MERCER COUNTY STATE BANCORP, INC.

Subsidiary **MERCER COUNTY STATE BANK**

2024 ANNUAL REPORT

MERCER COUNTY STATE BANCORP, INC.

Subsidiary MERCER COUNTY STATE BANK

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MCSB
MERCER COUNTY STATE BANK
NEW HEADQUARTERS
Coming Soon!

A Message from the President and CEO

To Our Shareholders and Friends:

It has been said that the only constant is change and that holds true for Mercer County State Bank. 2024 was a year full of change for the bank. We successfully completed converting our operating system with FiServ to their managed platform and began constructing a new bank headquarters. By the annual shareholder meeting in May, the new building should be almost completed! This new building will allow us to consolidate from three operational locations in Sandy Lake to one, creating efficiencies and setting us up for growth in the years to come. This is a huge commitment to our roots in Sandy Lake and will allow us to have a great space for our employees to work in.

I am happy to report to you that 2024 was a strong year for Mercer County State Bank! Our loan growth exceeded 8% and deposits grew at a modest 1.6%. Past due loans have increased during 2024 because of a couple larger loan relationships we are working with. I am confident we will be able to bring these relationships current during 2025. I am proud of the work our employees do every day to make Mercer County State Bank the best we can be.

I am often asked what the difference between Mercer County State Bank and our larger competitors is. Mercer County State Bank stands out for its personalized service, local focus, and commitment to our communities. Unlike larger banks, we prioritize building strong relationships with our customers, offering individualized attention and a deep understanding of local needs. We serve specific geographic areas, reinvesting in the local economy by providing loans to local businesses, homebuyers, and consumers. Decision-making is often more flexible, allowing for quicker responses to customer needs and less rigid lending criteria. By emphasizing community investment and customer-centric values, Mercer County State Bank plays a vital role in fostering local growth and stability. When a community loses their local bank, they lose a partner, and businesses and individuals have a harder time obtaining the banking services they need to prosper. We are committed to being that partner in the communities we serve!

I would like to thank John Smith for his service as a Board member. John provided valuable insight into the business communities we serve and always looked for ways we could be better. I will miss his thoughtful attention to details and willingness to learn. I wish John and Sherry the best in his retirement!

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

Brian J. Raymond
President
Sandy Lake Mills, Inc.

Michelle Gerwick
Former Chief Financial Officer
George Junior Republic

Kevin E. Watts
President
Laubscher Cheese Company

John O. Smith
Retired President
Hazlett Tree Service, Inc.

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
Aubery L. Guzzo .... Senior Vice President/Chief Operating Officer
Sarah A. Palmer .... Senior Vice President/Chief Lending Officer
Cathleen L. Beatrice .... Vice President/Financial Services
Jamie L. Bowser .... Vice President/ Commercial Credit Administrator
Shelley S. Carfolo .... Vice President/Senior Commercial Lender
Jeffrey S. DiLullo .... Vice President/Loan Administration
Tara B. DiMaria .... Vice President/Human Resources
Bradley E. Doyle .... Vice President/Retail Banking
Richard P. D'Urso .... Vice President/ Commercial Lender
Mark A. Kaltenbaugh .... Vice President/Retail Operations
April C. McElravy .... Vice President/Deposit Operations Supervisor
James L. Price .... Vice President/Internal Audit and Compliance
Joshua S. Rumbaugh .... Vice President/IT Manager
Jason M. Shaffer .... Vice President/Commercial Lender

Independent Auditors' Report

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

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Mercer County State Bancorp, Inc. and subsidiaries (the Company), which comprise the consolidated balance sheets as of December 31, 2024 and 2023, and 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, 2024 and 2023, 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 Auditors' Responsibilities for the Audit of the Consolidated 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 Consolidated 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 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 financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated 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 auditors' 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.

Other Information Included in the Annual Report

Management is responsible for the other information included in the Annual Report. The other information comprises the Message from the President and CEO but does not include the consolidated financial statements and our auditors' report thereon. Our opinion on the consolidated financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the consolidated financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Baker Tilly US, LLP

Pittsburgh, Pennsylvania
March 12, 2025

MERCER COUNTY STATE BANCORP, INC.
CONSOLIDATED BALANCE SHEETS

	December 31, 2024	December 31, 2023
ASSETS		
Cash and due from banks	$ 7,149,373	$ 6,777,285
Interest-bearing deposits	1,389,157	1,297,558
Cash and cash equivalents	8,538,530	8,074,843
Investment securities available for sale	148,165,379	161,284,030
Equity securities	1,462,858	1,301,904
Loans	390,375,628	359,470,080
Less allowance for credit losses	4,001,652	3,664,378
Net loans	386,373,976	355,805,702
Premises and equipment, net	10,696,040	7,255,807
Bank-owned life insurance	14,489,247	14,057,315
Regulatory stock	3,389,500	3,079,100
Goodwill	1,952,291	1,952,291
Accrued interest and other assets	10,338,752	9,527,931
TOTAL ASSETS	$ 585,406,573	$ 562,338,923
LIABILITIES		
Deposits:		
Noninterest-bearing demand	$ 140,257,782	$ 147,748,261
Interest-bearing demand	86,746,271	78,469,550
Savings	69,019,404	71,014,007
Money market	45,998,044	47,648,137
Time	148,395,850	137,448,995
Total deposits	490,417,351	482,328,950
Short-term borrowings	14,050,000	4,500,000
Other borrowed funds	33,370,305	30,920,136
Accrued interest and other liabilities	5,238,860	4,929,057
TOTAL LIABILITIES	543,076,516	522,678,143
STOCKHOLDERS' EQUITY		
Common stock, par value $0.20; 40,000,000 shares authorized, 1,094,050 shares issued, 990,990 and 1,003,007 outstanding at December 31, 2024 and 2023, respectively	218,810	218,810
Capital surplus	2,099,806	2,099,806
Retained earnings	67,151,993	63,024,573
Treasury stock, at cost (103,060 and 91,043 shares)	(4,525,177)	(4,031,497)
Accumulated other comprehensive loss	(22,615,375)	(21,650,912)
TOTAL STOCKHOLDERS' EQUITY	42,330,057	39,660,780
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 585,406,573	$ 562,338,923

See accompanying notes to the consolidated financial statements.

