MORRIS STATE BANCSHARES, INC., AND SUBSIDIARIES
DUBLIN, GEORGIA

CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2020 AND 2019 AND INDEPENDENT AUDITOR'S REPORT

MORRIS STATE BANCSHARES, INC., AND SUBSIDIARIES

CONTENTS

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Morris State Bancshares, Inc.
Dublin, GA

We have audited the accompanying consolidated financial statements of Morris State Bancshares, Inc. and Subsidiary, which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the years ended 2020, 2019, and 2018, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Morris State Bancshares, Inc. and its subsidiary as of December 31, 2020 and 2019, and the results of their operations and their cash flows for the year ended 2020, 2019, and 2018 in accordance with accounting principles generally accepted in the United States of America.

Nichols, Cauley + Associates, LLC

Dublin, Georgia
March 19, 2021

MORRIS STATE BANCSHARES, INC., AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31

ASSETS

	2020	2019
Cash and Cash Equivalents		
Cash and Due from Banks	**$ 56,290,263**	$ 77,696,887
Federal Funds Sold	**93,200,409**	16,293,628
	149,490,672	93,990,515
Interest-Bearing Time Deposits in Other Banks	**350,000**	1,350,000
Securities Available for Sale, at Fair Value	**205,427,670**	124,315,098
Securities Held to Maturity, at Cost	**12,730,837**	4,752,384
Federal Home Loan Bank Stock, Restricted, at Cost	**899,700**	842,900
Equity Investment, at Cost	**3,500,000**	-
Loans, net of Unearned Income	**837,333,160**	738,886,405
Allowance for Loan Losses	**(10,781,434)**	(9,716,060)
Loans, Net	**826,551,726**	729,170,345
Bank Premises and Equipment, Net	**15,348,697**	15,618,198
Right of Use Asset for Operating Lease, Net	**641,008**	519,601
Goodwill	**9,361,770**	9,361,770
Intangible Assets, Net	**2,717,311**	3,067,075
Other Real Estate and Foreclosed Assets	**141,255**	396,486
Accrued Interest Receivable	**4,763,850**	3,962,808
Cash Surrender Value of Life Insurance	**13,620,443**	13,248,384
Other Assets	**4,283,312**	6,352,407
Total Assets	**$ 1,249,828,251**	$ 1,006,947,971

See accompanying notes which are an integral part of these financial statements.

MORRIS STATE BANCSHARES, INC., AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31

LIABILITIES AND SHAREHOLDERS' EQUITY

	2020	2019
Deposits		
Noninterest Bearing	**$ 282,746,776**	$ 195,016,772
Interest Bearing	**804,440,237**	682,509,497
Total Deposits	**1,087,187,013**	877,526,269
Other Borrowed Funds	**28,677,477**	14,483,605
Lease Liability for Operating Lease	**641,008**	519,601
Accrued Interest Payable	**269,881**	537,598
Accrued Expenses and Other Liabilities	**3,633,788**	2,455,266
Total Liabilities	**1,120,409,167**	895,522,339
Shareholders' Equity		
Common Stock, $1 Par Value, Authorized 10,000,000 Shares, 2,144,766 Issued and 2,093,839 Outstanding in 2020 and 2,144,766 Issued and 2,098,249 Outstanding in 2019	**2,144,766**	2,144,766
Paid-In Capital Surplus	**39,292,064**	39,292,064
Retained Earnings	**83,266,070**	69,537,950
Accumulated Other Comprehensive Income	**6,381,381**	1,830,484
Treasury Stock, at Cost 50,927 shares in 2020 and 46,517 Shares in 2019	**(1,665,197)**	(1,379,632)
Total Shareholders' Equity	**129,419,084**	111,425,632
Total Liabilities and Shareholders' Equity	**$ 1,249,828,251**	$ 1,006,947,971

See accompanying notes which are an integral part of these financial statements.

