MERCER COUNTY STATE BANCORP, INC.

Subsidiary **MERCER COUNTY STATE BANK**

MCSB *Gives*

2021 Annual Report

Giving is not about making a donation...
It's about making a difference.

MERCER COUNTY STATE BANCORP, INC.

Subsidiary **MERCER COUNTY STATE BANK**

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MCSB

MERCER COUNTY STATE BANCORP, INC.

Subsidiary **MERCER COUNTY STATE BANK**

A Message from the President and CEO

To Our Shareholders and Friends:

I am happy to report to you that 2021 was a great year for Mercer County State Bancorp! We saw tremendous growth in deposits, assets, and net income. Deposits grew 20% and assets grew 16%. Net Income for the Company was up over one million dollars or 27% from 2020 which had been our best year ever. Loans had little growth but with most of the Paycheck Protection Loans being forgiven by year's end, it was an accomplishment to have loan growth. Much of this growth was fueled by the unprecedented stimulus bills passed by Congress to help cope with the Covid Pandemic. Through it all our employees have continued to provide the best service to our customers and make MCSB the place to bank in our communities!

During the past year we have been busy simplifying the checking accounts we offer in anticipation of a new marketing campaign to showcase the ease of banking with MCSB. This new campaign started in November and has been a great success so far. We have increased checking account openings by over 40% and gained new customers to the bank. These new households to MCSB will be key to helping us maintain our independence and growing our presence in the communities we serve.

I believe we owe our success to the dedicated employees we have. In an effort to attract new employees and retain the employees we have, the Board recently approved moving our starting wage to $15 an hour. This coupled with the exceptional benefits MCSB provides will help us be an employer of choice in the markets we serve.

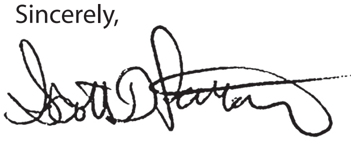
We have many exciting initiatives for 2022. Our business online banking and suite of cash management products will be improved, enabling us to attract new customers and better serve our current customer base. Most of our competitors have these products and with our service first attitude we will be able to grow our small business customer base. To further help in this area of the bank we have hired a new small business lender who will work exclusively with business customers with lending needs under $250,000. These customers are important to the bank and the communities we serve and this new position will give them the attention they need to be successful.

Through our MCSB Gives initiative in 2021 we were able to give back more than $160,000 to deserving organizations in our communities. We will continue this program in 2022 and I look forward to seeing where we can have an impact in our communities. If you have an opportunity, check out the short videos highlighting several of these projects. They can be found on our Facebook or LinkedIn pages.

2022 will be a challenging year for the bank but I believe we are well positioned to succeed. At this time, inflation is a major concern and there are many unknowns in the world economy. Covid is still a concern and the unrest in Europe with Russia invading Ukraine bring about many unknowns. Mercer County State Bank will continue to be here for our communities, employees and our shareholders.

I want to thank you for your continued support of MCSB and the communities we serve!

Sincerely,



Scott Patton
President and CEO

MERCER COUNTY STATE BANCORP, INC.

BOARD OF DIRECTORS

SCOTT D. PATTON
President and CEO
Mercer County State Bank

KEVIN E. WATTS
President
Laubscher Cheese Company

RAY J. KALTENBAUGH
Retired CEO
Mercer County State Bank

BRIAN J. RAYMOND
President
Sandy Lake Mills, Inc.

JOHN O. SMITH
President
Hazlett Tree Service, Inc.

MICHELLE GERWICK
Chief Financial Officer
George Junior Republic

SUSAN M. CYPHERT
Partner McGill, Power, Bell
& Associates, LLP

STEPHEN K. MILLER
SVP, Secretary, Treasurer and CFO
Mercer County State Bank

Mercer County State Bank Management

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

SNODGRASS
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

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

Opinion

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, 2021 and 2020; 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.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the consolidated financial statements are issued or available to be issued.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

S. R. Snodgrass, P.C.

Cranberry Township, Pennsylvania
March 16, 2022

MERCER COUNTY STATE BANCORP, INC.
CONSOLIDATED BALANCE SHEETS

	December 31, 2021	December 31, 2020
ASSETS		
Cash and due from banks	$ 12,655,715	$ 14,341,878
Interest-bearing deposits	995,168	614,871
Cash and cash equivalents	13,650,883	14,956,749
Investment securities available for sale	209,794,843	132,344,180
Equity securities	1,555,186	1,284,616
Loans	308,928,071	306,505,766
Less allowance for loan losses	3,678,190	3,325,444
Net loans	305,249,881	303,180,322
Premises and equipment, net	7,510,448	7,988,885
Bank-owned life insurance	10,668,448	9,666,601
Regulatory stock	2,497,500	2,729,300
Goodwill	1,952,291	1,952,291
Accrued interest and other assets	3,301,869	2,839,510
TOTAL ASSETS	$ 556,181,349	$ 476,942,454
LIABILITIES		
Deposits:		
Noninterest-bearing demand	$ 171,196,407	$ 135,887,261
Interest-bearing demand	56,438,848	41,708,181
Savings	84,557,358	70,674,117
Money market	64,829,987	46,300,359
Time	101,185,963	101,503,477
Total deposits	478,208,563	396,073,395
Other borrowed funds	19,016,416	24,062,915
Accrued interest and other liabilities	4,777,637	4,397,107
TOTAL LIABILITIES	502,002,616	424,533,417
STOCKHOLDERS' EQUITY		
Common stock, par value $0.20; 40,000,000 shares authorized, 1,094,050 shares issued, 1,046,594 and 1,046,663 outstanding outstanding at December 31, 2021 and 2020, respectively	218,810	218,810
Capital surplus	2,099,806	2,099,806
Retained earnings	54,297,333	49,498,944
Treasury stock, at cost (47,456 and 47,387 shares)	(1,858,747)	(1,855,435)
Accumulated other comprehensive (loss) income	(578,469)	2,446,912
TOTAL STOCKHOLDERS' EQUITY	54,178,733	52,409,037
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 556,181,349	$ 476,942,454

See accompanying notes to the consolidated financial statements.

