Equitable Financial Corp.

Independent Auditor's Report and Consolidated Financial Statements

June 30, 2019 and 2018

Description

Independent Auditor's Report	3
Consolidated Balance Sheets as of June 30, 2019 and 2018	5
Consolidated Statements of Income for the Years ended June 30, 2019 and 2018	6
Consolidated Statements of Comprehensive Income for the Years ended June 30, 2019 and 2018	7
Consolidated Statements of Changes in Stockholders' Equity for the Years ended June 30, 2019 and 2018	8
Consolidated Statements of Cash Flows for the Years ended June 30, 2019 and 2018	9
Notes to Consolidated Financial Statements	11

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Independent Auditor's Report

Audit Committee, Board of Directors and Stockholders
Equitable Financial Corp.
Grand Island, Nebraska

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Equitable Financial Corp. and its subsidiary as of June 30, 2019 and 2018, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

BKD, LLP

Lincoln, Nebraska
October 14, 2019

Equitable Financial Corp. and Subsidiary
Consolidated Balance Sheets
June 30, 2019 and 2018

	June 30, 2019	June 30, 2018
Assets		
Cash and due from financial institutions	$ 3,149,820	$ 2,743,454
Interest-earning deposits	1,409,852	2,010,889
	4,559,672	4,754,343
Securities available-for-sale	9,364,450	1,272,916
Securities held-to-maturity	270,475	700,154
Federal Home Loan Bank stock, at cost	325,300	283,600
Federal Reserve stock, at cost	469,200	—
Loans, net of allowance for loan losses of $4,445,000 and $4,292,000, respectively	300,087,266	264,781,238
Premises and equipment, net	6,412,662	6,042,544
Foreclosed assets, net	223,200	227,700
Accrued interest receivable	2,120,629	1,582,699
Deferred taxes, net	386,051	400,396
Customer list intangible	1,965,132	1,415,705
Bank-owned life insurance	1,750,000	—
Other assets	2,300,067	2,063,088
Total assets	$ 330,234,104	$ 283,524,383
Liabilities and Stockholders' Equity		
Liabilities:		
Noninterest-bearing deposits	$ 33,199,553	$ 34,310,163
Interest-bearing deposits	250,141,818	202,677,976
	283,341,371	236,988,139
Lines of credit	—	1,543,000
Federal Home Loan Bank Borrowings	5,000,000	5,000,000
Advance payments from borrowers for taxes and insurance	532,175	468,989
Accrued interest payable and other liabilities	3,134,690	1,971,388
Total liabilities	292,008,236	245,971,516
Common stock in ESOP subject to contingent repurchase obligation	1,235,981	1,012,570
Stockholders' equity:		
Common stock, $0.01 par value, 25,000,000 shares authorized 3,201,105 and 3,315,470 shares issued and outstanding at June 30, 2019 and June 30, 2018, respectively	32,011	33,155
Additional paid-in capital	23,936,182	25,191,460
Retained earnings	15,465,624	13,883,937
Unearned ESOP shares	(830,966)	(969,291)
Shares reserved for stock compensation	(374,308)	(551,149)
Accumulated other comprehensive loss, net of tax	(2,675)	(35,245)
Reclassification of ESOP shares	(1,235,981)	(1,012,570)
Total stockholders' equity	36,989,887	36,540,297
Total liabilities and stockholders' equity	$ 330,234,104	$ 283,524,383

See Notes to Consolidated Financial Statements.

Equitable Financial Corp. and Subsidiary
Consolidated Statements of Income
Years Ended June 30, 2019 and 2018

	For the year ended	
	June 30, 2019	**June 30, 2018**
Interest income:		
Loans	$ 13,376,703	$ 11,366,276
Securities	91,949	62,072
Other	88,240	100,937
Total interest income	13,556,892	11,529,285
Interest expense:		
Deposits	2,921,801	1,738,334
Federal Home Loan Bank borrowings	119,170	88,650
Other	12,195	5,956
Total interest expense	3,053,166	1,832,940
Net interest income	10,503,726	9,696,345
Provision for loan losses	539,144	699,773
Net interest income after provision for loan losses	9,964,582	8,996,572
Noninterest income:		
Service charges on deposit accounts	756,659	674,463
Brokerage fee income	1,342,095	702,279
Gain on sale of loans	536,527	495,663
Other loan fees	469,775	253,669
Other income	333,949	365,832
Total noninterest income	3,439,005	2,491,906
Noninterest expense:		
Salaries and employee benefits	6,122,962	5,147,684
Director and committee fees	167,850	169,100
Data processing fees	1,016,600	634,324
Occupancy and equipment	1,059,814	1,034,919
Regulatory fees and deposit insurance premium	213,954	256,406
Advertising and public relations	321,527	241,458
Professional fees	536,220	401,274
Supplies, telephone and postage	138,699	271,602
Other expenses	1,707,175	779,304
Total noninterest expense	11,284,801	8,936,071
Income before income taxes	2,118,786	2,552,407
Income tax expense	(537,099)	(1,143,428)
Net income	$ 1,581,687	$ 1,408,979
Basic earnings per share	$ 0.47	$ 0.45
Diluted earnings per share	$ 0.47	$ 0.44

See Notes to Consolidated Financial Statements.

Equitable Financial Corp. and Subsidiary
Consolidated Statements of Comprehensive Income
For the Years Ended June 30, 2019 and 2018

	For the year ended	
	June 30, 2019	**June 30, 2018**
Net income	$ 1,581,687	$ 1,408,979
Other comprehensive income:		
Unrealized gain/(loss) on securities available-for-sale, net of tax	32,570	(24,663)
Comprehensive income	$ 1,614,257	$ 1,384,316

See Notes to Consolidated Financial Statements.

Equitable Financial Corp. and Subsidiary
Consolidated Statements of Changes in Stockholders' Equity
For the years ended June 30, 2019 and 2018

	Common Stock	Additional Paid-in Capital	Retained Earnings	Unearned ESOP Shares	Shares Reserved for Stock Compensation	Accumulated Other Comprehensive Loss	Amount Reclassified on ESOP Shares	Total
Balance, June 30, 2017	$ 33,725	$ 25,794,124	$ 12,474,958	$ (1,107,692)	$ (797,950)	$ (10,582)	$ (815,280)	$ 35,571,303
Net income	—	—	1,408,979	—	—	—	—	1,408,979
Other comprehensive loss	—	—	—	—	—	(24,663)	—	(24,663)
Release of 15,863 unearned ESOP shares	—	28,107	—	138,401	—	—	—	166,508
Stock compensation expense	—	(25,549)	—	—	246,801	—	—	221,252
Stock Buyback	(570)	(605,222)	—	—	—	—	—	(605,792)
Reclassification due to release and changes in fair value of common stock in ESOP subject to contingent repurchase obligation of ESOP shares	—	—	—	—	—	—	(197,290)	(197,290)
Balance, June 30, 2018	$ 33,155	$ 25,191,460	$ 13,883,937	$ (969,291)	$ (551,149)	$ (35,245)	$ (1,012,570)	$ 36,540,297
Net Income	—	—	1,581,687	—	—	—	—	1,581,687
Other comprehensive gain	—	—	—	—	—	32,570	—	32,570
Release of 15,859 unearned ESOP shares	—	46,217	—	138,325	—	—	—	184,542
Stock compensation expense	—	15,629	—	—	188,510	—	—	204,139
Equity Incentive Plan stock issued	33	40,167	—	—	(40,200)	—	—	—
Equity Incentive Plan stock expired	(24)	(28,507)	—	—	28,531			—
Stock Buyback	(1,153)	(1,328,784)	—	—	—	—	—	(1,329,937)
Reclassification due to release and changes in fair value of common stock in ESOP subject to contingent repurchase obligation of ESOP shares	—	—	—	—	—	—	(223,411)	(223,411)
Balance, June 30, 2019	$ 32,011	$ 23,936,182	$ 15,465,624	$ (830,966)	$ (374,308)	$ (2,675)	$ (1,235,981)	$ 36,989,887

See Notes to Consolidated Financial Statements.

Equitable Financial Corp. and Subsidiary
Consolidated Statements of Cash Flows
Years Ended June 30, 2019 and 2018

	For the year ended	
	June 30, 2019	**June 30, 2018**
Cash Flows from Operating Activities:		
Net income	$ 1,581,687	$ 1,408,979
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	476,141	356,091
Federal Home Loan Bank stock dividends	(10,400)	(9,200)
ESOP expense	184,542	166,508
Stock compensation expense	204,139	221,252
Amortization of deferred loan origination costs, net	543,151	513,097
Amortization of intangibles	155,073	62,235
Amortization of premiums and discounts	(268)	1,116
Gain on sale of loans	(536,527)	(495,663)
(Gain)/Loss on sale of foreclosed assets	—	30,298
Loss on disposal of premises and equipment	4,632	5,078
Provision for loan losses	539,144	699,773
Deferred taxes	14,344	461,613
Loans originated for sale	(23,426,578)	(19,576,882)
Proceeds from sale of loans	23,759,723	19,893,218
Loss on investment in partnership	—	4,416
Changes in:		
Accrued interest receivable	(537,930)	(284,791)
Other assets	(25,195)	(147,432)
Accrued interest payable and other liabilities	903,302	191,159
Net cash provided by operating activities	3,828,980	3,500,865
Cash Flows from Investing Activities:		
Net change in loans	(36,409,760)	(29,977,405)
Proceeds from sale of foreclosed assets, net	4,500	491,288
Securities available-for-sale:		
Proceeds from calls and principal repayments	2,064,618	104,100
Purchases	(10,110,184)	—
Securities held-to-maturity:		
Proceeds from calls and principal repayments	429,585	35,688
Redemption of Federal Home Loan Bank stock	226,400	400,500
Purchases of Federal Home Loan Bank stock	(257,700)	(221,500)
Purchases of Federal Reserve stock	(476,238)	—
Redemption of Federal Reserve stock	7,038	—
Purchase of customer list intangible	—	(240,000)
Purchase of bank-owned life insurance	(1,750,000)	—
Purchase of premises and equipment	(850,891)	(978,859)
Net cash used in investing activities	(47,122,632)	(30,386,188)

(Continued)

Equitable Financial Corp. and Subsidiary
Consolidated Statements of Cash Flows (Continued)
Years Ended June 30, 2019 and 2018

	For the year ended	
	June 30, 2019	June 30, 2018
Cash Flows from Financing Activities:		
Net change in deposits	$ 46,353,232	$ 27,929,823
Net change in federal funds purchased	(1,543,000)	1,144,000
Proceeds from Federal Home Loan Bank borrowings	31,952,400	23,150,000
Repayments of Federal Home Loan Bank borrowings	(31,952,400)	(24,895,400)
Net change in advance payments from borrowers for taxes and insurance	63,186	36,029
Repayment of customer list payable	(444,500)	—
Stock Buyback	(1,329,937)	(605,793)
Net cash provided by financing activities	43,098,981	26,758,659
Decrease in cash and cash equivalents	(194,671)	(126,664)
Cash and Cash Equivalents:		
Beginning	4,754,343	4,881,007
Ending	$ 4,559,672	$ 4,754,343
Supplemental Cash Flow Information:		
Interest paid on deposits and borrowings	$ 2,959,659	$ 1,784,604
Income taxes paid	$ 406,358	$ 868,401
Supplemental Noncash Disclosure:		
Transfer of loans to foreclosed assets	$ —	$ 526,086
Deferred payments on purchase of customer list intangible	$ 704,500	$ 960,000

See Notes to Consolidated Financial Statements.

