MERCER COUNTY STATE BANCORP, INC.
Subsidiary MERCER COUNTY STATE BANK

A Message from the President and CEO

To Our Shareholders and Friends:

I am pleased to report that 2019 was a record year for Mercer County State Bank! Earnings, deposits and loans were all up and shareholder value continues to grow. Deposits were up 7% over 2018 as we added new households and businesses. Loan growth was 6%, with most of the growth coming from commercial loans which have a higher yield and bring more deposits with them than consumer households. Because of these successes and other cost saving measures net income for the bank grew 6% ($200,000).

Ray Kaltenbaugh officially retired from the bank June 7, 2019 after 50 years and 1 day of service. Ray remains dedicated to Mercer County State Bank through his service on the board of directors. I want to thank him for his support and advice in the transition. As we move forward, I appreciate his dedication and commitment to Mercer County State Bank.

As I write this letter, the entire World is focused on the COVID-19 virus, more commonly referred to as the coronavirus. The Federal Reserve has slashed short term interest rates in the hopes of keeping our strong economy going all while governments are asking people to stay home and shutting down all non-essential businesses. Hopefully by the time you read this, markets will have settled down and some sense of normalcy will have returned to our communities. We have taken several precautions at the bank to protect our customers and employees, including following cleaning suggestions from the WHO and closing our lobbies to customers unless an appointment is made.

Because of suggestions from Governor Wolf regarding gatherings of 50 or more people, and in the best interest of our shareholders we will not be having the shareholder dinner this year. This was not an easy decision but one myself and your board of directors felt was in the best interest of everyone's health. As of today, the annual meeting will be held, and I look forward to reporting the activities of the bank to each of you at that time if you choose to attend.

Despite the unrest in the markets and unknowns surrounding the economy, I am confident that Mercer County State Bank is well prepared to assist our customers, help our communities and support our employees. We remain disciplined in our lending practices and are well positioned to assist any customers that may have difficulty until this situation passes. We have been there for our customers and communities for 109 years and hope to continue for the next 109 years.

I want to thank each of you for your confidence and support of Mercer County State Bank.

Sincerely,

Scott Patton
President and CEO

MERCER COUNTY STATE BANCORP, INC.

BOARD OF DIRECTORS

Mercer County State Bank Management

SCOTT D. PATTON .... President and CEO
STEPHEN K. MILLER .... Senior Vice President/Secretary, Treasurer & CFO
RONALD J. MCNEELY .... Senior Vice President/Chief Lending Officer
DEBORAH L. BARBOUR .... Senior Vice President/Chief Compliance Officer
CATHLEEN L. BEATRICE .... Vice President/Financial Services
JEFFERY S. DILULLO .... Vice President/Loan Administration
JAMES L. PRICE .... Vice President/Risk & Internal Controls
MICHAEL R. TARNOVICH .... Vice President/Chief Information Officer
JOSEPH S. YESKOVICH .... Vice President/Information Systems
TARA B. DIMARIA .... Asst. Vice President/Human Resources
BRADLEY E. DOYLE .... Asst. Vice President/Director of Branch Banking-Sales
MARK A. KALTENBAUGH .... Asst. Vice President/Director of Branch Banking-Operations

INDEPENDENT AUDITOR'S REPORT

SNODGRASS
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

Board of Directors and Stockholders
Mercer County State Bancorp, Inc.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Mercer County State Bancorp, Inc. and subsidiaries, which comprise the consolidated balance sheets as of December 31, 2019 and 2018; the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended; and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Mercer County State Bancorp, Inc. and subsidiaries as of December 31, 2019 and 2018, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

S. R. Snodgrass, P.C.

Cranberry Township, Pennsylvania
March 23, 2020

S.R. Snodgrass, P.C. • 2009 Mackenzie Way, Suite 340 • Cranberry Township, Pennsylvania 16066 • Phone: 724-934-0344 • Fax: 724-934-0345

MERCER COUNTY STATE BANCORP, INC.
CONSOLIDATED BALANCE SHEET

	December 31, 2019	December 31, 2018
ASSETS		
Cash and due from banks	$ 8,871,378	$ 10,590,436
Interest-bearing deposits	82,619	558,573
Cash and cash equivalents	8,953,997	11,149,009
Investment securities available for sale	130,258,752	118,552,514
Equity securities	1,133,605	542,150
Loans	265,705,742	251,593,853
Less allowance for loan losses	3,174,668	2,872,526
Net loans	262,531,074	248,721,327
Premises and equipment	8,108,512	8,279,591
Bank-owned life insurance	9,822,931	9,571,669
Regulatory stock	2,845,900	2,865,300
Goodwill	1,952,291	2,233,980
Accrued interest and other assets	2,700,611	3,278,460
TOTAL ASSETS	$ 428,307,673	$ 405,194,000
LIABILITIES		
Deposits:		
Non-interest-bearing demand	$ 103,431,973	$ 96,376,812
Interest-bearing demand	35,243,909	41,319,127
Savings	56,749,427	55,815,685
Money market	40,089,394	38,605,805
Time	112,999,243	101,463,926
Total deposits	348,513,946	333,581,355
Short-term borrowings	1,500,000	-
Other borrowed funds	25,363,354	25,407,757
Accrued interest and other liabilities	4,347,024	3,518,827
TOTAL LIABILITIES	379,724,324	362,507,939
STOCKHOLDERS' EQUITY		
Common stock, par value $0.20; 40,000,000 shares authorized, 1,094,050 shares issued, 1,056,293 and 1,061,615 outstanding	218,810	218,810
Capital surplus	2,099,806	2,099,806
Retained earnings	46,444,778	43,692,828
Treasury stock, at cost (37,757 and 32,435 shares)	(1,407,640)	(1,168,150)
Accumulated other comprehensive income (loss)	1,227,595	(2,157,233)
TOTAL STOCKHOLDERS' EQUITY	48,583,349	42,686,061
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 428,307,673	$ 405,194,000

See accompanying notes to the consolidated financial statements.

MERCER COUNTY STATE BANCORP, INC.
CONSOLIDATED STATEMENT OF INCOME

	Year Ended December 31, 2019	Year Ended December 31, 2018
INTEREST AND DIVIDEND INCOME		
Interest and fees on loans	$ 13,383,196	$ 12,253,168
Interest and dividends on investment securities:		
Taxable	2,167,790	2,069,126
Exempt from federal income tax	1,300,434	1,356,405
Total interest and dividend income	16,851,420	15,678,699
INTEREST EXPENSE		
Deposits	2,620,008	1,995,232
Short-term borrowings	15,391	93,917
Other borrowed funds	568,163	493,466
Total interest expense	3,203,562	2,582,615
NET INTEREST INCOME	13,647,858	13,096,084
PROVISION FOR LOAN LOSSES	315,000	435,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	13,332,858	12,661,084
OTHER INCOME		
Service charges on deposit accounts	875,554	912,006
Investment securities gains (losses), net	7,634	(93,538)
Equity securities gains (losses), net	125,053	(39,431)
Gain on sale of loans	61,457	39,968
Earnings on bank-owned life insurance	251,262	248,133
Insurance commissions	78,865	187,615
Merchant exchange fees	649,360	663,947
Brokerage fees	413,350	239,021
Gain on sale of assets	163,093	-
Other income	504,585	484,592
Total other income	3,130,213	2,642,313
OTHER EXPENSE		
Salaries and employee benefits	6,858,529	6,721,068
Occupancy expense	808,748	791,459
Equipment expense	708,047	741,760
Professional fees	505,234	434,353
Data processing	476,890	447,811
Pennsylvania shares tax	331,054	325,253
Federal insurance expense	24,253	117,681
Other expense	2,245,045	1,821,578
Total other expense	11,957,800	11,400,963
Income before income taxes	4,505,271	3,902,434
Income tax expense	611,453	463,999
NET INCOME	$ 3,893,818	$ 3,438,435
EARNINGS PER SHARE	3.68	3.19
AVERAGE SHARES OUTSTANDING	$ 1,058,305	$ 1,076,615

See accompanying notes to the consolidated financial statements.