MERCER COUNTY STATE BANCORP, INC.
CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31, 2021	Year Ended December 31, 2020
INTEREST AND DIVIDEND INCOME		
Interest and fees on loans	$ 15,480,607	$ 14,739,558
Interest and dividends on investment securities:		
Taxable	1,941,802	1,610,589
Exempt from federal income tax	1,362,678	1,284,335
Total interest and dividend income	18,785,087	17,634,482
INTEREST EXPENSE		
Deposits	1,339,306	2,231,762
Short-term borrowings	2,008	198
Other borrowed funds	423,634	524,003
Total interest expense	1,764,948	2,755,963
NET INTEREST INCOME	17,020,139	14,878,519
PROVISION FOR LOAN LOSSES	375,000	225,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	16,645,139	14,653,519
OTHER INCOME		
Service charges on deposit accounts	800,230	673,109
Investment securities gains, net	16,630	232,562
Equity securities gains (losses), net	270,571	(142,233)
Gain on sale of loans	124,702	201,749
Earnings on bank-owned life insurance	241,812	463,103
Insurance commissions	268,267	203,982
Merchant exchange fees	868,312	685,674
Brokerage fees	613,473	535,580
Other income	477,207	491,356
Total other income	3,681,204	3,344,882
OTHER EXPENSE		
Salaries and employee benefits	7,657,658	7,514,115
Occupancy expense	823,385	783,202
Equipment expense	774,416	763,791
Professional fees	538,253	461,313
Data processing	658,599	527,792
Pennsylvania shares tax	383,475	346,782
Federal insurance expense	142,045	107,060
Other expense	2,143,193	1,967,224
Total other expense	13,121,024	12,471,279
Income before income taxes	7,205,319	5,527,122
Income tax expense	1,150,976	776,858
NET INCOME	$ 6,054,343	$ 4,750,264
EARNINGS PER SHARE	5.78	4.53
AVERAGE SHARES OUTSTANDING	$ 1,046,627	$ 1,049,486

See accompanying notes to the consolidated financial statements.

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

	Year Ended December 31,	
	2021	2020
Net income	$ 6,054,343	$ 4,750,264
Other comprehensive (loss) income:		
Unrealized holding (losses) gains on available-for-sale securities	(3,812,967)	1,776,002
Tax effect	800,724	(372,960)
Reclassification adjustment for investment securities gains, net	(16,630)	(232,562)
Tax effect	3,492	48,837
Total other comprehensive (loss) income	(3,025,381)	1,219,317
Total comprehensive income	$ 3,028,962	$ 5,969,581

See accompanying notes to the consolidated financial statements.

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

	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance, December 31, 2019	$ 218,810	$ 2,099,806	$ 46,444,778	$ (1,407,640)	$ 1,227,595	$ 48,583,349
Net income			4,750,264			4,750,264
Other comprehensive income					1,219,317	1,219,317
Treasury stock purchase (9,630 shares)				(447,795)		(447,795)
Cash dividends declared ($1.62 per share)			(1,696,098)			(1,696,098)
Balance, December 31, 2020	$ 218,810	$ 2,099,806	$ 49,498,944	$ (1,855,435)	$ 2,446,912	$ 52,409,037
Net income			6,054,343			6,054,343
Other comprehensive loss					(3,025,381)	(3,025,381)
Treasury stock purchase (69 shares)				(3,312)		(3,312)
Cash dividends declared (1.20 per share)			(1,255,954)			(1,255,954)
Balance, December 31, 2021	$ 218,810	$ 2,099,806	$ 54,297,333	$ (1,858,747)	$ (578,469)	$ 54,178,733

See accompanying notes to the consolidated financial statements.

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

	Year Ended December 31, 2021	2020
OPERATING ACTIVITIES		
Net income	$ 6,054,343	$ 4,750,264
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization, and accretion	879,284	939,248
Investment securities gains, net	(16,630)	(232,562)
Equity securities (gains) losses, net	(270,571)	142,233
Provision for loan losses	375,000	225,000
Loss on sale of premises and equipment	65,388	-
Gain on sale of loans	(124,702)	(201,749)
Proceeds from the sale of loans held for sale	6,842,767	6,270,811
Originations of loans held for sale	(6,718,065)	(6,069,062)
Deferred income taxes	(27,122)	(100,359)
Earnings on bank-owned life insurance	(241,812)	(463,103)
Decrease (increase) in accrued interest receivable	19,815	(167,447)
Decrease in accrued interest payable	(107,105)	(96,648)
Other, net	208,842	521,914
Net cash provided by operating activities	6,939,432	5,518,540
INVESTING ACTIVITIES		
Investment securities available for sale:		
Proceeds from sales	370,825	20,721,533
Proceeds from calls	2,330,000	20,135,000
Proceeds from maturities or repayments	26,743,267	22,479,558
Purchases	(111,134,961)	(64,125,629)
Purchase of equity securities	-	(293,244)
Increase in loans, net	(2,441,348)	(40,866,221)
Proceeds from bank-owned life insurance	-	619,433
Purchase of bank-owned life insurance	(760,035)	-
Purchases of premises and equipment	(42,205)	(347,537)
Purchase of regulatory stock	(1,018,800)	(517,200)
Redemption of regulatory stock	1,250,600	633,800
Net cash used for investing activities	(84,702,657)	(41,560,507)
FINANCING ACTIVITIES		
Net increase in deposits	82,135,168	47,559,449
Decrease in short-term borrowings, net	-	(1,500,000)
Proceeds from other borrowed funds	2,500,000	6,245,000
Repayment of other borrowed funds	(7,546,499)	(7,454,439)
Purchase of treasury stock	(3,312)	(447,795)
Cash dividends paid	(627,998)	(2,266,496)
Net cash provided by financing activities	76,457,359	42,044,719
(Decrease) increase in cash and cash equivalents	(1,305,866)	6,002,752
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	14,956,749	8,953,997
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 13,650,883	$ 14,956,749

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 subsidiary MCSB Insurance Services, LLC. All intercompany transactions have been eliminated in consolidation.