Note 1. Nature of Business and Significant Accounting Policies

Principles of consolidation: The accompanying consolidated financial statements include the accounts of Equitable Financial Corp. (the "Company") and its wholly owned subsidiary, Equitable Bank (the "Bank"). All significant intercompany transactions and balances are eliminated in consolidation.

Stock Conversion: On July 8, 2015, Equitable Financial, MHC, the Company's former federally chartered mutual holding company, consummated its "second step" mutual-to-stock conversion, and the Company consummated its initial stock offering. In the offering, the Company sold 1,983,160 shares of its common stock, par value $0.01 per share, at $8.00 per share in a subscription offering and community offering, including 118,989 shares, equal to 6.0% of the shares sold in the offering, to the Equitable Bank employee stock ownership plan.

In accordance with applicable federal conversion regulations, at the time of the completion of our mutual-to-stock conversion, we established a liquidation account in an amount equal to the Company's total equity as of the latest balance sheet date in the final prospectus used in the Conversion. Each eligible account holder or supplemental account holder is entitled to a proportionate share of this liquidation account in the event of a complete liquidation of the Bank, and only in such event. This share will be reduced if the eligible account holder's or supplemental account holder's deposit balance falls below the amounts on the date of record as of any June 30 and will cease to exist if the account is closed. The liquidation account will never be increased despite any increase after Conversion in the related deposit balance.

Following completion of the Conversion, the Bank may not declare, pay a dividend on, or repurchase any of its capital stock of the Bank, if the effect thereof would cause retained earnings to be reduced below the liquidation account amount or regulatory capital requirements.

Nature of business: The primary business of the Company is the ownership of the Bank. Through the Bank, the Company is engaged in the business of retail banking, with operations conducted through its main office and branches, which are located in Grand Island, North Platte and Omaha, Nebraska. The Bank's primary services include accepting deposits, making loans and investing in securities.

Use of estimates: In preparing the accompanying consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses for the reporting period. Estimates significant to the consolidated financial statement include the allowance for loan losses, deferred tax valuation allowances, fair values of financial instruments and foreclosed assets. Actual results could differ from those estimates. The allowance for loan losses is inherently subjective as it requires material estimates that are susceptible to significant change. The fair value disclosure of investments and other financial instruments is an estimate that can be computed within a range.

Risks and uncertainties: Changes in economic conditions in the United States, and more specifically Nebraska, could impact the credit worthiness of the Company's borrowers and the borrowers' ability to service their outstanding loans with the Company. Additionally, the Company is subject to interest rate risk in which changes in the interest rate environment could negatively impact the Company's net interest margin.

Cash flows: Cash and cash equivalents include cash, deposits with other financial institutions with maturities under 90 days when purchased, and federal funds sold. Net cash flows are reported for customer loan and deposit transactions, and advance payments from borrowers for taxes and insurance.

Securities: Securities are classified as held-to-maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Securities are classified as available-for-sale when they might be sold before maturity. Securities classified as available-for-sale are carried at fair value with unrealized holding gains and losses reported in other comprehensive income or loss, net of tax.

Interest income is recognized under the interest method and includes amortization of purchase premium and discount. Gains and losses on sales are recorded on the trade date based on the amortized cost of the security sold and determined using the specific identification method.

Declines in the fair value of securities available-for-sale below their amortized cost are evaluated to determine whether the loss is temporary or other-than-temporary. If the Company (a) has the intent to sell a debt security or (b) more-likely-than-not will be required to sell the debt security before its anticipated recovery, then the Company recognizes the entire unrealized loss in earnings as an other-than-temporary loss. If neither of these conditions are met, the Company evaluates whether a credit loss exists. The impairment is separated into (a) the amount of the total impairment related to the credit loss and (b) the amount of total impairment related to all other factors. The amount of the total other-than-temporary impairment related to the credit loss is recognized in earnings and the amount related to all other factors is recognized in other comprehensive income (loss).

Federal Home Loan Bank and Federal Reserve stock: The Bank is a member of the Federal Home Loan Bank (FHLB) system. Members are required to own a certain amount of stock based on the level of borrowings and other factors and may invest in additional amounts. The Bank is regulated by the Federal Reserve. Those regulated by the Federal Reserve are required to own a certain amount of stock based on the level of assets. The stock does not have a readily determinable fair value and as such is classified as restricted stock, carried at cost and evaluated for impairment. In accordance with the applicable accounting guidance, the stock's value is determined by the ultimate recoverability of the par value rather than by recognizing temporary declines. The determination of whether the par value will ultimately be recovered is influenced by criteria such as the following: (a) the significance of the decline in net assets of the FHLB or Federal Reserve as compared to the capital stock amount and the length of time this situation has persisted (b) commitments by the FHLB or Federal Reserve to make payments required by law or regulation and the level of such payments in relation to the operating performance (c) the impact of legislative and regulatory changes on the customer base of the FHLB or Federal Reserve and (d) the liquidity position of the FHLB or Federal Reserve. With consideration given to the previous criteria, management concluded that the stock was not impaired at June 30, 2019 and June 30, 2018.

Loans, net: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are stated at their outstanding unpaid principal balances, less an allowance for loan losses, premiums and discounts on loans purchased, and net deferred loan fees/costs. Interest income on loans is recognized over the term of the loan and is calculated using the simple interest method on principal amounts outstanding. Direct loan origination fees and costs are generally being deferred and the net amounts amortized as an adjustment of the related loan's yield. The Company generally amortizes these amounts over the contractual life. Direct loan origination fees and costs related to loans sold to unrelated third parties are recognized as income or expense in the current consolidated statement of income.

The Company's portfolio segments are as follows:
- Commercial
- Agricultural
- Residential real estate
- Other

The Company's classes of loans are as follows:
- Commercial – operating
- Commercial – real estate
- Agricultural – operating
- Agricultural – real estate
- Residential real estate – 1-4 family
- Residential real estate – home equity

- Other – construction and land
- Other – consumer

Generally, for all classes of loans, loans are considered past due when contractual payments are delinquent for 31 days or greater.

For all classes of loans, loans will generally be placed on nonaccrual status when the loan has become greater than 90 days past due; or when management believes, after considering collection efforts and other factors, that the borrower's financial condition is such that collection of interest is doubtful.

When a loan is placed on nonaccrual status, payments received will be applied to the principal balance. However, interest may be taken on a cash basis in the event the loan is fully secured and the risk of loss is minimal. Previously recorded but uncollected interest on a loan placed in nonaccrual status is accounted for as follows: if the previously accrued but uncollected interest and the principal amount of the loan is protected by sound collateral value based upon a current, independent qualified appraisal, such interest may remain on the Company's books. If such interest is not so protected, it is considered a loss with the amount thereof recorded in the current year being reversed against current interest income, and the amount recorded in the prior year being charged against the allowance for possible loan losses.

For all classes of loans, nonaccrual loans may be restored to accrual status provided the following criteria are met:

- The loan is current, and all principal and interest amounts contractually due have been made,
- The loan is well secured and in the process of collection, and
- Future principal and interest payments are not in doubt.

Troubled debt restructures: Troubled debt restructuring exists when the Company, for economic or legal reasons related to the borrower's financial difficulties, grants a concession (either imposed by court order, law, or agreement between the borrower and the Company) to the borrower that it would not otherwise consider. These concessions could include forgiveness of principal, extension of maturity dates, and reduction of stated interest rates or accrued interest. The Company is attempting to maximize its recovery of the balances of the loans through these various concessionary restructurings. See Note 3 for disclosure of the Company's troubled debt restructurings.

Allowance for loan losses: For all portfolio segments, the allowance for loan losses is maintained at the level considered adequate by management of the Company to provide for losses that are probable. The allowance is increased by provisions charged to operating expense and reduced by net charge-offs. Subsequent recoveries, if any, are credited to the allowance. In determining the adequacy of the allowance balance, the Company makes continuous evaluations of the loan portfolio and related off-balance sheet commitments, considers current economic conditions, historical loan loss experience, review of specific problem loans and other factors.

A discussion of the risk characteristics and the allowance for loan losses by each portfolio segment follows:

For commercial loans, the Company focuses on small and mid-sized businesses in their geographical footprint. The Company provides a wide range of commercial loans, including lines of credit for working capital and operational purposes, and term loans for the acquisition of real estate, facilities, equipment and other purposes. Approval is generally based on the following factors:

- Sufficient cash flow to support debt repayment;
- Ability and stability of current management of the borrower;
- Positive earnings and financial trends;
- Earnings projections based on reasonable assumptions;
- Financial strength of the industry and business;
- Value and marketability of collateral.