MERCER COUNTY STATE BANCORP, INC.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year Ended December 31,	
	2019	**2018**
Net income	$ 3,893,818	$ 3,438,435
Other comprehensive income (loss):		
Unrealized holding gains (losses) on available-for-sale securities	4,292,227	(2,023,060)
Tax effect	(901,368)	424,843
Reclassification adjustment for investment securities (gains) losses, net	(7,634)	93,538
Tax effect	1,603	(19,643)
Total other comprehensive income (loss)	3,384,828	(1,524,322)
Total comprehensive income	$ 7,278,646	$ 1,914,113

See accompanying notes to the consolidated financial statements.

MERCER COUNTY STATE BANCORP, INC.
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interest	Total Stockholders' Equity
Balance, December 31, 2017	$ 218,810	$ 2,099,806	$ 41,086,402	$ (242,575)	$ (346,305)	$ 18,334	$ 42,834,472
Repurchase of noncontrolling interest					(18,334)	(18,334)	
Net income			3 ,438,435				3,438,435
Other comprehensive loss					(1,524,322)		(1,524,322)
Reclassification effects of certain income tax effects from adoption of ASU 2018-02			68,210		(68,210)		-
Reclassification effects of equity securities from adoption of ASU 2016-01			218,396		(218,396)		-
Treasury stock purchase (21,525 shares)				(925,575)			(925,575)
Cash dividends declared ($1.04 per share)			(1,118,615)				(1,118,615)
Balance, December 31, 2018	218,810	2,099,806	43,692,828	(1,168,150)	(2,157,233)	$ -	42,686,061
Net income			3,893,818				3,893,818
Other comprehensive income					3,384,828		3,384,828
Treasury stock purchase (5,322 shares)				(239,490)			(239,490)
Cash dividends declared ($1.08 per share)			(1,141,868)				(1,141,868)
Balance, December 31, 2019	$ 218,810	$ 2,099,806	$ 46,444,778	$ (1,407,640)	$ 1,227,595	$ -	$ 48,583,349

See accompanying notes to the consolidated financial statements.

MERCER COUNTY STATE BANCORP, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended December 31, 2019	2018
OPERATING ACTIVITIES		
Net income	$ 3,893,818	$ 3,438,435
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization, and accretion	984,380	1,013,518
Investment securities (gains) losses, net	(7,634)	93,538
Equity securities (gains) losses, net	(125,053)	39,431
Gain on sale of assets	(163,093)	-
Provision for loan losses	315,000	435,000
Gain on sale of loans	(61,457)	(39,968)
Proceeds from the sale of loans held for sale	3,211,225	3,683,576
Originations of loans held for sale	(3,149,768)	(3,643,608)
Deferred income taxes	10,349	(34,433)
Earnings on bank-owned life insurance	(251,262)	(248,133)
Gain on sale of other real estate owned	(25,290)	(70,444)
Increase in accrued interest receivable	(170,622)	(109,027)
Increase in accrued interest payable	43,767	39,268
Other, net	481,346	254,138
Net cash provided by operating activities	4,985,706	4,851,291
INVESTING ACTIVITIES		
Investment securities available for sale:		
Proceeds from sales	5,437,360	14,720,620
Proceeds from calls	5,920,000	3,225,000
Proceeds from maturities or repayments	14,227,021	23,418,543
Purchases	(33,506,424)	(32,314,981)
Purchase of equity securities	(466,402)	-
Increase in loans, net	(14,120,925)	(16,363,664)
Prodeeds from sale of assets	427,451	-
Purchases of premises and equipment	(309,871)	(513,402)
Purchase of regulatory stock	(5,932,500)	(2,795,000)
Redemption of regulatory stock	5,951,900	2,946,000
Proceeds from sale of other real estate owned	208,290	362,073
Capital improvements to other real estate owned	(38,000)	-
Net cash used for investing activities	(22,202,100)	(7,314,811)
FINANCING ACTIVITIES		
Net increase in deposits	14,932,591	8,843,753
Increase in short-term borrowings, net	1,500,000	-
Proceeds from other borrowed funds	5,000,000	5,000,000
Repayment of other borrowed funds	(5,044,403)	(7,543,390)
Purchase of treasury stock	(239,490)	(925,575)
Cash dividends paid	(1,127,316)	(1,104,464)
Net cash provided by financing activities	15,021,382	4,270,324
(Decrease) increase in cash and cash equivalents	(2,195,012)	1,806,804
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	11,149,009	9,342,205
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 8,953,997	$ 11,149,009

See accompanying notes to the consolidated financial statements.

MERCER COUNTY STATE BANCORP, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations and Basis of Presentation

The consolidated financial statements include the accounts of Mercer County State Bancorp, Inc. (the "Company") and its wholly owned subsidiary, Mercer County State Bank (the "Bank"), and its subsidiaries MCSB Insurance Services, LLC and McQuiston Insurance, Inc. All intercompany transactions have been eliminated in consolidation.

In April 2018, the Bank entered into an Asset Purchase Agreement (the Agreement) whereby certain assets of McQuiston Insurance, Inc. were sold to a third party. The sale price was contingent on the occurrence of specific events and was concluded in the third quarter of 2019.

The Company is a Pennsylvania corporation organized to become the holding company of the Bank. The Bank is a state-chartered bank headquartered in Sandy Lake, Pennsylvania. The Company's principal sources of revenues emanate from its investment securities and portfolio of residential real estate, commercial mortgage, commercial, and consumer loans, as well as a variety of deposit services provided to its customers through 11 full-service locations and one limited service location. The Company is supervised by the Board of Governors of the Federal Reserve System, while the Bank is subject to regulation and supervision by the Federal Deposit Insurance Corporation and the Pennsylvania Department of Banking.

The consolidated financial statements have been prepared in conformity with United States of America generally accepted accounting principles. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the Consolidated Balance Sheet date and reported amounts of revenues and expenses for the period. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan loss, deferred tax assets, and other-than-temporary impairment of securities.

Noncontrolling Interest

In April 2015, the Company entered into a contract (the Agreement) with a third party (the Contractor), whereby the Contractor would assist in the operations of the Company's subsidiary, McQuiston Insurance, Inc. (McQuiston). According to the terms of the Agreement, the Contractor could obtain partial ownership of McQuiston through growth of insurance commissions earned. In early 2017, the Contractor was awarded 5 percent ownership of McQuiston as a result of growth experienced in 2016. The Company notified the Contractor that the Agreement for assistance with operation of McQuiston Insurance, Inc. was being terminated effective January 31, 2018. In February 2018, the Company elected to repurchase the 5 percent ownership.

Investment Securities Available for Sale

The Company has classified investment securities as available for sale to serve principally as a source of liquidity. Unrealized holding gains and losses for available-for-sale securities are reported as a separate component of stockholders' equity, net of tax, until realized. Realized security gains and losses are computed using the specific identification method. Amortization of premiums and accretion of discounts are computed using the level yield method and recognized as an adjustment to interest income. Interest and dividends on investment securities are recognized as income when earned on the accrual method.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment Securities Available for Sale (Continued)

the security before recovery of the security's amortized cost basis, the charge to earnings is limited to the amount of credit loss. Any remaining difference between fair value and amortized cost (the difference defined as the non-credit portion) is recognized in other comprehensive income (loss), net of applicable taxes. Otherwise, the entire difference between fair value and amortized cost is charged to earnings.

Equity Securities

Equity securities are held at fair value. Holding gains and losses are recorded in other income. Dividends on equity securities are recognized as income when earned.