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 10 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 Sheets 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.

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 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Equity Securities

Equity securities are held at fair value. Holding gains and losses are recorded in other income on the Consolidated Statements of 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, 2021 or 2020.

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.

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 Statements 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 Sheets.

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 2021 and 2020 were $1,872,053 and $2,852,611, respectively. The Company made income tax payments of $1,175,000 and $760,000 in 2021 and 2020, respectively. At December 31, 2020, there were no unpaid dividends. At December 31, 2021, dividends of $627,956 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 Sheets 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Advertising Costs

Advertising costs are expensed as the costs are incurred. Advertising expense amounted to $172,950 and $138,988 for 2021 and 2020, 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.

Revenue Recognition

ASU No. 2014-09, *Revenue from Contracts with Customers (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 AND EQUITY SECURITIES

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

	2021			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government agency securities	$ 17,772,352	$ -	$ (560,676)	$ 17,211,676
Obligations of states and political subdivisions	64,795,053	1,821,633	(364,595)	66,252,091
Mortgage-backed securities in government-sponsored entities	126,209,705	835,173	(2,081,394)	124,963,484
Trust-preferred securities in financial institutions	1,749,972	-	(382,380)	1,367,592
Total debt securities	$ 210,527,082	$ 2,656,806	$ (3,389,045)	$ 209,794,843

	2020			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government agency securities	$ 13,777,956	$ 1,012	$ (152,294)	$ 13,626,674
Obligations of states and political subdivisions	52,140,561	2,153,349	(1,756)	54,292,154
Mortgage-backed securities in government-sponsored entities	61,584,412	1,770,171	(9,324)	63,345,259
Trust-preferred securities in financial institutions	1,743,895	-	(663,802)	1,080,093
Total debt securities	$ 129,246,824	$ 3,924,532	$ (827,176)	$ 132,344,180

Equity Securities

The following summary of realized and unrealized gains and losses recognized in net income for equity securities during 2021 and 2020 were as follows:

	2021	2020
Net gains (losses) recognized during the period on equity securities	$ 270,571	$ (142,233)
Less: Net gains 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	$ 270,571	$ (142,233)

2. INVESTMENT AND EQUITY SECURITIES (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.

	2021					
	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	$ 6,881,660	$ (111,695)	$ 10,330,016	$ (448,981)	$ 17,211,676	$ (560,676)
Obligations of states and political subdivisions	19,196,477	(360,159)	402,817	(4,436)	19,599,294	(364,595)
Mortgage-backed securities in government-sponsored entities	96,110,515	(2,041,228)	2,169,802	(40,166)	98,280,317	(2,081,394)
Trust-preferred securities in financial institutions	-	-	1,367,593	(382,380)	1,367,593	(382,380)
Total debt securities	$ 122,188,652	$ (2,513,082)	$ 14,270,228	$ (875,963)	$ 136,458,880	$ (3,389,045)

	2020					
	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	$ 10,626,154	$ (152,294)	$ -	$ -	$ 10,626,154	$ (152,294)
Obligations of states and political subdivisions	959,640	(1,756)	-	-	959,640	(1,756)
Mortgage-backed securities in government-sponsored entities	2,541,407	(9,324)	-	-	2,541,407	(9,324)
Trust-preferred securities in financial institutions	-	-	1,080,094	(663,802)	1,080,094	(663,802)
Total debt securities	$ 14,127,201	$ (163,374)	$ 1,080,094	$ (663,802)	$ 15,207,295	$ (827,176)

There were 107 securities in an unrealized loss position on December 31, 2021, 12 of which were in a continuous loss position for 12 or more months. At least quarterly, the Company conducts a comprehensive security-level impairment assessment. The assessments are based on the nature of the securities, the extent and duration of the securities, the extent and duration of the loss, and management's intent to sell or if it is more likely than not that management will be required to sell a security before recovery of its amortized cost basis, which may be maturity. Management believes the Company will fully recover the cost of these securities and it does not intend to sell these securities and likely will not be required to sell them before the anticipated recovery of the remaining amortized cost basis, which may be maturity. As a result, management concluded that these securities were not other-than-temporarily impaired on December 31, 2021.

The amortized cost and fair value of debt securities available for sale at December 31, 2021, 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 five years through ten years	$ 26,915,121	$ 26,500,486
Due after ten years	183,611,961	183,294,357
Total	$ 210,527,082	$ 209,794,843

2. INVESTMENT AND EQUITY SECURITIES (Continued)

Proceeds from sales of investment securities available for sale during 2021 and 2020 and the related gross gains and losses realized were as follows:

	2021	2020
Proceeds from sales	$ 370,825	$ 20,721,533
Gross gains	16,630	298,976
Gross losses	-	(66,414)

Investment securities with a carrying value of $67,185,357 and $42,861,255 at December 31, 2021 and 2020, 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:

	2021	2020
Real estate:		
Commercial	$ 122,284,124	$ 108,893,669
Agricultural	18,499,154	17,593,079
Residential	116,256,340	119,170,175
Commercial and industrial	43,292,536	50,823,051
Agricultural	5,999,037	6,829,439
Consumer	2,596,880	3,196,353
	308,928,071	306,505,766
Less allowance for loan losses	3,678,190	3,325,444
Net loans	$ 305,249,881	$ 303,180,322

Real estate loans serviced for the FHLB that are not included in the Consolidated Balance Sheets totaled $35,493,531 and $38,087,408 at December 31, 2021 and 2020, 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, 2021 and 2020, loans outstanding to individuals and businesses are dependent upon economic conditions in its primary market area.

