Audited Financial Statements

December 31 2017

Orbisonia Community Bancorp, Inc.

CONTENTS

Smith Elliott Kearns & Company, LLC
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated financial statements of Orbisonia Community Bancorp, Inc. and its wholly-owned subsidiary, which comprise the consolidated balance sheet as of December 31, 2017, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for the year then ended, and the related notes to the consolidated financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

OPINION

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Orbisonia Community Bancorp, Inc. and its wholly-owned subsidiary as of December 31, 2017, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

PRIOR PERIOD FINANCIAL STATEMENTS

The financial statements of Orbisonia Community Bancorp, Inc. and its wholly-owned subsidiary as of December 31, 2016, were audited by other auditors whose report dated March 15, 2017, expressed an unmodified opinion on those statements.

CHANGE IN ACCOUNTING PRINCIPLE

As discussed in Note 1, the Financial Accounting Standards Board issued ASU 2018-02, "Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income" that gives entities the option to reclassify to retained earnings tax effects related to items in accumulated other comprehensive income (AOCI) that the FASB refers to as having been stranded in AOCI as a result of the enactment of the "Tax Cuts and Jobs Act of 2017". Orbisonia Community Bancorp, Inc. elected to early adopt ASU 2018-02 in 2017 to properly reflect the effective tax rate within AOCI. Our opinion is not modified with respect to that matter.

Smith Elliott Kearns & Company, LLC

Chambersburg, Pennsylvania
February 28, 2018

ORBISONIA COMMUNITY BANCORP, INC.
Consolidated Balance Sheets
December 31, 2017 and 2016

	2017	2016
ASSETS		
Cash and due from banks	$ 11,061,844	$ 12,261,025
Federal funds sold	-	5,691,000
Total cash and cash equivalents	11,061,844	17,952,025
Interest bearing deposits in other banks	221,545	409,276
Certificates of deposit	1,488,000	2,976,000
Investment securities available for sale	17,713,250	18,868,583
Loans, net of unearned discount and allowance for possible loan losses	280,610,322	267,030,919
Bank building, equipment, furniture and fixtures, net	5,430,617	5,581,303
Restricted bank stock	376,500	317,600
Accrued interest receivable	677,315	642,079
Cash surrender value of life insurance	8,199,498	7,999,442
Foreclosed assets	104,000	21,500
Other assets	1,339,544	1,406,790
Total assets	$ 327,222,435	$ 323,205,517
LIABILITIES		
Deposits		
Noninterest bearing	$ 21,912,812	$ 18,220,774
Interest bearing	263,614,006	266,348,363
Total deposits	285,526,818	284,569,137
Federal Home Loan Bank borrowings	4,500,000	3,000,000
Accrued interest payable	60,115	61,733
Other liabilities	916,031	810,582
Total liabilities	291,002,964	288,441,452
STOCKHOLDERS' EQUITY		
Capital stock, voting common, par value $ 0.25; authorized and issued 800,000 shares, 778,836 and 778,509 shares outstanding at 2017 and 2016, respectively	200,000	200,000
Additional paid-in capital	2,065,994	2,053,619
Retained earnings	34,301,310	32,815,262
Accumulated other comprehensive income	423,187	470,120
Less cost of treasury stock (21,164 shares 2017; 21,491 shares 2016)	(771,020)	(774,936)
Total stockholders' equity	36,219,471	34,764,065
Total liabilities and stockholders' equity	$ 327,222,435	$ 323,205,517

ORBISONIA COMMUNITY BANCORP, INC.
Consolidated Statements of Income
Years Ended December 31, 2017 and 2016

	2017	2016
Interest and Dividend Income		
Interest and fees on loans	$ 13,638,096	$ 13,601,135
Interest and dividends on investment securities	371,744	362,321
Interest on federal funds sold	18,322	35,368
Total interest income	14,028,162	13,998,824
Interest Expense		
Interest on deposits	2,175,100	2,572,973
Interest on borrowings	41,033	38,500
Total interest expense	2,216,133	2,611,473
Net interest income	11,812,029	11,387,351
Provision for Loan Losses	75,000	780,000
Net interest income after provision for loan losses	11,737,029	10,607,351
Other Income		
Service charges on deposit accounts	493,470	535,236
Other service charges	1,231,148	1,174,352
Wealth management services	76,108	340
Earnings on bank-owned life insurance	200,056	179,991
Gain (loss) on sales of foreclosed assets	15,684	(7,076)
Other income	23,798	35,022
Total other income	2,040,264	1,917,865
Other Expenses		
Salaries and wages	4,037,763	3,936,421
Pensions and other employee benefits	1,426,835	1,408,632
Occupancy expense		
(including depreciation of $ 378,287 - 2017 and $ 372,824 - 2016)	786,153	801,617
Data processing	1,863,147	1,375,763
Telecommunications expense	339,552	235,501
Pennsylvania shares tax	312,587	278,132
Professional fees	181,395	142,139
Insurance expense	161,839	199,284
Other operating expenses	1,101,466	1,009,870
Total other expenses	10,210,737	9,387,359
Income before income taxes	3,566,556	3,137,857
Applicable income taxes	1,232,391	895,262
Net income	$ 2,334,165	$ 2,242,595
Earnings per share of common stock:		
Net income	$ 3.00	$ 2.89
Weighted-average shares outstanding	778,456	774,936

ORBISONIA COMMUNITY BANCORP, INC.
Consolidated Statements of Comprehensive Income
Years Ended December 31, 2017 and 2016

	2017	2016
Net income	$ 2,334,165	$ 2,242,595
Other comprehensive income, net of tax:		
Unrealized holding gains (losses) on securities available for sale arising during the year	(176,623)	108,646
Tax effect	60,052	(36,940)
Total other comprehensive income (loss)	(116,571)	71,705
Total comprehensive income	$ 2,217,594	$ 2,314,300

ORBISONIA COMMUNITY BANCORP, INC.
Consolidated Statements of Stockholder's Equity
Years Ended December 31, 2017 and 2016

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
Balance December 31, 2015	$ 200,000	$ 2,041,532	$ 31,343,191	$ 398,415	$ (791,659)	$ 33,191,479
Comprehensive income:						
Net income	-	-	2,242,595	-	-	2,242,595
Total other comprehensive income, net of taxes	-	-	-	71,705	-	71,705
Sale of treasury stock (1,661 shares)	-	12,087	-	-	59,336	71,423
Purchase of treasury stock (991 shares)	-	-	-	-	(42,613)	(42,613)
Cash dividends declared on common stock ($ 0.99 per share)	-	-	(770,524)	-	-	(770,524)
Balance December 31, 2016	200,000	2,053,619	32,815,262	470,120	(774,936)	34,764,065
Comprehensive income:						
Net income	-	-	2,334,165	-	-	2,334,165
Total other comprehensive income (loss), net of taxes	-	-	-	(116,571)	-	(116,571)
Sale of treasury stock (1,779 shares)	-	12,375	-	-	64,122	76,497
Purchase of treasury stock (1,452 shares)	-	-	-	-	(60,206)	(60,206)
Cash dividends declared on common stock ($ 1.00 per share)	-	-	(778,479)	-	-	(778,479)
Reclassification for change in corporate tax rates	-	-	(69,638)	69,638	-	-
Balance December 31, 2017	$ 200,000	$ 2,065,994	$ 34,301,310	$ 423,187	$ (771,020)	$ 36,219,471

