

CITIZENS & NORTHERN CORP
Form 10-Q
August 08, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934

For the quarterly period ended **June 30, 2014**

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934

For the transition period from _____ to _____.

Commission file number: 000-16084

CITIZENS & NORTHERN CORPORATION

(Exact name of Registrant as specified in its charter)

PENNSYLVANIA 23-2451943
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

90-92 MAIN STREET, WELLSBORO, PA 16901

(Address of principal executive offices) (Zip code)

570-724-3411

(Registrant's telephone number including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

Common Stock (\$1.00 par value) 12,377,394 Shares Outstanding on August 5, 2014

CITIZENS & NORTHERN CORPORATION – FORM 10-Q

CITIZENS & NORTHERN CORPORATION

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CITIZENS & NORTHERN CORPORATION – FORM 10-Q**ITEM 1. FINANCIAL STATEMENTS
CONSOLIDATED BALANCE SHEETS**

(In Thousands, Except Share and Per Share Data) (Unaudited)	June 30, 2014	December 31, 2013
ASSETS		
Cash and due from banks:		
Noninterest-bearing	\$28,316	\$15,917
Interest-bearing	31,632	28,702
Total cash and due from banks	59,948	44,619
Available-for-sale securities, at fair value	512,748	482,658
Loans held for sale	0	54
Loans receivable	621,614	644,303
Allowance for loan losses	(7,267)	(8,663)
Loans, net	614,347	635,640
Bank-owned life insurance	21,922	21,743
Accrued interest receivable	3,813	4,146
Bank premises and equipment, net	16,647	17,430
Foreclosed assets held for sale	1,419	892
Deferred tax asset, net	1,837	6,344
Intangible asset - Core deposit intangibles	70	87
Intangible asset - Goodwill	11,942	11,942
Other assets	11,512	12,140
TOTAL ASSETS	\$1,256,205	\$1,237,695
LIABILITIES		
Deposits:		
Noninterest-bearing	\$208,849	\$191,245
Interest-bearing	770,390	763,271
Total deposits	979,239	954,516
Short-term borrowings	4,637	23,385
Long-term borrowings	73,201	73,338
Accrued interest and other liabilities	9,955	6,984
TOTAL LIABILITIES	1,067,032	1,058,223
STOCKHOLDERS' EQUITY		
Preferred stock, \$1,000 par value; authorized 30,000 shares; \$1,000 liquidation preference per share; no shares issued at June 30, 2014 and December 31, 2013	0	0
Common stock, par value \$1.00 per share; authorized 20,000,000 shares in 2014 and 2013; issued 12,636,549 at June 30, 2014 and 12,596,540 at December 31, 2013	12,636	12,596
Paid-in capital	70,964	70,105
Retained earnings	103,276	101,216
Treasury stock, at cost; 186,544 shares at June 30, 2014 and 206,477 shares at December 31, 2013	(3,119)	(3,452)
Sub-total	183,757	180,465
Accumulated other comprehensive income (loss):		
Unrealized gain (loss) on available-for-sale securities	5,316	(1,004)

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Defined benefit plans gain	100	11
Total accumulated other comprehensive income (loss)	5,416	(993)
TOTAL STOCKHOLDERS' EQUITY	189,173	179,472
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	\$1,256,205	\$1,237,695