3. LOANS (Continued)

During 2021 and 2020 the Bank participated in the Paycheck Protection Program (PPP), administered directly by the U.S. Small Business Administration (SBA). The PPP provides loans to small businesses who were affected by economic conditions as a result of COVID-19 to provide cash-flow assistance to employers who maintain their payroll (including healthcare and certain related expenses), mortgage interest, rent, leases, utilities and interest on existing debt during the COVID-19 emergency. As of December 31, 2021 and 2020, the Company had outstanding principal balances of $6.1 and $19.1 million, respectively. The PPP loans are fully guaranteed by the SBA and may be eligible for forgiveness by the SBA to the extent that the proceeds are used to cover eligible payroll costs, interest costs, rent, and utility costs over a period of up to 24 weeks after the loan is made as long as certain conditions are met regarding employee retention and compensation levels. PPP loans deemed eligible for forgiveness by the SBA will be repaid by the SBA to the Company. PPP loans are included in the Commercial loan category.

In accordance with the SBA terms and conditions on these PPP loans, for the years ending December 31, 2021 and 2020, the Company received approximately $1.4 million and $1.1 million in fees, respectively, associated with the processing of these loans. For the years ending December 31, 2021 and 2020, the Company recognized $1,476,878 and $664,833 in fees, respectively, related to PPP loans. Upon funding of the loan, these fees were deferred and will be amortized over the life of the loan as an adjustment to yield in accordance with FASB ASC 310-20-25-2.

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 2021, qualitative factors remained stable for all segments of the portfolio, other than changes in lending staff experience and ability, which was increased by 5 basis points for the Commercial Real Estate and Commercial and Industrial segments of the loan portfolio.

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, 2021 and 2020. Allocation of a portion of the allowance to one segment does not preclude its availability to absorb losses in other segments.

2021	Commercial Real Estate	Agricultural Real Estate	Residential Real Estate	Commercial and Industrial	Agricultural	Consumer	Unallocated	Total
Allowance for loan losses:								
Beginning balance	$ 914,309	$ 238,000	$ 809,000	$ 413,690	$ 823,000	$ 48,000	$ 79,445	$ 3,325,444
Charge-offs	-	-	(15,000)	(6,524)	-	(26,366)	-	(47,890)
Recoveries	7,684	-	5,218	1,233	2,020	9,481	-	25,636
Provision	206,197	48,000	(1,218)	(399)	203,980	(2,115)	(79,445)	375,000
Ending balance	$ 1,128,190	$ 286,000	$ 798,000	$ 408,000	$ 1,029,000	$ 29,000	$ -	$ 3,678,190
Ending balance individually evaluated for impairment	$ 17,475	$ 141,096	$ 30,818	$ 79,549	$ 989,207	$ -	$ -	$ 1,258,118
Ending balance collectively evaluated for impairment	$ 1,110,715	$ 144,931	$ 767,182	$ 328,451	$ 39,793	$ 29,000	$ -	$ 2,420,072
Loans:								
Individually evaluated for impairment	$ 4,454,403	$ 2,693,729	$ 104,452	$ 3,201,235	$ 1,414,117	$ 4,365	$ -	$ 11,872,301
Collectively evaluated for impairment	117,829,721	15,805,425	116,151,888	40,091,301	4,584,920	2,592,515	-	297,055,770
Ending balance	$ 122,284,124	$ 18,499,154	$ 116,256,340	$ 43,292,536	$ 5,999,037	$ 2,596,880	$ -	$ 308,928,071

2020	Commercial Real Estate	Agricultural Real Estate	Residential Real Estate	Commercial and Industrial	Agricultural	Consumer	Unallocated	Total
Allowance for loan losses:								
Beginning balance	$ 728,000	$ 246,000	$ 658,000	$ 457,000	$ 880,000	$ 44,000	$ 161,668	$ 3,174,668
Charge-offs	(9,691)	-	-	(44,432)	-	(33,439)	-	(87,562)
Recoveries	1,731	-	5,218	380	-	6,009	-	13,338
Provision	194,269	(8,000)	145,782	742	(57,000)	31,430	(82,223)	225,000
Ending balance	$ 914,309	$ 238,000	$ 809,000	$ 413,690	$ 823,000	$ 48,000	$ 79,445	$ 3,325,444
Ending balance individually evaluated for impairment	$ 21,197	$ 102,603	$ 23,261	$ 116,920	$ 777,206	$ -	$ -	$ 1,041,187
Ending balance collectively evaluated for impairment	$ 893,112	$ 135,397	$ 785,739	$ 296,770	$ 45,794	$ 48,000	$ 79,445	$ 2,284,257
Loans:								
Individually evaluated for impairment	$ 4,694,546	$ 2,738,160	$ 48,504	$ 3,722,198	$ 1,454,348	$ 8,444	$ -	$ 12,666,200
Collectively evaluated for impairment	104,199,123	14,854,919	119,121,671	47,100,853	5,375,091	3,187,909	-	293,839,566
Ending balance	$ 108,893,669	$ 17,593,079	$ 119,170,175	$ 50,823,051	$ 6,829,439	$ 3,196,353	$ -	$ 306,505,766

4. ALLOWANCE FOR LOAN LOSSES (Continued)

During 2021 the increase in the provision for the agricultural portion of the allowance for loan losses was due to an increase in the impaired loans for this loan segment. This increase was primarily attributable to one loan in the amount of $1,283,000 that has a specific reserve of $903,000.

