Orbisonia Community Bancorp, Inc.

Orbisonia, Pennsylvania

Consolidated Financial Statements

December 31, 2019

SNODGRASS
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

ORBISONIA COMMUNITY BANCORP, INC.
AUDITED FINANCIAL STATEMENTS
DECEMBER 31, 2019

SNODGRASS
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Orbisonia Community Bancorp, Inc.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Orbisonia Community Bancorp, Inc. and its wholly owned subsidiary, which comprise the consolidated balance sheet as of December 31, 2019; the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the year then ended; and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 Orbisonia Community Bancorp, Inc. and its wholly owned subsidiary as of December 31, 2019, and the results of their operations and their cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

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Other Matter

The financial statements of Orbisonia Community Bancorp, Inc. and its wholly owned subsidiary, as of and for the year ended December 31, 2018, were audited by other auditors, whose report, dated March 18, 2019, expressed an unmodified opinion on those statements.

S.R. Snodgrass, P.C.

Cranberry Township, Pennsylvania
February 28, 2020

ORBISONIA COMMUNITY BANCORP. INC.
CONSOLIDATED BALANCE SHEET

		December 31, 2019		December 31, 2018
ASSETS				
Cash and due from banks	$	6,260,557	$	6,644,787
Interest-bearing deposits in other banks		1,022,083		631,063
Federal funds sold		2,434,000		4,263,000
Total cash and cash equivalents		9,716,640		11,538,850
Certificates of deposit		-		896,000
Equity securities		701,825		770,738
Investment securities available for sale, at fair value		20,387,941		18,892,498
Loans, net of unearned discount and allowance for loan losses ($3,109,171 and $2,859,195 at December 31, 2019 and 2018, respectively)		282,207,477		281,625,016
Premises and equipment		5,208,317		5,247,659
Restricted bank stock		220,700		380,500
Accrued interest receivable		700,585		726,764
Bank-owned life insurance		8,567,866		8,386,317
Foreclosed assets		185,907		66,724
Other assets		2,340,192		1,470,990
TOTAL ASSETS	$	330,237,450	$	330,002,056
LIABILITIES				
Deposits:				
Noninterest bearing	$	23,031,615	$	20,055,866
Interest bearing		266,355,398		265,300,875
Total deposits		289,387,013		285,356,741
Federal Home Loan Bank borrowings		55,000		4,555,000
Accrued interest payable		89,810		76,432
Other liabilities		1,448,718		1,673,712
TOTAL LIABILITIES		290,980,541		291,661,885
STOCKHOLDERS' EQUITY				
Common stock, voting common, par value $0.125; 8,000,000 shares authorized and 1,600,000 shares issued, 1,540,144 and 1,556,904 shares outstanding at 2019 and 2018, respectively		200,000		200,000
Additional paid-in-capital		2,005,136		2,070,211
Retained earnings		38,121,418		37,021,702
Accumulated other comprehensive income (loss)		17,369		(159,993)
Less cost of treasury stock (59,856 shares 2019; 43,096 shares 2018)		(1,087,014)		(791,749)
TOTAL STOCKHOLDERS' EQUITY		39,256,909		38,340,171
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$	330,237,450	$	330,002,056

See accompanying notes to the consolidated financial statements.

ORBISONIA COMMUNITY BANCORP, INC.
CONSOLIDATED STATEMENT OF INCOME

		Year Ended December 31,	
		2019	2018
INTEREST AND DIVIDEND INCOME			
Interest and fees on loans	$	14,482,675	$ 14,003,557
Interest and dividends on investment securities		467,824	435,463
Interest on federal funds sold		83,455	90,296
Total interest and dividend income		15,033,954	14,529,316
INTEREST EXPENSE			
Interest on deposits		2,919,747	2,446,552
Interest on borrowings		72,253	105,175
Total interest expense		2,992,000	2,551,727
Net interest income		12,041,954	11,977,589
PROVISION FOR LOAN LOSSES		515,000	-
Net interest income after provision for loan losses		11,526,954	11,977,589
OTHER INCOME			
Service charges on deposit accounts		450,544	465,065
Other service charges		498,369	1,354,385
Wealth management services		134,494	102,570
Earnings on bank-owned life insurance		181,549	186,818
Gain (loss) on sales of foreclosed assets		14,464	(23,487)
Change in fair value of equity securities		(68,913)	45,338
Loss on sales of investment securities		(3,140)	-
Other income		29,583	27,666
Total other income		1,236,950	2,158,355
OTHER EXPENSE			
Salaries and wages		4,392,989	4,096,455
Pensions and other employee benefits		1,694,225	1,567,418
Occupancy expense		795,932	831,698
Data processing		1,350,261	1,988,503
Telecommunications expense		316,035	310,302
Pennsylvania shares tax		350,000	325,500
Professional fees		235,387	200,418
Insurance expense		99,786	156,480
Loan expense		188,284	168,445
Other operating expenses		949,298	847,750
Total other expense		10,372,197	10,492,969
Income before income taxes		2,391,707	3,642,975
INCOME TAX EXPENSE		379,266	652,675
Net income	$	2,012,441	$ 2,990,300
Earnings per share of common stock:			
Net income	$	1.30	$ 1.92
Weighted-average shares outstanding		1,549,250	1,556,548

See accompanying notes to the consolidated financial statements.

ORBISONIA COMMUNITY BANCORP, INC.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year Ended December 31, 2019	2018
Net income	$ 2,012,441	$ 2,990,300
Other comprehensive income (loss):		
Unrealized holding gains (losses) on securities available for sale arising during the year	221,369	(35,615)
Tax effect	(46,488)	7,479
Reclassification for loss on sale of investments securities	3,140	-
Tax effect	(659)	-
Total other comprehensive income (loss)	177,362	(28,136)
Total comprehensive income	$ 2,189,803	$ 2,962,164

See accompanying notes to the consolidated financial statements.

ORBISONIA COMMUNITY BANCORP, INC.
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
Balance, December 31, 2017	$ 200,000	$ 2,065,994	$ 34,301,310	$ 423,187	$ (771,020)	$ 36,219,471
Reclassification for unrealized gains in equity securities market value			555,044	(555,044)		-
Net income			2,990,300			2,990,300
Other comprehensive loss, net of taxes				(28,136)		(28,136)
Sale of treasury stock (1,284 shares)		4,217			23,389	27,606
Purchase of treasury stock (2,052 shares)					(44,118)	(44,118)
Cash dividends declared on common stock ($0.53 per share)			(824,952)			(824,952)
Balance December 31, 2018	200,000	2,070,211	37,021,702	(159,993)	(791,749)	38,340,171
Net income			2,012,441			2,012,441
Other comprehensive income, net of taxes				177,362		177,362
Sale of treasury stock (4,269 shares)		(65,075)			156,858	91,783
Purchase of treasury stock (21,029 shares)					(452,123)	(452,123)
Cash dividends declared on common stock ($0.59 per share)			(912,725)			(912,725)
Balance December 31, 2019	$ 200,000	$ 2,005,136	$ 38,121,418	$ 17,369	$ (1,087,014)	$ 39,256,909

See accompanying notes to the consolidated financial statements.