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

CITIZENS & NORTHERN CORPORATION – FORM 10-Q

Consolidated Statements of Income	3 Months Ended Fiscal Year To Date			
(In Thousands Except Per Share Data) (Unaudited)	June 30, June 30, 6 Months Ended June 30,			
	2014	2013	2014	2013
INTEREST INCOME				
Interest and fees on loans	\$8,085	\$9,028	\$16,083	\$18,253
Interest on balances with depository institutions	32	23	62	51
Interest on loans to political subdivisions	334	323	707	685
Interest on mortgages held for sale	5	12	8	33
Income from available-for-sale securities:				
Taxable	1,961	1,663	3,763	3,380
Tax-exempt	1,080	1,243	2,191	2,455
Dividends	66	63	155	145
Total interest and dividend income	11,563	12,355	22,969	25,002
INTEREST EXPENSE				
Interest on deposits	553	673	1,107	1,451
Interest on short-term borrowings	1	2	6	3
Interest on long-term borrowings	736	740	1,465	1,561
Total interest expense	1,290	1,415	2,578	3,015
Net interest income	10,273	10,940	20,391	21,987
Provision for loan losses	446	66	135	249
Net interest income after provision for loan losses	9,827	10,874	20,256	21,738
OTHER INCOME				
Service charges on deposit accounts	1,314	1,242	2,537	2,468
Service charges and fees	134	145	261	279
Trust and financial management revenue	1,138	1,045	2,185	1,989
Brokerage revenue	242	237	469	381
Insurance commissions, fees and premiums	27	59	59	104
Interchange revenue from debit card transactions	517	505	970	969
Net gains from sale of loans	265	552	416	1,056
(Decrease) increase in fair value of servicing rights	(53)	(3)	52	5
Increase in cash surrender value of life insurance	91	99	179	192
Net loss from premises and equipment	(1)	0	(1)	0
Other operating income	306	310	604	591
Sub-total	3,980	4,191	7,731	8,034
Total other-than-temporary impairment losses on available-for-sale securities	0	0	0	(25)
Portion of (gain) recognized in other comprehensive loss (before taxes)	0	0	0	0
Net impairment losses recognized in earnings	0	0	0	(25)
Realized gains on available-for-sale securities, net	103	100	134	1,284
Total other income	4,083	4,291	7,865	9,293
OTHER EXPENSES				
Salaries and wages	3,646	3,635	7,211	7,235
Pensions and other employee benefits	1,153	1,034	2,472	2,289
Occupancy expense, net	641	599	1,356	1,233
Furniture and equipment expense	466	483	938	977
FDIC Assessments	146	147	293	299
Pennsylvania shares tax	337	351	678	701
Professional fees	144	461	292	618
Automated teller machine and interchange expense	218	312	429	584

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Software subscriptions	201	209	391	432
Loss on prepayment of debt	0	0	0	1,023
Other operating expense	1,395	1,289	2,811	2,705
Total other expenses	8,347	8,520	16,871	18,096
Income before income tax provision	5,563	6,645	11,250	12,935
Income tax provision	1,400	1,671	2,799	3,255
NET INCOME	\$4,163	\$4,974	\$8,451	\$9,680
NET INCOME PER SHARE - BASIC	\$0.33	\$0.40	\$0.68	\$0.78
NET INCOME PER SHARE - DILUTED	\$0.33	\$0.40	\$0.68	\$0.78

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

CITIZENS & NORTHERN CORPORATION – FORM 10-Q**Consolidated Statements of Comprehensive Income****(In Thousands) (Unaudited)**

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
Net income	\$4,163	\$4,974	\$8,451	\$9,680
Unrealized gains (losses) on available-for-sale securities:				
Unrealized holding gains (losses) on available-for-sale securities	4,523	(9,732)	9,857	(12,179)
Reclassification adjustment for gains realized in income	(103)	(100)	(134)	(1,259)
Other comprehensive gain (loss) on available-for-sale securities	4,420	(9,832)	9,723	(13,438)
Unfunded pension and postretirement obligations:				
Changes from plan amendments and actuarial gains and losses included in accumulated other comprehensive gain	3	0	144	636
Amortization of net transition obligation, prior service cost and net actuarial loss included in net periodic benefit cost	(4)	0	(8)	0
Other comprehensive (loss) gain on unfunded retirement obligations	(1)	0	136	636
Other comprehensive income (loss) before income tax	4,419	(9,832)	9,859	(12,802)
Income tax related to other comprehensive (income) loss	(1,545)	3,441	(3,450)	4,479
Net other comprehensive income (loss)	2,874	(6,391)	6,409	(8,323)
Comprehensive income (loss)	\$7,037	(\$1,417)	\$14,860	\$1,357