ORBISONIA COMMUNITY BANCORP, INC.
Consolidated Statements of Cash Flows
Years Ended December 31, 2017 and 2016

	2017	2016
Cash Flows From Operating Activities:		
Net income	$ 2,334,165	$ 2,242,595
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	390,296	295,318
Provision for loan losses	75,000	780,000
(Gain) loss on sale of foreclosed assets	(15,684)	7,076
Deferred income taxes	280,039	(156,799)
(Increase) in bank-owned life insurance	(200,056)	(179,991)
(Increase) in accrued interest receivable	(35,236)	(31,271)
(Decrease) in accrued interest payable	(1,618)	(4,447)
Other, net	(47,292)	509,184
Net cash provided by operating activities	2,779,614	3,461,665
Cash Flows From Investing Activities:		
Net decrease in interest bearing deposits in other banks	187,731	293,989
Net (increase) decrease in certificates of deposit	1,488,000	(248,000)
Proceeds from maturities of available for sale securities	1,220,000	6,065,514
Purchases of available for sale securities	(253,299)	(8,484,273)
Net (increase) decrease in restricted bank stock	(58,900)	3,200
Net (increase) decrease in loans	(13,848,496)	1,725,301
Purchases of bank premises and equipment	(227,601)	(225,935)
Proceeds from sale of foreclosed assets	127,277	151,094
Purchase of bank-owned life insurance	-	(2,000,000)
Net cash used by investing activities	(11,365,288)	(2,719,110)
Cash Flows From Financing Activities:		
Net increase in deposits	957,681	8,290,921
Proceeds from Federal Home Loan Bank borrowings	3,000,000	-
Repayments of Federal Home Loan Bank borrowings	(1,500,000)	-
Dividends paid	(778,479)	(770,524)
Purchases of treasury stock	(60,206)	(42,613)
Proceeds from sale of treasury stock	76,497	71,423
Net cash provided by financing activities	1,695,493	7,549,207
Net increase (decrease) in cash and cash equivalents	(6,890,181)	8,291,762
Cash and cash equivalents, beginning balance	17,952,025	9,660,263
Cash and cash equivalents, ending balance	$ 11,061,844	$ 17,952,025
Supplemental Disclosure of Cash Flows Information:		
Cash paid during the year for:		
Interest	$ 2,176,718	$ 2,615,920
Income taxes	1,010,000	889,749
Supplemental Schedule of Noncash Investing and Financing Activities:		
Foreclosed assets acquired in settlement of loans	194,093	21,500

NOTE 1 SUMMARY OF 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. See Note 13 for parent company financial statements. The Corporation uses the accrual basis of accounting.

Date of Management's Review of Subsequent Events

Management has evaluated subsequent events through February 28, 2018, the date which the financial statements were available to be issued.

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 the valuation of 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 allowance 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, cash and cash equivalents include those amounts included in the balance sheet captions "cash and due from banks" and "federal funds sold". The Corporation has elected to present the net increase or decrease in loans and deposits in the statements of cash flows.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment Securities

The Corporation's investments in securities are classified in three specific categories and accounted for as follows:

Trading Securities. Securities held principally for resale in the near term are classified as trading securities and recorded at their fair values. Unrealized gains and losses on trading securities are included in other income.

Securities to be Held to Maturity. Bonds and notes for which the Corporation has the positive intent and ability to hold to maturity are reported at cost, adjusted for amortization of premiums and accretion of discounts, which are recognized in interest income using the interest method over the period to maturity.

Securities Available for Sale. Securities available for sale consist of bonds and notes not classified as trading securities nor as securities to be held to maturity. These are securities that management intends to use as part of its asset and liability management strategy and may be sold in response to changes in interest rates, resultant prepayment risk and other related factors.

Management determines the appropriate classification of securities at the time of purchase. The Corporation has no investment securities classified as "held to maturity" or "trading securities" at December 31, 2017 and 2016.

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 at 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 are recognized in other comprehensive income. Purchase premiums and discounts are amortized to earnings by the interest method from the purchase date to maturity date.

Loans and Allowance for Possible Loan Losses

Loans are stated at the amount of unpaid principal, reduced by net deferred loan origination fees, an 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. Loan origination fees are being deferred and amortized as an adjustment of the related loan's yield. The Corporation is amortizing these amounts over the contractual life of the related loans.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans and Allowance for Possible Loan Losses (Continued)

The Corporation grants agribusiness, commercial and residential loans to customers primarily in Fulton, Huntingdon, Juniata, and Franklin Counties, Pennsylvania. Although the Corporation has a diversified loan portfolio, the following is a summary of loan concentrations at December 31, 2017 and 2016:

	2017	2016
Lessor of residential and nonresidential buildings	$ 9,826,438	$ 7,436,307
Percentage of total equity	27.1%	21.4%
Dairy and milk	4,153,625	3,842,101
Percentage of total equity	11.5%	11.1%

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 the extension of credit, is based on management's credit evaluation of the customer. Collateral held varies, but generally includes equipment, inventory, accounts receivable, and real estate.

The Corporation segregates its loan portfolio into segments with varying risk characteristics:

- Commercial loans include loans to businesses for general commercial purposes and include permanent and short-term working capital, machinery and equipment financing, and may be either in the form of lines of credit, demand, or term loans. Some commercial and industrial loans may be unsecured to higher rated customers, but the majority of these loans are secured by the borrower’s accounts receivable, inventory, and machinery and equipment and in many loans, the collateral also includes the business real estate or the business owner’s personal real estate or assets. Commercial loans have credit exposure since they are more susceptible to risk of loss during a downturn in the economy as borrowers may have greater difficulty in meeting their debt service requirements and the value of the collateral may decline. Commercial construction and land development loans consist of 1-4 family residential construction and commercial and land development loans. The risk of loss on these loans is contingent on the assessment of the property’s value at the completion of the project, which should exceed the property’s construction costs. A number of factors can negatively affect the project during the construction phase such as cost overruns, delays in completing the project, competition, and real estate market conditions which may change based on the supply of similar properties in the area. If the collateral value at the completion of the project is not sufficient to cover the outstanding loan balance, repayment of the loan would potentially need to rely on other repayment sources, including the guarantors of the project or other collateral securing the loan.

  Also included in commercial loans are farm and agricultural loans to local family-owned farmers for the operation of farm activities including raising and selling cattle or milk produced and raising and selling crops. The risks to repayment of farm loans include unfavorable weather conditions that can affect the production of crops for sale or feed, milk production and mortality rates of cattle that can be affected if cattle become ill, and milk prices paid which can vary depending on market prices and government subsidies. Collateral for these types of loans typically consists of real estate of farms, but can also include equipment or cattle.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans and Allowance for Possible Loan Losses (Continued)

Commercial real estate loans consist of owner occupied and non-owner occupied commercial real estate loans:

- Owner occupied commercial real estate loans are generally dependent upon the successful operation of the borrower's business, with the cash flows generated from the business being the primary source of repayment of the loan. If the business suffers a downturn in sales or profitability, the borrower's ability to repay the loan could be in jeopardy, which could increase the risk of loss.
- Non-owner occupied and multi-family commercial real estate loans and non-owner occupied residential loans are dependent on the borrower's ability to generate a sufficient level of occupancy to produce rental income that exceeds debt service requirements and operating expenses. Lower occupancy or lease rates may result in a reduction in cash flows, which may affect the ability of the borrower to meet debt service requirements, and may result in lower collateral values, which represents a higher inherent risk than owner-occupied commercial loans.