Collateral for commercial loans generally includes accounts receivable, inventory, equipment and real estate. The lending policy specifies approved collateral types and corresponding maximum advance percentages. The value of

collateral pledged on loans typically exceeds the loan amount by a margin sufficient to absorb potential erosion of its value in the event of foreclosure and cover the loan amount plus costs incurred to convert it to cash.

The lending policy specifies maximum term limits for commercial loans. For term loans, the typical maximum term is 10 years. The lending policy includes guidelines for real estate appraisals, including minimum appraisal standards based on certain transactions. Where the purpose of the loan is to finance depreciable equipment, the term loan generally does not exceed the estimated useful life of the asset. For lines of credit, the typical maximum term is 1 year. However, longer maturities may be approved if the loan is secured by readily marketable collateral.

In addition, the Company often takes personal guarantees to help assure repayment. Loans may be made on an unsecured basis if warranted by the overall financial condition of the borrower.

Agricultural loans are subject to underwriting standards and processes similar to commercial loans. The Company provides a wide range of agriculture loans, including lines of credit for working capital and operational purposes, and term loans for the acquisition of real estate, facilities, equipment and other purposes. Approval is generally based on the following factors:

- Sufficient cash flow to support debt repayment;
- Ability and stability of current management of the borrower;
- Positive earnings and financial trends;
- Earnings projections based on reasonable assumptions;
- Financial strength of the industry and business; and
- Value and marketability of collateral.

Collateral for agricultural loans generally includes accounts receivable, inventory (typically grain or livestock), equipment and real estate. The lending policy specifies approved collateral types and corresponding maximum advance percentages. The value of collateral pledged on loans typically exceeds the loan amount by a margin sufficient to absorb potential erosion of its value in the event of foreclosure and cover the loan amount plus costs incurred to convert it to cash.

The lending policy specifies maximum term limits for agricultural loans. For term loans, the typical maximum term is 10 years. The lending policy includes guidelines for real estate appraisals, including minimum appraisal standards based on certain transactions. Where the purpose of the loan is to finance depreciable equipment, the term loan generally does not exceed the estimated useful life of the asset. For lines of credit, the typical maximum term is 1 year. However, longer maturities may be approved if the loan is secured by readily marketable collateral.

In addition, the Company often takes personal guarantees to help assure repayment. Loans may be made on an unsecured basis if warranted by the overall financial condition of the borrower.

In some instances for all loans, it may be appropriate to originate or purchase loans that are exceptions to the guidelines and limits established within the lending policy described above and below. In general, exceptions to the lending policy do not significantly deviate from the guidelines and limits established within the lending policy and, if there are exceptions, they are clearly noted as such and specifically identified in loan approval documents.

For commercial loans and agricultural loans, the allowance for estimated losses on loans consists of specific and general components.

The specific component relates to loans that are classified as impaired, as defined below. For those loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan.

For commercial loans and agricultural loans, a loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment

include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a case-by-case basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

The general component consists of quantitative and qualitative factors and covers non-impaired loans. The quantitative factors are based on historical charge-off experience. The qualitative factors are determined based on an assessment of internal and/or external influences on credit quality that are not fully reflected in the historical loss data. The Company's credit quality indicator for all loans excluding commercial, agriculture and construction and land loans is past due or performance status. The Company's credit quality indicator for commercial, agriculture and construction and land loans is internal risk ratings.

For commercial and agriculture loans, the Company utilizes the following internal risk rating scale:

1. Highest Quality – Loans represent a credit extension of the highest quality. Excellent liquidity, management and character in an industry with favorable conditions. High quality financial information, history of strong cash flows and superior collateral including readily marketable assets, prime real estate, U.S. government securities, U.S. government agencies, highly rated municipal bonds, insured savings accounts, and insured certificates of deposit drawn on high-quality financial institutions.

2. Good Quality – Loans which have a sound primary and secondary source of repayment. Strong to good liquidity, management and character in an industry with favorable conditions. Good quality financial information and margins of cash flow coverage is consistently good. Loans may be unsecured, secured by quality (but less readily marketable) assets, high quality real estate or traded stocks, lower grade municipal bonds (which must still be investment grade), and uninsured certificates of deposit on other financial institutions may also be included in this grade.

3. Acceptable Quality – Loans where the borrower is a reasonable credit risk and demonstrates the ability to repay the debt from normal business operations. Good liquidity, management and character in an industry that is more sensitive to external factors. Alternative sources of refinancing may be less available in periods of uncertain economic conditions. Term debt is moderate but cash flow margins fall within bank policy guidelines. Quality of financial information is adequate but is not as detailed and sophisticated as information found on higher-grade loans. Secured by business assets that conform to usual lending parameters for margin and eligibility or real estate that is deemed to be of satisfactory quality in an area that may not be prime but still within viable economic centers.

4. Fair Quality – Loans where the borrower is a reasonable credit risk but shows a more erratic earnings history (a loss may have been realized in the past four years). Liquidity is limited and primary repayment is susceptible to unfavorable external factors. Industry characteristics are generally stable. Borrower is more highly leveraged with increased levels of term debt. Cash flow margins remain adequate but may not fall within the policy guidelines. Quality of financial information is adequate and interim reporting may be required. Secured by business assets with an adequate collateral margin or real estate that is of fair quality and location. Property may have limited alternative uses and may be considered a "special use" facility.

5. Special Mention – Loans in this category have the potential for developing weaknesses that deserve extra attention from the account manager and other management personnel. If the developing weakness is not corrected or mitigated, the ability of the borrower to repay the Company's debt in the future may deteriorate. This grade should not be assigned to loans that bear certain peculiar risks normally associated with the type of financing involved, unless circumstances have caused the risk to increase to a level higher than would have been acceptable when the credit was originally approved. If a loan's actual, not potential,

weakness or problems are clearly evident and significant it should generally be graded in one of the following grade categories.

6. Substandard – Loans and other credit extensions are considered to be inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. These loans, even if apparently protected by collateral value, have a well-defined weakness or weaknesses that jeopardize the liquidation of debt. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected. Loss potential, while existing in the aggregate amount of substandard loans, does not have to exist in individual loans classified substandard.

7. Doubtful – Loans and other credit extensions have all the weaknesses inherent in those graded "6" with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. The possibility of loss is extremely high, but because of certain important and reasonably specific pending factors, which may work to the advantage and strengthening of the loan, its classification as an estimated loss is deferred until its more exact status may be determined. Pending factors include: proposed merger, acquisition, or liquidation actions; capital injection; perfecting liens on collateral and refinancing plans. Loans in this classification should be placed in non-accrual status, with collections applied to principal.

8. Loss – Loans are considered uncollectible and cannot be justified as a viable asset of the Bank. This classification does not mean the loan has absolutely no recovery value. However, it is not prudent to delay writing off this loan even though partial recovery may be obtained in the future.

For commercial and agricultural loans or credit relationships with aggregate exposure greater than $250,000, a loan review is required within 12 months of the most recent credit review. The reviews are completed in enough detail to, at a minimum, validate the risk rating. Additionally, the reviews shall determine whether any documentation exceptions exist, appropriate written analysis is included in the loan file, and whether credit policies have been properly adhered to.

Many of the residential real estate loans underwritten by the Company conform to the underwriting requirements of Freddie Mac or other secondary market aggregators to allow the Company to resell loans in the secondary market. Servicing rights are retained on many, but not all, of the residential real estate loans sold in the secondary market. The lending policy establishes minimum appraisal and other credit guidelines.

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or market, as determined by outstanding commitments from investors. As of June 30, 2019 and June 30, 2018, loans held for sale were immaterial to the consolidated financial statements.

Periodically, the Company originates first mortgage loans for other investors. Generally, the Company receives fees equivalent to a stated percentage of the loan amount. This fee is recognized as income at the time of closing. From time to time, the Company also originates loans for sale in the secondary market. Gain on sale of loans in the secondary market is included in noninterest income.

The Company provides many types of consumer and other loans, including motor vehicle, home improvement, home equity, signature loans and small personal credit lines. The lending policy addresses specific credit guidelines by consumer loan type.

For residential real estate loans and consumer and other loans, these large groups of smaller balance homogenous loans are collectively evaluated for impairment. In estimating the allowance for loan losses for these loans, the Company applies quantitative and qualitative factors on a portfolio segment basis. Quantitative factors are based on historical charge-off experience and qualitative factors are based on an assessment of internal and/or external influences on credit quality that are not fully reflected in the historical loss data. Accordingly, the Company generally does not separately identify individual residential real estate loans and/or consumer and other loans for impairment disclosures, unless such loans are the subject of a restructuring agreement due to financial difficulties of the borrower.

Troubled debt restructures are considered impaired loans and are subject to the same allowance methodology as described above for impaired loans by portfolio segment.

Mortgage servicing rights: Mortgage servicing rights are recognized separately when rights are acquired through purchase or through sale of financial assets. The Company subsequently measures each class of servicing assets on the amortization method. Under the amortization method, servicing rights are amortized in proportion to and over the period of estimated net servicing income. The amortized assets are assessed for impairment based on fair value of each reporting date.

Intangible assets: Intangible assets with finite lives are being amortized on the straight-line basis over 10 or 15 years based on the recoverability of those assets. Such assets are periodically evaluated as to the recoverability of their carrying values.

Transfers of financial assets: Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when: (1) the assets have been isolated from the Company; (2) the transferee has the right to pledge or exchange the assets it received, and no condition both constrains the transferee from taking advantage of its right to pledge or exchange and provides more than a trivial benefit to the transferor; and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

Premises and equipment: Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Depreciation is included in noninterest expense and is computed on 25 to 40 years for buildings and improvements that extend the life of the original building, 10 to 20 years for routine building improvements, 5 to 15 years for furniture and equipment, 5 years for vehicles, and 2 to 5 years for computer equipment. The cost of maintenance and repairs is charged to expense as incurred.

Long-term assets: Premises and equipment and other long-term assets are reviewed for impairment when events indicate that their carrying amount may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value. No impairment has been recognized by the Company for the years ended June 30, 2019 and 2018.

