivisions	Consumer	Residential Real Estate	Unallocated	Total
Allowance for loan losses:								
Beginning balance	$ 2,545,590	$ 1,082,500	$ 219,126	$ 164,348	$ 53,732	$ 1,086,486	$ 776,041	$ 5,927,823
Charge-offs	(38,393)	(196,294)	-	-	(952)	-	-	(235,639)
Recoveries	1,501	9,510	1,600	-	3,806	-	-	16,417
Provision	469,760	(86,059)	(10,346)	26,141	9,456	67,539	(176,491)	300,000
Ending balance	$ 2,978,458	$ 809,657	$ 210,380	$ 190,489	$ 66,042	$ 1,154,025	$ 599,550	$ 6,008,601
Ending balance individually evaluated for impairment	$ 821,321	$ 81,828	$ -	$ -	$ 3,306	$ 35,000	$ -	$ 941,455
Ending balance collectively evaluated for impairment	$ 2,157,137	$ 727,829	$ 210,380	$ 190,489	$ 62,736	$ 1,119,025	$ 599,550	$ 5,067,146
Loans:								
Individually evaluated for impairment	$ 7,205,504	$ 837,052	$ 362,362	$ 98,843	$ 8,092	$ 926,597		$ 9,438,450
Collectively evaluated for impairment	132,680,228	56,416,920	19,142,459	36,258,377	8,089,200	158,044,178		410,631,362
Ending balance	$ 139,885,732	$ 57,253,972	$ 19,504,821	$ 36,357,220	$ 8,097,292	$ 158,970,775		$ 420,069,812

5. ALLOWANCE FOR LOAN LOSSES (Continued)

Reserve requirement for commercial real estate loans decreased by $541,587 from 2014 to 2015, while those for commercial and industrial loans increased by $118,666 during the same period. This was a direct result of increases in outstanding balances in commercial and industrial loans during 2015 and a decrease in impaired, criticized and classified assets for commercial real estate loans which at $6.79 million at December 31, 2015, indicates a 30.72 percent or $3.01 million decrease from December 31, 2014.

Credit Quality Information

The following tables represent the commercial credit exposures by internally-assigned grades for the years ended December 31, 2015 and 2014, respectively. The grading analysis estimates the capability of the borrower to repay the contractual obligations under the loan agreements as scheduled or at all. The Company's internal credit risk grading system is based on experiences with similarly graded loans.

The Company's internally-assigned grades are as follows:

Pass loans are loans which are protected by the current net worth and paying capacity of the obligor or by the value of the underlying collateral. Special Mention loans are loans where a potential weakness or risk exists, which could cause a more serious problem if not corrected. Substandard loans are loans that have a well-defined weakness based on objective evidence and are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected. Doubtful loans have all the weaknesses inherent in a substandard asset and these weaknesses make collection or liquidation in full highly questionable and improbable, based on existing circumstances. Finally, loans classified as Loss are considered uncollectible, or of such value that continuance as an asset is not warranted.

2015	Commercial Real Estate	Commercial and Industrial	Agricultural	State and Political Subdivisions	Total
Pass	$ 129,604,716	$ 69,866,144	$ 19,276,947	$ 43,707,208	$ 262,455,015
Special Mention	1,153,394	880,059	185,808	-	2,219,262
Substandard	261,414	282,404	568,355	-	1,112,173
Doubtful	5,375,215	34,631	-	-	5,409,846
Total	$ 136,394,740	$ 71,063,238	$ 20,031,110	$ 43,707,208	$ 271,196,296

2014	Commercial Real Estate	Commercial and Industrial	Agricultural	State and Political Subdivisions	Total
Pass	$ 130,084,660	$ 54,721,479	$ 17,944,555	$ 36,357,220	$ 239,107,914
Special Mention	2,302,154	2,189,688	211,321	-	4,703,163
Substandard	7,498,918	312,956	1,348,945	-	9,160,819
Doubtful	-	29,849	-	-	29,849
Total	$ 139,885,732	$ 57,253,972	$ 19,504,821	$ 36,357,220	$ 253,001,745

5. ALLOWANCE FOR LOAN LOSSES (Continued)

Credit Quality Information (Continued)

For consumer and residential real estate loans, the Company evaluates credit quality based on whether the loan is considered performing or nonperforming. Nonperforming loans are those loans past due 90 days or more and loans on nonaccrual. The following tables present the balances of consumer and residential real estate loans by classes of loan portfolio based on payment performance as of December 31:

2015	Consumer	Residential Real Estate	Total
Performing	$ 9,420,842	$ 170,244,987	$ 179,665,829
Nonperforming	-	314,915	314,915
Total	$ 9,420,842	$ 170,559,902	$ 179,980,744

2014	Consumer	Residential Real Estate	Total
Performing	$ 8,089,200	$ 158,492,274	$ 166,581,474
Nonperforming	8,092	478,501	486,593
Total	$ 8,097,292	$ 158,970,775	$ 167,068,067

Age Analysis of Past-Due Loans by Class

The following are tables which show the aging analysis of past-due loans as of December 31:

2015	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Current	Total Loans	Recorded Investment 90 Days and Accruing
Commercial real estate	$ -	$ -	$ 5,375,215	$ 5,375,215	$ 131,019,525	$ 136,394,740	$ -
Commercial and industrial	-	-	34,631	34,631	71,028,607	71,063,238	-
Agricultural	-	7,498	-	7,498	20,023,612	20,031,110	-
State and political subdivisions	-	-	-	-	43,707,208	43,707,208	-
Consumer	16,710	-	-	16,710	9,404,132	9,420,842	-
Residential real estate	180,063	-	314,915	494,978	170,064,924	170,559,902	-
Total	$ 196,773	$ 7,498	$ 5,724,761	$ 5,929,032	$ 445,248,008	$ 451,177,040	$ -