Credit Quality Information

The following table represents the commercial credit exposures by internally assigned grades for the years ended December 31, 2021 and 2020. 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:

	2021				
	Commercial Real Estate	Agricultural Real Estate	Commercial and Industrial	Agricultural	Total
Pass	$ 118,243,354	$ 15,638,605	$ 40,482,271	$ 4,648,073	$ 179,012,303
Special Mention	3,746,026	-	2,781,946	-	6,527,972
Substandard	294,744	2,860,549	28,319	1,350,964	4,534,576
Doubtful	-	-	-	-	-
Loss	-	-	-	-	-
Total	$ 122,284,124	$ 18,499,154	$ 43,292,536	$ 5,999,037	$ 190,074,851

	2020				
	Commercial Real Estate	Agricultural Real Estate	Commercial and Industrial	Agricultural	Total
Pass	$ 103,269,334	$ 14,467,096	$ 50,161,383	$ 5 ,452,659	$ 173,305,472
Special Mention	5,408,307	520,079	622,328	4,553	6,555,267
Substandard	216,028	2,605,904	39,340	1,372,227	4,233,499
Doubtful	-	-	-	-	-
Loss	-	-	-	-	-
Total	$ 108,893,669	$ 17,593,079	$ 50,823,051	$ 6 ,829,439	$ 184,139,238

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)

	2021		
	Residential Real Estate	Consumer	Total
Performing	$ 116,100,528	$ 2,593,289	$ 118,693,817
Nonperforming	155,812	3,591	159,403
Total	$ 116,256,340	$ 2,596,880	$ 118,853,220

	2020		
	Residential Real Estate	Consumer	Total
Performing	$ 118,665,958	$ 3,184,512	$ 121,850,470
Nonperforming	504,217	11,841	516,058
Total	$ 119,170,175	$ 3,196,353	$ 122,366,528

Age Analysis of Past-Due Loans by Class

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

	2021						
	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	$ 304,778	$ 268,969	$ 173,171	$ 746,918	$ 121,537,206	$ 122,284,124	$ 94,678
Agricultural real estate	338,502	1,129	303,678	643,309	17,855,844	18,499,153	-
Residential real estate	648,908	126,196	155,812	930,916	115,325,425	116,256,341	43,539
Commercial and industrial	242,787	642,318	117,362	1,002,467	42,290,069	43,292,536	117,362
Agricultural	77,487	-	34,930	112,417	5,886,620	5,999,037	-
Consumer	15,622	30,329	3,591	49,542	2,547,338	2,596,880	-
Total	$ 1,628,084	$ 1,068,941	$ 788,544	$ 3,485,569	$ 305,442,502	$ 308,928,071	$ 255,579

	2020						
	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	$ 1,953,152	$ 99,490	$ 77,148	$ 2,129,790	$ 106,763,879	$ 108,893,669	$ 31,103
Agricultural real estate	37,491	54,122	401,226	492,839	17,100,240	17,593,079	-
Residential real estate	535,360	402,314	504,217	1,441,891	117,728,284	119,170,175	-
Commercial and industrial	24,324	78,536	23,073	125,933	50,697,118	50,823,051	-
Agricultural	29,394	-	40,559	69,953	6,759,486	6,829,439	-
Consumer	41,867	3,907	11,841	57,615	3,138,738	3,196,353	71,542
Total	$ 2,621,588	$ 638,369	$ 1,058,064	$ 4,318,021	$ 302,187,745	$ 306,505,766	$ 102,645

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:

	2021				
	Recorded Investment	**Unpaid Principal Balance**	**Related Allowance**	**Average Recorded Investment**	**Interest Income Recognized**
With no related allowance recorded:					
Commercial real estate	$ 4,336,524	$ 4,336,524	$ -	$ 4,510,131	$ 270,443
Agricultural real estate	717,853	717,853	-	723,615	17,948
Residential real estate	-	-	-	7,723	-
Commercial and industrial	2,796,659	2,796,659	-	2,953,228	165,401
Agricultural	-	-	-	-	-
Consumer	4,365	4,365	-	6,426	426
	7,855,401	7,855,401	-	8,201,123	454,218
With an allowance recorded:					
Commercial real estate	$ 17,475	$ 17,475	$ 17,475	$ 19,569	$ -
Agricultural real estate	1,975,876	1,975,876	141,069	1,985,838	99,004
Residential real estate	104,452	104,452	30,818	52,509	-
Commercial and industrial	504,979	504,979	79,549	510,313	25,436
Agricultural	1,414,117	1,414,117	989,207	1,436,737	50,705
Consumer	-	-	-	-	-
	4,016,899	4,016,899	1,258,118	4,004,966	175,145
Total:					
Commercial real estate	$ 4,353,999	$ 4,353,999	$ 17,475	$ 4,529,700	$ 270,443
Agricultural real estate	2,693,729	2,693,729	141,069	2,709,453	116,952
Residential real estate	104,452	104,452	30,818	60,232	-
Commercial and industrial	3,301,638	3,301,638	79,549	3,463,541	190,837
Agricultural	1,414,117	1,414,117	989,207	1,436,737	50,705
Consumer	4,365	4,365	-	6,426	426
	$ 11,872,300	$ 11,872,300	$ 1,258,118	$ 12,206,089	$ 629,363

4. ALLOWANCE FOR LOAN LOSSES (Continued)

Impaired Loans (Continued)

2020	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial real estate	$ 4,673,349	$ 4,673,349	$ -	$ 5,625,524	$ 334,025
Agricultural real estate	732,575	732,575	-	595,400	18,874
Residential real estate	-	-	-	-	-
Commercial and industrial	3,205,012	3,205,012	-	500,820	42,532
Agricultural	-	-	-	-	-
Consumer	8,444	8,444	-	10,370	702
	8,619,380	8,619,380	-	6,732,114	396,133
With an allowance recorded:					
Commercial real estate	$ 21,197	$ 21,197	$ 21,197	$ 23,824	$ -
Agricultural real estate	2,005,585	2,005,585	102,603	2,012,263	100,480
Residential real estate	48,504	48,504	23,261	48,780	-
Commercial and industrial	517,186	517,186	116,920	716,513	26,492
Agricultural	1,454,348	1,454,348	777,206	1,453,304	70,797
Consumer	-	-	-	-	-
	4,046,820	4,046,820	1,041,187	4,254,684	197,769
Total:					
Commercial real estate	$ 4,694,546	$ 4,694,546	$ 21,197	$ 5,649,348	$ 334,025
Agricultural real estate	2,738,160	2,738,160	102,603	2,607,663	119,354
Residential real estate	48,504	48,504	23,261	48,780	-
Commercial and industrial	3,722,198	3,722,198	116,920	1,217,333	69,024
Agricultural	1,454,348	1,454,348	777,206	1,453,304	70,797
Consumer	8,444	8,444	-	10,370	702
	$ 12,666,200	$ 12,666,200	$ 1,041,187	$ 10,986,798	$ 593,902

