The Baraboo Bancorporation, Inc. and Subsidiary

Baraboo, Wisconsin

Consolidated Financial Statements

Years Ended December 31, 2023 and 2022

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Independent Auditor's Report

The Board of Directors
The Baraboo Bancorporation, Inc. and Subsidiary
Baraboo, Wisconsin

Opinion

We have audited the consolidated financial statements (the "financial statements") of The Baraboo Bancorporation, Inc. and Subsidiary (the "Company"), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of operations, comprehensive income (loss), changes in stockholders' equity, and cash flows for the years then ended and the related notes to the financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, 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 ("GAAP").

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with GAAP, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibility for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

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

Other Information

Management is responsible for the other information. The other information comprises the Chairman's Letter to Shareholders and Officer and Directors Listing but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

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

Wipfli LLP

Wipfli LLP

March 15, 2024
Milwaukee, Wisconsin

The Baraboo Bancorporation, Inc. and Subsidiary

Consolidated Balance Sheets
Years Ended December 31, 2023 and 2022

	2023	2022
Assets		
Cash and due from banks	$ 51,209,744	$ 76,956,217
Federal funds sold	638,000	174,000
Cash and cash equivalents	51,847,744	77,130,217
Available-for-sale debt securities, amortized cost of $65,520,649 and $72,249,408 at December 31, 2023 and 2022, respectively	64,195,500	69,748,620
Held-to-maturity debt securities	98,808,637	97,415,399
Loans held for sale	290,000	-
Loans, less allowance for credit losses of $6,262,183 and $6,311,535 at December 31, 2023 and 2022, respectively	265,127,402	250,842,882
Premises and equipment, net	4,120,254	4,107,488
Cash surrender value of life insurance	10,268,121	10,417,686
Deferred tax asset	2,751,647	3,165,797
Other assets	4,833,946	5,866,200
Total assets	$ 502,243,251	$ 518,694,289
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits:		
Demand	$ 136,984,236	$ 154,911,118
Savings and NOW	188,295,984	214,669,323
Time	112,271,336	90,287,850
Total deposits	437,551,556	459,868,291
Borrowed funds	5,000,000	5,000,000
Allowance for unfunded loan commitments	106,000	-
Other liabilities	4,540,283	4,105,476
Total liabilities	447,197,839	468,973,767
Stockholders' equity:		
Common stock, no par value; 15,000,000 shares authorized and 10,412,998 shares issued at December 31, 2023 and 2022, respectively	12,025,993	12,025,993
Additional paid-in capital	3,683,464	3,683,464
Retained earnings	53,991,842	50,705,492
Treasury stock, at cost; 1,096,157 shares at December 31, 2023 and 2022, respectively	(12,182,156)	(12,182,156)
Accumulated other comprehensive loss	(2,473,731)	(4,512,271)
Total stockholders' equity	55,045,412	49,720,522
Total liabilities and stockholders' equity	$ 502,243,251	$ 518,694,289

See Notes to Consolidated Financial Statements.

The Baraboo Bancorporation, Inc. and Subsidiary

Consolidated Statements of Operations
Years Ended December 31, 2023 and 2022

	2023	2022
Interest income:		
Loans, including fees	$ 13,233,328	$ 11,242,053
Investment securities:	5,459,782	2,638,414
Other	2,931,372	1,762,070
Total interest income	21,624,482	15,642,537
Interest expense:		
Deposits	5,244,197	1,466,968
Borrowings	51,346	51,282
Total interest expense	5,295,543	1,518,250
Net interest income before recovery for credit losses	16,328,939	14,124,287
Recovery for credit losses	-	(1,000,000)
Net interest and dividend income after recovery for credit losses	16,328,939	15,124,287
Noninterest income:		
Trust department	88,580	42,456
Service fees	1,650,570	1,791,885
Net gain on sale of loans	35,607	217,619
Other	1,150,872	1,435,176
Total noninterest income	2,925,629	3,487,136
Noninterest expenses:		
Salaries	6,672,273	6,207,262
Employee benefits	2,550,590	2,056,216
Occupancy	1,195,147	1,141,158
Furniture and equipment	280,956	266,667
Net loss on sale of securities	827,375	1,287,159
Other	2,206,991	1,988,385
Total noninterest expense	13,733,332	12,946,847
Income before income taxes	5,521,236	5,664,576
Income taxes	1,116,865	1,483,209
Net income	4,404,371	4,181,367
Earnings per common share	$ 0.47	$ 0.45
Weighted-average common shares outstanding	9,316,841	9,316,841

See Notes to Consolidated Financial Statements.

The Baraboo Bancorporation, Inc. and Subsidiary

Consolidated Statements of Comprehensive Income (Loss)

Years Ended December 31, 2023 and 2022

	2023	2022
Net income	$ 4,404,371	$ 4,181,367
Other comprehensive income (loss)		
Unrealized gain (loss) on available for sale debt securities	348,265	(7,567,654)
Reclassification adjustment for losses recognized in net income	827,375	1,287,159
Reclassification adjustment on unrealized losses accreted into income (see Note 3)	1,404,789	634,643
Income tax effect	(541,889)	1,185,629
Total other comprehensive income (loss)	2,038,540	(4,460,223)
Comprehensive income (loss)	$ 6,442,911	$ (278,856)

See Notes to Consolidated Financial Statements.

The Baraboo Bancorporation, Inc. and Subsidiary

Consolidated Statements of Statements of Changes in Stockholders' Equity
Years Ended December 31, 2023 and 2022

	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance, December 2021	$ 12,025,993	$ 3,683,464	$ 47,362,641	$ (12,182,156)	$ (52,048)	$ 50,837,894
Net income			4,181,367			4,181,367
Other comprehensive loss					(4,460,223)	(4,460,223)
Dividends declared			(838,516)			(838,516)
Balance, December 2022	12,025,993	3,683,464	50,705,492	(12,182,156)	(4,512,271)	49,720,522
Net income			4,404,371			4,404,371
Other comprehensive income					2,038,540	2,038,540
Dividends Declared			(1,118,021)			(1,118,021)
Balance, December 31, 2023	**$ 12,025,993**	**$ 3,683,464**	**$ 53,991,842**	**$ (12,182,156)**	**$ (2,473,731)**	**$ 55,045,412**

See Notes to Consolidated Financial Statements.

The Baraboo Bancorporation, Inc. and Subsidiary

Consolidated Statements of Cash Flows
Years Ended December 31, 2023 and 2022

	2023	2022
Cash Flows From Operating Activities:		
Net income	$ 4,404,371	$ 4,181,367
Adjustments to reconcile net income to net cash from operating activities:		
Recovery for credit losses	-	(1,000,000)
Depreciation	364,436	381,398
Capitalization of mortgage servicing rights	(15,549)	(75,825)
Amortization of mortgage servicing rights	200,184	266,131
Recovery of mortgage servicing rights	(5)	(96,569)
Amortization (accretion) of bond premiums and discounts, net	(172,113)	588,889
Net gain on sale of loans	(35,607)	(217,619)
Net gain on disposal of premises and equipment	(13,369)	-
Net gain on investments in equity securities	(19,010)	(342,725)
Increase in cash surrender value of life insurance	(177,800)	(171,482)
Net gain on life insurance death benefit received	(164,197)	-
Net loss on sale of debt securities	827,375	1,287,159
Deferred tax expense (benefit)	(127,739)	627,301
Net changes in operating assets and liabilities:		
Loans held for sale	(254,393)	2,418,641
Other assets	41,634	(546,696)
Other liabilities	434,807	(173,821)
Net cash from operating activities	5,293,025	7,126,149
Cash Flows From Investing Activities:		
Activity in available-for-sale debt securities:		
Maturities, prepayments, sales and calls	25,262,095	46,079,211
Purchases	(19,353,942)	(119,544,633)
Activity in held-to-maturity debt securities:		
Maturities, prepayments, and calls	8,066,728	2,633,752
Purchases	(7,889,832)	(33,508,481)
Net change in loans	(14,178,520)	(11,291,104)
Proceeds from sale of nonmarketable equity securities	825,000	-
Proceeds from life insurance death benefit	491,562	-
Proceeds from sales of premises and equipment	13,997	-
Purchases of premises and equipment	(377,830)	(161,975)
Net cash from investing activities	(7,140,742)	(115,793,230)

See Notes to Consolidated Financial Statements.