Bank-owned life insurance: The Company purchased life insurance policies on certain key executives. Bank-owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

Foreclosed assets: Assets acquired through foreclosure are initially recorded at fair value, less estimated costs to sell, establishing a new cost basis. If the fair value less costs to sell is less than the respective loan balance, a charge against the allowance for loan losses is recorded upon property acquisition. Declines in property value subsequent to acquisition are charged to operations. Holding costs are expensed as incurred.

Revenue recognition: The Company recognizes revenue when services or products are transferred to customers in an amount that reflects the consideration to which the Company expects to be entitled. The Company's principal source of revenue is interest income from securities and loans. Revenue from contracts with customers within the scope of Accounting Standards Codification ("ASC") Topic 606 was approximately $2,525,000, and $1,822,000 for the years ended June 30, 2019 and 2018, respectively. This revenue largely consisted of revenue from service charges and other fees from deposits (e.g., overdraft fees, ATM fees, debit card fees) and revenue from brokerage fee income. Due to the short-term nature of the Company's contracts with customers, an insignificant amount of receivables related to such revenue was recorded At June 30, 2019 and 2018 and there were no impairment losses recognized. Policies specific to revenue from contracts with customers include the following:

Service charges on deposit accounts: Revenue from service charges consists of service charges and fees on deposit accounts under depository agreements with customers to provide access to deposited funds and, when applicable, pay interest on deposits. Service charges on deposit accounts may be transactional or non-transactional in nature. Transactional service charges occur in the form of a service or penalty and are charged upon the occurrence of an event (e.g., overdraft fees, ATM fees, wire transfer fees). Transactional service charges are recognized as services are

delivered to and consumed by the customer, or as penalty fees are charges. Non-transactional service charges are charges that are based on a broader service, such as account maintenance fees and dormancy fees, and are recognized on a monthly basis. Revenue from debit and credit card fees includes interchange fee income from debit and credit cards processed through card association networks. Interchange fees represent a portion of a transaction amount that the Company and other involved parties retain to compensate themselves for giving the cardholder immediate access to funds. Interchange rates are generally set by the card association networks and are based on purchased volumes and other factors. The Company records interchange fees as services are provided.

Brokerage fee income: Revenue from brokerage fee income is a percentage of commissions and fees generated from the sale of advisory services of registered representatives. The amount of commissions and fees to be paid varies based on the different types of products sold.

Income taxes: Income tax expense or benefit is the sum of the current year income tax due or refundable and the change in the deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax consequence of temporary differences between the carrying amounts and tax basis of assets and liabilities, computed using enacted tax rates. A valuation allowance reduces deferred tax assets to the amount expected to be realized.

The Company follows the guidance on accounting for uncertainty in income taxes which allows the Company to recognize the tax benefit from an uncertain tax position only if it is more-likely-than-not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the consolidated financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses de-recognition, classification, interest and penalties on income taxes, and accounting in interim periods. When applicable, the Company recognizes interest and penalties on income taxes as a component of income tax (benefit) expense.

Employee Stock Ownership Plan: The cost of shares issued to the Employee Stock Ownership Plan ("ESOP") but not yet allocated to participants is presented in the consolidated balance sheet as a reduction of stockholders' equity. Compensation expense is recorded based on the market price of the shares as the shares are committed to be released for allocation to participant accounts. Because participants may require the Company to purchase their ESOP shares upon termination of their employment, the appraised fair value of all earned and allocated ESOP shares is reclassified from stockholders' equity.

Stock based compensation: Compensation cost for stock based compensation is recognized based on the fair value of these awards at the date of the grant over the requisite service period, usually the vesting period. The Company uses a Black-Scholes pricing model and related assumption for estimating the fair value of stock options and a five-year vesting period for stock options and restricted stock awards.

Loan commitments and related financial instruments: Financial instruments include off-balance-sheet credit instruments, such as commitments to make loans and standby letters of credit, issued to meet customer-financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

Fair value of financial instruments: Fair values of financial instruments are estimated using relevant market value information and other assumptions, as more fully disclosed in Note 14. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

Earnings per share: Basic earnings per share is based on net income divided by the weighted average number of shares outstanding during the period, including allocated and committed to be released ESOP shares. Diluted earnings per share shows the dilutive effect, if any, of additional common shares issuable under stock options or awards.

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

Comprehensive income (loss): Comprehensive income (loss) consists of net income (loss) and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains (losses) on securities available-for-sale, net of tax.

Note 2. Securities

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

June 30, 2019	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government-sponsored agencies securities	$ 4,989,848	$ 140	$ (4,599)	$ 4,985,389
Residential mortgage-backed securities	4,377,988	2,280	(1,207)	4,379,061
	$ 9,367,836	$ 2,420	$ (5,806)	$ 9,364,450

June 30, 2018	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government-sponsored agencies securities	$ 989,372	$ —	$ (42,379)	$ 946,993
Residential mortgage-backed securities	332,536	—	(6,613)	325,923
	$ 1,321,908	$ —	$ (48,992)	$ 1,272,916

The carrying amount, unrecognized gross gains and losses, and fair value of securities held-to-maturity are as follows:

June 30, 2019	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Residential mortgage-backed securities	$ 70,475	$ 3,638	$ —	$ 74,113
Municipal securities	200,000	—	(50)	199,950
	$ 270,475	$ 3,638	$ (50)	$ 274,063

June 30, 2018	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Residential mortgage-backed securities	$ 100,154	$ 4,252	$ —	$ 104,406
Municipal securities	600,000	—	(4,238)	595,762
	$ 700,154	$ 4,252	$ (4,238)	$ 700,168

Securities available-for-sale and held-to-maturity consist of investments in bonds securitized by the Government National Mortgage Association, U.S. Government-sponsored agencies, and local municipal securities. Interest income from U.S. Government-sponsored agencies approximated $49,000 and $19,000 for the years ended June 30, 2019 and 2018, respectively. Interest income from municipal securities approximated $12,000 and $19,000 for the years ended June 30, 2019 and 2018, respectively.

The contractual maturities of the residential mortgage-backed securities at June 30, 2019 are not disclosed because the securities are not due at a single maturity date. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Approximately

$4,985,000 of U.S. Government-sponsored agency securities will mature in the year ending June 30, 2023. Approximately $200,000 in municipal securities will mature in the year ending June 30, 2020.

There were no sales of securities for the years ended June 30, 2019 and 2018.

The duration of gross unrealized losses is not disclosed as such amounts are immaterial to the consolidated financial statements. The Company has not recognized other-than-temporary impairment on any securities for the years ended June 30, 2019 and 2018.

The following table shows the amount of securities pledged at June 30, 2019 and 2018:

	June 30, 2019	June 30, 2018
Securities available-for-sale, at fair value	$ 545,214	$ 1,272,916
Securities held-to-maturity, at amortized cost	—	700,154

Note 3. Loans

Loans at June 30 are as follows:

	June 30, 2019	June 30, 2018
Commercial:		
Operating	$ 29,427,300	$ 23,566,018
Real estate	113,758,027	97,345,243
Agricultural:		
Operating	40,582,839	27,535,419
Real estate	39,369,362	32,385,547
Residential real estate:		
1-4 family	54,526,230	49,066,376
Home equity	12,941,409	12,337,649
Other:		
Construction and land	8,931,887	22,136,237
Consumer	4,263,601	4,021,407
Total loans	303,800,655	268,393,896
Deferred loan origination costs, net	731,610	679,342
Allowance for loan losses	(4,445,000)	(4,292,000)
	(3,713,390)	(3,612,658)
Loans, net	$ 300,087,266	$ 264,781,238

Changes in the allowance for loan losses, by portfolio segment, during the years ended June 30, 2019 and 2018 are summarized as follows:

	Commercial	Agricultural	Residential Real Estate	Other	Total
			2019		
Balance, beginning	$ 2,057,000	$ 947,000	$ 834,000	$ 454,000	$ 4,292,000
Provision charged to expense	610,209	176,000	(9,000)	(238,065)	539,144
Recoveries	8,133	—	—	4,375	12,509
Loans charged off	(363,342)	—	—	(35,311)	(398,653)
Balance, ending	$ 2,312,000	$ 1,123,000	$ 825,000	$ 185,000	$ 4,445,000

	Commercial	Agricultural	Residential Real Estate	Other	Total
			2018		
Balance, beginning	$ 1,703,000	$ 918,000	$ 656,000	$ 278,000	$ 3,555,000
Provision charged to expense	317,376	29,000	175,576	177,821	699,773
Recoveries	42,808	—	2,424	5,940	51,172
Loans charged off	(6,184)	—	—	(7,761)	(13,945)
Balance, ending	$ 2,057,000	$ 947,000	$ 834,000	$ 454,000	$ 4,292,000

The allowance for loan losses, by impairment evaluation and portfolio segment, as of June 30, 2019 and 2018, is summarized as follows:

	Commercial	Agricultural	Residential Real Estate	Other	Total
			June 30, 2019		
Allowance for loans individually evaluated for impairment	$ 125,616	$ 389	$ 77,889	$ 4,540	$ 208,434
Allowance for loans collectively evaluated for impairment	2,186,384	1,122,611	747,111	180,460	4,236,566
	$ 2,312,000	$ 1,123,000	$ 825,000	$ 185,000	$ 4,445,000
Loans individually evaluated for impairment	$ 1,753,000	$ 38,933	$ 2,461,289	$ 12,198	$ 4,265,420
Loans collectively evaluated for impairment	141,432,327	79,913,268	65,006,350	13,183,290	299,535,235
	$ 143,185,327	$ 79,952,201	$ 67,467,639	$ 13,195,488	$ 303,800,655

	Commercial	Agricultural	Residential Real Estate	Other	Total
			June 30, 2018		
Allowance for loans individually evaluated for impairment	$ 202,731	$ 758	$ 134,835	$ 100,927	$ 439,251
Allowance for loans collectively evaluated for impairment	1,854,269	946,242	699,165	353,073	3,852,749
	$ 2,057,000	$ 947,000	$ 834,000	$ 454,000	$ 4,292,000
Loans individually evaluated for impairment	$ 3,219,208	$ 15,000	$ 3,046,930	$ 544,184	$ 6,825,322
Loans collectively evaluated for impairment	117,692,053	59,905,966	58,357,095	25,613,460	261,568,574
	$ 120,911,261	$ 59,920,966	$ 61,404,025	$ 26,157,644	$ 268,393,896