Loans Held for Sale

Loans originated and intended for sale in the secondary market are carried at the lower of cost or fair value in aggregate. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income. There were no loans held for sale as of December 31, 2019 or 2018.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff generally are reported at their principal amount net of the allowance for loan losses. Interest on loans is recognized as income when earned on the accrual method. The accrual of interest is discontinued on a loan when management believes, after considering economic and business conditions, the borrower's financial condition is such that collection of interest is doubtful. Interest payments received on nonaccrual loans are recorded as income or applied against principal according to management's judgment as to the collectability of such principal.

Loan origination fees are being deferred and the net amount amortized as an adjustment of the related loan's yield. Management is amortizing these amounts over the contractual life of the related loans using the interest method.

In general, fixed rate, conforming permanent residential mortgage loans with original maturities greater than 15 years originated by the Bank are held for sale and are carried in the aggregate at the lower of cost or market. Such loans are sold to the FHLB and serviced by the Bank.

Regulatory Stock

Common stock of the Federal Home Loan Bank of Pittsburgh (FHLB) and Atlantic Community Bancshares, Inc. (ACB) represents ownership in institutions that are wholly owned by other financial institutions. These equity securities are accounted for at cost and are classified as other assets.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Loan Losses

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

Impaired loans are commercial, agricultural, agricultural real estate, and commercial real estate loans for which it is probable that the Company will not be able to collect all amounts due according to the contractual terms of the loan agreement. Impaired loans also include all troubled debt restructurings. The Company individually evaluates such loans for impairment and does not aggregate loans by major risk classifications. The definition of "impaired loans" is not the same as the definition of "nonaccrual loans," although the two categories overlap. The Company may choose to place a loan on nonaccrual status due to payment delinquency or uncertain collectability, while not classifying the loan as impaired if the loan is not a commercial, agricultural, agricultural real estate, or commercial real estate loan. Factors considered by management in determining impairment include payment status and collateral value. The amount of impairment for these types of impaired loans is determined by the difference between the present value of the expected cash flows related to the loan, using the original interest rate, and its recorded value, or as a practical expedient in the case of collateralized loans, the difference between the fair value of the collateral, less estimated selling costs, and the recorded amount of the loans. When foreclosure is probable, impairment is measured based on the fair value of the collateral.

Mortgage loans on one-to-four family properties and all consumer loans are large groups of smaller-balance homogeneous loans and are measured for impairment collectively. Loans that experience insignificant payment delays, which are defined as 90 days or less, generally are not classified as impaired unless they are a troubled debt restructuring or part of an impaired commercial relationship. Management determines the significance of payment delays on a case-by-case basis, taking into consideration all circumstances surrounding the loan and the borrower including the length of the delay, the borrower's prior payment record, and the amount of shortfall in relation to the principal and interest owed.

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

Bank-Owned Life Insurance (BOLI)

The Bank has purchased life insurance policies on certain key employees. BOLI is recorded at its cash surrender value, or the amount that can be realized. Any increases in the cash surrender value are recorded as other income.

Premises and Equipment

Land is carried at cost. Premises and equipment are stated at cost, less accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful lives of the related assets, which range from 3 to 10 years for furniture, fixtures, and equipment and 25 to 50 years for buildings and improvements. Expenditures for maintenance and repairs are charged against income as incurred. Costs of major additions and improvements are capitalized.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

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

Mortgage Servicing Rights (MSRs)

The Company has agreements for the express purpose of selling loans in the secondary market. The Company maintains all servicing rights for these loans. Originated MSRs are recorded by allocating total costs incurred between the loan and servicing rights based on their relative fair values. MSRs are amortized in proportion to the estimated servicing income over the estimated life of the servicing portfolio. Impairment is evaluated based on the fair value of the right, based on portfolio interest rates and prepayment characteristics. MSRs are a component of other assets on the Consolidated Balance Sheet.

Goodwill

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

Earnings Per Share

The Company maintains a simple capital structure; therefore, there are no dilutive effects on earnings per share. As such, earnings per share are calculated using the weighted-average number of shares outstanding for the periods. Treasury shares are not deemed outstanding for earnings-per-share calculations.

Comprehensive Income

The Company is required to present comprehensive income in a full set of general-purpose financial statements for all periods presented. Other comprehensive income (loss) comprises unrealized holding gains (losses) on the available-for-sale securities portfolio.

Cash Flow Information

The Company has defined cash and cash equivalents as those amounts included in the balance sheet captions "Cash and due from banks" and "Interest-bearing deposits," with original maturities of 90 days or less.

Cash payments for interest in 2019 and 2018 were $3,159,795 and $2,543,347, respectively. The Company made income tax payments of $760,000 and $325,000 in 2019 and 2018, respectively. Noncash investing activities consisted of loans transferred to other real estate owned of $0 and $329,629 in 2019 and 2018, respectively. In 2019 and 2018, dividends of $570,398 and $555,846, respectively, were declared but not paid until the following year.

Other Real Estate Owned

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

Advertising Costs

Advertising costs are expensed as the costs are incurred. Advertising expense amounted to $206,201 and $218,000 for 2019 and 2018, respectively.

Reclassification of Comparative Amounts

Certain comparative amounts for the prior year have been reclassified to conform to current-year presentation. Such reclassifications did not affect net income or stockholders' equity.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

On January 1, 2019, the Company adopted ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, and all subsequent ASUs that modified Topic 606.

Topic 606 does not apply to revenue associated with financial instruments, including revenue from loans and securities. In addition, certain noninterest income streams, such as fees associated with mortgage servicing rights, financial guarantees, and earnings on bank-owned life insurance, are also not in scope of the new guidance. Topic 606 is applicable to noninterest revenue streams, such as deposit-related fees, interchange fees, merchant income, and insurance commissions. However, the recognition of these revenue streams did not change significantly upon adoption of Topic 606. Substantially, all of the Company's revenue is generated from contracts with customers. Noninterest revenue streams in scope of Topic 606 are discussed below.

Service Charges

Service charges on deposit accounts consist of overdraft charges, monthly service fees, check orders, and other deposit account related fees. The Bank's performance obligation for monthly service fees is generally satisfied, and the related revenue recognized, over the period in which the service is provided. Check orders and other deposit account related fees are largely transactional-based, and, therefore, the Bank's performance obligation is satisfied, and related revenue recognized, at a point in time. Payment for service charges on deposit accounts is primarily received immediately, or in the following month, through a direct charge to customers' accounts.

Debit Card Network Fees

The Bank earns interchange fees from debit cardholder transactions conducted primarily through the Mastercard payment network. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, net of card network fees, concurrently with the transaction processing services provided to the cardholder.

Insurance Commissions

Insurance commissions represent fees earned upon the payment by a customer for an insurance policy. Commissions are recognized when received by the Company, generally in the month following payment by the customer.

Gain on sale of Other Real Estate Owned (OREO)

The Bank records a gain or loss from the sale of OREO when control of the property transfers to the buyer, which generally occurs at the time of delivery of an executed deed. When the Bank finances the sale of OREO to the buyer, management assesses whether the buyer is committed to perform the buyer's obligation under the contract and whether collectability of the transaction price is probable. Once these criteria are met, the OREO asset is derecognized and the gain or loss on sale is recorded upon the transfer of control of the property to the buyer. In determining the gain or loss on the sale, the Bank adjusts the transaction price and related gain (loss) on sale if a significant financing component is present.