➢ Residential real estate loans include fixed-rate first lien mortgage loans with the underlying 1-4 family owner-occupied residential property securing the loan. Risk exposure is mitigated somewhat through the evaluation of the credit worthiness of the borrower, including debt-to-income ratios, and limits on the loan-to-value ratios. Home equity term loans represent a slightly higher risk than 1-4 family first liens, as these loans can be first or second liens on 1-4 family owner occupied residential property, but there are loan-to-value limits on the value of the real estate taken as collateral. The credit worthiness of the borrower is considered, including debt-to-income ratios.

➢ Home equity lines of credit represent a slightly higher risk than 1-4 family first liens, as these loans can be first or second liens on 1-4 family owner occupied residential property, but there are loan-to-value limits on the value of the real estate taken as collateral. The credit worthiness of the borrower is considered, including debt-to-income ratios.

➢ Installment and other consumer loans' credit risk are mitigated through evaluation of the credit worthiness of the borrower through debt-to-income ratios, and if secured, the collateral value of the assets. However, these loans can be unsecured or secured by assets that may depreciate quickly or may fluctuate and represent a greater risk than 1-4 family residential loans.

The allowance for loan losses is increased through a provision for loan losses charged to expense and 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 of the collectability of loans in light of historical loss experience, the nature and volume of the loan portfolio, overall loan portfolio quality, review of specific problem loans, loan delinquencies, 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. Loan delinquencies for all loan segments are determined based on contractual terms of the loan.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans and Allowance for Possible Loan Losses (Continued)

The provision for loan and lease losses and the appropriate level of the allowance for loan and lease losses is determined in accordance with generally accepted accounting principles quarterly. Individual loans are selected to be evaluated for impairment based on an internal credit rating system. Loans internally graded as substandard or doubtful are individually evaluated for possible designation as impaired. The loan portfolio is significantly collateralized by real estate. Therefore, when evaluating impaired loans for impairment losses, the Bank typically utilizes the fair value of collateral method.

Loans which are internally classified as substandard may demonstrate some of the following characteristics: earnings may not cover debt service and overhead; lacks ability to borrow additional funds; low quality value of assets; debt capacity is strained; no access to other financing; or delinquencies in repayment history exist.

Loans which are internally classified as doubtful have all the weaknesses inherent in a loan classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. The possibility of loss is extremely high, but because of certain important and reasonable specific pending factors which may work to the advantage of strengthening of the assets, its classification as an estimated loss is deferred until its more exact status may be determined.

Loans which are deemed to not be impaired based on the bank's impairment evaluation are grouped by categories. The following groupings of loans are utilized by the bank:

- Commercial loans
- Construction/land development
- Farm loans
- Commercial real estate
- Consumer retail loans
- Loans secured by 1-4 family real estate
- Obligations of political subdivisions

The Bank utilizes a thirty-six month rolling average historical loss ratio when determining the estimated allowance amount for loans. The Bank also takes into account various qualitative or environmental factors that are likely to cause estimated credit losses to differ from historical loss experiences. These factors include:

- Changes in loan growth and maturities
- Level/changes of past due and non-accrual loans
- Changes in loan review/oversight
- Impacts and effects of loan concentrations
- Market changes to collateral values
- Experience and depth of lending officers
- Impact of competition and legal conditions
- National and local economic conditions
- Changes in lending policies and underwriting policies

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans and Allowance for Possible Loan Losses (Continued)

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.

Nonaccrual Loans

The accrual of interest income on loans in all loan segments (including impaired 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 applied to the outstanding principal balance. Interest income generally is not recognized on specific impaired loans unless the likelihood of further loss is remote.

Troubled Debt Restructurings

A loan is considered restructured if the terms of a loan, such as the interest rate or repayment schedule, or both, are modified due to the financial difficulties of the borrower, to terms that the Corporation would not grant to a non-troubled borrower.

Impaired Loans

Loans of a commercial nature and loans determined to be troubled debt restructurings (TDR's) are subject to impairment evaluation by management. Loans classified as doubtful or loss and TDR's 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 according to 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 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. 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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreclosed Assets

Real estate properties acquired through, or in lieu of, loan foreclosure are to be sold and are initially recorded at fair value based on an independent appraisal, less estimated cost to sell, which becomes the property's new basis. Any write-downs based on the asset's fair value at acquisition 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. Costs incurred in obtaining and maintaining foreclosed properties and subsequent fair value adjustments to the carrying amount of the property are classified as "other operating expenses". Gains and losses from the sale of foreclosed real estate properties are recorded as a separate component of "other income". As of December 31, 2017 and 2016, there were $ 104,000 and $ 21,500 in residential real estate properties and no commercial real estate properties in foreclosed assets, respectively. The outstanding balance of residential real estate loans in process of foreclosure at December 31, 2017 and 2016 was $ 1,419,054 and $ 922,402, respectively.

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 three- to five-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.

Federal Home Loan Bank and Atlantic Community Banker's Bank Stock

Restricted investments in bank stock, which represent required investments in the common stock of correspondent banks, are carried at cost and as of December 31, 2017 and 2016, consist of the common stock of the Federal Home Loan Bank ("FHLB") of Pittsburgh and Atlantic Community Banker's Bank ("ACBB"). Federal law requires a member institution of the FHLB to hold stock of its district FHLB according to a predetermined formula.

Management evaluates the restricted stock for impairment at least annually, or more frequently, if necessary. Management's determination of whether these investments are impaired is based on their assessment of the ultimate recoverability of their cost rather than by recognizing temporary declines in value.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Bank-Owned Life Insurance

The Corporation owns insurance on the lives of a certain group of key employees. The policies were purchased to help offset the increase in the costs of benefit plans. The cash surrender value of these policies is included as an asset on the Consolidated Balance Sheet, and any increases in the cash surrender value are recorded as earnings on bank-owned life insurance on the Consolidated Statement of Income. In the event of the death of an insured individual under these policies, the Corporation would receive a death benefit, which would be recorded as earnings on bank-owned life insurance.

Endorsement Split-Dollar Life Insurance Arrangements

The Corporation recognizes a liability and related compensation cost for an endorsed split-dollar life insurance arrangement that provides a benefit to specific retired employees. The amount recognized as a liability represents the present value of the post retirement cost for the endorsement split-dollar life insurance policies. See Note 10 for additional information.

Earnings Per Share

Earnings per common share were computed based upon weighted average shares of common stock outstanding of 778,456 and 774,936 for 2017 and 2016, respectively.

