Delhi Bank Corp.

2019 Annual Report

subsidiary

The Delaware National Bank of Delhi

CORPORATE INFORMATION

CORPORATE HEADQUARTERS
Delhi Bank Corp.
124 Main Street • Delhi NY 13753
855-413-3544

ANNUAL MEETING
Tuesday June 16, 2020, 1:00 p.m.
The Delaware National Bank of Delhi
124 Main Street • Delhi NY 13753
855-413-3544

STOCK INFORMATION
The common stock of Delhi Bank Corp. is quoted on the OTC Markets under the symbol "DWNX". Information can be obtained from www.otcmarkets.com.

STOCK TRANSFER AGENT
The Delaware National Bank of Delhi
124 Main Street • Delhi NY 13753
855-363-3544

MARKET MAKER
Raymond James & Associates, Inc.
800-800-4693

DIVIDEND REINVESTMENT AND OPTIONAL CASH PURCHASE PLAN
Shareholders may participate in the Dividend Reinvestment and Optional Cash Purchase Plan. The plan provides that additional shares of common stock may be purchased with reinvested dividends and by voluntary cash payments. A plan description and enrollment form may be obtained upon request from The Delaware National Bank of Delhi.

DIVIDEND CALENDAR
Dividends on Delhi Bank Corp. common stock are customarily payable on or about the 15th of January, April, July, and October.

DIRECT DEPOSIT OF DIVIDENDS
Direct Deposit is a safe, convenient method for the receipt of dividend payments. Direct deposits to a checking, savings, or other account can be arranged by contacting The Delaware National Bank of Delhi.

INVESTOR/SHAREHOLDER INQUIRIES
Requests for information or assistance regarding Delhi Bank Corp. should be directed to The Delaware National Bank of Delhi.

THE DELAWARE NATIONAL BANK OF DELHI

BANK LOCATIONS

MAIN BANK
124 Main Street • Delhi, NY
855-413-3544

MARGARETVILLE BRANCH
42568 State Highway 28 • Margaretville, NY
855-423-3544

DAVENPORT BRANCH
2503 Prosser Hollow Road • West Davenport, NY
855-433-3544

HOBART BRANCH
1058 Main Street • Hobart, NY
855-443-3544

ONEONTA LOAN OFFICE
265 Main Street, Suite 7 • Oneonta, NY
855-403-3544

SIDNEY LOAN OFFICE
276 State Highway 7 • Sidney, NY
855-483-3544

BANK WEBSITE AND EMAIL

Website: www.dnbd.bank
Email: dnb@dnbd.net

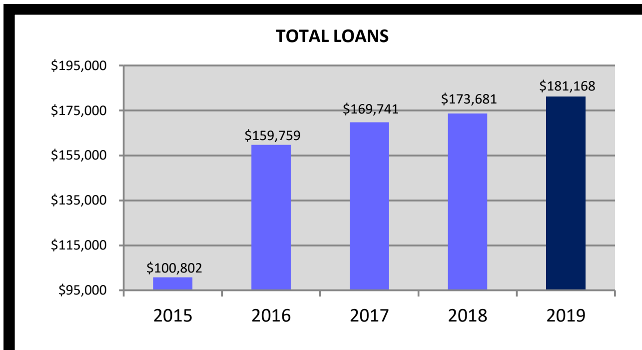
TRUST SERVICES

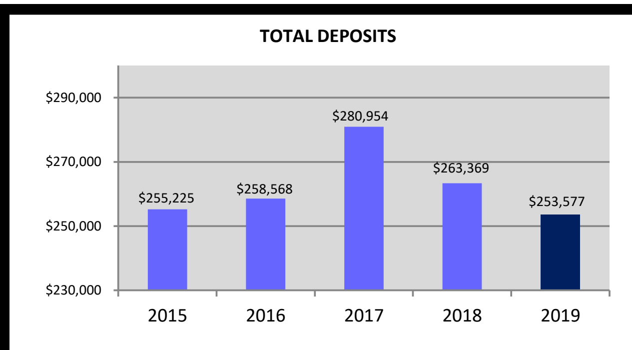
124 Main Street • Delhi, NY
855-363-3544
trust@dnbd.net

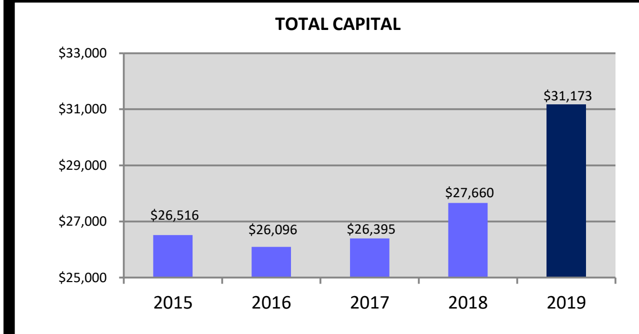
- Investment Management
- Estate Settlement
- Trusteeship
- Custodianship
- Transfer and/or paying agent
- Singular purchase/sale of securities
- Estate/Trust management
- Consultation

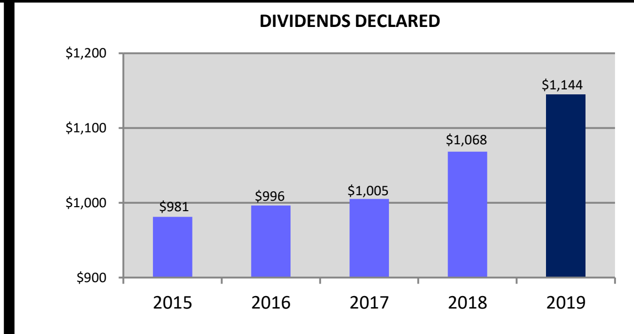
FINANCIALS AT A GLANCE

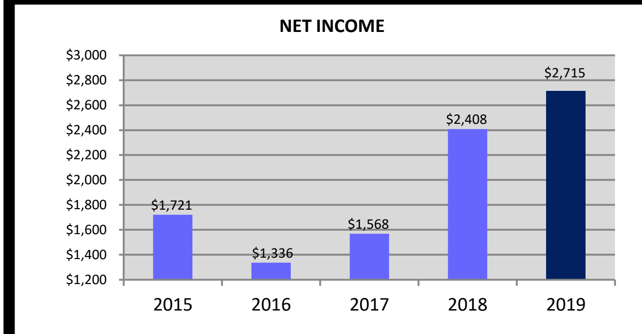
Dollars in thousands, except Closing Stock Price