ORBISONIA COMMUNITY BANCORP, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended December 31, 2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 2,012,441	$ 2,990,300
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization, net	309,917	345,343
Provision for loan losses	515,000	-
(Gain) loss on sale of foreclosed assets	(14,464)	23,487
Deferred income taxes	(53,683)	33,125
Loss on investment securities	3,140	-
Change in fair value of equity securities	68,913	(45,338)
Earnings on bank-owned life insurance	(181,549)	(186,818)
Decrease (increase) in accrued interest receivable	26,179	(49,450)
Increase in accrued interest payable	13,378	16,317
Other, net	(1,087,660)	601,289
Net cash provided by operating activities	1,611,612	3,728,255
CASH FLOWS FROM INVESTING ACTIVITIES:		
Redemption of certificates of deposit	-	592,000
Proceeds from sales of available-for-sale securities	1,996,860	-
Proceeds from maturities of available-for-sale securities	8,046,656	3,255,000
Purchases of available-for-sale securities	(10,437,239)	(5,204,398)
Proceeds from redemption of restricted bank stock	207,700	(4,000)
Purchases of restricted bank stock	(47,900)	-
Net increase in loans	(1,248,643)	(1,116,019)
Purchases of bank premises and equipment	(254,926)	(153,250)
Proceeds from sale of other real estate	46,463	114,414
Net cash used for by investing activities	(1,691,029)	(2,516,253)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase (decrease) in deposits	4,030,272	(170,077)
Advances on Federal Home Loan Bank borrowings	-	4,555,000
Repayment of Federal Home Loan Bank borrowings	(4,500,000)	(4,500,000)
Dividends paid	(912,725)	(824,952)
Purchases of treasury stock	(452,123)	(44,118)
Proceeds from sale of treasury stock	91,783	27,606
Net cash used for financing activities	(1,742,793)	(956,541)
Net (decrease) increase in cash and cash equivalents	(1,822,210)	255,461
Cash and cash equivalents, beginning balance	11,538,850	11,283,389
Cash and cash equivalents, ending balance	$ 9,716,640	$ 11,538,850
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:		
Cash paid during the year for:		
Interest	$ 2,978,622	$ 2,535,410
Income taxes	450,000	630,000
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Other real estate acquired in settlement of loans	$ 151,182	$ 101,325
Transfer of certificates of deposits to available-for-sale securities	896,000	-

See accompanying notes to the consolidated financial statements.

ORBISONIA COMMUNITY BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Orbisonia Community Bancorp, Inc. (the "Corporation")'s primary activity consists of owning and supervising its subsidiary, Community State Bank of Orbisonia (the "Bank"), which is engaged in providing banking and bank-related services in South Central Pennsylvania, principally Fulton, Huntingdon, and Juniata Counties. Its seven offices are located in Orbisonia, Waterfall, Mount Union, Smithfield, Saxton, Three Springs, and McConnellsburg, Pennsylvania.

Principles of Consolidation and Basis of Accounting

The consolidated financial statements include the accounts of the Corporation and the Bank. All significant intercompany transactions and accounts have been eliminated. See Note 16 for parent company financial statements. The Corporation uses the accrual basis of accounting.

Use of Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for losses on loans, the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans, the valuation of deferred tax assets, and Level III fair value measurements and disclosures. In connection with the determination of the allowance for losses on loans and foreclosed real estate, management obtains independent appraisals for significant properties. Additionally, the valuation of deferred tax assets is dependent upon management's judgment regarding the Corporation's ability to generate taxable income in order to fully utilize the assets.

While management uses available information to recognize losses on loans and foreclosed real estate, future additions to the allowance may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Corporation's allowance for losses on loans and foreclosed real estate. Such agencies may require the Corporation to recognize additions to the allowance based on their judgments about information available to them at the time of their examination. Because of these factors, management's estimate of credit losses inherent in the loan portfolio and the related allowance may change in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

Cash and Cash Equivalents

For purposes of the Consolidated Statement of Cash Flows, cash and cash equivalents include those amounts included in the Consolidated Balance Sheet captions "cash and due from banks," "interest-bearing deposits in other banks," and "federal funds sold," which all have original maturities of 90 days or less. The Corporation has elected to present the net increase or decrease in loans and deposits in the Consolidated Statement of Cash Flows.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment Securities

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

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

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

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

Management determines the appropriate classification of securities at the time of purchase. The Corporation has no investment securities classified as "held to maturity" or "trading securities" at December 31, 2019 and 2018.

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

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

Loans and Allowance for Loan Losses

Loans are stated at the amount of unpaid principal, reduced by net deferred loan origination fees, an unearned discount, and an allowance for loan losses. Unearned discount on installment loans is recognized as income over the terms of the loans by the interest method. Interest on other loans is calculated by using the simple interest method on daily balances of the principal amount outstanding. Loan origination fees are being deferred and amortized as an adjustment of the related loan's yield. The Corporation is amortizing these amounts over the contractual life of the related loans.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans and Allowance for Loan Losses (Continued)

The Corporation evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Corporation upon the extension of credit, is based on management's credit evaluation of the customer. Collateral held varies, but generally includes equipment, inventory, accounts receivable, and real estate.

The Corporation segregates its loan portfolio into four portfolio segments with varying risk characteristics. The portfolio segments represent the loan groupings used by the Corporation in the calculation of the allowance for loan losses and include: Commercial, Residential Mortgage, HELOC/Jr. Lines/Lines of Credit, and Installment Individual. The makeup of these segments is described below:

Commercial:
Commercial loans include loans to businesses for general commercial purposes and include permanent and short-term working capital, machinery and equipment financing, and may be either in the form of lines of credit, demand, or term loans. Some commercial and industrial loans may be unsecured to higher rated customers, but the majority of these loans are secured by the borrower's accounts receivable, inventory, and machinery and equipment, and in many loans, the collateral also includes the business real estate or the business owner's personal real estate or assets. Commercial loans have credit exposure since they are more susceptible to risk of loss during a downturn in the economy, as borrowers may have greater difficulty in meeting their debt service requirements and the value of the collateral may decline.

Commercial construction and land development loans consist of one-to-four family residential construction and commercial and land development loans. The risk of loss on these loans is contingent on the assessment of the property's value at the completion of the project, which should exceed the property's construction costs. A number of factors can negatively affect the project during the construction phase, such as cost overruns, delays in completing the project, competition, and real estate market conditions, which may change based on the supply of similar properties in the area. If the collateral value at the completion of the project is not sufficient to cover the outstanding loan balance, repayment of the loan would potentially need to rely on other repayment sources, including the guarantors of the project or other collateral securing the loan.

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

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

- Owner occupied commercial real estate loans are generally dependent upon the successful operation of the borrower's business, with the cash flows generated from the business being the primary source of repayment of the loan. If the business suffers a downturn in sales or profitability, the borrower's ability to repay the loan could be in jeopardy, which could increase the risk of loss.

Loans and Allowance for Loan Losses (Continued)

- Non-owner occupied and multi-family commercial real estate loans and non-owner occupied residential loans are dependent on the borrower's ability to generate a sufficient level of occupancy to produce rental income that exceeds debt service requirements and operating expenses. Lower occupancy or lease rates may result in a reduction in cash flows, which may affect the ability of the borrower to meet debt service requirements, and may result in lower collateral values, which represents a higher inherent risk than owner-occupied commercial loans.

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

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

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

The portfolio segments discussed above are also the groupings used by management to monitor risk within the portfolio and so no further segmentation into classes is necessary.

The allowance for loan losses is increased through a provision for loan losses charged to expense and reduced by charge-offs, net of recoveries. Loans are charged against the allowance for loan losses when management believes that the collectability of the principal is unlikely. Subsequent recoveries, if any, are credited to the allowance. The allowance for loan losses is an amount that management believes will be adequate to absorb possible losses on existing loans that may become uncollectible based on management's evaluation of the collectability of loans in light of historical loss experience, the nature and volume of the loan portfolio, overall loan portfolio quality, review of specific problem loans, loan delinquencies, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and prevailing economic conditions. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available. Loan delinquencies for all loan segments are determined based on contractual terms of the loan.

The provision for loan and lease losses and the appropriate level of the allowance for loan and lease losses is determined in accordance with generally accepted accounting principles quarterly. Individual loans are selected to be evaluated for impairment based on an internal credit rating system. Loans internally graded as substandard or doubtful are individually evaluated for possible designation as impaired.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans and Allowance for Loan Losses (Continued)

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

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

- Commercial and industrial loans
- Construction/land development
- Farm loans
- Commercial real estate
- Consumer retail loans
- Loans secured by one-to-four family real estate
- Obligations of political subdivisions

The Bank utilizes a 24-month rolling average historical loss ratio when determining the estimated allowance amount for loans evaluated collectively. The Bank also takes into account various qualitative or environmental factors that are likely to cause estimated credit losses to differ from historical loss experiences. These factors include:

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

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

Nonaccrual Loans

The accrual of interest income on all loan segments (including impaired loans) ceases when principal or interest is past due 90 days or more and collateral is inadequate to cover principal and interest or immediately if, in the opinion of management, after considering economic and business conditions and collection efforts, the borrower's financial condition is such that collection of all principal and interest is unlikely. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. Interest accrued but not collected as of the date of placement on nonaccrual status is reversed and charged against current income unless fully collateralized. Subsequent payments received are applied to the outstanding principal balance. Interest income generally is not recognized on specific impaired loans unless the likelihood of further loss is remote.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Troubled Debt Restructurings

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

Impaired Loans

Loans of a commercial nature and loans determined to be troubled debt restructurings (TDR)s are subject to impairment evaluation by management. Loans classified as doubtful or loss and TDRs are considered impaired. Loans classified as substandard are evaluated for possible impairment. A loan is considered impaired when, based on current information and events, it is probable that scheduled collections of principal and interest will not be made according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired.