MERCER COUNTY STATE BANCORP, INC.
CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31, 2024	Year Ended December 31, 2023
INTEREST AND DIVIDEND INCOME		
Interest and fees on loans	$ 22,169,605	$ 19,009,971
Interest and dividends on investment securities:		
Taxable	2,522,490	2,589,566
Exempt from federal income tax	1,291,242	1,288,945
Total interest and dividend income	25,983,337	22,888,482
INTEREST EXPENSE		
Deposits	6,476,012	4,743,964
Short-term borrowings	381,279	168,147
Other borrowed funds	1,040,284	576,484
Total interest expense	7,897,575	5,488,595
NET INTEREST INCOME	18,085,762	17,399,887
PROVISION FOR CREDIT LOSSES	384,000	180,000
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	17,701,762	17,219,887
NON-INTEREST INCOME		
Service charges on deposit accounts	1,044,622	976,047
Equity securities gains, net	160,954	9,655
Mortgage banking operations	105,002	96,681
Earnings on bank-owned life insurance	431,932	276,677
Insurance commissions	97,928	47,126
Merchant exchange fees	782,521	796,494
Brokerage fees	903,661	786,189
Gain on sale of assets	41,518	20,812
Other income	677,815	612,655
Total non-interest income	4,245,953	3,622,336
NON-INTEREST EXPENSE		
Salaries and employee benefits	9,345,829	8,516,209
Occupancy expense	959,856	853,127
Equipment expense	862,490	844,088
Professional fees	585,840	530,144
Data processing	926,626	845,202
Pennsylvania shares tax	255,728	187,705
Federal insurance expense	267,400	263,939
Other expense	2,240,918	2,287,703
Total non-interest expense	15,444,687	14,328,117
Income before income taxes	6,503,028	6,514,106
Income tax expense	1,006,685	1,023,252
NET INCOME	$ 5,496,343	$ 5,490,854
EARNINGS PER SHARE	$ 5.50	$ 5.38
AVERAGE SHARES OUTSTANDING	999,961	1,021,219

See accompanying notes to the consolidated financial statements.

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

	Year Ended December 31, 2024	Year Ended December 31, 2023
Net income	$ 5,496,343	$ 5,490,854
Other comprehensive (loss) income:		
Unrealized holding (losses) gains on available-for-sale securities	(1,220,839)	2,319,035
Tax effect	256,376	(486,997)
Total other comprehensive (loss) income	(964,463)	1,832,038
Total comprehensive income	$ 4,531,880	$ 7,322,892

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, 2022	$ 218,810	$ 2,099,806	$ 58,870,201	$ (1,988,747)	$(23,482,950)	$ 35,717,120
Cumulative effect of adoption of ASC 326	-	-	-	-	-	-
Net income	-	-	5,490,854	-	-	5,490,854
Other comprehensive income	-	-	-	-	1,832,038	1,832,038
Treasury stock purchase (40,987 shares)	-	-	-	(2,042,750)	-	(2,042,750)
Cash dividends declared ($1.32 per share)	-	-	(1,336,482)	-	-	(1,336,482)
Balance, December 31, 2023	$ 218,810	$ 2,099,806	$ 63,024,573	$ (4,031,497)	$ (21,650,912)	$ 39,660,780
Net income	-	-	5,496,343	-	-	5,496,343
Other comprehensive loss	-	-	-	-	(964,463)	(964,463)
Treasury stock purchase (12,017 shares)	-	-	-	(493,680)	-	(493,680)
Cash dividends declared ($1.37 per share)	-	-	(1,368,923)	-	-	(1,368,923)
Balance, December 31, 2024	$ 218,810	$ 2,099,806	$ 67,151,993	$ (4,525,177)	$ (22,615,375)	$ 42,330,057

See accompanying notes to the consolidated financial statements.

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

	Year Ended December 31, 2024	2023
OPERATING ACTIVITIES		
Net income	$ 5,496,343	$ 5,490,854
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization, and accretion	749,371	831,064
Loss on disposal of premises and equipment	141,548	-
Equity securities (gains) losses, net	(160,954)	(9,655)
Provision for credit losses	384,000	180,000
Provision for unfunded commitments	30,000	30,000
Gain on sale of loans	(20,146)	(6,923)
Proceeds from the sale of loans held for sale	821,921	414,723
Originations of loans held for sale	(801,775)	(507,800)
Deferred income taxes	(314,662)	26,797
Earnings on bank-owned life insurance	(431,932)	(276,677)
Gain on sale of other real estate owned	(44,318)	(20,812)
Increase in accrued interest receivable	(117,838)	(214,344)
(Decrease) increase in accrued interest payable	(25,247)	115,253
Other, net	(83,457)	(568,134)
Net cash provided by operating activities	5,622,854	5,484,346
INVESTING ACTIVITIES		
Investment securities available for sale:		
Proceeds from calls	-	1,000,000
Proceeds from maturities or repayments	11,572,274	10,714,983
Purchases	-	(6,274,496)
Proceeds from sale of equity securities	-	370,413
Increase in loans, net	(30,952,274)	(11,259,066)
Purchase of bank-owned life insurance	-	(2,850,000)
Purchases of premises and equipment	(4,005,614)	(528,007)
Purchase of regulatory stock	(4,171,100)	(1,484,100)
Redemption of regulatory stock	3,860,700	1,954,200
Proceeds from sale of other real estate owned	285,094	145,923
Net cash used for investing activities	(23,410,920)	(8,210,150)
FINANCING ACTIVITIES		
Net increase in deposits	8,088,401	11,708,199
Increase (decrease) in short-term borrowings, net	9,550,000	(20,271,700)
Proceeds from other borrowed funds	5,000,000	16,500,000
Repayment of other borrowed funds	(2,549,831)	(2,548,695)
Purchase of treasury stock	(493,680)	(2,042,750)
Cash dividends paid	(1,343,137)	(1,342,621)
Net cash provided by financing activities	18,251,753	2,002,433
Increase (decrease) in cash and cash equivalents	463,687	(723,371)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	8,074,843	8,798,214
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 8,538,530	$ 8,074,843

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 the Bank's wholly owned 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 commercial, agricultural and residential mortgage; commercial and industrial, agricultural and consumer loans, as well as a variety of deposit services provided to its customers through 11 full-service locations. 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. MCSB Insurance Services, LLC is a title insurance agency organized under Pennsylvania law and supervised by the Pennsylvania Insurance Department.

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). 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 credit losses, realizability of deferred tax assets, and potential impairment of goodwill.

Cash and Cash Equivalents

The Company maintains cash deposits in other depository institutions that occasionally exceed the amount of deposit insurance available. Management periodically assesses the financial condition of these institutions and believes that the risk of any possible credit loss is minimal. The Company has defined cash and cash equivalents as cash and due from banks, interest-bearing demand deposits, and federal funds sold.

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.

For available for sale debt securities in an unrealized loss position, the Company first assesses whether it intends to sell, or it is more likely than not that it will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. For debt securities available for sale that do not meet the aforementioned criteria, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive (loss) income, net of applicable taxes. Changes in the allowance for credit losses, if any, are recognized as a provision for (or reversal of) credit losses. Losses are charged against the allowance when management believes the uncollectibility of an available for sale security is confirmed or when either of the criteria regarding intent or requirement to sell is met. Accrued interest receivable is not subject to an estimate for credit loss, as the Company has a policy to charge off accrued interest deemed uncollectible in a timely manner. Accrued interest receivable on investment securities available for sale is reported as a component of accrued interest and other assets on the Company's Consolidated Balance Sheet and totaled $630,120 and $656,932 as of December 31, 2024 and 2023, respectively.

Equity Securities

Equity securities are held at fair value. Holding gains and losses are recorded in non-interest 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. Loans include loans held for sale of $0 and $100,000 at December 31, 2024 and 2023, respectively.

