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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, 2010 and 2009, 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, 2010 and 2009, 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.

Chambersburg, Pennsylvania
March 4, 2011

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

CONSOLIDATED BALANCE SHEETS
December 31, 2010 and 2009

ASSETS	2010	2009
Cash and due from banks	\$ 8,042,931	\$ 7,581,758
Federal funds sold	6,380,000	401,000
Investment securities available for sale	8,925,190	10,482,139
Federal Home Loan Bank and Atlantic Central Banker's Bank stock	899,800	946,200
Loans, net of unearned discount and allowance for possible loan losses	237,558,195	218,297,821
Bank building, equipment, furniture and fixtures, net	6,598,953	6,684,559
Accrued interest receivable	686,579	723,598
Cash surrender value of life insurance	4,691,705	2,874,464
Foreclosed assets	299,000	95,000
Other assets	1,448,768	1,864,336
Total assets	<u>\$ 275,531,121</u>	<u>\$ 249,950,875</u>
 LIABILITIES		
Deposits		
Demand deposits	\$ 10,320,024	\$ 9,339,569
Savings deposits	68,572,703	60,971,441
Time certificates	172,447,456	157,179,990
Other time deposits	443,716	444,321
Total deposits	<u>251,783,899</u>	<u>227,935,321</u>
Accrued interest payable and other liabilities	552,989	369,859
Total liabilities	<u>252,336,888</u>	<u>228,305,180</u>
 STOCKHOLDERS' EQUITY		
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	21,498,554	19,872,609
Accumulated other comprehensive income	422,708	500,115
Less cost of treasury stock (26,275 shares - 2010 and 2009)	<u>(927,029)</u>	<u>(927,029)</u>
Total stockholders' equity	<u>23,194,233</u>	<u>21,645,695</u>
Total liabilities and stockholders' equity	<u>\$ 275,531,121</u>	<u>\$ 249,950,875</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, 2010 and 2009

	2010	2009
Interest and Dividend Income		
Interest and fees on loans	\$ 15,270,276	\$ 14,156,492
Interest and dividends on investment securities:		
U.S. Treasury securities	20,220	20,220
Obligations of other U.S. Government agencies	91,283	159,237
Obligations of states and political subdivisions	91,235	88,392
Corporate stocks and bonds	30,154	30,034
Interest on federal funds sold	13,173	9,173
	<u>15,516,341</u>	<u>14,463,548</u>
Interest Expense		
Interest on borrowed funds	0	8,116
Interest on deposits	5,472,516	5,755,344
Net interest income	10,043,825	8,700,088
Provision for Loan Losses	<u>600,000</u>	<u>620,000</u>
Net interest income after provision for loan losses	<u>9,443,825</u>	<u>8,080,088</u>
Other Income		
Service charges on deposit accounts	471,092	460,679
Other service charges, collection and exchange charges, commissions and fees	645,491	525,620
Increase in cash surrender value of life insurance	152,241	117,533
Loss on call or maturity of investment securities	(1,797)	0
Other income	12,618	39,741
	<u>1,279,645</u>	<u>1,143,573</u>
Other Expenses		
Salaries and wages	3,317,464	3,128,656
Pensions and other employee benefits	912,909	832,747
Net occupancy expense of bank premises (including depreciation of \$ 182,712 - 2010 and \$ 174,269 - 2009)	432,250	386,583
Furniture and equipment expenses (including depreciation of \$ 344,329 - 2010 and \$ 339,602 - 2009)	559,516	517,592
EDP and MAC processing	302,434	258,212
Insurance	519,182	339,844
Bank shares tax	217,641	201,485
Other operating expenses	1,288,500	1,297,966
	<u>7,549,896</u>	<u>6,963,085</u>
Income before income taxes	3,173,574	2,260,576
Applicable income taxes	<u>936,386</u>	<u>666,654</u>
Net income	<u>\$ 2,237,188</u>	<u>\$ 1,593,922</u>
Earnings per share of common stock:		
Net income	<u>\$ 2.89</u>	<u>\$ 2.06</u>
Weighted average shares outstanding	773,773	773,773

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 CHANGES IN STOCKHOLDERS' EQUITY
Years Ended December 31, 2010 and 2009