MORRIS STATE BANCSHARES, INC., AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31

	2020	2019	2018
Interest and Dividend Income			
Loans, Including Fees	**$ 50,465,808**	$ 43,205,235	$ 35,472,471
Interest on Securities	**4,015,456**	2,885,822	1,755,255
Income on Federal Funds Sold	**103,208**	513,422	312,613
Income on Time Deposits Held in Other Banks	**20,511**	36,218	42,579
Other Interest and Dividend Income	**325,826**	1,027,100	396,993
Total Interest and Dividend Income	**54,930,809**	47,667,797	37,979,911
Interest Expense			
Deposits	**5,037,791**	7,963,852	5,408,394
Interest on Other Borrowed Money	**1,094,608**	733,330	319,560
Interest on Federal Funds Purchased	**72**	151	946
Total Interest Expense	**6,132,471**	8,697,333	5,728,900
Net Interest Income Before Provision for Loan Losses	**48,798,338**	38,970,464	32,251,011
Provision for Loan Losses	**(3,635,000)**	(1,650,000)	(1,425,000)
Net Interest Income After Provision for Loan Losses	**45,163,338**	37,320,464	30,826,011
Noninterest Income			
Service Charges on Deposit Accounts	**1,951,402**	2,303,975	1,852,192
Other Service Charges, Commissions and Fees	**1,282,847**	827,908	687,802
Gain on Sales of Loans	**187,006**	263,029	47,493
Increase in CSV of Life Insurance	**372,060**	213,246	183,956
Other Income	**366,821**	401,952	394,494
Total Noninterest Income	**4,160,136**	4,010,110	3,165,937
Noninterest Expenses			
Salaries	**13,198,826**	11,378,897	8,840,754
Employee Benefits	**3,338,730**	2,831,842	2,265,479
Net Occupancy Expense	**2,528,292**	2,269,686	1,666,663
Equipment Rental and Depreciation of Equipment	**121,716**	102,862	105,290
Impariment Recognized on Other Real Estate Held for Sale	**-**	236,064	124,101
Loss (Gain) on Sales and Calls of Securities	**(46,323)**	24,471	3,351
Loss (Gain) on Sales of Forclosed Assets and Other Real Estate	**74,095**	(270,572)	141,799
Loss (Gain) on Sales of Premises and Equipment	**(4,000)**	(1,000)	435
Other Expenses	**8,848,343**	9,028,665	5,607,932
Total Noninterest Expenses	**28,059,679**	25,600,915	18,755,804
Income Before Income Taxes	**21,263,795**	15,729,659	15,236,144
Provision for Income Taxes	**(3,855,806)**	(2,108,705)	-
Net Income	**$ 17,407,989**	$ 13,620,954	$ 15,236,144
Earnings Per Common Share			
Basic	$ 8.31	$ 6.87	$ 8.34
Diluted	$ 8.31	$ 6.87	$ 8.34

See accompanying notes which are an integral part of these financial statements.

MORRIS STATE BANCSHARES, INC., AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31

	2020	2019	2018
Net Income	**$ 17,407,989**	$ 13,620,954	$ 15,236,144
Other Comprehensive Income (Loss)			
Unrealized Holding Gains (Losses) on Available for Sale Debt Securities	**5,806,981**	2,749,874	(671,297)
Reclassification Adjustment for (Gains) Losses Realized in Income	**(46,323)**	24,471	3,351
Net Unrealized Gains (Losses)	**5,760,658**	2,774,345	(667,946)
Tax Effect	**(1,209,761)**	(486,614)	-
Total Other Comprehensive Income (Loss)	**4,550,897**	2,287,731	(667,946)
Total Comprehensive Income	**$ 21,958,886**	$ 15,908,685	$ 14,568,198

See accompanying notes which are an integral part of these financial statements.

MORRIS STATE BANCSHARES, INC., AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2020, 2019 AND 2018