2. INVESTMENT SECURITIES AVAILABLE FOR SALE

The amortized cost, gross unrealized gains and losses, and fair value of investment securities available for sale at December 31 are summarized as follows:

	2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government agency securities	$ 13,758,332	$ 19,220	$ (45,600)	$ 13,731,952
Obligations of states and political subdivisions	39,214,869	1,147,707	-	40,362,576
Mortgage-backed securities in government-sponsored entities	73,992,418	908,242	(143,586)	74,757,074
Trust-preferred securities in financial institutions	1,739,216	-	(332,066)	1,407,150
Total debt securities	$ 128,704,835	$ 2,075,169	$ (521,252)	$ 130,258,752

	2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government agency securities	$ 9,772,292	$ 975	$ (362,167)	$ 9,411,100
Obligations of states and political subdivisions	40,733,015	242,800	(617,638)	40,358,177
Mortgage-backed securities in government-sponsored entities	69,009,132	51,240	(1,758,308)	67,302,064
Trust-preferred securities in financial institutions	1,768,751	-	(287,578)	1,481,173
Total debt securities	$ 121,283,190	$ 295,015	$ (3,025,691)	$ 118,552,514

Equity Securities

At December 31, 2017, the Company had $581,580 in equity securities recorded at fair value. Prior to January 1, 2018, equity securities were stated at fair value, with unrealized gains and losses reported in accumulated other comprehensive income (loss), net of tax. At December 31, 2017, net unrealized gains of $218,396 had been recognized in accumulated other comprehensive loss. On January 1, 2018, these unrealized gains and losses were reclassified out of accumulated other comprehensive loss and into retained earnings, with subsequent changes in fair value being recognized on the consolidated statement of income. The following summary of realized and unrealized gains and losses recognized in net income for equity securities during 2019 and 2018 were as follows:

	2019	2018
Net gains (losses) recognized during the period on equity securities	$ 125,053	$ (39,431)
Less: Net gains (losses) recognized during the period on equity securities sold during the period	-	-
Net gains (losses), from change in fair value of equity securities still held at the reporting date	$ 125,053	$ (39,431)

2. INVESTMENT SECURITIES AVAILABLE FOR SALE (Continued)

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

	2019					
	Less than Twelve Months		Twelve Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. government agency securities	$ 10,153,892	$ (45,600)	$ -	$ -	$ 10,153,892	$ (45,600)
Mortgage-backed securities in government-sponsored entities	16,481,647	(98,254)	4,458,774	(45,332)	20,940,420	(143,586)
Trust-preferred securities in financial institutions	-	-	1,407,150	(332,066)	1,407,150	(332,066)
Total debt securities	$ 26,635,539	$ (143,854)	$ 5,865,924	$ (377,398)	$ 32,501,462	$ (521,252)

	2018					
	Less than Twelve Months		Twelve Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. government agency securities	$ -	$ -	$ 8,412,149	$ (362,167)	$ 8,412,149	$ (362,167)
Obligations of states and political subdivisions	11,741,577	(147,670)	7,609,427	(469,968)	19,351,004	(617,638)
Mortgage-backed securities in government-sponsored entities	18,341,340	(169,180)	43,202,268	(1,589,128)	61,543,608	(1,758,308)
Trust-preferred securities in financial institutions	-	-	1,481,173	(287,578)	1,481,173	(287,578)
Total debt securities	$ 30,082,917	$ (316,850)	$ 60,705,017	$ (2,708,841)	$ 90,787,934	$ (3,025,691)

U.S. government agency securities. The unrealized losses on six investments in U.S. government obligations and direct obligations of U.S. government agencies were caused by interest rate increases. The contractual terms of these investments do not permit the issuer to settle the securities at a price less than the amortized cost basis of the investments. Because the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost basis, which may be maturity, the Company does not consider these investments to be other-than-temporarily impaired at December 31, 2019.

2. INVESTMENT SECURITIES AVAILABLE FOR SALE (Continued)

Mortgage-backed securities in government-sponsored entities. The unrealized losses on the Company's investment in 13 mortgage-backed securities were caused by interest rate increases. The contractual cash flows of these investments are guaranteed by an agency of the U.S. government. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost basis of the Company's investments. Because the decline in market value is attributable to changes in interest rate and not credit quality, and because the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost basis, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2019.

Trust-preferred securities in financial institutions. The Company's unrealized loss represents investment in one trust-preferred offering, with a fair value of $1,407,150. The unrealized loss on this security amounted to $332,066 at December 31, 2019. The unrealized loss is primarily the result of interest rate changes and not credit quality. Because the Company does not intend to sell the investment and it is not more likely than not that the Company will be required to sell the investment before recovery of the amortized cost basis, which may be maturity, it does not consider this investment to be other-than-temporarily impaired at December 31, 2019.

The amortized cost and fair value of debt securities available for sale at December 31, 2019, by contractual maturity, are shown below. The Company's mortgage-backed securities have contractual maturities ranging from 10 to 32 years. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
Due after one year through five years	$ 3,558,840	$ 3,548,420
Due after five years through ten years	10,981,468	11,028,732
Due after ten years	114,164,527	115,681,600
Total	$ 128,704,835	$ 130,258,752

Proceeds from sales of investment securities available for sale during 2019 and 2018 and the related gross gains and losses realized were as follows:

	2019	2018
Proceeds from sales	$ 5,437,360	$ 14,720,620
Gross gains	29,280	94,892
Gross losses	(21,646)	(188,430)

Investment securities with a carrying value of $40,622,560 and $35,589,655 at December 31, 2019 and 2018, respectively, were pledged to secure public deposits and other purposes as required by law.

3. LOANS

Major classifications of loans are summarized as follows at December 31:

	2019	2018
Real estate:		
Commercial	$ 91,334,865	$ 82,803,831
Agricultural	20,407,753	21,134,857
Residential	113,166,348	107,648,478
Commercial and industrial	30,336,208	29,248,144
Agricultural	6,680,421	6,731,606
Consumer	3,780,147	4,026,937
	265,705,742	251,593,853
Less allowance for loan losses	3,174,668	2,872,526
Net loans	$ 262,531,074	$ 248,721,327

Real estate loans serviced for the FHLB that are not included in the Consolidated Balance Sheet totaled $39,174,794 and $41,180,877 at December 31, 2019 and 2018, respectively.

The Company's primary business activity is with customers located within its identified area. Although the Bank had a diversified loan portfolio at December 31, 2019 and 2018, loans outstanding to individuals and businesses are dependent upon economic conditions in its primary market area.

4. ALLOWANCE FOR LOAN LOSSES

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

- Changes in lending policies and procedures
- Changes in economic and business conditions
- Changes in nature and volume of the loan portfolio
- Changes in lending staff experience and ability
- Changes in past-due loans, nonaccrual loans, and classified loans
- Levels of credit concentrations

These qualitative factors are reviewed each quarter and adjusted based upon relevant changes within the Company's operating environment. During 2019, the factors related to commercial real estate loans, residential real estate loans, commercial and industrial loans, agricultural real estate, agricultural, and consumer loans all remained the same.

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

4. ALLOWANCE FOR LOAN LOSSES (Continued)

The following tables present, by portfolio segment, the changes in the allowance for loan losses and the recorded investment in loans as of and for the years ended December 31, 2019 and 2018. Allocation of a portion of the allowance to one segment does not preclude its availability to absorb losses in other segments.

2019	Commercial Real Estate	Agricultural Real Estate	Residential Real Estate	Commercial and Industrial	Agricultural	Consumer	Unallocated	Total
Allowance for loan losses:								
Beginning balance	$ 723,000	$ 224,000	$ 635,000	$ 409,000	$ 825,000	$ 52,000	$ 4,526	$ 2,872,526
Charge-offs	(21,649)	(1,094)	-	(11,490)	-	(39,566)	-	(73,799)
Recoveries	5,682	-	446	42,432	-	12,381	-	60,941
Provision	20,967	23,094	22,554	17,058	55,000	19,185	(157,142)	315,000
Ending balance	$ 728,000	$ 246,000	$ 658,000	$ 457,000	$ 880,000	$ 44,000	$ 161,668	$ 3,174,668
Ending balance individually evaluated for impairment	$ 24,921	$ 105,461	$ 25,153	$ 233,536	$ 841,082	$ 3,455	$ -	$ 1,233,608
Ending balance collectively evaluated for impairment	$ 703,079	$ 140,539	$ 632,847	$ 223,464	$ 38,918	$ 40,545	$ 161,668	$ 1,941,060
Loans:								
Individually evaluated for impairment	$ 6,007,580	$ 2,453,240	$ 48,857	$ 947,535	$ 1,471,582	$ 12,255	$ -	$ 10,941,049
Collectively evaluated for impairment	85,327,285	17,954,513	113,117,491	29,388,673	5,208,839	3,767,892	-	254,764,693
Ending balance	$ 91,334,865	$ 20,407,753	$113,166,348	$ 30,336,208	$ 6,680,421	$ 3,780,147	$ -	$ 265,705,742