The Baraboo Bancorporation, Inc. and Subsidiary

Consolidated Statements of Cash Flows (Continued)
Years Ended December 31, 2023 and 2022

	2023	2022
Cash Flows From Investing Activities:		
Net change in deposits	(22,316,735)	(12,090,525)
Cash dividends paid	(1,118,021)	(838,516)
Net cash from financing activities	(23,434,756)	(12,929,041)
Net change in cash and cash equivalents	(25,282,473)	(121,596,122)
Cash and cash equivalents:		
Beginning	77,130,217	198,726,339
Ending	$ 51,847,744	$ 77,130,217
Supplemental Cash Flow Disclosures:		
Cash paid for interest	$4,930,040	$ 1,420,527
Cash paid for income taxes	1,336,000	1,000,000
Noncash Investing and Financing Activities:		
Transfer of debt securities from available-for-sale to held-to-maturity	-	65,940,440
Accretion of unrealized losses on debt securities transferred to held-to-maturity	1,404,789	634,643

See Notes to Consolidated Financial Statements.

Note 1. Summary of Significant Accounting Policies

Consolidation: The consolidated financial statements of The Baraboo Bancorporation, Inc. (the "Company") include the accounts of its wholly owned subsidiary, The Baraboo State Bank (the "Bank"). The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States and conform to general practices within the banking industry. All significant intercompany accounts and transactions have been eliminated in the consolidated financial statements.

Nature of Operations: The consolidated income of the Company is principally from the income of its wholly owned subsidiary, which provides a variety of financial services to individuals and small businesses throughout central Wisconsin. The subsidiary Bank is subject to competition from other financial institutions and nonfinancial institutions providing financial products. In addition, the Company and the subsidiary Bank are subject to the regulations of certain regulatory agencies and undergo periodic examination by those regulatory agencies.

Use of Estimates: In preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are susceptible to significant change in the near term relate to the determination of the allowance for credit losses, loan servicing assets, foreclosed assets, deferred tax assets, and fair values of financial instruments.

Cash and Cash Equivalents: For the purposes of the consolidated statements of cash flows, cash and cash equivalents include cash and balances due from banks and federal funds sold, all of which have original maturities of 90 days or less.

Debt Securities: Debt securities that management has the positive intent and ability to hold to maturity are classified as held-to-maturity and recorded at amortized cost. Securities not classified as held-to-maturity are classified as available-for-sale and are carried at fair value, with unrealized gains and losses reported in other comprehensive income or loss. Amortization of premiums and accretion of discounts are recognized in interest income using the interest method. Premiums that exceed the amount repayable by the issuer at the next call date are amortized to the next call date. Other premiums and discounts are amortized (accreted) over the estimated lives of the securities. Gains and losses on the sale of securities are recorded on the trade date and determined using the specific-identification method.

Allowance for Credit Losses – Held-to-Maturity Securities: The Company classifies the Held-to-Maturity portfolio into the following major security types: Small Business Association backed securities, U.S. government-sponsored CMO securities, U.S. government-sponsored mortgage- backed securities, and fully insured Certificates of deposit. Since all security types are issued by U.S. government entities or agencies and are either explicitly or implicitly guaranteed by the U.S. government, at this time, no allowance for credit losses is deemed necessary. Accrued interest for held-to-maturity securities as of December 31, 2023, was $291,753.

Allowance for Credit Losses – Available-for-Sale Securities: The Company classifies the Available-for-Sale portfolio into the following major security types: Small Business Association backed securities, U.S. government-sponsored CMO securities, U.S. government-sponsored mortgage- backed securities, and fully insured Certificates of deposit. Since all security types are issued by U.S. government entities or agencies and are either explicitly or implicitly guaranteed by the U.S. government, at this time, no allowance for credit losses is deemed necessary. Accrued interest for available-for-sale securities as of December 31, 2023, was $238,002.

Note 1. Summary of Significant Accounting Policies (Continued)

Loans: The Company grants commercial, mortgage, and consumer loans to customers. A substantial portion of the loan portfolio is represented by commercial loans in central Wisconsin. The ability of the Company's debtors to honor their contracts is dependent on the general economic conditions in this area.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at amortized cost. Amortized cost is the principal balance outstanding, adjusted for charge-offs and the allowance for credit losses. Interest income is accrued on the unpaid principal balance. Management has concluded the amount of deferred fees and costs in originating all other loans are immaterial to the consolidated financial statements.

The accrual of interest on loans is discontinued at the time the loan is 90 days delinquent unless the credit is well-secured and in process of collection. 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 collected for loans that are placed on nonaccrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Credit Losses - Loans: The Company adopted ASU No. 2016-13 and began accounting for credit loss under ASC 326, *Financial Instruments – Credit losses*, on January 1, 2023. The new standard significantly changed the impairment model for most financial assets that are measured at amortized cost, including off-balance sheet credit exposures, from an incurred loss impairment model to an expected credit loss model. Refer to the "Recently Adopted Accounting Standards" section of this note for more information on the impact to the consolidated statements.

The allowance for credit losses is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans. Loans are charged off against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The Company measures the allowance for credit losses of financial assets on a collective portfolio segment basis when the financial assets share similar risk characteristics. The Company has identified the following portfolio segments of financial assets with similar risk characteristics for measuring expected credit losses – commercial and industrial, construction and land development, commercial real estate, residential real estate, and consumer.

Management considers the following when assessing the risk in the loan portfolio:

- Commercial and industrial loans are primarily for working capital, physical asset expansion, asset acquisition loans, and other. These loans are made based primarily on historical and projected cash flow of the borrower and secondarily on the underlying collateral provided by the borrower. The cash flows of borrowers, however, may not behave as forecasted, and collateral securing loans may fluctuate in value due to economic or individual performance factors. Financial information is obtained from the borrowers to evaluate cash flow sufficiency to service debt and is periodically updated during the life of the loan.

- Construction and land development loans are secured by vacant land and/or property that are in the process of improvement, including (a) land development preparatory to erecting vertical improvements or (b) the on-site construction of industrial, commercial, or residential buildings. Repayment of these loans can be dependent on the sale of the property to third parties or the successful completion of the improvements by the builder for the end user. In the event a loan is made on property that is not yet improved for the planned development, there is the risk that necessary approvals will not be granted or will be delayed. Construction loans also run the risk that improvements will not be completed on time or in accordance with specifications and projected costs.

Note 1. Summary of Significant Accounting Policies (Continued)

- Commercial real estate loans are dependent on the industries tied to these loans. Commercial real estate loans are primarily secured by office and industrial buildings, warehouses, small retail shopping facilities, and various special-purpose properties, including hotels and restaurants. Financial information is obtained from the borrowers and/or the individual project to evaluate cash flow sufficiency to service debt and is periodically updated during the life of the loan. Loan performance may be adversely affected by factors impacting the general economy or conditions specific to the real estate market, such as geographic location and/or property type.

- Residential real estate loans are affected by the local residential real estate market, the local economy, and for variable-rate mortgages, movement in indices tied to these loans. At the time of origination, the Company evaluates the borrower's repayment ability through a review of debt to income and credit scores. Appraisals are obtained to support the loan amount. Financial information is obtained from the borrowers and/or the individual project to evaluate cash flow sufficiency to service debt at the time of origination.

- Consumer and other loans may take the form of installment loans, demand loans, or single-payment loans and are extended to individual for household, family, and other personal expenditures. At the time of origination, the Company evaluates the borrower's repayment ability through a review of debt to income and credit scores.

Effective January 1, 2023, the Company uses a current expected credit loss (CECL) model to estimate the allowance for credit losses on loans. The Company uses the weighted average remaining maturity (WARM) methodology to estimate the Allowance for Credit Losses (ACL). This methodology incorporates both quantitative and qualitative information to assess lifetime expected credit losses at the portfolio segment level. The quantitative information is based on calculations of historical loan loss rate experience by portfolio segments. The historical loss rate is also adjusted for macroeconomic forecasts based on unemployment history.

The Company considers qualitative adjustments to expected credit loss estimates for information not already captured in the loss estimation process. Qualitative factor adjustments may increase or decrease management's estimate of expected credit losses. Adjustments will not be made for information that has already been considered and included in the quantitative component. Qualitative loss factors are based on management's judgment of the Company, risk selections, underwriting standards, market, industry or business specific data, national and local economic trends, effects of changes in credit concentrations or other asset specific risk characteristics. The Company also may adjust loss rates based on its reasonable and supportable forecasts of how economic conditions are expected to impact future losses. Management has elected to forecast over a 24-month period with immediate reversion after the forecast period.

Loans that do not share similar risk characteristics with loans in their respective pools are individually evaluated for expected credit losses and are excluded from the collectively evaluated loan credit loss estimates. Management individually evaluates substandard, nonaccrual loans, and other loans with evidence of credit deterioration. For loans individually evaluated, a specific reserve is estimated based on either the fair value of collateral or the discounted value of expected future cash flows. A loan is considered to be collateral dependent when, based upon management's assessment, the borrower is experiencing financial difficulty and repayment is expected to be provided substantially through the operation or sale of the collateral. For collateral dependent loans, expected credit losses are based on the fair value of the collateral as of the date of the balance sheet, with consideration for estimated selling costs if satisfaction of the loan depends on the sale of the collateral.

