FFW CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2019 and 2018

FFW CORPORATION
Wabash, Indiana

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Crowe LLP
Independent Member Crowe Global

INDEPENDENT AUDITOR'S REPORT

Board of Directors and Shareholders
FFW Corporation
Wabash, Indiana

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of FFW Corporation, which comprise the consolidated balance sheets as of June 30, 2019 and 2018, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from 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 FFW Corporation as of June 30, 2019 and 2018, 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.

Crowe LLP

Crowe LLP

Indianapolis, Indiana
August 23, 2019

FFW CORPORATION
CONSOLIDATED BALANCE SHEETS
June 30, 2019 and 2018

	2019	2018
ASSETS		
Cash and due from financial institutions	$ 4,897,871	$ 6,288,268
Interest-bearing deposits in other financial institutions	21,857,520	11,741,584
Total cash and cash equivalents	26,755,391	18,029,852
Securities available for sale (AFS)	85,275,452	78,489,583
Loans receivable, net of allowance for loan losses of $3,857,473 at June 30, 2019 and $3,716,543 at June 30, 2018	279,796,467	260,714,092
Loans held for sale	1,340,765	938,686
Federal Home Loan Bank stock, at cost	1,462,500	1,462,500
Accrued interest receivable	2,240,851	1,962,831
Premises and equipment, net	5,442,196	5,825,455
Mortgage servicing rights	762,392	823,965
Cash surrender value of life insurance	8,867,601	8,585,667
Goodwill	1,213,898	1,213,898
REO and repossessed assets	194,730	167,000
Other assets	1,165,252	1,576,057
Total assets	$ 414,517,495	$ 379,789,586
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Noninterest-bearing	$ 33,005,454	$ 30,689,658
Interest-bearing	331,115,288	304,215,798
Total deposits	364,120,742	334,905,456
Borrowings	2,000,000	2,000,000
Accrued expenses and other liabilities	3,659,180	2,872,683
Total liabilities	369,779,922	339,778,139
Shareholders' equity		
Common stock, $.01 par; 2,000,000 shares authorized; Issued: 1,836,328; outstanding: 1,149,783 - June 30, 2019 and 1,165,980 - June 30, 2018	18,363	18,363
Additional paid-in capital	9,777,849	9,624,150
Retained earnings	43,691,848	40,313,968
Accumulated other comprehensive income	2,238,257	344,886
Treasury stock, at cost; 686,545 shares at June 30, 2019 and 670,348 shares at June 30, 2018	(10,988,744)	(10,289,920)
Total shareholders' equity	44,737,573	40,011,447
Total liabilities and shareholders' equity	$ 414,517,495	$ 379,789,586

See accompanying notes to consolidated financial statements.

FFW CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
Years ended June 30, 2019 and 2018

	2019	2018
Interest and dividend income		
Loans, including fees	$ 13,447,651	$ 12,525,187
Taxable securities	1,452,121	1,206,208
Tax exempt securities	1,244,855	1,288,479
Other	475,939	201,595
Total interest and dividend income	16,620,566	15,221,469
Interest expense		
Deposits	3,395,598	1,967,240
Borrowings	34,900	60,982
Total interest expense	3,430,498	2,028,222
Net interest income	13,190,068	13,193,247
Provision (benefit) for loan losses	231,118	(205,000)
Net interest income after provision (benefit) for loan losses	12,958,950	13,398,247
Noninterest income		
Net gains on sales of securities	43,776	-
Net gains on sales of loans	298,129	366,008
Net losses on fixed assets	(15,716)	-
Net gains on sales of REO	9,318	134,792
Commission income	962,088	966,837
Service charges and fees	816,743	840,459
Earnings on life insurance	281,934	279,049
Other	780,758	674,465
Total noninterest income	3,177,030	3,261,610
Noninterest expense		
Salaries and benefits	6,134,248	5,938,701
Occupancy and equipment	1,239,158	1,284,475
Professional	408,750	448,879
Marketing	388,414	378,486
Deposit insurance premium	72,589	129,337
Regulatory assessment	33,147	23,134
Correspondent bank charges	81,599	70,784
Data processing	979,574	721,627
Printing, postage and supplies	248,362	260,614
Expense (benefit) on life insurance	74,921	(3,612)
Contribution expense	41,652	56,040
Expense on REO	18,941	86,164
Other	1,430,051	1,276,293
Total noninterest expense	11,151,406	10,670,922
Income before income taxes	4,984,574	5,988,935
Income tax expense	640,814	1,184,160
Net income	**$ 4,343,760**	**$ 4,804,775**
Earnings per common share:		
Basic	$ 3.77	$ 4.12
Diluted	$ 3.77	$ 4.12

See accompanying notes to consolidated financial statements.

FFW CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years ended June 30, 2019 and 2018

	2019	2018
Net income	$ 4,343,760	$ 4,804,775
Other comprehensive income:		
Unrealized gains (losses) on securities:	2,474,861	(1,687,881)
Reclassification adjustment for gains included in net income (1)	(43,776)	-
Net unrealized gains (losses)	2,431,085	(1,687,881)
Tax effect	(537,714)	451,572
Total other comprehensive income (loss)	1,893,371	(1,236,309)
Comprehensive income	$ 6,237,131	$ 3,568,466

(1) Amounts are included in net gains on sales of securities on the Consolidated Statements of Income. Income tax expense associated with the reclassification adjustments, included in income tax expense, for the year ended June 30, 2019 was $10,000.

See accompanying notes to consolidated financial statements.

FFW CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
Years ended June 30, 2019 and 2018

	Common Stock	Paid-In Capital	Additional Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Shareholders' Equity
Balance at June 30, 2017	$ 18,363	$ 9,552,881	$ 34,174,079	$ 1,385,443	$ (10,380,424)	$ 37,750,342
Cash dividends:						
Common- $1.26 per share	-	-	(1,469,134)	-	-	(1,469,134)
Reclassification of certain tax effects related to the Tax Cuts and Jobs Act of 2017 and ASU 2018-02	-	-	(195,752)	195,752	-	-
Issued 5,896 shares under the MRP	-	(90,504)	-	-	90,504	-
Amortization of MRP contribution		161,773				161,773
Net income	-	-	4,804,775	-	-	4,804,775
Other comprehensive income (loss)	-	-	-	(1,236,309)	-	(1,236,309)
Balance at June 30, 2018	18,363	9,624,150	40,313,968	344,886	(10,289,920)	40,011,447
Cash dividends:						
Common- $0.84 per share	-	-	(965,880)	-	-	(965,880)
Issued 303 shares under the MRP	-	(4,851)	-	-	4,851	-
Forfeited 500 shares under MRP	-	7,675	-	-	(7,675)	-
Amortization of MRP contribution	-	150,875	-	-	-	150,875
Repurchase of 16,000 shares	-	-	-	-	(696,000)	(696,000)
Net income	-	-	4,343,760	-	-	4,343,760
Other comprehensive income (loss)	-	-	-	1,893,371	-	1,893,371
Balance at June 30, 2019	$ 18,363	$ 9,777,849	$ 43,691,848	$ 2,238,257	$ (10,988,744)	$ 44,737,573

See accompanying notes to consolidated financial statements.

FFW CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended June 30, 2019 and 2018

	2019	2018
Cash flows from operating activities		
Net income	$ 4,343,760	$ 4,804,775
Adjustments to reconcile net income to net cash from operating activities		
Depreciation and amortization	1,178,770	1,253,747
Provision (benefit) for loan losses	231,118	(205,000)
Net (gains) losses on sales of:		
Securities	(43,776)	-
Loans held for sale	(298,129)	(366,008)
REOs and repossessed assets	(9,318)	(134,792)
Fixed assets	15,716	-
Originations of loans held for sale	(13,981,047)	(18,402,557)
Proceeds from sales of loans held for sale	13,772,914	18,533,770
Valuation adjustments on mortgage servicing right asset	52,528	39,732
Net increase in cash surrender value of life insurance	(281,934)	(279,049)
Amortization of MRP contribution	150,875	161,773
Net change in AIR and other assets	211,460	(169,292)
Amortization of customer list intangible	2,143	2,143
Net change in accrued expenses and other liabilities	138,869	534,323
Net cash from operating activities	5,483,949	5,773,565
Cash flows from investing activities		
Proceeds from:		
Sales, calls and maturities of securities AFS	13,393,963	3,233,748
Sales of REOs and repossessed assets	159,818	912,251
Sales of fixed assets	90,430	-
Purchase of securities AFS	(25,840,958)	(9,892,873)
Principal collected on mortgage-backed securities	7,631,647	5,330,128
Net change in loans receivable	(19,491,723)	(15,688,185)
Purchases of premises and equipment, net	(254,993)	(811,972)
Net cash from (used) in investing activities	(24,311,816)	(16,916,903)
Cash flows from financing activities		
Net change in deposits	29,215,286	12,430,591
Proceeds from borrowings	-	4,750,000
Repayment of borrowings	-	(7,088,400)
Repurchase of common stock	(696,000)	-
Cash dividends paid	(965,880)	(1,469,134)
Net cash from financing activities	27,553,406	8,623,057
Net change in cash and cash equivalents	8,725,539	(2,520,281)
Beginning cash and cash equivalents	18,029,852	20,550,133
Ending cash and cash equivalents	$ 26,755,391	$ 18,029,852
Supplemental disclosure of cash flow information		
Cash paid during the period		
Interest	$ 3,254,481	$ 1,985,198
Income taxes	580,000	1,045,000
Transfers from loans to REO and repossessed assets	178,230	100,750
Equity securities transferred to other assets	61,585	-
Fixed assets transferred to (from) held for sale	(46,905)	46,905

See accompanying notes to consolidated financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation: The consolidated financial statements include FFW Corporation (the Company), and its wholly-owned subsidiaries, Crossroads Bank (the Bank) and Insurance 1 Services, Inc. Also included in the consolidated financial statements is Wabash Investments, Inc., a wholly-owned subsidiary of the Bank, which is a Nevada corporation that manages a portion of the Bank's investment portfolio. All intercompany transactions and balances are eliminated in consolidation.