5. ALLOWANCE FOR LOAN LOSSES (Continued)

Age Analysis of Past-Due Loans by Class (Continued)

	2014						
	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Current	Total Loans	Recorded Investment 90 Days and Accruing
Commercial real estate	$ 1,177,425	$ 150,000	$ 6,028,078	$ 7,355,503	$ 132,530,229	$ 139,885,732	$ -
Commercial and industrial	261,814	-	191,753	453,567	56,800,405	57,253,972	-
Agricultural	330,426	-	-	330,426	19,174,395	19,504,821	-
State and political subdivisions	-	-	-	-	36,357,220	36,357,220	-
Consumer	19,638	-	8,092	27,730	8,069,562	8,097,292	-
Residential real estate	234,314	-	478,501	712,815	158,257,960	158,970,775	-
Total	$ 2,023,617	$ 150,000	$ 6,706,424	$ 8,880,041	$ 411,189,771	$ 420,069,812	$ -

Consumer mortgage loans held by the Company in the process of foreclosure amounted to $171,768 as of December 31, 2015.

Impaired Loans

Management considers commercial real estate loans, commercial and industrial loans, agricultural loans, and state and political subdivision loans which are 90 days or more past due to be impaired. After becoming 90 days or more past due, these categories of loans are measured for impairment. Any consumer and residential real estate loans related to these delinquent loans are also considered to be impaired. Troubled debt restructurings are measured for impairment at the time of restructuring. These loans are analyzed to determine if it is probable that all amounts will not be collected according to the contractual terms of the loan agreement. If management determines that the fair value of the impaired loan is less than the recorded investment in the loan (net of previous charge-offs, deferred loan fees or costs, and unamortized premium or discount), impairment is recognized through a provision or through a charge to the allowance for loan losses.

5. ALLOWANCE FOR LOAN LOSSES (Continued)

Impaired Loans (Continued)

The following tables include the recorded investment and unpaid principal balances for impaired loans with the associated allowance amount as of December 31:

	2015				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial real estate	$ 1,681,940	$ 1,973,237	$ -	$ 4,785,273	$ 98,967
Commercial and industrial	442,017	442,017	-	718,304	19,212
Agricultural	341,351	341,351	-	169,000	16,493
State and political subdivisions	-	-	-	96,147	-
Consumer	-	-	-	402	-
Residential real estate	495,865	495,865	-	775,957	22,422
	2,961,173	3,252,470	-	6,545,083	157,094
With an allowance recorded:					
Commercial real estate	4,242,046	4,242,046	466,536	2,156,203	-
Commercial and industrial	224,527	224,527	5,000	162,126	14,997
Agricultural	-	-	-	-	-
State and political subdivisions	-	-	-	-	-
Consumer	-	-	-	816	-
Residential real estate	203,066	203,066	33,355	121,696	3,066
	4,669,639	4,669,639	504,891	2,440,841	18,063
Total:					
Commercial real estate	5,923,986	6,215,283	466,536	6,941,476	98,967
Commercial and industrial	666,544	666,544	5,000	880,430	34,209
Agricultural	341,351	341,351	-	169,000	16,493
State and political subdivisions	-	-	-	96,147	-
Consumer	-	-	-	1,218	-
Residential real estate	698,931	698,931	33,355	897,653	25,488
Total	$ 7,630,812	$ 7,922,109	$ 504,891	$ 8,985,924	$ 175,157

5. ALLOWANCE FOR LOAN LOSSES (Continued)

Impaired Loans (Continued)

	2014				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial real estate	$ 4,164,729	$ 4,164,729	$ -	$ 3,790,302	$ 119,559
Commercial and industrial	755,224	755,224	-	650,586	33,696
Agricultural	362,362	362,362	-	243,449	10,973
State and political subdivisions	98,844	98,844	-	103,054	4,783
Consumer	-	-	-	839	-
Residential real estate	891,597	891,597	-	1,041,076	16,383
	6,272,756	6,272,756	-	5,829,306	185,394
With an allowance recorded:					
Commercial real estate	3,040,774	3,040,774	821,321	1,053,788	-
Commercial and industrial	81,828	81,828	81,828	299,952	-
Agricultural	-	-	-	2,083	-
State and political subdivisions	-	-	-	-	-
Consumer	8,092	8,092	3,306	4,070	-
Residential real estate	35,000	35,000	35,000	2,917	-
	3,165,694	3,165,694	941,455	1,362,810	-
Total:					
Commercial real estate	7,205,504	7,205,503	821,321	4,844,090	119,559
Commercial and industrial	837,052	837,052	81,828	950,538	33,696
Agricultural	362,362	362,362	-	245,532	10,973
State and political subdivisions	98,843	98,844	-	103,054	4,783
Consumer	8,092	8,092	3,306	4,909	-
Residential real estate	926,597	926,597	35,000	1,043,993	16,383
Total	$ 9,438,450	$ 9,438,450	$ 941,455	$ 7,192,116	$ 185,394

Nonaccrual Loans

Loans are considered nonaccrual upon reaching 90 days of delinquency even though the Company may be receiving partial payments of interest and partial repayments of principal on such loans. When a loan is placed on nonaccrual status, previously accrued but unpaid interest is deducted from interest income.