The aging in terms of unpaid principal balance of the loan portfolio, by classes of loans, as of June 30, 2019 and 2018, is summarized as follows:

	Current	31-60 days Past Due	61-90 days Past Due	> 90 days Past Due (Nonaccrual)	Total	Non accrual Loans
	June 30, 2019					
Classes of loans:						
Commercial:						
Operating	$ 29,370,473	$ —	$ 10,083	$ 46,744	$ 29,427,300	$ 56,826
Real estate	113,612,781	—	—	145,246	113,758,027	1,343,302
Agricultural:						
Operating	40,582,839	—	—	—	40,582,839	—
Real estate	39,369,362	—	—	—	39,369,362	—
Residential real estate:						
1-4 family	53,448,777	604,828	40,600	432,025	54,526,230	933,575
Home equity	12,824,084	48,715	—	68,610	12,941,409	68,610
Other:						
Construction and land	8,931,887	—	—	—	8,931,887	—
Consumer	4,243,186	9,741	—	10,674	4,263,601	14,369
	$ 302,383,389	$ 663,284	$ 50,683	$ 703,299	$ 303,800,655	$ 2,416,682

	Current	31-60 days Past Due	61-90 days Past Due	> 90 days Past Due (Nonaccrual)	Total	Non accrual Loans
	June 30, 2018					
Classes of loans:						
Commercial:						
Operating	$ 23,413,072	$ 39,731	$ 37,067	$ 76,148	$ 23,566,018	$ 1,266,787
Real estate	96,038,648	1,306,595	—	—	97,345,243	1,891,282
Agricultural:						
Operating	27,535,419	—	—	—	27,535,419	—
Real estate	32,370,547	15,000	—	—	32,385,547	15,000
Residential real estate:						
1-4 family	48,856,481	190,097	6,565	13,233	49,066,376	1,538,655
Home equity	12,337,649	—	—	—	12,337,649	180,940
Other:						
Construction and land	22,136,237	—	—	—	22,136,237	526,726
Consumer	4,003,298	17,457	—	652	4,021,407	18,109
	$ 266,691,351	$ 1,568,880	$ 43,632	$ 90,033	$ 268,393,896	$ 5,437,499

For each class of loans, the following summarizes the unpaid principal balance by credit quality indicator as of June 30, 2019 and 2018:

	Commercial — Operating	Commercial — Real Estate	Agricultural — Operating	Agricultural — Real Estate	Other — Construction and Land	Total
	June 30, 2019					
Internally assigned risk rating:						
Highest Quality (rating 1)	$ —	$ 191,531	$ 376,015	$ 275,583	$ —	$ 843,129
Good Quality (rating 2)	190,886	8,840,974	2,961,720	3,650,332	—	15,643,912
Acceptable Quality (rating 3)	9,157,940	53,036,274	13,680,548	8,637,420	2,759,300	87,271,482
Fair Quality (rating 4)	17,757,632	47,595,916	18,818,067	24,372,722	6,172,587	114,716,924
Watch (rating 5)	308,455	1,032,017	3,088,987	957,675	—	5,387,134
Special Mention (rating 6)	150,000	348,783	808,628	376,881	—	1,684,292
Substandard (rating 7)	1,862,387	2,712,532	848,874	1,098,749	—	6,522,542
Doubtful (rating 8)	—	—	—	—	—	—
Loss (rating 9)	—	—	—	—	—	—
	$ 29,427,300	$ 113,758,027	$ 40,582,839	$ 39,369,362	$ 8,931,887	$ 232,069,415

	Commercial — Operating	Commercial — Real Estate	Agricultural — Operating	Agricultural — Real Estate	Other — Construction and Land	Total
	June 30, 2018					
Internally assigned risk rating:						
Highest Quality (rating 1)	$ —	$ —	$ 258,744	$ 302,991	$ —	$ 561,735
Good Quality (rating 2)	261,037	8,142,864	1,666,856	3,374,038	287,423	13,732,218
Acceptable Quality (rating 3)	8,709,194	47,981,474	8,370,149	7,273,016	13,395,960	85,729,793
Fair Quality (rating 4)	12,678,045	35,653,313	15,716,096	20,014,294	8,452,854	92,514,602
Special Mention (rating 5)	150,000	145,888	945,699	280,791	—	1,522,378
Substandard (rating 6)	1,767,742	5,421,704	577,875	1,140,417	—	8,907,738
Doubtful (rating 7)	—	—	—	—	—	—
Loss (rating 8)	—	—	—	—	—	—
	$ 23,566,018	$ 97,345,243	$ 27,535,419	$ 32,385,547	$ 22,136,237	$ 202,968,464

	Residential RE — 1-4 Family	Residential RE — Home Equity	Other — Consumer	Total
	June 30, 2019			
Delinquency status*:				
Performing	$ 53,438,776	$ 12,824,084	$ 4,242,886	$ 70,505,746
Nonperforming	1,087,454	117,325	20,715	1,225,494
	$ 54,526,230	$ 12,941,409	$ 4,263,601	$ 71,731,240

	Residential RE — 1-4 Family	Residential RE — Home Equity	Other — Consumer	Total
	June 30, 2018			
Delinquency status*:				
Performing	$ 47,479,335	$ 12,156,709	$ 4,003,298	$ 63,639,342
Nonperforming	1,587,041	180,940	18,109	1,786,090
	$ 49,066,376	$ 12,337,649	$ 4,021,407	$ 65,425,432

* Performing loans are those which are accruing and less than 31 days past due. Nonperforming loans are those on nonaccrual and accruing loans that are greater than or equal to 31 days past due.

At June 30, 2019 and June 30, 2018 there were no loans 90 days past due and still accruing.

For commercial loans and agricultural loans, the Company's credit quality indicator is internally assigned risk ratings. Each commercial loan is assigned a risk rating upon origination. The risk rating is reviewed every 12 months, at a minimum, and on as needed basis depending on the specific circumstances of the loan.

For residential real estate and other loans, the Company's credit quality indicator is performance determined by delinquency status. Delinquency status is updated daily by the Company's loan system.

Loans, by classes of loans, considered to be impaired as of June 30, 2019 and 2018 are summarized as follows:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
			2019		
Classes of loans:					
Impaired loans with no specific allowance recorded:					
Commercial:					
Operating	$ 197,411	$ 196,580	$ —	$ 183,612	$ 6,577
Real estate	258,194	257,396	—	276,859	27,276
Agricultural:					
Operating	24,555	24,507	—	26,376	2,641
Residential real estate:					
1-4 family	1,725,036	1,715,894	—	1,884,283	110,546
Home equity	41,188	41,049	—	43,545	4,158
	2,246,384	2,235,426	—	2,414,675	151,198
Impaired loans with specific allowance recorded:					
Commercial:					
Operating	101,034	100,966	6,874	109,518	13,131
Real estate	1,198,057	1,198,058	118,742	1,252,326	369,511
Agricultural:					
Real estate	14,479	14,426	389	14,740	1,334
Residential real estate:					
1-4 family	462,833	470,916	28,774	473,011	25,191
Home equity	231,946	233,430	49,115	214,494	14,898
Other:					
Consumer	12,229	12,199	4,540	14,843	1,001
	2,020,578	2,029,995	208,434	2,078,932	425,066
Total impaired loans:					
Commercial:					
Operating	298,445	297,546	6,874	293,130	19,708
Real estate	1,456,251	1,455,454	118,742	1,529,185	396,787
Agricultural:					
Operating	24,555	24,507	—	26,376	2,641
Real estate	14,479	14,426	389	14,740	1,334
Residential real estate:					
1-4 family	2,187,869	2,186,810	28,774	2,357,294	135,737
Home equity	273,134	274,479	49,115	258,039	19,056
Other:					
Consumer	12,229	12,198	4,540	14,843	1,001
	$ 4,266,962	$ 4,265,420	$ 208,434	$ 4,493,607	$ 576,264

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
			2018		
Classes of loans:					
Impaired loans with no specific allowance recorded:					
Commercial:					
Operating	$ 112,953	$ 112,679	$ —	$ 101,206	$ 3,999
Real estate	1,913,437	1,891,282	—	1,278,331	57,519
Residential real estate:					
1-4 family	1,467,194	1,464,537	—	1,495,231	74,047
Home equity	5,838	5,828	—	6,118	368
	3,499,422	3,474,326	—	2,880,886	135,933
Impaired loans with specific allowance recorded:					
Commercial:					
Operating	1,243,128	1,215,248	202,731	1,095,835	43,366
Agricultural:					
Real estate	15,242	15,000	758	15,133	879
Residential real estate:					
1-4 family	1,407,029	1,395,625	123,388	969,808	38,618
Home equity	181,072	180,940	11,447	98,313	5,125
Other:					
Construction and land	537,278	526,726	97,983	527,707	12,202
Consumer	17,724	17,457	2,944	19,078	979
	3,401,473	3,350,996	439,251	2,725,874	101,169
Total impaired loans:					
Commercial:					
Operating	1,356,081	1,327,927	202,731	1,197,041	47,365
Real estate	1,913,437	1,891,282	—	1,278,331	57,519
Agricultural:					
Operating	—	—	—	—	—
Real estate	15,242	15,000	758	15,133	879
Residential real estate:					
1-4 family	2,874,223	2,860,162	123,388	2,465,039	112,665
Home equity	186,910	186,768	11,447	104,431	5,493
Other:					
Construction and land	537,278	526,726	97,983	527,707	12,202
Consumer	17,724	17,457	2,944	19,078	979
	$ 6,900,895	$ 6,825,322	$ 439,251	$ 5,606,760	$ 237,102

Impaired loans, for which no allowance has been provided as of June 30, 2019 and 2018, have adequate collateral, based on management’s current estimates.

