PBCO Financial Corp

REPORT OF INDEPENDENT AUDITORS AND
FINANCIAL STATEMENTS

PBCO FINANCIAL CORPORATION

December 31, 2022 and 2021

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Note: These financial statements have not been reviewed or confirmed for accuracy or relevance by the Federal Deposit Insurance Corporation.

Report of Independent Auditors

The Board of Directors and Stockholders
PBCO Financial Corporation

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of PBCO Financial Corporation, which comprise the balance sheets as of December 31, 2022 and 2021, and the related statements of income, comprehensive income, 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 present fairly, in all material respects, the financial position of PBCO Financial Corporation as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of PBCO Financial Corporation 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 accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about 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 PBCO Financial Corporation'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 PBCO Financial Corporation'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.

Moss Adams LLP

Portland, Oregon
March 10, 2023

	December 31, 2022	December 31, 2021
ASSETS		
Cash and cash equivalents	$ 15,886,562	$ 81,345,358
Time deposits with other institutions	496,000	1,492,000
Investment securities available-for-sale, at fair value	236,283,195	241,637,890
Federal Home Loan Bank (FHLB) stock	1,231,700	1,010,100
Loans held-for-sale	627,542	1,407,525
Factored accounts receivable, net of allowance	16,714,999	27,199,768
Loans, net of allowance for loan losses, and unearned income	469,834,264	452,848,631
Premises, equipment, and leasehold improvements, net of accumulated depreciation and amortization	23,176,477	23,048,156
Right-of-use asset, net	4,756,769	4,256,256
Other real estate owned	286,072	542,310
Bank-owned life insurance (BOLI)	14,178,661	13,759,082
Goodwill	3,335,384	3,335,384
Investment in real estate joint venture	2,262,615	2,311,732
Deferred tax assets, net	10,235,190	1,345,120
Accrued interest receivable and other assets	4,944,835	4,057,969
Total assets	$804,250,265	$859,597,281
LIABILITIES		
Noninterest-bearing demand deposits	$322,808,505	$350,423,974
Interest-bearing demand and money market accounts	291,743,977	322,951,065
Savings deposits	61,509,636	66,466,635
Time deposits	16,733,087	24,387,655
Total deposits	692,795,205	764,229,329
FHLB Advances	5,000,000	3,000,000
Subordinated notes, net	24,470,504	-
Accrued interest payable and other liabilities	8,595,572	8,865,507
Lease liability	4,978,187	4,436,997
Total liabilities	735,839,468	780,531,833
COMMITMENTS AND CONTINGENCIES (Notes 9, 11, and 12)		
STOCKHOLDERS' EQUITY		
Common stock, $5 par value, 10,000,000 shares authorized; 5,325,035 and 5,057,211 shares issued and outstanding at December 31, 2022 and 2021, respectively	83,710,599	25,297,545
Surplus	2,609,462	36,042,613
Retained earnings	4,812,490	19,465,705
Accumulated other comprehensive income (loss)	(22,721,754)	(1,740,415)
Total stockholders' equity	68,410,797	79,065,448
Total liabilities and stockholders' equity	$804,250,265	$859,597,281

PBCO Financial Corporation
Statements of Income

	Years Ended December 31, 2022	Years Ended December 31, 2021
INTEREST INCOME		
Interest and fees on loans	$ 22,852,938	$ 24,524,695
Asset-based financing income	6,070,957	5,755,120
Interest on investment securities	3,737,127	1,618,035
Interest on federal funds sold	1,026,734	163,520
Total interest income	33,687,756	32,061,369
INTEREST EXPENSE		
Interest-bearing deposit and savings accounts	716,223	637,918
Time deposit accounts	118,666	241,190
Other borrow ings	890,313	58,421
Total interest expense	1,725,203	937,530
NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES	31,962,553	31,123,840
PROVISION FOR LOAN LOSSES	934,957	110,872
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	31,027,596	31,012,968
NONINTEREST INCOME		
Gain on sale of loans	1,004,475	2,641,361
Service charges and other fees	3,682,791	2,980,947
Mortgage loan fees	308,325	222,064
Net gain (loss) on sale of OREO	(4,720)	40,914
Bargain purchase gain	-	1,716,494
Other noninterest income	826,049	708,945
Total noninterest income	5,816,920	8,310,726
NONINTEREST EXPENSE		
Salaries and employee benefits	14,795,682	13,565,209
Occupancy and equipment	3,686,973	3,964,390
Professional fees	956,419	868,512
Advertising and promotional	349,436	1,367,387
Data processing	920,035	2,193,309
Other noninterest expense	2,965,510	2,808,149
Total noninterest expense	23,674,055	24,766,955
INCOME BEFORE PROVISION FOR INCOME TAXES	13,170,461	14,556,738
PROVISION FOR INCOME TAXES	3,313,578	3,083,774
NET INCOME	$ 9,856,883	$ 11,472,964
Basic earnings per share of common stock	$ 1.92	$ 2.44

	Years Ended December 31, 2022	Years Ended December 31, 2021
NET INCOME	$ 9,856,883	$ 11,472,964
Unrealized holding gains (losses) arising during the period, pre-tax	(29,060,742)	(2,746,719)
Tax effect of unrealized holding gains/losses arising during the period	8,079,403	324,533
Other comprehensive income (loss)	(20,981,339)	(2,422,186)
COMPREHENSIVE INCOME (LOSS)	$ (11,124,455)	$ 9,050,778

PBCO Financial Corporation
Statements of Changes in Stockholders' Equity

	Common Stock		Surplus	Unearned ESOP Shares	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount					
BALANCE, December 31, 2020	3,558,581	$17,804,396	$ 22,574,481	$ -	$ 11,774,851	$ 681,771	$52,835,499
Net income	-	-	-	-	11,472,964	-	11,472,964
Net unrealized loss on investment securities available-for-sale, net of taxes	-	-	-	-	-	(2,422,186)	(2,422,186)
Options exercised	9,320	46,600	(1,882)	-	-	-	44,718
Restricted stock grants issued	11,250	56,250	(56,250)	-	-	-	-
Stock-based compensation expense	-	-	398,228	-	-	-	398,228
Acquisition of WMCB, net of expenses	1,238,334	6,191,670	10,550,984	-	-	-	16,742,654
5% Stock Dividend	239,726	1,198,629	2,577,052	-	(3,782,111)		(6,430)
BALANCE, December 31, 2021	5,057,211	$ 25,297,545	$ 36,042,613	$ -	$ 19,465,704	$ (1,740,415)	$79,065,447
Holding company reorganization and merger	-	57,073,935	(36,042,866)	-	(21,031,069)	-	(0)
Net income	-	-	-	-	9,856,883	-	9,856,883
Net unrealized loss on investment securities available-for-sale, net of taxes	-	-	-	-	-	(20,981,339)	(20,981,339)
Options exercised	3,103	15,515	1,179	-	-	-	16,694
Restricted stock grants issued	14,000	70,000	(70,000)	-	-	-	-
Stock-based compensation expense	-	-	458,464	-	-	-	458,464
Restricted stock forfeited	(1,910)	(9,550)	9,550	-	-	-	-
5% Stock Dividend	252,631	1,263,154	2,210,522	-	(3,479,028)	-	(5,352)
BALANCE, December 31, 2022	5,325,035	$ 83,710,599	$ 2,609,462	$ -	$ 4,812,490	$ (22,721,754)	$ 68,410,797

	Years Ended December 31, 2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 9,856,883	$ 11,472,964
Adjustments to reconcile net income to net cash:		
Deferred income taxes	(884,389)	361,088
Provision for loan losses	934,957	110,872
Depreciation and amortization	1,242,759	1,205,183
Amortization of right-of-use asset	452,966	687,499
Stock-based compensation expense	458,464	398,228
Amortization of premiums on investment securities	877,039	637,323
Net appreciation of bank-owned life insurance	(377,615)	(271,832)
(Loss) gain on sale of loans	(1,004,475)	(2,641,361)
Proceeds from the sale of loans held-for-sale	42,501,368	87,554,638
Production of loans held-for-sale	(40,716,910)	(82,913,359)
Gain from sale on OREO	4,720	(40,914)
Bargain purchase gain	-	(1,716,494)
Amortization of CDI	52,256	53,258
Amortization of CD Premium	(4,816)	(19,117)
Changes in cash due to changes in certain assets and liabilities:		
Accrued interest receivable and other assets	(865,402)	1,006,877
Accrued interest payable and other liabilities	(269,935)	373,706
Decrease in lease liability	(412,289)	(338,688)
Net cash from operating activities	11,845,582	15,919,870
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities available-for-sale	(62,248,871)	(213,852,845)
Proceeds from payments, calls, and sales of investment securities available-for-sale	37,665,785	19,151,544
Cash paid for acquisition, net of cash acquired	-	36,637,272
Purchase of FHLB stock	(221,600)	(265,100)
Matured time deposits with other institutions	996,000	248,000
Net decrease (increase) in factored accounts receivable	10,484,769	(9,437,124)
Net (increase) decrease in loans	(17,920,590)	32,940,670
Proceeds from sale of other real estate owned	251,518	526,756
Purchase of BOLI	(41,964)	(1,037,756)
Distributions in excess of net income from real estate joint venture	49,117	49,118
Payments made for purchase of premises, equipment, and leasehold improvements	(1,371,079)	(1,930,828)
Net cash from investing activities	(32,356,916)	(136,970,294)