2018	Commercial Real Estate	Agricultural Real Estate	Residential Real Estate	Commercial and Industrial	Agricultural	Consumer	Unallocated	Total
Allowance for loan losses:								
Beginning balance	$ 644,000	$ 227,000	$ 589,000	$ 421,000	$ 442,000	$ 47,000	$ 216,997	$ 2,586,997
Charge-offs	(10,917)	-	-	(108,291)	-	(48,492)	-	(167,700)
Recoveries	5,267	-	-	1,515	-	11,447	-	18,229
Provision	84,650	(3,000)	46,000	94,776	383,000	42,045	(212,471)	435,000
Ending balance	$ 723,000	$ 224,000	$ 635,000	$ 409,000	$ 825,000	$ 52,000	$ 4,526	$ 2,872,526
Ending balance individually evaluated for impairment	$ 167,410	$ 83,271	$ -	$ 26,212	$ 75,585	$ -	$ -	$ 1,052,478
Ending balance collectively evaluated for impairment	$ 555,590	$ 140,729	$ 635,000	$ 382,788	$ 49,415	$ 52,000	$ 4,526	$ 1,820,048
Loans:								
Individually evaluated for impairment	$ 2,357,690	$ 1,601,164	$ 278,537	$ 682,099	$ 1,313,887	$ -	$ -	$ 6,233,377
Collectively evaluated for impairment	80,446,141	19,533,693	107,369,941	28,566,045	5,417,719	4,026,937	-	245,360,476
Ending balance	$ 82,803,831	$ 21,134,857	$107,648,478	$ 29,248,144	$ 6,731,606	$ 4,026,937	$ -	$ 251,593,853

4. ALLOWANCE FOR LOAN LOSSES (Continued)

During 2019, the increase in the provision for the unallocated portion of the allowance was to rebuild the reserves for uncertainty in credit quality.

During 2018, the decrease in the provision for the unallocated portion of the allowance was to boost the agricultural sector due to the distress in the farm economy.

Credit Quality Information

The following table represents the commercial credit exposures by internally assigned grades for the years ended December 31, 2019 and 2018. The grading analysis estimates the capability of the borrower to repay the contractual obligations under the loan agreements as scheduled or at all. The Company's internal credit risk grading system is based on experiences with similarly graded loans.

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

The Company's internally assigned grades are as follows at December 31:

	2019				
	Commercial Real Estate	Agricultural Real Estate	Commercial and Industrial	Agricultural	Total
Pass	$ 85,239,838	$ 18,088,309	$ 28,780,582	$ 5 ,298,894	$ 137,407,623
Special Mention	5,855,046	-	666,435	1 ,723	6,523,204
Substandard	239,981	2,319,444	889,191	1 ,379,804	4,828,420
Doubtful	-	-	-	-	-
Loss	-	-	-	-	-
Total	$ 91,334,865	$ 20,407,753	$ 30,336,208	$ 6 ,680,421	$ 148,759,247

	2018				
	Commercial Real Estate	Agricultural Real Estate	Commercial and Industrial	Agricultural	Total
Pass	$ 80,715,134	$ 18,800,396	$ 27,748,380	$ 5,394,323	$ 132,658,233
Special Mention	2,025,023	2,334,461	172,079	1,328,698	5,860,261
Substandard	63,674	-	1,327,685	8 ,585	1,399,944
Doubtful	-	-	-	-	-
Loss	-	-	-	-	-
Total	$ 82,803,831	$ 21,134,857	$ 29,248,144	$ 6,731,606	$ 139,918,438

For residential real estate and consumer loans, the Company evaluates credit quality based on payment activity. Payment activity is reviewed by management on a monthly basis to determine how loans are performing. Loans are considered to be nonperforming when they become 90 days past due. The following tables present the balances of residential real estate and consumer loans based on payment performance as of December 31:

4. ALLOWANCE FOR LOAN LOSSES (Continued)

Credit Quality Information (Continued)

	2019		
	Residential Real Estate	Consumer	Total
Performing	$ 112,822,355	$ 3,730,710	$ 116,553,065
Nonperforming	343,993	49,437	393,430
Total	$ 113,166,348	$ 3,780,147	$ 116,946,495

	2018		
	Residential Real Estate	Consumer	Total
Performing	$ 107,521,211	$ 4,018,687	$ 111,539,898
Nonperforming	127,267	8,250	135,517
Total	$ 107,648,478	$ 4,026,937	$ 111,675,415

Age Analysis of Past-Due Loans by Class

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

	2019						
	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater	Total Past Due	Current	Total Loans	Recorded Investment 90 Days and Accruing
Commercial real estate	$ 337,502	$ 691,643	$ 3,133,520	$ 4,162,665	$ 87,172,200	$ 91,334,865	$ 3,037,346
Agricultural real estate	660,163	-	960,074	1,620,237	18,787,516	20,407,753	-
Residential real estate	1,618,503	301,748	343,993	2,264,244	110,902,104	113,166,348	123,339
Commercial and industrial	176,368	36,717	468,544	681,629	29,654,579	30,336,208	27,833
Agricultural	82,417	23,378	87,286	193,081	6,487,340	6,680,421	-
Consumer	51,132	34,642	49,437	135,211	3,644,936	3,780,147	-
Total	$ 2,926,085	$ 1,088,128	$ 5,042,854	$ 9,057,067	$ 256,648,675	$ 265,705,742	$ 3,188,518

	2018						
	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater	Total Past Due	Current	Total Loans	Recorded Investment 90 Days and Accruing
Commercial real estate	$ 475,419	$ 511,150	$ 306,136	$ 1,292,706	$ 81,511,125	$ 82,803,831	$ 233,907
Agricultural real estate	199,506	134,874	146,610	480,990	20,653,867	21,134,857	-
Residential real estate	1,235,368	205,794	127,267	1,568,429	106,080,049	107,648,478	22,325
Commercial and industrial	91,385	-	743,076	834,461	28,413,683	29,248,144	86,771
Agricultural	77,000	28,101	80,494	185,595	6,546,011	6,731,606	-
Consumer	77,600	6,448	8,250	92,298	3,934,639	4,026,937	-
Total	$ 2,156,278	$ 886,367	$ 1,411,833	$ 4,454,479	$ 247,139,374	$ 251,593,853	$ 343,003

4. ALLOWANCE FOR LOAN LOSSES (Continued)

Impaired Loans

Management typically considers commercial real estate loans, commercial and industrial loans, agricultural real estate loans, and agricultural loans that are 90 days or more past due to be impaired. After becoming 90 days or more past due, these loan relationships are measured for impairment. Impaired loans also include troubled debt restructurings. These loans are analyzed to determine if it is probable that all amounts will not be collected according to the contractual terms of the loan agreement. If management determines that the fair value of the impaired loan is less than the recorded investment in the loan (net of previous charge-offs, deferred loan fees or costs, and unamortized premium or discount), impairment is recognized through a provision or through a charge to the allowance for loan losses.

