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## **INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
Orbisonia Community Bancorp, Inc.  
Orbisonia, Pennsylvania

We have audited the accompanying consolidated balance sheets of Orbisonia Community Bancorp, Inc. and its wholly-owned subsidiary as of December 31, 2009 and 2008, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Corporation's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Orbisonia Community Bancorp, Inc. and its wholly-owned subsidiary as of December 31, 2009 and 2008, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

A handwritten signature in dark ink that reads 'Smith Elliott Kearns &amp; Company, LLC'. The signature is written in a cursive, flowing style.

Chambersburg, Pennsylvania  
February 18, 2010

**ORBISONIA COMMUNITY BANCORP, INC. AND ITS WHOLLY-OWNED SUBSIDIARY**

**CONSOLIDATED BALANCE SHEETS**  
**December 31, 2009 and 2008**

<b>ASSETS</b>	<b>2009</b>	<b>2008</b>
Cash and due from banks	\$ 7,581,758	\$ 7,565,638
Federal funds sold	401,000	0
Investment securities available for sale	10,482,139	9,601,993
Federal Home Loan Bank and Atlantic Central Banker's Bank stock	946,200	946,200
Loans, net of unearned discount and allowance for possible loan losses	218,297,821	196,064,146
Bank building, equipment, furniture and fixtures, net	6,684,559	5,285,107
Accrued interest receivable	723,598	670,438
Cash surrender value of life insurance	2,874,464	2,770,934
Other assets	1,959,336	438,015
Total assets	<u>\$ 249,950,875</u>	<u>\$ 223,342,471</u>
 <b>LIABILITIES</b>		
Deposits		
Demand deposits	\$ 9,339,569	\$ 10,659,444
Savings deposits	60,971,441	49,402,058
Time certificates	157,179,990	136,167,424
Other time deposits	444,321	424,371
Total deposits	<u>227,935,321</u>	<u>196,653,297</u>
Liability for borrowed funds	0	3,014,878
Accrued interest payable and other liabilities	369,859	3,042,072
Total liabilities	<u>228,305,180</u>	<u>202,710,247</u>
 <b>STOCKHOLDERS' EQUITY</b>		
Capital stock, voting common, par value \$ 0.25; authorized and issued 800,000 shares	200,000	200,000
Additional paid-in capital	2,000,000	2,000,000
Retained earnings	19,872,609	18,835,798
Accumulated other comprehensive income	500,115	517,055
Less cost of treasury stock (26,275 shares - 2009; 26,115 shares - 2008)	( 927,029)	( 920,629)
Total stockholders' equity	<u>21,645,695</u>	<u>20,632,224</u>
Total liabilities and stockholders' equity	<u>\$ 249,950,875</u>	<u>\$ 223,342,471</u>

*The Notes to Consolidated Financial Statements are an integral part of these statements.*

**ORBISONIA COMMUNITY BANCORP, INC. AND ITS WHOLLY-OWNED SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF INCOME**  
**Years Ended December 31, 2009 and 2008**

	2009	2008
<b>Interest and Dividend Income</b>		
Interest and fees on loans	\$ 14,156,492	\$ 13,495,499
Interest and dividends on investment securities:		
U.S. Treasury securities	20,220	20,220
Obligations of other U.S. Government agencies	159,237	237,047
Obligations of states and political subdivisions	88,392	66,834
Corporate stocks and bonds	30,034	55,249
Interest on federal funds sold	9,173	117,697
	<u>14,463,548</u>	<u>13,992,546</u>
<b>Interest Expense</b>		
Interest on borrowed funds	8,116	12,974
Interest on deposits	<u>5,755,344</u>	<u>5,747,236</u>
Net interest income	8,700,088	8,232,336
<b>Provision for Loan Losses</b>	<u>620,000</u>	<u>420,000</u>
Net interest income after provision for loan losses	<u>8,080,088</u>	<u>7,812,336</u>
<b>Other Income</b>		
Service charges on deposit accounts	460,679	481,365
Other service charges, collection and exchange charges, commissions and fees	525,620	520,177
Increase in cash surrender value of life insurance	117,533	121,048
Other income	<u>39,741</u>	<u>38,612</u>
	<u>1,143,573</u>	<u>1,161,202</u>
<b>Other Expenses</b>		
Salaries and wages	3,128,656	2,737,463
Pensions and other employee benefits	832,747	810,022
Net occupancy expense of bank premises (including depreciation of \$ 174,269 - 2009 and \$ 163,110 - 2008)	386,583	358,753
Furniture and equipment expenses (including depreciation of \$ 339,602 - 2009 and \$ 338,431 - 2008)	517,592	499,580
EDP and MAC processing	258,212	231,228
Insurance	339,844	80,925
Bank shares tax	201,485	182,240
Other operating expenses	<u>1,297,966</u>	<u>1,235,321</u>
	<u>6,963,085</u>	<u>6,135,532</u>
Income before income taxes	2,260,576	2,838,006
<b>Applicable income taxes</b>	<u>666,654</u>	<u>874,010</u>
Net income	<u>\$ 1,593,922</u>	<u>\$ 1,963,996</u>
Earnings per share of common stock:		
Net income	<u>\$ 2.06</u>	<u>\$ 2.54</u>
Weighted average shares outstanding	773,773	774,430

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**ORBISONIA COMMUNITY BANCORP, INC. AND ITS WHOLLY-OWNED SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**Years Ended December 31, 2009 and 2008**