PBCO Financial Corporation
Statements of Cash Flows

	Years Ended December 31, 2022	2021
CASH FLOWS FROM FINANCING ACTIVITIES		
Net (decrease) increase in deposit accounts	$ (71,429,308)	$ 110,644,924
Proceeds from borrowings	2,000,000	-
Subordinated notes issued	24,470,504	-
Cash paid in lieu of fractional shares from stock dividend	(5,352)	(6,430)
Proceeds from stock options exercised	16,694	44,718
Capitalized stock issuance costs	-	(470,188)
Net cash from financing activities	(44,947,462)	110,213,024
NET CHANGE IN CASH AND CASH EQUIVALENTS	(65,458,796)	(10,837,400)
CASH AND CASH EQUIVALENTS, beginning of year	81,345,358	92,182,758
CASH AND CASH EQUIVALENTS, end of year	$ 15,886,562	$ 81,345,358
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	$ 1,429,068	$ 939,933
Cash paid for taxes	$ 4,380,000	$ 3,140,000
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES		
Change in fair value of investment securities available-for-sale, net of taxes	$ (20,981,339)	$ (2,422,186)
Establish right-of-use asset	$ 953,479	$ -
Increase in lease liability	$ (953,479)	$ -
Assets acquired and liabilities assumed in business combination:		
Assets Acquired	$ -	221,465,046
Liabilities Assumed	$ -	(199,375,876)
Net assets acquired	$ -	$ 22,089,170
Common stock issued	$ -	$ 17,212,843

Note 1 – Organization and Summary of Significant Accounting Policies

Organization

In July 1997, People's Bank of Commerce (the Bank) was incorporated and received regulatory approval to become a state-chartered institution authorized to provide banking services in the state of Oregon. The Bank is subject to the regulations of certain federal and state agencies and will undergo periodic examinations by those regulatory authorities.

The Bank, which is headquartered in Medford, Oregon, operates ten full-service branches in Albany, Ashland, Central Point, Grants Pass, Jacksonville, Klamath Falls, Lebanon, Medford, and Salem, Oregon, and provides banking services to businesses and individuals in the Southern and Willamette Regions. The Bank also opened a new loan production office in Eugene, Oregon in November 2022.

On September 1, 2017, the Bank acquired all of the outstanding shares of Capital Associates, Inc. dba Steelhead Finance (Steelhead) for cash and exchange of the Bank's stock. Steelhead is an asset-based lender serving the commercial freight delivery industry as a factor of freight bills.

March 1, 2021, the Bank acquired Willamette Community Bank in exchange for the Bank's stock and cash. Willamette Community Bank was originally founded in 2003 and operated three branches in Oregon's Willamette Valley, including Albany, Lebanon, and Salem. All three branches remained open after conclusion of the merger.

On February 28, 2022, PBCO Financial Corporation (Holding Company) was formed and completed a common control reorganization where it obtained 100% of the outstanding stock of the Bank. Due to continuity of business operations, the consolidated financial statements reflect the full year of activity of the Bank and Holding Company. Retained earnings reflect the accumulated net income subsequent to PBCO Financial Corporation's formation. The consolidated financial statements include the accounts of the Holding Company and its wholly owned subsidiary, the Bank (collectively, the Company). All material intercompany balances and transactions have been eliminated in the consolidation.

The Company declared a 5% stock dividend during 2022. All per share amounts and calculations in the accompanying consolidated financial statements have been restated to reflect the effects of these stock dividends.

Management's estimates and assumptions

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated balance sheets, and revenues and expenses for the reporting periods. Actual results could differ significantly from management's estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the valuation of investment securities available-for-sale, other real estate owned, deferred tax assets, and the fair value of financial instruments.

Cash and cash equivalents

Cash equivalents are generally short-term investments with a maturity of three months or less. Cash and cash equivalents include cash on hand, amounts due from banks, and federal funds sold. Generally, federal funds are purchased and sold within a one-day period.

The Company maintains balances in correspondent bank accounts which, at times, may exceed federally insured limits. Management believes that its risk of loss associated with such balances is minimal due to the financial strength of correspondent banks. The Company has not experienced any losses in such accounts.

Investment securities

The Company is required to specifically identify its investment and debt securities as “available-for-sale,” “held-to-maturity,” or “trading accounts.” The Company holds no trading securities. However, debt securities that the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity and recorded at amortized cost. Debt securities not classified as held-to-maturity are classified as available-for-sale and recorded at fair value. Premiums and discounts are recognized in interest income using the effective interest method over the period to maturity.

Available-for-sale securities consist of bonds, notes, and debentures. Securities are generally classified as available-for-sale if the instrument may be sold in response to such factors as: (1) changes in market interest rates and related changes in prepayment risk, (2) needs for liquidity, (3) changes in the availability of and the yield on alternative instruments, and (4) changes in funding sources and terms. Unrealized holding gains and losses, net of taxes, on available-for-sale securities are reported as a net amount in a separate component of equity until realized.

Fair values for these investment securities are based on quoted market prices. Gains and losses on the sale of available-for-sale securities are determined using the specific-identification method.

Management reviews investment securities on an ongoing basis for the presence of other-than-temporary impairment (OTTI) or permanent impairment, taking into consideration current market conditions; fair value in relation to cost; extent and nature of the change in fair value; issuer rating changes and trends; whether management intends to sell a security or if it is likely that the Company will be required to sell the security before recovery of the amortized cost basis of the investment, which may be maturity; and other factors. For debt securities, if management intends to sell the security, or it is likely that the Company will be required to sell the security before recovering its cost basis, the entire impairment loss would be recognized in earnings as an OTTI. If management does not intend to sell the security and it is not likely that the Company will be required to sell the security, but management does not expect to recover the entire amortized cost basis of the security, only the portion of the impairment loss representing credit losses would be recognized in earnings. The credit loss on a security is measured as the difference between the amortized cost basis and the present value of the cash flows expected to be collected. Projected cash flows are discounted by the original or current effective interest rate depending on the nature of the security being measured for potential OTTI. The remaining impairment related to all other factors, which is the difference between the present value of the cash flows expected to be collected and fair value, is recognized as a charge to other comprehensive income (loss). Impairment losses related to all other factors are presented as separate categories within other comprehensive income (loss).

Transfers of securities from held-to-maturity to available-for-sale are accounted for at amortized cost as of the date of the transfer. Fair value adjustments are recognized in other comprehensive income (loss) at the time of the transfer and, thereafter, among unrealized gains or losses recognized for all securities classified as available-for-sale.

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

Factored accounts receivable, net of allowance
To help ensure collection of accounts receivable, Steelhead may require factoring clients to maintain factoring reserves of 5% to 20% of their monthly factoring activity. The factored accounts receivable are secured and a reserve has been established in the Company's Allowance for Loan Losses. As of December 31, 2022 and 2021, the allowance was $140,396 and $253,682, respectively. Management estimates the allowance for doubtful accounts based on historical bad debt and losses and aging of current receivable balances. Management considers accounts to be past due after 60 days without a payment. Management's only measure of credit quality for factored accounts receivable is days past due. The amount of factored accounts receivable past due as of December 31, 2022 and 2021 was insignificant.

Loans held-for-sale
Mortgage loans held-for-sale are carried at the lower of cost or estimated market value. Market value is determined on an aggregate loan basis. Market value adjustments that reduce the carrying value of loans held-for-sale are recorded within a valuation allowance account and charged to noninterest income. Servicing is released when the loans are sold.

Loans, net of allowance for loan losses, and unearned income
In the normal course of business, the Company originates and services loans receivable from borrowers. Loans are stated at the amount of unpaid principal, net of an allowance for loan losses, and net of deferred loan fees or costs. Interest on loans is calculated using the simple-interest method on daily balances of the principal amount outstanding. Loan origination fees and certain direct origination costs are capitalized and recognized as an adjustment to the yield of the related loan.

Loans are classified as impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal and interest when due, in accordance with the terms of the original loan agreement. The carrying value of impaired loans is based on the present value of expected future cash flows (discounted at each loan's effective interest rate) or, for collateral dependent loans, at fair value of the collateral. If the measurement of each impaired loan's value is less than the recorded investment in the loan, an impairment allowance is created by either charging the provision for loan losses or allocating an existing component of the allowance for loan losses.

Loans, including impaired loans, are classified as non-accrual if the collection of principal and interest is doubtful. Generally, this occurs when a loan is past due as to maturity or payment of principal or interest by 90 days or more, unless such loans are well-secured and in the process of collection. If a loan or portion thereof is partially charged-off, the loan is considered a troubled debt restructuring and impaired. Loans that are less than 90 days past due may also be classified as non-accrual if repayment in full of principal and/or interest is in doubt.