The following summarizes the number and recorded investment of troubled debt restructurings ("TDRs") as of June 30, 2019 and 2018:

	June 30, 2019	
	Number of TDRs	Recorded Investment
Concession — Extension of maturity:		
Commercial:		
Operating	3	$ 154,047
Real estate	1	1,202,098
Residential real estate:		
1-4 family	6	929,969
Home equity	2	170,343
Other:		
Consumer	1	300
	13	$ 2,456,757
Concession — Reduction of interest rate below market:		
Commercial:		
Operating	1	$ 22,108
Residential real estate:		
1-4 family	36	791,781
Home equity	1	11,180
	38	$ 825,069
Total:		
Commercial:		
Operating	4	$ 176,155
Real estate	1	1,202,098
Residential real estate:		
1-4 family	42	1,721,750
Home equity	3	181,523
Other:		
Consumer	1	300
	51	$ 3,281,826

	June 30, 2018	
	Number of TDRs	Recorded Investment
Concession — Extension of maturity:		
Commercial:		
Operating	8	$ 282,929
Real estate	2	1,913,437
Residential real estate:		
1-4 family	5	947,119
Home equity	2	173,597
	17	$ 3,317,082
Concession — Reduction of interest rate below market:		
Commercial:		
Operating	1	$ 31,165
Residential real estate:		
1-4 family	43	1,326,212
Home equity	1	13,313
	45	$ 1,370,690
Total:		
Commercial:		
Operating	9	$ 314,094
Real estate	2	1,913,437
Residential real estate:		
1-4 family	48	2,273,331
Home equity	3	186,910
	62	$ 4,687,772

The following summarizes the number and investment in TDRs, by type of concession, that were restructured during the years ended June 30, 2019 and 2018:

For the year ended June 30, 2019	Number of TDRs	Recorded Investment
Concession — Extension of maturity:		
Residential real estate:		
1-4 family	1	$ 16,999
Other:		
Consumer	1	300
	2	$ 17,299
Total:		
Residential real estate:		
1-4 family	1	$ 16,999
Other:		
Consumer	1	300
	2	$ 17,299

For the year ended June 30, 2018	Number of TDRs	Recorded Investment
Concession — Extension of maturity:		
Commercial:		
Operating	3	$ 188,551
Real estate	1	1,326,611
Residential real estate:		
1-4 family	2	491,926
Home equity	1	167,759
	7	$ 2,174,847
Total:		
Commercial:		
Operating	3	188,551
Real estate	1	$ 1,326,611
Residential real estate:		
1-4 family	2	491,926
Home equity	1	167,759
	7	$ 2,174,847

Note 4. Loan Servicing

Mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of these loans were approximately $118,024,000 and $113,883,000 at June 30, 2019 and 2018, respectively. Included in other assets are approximately $963,000 and $872,000 of mortgage servicing rights at June 30, 2019 and 2018, respectively.

During the years ended June 30, 2019 and 2018, the Company sold approximately $23,427,000 and $19,893,000, respectively, of fixed-rate loans secured by one-to-four family residential real estate, which resulted in a pre-tax gain on the sale of approximately $537,000 and $496,000 for years ended June 30, 2019 and 2018, respectively.

The Company entered into an agreement with the FHLB to originate mortgage loans on behalf of the FHLB and to sell closed loans to the FHLB under the FHLB Mortgage Partnership Finance ("MPF") program. Under the terms of the agreement, the Company retains a portion of the credit risk associated with each conventional loan pool under a risk-sharing agreement. The Company's credit losses are capped by the credit enhancement amount established for each pool of loans. Losses beyond that cap are absorbed by the FHLB. At June 30, 2019 and 2018, the amount of conventional loans outstanding that were originated and sold to the FHLB in the MPF was $43,459,736 and $32,005,787, respectively, with possible credit enhancement losses capped at $919,686 and $695,952 at June 30, 2019 and 2018, respectively. The Company has no history of losses and no losses were accrued in the Company's consolidated financial statements at June 30, 2019 and 2018.

Note 5. Accrued Interest Receivable

Accrued interest receivable at June 30 is summarized as follows:

	2019	2018
Securities	$ 37,575	$ 4,960
Loans	2,083,054	1,577,739
	$ 2,120,629	$ 1,582,699

Note 6. Premises and Equipment, Net

Premises and equipment, net at June 30 are as follows:

	2019	2018
Land and land improvements	$ 2,101,553	$ 2,101,553
Buildings and improvements	6,958,136	7,045,600
Furniture and equipment	1,415,276	1,142,159
Computer equipment	811,307	816,786
Vehicles	140,057	140,057
Assets in process	7,210	35,677
	11,433,539	11,281,832
Less accumulated depreciation	(5,020,877)	(5,239,288)
	$ 6,412,662	$ 6,042,544

Note 7. Intangible Assets

	2019		2018	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Customer List	$ 2,236,731	$ 271,599	$ 1,532,231	$ 116,526

Amortization expense for the years ended June 30, 2019 and 2018, was $155,073 and $62,235, respectively. Estimated amortization expense for each of the following five years is:

Year Ending June 30,	
2020	$ 173,000
2021	173,000
2022	173,000
2023	173,000
2024	173,000

Note 7. Deposits

Deposits as of June 30 are as follows:

	2019	2018
Noninterest-bearing demand	$ 33,199,553	$ 34,310,163
Interest-bearing NOW	70,538,897	59,037,403
Money market	76,947,605	65,906,640
Savings	18,024,593	17,931,065
Certificates of deposit	84,630,723	59,802,868
	$ 283,341,371	$ 236,988,139

Certificates of deposit of $250,000 or more were approximately $22,107,000 and $7,761,000 at June 30, 2019 and 2018, respectively.

At June 30, 2019, the scheduled maturities of certificates of deposit are as follows:

Year Ending June 30,	
2020	$ 41,488,346
2021	31,108,576
2022	6,250,272
2023	3,225,711
2024 and beyond	2,557,818
	$ 84,630,723

Interest expense on deposit accounts is summarized as follows for the years ended June 30:

	2019	2018
Interest-bearing NOW	$ 543,999	$ 379,115
Money market	924,809	543,521
Savings	87,330	45,567
Certificates of deposit	1,365,663	770,131
	$ 2,921,801	$ 1,738,334

Note 8. Borrowings

The Company has a line of credit with the FHLB of Topeka which expires July 3, 2020. The line of credit accrues interest at a variable rate (2.55% at June 30, 2019). At June 30, 2019 and 2018, there was no balance in the line of credit. At June 30, 2019 the Company had an advance outstanding with FHLB in the amount of $5 million at an interest rate of 2.88%. This advance has a maturity date of February 18, 2022. At June 30, 2018 the Company had an advance outstanding with FHLB in the amount of $5 million at an interest rate of 1.55%. This advance had a maturity date of August 9, 2018. The Company maintains a collateral pledge agreement covering secured advances whereby the Company has agreed to pledge certain real estate loans to secure advances from the FHLB of Topeka. All stock in the FHLB of Topeka is pledged as additional collateral for these advances. At June 30, 2019 and 2018, approximately $64.8 million and $64.7 million, respectively, of real estate loans collateralized the advances. At June 30, 2019, the Company had the ability to borrow an additional $38.1 million in FHLB advances.

The Company has a line of credit with Cornerstone Bank in the amount of $5 million. Interest is payable quarterly and varies with the Wall Street Journal Prime Rate less 0.25% (5.25% at June 30, 2019) with a floor of 5.25%. At June 30, 2019, there was no outstanding balance. The note has a maturity date of February 26, 2020. The Company has pledged 100 shares of common stock to secure the borrowings.

The Company has an unsecured line with Midwest Independent Bank, Pacific Cost Bankers Bank, Bankers Bank of the West and Zions Bank. At June 30, 2019, there was no outstanding balance with Midwest Independent Bank. The outstanding balance with Midwest Independent Bank was $1.5 million at June 30, 2018. At June 30, 2019, the Company had the ability to borrow $5.0 million from Midwest Independent Bank, $4.0 million from Pacific Coast Bankers Bank, $5.0 million with Bankers Bank of the West, and $6.0 million with Zions Bank.

Note 9. Regulatory Matters

The Bank is subject to regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory — and possibly additional discretionary — actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of 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 regulators about components, risk weightings, and other factors.

The prompt corrective action regulations provide five classifications, including well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If only adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and plans for capital restoration are required. Management believes, as of June 30, 2019, that the Bank meets all capital adequacy requirements to which it is subject and is classified as well capitalized.

Actual capital levels and minimum required levels for the Bank were:

			Minimum Required for Capital Adequacy Purposes		Minimum Required to Be Well Capitalized Under Prompt Corrective Action Provisions	
(Dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
June 30, 2019						
Total capital (to risk-weighted assets)	$ 33,898	11.0 %	$ 24,627	8.0 %	$ 30,784	10.0 %
Common equity Tier 1 capital (to risk-weighted assets)	30,043	9.8 %	13,853	4.5 %	20,009	6.5 %
Tier 1 (core) capital (to risk-weighted assets)	30,043	9.8 %	18,470	6.0 %	24,627	8.0 %
Tier 1 (core) capital (to adjusted total assets)	30,043	9.4 %	12,783	4.0 %	15,978	5.0 %
June 30, 2018						
Total capital (to risk-weighted assets)	$ 31,901	12.1 %	$ 21,008	8.0 %	$ 26,260	10.0 %
Common equity Tier 1 capital (to risk-weighted	28,606	10.9 %	11,817	4.5 %	17,069	6.5 %
Tier 1 (core) capital (to risk-weighted assets)	28,606	10.9 %	15,756	6.0 %	21,008	8.0 %
Tier 1 (core) capital (to adjusted total assets)	28,606	9.9 %	11,599	4.0 %	14,499	5.0 %

Federal regulations require the Bank to comply with a Qualified Thrift Lender (“QTL”) test, which requires that 65% of assets be maintained in housing-related finance and other specified assets. If the QTL test is not met, limits are placed on growth, branching, new investment, FHLB advances, and dividends or the institution must convert to a commercial bank charter. Management believes the QTL test has been met.