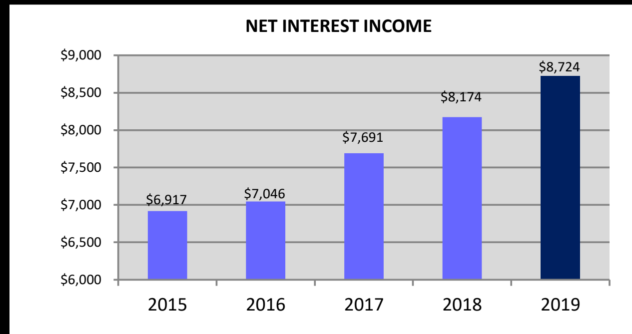


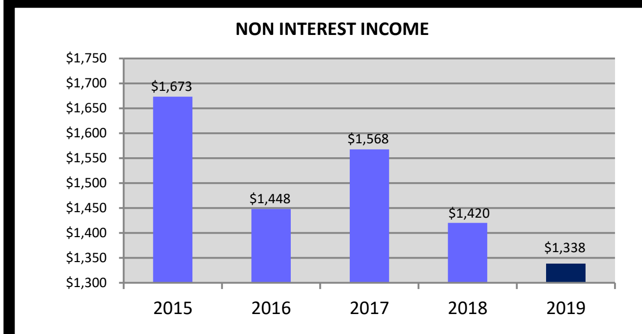


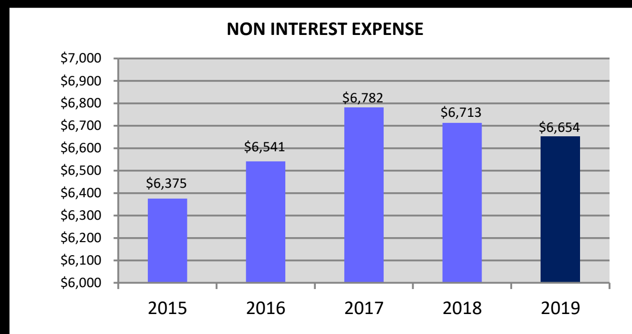


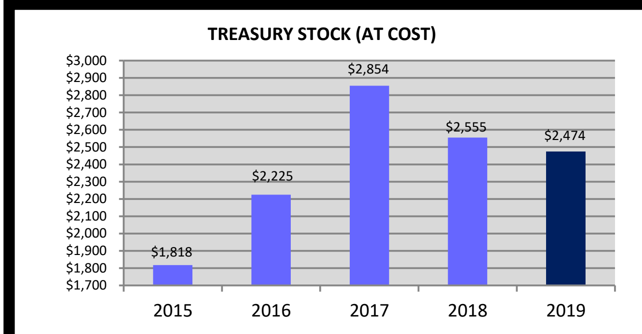


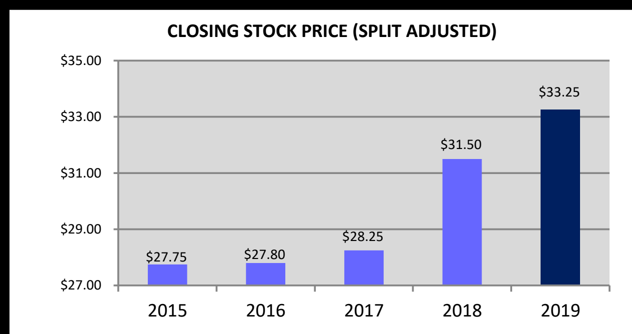












PRESIDENT'S MESSAGE
2020

To Our Stockholders,

The year 2019 was a record year for Delhi Bank Corp on many different levels. Net Income per share was $1.72, compared to the prior year's results of $1.56. The Bank's Net Income increased to $2.72 million, compared to 2018 which was $2.41 million. The Net Income increase was 12.74%.

Total assets increased by .39%. Investment securities increased by 1.42%, while net loans increased 4.31%. Deposits decreased by 3.72%. Capital increase was a robust 12.70%, making our capital to assets ratio 10.52% at year end. The increase in loans was created predominately by local demand. As always, we are very proud to be your community Bank.

The last shares of Delhi Bank Corp. traded in 2019 were at $33.25. The common stock book value per share at December 31, 2019, was $19.68 based on the actual number of common shares outstanding. Your Board of Directors declared cash dividends of $0.7254 per share in 2019 which was a 5.22% increase over the dividends declared in 2018. This equates to a dividend yield of 2.18% based on the year end market price. The dividend declared at year-end represented the 52nd consecutive increase declared by your Directors.

In September 2019, Mr. Robert W. Armstrong announced his retirement from our Board of Directors. Bob's retirement came after 31 years of total service to the Bank, including 13 years as a member of the Board of Directors and 11 years as President of the Bank. We wish Bob the best of health and enjoyment in his retirement and thank him for his many years of dedication and service.

The Delaware National Bank of Delhi earned Bauer's highest (5-Star) rating for financial strength and stability, it has maintained that top rating for 100 consecutive quarters, sailing through one of the most trying economic times of our lifetimes and giving it an added designation of *"Best of Bauer Bank"*. This status is reserved solely for banks that have earned Bauer's highest rating consistently for a minimum of 100 consecutive quarters. It also indicates that The Delaware National Bank of Delhi is indisputably one of the strongest banks in the nation.

The beginning of 2020 has been anything except "business as usual". During the first quarter, banks were met with the challenge of navigating an interest rate environment in which The Federal Reserve slashed the Fed Funds Rate by 150 basis points. COVID-19 is forcing everyone to rethink their daily routine and "social distance" for the betterment of society. This pandemic has forced establishments deemed "non-essential" to either temporarily close, alter their workforce capacity or in some instances, have their employees work remotely. This disruption is putting an economic strain on many individuals right here in our neighborhoods. The Delaware National Bank of Delhi is working closely with those customers, providing stability and solutions in their time of need as we have since 1839.

We understand the year 2020 will be very challenging with the ever-changing landscape of the nation; rest assured your bank is up to the task. Thank you for your continued support. Be safe.

Respectfully

Peter V. Gioffe
President

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Independent Auditors' Report

To the Board of Directors and Stockholders of
Delhi Bank Corp. and Subsidiary

We have audited the accompanying consolidated financial statements of Delhi Bank Corp. and Subsidiary, which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Delhi Bank Corp. and Subsidiary as of December 31, 2019 and 2018, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Baker Tilly Virchow Krause, LLP

Wilkes-Barre, Pennsylvania
March 18, 2020

Delhi Bank Corp. and Subsidiary

Consolidated Balance Sheets
December 31, 2019 and 2018

	2019	2018
Assets		
Cash and due from banks	$ 2,733,612	$ 7,679,501
Interest-bearing deposits with banks	29,368,000	31,115,000
Available for sale securities	67,830,979	66,443,209
Held-to-maturity securities	1,263,053	2,085,636
Restricted equity securities	704,700	295,200
Loans receivable, net	181,168,172	173,680,621
Premises and equipment, net	3,445,814	3,465,163
Bank owned life insurance	7,485,610	7,285,870
Other assets	2,352,120	3,153,217
Total assets	$ 296,352,060	$ 295,203,417
Liabilities and Stockholders' Equity		
Liabilities		
Deposits:		
Noninterest-bearing	$ 48,394,028	$ 52,263,718
Interest-bearing	205,182,995	211,104,827
Total deposits	253,577,023	263,368,545
Short-term borrowings	7,525,000	96,511
Finance lease liability	165,253	185,761
Other liabilities	3,911,775	3,892,873
Total liabilities	265,179,051	267,543,690
Stockholders' Equity		
Common stock, $1 par; 5,000,000 shares authorized; 1,690,531 shares issued and 1,584,207 shares outstanding in 2019, and 1,673,825 shares issued and 1,559,720 shares outstanding in 2018	1,690,531	1,673,825
Additional paid-in capital	4,952,349	4,421,912
Retained earnings	26,894,978	25,324,245
Accumulated other comprehensive income (loss)	109,482	(1,205,447)
Treasury stock, at cost; 106,324 shares in 2019 and 114,105 shares in 2018	(2,474,331)	(2,554,808)
Total stockholders' equity	31,173,009	27,659,727
Total liabilities and stockholders' equity	$ 296,352,060	$ 295,203,417

See notes to consolidated financial statements

Delhi Bank Corp. and Subsidiary

Consolidated Statements of Income
Years Ended December 31, 2019 and 2018

	2019	2018
Interest and Dividend Income		
Interest and fees on loans	$ 7,898,685	$ 7,020,104
Investments:		
Taxable	1,624,002	1,534,333
Tax-exempt	173,751	229,488
Interest-bearing deposits with banks	766,234	691,978
Dividends	21,199	35,578
Total interest and dividend income	10,483,871	9,511,481
Interest Expense		
Deposits	1,725,093	1,144,697
Borrowed funds and finance lease	35,179	192,794
Total interest expense	1,760,272	1,337,491
Net Interest Income	8,723,599	8,173,990
Provision for Loan Losses	60,000	-
Net Interest Income After Provision for Loan Losses	8,663,599	8,173,990
Noninterest Income		
Service charges and fees	1,138,710	1,181,808
Bank owned life insurance income	199,740	205,296
Net gain on sales of securities	-	33,224
Total noninterest income	1,338,450	1,420,328
Noninterest Expense		
Salaries and employee benefits	3,618,737	3,676,972
Occupancy and equipment	1,696,003	1,618,554
Professional fees	304,813	283,831
FDIC premiums	19,288	90,282
Director fees	146,200	152,885
ATM and debit card processing	132,932	126,207
Other real estate owned	67,881	99,552
Contributions	180,955	101,199
Other	486,903	563,326
Total noninterest expense	6,653,712	6,712,808
Income Before Provision for Income Tax	3,348,337	2,881,510
Provision for Income Tax	633,234	473,155
Net Income	$ 2,715,103	$ 2,408,355
Earnings Per Share	$ 1.72	$ 1.56

See notes to consolidated financial statements

Delhi Bank Corp. and Subsidiary

Consolidated Statements of Comprehensive Income
Years Ended December 31, 2019 and 2018

	2019	2018
Net Income	$ 2,715,103	$ 2,408,355
Other Comprehensive Income (Loss)		
Unrealized gains (losses) on available-for-sale securities	1,664,467	(1,034,307)
Less reclassification adjustment for net gain on sales of securities in the consolidated statement of income	-	(33,224)
Net unrealized gains (losses) on available for sale securities	1,664,467	(1,067,531)
Tax effect	(349,538)	224,182
Total other comprehensive income (loss)	1,314,929	(843,349)
Total Comprehensive Income	$ 4,030,032	$ 1,565,006