Impairment is measured on a loan-by-loan basis by either the present value of expected future cash flows discounted at the Corporation's effective interest rate, the loan's obtainable market price, or the fair value of the underlying collateral. Interest income on such loans is recognized only to the extent of interest payments received. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Corporation does not separately identify individual consumer and residential loans for impairment disclosures, unless such loans are the subject of a restructuring agreement or if foreclosure in the near future in imminent. Subsequent payments received either are applied to the outstanding principal balance or recorded as interest income, depending on management's assessment of the ultimate collectability of principal.

Foreclosed Assets

Real estate properties acquired through, or in lieu of, loan foreclosure are to be sold and are initially recorded at fair value based on an independent appraisal, less estimated cost to sell, which becomes the property's new basis. Any write-downs based on the asset's fair value at foreclosure are charged to the allowance for loan losses. If an increase in basis results, it is classified as non-interest income unless there has been a prior charge-off, in which case a recovery to the allowance for loan losses is recorded. Improvements to the property are added to the basis of the assets. Costs incurred in obtaining and maintaining foreclosed properties and subsequent fair value adjustments to the carrying amount of the property are classified as other operating expenses. Gains and losses from the sale of foreclosed real estate properties are recorded as a separate component of other income on the Consolidated Statements of Income. As of December 31, 2019 and 2018, there were $185,907 and $66,724 in residential real estate properties and no commercial real estate properties in foreclosed assets, respectively. The outstanding balance of residential real estate loans in process of foreclosure at December 31, 2019 and 2018, was $1,101,985 and $299,233, respectively.

Premises and Equipment

Corporation building, equipment, furniture, and fixtures are carried at cost less accumulated depreciation. Expenditures for replacements are capitalized and any replaced items are retired. Depreciation is computed based on a straight-line method over the estimated useful lives of the related assets as follows:

	Years
Bank building	25–40
Premises and equipment	3–10
Land improvements	15–20

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Premises and Equipment (Continued)

The cost of computer software is amortized over a three- to five-year period.

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

Restricted Bank Stock

Restricted investments in bank stock, which represent required investments in the common stock of correspondent banks, are carried at cost and as of December 31, 2019 and 2018, consist of the common stock of the Federal Home Loan Bank (FHLB) of Pittsburgh and Atlantic Community Bankers Bank (ACBB). Federal law requires a member institution of the FHLB to hold stock of its district FHLB according to a predetermined formula.

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

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 restricted stock as compared with the capital stock amount and the length of time this situation has persisted, (b) commitments by the FHLB and ACBB 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 ACBB, and (d) the liquidity position of the FHLB and ACBB. There was no impairment of the FHLB and ACBB stock as of December 31, 2019 or 2018.

Bank-Owned Life Insurance

The Corporation owns split-dollar life insurance on the lives of a certain group of key employees. The policies were purchased to help offset the increase in the costs of benefit plans. The cash surrender value of these policies is included as an asset on the Consolidated Balance Sheets, and any increases in the cash surrender value are recorded as earnings on bank-owned life insurance on the Consolidated Statements of Income. In the event of the death of an insured individual under these policies, the Corporation and employee's beneficiary may receive a death benefit.

Endorsement Split-Dollar Life Insurance Arrangements

The Corporation recognizes a liability and related compensation cost for an endorsed split-dollar life insurance arrangement that provides a benefit to specific retired employees. The amount recognized as a liability represents the present value of the post retirement cost for the endorsement split-dollar life insurance policies. See Note 12 for additional information.

Earnings Per Share

Earnings per common share were computed based upon weighted-average shares of common stock outstanding of 1,549,250 and 1,556,548 for 2019 and 2018, respectively.

Treasury Stock

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Federal Income Taxes

As a result of certain timing differences between financial statement and federal income tax reporting, including depreciation, loan losses, and nonaccrual loan interest, deferred income taxes are provided in the financial statements. Deferred tax assets and liabilities are included in the financial statements at currently enacted income tax rates applicable to the period in which the deferred tax assets and liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. See Note 14 for further details.

Advertising

The Corporation expenses advertising costs as they are incurred. Advertising expense was $75,994 and $69,116 for the years ended December 31, 2019 and 2018, respectively, which is included in other operating expenses on the Consolidated Statement of Income.

Comprehensive Income

Comprehensive income is defined as the change in equity from transactions and other events from nonowner sources. It includes all changes in equity except those resulting from investments by stockholders and distributions to shareholders. Comprehensive income includes net income and certain elements of "other comprehensive income" such as foreign currency transactions, accounting for futures contracts, employer's accounting for pensions, and accounting for certain investments in debt securities.

There was a reclassification out of accumulated other comprehensive income for the year ended December 31, 2019, related to losses on the sale of investment securities of $3,140. There were no reclassifications out of accumulated other comprehensive income for the year ended December 31, 2018, related to realized gains or losses.

Correspondent Bank Accounts

The Corporation is required to maintain certain minimum cash balances for electronic funds transfer transactions. The required cash balance was $345,000 and $2,595,000 at December 31, 2019 and 2018, respectively.

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

Reclassifications

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

2. STOCK SPLIT

In January 2019, the Corporation authorized increasing the number of the authorized common shares from 4,000,000 to 8,000,000 and declared a two-for-one stock split, changing the par value of the stock from $0.25 to $0.125, effective February 28, 2019. The effect of the stock split was retroactively applied, adjusting the December 31, 2018, number of shares and per share data within the accompanying financial statements.

3. REVENUE RECOGNITION

The sources of revenue for the Bank are interest income from loans, income from investments, and non-interest income. Non-interest income is generally earned from various banking and financial services that the Bank offers, from changes in the value of investments and from the sale of assets. Revenue is recognized as earned based on contractual terms, as transactions occur, or as services are provided. Most revenues of the Bank are accounted for under other accounting guidance and are outside of the scope of ASC 606, including most revenues associated with financial instruments. All revenues determined to be in the scope of ASC 606 are presented within noninterest income within the Consolidated Statements of Income and are recognized as performance obligations to the customer are met. The Corporation evaluated the nature of its contracts with customers and determined that further disaggregation of revenue from contracts with customers into more granular categories beyond what is presented in the Consolidated Statements of Income was not necessary.

Following is further detail of the various types of revenue the Bank earns and when it is recognized.

Interest Income: Interest income is generated from various sources, including loans outstanding and investments, and is recognized on an accrual basis according to loan agreements, securities contracts, or other such written contracts. These revenues are outside the scope of ASC 606.

Service Charges on Deposit Accounts: Service charges are generated from customer deposit accounts for overdraft and account maintenance services. Overdraft fees are recognized when the overdraft occurs. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Bank satisfies the performance obligation. In each case, these service charges and fees are recognized in income at the time or within the same period that the Bank's performance obligation is satisfied.

Other Service Charges: Other service charges are earned from customers based on transaction-based services. Such services include sales of customer checkbooks, electronic banking fees, merchant service fees, and loan settlement and collection services. In each case, these service charges and fees are recognized in income at the time or within the same period that the Bank's performance obligation is satisfied.

Wealth Management Services: Revenue is primarily comprised of fees earned from investment brokerage services provided to its customers by a third-party service provider. The Bank receives commissions from the third-party service provider on a monthly basis based on customer activity for the months that are transaction-based.