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 outstanding, net of any deferred fees and costs, and net of any purchase premiums and discounts. 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. When a loan is placed on non-accrual status, all interest previously accrued but not collected is reversed against current period income. Income on such loans is then recognized only to the extent that cash is received and where the future collection of principal is probable. Interest accruals are resumed on such loans only when they are brought fully current with respect to principal and interest and when, in the judgment of management, the loans are estimated to be fully collectible as to both principal and interest.

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.

Loan origination fees and costs 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.

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.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Credit Losses

On January 1, 2023, the Company adopted ASU 2016-13 *Financial Instruments – Credit Losses* (Topic 326: *Measurement of Credit Losses on Financial Instruments* (ASC 326). This standard replaced the incurred loss methodology with the current expected credit loss (CECL) methodology. This methodology for calculating the allowance for credit losses (ACL) considers the possibility of loss over the life of the loan. It utilizes historical loss rates and other qualitative adjustments, as well as a forward-looking component that considers reasonable and supportable forecasts over the expected life of each loan for a period of two years for all loan segments; and a reversion to historical loss rates after two years. To develop the ACL estimate under the CECL methodology, the Company segments the loan portfolio into the following loan pools based on loan type and similar credit risk elements: a) 1-4 family first lien mortgages, b) 1-4 family second lien mortgages, c) 1-4 family construction, d) home equity lines of credit, e) 5 or more family mortgages, f) owner occupied commercial real estate, g) non-owner occupied commercial real estate, h) commercial and industrial, i) farmland, j) agricultural production, k) automobile, l) other consumer, m) other construction loans, and n) all other. The Company utilizes the weighted average remaining maturity (WARM) method to calculate estimated losses by loan pool. Loans that are evaluated individually are excluded from the pools. In addition, ASC 326 requires the Company to establish a separate liability for credit losses for unfunded loan commitments. The estimate includes consideration of the likelihood that funding will occur, historical losses, and an estimate of expected credit losses on commitments expected to be funded over the estimated lives of the commitments. The Company's process for determining the estimate of credit loss on unfunded loan commitments is the same as it is on loans.

Given the inherent limitations of a quantitative-only model, qualitative adjustments are included to factor in data points not captured from a quantitative analysis alone. Qualitative criteria that can be considered include among other things, the following:

- Concentrations – the existence and effect of any concentrations of credit, and changes in the level of such concentrations;
- Volume – changes in the nature and volume of the portfolio and in the terms of the loans;
- Staff – changes in experience of the lending and credit administration team;
- Policy – changes in lending policies and procedures, including changes in underwriting standards and collection, charge-off, and recovery practices not considered elsewhere in estimating credit losses; and
- Delinquency – changes in the volume and severity of past due loans, the volume of non-accrual loans, and the volume and severity of adversely classified or graded loans.

These factors are reviewed each quarter and adjusted based upon relevant changes within the Company's operating environment. Adjustments to the factors are supported through documentation of changes in conditions in a narrative accompanying the allowance for credit loss calculation.

The Company will evaluate individual loans for expected credit losses when the loans do not share similar risk characteristics with loans evaluated using the collective method. Management may evaluate loans on an individual basis even when no specific expectation of collectability is in place. Among the factors considered when evaluating individual loans are current, prior and expected payment status and collateral values, if applicable. The Company applies the practical expedient and defines collateral dependent loans as those where the borrower is experiencing financial difficulty and on which payment is expected to be provided substantially through the operation or sale of the collateral.

Upon ASC 326 adoption, the Company used the modified retrospective approach for all loans and unfunded loan commitments. The transition adjustment for the adoption of CECL resulted in a decrease in the ACL of $60,000 and the establishment of a reserve for unfunded loan commitments of $60,000, which was recorded in other liabilities.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The ACL represents management's estimate of expected credit losses in the Company's loan portfolio at the balance sheet date. The Company estimates the ACL based on the amortized cost basis of the underlying loan and has made an accounting policy election to exclude accrued interest from the loan's amortized cost basis and the related measurement of the ACL as the Company has a policy to charge off accrued interest deemed uncollectible in a timely manner. Total accrued interest on loans amounted to $1,422,110 and $1,300,010 at December 31, 2024 and 2023, respectively. Estimating the amount of the ACL is a function of a number of factors, including but not limited to, changes in the loan portfolio, net charge-offs, trends in past due loans, and the level of potential problem loans, all of which may be susceptible to significant changes. While management uses the best information available to establish the ACL, future adjustments to the ACL may be necessary, which may be material, if economic conditions differ substantially from the assumptions used in estimating the ACL. If additions to the original estimate of the ACL are deemed necessary, they will be recorded through a charge to earnings recorded through provision for credit losses.

The Company adopted ASU 2022-02, Financial Instruments-Credit Losses (Topic 326): Troubled Debt Restructurings on January 1, 2023. Based on the guidance in ASU 2022-02, a loan modification or refinancing results in a new loan if the terms of the new loan are at least favorable to the lender as the terms with the customers with similar collection risks that are not refinancing or restructuring their loans and the modification to the terms of the loan are more than minor. If a loan modification or refinancing does not result in a new loan, it is classified as a loan modification.

There are additional disclosures for modifications of loans with borrowers experiencing financial difficulty that result in a direct change in the timing or amount of contractual cash flows. The disclosures are applicable to situations where there is principal forgiveness, interest rate reductions, other than insignificant payment delays, term extensions, or a combination of any of those items. If the Company modifies any loan to borrowers in financial distress that involves principal forgiveness, the amount of principal that is forgiven is charged off through the ACL.

There are additional disclosures for modifications of loans with borrowers experiencing financial difficulty that result in a direct change in the timing or amount of contractual cash flows. The disclosures are applicable to situations where there is principal forgiveness, interest rate reductions, other than insignificant payment delays, term extensions, or a combination of any of those items. If the Company modifies any loan to borrowers in financial distress that involves principal forgiveness, the amount of principal that is forgiven is charged off through the ACL.

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 non-interest income. The policies can be liquidated, if necessary, with tax costs associated. However, the Company intends to hold these policies and, accordingly, has not provided for deferred income taxes on the earnings from the increase in cash surrender value.

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 expensed as incurred. Costs of major additions and improvements are capitalized.

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill

Goodwill arises from business combinations and is generally determined as the excess of the fair value of the consideration transferred over the fair value of the net assets acquired. Goodwill is not amortized, but tested for impairment at least annually or more frequently if events and circumstances exist that indicate that impairment may have occurred. The Company tests for impairment in the fourth quarter of each year. Based on the results of the annual impairment tests, the Company did not recognize any impairment in 2024 or 2023.

As of December 31, 2024, no impairment existed; however, if for any future period the Company determines that there has been impairment in the carrying value of goodwill, the Company would record a charge to earnings, which could have a material adverse effect on the Company's financial condition and net income.

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 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 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 2024 and 2023 were $7,922,823 and $5,373,342, respectively. The Company made income tax payments of $1,161,793 and $950,000 in 2024 and 2023, respectively. At December 31, 2024 and 2023, dividends of $698,243 and $672,457, respectively were declared but not paid until the following year. During 2024 and 2023, $242,762 and $53,703 of loans were transferred to other real estate owned, respectively.