Nature of Business and Concentrations of Credit Risk: The primary source of income for the Company is interest income derived from origination of commercial and residential real estate loans (see Note 14).

Subsequent Events: The Company has evaluated subsequent events for recognition and disclosure through August 23, 2019 which is the date the financial statements were available to be issued.

Use of Estimates in Preparing Financial Statements: To prepare financial statements in conformity with accounting principles generally accepted in the United States of America management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and actual results could differ.

Cash Flow Reporting: For reporting cash flows, cash and cash equivalents include cash on hand, due from financial institutions and interest-bearing deposits in other financial institutions. Net cash flows are reported for customer loan and deposit transactions.

Restrictions on Cash: Cash on hand or on deposit with the Federal Reserve Bank of $8,099,000 and $5,286,000 was required to meet regulatory reserve and clearing requirements at June 30, 2019 and 2018, respectively.

Interest-Bearing Deposits in Other Financial Institutions: Interest-bearing deposits in other financial institutions mature within one year and are carried at cost.

Securities: Debt securities are classified as held to maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Debt securities are classified as available for sale when they might be sold before maturity. Securities available for sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income (loss), net of tax. Equity securities consist of common stock investments and are held in other assets. Equity securities are measured at fair value with changes in fair value recognized in net income.

Interest income includes amortization of purchase premium or discount. Premiums and discounts on securities are amortized on the level-yield method with anticipating prepayments, if applicable. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

Management evaluates securities for other-than-temporary impairment ("OTTI") at least on a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. Management assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of these criteria is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

For securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) OTTI related to credit loss, which must be recognized in the income statement and 2) other-than-temporary impairment (OTTI) related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis.

The amount of the total OTTI related to other factors shall be recognized in other comprehensive income, net of applicable taxes. The previous amortized cost basis less the OTTI recognized in earnings shall become the new amortized cost basis of the investment.

Loans Receivable: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of deferred loan fees and costs and an allowance for loan losses. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using the level-yield method without anticipating prepayments.

Interest income on mortgage and commercial loans is discontinued at the time the loan is 90 days delinquent unless the loan is well-secured and in process of collection. Consumer loans are typically charged off no later than 120 days past due. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not received for loans placed on nonaccrual status is reversed against interest income. Cash interest received on such loans is applied to the principal balance until the principal is recovered or until the loan returns to accrual status. Loans are returned to accrual status when all principal and interest amounts contractually due are brought current, and future payments are reasonably assured.

Allowance for Loan and Lease Losses: The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged off.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired.

A loan is impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

Commercial, construction, residential and consumer loans with a relationship balance greater than $100,000 and classified as special mention, substandard or doubtful are individually evaluated for impairment. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Large groups of smaller balance homogeneous loans, such as residential and consumer loans not individually reviewed for impairment, as discussed previously, are collectively evaluated for impairment, and accordingly, they are not separately identified for impairment disclosures. Troubled debt restructurings are separately identified for impairment disclosures and are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a troubled debt restructuring is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral. For troubled debt restructurings that subsequently default, the Company determines the amount of reserve in accordance with the accounting policy for the allowance for loan losses.

The general component covers non-impaired loans and is based on historical loss experience adjusted for current factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Company over the most recent 3 years. This actual loss experience is supplemented with other economic factors based on the risks present for each portfolio segment. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations. The following portfolio segments have been identified:

Commercial

Commercial loans are primarily based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. The cash flows of borrowers, however, may not be as expected and the collateral securing these loans may fluctuate in value. Most commercial loans are secured by the assets being financed or other business assets such as accounts receivable or inventory and may incorporate a personal guarantee; however, some short-term loans may be made on an unsecured basis. In the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Commercial Real Estate
These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Commercial real estate lending typically involves higher loan principal amounts and the repayment of these loans is generally dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. Management monitors and evaluates commercial real estate loans based on collateral, geography and risk grade criteria. As a general rule, the Company avoids financing single purpose projects unless other underwriting factors are present to help mitigate risk. In addition, management tracks the level of owner-occupied commercial real estate loans versus non-owner occupied loans.

Commercial Leases
Commercial leases are primarily based on the identified cash flows of the lessee and secondarily on the underlying property being leased. The cash flows of the lessee, however, may not be as expected and the property being leased may fluctuate in value. All commercial leases are secured by the assets being leased.

Residential Real Estate
With respect to residential loans that are secured by 1-4 family residences and are generally owner occupied, the Company generally establishes a maximum loan-to-value ratio and requires private mortgage insurance if that ratio is exceeded. Repayment of these loans is primarily dependent on the personal income of the borrowers, which can be impacted by economic conditions in their market areas such as unemployment levels. Repayment can also be impacted by changes in property values on residential properties. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers.

Consumer Credit
Consumer loans are generally secured by consumer assets such as automobiles or recreational vehicles. Home equity loans are typically secured by a subordinate interest in 1-4 family residences. Some consumer loans are unsecured such as small installment loans and certain lines of credit. Repayment of these loans is primarily dependent on the personal income of the borrowers, which can be impacted by economic conditions in their market areas such as unemployment levels. With respect to home equity loans, repayment can also be impacted by changes in property values on residential properties. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers.

Loans Held for Sale: Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or market, as determined by outstanding commitments from investors. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings.

Mortgage loans held for sale are generally sold with servicing rights retained. The carrying value of mortgage loans sold is reduced by the amount allocated to the servicing right. Gains and losses on sales of mortgage loans are based on the difference between the selling price and the carrying value of the related loan sold.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Federal Home Loan Bank (FHLB) Stock: The Bank is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

Premises and Equipment: Premises and equipment are stated at cost less accumulated depreciation. Land is carried at cost. Buildings and related components are depreciated using the straight-line or other accelerated methods with useful lives ranging from 7 to 39 years. Furniture, fixtures and equipment are depreciated using the straight-line or other accelerated methods with useful lives ranging from 3 to 15 years. These assets are reviewed for impairment when events indicate the carrying amount may not be recoverable.

Mortgage Servicing Rights: Servicing rights are recognized separately when they are acquired through sales of loans. When mortgage loans are sold, servicing rights are initially recorded at fair value with the income statement effect recorded in gains on sales of loans. Fair value is based on market prices for comparable mortgage servicing contracts, when available or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses. All classes of servicing assets are subsequently measured using the amortization method which requires servicing rights to be amortized into noninterest income in proportion to, and over the period of, the estimated future net servicing income of the underlying loans.

Servicing assets are evaluated for impairment based upon the fair value of the rights as compared to carrying amount. Impairment is determined by stratifying rights into groupings based on predominant risk characteristics, such as interest rate, loan type and investor type. Impairment is recognized through a valuation allowance for an individual grouping, to the extent that fair value is less than the carrying amount. If the Company later determines that all or a portion of the impairment no longer exists for a particular grouping, a reduction of the allowance may be recorded as an increase to income. Changes in the valuation allowance are reported with service charges and fees. The fair values of servicing rights are subject to significant fluctuations as a result of changes in estimated and actual prepayment speeds and default rates and losses.

Servicing fee income, which is reported on the income statement in service charges and fees, is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal; or a fixed amount per loan and are recorded as income when earned. The amortization of mortgage servicing rights is netted against loan servicing fee income. Servicing fees totaled $328,000 and $329,000 for the years ended June 30, 2019 and 2018. Late fees and ancillary fees related to loan servicing are not material.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Company Owned Life Insurance: Life insurance plans are provided for certain executive officers on a split dollar basis. The Company is the owner of the split dollar policies. The officers are entitled to a sum equal to two times the employee's annual salary at death, if actively employed. The Company is entitled to the remainder of the death proceeds. The employees have the right to designate a beneficiary(s) to receive their share of the proceeds payable upon death. The Company records company owned life insurance at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement. The cash surrender value of these life insurance policies, life insurance policies related to the Company's Salary Continuation Plan and other company owned life insurance policies totaled approximately $8,868,000 and $8,586,000 as of June 30, 2019 and 2018.

Goodwill and Other Intangible Assets: Goodwill results from business acquisitions and represents the excess of the purchase price over the fair value of acquired tangible assets and liabilities and identifiable intangible assets. Goodwill is assessed at least annually for impairment and any such impairment will be recognized in the period identified.

Foreclosed Real Estate: Real estate properties acquired through, or in lieu of, foreclosure are initially recorded at fair value less estimated costs to sell at acquisition, establishing a new cost basis. Any reduction to fair value from the carrying value of the related loan at the time of acquisition is accounted for as a loan loss and charged against the allowance for loan losses. Valuations are periodically performed by management and valuation allowances are adjusted through a charge to income for changes in fair value or estimated selling costs. Operating costs after acquisition are expensed. The amount of foreclosed properties, net of REO allowance, was approximately $195,000 and $167,000 at June 30, 2019 and 2018, respectively.

Long-Term Assets: Premises and equipment, other intangible assets, and other long-term assets are reviewed for impairment when events indicate their carrying amount may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value.

Transfers of Financial Assets: Transfers of financial assets are accounted for as sales, when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Company, the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Stock-Based Compensation: Compensation cost is recognized for stock options and restricted stock awards issued to employees, based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options, while the market price of the Company's common stock at the date of grant is used for restricted stock awards. Compensation cost is recognized over the required service period, generally defined as the vesting period. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes: Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

A tax position is recognized as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the “more likely than not” test, no tax benefit is recorded. The Company recognizes interest and/or penalties related to income tax matters in income tax expense.

Retirement Plans: Pension expense under a multi-employer plan is based on employer contributions due to the plan. Employee 401(k) and profit sharing plan expense is the amount of matching contributions. Deferred compensation and supplemental retirement plan expense allocates the benefits over years of service.