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
Balance December 31, 2007	\$ 200,000	\$ 2,000,000	\$ 17,668,096	\$ 479,062	(\$ 880,761)	\$ 19,466,397
<b>Comprehensive income:</b>						
Net income			1,963,996			1,963,996
Unrealized (loss) on investment securities available-for-sale (net of tax effect of \$ 19,572)				37,993		<u>37,993</u>
Total comprehensive income						<u>2,001,989</u>
Cumulative effect adjustment for change in accounting principle to apply EITF 06-04 for split-dollar post retirement benefits			( 215,556)			( 215,556)
Cash dividends declared on common stock (\$ 0.75 per share)			( 580,738)			( 580,738)
Purchase of treasury stock (1,011 shares)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	( 39,868)	( 39,868)
Balance December 31, 2008	200,000	2,000,000	18,835,798	517,055	( 920,629)	20,632,224
<b>Comprehensive income:</b>						
Net income			1,593,922			1,593,922
Unrealized gain on investment securities available-for-sale (net of tax effect of \$ 8,726)				( 16,940)		( 16,940)
Total comprehensive income						<u>1,576,982</u>
Cash dividends declared on common stock (\$ 0.72 per share)			( 557,111)			( 557,111)
Purchase of treasury stock (160 shares)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	( 6,400)	( 6,400)
Balance December 31, 2009	<u>\$ 200,000</u>	<u>\$ 2,000,000</u>	<u>\$ 19,872,609</u>	<u>\$ 500,115</u>	<u>(\$ 927,029)</u>	<u>\$ 21,645,695</u>

*The Notes to Consolidated Financial Statements are an integral part of these statements.*

**ORBISONIA COMMUNITY BANCORP, INC. AND ITS WHOLLY-OWNED SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**Years Ended December 31, 2009 and 2008**

	2009	2008
<b>Cash Flows From Operating Activities:</b>		
Net income	\$ 1,593,922	\$ 1,963,996
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	513,871	501,541
Provision for loan losses	620,000	420,000
(Gain) on sale of other real estate	( 4,382)	0
Deferred income taxes	50,039	26,907
(Increase) in cash surrender value of life insurance	( 103,530)	( 100,768)
(Increase) in accrued interest receivable	( 53,160)	( 32,130)
(Increase) in other assets	( 1,473,635)	( 32,277)
(Decrease) in accrued interest payable	( 172,213)	( 71,665)
Net cash provided by operating activities	<u>970,912</u>	<u>2,675,604</u>
<b>Cash Flows From Investing Activities:</b>		
Proceeds from maturities of available for sale securities	6,910,000	9,390,633
Purchases of available for sale securities	( 10,315,811)	( 7,446,485)
(Redemption) purchase of restricted bank stock	0	( 242,700)
Net (increase) in loans	( 22,980,864)	( 19,491,267)
Purchases of bank premises and equipment	( 1,913,323)	( 359,329)
Proceeds from sale of other real estate	42,571	0
Net cash (used) by investing activities	<u>( 28,257,427)</u>	<u>( 18,149,148)</u>
<b>Cash Flows From Financing Activities:</b>		
Net increase in deposits	31,282,024	11,487,746
Payments on long-term borrowings	( 14,878)	( 21,193)
Federal Home Loan Bank borrowings	( 3,000,000)	3,000,000
Purchase of treasury stock	( 6,400)	( 39,868)
Dividends paid	( 557,111)	( 580,738)
Net cash provided by financing activities	<u>27,703,635</u>	<u>13,845,947</u>
Net increase (decrease) in cash and cash equivalents	417,120	( 1,627,597)
Cash and cash equivalents, beginning balance	<u>7,565,638</u>	<u>9,193,235</u>
Cash and cash equivalents, ending balance	<u>\$ 7,982,758</u>	<u>\$ 7,565,638</u>
<b>Cash and cash equivalents consists of:</b>		
Cash and due from banks	\$ 7,581,758	\$ 7,565,638
Federal funds sold	401,000	0
	<u>\$ 7,982,758</u>	<u>\$ 7,565,638</u>

*The Notes to Consolidated Financial Statements are an integral part of these statements.*

**ORBISONIA COMMUNITY BANCORP, INC. AND ITS WHOLLY-OWNED SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)**

**Years Ended December 31, 2009 and 2008**

	2009	2008
<b>Supplemental Disclosure of Cash Flows Information:</b>		
Cash paid during the year for:		
Interest	\$ 5,793,608	\$ 5,784,186
Income taxes	742,180	845,480
<b>Supplemental Schedule of Noncash Investing and Financing Activities:</b>		
Net unrealized gain (loss) on investment securities available-for-sale (net of tax effects)	( \$ 16,940)	\$ 37,993
Other real estate acquired in settlement of loans	127,189	6,000

*The Notes to Consolidated Financial Statements are an integral part of these statements.*

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

### **Note 1. Significant Accounting Policies**

#### ***Nature of Operations***

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

#### ***Principles of Consolidation and Basis of Accounting***

The consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiary, Community State Bank of Orbisonia. All significant intercompany transactions and accounts have been eliminated. The Corporation uses the accrual basis of accounting.

#### ***Use of Estimates***

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

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

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

#### ***Cash and Cash Equivalents***

For purposes of the Statements of Cash Flows, the Corporation has defined cash and cash equivalents as those amounts included in the balance sheet captions "cash and due from banks" and "federal funds sold". As permitted by generally accepted accounting principles, the Corporation has elected to present the net increase or decrease in deposits in banks, loans and deposits in the Statements of Cash Flows.

#### ***Investment Securities***

In accordance with generally accepted accounting principles, the Corporation may segregate its investment portfolio into three specific categories: "securities held to maturity," "trading securities" and "securities available for sale." Securities held to maturity are to be accounted for at their amortized cost; securities classified as trading securities are to be accounted for at their

## Note 1. Significant Accounting Policies (Continued)

### *Investment Securities (Continued)*

current market value with unrealized gains and losses on such securities included in current period earnings; and securities classified as available for sale are to be accounted for at their current market value with unrealized gains and losses on such securities excluded from earnings and reported as a net amount in other comprehensive income.