	Common Stock	Paid-In Capital Surplus	Retained Earning	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance- December 31, 2017	$ 1,855,548	$ 22,837,933	$ 47,332,599	$ 210,699	$ (1,211,099)	$ 71,025,680
Issuance of Common Stock	27,192	1,387,249	-	-	-	1,414,441
Net Income	-	-	15,236,144	-	-	15,236,144
Other Comprehensive Loss	-	-	-	(667,946)	-	(667,946)
Cash Dividends	-	-	(4,776,154)	-	-	(4,776,154)
Balance - December 31, 2018	1,882,740	24,225,182	57,792,589	(457,247)	(1,211,099)	82,232,165
Issuance of Common Stock	262,026	15,066,882	-	-	-	15,328,908
Purchase of Treasury Stock	-	-	-	-	(168,533)	(168,533)
Net Income	-	-	13,620,954	-	-	13,620,954
Other Comprehensive Income	-	-	-	2,287,731	-	2,287,731
Cash Dividends	-	-	(1,875,593)	-	-	(1,875,593)
Balance - December 31, 2019	2,144,766	39,292,064	69,537,950	1,830,484	(1,379,632)	111,425,632
Purchase of Treasury Stock	-	-	-	-	(285,565)	(285,565)
Net Income	-	-	17,407,989	-	-	17,407,989
Other Comprehensive Income	-	-	-	4,550,897	-	4,550,897
Cash Dividends	-	-	(3,679,869)	-	-	(3,679,869)
Balance - December 31, 2020	**$ 2,144,766**	**$ 39,292,064**	**$ 83,266,070**	**$ 6,381,381**	**$ (1,665,197)**	**$ 129,419,084**

See accompanying notes which are an integral part of these financial statements.

MORRIS STATE BANCSHARES, INC., AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31

	2020	2019	2018
Cash Flows from Operating Activities			
Net Income	**$ 17,407,989**	$ 13,620,954	$ 15,236,144
Adjustments to Reconcile Net Income to			
Net Cash Provided by Operating Activities			
Provision for Loan Losses	**3,635,000**	1,650,000	1,425,000
Depreciation	**924,175**	815,912	585,214
Impairment Recognized on Other Real Estate Held for Sale	**-**	236,064	124,101
Loss (Gain) on Sales of Foreclosed Assets,			
Other Real Estate and Property, Net	**74,095**	(271,572)	142,234
Gain on Sales of Loans	**(187,006)**	(263,029)	(47,493)
Net Amortization on Securities	**598,328**	272,731	428,753
(Gain) Loss on Sales/Calls of Investment Securities	**(46,323)**	24,471	3,351
Increase in CSV Life Insurance	**(372,059)**	(213,246)	(183,956)
Amortization of Intangible Assets	**349,764**	250,427	49,910
Amortization of Operating Lease Right-of-Use Assets	**237,487**	166,865	-
Amortization of Operating Lease Liabilities	**(237,487)**	(166,865)	-
Changes in			
Accrued Income and Other Assets	**54,292**	(2,347,547)	(418,201)
Accrued Expenses and Other Liabilities	**676,106**	(192,184)	(147,370)
Net Cash Provided by Operating Activies	**23,114,361**	13,582,981	17,197,687
Cash Flows from Investing Activities			
Net Change in Loans to Customers	**(103,648,447)**	(20,267,499)	(57,664,779)
Proceeds from Sales of Loans	**2,053,231**	3,444,665	1,126,545
Net Change in Interest-Bearing Time Deposits in Other Banks	**1,000,000**	748,000	150,000
Purchase of Available Sale Securties	**(107,326,745)**	(47,964,278)	(27,827,884)
Proceeds from Sales of Available for Sale Securities	**89,271**	4,476,588	507,207
Proceeds from Maturities/Calls/Paydowns of Available for Sale Securities	**31,353,232**	22,886,781	6,766,359
Purchase of Held to Maturity Securities	**(8,250,000)**	-	-
Proceeds from Maturities/Calls/Paydowns of Held to Maturity Securities	**251,870**	933,066	191,342
Proceeds from Redemption of Federal Home Loan Bank Stock	**-**	150,400	150,300
Purchase of Federal Home Loan Bank Stock	**(56,800)**	-	-
Purchase of Equity Investment	**(3,500,000)**	-	-
Acquisition of FMB, Net of Cash and Cash Equivalents Acquired	**-**	10,830,569	-
Purchase of Bank-Owned Life Insurance	**-**	(6,000,000)	-
Property and Equipment Expenditures	**(668,174)**	(2,064,619)	(430,894)
Proceeds from Sales of Property and Equipment	**17,500**	1,000	573,473
Proceeds from Sales of Other Real Estate and Repossessed Assets	**946,977**	1,628,044	1,781,295
Net Cash Used in Investing Activities	**(187,738,085)**	(31,197,283)	(74,677,036)
Cash Flows from Financing Activities			
Net Change in Deposits	**209,660,744**	54,516,193	62,716,544
Proceeds from Other Borrowed Funds	**15,000,000**	13,912,176	-
Repayment of Other Borrowed Funds	**(571,429)**	(13,409,714)	(3,285,713)
Purchase of Treasury Stock	**(285,565)**	(168,533)	-
Proceeds from Issuance of Common Stock	**-**	15,328,908	1,414,441
Cash Dividends Paid	**(3,679,869)**	(1,875,593)	(4,776,154)
Net Cash Provided by Financing Activities	**220,123,881**	68,303,437	56,069,118
Net Increase (Decrease) in Cash and Cash Equivalents	**55,500,157**	50,689,135	(1,410,231)
Cash and Cash Equivalents, Beginning	**93,990,515**	43,301,380	44,711,611
Cash and Cash Equivalents, Ending	**$ 149,490,672**	$ 93,990,515	$ 43,301,380