Other Real Estate Owned (OREO)

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 credit 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 non-interest expense. The Company held no OREO at December 31, 2024 and 2023, respectively.

Advertising Costs

Advertising costs are expensed as the costs are incurred. Advertising expense amounted to $390,895 and $387,153 for 2024 and 2023, respectively.

Revenue Recognition

Service Charges

Service charges on deposit accounts consist of overdraft charges, monthly service fees, check orders, and other deposit account related fees. The Company'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 Company'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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (continued)

Merchant Exchange Fees

The Company 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.

Brokerage Fees

Brokerage fees are earned through the sale of non-deposit investment products through a third-party broker-dealer. Brokerage fees are recorded as income when received from the broker-dealer, typically within 30 days of when the sale has occurred.

Gain on sale of Other Real Estate Owned

The Company 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 Company 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 in other income upon the transfer of control of the property to the buyer. There were no sales of OREO financed by the Company in 2024 or 2023.

Accounting Standards Recently Issued

During December 2023, the Financial Accounting Standards Board (FASB) issued ASU 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures. ASU 2023-09 enhances the transparency and decision usefulness of income tax disclosures. The amendments in this ASU require consistent categories and greater disaggregation of information in the rate reconciliation and income taxes paid disaggregated by jurisdiction. ASU 2023-09 is effective for fiscal years beginning after December 15, 2024. Early adoption is permitted. The amendments in this ASU should be applied on a prospective basis. Retrospective application is permitted. The Company is currently assessing the effect that ASU 2023-09 will have on its results of operations, financial position and cash flows.

In December 2024, the FASB issued ASU 2024-03, Income Statement—Reporting Comprehensive Income— Expense Disaggregation Disclosures (Subtopic 220-40), which requires disclosure of certain costs and expenses in the notes to the financial statements. The amendments in this ASU will become effective for fiscal years beginning after December 15, 2026, and will be effective for interim periods with fiscal years beginning after December 15, 2027, with early adoption permitted. The amendments will be applied prospectively with the option for retrospective application. The Company is currently evaluating the impact of the standard to its financial statement disclosures.

Reclassifications

Certain amounts appearing in the consolidated financial statements and notes thereto for prior periods have been reclassified to conform with the current presentation. The reclassifications had no effect on net income or stockholders' equity as previously reported.

Subsequent Events

The Company assessed events occurring subsequent to December 31, 2024, through March 12, 2025, for potential recognition and disclosure in the consolidated financial statements. No events have occurred that would require adjustment to or disclosure in the consolidated financial statements.

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:

	2024			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government agency securities	$ 17,776,392	$ -	$ (2,766,952)	$ 15,009,440
Obligations of states and political subdivisions	60,560,149	1,408	(8,638,169)	51,923,388
Agency and government sponsored enterprise mortgage-backed securities	96,715,151	57,386	(16,924,820)	79,847,717
Trust-preferred securities	1,740,742	-	(355,908)	1,384,834
Total debt securities	$ 176,792,434	$ 58,794	$ (28,685,849)	$ 148,165,379

	2023			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government agency securities	$ 17,774,820	$ -	$ (2,991,520)	$ 14,783,300
Obligations of states and political subdivisions	60,730,668	9,685	(7,231,509)	53,508,844
Agency and government sponsored enterprise mortgage-backed securities	108,428,443	98,474	(16,871,635)	91,655,282
Trust-preferred securities	1,756,317	-	(419,713)	1,336,604
Total debt securities	$ 188,690,248	$ 108,159	$ (27,514,377)	$ 161,284,030

Equity Securities

The following summary of realized and unrealized gains and losses recognized in net income for equity securities during 2024 and 2023 were as follows:

	2024	2023
Net gains recognized during the period on equity securities	$ 160,954	$ 9,655
Less: Net gains recognized during the period on equity securities sold during the period	-	251,352
Net gains (losses) from change in fair value of equity securities still held at the reporting date	$ 160,954	$ (241,697)

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.

	2024					
	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	$ -	$ -	$ 15,009,440	$ (2,766,952)	$ 15,009,440	$ (2,766,952)
Obligations of states and political subdivisions	2,653,494	(86,506)	47,856,154	(8,551,663)	50,509,648	(8,638,169)
Agency and government sponsored enterprise mortgage-backed securities	-	-	75,537,933	(16,924,820)	75,537,933	(16,924,820)
Trust-preferred securities	-	-	1,384,834	(355,908)	1,384,834	(355,908)
Total debt securities	$ 2,653,494	$ (86,506)	$ 139,788,361	$ (28,599,343)	$ 142,441,855	$ (28,685,849)

	2023					
	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	$ -	$ -	$ 14,783,300	$ (2,991,520)	$ 14,783,300	$ (2,991,520)
Obligations of states and political subdivisions	4,563,619	(116,463)	46,100,090	(7,115,046)	50,663,709	(7,231,509)
Agency and government sponsored enterprise mortgage-backed securities	542,152	(1,262)	85,378,985	(16,870,373)	85,921,137	(16,871,635)
Trust-preferred securities	-	-	1,336,604	(419,713)	1,336,604	(419,713)
Total debt securities	$ 5,105,771	$ (117,725)	$ 147,598,979	$ (27,396,652)	$ 152,704,750	$ (27,514,377)

As of December 31, 2024, the Company's security portfolio included 226 securities in an unrealized loss position. The Company does not consider its available for sale (AFS) securities with unrealized losses to be attributable to credit-related factors, as the unrealized losses have occurred as a result of factors such as changes in interest rates, market spreads and market conditions subsequent to purchase, not credit deterioration of the issuers. In addition, the Company has both the ability and intent to hold the securities for a period of time sufficient to allow for the recovery in fair value. The Company has not recorded an allowance for credit losses on AFS securities as of December 31, 2024 or 2023.

All investment securities available for sale in an unrealized loss position as of December 31, 2024 continue to perform as scheduled and the Company does not believe that there is a credit loss or that a provision for credit losses is necessary. Also, as part of the Company's evaluation of the its intent and ability to hold investment securities for a period of time sufficient to allow for any anticipated recovery in the market, the Company considers its investment strategies, cash flow needs, liquidity position, capital adequacy, and interest rate risk position. The Company does not currently intend to sell the investment securities within the portfolio and it is not more likely than not that the Company will be required to sell the investment securities.

The amortized cost and fair value of debt securities available for sale at December 31, 2024, by contractual maturity, are shown below. The Company's mortgage-backed securities have contractual maturities ranging from 7 to 31 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.