Earnings on Bank-Owned Life Insurance: Revenues are generated from life insurance policies by increases in cash surrender values as premiums are paid and by the redemption and payout of the policies. These revenues are recognized at the time of carriers reporting cash surrender values to the Bank and at the time proceeds are received. These revenues are outside the scope of ASC 606.

Realized Gains on Sales of Foreclosed Assets: Realized gains on the sale of foreclosed assets represent proceeds in excess of carrying value for real estate acquired through foreclosure. These gains are recognized at a point in time once control of the assets have transferred to the buyers and collectability of the transaction price is reasonably assured.

3. **REVENUE RECOGNITION (Continued)**

Change in Fair Value of Equity Securities: Unrealized gains presented in other income represent changes in market value of equity investment securities that are available for sale. These gains (losses) are recognized at the time the investments are marked to market (generally daily) or upon being realized, as applicable. These revenues are outside the scope of ASC 606.

Other Income: Other income represents safe deposit box income and other fees charged to customers. Income is recognized either annually or transaction-based, as the performance obligation is satisfied.

4. **INVESTMENT SECURITIES**

At December 31, 2019 and 2018, the investment securities portfolio was comprised of securities classified as “available for sale”, in accordance with generally accepted accounting principles, resulting in investment securities available for sale being carried at fair value.

The amortized cost, gross unrealized gains and losses, and fair values of investment securities available for sale at December 31, 2019 and 2018, were:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		2019		
Obligations of other U.S. government agencies and corporations	$ 6,498,204	$ 11,342	$ (8,789)	$ 6,500,757
Obligations of state and political subdivisions	7,394,126	22,858	(4,505)	7,412,479
Mortgage backed securities	5,825,625	1,471	(13,511)	5,813,585
Negotiable certificate of deposits	648,000	13,120	-	661,120
Total debt securities	$ 20,365,955	$ 48,791	$ (26,805)	$ 20,387,941
		2018		
Obligations of other U.S. government agencies and corporations	$ 12,997,182	$ 7,849	$ (182,366)	$ 12,822,665
Obligations of state and political subdivisions	6,097,839	4,023	(32,029)	6,069,833
	$ 19,095,021	$ 11,872	$ (214,395)	$ 18,892,498

The amortized cost and fair values of investment securities available for sale at December 31, 2019, by contractual maturity, are shown in the following table. Contractual maturities will differ from expected maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Mortgage backed securities were not included as the contractual maturity is generally irrelevant due to the borrowers’ right to prepay without pre-payment penalty, which results in significant pre-payments.

	Amortized Cost	Fair Value
Due in one year or less	$ 2,410,600	$ 2,409,926
Due after one year through five years	7,608,308	7,630,167
Due after five years through ten years	500,000	505,265
Due after ten years	4,021,422	4,028,998
Mortgage backed securities	5,825,625	5,813,585
Total debt securities	$ 20,365,955	$ 20,387,941

4. INVESTMENT SECURITIES (Continued)

During 2019, the Bank had proceeds from sales of available-for-sale securities of $1,996,860, with gross losses of $3,140. There were no sales of available-for-sale securities in 2018.

The Corporation's investments are exposed to various risks, such as interest rate, market, currency, and credit risks. Due to the level of risk associated with certain investments and the level of uncertainty related to changes in the value of investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment assets reported in the financial statements.

The following table shows the Corporation's gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous loss position, at December 31, 2019 and 2018, respectively:

	12 Months or Less		More than 12 Months		Total	
Description	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
2019						
Obligations of other U.S. government agencies and corporations	$ 499,239	$ (761)	$ 2,990,175	$ (8,028)	$ 3,489,414	$ (8,789)
Obligations of state and political subdivisions	922,096	(4,505)	-	-	922,096	(4,505)
Mortgage backed securities	3,533,507	(13,511)	-	-	3,533,507	(13,511)
Total	$ 4,954,842	$ (18,777)	$ 2,990,175	$ (8,028)	$ 7,945,017	$ (26,805)
2018						
Obligations of other U.S. government agencies and corporations	$ 2,497,920	$ (2,080)	$ 7,816,896	$ (180,286)	$ 10,314,816	$ (182,366)
Obligations of state and political subdivisions	2,872,426	(18,683)	1,304,106	(13,346)	4,176,532	(32,029)
Total	$ 5,370,346	$ (20,763)	$ 9,121,002	$ (193,632)	$ 14,491,348	$ (214,395)

Management evaluates securities for other-than-temporary impairment on at least a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Corporation to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

At December 31, 2019, seven U.S. government agencies, three obligations of state and political subdivisions securities, and eight mortgage backed securities had unrealized losses. At December 31, 2018, twenty-one U.S. government agencies and twenty-one obligations of state and political subdivisions securities had unrealized losses. These securities are considered temporarily impaired. The unrealized losses on these securities have not been recognized into income because the issuers' bonds are of high-credit quality, management has the intent and ability to hold these securities for the foreseeable future, and the decline in fair value is largely due to changes in market interest rates. The Corporation also considers sector-specific credit rating changes in its analysis. The fair value is expected to recover as the securities approach their maturity date or reset date. The Corporation does not intend to sell until recovery and does not believe selling will be required before recovery.

Investment securities that are pledged to secure public funds and for other purposes as required or permitted by law are as follows:

	December 31, 2019	December 31, 2018
Amortized cost	$ 9,378,072	$ 11,114,060
Fair value	9,398,454	10,945,661

4. INVESTMENT SECURITIES (Continued)

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

	December 31, 2019	December 31, 2018
Federal Home Loan Bank	$ 200,700	$ 360,500
Atlantic Community Bankers Bank	20,000	20,000
	$ 220,700	$ 380,500

In 2019 the Bank elected to transfer their certificates of deposits to their available for sale portfolio and carry them at fair value.

5. LOANS

Loans balances consist of the following at December 31:

	2019	2018
Commercial	$ 54,301,086	$ 51,502,372
Residential Mortgage	184,419,829	189,336,257
HELOC/jr. liens/lines of credit	21,188,215	21,738,940
Installment/individuals	25,407,518	21,906,642
Total Loans	285,316,648	284,484,211
Less: Allowance for loan losses	(3,109,171)	(2,859,195)
Total loans net of the allowance for loan loss	$ 282,207,477	$ 281,625,016

The loan balances above are net of deferred loan fees and unearned discounts of $557,479 and $528,984 for 2019 and 2018, respectively.

Following is an aging analysis of past-due loans at December 31, 2019 and 2018:

	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Gross Loans	Recorded Invesment > 90 Days and Accruing
				2019			
Commercial	$ 222,302	$ 128,820	$ 1,825,767	$ 2,176,889	$ 52,124,197	$ 54,301,086	$ -
Residential mortgage	1,847,776	438,313	1,026,569	3,312,658	181,107,171	184,419,829	-
HELOC/jr. liens/lines of credit	369,852	9,565	150,192	529,609	20,658,606	21,188,215	-
Installment/individuals	77,199	82,482	40,795	200,476	25,207,042	25,407,518	-
Total	$ 2,517,129	$ 659,180	$ 3,043,323	$ 6,219,632	$ 279,097,016	$ 285,316,648	$ -
				2018			
Commercial	$ 164,617	$ -	$ 86,287	$ 250,904	$ 51,251,468	$ 51,502,372	$ -
Residential mortgage	1,624,796	139,006	1,533,402	3,297,204	186,039,053	189,336,257	-
HELOC/jr. liens/lines of credit	189,959	-	155,204	345,163	21,393,777	21,738,940	-
Installment/individuals	192,775	35,913	20,732	249,420	21,657,222	21,906,642	-
Total	$ 2,172,147	$ 174,919	$ 1,795,625	$ 4,142,691	$ 280,341,520	$ 284,484,211	$ -

5. LOANS (Continued)

Loans on nonaccrual status were as follows at December 31, 2019 and 2018:

	2019	2018
Commercial	$ 3,233,880	$ 997,397
Residential mortgage	1,598,701	1,934,076
HELOC/jr. liens/lines of credit	170,627	155,204
Installment/individuals	200,461	141,010
Total	$ 5,203,669	$ 3,227,687