On the following table are the loan balances on nonaccrual status as of December 31:

	2015	2014
Commercial real estate	$ 5,375,215	$ 6,028,078
Commercial and industrial	34,631	191,753
Agricultural	-	-
State and political subdivisions	-	-
Consumer	-	8,092
Residential real estate	314,915	478,501
Total	$ 5,724,761	$ 6,706,424

5. ALLOWANCE FOR LOAN LOSSES (Continued)

Troubled Debt Restructuring

The Company's loan portfolio also includes certain loans that have been modified in a troubled debt restructuring, where economic concessions have been granted to borrowers who have experienced or are expected to experience financial difficulties. These concessions typically result from the Company's loss mitigation activities and could include reductions in the interest rate, payment extensions, forgiveness of principal, forbearance, or other actions.

When the Company modifies a loan, management evaluates any possible impairment based on the present value of expected future cash flows, discounted at the contractual interest rate of the original loan agreement, except when the sole remaining source of repayment for the loan is the operation or liquidation of the collateral. In these cases, management uses the current fair value of the collateral, less selling costs, instead of discounted cash flows. If management determines that the value of the modified loan is less than the recorded investment in the loan, impairment is recognized by segment of class of loan, as applicable, through a charge-off to the allowance. Segment and class status is determined by the loan's classification at origination. As of December 31, 2015, a specific reserve allocation of $6,613 has been established against the troubled debt restructurings. Also, as of December 31, 2015, no charge-offs for the troubled debt restructurings were required.

The restructuring of the loans was either an extension of the maturity date or temporary reduction or moratorium on the payment terms or amounts. No modifications involved any changes in principal balance for 2015 or 2014. There were no loans modified in a troubled debt restructuring from January 1, 2013 through December 31, 2014, that subsequently defaulted (i.e., 90 days or more past due following a modification) during the years ended December 31, 2015 and 2014.

Loan modifications that are considered troubled debt restructurings completed during the years ended December 31 were as follows:

	2015		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled debt restructurings:			
Commercial real estate	2	$ 315,943	$ 315,943
Commercial and industrial	1	120,000	120,000
Residential real estate	1	32,223	32,223
Total	4	$ 468,166	$ 468,166

	2014		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled debt restructurings:			
Commercial and industrial	3	$ 316,054	$ 316,054
Agricultural	3	262,690	262,690
Residential real estate	4	309,143	309,143
Total	10	$ 887,887	$ 887,887

6. PREMISES AND EQUIPMENT

Major classifications of premises and equipment are summarized as follows:

	2015	2014
Land and land improvements	$ 790,550	$ 790,550
Building and leasehold improvements	16,820,359	16,771,799
Furniture, fixtures, and equipment	6,259,284	5,706,234
	23,870,193	23,268,583
Less accumulated depreciation	10,963,022	9,876,461
Total	$ 12,907,171	$ 13,392,122

Depreciation and amortization charged to operations was $1,087,271 in 2015 and $1,060,741 in 2014.

7. GOODWILL

As of each of the years ended December 31, 2015 and 2014, goodwill had a carrying amount of $1,668,699. The gross carrying amount of goodwill was tested for impairment in the 4th quarter, after the annual forecasting process. There was no impairment for the years ended December 31, 2015 and 2014.

8. DEPOSITS

The scheduled maturities of time deposits approximate the following:

Year Ending December 31,	Amount
2015	$ 55,338,134
2016	48,328,320
2017	26,677,097
2018	19,376,189
2019	17,590,035
Thereafter	27,843,042
	$ 195,152,817

The aggregate of all time deposit accounts of $250,000 or more amounted to $26,607,001 and $12,397,255 at December 31, 2015 and 2014, respectively. Total amount of Brokered Deposits for each of the years ended December 31, 2015 and 2014 were $7,450,000 and $7,450,000 respectively.

9. SHORT-TERM BORROWINGS

Short-term borrowings include overnight repurchase agreements through the FHLB, federal funds purchased, and repurchase agreements with customers. Short-term borrowings also include a $5,000,000 unsecured line of credit with a commercial bank for the years ended December 31, 2015 and 2014, respectively. The line of credit agreement contains various covenants requiring the Company to maintain certain levels of financial performance. The outstanding balances and related information for short-term borrowings are summarized as follows:

	2015	2014
Balance at year-end	$ 10,012,365	$ 11,206,134
Average balance outstanding	6,057,520	6,778,791
Maximum month-end balance	10,012,365	12,165,513
Weighted-average rate at year-end	0.87%	1.00%
Weighted-average rate during the year	1.20%	1.67%

The Company had outstanding overnight Repurchase Agreements in the amount of $3,632,365 that are secured with investment securities with a fair value of $14,213,315 as of December 31, 2015.

10. OTHER BORROWINGS

The following table sets forth information concerning other borrowings:

Description	Maturity Range From	Maturity Range To	Weighted-Average Interest Rate	Stated Interest Rate Range From	Stated Interest Rate Range To	At December 31, 2015	At December 31, 2014
Fixed rate	08/19/16	11/06/25	1.75 %	0.93 %	4.96 %	$ 39,657,349	$ 27,639,850
Fixed rate amortizing	06/12/17	04/24/23	1.75	1.08	6.53	17,218,606	20,599,502
Mid-term repos	01/29/16	07/08/16	0.70	0.63	0.99	17,500,000	26,500,000
Subordinated capital notes	02/10/21	12/29/25	5.13	3.83	6.75	7,570,000	5,270,000
Note payable	03/17/35	11/23/35	2.20	1.88	2.53	6,186,000	6,186,000
						$ 88,131,955	$ 86,195,352

Maturities of other borrowings at December 31, 2015, are summarized as follows:

Year Ending December 31,	Amount	Weighted-Average Rate
2016	$ 19,512,000	0.77 %
2017	7,223,267	1.61
2018	6,640,330	1.24
2019	3,309,847	1.19
2020	12,735,735	1.73
2021 and after	38,710,776	2.67
	$ 88,131,955	1.86 %

Borrowing capacity consists of credit arrangements with the FHLB. FHLB borrowings are subject to annual renewal, incur no service charges, and are secured by a blanket security agreement on certain investment and mortgage-backed securities, outstanding residential mortgages, and the Bank's investment in FHLB stock. As of December 31, 2015, the Bank's maximum borrowing capacity with the FHLB was approximately $211 million.