Treasury Stock

The purchase of the Corporation's treasury stock is recorded at cost.

Federal Income Taxes

As a result of certain timing differences between financial statement and federal income tax reporting, including depreciation, loan losses, and non-accrual loan interest, 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.

Uncertain Tax Positions

The Corporation follows generally accepted accounting principles, which provides guidance on accounting for uncertainty in income taxes recognized in an organization's financial statements. The Bank's policy is to charge penalties and interest to income tax expense as incurred. The Bank's federal and state income tax returns are subject to examination by the Internal Revenue Service and state tax authorities, generally for a period of three years after the returns are filed.

Advertising

The Corporation expenses advertising costs as they are incurred. Advertising expense was $ 81,850 and $ 99,034 for the years ended December 31, 2017 and 2016, respectively, and was included in other operating expenses on the Consolidated Statement of Income.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 stockholders 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 only element of "other comprehensive income" that the Corporation has is unrealized gains or losses on available for sale securities.

Correspondent Bank Accounts

The Corporation is required to maintain certain minimum cost balances for electronic funds transfer transactions. The required cash balance was $ 125,000 at December 31, 2017 and 2016.

The Corporation maintains balances with its correspondent banks that may exceed federally insured limits, which management considers to be a normal business risk.

Reclassifications

Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements.

Change in Accounting Principles

On December 22, 2017, the U.S. federal government enacted the "Tax Cuts and Jobs Act of 2017". As a result of the newly enacted tax laws and rates, in accordance with generally accepted accounting principles, the bank remeasured their future tax benefits and liabilities using the newly enacted tax rates. Generally accepted accounting principles requires that the effect of tax law and rate changes be recognized in income tax from continuing operations, even if the deferred tax asset or liability originally related to items recognized in Accumulated Other Comprehensive Income (AOCI). Because of this, the tax effects of items within AOCI do not reflect the appropriate tax rate. For additional information regarding the additional income tax expense recognized as a result of the remeasurement of the bank's net deferred tax asset, refer to Note 11.

On February 14, 2018, FASB finalized ASU 2018-02, "Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income" to allow reclassifying the effect of remeasuring deferred tax assets and liabilities related to items within AOCI to retain earnings, effectively correcting the stranded tax effects created by the newly enacted tax rates. The Corporation elected to early adopt ASU 2018-02 in 2017 in order to properly reflect the effective tax rate within AOCI. This change in accounting principle caused the bank to reclassify $ 69,638 between AOCI and retained earnings during the year-ended December 31, 2017.

NOTE 2 INVESTMENT SECURITIES

At December 31, 2017 and 2016, the investment securities portfolio was comprised of securities classified as "available for sale" in accordance with generally accepted accounting principles, resulting in investment securities available for sale being carried at fair value.

The amortized cost and fair values of investment securities available for sale at December 31, 2017 and 2016 were:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2017				
Obligations of other U.S. government agencies and corporations	$ 10,496,175	$ -	$ (135,720)	$ 10,360,455
Obligations of state and political subdivisions	6,658,478	4,052	(35,135)	6,627,395
Equity securities - financial services	22,813	702,587	-	725,400
	$ 17,177,466	$ 706,639	$ (170,855)	$ 17,713,250
2016				
Obligations of other U.S. government agencies and corporations	$ 10,495,145	$ 14,959	$ (866)	$ 10,509,238
Obligations of state and political subdivisions	7,638,322	61,089	(1,994)	7,697,417
Equity securities - financial services	22,813	639,115	-	661,928
	$ 18,156,280	$ 715,163	$ (2,860)	$ 18,868,583

The amortized cost and fair values of investment securities available for sale at December 31, 2017 by contractual maturity are shown in the following table. 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
Due in one year or less	$ 3,255,289	$ 3,244,154
Due after one year through five years	13,399,364	13,254,466
Due after five years through ten years	500,000	489,230
	17,154,653	16,987,850
Equity securities	22,813	725,400
	$ 17,177,466	$ 17,713,250

There were no sales of available for sale securities in 2017 or 2016.

The Corporation's investments are exposed to various risks, such as interest rate, market, currency 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.

NOTE 2 INVESTMENT SECURITIES (CONTINUED)

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:

	12 Months or Less		More than 12 Months		Total	
Description	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
2017						
Obligations of other U. S. government agencies and corporations	$ 7,381,295	$ (114,879)	$ 2,979,159	$ (20,841)	$ 10,360,454	$ (135,720)
Obligations of state and political subdivisions	3,418,739	(22,977)	1,104,885	(12,158)	4,523,624	(35,135)
Totals	$ 10,800,034	$ (137,856)	$ 4,084,044	$ (32,999)	$ 14,884,078	$ (170,855)
2016						
Obligations of other U. S. government agencies and corporations	$ 994,851	$ (295)	$ 2,499,429	$ (571)	$ 3,494,280	$ (866)
Obligations of state and political subdivisions	612,989	(1,801)	249,675	(193)	862,664	(1,994)
Totals	$ 1,607,840	$ (2,096)	$ 2,749,104	$ (764)	$ 4,356,944	$ (2,860)

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.

At December 31, 2017, twenty-one U. S. Government agencies and twenty-three obligations of state and political subdivision securities had unrealized losses. At December 31, 2016, seven U. S. Government agencies and four obligations of state and political subdivision securities 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 at December 31:

	2017	2016
Amortized cost	$ 16,604,024	$ 14,945,000
Fair Value	$ 16,444,791	$ 14,851,736

The Bank is required to maintain minimum investments in certain stocks, which are recorded at cost since they are not impaired or actively traded, and therefore have no readily determinable market value. Consequently, the Bank owns the following restricted securities at December 31:

	2017	2016
Federal Home Loan Bank	$ 356,500	$ 297,600
Altantic Central Banker's Bank	20,000	20,000
	$ 376,500	$ 317,600

NOTE 3 LOANS AND CONCENTRATION OF CREDIT RISK

Loan balances consist of the following at December 31:

	2017	2016
Total gross loans	$ 284,249,060	$ 270,779,209
Net deferred loan fees	(441,420)	(333,014)
Unearned income on installment loans	(41,268)	(58,970)
Allowance for loan losses	(3,156,050)	(3,356,306)
Total	$ 280,610,322	$ 267,030,919

Following is an aging analysis of past due loans at December 31, 2017 and 2016:

	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
			2017				
Commercial	$ 96,181	$ -	$ 150,349	$ 246,530	$ 48,334,445	$ 48,580,975	$ -
Residential mortgage	1,902,517	95,569	1,192,032	3,190,118	188,257,199	191,447,317	-
HELOC/Jr. Liens/Lines of Credit	120,425	50,591	193,853	364,869	22,564,896	22,929,765	-
Installment/Individuals	139,301	7,981	24,437	171,719	20,636,596	20,808,315	-
Total	$ 2,258,424	$ 154,141	$ 1,560,671	$ 3,973,236	$ 279,793,136	$ 283,766,372	$ -
			2016				
Commercial	$ 89,738	$ -	$ 159,344	$ 249,082	$ 40,421,291	$ 40,670,373	$ -
Residential mortgage	2,770,491	237,048	1,211,516	4,219,055	184,046,632	188,265,687	-
HELOC/Jr. Liens/Lines of Credit	37,425	-	-	37,425	21,356,220	21,393,645	-
Installment/Individuals	407,850	125,023	179,561	712,434	19,345,086	20,057,520	-
Total	$ 3,305,504	$ 362,071	$ 1,550,421	$ 5,217,996	$ 265,169,229	$ 270,387,225	$ -