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
Balance December 31, 2008	\$ 200,000	\$ 2,000,000	\$ 18,835,798	\$ 517,055	(\$ 920,629)	\$ 20,632,224
Comprehensive income:						
Net income			1,593,922			1,593,922
Unrealized (loss) 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 (\$ 0.75 per share)			(557,111)			(557,111)
Purchase of treasury stock (1,011 shares)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(6,400)</u>	<u>(6,400)</u>
Balance December 31, 2009	200,000	2,000,000	19,872,609	500,115	(\$ 927,029)	21,645,695
Comprehensive income:						
Net income			2,237,188			2,237,188
Unrealized (loss) on investment securities available-for-sale (net of tax effect of \$ 39,876)				(77,407)		(77,407)
Total comprehensive income						<u>2,159,781</u>
Cash dividends declared on common stock (\$ 0.79 per share)	<u>0</u>	<u>0</u>	<u>(611,243)</u>	<u>0</u>	<u>0</u>	<u>(611,243)</u>
Balance December 31, 2010	<u>\$ 200,000</u>	<u>\$ 2,000,000</u>	<u>\$ 21,498,554</u>	<u>\$ 422,708</u>	<u>(\$ 927,029)</u>	<u>\$ 23,194,233</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, 2010 and 2009

	2010	2009
Cash Flows From Operating Activities:		
Net income	\$ 2,237,188	\$ 1,593,922
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	527,041	513,871
Loss on maturities of investment securities	1,797	0
Provision for loan losses	600,000	620,000
(Gain) loss on sale of other real estate	23,596 (4,382)
Deferred income taxes	(26,879)	50,039
(Increase) in cash surrender value of life insurance	(152,241)	(103,530)
(Increase) decrease in accrued interest receivable	37,019 (53,160)
(Increase) decrease in other assets	482,323 (1,473,635)
Increase (decrease) in accrued interest payable and other liabilities	183,130 (172,213)
Net cash provided by operating activities	<u>3,912,974</u>	<u>970,912</u>
Cash Flows From Investing Activities:		
Proceeds from maturities of available for sale securities	9,138,203	6,910,000
Purchases of available for sale securities	(7,700,334)	(10,315,811)
(Redemption) purchase of restricted bank stock	46,400	0
Net (increase) in loans	(20,222,874)	(22,980,864)
Purchases of bank premises and equipment	(441,435)	(1,913,323)
Purchase of life insurance contracts	(1,665,000)	0
Proceeds from sale of other real estate	134,904	42,571
Net cash (used) by investing activities	<u>(20,710,136)</u>	<u>(28,257,427)</u>
Cash Flows From Financing Activities:		
Net increase in deposits	23,848,578	31,282,024
Payments on long-term borrowings	0 (14,878)
Federal Home Loan Bank borrowings	0 (3,000,000)
Purchase of treasury stock	0 (6,400)
Dividends paid	(611,243)	(557,111)
Net cash provided by financing activities	<u>23,237,335</u>	<u>27,703,635</u>
Net increase in cash and cash equivalents	6,440,173	417,120
Cash and cash equivalents, beginning balance	<u>7,982,758</u>	<u>7,565,638</u>
Cash and cash equivalents, ending balance	<u>\$ 14,422,931</u>	<u>\$ 7,982,758</u>
Cash and cash equivalents consists of:		
Cash and due from banks	\$ 8,042,931	\$ 7,581,758
Federal funds sold	6,380,000	401,000
	<u>\$ 14,422,931</u>	<u>\$ 7,982,758</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, 2010 and 2009

	2010	2009
Supplemental Disclosure of Cash Flows Information:		
Cash paid during the year for:		
Interest	\$ 5,464,845	\$ 5,793,608
Income taxes	850,000	742,180
Supplemental Schedule of Noncash Investing and Financing Activities:		
Net unrealized (loss) on investment securities available-for-sale (net of tax effects)	(\$ 77,407)	(\$ 16,940)
Other real estate acquired in settlement of loans	362,500	127,189

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 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 fair 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 fair 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.

Realized gains and losses on sales of securities are based on net proceeds and the adjusted book value of the securities sold using the specific identification method. Unrealized holding gains and losses, net of tax, on securities available for sale are reported as a net amount in a separate component ("accumulated other comprehensive income") of stockholders' equity until realized. Other-than-temporary impairment (OTTI) loss is recognized in earnings through the income statement in the period in which OTTI loss is taken, except for the non-credit component of OTTI losses on debt securities, which is recognized in other comprehensive income. Purchase premiums and discounts are amortized to earnings by the interest method from purchase date to maturity date.

The Corporation had no investment securities classified as "held-to-maturity" or "trading securities" during 2010 or 2009.