Management determines the appropriate classification of securities at the time of purchase. If management has the intent and the Corporation has the ability at the time of purchase to hold securities until maturity, they are classified as held-to-maturity and carried at amortized historical cost. Securities to be held for indefinite periods of time and not intended to be held to maturity are classified as available for sale and carried at fair value. Securities held for indefinite periods of time include securities that management intends to use as part of its asset and liability management strategy and that may be sold in response to changes in interest rates, resultant prepayment risk and other factors related to interest rate and resultant prepayment risk changes.

Through December 31, 2008, unrealized holding gains and losses, net of tax, on investment securities available for sale were reported as a net amount in a separate component ("accumulated other comprehensive income") of stockholders' equity until realized. In April 2009, the Financial Accounting Standards Board (FASB) issued an accounting pronouncement (ASC 320, *Investments-Debt and Equity Securities*) that amends other-than-temporary impairment (OTTI) guidance for debt securities. The pronouncement changes existing guidance for determining whether an impairment is other than temporary to debt securities and replaces the existing requirement that the Corporation's management assert it has both the intent and ability to hold an impaired security until recovery with the requirement that management assert: (a) it does not have the intent to sell the security; and (b) whether it is more likely than not that it will not have to sell the security before recovery of its cost basis. Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are considered to be other than temporary are reflected in earnings as realized losses to the extent the impairment is related to credit losses. The amount of the impairment related to other factors is recognized in other comprehensive income. The pronouncement does not amend existing recognition and measurement guidance related to OTTI of equity securities. The pronouncement is effective for the year ended December 31, 2009 and had no significant impact on the Corporation's financial statements.

The Corporation had no investment securities classified as "Held-to-Maturity" or "Trading Securities" during 2009 or 2008.

Purchase premiums and discounts are amortized to earnings by the interest method from purchase date to maturity date. Realized gains and losses on dispositions are based on the net proceeds and the adjusted book value of the securities sold, using the specific identification method. Unrealized gains and losses on investment securities available for sale are based on the difference between book value and fair value of each security. These gains and losses are credited or charged to other comprehensive income, whereas realized gains and losses flow through the Corporation's annual operations.

### *Federal Home Loan Bank Stock and Atlantic Central Banker's Bank Stock*

These investments are carried at cost. The Corporation is required to maintain minimum investment balances in Federal Home Loan Bank and Atlantic Central Banker's Bank stocks. These stocks are not actively traded and therefore have no readily determinable market value.

## **Note 1. Significant Accounting Policies (Continued)**

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

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

The allowance for loan losses is established through a provision for loan losses charged to expenses, and is reduced by charge-offs, net of recoveries. Loans are charged against the allowance for loan losses when management believes that the collectability of the principal is unlikely. The allowance is an amount that management believes will be adequate to absorb possible losses on existing loans that may become uncollectible, based on evaluations of the collectability of loans and prior loan loss experience. The evaluations take into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, and current economic conditions that may affect the borrowers' ability to pay.

### ***Nonaccrual/Impaired Loans***

The accrual of interest income on loans ceases when principal or interest is past due 90 days or more and collateral is inadequate to cover principal and interest or immediately if, in the opinion of management, full collection is unlikely. Interest accrued but not collected as of the date of placement on nonaccrual status is reversed and charged against current income unless fully collateralized. Subsequent payments received either are applied to the outstanding principal balance or recorded as interest income, depending on management's assessment of the ultimate collectability of principal. Interest income generally is not recognized on specific impaired loans unless the likelihood of further loss is remote.

A loan is considered impaired when, based on current information and events, it is probable that scheduled collections of principal and interest will not be made in accordance with the contractual terms of the loan agreement. Impairment is measured on a loan-by-loan basis by either the present value of expected future cash flows discounted at the Corporation's effective interest rate, the loan's obtainable market price, or the fair value of the underlying collateral. Interest income on such loans is recognized only to the extent of interest payments received.

### ***Other Real Estate Owned***

Real estate properties acquired through, or in lieu of, loan foreclosure are to be sold and are initially recorded at fair value, less estimated cost to sell. Any write-downs based on the asset's fair value are charged to the allowance for loan losses. If an increase in basis results, it is classified as non-interest income unless there has been a prior charge-off in which case a recovery to the allowance for loan losses is recorded. Legal fees and other costs related to foreclosure proceedings are expensed as they are incurred. At December 31, 2009 and 2008 the Bank had foreclosed real estate of \$ 95,000 and \$ 6,000, respectively, which is included in other assets on the balance sheet.

## Note 1. Significant Accounting Policies (Continued)

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

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

	<b>Years</b>
Bank building	25 - 40
Equipment, furniture and fixtures	3 -10
Land improvements	15-20

### *Earnings Per Share*

Earnings per common share were computed based upon weighted average shares of common stock outstanding of 773,773 and 774,430 for 2009 and 2008, respectively.

### *Federal Income Taxes*

As a result of certain timing differences between financial statement and federal income tax reporting, deferred income taxes are provided in the financial statements. Deferred tax assets and liabilities are included in the financial statements at currently enacted income tax rates applicable to the period in which the deferred tax assets and liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. See Note 12 for further details.

### *Advertising*

The Corporation follows the policy of charging costs of advertising to expense as incurred. Advertising expense was \$ 73,289 and \$ 65,853 for the years ended December 31, 2009 and 2008, respectively.