Loans on nonaccrual status were as follows at December 31, 2017 and 2016:

	2017	2016
Commercial	$ 179,206	$ 247,531
Residential mortgage	1,871,736	2,045,537
HELOC/Jr. Liens/Lines of Credit	223,351	39,377
Installment/Individuals	37,334	238,930
Total	$ 2,311,627	$ 2,571,375

NOTE 3 LOANS AND CONCENTRATION OF CREDIT RISK (CONTINUED)

The following is a summary of information pertaining to impaired loans at December 31, 2017 and 2016:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
			2017		
With no related allowance recorded					
Commercial	$ 1,337,699	$ 1,341,292	$ -	$ 1,377,855	$ 62,070
Residential mortgage	2,016,896	2,129,502	-	2,155,839	77,238
HELOC/Jr. Liens/Lines of Credit	105,453	105,453	-	108,267	6,976
Installment/Individuals	107,630	107,630	-	124,631	8,195
	3,567,678	3,683,877	-	3,766,592	154,479
With an allowance recorded					
Residential mortgage	205,516	229,421	8,166	224,621	1,940
HELOC/Jr. Liens/Lines of Credit	56,571	56,571	2,831	56,664	1,530
	262,087	285,992	10,997	281,285	3,470
Total					
Commercial	1,337,699	1,341,292	-	1,377,855	62,070
Residential mortgage	2,222,412	2,358,923	8,166	2,380,460	79,178
HELOC/Jr. Liens/Lines of Credit	162,024	162,024	2,831	164,931	8,506
Installment/Individuals	107,630	107,630	-	124,631	8,195
Total	$ 3,829,765	$ 3,969,869	$ 10,997	$ 4,047,877	$ 157,949
			2016		
With no related allowance recorded					
Commercial	$ 1,139,488	$ 1,181,890	$ -	$ 1,093,436	$ 45,084
Residential mortgage	2,449,901	2,136,626	-	2,500,629	75,706
HELOC/Jr. Liens/Lines of Credit	174,830	183,914	-	176,814	11,114
Installment/Individuals	97,254	113,027	-	98,576	6,800
	3,861,473	3,615,457	-	3,869,455	138,704
With an allowance recorded					
Residential mortgage	318,503	318,503	77,487	319,264	12,171
	318,503	318,503	77,487	319,264	12,171
Total					
Commercial	1,139,488	1,181,890	-	1,093,436	45,084
Residential mortgage	2,768,404	2,455,129	77,487	2,819,893	87,877
HELOC/Jr. Liens/Lines of Credit	174,830	183,914	-	176,814	11,114
Installment/Individuals	97,254	113,027	-	98,576	6,800
Total	$ 4,179,976	$ 3,933,960	$ 77,487	$ 4,188,719	$ 150,875

The Corporation had eleven loans during the year ended December 31, 2017 that were considered troubled debt restructurings. All of the loans were refinanced or consolidations of debt in order to lower the monthly loan payments required. The Corporation would not have typically originated these loans given the customers' financial condition.

The Corporation had four loans that were considered troubled debt restructurings during the year ended December 31, 2016. All of these loans were refinanced in order to lower the monthly loan payments required and at times borrowers were extended additional credit as part of the restructuring agreement. The Corporation would not have typically originated these loans given the customers' financial condition.

NOTE 3 LOANS AND CONCENTRATION OF CREDIT RISK (CONTINUED)

Information about modified loans at December 31 is as follows (in thousands of dollars):

	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	December 31 Outstanding Recorded Investment
			2017	
Troubled Debt Restructurings:				
Commercial	2	$ 100,066	$ 162,004	$ 159,132
Residential mortgage	5	664,692	702,801	692,035
Installment/Individuals	4	63,026	63,026	56,358
	11	$ 827,784	$ 927,831	$ 907,525
			2016	
Troubled Debt Restructurings:				
Residential mortgage	1	$ 54,460	$ 54,460	$ 54,460
Installment/Individuals	3	20,280	20,280	20,280
	4	$ 74,740	$ 74,740	$ 74,740

There were no loans that were modified, which subsequently defaulted in 2017 or 2016.

The Corporation did not have any commitments to loan additional funds to borrowers whose loans have been modified.

The aggregate amount of loans to officers and directors and the related activity was as follows:

	2017
Beginning balance	$ 1,253,047
New loans and advances	426,220
Repayments	(347,987)
Ending balance	$ 1,331,280

The aggregate amount of loans to employees was $ 4,905,289 and $ 5,295,518 at December 31, 2017 and 2016, respectively.

NOTE 4 ALLOWANCE FOR POSSIBLE LOAN LOSSES

Following is an analysis of credit losses and credit quality at December 31, 2017 and 2016:

Allowance for Credit Losses and Loans Receivable

	Commercial	Residential Mortgage	HELOC/Jr. Liens/Lines of Credit	Installment/ Individuals	Unallocated	Total
2017						
Allowance for credit losses:						
Beginning balance	$ 134,718	$ 1,839,574	$ 206,526	$ 344,007	$ 831,481	$ 3,356,306
Losses charged to allowance	(5,701)	(178,068)	-	(174,410)	-	(358,179)
Recoveries credited to allowance	-	7,835	-	75,088	-	82,923
Current-year provision	108,304	52,347	14,401	110,064	(210,116)	75,000
Ending balance	$ 237,321	$ 1,721,688	$ 220,927	$ 354,749	$ 621,365	$ 3,156,050
Ending balance: individually evaluated for impairment	$ -	$ 8,166	$ 2,831	$ -	$ -	$ 10,997
Ending balance: collectively evaluated for impairment	$ 237,321	$ 1,713,522	$ 218,096	$ 354,749	$ 621,365	$ 3,145,053
Loans receivable:						
Ending balance	$ 48,580,975	$ 191,447,317	$ 22,929,765	$ 20,808,315		$ 283,766,372
Ending balance: individually evaluated for impairment	$ 1,337,699	$ 2,222,412	$ 162,024	$ 107,630		$ 3,829,765
Ending balance: collectively evaluated for impairment	$ 47,243,276	$ 189,224,905	$ 22,767,741	$ 20,700,685		$ 279,936,607
2016						
Allowance for credit losses:						
Beginning balance	$ 178,687	$ 2,078,036	$ 144,618	$ 482,302	$ -	$ 2,883,643
Losses charged to allowance	(4,978)	(137,160)	(4,356)	(235,115)	-	(381,609)
Recoveries credited to allowance	-	25,143	-	49,129	-	74,272
Current-year provision	(38,991)	(126,445)	66,264	47,691	831,481	780,000
Ending balance	$ 134,718	$ 1,839,574	$ 206,526	$ 344,007	$ 831,481	$ 3,356,306
Ending balance: individually evaluated for impairment	$ -	$ 77,487	$ -	$ -	$ -	$ 77,487
Ending balance: collectively evaluated for impairment	$ 134,718	$ 1,762,087	$ 206,526	$ 344,007	$ 831,481	$ 3,278,819
Loans receivable:						
Ending balance	$ 40,670,373	$ 188,265,687	$ 21,393,645	$ 20,057,520		$ 270,387,225
Ending balance: individually evaluated for impairment	$ 1,139,488	$ 2,768,404	$ 174,830	$ 97,254		$ 4,179,976
Ending balance: collectively evaluated for impairment	$ 39,530,885	$ 185,497,283	$ 21,218,815	$ 19,960,266		$ 266,207,249