When a loan is classified as non-accrual, all uncollected accrued interest is reversed against interest income and the accrual of interest income is terminated. Generally, any cash payments are applied as a reduction of principal outstanding. In cases where the future collectability of the principal balance in full is expected, interest income may be recognized on a cash basis. A loan may be restored to accrual status when the borrower's financial condition improves so that full collection of principal is considered likely.

A troubled debt restructuring is a formal restructure of a loan in which the Company, for economic or legal reasons related to the borrower's financial difficulties, grants a concession to the borrower. The concession may be granted in various forms, including reduction in the stated interest rate, reduction in the loan balance or accrued interest, and extension of the maturity date. Troubled debt restructurings are measured at the time of restructure for impairment, and are subjected to the Bank's impaired loan accounting policy.

The allowance for loan losses is established through a provision for loan losses charged to expenses. Loans are charged against the allowance for loan losses when management believes that the collectability of principal is unlikely. The allowance is an amount that management believes will be adequate to absorb possible losses on existing loans that may become uncollectible, based on evaluations of the collectability of loans and prior loan loss experience. These evaluations take into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, and current economic conditions that may affect the borrower's ability to pay. Management carefully monitors changing economic conditions, the concentrations of loan categories and collateral, the financial condition of borrowers, the history of the loan portfolio, and historical peer group loan loss data to determine the adequacy of the allowance for loan losses. The allowance is based on estimates, and actual losses may vary from the estimates. No assurance can be given that adverse future economic conditions will not lead to delinquent loans, increases in the provision for loan losses, and/or charge-offs. In addition, regulatory agencies, as an integral part of their examination process, periodically review the estimated losses on loans. Such agencies may require the Bank to recognize additional losses based on their judgment about information available to them at the time of their examination.

On January 1, 2023, a new accounting standard for the allowance for loan losses went into effect for the Company. The new accounting standard, the Current Expected Credit Losses, is governed by FASB ASC 326, and requires that institutions account for future credit losses using forward looking economic scenarios supported by historical data. Management expects that allowance for loan losses will increase by approximately $500 thousand to $1 million as a result of implementing this new accounting standard for credit losses.

Premises, equipment, and leasehold improvements

Premises, equipment, and leasehold improvements are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization are computed principally by the straight-line method over the estimated useful lives of the assets, or lease term in the case of leasehold improvements, which range from two to forty years.

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

Other real estate owned

Property and assets acquired through foreclosure or deed in lieu of foreclosure are initially recorded at fair value and are subsequently stated at the lower of the carrying value of the loan or the fair value of the assets received, less estimated costs to sell, at the date the asset is acquired. Adjustments that reduce loan balances to the lower carrying value at the time of foreclosure are recognized as charge-offs in the allowance for loan losses. Subsequent impairment write-downs to net realizable value, if any, or any disposal gains or losses are included in noninterest income or expense. Costs relating to the development and improvement of property are capitalized and holding costs are charged to expense as incurred.

Revenue from contracts with customers

The Company accounts for revenue arising through contracts with customers under the guidance of the Financial Accounting Standards Board's Accounting Standards Codification Topic 606 ("ASC 606"), which (i) creates a single framework for recognizing revenue from contracts with customers that fall within its scope and (ii) revises when it is appropriate to recognize a gain (loss) from the transfer of nonfinancial assets, such as OREO. To determine revenue recognition for arrangements that an entity determines are within the scope of Topic 606, the Company performs the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the Company satisfies a performance obligation.

The majority of the Company's revenues come from interest income and other sources, including loans, leases, securities and derivatives, that are outside the scope of ASC 606. The Company's services that fall within the scope of ASC 606 are presented within noninterest income and are recognized as revenue as the Company satisfies its obligation to the customer. Services within the scope of ASC 606 include deposit service charges, debit and ATM interchange income, merchant fee income, credit card and interchange income, and gain (loss) on other real estate owned, net. Refer to Note 13 – Revenue from Contracts with Customers for further discussion on the Company's accounting policies for revenue sources within the scope of ASC 606.

Federal Home Loan Bank (FHLB) stock

At December 31, 2022 and 2021, the Company held FHLB stock with a par value of $1,231,700 and $1,010,000, respectively. As a member of the FHLB system, the Company is required to maintain a minimum investment level in FHLB stock based on specific percentages of the Company's outstanding mortgages, total assets, or FHLB advances. These securities are reported at par value, which represents the Company's cost.

Stock in the FHLB of Des Moines is classified as restricted stock and is evaluated for impairment based on ultimate recoverability. The determination of whether the investment is impaired is based on the Company's assessment of the ultimate recoverability of par value rather than by recognizing temporary declines in value. The determination of whether a decline affects the ultimate recoverability is influenced by criteria such as (1) the significance of the decline in the net assets of the FHLB as compared to the capital stock amount for the FHLB 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 the legislative and regulatory changes on institutions and, accordingly, on the customer base of the FHLB, and (4) the liquidity position of the FHLB. Management concluded that the Company's FHLB stock investment was not impaired as of December 31, 2022 or 2021.

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

Investment in real estate joint venture
During 2011, the Company entered a joint venture with another investor in a limited liability company formed to manage the construction and ownership of a commercial building that the Company has utilized for operations. The Company has accounted for its initial investment at 50% of total costs incurred to construct the new building. Following completion of construction and occupancy of the building, the Company accounts for its investment in the limited liability company by following the equity method of accounting. Under this accounting treatment, the Company recognizes its proportionate share of earnings and losses as a component of noninterest expense. During 2022 and 2021, the Company recognized net income from its investment in the limited liability company of $148,883 in each year.

Goodwill
Goodwill arises from business combinations and represents the fair value of assets acquired net of liabilities assumed that exceeds the consideration provided at the acquisition date. Goodwill is not amortized, but instead is measured for impairment annually and when impairment is determined to exist, goodwill is written down through a charge to earnings. The Company performs impairment testing at least annually to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount.

Income taxes
Income taxes are accounted for using an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial statement and tax basis of assets and liabilities at the applicable enacted tax rates. Changes in enacted tax rates result in a revaluation of deferred tax assets and liabilities through the income tax provision in the period that the tax rate changes are enacted. A valuation allowance is provided when it is more likely than not that some portion or all of the deferred tax assets will not be realized. The Company evaluates the realizability of its deferred tax assets by assessing its valuation allowance and by adjusting the amount of such allowance, if necessary.

The Company recognizes the tax benefit from uncertain tax positions only if it is more likely than not that the tax positions will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefit is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The Company does not anticipate that any amount of unrecognized tax benefits will significantly increase or decrease in the next 12 months. Additionally, the Company recognizes interest and penalties related to income tax matters in income tax expense, although there were no interest and penalties recognized for the years ended December 31, 2022 and 2021.

Off-balance sheet financial instruments
The Company holds no derivative financial instruments. However, in the ordinary course of business, the Company enters into off-balance sheet financial instruments consisting of commitments to extend credit and standby letters of credit. These financial instruments are recorded in the financial statements when they are funded or related fees are incurred or received.

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

The Company evaluates its exposure to off-balance sheet credit losses periodically for unfunded loan commitments and loans sold in the secondary market. The allowance for off-balance sheet credit losses is increased through charges to noninterest expense and is decreased by charge-offs or transfers to the allowance for loan losses at the time that the related loan is funded or the off-balance sheet credit exposure becomes probable and estimable. Management periodically evaluates the adequacy of this allowance based on the Company's off-balance sheet credit loss experience, known and inherent risks in the portfolio, adverse situations which may increase the likelihood of loss, and current economic conditions. This reserve for unfunded loan commitments is included in the balance sheets under the caption "accrued interest payable and other liabilities."

Asset-based financing income
Asset-based financing income on factored accounts receivable includes service fees and finance income. Service fee income from freight bills and other factored receivables purchased is calculated as a percentage of receivables purchased from clients plus a variable or fixed charge per bill. Finance income from factored receivables is recognized as income over the period the related factored receivables are outstanding. Fees charged vary among clients and are based upon a credit evaluation and expected profit contribution to Steelhead from each client.

Service charges and other fees on other deposit accounts
The performance obligation is satisfied and the fees are recognized on a monthly basis as the service period is completed. Transaction-based fees on deposit accounts are charged to deposit customers for specific services provided to the customer, such as non-sufficient funds fees, overdraft fees, and wire fees. The performance obligation is completed as the transaction occurs and the fees are recognized at the time each specific service is provided to the customer.

Advertising and promotional expenses
Advertising and promotional costs are charged to expense during the period in which they are incurred.

Earnings per share
Basic earnings per share is computed by dividing net income available to stockholders by the weighted average number of common shares outstanding during the period, after giving retroactive effect to stock dividends and splits. Outstanding shares includes shares issued to the Employee Stock Ownership Plan and granted restricted stock units. Diluted earnings per share is computed similar to basic earnings per share except that the denominator is increased to include dilutive common equivalent shares for stock options assumed to be outstanding during the period utilizing the treasury-stock method.