Loan Commitments and Related Financial Instruments: Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and commercial letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded. A summary of these commitments is disclosed in Note 13.

Loss Contingencies: Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there now are such matters that will have a material effect on the financial statements.

Earnings Per Common Share: Basic earnings per common share is computed by dividing net income available to common shareholders (net income less dividend requirements for preferred stock) by the weighted-average number of common shares outstanding during the year. All outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends are considered participating securities for the calculation. Diluted net income per share is computed as above and assumes the conversion of outstanding stock options.

Comprehensive Income: Comprehensive income consists of net income and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses on securities available for sale, net of tax, which are also recognized as separate components of shareholders’ equity. At June 30, 2019 and 2018, the accumulated other comprehensive income (loss) was entirely attributed to available for sale securities.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue from Contracts with Customers: The Company records revenue from contracts with customers in accordance with Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers* (Topic 606). Under Topic 606, the Company must identify the contract with a customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract, and recognize revenue when (or as) the Company satisfies a performance obligation. Significant revenue has not been recognized in the current reporting period that results from performance obligations satisfied in previous periods.

The Company's primary sources of revenue are derived from interest and dividends earned on loans, investment securities, and other financial instruments that are not within the scope of Topic 606. The Company has 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. The Company generally fully satisfies its performance obligations on its contracts with customers as services are rendered and the transaction prices are typically fixed; charged either on a periodic basis or based on activity. Because performance obligations are satisfied as services are rendered and the transaction prices are fixed, there is little judgment involved in applying Topic 606 that significantly affects the determination of the amount and timing of revenue from contracts with customers.

Dividend Restrictions: Banking regulations require maintaining certain capital levels and may limit the dividends paid by the Bank to the holding company or by the holding company to shareholders.

Fair Value of Financial Instruments: Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Adoption of New Accounting Standards

In May 2014, the FASB issued an update (ASU No. 2014-09, Revenue from Contracts with Customers) creating FASB Topic 606, Revenue from Contracts with Customers. The guidance in this update affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (for example, insurance contracts or lease contracts). The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance provides steps to follow to achieve the core principle. An entity should disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The amendments in this update became effective for annual periods and interim periods within those annual periods beginning after December 15, 2017. The Company adopted this update effective July 1, 2018 and adoption did not have a material impact on the consolidated financial statements. Refer to Note 1 *Revenue from Contracts With Customers* for further discussion on the Company's accounting policies for revenue services within the scope of Topic 606.

In January 2016, the FASB issued an update (ASU No. 2016-01, Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities). The amendments in this update impact public business entities as follows: 1) Require equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. 2) Simplify the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment. When a qualitative assessment indicates that impairment exists, an entity is required to measure the investment at fair value. 3) Eliminate the requirement to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet. 4) Require entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes. 5) Require an entity to present separately in other comprehensive income the portion of the total change in fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. 6) Require separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements. 7) Clarify that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. The amendments in this update became effective for annual periods and interim periods within those annual periods beginning after December 15, 2017. The Company adopted this update effective July 1, 2018 and reclassified equity securities in the amount of $62,000 to other assets. Effective July 1, 2018, fair value disclosures have been updated for the exit pricing notion.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Effect of Newly Issued But Not Yet Effective Accounting Standards:

In February 2016, the FASB issued its new lease accounting guidance in ASU No. 2016-02, Leases (Topic 842). Under the new guidance, lessees will be required to recognize the following for all leases, with the exception of short-term leases, at the commencement date: a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. The amendments in this update become effective for annual periods and interim periods within those annual periods beginning after December 15, 2018. The Company has evaluated the impact of adopting the new guidance on the consolidated financial statements and has determined that adoption will not have a material impact.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The main objective of this amendment is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. The amendment requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to enhance their credit loss estimates. The amendment requires enhanced disclosures to help investors and other financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. In addition, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The amendments in this update become effective for the Company for the annual period and interim periods within that annual period beginning after December 15, 2020. Early adoption will be permitted beginning after December 15, 2018. The Company is currently evaluating the impact of adopting the new guidance on the consolidated financial statements.

(Continued)

NOTE 2 - EARNINGS PER SHARE

A reconciliation of the numerators and denominators used in the computation of basic earnings per share and diluted earnings per share is presented below:

	Years ended June 30 2019	2018
Basic Earnings Per Common Share		
Numerator: Net income attributable to common shareholders	$ 4,343,760	$ 4,804,775
Denominator: Weighted average common shares outstanding, including participating securities	1,151,968	1,165,980
Basic earnings per common share	$ 3.77	$ 4.12
Diluted Earnings Per Common Share		
Numerator: Net income attributable to common shareholders	$ 4,343,760	$ 4,804,775
Denominator: Weighted average shares outstanding for basic earnings per share	1,151,968	1,165,980
Add: Dilutive effects of assumed exercise of stock options	-	-
Weighted average common shares and dilutive potential shares outstanding	1,151,968	1,165,980
Diluted earnings per common share	$ 3.77	$ 4.12

There were no anti-dilutive stock options in 2019 and 2018.

(Continued)

NOTE 3 - SECURITIES

The amortized cost and fair value of available for sale securities and the related gross unrealized gains and losses recognized in accumulated other comprehensive income (loss) were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2019				
State and political subdivisions	$ 52,206,396	$ 2,512,479	$ -	$ 54,718,875
U.S. government sponsored entities	720,615	-	(9,175)	711,440
Mortgage backed securities – residential	10,024,565	54,772	(48,949)	10,030,388
Collateralized mortgage obligations – agency	16,432,792	343,664	(57,338)	16,719,118
Collateralized mortgage obligations – non-agency	232,242	8,451	(4,502)	236,191
Subordinated debt	2,800,000	59,440	-	2,859,440
	$ 82,416,610	$ 2,978,806	$ (119,964)	$ 85,275,452

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2018				
State and political subdivisions	$ 51,228,325	$ 1,338,868	$ (176,443)	$ 52,390,750
U.S. government sponsored entities	1,003,458	-	(10,605)	992,853
Mortgage backed securities – residential	8,421,566	14,701	(252,276)	8,183,991
Collateralized mortgage obligations – agency	16,441,762	2,941	(514,302)	15,930,401
Collateralized mortgage obligations – non-agency	304,493	14,480	(1,850)	317,123
Collateralized debt obligations	644,123	-	(31,243)	612,880
Equity securities	18,099	43,486	-	61,585
	$ 78,061,826	$ 1,414,476	$ (986,719)	$ 78,489,583

Sales/calls of available for sale securities were as follows:

	2019	2018
Sales	$ 11,839,214	$ -
Calls	1,554,749	2,733,748
Gross gains	131,725	-
Gross losses	(87,949)	-

NOTE 3 - SECURITIES (Continued)

Contractual maturities of debt securities at June 30, 2019 were as follows. Expected maturities may differ from contractual maturities because borrowers may call or prepay obligations. Securities not due at a single maturity date are shown separately.

	Amortized Cost	Fair Value
Due in one year or less	$ 1,966	$ 1,960
Due from one to five years	2,142,018	2,182,014
Due from five to ten years	18,520,716	19,145,195
Due after ten years	35,062,311	36,960,586
Mortgage backed	26,689,599	26,985,697
	$ 82,416,610	$ 85,275,452

Securities with unrealized losses at June 30, 2019, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are as follows:

	Less than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. government – sponsored entities	$ -	$ -	$ 711,440	$ (9,175)	$ 711,440	$ (9,175)
U.S. government – Mortgage backed securities - residential	2,038,640	(10,709)	2,715,660	(38,240)	4,754,300	(48,949)
Collateralized mortgage obligations – agency	-	-	4,307,628	(57,338)	4,307,628	(57,338)
Collateralized mortgage obligations – non-agency	58,068	(1,378)	71,397	(3,124)	129,465	(4,502)
Total temporarily impaired	$ 2,096,708	$ (12,087)	$ 7,806,125	$ (107,877)	$ 9,902,833	$ (119,964)

(Continued)

NOTE 3 - SECURITIES (Continued)

Securities with unrealized losses at June 30, 2018, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are as follows:

	Less than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
State and political subdivisions	$ 6,168,283	$ (93,402)	$ 2,610,929	$ (83,041)	$ 8,779,212	$ (176,443)
U.S. government – sponsored entities	310,869	(1,459)	681,984	(9,146)	992,853	(10,605)
Mortgage backed securities - residential	3,500,227	(73,899)	3,889,225	(178,377)	7,389,452	(252,276)
Collateralized mortgage obligations – agency	4,859,134	(30,998)	10,042,409	(483,304)	14,901,543	(514,302)
Collateralized mortgage obligations – non-agency	99,735	(1,850)	-	-	99,735	(1,850)
Collateralized debt obligations	-	-	612,880	(31,243)	612,880	(31,243)
Total temporarily impaired	$ 14,938,248	$ (201,608)	$ 17,837,427	$ (785,111)	$ 32,775,675	$ (986,719)

Other-Than-Temporary-Impairment: Management evaluates securities for other-than-temporary impairment ("OTTI") at least on a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. The investment securities portfolio is evaluated for OTTI by segregating the portfolio into two general segments and applying the appropriate OTTI model. Investment securities classified as available for sale or held-to-maturity are generally evaluated for OTTI under FASB ASC 320. However, certain purchased beneficial interests, including collateralized debt obligations, that had credit ratings at the time of purchase of below AA are evaluated using the model outlined in FASB ASC 325-10.

In determining OTTI under the FASB ASC 320 model, management considers many factors, including: (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, (3) whether the market decline was affected by macroeconomic conditions, and (4) whether the entity has the intent to sell the debt security or more likely than not will be required to sell the debt security before its anticipated recovery. The assessment of whether an other-than-temporary decline exists involves a high degree of subjectivity and judgment and is based on the information available to management at a point in time.