### *Fair Values of Financial Instruments*

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

## Note 1. Significant Accounting Policies (Continued)

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

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

***Cash and Cash Equivalents.*** The carrying amounts of cash and short-term instruments approximate their fair value.

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

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

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

***Liabilities for Borrowed Funds.*** The fair value of the Corporation's long-term debt is estimated using a discounted cash flow analysis based on the Corporation's current incremental borrowing rate for similar types of borrowing arrangements.

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

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

### ***Comprehensive Income***

Comprehensive income is defined as the change in equity from transactions and other events from nonowner sources. It includes all changes in equity except those resulting from investments by shareholders and distributions to shareholders. Comprehensive income includes net income and certain elements of "other comprehensive income" such as foreign currency transactions; accounting for futures contracts; employer's accounting for pensions; and accounting for certain investments in debt and equity securities.

The Corporation has elected to report its comprehensive income in the statement of changes in stockholders' equity. The only element of "other comprehensive income" that the Corporation has is the unrealized gains or losses on available for sale securities.

## Note 1. Significant Accounting Policies (Continued)

### *Comprehensive Income (Continued)*

The components of other comprehensive income and related tax effects are as follows:

	2009	2008
Unrealized holding gains (losses) on available-for-sale securities	(\$ 25,666)	\$ 57,565
Tax effect	<u>8,726</u>	<u>( 19,572)</u>
Net-of-tax amount	<u>(\$ 16,940)</u>	<u>\$ 37,993</u>

### *Fair Value Measurements*

ASC 820, *Fair Value Measurements and Disclosures*, (previously SFAS 157, *Fair Value Measurements*) defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, establishes a three-level valuation hierarchy for disclosure of fair value measurement and expands disclosure requirements for fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- ⇒ **Level 1:** Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- ⇒ **Level 2:** Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar instruments in markets that are not active or by model-based techniques in which all significant inputs are observable in the market for the asset or liability, for substantially the full term of the financial instrument.
- ⇒ **Level 3:** The valuation methodology is derived from model-based techniques in which at least one significant input is unobservable to the fair value measurement and based on the corporation's own assumptions about market participants' assumptions.

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

### Securities

Where quoted prices are available in an active market, securities are classified within level 1 of the valuation hierarchy. Level 1 securities would include highly liquid government bonds, mortgage products and exchange traded equities. If quoted market prices are not available, securities are classified within level 2 and fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flow. Level 2 securities would include U.S. agency securities, mortgage-backed agency securities, obligations of states and political subdivisions and certain corporate, asset backed and other securities. In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within level 3 of the valuation hierarchy. All securities held by the holding company are considered to be Level 1 securities. All others are considered to be Level 2.

## Note 1. Significant Accounting Policies (Continued)

### *Fair Value Measurements (Continued)*

The Corporation had no liabilities reflected at estimated fair value at December 31, 2009 and 2008. A summary of assets at December 31, 2009 and 2008 measured at estimated fair value on a recurring basis are as follows:

	Level 1	Level 2	Level 3	Total Fair Value Measurements
				<b>2009</b>
Securities available for sale	\$ 634,725	\$ 9,847,414	\$ 0	\$ 10,482,139
				<b>2008</b>
Securities available for sale	\$ 689,130	\$ 8,912,863	\$ 0	\$ 9,601,993

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

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

#### Loans Held for Sale

Loans held for sale are carried at the lower of cost or fair value. These loans typically consist of one-to-four family residential loans originated for sale in the secondary market. Fair value is based on the price secondary markets are currently offering for similar loans using observable market data which is not materially different than cost due to the short duration between origination and sale (Level 2). As such, the Corporation records any fair value adjustments on a nonrecurring basis. The Corporation had no loans held for sale as of December 31, 2009.

#### Other Real Estate Owned

Certain assets such as other real estate owned (OREO) are measured at fair value of real estate acquired through foreclosure at an estimated fair value less cost to sell. At or near the time of foreclosure, real estate appraisals are obtained on the properties acquired through foreclosure. The real estate is then valued at the lesser of the appraised value or the loan balance, including interest receivable, at the time of foreclosure less an estimate of costs to sell the property. Appraised values are typically determined utilizing an income or market valuation approach based on an appraisal conducted by an independent, licensed appraiser outside of the Corporation using observable market data (Level 2). However, if the acquired property is a house or building in the process of construction or if an appraisal of the real estate property is over two years old, then the fair value is considered Level 3. The estimate of costs to sell the property is based on historical transactions of similar holdings. The Corporation had OREO property valued at \$ 95,000 (Level 3) at December 31, 2009.

## Note 1. Significant Accounting Policies (Continued)

### *Fair Value Measurements (Continued)*

#### Impaired Loans

ASC 820 applies to loans measured for impairment using the practical expedients permitted by generally accepted accounting principles (GAAP), including impaired loans measured at an observable market price (if available), or at the fair value of the loan's collateral (if the loan is collateral dependent). Fair value of the loan's collateral, when the loan is dependent on collateral, is determined by appraisals or independent valuation which is then adjusted for the cost related to liquidation of the collateral. The impairment of loans is measured based on the estimated value of underlying collateral of the loan. The value of the collateral is typically determined utilizing an income or market valuation approach based on an appraisal conducted by an independent, licensed appraiser outside of the Corporation using observable market data (Level 2). However, if the collateral is a house or building in the process of construction or if an appraisal of the real estate property is over two years old, then the fair value is considered Level 3. The value of business equipment is based upon an outside appraisal if deemed significant, or the net book value of the applicable business' financial statements if not considered significant using observable market data. Likewise, values for inventory and accounts receivable collateral are based on financial statement balances or aging reports (Level 3). Impaired loans allocated to the Allowance for Loan Losses are measured at fair value on a nonrecurring basis. Any fair value adjustments are recorded in the period incurred as provision for loan losses on the Consolidated Statement of Income. The Corporation had no impaired loans at December 31, 2009 that resulted in a charge-off in the amount due to the loan exceeding the fair value of the collateral.