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 discount and an allowance for loan losses. Unearned discount 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 accrual of interest income on loans in all loan segments (nonaccrual loans) is discontinued 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 after considering economic and business conditions and collection efforts, the borrower's financial condition is such that collection of all principal and interest is unlikely. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. Interest accrued but not collected as of the date of placement on nonaccrual status is reversed and charged against current income unless fully collateralized. Subsequent payments received are either applied to the outstanding principal balance or recorded as interest income, depending on management's assessment of the ultimate collectability of principal. Interest income generally is not recognized on specific impaired loans unless the likelihood of further loss is remote.

Loans of a commercial nature and loans determined to be troubled debt restructurings (TDRs) are subject to impairment evaluation by management. Loans classified as doubtful or loss and TDRs are considered impaired. Loans classified as substandard are evaluated for possible impairment. A loan is considered impaired when, based on current information and events, it is probable that scheduled collections of principal and interest will not be made in accordance with the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Impairment is normally measured on a loan-by-loan basis by either the present value of expected future cash flows discounted at the 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. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Corporation does not separately identify individual consumer and residential loans for impairment disclosures, unless such loans are the subject of a restructuring agreement.

The 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. Subsequent recoveries, if any, are credited to the allowance. The allowance for loan losses is an amount that management believes will be adequate to absorb possible losses on existing loans that may become uncollectible based on management's evaluation the collectability of loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

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

Note 1. Significant Accounting Policies (Continued)

Loans and Allowance for Possible Loan Losses (Continued)

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

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

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

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

Credit quality of loans is monitored on an ongoing basis by risk rating commercial loans for relationships over \$ 150,000 via a formal review by an independent credit analyst on an annual basis.

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. Improvements to the property are added to the basis of the assets. Legal fees and other costs related to foreclosure proceedings and maintenance of the property are expensed as they are incurred. At December 31, 2010 and 2009 the Bank had foreclosed real estate of \$ 299,000 and \$ 95,000, respectively, which is included in other assets on the Consolidated Balance Sheets.

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 any replaced items are retired. Depreciation is computed based on both straight-line and accelerated methods over the estimated useful lives of the related assets as follows:

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

The cost of computer software is amortized over a 3-5 year period.

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

Earnings Per Share

Earnings per common share were computed based upon weighted average shares of common stock outstanding of 773,773 for 2010 and 2009.

Federal Income Taxes

As a result of certain timing differences between financial statement and federal income tax reporting (including depreciation and loan losses), 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 11 for further details.

Advertising

The Corporation expenses advertising costs as they are incurred. Advertising expense was \$ 65,322 and \$ 73,289 for the years ended December 31, 2010 and 2009, 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 non-financial 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:

	2010	2009
Gross unrealized holding (losses) arising during the year	(\$ 119,080)	(\$ 25,666)
Reclassification adjustment for losses realized in net income	<u>1,797</u>	<u>0</u>
Net unrealized holding (losses) before taxes	(117,283)	(25,665)
Tax effect	<u>39,876</u>	<u>8,725</u>
Net-of-tax amount	<u>(\$ 77,407)</u>	<u>(\$ 16,940)</u>

Fair Value Measurements

Fair Value Measurements and Disclosures under generally accepting accounting principles describes a framework for measuring fair value, and requires disclosure about fair value measurements by establishing a three-level hierarchy that prioritizes the input to valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the assets or liabilities fall within different levels of the hierarchy, the classification is based on the lowest level input that is significant to the fair value measurement of the asset or liability. Classification of assets and liabilities within the hierarchy considers the markets in which the assets and liabilities are traded and the reliability and transparency of the assumptions used to determine fair value. The three levels are defined as follows:

- ⇒ **Level 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.

Note 1. Significant Accounting Policies (Continued)

Fair Value Measurements (Continued)

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 debt securities issues by U.S. agencies, 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 of the Corporation's securities are classified as available for sale.

The Corporation had no liabilities reflected at estimated fair value at December 31, 2010 and 2009. A summary of assets at December 31, 2010 and 2009 measured at estimated fair value on a recurring basis follows:

	Level 1	Level 2	Level 3	Total Fair Value Measurements
2010				
Equity securities - financial services	\$ 616,590	\$ 0	\$ 0	\$ 616,590
US Treasuries	0	545,000	0	545,000
US Agencies	0	3,001,488	0	3,001,488
Obligations of state and local governments	0	4,762,112	0	4,762,112
Total securities available for sale	<u>\$ 616,590</u>	<u>\$ 8,308,600</u>	<u>\$ 0</u>	<u>\$ 8,925,190</u>
2009				
Equity securities - financial services	\$ 634,725	\$ 0	\$ 0	\$ 634,725
US Treasuries	0	540,000	0	540,000
US Agencies	0	6,023,450	0	6,023,450
Obligations of state and local governments	0	3,283,964	0	3,283,964
Total securities available for sale	<u>\$ 634,725</u>	<u>\$ 9,847,414</u>	<u>\$ 0</u>	<u>\$ 10,482,139</u>