NOTE 4 ALLOWANCE FOR POSSIBLE LOAN LOSSES (CONTINUED)

Credit Risk Profile

	Commercial	Residential Mortgage	HELOC/Jr. Liens/Lines of Credit	Installment/ Individuals	Total
2017					
Strong	$ 14,885	$ -	$ -	$ -	$ 14,885
Satisfactory/pass	27,421,932	9,836,545	70,445	2,313,939	39,642,861
Watch	12,723,935	1,490,255	134,572	155,643	14,504,405
Substandard	457,498	2,343,901	224,488	43,304	3,069,191
Doubtful	-	-	-	-	-
Loss	-	-	-	-	-
Not rated	7,962,725	177,776,616	22,500,260	18,295,429	226,535,030
Total	$ 48,580,975	$ 191,447,317	$ 22,929,765	$ 20,808,315	$ 57,231,342
2016					
Strong	$ 19,027	$ -	$ -	$ -	$ 19,027
Satisfactory/pass	23,975,484	9,251,913	185,131	1,951,672	35,364,200
Watch	8,448,910	1,495,601	155,610	138,872	10,238,993
Substandard	188,087	2,292,526	3,958	18,439	2,503,010
Doubtful	-	-	-	-	-
Loss	-	-	-	-	-
Not rated	8,038,865	175,225,647	21,048,946	17,948,537	222,261,995
Total	$ 40,670,373	$ 188,265,687	$ 21,393,645	$ 20,057,520	$ 48,125,230

The Bank's policy is to risk rate all commercial loans which are for general commercial purposes. The Bank also risk rates other commercial loans, residential mortgage, HELOC/Jr. Liens/Lines of Credit, and Installment/Individual loans only if loan conditions are indicative of potential weaknesses in the credit quality.

Loans graded Strong and Satisfactory/Pass are loans with acceptable risk.

Other internally assigned grades indicate the following:

Watch – These loans have weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of repayment prospects for the loan or in the bank's credit position at some future date. They are exhibiting problem characteristics and downward trends, but the bank remains adequately protected.

Substandard – 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 – 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 – These loans are considered uncollectible and are charged off. Some recovery may be possible, but the extent of recovery and time frame involved are uncertain at best.

NOTE 5 OTHER REAL ESTATE

During 2017, the Bank foreclosed on four loans secured by real estate property. Proceeds from sales of three properties during the year ended December 31, 2017 were $ 79,214, which resulted in gross realized gains of $ 9,122 and gross unrealized losses of $ 1,248 for a net realized gain of $ 7,874. Gains from sales of other repossessed assets resulting in gains of $ 7,810 during the year ended December 31, 2017. At December 31, 2017, the Bank had three foreclosed real estate properties with a carrying value of $ 104,000.

During 2016, the Bank foreclosed on nine loans secured by real estate property. Proceeds from sales of fourteen properties during the year ended December 31, 2016 were $ 151,094, which resulted in gross realized gains of $ 61,686 and gross realized losses of $ 68,762 for a net realized loss of $ 7,076. At December 31, 2016, the Bank had two foreclosed real estate properties with a carrying value of $ 21,500.

NOTE 6 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
		2017	
Land	$ 1,638,556	$ -	$ 1,638,556
Bank buildings	5,876,673	2,577,132	3,299,541
Premises and equipment	3,087,889	2,629,257	458,632
Land improvements	158,560	124,672	33,888
	$ 10,761,678	$ 5,331,061	$ 5,430,617
		2016	
Land	$ 1,427,128	$ -	$ 1,427,128
Bank buildings	6,016,929	2,363,738	3,653,191
Premises and equipment	3,217,559	2,755,937	461,622
Land improvements	144,738	105,376	39,362
	$ 10,806,354	$ 5,225,051	$ 5,581,303

NOTE 7 DEPOSITS

Included in interest bearing deposit balances at December 31 were:

	2017	2016
Savings deposits	$ 122,712,597	$ 112,568,458
Time certificates	140,333,741	153,258,373
Other time deposits	567,668	521,532
	$ 263,614,006	$ 266,348,363

The balance of time certificates that meet or exceeded the FDIC insurance limit of $ 250,000 totaled $ 14,522,079 and $ 12,051,637 at December 31, 2017 and 2016, respectively.

NOTE 7 DEPOSITS (CONTINUED)

At December 31, 2017, the scheduled maturities of time certificates are as follows:

2018	$ 38,653,637
2019	31,867,140
2020	21,044,389
2021	20,431,874
2022	19,299,069
Thereafter	9,037,632
	$ 140,333,741

The aggregate amount of demand deposit overdrafts reclassified as loan balances was $ 22,277 and $ 19,248 at December 31, 2017 and 2016, 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 $ 6,347,174 and $ 6,245,396 at December 31, 2017 and 2016, respectively.

NOTE 8 BORROWED FUNDS

The Corporation has pledged certain securities, loans, and other assets as collateral on the Federal Home Loan Bank borrowings in the approximate amount of $ 239,541,000 at December 31, 2017. The maximum borrowing capacity from the Federal Home Loan Bank is approximately $ 162,995,000 at December 31, 2017.

The Corporation had $ 4,500,000 and $ 3,000,000 in FHLB borrowings outstanding as of December 31, 2017 and 2016. The total consisted of an advance of $ 1,500,000 at a rate of 1.42% and an advance of $ 3,000,000 at a rate of 1.40%, both maturing in 2018.

During the year ended December 31, 2016, the Corporation entered into an unsecured agreement related to federal funds purchased through the Atlantic Community Bankers Bank for up to $ 4,000,000. The federal funds purchased agreement includes a variable interest rate of 1.46% at December 31, 2017. There were no federal funds purchased at December 31, 2017 or 2016.

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.

NOTE 9 FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK (CONTINUED)

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.

	Contract or Notional Amount	
	2017	**2016**
Commitments to extend credit	$ 20,013,000	$ 16,938,584
Standby letters of credit and financial guarantees written	37,000	128,259
	$ 20,050,000	$ 17,066,843

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, 2017 and 2016 were $ 109,439 and $ 106,023, respectively.

Bank Owned Life Insurance

The Corporation has 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 $ 8,199,498 and $ 7,999,442 at December 31, 2017 and 2016, respectively.

NOTE 10 RETIREMENT PLANS (CONTINUED)

Bank Owned Life Insurance (Continued)

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 $ 17,049 and $ 0 was recorded for the years ended December 31, 2017 and 2016, respectively, for post-retirement costs. The total liability related to this post retirement benefit was $ 417,955 and $ 400,906 at December 31, 2017 and 2016, respectively.