The second segment of the portfolio uses the OTTI guidance provided by FASB ASC 325-10 that is specific to purchased beneficial interests that, on the purchase date, were rated below AA. Under the FASB ASC 325-10 model, the Company compares the present value of the remaining cash flows as estimated at the preceding evaluation date to the current expected remaining cash flows. An OTTI is deemed to have occurred if there has been an adverse change in the remaining expected future cash flows.

As of June 30, 2019, the Company's security portfolio consisted of 148 securities, 18 of which were in an unrealized loss position. The majority of unrealized losses are related to the Company's collateralized mortgage obligations as discussed below:

(Continued)

NOTE 3 - SECURITIES (Continued)

Collateralized Mortgage Obligations (CMO's): At June 30, 2019, approximately 98.6% of the collateralized mortgage obligations held by the Company were issued by U.S. government-sponsored entities and agencies, primarily Fannie Mae and Freddie Mac, institutions which the government has affirmed its commitment to support. The fair value of agency CMOs was $16.7 million at June 30, 2019 compared to a book value of $16.4 million.

The remainder of the Company's CMO portfolio includes non-agency CMO's with a fair value of $236,000 which had net unrealized gain of approximately $4,000 at June 30, 2019. These non-agency CMO's were rated AAA at purchase and are not within the scope of FASB ASC 325-10. At June 30, 2019 the ratings of all six CMOs were as follows: two remained rated in investment grade categories, one security was rated CCC, two securities were rated BB, and one security was rated D. The Company monitors these investments to ensure it has adequate credit support by projecting cash flows under various default, loss and prepayment assumptions. OTTI of $30,000 had been recorded on one of these non-agency CMO's in a previous fiscal year. This security had an unrealized gain of $8,000 and $12,000 at June 30, 2019 and 2018, respectively. In the fiscal years ending June 30, 2019 and 2018, the Company did not record OTTI on non-agency CMO securities.

The table below presents a roll forward of the credit losses recognized in earnings for debt securities for the years ended June 30, 2019 and 2018:

	2019	2018
Beginning balance	$ 130,352	$ 130,352
Additions for credit losses on securities for which an other-than-temporary impairment was not previously recognized	-	-
Reductions for previous credit losses realized on securities sold during the period	(100,000)	-
Increases to credit losses on securities for which an other-than-temporary impairment was previously recognized	-	-
Ending balance	$ 30,352	$ 130,352

The Company sold its only investment in Collateralized Debt Obligations (CDO's) during the fiscal year end June 30, 2019. The Company recorded OTTI of $100,000 on this investment in a previous fiscal year. Prior to the sale, this investment had an amortized cost of $627,000.

NOTE 4 - LOANS RECEIVABLE, NET

The composition of loans at June 30 by class was as follows:

	2019	2018
Commercial	$ 23,136,006	$ 19,830,534
Commercial real estate:		
Construction	8,164,303	793,006
Other	89,486,251	89,859,190
Commercial leases	13,060,623	15,917,086
Residential real estate	107,918,258	98,940,057
Consumer credit:		
HELOC	24,624,095	24,311,015
Auto	11,955,322	11,180,053
Other	5,213,796	3,483,855
Subtotal	283,558,654	264,314,796
Net deferred loan origination costs	95,286	115,839
Allowance for loan loss	(3,857,473)	(3,716,543)
Net loans	$ 279,796,467	$ 260,714,092

The components of the Company’s direct financing leases as of June 30 are summarized below:

	2019	2018
Future minimum lease payments	$ 13,340,896	$ 16,344,487
Residual interests	548,779	530,460
Initial direct costs	94,095	137,900
Unearned income	(923,147)	(1,095,761)
	$ 13,060,623	$ 15,917,086

Future minimum lease payments are as follows:

2020	$ 3,809,547
2021	3,968,229
2022	2,828,663
2023	1,657,975
2024	733,240
Thereafter	343,242
Total	$ 13,340,896

(Continued)

NOTE 4 - LOANS RECEIVABLE, NET (Continued)

The Company's activity in the allowance for loan losses by portfolio segment for the years ended June 30, 2019 and 2018 is as follows:

	Commercial	Commercial Real Estate	Commercial Leases	Residential Real Estate	Consumer Credit	Unallocated	Total
2019							
Allowance for loan losses:							
Beginning balance	$ 341,632	$ 1,556,324	$ 309,366	$ 1,043,922	$ 265,599	$ 199,700	$ 3,716,543
Charge-offs	(10,929)	-	(71,713)	(42,508)	(81,695)	-	(206,845)
Recoveries	7,191	13,297	56,462	18,812	20,895	-	116,657
Provision	(1,026)	(35,000)	(40,273)	137,631	211,435	(41,649)	231,118
Ending balance	$ 336,868	$ 1,534,621	$ 253,842	$ 1,157,857	$ 416,234	$ 158,051	$ 3,857,473

	Commercial	Commercial Real Estate	Commercial Leases	Residential Real Estate	Consumer Credit	Unallocated	Total
2018							
Allowance for loan losses:							
Beginning balance	$ 316,934	$ 1,351,143	$ 299,351	$ 1,063,482	$ 268,687	$ 12,170	$ 3,311,767
Charge-offs	-	(55,600)	(17,877)	(128,480)	(123,993)	-	(325,950)
Recoveries	8,224	831,902	6,546	74,924	14,130	-	935,726
Provision	16,474	(571,121)	21,346	33,996	106,775	187,530	(205,000)
Ending balance	$ 341,632	$ 1,556,324	$ 309,366	$ 1,043,922	$ 265,599	$ 199,700	$ 3,716,543

(Continued)

NOTE 4 - LOANS RECEIVABLE, NET (Continued)

The Company's recorded investment in loan receivables by portfolio segment and the related allowance for loan losses at June 30, 2019 and 2018 is as follows. Adjustments to recorded investment for deferred loan origination costs (fees) and accrued interest receivable are not deemed material to this presentation.

	Commercial	Commercial Real Estate	Commercial Leases	Residential Real Estate	Consumer Credit	Unallocated	Total
2019							
Allowance for loan losses:							
Individually evaluated for impairment	$ 966	$ 145,406	$ 5,108	$ 306,965	$ 24,282	$ -	$ 482,727
Collectively evaluated for impairment	335,902	1,389,215	248,734	850,892	391,952	158,051	3,374,746
Total ending balance	$ 336,868	$ 1,534,621	$ 253,842	$ 1,157,857	$ 416,234	$ 158,051	$ 3,857,473
Loans receivables:							
Individually evaluated for impairment	$ 8,372	$ 1,173,476	$ 33,438	$ 4,501,885	$ 347,876	N/A	$ 6,065,047
Collectively evaluated for impairment	23,127,634	96,477,078	13,027,185	103,416,373	41,445,337	N/A	277,493,607
Total ending balance	$ 23,136,006	$ 97,650,554	$ 13,060,623	$107,918,258	$ 41,793,213	N/A	$ 283,558,654
2018							
Allowance for loan losses:							
Individually evaluated for impairment	$ -	$ 181,838	$ 6,232	$ 320,815	$ 32,658	$ -	$ 541,543
Collectively evaluated for impairment	341,632	1,374,486	303,134	723,107	232,941	199,700	3,175,000
Total ending balance	$ 341,632	$ 1,556,324	$ 309,366	$ 1,043,922	$ 265,599	$ 199,700	$ 3,716,543
Loans receivables:							
Individually evaluated for impairment	$ -	$ 1,357,877	$ 40,797	$ 4,471,607	$ 276,402	N/A	$ 6,146,683
Collectively evaluated for impairment	19,830,534	89,294,319	15,876,289	94,468,450	38,698,521	N/A	258,168,113
Total ending balance	$ 19,830,534	$ 90,652,196	$ 15,917,086	$ 98,940,057	$ 38,974,923	N/A	$ 264,314,796

(Continued)

NOTE 4 - LOANS RECEIVABLE, NET (Continued)

The Company monitors the credit quality of its loan and lease receivables on an on-going basis. Internally, management assigns a credit quality grade to each commercial and commercial real estate loan in the portfolio. Additionally, management assigns a credit quality grade to each non-homogeneous commercial lease, residential real estate loan and consumer credit loan. The primary determinants of credit quality grade are based upon relevant information about the ability of borrowers to service their debt, such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company uses the following definitions for risk ratings:

Special Mention. Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

Substandard. Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful. Loans classified as doubtful have all the weaknesses inherent in those 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.

(Continued)

NOTE 4 - LOANS RECEIVABLE, NET (Continued)

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans. Loans shown as not rated are monitored for credit quality primarily based on payment status, which is disclosed elsewhere in Note 4. As of June 30, 2019 and 2018, based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

	Pass	Special Mention	Substandard	Doubtful	Not Rated	Total
2019						
Commercial	$ 22,829,244	$ -	$ 306,762	$ -	$ -	$ 23,136,006
Commercial real estate:						
Construction	8,164,303	-	-	-	-	8,164,303
Other	87,894,674	-	1,453,235	138,342	-	89,486,251
Commercial leases	-	-	33,438	-	13,027,185	13,060,623
Residential real estate	-	484,916	2,141,997	923,759	104,367,586	107,918,258
Consumer credit:						
HELOC	-	25,847	202,064	46,806	24,349,378	24,624,095
Auto	-	22,115	63,249	37,731	11,832,227	11,955,322
Other	-	8,203	3,130	15,516	5,186,947	5,213,796
Total	$118,888,221	$ 541,081	$ 4,203,875	$ 1,162,154	$ 158,763,323	$ 283,558,654
2018						
Commercial	$ 19,488,593	$ 341,941	$ -	$ -	$ -	$ 19,830,534
Commercial real estate:						
Construction	793,006	-	-	-	-	793,006
Other	88,340,157	313,269	1,062,784	142,980	-	89,859,190
Commercial leases	-	-	82,090	-	15,834,996	15,917,086
Residential real estate	-	805,124	1,650,177	869,158	95,615,598	98,940,057
Consumer credit:						
HELOC	-	36,287	157,118	53,129	24,064,481	24,311,015
Auto	-	57,784	35,632	-	11,086,637	11,180,053
Other	-	1,642	24,518	-	3,457,695	3,483,855
Total	$108,621,756	$ 1,556,047	$ 3,012,319	$ 1,065,267	$ 150,059,407	$ 264,314,796

(Continued)

NOTE 4 - LOANS RECEIVABLE, NET (Continued)

The following tables present loans individually evaluated for impairment by class of loans as of June 30, 2019 and 2018. Recorded Investment is net of charge-offs and the adjustment from Unpaid Principal Balance to the Recorded Investment is not deemed material to this presentation.