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

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

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 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 with an allocation to the allowance for loan losses are measured at fair value on a nonrecurring basis. Any fair value adjustments are recorded in the period incurred as provision for loan losses on the Consolidated Statements of Income. The fair value of impaired loans reported below is based on the total impaired loans with specific allowance for loan loss allocations less the total allocations for each loan, while the fair value measurement level is based on the age of the underlying appraisal of the collateral securing the loans. Specific allocations to the allowance for loan losses were \$ 141,000 at December 31, 2010. The Corporation had no impaired loans at December 31, 2009 that resulted in an allocation to the allowance for loan losses.

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, 2010.

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 or on a recent sales offer (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.

Note 1. Significant Accounting Policies (Continued)***Fair Value Measurements (Continued)***

A summary of assets at December 31, 2010 and 2009 measured at estimated fair value on a nonrecurring basis is as follows:

	Level 1	Level 2	Level 3	Total Fair Value Measurements	Total Gains (Losses)
2010					
Impaired loans	\$ 0	\$ 528,803	\$ 0	\$ 528,803	\$ 0
Other real estate owned	0	299,000	0	299,000	0
	<u>\$ 0</u>	<u>\$ 827,803</u>	<u>\$ 0</u>	<u>\$ 827,803</u>	<u>\$ 0</u>
2009					
Impaired loans	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Other real estate owned	0	0	95,000	95,000	0
	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 95,000</u>	<u>\$ 95,000</u>	<u>\$ 0</u>

Note 2. Compensating Balance Arrangements

At December 31, 2010 and 2009 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)				
2010				
U. S. Treasury securities	\$ 499	\$ 46	\$ 0	\$ 545
Obligations of other U.S. government agencies and corporations	3,000	7	(6)	3,001
Obligations of state and political subdivisions	4,763	53	(54)	4,762
Equity securities - financial services	23	594	0	617
	<u>\$ 8,285</u>	<u>\$ 700</u>	<u>(\$ 60)</u>	<u>\$ 8,925</u>
2009				
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 - financial services	23	612	0	635
	<u>\$ 9,724</u>	<u>\$ 763</u>	<u>(\$ 5)</u>	<u>\$ 10,482</u>

Note 3. Investment Securities (Continued)

The amortized cost and fair values of investment securities available for sale at December 31, 2010 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.

	Amortized	
	Cost	Fair Value
	(In Thousands)	
Due in one year or less	\$ 960	\$ 965
Due after one year through five years	5,507	5,600
Due after five years through ten years	<u>1,795</u>	<u>1,743</u>
	8,262	8,308
Equity securities	<u>23</u>	<u>617</u>
	<u>\$ 8,285</u>	<u>\$ 8,925</u>

There were no sales of available for sale securities in 2010 or 2009.

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	2010 (In Thousands)					
	12 Months or Less		More than 12 Months		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Obligations of other U. S. government agencies and corporations	\$ 994	(\$ 6)	\$ 0	\$ 0	\$ 994	(\$ 6)
Obligations of state and political subdivisions	<u>1,908</u>	<u>(52)</u>	<u>98</u>	<u>(2)</u>	<u>2,006</u>	<u>(54)</u>
Totals	<u>\$ 2,902</u>	<u>(\$ 58)</u>	<u>\$ 98</u>	<u>(\$ 2)</u>	<u>\$ 3,000</u>	<u>(\$ 60)</u>

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
Obligations of other U. S. government agencies and corporations	\$ 500	\$ 0	\$ 0	\$ 0	\$ 500	\$ 0
Obligations of state and political subdivisions	<u>195</u>	<u>(5)</u>	<u>0</u>	<u>0</u>	<u>195</u>	<u>(5)</u>
Totals	<u>\$ 695</u>	<u>(\$ 5)</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 695</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, 2010, one U. S. Government agency and two obligations of state and political subdivisions had unrealized losses. At December 31, 2009, 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:

	2010	2009
Amortized cost	<u>\$ 8,011,911</u>	<u>\$ 9,056,223</u>
Fair value	<u>\$ 8,067,714</u>	<u>\$ 9,200,361</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 and Concentration of Credit Risk

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

	2010	2009
Real estate loans:		
Secured by farmland	\$ 5,195	\$ 3,290
Secured by residential/commercial properties	198,087	181,887
Loans to finance agricultural production and other loans to farmers	334	272
Commercial and industrial loans	7,262	4,873
Loans to individuals for household, family, or other personal expenditures	28,708	29,660
All other loans	<u>35</u>	<u>138</u>
Total loans	239,621	220,120
Less: Allowance for possible loan losses	<u>2,063</u>	<u>1,822</u>
Net loans	<u>\$ 237,558</u>	<u>\$ 218,298</u>

The aggregate amount of loans to employees, officers and directors was \$ 6,654,799 and \$ 7,477,945 at December 31, 2010 and 2009, respectively.