Stock compensation plans
The Company has adopted stock-based compensation plans and recognizes compensation expense based on the fair value of options or restricted stock awards on the date of grant. Share-based awards that do not require future service (i.e., fully vested awards at grant date) are expensed immediately. Share-based employee awards that require future service are amortized over the relevant service period. The phantom stock plans are settled in cash, based on the stock price on the vesting date, as they vest annually. The Company recognizes share-based compensation expense on a straight-line basis.

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

Leases
Right-of-use (ROU) assets represent the right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. ROU assets and lease liabilities are recognized at the lease commencement date based on the estimated present value of lease payments over the lease term. The Company uses an incremental borrowing rate at lease commencement to calculate the present value of lease payments when the rate implicit in a lease is not known. The Company's borrowing rate is based on the FHLB amortizing advance rate, adjusted for the lease term and other factors.

The lease agreements relate to real estate and generally provide that the Company pay taxes, insurance, maintenance and certain other operating expenses applicable to the leased premises. Variable lease components and non-lease components are not included in the Company's computation of the ROU asset or lease liability. The Company also does not include short-term leases in the computation of the ROU asset or lease liability. Short-term leases are leases with a term at commencement of 12 months or less. Short-term lease expense is recorded on a straight-line basis over the term of the lease. Lease agreements do not contain any residual value guarantees or restrictive covenants.

Certain leases have renewal options at the expiration of the lease terms. Option periods are included in the computation of the lease term for ROU assets or lease liabilities if the Company is reasonably assured to utilize the locations through those periods.

Bank-owned life insurance
The Company holds life insurance policies that provide protection against the adverse financial effects that could result from the death of current and former employees and provide tax deferred income. Although the lives of individual current or former management level employees are insured, the Company is the owner and is split beneficiary on certain policies. The Company is exposed to credit risk to the extent an insurance company is unable to fulfill its financial obligations under a policy. Split dollar life insurance is recorded as an asset at cash surrender value. Increases in the cash value of these policies, as well as insurance proceeds received, are recorded in other noninterest income and are not subject to income tax.

Transfers of financial assets
Transfers of financial assets are accounted for as sales when control over the assets has been relinquished. The Company has assessed that partial sales of financial assets meet the definition of participating interest. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Company and the transferee obtains the right (free of conditions that constrain it from taking advantage of that right beyond a trivial benefit) to pledge or exchange the transferred assets. Gains or losses are recognized in the period of sale upon derecognition of the asset.

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

Fair value measurements

Fair value is defined as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. The Company determines fair value based upon quoted prices when available or through the use of alternative approaches, such as matrix or model pricing, when market quotes are not readily accessible or available. The valuation techniques used are based on observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions. These two types of inputs create the following fair value hierarchy:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the asset or liability. Unobservable inputs are used to measure fair value to the extent that observable inputs are not available. The Company's own data used to develop unobservable inputs shall be adjusted for market consideration when reasonably available.

The Company used the following methods and significant assumptions to estimate fair value for its assets measured and carried at fair value on a recurring or nonrecurring basis in the accompanying financial statements:

Investment securities available-for-sale – Investment securities available-for-sale are measured and carried at fair value on a recurring basis. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information, and the bond's terms and conditions, among other things (Level 1). When market quotes are not readily accessible or available, alternative approaches are utilized, such as matrix or model pricing (Level 2).

Impaired loans – Impaired loans are measured and adjusted to fair value on a nonrecurring basis. Impaired loans are measured for impairment at the present value of expected future cash flows discounted at the loan's effective interest rate (Level 3), the loan's market price (Level 2), or the fair value of the collateral based on independent appraisals, less costs to sell, if the loan is collateral dependent (Level 3).

Other real estate owned – Other real estate owned is measured and adjusted to fair value on a nonrecurring basis. On the date that other real estate owned is received in satisfaction of a loan receivable, it is measured at fair value, less cost to sell, based on recent independent appraisals (Level 3). Subsequent to the acquisition date, it is measured for impairment and written down to its fair value, less costs to sell, based on updated independent appraisals (Level 3).

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

The Company assumes interest rate risk (the risk that general interest rate levels will change) as a result of its normal operations. Consequently, the fair value of the Company's financial instruments will change when interest rate levels change, and that change may be either favorable or unfavorable to the Company. Management attempts to match maturities of assets and liabilities to the extent believed necessary to minimize interest rate risk. However, borrowers with fixed-rate obligations are less likely to prepay in a rising rate environment and more likely to prepay in a falling rate environment. Conversely, depositors who are receiving fixed rates are more likely to withdraw funds before maturity in a rising rate environment and less likely to do so in a falling rate environment. Management monitors rates and maturities of assets and liabilities, and attempts to minimize interest rate risk by adjusting terms of new loans and deposits and by investing in securities with terms that mitigate the Company's overall interest rate risk.

Reclassifications

Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation. These reclassifications have no effect on previously reported net income, earnings per share, or retained earnings.

Subsequent events

Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are issued. The Company recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the financial statements. The Company's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before financial statements are available to be issued. The Company has evaluated subsequent events through March 10, 2023, which is the date the financial statements became available to be issued.

Note 2 – Business Combination

On March 1, 2021, the Bank completed its acquisition of Willamette Community Bank.

The assets acquired and liabilities assumed have been accounted for under the acquisition method of accounting. The assets and liabilities, both tangible and intangible, were recorded at their fair values as of the March 1, 2021, acquisition date. The application of the acquisition method of accounting resulted in the recognition of a bargain purchase gain, net of deferred taxes, of $1,716,494 and a core deposit intangible of $422,000. The bargain purchase gain represents the excess of the fair value of the net assets acquired over the purchase price.

The table below summarizes the amounts recognized as of the acquisition date for each major class of assets acquired and liabilities assumed:

	March 1, 2021	
Merger Consideration		
Stock Issued, 1,238,334 at $13.90 per share	$ 17,212,843	
Cash paid	3,159,833	
Total Consideration		$ 20,372,676
Identifiable net assets acquired, at fair value		
Assets acquired		
Cash and cash equivalents	$ 39,797,106	
Investment securities	24,755,556	
Federal Home Loan Bank (FHLB) stock	180,700	
Loans	144,155,489	
Premises	4,525,989	
Right-of-use asset, net	811,689	
Bank-owned life insurance (BOLI)	4,973,874	
Accrued interest receivable and other assets	2,264,643	
Total assets acquired		$ 221,465,046
Liabilities assumed		
Deposits	$ (197,855,708)	
Accrued interest payable and other liabilities	(668,927)	
Lease liability	(851,241)	
Total liabilities assumed		(199,375,876)
Total fair value of identifiable assets		22,089,170
Bargain purchase gain		$ 1,716,494

Of the $144,155,489 net loans acquired, $834,404 exhibited credit deterioration on the date of purchase. The following table provides a summary of these purchased credit deteriorated (PCD) loans at acquisition:

	March 1, 2021
Par Value of PCD loans acquired	$ 834,404
PCD ACL at acquisition	(29,944)
Non-credit discount on PCD loans	(107,629)
Purchase price of PCD loans	$ 696,831

For illustrative purposes only, the following table presents certain unaudited pro forma information for the year ended December 31, 2021. This unaudited, estimated pro forma financial information was calculated as if Willamette Community Bank had been acquired as of the beginning of the year prior to the date of acquisition. This unaudited pro forma information combines the historical results of Willamette Community Bank with the Bank's consolidated historical results and includes certain adjustments reflecting the estimated impact of certain fair value adjustments for the respective periods. The pro forma information is not indicative of what would have occurred had the acquisition occurred as of the beginning of the year prior to the acquisition. The unaudited pro forma information does not consider any changes to the provision for credit losses resulting from recording loan assets at fair value. Additionally, the Company expects to achieve further operating cost savings and other business synergies, including revenue growth as a result of the acquisition, which are not reflected in the pro forma amounts that follow. As a result, actual amounts would have differed from the unaudited pro forma information presented.