See notes to consolidated financial statements

Delhi Bank Corp. and Subsidiary

Consolidated Statements of Changes in Stockholders' Equity
Years Ended December 31, 2019 and 2018

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance, December 31, 2017	$ 1,658,296	$ 3,969,192	$ 23,984,138	$ (362,098)	$ (2,854,385)	$ 26,395,143
Net income	-	-	2,408,355	-	-	2,408,355
Other comprehensive loss	-	-	-	(843,349)	-	(843,349)
Issuance of 15,529 shares of common stock	15,529	446,053	-	-	-	461,582
Purchase of 5 shares of treasury stock	-	-	-	-	(151)	(151)
Sale of 13,428 shares of treasury stock	-	6,667	-	-	299,728	306,395
Dividends declared ($0.6894 per share)	-	-	(1,068,248)	-	-	(1,068,248)
Balance, December 31, 2018	1,673,825	4,421,912	25,324,245	(1,205,447)	(2,554,808)	27,659,727
Net income	-	-	2,715,103	-	-	2,715,103
Other comprehensive income	-	-	-	1,314,929	-	1,314,929
Issuance of 16,706 shares of common stock	16,706	516,683	-	-	-	533,389
Purchase of 10,195 shares of treasury stock	-	-	-	-	(326,691)	(326,691)
Sale of 17,976 shares of treasury stock	-	13,754	-	-	407,168	420,922
Dividends declared ($.7254 per share)	-	-	(1,144,370)	-	-	(1,144,370)
Balance, December 31, 2019	$ 1,690,531	$ 4,952,349	$ 26,894,978	$ 109,482	$ (2,474,331)	$ 31,173,009

See notes to consolidated financial statements

Delhi Bank Corp. and Subsidiary

Consolidated Statements of Cash Flows
Years Ended December 31, 2019 and 2018

	2019	2018
Cash Flows from Operating Activities		
Net income	$ 2,715,103	$ 2,408,355
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	60,000	-
Depreciation	294,522	306,266
Net gain on sales of securities	-	(33,224)
Amortization and accretion of investment securities, net	550,204	680,752
Deferred income taxes	62,000	163,280
Bank owned life insurance income	(199,740)	(205,296)
Loss on sale of foreclosed assets	674	2,641
Loss on disposal of premises and equipment	5,843	-
Provision for loss on foreclosed assets	18,506	22,000
Net change in:		
Other assets	291,452	(10,673)
Other liabilities	10,693	255,862
Net cash provided by operating activities	3,809,257	3,589,963
Cash Flows from Investing Activities		
Net decrease in interest-bearing deposits in banks	1,747,000	7,957,722
Purchase of available for sale securities	(16,512,157)	(1,077,520)
Proceeds from sales of available-for-sale securities	-	1,560,391
Proceeds from maturities, calls and principal repayments of available-for-sale securities	16,238,650	17,740,857
Purchase of held-to-maturity securities	(420,644)	(1,267,449)
Proceeds from maturities, calls and principal repayments of held to maturity securities	1,243,227	267,962
Purchase of restricted equity securities	(1,915,400)	(6,117,200)
Proceeds from redemption of restricted equity securities	1,505,900	6,282,000
Net increase in loans receivable	(7,616,870)	(4,037,332)
Proceeds from sale of foreclosed assets	148,246	285,074
Purchase of premises and equipment	(281,016)	(95,453)
Net cash (used in) provided by investing activities	(5,863,064)	21,499,052
Cash Flows from Financing Activities		
Net decrease in deposits	(9,791,522)	(17,585,216)
Net increase (decrease) in short-term borrowings	7,428,489	(3,191,489)
Principal payments on finance lease liability	(20,508)	(19,182)
Dividends paid	(1,136,161)	(1,039,156)
Issuance of common stock	533,389	461,582
Purchase of treasury stock	(326,691)	(151)
Proceeds from sale of treasury stock	420,922	306,395
Net cash used in financing activities	(2,892,082)	(21,067,217)
Net (Decrease) Increase in Cash and Due From Banks	(4,945,889)	4,021,798
Cash and Due from Banks, Beginning of Year	7,679,501	3,657,703
Cash and Due from Banks, End of Year	$ 2,733,612	$ 7,679,501

See notes to consolidated financial statements

1. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Delhi Bank Corp. (the Bank Corp.) and its wholly-owned subsidiary, The Delaware National Bank of Delhi (the Bank) (collectively, the Company). All significant intercompany accounts and transactions have been eliminated in consolidation.

Nature of Operations

The Company provides a full range of commercial banking services to individual and small business customers in Delaware County, New York and the surrounding counties. The area is a rural market with an economic base made up of light manufacturing, retail and agricultural businesses. The Company's primary deposit products are demand deposits and interest bearing time and savings accounts. It offers a full array of loan products to meet the needs of retail and commercial customers.

The Bank is subject to regulation by the Office of the Comptroller of the Currency. The Bank Corp. is subject to regulation by the Federal Reserve Bank of New York.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses, the valuation of investment securities and determination of other-than-temporary impairment thereon, and valuation of deferred tax assets.

In connection with the determination of the allowance for loan losses, management generally obtains independent appraisals for significant properties. While management uses available information to recognize losses on loans, further reductions in the carrying amounts of loans may be necessary based on changes in economic conditions. It is reasonably possible that the estimated losses on loans may change materially in the near term.

The Company's investment securities are comprised of a variety of financial instruments. The fair values and possible other-than-temporary impairment of these securities are subject to various risks including changes in the interest rate environment and general economic conditions. Due to the increased level of these risks and their potential impact on the fair values and the need to recognize other-than-temporary impairment of the securities, it is possible that the amounts reported in the accompanying consolidated financial statements could materially change in the near term.

Cash and Due From Banks

For the purposes of the statements of cash flows, cash and due from banks includes cash on hand, amounts due from other banks and federal funds sold.

Interest-Bearing Deposits With Banks

Interest-bearing deposits with banks consist of certificates of deposit and are carried at cost which approximates fair value.

Significant Group Concentration of Credit Risk

The Company grants loans to customers primarily located in Delaware County, New York and the surrounding counties. Although the Company has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent on the economic conditions in its marketplace. The Company does not have any significant concentrations from one industry or customer.

Investment Securities

Debt securities that management has the positive intent and ability to hold to maturity are classified as "held-to-maturity" and reported at amortized cost. Securities not classified as held-to-maturity are classified as "available-for-sale" and reported at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income (loss). The Company has no trading securities.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method. Declines in the fair value of held-to-maturity and available-for-sale securities below their costs that are deemed to be credit-related are reflected in earnings as realized losses.

Restricted Equity Securities

Restricted equity securities consist of investments in the Federal Home Loan Bank of New York (FHLB), the Federal Reserve Bank of New York and the Atlantic Community Bankers Bank. Investments in these entities are restricted and carried at cost.

The Company, as a member of the FHLB system, is required to maintain an investment in the capital stock of the FHLB. Based on redemption provisions of the FHLB, the stock has no quoted market value and is carried at cost. Management considers whether this investment is impaired based on the ultimate recoverability of the cost basis rather than by recognizing temporary declines in value. The determination of whether a decline affects the ultimate recoverability of the cost includes (1) the significance of the decline in net assets of the FHLB as compared to the capital stock amount and the length of time this situation has persisted, (2) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance of the FHLB, (3) the impact of legislative and regulatory changes on the institutions and on the customer base of the FHLB and (4) the liquidity position of the FHLB. Management believes no impairment charge is necessary related to its investment in FHLB stock.

Loans Receivable

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at their outstanding unpaid principal balances, adjusted for the allowance for loan losses and any unamortized deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield over the contractual life of the loan using the interest method.

The loan receivable portfolio is segmented into real estate, commercial and industrial, agricultural and consumer loans. Real estate loans include loans secured by commercial, residential and agricultural properties. Residential loans include 1-4 family mortgage loans and home equity loans. Commercial and industrial loans are secured by equipment, accounts receivable, inventories or other business assets. Agricultural loans are secured by equipment and other farm assets. Consumer loans consist of personal installment and auto loans and credit cards. The segments of the Company's loan portfolio are disaggregated to a level that allows management to monitor risk and performance. Common risk characteristics include loan type, collateral type and geographic location.