The following is a summary of information pertaining to impaired loans at December 31, 2019 and 2018:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
		2019			
With no related allowance recorded:					
Commercial	$ 3,456,328	$ 3,456,328	$ -	$ 3,462,705	$ 72,131
Residential mortgage	208,053	265,998	-	179,060	5
	3,664,381	3,722,326	-	3,641,765	72,136
With an allowance recorded:					
Commercial	742,364	742,364	121,782	735,453	41,602
Residential mortgage	221,774	224,125	32,017	220,298	2,837
Installment/individuals	-	-	-	1,932	-
	964,138	966,489	153,799	957,683	44,439
Total:					
Commercial	4,198,692	4,198,692	121,782	4,198,158	113,733
Residential mortgage	429,827	490,123	32,017	399,358	2,842
Installment/individuals	-	-	-	1,932	-
Total	$ 4,628,519	$ 4,688,815	$ 153,799	$ 4,599,448	$ 116,575

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
		2018			
With no related allowance recorded:					
Commercial	$ 2,435,237	$ 2,435,237	$ -	$ 2,442,303	$ 79,000
Residential mortgage	131,668	161,668	-	159,120	2,678
	2,566,905	2,596,905	-	2,601,423	81,678
With an allowance recorded:					
Commercial	667,154	667,154	35,275	687,520	32,250
Residential mortgage	91,021	91,021	1,502	92,641	4,812
Installment/individuals	21,074	21,074	376	23,181	1,387
	779,249	779,249	37,153	803,342	38,449
Total:					
Commercial	3,102,391	3,102,391	35,275	3,129,823	111,250
Residential mortgage	222,689	252,689	1,502	251,761	7,490
Installment/individuals	21,074	21,074	376	23,181	1,387
Total	$ 3,346,154	$ 3,376,154	$ 37,153	$ 3,404,765	$ 120,127

5. LOANS (Continued)

The Corporation, from time to time, will modify a loan agreement to provide temporary relief and, if necessary, longer-term financial relief to loan customers. The Corporation may grant concessions for economic or legal reasons related to the borrower's financial difficulties that may not otherwise be considered. These concessions may be one or a combination of the following: movement of unpaid principal and interest to the end of the loan; deferral of principal payments for a period of time; and/or a reduction of interest rates either permanently or for a specified period of time. When such concessions are made, and management considers the loan to be material, this is considered to be a troubled debt restructuring. For all loans, the determination as to whether a concession has been made for economic or legal reasons that the Corporation would not have otherwise considered is made on a case-by-case basis.

The Corporation had four loans modified as troubled debt restructurings during the year ended December 31, 2019. All of the 2019 loans were refinanced to grant borrowers additional time for loan repayment by granting a significant deferral of principal payments. The Corporation had four loans modified as troubled debt restructurings during the year ended December 31, 2018. All of the 2018 loans were refinanced in order to lower the monthly loan payments required, and at times, borrowers were extended additional credit as part of the restructuring agreement. The Corporation would not have typically originated these loans given the customers' financial condition.

Information about modified loans at December 31, 2019 and 2018, is as follows:

	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	December 31 Outstanding Recorded Investment
			2019	
Troubled debt restructurings:				
Commercial	4	$ 2,165,113	$ 2,165,113	$ 2,148,113
	4	$ 2,165,113	$ 2,165,113	$ 2,148,113

	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	December 31 Outstanding Recorded Investment
			2018	
Troubled debt restructurings:				
Residential mortgage	3	$ 2,435,113	$ 2,435,113	$ 2,430,450
Installment/individuals	1	13,400	13,400	12,511
	4	$ 2,448,513	$ 2,448,513	$ 2,442,961

There were no loans that were modified in 2018, which subsequently defaulted in 2019.

Troubled debt restructurings had specific reserves of $59,818 and $8,981 as of December 31, 2019 and 2018, respectively.

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

5. LOANS (Continued)

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

	2019	2018
Beginning balance	$ 1,337,153	$ 1,331,280
New loans and advances	571,102	374,281
Changes in related parties	(284,099)	(197,103)
Repayments	(306,431)	(171,305)
Total	$ 1,317,725	$ 1,337,153

6. ALLOWANCE FOR LOAN LOSSES

A detailed summary of the Corporation's allowance for loan loss policy and methodology can be found in Note 1. There have been no significant changes in management's methodology for evaluating the allowance for loan losses from prior periods.

Since 2010, all commercial loan relationships are risk rated upon inception. Credit quality of loans is monitored on an ongoing basis by reviewing the risk rating of all loan relationships exceeding $500,000 on an annual basis and all loan relationships exceeding $100,000, but less than $500,000, on a semi-annual basis.

Following is an analysis of the loan loss at December 31, 2019 and 2018:

	Commercial	Residential Mortgage	HELOC/Jr. Liens/Lines of Credit	Installment/ Individuals	Unallocated	Total
				2019		
Allowance for loan losses:						
Beginning balance	$ 637,918	$ 1,469,782	$ 191,257	$ 506,312	$ 53,926	$ 2,859,195
Losses charged to allowance	-	(141,992)	-	(182,250)	-	(324,242)
Recoveries credited to allowance	-	6,000	-	53,218	-	59,218
Current-year provision	191,776	216,016	4,380	153,204	(50,376)	515,000
Ending balance	$ 829,694	$ 1,549,806	$ 195,637	$ 530,484	$ 3,550	$ 3,109,171
Ending balance individually evaluated for impairment	$ 121,782	$ 32,017	$ -	$ -	$ -	$ 153,799
Ending balance collectively evaluated for impairment	$ 707,912	$ 1,517,789	$ 195,637	$ 530,484	$ 3,550	$ 2,955,372
Loans receivable:						
Ending balance	$ 54,301,086	$ 184,419,829	$ 21,188,215	$ 25,407,518		$ 285,316,648
Ending balance: individually evaulated for impairment	$ 4,198,692	$ 429,827	$ -	$ -		$ 4,628,519
Ending balance: collectively evaluated for impairment	$ 50,102,394	$ 183,990,002	$ 21,188,215	$ 25,407,518		$ 280,688,129

6. ALLOWANCE FOR LOAN LOSSES (Continued)

	Commercial	Residential Mortgage	HELOC/Jr. Liens/Lines of Credit	Installment/ Individuals	Unallocated	Total
			2018			
Allowance for loan losses:						
Beginning balance	$ 237,321	$ 1,721,688	$ 220,927	$ 354,749	$ 621,365	$ 3,156,050
Losses charged to allowance	-	(171,074)	-	(157,388)	-	(328,462)
Recoveries credited to allowance	-	198	-	31,409	-	31,607
Current-year provision	400,597	(81,030)	(29,670)	277,542	(567,439)	-
Ending balance	$ 637,918	$ 1,469,782	$ 191,257	$ 506,312	$ 53,926	$ 2,859,195
Ending balance individually evaluated for impairment	$ 35,275	$ 1,502	$ -	$ 376	$ -	$ 37,153
Ending balance collectively evaluated for impairment	$ 602,643	$ 1,468,280	$ 191,257	$ 505,936	$ 53,926	$ 2,822,042
Loans receivable:						
Ending balance	$ 51,502,372	$ 189,336,257	$ 21,738,940	$ 21,906,642		$ 284,484,211
Ending balance: individually evaulated for impairment	$ 3,102,391	$ 222,689	$ -	$ 21,074		$ 3,346,154
Ending balance: collectively evaluated for impairment	$ 48,399,981	$ 189,113,568	$ 21,738,940	$ 21,885,568		$ 281,138,057

The Bank's policy is to risk rate all commercial loans unless payment history does not indicate a repayment risk. The Bank also risk rates other commercial loans, residential mortgage, HELOC/Jr. Liens/Lines of Credit, and Installment/Individual loans only if loan conditions are indicative of potential weaknesses in the credit quality.