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

CITIZENS & NORTHERN CORPORATION – FORM 10-Q

CONSOLIDATED STATEMENTS OF CASH FLOWS	Six Months Ended June 30,	
(In Thousands) (Unaudited)	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$8,451	\$9,680
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	135	249
Realized gains on available-for-sale securities, net	(134)	(1,259)
Loss on prepayment of debt	0	1,023
Realized loss on foreclosed assets	19	53
Loss on disposition of premises and equipment	1	0
Depreciation expense	988	1,021
Accretion and amortization on securities, net	674	952
Accretion and amortization on loans and deposits, net	(14)	(16)
Decrease in fair value of servicing rights	(52)	(5)
Increase in cash surrender value of life insurance	(179)	(192)
Stock-based compensation	384	492
Amortization of core deposit intangibles	17	25
Deferred income taxes	1,057	1,573
Gains on sales of loans, net	(416)	(1,056)
Origination of loans for sale	(12,443)	(32,709)
Proceeds from sales of loans	12,807	35,345
Decrease in accrued interest receivable and other assets	179	2,705
Increase in accrued interest payable and other liabilities	1,795	398
Net Cash Provided by Operating Activities	13,269	18,279
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from maturities of certificates of deposit	480	0
Proceeds from sales of available-for-sale securities	28,831	23,402
Proceeds from calls and maturities of available-for-sale securities	35,340	51,651
Purchase of available-for-sale securities	(83,766)	(85,675)
Redemption of Federal Home Loan Bank of Pittsburgh stock	976	1,773
Purchase of Federal Home Loan Bank of Pittsburgh stock	(123)	(825)
Net decrease in loans	20,248	28,970
Purchase of premises and equipment	(206)	(423)
Purchase of investment in limited liability entity	0	(147)
Return of principal on limited liability entity investments	87	75
Proceeds from sale of foreclosed assets	378	14
Net Cash Provided by Investing Activities	2,245	18,815
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase (decrease) in deposits	24,723	(55,337)
Net (decrease) increase in short-term borrowings	(18,748)	10,820
Repayments of long-term borrowings	(137)	(11,363)
Sale of treasury stock	86	119
Tax benefit from compensation plans	74	55
Common dividends paid	(5,703)	(5,448)
Net Cash Provided by (Used in) Financing Activities	295	(61,154)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	15,809	(24,060)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	38,591	55,016
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$54,400	\$30,956

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Assets acquired through foreclosure of real estate loans	\$924	\$78
Accrued purchase of available-for-sale securities	\$1,312	\$0
Interest paid	\$2,587	\$3,040
Income taxes paid	\$1,834	\$986

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

CITIZENS & NORTHERN CORPORATION – FORM 10-Q**Consolidated Statements of Changes in Stockholders' Equity****Six Months Ended June 30, 2014 and 2013****(In Thousands Except Share and Per Share Data)**

(Unaudited)	Common Shares	Treasury Shares	Common Stock	Paid-in Capital	Retained Earnings	Accum. Other Comprehensive Income (Loss)	Treasury Stock	Total
<u>Six Months Ended June 30, 2014:</u>								
Balance, December 31, 2013	12,596,540	206,477	\$12,596	\$70,105	\$101,216	(\$993)	(\$3,452)	\$111,809
Net income					8,451			8,451
Other comprehensive income, net						6,409		6,409
Cash dividends declared on common stock, \$.52 per share					(6,459)			(6,459)
Shares issued for dividend reinvestment Plan	40,009		40	716				75
Shares issued from treasury related to exercise of stock options		(5,577)		(7)			93	86
Restricted stock granted		(16,711)		(279)			279	0
Forfeiture of restricted stock		2,355		39			(39)	0
Stock-based compensation expense				384				384
Tax effect of stock option exercises				1				1
Tax benefit from dividends on restricted stock				5				5
Tax benefit from employee benefit plan					68			68
Balance, June 30, 2014	12,636,549	186,544	\$12,636	\$70,964	\$103,276	\$5,416	(\$3,119)	\$111,809
<u>Six Months Ended June 30, 2013:</u>								
Balance, December 31, 2012	12,525,411	1251,376	\$12,525	\$68,622	\$94,839	\$11,003	(\$4,203)	\$111,809
Net income					9,680			9,680
Other comprehensive loss, net						(8,323)		(8,323)
Cash dividends declared on common stock, \$.50 per share					(6,161)			(6,161)
Shares issued for dividend reinvestment Plan	36,266		36	677				71
Shares issued from treasury related to exercise of stock options		(6,568)		8			111	111
Restricted stock granted		(37,886)		(633)			633	0
Forfeiture of restricted stock		3,233		54			(54)	0
Stock-based compensation expense				492				492
Tax effect of stock option exercises				(6)				(6)
Tax benefit from employee benefit plan					61			61
Balance, June 30, 2013	12,561,677	210,155	\$12,561	\$69,214	\$98,419	\$2,680	(\$3,513)	\$111,809

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

CITIZENS & NORTHERN CORPORATION – FORM 10-Q**Notes to Unaudited Consolidated Financial Statements****1. BASIS OF INTERIM PRESENTATION**

The consolidated financial information included herein, with the exception of the consolidated balance sheet dated December 31, 2013, is unaudited. Such information reflects all adjustments (consisting solely of normal recurring adjustments) that are, in the opinion of management, necessary for a fair presentation of the financial position, results of operations, comprehensive income, cash flows and changes in stockholders' equity for the interim periods; however, the information does not include all disclosures required by accounting principles generally accepted in the United States of America ("U.S. GAAP") for a complete set of financial statements. Certain 2013 information has been reclassified for consistency with the 2014 presentation.