Generally, the accrual of interest is discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about further collectability of principal or interest, even though the loan is currently performing. A loan may remain on accrual status if it is in the process of collection and is well secured. When a loan is placed on nonaccrual status, unpaid interest is reversed against interest income. Interest received on nonaccrual loans, including impaired loans, is either applied to principal or recognized as interest income, depending on management's judgment as to the collectability of principal. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time (generally six months) and the ultimate collectability of the total contractual principal and interest is no longer in doubt. The past due status of all classes of loans receivable is determined based on contractual due dates for loan payments.

Allowance for Loan Losses

The allowance for loan losses represents management's estimate of losses inherent in the loan portfolio as of the balance sheet date and is recorded as a reduction to loans. The allowance for loan losses is increased by the provision for loan losses and decreased by charge-offs, net of recoveries. Loans deemed to be uncollectible are charged against the allowance, and subsequent recoveries, if any, are credited to the allowance. All, or part, of the principal balance of loans receivable are charged off to the allowance as soon as it is determined that the repayment of all, or part, of the principal balance is highly unlikely. Consumer loans are generally charged off no later than 120 days past due on a contractual basis (earlier in the event of bankruptcy) or if there is an amount deemed uncollectible.

The allowance for loan losses is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. Management performs a quarterly evaluation of the adequacy of the allowance. The allowance is based on the Company's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions and other relevant factors. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant revision as more information becomes available.

The allowance consists of specific and general components.

The specific component relates to loans that are classified as impaired. For loans that are classified as impaired, a specific allowance is established when the collateral value, observable market price, or discounted cash flows of the impaired loan is lower than the carrying value of that loan. A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. 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 records, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis.

The estimated fair values of substantially all of the Company's impaired loans are measured based on the estimated fair value of the loan's collateral.

For loans secured by real estate, estimated fair values are determined primarily through third-party appraisals. When a real estate secured loan becomes impaired, a decision is made regarding whether an updated certified appraisal of the real estate is necessary. This decision is based on various considerations, including the age of the most recent appraisal, the loan-to-value ratio based on the original appraisal and the condition of the property. Appraised values are discounted, when necessary, to arrive at the estimated selling price of the collateral, which is considered to be the estimated fair value. The discounts also include estimated costs to sell the property.

For loans secured by non-real estate collateral, such as accounts receivable, inventory and equipment, estimated fair values are determined based on the borrower's consolidated financial statements, inventory reports, accounts receivable agings or equipment appraisals or invoices. Indications of value from these sources are generally discounted, as appropriate, based on the age of the financial information or the quality of the assets.

The general component covers pools of loans by loan class including loans not considered impaired, as well as smaller balance homogeneous loans, such as residential and consumer loans. These pools of loans are evaluated for loss exposure based upon historical loss rates, adjusted for qualitative risk factors. These qualitative risk factors include:

1. Lending policies and procedures, including underwriting standards and collection, charge-off, and recovery practices.
2. National, regional, and local economic and business conditions as well as the condition of various market segments, including the value of underlying collateral for collateral dependent loans.
3. Nature and volume of the portfolio and terms of loans.
4. Experience, ability, and depth of lending management and staff.
5. Volume and severity of past due, classified and nonaccrual loans as well as other loan modifications.
6. Existence and effect of any concentrations of credit and changes in the level of such concentrations.
7. Oversight, including the impact of banking laws and regulations as well as the overall regulatory environment.

Each factor is assigned a value to reflect improving, stable or declining conditions based on management's best judgment using relevant information available at the time of the evaluation. Adjustments to the factors are supported through documentation of changes in conditions in a narrative accompanying the allowance for loan loss calculation.

The allowance calculation methodology includes further segregation of loan classes into risk rating categories. The borrower's overall financial condition, repayment sources, guarantors and value of collateral, if appropriate, are evaluated annually for all loan classes. Credit quality risk ratings include regulatory classifications of pass, special mention, substandard, doubtful and loss. Loans criticized as special mention have potential weaknesses that deserve management's close attention. If uncorrected, the potential weaknesses may result in deterioration of the repayment prospects. Loans classified substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They include loans that are inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans classified doubtful have all the weaknesses inherent in loans classified substandard with the added characteristic that collection or liquidation in full, on the basis of current conditions and facts, is highly improbable. Loans classified as a loss are considered uncollectible and are immediately charged to the allowance for loan losses. Loans not classified are rated pass. To help ensure that risk ratings are accurate and reflect the present and future capacity of borrowers to repay a loan as agreed, the Company has a structured loan rating process encompassing both internal and external oversight. The Company's loan officers are responsible for the timely and accurate risk rating of all loans in the Company's loan portfolio at origination and on an ongoing basis. The Company utilizes an external loan review consultant to conduct a loan review of its portfolio each year. The external consultant generally reviews all commercial loan relationships exceeding a specified threshold.

Loans whose terms are modified are classified as troubled debt restructurings if the Company grants such borrowers concessions and it is deemed that those borrowers are experiencing financial difficulty. Concessions granted under a troubled debt restructuring may involve a temporary reduction in interest rate or an extension of a loan's stated maturity date. Nonaccrual troubled debt restructurings are restored to accrual status if principal and interest payments, under the modified terms, are current for six consecutive months after modification. Loans classified as troubled debt restructurings are designated as impaired.

In addition, federal regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses and may require the Company to recognize additions to the allowance based on their judgments about information available to them at the time of their examination, which may not be currently available to management. Based on management's comprehensive analysis of the loan portfolio, management believes the current level of the allowance for loan losses is adequate.

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation computed on the straight-line method over the estimated lives of the assets. Finance lease right-of-use assets are recorded at an amount equal to the lease liability at commencement plus initial direct costs and is amortized over the shorter of the lease term or the estimated life of the asset. The lease liability is equal to the present value of the minimum lease payments. Amortization of finance lease right-of-use assets is included in depreciation expense.

Bank Owned Life Insurance

The Company is the owner and beneficiary of life insurance policies on certain current and former executive employees and directors. The life insurance investment is carried at the cash surrender value of the underlying policies. The increase in the cash surrender value is recognized as a component of noninterest income. The policies can be liquidated, if necessary, with tax costs associated. However, the Company intends to hold these policies and, accordingly, the Company has not provided for deferred income taxes on the earnings from the increase in cash surrender value.

Earnings Per Share

Earnings per share is based on the weighted average number of shares of common stock outstanding. The Company's basic and diluted earnings per share are the same since there are no dilutive shares of potential common stock outstanding. Weighted average shares outstanding were 1,576,840 in 2019 and 1,547,854 in 2018.

Advertising Costs

Advertising costs are expensed as incurred and were $49,387 in 2019 and $55,217 in 2018.

Foreclosed Assets

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less costs to sell at the date of foreclosure, establishing a new cost basis. Any losses based on the asset's fair value at the date of foreclosure are charged to the allowance for loan losses. Subsequent to foreclosure, valuations are periodically performed and the assets are carried at the lower of carrying amount or fair value less cost to sell. Costs incurred in maintaining foreclosed assets and subsequent adjustments to the carrying amount of the assets are included in noninterest expenses. Foreclosed assets totaled $42,000 and $140,107 at December 31, 2019 and 2018, respectively, and are included in other assets. Foreclosed assets consist entirely of residential real estate. Residential real estate loans in process of foreclosure at December 31, 2019 were approximately $291,000.

Income Taxes

Income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities. Enacted changes in tax rates and laws are recognized in the period in which they occur. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

The Company recognizes interest and penalties on income taxes as a component of income tax expense.

Treasury Stock

Treasury stock is recorded at cost. The subsequent disposition or sale of the treasury stock is recorded using the average cost method.

Comprehensive Income

Comprehensive income (loss) consists of net income and other comprehensive income (loss). Other comprehensive income (loss) consists solely of the net unrealized gains (losses) on available-for-sale securities, net of deferred income taxes. Accumulated other comprehensive income (loss) consists of net unrealized gain (loss) of $138,585 less deferred income taxes of $29,103 at December 31, 2019 and ($1,525,882) less deferred income taxes of $320,435 at December 31, 2018.

Revenue Recognition

The Company recognizes revenue from various sources, including loans, investment securities, bank-owned life insurance, deposit accounts, and sales of assets.

Interest income on loans is accrued on the unpaid principal balance and recorded daily. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the interest method. Other loan fees, including late charges, are recognized as they occur.

Interest income on debt securities, including purchase premiums and discounts, is calculated using the interest method over the term of the securities. Dividends on equity securities are recorded when declared.

Earnings on bank-owned life insurance policies represent the increase in the cash surrender value of these policies as well as any gains resulting from settlement of the policies.