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, or sooner if the company believes receiving payment in full may be in doubt. 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:

	2021	2020
Commercial real estate	$ 298,445	$ 323,996
Agricultural real estate	820,831	847,194
Residential real estate	821,078	709,801
Commercial and industrial	-	23,073
Agricultural	1,394,125	121,530
Consumer	10,760	25,246
Total	$ 3,345,239	$ 2,050,840

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 $10,668,575 and $11,542,237 as of December 31, 2021 and 2020, respectively, with $1,126,631 and $892,233 specific reserves, respectively, allocated to customers whose loan terms have been modified in troubled debt restructuring. At December 31, 2021, $9,377,373 were performing in accordance with their modified terms. The remaining $1,291,202 were classified as nonaccrual.

At December 31, 2020, $11,532,128 were performing in accordance with their modified terms. The remaining $10,109 were classified as nonaccrual.

Loan modifications that are considered TDRs completed during the year are as follows:

2021

	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	December 31 Outstanding Recorded Investment
Troubled debt restructurings:				
Commercial and industrial	1	$ 2,841,867	$ 2,841,867	$ 2,696,256
	1	$ 2,841,867	$ 2,841,867	$ 2,696,256

2020

	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	December 31 Outstanding Recorded Investment
Troubled debt restructurings:				
Commercial and industrial	2	$ 3,205,013	$ 3,205,013	$ 3,205,013
	2	$ 3,205,013	$ 3,205,013	$ 3,205,013

No TDRs approved in 2019 defaulted during the years ending December 31, 2021 or 2020.

COVID-19 Loan Forbearance Programs

Section 4013 of the CARES Act provides that banks may elect not to categorize a loan modification as a TDR if the loan modification is (1) related to COVID-19; (2) executed on a loan that was not more than 30 days past due as of December 31, 2019; and (3) executed between March 1, 2020, and the earlier of (A) 60 days after the date on which the national emergency concerning the novel coronavirus disease (COVID-19) outbreak declared by the President on March 13, 2020, under the National Emergencies Act terminates, or (B) December 31, 2020.

4. ALLOWANCE FOR LOAN LOSSES (Continued)

COVID-19 Loan Forbearance Programs (Continued)

On April 7, 2020, federal banking regulators issued a revised interagency statement that included guidance on their approach for the accounting of loan modifications in light of the economic impact of the COVID-19 pandemic. The guidance interprets current accounting standards and indicates that a lender can conclude that a borrower is not experiencing financial difficulty if short-term modifications are made in response to COVID-19, such as payment deferrals, fee waivers, extensions of repayment terms, or other delays in payment that are insignificant related to the loans in which the borrower is less than 30 days past due on its contractual payments at the time a modification program is implemented.

According to the Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus (Revised) issued by the federal bank regulatory agencies on April 7, 2020, short-term loan modifications not otherwise eligible under Section 4013 that are made on a good faith basis in response to COVID-19 to borrowers who were current prior to any relief are not TDRs. This includes short-term (e.g., six months) modifications such as payment deferrals, fee waivers, extensions of repayment terms, or other delays in payment that are insignificant.

During 2020, over 196 of our customers had requested loan payment deferrals or payments of interest only on loans totaling $34.9 million. In accordance with Section 4013 of the CARES Act and the interagency guidance issued on April 7, 2020, these short-term deferrals are not considered troubled debt restructurings. As of December 31, 2021, the Company had no loans that remain on a CARES Act modification. As of December 31, 2020, the Company had 5 loans totaling $1,887,523 that remained on a CARES Act modification. As of December 31, 2021, all loans that had received payment deferrals or payments of interest only were again paying as contractually agreed. In accordance with Section 4013 of the CARES Act, these short-term deferrals are not considered troubled debt restructurings.

5. PREMISES AND EQUIPMENT

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

	2021	2020
Land	$ 2,666,691	$ 2,706,591
Buildings and building improvements	8,817,182	9,115,332
Furniture, fixtures, and equipment	1,994,751	1,995,671
	13,478,624	13,817,594
Less accumulated depreciation	5,968,176	5,828,709
Total	$ 7,510,448	$ 7,988,885

Depreciation charged to operations was $455,255 and $467,164 in 2021 and 2020, respectively.

6. GOODWILL

At December 31, 2021 and 2020, goodwill had a net carrying amount of $1,952,291.

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 2021 and 2020.

7. DEPOSITS

The scheduled maturities of time deposits approximate the following:

Year Ending December 31,		Amount
2022	$	49,327,131
2023		26,820,447
2024		13,046,445
2025		5,997,860
2026		5,994,080
	$	101,185,963

The aggregate of all time deposit accounts of $250,000 or more amounted to $19,956,359 and $11,881,202 at December 31, 2021 and 2020, 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		**2021**		**2020**
Balance at year-end	$	-	$	-
Maximum amount outstanding at any month-end		7,000,000		1,500,000
Average balance outstanding during the year		489,135		18,575
Weighted-average interest rate:				
As of year-end		-		-
Paid during the year		0.41 %		1.07 %

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, 2021, the Bank's maximum borrowing capacity with the FHLB was $168.9 million.

The Company may request a Federal Reserve advance secured by acceptable collateral. The Company's maximum borrowing capacity with the Federal Reserve Bank as of December 31, 2021, was $14.8 million.

The Company also maintains a $5.0 million federal funds line of credit with one other financial institution. The Company did not have outstanding borrowings related to this line of credit at December 31, 2021.