Operating results reported for the three-month and six-month periods ended June 30, 2014 might not be indicative of the results for the year ending December 31, 2014. The Corporation evaluates subsequent events through the date of filing with the Securities and Exchange Commission.

2. PER SHARE DATA

Net income per share is based on the weighted-average number of shares of common stock outstanding. The following data show the amounts used in computing basic and diluted net income per share. As shown in the table that follows, diluted earnings per share is computed using weighted average common shares outstanding, plus weighted-average common shares available from the exercise of all dilutive stock options, less the number of shares that could be repurchased with the proceeds of stock option exercises based on the average share price of the Corporation's common stock during the period.

	Net Income	Weighted- Average Common Shares	Earnings Per Share
Six Months Ended June 30, 2014			
Earnings per share – basic	\$8,451,000	12,429,717	\$0.68
Dilutive effect of potential common stock arising from stock options:			
Exercise of outstanding stock options		239,291	
Hypothetical share repurchase at \$19.25		(217,549)	
Earnings per share – diluted	\$8,451,000	12,451,459	\$0.68

Six Months Ended June 30, 2013

Earnings per share – basic	\$9,680,000	12,331,943	\$0.78
Dilutive effect of potential common stock arising from stock options:			
Exercise of outstanding stock options		254,900	
Hypothetical share repurchase at \$19.53		(227,559)	
Earnings per share – diluted	\$9,680,000	12,359,284	\$0.78

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	Net Income	Weighted- Average Common Shares	Earnings Per Share
Quarter Ended June 30, 2014			
Earnings per share – basic	\$4,163,000	12,441,679	\$0.33
Dilutive effect of potential common stock arising from stock options:			
Exercise of outstanding stock options		174,840	
Hypothetical share repurchase at \$18.81		(157,135)	
Earnings per share – diluted	\$4,163,000	12,459,384	\$0.33
Quarter Ended June 30, 2013			
Earnings per share – basic	\$4,974,000	12,342,755	\$0.40
Dilutive effect of potential common stock arising from stock options:			
Exercise of outstanding stock options		252,380	
Hypothetical share repurchase at \$19.49		(225,824)	
Earnings per share – diluted	\$4,974,000	12,369,311	\$0.40

Stock options that were anti-dilutive were excluded from net income per share calculations. Weighted-average common shares available from anti-dilutive instruments totaled 169,448 shares in the six-month period ended June 30, 2014, 119,385 shares in the six-month period ended June 30, 2013, 200,672 shares in the second quarter 2014 and 116,891 shares in the second quarter 2013.

3. COMPREHENSIVE INCOME

Comprehensive income is the total of (1) net income, and (2) all other changes in equity from non-stockholder sources, which are referred to as other comprehensive income. The components of other comprehensive income, and the related tax effects, are as follows:

(In Thousands)	Before-Tax Amount	Income Effect	Tax Net-of-Tax Amount
Six Months Ended June 30, 2014:			
Unrealized gains on available-for-sale securities:			
Unrealized holding gains on available-for-sale securities	\$9,857	(\$3,450)	\$6,407
Reclassification adjustment for (gains) realized in income	(134)	47	(87)
Other comprehensive gain on available-for-sale securities	9,723	(3,403)	6,320
Unfunded pension and postretirement obligations:			
Changes from plan amendments and actuarial gains and losses			

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included in other comprehensive income	144	(50)	94
Amortization of net transition obligation, prior service cost and net actuarial loss included in net periodic benefit cost	(8)	3	(5)
Other comprehensive gain on unfunded retirement obligations	136	(47)	89
Total other comprehensive gain	\$9,859	(\$3,450)	\$6,409

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(In Thousands)	Before-Tax Amount	Income Tax Effect	Net-of-Tax Amount
Six Months Ended June 30, 2013:			
Unrealized gains on available-for-sale securities:			
Unrealized holding losses on available-for-sale securities	(\$12,179)	\$4,261	(\$7,918)
Reclassification adjustment for (gains) realized in income	(1,259)	441	(818)
Other comprehensive loss on available-for-sale securities	(13,438)	4,702	(8,736)
Unfunded pension and postretirement obligations:			
Changes from plan amendments and actuarial gains and losses included in other comprehensive income	636	(223)	413
Amortization of net transition obligation, prior service cost and net actuarial loss included in net periodic benefit cost	0	0	0
Other comprehensive gain on unfunded retirement obligations	636	(223)	413
Total other comprehensive loss	(\$12,802)	\$4,479	(\$8,323)