2. INVESTMENT AND EQUITY SECURITIES (Continued)

	Amortized Cost	Fair Value
Due in less than one year	$ 470,000	$ 469,981
Due after one year through five years	9,994,824	9,118,506
Due after five years through ten years	34,944,167	29,262,155
Due after ten years	131,383,443	109,314,737
Total	$ 176,792,434	$ 148,165,379

Proceeds from sales of investment securities available for sale during 2024 and 2023 and the related gross gains and losses realized were as follows:

	2024	2023
Proceeds from sales	$ -	$ -
Gross gains	-	-
Gross losses	-	-

Investment securities with a carrying value of $49,102,348 and $55,219,831 at December 31, 2024 and 2023, 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:

	2024	2023
Real estate:		
Commercial	$ 205,761,867	$ 172,763,956
Agricultural	15,683,531	17,133,084
Residential	113,991,341	117,631,093
Commercial and industrial	46,601,979	43,498,120
Agricultural	5,652,536	5,061,017
Consumer	2,684,374	3,382,810
	390,375,628	359,470,080
Less allowance for credit losses	4,001,652	3,664,378
Net loans	$ 386,373,976	$ 355,805,702

Real estate loans serviced for the FHLB that are not included in the Consolidated Balance Sheets totaled $27,551,518 and $29,168,551 at December 31, 2024 and 2023, 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, 2024 and 2023, loans outstanding to individuals and businesses are dependent upon economic conditions in its primary market area.

3. LOANS (Continued)

In the normal course of business, loans are extended to directors, officers, and their related interests and affiliates. In management's opinion, all of these loans are on substantially the same terms and conditions as loans to other individuals and businesses of comparable credit worthiness. The aggregate amount of credit outstanding to these directors and executive officers at December 31, 2024 and 2023 was $385,313 and $576,674, respectively. During 2024, there were no new loans or principal advances and repayments totaled $191,361.

4. ALLOWANCE FOR CREDIT LOSSES

Management has an established methodology to determine the adequacy of the allowance for credit losses that assesses the risks and losses inherent in the loan portfolio. For purposes of determining the allowance for credit 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 an eleven-year period for all portfolio segments. Certain qualitative factors and an economic forecast factor 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 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 factors are reviewed each quarter and adjusted based upon relevant changes within the Company's operating environment. Adjustments to the factors are supported through documentation of changes in conditions in a narrative accompanying the allowance for credit loss calculation.

The Company considers 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 CREDIT LOSSES (Continued)

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

2024	Commercial Real Estate	Agricultural Real Estate	Residential Real Estate	Commercial and Industrial	Agricultural	Consumer	Total
Allowance for loan losses:							
Beginning balance	$ 1,534,378	$ 185,000	$ 181,000	$ 445,000	$ 629,000	$ 53,000	$ 3,644,378
Charge-offs	-	-	-	(72,648)	-	(92,498)	(165,146)
Recoveries	76,086	10,564	1,856	1,158	-	28,756	118,420
Provision	566,498	7,848	(70,933)	1,547	(171,834)	50,874	384,000
Ending balance	$ 2,176,962	$ 203,412	$ 748,923	$ 375,057	$ 457,166	$ 40,132	$ 4,001,652
Ending balance individually evaluated for impairment	$ 191,903	$ 132,412	$ 49,923	$ 42,057	$ 438,166	$ 132	$ 854,593
Ending balance collectively evaluated for impairment	$ 1,985,059	$ 71,000	$ 699,000	$ 333,000	$ 19,000	$ 40,000	$ 3,147,059
Loans:							
Individually evaluated for impairment	$ 8,205,933	$ 3,478,049	$ 49,923	$ 6,957,931	$ 1,173,383	$ 379,493	$ 20,244,712
Collectively evaluated for impairment	197,555,934	12,205,482	113,941,418	39,644,048	4,479,153	2,304,881	370,130,916
Ending balance	$ 205,761,867	$ 15,683,531	$ 113,991,341	$ 46,601,979	$ 5,652,536	$ 2,684,374	$ 390,375,628

2023	Commercial Real Estate	Agricultural Real Estate	Residential Real Estate	Commercial and Industrial	Agricultural	Consumer	Unallocated	Total
Allowance for credit losses:								
Beginning balance prior to adoption of ASC 326	$ 1,378,328	$ 199,000	$ 621,000	$ 933,000	$ 907,000	$ 31,000	$ 24,000	$ 4,093,328
Impact of adopting ASC 326	(12,194)	(1,760)	(5,494)	(8,254)	(8,024)	(274)	(24,000)	(60,000)
Charge-offs	(79,086)	-	(22,317)	(444,962)	(4,062)	(53,479)	-	(603,906)
Recoveries	3,000	-	-	27,781	5,000	19,175	-	54,956
Provision	244,330	(12,240)	224,811	(62,565)	(270,914)	56,578	-	180,000
Ending balance	$ 1,534,378	$ 185,000	$ 818,000	$ 445,000	$ 629,000	$ 53,000	$ -	$ 3,664,378
Ending balance individually evaluated for impairment	$ 18,000	$ 101,000	$ 7,000	$ 76,000	$ 614,000	$ -	$ -	$ 816,000
Ending balance collectively evaluated for impairment	$ 1,516,378	$ 84,000	$ 811,000	$ 369,000	$ 15,000	$ 53,000	$ -	$ 2,848,378
Loans:								
Individually evaluated for impairment	$ 3,852,960	$ 3,782,805	$ 207,903	$ 823,924	$ 1,305,465	$ 390,453	$ -	$ 10,363,510
Collectively evaluated for impairment	168,910,996	13,350,279	117,423,190	42,674,196	3,755,552	2,992,357	-	349,106,570
Ending balance	$172,763,956	$ 17,133,084	$117,631,093	$ 43,498,120	$ 5,061,017	$ 3,382,810	$ -	$ 359,470,080

4. ALLOWANCE FOR CREDIT LOSSES (Continued)

The following table presents individually evaluated collateral dependent loans by segment for the period ended December 31:

	2024		2023	
	Real Estate	Other (1)	Real Estate	Other (1)
Commercial real estate	$ 8,205,933	$ -	$ 3,852,960	$ -
Agricultural real estate	3,478,049	-	3,782,805	-
Residential real estate	49,923	-	207,903	-
Commercial and industrial	500,278	6,457,653	500,278	323,646
Agricultural	-	1,173,383	-	1,307,334
Consumer	-	379,493	-	390,453
	$ 12,234,183	$ 8,010,529	$ 8,343,946	$ 2,021,433

(1) Includes primarily equipment, accounts receivable and inventory

Credit Quality Information

The following table represents the commercial credit exposures by internally assigned grades for the years ended December 31, 2024 and 2023. 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.