See accompanying notes which are an integral part of these financial statements.

MORRIS STATE BANCSHARES, INC., AND SUBSIDIARIES
SUPPLEMENTARY INFORMATION TO CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31

	2020	2019	2018
Cash Paid for Interest			
Interest on Deposits	**$ 5,265,435**	$ 7,840,680	$ 5,340,507
Interest on Borrowings	**$ 1,134,753**	$ 720,989	$ 326,379
Noncash Items			
Changes in Unrealized Gain/Loss on Securities Available for Sale	**$ 5,760,658**	$ 2,287,731	$ (667,946)
Transfer of Loans to Other Real Estate and Foreclosed Assets	**$ 765,841**	$ 1,181,121	$ 1,702,912
Transfer of Other Real Estate and Foreclosed Assets to Loans	**$ -**	$ 27,025	$ 14,800
Initial Recognition of Operating Lease Right-of-Use Assets	**$ 358,894**	$ 679,386	$ -
Initial Recognition of Operating Lease Liabilities	**$ (358,894)**	$ (679,386)	$ -
Right-of-Use Assets Obtained in Exchange for New Operating Lease Liabilities	**$ -**	$ 7,080	$ -

See accompanying notes which are an integral part of these financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of Significant Accounting Policies

The accounting and reporting policies of Morris State Bancshares, Inc. (the "Company") and Subsidiaries conform with generally accepted accounting principles in the United States of America ("GAAP") and with general practices within the banking industry. The following is a description of the more significant of those policies the Company follows in preparing and presenting its financial statements.

Principles of Consolidation

The consolidated financial statements include the accounts of Morris State Bancshares, Inc. and its wholly owned subsidiaries, Morris Bank (the "Bank") and IMOR Properties LLC. All significant intercompany balances and transactions have been eliminated in consolidation.

Reporting Entity

The Company was formed on July 1, 1989, as Morris State Bancshares, Inc., and operates as a bank holding company with one bank subsidiary. At December 31, 2020, the Company owned 100 percent of Morris Bank, Dublin, Georgia. The Bank provides a variety of financial services to individuals and small businesses through its offices in middle Georgia. The Bank offers a full range of commercial and personal loan products. The Bank makes loans to individuals for purposes such as home mortgage financing, personal vehicles and various consumer purchases and other personal and family needs. The Bank makes commercial loans to businesses for purposes such as providing equipment and machinery purchases, commercial real estate purchases and working capital. The Bank offers a full range of deposit services that are typically available from financial institutions, including NOW accounts, demand, savings, and other time deposits. In addition, retirement accounts such as Individual Retirement Accounts are available. All deposit accounts are insured by the FDIC up to the maximum amount currently permitted by law.

During 2015, the Company established IMOR Properties, LLC with 100 percent ownership. At December 31, 2020, the Company owned 100 percent of IMOR Properties, LLC. IMOR Properties, LLC was established by the Company as a subsidiary for holding real property.