The following describes the types of collateral that secure collateral dependent loans:

- Commercial and industrial loans are primarily secured by accounts receivable, inventory and equipment.

- Construction and land development loans are primarily secured by first liens on residential real estate, commercial buildings, and vacant land.

Note 1. Summary of Significant Accounting Policies (Continued)

- Commercial real estate loans are primarily secured by office and industrial buildings, warehouses, retail shopping facilities and various special purpose properties, including hotel and restaurants.

- Residential mortgages are primarily secured by first liens on residential, multifamily, and assisted living real estate.

- Consumer loans are primarily secured by automobiles and other recreational vehicles.

The Company excludes accrued interest receivable from the amortized cost basis of loans when estimating credit losses and when presenting required disclosures in the financial statements. Accrued interest on loans totaling $1,059,029 and $874,723 at December 31, 2023 and 2022, respectively, was excluded from the amortized cost basis of loans and is included in other assets on the consolidated balance sheets.

Allowance for Credit Losses – Unfunded Commitments: 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 Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for off-balance sheet loan commitments is represented by the contractual amount of those instruments. Such financial instruments are recorded when they are funded.

The Company records an allowance for credit losses on off-balance sheet credit exposures, unless the commitments to extend credit are unconditionally cancelable, through a charge to provision for unfunded commitments in the Company's income statements. The allowance for credit losses on off-balance sheet credit exposures is estimated by loan segment quarterly under the current expected credit loss model using the same methodologies as portfolio loans, taking into consideration the likelihood that funding will occur as well as any third-party guarantees. The allowance for unfunded commitments is listed as a separate liability on the Company's consolidated balance sheet.

Troubled Loan Modifications: The Company may modify loans to borrowers experiencing financial difficulty and grant certain concessions that include principal forgiveness, a term extension, an other-than-insignificant payment delay, an interest rate reduction, or a combination of these concessions. An assessment of whether the borrower is experiencing financial difficulty is made at the time of the loan modification.

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

Allowance for Loan Losses – 2022 and Prior: 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 (TDR) and classified as impaired.

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.

A loan is impaired when full payment under the loan terms is not expected. 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.

TDRs are individually evaluated for impairment and included in the separately identified impairment disclosures. TDRs are measured at the present value of estimated future cash flows using the loan’s effective rate at inception. If a TDR is considered to be a collateral-dependent loan, the loan is reported, net, at the fair value of the collateral. For TDRs that subsequently default, the Company determines the amount of the allowance on that loan in accordance with the accounting policy for the allowance for loan losses on loans individually identified as impaired.

The general component covers nonimpaired loans and is based on historical loss experience adjusted for current qualitative factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Company. This actual loss experience is supplemented with other economic factors based on the risks present for each portfolio segment. These qualitative 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.

Loans Held for Sale: Loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or fair value, as determined by aggregating outstanding commitments from investors or current investor yield requirements. Net unrealized losses are recognized through a valuation allowance by charges to income.

Mortgage loans held for sale are generally sold with the mortgage servicing rights retained by the Company. Gains or losses on sales of mortgage loans are recognized based on the difference between the selling price and the carrying value of the related mortgage loans sold.

Mortgage Servicing Rights: Servicing assets are recognized as separate assets when rights are acquired through purchase or through sale of financial assets. For sales of mortgage loans, a portion of the cost of originating the loan is allocated to the servicing right based on fair value. Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively, 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. Capitalized servicing rights are reported in other assets and are amortized into noninterest income in proportion to, and over the period of, the estimated future net servicing income from the underlying financial assets.

Servicing assets are evaluated for impairment based on the fair value of the rights as compared to the amortized cost. Impairment is determined by stratifying rights into tranches based on predominant risk characteristics such as interest rate, loan type, and investor type. Impairment, if any, is recognized through a valuation allowance for an individual tranche, to the extent that fair value is less than the capitalized amount for the tranche. If the Company later determines that all or a portion of the impairment no longer exists for a particular tranche, a reduction of the allowance may be recorded as an increase to income.

Note 1. Summary of Significant Accounting Policies (Continued)

Servicing fee income 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.

Premises and Equipment: Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Provisions for depreciation are computed principally on a straight-line basis over the estimated useful lives of the assets.

Nonmarketable Equity Securities: Nonmarketable equity securities include securities without a readily determinable fair value, including Federal Home Loan Bank (FHLB) stock, Federal Reserve Bank (FRB) stock and SB Bancorp Inc. stock. The Company has elected to account for equity securities without readily determinable fair values using the alternative measurement method. Under this method, these securities are carried at cost, minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment. The Company is required to hold FHLB stock and FRB stock as a member of the FHLB and FRB, respectively, and transfer of the stock is substantially restricted. The FHLB stock is pledged as collateral for outstanding FHLB advances. FHLB stock and FRB stock are evaluated for impairment on an annual basis. SB Bancorp Inc. stock was sold in 2023.

Marketable Equity Securities: Marketable equity securities have a readily determinable fair value and are measured at fair value with changes in fair value reported in net income. Gains and losses on the sale of marketable equity securities are recorded on the trade date and determined using the specific-identification method. The Company recognized unrealized gains of $0 and $205,225 related to marketable equity securities still held as of December 31, 2023 and 2022, respectively. The Company sold all its marketable equity securities in 2023, recognizing gains of $19,010.

Cash Surrender Value of Life Insurance: The Company has purchased life insurance policies on certain key executives and board members. Cash surrender value of life insurance is recorded 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.

Foreclosed Assets: Foreclosed assets acquired through partial or total satisfaction of loans are initially recorded at fair value less cost to sell. Subsequent to foreclosure, valuations are periodically performed by management, and the assets are carried at the lower of carrying amounts or fair value less cost to sell. Revenue and expenses from operations related to foreclosed assets owned and changes in the valuation allowance are included in other expenses.

Revenue from Contracts with Customers: The core revenue recognition principle requires the Company to recognize revenue to depict the transfer of services or products to customers in an amount that reflects the consideration to which the Company expects to be entitled to receive in exchange for those services or products recognized as performance obligations are satisfied. The guidance includes a five-step model to apply to revenue recognition, consisting of the following; (1) identify the contract with a customer; (2) identify the performance obligation(s) within the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligation(s) within the contract; and (5) recognize revenue when the performance obligation(s) is satisfied.

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. Since performance obligations are satisfied as services are rendered and the transaction prices are fixed, there is little judgment involved in applying revenue recognition that significantly affects the determination of the amount and timing of revenue from contracts with customers.

Note 1. Summary of Significant Accounting Policies (Continued)

The following significant revenue-generating transactions are within the scope of ASC 606, which are presented in the consolidated statements of operations as components of noninterest income:

Service fees – The Company earns fees from its deposit customers for transaction-based, account maintenance, and overdraft services. Transaction-based fees, such as ATM use fees, wires, stop payment charges, statement rendering, and ACH fees, are recognized at the time the transaction is executed as that is the point in time the Company fulfills the customer's request. Account maintenance fees, which relate primarily to monthly service charges and maintenance fees, are earned over the course of a month, representing the period over which the Company satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs as this corresponds with the Company's performance obligation.

Interchange fees – Customers use a bank-issued debit card to purchase goods and services, and the Company earns interchange fees on those transactions, typically a percentage of the sale amount of the transaction. The Company is considered an agent with respect to these transactions. Interchange fee payments received, net of related expense, are recognized as income daily, concurrently with the transaction processing services provided to the cardholder through the payment networks. There are no contingent debit card interchange fees recorded by the Company that could be subject to a claw-back in future periods.

Trust and wealth fees – The Company earns trust and wealth fees from its contracts with trust customers for providing investment management and/or transaction-based services on their accounts. These fees are primarily earned over time as the Company provides the contracted monthly or quarterly services and are assessed based on total investable assets of the customer's account. Fees that are transaction based, including trade execution services, are recognized at the point in time that the transaction is executed. A signed contract between the Company and the customer is maintained for all customer trust accounts with payment terms identified. There are no contingent incentive fees recorded by the Company that could be subject to a claw-back in future periods.

Net gain (loss) on sales of foreclosed assets – The Company records a gain or loss from the sale of foreclosed assets when control of the property transfers to the buyer, which generally occurs at the time of an executed deed and transfer of control is completed. When the Company finances the sale to the buyer, the Company assesses whether the buyer is committed to perform their obligations under the contract and whether the Company expects to collect substantially all of the transaction price. Once these criteria are met, the asset is derecognized and the gain or loss on the sale is recognized. In determining the gain or loss on the sale, the Company adjusts the transaction price and related gain (loss) on sale if the financing does not include market terms.