4. ALLOWANCE FOR CREDIT LOSSES (Continued)

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

	2024				
	Commercial Real Estate	Agricultural Real Estate	Commercial and Industrial	Agricultural	Total
Pass	$ 194,377,614	$ 12,802,773	$ 40,096,360	$ 4,311,074	$ 251,587,821
Special Mention	11,206,233	1,109,194	6,505,619	124,629	18,945,675
Substandard	178,020	1,771,564	-	1,216,833	3,166,417
Doubtful	-	-	-	-	-
Loss	-	-	-	-	-
Total	$ 205,761,867	$ 15,683,531	$ 46,601,979	$ 5,652,536	$ 273,699,913

	2023				
	Commercial Real Estate	Agricultural Real Estate	Commercial and Industrial	Agricultural	Total
Pass	$ 166,479,844	$ 14,065,837	$ 40,889,300	$ 3,679,009	$ 225,113,990
Special Mention	6,096,564	1,133,637	2,608,820	82,681	9,921,702
Substandard	187,548	1,933,610	-	1,299,327	3,420,485
Doubtful	-	-	-	-	-
Loss	-	-	-	-	-
Total	$ 172,763,956	$ 17,133,084	$ 43,498,120	$ 5,061,017	$ 238,456,177

The following tables present the balances of residential real estate and consumer loans based on payment performance as of December 31:

	2024		
	Residential Real Estate	Consumer	Total
Performing	$ 113,477,559	$ 2,682,603	$ 116,160,162
Nonperforming	513,782	1,771	515,553
Total	$ 113,991,341	$ 2,684,374	$ 116,675,715

	2023		
	Residential Real Estate	Consumer	Total
Performing	$ 117,006,283	$ 3,379,860	$ 120,386,143
Nonperforming	624,810	2,950	627,760
Total	$ 117,631,093	$ 3,382,810	$ 121,013,903

4. ALLOWANCE FOR CREDIT LOSSES (Continued)

Age Analysis of Past-Due Loans by Class

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

2024

	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	$ 3,150,435	$ 17,838	$ 2,587,638	$ 5,755,911	$ 200,005,956	$ 205,761,867	$ 658,787
Agricultural real estate	236,550	93,398	304,162	634,110	15,049,421	15,683,531	12,344
Residential real estate	1,260,281	1,466,817	382,409	3,109,507	110,881,834	113,991,341	231,292
Commercial and industrial	1,689,337	323,406	3,117,966	5,130,709	41,471,270	46,601,979	1,610,183
Agricultural	100,593	43,543	4,629	148,765	5,503,771	5,652,536	4,629
Consumer	3,190	53,768	1,088	58,046	2,626,328	2,684,374	1,088
Total	$ 6,440,386	$ 1,998,770	$ 6,397,892	$ 14,837,048	$ 375,538,580	$ 390,375,628	$ 2,518,323

2023

	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	$ 1,438,591	$ 189,344	$ 735,777	$ 2,363,712	$ 170,400,244	$ 172,763,956	$ 405,357
Agricultural real estate	294,997	240,899	129,277	665,173	16,467,911	17,133,084	-
Residential real estate	1,668,663	501,522	186,303	2,356,488	115,274,605	117,631,093	103,362
Commercial and industrial	247,450	133,806	229,879	611,135	42,886,985	43,498,120	70,353
Agricultural	17,777	22,691	59,315	99,783	4,961,234	5,061,017	-
Consumer	6,162	1,095	1,088	8,345	3,374,465	3,382,810	1,088
Total	$ 3,673,640	$ 1,089,357	$ 1,341,639	$ 6,104,636	$ 353,365,444	$ 359,470,080	$ 580,160

Nonaccrual Loans

The following table summarizes the amortized cost basis of loans on nonaccrual status and loans past due over 89 days and still accruing as of December 31:

2024

	Nonaccrual With No Allowance	Nonaccrual With Allowance	Loans Past Due 90 Days or Greater Still Accruing
Commercial real estate	$ 2,118,633	$ -	$ 658,787
Agricultural real estate	291,817	-	12,344
Residential real estate	282,490	-	231,292
Commercial and industrial	1,528,095	-	1,610,183
Agricultural	-	1,216,833	4,629
Consumer	683	-	1,088
Total	$ 4,221,718	$ 1,216,833	$ 2,518,323

2023

	Nonaccrual With No Allowance	Nonaccrual With Allowance	Loans Past Due 90 Days or Greater Still Accruing
Commercial real estate	$ 321,463	$ 242,762	$ 405,357
Agricultural real estate	424,274	-	-
Residential real estate	474,599	46,849	103,362
Commercial and industrial	-	159,526	70,353
Agricultural	41,185	1,258,141	-
Consumer	1,862	-	1,088
Total	$ 1,263,383	$ 1,707,278	$ 580,160

There were no residential real estate loans in the process of foreclosure at December 31, 2024 or 2023.

4. ALLOWANCE FOR CREDIT LOSSES (Continued)

Modifications

Occasionally, the company modifies loans to borrowers in financial distress by providing principal forgiveness, term extension, an other-than-insignificant payment delay or interest rate reduction. When principal forgiveness is provided, the amount of forgiveness is charged-off against the allowance for credit losses.

In some cases, the Company provides multiple types of concessions on one loan. Typically, one type of concession, such as a term extension, is granted initially. If the borrower continues to experience financial difficulty, another concession, such as a rate reduction, may be granted. There was one modification during 2024 that included both rate and term concessions simultaneously. There were no modifications with multiple concessions granted during 2023.

The following table presents the amortized cost basis of loans at December 31 that were both experiencing financial difficulty and modified during the years ended December 31, by class and type of modification. The percentage of the amortized cost basis of loans that were modified to borrowers in financial distress as compared to the amortized cost basis of each class of financial receivable is also presented below:

2024

	Principal Forgiveness	Payment Delay	Term Extension	Interest Rate Reduction	Combination Term Extension and Interest Rate Reduction	Total Class of Financing Receivable
Commercial real estate	$ -	$ -	$ 1,603,887	$ -	$ 22,981	0.8%
Agricultural real estate	-	-	-	-	-	0.0%
Residential real estate	-	-	-	-	-	0.0%
Commercial and industrial	-	-	29,634	-	-	0.1%
Agricultural	-	-	-	-	-	0.0%
Consumer	-	-	-	-	-	0.0%
Total	$ -	$ -	$ 1,633,521	$ -	$ 22,981	0.4%

The Company has no commitments to lend additional amounts to the borrowers included in the previous table.

2023

	Principal Forgiveness	Payment Delay	Term Extension	Interest Rate Reduction	Combination Term Extension and Interest Rate Reduction	Total Class of Financing Receivable
Commercial real estate	$ -	$ -	$ 22,323	$ -	$ -	0.0%
Agricultural real estate	-	-	-	1,650,919	-	9.6%
Residential real estate	-	-	-	-	-	0.0%
Commercial and industrial	-	-	-	-	-	0.0%
Agricultural	-	-	1,093,511	-	-	21.6%
Consumer	-	-	-	-	-	0.0%
Total	$ -	$ -	$ 1,115,834	$ 1,650,919	$ -	0.8%

The Company has no commitments to lend additional amounts to the borrowers included in the previous table.