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

2019	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial real estate	$ 5,982,659	$ 5,982,659	$ -	$ 3,054,310	$ 176,379
Agricultural real estate	433,736	433,736	-	428,810	24,517
Residential real estate	-	-	-	-	-
Commercial and industrial	-	-	-	-	-
Agricultural	-	-	-	-	-
Consumer	-	-	-	-	-
	6,416,395	6,416,395	-	3,483,120	200,896
With an allowance recorded:					
Commercial real estate	$ 24,921	$ 24,921	$ 24,921	$ 26,921	$ 681
Agricultural real estate	2,019,504	2,019,504	105,461	1,926,008	98,296
Residential real estate	48,857	48,857	25,153	49,349	-
Commercial and industrial	947,535	947,535	233,536	1,152,183	28,508
Agricultural	1,471,582	1,471,582	841,082	1,455,935	69,999
Consumer	12,255	12,255	3,455	10,495	739
	4,524,654	4,524,654	1,233,608	4,620,891	198,223
Total:					
Commercial real estate	$ 6,007,580	$ 6,007,580	$ 24,921	$ 3,081,231	$ 177,060
Agricultural real estate	2,453,240	2,453,240	105,461	2,354,818	122,813
Residential real estate	48,857	48,857	25,153	49,349	-
Commercial and industrial	947,535	947,535	233,536	1,152,183	28,508
Agricultural	1,471,582	1,471,582	841,082	1,455,935	69,999
Consumer	12,255	12,255	3,455	10,495	739
	$ 10,941,049	$ 10,941,049	$ 1,233,608	$ 8,104,011	$ 399,119

4. ALLOWANCE FOR LOAN LOSSES (Continued)

Impaired Loans (Continued)

2018					
With no related allowance recorded:	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Commercial real estate	$ 1,817,904	$ 1,817,904	$ -	$ 1,867,999	$ 102,121
Agricultural real estate	1,303,581	1,303,581	-	1,429,040	90,016
Residential real estate	278,537	278,537	-	287,174	17,199
Commercial and industrial	655,887	655,887	-	900,712	78,640
Agricultural	-	-	-	-	-
Consumer	-	-	-	-	-
	4,055,909	4,055,909	-	4,484,925	287,976
With an allowance recorded:					
Commercial real estate	$ 539,786	$ 539,786	$ 167,410	$ 476,005	$ 25,454
Agricultural real estate	297,583	297,583	83,271	299,357	14,972
Residential real estate	-	-	-	-	-
Commercial and industrial	26,212	26,212	26,212	21,337	2,174
Agricultural	1,313,887	1,313,887	775,585	1,320,836	65,637
Consumer	-	-	-	-	-
	2,177,468	2,177,468	1,052,478	2,117,535	108,237
Total:					
Commercial real estate	$ 2,357,690	$ 2,357,690	$ 167,410	$ 2,344,004	$ 127,575
Agricultural real estate	1,601,164	1,601,164	83,271	1,728,397	104,987
Residential real estate	278,537	278,537	-	287,174	17,199
Commercial and industrial	682,099	682,099	26,212	922,049	80,815
Agricultural	1,313,887	1,313,887	775,585	1,320,836	65,637
Consumer	-	-	-	-	-
Total	$ 6,233,377	$ 6,233,377	$ 1,052,478	$ 6,602,460	$ 396,213

Nonaccrual Loans

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

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

	2019	2018
Commercial real estate	$ 187,304	$ 162,097
Agricultural real estate	1,093,869	281,484
Residential real estate	410,422	150,544
Commercial and industrial	440,711	656,305
Agricultural	188,557	108,596
Consumer	116,464	45,975
Total	$ 2,437,327	$ 1,405,001

4. ALLOWANCE FOR LOAN LOSSES (Continued)

Troubled Debt Restructuring

In situations where, for economic or legal reasons related to a borrower's financial difficulties, management may grant a concession for other than an insignificant period of time to the borrower that would not otherwise be considered, the related loan is classified as a troubled debt restructuring. Management strives to identify borrowers in financial difficulty early and work with them to modify more affordable terms before their loan reaches nonaccrual status. These modified terms may include rate reductions, principal forgiveness, payment forbearance, and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. In cases where borrowers are granted new terms that provide for a reduction of either interest or principal, management measures any impairment on the restructuring by calculating the present value of the revised loan terms and comparing this balance to the Company's investment in the loan prior to the restructuring. As these loans are individually evaluated, they are excluded from pooled portfolios when calculating the allowance for loan and lease losses and a separate allocation within the allowance for loan and lease losses is provided. Management continually evaluates loans that are considered troubled debt restructurings, including payment history under the modified loan terms, the borrower's ability to continue to repay the loan based on continued evaluation of their operating results, and cash flows from operations. Based on this evaluation, management would no longer consider a loan to be a troubled debt restructuring when the relevant facts support such a conclusion.

The Company had troubled debt restructuring of $9,258,217 and $4,881,441 as of December 31, 2019 and 2018, respectively, with $962,264 and $290,925 specific reserves, respectively, allocated to customers whose loan terms have been modified in troubled debt restructuring. At December 31, 2019, $9,252,548 were performing in accordance with their modified terms. The remaining $5,669 were classified as nonaccrual.

There were no TDR approvals during 2018.

2019

	Number of Contracts	Pre-Modification Outstanding Recorded	Post-Modification Outstanding Recorded	December 31 Outstanding Recorded Investment
Troubled debt restructurings:				
Commercial real estate	1	$ 4,181,070	$ 4,181,070	$ 4,181,070
Agriculture real estate	1	299,940	299,940	299,940
	2	$ 4,481,010	$ 4,481,010	$ 4,481,010

5. PREMISES AND EQUIPMENT

Major classifications of premises and equipment are summarized as follows at December 31:

	2019	2018
Land	$ 2,706,591	$ 2,458,942
Buildings and building improvements	8,734,023	8,279,740
Furniture, fixtures, and equipment	1,949,975	5,225,688
Construction and equipment installation in progress	79,468	605,451
	13,470,057	16,569,821
Less accumulated depreciation	5,361,545	8,290,230
Total	$ 8,108,512	$ 8,279,591

Depreciation charged to operations was $480,171 and $461,927 in 2019 and 2018.

6. GOODWILL

At December 31, 2019 and 2018, goodwill had a net carrying amount of $1,952,291 and $2,233,980, respectively. The decrease in goodwill in 2019 of $281,689 was a result of the sale of the assets of McQuiston Insurance, Inc.

The gross carrying amount of goodwill is tested for impairment in the fourth quarter, after the annual forecasting process. There was no goodwill impairment loss recognized in 2019 and 2018.

7. DEPOSITS

The scheduled maturities of time deposits approximate the following:

Year Ending December 31,		Amount
2020	$	52,763,033
2021		33,027,023
2022		10,491,522
2023		9,066,116
2024		7,630,491
2025 and thereafter		21,058
	$	112,999,243

The aggregate of all time deposit accounts of $250,000 or more amounted to $14,220,224 and $8,886,933 at December 31, 2019 and 2018, respectively.

8. SHORT-TERM BORROWINGS

Short-term borrowings consist of an FHLB line of credit and short-term FHLB advances with original maturities less than a year; they are summarized as follows:

Short-term borrowings		2019		2018
Balance at year-end	$	1,500,000	$	-
Maximum amount outstanding at any month-end		6,250,000		15,100,000
Average balance outstanding during the year		624,509		5,384,429
Weighted-average interest rate:				
As of year-end		1.81 %		0.00 %
Paid during the year		2.46 %		1.37 %

The Company has a line of credit with the FHLB, with a borrowing limit of approximately $77.0 million. This credit line is subject to annual renewal, incurs no service charges, and is secured by a blanket security agreement on FHLB stock, investment securities held at the FHLB, and outstanding residential mortgage loans. At December 31, 2019, the Bank's maximum borrowing capacity with the FHLB was $153.5 million.

The Bank may request a Federal Reserve advance secured by acceptable collateral. The Bank's maximum borrowing capacity with the Federal Reserve Bank as of December 31, 2019, was $2.7 million.

The Bank also maintains a $5.0 million federal funds line of credit with one other financial institution. The Bank did not have outstanding borrowings related to this line of credit at December 31, 2019.