	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized(1)
June 30, 2019				
With no related allowance recorded:				
Commercial	$ -	$ -	$ -	$ -
Commercial real estate:				
Construction	-	-	-	-
Other	252,965	-	248,305	63,881
Commercial leases	-	-	-	-
Residential real estate	394,714	-	468,400	36,344
Consumer credit:				
HELOC	-	-	-	-
Auto	-	-	-	-
Other	-	-	-	-
With an allowance recorded:				
Commercial	8,372	966	4,186	-
Commercial real estate:				
Construction	-	-	-	-
Other	920,511	145,406	1,017,371	-
Commercial leases	33,438	5,108	37,118	-
Residential real estate	4,107,171	306,965	4,018,347	-
Consumer credit:				
HELOC	248,870	17,371	229,559	-
Auto	80,360	5,609	56,806	-
Other	18,646	1,302	25,774	-
Total	$ 6,065,047	$ 482,727	$ 6,105,866	$ 100,225

(Continued)

NOTE 4 - LOANS RECEIVABLE, NET (Continued)

	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized(1)
June 30, 2018				
With no related allowance recorded:				
Commercial	$ -	$ -	$ -	$ -
Commercial real estate:				
Construction	-	-	-	-
Other	243,645	-	725,592	73,370
Commercial leases	-	-	-	-
Residential real estate	542,085	-	550,079	40,699
Consumer credit:				
HELOC	-	-	-	-
Auto	-	-	-	-
Other	-	-	-	-
With an allowance recorded:				
Commercial	-	-	-	-
Commercial real estate:				
Construction	-	-	-	-
Other	1,114,232	181,838	1,512,330	-
Commercial leases	40,797	6,232	20,399	-
Residential real estate	3,929,522	320,815	3,957,620	-
Consumer credit:				
HELOC	210,247	29,681	184,055	-
Auto	33,253	1,496	49,194	-
Other	32,902	1,481	25,926	-
Total	$ 6,146,683	$ 541,543	$ 7,025,195	$ 114,069

(1) The Company does not record interest on nonaccrual loans until principal is recovered. All income recognized was received in cash.

(Continued)

NOTE 4 - LOANS RECEIVABLE, NET (Continued)

For all loan classes, a loan is generally placed on nonaccrual status when principal or interest becomes 90 days past due unless it is well secured and in the process of collection, or earlier when concern exists as to the ultimate collectability of principal or interest. Interest on such loans is reversed against earnings. Cash interest received on these loans is applied to the principal balance until the principal is recovered or until the loan returns to accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current, remain current for six months and future payments are reasonably assured.

Nonaccrual loans and loans past due 90 days still on accrual were as follows:

	2019	2018
Loans past due over 90 days still on accrual	$ -	$ -
Nonaccrual loans	3,498,096	3,245,108

Nonaccrual loans and loans past due 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

The following table presents the recorded investment in nonaccrual loans by class of loans as of June 30, 2019 and 2018:

	2019	2018
Commercial	$ 8,372	$ -
Commercial real estate:		
Construction	-	-
Other	373,617	417,546
Commercial leases	33,438	40,797
Residential real estate	2,734,793	2,519,334
Consumer credit:		
HELOC	248,870	210,247
Auto	80,360	33,253
Other	18,646	23,931
	$ 3,498,096	$ 3,245,108

NOTE 4 - LOANS RECEIVABLE, NET (Continued)

The following table presents the aging of the recorded investment in past due loans as of June 30, 2019 and 2018 by class of loans. Adjustments to recorded investment for deferred loan origination costs (fees) and accrued interest receivable are not deemed material to this presentation.

	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Loans Not Past Due	Total
June 30, 2019						
Commercial	$ -	$ -	$ -	$ -	$ 23,136,006	$ 23,136,006
Commercial real estate:						
Construction	-	-	-	-	8,164,303	8,164,303
Other	53,084	-	138,342	191,426	89,294,825	89,486,251
Commercial leases	9,049	12,093	-	21,142	13,039,481	13,060,623
Residential real estate	1,240,014	725,694	1,001,238	2,966,946	104,951,312	107,918,258
Consumer credit:						
HELOC	183,571	66,143	59,767	309,481	24,314,614	24,624,095
Auto	12,775	-	37,731	50,506	11,904,816	11,955,322
Other	22,815	747	16,275	39,837	5,173,959	5,213,796
Total	$ 1,521,308	$ 804,677	$ 1,253,353	$ 3,579,338	$ 279,979,316	$ 283,588,654
June 30, 2018						
Commercial	$ 18,166	$ -	$ -	$ 18,166	$ 19,812,368	$ 19,830,534
Commercial real estate:						
Construction	-	-	-	-	793,006	793,006
Other	210,957	-	142,980	353,937	89,505,253	89,859,190
Commercial leases	32,018	-	-	32,018	15,885,068	15,917,086
Residential real estate	1,080,108	551,858	989,401	2,621,367	96,318,690	98,940,057
Consumer credit:						
HELOC	-	70,467	99,766	170,233	24,140,782	24,311,015
Auto	19,371	3,843	-	23,214	11,156,839	11,180,053
Other	574	-	1,006	1,580	3,482,275	3,483,855
Total	$ 1,361,194	$ 626,168	$ 1,233,153	$ 3,220,515	$ 261,094,281	$ 264,314,796

(Continued)

NOTE 4 - LOANS RECEIVABLE, NET (Continued)

Troubled Debt Restructurings:

The Company may choose to restructure the contractual terms of certain loans. The decision to restructure a loan, versus aggressively enforcing the collection of the loan, may benefit the Company by increasing the ultimate probability of collection.

Any loans that are modified are reviewed by the Company to identify if a troubled debt restructuring ("TDR") has occurred, which is when for economic or legal reasons related to a borrower's financial difficulties, the Company grants a concession to the borrower that it would not otherwise consider. Terms are generally modified to fit the ability of the borrower to repay in line with its current financial status and included one or a combination of the following: a reduction of the stated interest rate of the loan, an extension of the maturity date at a stated rate of interest lower than the current market rate of new debt with similar risk, or a period of interest only payments.

Loans modified in a TDR are typically placed on nonaccrual status until the Company determines the future collection of the principal and interest is reasonably assured, which generally requires that the borrower demonstrate a period of performance according to the restructured terms for six months.

At June 30, 2019, troubled debt restructurings consisted of $234,000 of commercial real estate loans, $2.2 million of residential real estate loans and $12,000 of commercial leases. At June 30, 2018, troubled debt restructurings consisted of $293,000 of commercial real estate loans, $2.2 million of residential real estate loans, $26,000 of commercial leases and $5,000 of consumer loans.

The Company has allocated $153,000 and $188,000 of specific reserves to customers whose loan terms have been modified in troubled debt restructurings as of June 30, 2019 and 2018. The Company does not have outstanding commitments to extend additional credit to customers whose loans have been renegotiated under a troubled debt restructuring.

The following table presents loans by class modified as troubled debt restructurings that occurred during the twelve months ended June 30, 2019. One of the modifications involved an extension of maturity date by 238 months. One of the modifications involved a rate reduction from 6.50% to 6.00% and an extension of maturity date by 123 months. One of the modifications involved a partial deferment of payment.

	Number of Loans	Recorded Investment (1)
Troubled Debt Restructuring:		
Commercial real estate	2	$ 180,872
Residential real estate	1	188,540
Total	3	$ 369,412

(1) There were no principal adjustments recorded on these loans pre or post-modification.

The troubled debt restructuring described above increased the allowance for loan losses by $12,000 during the twelve months ended June 30, 2019.

There were no charge-offs recorded as a result of the above TDRs during the year ended June 30, 2019.

(Continued)

NOTE 4 - LOANS RECEIVABLE, NET (Continued)

The following table presents loans by class modified as troubled debt restructurings that occurred during the twelve months ended June 30, 2018. The modification involved an extension of the maturity date from 94 to 120 months.

	Number of Loans	Recorded Investment (1)
Troubled Debt Restructuring:		
Commercial leases	1	$ 25,628
Residential real estate	2	167,813
Total	3	$ 193,441

(1) There were no principal adjustments recorded on these loans pre or post-modification.

The troubled debt restructuring described above increased the allowance for loan losses by $13,000 during the twelve months ended June 30, 2018.

There were no charge-offs recorded as a result of the above TDR during the year ended June 30, 2018.

There were no troubled debt restructurings for which there was a payment default within twelve months following the modification during the twelve months ended June 30, 2019 or 2018. A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms.

(Continued)

NOTE 5 - LOAN SERVICING

Loans serviced for others are not reported as assets in the balance sheets. These loans totaled $127,447,000 and $132,324,000 at June 30, 2019 and 2018. Related escrow deposit balances were $518,000 and $500,000 at June 30, 2019 and 2018.