On April 30, 2019, the Company acquired 100 percent ownership of FMB Equibanc, Inc. ("FMB"). Upon consummation of the acquisition, FMB was merged with and into the Company, with Morris State Bancshares, Inc. as the surviving entity in the merger. At that time, FMB's wholly owned banking subsidiary, Farmers & Merchants Bank, was also merged with and into the Bank. The acquisition expanded the Company's existing market presence, as Farmers & Merchants Bank, had three full-service branches located in Statesboro, Georgia, and the surrounding area.

Acquisition Accounting

Acquisitions are accounted for under the purchase method of accounting. Purchased assets and assumed liabilities are recorded at their estimated fair values as of the purchase date. Any identifiable intangible assets are also recorded at fair value. When the fair value of the assets purchased exceeds the fair value of liabilities assumed, it results in a "bargain purchase gain." If the consideration given exceeds the fair value of the net assets received, goodwill is recognized. Fair values are subject to refinement for up to one year after the closing date of an acquisition as information relative to closing date fair values becomes available.

(1) Summary of Significant Accounting Policies (Continued)

Acquisition Accounting (Continued)

All identifiable intangible assets that are acquired in a business combination are recognized at fair value on the acquisition date. Identifiable intangible assets are recognized separately if they arise from contractual or other legal rights or if they are separable (i.e., capable of being sold, transferred, licensed, rented, or exchanged separately from the entity). Because deposit liabilities and the related customer relationship intangible assets may be exchanged in a sale or exchange transaction, the intangible asset associated with the depositor relationship is considered identifiable.

Purchased loans acquired in a business combination are recorded at estimated fair value on their purchase date and prohibit the carryover of the related allowance for loan losses. When the loans have evidence of credit deterioration since origination and it is probable at the date of acquisition that the Company will not collect all contractually required principal and interest payments, the difference between contractually required payments at acquisition and the cash flows expected to be collected at acquisition is referred to as the nonaccretable discount. The Company must estimate expected cash flows at each reporting date. Subsequent decreases to the expected cash flows will generally result in a provision for loan losses. Subsequent increases in cash flows result in a reversal of the provision for loan losses to the extent of prior provisions and adjust accretable discount if no prior provisions have been made. This increase in accretable discount will have a positive impact on interest income. In addition, purchased loans without evidence of credit deterioration are also handled under this method.

Securities

The classification of securities is determined at the date of purchase. Gains or losses on the sale of securities are recognized on a specific identification basis.

Securities available for sale, primarily debt securities, are recorded at fair value with unrealized gains or losses excluded from earnings and reported as a component of shareholders' equity. Securities available for sale will be used as a part of the Company's interest rate risk management strategy and may be sold in response to changes in interest rates, changes in prepayment risk, and other factors.

Held to maturity securities, primarily debt securities, are stated at cost, net of the amortization of premium and the accretion of discount. The Company intends and has the ability to hold such securities on a long-term basis or until maturity.

Mortgage-backed securities represent participating interests in pools of long-term first mortgage loans originated and serviced by issuers of the securities. Mortgage-backed securities are carried at unpaid principal balances, adjusted for unamortized premiums and unearned discounts.

The market value of securities is generally based on quoted market prices. If a quoted market price is not available, market value is estimated using quoted market prices for similar securities.

Premiums and discounts are recognized in interest income using the interest method over the period to maturity.

(1) Summary of Significant Accounting Policies (Continued)

Loans and Interest Income

Loans are stated at the amount of unpaid principal, reduced by net deferred loan fees, unearned discounts, and a valuation allowance for possible loan losses. Interest on simple interest installment loans and other loans is calculated by using the simple interest method on daily balances of the principal amount outstanding. Loans are generally placed on nonaccrual status when full payment of principal or interest is in doubt, or when they are past due 90 days as to either principal or interest. Senior management may grant a waiver from nonaccrual status if a past due loan is well secured and in process of collection. A nonaccrual loan may be restored to accrual status when all principal and interest amounts contractually due, including payments in arrears, are reasonably assured of repayment within a reasonable period, and there is a sustained period of performance by the borrower in accordance with the contractual terms of the loan. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received.

Allowance for Loan Losses

The allowance for loan losses is available to absorb losses inherent in the credit extension process. The entire allowance is available to absorb losses related to the loan and lease portfolio and other extensions of credit, including off-balance sheet credit exposures. Credit exposures deemed to be uncollectible are charged against the allowance for loan losses. Recoveries of previously charged-off amounts are credited to the allowance for loan losses. Additions to the allowance for loan losses are made by charges to the provision for loan losses.