Note 4. Loans and Concentration of Credit Risk (Continued)

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 portion of its customers' ability to honor their contracts is dependent upon the timber and logging industry.

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

	Approximate Current Balance	Percent of Equity
2010	\$ 5,714,321	24.6%
2009	\$ 5,561,738	27.7%

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 5. Nonaccrual, Past Due and Impaired Loans

Loans on nonaccrual status were as follows at December 31, 2010 (in thousands of dollars):

Commercial/Non Farm	\$	100
Residential mortgage		341
HELOC/Jr. Liens/Lines of Credit		43
Installment/Other		0
Installment/Individuals		12
Total	<u>\$</u>	<u>496</u>

Loans 90 days or more past due (still accruing interest) and those on nonaccrual status were as follows at December 31, 2009 (in thousands of dollars):

	90 Days or More Past Due	Nonaccrual Status
Commercial loans	\$ 0	\$ 0
Real estate mortgages	319	1,394
Consumer loans	14	34
Total	<u>\$ 333</u>	<u>\$ 1,428</u>

Note 5. Nonaccrual, Past Due and Impaired Loans (Continued)

The amount of foregone interest on the above nonaccrual loans was \$ 1,909 and \$ 23,688 for 2010 and 2009, respectively.

The following is an aging analysis as of December 31, 2010 of past due loans, which include nonaccrual loans and loans past due 90 days or more and still accruing (in thousands of dollars):

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Gross Loans	Recorded Investment > 90 Days and Accruing
Commercial/Non Farm	\$ 536	\$ 0	\$ 100	\$ 636	\$ 32,784	\$ 33,420	\$ 0
Residential mortgage	1,642	653	422	2,717	152,869	155,586	149
HELOC/Jr. Liens/Lines of Credit	237	7	100	344	23,067	23,411	58
Installment/Other	0	0	0	0	35	35	0
Installment/Individuals	396	110	73	579	26,590	27,169	71
Total	<u>\$ 2,811</u>	<u>\$ 770</u>	<u>\$ 695</u>	<u>\$ 4,276</u>	<u>\$ 235,345</u>	<u>\$ 239,621</u>	<u>\$ 278</u>

The following is a summary of information pertaining to impaired loans at December 31, 2010 and 2009 (in thousands of dollars):

	December 31, 2010				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial/Non Farm	\$ 7	\$ 7	\$ 0	\$ 23	\$ 1
Residential mortgage	247	247	0	249	9
HELOC/Jr. Liens/Lines of Credit	72	72	0	72	2
With an allowance recorded:					
Commercial/Non Farm	277	277	32	247	12
Residential mortgage	393	393	109	395	5
HELOC/Jr. Liens/Lines of Credit	0	0	0	0	0
Total:					
Commercial/Non Farm	284	284	32	270	13
Residential mortgage	640	640	109	644	14
HELOC/Jr. Liens/Lines of Credit	72	72	0	72	2
Total	<u>\$ 996</u>	<u>\$ 996</u>	<u>\$ 141</u>	<u>\$ 986</u>	<u>\$ 29</u>

	December 31, 2009
Impaired loans with an allowance provided	\$ 0
Impaired loans with no allowance provided	188
	<u>\$ 188</u>
Allowance provided for impaired loans, included in the allowance for loan losses	<u>\$ 0</u>
Average balance in impaired loans during the year	<u>\$ 192</u>

Note 5. Nonaccrual, Past Due and Impaired Loans (Continued)

All of the impaired loans included above at December 31, 2010 are loans that resulted from troubled debt restructurings during 2010. For four of the five relationships involved, loans were combined to make payments more feasible for the borrower. The remaining relationship was restructured to allow the borrower time to return to profitability. All of the restructured loans are performing in accordance with the modified terms. There were no troubled debt restructurings during 2009, and the Corporation has no commitments to loan additional funds to borrowers whose loans have been modified.