4. ALLOWANCE FOR CREDIT LOSSES (Continued)

The Company closely monitors the performance of loans that are modified to borrowers experiencing financial difficulty to understand the effectiveness of its modification efforts. The following table presents the performance of such loans that have been modified in the last 12 months as of December 31:

2024

	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due
Commercial real estate	$ 14,163	$ -	$ -	$ 14,163
Agricultural real estate	-	-	-	-
Residential real estate	-	-	-	-
Commercial and industrial	-	-	-	-
Agricultural	-	-	-	-
Consumer				
Total	$ 14,163	$ -	$ -	$ 14,163

2023

	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due
Commercial real estate	$ -	$ -	$ -	$ -
Agricultural real estate	-	-	-	-
Residential real estate	-	-	-	-
Commercial and industrial	-	-	-	-
Agricultural	-	-	-	-
Consumer				
Total	$ -	$ -	$ -	$ -

The following table presents the financial effect of the loan modifications presented above to borrowers experiencing financial difficulty for the year ended December 31:

2024

	Principal Forgiveness	Weighted-Average Interest Rate Reduction	Weighted-Average Term Extension (months)
Commercial real estate	$ -	0.25%	115
Agricultural real estate	-	-	-
Residential real estate	-	-	-
Commercial and industrial	-	-	34
Agricultural	-	-	-
Consumer			
Total	$ -		

4. ALLOWANCE FOR CREDIT LOSSES (Continued)

2023	Principal Forgiveness	Weighted-Average Interest Rate Reduction	Weighted-Average Term Extension (months)
Commercial real estate	$ -	-	-
Agricultural real estate	-	1.58%	-
Residential real estate	-	-	-
Commercial and industrial	-	-	300
Agricultural	-	-	24
Consumer			
Total	$ -		

The following table presents the amortized cost basis of loans that had a payment default during the year ended December 31 and were modified in the twelve months prior to that default to borrowers experiencing financial difficulty:

2024	Principal Forgiveness	Payment Delay	Term Extension	Interest Rate Reduction
Commercial real estate	$ -	$ -	$ -	$ 14,163
Agricultural real estate	-	-	-	-
Residential real estate	-	-	-	-
Commercial and industrial	-	-	-	-
Agricultural	-	-	-	-
Consumer				
Total	$ -	$ -	$ -	$ 14,163

2023	Principal Forgiveness	Payment Delay	Term Extension	Interest Rate Reduction
Commercial real estate	$ -	$ -	$ -	$ -
Agricultural real estate	-	-	-	-
Residential real estate	-	-	-	-
Commercial and industrial	-	-	-	-
Agricultural	-	-	-	-
Consumer				
Total	$ -	$ -	$ -	$ -

Upon the Company's determination that a modified loan (or portion of a loan) has subsequently been deemed uncollectible, the loan (or a portion of a loan) is written off. Therefore, the amortized cost basis of the loan is reduced by the uncollectible amount and the allowance for credit losses is adjusted by the same amount.

5. PREMISES AND EQUIPMENT

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

	2024	2023
Land	$ 2,719,398	$ 2,739,904
Buildings and building improvements	7,880,218	9,128,640
Furniture, fixtures, and equipment	2,163,213	2,218,430
Software	490,735	474,885
In process	3,915,195	6,886
	17,168,759	14,568,745
Less accumulated depreciation	(6,472,719)	(7,312,938)
Total	$ 10,696,040	$ 7,255,807

Depreciation charged to operations was $423,833 and $469,608 in 2024 and 2023, respectively.

6. DEPOSITS

The scheduled maturities of time deposits approximate the following:

Year Ending December 31,	Amount
2025	$ 129,161,415
2026	5,544,952
2027	4,110,280
2028	2,852,902
2029	6,726,301
	$ 148,395,850

The aggregate of all time deposit accounts of $250,000 or more amounted to $29,664,191 and $29,324,665 at December 31, 2024 and 2023, respectively.

Deposits from executive officers, directors and their affiliates at year-end 2024 and 2023 were $14,227,232 and $13,926,627, respectively.

7. 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; summarized as follows:

Short-term borrowings

	2024	2023
Balance at year-end	$ 14,050,000	$ 4,500,000
Maximum amount outstanding at any month-end	17,150,000	14,150,000
Average balance outstanding during the year	6,911,604	3,600,338
Weighted-average interest rate:		
As of year-end	4.71 %	5.68 %
Paid during the year	5.52 %	4.67 %

7. SHORT-TERM BORROWINGS (Continued)

The Company has a line of credit with the FHLB, with a borrowing limit of approximately $99.5 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, 2024, the Company's maximum borrowing capacity with the FHLB was $219.3 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, 2024, was $11.9 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, 2024.

8. OTHER BORROWED FUNDS

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

Maturity	Interest Rate	2023	2022
June 27, 2024	2.09 %	$ -	$ 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
December 22, 2025	4.37 %	3,000,000	3,000,000
January 26, 2026	4.24 %	2,500,000	2,500,000
January 27, 2026	0.74 %	2,500,000	2,500,000
May 26, 2027	2.31 %	125,305	175,136
July 26,2027	4.41 %	5,000,000	-
January 25, 2028	3.92 %	2,500,000	2,500,000
March 27, 2028	4.22 %	2,500,000	2,500,000
December 18,2028	4.23 %	6,000,000	6,000,000
December 28, 2028	4.10 %	3,000,000	3,000,000
Total	3.36 %	$ 33,370,305	$ 30,920,136

9. INCOME TAXES

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

	2024	2023
Currently payable	$ 1,321,347	$ 996,455
Deferred	(314,662)	26,797
Total provision	$ 1,006,685	$ 1,023,252

9. INCOME TAXES (Continued)

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:

	2024	2023
Deferred tax assets:		
Allowance for credit losses	$ 840,347	$ 747,860
Reserve for unfunded commitments	25,200	-
Board of Directors retirement plan	111,134	101,386
Deferred compensation	32,338	-
Non-accrual interest	145,281	-
Net unrealized loss on investment securities	6,011,682	5,755,306
Total deferred tax assets	7,165,982	6,604,552
Deferred tax liabilities:		
Premises and equipment	67,269	111,219
Deferred loan origination fees, net	19,371	20,737
Goodwill	409,981	409,981
Gain on equity securities	78,392	44,592
Investment discount accretion	12,970	11,062
Total deferred tax liabilities	587,983	597,591
Net deferred tax assets	$ 6,577,999	$ 6,006,961

No valuation allowance was established against the deferred tax assets in view of the Company's tax strategies and anticipated future taxable income, as evidenced by the Company's earnings potential at December 31, 2024 and 2023.

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

	2024		2023	
	Amount	% of Pretax Income	Amount	% of Pretax Income
Computed at statutory rate	$ 1,365,636	21.0 %	$ 1,367,877	21.0 %
Tax-exempt income	(314,586)	(4.8)	(312,330)	(4.8)
Nondeductible interest to carry tax-exempt assets	39,374	0.6	28,508	0.4
Earnings on bank owned life insurance	(90,706)	(1.4)	(58,102)	(0.9)
Other	6,967	(0.1)	(2,701)	(0.1)
Income tax expense and effective rate	$ 1,006,685	15.3 %	$ 1,023,252	15.6 %

GAAP prescribes 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.

9. INCOME TAXES (Continued)

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. GAAP also provides guidance on the accounting for and disclosure of unrecognized tax benefits, interest, and penalties. Interest or penalties incurred for income taxes will be recorded as a component of non-interest 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 2021 have been closed for purposes of examination by the Internal Revenue Service and the Pennsylvania Department of Revenue.