Service charges and fees include overdraft and other deposit account fees, debit card interchange income, trust department fees, and other miscellaneous fees and income. Revenue is recognized when the Company's performance obligation is completed which is generally monthly for interchange and trust department income or when a transaction has been completed, such as when an overdraft occurs. Other fees and income are generally transactional in nature and are recognized as they occur.

Gains or losses on sales of assets are generally recognized when the asset has been legally transferred to the buyer and the Company has no continuing involvement with the asset. The Company does not generally finance the purchase.

Consolidated Statements of Cash Flows

Interest paid totaled $1,708,454 in 2019 and $1,328,040 in 2018. Income tax payments totaled $550,000 in 2019 and $220,000 in 2018. Amounts transferred from loans to foreclosed assets were $69,319 in 2019 and $97,760 in 2018.

Subsequent Events

Subsequent events were evaluated through March 18, 2020, the date the consolidated financial statements were available to be issued.

Accounting Standard Adopted

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842).* The core principle of this ASU is that a lessee should recognize the assets and liabilities that arise from leases. Specifically, a lessee should recognize on the balance sheet a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and liabilities. The ASU does not significantly change the recognition, measurement and presentation of expenses and cash flows arising from a lease by a lessee from current U.S. GAAP. This guidance was effective for the Company on January 1, 2019. The Company's leasing activity is very limited and, after reviewing its lease arrangements, the Company determined the effect of the guidance was not significant and did not record a lease liability resulting from operating leases. The Company elected all expedients available under the guidance. The Company continues to recognize a finance lease liability from a prior year.

Future Accounting Standards to be Adopted

In June 2016, the FASB issued ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments.* ASU No. 2016-13 requires financial assets measured at amortized cost to be presented at the net amount expected to be collected, through an allowance for credit losses that is deducted from the amortized cost basis. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. In November 2019, FASB deferred the effective date for adopting this guidance until 2023. The Company continues to evaluate the potential impact of adopting this ASU.

2. Cash and Due from Banks

The Company is required to maintain amounts on reserve with the Federal Reserve Bank. These reserves totaled $1,685,000 at December 31, 2019 and $1,797,000 at December 31, 2018.

The Company is also required to maintain clearing balance funds on deposit with the Federal Reserve Bank. The required minimum clearing balance at December 31, 2019 and 2018 was $1,109,000 and $1,165,000, respectively.

3. Investment Securities

The amortized cost and fair values of investment securities available-for-sale and held-to-maturity are as follows:

	December 31, 2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
U.S. government agencies	$ 21,889,044	$ 255,014	$ 235,231	$ 21,908,827
U.S. government sponsored enterprises, (GSE), mortgage-backed securities - residential	40,102,838	238,354	274,055	40,067,137
Local government obligations	5,700,512	154,596	93	5,855,015
Total	$ 67,692,394	$ 647,964	$ 509,379	$ 67,830,979
Held-to-maturity:				
Local government obligations	$ 1,263,053	$ 71,711	$ -	$ 1,334,764

	December 31, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
U.S. government agencies	$ 26,927,833	$ 117,107	$ 426,730	$ 26,618,210
U.S. government sponsored enterprises, (GSE), mortgage-backed securities - residential	33,899,875	19,273	1,360,846	32,558,302
Local government obligations	7,141,384	126,240	927	7,266,697
Total	$ 67,969,092	$ 262,620	$ 1,788,503	$ 66,443,209
Held-to-maturity:				
Local government obligations	$ 2,085,636	$ 36,105	$ -	$ 2,121,741

The amortized cost and fair market values of debt securities at December 31, 2019, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations without call or prepayment penalties.

	Available-for-Sale	
	Amortized Cost	Fair Value
Due in one year or less	$ 2,545,093	$ 2,543,576
Due after one through five years	3,179,485	3,255,682
Due after five through ten years	12,095,048	12,171,413
Due after ten years	9,769,930	9,793,171
Mortgage-backed securities	40,102,838	40,067,137
Total	$ 67,692,394	$ 67,830,979

	Held-to-Maturity	
	Amortized Cost	Fair Value
Due in one year or less	$ 442,048	$ 446,356
Due after one through five years	681,005	718,355
Due after five through ten years	87,500	104,230
Due after ten years	52,500	65,823
Total	$ 1,263,053	$ 1,334,764

There were no sales of securities available-for-sale in 2019. Gross realized gains on the sale of securities available-for-sale were $33,224 in 2018. There were no gross realized losses in 2018.

The following tables show the gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position:

	December 31, 2019					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Available-for-sale:						
U.S. government agencies	$ 3,772,012	$ 52,361	$ 7,738,925	$ 182,870	$ 11,510,937	$ 235,231
Mortgage-backed securities, GSE, residential	2,098,955	10,582	19,830,173	263,473	21,929,128	274,055
Local government obligations	445,000	93	-	-	445,000	93
Total	$ 6,315,967	$ 63,036	$ 27,569,098	$ 446,343	$ 33,885,065	$ 509,379

	December 31, 2018					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Available-for-sale:						
U.S. government agencies	$ 3,136,838	$ 49,764	$ 16,322,018	$ 376,966	$ 19,458,856	$ 426,730
Mortgage-backed securities, GSE, residential	923,848	17,368	29,735,803	1,343,478	30,659,651	1,360,846
Local government obligations	1,068,990	927	-	-	1,068,990	927
Total	$ 5,129,676	$ 68,059	$ 46,057,821	$ 1,720,444	$ 51,187,497	$ 1,788,503

The Company had 61 debt securities in unrealized loss positions at December 31, 2019. The securities have depreciated approximately 1.5 percent from the Company's amortized cost basis. These securities are primarily issued by U.S. government agencies and U.S. government sponsored enterprises. The unrealized losses are considered to result from changes in interest rates and not from downgrades in the creditworthiness of the issuers. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition. The Company does not intend to sell these securities nor is it more likely than not that it will be required to sell these securities prior to recovery. No declines are deemed to be other-than-temporary.

Investment securities with carrying amounts of $45,769,247 and $48,868,792 at December 31, 2019 and 2018, respectively, were pledged to secure deposits as required or permitted by law.

4. Loans Receivable and Allowance for Loan Losses

Loans receivable at December 31 are summarized as follows:

	2019	2018
Real estate:		
Residential	$ 81,750,179	$ 78,895,064
Commercial	63,570,961	58,963,301
Commercial and industrial	21,470,213	19,179,890
Agricultural	7,472,471	10,056,623
Consumer	4,711,511	4,573,701
Total	178,975,335	171,668,579
Allowance for loan losses	(476,777)	(502,128)
Deferred loan costs and purchase premiums, net	2,669,614	2,514,170
Net	$ 181,168,172	$ 173,680,621

Included above are individual loans purchased by the Company representing the fully guaranteed portion of loans originated through the Small Business Administration, U.S. Department of Agriculture and Farm Services Agency. Such loans are irrevocably guaranteed by the full faith and credit of the U.S. government as to principal and accrued interest. No allowance has been provided for these loans based on the guarantee. The table below details these loans by loan type at December 31:

	2019	2018
Real estate:		
Commercial	$ 41,557,388	$ 39,027,562
Commercial and industrial	16,372,369	14,952,438
Agricultural	7,253,402	9,935,916
Total	65,183,159	63,915,916
Allowance for loan losses	-	-
Purchase premiums, net	47,611	164,902
Net	$ 65,230,770	$ 64,080,818

Changes in the allowance for loan losses for 2019 and related loan information are as follows:

	Residential Real Estate	Commercial Real Estate	Commercial and Industrial	Agricultural	Consumer	Total
Allowance for loan losses:						
Beginning balance, January 1, 2019	$ 358,051	$ 95,088	$ 15,121	$ 362	$ 33,506	$ 502,128
Charge-offs	(43,852)	(17,125)	-	-	(38,266)	(99,243)
Recoveries	600	2,733	4,143	-	6,416	13,892
Provision	5,399	12,572	(1,422)	295	43,156	60,000
Ending balance, December 31, 2019	$ 320,198	$ 93,268	$ 17,842	$ 657	$ 44,812	$ 476,777
Ending balance individually evaluated for impairment	$ 14,791	$ -	$ -	$ -	$ 2,702	$ 17,493
Ending balance collectively evaluated for impairment	$ 305,407	$ 93,268	$ 17,842	$ 657	$ 42,110	$ 459,284
Loans receivable at December 31, 2019, total balance	$ 81,750,179	$ 63,570,961	$ 21,470,213	$ 7,472,471	$ 4,711,511	$ 178,975,335
Ending balance individually evaluated for impairment	$ 1,323,539	$ 169,764	$ -	$ -	$ 3,614	$ 1,496,917
Ending balance collectively evaluated for impairment	$ 80,426,640	$ 63,401,197	$ 21,470,213	$ 7,472,471	$ 4,707,897	$ 177,478,418