9. OTHER BORROWED FUNDS

Other borrowed funds consist of fixed advances from the FHLB as follows:

Maturity	Interest Rate	2019	2018
April 11, 2019	1.60 %	$ -	$ 2,500,000
July 22, 2019	1.98 %	-	2,500,000
July 22, 2020	1.98 %	5,000,000	5,000,000
February 5, 2021	1.70 %	2,500,000	2,500,000
October 19, 2021	1.96 %	2,500,000	2,500,000
April 19, 2022	2.06 %	2,500,000	2,500,000
October 20, 2022	2.19 %	2,500,000	2,500,000
March 27, 2023	2.86 %	2,500,000	2,500,000
September 27, 2023	2.92 %	2,500,000	2,500,000
April 16, 2024	2.52 %	2,500,000	-
June 27, 2024	2.09 %	2,500,000	-
May 26, 2027	2.31 %	363,354	407,757
Total	2.23 %	$ 25,363,354	$ 25,407,757

10. INCOME TAXES

The provision for federal income taxes at December 31 consists of:

	2019	2018
Currently payable	$ 601,104	$ 498,432
Deferred	10,349	(34,433)
Total provision	$ 611,453	$ 463,999

The tax effects of deductible and taxable differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31 are as follows:

	2019	2018
Deferred tax assets:		
Allowance for loan losses	$ 612,532	$ 549,083
Deferred loan origination fees, net	21,492	22,449
Board of Directors retirement plan	76,426	67,390
Net unrealized loss on securities	-	573,442
Other	-	30,870
Total deferred tax assets	710,450	1,243,234
Deferred tax liabilities:		
Premises and equipment	238,949	228,629
Goodwill	409,981	400,300
Net unrealized gain on equity securities	76,035	49,774
Investment discount accretion	7,091	2,346
Net unrealized gain on investment securities	326,323	-
Total deferred tax liabilities	1,058,379	681,049
Net deferred (liabilities) assets	$ (347,929)	$ 562,185

No valuation allowance was established against the deferred tax assets in view of the Bank's ability to carryback taxes paid in previous years and certain tax strategies and anticipated future taxable income, as evidenced by the Bank's earnings potential at December 31, 2019 and 2018.

10. INCOME TAXES (Continued)

The reconciliation between the federal statutory rate and the Company's effective consolidated income tax rate at December 31 is as follows:

	2019		2018	
	Amount	% of Pretax Income	Amount	% of Pretax Income
Computed at statutory rate	$ 946,107	21.0 %	$ 823,617	21.0 %
Tax-exempt income	(294,649)	(6.5)	(306,044)	(7.8)
Nondeductible interest to carry tax-exempt assets	12,957	0.3	11,729	0.3
Other	(52,962)	(1.3)	(65,303)	(1.6)
Income tax expense and effective rate	$ 611,453	13.5 %	$ 463,999	11.9 %

U.S. generally accepted accounting principles prescribe a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Benefits from tax positions should be recognized in the financial statements only when it is more likely than not that the tax position will be sustained upon examination by the appropriate taxing authority that would have full knowledge of all relevant information.

A tax position that meets the more-likely-than-not recognition threshold is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold should be derecognized in the first subsequent financial reporting period in which that threshold is no longer met. U.S. generally accepted accounting principles also provide guidance on the accounting for and disclosure of unrecognized tax benefits, interest, and penalties. In accordance with U.S. generally accepted accounting principles, interest or penalties incurred for income taxes will be recorded as a component of other expenses. There is currently no liability for uncertain tax positions and no known unrecognized tax benefits. The Company recognizes, when applicable, interest and penalties related to unrecognized tax benefits in the provision for income taxes in the Consolidated Statement of Income. The Company's federal and state income tax returns for taxable years through 2015 have been closed for purposes of examination by the Internal Revenue Service and the Pennsylvania Department of Revenue.

11. COMMITMENTS AND CONTINGENT LIABILITIES

In the normal course of business, there are various outstanding commitments and contingent liabilities that are not reflected in the accompanying consolidated financial statements. 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. Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. These commitments comprise the following at December 31:

	2019	2018
Commitments to extend credit	$ 53,436,000	$ 46,407,000
Standby letters of credit and financial guarantees	2,368,000	1,804,000
Total	$ 55,804,000	$ 48,211,000

11. COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the Consolidated Balance Sheet. The Company's exposure to credit loss, in the event of nonperformance by the other parties to the financial instruments, is represented by the contractual amounts as disclosed. The Company minimizes its exposure to credit loss under these commitments by subjecting them to credit approval and review procedures and collateral requirements as deemed necessary. Commitments generally have fixed expiration dates within one year of their origination.

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

12. EMPLOYEE BENEFITS

Defined Contribution Plan

The Bank maintains a defined contribution plan that covers all full-time employees with one year or more of completed service. The participants are also permitted to contribute to the plan up to the maximum amount permitted by law. Employee contributions are vested at all times, and the Bank's contributions are fully vested after six years. Contributions by the Bank for 2019 and 2018 amounted to $507,201 and $493,256, respectively.

Deferred Compensation Agreements

The Bank entered into deferred compensation agreements with several key management employees, all of whom are officers. Under the agreements, the Bank is obligated to provide for each employee's beneficiaries, at the time of the employee's death, benefits totaling $3,165,830 and $3,115,418 at December 31, 2019 and 2018, respectively. The Bank is the beneficiary of life insurance policies with a cash surrender value at December 31, 2019 and 2018, of $9,822,931 and $9,571,669, respectively that have been purchased as a method of financing benefits under this plan.

Board of Directors Retirement Plan

The Bank maintains a Board of Directors Retirement Plan to provide postretirement payments over a five-year period to members of the Board of Directors who have completed ten or more years of service. Benefit payments cease upon the director's death. Expenses for each of the years ended December 31, 2019 and 2018, amounted to $43,028 and $40,561, respectively, and are included as a component of other operating expenses.

	2019	2018
Net periodic cost:		
Service cost	$ 28,574	$ 27,373
Interest cost	14,454	13,188
Net periodic cost	$ 43,028	$ 40,561

12. EMPLOYEE BENEFITS (Continued)

Board of Directors Retirement Plan (Continued)

The following table presents a reconciliation of prior and ending balances of the projected benefit obligation for the years ended December 31, 2019 and 2018:

	2019	2018
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 320,903	$ 280,342
Service cost	28,574	27,373
Interest cost	14,454	13,188
Benefit obligation at end of year and accrued status	$ 363,931	$ 320,903

The discount rate used to determine benefit obligations at the measurement dates was 3.87 percent and 3.96 percent for the periods ended December 31, 2019 and 2018.

At December 31, 2019, the projected benefit payments for the Board of Directors Retirement Plan are anticipated to be $1,027,662, with payments ranging from January 1, 2021, through December 31, 2039.

13. REGULATORY RESTRICTIONS

Dividend Restriction

The Pennsylvania Banking Code restricts the availability of capital surplus for dividend purposes. At December 31, 2019, the Bank had a capital surplus of $2,287,145, which was not available for distribution to the Company as dividends.

Loans

Federal law prevents the Company from borrowing from the Bank unless the loans are secured by specific obligations. Further, such secured loans are limited in amount to 10 percent of the Bank's capital. No such loans existed at December 31, 2019 and 2018.

Cash and Due from Banks

Included in "Cash and due from banks" are required federal reserves of $5,302,000 and $3,973,000 at December 31, 2019 and 2018, respectively, for facilitating the implementation of monetary policy by the Federal Reserve System. The required reserves are computed by applying prescribed ratios to the classes of average deposit balances. These are held in the form of cash on hand.

14. REGULATORY CAPITAL REQUIREMENTS

Federal regulations require the Company to maintain minimum amounts of capital. Specifically, the Company and the Bank are required to maintain minimum amounts and ratios of total and Tier 1 capital to risk-weighted assets, and of Tier 1 capital to average total assets. Management believes, as of December 31, 2019, that the Company and the Bank meet all capital adequacy requirements to which they are subject.