## Note 2. Compensating Balance Arrangements

At December 31, 2009 and 2008 there is no required balance at Atlantic Central Banker's Bank.

## Note 3. Investment Securities

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(In Thousands)				
<b>2009</b>				
U. S. Treasury securities	\$ 499	\$ 41	\$ 0	\$ 540
Obligations of other U.S. government agencies and corporations	6,000	23	0	6,023
Obligations of state and political subdivisions	3,202	87	5	3,284
Equity securities	23	612	0	635
	<u>\$ 9,724</u>	<u>\$ 763</u>	<u>\$ 5</u>	<u>\$ 10,482</u>
<b>2008</b>				
U. S. Treasury securities	\$ 499	\$ 72	\$ 0	\$ 571
Obligations of other U.S. government agencies and corporations	6,000	28	0	6,028
Obligations of state and political subdivisions	2,297	22	5	2,314
Equity securities	23	666	0	689
	<u>\$ 8,819</u>	<u>\$ 788</u>	<u>\$ 5</u>	<u>\$ 9,602</u>

### Note 3. Investment Securities (Continued)

The amortized cost and fair values of investment securities available for sale at December 31, 2009 by contractual maturity are shown below. Contractual maturities will differ from expected maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	<b>Amortized Cost</b>	<b>Fair Value</b>
	<b>(In Thousands)</b>	
Due in one year or less	\$ 744	\$ 749
Due after one year through five years	8,497	8,635
Due after five years through ten years	<u>460</u>	<u>463</u>
	9,701	9,847
Equity securities	<u>23</u>	<u>635</u>
	<u>\$ 9,724</u>	<u>\$ 10,482</u>

There were no sales of available for sale securities in 2009 or 2008.

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

Description	2009 (In Thousands)					
	12 Months or Less		More than 12 Months		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U. S. Treasury Securities	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Obligations of other U. S. government agencies and corporations	500	0	0	0	500	0
Obligations of state and political subdivisions	195	( 5)	0	0	195	( 5)
Totals	<u>\$ 695</u>	<u>( \$ 5)</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 695</u>	<u>( \$ 5)</u>

  

Description	2008 (In Thousands)					
	12 Months or Less		More than 12 Months		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U. S. Treasury Securities	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Obligations of other U. S. government agencies and corporations	250	0	0	0	250	0
Obligations of state and political subdivisions	662	( 5)	0	0	662	( 5)
Totals	<u>\$ 912</u>	<u>( \$ 5)</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 912</u>	<u>( \$ 5)</u>

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

**Note 3. Investment Securities (Continued)**

At December 31, 2009, one U. S. Government agency and two obligations of state and political subdivisions had unrealized losses. At December 31, 2008, one U. S. Government agency and four obligations of state and political subdivisions had unrealized losses. As management does not intend to sell these debt securities, and it is more likely than not that management will not be required to sell these debt securities before the cost bases are recovered, no declines are considered to be other than temporary.

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

	2009	2008
Amortized cost	<u>\$ 9,056,223</u>	<u>\$ 6,095,124</u>
Fair value	<u>\$ 9,200,361</u>	<u>\$ 6,212,279</u>

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

In addition, recent economic uncertainty and market events have led to unprecedented volatility in current, commodity, credit and equity markets culminating in failures of some banking and financial services firms and Government intervention to solidify others. These recent events underscore the level of investment risk associated with the current economic environment, and accordingly the level of risk in the corporation's portfolio.

**Note 4. Loans**

Loans consist of the following (in thousands of dollars):

	2009	2008
Real estate loans:		
Secured by farmland	\$ 3,290	\$ 3,596
Secured by residential/commercial properties	181,887	160,562
Loans to finance agricultural production and other		
loans to farmers	272	581
Commercial and industrial loans	4,873	3,235
Loans to individuals for household, family, or other		
personal expenditures	29,660	29,832
All other loans	138	41
Total loans	<u>220,120</u>	<u>197,847</u>
Less: Allowance for possible loan losses	<u>1,822</u>	<u>1,783</u>
Net loans	<u>\$ 218,298</u>	<u>\$ 196,064</u>

The aggregate amount of loans to employees, officers and directors was \$ 7,477,945 and \$ 6,305,977 at December 31, 2009 and 2008, respectively.

**Note 4. Loans (Continued)**

During 2005, the Corporation began participation in the Federal Home Loan Bank of Pittsburgh's (FHLB) Mortgage Partnership Finance Program. Under this program, certain loans are sold to FHLB, but the Corporation retains the servicing rights to these loans. The outstanding balance of loans sold to FHLB was \$ 0 and \$ 108,130 at December 31, 2009 and 2008, respectively. During 2008 and 2009, all of the loans in this program were refinanced.

**Note 5. Delinquent and Nonaccrual Loans**

Loans 90 days or more past due (still accruing interest) and those on nonaccrual status were as follows at December 31 (in thousands):

	<b>90 Days or More Past Due</b>		<b>Nonaccrual Status</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Commercial loans	\$ 0	\$ 0	\$ 0	\$ 0
Real estate mortgages	319	70	1,394	1,261
Consumer loans	<u>14</u>	<u>80</u>	<u>34</u>	<u>10</u>
Total	<u>\$ 333</u>	<u>\$ 150</u>	<u>\$ 1,428</u>	<u>\$ 1,271</u>

The amount of foregone interest on the above nonaccrual loans was \$ 23,688 and \$ 44,503 for 2009 and 2008, respectively.