Transfers of Financial Assets: Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) 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 (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Off-Balance-Sheet Financial Instruments: In the ordinary course of business, the Company has entered into off-balance-sheet financial instruments including commitments to extend credit, unfunded commitments under lines of credit, and standby letters of credit. Such financial instruments are recorded in the consolidated financial statements when they become payable.

Profit Sharing Plan: The Company has established a contributory 401(k) profit sharing plan for qualified employees. The Company's policy is to fund contributions as accrued.

Note 1. Summary of Significant Accounting Policies (Continued)

Income Taxes: Deferred income tax assets and liabilities are determined using the liability method. Under this method, the net deferred tax asset or liability is determined based on the tax effects on the temporary differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax laws and rates.

The Company may also recognize a liability for unrecognized tax benefits from uncertain tax positions. Unrecognized tax benefits represent the differences between a tax position taken or expected to be taken in a tax return and the benefit recognized and measured in the financial statements. Interest and penalties related to unrecognized tax benefits are classified as income taxes.

Rate Lock Commitments: The Company enters into commitments to originate loans whereby the interest rate on the loans is determined prior to funding (rate lock commitments). Rate lock commitments on mortgage loans that are intended to be sold are considered to be derivatives. Rate lock commitments are recorded only to the extent of fees received, since recording the estimated fair value of these commitments would not have a significant impact on the consolidated financial statements.

Earnings Per Share: Earnings per share are computed based on the weighted average number of shares outstanding during the year. The Company has no common stock equivalents as of December 31, 2023 and 2022.

Other Comprehensive Income (Loss): Other comprehensive income (loss) is shown on the consolidated statements of comprehensive income. The Company's accumulated other comprehensive income (loss) is composed of the unrealized gains and losses on debt securities available-for-sale, net of tax, and is shown on the consolidated statements of changes in stockholders' equity. Reclassification adjustments out of comprehensive income for gains and losses recognized in net income are recognized as net gain (loss) on the sale of debt securities on the consolidated statements of operations.

Recently Adopted Accounting Standards: The Company recently adopted the following Accounting Standards Updates (ASU) issued by the Financial Accounting Standards Board (FASB).

On January 1, 2023, the Company adopted ASU 2016-13 *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (ASC 326)*. This standard replaced the incurred loss methodology with an expected loss methodology that is referred to as the CECL methodology. CECL requires an estimate of credit losses for the remaining estimated life of financial assets using historical experience, current conditions, reasonable forecasts and generally applies to financial assets measured at amortized cost, including loan receivables, held-to-maturity debt securities and some off-balance sheet credit exposures such as unfunded commitments to extend credit. Financial assets measured at amortized cost will be presented at the net amount expected to be collected by using an allowance for credit losses.

In addition, CECL made changes to the accounting for available-for-sale debt securities. One such change is to require credit losses (if applicable) to be presented as an allowance rather than as a write-down on available-for-sale debt securities if management does not intend to sell and does not believe that it is more likely than not, they will be required to sell.

The Company adopted ASC 326 and all related subsequent amendments effective January 1, 2023 using the modified retrospective approach for all financial assets measured at amortized cost and off-balance sheet credit exposures. The transition adjustments were all deemed immaterial.

Note 1. Summary of Significant Accounting Policies (Continued)

On January 1, 2023, the Company adopted ASU No. 2022-02, *Troubled Debt Restructurings and Vintage Disclosures, Topic 326 (Financial Instruments-Credit Losses)* – This standard eliminates the accounting guidance for troubled debt restructurings by creditors under Subtopic 310-40, *Receivables-Troubled Debt Restructurings by Creditors,* and requires an entity evaluate whether the modification represents a new loan or a continuation of an existing loan. The amendments to the standard also enhance existing disclosure requirements, and introduce new requirements related to certain modifications of receivables made to borrowers experiencing financial difficulty.

Subsequent Events: Subsequent events have been evaluated through March 15, 2024, which is the date the financial statements were available to be issued.

Note 2. Cash and Due From Banks

Effective March 12, 2021, the Federal Reserve's board of directors approved the final rule reducing the required reserve requirement ratios to zero percent, effectively eliminating the requirement to maintain reserve balances in cash or on deposit with the Federal Reserve Bank. This reduction in the required reserves does not have a defined timeframe and may be revised by the Federal Reserve's board in the future.

In the normal course of business, the Company maintains cash and due from bank balances with correspondent banks. Balances in these accounts may exceed the Federal Deposit Insurance Corporation's insured limit of $250,000. Management believes these financial institutions have strong credit ratings and that the credit risk related to these deposits is minimal.

Note 3. Debt Securities

The amortized costs and fair values of debt securities, with gross unrealized gains and losses, as of December 31, 2023 and 2022, are summarized below. Because the securities are either explicitly or implicitly guaranteed by the US government, are highly rated by major rating agencies and have a long history of no credit losses, no allowance for credit losses on available-for-sale or held-to-maturity debt securities were recorded.

	2023			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available -for-sale debt securities:				
Small Business Association backed securities	$ 6,184,475	$ -	$ 108,268	$ 6,076,207
U.S. government-sponsored CMO securities	32,266,912	33,851	1,282,488	31,018,275
U.S. government-sponsored mortgage backed securities	14,800,859	237,854	131,673	14,907,040
Certificates of deposit	12,268,403	8,243	82,668	12,193,978
	$ 65,520,649	$ 279,948	$ 1,605,097	$ 64,195,500
Held-to-maturity debt securities:				
Small Business Association backed securities	$ 13,567,304	$ -	$ 1,322,811	$ 12,244,493
U.S. government-sponsored CMO securities	45,862,940	31,801	3,240,560	42,654,181
U.S. government-sponsored mortgage backed securities	36,722,502	55,693	1,325,299	35,452,896
Certificates of deposit	2,655,891	26,348	44	2,682,195
	$ 98,808,637	$ 113,842	$ 5,888,714	$ 93,033,765

	2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available -for-sale debt securities:				
Small Business Association backed securities	$ 5,808,495	$ -	$ 320,875	$ 5,487,620
U.S. government-sponsored CMO securities	43,584,747	6,576	1,792,835	41,798,488
U.S. government-sponsored mortgage backed securities	8,396,594	11,259	250,227	8,157,626
Certificates of deposit	14,459,572	39,576	194,262	14,304,886
	$ 72,249,408	$ 57,411	$ 2,558,199	$ 69,748,620
Held-to-maturity debt securities:				
Small Business Association backed securities	$ 14,439,619	$ -	$ 1,115,720	$ 13,323,899
U.S. government-sponsored CMO securities	44,452,181	-	2,488,725	41,963,456
U.S. government-sponsored mortgage backed securities	38,523,599	41,398	1,563,164	37,001,833
	$ 97,415,399	$ 41,398	$ 5,167,609	$ 92,289,188

Note 3. Debt Securities (Continued)

The Company reassessed classification of certain investments and effective July 31, 2022, the Company transferred $65,940,440 from available-for-sale to held-to-maturity debt securities. The transfer occurred at fair value. No gain or loss was recorded at the time of transfer. The related unrealized loss of $3,845,590 was included in accumulated other comprehensive income (loss) and is being amortized with an offsetting entry to interest income as a yield adjustment through earnings over the remaining term of the securities. The Company amortized the unrealized loss in amounts of $1,404,789 and $634,643 in 2023 and 2022, respectively.

Fair values of securities are generally estimated based on financial models or prices paid for similar securities. It is possible interest rates or other key inputs to the valuation estimate could change considerably resulting in a material change in the estimated fair value of debt securities.

Debt securities with a carrying value of $88,580,632 and $19,416,184 at December 31, 2023 and 2022, respectively, were pledged as collateral on public deposits and for other purposes as required or permitted by law.

For the year ended December 31, 2023, there were 35 debt securities sold with proceeds from sales totaling $14,898,152. All securities were sold at a loss totaling $827,375. For the year ended December 31, 2022 there were 22 debt securities sold with proceeds from sales totaling $29,188,666. All securities sold were at a loss totaling $1,287,159.

The amortized cost and fair value of debt securities as of December 31, 2023, by contractual maturity, are shown below. There is no allowance for credit losses on available-for-sale or held-to-maturity debt securities.

	Available-for-Sale Debt Securities		Held-to-Maturity Debt Securities	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 4,165,000	$ 4,148,713	$ -	$ -
Due after one year through five years	8,103,403	8,045,265	2,655,891	2,682,195
Subtotal	12,268,403	12,193,978	2,655,891	2,682,195
Small Business Association backed securities	6,184,475	6,076,207	13,567,304	12,244,493
U.S. government-sponsored CMO securities	32,266,912	31,018,275	45,862,940	42,654,181
U.S. government-sponsored mortgage-backed securities	14,800,859	14,907,040	36,722,502	35,452,896
Totals	$ 65,520,649	$ 64,195,500	$ 98,808,637	$ 93,033,765

Note 3. Debt Securities (Continued)

Information pertaining to available-for-sale debt securities with gross unrealized losses at December 31, 2023, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are summarized as below.