Activity for capitalized mortgage servicing rights for the years ended June 30 follows:

	2019	2018
Servicing rights:		
Carrying amount at beginning of year	$ 1,028,120	$ 978,849
Additions	104,183	143,109
Amortized to expense	(113,228)	(93,838)
Carrying amount before valuation allowance	1,019,075	1,028,120
Valuation allowance:		
Beginning of year	(204,155)	(164,423)
(Provisions for) recovery of valuation allowance	(52,528)	(39,732)
Valuation allowance at end of year	(256,683)	(204,155)
Carrying amount at end of year	$ 762,392	$ 823,965

As of June 30, 2019 and 2018, a valuation allowance was recorded to reflect impairment in groupings of underlying loans.

The fair value of servicing rights was $781,000 and $948,000 at year-end 2019 and 2018. Fair value at year-end 2019 was determined using discount rates ranging from 11.1% to 13.1%, prepayment speeds ranging from 7.2% to 27.8%, depending on the stratification of the specific right, and a weighted average default rate of 0.5%. Fair value at year-end 2018 was determined using discount rates ranging from 11.1% to 13.1%, prepayment speeds ranging from 6.0% to 16.0%, depending on the stratification of the specific right, and a weighted average default rate of 0.8%.

NOTE 6 - PREMISES AND EQUIPMENT, NET

Premises and equipment at June 30 were as follows:

	2019	2018
Land	$ 791,274	$ 882,767
Buildings	6,823,070	7,173,202
Furniture, fixtures and equipment	2,544,151	2,628,036
Total cost	10,158,495	10,684,005
Accumulated depreciation	(4,716,299)	(4,858,550)
	$ 5,442,196	$ 5,825,455

Depreciation expense on premises and equipment was $579,000 and $575,000 for fiscal years 2019 and 2018.

(Continued)

NOTE 7 - DEPOSITS

Deposit accounts individually exceeding $250,000 totaled approximately $120,000,000 and $105,000,000 at June 30, 2019 and 2018.

At June 30, 2019, stated maturities of certificates of deposit for the years ended June 30 were:

2020	$ 43,856,000
2021	18,518,000
2022	21,514,000
2023	12,089,000
2024	1,490,000
Thereafter	-
	$ 97,467,000

Included in the total amount of certificates of deposit is $18,766,000 placed with the Certificate of Deposit Account Registry Service (CDARS). Funds deposited through the CDARS network are divided among participating banks to ensure there is never more than $250,000 at any one institution; therefore these are fully eligible for FDIC insurance.

NOTE 8 - BORROWINGS

Federal Home Loan Bank (FHLB) advances totaled $2,000,000 at June 30, 2019 and 2018. The advance is a fixed rate bullet advance. As of June 30, 2019, and 2018, the advance carries an interest rate of 1.71%.

The Company also maintains lines of credit in the amounts of $1,000,000 with FHLB and $2,000,000 with another institution, which terminate on June 19, 2020 and March 20, 2020, respectively. As of June 30, 2019, and 2018, balances of $0, were outstanding against these lines.

FHLB borrowings, as well as the $1,000,000 line of credit, are secured by all stock in the FHLB, qualifying first mortgage loans, government, agency and mortgage-backed securities. At June 30, 2019, collateral of approximately $125,976,000 is pledged to the FHLB to secure advances outstanding. The Company's $2,000,000 line of credit is secured by shares of Crossroads Bank.

(Continued)

NOTE 9 - EMPLOYEE BENEFITS

Employee Pension Plan: Effective July 1, 2008, the Bank approved a freeze of benefits accrued under the employee pension plan and no benefits for future employee service will be accrued and employees hired after that date are not eligible for benefits from the pension plan. The pension plan is part of a noncontributory multi-employer defined-benefit pension plan. There is no separate actuarial valuation of plan benefits nor segregation of plan assets specifically for the Company. As of July 1, 2019 and 2018, the actuarially determined value of total vested benefits exceeded plan assets and a contribution and expense were required for fiscal years 2019 and 2018. During fiscal years 2019 and 2018, expenses of $84,000 and $78,000 were recorded each year, respectively. For the years ending June 30, 2019 and 2018, administrative pension expense was $7,000.

401(k) Plan: A retirement savings 401(k) plan covers full time employees 21 or older that have completed one year of service. Participants may defer up to 50% of compensation. The Company matches 100% of elective deferrals on the first 4% of the participants' compensation, and the Company matches 50% of elective deferrals on the next 2% of the participant's compensation. Additionally, the Company may contribute up to 4% of each participant's compensation regardless of the participant's personal contributions to their 401(k) account depending on earnings and other benefit expenses. Expenses under this plan were $157,000 and $146,000 for 2019 and 2018.

Salary Continuation Plan: The Company maintains a Salary Continuation Plan (Plan) for certain executive officers. The Company is recording an expense equal to the projected present value of the payments due after retirement based on the participants' vesting schedules and projected remaining years of service. The accrued liability for this plan as of June 30, 2019 and 2018 was approximately $1,026,000 and $951,000 with expense of $75,000 and income of ($4,000) recorded during the years ended June 30, 2019 and 2018.

NOTE 10 - STOCK-BASED COMPENSATION

The Company has two share based compensation plans as described below.

Stock Option Plan: The 2013 Stock Option and Incentive Plan authorized 90,000 shares of common stock for options, restricted stock and stock appreciation rights. When options are granted, the option price is at least 100% of the market value of common stock on the date of grant and the option term cannot exceed 10 years. Options awarded vest and may be exercised at a rate of 25% per year. Exercised options are generally issued from treasury stock. There was no compensation cost charged against income for this plan in fiscal years 2019 and 2018. The 2013 plan will expire on October 22, 2023.

The fair value of each option award is established on the date of grant using a closed form option valuation (Black-Scholes) model that uses various assumptions. Expected volatilities are based on historical volatilities of the Company's common stock. The Company uses historical data to estimate option exercise and post-vesting termination behavior. (Employee and management options are tracked separately.) The expected term of options granted is based on historical data and represents the period of time that options granted are expected to be outstanding, which takes into account that the options are not transferable. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of the grant.

(Continued)

NOTE 10 - STOCK-BASED COMPENSATION (Continued)

There were no options granted or vested in 2019 or 2018 and there are no options outstanding or exercisable at June 30, 2019 and 2018.

Stock option plans are used to reward directors and certain executive officers and provide them with an additional equity interest. Options are issued for 10-year periods with varying vesting periods. There was no activity in the stock option plan for the years ended June 30, 2019 and 2018.

As of June 30, 2019 and 2018, there was no unrecognized compensation cost related to nonvested stock options granted under the Plan.

As of June 30, 2019, 66,000 share awards remain available for future grants under the 2013 plan.

Management Recognition and Retention Plans: The Management Recognition and Retention Plan (MRP) provides directors, officers and other key employees with a proprietary interest in the Company to encourage such persons to remain with the Company. MRP awards are allowed for under the 2013 Stock Option and Incentive Plan as described above. Eligible directors, officers and other key employees of the Company become vested in shares of common stock awarded on a discretionary basis at a rate of 25% per year beginning on the date of grant. Expenses of approximately $151,000 and $162,000 were recorded for MRP awards for the years ended June 30, 2019 and 2018.

A summary of changes in the Company's nonvested shares for the year follows:

Nonvested Shares	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at June 30, 2018	13,646	$ 29.47
Granted	303	40.00
Vested	(6,026)	27.83
Forfeited	(500)	24.70
Nonvested at June 30, 2019	7,423	$ 31.56

As of June 30, 2019, there was $137,000 of total unrecognized compensation cost related to nonvested shares granted under the Plan. The cost is expected to be recognized over a weighted-average period of 1.61 years. The total fair value of shares vested during the years ended June 30, 2019 and 2018 was $251,000 and $263,000.

(Continued)

NOTE 11 - INCOME TAXES

On December 22, 2017, H.R.1, commonly known as the Tax Cuts and Jobs Act (the "Act") was signed into law. The Act reduced our corporate federal tax rate from 34% to 21% effective January 1, 2018. As a result we were required to re-measure, through income tax expense, our deferred tax assets and liabilities using the enacted rate at which we expect them to be recovered or settled. For 2018, the re-measurement of our net deferred tax asset resulted in additional income tax expense of $101,296.

Income tax expense (benefit) for the years ended June 30 was:

	2019	2018
Federal		
Current	$ 584,034	$ 503,326
Deferred	(97,774)	359,045
Expense due to enactment of federal tax reform	-	101,296
	486,260	963,667
State		
Current	218,006	224,561
Deferred	(63,452)	(4,068)
	154,554	220,493
Income tax expense (benefit)	$ 640,814	$ 1,184,160

The effective tax rate differs from the statutory federal income tax rate as follows:

	2019	2018
Statutory tax rate	21%	27.55%
Income taxes computed on pretax income using the statutory tax rate	$ 1,046,761	$ 1,649,952
Tax effect of:		
Tax-exempt income, net	(351,044)	(460,826)
State tax, net of federal income tax effect	122,098	159,747
Earnings on life insurance	(59,206)	(76,878)
General business credits	(105,681)	(105,680)
Expense due to enactment of federal tax reform	-	101,296
Other	(12,114)	(83,451)
Total income tax expense (benefit)	$ 640,814	$ 1,184,160

(Continued)

NOTE 11 - INCOME TAXES (Continued)

Components of the net deferred tax asset as of June 30 are:

	2019	2018
Deferred tax assets:		
Bad debts	$ 637,515	$ 587,320
Deferred and accrued compensation	350,058	349,666
Other than temporary security impairment	24,062	45,126
Capital loss carry forward	13,137	70,618
Nonaccrual interest	158,271	189,537
Deferred income	105,798	-
Other real estate writedowns	-	6,277
Partnership investments	70,253	67,024
Other	42,048	45,571
	1,401,142	1,361,139
Deferred tax liabilities:		
Accretion	(636)	(2,885)
Core deposit intangible and goodwill	(293,245)	(289,818)
Mortgage servicing rights	(186,982)	(202,817)
FHLB stock dividends	(35,049)	(35,176)
Prepaid expenses	(143,650)	(128,622)
Lease financing operations	(100,749)	(6,821)
Unrealized gain on debt securities AFS	(620,588)	(82,874)
Net deferred loan fees and costs	(23,370)	(28,513)
Depreciation	(32,202)	(171,903)
	(1,436,471)	(949,429)
Valuation allowance	(2,543)	(73,094)
Net deferred tax asset (liability)	$ (37,872)	$ 338,616

The capital loss carry forward at June 30, 2018 expired unused in 2019. The associated valuation allowance was reversed in 2019. The capital loss carry forward generated in 2019, which relates to sales of equity securities, will expire in 2024. No valuation allowance has been established for the 2019 federal capital loss carryforward, as it is expected to be utilized, however a valuation allowance continues to exist for the state portion of other than temporary securities impairment which would generate state capital loss that would be expected to expire unused.