10. OTHER BORROWINGS (Continued)

The Company formed a special purpose entity ("Entity") to issue $3,093,000 of fixed/floating rate subordinated debt securities with a stated maturity of March 17, 2035. The rate on these securities is determined quarterly and floats based on three-month LIBOR plus 2.00 percent. The Entity may redeem them, in whole or in part, at face value on or after March 17, 2010. The Company borrowed the proceeds from the Entity in the form of a $3,093,000 note payable, which is included in the liabilities section of the Company's Consolidated Balance Sheet.

The Company formed an additional special purpose entity to issue $3,093,000 of fixed/floating rate subordinated debt securities with a stated maturity of November 23, 2035. These securities had a fixed rate of 6.11 percent until November 23, 2015, at which time the rate converted to floating, is determined quarterly and floats based on three-month LIBOR plus 1.50 percent. The Entity may redeem them, in whole or in part, at face value on or after November 23, 2010. The Company borrowed the proceeds from the Entity in the form of a $3,093,000 note payable, which is included in the liabilities section of the Company's Consolidated Balance Sheet.

The Company's minority interests in these entities were recorded at the initial investment amount and are included in the accrued interest and other assets on the Consolidated Balance Sheet. These entities are not consolidated as part of the Company's consolidated financial statements.

The Bank may request a Federal Reserve Advance secured by acceptable collateral. The Bank's maximum borrowing capacity with the Federal Reserve Bank as of December 31, 2015, is approximately $7.9 million.

The Bank also maintains a $10.0 million, $5.0 million and a $4.0 million federal funds line of credit with three other financial institutions. The Bank did not have outstanding borrowings related to these lines of credit at December 31, 2015.

The Company issued $3,620,000 of fixed rate subordinated debt securities with stated maturities of March 24, 2024 through December 26, 2024. These securities bear a fixed annual rate of 4.75 percent. The Company may redeem them, in whole or in part, at face value on or after March 24, 2019. These borrowings are included in the liabilities section of the Company's Consolidated Balance Sheet.

The Company has current balances of $650,000 of fixed rate subordinate debt securities at an annual rate of 6.75%, and $50,000 of adjustable rate subordinated debt securities with a stated maturity of March 2, 2021. These securities have been called with the final call date in March 2016.

The Company issued $3,250,000 of fixed rate subordinated debt securities with stated maturities of September 22, 2025 through December 29, 2025. The fixed securities bear an annual rate of 5.25 percent. The Company may redeem them, in whole or in part, at face value on or after September 22, 2020. These borrowings are included in the liabilities section of the Company's Consolidated Balance Sheet.

The Company issued $650,000 of fixed rate senior debt with stated maturities of September 2020 through November 2020. The fixed rate securities bear an annual rate of 4.00%. These borrowings are included in the liabilities section of the Company's Consolidated Balance Sheet.

11. INCOME TAXES

The provision for federal income taxes consists of:

	2015	2014
Current	$ 656,575	$ 844,886
Deferred	(25,665)	(73,365)
Total provision	$ 630,910	$ 771,521

The tax effects of deductible and taxable temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are as follows:

	2015	2014
Deferred tax assets:		
Allowance for loan losses	$ 1,955,696	$ 2,042,924
Deferred compensation	252,850	261,879
Core deposit intangible assets	24,382	24,382
Alternative minimum tax carryforward	816,877	602,640
Asset valuation allowances	232,937	257,452
Employee compensation accruals	340,375	330,636
Nonaccrual interest receivable	227,822	223,286
Capital loss carryforward	34,003	91,681
Other	2,000	2,000
Deferred tax assets	3,886,942	3,836,880
Deferred tax liabilities:		
Premises and equipment	883,922	871,965
Goodwill	95,478	95,779
Deferred loan fees	550,876	550,876
Partnerships	284,874	271,052
Other	5,417	6,498
Unrealized gain on available-for-sale securities	220,026	283,712
Deferred tax liabilities	2,040,593	2,079,882
Net deferred tax assets	$ 1,846,349	$ 1,756,998

No valuation allowance was established at December 31, 2015 and 2014, in view of the Company's ability to carryback taxes paid in previous years and certain tax strategies, coupled with the anticipated future taxable income as evidenced by the Company's earnings potential.

The reconciliation between the federal statutory rate and the Company's effective consolidated income tax rate is as follows:

	2015		2014	
	Amount	% of Pretax Income	Amount	% of Pretax Income
Provision at statutory rate	$ 1,742,552	34.0 %	$ 1,744,244	34.0 %
Tax-exempt interest	(967,295)	(18.9)	(893,242)	(17.4)
Life insurance income	(126,595)	(2.5)	(102,113)	(2.0)
Other	(17,752)	0.1	22,632	0.8
Actual tax expense and effective rate	$ 630,910	12.7 %	$ 771,521	15.4 %

11. INCOME TAXES (Continued)

The Company prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Benefits from tax positions should be recognized in the financial statements only when it is more likely than not that the tax position will be sustained upon examination by the appropriate taxing authority that would have full knowledge of all relevant information. A tax position that meets the more-likely-than-not recognition threshold is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold should be derecognized in the first subsequent financial reporting period in which that threshold is no longer met.