	2023					
	Less than 12 months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Small Business Association backed securities	$ 3,458,276	$ (72,768)	$ 2,617,931	$ (35,500)	$ 6,076,207	$ (108,268)
U.S. government-sponsored CMO securities	891,167	(7,402)	27,413,352	(1,275,086)	28,304,519	(1,282,488)
U.S. government-sponsored mortgage backed securities	1,708,868	(12,576)	2,786,672	(119,097)	4,495,540	(131,673)
Certificates of deposit	6,605,743	(22,749)	2,879,771	(59,919)	9,485,514	(82,668)
	$ 12,664,054	$ (115,495)	$ 35,697,726	$ (1,489,602)	$ 48,361,780	$ (1,605,097)

	2023	
	Available-for-Sale Debt Securities	
	Count	Aggregate Depreciation
Small Business Association backed securities	6	1.75%
U.S. government-sponsored CMO securities	56	4.33%
U.S. government-sponsored mortgage backed securities	7	2.85%
Certificates of deposit	39	0.86%
	108	

These unrealized losses relate principally to the change in interest rates and are not due to changes in the financial condition of the issuer, the quality of any underlying assets, or applicable credit enhancements. In reaching the conclusion that an allowance for credit losses is unnecessary, management observed that the debt securities were issued by a government body or agency, the securities continue to be highly rated where applicable, the issuer continues to make contractual payments, and the quality of any underlying assets or credit enhancements has not changed. Since management has the ability to hold debt securities for the foreseeable future, the Company expects to recover the amortized cost basis of these securities before they are sold or mature.

Note 3. Debt Securities (Continued)

Information pertaining to debt securities with gross unrealized losses at December 31, 2022, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are summarized as below.

	2022					
	Less than 12 months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-sale debt securities:						
Small Business Association backed securities	$ 2,905,242	$ 81,659	$ 2,582,378	$ 239,216	$ 5,487,620	$ 320,875
U.S. government-sponsored CMO securities	35,464,128	1,280,761	5,345,652	512,074	40,809,780	1,792,835
U.S. government-sponsored mortgage backed securities	7,181,395	250,227	-	-	7,181,395	250,227
Certificates of deposit	6,938,631	166,369	216,679	27,893	7,155,310	194,262
	$ 52,489,396	$ 1,779,016	$ 8,144,709	$ 779,183	$ 60,634,105	$ 2,558,199
Held-to-maturity debt securities:						
Small Business Association backed securities	$ 13,323,899	$ 1,115,720	$ -	$ -	$ 13,323,899	$ 1,115,720
U.S. government-sponsored CMO securities	41,963,456	2,488,725	-	-	41,963,456	2,488,725
U.S. government-sponsored mortgage backed securities	34,077,723	1,563,164	-	-	34,077,723	1,563,164
	$ 89,365,078	$ 5,167,609	$ -	$ -	$ 89,365,078	$ 5,167,609

Information regarding credit ratings for debt securities held-to-maturity by major security type as of December 31, 2023 follows:

	Held-to-Maturity Debt Securities		
	Standard & Poor's AA+	Not Rated	Total
Small Business Association backed securities	$ 13,567,304	$ -	$ 13,567,304
U.S. government-sponsored CMO securities	45,862,940	-	45,862,940
U.S. government-sponsored mortgage backed securities	36,722,502	-	36,722,502
Certificates of deposit	-	2,655,891	2,655,891
	$ 96,152,746	$ 2,655,891	$ 98,808,637

No accrued interest was written off during 2023 and 2022. No securities held-to-maturity were past due or nonaccrual as of December 31, 2023 and 2022.

Note 4. Loans and Allowance for Credit Losses

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

	2023	2022
Commercial and Industrial	$ 37,747,839	$ 31,588,711
Real Estate:		
Construction and land development	20,905,871	17,714,650
Commercial	137,416,020	141,051,626
Residential mortgages	71,664,215	62,958,486
Consumer	3,655,640	3,840,944
	271,389,585	257,154,417
Less allowance for credit losses for loans	(6,262,183)	(6,311,535)
Net Loans	$ 265,127,402	$ 250,842,882

Certain directors and executive officers of the Company, and their related interests, had loans outstanding in the aggregate amounts of $453,156 and $30,896 at December 31, 2023 and 2022, respectively. During the year ended December 31, 2023, total principal additions were $426,743, total principal payments were $4,483.

Detailed analysis of the allowance for credit losses for the year ended December 31, 2023, follows:

	Commercial and Industrial	Real Estate	Consumer	Totals
Allowance for credit losses for loans				
Balance at beginning	$ 519,000	$ 5,760,000	$ 32,535	$ 6,311,535
Impact of adoption ASU No. 2016-13 (ASC 326) - Reallocation	(11,000)	(91,000)	(4,000)	(106,000)
Provision for credit losses	(298,000)	264,536	33,464	-
Loans charged off	-	-	(8,321)	(8,321)
Recoveries of loans previously charged off	-	63,464	1,505	64,969
Balance at end	$ 210,000	$ 5,997,000	$ 55,183	$ 6,262,183

At December 31, 2023 the Company maintained a reserve for unfunded loan commitments totaling $106,000.

Note 4. Loans and Allowance for Credit Losses (Continued)

Prior to the adoption of ASC 326 on January 1, 2023, the Company calculated the allowance for loan losses under the incurred loss methodology. The following table is the disclosure related to the allowance for loan losses for the year ended December 31, 2022.

	Commercial and Industrial	Real Estate	Consumer	Totals
Balance at beginning	$ 586,000	$ 6,536,000	$ 58,707	$ 7,180,707
Provision for credit losses - loans	(72,000)	(891,577)	(36,423)	(1,000,000)
Loans charged off	-	(21,631)	(12,722)	(34,353)
Recoveries of loans previously charged off	5,000	137,208	22,973	165,181
Balance at end	$ 519,000	$ 5,760,000	$ 32,535	$ 6,311,535

On December 31, 2023 the Company held loans that were individually evaluated for credit deterioration due to financial difficulties experienced by the borrower and for which the repayment, on the basis of our assessment, is expected to be provided substantially through the sale or operation of the collateral. The ACL for these collateral dependent loans is primarily based on the fair value of the underlying collateral at the reporting date.

The table below summarizes collateral dependent loans and the related ACL on December 31, 2023 for which the borrower is experiencing financial difficulty:

	Loans	Allowance for Credit Losses
Commercial and Industrial	$ -	$ -
Construction and land development	-	-
Commercial	-	-
Residential mortgages	9,796,036	-
Consumer	-	-
Total	$ 9,796,036	$ -

For the year ended December 31, 2023, the Company did not write-off any accrued interest for collateral dependent loans for which the borrower is experiencing financial difficulty.

Note 4. Loans and Allowance for Credit Losses (Continued)

A summary of the allowance for loan losses for loans evaluated individually and collectively for impairment, at amortized cost, as of December 31, 2023 and December 31, 2022 is presented below:

December 31, 2023	Commercial and Industrial	Real Estate	Consumer	Totals
Loans:				
Individually evaluated	$ -	$ 9,796,036	$ -	$ 9,796,036
Collectively evaluated	37,747,839	220,190,070	3,655,640	261,593,549
Totals	$ 37,747,839	$ 229,986,106	$ 3,655,640	$ 271,389,585
Allowance for credit losses:				
Individually evaluated	$ -	$ -	$ -	$
Collectively evaluated	210,000	5,997,000	55,183	6,262,183
Totals	$ 210,000	$ 5,997,000	$ 55,183	$ 6,262,183

December 31, 2022	Commercial and Industrial	Real Estate	Consumer	Totals
Loans:				
Individually evaluated	$ -	$ 827,056	$ -	$ 827,056
Collectively evaluated	31,588,711	220,897,706	3,840,944	256,327,361
Totals	$ 31,588,711	$ 221,724,762	$ 3,840,944	$ 257,154,417
Allowance for loan losses:				
Individually evaluated	$ -	$ -	$ -	$
Collectively evaluated	519,000	5,760,000	32,535	6,311,535
Totals	$ 519,000	$ 5,760,000	$ 32,535	$ 6,311,535

Note 4. Loans and Allowance for Credit Losses (Continued)

Information regarding impaired loans as of December 31, 2022, at amortized cost, prior to the adoption of CECL is presented below:

	Recorded Investment	Principal Balance	Related Allowance	Average Investment	Interest Recognized
Loans with no related allowance for loan losses:					
Commercial Real Estate	$ 48,350	$ 156,135	N/A	$ 52,000	$ -
Residential mortgages	778,706	850,945	N/A	1,079,000	39,834
Totals	$ 827,056	$ 1,007,080	N/A	$ 1,131,000	$ 39,834

Modifications to Borrowers Experiencing Financial Difficulty: On January 1, 2023, the Company adopted ASU 2022-02 which eliminated the accounting guidance for troubled debt restructurings (TDR's) by creditors and enhanced the disclosure requirements for certain loan modifications to borrowers experiencing financial difficulty.