Changes in the allowance for loan losses for 2018 and related loan information are as follows:

	Residential Real Estate	Commercial Real Estate	Commercial and Industrial	Agricultural	Consumer	Total
Allowance for loan losses:						
Beginning balance, January 1, 2018	$ 413,271	$ 87,094	$ 18,019	$ 452	$ 36,791	$ 555,627
Charge-offs	(33,950)	-	-	-	(50,431)	(84,381)
Recoveries	658	4,344	3,663	-	22,217	30,882
Provision	(21,928)	3,650	(6,561)	(90)	24,929	-
Ending balance, December 31, 2018	$ 358,051	$ 95,088	$ 15,121	$ 362	$ 33,506	$ 502,128
Ending balance individually evaluated for impairment	$ 11,450	$ -	$ 326	$ -	$ 2,261	$ 14,037
Ending balance collectively evaluated for impairment	$ 346,601	$ 95,088	$ 14,795	$ 362	$ 31,245	$ 488,091
Loans receivable at December 31, 2018, total balance	$ 78,895,064	$ 58,963,301	$ 19,179,890	$ 10,056,623	$ 4,573,701	$ 171,668,579
Ending balance individually evaluated for impairment	$ 1,429,664	$ 532,215	$ 326	$ -	$ 2,261	$ 1,964,466
Ending balance collectively evaluated for impairment	$ 77,465,400	$ 58,431,086	$ 19,179,564	$ 10,056,623	$ 4,571,440	$ 169,704,113

The following table summarizes information on impaired loans at December 31:

December 31, 2019	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Residential real estate	$ 1,238,208	$ 1,216,136	$ -	$ 1,299,844	$ 24,954
Commercial real estate	179,298	169,764	-	309,570	6,598
Consumer	1,154	912	-	1,945	136
With an allowance recorded:					
Residential real estate	107,403	107,403	14,791	239,900	-
Commercial real estate	-	-	-	-	-
Consumer	2,702	2,702	2,702	747	-
Totals:					
Residential real estate	1,345,611	1,323,539	14,791	1,539,744	24,954
Commercial real estate	179,298	169,764	2,702	309,570	6,598
Consumer	3,856	3,614	2,702	2,692	136

December 31, 2018	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Residential real estate	$ 1,422,309	$ 1,398,374	$ -	$ 1,133,009	$ 19,935
Commercial real estate	554,259	532,215	-	580,524	7,199
Consumer	-	-	-	1,514	-
With an allowance recorded:					
Residential real estate	31,290	31,290	11,450	91,545	-
Commercial and industrial	326	326	326	2,105	224
Consumer	2,261	2,261	2,261	2,970	-
Totals:					
Residential real estate	1,422,635	1,398,700	326	1,135,114	20,159
Commercial real estate	556,520	534,476	2,261	583,494	7,199
Commercial and industrial	-	-	-	1,514	-
Consumer	-	-	-	-	-

The following table presents information on nonaccrual loans at December 31:

	2019	2018
Residential real estate	$ 1,053,103	$ 1,147,301
Commercial real estate	96,664	448,026
Consumer	2,702	2,261
Total	$ 1,152,469	$ 1,597,588

The following table presents information by the Company's internal risk rating system at December 31:

2019	Residential Real Estate	Commercial Real Estate	Commercial and Industrial	Agricultural	Consumer	Total
Pass	$ 76,258,224	$ 60,614,139	$ 21,178,018	$ 7,464,467	$ 4,502,345	$ 170,017,193
Special mention	3,074,802	1,402,017	218,132	8,004	181,558	4,884,513
Substandard	2,349,090	1,554,805	74,063	-	27,608	4,005,566
Doubtful	68,063	-	-	-	-	68,063
Loss	-	-	-	-	-	-
Total	$ 81,750,179	$ 63,570,961	$ 21,470,213	$ 7,472,471	$ 4,711,511	$ 178,975,335

2018	Residential Real Estate	Commercial Real Estate	Commercial and Industrial	Agricultural	Consumer	Total
Pass	$ 72,924,485	$ 55,364,513	$ 18,863,950	$ 10,056,623	$ 4,484,746	$ 161,694,317
Special mention	3,315,256	1,498,598	224,273	-	73,956	5,112,083
Substandard	2,585,260	1,831,681	91,341	-	14,999	4,523,281
Doubtful	70,063	268,509	326	-	-	338,898
Loss	-	-	-	-	-	-
Total	$ 78,895,064	$ 58,963,301	$ 19,179,890	$ 10,056,623	$ 4,573,701	$ 171,668,579

The following table presents information on past due status at December 31:

2019	30-59 Days Past Due	60-89 Days Past Due	Greater > 90 Days	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days Accruing
Residential real estate	$ 387,182	$ 89,563	$ 685,365	$ 1,162,110	$ 80,588,069	$ 81,750,179	$ -
Commercial real estate	-	-	-	-	63,570,961	63,570,961	-
Commercial and industrial	-	-	-	-	21,470,213	21,470,213	-
Agricultural	-	-	-	-	7,472,471	7,472,471	-
Consumer	1,614	2,702	-	4,316	4,707,195	4,711,511	-
Total	$ 388,796	$ 92,265	$ 685,365	$ 1,166,426	$ 177,808,909	$ 178,975,335	$ -

2018	30-59 Days Past Due	60-89 Days Past Due	Greater > 90 Days	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days Accruing
Residential real estate	$ 346,986	$ 795,372	$ 395,633	$ 1,537,991	$ 77,357,073	$ 78,895,064	$ -
Commercial real estate	209,655	-	312,097	521,752	58,441,549	58,963,301	-
Commercial and industrial	3,828	-	-	3,828	19,176,062	19,179,890	-
Agricultural	-	-	-	-	10,056,623	10,056,623	-
Consumer	20,816	9,590	-	30,406	4,543,295	4,573,701	-
Total	$ 581,285	$ 804,962	$ 707,730	$ 2,093,977	$ 169,574,602	$ 171,668,579	$ -

The Company may grant a concession or modification for economic or legal reasons related to a borrower's financial condition that it would not otherwise consider resulting in a modified loan which is then identified as a troubled debt restructuring (TDR). The Company may modify loans through rate reductions, extensions of maturity, interest only payments, or payment modifications to better match the timing of cash flows due under the modified terms with the cash flows from the borrowers' operations. Loan modifications are intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. TDRs are considered impaired loans for purposes of calculating the Company's allowance for loan losses.

The Company identifies loans for potential restructure primarily through direct communication with the borrower and evaluation of the borrower's consolidated financial statements, revenue projections, tax returns, and credit reports. Even if the borrower is not presently in default, management will consider the likelihood that cash flow shortages, adverse economic conditions, and negative trends may result in a payment default in the near future.

The Company did not enter into any TDRs or have any TDRs default in 2019 and 2018.

5. Premises and Equipment

Premises and equipment at December 31 is summarized as follows:

	2019	2018
Land	$ 744,592	$ 744,592
Buildings and improvements	5,044,435	5,044,435
Furniture and equipment	1,744,249	1,777,301
Right-of-use asset under finance lease	300,000	300,000
Total cost	7,833,276	7,866,328
Less accumulated depreciation	4,387,462	4,401,165
Net	$ 3,445,814	$ 3,465,163

The Company leases a branch facility under the terms of a lease agreement that has been accounted for as a finance lease. The lease expires in 2025. The net book value of the right-of-use asset under finance lease was $73,333 at December 31, 2019 and $93,333 at December 31, 2018.

Future minimum lease payments are as follows:

Years ended December 31:	
2020	$ 33,420
2021	35,580
2022	35,580
2023	35,580
2024	35,580
Thereafter	23,720
Total minimum lease payments	199,460
Less amount representing interest	34,207
Net present value of minimum lease payments	$ 165,253

Interest expense on the finance lease was $11,832 in 2019 and $13,158 in 2018 based on an interest rate of 6.70 percent. Amortization of the asset was $20,000 in 2019 and 2018. Total cash paid for the finance lease was $32,340 in 2019 and 2018.

6. Deposits

Deposit account balances at December 31 are summarized as follows:

	2019	2018
Noninterest-bearing	$ 48,394,028	$ 52,263,718
Interest-bearing demand	25,176,868	29,385,823
Money market	19,209,239	22,928,893
Savings	86,311,180	86,769,464
Time	74,485,708	72,020,647
Total	$ 253,577,023	$ 263,368,545

Time deposits in denominations of $250,000 and over were $27,658,945 and $21,736,239 at December 31, 2019 and 2018, respectively.