Loans graded Strong and Satisfactory/Pass are loans with acceptable risk. Other internally assigned grades indicate the following:

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

Substandard - These loans have weaknesses that deserve management's close attention. They are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. They are characterized by the distinct possibility that the Corporation will sustain some loss if the deficiencies are not corrected.

Doubtful - Weaknesses in these loans are so pronounced that the collection or liquidation of principal and interest is highly questionable or improbable. They contain most of the weaknesses of a Substandard loan and the probability of loss is great.

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

6. ALLOWANCE FOR LOAN LOSSES (Continued)

Following is the credit risk profile by internally assigned grade as of December 31, 2019 and 2018:

	Commercial	Residential Mortgage	HELOC/Jr. Liens/Lines of Credit	Installment/ Individuals	Total
		As of December 31, 2019			
Not rated	$ 6,439,995	$ 147,793,831	$ 17,363,272	$ 24,259,854	$ 195,856,952
Strong	5,990	-	-	2,314	8,304
Satisfactory/pass	35,280,456	31,582,101	2,888,962	1,037,626	70,789,145
Watch	6,127,095	2,373,376	693,060	83,095	9,276,626
Substandard	5,857,255	2,670,521	242,921	24,629	8,795,326
Doubtful	590,295	-	-	-	590,295
Loss	-	-	-	-	-
Total	$ 54,301,086	$ 184,419,829	$ 21,188,215	$ 25,407,518	$ 285,316,648
		As of December 31, 2018			
Not rated	$ 4,928,683	$ 160,531,725	$ 19,029,803	$ 20,861,232	$ 205,351,443
Strong	751,260	-	-	-	751,260
Satisfactory/pass	32,183,806	24,061,777	2,275,880	890,242	59,411,705
Watch	8,046,138	1,768,380	191,202	5,210	10,010,930
Substandard	5,592,485	2,974,375	242,055	149,958	8,958,873
Doubtful	-	-	-	-	-
Loss	-	-	-	-	-
Total	$ 51,502,372	$ 189,336,257	$ 21,738,940	$ 21,906,642	$ 284,484,211

The following tables present performing and nonperforming loans based on payment activity.

	2019		
	Residential Mortgage	HELOC/Jr. Liens/Lines of Credit	Installment/ Individuals
Performing	$ 182,821,128	$ 21,017,588	$ 25,207,057
Nonperforming	1,598,701	170,627	200,461
Total	$ 184,419,829	$ 21,188,215	$ 25,407,518

	2018		
	Residential Mortgage	HELOC/Jr. Liens/Lines of Credit	Installment/ Individuals
Performing	$ 187,402,181	$ 21,583,736	$ 21,765,632
Nonperforming	1,934,076	155,204	141,010
Total	$ 189,336,257	$ 21,738,940	$ 21,906,642

7. OTHER REAL ESTATE

During 2019, the Bank foreclosed on three loans secured by real estate property. Proceeds from sales of six properties and other repossessed assets during the year ended December 31, 2019, were $159,894, which resulted in gross realized gains of $25,515 and gross realized losses of $11,051, for a net realized gain of $14,464. At December 31, 2019, the Bank had five foreclosed real estate properties, with a carrying value of $185,907.

During 2018, the Bank foreclosed on six loans secured by real estate property. Proceeds from sales of four properties and other repossessed assets during the year ended December 31, 2018, were $114,414, which resulted in gross realized gains of $4,880 and gross realized losses of $28,367 for a net realized loss of $23,487. At December 31, 2018, the Bank had five foreclosed real estate properties with a carrying value of $66,724.

8. PREMISES AND EQUIPMENT

Premises and equipment consisted of the following at December 31, 2019 and 2018:

Description	Cost	Accumulated Depreciation	Depreciated Cost
		2019	
Land	$ 1,670,761	$ -	$ 1,670,761
Bank building	5,863,055	2,850,376	3,012,679
Premises and equipment	3,463,018	2,953,087	509,931
Land improvements	163,759	148,813	14,946
	$ 11,160,593	$ 5,952,276	$ 5,208,317
		2018	
Land	$ 1,670,761	$ -	$ 1,670,761
Bank building	5,889,872	2,732,387	3,157,485
Premises and equipment	3,193,060	2,805,147	387,913
Land improvements	161,234	129,734	31,500
	$ 10,914,927	$ 5,667,268	$ 5,247,659

Depreciation charged to operations was $294,268 in 2019 and $336,208 in 2018.

9. DEPOSITS

Interest-bearing deposits as of December 31, 2019 and 2018, were as follows:

	2019	2018
Savings deposits	$ 126,039,781	$ 121,615,465
Time certificates	139,737,301	143,109,392
Other time deposits	578,316	576,018
	$ 266,355,398	$ 265,300,875

At December 31, 2019, the scheduled maturities of time certificates are as follows:

2020	$ 47,837,031
2021	33,759,146
2022	17,289,471
2023	15,335,861
2024	9,993,628
Thereafter	15,522,164
	$ 139,737,301

The aggregate amount of time deposit accounts that meet or exceeded the FDIC insurance limit of $250,000 totaled $12,639,030 and $12,908,782 at December 31, 2019 and 2018 respectively.

9. DEPOSITS (Continued)

The aggregate amount of demand deposit overdrafts reclassified as loan balances was $22,110 and $28,204 at December 31, 2019 and 2018, respectively.

The Corporation accepts deposits of employees, officers, and directors of the Corporation and its subsidiary on the same terms, including interest rates, as those prevailing at the time for comparable transactions with unrelated persons. The aggregate dollar amount of deposits of employees, officers, and directors totaled $6,936,127 and $5,495,177 at December 31, 2019 and 2018, respectively.

10. BORROWED FUNDS

The Corporation had $55,000 and $4,555,000 in FHLB borrowings outstanding at December 31 2019 and 2018, respectively. The Corporation has pledged certain securities, loans, and other assets as collateral on the Federal Home Loan Bank borrowings in the approximate amount $230,934,000 at December 31, 2019. The maximum borrowing capacity from the Federal Home Loan Bank is approximately $158,886,500 at December 31, 2019.

The Corporation participates in a program with FHLB to provide startup or working capital for small businesses. Under the program, FHLB provides funding to the Corporation, who then provides financing to the small business. The Corporation collects monthly payments from the customer and the Corporation makes monthly payments to FHLB, based on no payments due for one year and then a six-year amortization. The balance of these loans was $55,000 at December 31, 2019 and 2018.

	Interest Rate	December 31, 2019	December 31, 2018
June 2019 (non-amortizing)	2.83 %	$ -	$ 2,000,000
February 2019 (non-amortizing)	2.77 %	-	2,500,000
January 2025 (non-amortizing)	3.00 %	55,000	55,000
Total		$ 55,000	$ 4,555,000

The Corporation has an unsecured agreement related to federal funds purchased through the Atlantic Community Bankers Bank for up to $4,000,000. The federal funds purchased agreement includes a variable interest rate that is determined daily. There were no federal funds purchased at December 31, 2019 or 2018.

11. FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

The Corporation is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financial needs of its customers and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. The contract amounts of those instruments reflect the extent of involvement the Corporation has in particular classes of financial instruments.

The Corporation’s exposure to credit loss, in the event of nonperformance by the other party to the financial instrument for commitments to extend credit, standby letters of credit, and financial guarantees written, is represented by the contractual amount of those instruments. The Corporation uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

11. FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK (Continued)

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

	Contract or Notional Amount			
		2019		2018
Commitments to extend credit	$	15,836,144	$	17,640,000
Standby letters of credit and financial guarantees written		61,900		45,000
	$	15,898,044	$	17,685,000

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Corporation evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Corporation upon extension of credit, is based on management's credit evaluation of the customer. Collateral held varies, but may include accounts receivable, inventory, real estate, equipment, and income-producing commercial properties.

Standby letters of credit and financial guarantees written are conditional commitments issued by the Corporation to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. The Corporation holds collateral supporting those commitments when deemed necessary by management.