The following presents the amortized cost basis as of December 31, 2023, of loans modified to borrowers experiencing financial difficulty during the year disaggregated by loan class and by type of concession granted.

	Payment Delay	% of Total Loans
Loan Modifications		
Commercial and Industrial	$ -	0.00%
Construction and land development	-	0.00%
Commercial Real Estate	-	0.00%
Residential mortgages	9,725,730	13.57%
Consumer	-	0.00%
Totals	$ 9,725,730	3.58%

The balance for modified residential mortgages, included in the table above, consists of two loans for which the Company granted a six-month interest only period.

The Company closely monitors the performance of loans that are modified to borrowers experiencing financial difficulty to understand the effectiveness of its modification efforts. The performance of all loans that have been modified to borrowers experiencing financial difficulty at December 31, 2023 are current.

As of December 31, 2023 the Company had no commitments to lend any additional funds on loans modified to borrowers experiencing financial difficulty.

Troubled Debt Restructuring Disclosures Prior to Adoption of ASU 2022-02. No modifications of loans were classified as TDRs during the year ended December 31, 2022. No TDRs defaulted within 12 months of its modification date during 2022.

Note 4. Loans and Allowance for Credit Losses (Continued)

The Company regularly evaluates various attributes of loans to determine the appropriateness of the allowance for credit losses. The credit quality indicators monitored differ depending on the class of loan.

Commercial loans and residential mortgages are generally evaluated using the following internally prepared ratings:

- "Pass" ratings are assigned to loans with adequate collateral and debt service ability such that collectability of the contractual loan payments is highly probable.
- "Special mention" ratings are assigned to loans where management has some concern that the collateral or debt service ability may not be adequate, though the collectability of the contractual loan payments is still probable.
- "Substandard" ratings are assigned to loans that do not have adequate collateral and/or debt service ability such that collectability of the contractual loan payments is no longer probable.
- "Doubtful" ratings are assigned to loans that do not have adequate collateral and/or debt service ability, and collectability of the contractual loan payments is unlikely.

Consumer loans are generally evaluated based on whether or not the loan is performing according to the contractual terms of the loan. Consumer loans on nonaccrual status or over 90 days past due are considered nonperforming.

Note 4. Loans and Allowance for Credit Losses (Continued)

The following table presents the amortized cost basis of loans by credit quality indicator and origination year, at December 31, 2023:

	2023	2022	2021	2020 and Prior	Revolving	Total Loans
Commercial and industrial						
Pass	$ 10,105,354	$ 11,942,457	$ 3,350,212	$ 8,048,454	$ 4,301,362	$ 37,747,839
Special mention	-	-	-	-	-	-
Substandard	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-
Total commercial and industrial	10,105,354	11,942,457	3,350,212	8,048,454	4,301,362	37,747,839
Construction and land development						
Pass	3,794,605	14,463,543	2,009,907	294,714	70,569	20,633,338
Special mention	-	-	-	-	-	-
Substandard	-	-	-	272,533	-	272,533
Doubtful	-	-	-	-	-	-
Total construction and land development	3,794,605	14,463,543	2,009,907	567,247	70,569	20,905,871
Commercial real estate						
Pass	15,033,294	37,531,960	41,480,352	40,074,478	3,199,060	137,319,144
Special mention	-	-	-	-	-	-
Substandard	-	-	-	96,876	-	96,876
Doubtful	-	-	-	-	-	-
Total commercial real estate	15,033,294	37,531,960	41,480,352	40,171,354	3,199,060	137,416,020
Residential mortgages						
Pass	15,289,066	21,029,398	12,649,230	7,116,203	5,784,282	61,868,179
Special mention	-	-	-	-	-	-
Substandard	-	2,823,570	6,972,466	-	-	9,796,036
Doubtful	-	-	-	-	-	-
Total residential mortgages	15,289,066	23,852,968	19,621,696	7,116,203	5,784,282	71,664,215
Consumer						
Performing	1,876,887	921,065	471,060	165,301	221,327	3,655,640
Nonaccrual	-	-	-	-	-	-
Total consumer	1,876,887	921,065	471,060	165,301	221,327	3,655,640
Current period gross charge-offs	(8,321)	-	-	-	-	-
Total Loans	$ 46,099,206	$ 88,711,993	$ 66,933,227	$ 56,068,559	$ 13,576,600	$271,389,585

Note 4. Loans and Allowance for Credit Losses (Continued)

Information regarding the credit quality indicators, at amortized cost, prior to the adoption of CECL as of December 31, 2022, follows:

	Pass	Special mention	Substandard	Doubtful	Totals
Commercial credit exposure:					
Commercial and industrial	$ 31,588,711	$ -	$ -	$ -	$ 31,588,711
Construction and land development	17,714,650	-	-	-	17,714,650
Commercial real estate	136,127,396	4,875,880	48,350	-	141,051,626
Totals	$ 185,430,757	$ 4,875,880	$ 48,350	$ -	$ 190,354,987

	Performing	Non-performing	Totals
Residential real estate and consumer credit exposure:			
Residential mortgages	$ 62,958,486	$ -	$ 62,958,486
Consumer	3,840,944	-	3,840,944
Totals	$ 66,799,430	$ -	$ 66,799,430

Loan aging information as of December 31, 2023, follows:

	Loans Past Due 30-89 Days	Loans Past Due 90+ Days	Total Past Due Loans
Residential mortgages	-	70,306	70,306
Consumer	19,629	-	19,629
Totals	$ 19,629	$ 70,306	$ 89,935

Loan aging information for the year ended December 31, 2022, follows:

	Loans Past Due 30-89 Days	Loans Past Due 90+ Days	Total Past Due Loans
Residential mortgages	162	-	162
Consumer	2,763	175	2,938
Totals	$ 2,925	$ 175	$ 3,100

Note 4. Loans and Allowance for Credit Losses (Continued)

Information regarding nonaccrual loans during the year ended December 31, 2023 follows:

	Nonaccrual Loans With No Allowance for Credit Losses	Nonaccrual Loans With an Allowance for Credit Losses	Total Nonaccrual Loans	Total Nonaccrual Loans at Beginning of Year	Interest Income Recognized on Nonaccrual Loans
Commercial real estate	-	-	-	48,350	-
Residential mortgages	70,306	-	70,306	-	-
Totals	$ 70,306	$ -	$ 70,306	$ 48,350	$ -

Note 5. Mortgage Servicing Rights

The unpaid principal balance of loans serviced for others, which is not included in the consolidated financial statements, was $146,544,845 and $159,347,566 at December 31, 2023 and 2022, respectively.

The fair value of the mortgage servicing rights was $1,265,140 and $1,411,071 at December 31, 2023 and 2022, respectively. The fair value of the servicing rights was determined using a discount rate of 9.375% and 9.500% at December 31, 2023 and 2022, respectively. Prepayment speeds, depending on the stratification of the specific right, ranging from 6.01% to 22.43% and 6.93% to 23.49%, at December 31, 2023 and 2022, respectively. The following summarizes the activity pertaining to mortgage servicing rights for the years ended December 31:

	2023	2022
Balance at beginning of year	$ 1,046,053	$ 1,139,790
Mortgage servicing rights capitalized	15,549	75,825
Mortgage servicing rights amortized	(200,184)	(266,131)
Change in valulation allowance	5	96,569
Balance at end of year	$ 861,423	$ 1,046,053

The valuation allowance for mortgage servicing rights was $24 and $29 at December 31, 2023 and 2022, respectively.

Note 6. Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation at December 31 and are summarized as follows:

	2023	2022
Land	$ 1,295,329	$ 1,173,679
Building and improvements	6,828,870	6,799,398
Furniture and equipment	8,228,995	8,021,125
	16,353,194	15,994,202
Less accumulated depreciation	(12,232,940)	(11,886,714)
	$ 4,120,254	$ 4,107,488

Note 7. Other Assets

A summary of other assets at December 31 is as follows:

	2023	2022
Accrued interest receivable	$ 1,618,135	$ 1,466,065
Nonmarketable equity securities	1,580,700	2,405,700
Marketable equity securities	-	215,225
Mortgage servicing rights	861,423	1,046,053
Prepaid expenses and other assets	773,688	733,157
	$ 4,833,946	$ 5,866,200

Note 8. Deposits

The aggregate amount of time deposits, each with a minimum denomination of $250,000, was $17,644,458 and $10,941,184 at December 31, 2023 and 2022, respectively.