Federal income tax laws provided savings banks with additional bad debt deductions through 1987, totaling $1,156,000 for the Bank. Accounting standards do not require a deferred tax liability to be recorded on this amount, which liability otherwise would total $243,000 at June 30, 2018 and June 30, 2019. If the Bank was liquidated or otherwise ceased to be a bank or if tax laws were to change, the $243,000 would be recorded as expense.

Our Company and its subsidiaries are subject to U.S. federal income tax as well as income tax of the state of Indiana and various other state income taxes. The statute of limitations related to the consolidated Federal income tax return is closed for all tax years up to and including June 30, 2015 fiscal year. The expiration of the statute of limitations related to the various state income tax returns that the Company and subsidiaries file varies by state.

(Continued)

NOTE 11 - INCOME TAXES (Continued)

The Company had no unrecognized tax benefits as of July 1, 2017 or July 1, 2018 and did not recognize any increase in unrecognized tax benefits during the year ended June 30, 2019 relative to any tax positions taken in the fiscal year 2019.

The Company recognizes interest and/or penalties related to income tax matters in tax expense.

NOTE 12 - REGULATORY MATTERS

The Bank is subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and prompt corrective action regulations involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weightings, and other factors, and the regulators can lower classifications in certain cases.

The prompt corrective action regulations establish quantitative measures to ensure capital adequacy and require minimum amounts and ratios of total, Tier 1, and common equity Tier 1 capital to risk-weighted assets and Tier 1 capital to average assets. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly discretionary, actions by regulators that could have a material effect on our financial statements. Under capital adequacy guidelines, we must meet the specific capital requirements that involve quantitative measures as well as qualitative judgments by the regulators.

In July 2013, the U.S banking regulators approved a final rule that implements the Basel III Regulatory capital reforms from the Basel Committee on Banking Supervision and certain changes required by the Dodd-Frank Act. In general, minimum requirements have increased for both the quantity and quality of capital held by banking organizations and a revised approach for determining risk-weighted assets was implemented. The final rule included a new common equity Tier 1 capital to risk-weighted assets ratio with a minimum of 4.5% and established a common equity Tier 1 capital conservation buffer of 2.5% of risk-weighted assets that applies to all supervised financial institutions and will be phased in through January 2019. At June 30, 2019 and 2018, the capital conservation buffer was 2.50% and 1.875%, respectively. The rule also raises the minimum ratio of Tier 1 capital to risk-weighted assets from 4% to 6% and includes a minimum leverage ratio of 4% for all banking organizations. Under the final rules, institutions are subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if capital levels fall below the buffer amount. The final capital rules became effective for the Bank on January 1, 2015. Management believes as of June 30, 2019, the Bank met all capital adequacy requirements to which it is subject.

NOTE 12 - REGULATORY MATTERS (Continued)

At June 30, 2019 and 2018, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the Bank's category.

The Bank's actual capital levels (in thousands) and minimum required levels (excluding the conservation buffer) are presented below. The net unrealized gain / loss on available for sale securities is not included in computing regulatory capital.

	Actual		Minimum For Capital Adequacy Purposes		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of June 30, 2019:						
Total Capital (to risk weighted assets)	$ 42,102	14.22%	$ 23,682	8.00%	$ 29,602	10.00%
Tier I Capital (to risk weighted assets)	38,400	12.97	17,761	6.00	23,682	8.00
Common Equity Tier I Capital (to risk weighted assets)	38,400	12.97	13,321	4.50	19,241	6.50
Tier I Capital (to average assets)	38,400	9.46	16,241	4.00	20,302	5.00
As of June 30, 2018:						
Total Capital (to risk weighted assets)	$ 39,733	14.26%	$ 22,294	8.00%	$ 27,867	10.00%
Tier I Capital (to risk weighted assets)	36,233	13.00	16,720	6.00	22,294	8.00
Common Equity Tier I Capital (to risk weighted assets)	36,233	13.00	12,540	4.50	18,114	6.50
Tier I Capital (to average assets)	36,233	9.56	15,153	4.00	18,941	5.00

Regulations of the Indiana Department of Financial Institutions (DFI) limit the amount of dividends and other capital distributions that may be paid by a savings institution without prior approval of the DFI. Under the regulations, the Bank can make without application to the DFI, distributions during a calendar year up to 100% of its retained net income for the calendar year-to-date plus retained net income for the previous two calendar years (less any dividends previously paid) as long as the Bank would remain adequately capitalized, as defined in the prompt corrective action regulations, following the proposed distribution. Accordingly, at June 30, 2019, approximately $5,076,000 of the Bank's retained earnings was potentially available for distribution to the Company.

(Continued)

NOTE 13 - FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK AND CONTINGENCIES

Various outstanding commitments and contingent liabilities are not reflected in the financial statements. Commitments to make loans at June 30 were as follows:

	2019		2018	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
Commitments to make loans	$ 5,106,620	$ 7,814,169	$ 1,330,677	$ 8,681,198
Unused lines of credit	2,757,321	44,837,102	4,254,740	46,437,644
Standby letters of credit	321,793	-	176,793	-
	$ 8,185,734	$ 52,651,271	$ 5,762,210	$ 55,118,842

Fixed rate loan commitments, unused lines of credit and standby letters of credit at June 30, 2019 were at current rates ranging from 3.25% to 6.75% for loan commitments, 2.35% to 18.00% for unused lines of credit and 5.50% to 6.00% for standby letters of credit.

Variable rate loan commitments, unused lines of credit and standby letters of credit at June 30, 2019 were at current rates of 4.50% to 7.25% for loan commitments and 4.25% to 10.75% for unused lines of credit. There were no variable standby letters of credit at year end.

Since commitments to make loans and to fund unused lines of credit, loans in process and standby letters of credit may expire without being used, the amounts do not necessarily represent future cash commitments. In addition, commitments are agreements to lend to a customer as long as there is no violation of any condition established in the contract. The maximum exposure to credit loss in the event of nonperformance by the other party is the contractual amount of these instruments. The same credit policy is used to make such commitments as is used for loans receivable.

Under employment agreements with four of its officers, certain events leading to separation from the Company could result in a lump sum cash payment.

The Company and the Bank are subject to certain claims and legal actions arising in the ordinary course of business. In the opinion of management, after consultation with legal counsel, the ultimate disposition of these matters is not expected to have a material adverse effect on the consolidated financial position or results of operations of the Company.

During the fiscal year ended June 30, 2011, the Bank committed to invest $773,000 in a limited partnership formed to construct, own and manage affordable housing projects. The Bank is one of 11 investors and has an 11.1% interest. This investment is accounted for using the cost method of accounting. The excess of the carrying amount of the investment over its estimated residual value is amortized during the periods in which associated tax credits are allocated to the investor. The annual amortization of the investment is based on the proportion of tax credits received in the current year to total estimated tax credits to be allocated to the Company. These investments are reviewed for impairment when events indicate their carrying amounts may not be recoverable from future undiscounted cash flows. If impaired, the investments are reported at discounted amounts. No impairment was identified as of June 30, 2019.

(Continued)

NOTE 13 - FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK AND CONTINGENCIES (Continued)

As of June 30, 2019, the Bank had invested $732,000, which leaves a remaining obligation to the limited partnership of $41,000. At June 30, 2019, the carrying value of the asset was $360,000 and included with other assets in the balance sheet and the unfunded commitment of $41,000 is recorded in the balance sheet within other liabilities. At June 30, 2018, the carrying value of the asset was $415,000 and included with other assets in the balance sheet and the unfunded commitment of $43,000 is recorded in the balance sheet within other liabilities.

NOTE 14 - SIGNIFICANT CONCENTRATIONS OF CREDIT RISK

Real estate and consumer loans, including automobile, home equity and improvement, manufactured home and other consumer loans are granted primarily in Wabash, Miami, Kosciusko and Whitley counties. Loans secured by one to four family residential real estate mortgages make up approximately 38% of the loan portfolio. The Company also sells loans and services loans for secondary market agencies.

The policy for collateral on mortgage loans allows borrowings up to 100%, if private mortgage insurance is obtained to reduce the Company's exposure to or below the 80% loan-to-value level on loans held for sale, and 90%, on in-house adjustable rate loans, of the appraised value of the property as established by appraisers approved by the Company's Board of Directors. Loan-to-value percentages and documentation guidelines are designed to protect the Company's interest in the collateral as well as to comply with guidelines for sale in the secondary market.

NOTE 15 - RELATED PARTY TRANSACTIONS

Certain directors, executive officers and principal shareholders of the Company, including associates of such persons, are loan customers. Related party loan balances were $1,481,000 and $1,688,000 at June 30, 2019 and 2018.

NOTE 16 - FAIR VALUES

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

> Level 1 – Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
>
> Level 2 – Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
>
> Level 3 – Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

NOTE 16 - FAIR VALUES (Continued)

The Company used the following methods and significant assumptions to estimate the fair value of each type of financial instrument:

Securities: The fair values for securities are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2). For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators (Level 3). Level 3 valued securities include the Company's investments in CDOs. Discounted cash flows are calculated using spread to swap and LIBOR curves that are updated to incorporate loss severities, volatility, credit spread and optionality.