There is currently no liability for uncertain tax positions and no known unrecognized tax benefits. The Company recognizes, when applicable, interest and penalties related to unrecognized tax benefits in the provision for income taxes in the Consolidated Statement of Income. The Company's federal and state income tax returns for taxable years through 2011 have been closed for purposes of examination by the Internal Revenue Service and the Pennsylvania Department of Revenue.

12. EMPLOYEE BENEFITS

Savings Plan

The Bank maintains a qualified 401(k) salary reduction and profit sharing plan that covers substantially all employees. Under the plan, employees make voluntary, pretax contributions to their accounts, and the Bank contributions to the plan are at the discretion of the Board of Directors. Contributions by the Bank charged to operations were $310,497 and $284,999 for the years ended December 31, 2015 and 2014, respectively. The fair value of plan assets includes $1,197,980 and $989,672 pertaining to the value of the Company's common stock that is held by the plan as of December 31, 2015 and 2014, respectively.

Deferred Compensation Plan

The Company has a nonqualified deferred compensation plan that allows directors and senior executives to defer fees and salaries. Outstanding balances under this arrangement for 2015 and 2014 were $743,675 and $770,231, respectively, and are reported as "Other liabilities" on the Consolidated Balance Sheet. Expenses related to this plan were ($10,608) and $46,098 for December 31, 2015 and 2014, respectively.

Restricted Stock Plan

The Company maintains a Restricted Stock Plan (the "Plan"). Employees and non-employee corporate directors are eligible to receive awards of restricted stock based upon performance-related requirements. Awards granted under the Plan are in the form of the Company's common stock and are subject to certain vesting requirements including continuous employment or service with the Company. The Company has authorized 24,000 shares of the Company's common stock to the plan. The Plan assists the Company in attracting, retaining and motivating employees and non-employee directors to make substantial contributions to the success of the Company and to increase the emphasis on the use of equity as a key component of compensation. Compensation expense recognized related to the vesting of shares was $180,924 and $202,835 for the years ended December 31, 2015 and 2014, respectively.

11. EMPLOYEE BENEFITS (Continued)

Restricted Stock Plan (Continued)

The following is a summary of the status of the Company's restricted stock as of December 31, 2015, and changes therein during the year then ended:

	Number of Shares of Restricted Stock	Weighted-Average Grant Date Fair Value
Nonvested at January 1, 2015	19,556	$ 33.71
Granted	10,182	39.16
Vested	(7,926)	34.29
Forfeited	(2,520)	33.84
Nonvested at December 31, 2015	19,292	$ 36.33

Stock Option Plan

The Company has a fixed director and employee stock-based compensation plan. The plan has total options available to grant of 380,000 shares of common stock. The exercise price for the purchase of shares subject to a stock option may not be less than 100 percent of the fair market value of the shares covered by the option on the date of the grant. The term of stock options will not exceed ten years from the date of grant. Options granted are primarily vested evenly over a three-year period from the grant date.

The following table presents share data related to the outstanding options:

	Number of Options	Weighted-Average Exercise Price
Outstanding, January 1, 2015	135,641	$ 35.10
Granted	19,358	38.95
Exercised	(11,628)	31.20
Forfeited	(30,522)	40.46
Outstanding, December 31, 2015	112,849	$ 33.77
Exercisable at year-end	85,447	$ 32.33

12. EMPLOYEE BENEFITS (Continued)

Stock Option Plan (Continued)

The following table summarizes the characteristics of stock options at December 31, 2015:

		Outstanding			Exercisable	
Grant Date	Exercise Price	Shares	Contractual Average Life	Average Exercise Price	Shares	Average Exercise Price
01/25/07	44.00	654	1.06	44.00	654	44.00
02/23/07	45.00	1,050	1.14	45.00	1,050	45.00
01/31/08	38.18	10,800	2.08	38.18	10,800	38.18
03/26/09	25.50	10,500	3.23	25.50	10,500	25.50
04/01/10	34.13	13,000	4.25	34.13	13,000	34.13
04/28/11	29.75	12,800	5.32	29.75	12,800	29.75
04/02/12	30.00	15,600	6.25	30.00	15,600	30.00
04/01/13	33.25	16,835	7.25	33.25	16,835	33.25
09/12/13	35.00	300	7.70	35.00	198	35.00
04/01/14	36.50	11,152	8.25	36.50	3,680	36.50
09/22/14	39.50	500	8.73	39.50	165	39.50
11/03/14	38.90	500	8.84	38.90	165	38.90
04/01/15	38.95	19,158	9.25	38.95	-	38.95
		112,849			85,447	

13. COMMITMENTS

In the normal course of business, there are outstanding commitments and contingent liabilities such as commitments to extend credit, financial guarantees, and letters of credit that are not reflected in the accompanying consolidated financial statements. The Company does not anticipate any losses as a result of these transactions. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the Consolidated Balance Sheet.

The contract or notional amounts of those instruments reflect the extent of involvement the Company has in the particular classes of financial instruments that consisted of the following:

	2015	2014
Commitments to extend credit	$ 117,486,259	$ 103,938,735
Standby letters of credit	4,693,005	5,447,421
Total	$ 122,179,264	$ 109,386,156

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

13. COMMITMENTS (Continued)

Standby letters of credit represent conditional commitments issued by the Company to guarantee the performance of a customer to a third party. These instruments are issued primarily to support bid or performance-related contracts. The coverage period for these instruments is typically a one-year period with an annual renewal option subject to prior approval by management. Fees earned from the issuance of these letters are recognized upon expiration of the commitment period. For secured letters of credit, the collateral is typically Bank deposit instruments or real estate.