Supplemental Executive Retirement Agreement

The Corporation has established a supplemental executive retirement agreement in 2012 for which the Corporation will fund a future benefit to certain executives upon retirement. Generally accepted accounting principles require the recording of a liability retirement account for the Executive into which appropriate accruals shall be made using a reasonable discount rate. A net expense of $ 3,252 and $ 3,697 was recorded for the years ended December 31, 2017 and 2016, respectively, for deferred compensation costs. The total liability related to this executive retirement benefit was $ 69,238 and $ 79,589 at December 31, 2017 and 2016, respectively.

NOTE 11 FEDERAL INCOME TAXES

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

	2017	2016
Current year provision	$ 952,352	$ 1,052,061
Deferred income taxes	280,039	(156,799)
Applicable income tax	$ 1,232,391	$ 895,262

Federal income taxes were computed after adjusting pretax accounting income for nontaxable interest income in the amounts of $ 389,451 and $ 345,752 and for earnings on bank-owned life insurance at $ 200,056 and $ 179,991 for 2017 and 2016, respectively. Included within the applicable income tax for the year ended December 31, 2017 is $ 200,742 in additional income tax expense as a result of the remeasurement of the net deferred tax asset necessary because of the newly enacted corporate tax rates included in the "Tax Cuts and Jobs Act of 2017". The Act reduced the corporate tax rate from a graduated 34% tax rate to a flat 21% tax rate. As a result, in accordance with generally accepted accounting principles, the Bank was required to remeasure the net deferred tax asset as of December 22, 2017 to recognize future tax benefits and liabilities at the newly enacted 21% tax rate.

NOTE 11 FEDERAL INCOME TAXES (CONTINUED)

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

	2017	2016
Federal income tax rate	34.0%	34.0%
Reduction resulting from:		
Nontaxable interest income (net of nondeductible interest)	(3.5)%	(3.5)%
Life insurance income	(1.9)%	(2.0)%
Effect of deferred income tax rate change	5.7%	0.0%
Other	0.3%	0.0%
Effective income tax rate	34.6%	28.5%

Deferred tax liabilities have been provided for taxable temporary differences related to accumulated depreciation, investments in partnerships, 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, deferred compensation plans, and non-accrual interest on loans. The net deferred tax assets included in other assets in the accompanying consolidated balance sheets include the following components:

	2017	2016
Total deferred tax assets:		
Loan loss provision	$ 543,532	$ 949,325
Non-accrual interest	25,135	36,320
Deferred compensation	18,606	31,400
Total deferred tax liabilities:		
Depreciation expense	(113,849)	(198,336)
Investment in partnerships	(1,607)	(2,601)
Unrealized gains on available for sales securities	(112,492)	(645,709)
Net deferred tax asset	$ 359,325	$ 170,399

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 12 LEASE COMMITMENTS

The Corporation leases equipment under operating leases. Rental expense for these leases was $ 36,300 and $ 300 for December 31, 2017 and 2016, respectively. Future minimum lease commitments under these leases are as follows:

	Years Ending December 31
2018	$ 76,737
2019	73,128
2020	72,000
2021	72,000
	$ 293,865

NOTE 13 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	
	2017	**2016**
Assets		
Cash	$ 180,747	$ 165,748
Other bank stock	725,400	661,928
Investment in wholly-owned subsidiary	35,460,867	34,153,688
Total assets	$ 36,367,014	$ 34,981,364
Liabilities		
Deferred taxes	$ 147,543	$ 217,299
Stockholders' Equity		
Common stock, par value $ 0.25; authorized and issued 800,000 shares	$ 200,000	$ 200,000
Additional paid-in capital	2,065,994	2,053,619
Retained earnings	34,301,310	32,815,262
Accumulated other comprehensive income	423,187	470,120
Less cost of treasury stock (21,164 shares 2017; 21,491 shares 2016)	(771,020)	(774,936)
Total stockholders' equity	36,219,471	34,764,065
Total liabilities and stockholders' equity	$ 36,367,014	$ 34,981,364

Statements of Income

	Years Ended December 31	
	2017	**2016**
Income		
Cash dividends from wholly-owned subsidiary	$ 778,479	$ 770,524
Equity in undistributed income of subsidiary	1,465,642	1,471,463
Dividends from bank stock	31,918	31,918
Other income	91,362	-
Total income	2,367,401	2,273,905
Expenses		
Other expense	33,236	31,310
Total expense	33,236	31,310
Net income	$ 2,334,165	$ 2,242,595
Comprehensive income	$ 2,217,594	$ 2,314,300

NOTE 13 ORBISONIA COMMUNITY BANCORP, INC. (PARENT COMPANY ONLY) FINANCIAL INFORMATION (CONTINUED)

Statements of Cash Flows

	Years Ended December 31 2017	2016
Cash flows from operating activities:		
Net income	$ 2,334,165	$ 2,242,595
Adjustments to reconcile net income to cash provided by operating activities:		
Equity in undistributed income of subsidiary	(1,465,642)	(1,471,463)
Deferred income taxes	(91,336)	-
Net cash provided by operating activities	777,187	771,132
Cash flows from financing activities:		
Cash dividends paid	(778,479)	(770,524)
Purchase of treasury stock	(60,206)	(42,613)
Proceeds from sale of treasury stock	76,497	71,423
Net cash used by financing activities	(762,188)	(741,714)
Net increase in cash	14,999	29,418
Cash, beginning balance	165,748	136,330
Cash, ending balance	$ 180,747	$ 165,748

NOTE 14 REGULATORY MATTERS

Dividends paid by Orbisonia Community Bancorp, Inc. are provided from 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 $ 33,392,724 in its retained earnings at December 31, 2017 is available for cash dividends. Orbisonia Community Bancorp's balance of retained earnings at December 31, 2017 is $ 34,301,310 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 and material effect on the Corporation's financial statements. Under capital adequacy guidelines, the Bank 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 14 REGULATORY MATTERS (CONTINUED)

A comparison of the Bank's capital ratios to regulatory minimums at December 31 is as follows:

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
2017						
Total capital (to risk weighted assets)	$ 38,208	18.3%	$ 16,694	8.0%	$ 20,868	10.0%
Common equity Tier 1 (to risk weighted assets)	35,593	17.1%	9,390	4.5%	13,564	6.5%
Tier I capital (to risk weighted assets)	35,593	17.1%	8,347	4.0%	12,521	6.0%
Tier I capital (to average assets)	35,593	11.0%	12,982	4.0%	16,228	5.0%
2016						
Total capital (to risk weighted assets)	$ 37,054	18.8%	$ 15,744	8.0%	$ 19,680	10.0%
Common equity Tier 1 (to risk weighted assets)	34,294	17.4%	8,856	4.5%	12,792	6.5%
Tier I capital (to risk weighted assets)	34,294	17.4%	11,808	6.0%	15,744	8.0%
Tier I capital (to average assets)	34,294	10.6%	12,955	4.0%	16,193	5.0%

As of December 31, 2017 the most recent notification from regulatory agencies categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier I risk-based, common equity Tier I, 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 Bank's category.