At December 31, 2019, scheduled maturities of time deposits are as follows (in thousands):

2020	$ 46,589
2021	9,948
2022	5,323
2023	5,774
2024	6,852
Total	$ 74,486

7. Borrowed Funds

The Company has a $1,500,000 unsecured line of credit agreement with the Atlantic Community Bankers Bank. Borrowings bear interest at the prime rate plus .50 percent, with a floor of 4.50 percent (5.25 percent at December 31, 2019). The line expires July 2020. There were borrowings of $0 and $96,511 at December 31, 2019 and 2018, respectively.

Overnight borrowings with the FHLB were $7,525,000 at December 31, 2019. There were no overnight borrowings with the FHLB at December 31, 2018.

The Company may borrow funds on a long-term basis from the FHLB up to the amount of eligible collateral (loans and securities) it places with the FHLB. At December 31, 2019, the Company had a net borrowing capacity of approximately $23.7 million. There were no long-term borrowings at December 31, 2019 and 2018.

8. Income Taxes

The provision for income tax consists of the following:

	2019	2018
Current	$ 570,234	$ 309,875
Deferred	63,000	163,280
Total	$ 633,234	$ 473,155

The reconciliation between the expected statutory income tax provision and the actual provision for income tax is as follows:

	2019		2018	
	Amount	Percent	Amount	Percent
Expected provision at statutory rate	$ 703,151	21.0 %	$ 605,117	21.0 %
Tax-exempt income	(77,096)	(2.3)	(87,814)	(3.1)
Other	7,179	.2	(44,148)	(1.5)
Actual provision and rate	$ 633,234	18.9 %	$ 473,155	16.4 %

The following temporary differences gave rise to the net deferred tax asset at December 31:

	2019	2018
Deferred compensation	$ 834,960	$ 826,574
Allowance for loan losses	90,227	92,390
Unrealized losses on available-for-sale securities	-	320,435
Other	78,499	73,299
Total deferred tax assets	1,003,686	1,312,698
Depreciation	(63,372)	(45,328)
Unrealized gains on available-for-sale securities	(29,103)	-
Deferred loan costs	(685,540)	(614,073)
Total deferred tax liabilities	(778,015)	(659,401)
Net deferred tax asset before valuation allowance	225,671	653,297
State valuation allowance	(50,356)	(65,444)
Net deferred tax asset	$ 175,315	$ 587,853

The net deferred tax asset is included in other assets in 2019 and 2018.

The Company has elected the option to deduct the net interest income on qualified loans from its New York State taxable income. The Company believes the amount of this deduction will exceed its New York State taxable income for the foreseeable future. As a result, the Company has determined the realization of its state deferred tax assets is not expected and has established a valuation allowance for the amount of the net state deferred tax assets.

The Company had no unrecognized tax benefits at December 31, 2019 and 2018. There were no interest and penalties recognized in the consolidated balance sheets and statements of income in 2019 and 2018.

9. Pension and Postretirement Benefits

The Company sponsors two defined contribution plans, a 401(k) plan and a non-leveraged employee stock ownership plan (ESOP) covering substantially all eligible Company employees. Eligible employees may defer and contribute a percentage of their annual earnings to the plans. In the 401(k) plan, the Company contributes 100 percent of the first 5 percent of compensation deferred. In the ESOP, the Company contributes 100 percent of the first 5 percent of compensation deferred. Pension expense for these plans was $186,028 in 2019 and $199,640 in 2018. The ESOP held 143,778 and 137,175 of the Company's stock at December 31, 2019 and 2018, with a fair value of $3,127,172 and $2,983,556, respectively. The ESOP shares are eligible to receive dividends and are considered outstanding shares for purposes of computing net income per share.

The Company also has individual deferred compensation arrangements with certain key executives and directors which provide supplemental retirement benefits. The total of these obligations was $3,463,514 and $3,424,021 at December 31, 2019 and 2018, respectively. Deferred compensation expense was $299,093 in 2019 and $329,088 in 2018.

10. Related Party Transactions

In the ordinary course of business, the Company has granted loans to principal officers, directors, significant shareholders (greater than 10 percent) and their affiliates. Such transactions were made on substantially the same terms and at those rates prevailing at the same time for comparable transactions with other customers. The following table summarizes the activity in these loans:

	2019	2018
Balance, beginning	$ 783,183	$ 737,437
New loans and other changes	165,360	130,000
Repayments and other changes	(332,569)	(84,254)
Balance, ending	$ 615,974	$ 783,183

Other changes result from the addition to or removal of individuals from the related party category.

The Company held deposits of $366,563 and $345,776 for related parties at December 31, 2019 and 2018, respectively.

A director of the Company provides professional legal services to the Company. Fees for these services were approximately $47,600 in 2019 and $48,000 in 2018.

11. Financial Instruments With Off-Balance-Sheet Risk

The Company is a party to 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 the amounts recognized in the consolidated balance sheet. The Company's exposure to credit loss is represented by the contractual amounts of these commitments. The Company follows the same credit policies in making commitments as it does for on-balance-sheet instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Unfunded commitments under lines of credit are commitments for possible future extensions of credit to existing customers. These lines of credit may or may not be collateralized and usually contain a specified maturity date and may not be drawn upon to the total extent to which the Company is committed.

Standby letters of credit written are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those letters of credit are primarily issued to support public and private borrowing arrangements. Essentially all letters of credit issued have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans.

To reduce credit risk related to the use of credit-related financial instruments, the Company might deem it necessary to obtain collateral. The amount and nature of the collateral obtained is based on the Company's credit evaluation of the customer. Collateral held varies but may include cash, securities, accounts receivable, inventory, property, plant and equipment and real estate. The Company has not incurred any losses on its commitments in either 2019 or 2018.

Financial instruments whose contract amount represents credit risk were as follows:

	2019	2018
Commitments to extend credit (including lines of credit)	$ 21,183,404	$ 19,938,562
Standby letters of credit	397,024	297,293

12. Fair Value Disclosures

Fair value is defined as an exit price representing the amount that would be received to sell an asset or settle a liability in an orderly transaction between market participants. A three-level hierarchy exists for fair value measurements based upon the inputs to the valuation of an asset or liability.

Level 1 - Valuation is based on quoted prices in active markets for identical assets or liabilities;

Level 2 - Valuation is determined from quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument;

Level 3 - Valuation is derived from model-based and other techniques in which at least one significant input is unobservable and which may be based on the Company's own estimates about the assumptions that a market participant would use to value the asset or liability.

The following table sets forth the Company's financial assets and liabilities measured at fair value on a recurring basis by level within the fair value hierarchy:

	December 31, 2019			
	Level 1	Level 2	Level 3	Total
Available-for-sale:				
U.S. government agencies	$ -	$ 21,908,827	$ -	$ 21,908,827
U.S. government sponsored enterprises, (GSE), mortgage - backed securities - residential	-	40,067,137	-	40,067,137
Local government obligations	-	5,855,015	-	5,855,015
Total	$ -	$ 67,830,979	$ -	$ 67,830,979

	December 31, 2018			
	Level 1	Level 2	Level 3	Total
Available-for-sale:				
U.S. government agencies	$ -	$ 26,618,210	$ -	$ 26,618,210
U.S. government sponsored enterprises, (GSE), mortgage - backed securities - residential	-	32,558,302	-	32,558,302
Local government obligations	-	7,266,697	-	7,266,697
Total	$ -	$ 66,443,209	$ -	$ 66,443,209

A financial asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

All debt securities are measured at fair value using quoted prices from an independent third party that provide valuation services, such as matrix pricing, for similar assets, with similar terms in actively traded markets.

The following table sets forth the Company's financial assets and liabilities subject to fair value adjustments on a nonrecurring basis by level within the fair value hierarchy:

	December 31, 2019			
	Level 1	Level 2	Level 3	Total
Impaired loans, net	$ -	$ -	$ 92,612	$ 92,612

	December 31, 2018			
	Level 1	Level 2	Level 3	Total
Impaired loans, net	$ -	$ -	$ 19,840	$ 19,840

Impaired loans that are collateral dependent are written down to fair value through the establishment of specific reserves. Such collateral is primarily real estate whose value is based on appraisals performed by certified appraisers. These values are generally adjusted based on management's knowledge of changes in market conditions or other factors. Since the adjustments may be significant, are based on management's estimates and are generally unobservable, they have been classified as Level 3.