	Unaudited Pro-forma for the year ended Year Ended December 31, 2021
Total revenues (net interest income plus noninterest income)	$ 47,804,599
Net Income	$ 11,511,713
Basic earnings per share	$ 2.25
Diluted earnings per share	$ 2.25

The following table shows the impact of the acquisition-related expenses related to the acquisition of Willamette Community Bank for the periods indicated to the various components of noninterest expense:

	Year Ended December 31, 2021
Noninterest Expense	
Compensation and employee benefits	$ 621,785
Data processing	1,674,766
Legal and professional fees	170,535
Other	-
Total impact of acquisition related costs to noninterest expense	$ 2,467,086

Note 3 – Investment Securities

Investment securities consist of the following as of December 31, 2022 and 2021:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2022				
Investment securities available-for-sale				
U.S. Treasury & government agency obligations	$108,932,064	$ -	$(11,442,731)	$ 97,489,333
SBA backed securities	2,709	3	-	2,712
Residential mortgage backed securities	144,191,353	-	(19,011,741)	125,179,612
Municipal securities	12,282,759	13,406	(407,544)	11,888,621
Corporate sub-debt	2,000,000	-	(277,083)	1,722,918
Total investment securities:	$267,408,885	$ 13,409	$(31,139,099)	$236,283,195

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2021				
Investment securities available-for-sale				
U.S. Treasury & government agency obligations	$ 83,742,203	$ 558	$ (1,202,196)	$ 82,540,565
SBA backed securities	37,938	102	(55)	37,986
Residential mortgage backed securities	144,264,545	147,542	(1,425,237)	142,986,850
Municipal securities	14,158,152	432,611	(18,274)	14,572,490
Corporate sub-debt	1,500,000	-	-	1,500,000
Total investment securities:	$243,702,838	$ 580,813	$ (2,645,761)	$241,637,890

Note 3 – Investment Securities (continued)

At December 31, 2022, the Company had 53 available-for-sale investment securities in a loss position for less than 12 months, and 131 available-for-sale investment securities in a loss position for greater than 12 months as shown in the following table.

	December 31, 2022					
	Less Than 12 Months		12 Months or Greater		Totals	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Investment securities available-for-sale						
U.S. Treasury & government agency obligations	$ 25,140,600	$ (798,806)	$ 72,348,734	$ (10,643,925)	$ 97,489,334	$ (11,442,731)
Residential mortgage backed securities	15,226,463	(1,330,849)	109,953,149	(17,680,892)	125,179,612	(19,011,741)
Municipal securities	7,471,541	(291,931)	2,132,726	(115,613)	9,604,267	(407,544)
Corporate sub-debt	1,722,918	(277,083)	-	-	1,722,918	(277,083)
	$ 49,561,522	$ (2,698,669)	$ 184,434,609	$(28,440,430)	$233,996,131	$ (31,139,099)

At December 31, 2021, the Company had 126 available-for-sale investment securities in a loss position for less than 12 months, and 2 available-for-sale investment securities in a loss position for greater than 12 months as shown in the following table.

	December 31, 2021					
	Less Than 12 Months		12 Months or Greater		Totals	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Investment securities available-for-sale						
U.S. government agency obligations	$ 80,035,582	$ (1,202,196)	$ -	$ -	$ 80,035,582	$ (1,202,196)
SBA backed securities	13,615	(28)	11,939	(26)	25,554	(55)
Residential mortgage backed securities	135,692,027	(1,408,913)	825,700	(16,324)	136,517,727	(1,425,237)
Municipal securities	944,729	(18,274)	-	-	944,729	(18,274)
	$ 216,685,953	$ (2,629,411)	$ 837,639	$ (16,350)	$ 217,523,592	$ (2,645,761)

Management believes that unrealized losses are solely the result of changes in interest rates since the securities have been purchased and that no other-than-temporary impairment exists.

In both 2022 and 2021, the Company did not sell any securities in its portfolio of available-for-sale investments. At December 31, 2022 and 2021, securities in the amount of $8,263,437 and $9,595,929, respectively, were pledged to secure public deposit.

Note 3 – Investment Securities (continued)

The amortized cost and estimated fair value of investment securities by contractual maturity at December 31, 2022 are as follows:

	Available-for-Sale	
	Amortized Cost	Estimated Fair Value
Due within one year	$ 16,444,923	$ 16,338,871
Due from one year through five years	61,286,099	55,091,742
Due from five years through ten years	37,530,344	32,020,907
Due after ten years	7,956,166	7,652,063
Residential mortgage backed securities	144,191,353	125,179,612
	$ 267,408,885	$ 236,283,195

Residential mortgage backed securities are able to be prepaid and the Company is unable to estimate the maturities per year. As a result, they have been shown separately within the maturity table above.

Note 4 – Loans, Net of Allowance for Loan Losses, and Unearned Income

The composition of loan balances is summarized as follows as of December 31:

	2022	2021
Real estate loans	$ 380,521,607	$ 349,995,491
Commercial loans	57,547,797	62,570,702
Construction loans	35,658,127	44,860,672
Consumer loans	3,567,006	2,148,768
Total loans	477,294,536	459,575,633
Allowance for loan losses	(5,189,866)	(4,375,808)
Unearned income, net of deferred costs	(2,270,406)	(2,351,194)
Loans, net of allowance for loan losses, and unearned income	$ 469,834,264	$ 452,848,631

Note 4 – Loans, Net of Allowance for Loan Losses, and Unearned Income (continued)

The following table displays the activity and allocation of the allowance for loan losses to significant segments of the loan portfolio at December 31:

	2022					
	Real Estate	Commercial	Construction	Consumer	Unallocated	Total
Allowance for loan losses						
Beginning balance	$ 2,690,174	$ 841,086	$ 132,335	$ 58,139	$ 654,075	$4,375,808
Charge-offs	-	(147,152)	-	-	-	(147,152)
Recoveries	-	25,053	1,200	-	-	26,253
Provision for loan losses	390,221	321,078	9,564	30,510	183,584	934,957
Ending balance	$ 3,080,395	$1,040,065	$ 143,099	$ 88,649	$ 837,659	$5,189,866
Ending balance Loans individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -
Ending balance Loans collectively evaluated for impairment	$ 3,080,395	$1,040,065	$ 143,099	$ 88,649	$ 837,659	$5,189,866

	2021					
	Real Estate	Commercial	Construction	Consumer	Unallocated	Total
Allowance for loan losses						
Beginning balance	$ 3,210,467	$ 594,841	$ 107,058	$ 54,778	$ 486,122	$4,453,266
Charge-offs	-	(263,469)	-	(3,724)	-	(267,193)
Recoveries	76,613	1,150	1,100	-	-	78,863
Provision for loan losses	(596,906)	508,563	24,177	7,085	167,953	110,872
Ending balance	$ 2,690,174	$ 841,086	$ 132,335	$ 58,139	$ 654,075	$4,375,808
Ending balance Loans individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -
Ending balance Loans collectively evaluated for impairment	$ 2,690,174	$ 841,086	$ 132,335	$ 58,139	$ 654,075	$4,375,808

Note 4 – Loans, Net of Allowance for Loan Losses, and Unearned Income (continued)

The following table displays the activity and allocation of loans evaluated individually and collectively for impairment to significant segments of the loan portfolio at December 31:

2022	Real Estate	Commercial	Construction	Consumer	Total
Loans					
Ending balance	$ 380,521,607	$ 57,547,797	$ 35,658,127	$ 3,567,006	$ 477,294,536
Ending balance Loans individually evaluated for impairment	$ 657,204	$ -	$ -	$ -	$ 657,204
Ending balance Loans collectively evaluated for impairment	$ 379,864,403	$ 57,547,797	$ 35,658,127	$ 3,567,006	$ 476,637,332

2021	Real Estate	Commercial	Construction	Consumer	Total
Loans					
Ending balance	$ 349,995,491	$ 62,570,702	$ 44,860,672	$ 2,148,768	$ 459,575,633
Ending balance Loans individually evaluated for impairment	$ 653,495	$ -	$ -	$ -	$ 653,495
Ending balance Loans collectively evaluated for impairment	$ 349,341,996	$ 62,570,702	$ 44,860,672	$ 2,148,768	$ 458,922,138

The Company's risk rating methodology assigns risk ratings ranging from 1 to 10, where a higher rating represents higher risk. Assignment of a risk rating is done on the individual loan rather than at the borrower level. Loans are graded from inception and on a continuing basis until the debt is repaid. The risk rating categories can be generally described by the following groupings:

Pass (1-6) – An acceptable asset carrying a normal degree of credit risk exhibiting the capacity to perform according to the repayment terms.

Special Mention (7) – A special mention asset has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in a deterioration of the repayment prospects for the asset or in the Company's credit position at some future date. Special mention assets are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification.

Note 4 – Loans, Net of Allowance for Loan Losses, and Unearned Income (continued)

Substandard (8) – A substandard asset is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged. Assets so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt.

Doubtful (9) – Any asset classified doubtful has all the weaknesses inherent in one classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and value, highly questionable and improbable.

Loss (10) – Assets classified loss are considered uncollectible and of such minimal value that the continuance as bankable assets are not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value but that it is not practical or desirable to defer writing off this basically worthless asset even though a partial recovery may occur in the future.