The Bank has committed to various operating leases for its branch and office facilities. Some of these leases include renewal options as well as specific provisions relating to rent increases. The minimum annual rental commitments under these leases outstanding at December 31, 2015, are as follows:

	Minimum Lease Payment
2016	$ 355,479
2017	351,519
2018	351,519
2019	368,019
2020	347,751
Thereafter	4,122,018
Total	$ 5,896,305

Rent expense under leases for each of the years ended December 31, 2015 and 2014, was $321,735 and $300,880, respectively.

Contingent Liabilities

The Company from time to time may be a party in various legal actions from the normal course of business activities. Management believes the liability, if any, arising from such actions will not have a material adverse effect on the Company's financial position.

14. REGULATORY RESTRICTIONS

Restriction on Cash and Due from Banks

The Bank is required to maintain reserve funds in cash or on deposit with the Federal Reserve Bank. The required reserve at December 31, 2015 and 2014, was $1,918,000 and $1,771,000 respectively.

Loans

Federal law prevents the Company from borrowing from the Bank unless the loans are secured by specific obligations. Further, such secured loans are limited in amount to 10 percent of the Bank's common stock and capital surplus.

Dividends

The Pennsylvania Banking Code restricts the availability of capital surplus for dividend purposes. At December 31, 2015, the Bank had a capital surplus of $3,236,250 which was not available for distribution to the Company as dividends.

15. REGULATORY CAPITAL

Federal regulations require the Company and the Bank to maintain minimum amounts of capital. Specifically, each is required to maintain certain minimum dollar amounts and ratios of Total and Tier I capital to risk-weighted assets and of Tier I capital to average total assets. In 2015, BASEL III was implemented that required the Bank to maintain an additional Common Equity Tier 1 capital ratio.

In addition to the capital requirements, the Federal Deposit Insurance Corporation Improvement Act ("FDICIA") established five capital categories ranging from "well capitalized" to "critically undercapitalized." Should any institution fail to meet the requirements to be considered "adequately capitalized," it would become subject to a series of increasingly restrictive regulatory actions.

As of December 31, 2015 and 2014, the FDIC categorized the Company and the Bank as well capitalized under the regulatory framework for prompt corrective action. To be classified as a well-capitalized financial institution, Total risk-based, Common Equity Tier I, Tier I risk-based, and Tier I leverage capital ratios must be at least 10 percent, 6.50 percent, 6 percent, and 5 percent, respectively.

15. REGULATORY CAPITAL (Continued)

The Company's actual capital ratios are presented in the following table that shows the Company met all regulatory capital requirements:

	2015		2014	
	Amount	Ratio	Amount	Ratio
Total capital				
(to risk-weighted assets)				
Actual	$ 68,682,873	12.62 %	$ 64,697,824	13.07 %
For capital adequacy purposes	43,555,305	8.00	39,598,293	8.00
To be well capitalized	54,444,132	10.00	49,497,866	10.00
Common Equity Tier I				
(to risk-weighted assets)				
Actual	$ 49,475,206	9.09 %	$ -	- %
For capital adequacy purposes	24,499,859	4.50	-	-
To be well capitalized	35,388,686	6.50	-	-
Tier I capital				
(to risk-weighted assets)				
Actual	$ 55,059,560	10.11 %	$ 53,147,425	10.74 %
For capital adequacy purposes	32,666,479	6.00	19,799,146	4.00
To be well capitalized	43,555,305	8.00	29,698,720	6.00
Tier I capital				
(to average assets)				
Actual	$ 55,059,560	7.94 %	$ 53,147,425	8.02 %
For capital adequacy purposes	27,721,393	4.00	26,516,759	4.00
To be well capitalized	34,651,741	5.00	33,145,949	5.00

15. REGULATORY CAPITAL (Continued)

The Bank's actual capital ratios are presented in the following table which shows the Bank met all regulatory capital requirements:

	2015			2014		
	Amount	Ratio		Amount	Ratio	
Total capital						
(to risk-weighted assets)						
Actual	$ 66,446,736	11.97	%	$ 64,845,014	13.15	%
For capital adequacy purposes	44,421,193	8.00		39,441,798	8.00	
To be well capitalized	55,526,491	10.00		49,302,247	10.00	
Common Equity Tier I						
(to risk-weighted assets)						
Actual	$ 60,418,164	10.88	%	$ -	-	%
For capital adequacy purposes	24,986,921	4.50		-	-	
To be well capitalized	36,092,219	6.50		-	-	
Tier I capital						
(to risk-weighted assets)						
Actual	$ 60,418,164	10.88	%	$ 58,611,413	11.89	%
For capital adequacy purposes	33,315,895	6.00		19,720,899	4.00	
To be well capitalized	44,421,193	8.00		29,581,348	6.00	
Tier I capital						
(to average assets)						
Actual	$ 60,418,164	8.73	%	$ 58,611,413	8.86	%
For capital adequacy purposes	27,670,243	4.00		26,449,196	4.00	
To be well capitalized	34,587,803	5.00		33,061,495	5.00	

16. FAIR VALUE MEASUREMENTS

The following disclosures show the hierarchical disclosure framework associated with the level of pricing observations utilized in measuring assets and liabilities at fair value. The three broad levels of pricing observations are as follows:

Level I: Quoted prices are available in active markets for identical assets or liabilities as of the reported date.

Level II: Pricing inputs are other than the quoted prices in active markets, which are either directly or indirectly observable as of the reported date. The nature of these assets and liabilities includes items for which quoted prices are available but traded less frequently and items that are fair-valued using other financial instruments, the parameters of which can be directly observed.

Level III: Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

This hierarchy requires the use of observable market data when available.