Note 6. Allowance for Possible Loan Losses

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

	2010	2009
Balance, beginning of year	\$ 1,822,388	\$ 1,782,966
Recoveries credited to allowance	138,486	65,252
Provision for possible loan losses charged to income	<u>600,000</u>	<u>620,000</u>
Total	2,560,874	2,468,218
Losses charged to allowance	<u>497,587</u>	<u>645,830</u>
Balance, end of year	<u>\$ 2,063,287</u>	<u>\$ 1,822,388</u>

Following is an analysis of the allowance for credit losses, loans receivable and credit quality at December 31, 2010 (in thousands of dollars):

	Allowance for Credit Losses and Loans Receivable						
	December 31, 2010						
	Commercial/ Non Farm	Residential Mortgage	HELOC/Jr. Liens/Lines of Credit	Installment/ Other	Installment/ Individuals	Unallocated	Total
Allowance for credit losses:							
Ending balance	<u>\$ 880</u>	<u>\$ 654</u>	<u>\$ 81</u>	<u>\$ 0</u>	<u>\$ 208</u>	<u>\$ 240</u>	<u>\$ 2,063</u>
Ending balance: individually evaluated for impairment	<u>\$ 32</u>	<u>\$ 109</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 141</u>
Ending balance: collectively evaluated for impairment	<u>\$ 848</u>	<u>\$ 545</u>	<u>\$ 81</u>	<u>\$ 0</u>	<u>\$ 208</u>	<u>\$ 240</u>	<u>\$ 1,922</u>
Loans receivable:							
Ending balance	<u>\$ 33,420</u>	<u>\$ 155,586</u>	<u>\$ 23,411</u>	<u>\$ 35</u>	<u>\$ 27,169</u>	<u>\$ 0</u>	<u>\$ 239,621</u>
Ending balance: individually evaluated for impairment	<u>\$ 284</u>	<u>\$ 640</u>	<u>\$ 72</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 996</u>
Ending balance: collectively evaluated for impairment	<u>\$ 33,136</u>	<u>\$ 154,946</u>	<u>\$ 23,339</u>	<u>\$ 35</u>	<u>\$ 27,169</u>	<u>\$ 0</u>	<u>\$ 238,625</u>

Note 6. Allowance for Possible Loan Losses (Continued)

Credit Quality Indicators As of December 31, 2010 Credit Risk Profile by Internally Assigned Grade						
	HELOC/Jr.					
	Commercial/ Non Farm	Residential Mortgage	Liens/Lines of Credit	Installment/ Other	Installment/ Individuals	Total
Excellent (1)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Strong (2)	270	0	0	0	140	410
Satisfactory / Pass (3)	15,041	3,144	186	0	388	18,759
Watch (4)	1,077	1,843	377	0	53	3,350
Substandard (5)	419	1,024	36	0	0	1,479
Doubtful (6)	0	0	43	0	15	58
Loss (7)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	<u>\$ 16,807</u>	<u>\$ 6,011</u>	<u>\$ 642</u>	<u>\$ 0</u>	<u>\$ 596</u>	<u>\$ 24,056</u>

Loans graded 1-3 are loans with acceptable risk. Other internally assigned grades indicate the following:

- Watch (4) – The customer’s financial condition and performance are acceptable, but may be subject to significant fluctuations. These loans are of minimum acceptable quality.
- Substandard (5) – These loans have weaknesses that deserve management’s close attention. They are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. They are characterized by the distinct possibility that the Corporation will sustain some loss if the deficiencies are not corrected.
- Doubtful (6) – Weaknesses in these loans are so pronounced that the collection or liquidation of principal and interest is highly questionable or improbable. They contain most of the weaknesses of a Substandard loan and the probability of loss is great.
- Loss (7) – These loans are considered uncollectible and are charged off.

Note 7. Bank Building, Equipment, Furniture and Fixtures

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

Description	Cost	Accumulated Depreciation	Depreciated Cost
		2010	
Land	\$ 1,427,128	\$ 0	\$ 1,427,128
Bank buildings	5,763,456	1,505,909	4,257,547
Equipment, furniture and fixtures	3,149,678	2,296,401	853,277
Land improvements	<u>204,471</u>	<u>143,470</u>	<u>61,001</u>
	<u>\$ 10,544,733</u>	<u>\$ 3,945,780</u>	<u>\$ 6,598,953</u>
		2009	
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>

Note 8. Deposits

Included in savings balances at December 31 were:

	2010	2009
Super NOW accounts	\$ 6,861,097	\$ 6,132,668
Money Market accounts	10,966,433	7,716,688
Interest plus accounts	25,521,148	25,076,893
The balance of time certificates of \$ 100,000 or more at December 31 was:	71,834,761	63,847,149

Interest expense on time certificates of \$ 100,000 or more was approximately \$ 2,135,574 and \$ 1,963,026 for 2010 and 2009, respectively.