In July 2013, the Federal Reserve Board and the Federal Deposit Insurance Corporation issued final rules implementing the Basel III regulatory capital framework and related Dodd-Frank Wall Street Reform and Consumer Protection Act changes. The rules revised minimum capital requirements and adjusted prompt corrective action thresholds. The final rules revised the regulatory capital elements, added a new common equity Tier 1 capital ratio, increased the minimum Tier 1 capital ratio requirement, and implemented a new capital conservation buffer. The rules also permitted certain banking organizations to retain, through a one-time election, the existing treatment for accumulated other comprehensive income. Management chose the one-time election to retain the existing treatment. The final rules took effect for community banks on January 1, 2015, subject to a transition period for certain parts of the rules. The new minimum capital level requirements applicable to Equitable Bank are: (i) a new common equity Tier 1 capital ratio of 4.5%; (ii) a Tier 1 capital to risk-weighted assets ratio of 6% (increased from 4%); (iii) a total capital to risk-weighted assets ratio of 8% (unchanged from prior rules); and (iv) a Tier 1 leverage ratio of 4%. The rules also establish a “capital conservation buffer” of 2.5% above the new regulatory minimum capital ratios resulting in the following ratios: (i) a common equity Tier 1 capital ratio of 7.0%, (ii) a Tier 1 capital to risk-weighted assets ratio of 8.5%; (iii) a total capital to risk-weighted assets ratio of 10.5%; and a tier 1 leverage ratio unchanged at 4%. The phase-in period for the capital conservation buffer requirement started January 1, 2016 at 0.625% of risk-weighted assets and was increased each year until fully implemented in January 2019. An institution is subject to further limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses of its capital level falls below the buffer amount. These limitations establish a maximum percentage of eligible retained income that can be utilized for such actions. The minimum requirements do not include the capital conservation buffer.

Note 10. Income Taxes

The federal tax rate for the fiscal year ended June 30, 2019 was 21%. During the fiscal year ended June 30, 2018, the Company's deferred tax position was impacted as a result of the newly enacted Tax Cuts and Jobs Act (the "Act") which was signed into law on December 22, 2017. The effect reflects the revaluation of our net deferred tax asset based on the new U.S. federal tax rate of 21% whereas the old rate was 34%. The federal tax rate is computed using a blended rate of approximately 28% as a result of part of the fiscal year being calculated at 34% and the other at 21%.

Income tax expense for the year ended June 30 is as follows:

	2019	2018
Current:		
Federal	$ (427,133)	$ (566,709)
State	(95,622)	(106,812)
Deferred:		
Federal	(14,344)	(469,907)
	$ (537,099)	$ (1,143,428)

A reconciliation of the provision for income taxes computed at the statutory federal corporate tax rate of 21.0% in 2019 and 28.6% in 2018 income tax expense in the statements of income for the year ended June 30 is as follows:

	2019	2018
Provision computed at the statutory federal tax rate	$ (444,945)	$ (716,205)
State income taxes, net of federal tax	(75,541)	(76,843)
Effect of Tax Cuts & Jobs Act	—	(347,957)
Other	(16,613)	(2,423)
Total income tax expense	$ (537,099)	$ (1,143,428)

Retained earnings at June 30, 2019 and 2018 include certain historical additions to bad debt reserves of approximately $2,132,000 for which no deferred federal income tax liability has been recorded. This amount represents an allocation of income to bad debt deductions for tax purposes alone. If, in the future, this portion of retained earnings is used for any purpose other than to absorb bad debt losses, federal taxes would be imposed at the then-applicable rates.

The net deferred tax asset at June 30 is as follows:

	2019	2018
Gross deferred tax assets:		
Allowance for loan losses	$ 933,450	$ 901,320
Foreclosed asset writedowns	31,248	31,248
Unrealized loss on securities	711	13,747
Other	127,079	93,749
	1,092,488	1,040,064
Gross deferred tax liabilities:		
Additions in excess of base year loan reserve	(280,691)	(361,781)
Depreciation	(243,864)	(112,357)
FHLB stock dividends	(32,653)	(30,469)
Other	(149,229)	(135,061)
	(706,437)	(639,668)
Net deferred tax asset	$ 386,051	$ 400,396

No significant income tax uncertainties were identified. Therefore, the Company recognized no adjustment for unrecognized income tax benefits during the years ended June 30, 2019 and 2018. Corporate tax returns for the 2016 through 2018 years remain open to examination by taxing authorities.

The Company recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in noninterest expenses. During the years ended June 30, 2019 and 2018, there were no interest and penalties recognized, nor were any balances for the payment of interest and penalties accrued at June 30, 2019 and 2018.

Note 11. Employee Benefit Plans

The Company has a 401(k) and profit sharing plan (the "Plans") covering substantially all employees. Annual contributions to the Plans are made at the discretion of and determined by the Board of Directors. Participant interests are vested over a period from one to five years of service. Contributions were made of approximately $147,000 and $130,000 for the years ended June 30, 2019 and 2018, respectively.

On November 8, 2005, the Company adopted an employee stock ownership plan (the "ESOP") for the benefit of substantially all employees. The ESOP borrowed $1,292,620 from the Company and used those funds to acquire 129,262 shares of the Company's stock in connection with the reorganization at a price of $10.00 per share.

On July 8, 2015, the ESOP borrowed $951,912 from the Company and used the funds to acquire 118,989 shares of the Company's stock in connection with the stock offering at a price of $8.00 per share.

Shares purchased by the ESOP with the loan proceeds are held in a suspense account and are allocated to ESOP participants on a pro rata basis as principal and interest payments are made by the ESOP to the Company. The loan is secured by shares purchased with the loan proceeds and will be repaid by the ESOP with funds from the Company's discretionary contributions to the ESOP and earnings on ESOP assets. Annual principal and interest payments for the note dated November 8, 2005 are made by the ESOP prior to the calendar year December 31. Annual principal and interest payments from the note dated November 8, 2005 are approximately $145,000 until maturity at December 31, 2019. Annual principal and interest payments from the note dated July 8, 2015 are approximately $65,000 until maturity at July 8, 2035.

As shares are released from collateral, the Company will report compensation expense equal to the current market price of the shares and the shares will become outstanding for earnings-per-share computations. Dividends on allocated ESOP shares reduce retained earnings; dividends on unearned ESOP shares reduce accrued interest. Because participants may

require the Company to purchase their ESOP shares upon termination of their employment, the fair value of all earned and allocated ESOP shares may become a liability.

The ESOP has a plan year-end of December 31. The Company has recorded compensation expense of $184,542 and $166,508 for shares that were released and committed to be released for the years ended June 30, 2019 and 2018, respectively.

Shares held by the ESOP at June 30 were as follows:

	June 30, 2019	June 30, 2018
Allocated shares	105,329	98,393
Shares allocated to be released	7,926	7,932
Unearned ESOP shares	103,127	118,980
Total ESOP shares	216,382	225,305
Fair value of unearned ESOP shares	$ 1,258,149	$ 1,280,225
Fair value of allocated shares subject to repurchase obligation	$ 1,235,981	$ 1,012,570

The Company approved the Equitable Financial Corp. 2006 Equity Incentive Plan ("2006 Plan") in November 2006 and the Equitable Financial Corp. 2016 Equity Incentive Plan ("2016 Plan") in November 2016. Both plans provide for awards of stock options and restricted stock to officers, employees and directors. The cost of the plan is based on the fair value of the awards at the grant date. The fair value of stock is based on the closing price of the Company's stock on the grant date. The cost of the awards are being recognized over five-year vesting periods during which participants are required to provide services in exchange for the awards. As of December 31, 2016, the 2006 plan has been terminated.

The maximum number of shares authorized under the 2016 Plan is 198,316 stock options and 79,326 shares of restricted stock to employees and directors. As of June 30, 2019, 166,982 stock options and 66,811 stock awards were awarded.

The table below represents the stock option activity for the period shown:

	Awards	Weighted Average Exercise Price	Remaining Contractual Life (Years)
Options outstanding at July 1, 2018	158,653	$ 9.90	7.67
Granted	8,329	12.00	9.08
Options outstanding at June 30, 2019	166,982	$ 10.00	7.74

The cost of the stock options will be amortized in monthly installments over the noted five-year vesting period. Stock option expense was $45,912 and $42,202 for the fiscal years ended June 30, 2019 and 2018, respectively.

The fair value of the Company's stock options was determined using the Black-Schols option pricing formula. The following assumptions were used in the formula for the stock options granted during the fiscal year ending June 30, 2019:

Expected Volatility		15.64 %
Risk-free interest rate		2.70 %
Expected dividend yield		—
Expected life (in years)		5.00
Exercise price for the stock options	$	12.00

Expected volatility – Based on the historical volatility of share price of the Company.

Risk-free interest rate – Based on the U.S. Treasury yield curve and expected life of the options at the time of grant.

Dividend yield – The Company had not paid any dividends at the time of valuation.

Expected life – Based on five-year vesting period.

Exercise price for the stock options – Based on the closing price of the Company's stock on the date of grant.

Restricted stock awards are accounted for as fixed grants using the fair value of the Company's stock at the time of the grant. Unvested restricted stock awards may not be disposed of or transferred during the vesting period. Restricted stock awards carry with them the right to receive dividends.

The table below represents the restricted stock award activity for the period shown:

	Service-Based Stock Awards		Weighted Grant Date Fair Value
Non-vested at July 1, 2017	89,125	$	6.97
Vested	(26,320)		7.03
Non-vested at June 30, 2018	62,805	$	9.14
Non-vested at July 1, 2018	62,805	$	9.14
Granted	3,350		12.00
Vested	(19,986)		8.27
Non-vested at June 30, 2019	46,169	$	9.73

As of June 30, 2019, there was $459,616 of total unrecognized compensation costs related to non-vested restricted stock awards. The cost is expected to be recognized over a weighted-average period of 3.0 years. Compensation expense attributable to the restricted stock awards totaled $158,227 and $179,050 for the years ended June 30, 2019 and 2018, respectively.

Note 12. Earnings per Share

Amounts reported in earnings per share reflect earnings available to common stockholders for the period divided by the weighted average number of shares of common stock outstanding during the year. Diluted earnings per share is calculated by dividing earnings available to common stockholders for the period by the sum of the weighted average common shares outstanding and the weighted average dilutive shares.