The following tables present the assets reported on the Consolidated Balance Sheet at their fair value as of December 31, 2015 and 2014, by level within the fair value hierarchy. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	December 31, 2015			
	Level I	Level II	Level III	Total
Assets:				
U.S. treasury securities	$ -	$ 9,812,400	$ -	$ 9,812,400
U.S. government agency securities	-	58,573,996	-	58,573,996
Obligations of states and political subdivisions	-	62,492,673	-	62,492,673
Corporate securities	-	25,055,235	-	25,055,235
Mortgage-backed securities in government-sponsored entities	-	24,059,980	-	24,059,980
Equity securities	3,911,943	-	-	3,911,943
Total	$ 3,911,943	$ 179,994,284	$ -	$ 183,906,227

	December 31, 2014			
	Level I	Level II	Level III	Total
Assets:				
U.S. treasury securities	$ -	$ 11,751,580	$ -	$ 11,751,580
U.S. government agency securities	-	63,203,943	-	63,203,943
Obligations of states and political subdivisions	-	64,434,101	-	64,434,101
Corporate securities	-	14,268,626	-	14,268,626
Mortgage-backed securities in government-sponsored entities	-	28,765,723	-	28,765,723
Equity securities	1,899,753	-	-	1,899,753
Total	$ 1,899,753	$ 182,423,972	$ -	$ 184,323,726

16. FAIR VALUE MEASUREMENTS (Continued)

The following tables present the assets measured on a nonrecurring basis on the Consolidated Balance Sheet at their fair value as of December 31, 2015 and 2014, by level within the fair value hierarchy. Impaired loans that are collateral dependent are written down to fair value through the establishment of specific reserves. Techniques used to value the collateral that secure the impaired loans include: quoted market prices for identical assets classified as Level I inputs and observable inputs employed by certified appraisers for similar assets classified as Level II inputs. In cases where valuation techniques included inputs that are unobservable and are based on estimates and assumptions developed by management based on the best information available under each circumstance, the asset valuation is classified as Level III input. Other real estate owned is measured at fair value, less cost to sell at the date of foreclosure. Valuations are periodically performed by management and the assets are carried at the lower of carrying amount, or fair value less cost to sell. The fair value for mortgage servicing rights is estimated by discounting contractual cash flows and adjusting for prepayment estimates. Discount rates are based upon rates generally charged for such loans with similar characteristics.

	December 31, 2015			
	Level I	Level II	Level III	Total
Assets:				
Impaired loans	$ -	$ -	$ 7,125,921	$ 7,125,921
Other real estate owned	-	-	127,687	127,687
Mortgage servicing rights	-	-	486,903	486,903

	December 31, 2014			
	Level I	Level II	Level III	Total
Assets:				
Impaired loans	$ -	$ -	$ 8,496,995	$ 8,496,995
Other real estate owned	-	-	200,531	200,531
Mortgage servicing rights	-	-	474,905	474,905

16. FAIR VALUE MEASUREMENTS (Continued)

The following tables provide a listing of significant unobservable inputs used in the fair value measurement process for items valued utilizing Level III techniques as of December 31, 2015 and 2014.

December 31, 2015	Fair Value	Valuation Techniques	Unobservable Inputs	Range
Impaired loans	$ 7,125,921	Property appraisals	Management discount for property type and recent market volatility	0% - 70% discount Weighted Average (16.86%)
Other real estate owned	$ 127,687	Property appraisals	Management discount for property type and recent market volatility	0% - 15% discount Weighted Average (7.00%)
Mortage servicing rights	$ 486,903	Discounted cash flows	Discount rate	2.59 - 3.44% discount Weighted Average (3.02%)
			Prepayment speeds	1.19 - 3.69 prepayment factor Weighted Average (1.75%)

December 31, 2014	Fair Value	Valuation Techniques	Unobservable Inputs	Range
Impaired loans	$ 8,496,995	Property appraisals	Management discount for property type and recent market volatility	0% - 70% discount Weighted Average (17.88%)
Other real estate owned	$ 200,531	Property appraisals	Management discount for property type and recent market volatility	0% - 15% discount Weighted Average (8.44%)
Mortage servicing rights	$ 474,905	Discounted cash flows	Discount rate	2.65 - 3.48% discount Weighted Average (3.07%)
			Prepayment speeds	1.32 - 3.70 prepayment factor Weighted Average (1.88%)

17. FAIR VALUE DISCLOSURE OF FINANCIAL INSTRUMENTS

The estimated fair values of the Company's financial instruments at December 31 are as follows:

2015										
		Carrying Value		Fair Value		Level I		Level II		Level III
Financial assets:										
Cash and cash equivalents	$	17,055,520	$	17,055,520	$	17,055,520	$	-	$	-
Certificates of deposit		3,002,319		3,002,319		3,002,319		-		-
Investment securities available for sale		183,906,227		183,906,227		3,911,943		179,994,284		-
Investment securities held to maturity		3,250,000		3,250,000		-		3,250,000		-
Loans held for sale		1,272,840		1,272,840		1,272,840		-		-
Net loans		445,424,994		443,726,641		-		-		443,726,641
Regulatory stock		6,509,400		6,509,400		6,509,400		-		-
Bank-owned life insurance		14,566,884		14,566,884		14,566,884		-		-
Accrued interest receivable		2,198,052		2,198,052		2,198,052		-		-
Mortgage servicing rights		486,903		486,903		-		-		486,903
Financial liabilities:										
Deposits	$	542,628,695	$	543,352,475	$	347,475,878	$	-	$	195,876,597
Short-term borrowings		10,012,365		10,012,365		10,012,365		-		-
Other borrowings		88,131,955		85,612,407		-		-		85,612,407
Accrued interest payable		783,076		783,076		783,076		-		-