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

As of December 31, 2019 and 2018, the FDIC categorized the Company and the Bank as well capitalized under the regulatory framework for prompt corrective action. To be classified as a well-capitalized financial institution, total risk-based, Tier 1 risk-based, common equity Tier 1 risk-based capital, and Tier 1 leverage capital ratios must be at least 10 percent, 8 percent, 6.5 percent, and 5 percent, respectively.

The following table reflects the Company's capital ratios and minimum requirements at December 31. The Bank's capital ratios are substantially the same as the Company's capital ratios.

	2019		2018	
	Amount	Ratio	Amount	Ratio
Total capital (to risk-weighted assets)				
Actual	$ 48,586,565	18.21 %	$ 45,481,840	17.57 %
For capital adequacy purposes	21,340,640	8.00	20,712,080	8.00
To be well capitalized	26,675,800	10.00	25,890,100	10.00
Tier 1 capital (to risk-weighted assets)				
Actual	$ 45,411,897	17.02 %	$ 42,609,314	16.46 %
For capital adequacy purposes	16,005,480	6.00	15,534,060	6.00
To be well capitalized	21,340,640	8.00	20,712,080	8.00
Common equity Tier 1 capital (to risk-weighted assets)				
Actual	$ 45,411,897	17.02 %	$ 42,609,314	16.46 %
For capital adequacy purposes	12,004,110	4.50	11,650,545	4.50
To be well capitalized	17,339,270	6.50	16,828,565	6.50
Tier 1 capital (to average assets)				
Actual	$ 45,411,897	10.51 %	$ 42,609,314	10.66 %
For capital adequacy purposes	17,289,388	4.00	15,989,241	4.00
To be well capitalized	21,611,735	5.00	19,986,551	5.00

15. FAIR VALUE MEASUREMENTS

The following disclosures show the hierarchal disclosure framework associated with the level of pricing observations utilized in measuring assets and liabilities at fair value. The three broad levels defined by U.S. generally accepted accounting principles are as follows:

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

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

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

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

The following table presents the assets reported on the Consolidated Balance Sheet at their fair value as of December 31, 2019 and 2018, by level within the fair value hierarchy. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	December 31, 2019			
Assets:	**Level I**	**Level II**	**Level III**	**Total**
U.S. government agency securities	$ -	$ 13,731,952	$ -	$ 13,731,952
Obligations of states and political subdivisions	-	40,362,576	-	40,362,576
Mortgage-backed securities in government-sponsored entities	-	74,757,074	-	74,757,074
Trust-preferred securities	-	1,407,150	-	1,407,150
Equity securities in financial institutions	1,133,605	-	-	1,133,605
Total	$ 1,133,605	$ 130,258,752	$ -	$ 131,392,357

	December 31, 2018			
Assets:	**Level I**	**Level II**	**Level III**	**Total**
U.S. government agency securities	$ -	$ 9,411,100	$ -	$ 9,411,100
Obligations of states and political subdivisions	-	40,358,177	-	40,358,177
Mortgage-backed securities in government-sponsored entities	-	67,302,064	-	67,302,064
Trust-preferred securities	-	1,481,173	-	1,481,173
Equity securities in financial institutions	542,150	-	-	542,150
Total	$ 542,150	$ 118,552,514	$ -	$ 119,094,664

15. FAIR VALUE MEASUREMENTS (Continued)

The following table presents the assets measured on a nonrecurring basis on the Consolidated Balance Sheet at their fair value as of December 31, 2019 and 2018, by level within the fair value hierarchy. Impaired loans that are collateral-dependent are written down to fair value through the establishment of specific reserves. Techniques used to value the collateral that secures the impaired loan include quoted market prices for identical assets classified as Level I inputs and observable inputs, employed by certified appraisers, for similar assets classified as Level II inputs. In cases where valuation techniques included inputs that are unobservable and are based on estimates and assumptions developed by management based on the best information available under each circumstance, the asset valuation is classified as Level III inputs. Other real estate owned is measured at fair value, less cost to sell at the date of foreclosure. Valuations are periodically performed by management.

	December 31, 2019			
	Level I	Level II	Level III	Total
Assets measured on a nonrecurring basis:				
Impaired loans	$ -	$ -	$ 3,291,046	$ 3,291,046

	December 31, 2018			
	Level I	Level II	Level III	Total
Assets measured on a nonrecurring basis:				
Impaired loans	$ -	$ -	$ 1,124,990	$ 1,124,990
Other real estate owned	-	-	217,000	217,000

The unobservable inputs for Level III measurements are as follows:

2019

	Fair Value	Valuation Techniques	Unobservable Inputs	Range (Weighted Average)
Impaired loans	$ 3,291,046	Property appraisals	Management discount for property type and recent market volatility	0% to 100% discount (24.3%)

2018

	Fair Value	Valuation Techniques	Unobservable Inputs	Range (Weighted Average)
Impaired loans	$ 1,124,990	Property appraisals	Management discount for property type and recent market volatility	0% to 100% discount (25.5%)
Other real estate owned	217,000	Property appraisals	Management discount for property type and recent market volatility	0% discount

16. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following table presents the changes in accumulated other comprehensive income (loss) by component net of tax for the years ended December 31, 2019 and 2018:

		Net Unrealized Gains (Losses) on Investment Securities
Accumulated other comprehensive loss, January 1, 2018	$	(346,305)
Other comprehensive loss before reclassification		(1,598,217)
Amount reclassified from accumulated other comprehensive loss		73,895
Total other comprehensive loss		(1,524,322)
Reclassification of certain income tax effects due to ASU 2018-02		(68,210)
Reclassification of certain income tax effects due to ASU 2016-01		(218,396)
Accumulated other comprehensive loss, December 31, 2018		(2,157,233)
Other comprehensive income before reclassification		3,390,859
Amount reclassified from accumulated other comprehensive income		(6,031)
Total other comprehensive income		3,384,828
Accumulated other comprehensive income, December 31, 2019	$	1,227,595

The following table presents significant amounts reclassified out of accumulated other comprehensive loss for the years ended December 31, 2019 and 2018:

2019		Amount Reclassified from Accumulated Other Comprehensive Income (Loss)	
Details about other comprehensive income:			
Unrealized gains on securities	$	7,634	Investment securities gains (losses), net
		(1,603)	Income tax expense
	$	6,031	

2018		Amount Reclassified from Accumulated Other Comprehensive Income (Loss)	
Details about other comprehensive loss:			
Unrealized losses on securities	$	(93,538)	Investment securities gains (losses), net
		19,643	Income tax expense
	$	(73,895)	

17. SUBSEQUENT EVENTS

The Company assessed events occurring subsequent to December 31, 2019, through March 23, 2020, for potential recognition and disclosure in the consolidated financial statements. No other events have occurred that would require adjustment to or disclosure in the consolidated financial statements.

All events subsequent to the date of the consolidated financial statements, and for which U.S. GAAP requires adjustment or disclosure, have been adjusted or disclosed, including that the 2019 novel coronavirus (or COVID-19) has adversely affected, and may continue to adversely affect, economic activity globally, nationally, and locally. Following the COVID-19 outbreak in December 2019 and January 2020, market interest rates have declined significantly, with the ten-year treasury bond falling below 1.00 percent on March 3, 2020, for the first time. Such events also may adversely affect business and consumer confidence, generally, and the Company and its customers, and their respective suppliers, vendors, and processors may be adversely affected. On March 3, 2020, the Federal Open Market Committee reduced the target federal funds rate by 50 basis points to 1.00 percent to 1.25 percent. This rate was further reduced to 0 percent to 0.25 percent on March 16, 2020. The ultimate impact of these reductions in interest rates and other effects of the COVID-19 outbreak cannot be determined at this time; however, they may adversely affect the Company's financial condition and results of operations. The Company performs periodic stress testing and believes that it is well positioned to withstand the impact of the COVID-19 outbreak.