(In Thousands)	Before-Tax Amount	Income Tax Effect	Net-of-Tax Amount
Three Months Ended June 30, 2014:			
Unrealized gains on available-for-sale securities:			
Unrealized holding gains on available-for-sale securities	\$4,523	(\$1,582)	\$2,941
Reclassification adjustment for (gains) realized in income	(103)	36	(67)
Other comprehensive gain on available-for-sale securities	4,420	(1,546)	2,874
Unfunded pension and postretirement obligations:			
Changes from plan amendments and actuarial gains and losses included in other comprehensive income	3	(1)	2
Amortization of net transition obligation, prior service cost and net actuarial loss included in net periodic benefit cost	(4)	2	(2)
Other comprehensive loss on unfunded retirement obligations	(1)	1	0
Total other comprehensive gain	\$4,419	(\$1,545)	\$2,874

(In Thousands)	Before-Tax Amount	Income Tax Effect	Net-of-Tax Amount
Three Months Ended June 30, 2013:			
Unrealized gains on available-for-sale securities:			
Unrealized holding losses on available-for-sale securities	(\$9,732)	\$3,406	(\$6,326)
Reclassification adjustment for (gains) realized in income	(100)	35	(65)
Other comprehensive loss on available-for-sale securities	(9,832)	3,441	(6,391)
Unfunded pension and postretirement obligations:			
Changes from plan amendments and actuarial gains and losses included in other comprehensive income	0	0	0
Amortization of net transition obligation, prior service cost and net actuarial loss included in net periodic benefit cost	0	0	0
Other comprehensive gain on unfunded retirement obligations	0	0	0

Total other comprehensive loss	(\$9,832)	\$3,441	(\$6,391)
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CITIZENS & NORTHERN CORPORATION – FORM 10-Q

Changes in the components of accumulated other comprehensive income are as follows and are presented net of tax:

(In Thousands)	Unrealized Holding Gains (Losses) on Securities	Unfunded Pension and Postretirement Obligations	Accumulated Other Comprehensive Income
Six Months Ended June 30, 2014			
Balance, beginning of period	(\$1,004)	\$11	(\$993)
Other comprehensive income before reclassifications	6,407	94	6,501
Amounts reclassified from accumulated other comprehensive income	(87)	(5)	(92)
Other comprehensive income	6,320	89	6,409
Balance, end of period	\$5,316	\$100	\$5,416
Six Months Ended June 30, 2013			
Balance, beginning of period	\$11,568	(\$565)	\$11,003
Other comprehensive (loss) income before reclassifications	(7,918)	413	(7,505)
Amounts reclassified from accumulated other comprehensive income	(818)	0	(818)
Other comprehensive (loss) income	(8,736)	413	(8,323)
Balance, end of period	\$2,832	(\$152)	\$2,680
Three Months Ended June 30, 2014			
Balance, beginning of period	\$2,442	\$100	\$2,542
Other comprehensive income before reclassifications	2,941	2	2,943
Amounts reclassified from accumulated other comprehensive income	(67)	(2)	(69)
Other comprehensive income	2,874	0	2,874
Balance, end of period	\$5,316	\$100	\$5,416
Three Months Ended June 30, 2013			
Balance, beginning of period	\$9,223	(\$152)	\$9,071
Other comprehensive loss before reclassifications	(6,326)	0	(6,326)
Amounts reclassified from accumulated other comprehensive income	(65)	0	(65)
Other comprehensive loss	(6,391)	0	(6,391)
Balance, end of period	\$2,832	(\$152)	\$2,680

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Items reclassified out of each component of other comprehensive income are as follows:

For the Six Months Ended June 30, 2014**(In Thousands)**

Details about Accumulated Other Comprehensive Income Components	Reclassified from Accumulated Other Comprehensive Income	Affected Line Item in the Consolidated Statements of Income
Unrealized gains and losses on available-for-sale securities	(\$134)	Realized gains on available-for-sale securities
	47	Income tax provision
	(87)	Net of tax
Amortization of defined benefit pension and postretirement items:		
Prior service cost	(16)	Pensions and other employee benefits
Actuarial loss	8	Pensions and other employee benefits
	(8)	Total before tax
	3	Income tax provision
	(5)	Net of tax
Total reclassifications for the period	(\$92)	