12. RETIREMENT PLANS

Defined Contribution Retirement Plan

The Corporation has a 401(k) profit sharing plan covering all full-time employees who have attained the age of 18 and have completed 12 months of service. The plan provides for the Corporation to make contributions that will match employee deferrals on a one-to-one basis, up to 3 percent of employees' eligible compensation. Additional contributions can be made at the discretion of the Board of Directors based on the Corporation's performance. The contributions for the years ended December 31, 2019 and 2018, were $115,736 and $111,021, respectively.

Supplemental Executive Retirement Agreement

The Corporation has established a supplemental executive retirement agreement for which the Corporation will fund a future benefit to certain executives upon retirement. Generally accepted accounting principles require the recording of a liability retirement account for the executive into which appropriate accruals shall be made, using a reasonable discount rate. A net expense of $2,294 and $2,784 was recorded for the years ended December 31, 2019 and 2018, respectively, for deferred compensation costs. The total liability related to this executive retirement benefit was $47,110 and $58,414 at December 31, 2019 and 2018, respectively.

13. BANK-OWNED LIFE INSURANCE

The Corporation has purchased split-dollar bank-owned life insurance covering directors and key employees. The policies were funded with single premium life insurance contracts. The Bank is the owner and the Bank and employee's beneficiary are beneficiaries of the policy. The cash surrender value of the life insurance policies is an unrestricted asset of the Corporation, which totaled $8,567,866 and $8,386,317 at December 31, 2019 and 2018, respectively.

The Corporation has promised a continuation of life insurance coverage to directors and some of the key employees post retirement. Generally accepted accounting principles require the recording of post-retirement costs and a liability equal to the present value of the cost of post-retirement insurance during the insured employees' term of service. The net income (expense) of $18,778 and ($16,585) was recorded for the years ended December 31, 2019 and 2018, respectively, for post-retirement costs. The total liability related to this post retirement benefit was $415,762 and $434,540 at December 31, 2019 and 2018, respectively.

14. FEDERAL INCOME TAXES

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

		2019		2018
Current-year provisions	$	432,949	$	619,550
Deferred income taxes		(53,683)		33,125
Applicable income tax	$	379,266	$	652,675

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

	2019		2018	
Federal income tax rate	21.0	%	21.0	%
Reduction resulting from:				
Nontaxable interest income (net of nondeductable interest)	(3.5)		2.3	
Life insurance income	(1.6)		(1.1)	
Other	0.1		0.1	
Effective income tax rate	16.0	%	17.9	%

14. FEDERAL INCOME TAXES (Continued)

Deferred tax liabilities have been provided for taxable temporary differences related to accumulated depreciation, and unrealized gains on available-for-sale securities. Deferred tax assets have been provided for deductible temporary differences related to the allowance for loan losses, deferred compensation plans, difference in investment basis, and nonaccrual interest on loans. The net deferred tax assets included in other assets in the accompanying Consolidated Balance Sheet include the following components:

	2019	2018
Total deferred tax assets:		
Loan loss provision	$ 535,653	$ 479,324
Nonaccrual interest	35,012	47,387
Principal paydowns	83	-
Unrealized losses on available-for-sale debt securities	-	42,530
Deferred compensation	19,648	19,130
Total deferred tax liabilities:		
Depreciation expense	(103,389)	(98,044)
Unrealized gains on available-for-sale debt securities	(4,617)	-
Unrealized gains on available-for-sale equity securities	(142,592)	(157,065)
Net deferred tax assets	$ 339,798	$ 333,262

The Corporation has not recorded a valuation allowance for the deferred tax assets, as management feels that it is more likely than not that they will be ultimately realized.

Uncertain Tax Positions

The Corporation files income tax returns in the U.S. federal jurisdiction and the state of Pennsylvania. With few exceptions, the Corporation is no longer subject to U.S. federal, state, or local income tax examinations by tax authorities for years before 2016.

The Corporation follows the FASB Accounting Standards Codification, which provides guidance on accounting for uncertainty in income taxes recognized in the financial statements. When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above would be reflected as a liability for unrecognized tax benefits in the accompanying consolidated balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination. Interest and penalties associated with unrecognized tax benefits would be classified as additional income taxes in the Consolidated Statement of Income. As of December 31, 2019 and 2018, there was no liability for unrecognized tax benefits.

15. LEASE COMMITMENTS

The Corporation leases equipment under operating leases. Rental expense for these leases was $92,863 and $76,812 for December 31, 2019 and 2018, respectively. Future minimum lease commitments under these leases are as follows:

		Years Ending December 31
2020	$	99,000
2021		108,000
2022		36,000
2023		18,000
	$	261,000

16. ORBISONIA COMMUNITY BANCORP, INC. (PARENT COMPANY ONLY) FINANCIAL STATEMENTS

The following are the condensed balance sheets, statements of income, and statements of cash flows for the parent company:

Balance Sheets

	December 31, 2019	December 31, 2018
Assets		
Cash	$ 141,276	$ 185,983
Equity securities available for sale	701,825	770,738
Investment in wholly owned subsidiary	38,556,400	37,540,514
Total assets	$ 39,399,501	$ 38,497,235
Liabilities		
Deferred taxes	$ 142,592	$ 157,064
Stockholders' equity		
Common stock, par value $0.125; 8,000,000 shares authorized and 1,600,000 shares issued, 1,540,144 and 1,556,904 shares outstanding at 2019 and 2018, respectively	200,000	200,000
Additional paid-in capital	2,005,136	2,070,211
Retained earnings	38,121,418	37,021,702
Accumulated other comprehensive income (loss)	17,369	(159,993)
Less cost of treasury stock (59,856 shares 2019; 43,096 shares 2018)	(1,087,014)	(791,749)
Total stockholders' equity	39,256,909	38,340,171
Total liabilities and stockholders' equity	$ 39,399,501	$ 38,497,235

16. ORBISONIA COMMUNITY BANCORP, INC. (PARENT COMPANY ONLY) FINANCIAL STATEMENTS (Continued)

Statements of Income

	Years Ended December 31 2019	2018
Income		
Cash dividends from wholly-owned subsidiary	$ 1,212,725	$ 824,952
Equity in undistributed income of subsidiary	838,524	2,107,783
Dividends from bank stock	31,918	31,918
Change in fair value of equity securities	(68,913)	45,338
Total income	2,014,254	3,009,991
Expenses		
Other expenses	1,813	19,691
Total expense	1,813	19,691
Net income	2,012,441	2,990,300
Comprehensive income	$ 2,189,803	$ 2,962,164

Statements of Cash Flows

	Years Ended December 31, 2019	2018
Cash flows from operating activities:		
Net income	$ 2,012,441	$ 2,990,300
Adjustments to reconcile net income to cash provided by operating activities		
Equity in undistributed income of subsidiary	(838,524)	(2,107,783)
Change in fair value of equity securities	68,913	(45,338)
Deferred income taxes	(14,472)	9,521
Net cash provided by operating activities	1,228,358	846,700
Cash flows from financing activities:		
Proceeds from sale of treasury stock	91,783	27,606
Purchase of treasury stock	(452,123)	(44,118)
Dividends paid	(912,725)	(824,952)
Net cash used for financing activities	(1,273,065)	(841,464)
Net (decrease) increase in cash	(44,707)	5,236
Cash, beginning balance	185,983	180,747
Cash, ending balance	$ 141,276	$ 185,983

17. REGULATORY MATTERS

Dividends paid by Orbisonia Community Bancorp, Inc. are provided from Community State Bank's dividends to the parent company. Under provisions of the Pennsylvania Banking Code, cash dividends may be paid from accumulated net earnings (retained earnings) as long as minimum capital requirements are met. The minimum capital requirements stipulate that the Bank's surplus or additional paid-in capital be equal to the amount of capital. Community State Bank is well above these requirements, and the balance of $36,339,037, in its retained earnings at December 31, 2019, is available for cash dividends. Orbisonia Community Bancorp's balance of retained earnings at December 31, 2019, is $38,121,418 and would be available for cash dividends, although payment of dividends to such extent would not be prudent or likely. The Federal Reserve Board, which regulates bank holding companies, establishes guidelines that indicate that cash dividends should be covered by current period earnings. The Corporation is also subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary actions by regulators that, if undertaken, could have a direct and material effect on the Corporation's financial statements. Under capital adequacy guidelines, the Bank is required to maintain minimum capital ratios. The leverage ratio compares capital to total balance sheet assets, while the risk-based ratios compare capital to risk-weighted assets and off-balance-sheet activity in order to make capital levels more sensitive to risk profiles of individual banks.