NOTE 15 FAIR VALUE DISCLOSURES

Fair Value Measurement

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The three levels of the fair value hierarchy under Table 820 are described as follows:

The three levels are defined as follows:

Level 1: Inputs to the valuation methodology are quoted prices (unadjusted) in active markets for identical assets or liabilities that the organization can access at the measurement date.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, such as:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3: Inputs that are unobservable inputs for the asset or liability.

NOTE 15 FAIR VALUE DISCLOSURES (CONTINUED)

Fair Value Measurement (Continued)

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.

Investment 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 issued by U.S. agencies, mortgage-backed agency securities, obligations of states and political subdivisions, certain corporate asset backed, and other securities. In 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 Bank's securities are classified as available for sale.

The Corporation had no liabilities reflected at estimated fair value at December 31, 2017 and 2016.

A summary of assets at December 31, 2017 and 2016 measured at estimated fair value on a recurring basis follows:

	Level 1	Level 2	Level 3	Total Fair Value Measurements
	2017			
Obligations of other U.S. government agencies and corporations	$ -	$ 10,360,455	$ -	$ 10,360,455
Obligations of state and political subdivisions	-	6,627,395	-	6,627,395
Equity securities - financial services	725,400	-	-	725,400
	$ 725,400	$ 16,987,850	$ -	$ 17,713,250
	2016			
Obligations of other U.S. government agencies and corporations	$ -	$ 10,509,238	$ -	$ 10,509,238
Obligations of state and political subdivisions	-	7,697,417	-	7,697,417
Equity securities - financial services	661,928	-	-	661,928
	$ 661,928	$ 18,206,655	$ -	$ 18,868,583

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 15 FAIR VALUE DISCLOSURES (CONTINUED)

Fair Value Measurement (Continued)

Impaired Loans

Loans of a commercial nature are designated as impaired when, in the judgment of management based on current information and events, it is probable that all amounts due will not be collected according to the contractual terms of the loan agreement. The measurement of loss associated with impaired loans can be based on either the observable market price of the loan, the fair value of the collateral (if collateral dependent), or the present value of expected future cash flows. Fair value is measured based on the value of the collateral securing the loan less estimated costs to sell or the expected present value of future cash flows. Collateral may be in the form of real estate or business assets including equipment, inventory, and accounts receivable. 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 statements of income. The fair value of impaired loans reported below is based on the total impaired loans with a specific allowance for loan loss allocation less the total allocations for such loans, 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 for impaired loans were $ 10,997 and $ 77,487 at December 31, 2017 and 2016.

Other Real Estate Owned

Certain assets such as other real estate owned (OREO) acquired through foreclosure is initially recorded at fair value of the property at the transfer date less estimated selling costs. At or near the time of foreclosure, real estate appraisals are obtained on the properties acquired through foreclosure. The real estate is then valued and subsequently carried 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 15 FAIR VALUE DISCLOSURES (CONTINUED)

Fair Value Measurement (Continued)

Other Real Estate Owned (Continued)

A summary of assets at December 31, 2017 and 2016 measured at estimated fair value on a nonrecurring basis is as follows:

	Level 1	Level 2	Level 3	Total Fair Value Measurements
		2017		
Impaired loans	$ -	$ -	$ 251,090	$ 251,090
Other real estate owned	-	-	104,000	104,000
	$ -	$ -	$ 355,090	$ 355,090
		2016		
Impaired loans	$ -	$ -	$ 241,016	$ 241,016
Other real estate owned	-	-	21,500	21,500
	$ -	$ -	$ 262,516	$ 262,516

The following table presents additional qualitative information about assets measured on a nonrecurring basis and for the Corporation has utilized Level 3 inputs to determine fair value:

	Fair Value Estimate	Valuation Techniques	Unobservable Input	Range
		2017		
Impaired loans	$ 251,090	Appraisal of collateral	Management adjustments for liquidation expenses	0 - 60% discount
Other real estate owned	104,000	Appraisal of collateral	Management adjustments for liquidation expenses	40% discount
		2016		
Impaired loans	$ 262,516	Appraisal of collateral	Management adjustments for liquidation expenses	0 - 56% discount
Other real estate owned	21,500	Appraisal of collateral	Management adjustments for liquidation expenses	40% discount

Fair Values of Financial Instruments

The Corporation meets the requirements for 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 15 FAIR VALUE DISCLOSURES (CONTINUED)

Fair Values of Financial Instruments (Continued)

In addition to those described above, the following methods and assumptions were used by the Corporation in estimating fair values of financial instruments as disclosed herein:

Cash and Due from Banks, Federal Funds Sold, and Interest-Bearing Deposits in Other Banks. The carrying amounts of cash and short-term instruments approximate their fair value.

Certificates of Deposit. Fair values of certificates of deposit are estimated using a discounted cash flow calculation that applies market interest rates to a schedule of aggregated expected monthly maturities.

Investment 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.

Restricted Bank Stock. These investments are carried at cost. The Corporation is required to maintain minimum investment balances in these stocks, which are not actively traded and therefore have no readily determinable market value.

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.

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.

NOTE 15 FAIR VALUE DISCLOSURES (CONTINUED)

Fair Values of Financial Instruments (Continued)

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

	2017				
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
FINANCIAL ASSETS					
Cash and due from banks	$ 11,061,844	$ 11,061,844	$ 11,061,844	$ -	$ -
Interest bearing deposits in other banks	221,545	221,545	221,545	-	-
Certificates of deposit	1,488,000	1,488,000	-	1,488,000	-
Investment securities available for sale	17,713,250	17,713,250	725,400	16,987,850	-
Loans receivable, net	280,610,322	284,531,871	-	-	284,531,871
Restricted bank stock	376,500	376,500	-	376,500	-
Accrued interest receivable	677,315	677,315	677,315	-	-
FINANCIAL LIABILITIES					
Time certificates	140,333,741	143,055,667	-	-	143,055,667
Other deposits	145,193,077	145,193,077	145,193,077	-	-
Short-term borrowings	4,500,000	4,500,000	4,500,000	-	-
Accrued interest payable	60,115	60,115	60,115	-	-

	2016				
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
FINANCIAL ASSETS					
Cash and due from banks	$ 12,261,025	$ 12,261,025	$ 12,261,025	$ -	$ -
Federal funds sold	5,691,000	5,691,000	5,691,000	-	-
Interest bearing deposits in other banks	409,276	409,276	409,276	-	-
Certificates of deposit	2,976,000	2,976,000	-	2,976,000	-
Investment securities available for sale	18,868,583	18,868,583	661,928	18,206,655	-
Loans receivable, net	267,030,919	269,571,694	-	-	269,571,694
Restricted bank stock	317,600	317,600	-	317,600	-
Accrued interest receivable	642,079	642,079	642,079	-	-
FINANCIAL LIABILITIES					
Time certificates	153,258,373	156,137,689	-	-	156,137,689
Other deposits	131,310,764	131,310,764	131,310,764	-	-
Short-term borrowings	3,000,000	2,984,000	-	-	2,984,000
Accrued interest payable	61,733	61,733	61,733	-	-