At December 31, 2010, the scheduled maturities of time certificates are as follows:

2011	\$ 82,735,995
2012	24,871,511
2013	14,536,127
2014	12,567,386
2015	37,724,437
Thereafter	<u>12,000</u>
	<u>\$ 172,447,456</u>

The aggregate amount of demand deposit overdrafts reclassified as loan balances was \$ 31,698 and \$ 112,821 at December 31, 2010 and 2009, 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 \$ 3,977,681 and \$ 6,878,226 at December 31, 2010 and 2009, respectively.

Note 9. 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.

Note 9. Financial Instruments with Off-Balance-Sheet Risk (Continued)

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

	Contract or Notional Amount	
	2010	2009
Commitments to extend credit	\$ 14,372,074	\$ 12,883,982
Standby letters of credit and financial guarantees written	<u>326,903</u>	<u>356,559</u>
	<u>\$ 14,698,977</u>	<u>\$ 13,240,541</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 10. 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, 2010 and 2009 were \$ 83,601 and \$ 77,979, 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. Additional policies were purchased in 2010 for a total of \$ 1,665,000. The cash surrender value of the life insurance policies is an unrestricted asset of the Corporation, which totaled \$ 4,691,705 and \$ 2,874,464 at December 31, 2010 and 2009, 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. A net expense of \$ 33,390 and \$ 30,802 was recorded for the years ended December 31, 2010 and 2009, respectively, for post retirement costs.

Note 11. Federal Income Taxes

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

	2010	2009
Current year provision	\$ 963,265	\$ 616,615
Deferred income taxes resulting from differences between financial statement and tax depreciation charges	50,252	38,113
Deferred income taxes resulting from differences between financial statement and tax loan loss provision	(77,131)	11,926
Applicable income tax	<u>\$ 936,386</u>	<u>\$ 666,654</u>

Federal income taxes were computed after adjusting pretax accounting income for nontaxable income in the amounts of \$ 266,919 and \$ 457,852 for 2010 and 2009, respectively.

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

	2010	2009
Federal income tax rate	34.0%	34.0%
Reduction resulting from:		
Nontaxable interest income (net of nondeductible interest)	2.2%	2.3%
Life insurance income	1.3%	1.3%
Other	<u>1.0%</u>	<u>0.9%</u>
Effective income tax rate	<u>29.5%</u>	<u>29.5%</u>

Deferred tax liabilities have been provided for taxable temporary differences related to accumulated depreciation and unrealized gains on available for sale securities. Deferred tax assets have been provided for deductible temporary differences related to the allowance for loan losses, 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:

	2010	2009
Total deferred tax assets	\$ 566,576	\$ 489,445
Total deferred tax liabilities	(293,513)	(243,261)
Net deferred tax asset	<u>\$ 273,063</u>	<u>\$ 246,184</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.

Note 11. Federal Income Taxes (Continued)

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 2007.

The Corporation follows the FASB Accounting Standards Codification, which provides guidance on accounting for uncertainty in income taxes recognized in the financial statements. When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above would be reflected as a liability for unrecognized tax benefits in the accompanying consolidated balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination. Interest and penalties associated with unrecognized tax benefits would be classified as additional income taxes in the Consolidated Statements of Income. As of December 31, 2010 and 2009, there was no liability for unrecognized tax benefits.

Note 12. 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, 2010.

At December 31, 2010 and 2009, the Corporation had available a \$ 5,000,000 line of credit with the Federal Home Loan Bank of Pittsburgh at an interest rate of 0.68% and 0.65%, respectively. This line of credit matures December 13, 2011. There were no borrowings on this line of credit at December 31, 2010 and 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 \$ 133,951,000 at December 31, 2010. The maximum borrowing capacity from Federal Home Loan Bank is approximately \$ 133,951,000.

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 mortgage was paid in full during 2009.