At December 31, 2023, the scheduled maturities of time deposits are as follows:

Years Ending December 31,		
2024	$	79,845,594
2025		31,267,809
2026		507,846
2027		429,106
2028		220,981
	$	112,271,336

Note 9. Other Borrowings

Borrowed funds consist of the following at December 31:

	2023			2022		
	Rate		Amount	Rate		Amount
Federal Home Loan Bank (FHLB)						
Fixed rate-term advances	1.01%	$	5,000,000	1.01%	$	5,000,000
Total notes payable		$	5,000,000		$	5,000,000

The FHLB Fixed rate-fixed term advances outstanding at December 31, 2023 are set to mature in 2025. Actual maturities may differ from the scheduled principal maturities due to call options on the various advances.

The Company has a master contract agreement with the FHLB that provides for borrowings collateralized by qualifying residential and commercial real estate loans. The FHLB provides both fixed and floating rate advances. Floating rates are based on, but not directly tied to, short-term market rates of interest. Advances with call provisions permit the FHLB to request payment beginning on the call date and quarterly thereafter. FHLB advances are subject to a prepayment penalty if they are repaid prior to maturity. At December 31, 2023, FHLB advances were secured by residential real estate loans totaling $18,271,372 and investment securities with a fair value of $68,628,714. FHLB advances are also secured by $530,000 of FHLB stock at December 31, 2023. At December 31, 2023 the Company's available and unused portion of this borrowing agreement totaled $81,834,046.

Note 9. Other Borrowings (Continued)

The subsidiary Bank has a federal funds purchasing guideline with Bankers Bank for $10,000,000. At December 31, 2023 and 2022 there were no amounts outstanding.

The subsidiary Bank has a credit facility available under the Federal Reserve Bank of Chicago's discount window program. At December 31, 2023 and 2022 there were no amounts outstanding. The calculated value of loans pledged as collateral at December 31, 2023, was $27,720,134.

Note 10. Income Tax

The provision for income taxes included in the accompanying consolidated financial statements consisted of the following components for the years ended December 31:

	2023	2022
Current income taxes	$ 1,244,604	$ 855,908
Deferred income taxes	(127,739)	627,301
Provision for income taxes	$ 1,116,865	$ 1,483,209

The net deferred tax assets in the accompanying consolidated balance sheets include the following amounts of deferred tax assets and liabilities at December 31:

Deferred tax assets:	2023	2022
Allowance for credit losses	$ 1,734,756	$ 1,719,326
Nonaccrual loan income	250	19,804
Deferred compensation	860,301	807,641
Unrealized loss on debt securities	657,575	1,199,464
Net operating loss carryforward	46,579	168,551
Total deferred tax assets	3,299,461	3,914,786
Deferred tax liabilities:		
Depreciation	232,832	208,215
Federal Home Loan Bank stock dividends	10,396	10,396
Loan servicing income	234,660	284,955
Other	69,926	245,423
Total deferred tax liabilities	547,814	748,989
Net deferred tax assets	$ 2,751,647	$ 3,165,797

The Company has a state net operating loss carryforward totaling approximately $8,530,214, which may be applied against future taxable income and begins to expire in 2031. Deferred tax assets totaling $485,792 as of December 31, 2023, and 2022, respectively, are not included in the above table as the Company has recorded a full valuation allowance against the amount.

Note 10. Income Tax (Continued)

A reconciliation of statutory federal income taxes based on income before taxes to the provision for federal and state income taxes for the period, as summarized previously, is as follows:

	2023		2022	
	Amount	% of Pretax Income	Amount	% of Pretax Income
Reconciliation of statutory to effective rates:				
Federal income taxes at statutory rate	$ 1,159,460	21.00 %	$ 1,189,561	21.00 %
Increase (decrease) in taxes resulting from:				
Tax-exempt interest	(31,123)	(0.56)%	(8,302)	(0.15)
State income taxes	57,756	1.05 %	345,239	6.09
Other - Net	(69,228)	(1.26)%	(43,289)	(0.76)
Income taxes	$ 1,116,865	20.23 %	$ 1,483,209	26.18 %

Note 11. Profit Sharing Plan

The Company has a contributory 401(k) profit sharing plan covering substantially all employees. The Company matches 25% of the amount contributed by an eligible participant up to a maximum of 4% of the participant's annual compensation. Additional contributions to the 401(k) plan by the Company are discretionary and based on factors related to profits and wages. Contributions were $285,113 and $384,883 in 2023 and 2022, respectively.

Note 12. Salary Continuation Agreement

The Company has entered into salary continuation agreements with various executive officers. The agreements provide for the payment of specified amounts upon the employee's retirement or death, which is being accrued over the anticipated remaining period of employment. Expenses recognized for future benefits under these agreements totaled $653,337 and $232,720 in 2023 and 2022, respectively. Included in other liabilities was $3,158,110 and $2,964,798 of accrued salary continuation expense as of December 31, 2023 and 2022, respectively.

Note 13. Commitments and Contingencies

Credit-Related Financial Instruments: The Company is party to credit-related financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of amounts recognized on the consolidated balance sheets.

The Company's exposure to credit loss is represented by the contractual amount of these commitments. The Company follows the same credit policies in making commitments as it does for on-balance-sheet instruments. See Note 4 for information on the allowance for credit losses – unfunded commitments.

Note 13. Commitments and Contingencies (Continued)

At December 31, 2023 and 2022, the following instruments whose contract amounts represent credit risk were outstanding:

	2023	2022
Commitments to extend credit	$ 64,060,000	$ 58,751,000
Credit card commitments	1,298,000	1,313,000
Standby letters of credit	2,587,000	1,040,000

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Commitments to extend credit may expire without being drawn upon; therefore, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained to secure borrowing on the lines of credit is based on management's credit evaluation of the customer.

Credit card commitments are commitments on credit cards issued by the Company and serviced by other companies. These commitments are unsecured.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. These letters of credit are primarily issued to support public and private borrowing arrangements and generally have terms of one year or less. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company holds collateral supporting those commitments if deemed necessary. In the event the customer does not perform in accordance with the terms of the agreement with the third party, the Company would be required to fund the commitment. The maximum potential amount of future payments the Company could be required to make is represented by the contractual amount shown in the summary above. If the commitment were funded, the Company would be entitled to seek recovery from the customer. At December 31, 2023 and 2022, no amounts have been recorded as liabilities for the Company's potential obligations under these guarantees.

Concentration of Credit Risk: The majority of the Company's loans, commitments, and standby letters of credit have been granted to customers in the Company's market area. Although the Company has a diversified loan portfolio, the ability of its debtors to honor their contracts is dependent on the economic conditions of the market area in which the Company operates.

Contingencies: In the normal course of business, the Company is involved in various legal proceedings. In the opinion of management, any liability resulting from such proceedings would not have a material adverse effect on the Company's financial statements.

Note 14. Regulatory Capital Requirements

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company must meet specific capital guidelines that involve quantitative measures of their assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of Common Equity Tier 1, Tier 1, and total capital to risk-weighted assets and of Tier 1 capital to average assets. It is management's opinion, as of December 31, 2023, that the Bank met all applicable capital adequacy requirements

As of December 31, 2023 and 2022, under the regulatory framework for prompt corrective action, the subsidiary Bank was categorized as well capitalized. To be categorized as well capitalized, an institution must maintain minimum regulatory capital ratios as set forth in the following table. There are no conditions or events since December 31, 2023, that management believes have changed the Bank's category.

The subsidiary Bank's actual capital amounts and ratios as of December 31, 2023 and 2022, are presented in the following table:

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(in thousands)			
As of December 31, 2023						
Common Equity Tier 1(to risk-weighted assets)	$ 56,945	17.6%	$ 14,520	4.5%	$ 20,974	6.5%
Total capital (to risk-weighted assets):	$ 61,007	18.9%	$ 25,814	8.0%	$ 32,268	10.0%
Tier I capital (to risk-weighted assets):	$ 56,945	17.6%	$ 19,361	6.0%	$ 25,814	8.0%
Tier I capital (to average assets):	$ 56,945	11.1%	$ 20,433	4.0%	$ 25,541	5.0%
As of December 31, 2022						
Common Equity Tier 1(to risk-weighted assets)	$ 53,047	16.9%	$ 14,112	4.5%	$ 20,384	6.5%
Total capital (to risk-weighted assets):	$ 56,997	18.2%	$ 25,089	8.0%	$ 31,361	10.0%
Tier I capital (to risk-weighted assets):	$ 53,047	16.9%	$ 18,816	6.0%	$ 25,089	8.0%
Tier I capital (to average assets):	$ 53,047	10.2%	$ 20,821	4.0%	$ 26,027	5.0%

Note 15. Fair Value Measurements

Accounting standards describe three levels of inputs that may be used to measure fair value (the fair value hierarchy). The level of an asset or liability within the fair value hierarchy is based on the lowest level of input significant to the fair value measurement of that asset or liability.