The following is a summary of information pertaining to impaired loans at December 31, 2009:

Recorded investment in impaired loans	\$ 188,364
Allowance for impairments, year end	0
Average recorded investment in impaired loans	191,504

No loans were identified as impaired as of December 31, 2008. Certain loans identified as impaired are placed into nonaccrual status, based upon the loans' performance compared with contractual terms. Not all loans identified as impaired are placed on nonaccrual status. The interest on loans identified as impaired and also placed on nonaccrual status and not recognized as income throughout the year was of an immaterial amount in 2008.

**Note 6. Concentration of Credit Risk**

The Corporation is a multi-faceted banking institution whose primary purpose is to provide entities located within its delineated service community with a variety of credit services. The community it serves consists primarily of the Pennsylvania counties of Huntingdon, the northern half of Fulton and Franklin and parts of Juniata, Perry, Cumberland, Mifflin, Blair and Bedford. Its main office is located in Orbisonia, Pennsylvania with branches located in Mount Union, Waterfall, Saxton, Smithfield, Three Springs, and McConnellsburg, Pennsylvania. Although the Corporation has a diversified loan portfolio, a substantial portion of its customers' ability to honor their contracts is dependent upon the timber and logging industry.

**Note 6. Concentration of Credit Risk (Continued)**

The following is a summary of loans to the timber and logging industry at December 31:

	<b>Approximate Current Balance</b>	<b>Percent of Equity</b>
2009	\$ 5,561,738	27.7%
2008	\$ 5,457,064	26.5%

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

The Corporation maintains deposit balances at several correspondent banks, which provide check collection and item processing services to the bank. The balances with these correspondent banks may exceed federally insured limits at times, which management considers to be a normal business risk.

**Note 7. Allowance for Possible Loan Losses**

Activity in the allowance for possible loan losses for each year was as follows:

	<b>2009</b>	<b>2008</b>
Balance, beginning of year	\$ 1,782,966	\$ 1,666,797
Recoveries credited to allowance	65,252	95,626
Provision for possible loan losses charged to income	<u>620,000</u>	<u>420,000</u>
Total	2,468,218	2,182,423
Losses charged to allowance	<u>645,830</u>	<u>399,457</u>
Balance, end of year	<u><u>\$ 1,822,388</u></u>	<u><u>\$ 1,782,966</u></u>

**Note 8. Bank Building, Equipment, Furniture and Fixtures**

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

Description	Cost	Accumulated	Depreciated
		Depreciation	Cost
		<b>2009</b>	
Land	\$ 1,427,128	\$ 0	\$ 1,427,128
Bank buildings	6,259,295	1,895,964	4,363,331
Equipment, furniture and fixtures	5,279,787	4,450,268	829,519
Land improvements	<u>198,691</u>	<u>134,110</u>	<u>64,581</u>
	<u>\$ 13,164,901</u>	<u>\$ 6,480,342</u>	<u>\$ 6,684,559</u>
		<b>2008</b>	
Land	\$ 1,198,475	\$ 0	\$ 1,198,475
Bank buildings	5,078,288	1,731,360	3,346,928
Equipment, furniture and fixtures	4,776,131	4,110,669	665,462
Land improvements	<u>198,691</u>	<u>124,449</u>	<u>74,242</u>
	<u>\$ 11,251,585</u>	<u>\$ 5,966,478</u>	<u>\$ 5,285,107</u>

**Note 9. Deposits**

Included in savings balances at December 31 were:

	<b>2009</b>	<b>2008</b>
Super NOW accounts	\$ 6,132,668	\$ 5,809,765
Money Market accounts	7,716,688	3,806,395
Interest plus accounts	25,076,893	20,105,898

The balance of time certificates of \$ 100,000 or more  
at December 31 was:

63,847,149	46,207,354
------------	------------

Interest expense on time certificates of \$ 100,000 or more was approximately \$ 1,963,026 and \$ 1,860,515 for 2009 and 2008, respectively.

At December 31, 2009, the scheduled maturities of time certificates are as follows:

2010	\$ 74,655,265
2011	41,928,558
2012	18,169,337
2013	10,112,129
2014	12,048,259
Thereafter	<u>266,442</u>
	<u>\$ 157,179,990</u>

**Note 9. Deposits (Continued)**

The aggregate amount of demand deposit overdrafts reclassified as loan balances was \$ 112,821 and \$ 18,644 at December 31, 2009 and 2008, respectively.

The Corporation accepts deposits of employees, officers and directors of the Corporation and its subsidiary on the same terms, including interest rates, as those prevailing at the time for comparable transactions with unrelated persons. The aggregate dollar amount of deposits of employees, officers and directors totaled \$ 6,878,226 and \$ 5,758,826 at December 31, 2009 and 2008, respectively.

**Note 10. Financial Instruments with Off-Balance-Sheet Risk**

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

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

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

	<b>Contract or Notional Amount</b>	
	<b>2009</b>	<b>2008</b>
Commitments to extend credit	\$ 12,883,982	\$ 10,196,622
Standby letters of credit and financial guarantees written	<u>356,559</u>	<u>291,465</u>
	<u>\$ 13,240,541</u>	<u>\$ 10,488,087</u>

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

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

## Note 11. Retirement Plans

### *Defined Contribution Retirement Plan*

The Corporation has a 401-K profit-sharing plan covering all full-time employees who have attained the age of 18 and have completed twelve months of service. The plan provides for the Corporation to make contributions which will match employee deferrals on a one to one basis up to 3% of employees' eligible compensation. Additional contributions can be made at the discretion of the Board of Directors based on the Corporation's performance. The contributions for the years ended December 31, 2009 and 2008 were \$ 77,979 and \$ 65,534, respectively.