10. 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:

	2024	2023
Commitments to extend credit	$ 75,148,000	$ 73,067,000
Standby letters of credit and financial guarantees	2,246,000	2,510,000
Total	$ 77,394,000	$ 75,577,000

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 Company 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 Company deposit instruments or customer business assets.

Activity in the Company's allowance for credit losses on off-balance sheet credit exposure is as follows:

	2024	2023
Beginning balance	$ 90,000	$ -
Impact of adopting ASC 326	-	60,000
Charge-offs	-	-
Provision	30,000	30,000
Recoveries	-	-
Ending balance	$ 120,000	$ 90,000

11. EMPLOYEE BENEFITS

Defined Contribution Plan

The Company 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 Company's contributions are fully vested after six years. Contributions by the Company for 2024 and 2023 amounted to $636,764 and $637,893, respectively.

Deferred Compensation Agreements

The Company entered into deferred compensation agreements with several key management employees, all of whom are officers. Under the agreements, the Company is obligated to provide for each employee's beneficiaries, at the time of the employee's death, benefits totaling $3,382,165 and $3,432,166 at December 31, 2024 and 2023, respectively. The Company has additional agreements with certain of these officers to provide supplemental retirement benefits to participating individuals, subject to vesting provisions. The liability for these agreements was $153,900 at December 31, 2024, all of which was accrued during the year.

		2024
Net periodic cost:		
Service cost	$	146,194
Interest cost		7,796
Net periodic cost	$	153,990

The Company is the beneficiary of life insurance policies with a cash surrender value at December 31, 2024 and 2023, of $14,489,247 and $14,057,315, respectively that have been purchased as a method of financing benefits under these plans.

Board of Directors Retirement Plan

The Company 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, 2024 and 2023, amounted to $78,919 and $21,791, respectively, and are included as a component of non-interest expenses.

		2024		2023
Net periodic cost:				
Service cost	$	29,235	$	29,754
Interest cost		49,684		(7,963)
Net periodic cost	$	78,919	$	21,791

11. 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, 2024 and 2023:

	2024	2023
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 468,197	$ 465,606
Service cost	29,235	29,754
Interest cost	49,684	(7,963)
Benefits paid	(32,500)	(19,200)
Benefit obligation at end of year and accrued status included in other liabilities	$ 514,616	$ 468,197

The discount rate used to determine benefit obligations at the measurement dates was 4.82 percent and 4.05 percent for the periods ended December 31, 2024 and 2023, respectively.

At December 31, 2024, the projected benefit payments for the Board of Directors Retirement Plan are anticipated to be $1,147,959, with payments ranging from January 1, 2025, through December 31, 2046.

12. REGULATORY MATTERS

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, 2024 and 2023, 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 and common equity Tier 1 capital (as defined in the regulations) to risk-weighted assets, and of Tier 1 capital to average assets.

As of December 31, 2024 and 2023, 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.

12. REGULATORY MATTERS (Continued)

As of December 31, 2024 and 2023, 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:

	2024		2023	
	Amount	Ratio	Amount	Ratio
Total capital (to risk-weighted assets)				
Actual	$ 63,481,492	14.42 %	$ 60,753,724	14.77 %
For capital adequacy purposes	35,229,360	8.00	32,916,160	8.00
To be well capitalized	44,036,700	10.00	41,145,200	10.00
Tier 1 capital (to risk-weighted assets)				
Actual	$ 59,359,840	13.48 %	$ 56,999,346	13.85 %
For capital adequacy purposes	26,422,020	6.00	24,687,120	6.00
To be well capitalized	35,229,360	8.00	32,916,160	8.00
Common equity Tier 1 capital (to risk-weighted assets)				
Actual	$ 59,359,840	13.48 %	$ 56,999,346	13.85 %
For capital adequacy purposes	19,816,515	4.50	18,515,340	4.50
To be well capitalized	28,623,855	6.50	26,744,380	6.50
Tier 1 capital (to average assets)				
Actual	$ 59,359,840	9.90 %	$ 56,999,346	9.94 %
For capital adequacy purposes	23,986,080	4.00	22,940,080	4.00
To be well capitalized	29,982,600	5.00	28,675,100	5.00

The Federal Reserve Bank has established capital guidelines for bank holding companies. These guidelines allow small bank holding companies, as defined, an exemption from regulatory capital requirements. The Company meets the eligibility criteria and is exempt from regulatory capital requirements.

Dividend Restriction

The Pennsylvania Banking Code restricts the availability of capital surplus for dividend purposes. At December 31, 2024, the Bank had a capital surplus of $2,287,145, which was not available for distribution to the Company as dividends.

13. 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, 2024 and 2023, 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, 2024			
	Level I	**Level II**	**Level III**	**Total**
Assets:				
U.S. government agency securities	$ -	$ 15,009,440	$ -	$ 15,009,440
Obligations of states and political subdivisions	-	51,923,388	-	51,923,388
Agency and government sponsored enterprise mortgage-backed securities	-	79,847,717	-	79,847,717
Trust-preferred securities	-	-	1,384,834	1,384,834
Equity securities	1,462,858	-	-	1,462,858
Total	$ 1,462,858	$ 146,780,545	$ 1,384,834	$ 149,628,237

	December 31, 2023			
	Level I	**Level II**	**Level III**	**Total**
Assets:				
U.S. government agency securities	$ -	$ 14,783,300	$ -	$ 14,783,300
Obligations of states and political subdivisions	-	53,508,844	-	53,508,844
Agency and government sponsored enterprise mortgage-backed securities	-	91,655,282	-	91,655,282
Trust-preferred securities	-	-	1,336,604	1,336,604
Equity securities	1,301,904	-	-	1,301,904
Total	$ 1,301,904	$ 159,947,426	$ 1,336,604	$ 162,585,934

13. 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, 2024 and 2023, by level within the fair value hierarchy. 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 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.

	December 31, 2024			
	Level I	Level II	Level III	Total
Assets measured on a nonrecurring basis:				
Individually evaluated loans	$ -	$ -	$ 4,079,506	$ 4,079,506
Trust preferred securities	-	-	1,384,834	1,384,834

	December 31, 2023			
	Level I	Level II	Level III	Total
Assets measured on a nonrecurring basis:				
Individually evaluated loans	$ -	$ -	$ 2,537,416	$ 2,537,416
Trust preferred securities	-	-	1,336,604	1,336,604

The unobservable inputs for Level III measurements are as follows:

2024				
	Fair Value	Valuation Techniques	Unobservable Inputs	Range (Weighted Average)
Individually evaluated loans	$ 4,079,506	Property appraisals	Management discount for property type and recent market volatility	0% to 100% discount (33.78%)
Trust preferred securities	1,384, 834	Discounted cash flow	Probability of loss, loss given default, prepayment rate	24.44 % discount

2023				
	Fair Value	Valuation Techniques	Unobservable Inputs	Range (Weighted Average)
Individually evaluated loans	$ 2,537,416	Property appraisals	Management discount for property type and recent market volatility	0% to 90% discount (37.78%)
Trust preferred securities	1,336,604	Discounted cash flow	Probability of loss, loss given default, prepayment rate	27.68 % discount

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