The following table represents loan portfolio information by loan type and credit grade as of December 31:

	2022				
	Real Estate	Commercial	Construction	Consumer	Total
Grade					
Pass	$ 374,972,051	$ 56,728,080	$ 35,658,127	$ 3,567,006	$ 470,925,264
Special Mention	1,311,601	287,075	-	-	1,598,676
Substandard	4,237,954	532,642	-	-	4,770,596
Doubtful	-	-	-	-	-
Loss	-	-	-	-	-
Total	$ 380,521,607	$ 57,547,797	$ 35,658,127	$ 3,567,006	$ 477,294,536

	2021				
	Real Estate	Commercial	Construction	Consumer	Total
Grade					
Pass	$ 345,589,220	$ 61,780,131	$ 44,860,672	$ 2,148,768	$ 454,378,792
Special Mention	1,999,848	790,570	-	-	2,790,418
Substandard	2,406,423	-	-	-	2,406,423
Doubtful	-	-	-	-	-
Loss	-	-	-	-	-
Total	$ 349,995,491	$ 62,570,702	$ 44,860,672	$ 2,148,768	$ 459,575,633

Note 4 – Loans, Net of Allowance for Loan Losses, and Unearned Income (continued)

Past due loans are loans for which principal and interest were not paid timely according to the contractual payment terms. The following table represents loans past due by loan category as of December 31:

	2022					
	30 – 59 Days Past Due	60 – 89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Current	Total Loans
Real estate	$ 1,354,924	$ -	$ 1,304,275	$ 2,659,199	$ 377,862,408	$ 380,521,607
Commercial	35,125	-	-	35,125	57,512,672	57,547,797
Construction	-	-	-	-	35,658,127	35,658,127
Consumer	-	-	-	-	3,567,006	3,567,006
	$ 1,390,049	$ -	$ 1,304,275	$ 2,694,324	$ 474,600,212	$ 477,294,536

	2021					
	30 – 59 Days Past Due	60 – 89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Current	Total Loans
Real estate	$ -	$ -	$ 653,495	$ 653,495	$ 349,341,996	$ 349,995,491
Commercial	49,561	-	-	49,561	62,521,141	62,570,702
Construction	-	-	-	-	44,860,672	44,860,672
Consumer	-	-	-	-	2,148,768	2,148,768
	$ 49,561	$ -	$ 653,495	$ 703,056	$ 458,872,577	$ 459,575,633

As of December 31, 2022, three loans were non-accrual status totaling $1,304,275. As of December 31, 2021, there were two non-accrual loans totaling $653,495.

Note 4 – Loans, Net of Allowance for Loan Losses, and Unearned Income (continued)

The following table represents a comparison of impaired loans with and without specific allowance recorded for the period ended December 31:

	2022				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded					
Real estate	$ -	$ -	$ -	$ -	$ -
Commercial	-	-	-	-	-
	$ -	$ -	$ -	$ -	$ -
With allowance recorded					
Real estate	$ 549,130	$ 657,204	$ -	$ 529,310	$ -
Commercial	-	-	-	-	-
	$ 549,130	$ 657,204	$ -	$ 529,310	$ -
Total					
Real estate	$ 549,130	$ 657,204	$ -	$ 529,310	$ -
Commercial	-	-	-	-	-
	$ 549,130	$ 657,204	$ -	$ 529,310	$ -

	2021				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded					
Real estate	$ -	$ -	$ -	$ -	$ -
Commercial	-	-	-	-	-
	$ -	$ -	$ -	$ -	$ -
With allowance recorded					
Real estate	$ 545,421	$ 653,495	$ -	$ 570,847	$ -
Commercial	-	-	-	-	-
	$ 545,421	$ 653,495	$ -	$ 570,847	$ -
Total					
Real estate	$ 545,421	$ 653,495	$ -	$ 570,847	$ -
Commercial	-	-	-	-	-
	$ 545,421	$ 653,495	$ -	$ 570,847	$ -

Note 4 – Loans, Net of Allowance for Loan Losses, and Unearned Income (continued)

Troubled debt restructurings
At December 31, 2022 and 2021, impaired loans of $657,204 and $653,495, respectively, were classified as troubled debt restructured loans. The restructurings were granted in response to borrower financial difficulty, and generally provide for a temporary modification of loan repayment terms.

The types of modifications offered can generally be described in the following categories:

Rate modification – A modification in which the interest rate is modified.

Term modification – A modification in which the maturity date, timing of payments, or frequency of payments is changed.

Payment modification – A modification in which the payment amount is changed.

Combination modification – Any other type of modification, including the use of multiple types of modifications.

There were no newly restructured loans that occurred during the years ended December 31, 2022 and 2021. During 2022 and 2021, there were no troubled debt restructures that subsequently defaulted within twelve months of restructuring.

Note 5 – Premises, Equipment, and Leasehold Improvements

The composition of premises, equipment, and leasehold improvements is summarized as follows as of December 31:

	2022	2021
Land	$ 4,200,203	$ 3,962,842
Bank premises	20,742,256	20,159,876
Furniture and equipment	6,005,808	4,601,804
Leasehold improvements	256,199	256,199
Automobiles	160,549	160,549
	31,365,015	29,141,270
Less accumulated depreciation and amortization	(8,228,226)	(6,404,511)
Construction in progress (CIP)	39,688	311,397
Premises, equipment, and leasehold improvements, net of accumulated depreciation and amortization	$ 23,176,477	$ 23,048,156

Depreciation and amortization expense for the years ended December 31, 2022 and 2021 was $1,242,759 and $1,205,183, respectively.

Note 6 – Time Deposits

Time certificates of deposit of $250,000 and over totaled $3,247,264 and $3,418,260 at December 31, 2022 and 2021, respectively.

As of December 31, 2022, the scheduled maturities for all time deposits are as follows:

Years ending December 31,	2023	$ 13,435,573
	2024	1,844,831
	2025	286,588
	2026	101,361
	2027	954,039
	Thereafter	110,695
		$ 16,733,087

Note 7 – Borrowings

Federal Home Loan Bank advances
As a member of the Federal Home Loan Bank of Des Moines (FHLB), the Company has entered into an "Advances, Security, and Deposit Agreement" with the FHLB.

Borrowings under the credit arrangement are collateralized by the Company's FHLB stock as well as deposits or other instruments, which may be pledged. As of December 31, 2022, the Company had an overnight FHLB advance of $5,000,000 at an annual interest rate of 4.6%. As of December 31, 2021, the Company had $3,000,000 in outstanding borrowings at an annual rate of 1.92% with the FHLB. As of December 31, 2022 and 2021, the Company had $30,090,389 and $11,615,760, respectively, in available borrowing capacity with FHLB.

Federal funds line of credit
The Company has obtained lines of credit totaling $30,000,000 with two correspondent banks. One Federal Funds line for $20,000,000 will expire or renew at the discretion of the correspondent bank. A second line for $10,000,000 was established with a term extending from June 30, 2022 through June 30, 2023. There were no balances outstanding on these lines of credit as of December 31, 2022.

Subordinated Debentures
In March 2022, the Company completed a private placement of $25,000,000 in aggregate principal amount of fixed-to-floating rate subordinated notes (the "Notes") to certain qualified institutional buyers and accredited investors.

The Notes will initially bear interest at 3.875% per annum payable semi-annually until March 2027, and thereafter pay a quarterly floating interest rate based on the then current Three-Month Term Secured Overnight Financing Rate (SOFR) plus 242 basis points, payable quarterly in arrears. Beginning on March 15, 2027, the Notes may be redeemed, in whole or in part, at the Company's option. The Notes will mature on March 15, 2032.

Included in the proceeds from the debenture were various expenses including commission fees, legal expenses, accounting expenses, and various filing expenses. The total cost of issuance was $571,781 and will be amortized over the life of the debt as an increase to interest expense. As of December 31, 2022, the Company's interest expense, including amortization of issuance costs related to the notes was $832,910.

Note 7 – Borrowings (continued)

The Notes were structured to qualify as Tier 2 capital instruments for capital purposes at the holding company. Subsequent to issuance of the Notes, the Company made a capital investment in the Bank totaling $12.5 million. The capital investment qualifies as Tier 1 capital at the Bank.

Note 8 – Income Taxes

The provision for income taxes consists of the following as of December 31:

	2022	2021
Current income taxes		
Federal	$ 3,095,768	$ 1,757,583
State	1,102,199	965,103
Total current income taxes	4,197,967	2,722,686
Deferred income taxes		
Federal	(700,218)	329,381
State	(184,171)	31,707
Total deferred income taxes	(884,389)	361,088
Provision for income taxes	$ 3,313,578	$ 3,083,774

The following summarizes the differences between the provision for income taxes for financial statement purposes and the federal statutory rate of 21.0% for the years ended December 31, 2022 and 2021:

RATE RECONCILIATION:

	2022		2021	
Federal, at statutory rate	$ 2,765,797	21.0%	$ 3,056,915	21.0%
State, net of federal benefit	790,754	6.0%	873,987	6.0%
Tax-exempt interest, net of expenses	(57,752)	-0.4%	(60,663)	-0.4%
Bank-owned life insurance	(101,971)	-0.8%	(73,406)	-0.5%
Bargain purchase gain	-	0.0%	(492,073)	-3.4%
Other	(83,250)	-0.6%	(220,986)	-1.5%
Tax expense, at effective rate	$ 3,313,578	25.2%	$ 3,083,774	21.2%

Note 8 – Income Taxes (continued)

Net deferred tax assets, in the accompanying balance sheets, include the following components as of December 31:

	2022	2021
Deferred tax assets (liabilities)		
Lease liability	$ 1,344,307	$ 1,198,165
Allowance for loan losses	1,327,769	1,086,883
Supplemental executive retirement plan	829,234	746,433
Accrued bonuses	226,518	80,231
Split-dollar liability	54,697	51,736
Unrealized losses on investment securities available-for-sale	8,451,699	446,017
Reserve for off-balance sheet instruments	73,658	59,100
Other	53,382	-
	12,361,264	3,668,565
Right-of-use asset	(1,284,518)	(1,149,359)
Depreciation and organization costs	(642,205)	(704,235)
Prepaids	(135,747)	(252,870)
Loan origination costs	(23,098)	(29,431)
Intangible assets – permits and licenses	(40,506)	(40,506)
Other	-	(147,044)
	(2,126,074)	(2,323,445)
Net deferred tax assets	$ 10,235,190	$ 1,345,120

A valuation allowance has not been recognized as an offset to the net deferred tax assets since management believes it is more likely than not that all deferred tax assets will be utilized in future periods.