The appraisals may be adjusted by management for qualitative reasons and estimated liquidation expenses. Management's assumptions may include consideration of location and occupancy of the property and current economic conditions. At December 31, 2019 and 2018, to account for these factors, negative adjustments to the appraisal value between 15-20 percent were made and liquidation expenses of 6 percent were assumed.

In addition to the disclosures of financial instruments recorded at fair value, U.S. GAAP requires the disclosure of the estimated fair value of all the Company's financial instruments. The majority of the Company's assets and liabilities are considered financial instruments. However, many of these instruments lack an available market. In addition, the Company's general practice and intent is to hold its financial instruments to maturity. The Company has considered the fair value measurement criteria as required under the accounting standard relating to fair value measurement as noted above. Fair value estimates have been determined based on the methodologies management considers most appropriate for each financial instrument.

	2019				
	Carrying Amount	Estimated Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Cash and due from banks	$ 2,733,612	$ 2,733,612	$ 2,733,612	$ -	$ -
Interest-bearing deposits with banks	29,368,000	29,368,000	-	29,368,000	-
Available-for-sale securities	67,830,979	67,830,979	-	67,830,979	-
Held-to-maturity securities	1,263,053	1,334,764	-	1,334,764	-
Restricted equity securities	704,700	704,700	-	704,700	-
Loans receivable, net	181,168,172	190,329,000		-	190,329,000
Accrued interest receivable	1,264,171	1,264,171	-	1,264,171	-
Financial liabilities:					
Deposits	253,577,023	253,809,315	-	253,809,315	-
Short-term borrowings	7,525,000	7,525,000	-	7,525,000	-
Accrued interest payable	120,866	120,866	-	120,866	-
Off-balance sheet financial instruments:					
Commitments to extend credit	-	-	-	-	-
Standby letters of credit	-	-	-	-	-

	2018				
	Carrying Amount	**Estimated Fair Value**	**Level 1**	**Level 2**	**Level 3**
Financial assets:					
Cash and due from banks	$ 7,679,501	$ 7,679,501	$ 7,679,501	$ -	$ -
Interest-bearing deposits with banks	31,115,000	31,115,000	-	31,115,000	-
Available-for-sale securities	66,443,209	66,443,209	-	66,443,209	-
Held-to-maturity securities	2,085,636	2,121,741	-	2,121,741	-
Restricted equity securities	295,200	295,200	-	295,200	-
Loans receivable, net	173,680,621	171,892,000	-	-	171,892,000
Accrued interest receivable	1,316,696	1,316,696	-	1,316,696	-
Financial liabilities:					
Deposits	263,368,545	263,327,898	-	263,327,898	-
Short-term borrowings	96,511	96,511	-	96,511	-
Accrued interest payable	69,048	69,048	-	69,048	-
Off-balance sheet financial instruments:					
Commitments to extend credit	-	-	-	-	-
Standby letters of credit	-	-	-	-	-

The carrying value of short-term financial instruments, as listed below, approximates their fair value. These instruments generally have limited credit exposure, no stated or short-term maturities and carry interest rates that approximate market.

Assets	**Liabilities**
Cash and due from banks	Demand and savings deposits
Interest-bearing deposits with banks	Short-term borrowings
Accrued interest receivable	Accrued interest payable

The fair value methodology for available-for-sale securities was described previously. The fair value methodology for held-to-maturity securities is similar to the methodology for available-for-sale securities. The fair value of restricted equity securities is considered to approximate its carrying value as there is no market for these securities and the stock is redeemable at par value.

For short-term loans and variable rate loans which reprice within 90 days, the carrying value is considered to approximate fair value. For other types of loans, fair value was estimated by discounting cash flows using current market interest rates for similar loans, adjusted to reflect credit risk.

The fair value of interest-bearing time deposits is estimated by discounting contractual cash flows using current rates for instruments with similar maturities.

The fair value of commitments to extend credit is estimated using the fees currently charged for similar agreements. For fixed rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair value of standby letters of credit is based on fees currently charged for similar agreements plus the estimated cost to terminate or otherwise settle the obligations. The fair value of these instruments is considered immaterial.

13. Regulatory Matters

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 Bank's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of its assets, liabilities, and certain off-balance sheet items 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 maintenance of minimum amounts and ratios (set forth in the following table) of total capital, Tier 1 capital (as defined in the regulations) and common equity Tier 1 capital to risk-weighted assets, and of Tier 1 capital to average assets. A capital conservation buffer of 2.50 percent, comprised of common equity Tier I capital, is also established above the regulatory minimum capital requirements and must be maintained to avoid limitations on capital distributions. Management believes, as of December 31, 2019, that the Bank meets all capital adequacy requirements to which they are subject.

As of December 31, 2019, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain minimum ratios as set forth in the following tables. There are no conditions or events since that notification that management believes have changed the Bank's category. The Bank's actual capital amounts and ratios are as follows:

	2019					
	Actual		For Capital Adequacy Purposes		To be Well Capitalized under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollar Amounts in Thousands)			
Total capital (to risk-weighted assets)	$ 31,805	28.7 %	$ ≥ 8,873	8.0 %	$ ≥ 11,901	10.0 %
Common equity Tier 1 capital (to risk-weighted assets)	31,266	28.2	≥ 4,991	4.5	≥ 7,209	6.5
Tier 1 (core) capital (to risk-weighted assets)	31,266	28.2	≥ 6,654	6.0	≥ 8,873	8.0
Tier 1 (core) capital (to average assets)	31,266	10.5	≥ 11,934	4.0	≥ 14,918	5.0

	2018					
	Actual		For Capital Adequacy Purposes		To be Well Capitalized under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollar Amounts in Thousands)			
Total capital (to risk-weighted assets)	$ 29,721	27.7 %	$ ≥ 8,583	8.0 %	$ ≥ 10,729	10.0 %
Common equity Tier 1 capital (to risk-weighted assets)	29,174	27.2	≥ 4,828	4.5	≥ 6,974	6.5
Tier 1 (core) capital (to risk-weighted assets)	29,174	27.2	≥ 6,438	6.0	≥ 8,583	8.0
Tier 1 (core) capital (to average assets)	29,174	9.8	≥ 11,852	4.0	≥ 14,815	5.0

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

The Bank is subject to legal limitations on the amount of dividends that can be paid to the Bank Corp. without regulatory approval. Generally, the dividend limit is equal to the current and preceding two years net income less dividends paid during the same period. However, dividend payments would be prohibited if the effect would cause the Bank's capital to be reduced below minimum capital requirements as discussed above. The Bank's retained earnings available for dividends was approximately $3,513,000 at December 31, 2019.

14. Dividend Reinvestment and Optional Cash Purchase Plan

In 2003, the Company established a Dividend Reinvestment and Optional Cash Purchase Plan (the Plan) for its shareholders. The Plan is designed to provide the Company's stock at no transactional cost to its shareholders. Cash dividends paid to shareholders who are enrolled in the Plan plus voluntary cash deposits received are used to purchase shares either directly from the Company, from shares that become available in the open market or from the Company's previously acquired treasury stock. The Company has reserved 393,750 shares of its un-issued common stock for issuance under the Plan. Once these shares are issued, the Plan will terminate but there is no set termination date. Under Regulation A of the Securities Act of 1933, as amended, the Company may offer and sell up to $20 million of eligible securities annually. The Company issued 16,706 shares of common stock in 2019 and 15,529 shares of common stock in 2018 directly from authorized but unissued shares of the Company, plus the Company sold 6,091 shares of treasury stock in 2019 and 5,036 shares of treasury stock in 2018 for a total of 22,797 and 20,565 shares in 2019 and 2018, respectively. As of December 31, 2019, there were 132,487 shares available for future issuance.

DELHI BANK CORP. & SUBSIDIARY

Delhi Bank Corp.

DIRECTORS

Andrew F. Davis III - Chairman of the Board

Michael E. Finberg

Bruce J. McKeegan

Paul J. Roach

Peter V. Gioffe

Kristen L. Baxter

Kurt R. Mable

Michelle D. Catan

OFFICERS

Peter V. Gioffe - President & CEO

Gretchen E. Rossley - Vice President

Bryan R. Boyer - Treasurer

Kathryn K. Pawlikowski - Secretary

The Delaware National Bank of Delhi Executive Officers

Peter V. Gioffe - President & CEO

Gretchen E. Rossley - Vice President, Chief Banking Officer

Deirdre A. Hillis - Vice President, Chief Lending Officer

Bryan R. Boyer - Vice President, Controller

Yvonne T. Haynes - Vice President, BSA Officer

Robin L. Hultenius - Vice President of Human Resources