Note 13. Fair Value of Financial Instruments

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

	2010		2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Cash and due from banks	\$ 8,042,931	\$ 8,042,931	\$ 7,581,758	\$ 7,581,758
Federal funds sold	6,380,000	6,380,000	401,000	401,000
Securities available for sale	8,925,190	8,925,190	10,482,139	10,482,139
Restricted and other bank stock	899,800	899,800	946,200	946,200
Loans receivable	237,558,195	247,093,349	218,297,821	219,711,820
Accrued interest receivable	686,579	686,579	723,598	723,598
Financial Liabilities				
Time certificates	172,447,456	174,413,545	157,179,990	150,524,218
Other deposits	79,336,443	79,336,443	70,755,331	70,755,331
Accrued interest payable	161,355	161,355	153,684	153,684

Note 14. 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:

	Balance Sheets	
	December 31	
Assets	2010	2009
Cash	\$ 48,114	\$ 21,536
Investment in wholly-owned subsidiary	22,731,413	21,197,484
Other bank stock	<u>616,590</u>	<u>634,725</u>
Total assets	<u>\$ 23,396,117</u>	<u>\$ 21,853,745</u>
Liabilities		
Deferred tax	<u>\$ 201,884</u>	<u>\$ 208,050</u>
Stockholders' Equity		
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	21,498,554	19,872,609
Accumulated other comprehensive income	422,708	500,115
Less cost of treasury stock (26,275 shares - 2010 and 2009)	<u>(927,029)</u>	<u>(927,029)</u>
Total stockholders' equity	<u>23,194,233</u>	<u>21,645,695</u>
Total liabilities and stockholders' equity	<u>\$ 23,396,117</u>	<u>\$ 21,853,745</u>
	Statements of Income	
	Years Ended December 31	
	2010	2009
Income:		
Cash dividends from wholly-owned subsidiary	\$ 611,243	\$ 557,111
Equity in undistributed income of subsidiary	1,599,367	1,013,336
Dividends from bank stock	<u>29,741</u>	<u>28,291</u>
Total income	<u>2,240,351</u>	<u>1,598,738</u>
Expenses:		
Other expense	<u>3,163</u>	<u>4,816</u>
Total expense	<u>3,163</u>	<u>4,816</u>
Net income	<u>\$ 2,237,188</u>	<u>\$ 1,593,922</u>

Note 14. Orbisonia Community Bancorp, Inc. (Parent Company Only) Financial Information (Continued)**Statements of Cash Flows
Years Ended December 31**

	2010	2009
Cash flows from operating activities:		
Net income	\$ 2,237,188	\$ 1,593,922
Adjustments to reconcile net income to cash provided by operating activities:		
Equity in undistributed income of subsidiary	(1,599,367)	(1,013,336)
Net cash provided by operating activities	<u>637,821</u>	<u>580,586</u>
Cash flows from financing activities:		
Cash dividends paid	(611,243)	(557,111)
Purchase of treasury stock	<u>0</u>	(6,400)
Net cash (used) by financing activities	(611,243)	(563,511)
Net increase (decrease) in cash	26,578	17,075
Cash, beginning balance	<u>21,536</u>	<u>4,461</u>
Cash, ending balance	<u>\$ 48,114</u>	<u>\$ 21,536</u>

Note 15. 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 \$ 21,539,825 in its retained earnings at December 31, 2010 is available for cash dividends. Orbisonia Community Bancorp's balance of retained earnings at December 31, 2010 is \$ 21,498,554 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.

Note 15. Regulatory Matters (Continued)

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>
As of December 31, 2010						
Total capital (to risk weighted assets)	\$ 24,834	13.7%	\$ 14,507	8.0%	\$ 18,134	10.0%
Tier I capital (to risk weighted assets)	22,771	12.6%	7,253	4.0%	10,880	6.0%
Tier I capital (to average assets)	22,771	8.3%	10,936	4.0%	13,671	5.0%
As of December 31, 2009						
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%

As of December 31, 2010 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.

Due to recent economic conditions, recent bank failures, and the possibility of future bank failures, the Federal Deposit Insurance Corporation (FDIC) changed its formulas to calculate the rates charged to banks to cover federally insured depositors during 2009, which resulted in significant increases in FDIC assessments to banks. As part of the change, FDIC also required banks to prepay their assessments for three years beginning in December 2009 with the assessments to be charged to expense quarterly over the three year time period based on projected customer deposit balances and assessment rates. Any adjustments to assessments will be made at the end of the three year period. FDIC assessments for the year ended December 31, 2010, included in insurance expense, were \$ 493,676. The prepaid balance of FDIC premiums was \$ 781,824 and \$ 1,250,812 at December 31, 2010 and 2009, respectively, and is included in other assets.

Note 16. Subsequent Events

The Corporation has evaluated events and transactions subsequent to December 31, 2010 through March 4, 2011, 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, 2010 and through March 4, 2011 that require recognition or disclosure in the consolidated financial statements.