2014										
		Carrying Value		Fair Value		Level I		Level II		Level III
Financial assets:										
Cash and cash equivalents	$	15,689,088	$	15,689,088	$	15,689,088	$	-	$	-
Certificates of deposit		2,753,312		2,753,312		2,753,312		-		-
Investment securities available for sale		184,323,726		184,323,726		1,899,753		182,423,973		-
Loans held for sale		75,050		75,050		75,050		-		-
Net loans		414,061,211		413,000,346		-		-		413,000,346
Regulatory stock		6,634,200		6,634,200		6,634,200		-		-
Bank-owned life insurance		14,120,894		14,120,894		14,120,894		-		-
Accrued interest receivable		2,096,708		2,096,708		2,096,708		-		-
Mortgage servicing rights		474,905		474,905		-		-		474,905
Financial liabilities:										
Deposits	$	508,615,501	$	510,517,363	$	325,499,593	$	-	$	185,017,770
Short-term borrowings		11,206,134		11,206,134		11,206,134		-		-
Other borrowings		86,195,352		85,223,459		-		-		85,223,459
Accrued interest payable		761,770		761,770		761,770		-		-

Financial instruments are defined as cash, evidence of ownership interest in an entity, or a contract which creates an obligation or right to receive or deliver cash or another financial instrument from/to a second entity on potentially favorable or unfavorable terms.

Fair value is defined as the amount at which a financial instrument could be exchanged in a current transaction between willing parties other than in a forced liquidation sale. If a quoted market price is available for a financial instrument, the estimated fair value would be calculated based upon the market price per trading unit of the instrument.

If no readily available market exists, the fair value estimates for financial instruments should be based upon management's judgment regarding current economic conditions, interest rate risk, expected cash flows, future estimated losses, and other factors as determined through various option pricing formulas or simulation modeling. As many of these assumptions result from judgments made by management based upon estimates, which are inherently uncertain, the resulting estimated fair values may not be indicative of the amount realizable in the sale of a particular financial instrument. In addition, changes in assumptions on which the estimated fair values are based may have a significant impact on the resulting estimated fair values.

As certain assets such as deferred tax assets and premises and equipment are not considered financial instruments, the estimated fair value of financial instruments would not represent the full value of the Company.

The Company employed simulation modeling in determining the estimated fair value of financial instruments for which quoted market prices were not available based upon the following assumptions:

Cash and Cash Equivalents, Certificates of Deposit, Loans Held for Sale, Regulatory Stock, Accrued Interest Receivable, Accrued Interest Payable, and Short-Term Borrowings

The fair value is equal to the current carrying value.

Investment Securities

The fair value of investment securities is equal to the available quoted market price. If no quoted market price is available, fair value is estimated using the quoted market price for similar securities. Fair values for certain corporate bonds were determined utilizing discounted cash flow models, due to the absence of a current market to provide reliable market quotes for the instruments.

Loans

The fair value is estimated by discounting future cash flows using current market inputs at which loans with similar terms and qualities would be made to borrowers of similar credit quality. Where quoted market prices were available, primarily for certain residential mortgage loans, such market rates were utilized as estimates for fair value.

Bank-Owned Life Insurance

The fair value is equal to the cash surrender value of the life insurance policies.

Mortgage Servicing Rights

The fair value for mortgage servicing rights is estimated by discounting contractual cash flows and adjusting for prepayment estimates. Discount rates are based upon rates generally charged for such loans with similar characteristics.

17. FAIR VALUE DISCLOSURE OF FINANCIAL INSTRUMENTS (Continued)

Deposits

The fair values of certificates of deposit are based on the discounted value of contractual cash flows. The discount rates are estimated using rates currently offered for similar instruments with similar remaining maturities. Demand, savings, and money market deposit accounts are valued at the amount payable on demand as of year-end.

Other Borrowings

Fair values for other borrowings are estimated using a discounted cash flow calculation that applies contractual costs currently being offered for similar borrowings.

Commitments to Extend Credit

These financial instruments are generally not subject to sale, and estimated fair values are not readily available. The carrying value, represented by the net deferred fee arising from the unrecognized commitment or letter of credit, and the fair value, determined by discounting the remaining contractual fee over the term of the commitment using fees currently charged to enter into similar agreements with similar credit risk, are not considered material for disclosure. The contractual amounts of unfunded commitments and letters of credit are presented in Note 13.

18. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following table presents the changes in accumulated other comprehensive (loss) income by component net of tax for the year ended December 31, 2015 and 2014:

		Net Unrealized Gains (Losses) on Investment Securities
Accumulated other comprehensive loss, January 1, 2014	$	(5,042,042)
Other comprehensive income before reclassification		5,935,539
Amounts reclassified from accumulated other comprehensive loss		(342,768)
Accumulated other comprehensive income, December 31, 2014		550,729
Other comprehensive income before reclassification		229,530
Amounts reclassified from accumulated other comprehensive income		(353,153)
Accumulated other comprehensive income, December 31, 2015	$	427,106

18. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) (Continued)

The following table presents significant amounts reclassified out of each component of accumulated other comprehensive income (loss) for the year ended December 31, 2015, and 2014:

		from Accumulated Other Comprehensive Income (Loss)	in the Consolidated Statement of Income Where Net Income Is Presented
Unrealized gains on investment securities December 31, 2015	$	535,080	Investment securities gains, net
		181,927	Income taxes
	$	353,153	
Unrealized gains on investment securities December 31, 2014	$	(519,346)	Investment securities gains, net
		176,578	Income taxes
	$	(342,768)	

19. SUBSEQUENT EVENTS

Management has reviewed events occurring through March 02, 2016, the date the financial statements were issued, and no subsequent events occurred requiring accrual or disclosure.

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