### *Bank Owned Life Insurance*

Beginning in 2003, the Corporation purchased life insurance covering directors and executive officers. The policies were funded with single premium life insurance contracts. The cash surrender value of the life insurance policies is an unrestricted asset of the Corporation, which totaled \$ 2,874,464 and \$ 2,770,934 at December 31, 2009 and 2008, respectively.

The Corporation has promised a continuation of life insurance coverage to persons post retirement. Generally Accepted Accounting Principles require the recording of post retirement costs and a liability equal to the present value of the cost of post retirement insurance during the insured employees' term of service. The Corporation adopted this provision of Generally Accepted Accounting Principles on January 1, 2008 and recorded a \$ 215,556 liability and corresponding decrease in retained earnings at that time. A net expense of \$ 30,802 and \$ 22,512 was recorded for the years ended December 31, 2009 and 2008, respectively, for post retirement costs.

## Note 12. Federal Income Taxes

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

	<b>2009</b>	<b>2008</b>
Current year provision	\$ 616,615	\$ 847,103
Deferred income taxes resulting from differences between financial statement and tax depreciation charges	38,113	64,443
Deferred income taxes resulting from differences between financial statement and tax loan loss provision	11,926	( 37,536)
Applicable income tax	<u>\$ 666,654</u>	<u>\$ 874,010</u>

Federal income taxes were computed after adjusting pretax accounting income for nontaxable income in the amounts of \$ 457,852 and \$ 102,495 for 2009 and 2008, respectively.

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

	<b>2009</b>	<b>2008</b>
Federal income tax rate	34.0%	34.0%
Reduction resulting from:		
Nontaxable interest income (net of nondeductible interest)	4.5%	2.0%
Tax credit	0.0%	1.2%
Effective income tax rate	<u>29.5%</u>	<u>30.8%</u>

## Note 12. Federal Income Taxes (Continued)

The Corporation has invested in The Potts Family partnership, which provides low income housing for the elderly. The Corporation is a limited partner with a 99% ownership interest, which is accounted for using the equity method. The related low income housing tax credits from this partnership were approximately \$ 31,675 per year and expired in 2009.

Deferred tax liabilities have been provided for taxable temporary differences related to accumulated depreciation and unrealized gains on available for sale securities. Deferred tax assets have been provided for deductible temporary differences related to the allowance for loan losses, and unrealized losses on available for sale securities. The net deferred tax assets included in other assets in the accompanying consolidated balance sheets include the following components:

	2009	2008
Total deferred tax assets	\$ 489,445	\$ 501,371
Total deferred tax liabilities	( 243,261)	( 205,148)
Net deferred tax asset	<u>\$ 246,184</u>	<u>\$ 296,223</u>

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

### *Uncertain Tax Positions*

The Corporation files income tax returns in the U.S. federal jurisdiction and the Commonwealth of Pennsylvania. With few exceptions, the Corporation is no longer subject to U.S. federal, state, or local income tax examinations by tax authorities for years before 2006. The Corporation adopted the provisions of ASC 740, *Income Taxes* on January 1, 2009, with no impact on the financial statements.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while other are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above would be reflected as a liability for unrecognized tax benefits in the accompanying consolidated balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination. Interest and penalties associated with unrecognized tax benefits would be classified as additional income taxes in the Consolidated Statement of Income. At December 31, 2009, there was no liability for unrecognized tax benefits.

### Note 13. Liability For Borrowed Funds

During 2008, the Corporation entered into a \$ 3,000,000 loan with the Federal Home Loan Bank of Pittsburgh that had a fixed rate of 2.09% and matured February 2009. This borrowing was extended through May 2009 at a fixed rate of 0.67%. There were no borrowings on this loan at December 31, 2009.

At December 31, 2009 and 2008, the Corporation had available a \$ 5,000,000 line of credit with the Federal Home Loan Bank of Pittsburgh at an interest rate of 0.65% and 0.62%, respectively. This line of credit matures December 13, 2011. There were no borrowings on this line of credit at December 31, 2009.

The Corporation has pledged certain securities, loans, and other assets as collateral on the Federal Home Loan Bank borrowings in the approximate amount of \$ 116,252,000 at December 31, 2009. The maximum borrowing capacity from Federal Home Loan Bank is approximately \$ 116,252,000.

In 1994 the Corporation purchased a property in Huntingdon, Pennsylvania which was used for the site of the Smithfield branch. The purchase price of the property was \$ 250,000. The Corporation paid \$ 25,000 in cash and issued a note payable to the sellers for \$ 225,000. The note, which bore interest fixed at 6%, was payable in monthly installments over 15 years. The balance outstanding on the mortgage at December 31, 2008 was \$ 14,878. The mortgage was paid in full during 2009.

### Note 14. Fair Value of Financial Instruments

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

	2009		2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial Assets</b>				
Cash and due from banks	\$ 7,581,758	\$ 7,581,758	\$ 7,565,638	\$ 7,565,638
Federal funds sold	401,000	401,000	0	0
Securities available for sale	10,482,139	10,482,139	9,601,993	9,601,993
Restricted and other bank stock	946,200	946,200	946,200	946,200
Loans receivable	218,297,821	219,711,820	196,064,146	192,587,849
Accrued interest receivable	723,598	723,598	670,438	670,438
<b>Financial Liabilities</b>				
Time certificates	157,179,990	150,524,218	136,167,424	129,321,526
Other deposits	70,755,331	70,755,331	60,485,873	60,485,873
Borrowed funds	0	0	3,014,878	3,901,765
Accrued interest payable	153,684	153,684	183,832	183,832