Impaired Loans: The fair value of impaired loans with specific allocations of the allowance for loan losses is generally based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are typically significant and result in a Level 3 classification of the inputs for determining fair value. Non-real estate collateral may be valued using an appraisal, net book value per the borrower's financial statements, or aging reports, adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and management's expertise and knowledge of the client and client's business, resulting in a Level 3 fair value classification. Impaired loans are evaluated on a quarterly basis for additional impairment and adjusted accordingly.

Mortgage Servicing Rights: The fair value of servicing rights is based on a valuation model that calculates the present value of estimated net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income. The Company is able to compare the valuation model inputs and results to widely available published industry data for reasonableness (Level 2 inputs).

Real Estate Owned: Nonrecurring adjustments to certain commercial and residential real estate properties classified as other real estate owned (OREO) are measured at fair value, less costs to sell. Fair values are based on recent real estate appraisals. These appraisals may use a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value.

Appraisals for both collateral-dependent impaired loans and real estate owned are performed by certified general appraisers (for commercial properties) or certified residential appraisers (for residential properties) whose qualifications and licenses have been reviewed and verified by the Company. Once received, a member of the Loan Department reviews the assumptions and approaches utilized in the appraisal as well as the overall resulting fair value in comparison with independent data sources such as recent market data or industry-wide statistics. After the review of the appraisal, the Company typically applies a discount for liquidation and other considerations.

(Continued)

NOTE 16 - FAIR VALUES (Continued)

Assets and liabilities measured at fair value on a recurring basis are summarized below:

	Fair Value Measurements at June 30, 2019 Using:			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Assets at Fair Value
Financial Assets:				
State and political subdivisions	$ -	$ 54,718,875	$ -	$ 54,718,875
US government sponsored entities	-	711,440	-	711,440
Mortgage backed securities - residential	-	10,030,388	-	10,030,388
CMO's - agency	-	16,719,118	-	16,719,118
CMO's - non-agency	-	236,191	-	236,191
Subordinated debt	-	2,859,440	-	2,859,440
Total investment securities available for sale	$ -	$ 85,275,452	$ -	$ 85,275,452

	Fair Value Measurements at June 30, 2018 Using:			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Assets at Fair Value
Financial Assets:				
State and political subdivisions	$ -	$ 52,390,750	$ -	$ 52,390,750
US government sponsored entities	-	992,853	-	992,853
Mortgage backed securities - residential	-	8,183,991	-	8,183,991
CMO's - agency	-	15,930,401	-	15,930,401
CMO's - non-agency	-	317,123	-	317,123
CDO's	-	-	612,880	612,880
Equity securities	61,585	-	-	61,585
Total investment securities available for sale	$ 61,585	$ 77,815,118	$ 612,880	$ 78,489,583

(Continued)

NOTE 16 - FAIR VALUES (Continued)

The table below presents a reconciliation of all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended June 30, 2019 and 2018:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) CDO's
Beginning balance, July 1, 2017	$ 472,032
Total gains or losses (realized/unrealized)	
Included in other comprehensive income	174,340
Included in earnings	-
Payments	(33,492)
Ending balance, June 30, 2018	$ 612,880
Beginning balance, July 1, 2018	$ 612,880
Total gains or losses (realized/unrealized)	
Included in other comprehensive income	-
Included in earnings	(93,041)
Payments	(17,140)
Sale	(502,699)
Ending balance, June 30, 2019	$ -

The following table presents quantitative information about recurring Level 3 fair value measurements at June 30, 2018:

	Fair value	Valuation Technique(s)	Unobservable Input(s)	Weighted Average
Collateralized debt obligations	$ 612,880	Discounted cash flow	Collateral default rate	0.5%
			Recovery probability	10%
			Discount rate	Libor + 1.15%

(Continued)

NOTE 16 - FAIR VALUES (Continued)

Assets measured at fair value on a non-recurring basis are summarized below:

	Fair Value Measurements at June 30, 2019 Using:			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Assets at Fair Value
Impaired loans:				
Commercial real estate	$ -	$ -	$ 668,382	$ 668,382
Residential real estate	-	-	498,800	498,800
Mortgage servicing rights	-	649,097	-	649,097

	Fair Value Measurements at June 30, 2018 Using:			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Assets at Fair Value
Impaired loans:				
Commercial real estate	$ -	$ -	$ 689,892	$ 689,892
Residential real estate	-	-	296,400	296,400
Consumer credit	-	-	44,000	44,000
Mortgage servicing rights	-	169,115	-	169,115

Impaired loans, which are measured for impairment using the fair value of the collateral, had a principal amount of $1.3 million and a valuation allowance of $154,000 at June 30, 2019, resulting in a reduction to provision for loan losses of $10,000 for the year. At June 30, 2018, impaired loans, which are measured for impairment using the fair value of the collateral, had a principal amount of $1.2 million and a valuation allowance of $197,000, resulting in a reduction to provision for loan losses of $47,000 for the year.

Real estate owned, which are measured for impairment using the fair value of the property, had a balance of $0 at both June 30, 2019 and 2018. Any gains/losses resulting from sales or declines in value of the property are recorded through the income statement. Net gains (losses) and writedowns of $9,000 and $36,000 were recorded through the income statement in the years ended June 30, 2019 and 2018.

NOTE 16 - FAIR VALUES (Continued)

Mortgage servicing rights with an amortized cost of $906,000 had a valuation allowance of $257,000 at June 30, 2019 resulting in impairment charges of $53,000 during the year. Mortgage servicing rights with an amortized cost of $373,000 had a valuation allowance of $204,000 at June 30, 2018. An impairment charge of $40,000 was recorded during the year.

The following table presents quantitative information about level 3 fair value measurements for financial instruments measured at fair value on a non-recurring basis at June 30, 2019:

	Fair value	Valuation Technique(s)	Unobservable Input(s)	Weighted Average
Impaired loans – commercial real estate	$ 668,382	Sales comparison approach	Adjustment for differences between the comparable sales	50.0%
Impaired loans – residential real estate	$ 498,800	Sales comparison approach	Adjustment for differences between the comparable sales	20.0%
Mortgage servicing rights	$ 649,097	Discounted cash value approach	Discount rate Prepayment speed	12.0% 11.8%

The following table presents quantitative information about level 3 fair value measurements for financial instruments measured at fair value on a non-recurring basis at June 30, 2018:

	Fair value	Valuation Technique(s)	Unobservable Input(s)	Weighted Average
Impaired loans – commercial real estate	$ 689,892	Sales comparison approach	Adjustment for differences between the comparable sales	50.0%
Impaired loans – residential real estate	$ 296,400	Sales comparison approach	Adjustment for differences between the comparable sales	20.0%
Impaired loans – consumer credit	$ 44,000	Sales comparison approach	Adjustment for differences between the comparable sales	20.0%
Mortgage servicing rights	$ 169,115	Discounted cash value approach	Discount rate Prepayment speed	12.0% 7.7%

(Continued)

NOTE 16 - FAIR VALUES (Continued)

The carrying amounts and estimated fair values of financial instruments at June 30, 2019 and June 30, 2018 are as follows:

		Fair Value Measurements at June 30, 2019 Using:		
(dollars in thousands)	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Unobservable Inputs (Level 2)	Significant Unobservable Unputs (Level 3)
Financial Assets				
Cash and cash equivalents	$ 26,755	$ 26,755	$ -	$ -
Securities available for sale	85,275	-	85,275	-
Loans receivable, net	279,796	-	-	275,607
Loans held for sale	1,341	-	-	1,354
Federal Home Loan Bank stock	1,463	-	-	N/A
Accrued interest receivable	2,241	-	-	2,241
Financial Liabilities				
Deposits:				
Noninterest-bearing deposits	$ 33,005	$ 33,005	$ -	$ -
Checking, NOW, savings, and money market Interest-bearing deposits	233,647	233,647	-	-
Time deposits	97,467	-	97,692	-
Borrowings	2,000	-	-	1,991
Accrued interest payable	97	-	97	-

		Fair Value Measurements at June 30, 2018 Using:		
(dollars in thousands)	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Unobservable Inputs (Level 2)	Significant Unobservable Unputs (Level 3)
Financial Assets				
Cash and cash equivalents	$ 18,030	$ 18,030	$ -	$ -
Securities available for sale:				
State and political subdivisions	52,391	-	52,391	-
US government sponsored entities	993	-	993	-
Mortgage backed securities - residential	8,184	-	8,184	-
CMO's - agency	15,930	-	15,930	-
CMO's – non-agency	317	-	317	-
CDO's	613	-	-	613
Equity securities	62	62	-	-
Loans receivable, net	260,714	-	-	251,669
Loans held for sale	939	-	-	948
Federal Home Loan Bank stock	1,463	-	-	N/A
Accrued interest receivable	1,963	-	-	1,963
Financial Liabilities				
Deposits:				
Noninterest-bearing deposits	$ 30,690	$ 30,690	$ -	$ -
Checking, NOW, savings, and money market Interest-bearing deposits	215,181	215,181	-	-
Time deposits	89,035	-	87,764	-
Borrowings	2,000	-	-	1,964
Accrued interest payable	79	-	79	-

NOTE 16 - FAIR VALUES (Continued)

While these estimates of fair value are based on management's judgment of the most appropriate factors, there is no assurance that were the Company to have disposed of such items at June 30, 2019 and 2018, the estimated fair values would necessarily have been achieved at that date, since market values may differ depending on various circumstances. The estimated fair values at June 30, 2019 and 2018 should not necessarily be considered to apply to subsequent dates.

In addition, other assets and liabilities of the Company that are not defined as financial instruments are not included in the above disclosures, such as premises and equipment. Also, non-financial instruments typically not recognized in financial statements nevertheless may have value but are not included in the above disclosures. These include, among other items, the estimated earnings power of core deposit accounts, the trained work force, customer goodwill and similar items.