For the Six Months Ended June 30, 2013**(In Thousands)**

Details about Accumulated Other Comprehensive Income Components	Reclassified from Accumulated Other Comprehensive Income	Affected Line Item in the Consolidated Statements of Income
Unrealized gains and losses on available-for-sale securities	\$25	Total other-than-temporary impairment on available-for-sale securities
	(1,284)	Realized gains on available-for-sale securities
	(1,259)	Total before tax
	441	Income tax provision
	(818)	Net of tax
Amortization of defined benefit pension and postretirement items:		
Prior service cost	(16)	Pensions and other employee benefits
Actuarial loss	16	Pensions and other employee benefits
	0	Total before tax
	0	Income tax provision
	0	Net of tax
Total reclassifications for the period	(\$818)	

CITIZENS & NORTHERN CORPORATION – FORM 10-Q**For the Three Months Ended June 30, 2014****(In Thousands)**

Details about Accumulated Other Comprehensive Income Components	Reclassified from Accumulated Other Comprehensive Income	Affected Line Item in the Consolidated Statements of Income
Unrealized gains and losses on available-for-sale securities	(\$103)	Realized gains on available-for-sale securities
	36	Income tax provision
	(67)	Net of tax
Amortization of defined benefit pension and postretirement items:		
Prior service cost	(8)	Pensions and other employee benefits
Actuarial loss	4	Pensions and other employee benefits
	(4)	Total before tax
	2	Income tax provision
	(2)	Net of tax
Total reclassifications for the period	(\$69)	

For the Three Months Ended June 30, 2013**(In Thousands)**

Details about Accumulated Other Comprehensive Income Components	Reclassified from Accumulated Other Comprehensive Income	Affected Line Item in the Consolidated Statements of Income
Unrealized gains and losses on available-for-sale securities	\$0	Total other-than-temporary impairment on available-for-sale securities
	(100)	Realized gains on available-for-sale securities
	(100)	Total before tax
	35	Income tax provision
	(65)	Net of tax
Amortization of defined benefit pension and postretirement items:		
Prior service cost	(8)	Pensions and other employee benefits
Actuarial loss	8	Pensions and other employee benefits
	0	Total before tax
	0	Income tax provision
	0	Net of tax
Total reclassifications for the period	(\$65)	

CITIZENS & NORTHERN CORPORATION – FORM 10-Q**4. CASH AND DUE FROM BANKS**

Cash and due from banks at June 30, 2014 and December 31, 2013 include the following:

(In thousands)	June 30, Dec. 31,	
	2014	2013
Cash and cash equivalents	\$54,400	\$38,591
Certificates of deposit	5,548	6,028
Total cash and due from banks	\$59,948	\$44,619

Certificates of deposit are issued by U.S. banks with original maturities greater than three months. Each certificate of deposit is fully FDIC-insured. The Corporation maintains cash and cash equivalents with certain financial institutions in excess of the FDIC insurance limit.

The Corporation is required to maintain reserves against deposit liabilities in the form of cash and balances with the Federal Reserve Bank of Philadelphia. The reserves are based on deposit levels, account activity, and other services provided by the Federal Reserve Bank. Required reserves were \$14,714,000 at June 30, 2014 and \$15,318,000 at December 31, 2013.

5. FAIR VALUE MEASUREMENTS AND FAIR VALUES OF FINANCIAL INSTRUMENTS

The Corporation measures certain assets at fair value. Fair value is defined as the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. FASB ASC topic 820, “Fair Value Measurements and Disclosures” establishes a framework for measuring fair value that includes a hierarchy used to classify the inputs used in measuring fair value. The hierarchy prioritizes the inputs used in determining valuations into three levels. The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement. The levels of the fair value hierarchy are as follows:

Level 1 – Fair value is based on unadjusted quoted prices in active markets that are accessible to the Corporation for identical assets. These generally provide the most reliable evidence and are used to measure fair value whenever available.

Level 2 – Fair value is based on significant inputs, other than Level 1 inputs, that are observable either directly or indirectly for substantially the full term of the asset through corroboration with observable market data. Level 2 inputs include quoted market prices in active markets for similar assets, quoted market prices in markets that are not active for identical or similar assets and other observable in