**Note 15. Orbisonia Community Bancorp, Inc. (Parent Company Only) Financial Information**

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

<b>Balance Sheets</b>		
<b>December 31</b>		
<b>Assets</b>	<b>2009</b>	<b>2008</b>
Cash	\$ 21,536	\$ 4,461
Investment in wholly-owned subsidiary	21,197,484	20,165,180
Other bank stock	<u>634,725</u>	<u>689,130</u>
Total assets	<u>\$ 21,853,745</u>	<u>\$ 20,858,771</u>
<b>Liabilities</b>		
Deferred tax	<u>\$ 208,050</u>	<u>\$ 226,547</u>
<b>Stockholders' Equity</b>		
Common stock, par value \$ 0.25; authorized and issued 800,000 shares	\$ 200,000	\$ 200,000
Additional paid-in capital	2,000,000	2,000,000
Retained earnings	19,872,609	18,835,798
Accumulated other comprehensive income	500,115	517,055
Less cost of treasury stock (26,275 shares - 2009; 26,115 shares - 2008)	<u>( 927,029)</u>	<u>( 920,629)</u>
Total stockholders' equity	<u>21,645,695</u>	<u>20,632,224</u>
Total liabilities and stockholders' equity	<u>\$ 21,853,745</u>	<u>\$ 20,858,771</u>

**Note 15. Orbisonia Community Bancorp, Inc. (Parent Company Only) Financial Information (Continued)****Statements of Income  
Years Ended December 31**

	<b>2009</b>	<b>2008</b>
<b>Income:</b>		
Cash dividends from wholly-owned subsidiary	\$ 557,111	\$ 595,738
Equity in undistributed income of subsidiary	1,013,336	1,347,421
Dividends from bank stock	28,291	26,840
Miscellaneous	<u>0</u>	<u>102</u>
Total income	<u>1,598,738</u>	<u>1,970,101</u>
<b>Expenses:</b>		
Professional fees	0	2,876
Other expense	<u>4,816</u>	<u>3,229</u>
Total expense	<u>4,816</u>	<u>6,105</u>
Net income	<u>\$ 1,593,922</u>	<u>\$ 1,963,996</u>

**Statements of Cash Flows  
Years Ended December 31**

<b>Cash flows from operating activities:</b>		
Net income	\$ 1,593,922	\$ 1,963,996
Adjustments to reconcile net income to cash provided by operating activities:		
Equity in undistributed income of subsidiary	<u>( 1,013,336)</u>	<u>( 1,347,421)</u>
Net cash provided by operating activities	<u>580,586</u>	<u>616,575</u>
<b>Cash flows from financing activities:</b>		
Cash dividends paid	( 557,111)	( 580,738)
Purchase of treasury stock	<u>( 6,400)</u>	<u>( 39,868)</u>
Net cash (used) by financing activities	<u>( 563,511)</u>	<u>( 620,606)</u>
Net increase (decrease) in cash	17,075	( 4,031)
Cash, beginning balance	<u>4,461</u>	<u>8,492</u>
Cash, ending balance	<u>\$ 21,536</u>	<u>\$ 4,461</u>

## Note 16. Regulatory Matters

Dividends paid by Orbisonia Community Bancorp, Inc. are provided from the Community State Bank's dividends to the parent company. Under provisions of the Pennsylvania Banking Code, cash dividends may be paid from accumulated net earnings (retained earnings) as long as minimum capital requirements are met. The minimum capital requirements stipulate that the Bank's surplus or additional paid-in capital be equal to the amount of capital. Community State Bank is well above these requirements and the balance of \$ 19,700,767 in its retained earnings at December 31, 2009 is available for cash dividends. Orbisonia Community Bancorp's balance of retained earnings at December 31, 2009 is \$ 19,872,609 and would be available for cash dividends, although payment of dividends to such extent would not be prudent or likely. The Federal Reserve Board, which regulates bank holding companies, establishes guidelines which indicate that cash dividends should be covered by current period earnings. The Corporation is also subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Corporation's financial statements. Under capital adequacy guidelines, the Corporation is required to maintain minimum capital ratios. The leverage ratio compares capital to total balance sheet assets, while the risk-based ratios compare capital to risk-weighted assets and off-balance-sheet activity in order to make capital levels more sensitive to risk profiles of individual banks. A comparison of Orbisonia Community Bancorp's capital ratios to regulatory minimums at December 31 is as follows:

	<u>Actual</u>		<u>For Capital Adequacy Purposes</u>		<u>To Be Well Capitalized Under Prompt Corrective Action Provisions</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
<b>As of December 31, 2009</b>						
Total capital (to risk weighted assets)	\$ 22,968	13.8%	\$ 13,287	8.0%	\$ 16,609	10.0%
Tier I capital (to risk weighted assets)	21,146	12.7%	6,643	4.0%	9,965	6.0%
Tier I capital (to average assets)	21,146	8.6%	9,880	4.0%	12,350	5.0%
<b>As of December 31, 2008</b>						
Total capital (to risk weighted assets)	\$ 22,816	15.2%	\$ 13,024	8.0%	\$ 15,030	10.0%
Tier I capital (to risk weighted assets)	21,149	14.1%	6,012	4.0%	9,018	6.0%
Tier I capital (to average assets)	21,149	9.6%	8,793	4.0%	10,992	5.0%

As of December 31, 2009 the most recent notification from the Federal Deposit Insurance Corporation categorized the Corporation as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Corporation must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the above table. There are no conditions or events since that notification that management believes have changed the Corporation's category.

**Note 17. Subsequent Events**

The Corporation has evaluated events and transactions subsequent to December 31, 2009 through February 18, 2010, the date these consolidated financial statements were available to be issued. Based on the definitions and requirements of Generally Accepted Accounting Principles, no events were identified that occurred subsequent to December 31, 2009 and through February 18, 2010 that require recognition or disclosure in the consolidated financial statements.