Following is a brief description of each level of the fair value hierarchy:

Level 1 - Fair value measurement is based on quoted prices for identical assets or liabilities in active markets.

Level 2 - Fair value measurement is based on (1) quoted prices for similar assets or liabilities in active markets, (2) quoted prices for identical or similar assets or liabilities in markets that are not active, or (3) valuation models and methodologies for which all significant assumptions are or can be corroborated by observable market data.

Level 3 - Fair value measurement is based on valuation models and methodologies that incorporate at least one significant assumption that cannot be corroborated by observable market data. Level 3 measurements reflect the Company's estimates about assumptions market participants would use in measuring fair value of the asset or liability.

Some assets and liabilities, such as debt securities available-for-sale, are measured at fair value on a recurring basis under accounting principles generally accepted in the United States. Other assets and liabilities, such as collateral dependent loans, may be measured at fair value on a nonrecurring basis.

As of December 31, 2023 and 2022, the Company did not have any liabilities that are measured at fair value. Following is a description of the valuation methodology used for each asset measured at fair value on a recurring or nonrecurring basis, as well as the classification of the asset within the fair value hierarchy.

Debt securities available-for-sale – Debt securities available-for-sale are classified as Level 2 measurements within the fair value hierarchy. The fair value measurement of a Level 2 security is obtained from an independent pricing service and is based on recent sales of similar securities and other observable market data.

Loans - Loans are not measured at fair value on a recurring basis. However, loans individually evaluated (see Note 1) may be measured at fair value on a nonrecurring basis. The fair value measurement of a loan that is collateral dependent is based on the fair value of the underlying collateral. Independent appraisals are obtained that utilize one or more valuation methodologies; typically, they will incorporate a comparable sales approach and an income approach. Management routinely evaluates the fair value measurements of independent appraisers and adjusts those valuations based on differences noted between actual selling prices of collateral and the most recent appraised value. Management routinely discounts the appraisals 10%-20% for estimated costs to sell and other factors. As such, this results in a Level 3 classification.

Foreclosed assets - Real estate and other property acquired through or in lieu of loan foreclosure are not measured at fair value on a recurring basis. However, foreclosed assets are initially measured at fair value (less estimated costs to sell) when they are acquired and may also be measured at fair value (less estimated costs to sell) if they become subsequently impaired. The fair value measurement for each asset may be obtained from an independent appraiser or prepared internally. Fair value measurements obtained from independent appraisers generally utilize a market approach based on sales of comparable assets and/or an income approach. Such measurements are usually considered Level 2 measurements. However, management routinely evaluates fair value measurements of independent appraisers by comparing actual selling prices to the most recent appraisals. If management determines significant adjustments should be made to the independent appraisals based on these evaluations, these measurements are considered Level 3 measurements. Management routinely discounts the appraisals 10%-20% for estimated costs to sell and other factors. Fair value measurements prepared internally are based management's comparisons to sales of comparable assets but include significant unobservable data and are therefore considered Level 3 measurements.

Note 15. Fair Value Measurements (Continued)

Equity securities - Equity securities with a readily determinable fair value are measured at fair value on a recurring basis. The fair value measurement of equity securities with a readily determinable fair value are based on the quoted price of the security and is considered a Level 1 fair value measurement. Equity securities without a readily determinable fair value, such as SB Bancorp Inc., are measured at fair value on a nonrecurring basis when transaction prices for identical or similar securities are identified. Fair value measurements on equity securities without a readily determinable fair value are generally considered a Level 2 fair value measurement.

Information regarding the fair value of assets measured at fair value on a recurring basis as of December 31 follows:

		Recurring Fair Value Measurements Using		
	Fair Value	Level 1	Level 2	Level 3
2023				
Assets- Available-for-sale debt securities	$ 64,195,500	$ -	$ 64,195,500	$ -
Totals	$ 64,195,500	$ -	$ 64,195,500	$ -
2022				
Assets- Available-for-sale debt securities	$ 69,748,620	$ -	$ 69,748,620	$ -
Marketable equity securities	215,525	215,525	-	-
Totals	$ 69,964,145	$ 215,525	$ 69,748,620	$ -

Information regarding the fair value of assets measured at fair value on a nonrecurring basis as of December 31 follows:

		Nonrecurring Fair Value Measurements Using		
	Fair Value	Level 1	Level 2	Level 3
2022				
Nonmarketable equity securities	$ 825,000	$ -	$ 825,000	$ -

The Company did not have any collateral dependent loans with a specific allocation at December 31, 2023 and 2022.

The Company did not have any foreclosed assets at December 31, 2023 and 2022.

During 2023, equity securities without a readily determinable fair value and a carrying amount of $825,000 were sold. The securities were sold for $825,000. The Company received $800,000 of the sale proceeds in 2023 and the remaining $25,000 is recorded as a receivable for the year ended December 31, 2023.

During 2022, equity securities without a readily determinable fair value with a carrying amount of $687,500 were written up to their fair value of $825,000 based on observed transaction prices from sales of identical securities. This resulted in the recognition of a $137,500 unrealized gain for the year ended December 31, 2022.

Note 15. Fair Value Measurements (Continued)

The Company estimates fair value of all financial instruments regardless of whether such instruments are measured at fair value. The estimated fair values of the Company's financial instruments are as follows for December 31:

	2023				
			Fair Value		
	Carrying Amount	Estimated Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Cash and cash equivalents	$ 51,847,744	$ 51,847,744	$ 51,847,744	$ -	$ -
Available-for-sale debt securities	64,195,500	64,195,500	-	64,195,500	-
Held-to-maturity debt securities	98,808,637	93,033,765	-	93,033,765	-
Loans held for sale	290,000	306,435	-	306,435	-
Loans, net	265,127,402	254,819,033	-	-	254,819,033
Cash surrender value of life insurance	10,268,121	10,268,121	10,268,121	-	
Nonmarketable equity securities	1,580,700	1,580,700	-	-	1,580,700
Marketable equity securities	-	-	-	-	-
Accrued interest receivable	1,618,135	1,618,135	1,618,135	-	-
Financial liabilities:					
Deposits	437,551,556	436,749,435	325,280,221	-	111,469,214
Borrowed funds	5,000,000	4,776,229	-	-	4,776,229
Accrued interest payable	550,976	550,976	550,976	-	-

	2022				
			Fair Value		
	Carrying Amount	Estimated Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Cash and cash equivalents	$ 77,130,217	$ 77,130,217	$ 77,130,217	$ -	$ -
Available-for-sale debt securities	69,748,620	69,748,620	-	69,748,620	-
Held-to-maturity debt securities	97,415,399	92,289,189	-	92,289,189	-
Loans, net	250,842,882	245,209,800	-	-	245,209,800
Cash surrender value of life insurance	10,417,686	10,417,686	10,417,686	-	
Nonmarketable equity securities	2,405,700	2,405,700	-	825,000	1,580,700
Marketable equity securities	215,225	215,225	215,225	-	-
Accrued interest receivable	1,466,063	1,466,063	1,466,063	-	-
Financial liabilities:					
Deposits	459,868,291	457,550,698	369,580,441	-	87,970,257
Borrowed funds	5,000,000	4,617,577	-	-	4,617,577
Accrued interest payable	185,473	185,473	185,473	-	-

Note 15. Fair Value Measurements (Continued)

Limitations - The fair value of a financial instrument is the current amount that would be exchanged between market participants, other than in a forced liquidation. Fair value is best determined based on quoted market prices. However, in many instances, there are no quoted market prices for the Company's various financial instruments. In cases when quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. Consequently, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Company.

Fair value estimates are made at a specific point in time based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular instrument. Because no market exists for a significant portion of the Company's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters that could affect the estimates. Fair value estimates are based on existing on- and off-balance-sheet financial instruments without attempting to estimate the value of anticipated future business. Deposits with no stated maturities are defined as having a fair value equivalent to the amount payable on demand. This prohibits adjusting fair value derived from retaining those deposits for an expected future period of time. This component, commonly referred to as a deposit base intangible, is neither considered in the above amounts, nor is it recorded as an intangible asset on the balance sheets. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in the estimates.

The Baraboo Bancorporation, Inc.

Officers and Directors

Merlin E. Zitzner	Chairman, President, Treasurer & CEO of The Baraboo Bancorporation, Inc.
Greg L. Lindner	Vice President of The Baraboo Bancorporation, Inc.
Jeffrey P. Blada	Secretary of The Baraboo Bancorporation, Inc.
Gregg H. McArthur	President, of McArthur Properties
Tara J. Zitzner	Senior Vice President of Baraboo State Bank