Note 9 – Financial Instruments with Off-Balance Sheet Risk

In the normal course of business to meet the financing needs of its customers, the Company is a party to financial instruments with off-balance sheet risk. These financial instruments include commitments to extend credit and the issuance of letters of credit. These instruments involve, to varying degrees, elements of credit and interest-rate risk in excess of the amount recognized in the balance sheets. The contractual amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments.

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

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

Letters of credit written are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support bonding requirements for real estate developers and contractors. 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 cash, marketable securities, or real estate as collateral supporting those commitments for which collateral is deemed necessary.

A summary of the notional amounts of the Company's financial instruments with off-balance sheet risk as of December 31, 2022, is as follows:

Commitments to extend credit	
Commercial	$ 46,985,636
Construction	33,984,715
Real Estate	11,650,282
Consumer	3,730,789
Total	$ 96,351,422
Commercial and standby letters of credit	$ 914,636

Note 10 – Concentrations of Credit Risk

All of the Company's loans, commitments, and commercial and standby letters of credit have been granted to customers in the Company's market area. The majority of such customers are also depositors of the Bank. Concentrations of credit by type of loan are set forth in Note 4.

During 2022, the Bank's loan policy did not allow the extension of credit to any single borrower or group of related borrowers in excess of $2,500,000 on an unsecured basis and $5,000,000 on a secured basis, without approval from the Loan Committee.

Note 11 – Commitments and Contingencies

The Company may become a defendant in certain claims and legal actions arising in the ordinary course of business. As of December 31, 2022, the Company was not involved in any current matters expected to have a material adverse effect on its financial condition or results of operations.

Note 12 – Leases

The outstanding leases have expirations continuing through 2042. Future minimum payments, including assumed extensions, under these lease agreements are as follows:

Years ending December 31,	2023	$ 588,799
	2024	531,718
	2025	444,550
	2026	458,184
	2027	423,126
	Thereafter	3,777,793
	Total	6,224,171
	Less present value discount	(1,245,985)
	Present value of leases	$ 4,978,187

The weighted average remaining lease term and discount rate as of December 31, 2022 were 9.0 years, and 3.12%, respectively. During 2022, the bank entered into a 24-month lease for a new Eugene location, with lease payments beginning February 1, 2023.

Rent expense, including common area maintenance, was $463,343 and $451,324 for the years ended December 31, 2022 and 2021, respectively. As discussed in Note 1, the Company pays rent to a related party as part of a real estate joint venture. Rent paid to the related party was $291,358 and $285,645 for the year ends December 31, 2022 and 2021.

Note 13 – Revenue from Contracts with Customers

All of the Company's revenue from contracts with customers in the scope of ASC 606 is recognized in Noninterest Income. Gains/losses on the sale of other real estate owned are included in noninterest expense and are generally recognized when the performance obligation is complete. This is typically at delivery of control over the property to the buyer at time of each real estate closing.

The following table presents the Company's sources of noninterest income for the twelve months ended December 31:

	2022	2021
Noninterest income:		
Service charges and other fees		
Service charges on deposit accounts	$ 489,390	$ 408,619
Interchange fee income	921,533	951,449
Other processing fees	2,115,242	1,492,651
Merchant fee income	156,627	128,227
Gain on sale of loans (1)	1,004,475	2,641,361
Mortgage loan fees (1)	308,325	222,064
Net gain on sale of OREO	(4,720)	40,914
Other noninterest income		
Investment income from real estate joint venture (1)	148,883	148,883
Increase in cash surrender value of life insurance (1)	377,615	271,832
Bargain purchase gain	-	1,716,494
Remaining other income	299,551	288,231
Total noninterest income	$ 5,816,920	$ 8,310,726

(1) Not within the scope of ASC 606

Service charges on deposit accounts – The Company earns fees from its deposit customers for account maintenance, transaction-based activity and overdraft services. Account maintenance fees consist primarily of account fees and analyzed account fees charged on deposit accounts on a monthly basis.

Interchange fee income – Debit and ATM interchange income represent fees earned when a debit card issued by the Company is used. The Company earns interchange fees from debit cardholder transactions through the Mastercard payment network. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder. The performance obligation is satisfied and the fees are earned when the cost of the transaction is charged to the cardholders' debit card. Certain expenses directly associated with the credit and debit card are recorded on a net basis with the interchange income.

Note 13 – Revenue from Contracts with Customers (continued)

Merchant fee income – Merchant fee income represents fees earned by the Company for card payment services provided to its merchant customers. The Company has a contract with a third party to provide card payment services to merchants that contract for those services. The third-party provider passes the payments made by the merchants through to the Company. The Company, in turn, pays the third-party provider for the services it provides to the merchants. These payments to the third-party provider are recorded as expenses as a net reduction against fee income. In addition, a portion of the payment received represents interchange fees which are passed through to the card issuing bank. Income is primarily earned based on the dollar volume and number of transactions processed. The performance obligation is satisfied and the related fee is earned when each payment is accepted by the processing network.

Net gain on sale of other real estate owned – The Company records a gain or loss from the sale of other real estate owned when control of the property transfers to the buyer, which generally occurs at the time of an executed deed of trust. When the Company finances the sale of other real estate owned to the buyer, the Company assesses whether the buyer is committed to perform their obligations under the contract and whether collectability of the transaction price is probable. Once these criteria are met, the other real estate owned asset is derecognized and the gain or loss on sale is recorded upon the transfer of control of the property to the buyer. In determining the gain or loss on sale, The Company adjusts the transaction price and related gain or loss on sale if a significant financing component is present.

Note 14 – Transactions with Related Parties

Certain directors, executive officers, and principal stockholders are customers of and have had banking transactions with the Company in the ordinary course of business, and the Company expects to have such transactions in the future.

All loans and commitments to lend included in such transactions are made in compliance with applicable laws on substantially the same terms (including interest rates and collateral) as those prevailing at the time for comparable transactions with other persons and, in the opinion of the management of the Company, do not involve more than the normal risk of collection or present any other unfavorable features.

Note 14 – Transactions with Related Parties (continued)

The amount of loans and loan commitments outstanding to directors, executive officers, and principal stockholders with the Company was as follows as of December 31:

	2022	2021
Balance, beginning of year	$ 330,801	$ 779,737
Loans made and advances	-	-
Repayments and pay offs	(46,281)	(648,249)
New related parties with existing loans	-	199,313
Related party loans removed from disclosure (1)	-	-
Balance, end of year	$ 284,520	$ 330,801
Outstanding loan commitments	$ 360,000	$ 520,000

(1) Represents loans existing at the beginning of the year that were outstanding to parties no longer meeting the definition of related parties.

In addition, the Company has a loan to the other 50% member in the limited liability company that owns a branch location. The loan carries an interest rate of 6.25%, matures in December of 2037, and is collateralized by the member's interest in the land on which the building is located. The loan was originated for the purpose of funding the partner's portion of construction costs of the Company's administrative office and had a balance of $1,617,490 and $1,680,172 as of December 31, 2022 and 2021, respectively.

Related party deposits held by the Company at December 31, 2022 and 2021, were $4,087,716 and $17,515,310, respectively.

Note 15 – Stock-Based Compensation Plans

Under its stock-based compensation plans, the Company may grant nonqualified stock options and restricted stock awards to its directors, officers, and employees for up to 255,256 shares of common stock.

The exercise price of each option must be at least equal to 100% of the market price of the Company's stock on the date of grant. An option's maximum term is 10 years.

Note 15 – Stock-Based Compensation Plans (continued)

The following summarizes stock option activity under the plans, adjusted for stock dividends:

	Number of Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value	Weighted Average Contractual Term
Options under grant as of December 31, 2021	3,103	$ 5.38		1.00
Options expired	-	-	-	-
Options exercised	(3,103)	5.38	$ 26,158	
Options under grant as of December 31, 2022	-	-		-
Options exercisable as of December 31, 2022	-	-		-

Proceeds received from stock options exercised in 2022 were $16,694.