9. OTHER BORROWED FUNDS

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

Maturity	Interest Rate	2021	2020
February 5, 2021	1.70 %	$ -	$ 2,500,000
October 19, 2021	1.96 %	-	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
April 16, 2024	2.52 %	-	2,500,000
June 27, 2024	2.09 %	2,500,000	2,500,000
February 24, 2025	1.56 %	3,000,000	3,000,000
September 15, 2025	0.49 %	3,245,000	3,245,000
January 27, 2026	0.74 %	2,500,000	-
May 26, 2027	2.31 %	271,416	317,915
Total	1.89 %	$ 19,016,416	$ 24,062,915

10. INCOME TAXES

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

	2021	2020
Currently payable	$ 1,178,098	$ 877,217
Deferred	(27,122)	(100,359)
Total provision	$ 1,150,976	$ 776,858

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:

	2021	2020
Deferred tax assets:		
Allowance for loan losses	$ 723,687	$ 644,195
Deferred loan origination fees, net	-	15,144
Board of Directors retirement plan	94,479	81,726
Net unrealized loss on investment securities	153,770	-
Total deferred tax assets	971,936	741,065
Deferred tax liabilities:		
Premises and equipment	175,872	203,898
Deferred loan origination	22,011	-
Goodwill	409,981	409,981
Gain on equity securities	102,986	46,166
Investment discount accretion	1,441	2,267
Net unrealized gain on investment securities	-	696,611
Total deferred tax liabilities	712,291	1,358,923
Net deferred tax assets (liabilities)	$ 259,645	$ (617,858)

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, 2021 and 2020.

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:

	2021		2020	
	Amount	% of Pretax Income	Amount	% of Pretax Income
Computed at statutory rate	$ 1,513,116	21.0 %	$ 1,160,696	21.0 %
Tax-exempt income	(322,776)	(4.5)	(292,022)	(5.3)
Nondeductible interest to carry tax-exempt assets	8,999	0.1	11,440	0.2
Other	(48,363)	(0.7)	(103,256)	(2.0)
Income tax expense and effective rate	$ 1,150,976	15.9 %	$ 776,858	13.9 %

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 Statements of Income. The Company's federal and state income tax returns for taxable years through 2017 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:

	2021	2020
Commitments to extend credit	$ 64,748,000	$ 55,579,000
Standby letters of credit and financial guarantees	2,284,000	2,157,000
Total	$ 67,032,000	$ 57,736,000

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 Sheets. 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 2021 and 2020 amounted to $549,860 and $533,056, 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 $3,470,605 and $3,218,258 at December 31, 2021 and 2020, respectively. The Bank is the beneficiary of life insurance policies with a cash surrender value at December 31, 2021 and 2020, of $10,668,448 and $9,666,601, 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, 2021 and 2020, amounted to $49,517 and $41,058, respectively, and are included as a component of other operating expenses.

	2021	2020
Net periodic cost:		
Service cost	$ 34,287	$ 27,083
Interest cost	15,230	13,975
Net periodic cost	$ 49,517	$ 41,058

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, 2021 and 2020:

	2021	2020
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 404,989	$ 363,931
Service cost	34,287	27,083
Interest cost	15,230	13,975
Benefit obligation at end of year and accrued status	$ 454,506	$ 404,989

The discount rate used to determine benefit obligations at the measurement dates was 3.08 percent and 3.48 percent for the periods ended December 31, 2021 and 2020, respectively.

At December 31, 2021, the projected benefit payments for the Board of Directors Retirement Plan are anticipated to be $1,127,753, with payments ranging from January 1, 2022, 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, 2021, 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, 2021 and 2020.

Cash and Due from Banks

As announced on March 15, 2020, the Federal Reserve Board reduced reserve requirement ratios to zero percent effective March 26, 2020. This action eliminated reserve requirements for all depository institutions. Prior to the elimination of reserve requirement, required reserves were computed by applying prescribed ratios to the classes of average deposit balances. These were held in the form of cash on hand.

14. REGULATORY CAPITAL

Federal regulations require the Bank to maintain minimum amounts of capital. Specifically, the Bank is required to maintain certain minimum dollar 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, 2021 and 2020, the Bank meets all capital adequacy requirements to which it is subject.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the following table) of total, Tier 1 capital and common equity Tier 1 (as defined in the regulations) to risk-weighted assets, and of Tier 1 capital to average assets. Management believes, as of December 31, 2021, that the Bank meet all capital adequacy requirements to which they are subject.

As of December 31, 2021 and 2020, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be classified as a well-capitalized financial institution, common equity Tier 1 risk-based, Total risk-based, Tier 1 risk-based, and Tier 1 leverage capital ratios must be at least 6.5 percent, 10 percent, 8 percent, and 5 percent, respectively.

In November 2019, federal bank regulatory agencies finalized a rule that simplifies capital requirements for community banks by allowing them to optionally adopt a simple leverage ratio to measure capital adequacy, which removes requirements for calculating and reporting risk-based capital ratios for a qualifying community bank that has less than $10 billion in total consolidated assets, limited amounts of off-balance-sheet exposures and trading assets and liabilities, and a leverage ratio greater than 9 percent. The community bank leverage ratio framework was effective on January 1, 2020. The Bank elected to adopt the optional community bank leverage ratio framework in the first quarter of 2020. The Bank elected to opt out of the optional community bank leverage ratio framework during the fourth quarter of 2021, as the leverage ratio was not going to meet the 8.5 percent threshold for the fourth quarter of 2021.

In April 2020, the federal banking regulatory agencies modified the original community bank leverage ratio (CBLR) framework and provided that, as of the second quarter 2020, a banking organization with a leverage ratio of 8 percent or greater and that meets the other existing qualifying criteria may elect to use the community bank leverage ratio framework. The modified rule also states that the community bank leverage ratio requirement will be greater than 8 percent for the second through fourth quarters of calendar year 2020, greater than 8.5 percent for calendar year 2021, and greater than 9 percent thereafter. The transition rule also maintains a two-quarter grace period for a qualifying community banking organization whose leverage ratio falls no more than 100 basis points below the applicable community bank leverage ratio requirement.