A comparison of the Bank's capital ratios to regulatory minimums at December 31 is as follows (dollars in thousands):

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Rate	Amount	Rate
As of December 31, 2019						
Total capital (to risk-weighted assets)	$ 41,256	19.0%	$ 17,387	8.0%	$ 21,734	10.0%
Common equity Tier 1 (to risk-weighted assets)	38,534	17.7%	9,780	4.5%	14,127	6.5%
Tier 1 capital (to risk-weighted assets)	38,534	17.7%	13,040	6.0%	17,387	8.0%
Tier 1 capital (to average assets)	38,534	11.7%	13,213	4.0%	16,516	5.0%
As of December 31, 2018						
Total capital (to risk-weighted assets)	$ 40,319	19.0%	$ 16,995	8.0%	$ 21,244	10.0%
Common equity Tier 1 (to risk-weighted assets)	37,661	17.7%	9,560	4.5%	13,809	6.5%
Tier 1 capital (to risk-weighted assets)	37,661	17.7%	12,746	6.0%	16,995	8.0%
Tier 1 capital (to average assets)	37,661	11.4%	13,171	4.0%	16,463	5.0%

Consolidated capital amount and ratios are not materially different from those presented above.

As of December 31, 2019, the most recent notification from regulatory agencies categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier I risk-based, common equity Tier I, and Tier I leverage ratios as set forth in the above table. There are no conditions or events since that notification that management believes have changed the Bank's category.

18. FAIR VALUE DISCLOSURES

Fair Value Measurement

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

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

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

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

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

Following is a description of the valuation methodologies used for financial assets and liabilities measured on a recurring basis at estimated fair value in the financial statements.

Investment securities

Where quoted prices are available in an active market, securities are classified within Level I of the valuation hierarchy. Level I securities would include highly liquid government bonds, mortgage products, and exchange traded equities. If quoted market prices are not available, securities are classified within Level II and fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flow. Level II securities would include debt securities issued by U.S. agencies, mortgage-backed agency securities, obligations of states and political subdivisions, certain corporate asset backed, and other securities. In cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level III of the valuation hierarchy. All of the Bank's securities are classified as available for sale.

The Corporation had no liabilities reflected at estimated fair value at December 31, 2019 and 2018.

A summary of assets at December 31, 2019 and 2018, measured at estimated fair value on a recurring basis follows:

	Level I	Level II	Level III	Total Fair Value Measurements
	2019			
Obligations of other U.S. government agencies and corporations	$ -	$ 6,500,757	$ -	$ 6,500,757
Obligations of state and political subdivisions	-	7,412,479	-	7,412,479
Mortgage backed securities	-	5,813,585	-	5,813,585
Negotiable certificates of deposit	-	661,120	-	661,120
Equity securities - financial services	701,825	-	-	701,825
	$ 701,825	$ 20,387,941	$ -	$ 21,089,766

18. FAIR VALUE DISCLOSURES (Continued)

Investment securities (Continued)

	Level I	Level II	Level III	Total Fair Value Measurements
	2018			
Obligations of other U.S. government agencies and corporations	$ -	$ 12,822,665	$ -	$ 12,822,665
Obligations of state and political subdivisions	-	6,069,835	-	6,069,835
Equity securities - financial services	770,738	-	-	770,738
	$ 770,738	$ 18,892,500	$ -	$ 19,663,238

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

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

Impaired Loans

Loans of a commercial nature are designated as impaired when, in the judgment of management, based on current information and events, it is probable that all amounts due will not be collected according to the contractual terms of the loan agreement. The measurement of loss associated with impaired loans can be based on either the observable market price of the loan, the fair value of the collateral (if collateral dependent), or the present value of expected future cash flows. Fair value is measured based on the value of the collateral securing the loan less estimated costs to sell or the expected present value of future cash flows. Collateral may be in the form of real estate or business assets, including equipment, inventory, and accounts receivable. The value of the collateral is typically determined utilizing an income or market valuation approach based on an appraisal conducted by an independent, licensed appraiser outside of the Corporation using observable market data (Level II). However, if the collateral is a house or building in the process of construction, or if an appraisal of the real estate property is over two years old, then the fair value is considered Level III. The value of business equipment is based upon an outside appraisal if deemed significant, or the net book value of the applicable business's financial statements if not considered significant using observable market data. Likewise, values for inventory and accounts receivable collateral are based on financial statement balances or aging reports (Level III). Impaired loans with an allocation to the allowance for loan losses are measured at fair value on a nonrecurring basis. Any fair value adjustments are recorded in the period incurred as provision for loan losses on the Statements of Income. The fair value of impaired loans reported below is based on the total impaired loans, with a specific allowance for loan loss allocation less the total allocations for such loans, while the fair value measurement level is based on the age of the underlying appraisal of the collateral securing the loans. Specific allocations to the allowance for loan losses for impaired loans were $153,799 and $37,153 at December 31, 2019 and 2018.

Other Real Estate Owned

Certain assets, such as other real estate owned (OREO), acquired through foreclosure are initially recorded at fair value of the property at the transfer date, less estimated selling costs. At or near the time of foreclosure, real estate appraisals are obtained on the properties acquired through foreclosure. The real estate is then valued and subsequently carried at the appraised value, less estimated costs to sell the property. Appraised values are typically determined utilizing an income or market valuation approach based on an appraisal conducted by an independent, licensed appraiser outside of the Corporation using observable market data or on a recent sales offer (Level II). However, if the acquired property is a house or building in the process of construction, or if an appraisal of the real estate property is considered stale, the fair value is considered Level III. The estimate of costs to sell the property is based on historical transactions of similar holdings.

18. FAIR VALUE DISCLOSURES (Continued)

Other Real Estate Owned (Continued)

A summary of assets at December 31, 2019 and 2018, measured at estimated fair value on a nonrecurring basis follows:

	Level I	Level II	Level III	Total Fair Value Measurements
2019				
Impaired loans	$ -	$ -	$ 810,339	$ 810,339
Other real estate owned	-	-	185,907	185,907
	$ -	$ -	$ 996,246	$ 996,246
2018				
Impaired loans	$ -	$ -	$ 742,096	$ 742,096
Other real estate owned	-	-	66,724	66,724
	$ -	$ -	$ 808,820	$ 808,820

The fair value for impaired loans above excluded estimated selling costs of $43,225 at December 31, 2019.

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

	Fair Value Estimate	Valuation Techniques	Unobservable Input	Range
2019				
Impaired loans	$ 810,339	Appraisal of collateral	Discount for time since appraisals	0%–34%
			Selling costs	0%–5%
		Discounted cash flows	Discounted rates	4.95%–8.25% discount
			Years to maturity	4.5–15.9 years
Other real estate owned	185,907	Appraisal of collateral	Management adjustments for liquidation expenses	40% discount
			Comparable sales	
2018				
Impaired loans	$ 742,096	Discounted cash flow	Discounted rates	4.875%–6.45% discount
			Years to maturity	7–29 years
Other real estate owned	66,724	Appraisal of collateral	Management adjustments for liquidation expenses	40% discount
			Comparable sales	

19. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

	on Securities	
	2019	2018
Accumulated other comprehensive income (loss), beginning of year	$ (159,993)	$ 423,187
Change in unrealized holding gains (losses) on available-for-sale securities	221,369	(35,615)
Tax effect	(46,488)	7,479
Reclassification for loss on sale of investment securities	3,140	-
Tax effect	(659)	-
Reclassification for unrealized gain in equity securities market value	-	(555,044)
Net other comprehensive income (loss)	177,362	(583,180)
Accumulated other comprehensive income (loss), end of year	$ 17,369	$ (159,993)

20. SUBSEQUENT EVENTS

Management has reviewed events occurring through February 28, 2020, the date the financial statements were issued, and no subsequent events occurred requiring accrual or disclosure.