The Company determines fair value of stock options at grant date using the Black-Scholes pricing model that takes into account the stock price at the grant date, the exercise price, the expected life of the option, the volatility of the underlying stock, the expected dividend yield, and the risk-free interest rate over the expected life of the option. The expected term of options granted is derived from historical data on employee exercise and post-vesting employment termination behavior. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of the grant. Expected volatility is based on the historical volatility of an index of comparable bank stocks.

The Black-Scholes option valuation model requires the input of highly subjective assumptions, including the expected life of the stock-based award and stock price volatility.

These assumptions represent management's best estimates but involve inherent uncertainties and the application of management judgment. As a result, if other assumptions had been used, the Company's recorded stock-based compensation expense could have been materially different. Additionally, the effects of applying this accounting model are not indicative of future amounts that may be realized by the option holders upon exercise.

Note 15 – Stock-Based Compensation Plans (continued)

The Company expenses stock options on a straight-line basis over the options' related vesting term. As of December 31, 2022, there was no unrecognized compensation expense related to the granting of stock options.

The following table summarizes restricted stock award activity under the plan for the year ended December 31, 2022:

	Number of Shares	Weighted Average Fair Value
Restricted stock awards unvested at December 31, 2021	93,053	$ 12.91
Awards vested	(36,993)	
Award granted	14,000	13.83
Awards forfeited	-	
Adjustment for	-	
stock dividends	4,653	13.75
Restricted stock awards unvested at December 31, 2022	74,713	

As of December 31, 2022, there was $945,783 of unrecognized stock-based compensation expense related to nonvested restricted stock awards. The cost is expected to be recognized over a weighted average period of 2.43 years as of December 31, 2022.

Compensation expense recognized for stock-based compensation plans was $458,464 and $398,228 for the years ended December 31, 2022 and 2021, respectively.

Under its phantom stock plan, the Company may award cash or stock compensation to its directors, officers, and employees for up to 150,000 shares. Cash awards are recognized as liabilities until settled, measured at the net settlement value, and have no impact on the number of shares available to be issued under the plan. Awards granted under the phantom stock plan participate in stock dividends.

Note 15 – Stock-Based Compensation Plans (continued)

The Company has granted phantom stock awards which are settled in cash when they vest. The following table summarizes activity for outstanding phantom stock awards for the years ended December 31, 2022 and 2021:

	2022	2021
Balance, beginning of year	38,927	$ 8,737
Granted	43,500	38,000
Vested	(8,532)	(6,882)
Adjustment for stock dividend	1,946	437
Forfeited or expired	(2,100)	(1,365)
Balance, end of year	73,741	$ 38,927

Stock Price December 31, 2022	$ 13.55
Value of shares in Phantom Stock Plan at year-end:	$ 999,193

As of December 31, 2021, based on the value of the Company's stock, the value of the phantom stock awards outstanding was $999,193. The weighted average vesting period for the awards is 4.6 years.

Total compensation expense recognized for phantom stock-based compensation plans was $129,128 and $109,219 for the years ended December 31, 2022 and 2021, respectively.

Note 16 – Employee Benefit Plans and Agreements

The Company adopted a 401(k) plan in which substantially all employees participate. Employees may contribute the maximum amount permissible under federal tax laws.

During 2017, the Company established an Employee Stock Ownership Plan (ESOP). The Company is required to contribute 3% of each eligible employee's compensation under safe harbor provisions. For the years ended December 31, 2022 and 2021, the Company's expense attributable to contributions to these plans was $356,775 and $347,991, respectively.

Beginning in 2005, the Company entered into supplemental retirement plans with key executive officers. In 2006, to support its obligations under these plans and to provide death benefits to selected employees, the Company acquired bank-owned life insurance. The Company's liability pursuant to these supplemental retirement plans was $3,070,783 and $2,955,742 as of December 31, 2022 and 2021, respectively. These amounts are included on the balance sheet among "accrued interest payable and other liabilities." For 2022 and 2021, compensation expense related to these plans was $529,587 and $475,657 respectively.

Note 17 – Earnings Per Share

The following table illustrates the computations of basic and diluted earnings per share for the years ended December 31, 2022 and 2021 and (adjusted for the 2022 stock dividend):

	Net Income	Weighted Average Shares	Per Share Amount
For the year ended December 31, 2022			
Basic income per share	$ 9,856,883	5,122,028	$ 1.92
Stock options		1,810	
Diluted income per share	$ 9,856,883	5,123,838	$ 1.92
For the year ended December 31, 2021			
Basic income per share	$ 6,130,985	3,561,079	$ 1.72
Stock options		15,238	
Diluted income per share	$ 6,130,985	3,576,317	$ 1.71

No stock options were excluded from the computation of diluted earnings per share, as all were dilutive during 2022 and 2021.

Note 18 – Fair Value of Financial Instruments

Assets are displayed at fair value in the table below based upon recurring or nonrecurring measurement status. Recurring assets are initially measured at fair value and are required to be re-measured at fair value in the financial statements at each reporting date. Assets measured on a nonrecurring basis are assets that, due to an event or circumstance, were required to be re-measured at fair value after initial recognition in the financial statements at some time during the reporting period.

Note 18 – Fair Value of Financial Instruments (continued)

The following tables disclose fair value information about all financial instruments, whether carried or not carried at fair value on the balance sheet, where it is practicable to estimate that value.

	Carrying Amount	Fair Value at December 31, 2022: Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets					
Cash and cash equivalents	$ 15,886,562	$ 15,886,562	$ 15,886,562	$ -	$ -
Investment securities available-for-sale	236,283,195	236,283,195	-	236,283,195	-
Factored accounts receivable	16,714,999	16,714,999	-	16,714,999	-
Restricted equity securities	1,231,700	1,231,700	1,231,700	-	-
Loans held-for-sale	627,542	627,542	-	627,542	-
Loans receivable, net	469,834,264	452,959,972	-	-	452,959,972
Financial liabilities					
Noninterest-bearing demand deposits	$ 322,808,505	$ 322,808,505	$ -	$ 322,808,505	$ -
Interest-bearing demand, money market accounts, and savings deposits	353,253,613	353,253,613	-	353,253,613	-
Time certificates of deposit	16,733,087	16,611,744	-	-	16,611,744
FHLB advances	5,000,000	5,000,000	5,000,000	-	-
Subordinated notes	24,470,504	21,081,339			21,081,339

	Carrying Amount	Fair Value at December 31, 2021: Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets					
Cash and cash equivalents	$ 81,345,358	$ 81,345,358	$ 81,345,358	$ -	$ -
Investment securities available-for-sale	241,637,890	241,637,890	-	241,637,890	-
Factored accounts receivable	27,199,768	27,199,768	-	27,199,768	-
Restricted equity securities	1,010,100	1,010,100	1,010,100	-	-
Loans held-for-sale	1,407,525	1,407,525	-	1,407,525	-
Loans receivable, net	452,848,631	460,759,303	-	-	460,759,303
Financial liabilities					
Noninterest-bearing demand deposits	$ 350,423,974	$ 350,423,974	$ -	$ 350,423,974	$ -
Interest-bearing demand, money market accounts, and savings deposits	389,417,700	389,417,700	-	389,417,700	-
Time certificates of deposit	24,387,655	26,404,375	-	-	26,404,375
FHLB advances	3,000,000	3,000,000	3,000,000	-	-
Subordinated notes	-	-	-	-	-

The Company normally intends to hold the majority of its financial instruments until maturity; it does not expect to realize many of the estimated amounts disclosed. The disclosures also do not include estimated fair value amounts for items which are not defined as financial instruments but which have significant value. These include such off-balance sheet items as core deposit intangibles on non-acquired deposits. The Company does not believe that it would be practicable to estimate a representational fair value for these types of items as of December 31, 2022 and 2021.

Note 19 – Regulatory Matters

The Bank is subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's 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 the Bank's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's 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 of total capital, Tier 1 capital, and common equity Tier 1 to risk-weighted assets, and of Tier 1 capital to average assets (as defined in the regulations).

On January 1, 2020, the community bank leverage ratio (CBLR) final rule became effective, providing an optional capital reporting framework for qualifying community banks. This new framework was designed to reduce regulatory burden by removing the requirements for calculating and reporting risk-based capital ratios for qualifying community banking organizations that opt into the framework. Upon filing of the March 31, 2020, call report the Bank opted into this new capital framework. Upon the opt in, the Bank no longer calculated risk- based capital ratios.

Under the CBLR the Bank must maintain a leverage ratio of greater than 9.0%. On April 6, 2020, The Federal Deposit Corporation (FDIC), Board of Governors of the Federal Reserve System and Office of the Comptroller of the Currency issued two interim final rules that change the CBLR and implement Section 4012 of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). The interim final rules changed the CBLR to 8% for 2020, 8.5% for 2021 and back to 9% again in 2022. As of December 31, 2022, the Bank had Tier 1 Capital of $100,325,072 and a CBLR of 12.55%, which was in excess of the 9.0% requirement.

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