The following table presents a reconciliation of the components used to compute basic earnings per share for the years ended June 30:

	For the year ended June 30,	
	2019	2018
Weighted average common shares outstanding	3,341,690	3,321,162
Net income available to common stockholders	$ 1,581,687	$ 1,408,979
Basic earnings per share	$ 0.47	$ 0.42

The following table presents a reconciliation of the components used to compute diluted earnings per share for the years ended June 30:

	For the year ended June 30,	
	2019	2018
Weighted average common shares outstanding	3,341,690	3,321,162
Weighted average of net additional shares from restricted stock awards	22,207	20,983
Weighted average number of shares outstanding	3,363,897	3,342,145
Net income available to common stockholders	$ 1,581,687	$ 1,408,979
Diluted earnings per share	$ 0.47	$ 0.42

Note 13. Loan Commitments and Other Related Activities

The Company is party to various financial instruments with off-balance-sheet risk. The Company uses these financial instruments in the normal course of business to meet the financing needs of customers and to effectively manage exposure to interest rate risk. These financial instruments include commitments to extend credit, standby letters of credit, and unused lines of credit. When viewed in terms of the maximum exposure, these instruments may involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets. Credit risk is the possibility that a counterparty to a financial instrument will be unable to perform its contractual obligations. Interest rate risk is the possibility that, due to changes in economic conditions, the Company's net interest income will be adversely affected.

The following is a summary of the contractual or notional amount of each significant class of off-balance-sheet financial instruments outstanding. The Company's exposure to credit loss in the event of nonperformance by the counterparty for commitments to extend credit, standby letters of credit, and unused lines of credit is represented by the contractual or notional amount of these instruments.

The contractual or notional amounts as of June 30 are as follows:

	2019	2018
Financial instruments wherein contractual amounts represent credit risk:		
Commitments to extend credit	$ 10,077,110	$ 13,370,000
Standby letters of credit	238,760	226,000
Unused lines of credit	40,880,097	33,933,000

At June 30, 2019, fixed-rate commitments were approximately $26,857,000.

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 Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if it is deemed necessary, by the Company upon extension of credit, is based on management's credit evaluation of the counterparty. The collateral held varies but primarily consists of single-family residential real estate.

The Company is party to an operating lease for a branch facility, with expiration in June 2022. Future commitments under the operating lease approximate the following:

Year Ending June 30,		
2020	$	110,000
2021		110,000
2022		110,000

Rental expense, included in occupancy and equipment expense in the consolidated statements of income, totaled approximately $135,000 and $122,000 for the years ended June 30, 2019 and 2018, respectively.

Note 14. Fair Value Measurements

The Fair Value Measurements and Disclosures Topic of the FASB Accounting Standards Codification defines fair value, establishes a framework for measuring fair value and requires disclosure of fair value measurements. The fair value hierarchy set forth in the Topic is as follows:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

There were no transfers between levels during the years ended June 30, 2019 and 2018, nor were there any changes in valuation techniques used for assets or liabilities measured at fair value at June 30, 2019 and 2018.

Assets and liabilities recorded at fair value on a recurring basis: A description of the valuation methodologies used for assets and liabilities measured at fair value on a recurring basis, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below:

Securities Available-for-Sale — Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities would include highly liquid government bonds and exchange traded equities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flow. Level 2 securities would include U.S. agency securities, mortgage-backed agency securities, obligations of states and political subdivisions and certain corporate, asset backed and other securities. In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy.

The following tables summarize assets and liabilities measured at fair value on a recurring basis as of June 30, 2019 and 2018, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	Fair Value Measurement at June 30, 2019 Using			
	Total	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Assets				
Securities available-for-sale				
U.S. Government-sponsored agencies securities	$ 4,985,389	$ —	$ 4,985,389	$ —
Securities available-for-sale	4,379,061	—	4,379,061	—
	$ 9,364,450	$ —	$ 9,364,450	$ —

	Fair Value Measurement at June 30, 2018 Using			
	Total	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Assets				
Securities available-for-sale				
U.S. Government-sponsored agencies securities	$ 946,993	$ —	$ 946,993	$ —
Securities available-for-sale	325,923	—	325,923	—
	$ 1,272,916	$ —	$ 1,272,916	$ —

Assets and liabilities recorded at fair value on a nonrecurring basis: A description of the valuation methodologies used for assets and liabilities measured at fair value on a nonrecurring basis, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

Impaired Loans — From time to time, a loan is considered impaired and an allowance for credit losses is established. The specific reserves for collateral dependent impaired loans are based on the fair value of the collateral less estimated costs to sell. The fair value of collateral was determined based on appraisals. In some cases, adjustments were made to the appraised values due to various factors including age of the appraisal, age of comparables included in the appraisal, and known changes in the market and in the collateral. When significant adjustments were based on unobservable inputs, the resulting fair value measurement has been categorized as a Level 3 measurement.

Foreclosed Assets — Foreclosed assets are carried at estimated fair value of the property, less disposal costs. The fair value of the property is determined based upon appraisals. As with impaired loans, if significant adjustments are made to the appraised value, based on unobservable inputs, the resulting fair value measurement has been categorized as a Level 3 measurement.

At June 30, 2019 and 2018 the fair value of impaired loans and foreclosed assets were immaterial.

The Financial Instruments Topic of the FASB Accounting Standards Codification requires disclosure of fair value information about financial instruments, whether or not recognized in the balance sheet, for which it is practicable to estimate that value. Fair value is determined under the framework discussed above. The Topic excludes all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company. The following methods and assumptions used in estimating fair value disclosure for financial instruments are described below:

Cash and due from financial institutions — For cash and due from financial institutions, the current carrying amount is a reasonable estimate of fair value.

Interest-earning deposits — For interest-earning deposits, the current carrying amount is a reasonable estimate of fair value.

Time deposits with financial institutions — The fair value of fixed rate time deposits is estimated by discounting the future cash flows using the current rates for the same remaining maturities. The fair value of variable rate time deposits approximates carrying value.

Securities — The fair value of securities is determined using quoted prices, when available in an active market. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or a discounted cash flows model.

Federal Home Loan Bank stock — For restricted equity securities, the carrying value approximates fair value.

Federal Reserve stock – For restricted equity securities, the carrying value approximates fair value.

Loans, net — The fair value of fixed rate loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. The fair value of variable rate loans approximates carrying value.

Mortgage servicing rights — The fair value is based on a discounted cash flow analysis calculated using a proprietary valuation model from a third party.

Deposits — The carrying value of noninterest-bearing deposits approximates fair value. The fair value of fixed rate deposits is estimated by discounting the future cash flows using the current rates for the same remaining maturities.

Federal Home Loan Bank borrowings — The estimated fair value of fixed rate advances from the FHLB is determined by discounting the future cash flows of existing advances using rates currently available on advances from the FHLB having similar characteristics. Adjustable rate advances' carrying value approximates fair value.

Accrued interest — The carrying amounts of accrued interest approximate fair value.

Off-balance sheet items — The fair value of off-balance-sheet items is based on current fees or cost that would be charged to enter into or terminate such arrangements. These were not considered material and are not presented in the below tables.

The estimated fair value of financial instruments is as follows:

June 30, 2019	**Fair Value Hierarchy Level**	**Carrying Amount**	**Estimated Fair Value**
Financial assets:			
Cash and due from financial institutions	Level 1	$ 3,149,820	$ 3,150,000
Interest-earning deposits	Level 1	1,409,852	1,410,000
Securities available-for-sale	See previous table	9,364,450	9,364,000
Securities held-to-maturity	Level 2	270,475	274,000
Federal Home Loan Bank stock	Level 1	325,300	325,000
Federal Reserve stock	Level 1	469,200	469,000
Loans, net	Level 2	300,087,266	302,665,000
Mortgage servicing rights	Level 2	963,403	1,015,070
Credit enhancement receivable	Level 2	118,610	119,000
Accrued interest receivable	Level 1	2,120,629	2,121,000
Financial liabilities:			
Noninterest-bearing deposits	Level 2	33,199,553	33,200,000
Interest-bearing deposits	Level 2	250,141,818	255,707,000
Federal Home Loan Bank Borrowings	Level 2	5,000,000	5,000,000
Accrued interest payable	Level 1	213,636	214,000

June 30, 2018	Fair Value Hierarchy Level	Carrying Amount	Estimated Fair Value
Financial assets:			
Cash and due from financial institutions	Level 1	$ 2,743,454	$ 2,743,000
Interest-earning deposits	Level 1	2,010,889	2,011,000
Securities available-for-sale	See previous table	1,272,916	1,273,000
Securities held-to-maturity	Level 2	700,154	700,000
Federal Home Loan Bank stock	Level 1	283,600	284,000
Loans, net	Level 2	264,781,238	259,143,000
Mortgage servicing rights	Level 2	872,044	1,383,000
Credit enhancement receivable	Level 2	118,610	119,000
Accrued interest receivable	Level 1	1,582,699	1,583,000
Financial liabilities:			
Noninterest-bearing deposits	Level 2	34,310,163	34,310,000
Interest-bearing deposits	Level 2	202,677,976	204,190,000
Lines of credit	Level 2	1,543,000	1,543,000
Federal Home Loan Bank borrowings	Level 2	5,000,000	4,997,000
Accrued interest payable	Level 1	114,752	115,000

Note 15. Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss components at June 30 were as follows:

	June 30, 2019	June 30, 2018
Unrealized holding losses on securities available-for-sale	$ (3,386)	$ (48,992)
Tax expense	711	13,747
	$ (2,675)	$ (35,245)

Note 16. Transactions with Related Parties

In the ordinary course of business, the Company granted loans to principal officers, directors, and their affiliates. Annual activity consisted of the following for the year ended June 30:

	2019	2018
Beginning balance	$ 5,000,779	$ 5,736,349
New loans or transfers in	3,831,524	1,395,704
Repayments or transfers out	(665,378)	(2,131,274)
Ending balance	$ 8,166,925	$ 5,000,779

Deposits from principal officers, directors, and their affiliates at June 30, 2019 and 2018 approximated $1,173,000 and $568,000, respectively.

Note 17. Subsequent Events

Subsequent events have been evaluated through October 14, 2019, which is the date the financial statements were issued.