14. REGULATORY CAPITAL (Continued)

As of December 31, 2021 and 2020, management believes that the Bank met all capital adequacy requirements to which it was subject. The following table reflects the Bank's capital amounts and ratios at December 31:

	2021		2020	
	Amount	Ratio	Amount	Ratio
	(In Thousands)			
Total capital				
(to risk-weighted assets)				
Actual	$ 50,913,481	15.73 %	$ N/A	N/A %
For capital adequacy purposes	25,896,560	8.00	N/A	N/A
To be well capitalized	32,370,700	10.00	N/A	N/A
Tier 1 capital				
(to risk-weighted assets)				
Actual	$ 47,235,291	14.59 %	$ N/A	N/A %
For capital adequacy purposes	19,422,420	6.00	N/A	N/A
To be well capitalized	25,896,560	8.00	N/A	N/A
Common equity Tier 1 capital				
(to risk-weighted assets)				
Actual	$ 47,235,291	14.59 %	$ N/A	N/A %
For capital adequacy purposes	14,566,815	4.50	N/A	N/A
To be well capitalized	21,040,955	6.50	N/A	N/A
Tier 1 capital				
(to risk-weighted assets)				
Actual	$ 47,235,291	8.48 %	$ 42,888,011	9.07 %
For capital adequacy purposes	22,276,828	4.00	18,914,828	4.00
To be well capitalized	27,846,035	5.00	23,643,535	5.00

At December 31, 2021, the Company has a total capital to risk-weighted assets ratio of 17.45 percent, tier 1 capital to risk weighted assets ratio of 16.31 percent, common equity tier 1 to risk-weighted assets ratio of 16.31 percent, and a tier 1 capital to average assets ratio of 9.48 percent. At December 31, 2020, the tier 1 capital to average assets ratio was 10.52 percent.

Management believes that, under the current regulatory capital regulations, the Bank will continue to meet its minimum capital requirements in the foreseeable future. However, events beyond the control of the Bank, such as increased interest rates or a downturn in the economy in the primary market area, could adversely affect future earnings and, consequently, the ability to meet future minimum regulatory capital requirements.

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 Sheets at their fair value as of December 31, 2021 and 2020, 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, 2021			
Assets:	Level I	Level II	Level III	Total
U.S. government agency securities	$ -	$ 17,211,676	$ -	$ 17,211,676
Obligations of states and political subdivisions	-	66,252,091	-	66,252,091
Mortgage-backed securities in government-sponsored entities	-	124,963,484	-	124,963,484
Trust-preferred securities	-	1,367,592	-	1,367,592
Equity securities in financial institutions	1,555,186	-	-	1,555,186
Total	$ 1,555,186	$ 209,794,843	$ -	$ 211,350,029

	December 31, 2020			
Assets:	Level I	Level II	Level III	Total
U.S. government agency securities	$ -	$ 13,626,674	$ -	$ 13,626,674
Obligations of states and political subdivisions	-	54,292,154	-	54,292,154
Mortgage-backed securities in government-sponsored entities	-	63,345,259	-	63,345,259
Trust-preferred securities	-	1,080,093	-	1,080,093
Equity securities in financial institutions	1,284,616	-	-	1,284,616
Total	$ 1,284,616	$ 132,344,180	$ -	$ 133,628,796

15. FAIR VALUE MEASUREMENTS (Continued)

The following table presents the assets measured on a nonrecurring basis on the Consolidated Balance Sheets at their fair value as of December 31, 2021 and 2020, 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, 2021			
	Level I	**Level II**	**Level III**	**Total**
Assets measured on a nonrecurring basis:				
Impaired loans	$ -	$ -	$ 2,758,781	$ 2,758,781

	December 31, 2020			
	Level I	**Level II**	**Level III**	**Total**
Assets measured on a nonrecurring basis:				
Impaired loans	$ -	$ -	$ 3,005,633	$ 3,005,633

The unobservable inputs for Level III measurements are as follows:

2021

	Fair Value	**Valuation Techniques**	**Unobservable Inputs**	**Range (Weighted Average)**
Impaired loans	$ 2,758,781	Property appraisals	Management discount for property type and recent market volatility	0% to 75% discount (35.27%)

2020

	Fair Value	**Valuation Techniques**	**Unobservable Inputs**	**Range (Weighted Average)**
Impaired loans	$ 3,005,633	Property appraisals	Management discount for property type and recent market volatility	0% to 90% discount (35.70%)

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, 2021 and 2020:

		Net Unrealized Gains (Losses) on Investment Securities
Accumulated other comprehensive loss, January 1, 2020	$	1,227,595
Other comprehensive income before reclassification		1,403,042
Amount reclassified from accumulated other comprehensive income		(183,725)
Total other comprehensive income		1,219,317
Accumulated other comprehensive income, December 31, 2020		2,446,912
Other comprehensive income before reclassification		(3,012,243)
Amount reclassified from accumulated other comprehensive income		(13,138)
Total other comprehensive income		(3,025,381)
Accumulated other comprehensive income, December 31, 2021	$	(578,469)

The following table presents significant amounts reclassified out of accumulated other comprehensive loss for the years ended December 31, 2021 and 2020:

2021	Amount Reclassified from Accumulated Other Comprehensive Income (Loss)		
Details about other comprehensive income:			
Unrealized gains on securities	$	16,630	Investment securities gains, net
		(3,492)	Income tax expense
	$	13,138	

2020	Amount Reclassified from Accumulated Other Comprehensive Income (Loss)		
Details about other comprehensive income:			
Unrealized gains on securities	$	232,562	Investment securities gains, net
		(48,837)	Income tax expense
	$	183,725	

17. SUBSEQUENT EVENTS

The Company assessed events occurring subsequent to December 31, 2021, through March 16, 2022, 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.

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