The allowance for loan losses is maintained at a level, which, in management's judgment, is adequate to absorb credit losses inherent in the loan portfolio. The amount of the allowance is based on management's evaluation of the collectability of the loan portfolio, including the nature of the portfolio, credit concentrations, trends in historical loss experience, specific impaired loans, economic conditions, and other risks inherent in the portfolio. Allowances for impaired loans are generally determined based on collateral values or the present value of estimated cash flows. Although management uses available information to recognize losses on loans, because of uncertainties associated with local economic conditions, collateral values, and future cash flows on impaired loans, it is reasonably possible that a material change could occur in the allowance for loan losses in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

A loan is considered impaired when, based on current information and events, it is probable that a creditor will not be able 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 loan-by-loan 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. Substantially all of the Bank's loans, which have been identified as impaired, have been measured by the fair value of existing collateral.

Large groups of smaller balance homogenous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer loans for impairment disclosures.

(1) Summary of Significant Accounting Policies (Continued)

Premises and Equipment

Land is carried at cost. Other premises and equipment are stated at cost, less accumulated depreciation. Depreciation is charged to operating expenses over the estimated useful lives of the assets and is computed on the straight-line method. In general, estimated lives for buildings are up to 40 years, furniture, and equipment (including vehicles) useful lives range from five to 20 years, and the lives of software and computer related equipment range from three to five years. Leasehold improvements are amortized over the life of the related lease, or the related assets, whichever is shorter. Expenditures for major improvements of the Company's premises and equipment are capitalized and depreciated over their estimated useful lives. Minor repairs, maintenance and improvements are charged to operations as incurred. When assets are sold or disposed of, their cost and related accumulated depreciation are removed from the accounts and any gain or loss is reflected in earnings.

Goodwill and Intangible Assets

Goodwill represents the excess of cost over the fair value of the net assets purchased in business combinations. Goodwill is required to be tested annually for impairment or whenever events occur that may indicate that the recoverability of the carrying amount is not probable. In the event of an impairment, the amount by which the carrying amount exceeds the fair value is charged to earnings. At December 31, 2020, the Company's annual testing identified no impairment; accordingly, no impairment was recorded for the year.

Intangible assets consist of core deposit premiums acquired in connection with business combinations and are based on the established value of acquired customer deposits. The core deposit premium is initially recognized based on a valuation performed as of the consummation date and is amortized over an estimated useful life of ten years. Amortization periods are reviewed annually in connection with the annual impairment testing of goodwill.

Other Real Estate

Other real estate, acquired principally through foreclosure, is stated at fair value less cost to sell. Loan losses incurred in the acquisition of these properties are charged against the allowance for possible loan losses at the time of foreclosure. Subsequent write-downs of other real estate owned are charged against the current period's expense.

Cash Surrender Value of Life Insurance ("BOLI")

The Bank has purchased life insurance on the lives of certain Bank officers. The beneficial aspects of these life insurance policies are tax-free earnings and a tax-free death benefit, which are realized by the Bank as the owner of the policies. The cash surrender value of these policies is included as an asset on the balance sheets, and any increases in cash surrender value are recorded as noninterest income in the statements of income

(1) Summary of Significant Accounting Policies (Continued)

Income Taxes and Change in Tax Status

For the year ended December 31, 2018 and prior years, the Company with the consent of its shareholders elected to be taxed under sections of federal and Georgia income tax law which provide that, in lieu of corporate income taxes, the shareholders separately account for their pro rata shares of the Company's income, deductions, losses, and credits. On March 19, 2019, the Company's shareholders terminated this election effective with the year beginning on January 1, 2019.

As a result of the January 1, 2019 termination, on that date, the Company recorded a net deferred tax asset of $1,965,947, by a credit to income tax expense, for temporary differences between the financial reporting and the income tax basis of property and equipment, reserve for bad debts, and deferred compensation. The deferred tax asset related to deferred compensation is $76,177.

Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Investment tax credits are accounted for by the flow-through method whereby they reduce income taxes currently payable and the provision for income taxes in the period the assets giving rise to such credits are placed in service. To the extent such credits are not currently utilized on the Company's tax return, deferred tax assets, subject to considerations about the need for a valuation allowance, are recognized for the carryforward amount.

The Company recognizes 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 financial statements from such a position are measured based on the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement. The amount of unrecognized tax benefits is adjusted as appropriate for changes in facts and circumstances, such as significant amendments to existing tax law, new regulations or interpretations by the taxing authorities, new information obtained during a tax examination, or resolution of an examination.

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

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, highly liquid debt instruments purchased with an original maturity of three months or less, and federal funds sold. Generally, federal funds are purchased and sold for one-day periods.

Securities Sold Under Agreement to Repurchase

Securities sold under agreement to repurchase are secured borrowings from customers and are treated as financing activities which are carried at the amounts at which the securities will be subsequently reacquired as specified in the respective agreements. The Bank had no such items outstanding as of December 31, 2020 or 2019.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The determination of the adequacy of the allowance for loan losses is based on estimates that are particularly susceptible to significant changes in the economic environment and market conditions. In connection with the determination of the estimated losses on loans, management obtains independent appraisals for significant collateral.

The Bank's loans are generally secured by specific items of collateral including real property, consumer assets and business assets. Although the Bank has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent on local economic conditions.

While management uses available information to recognize losses on loans, further reductions in the carrying amounts of loans may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the estimated losses on loans. Such agencies may require the Bank to recognize additional losses based on their judgments about information available to them at the time of their examination. Because of these factors, it is reasonably possible that the estimated losses on loans may change materially in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

Advertising Costs

It is the policy of the Company to expense advertising costs as they are incurred. The Company does not engage in any direct-response advertising and accordingly has no advertising costs reported as assets on its balance sheets. Amounts charged to advertising expense for the years ended December 31, 2020, 2019, and 2018 were $718,044, $505,494, and $283,726, respectively.

Stock Compensation Plans

The Bank has an employee stock ownership plan covering substantially all of its employees meeting age and length of service requirements. Contributions to the plan are made at the discretion of the Board of Directors. The Bank also adopted a 401(k) Plan during 1996 covering those employees qualifying for coverage under the employee stock ownership plan. Contributions to the plan are made at the discretion of the Board of Directors. The employee stock ownership plan and 401(k) Plan have merged into a single plan known as 401kSOP. The Bank also has a stock ownership plan which grants stocks to selected executives and other key employees. Stock grants under this plan vest over a period of three or five years.

(1) Summary of Significant Accounting Policies (Continued)

Earnings Per Common Share

Basic earnings per share represents income available to common shareholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflect additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed conversion. Potentially dilutive common shares are limited to preferred shares outstanding that would be converted to common shares upon change in control of the Company. As such, the average number of common shares outstanding used to calculate diluted earnings per share equals the total number of common and preferred shares outstanding less any shares held in treasury.

Earnings per common share have been computed based on the following for the years ended December 31:

	2020	2019	2018
Net Income Applicable to Common Shares	**$17,407,989**	$ 13,620,954	$ 15,236,144
Average Number of Common Shares Outstanding	**2,095,633**	1,983,180	1,826,422
Effect of Dilutive Options, Warrants, Etc.	**-**	-	-
Average Number of Common Shares Outstanding Used to Calculate Diluted Earnings Per Common Share	**2,095,633**	1,983,180	1,826,422

Comprehensive Income

GAAP generally requires that recognized revenues, expenses, gains, and losses be included in net earnings. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the equity section of the consolidated balance sheets, such items along with net earnings, are components of comprehensive income. The adoption of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) *Topic 220, Comprehensive Income*, had no effect on the Company's net income or shareholders' equity. The Company presents comprehensive income in a separate consolidated statement of comprehensive income.

Reclassifications

Certain accounts in the prior-year financial statements have been reclassified to conform to the presentation of current-year financial statements.

Federal Home Loan Bank Stock

Investment in stock of a Federal Home Loan Bank (FHLB) is required for every federally insured institution that utilizes its services. FHLB stock is considered restricted, as defined in FASB ASC *Topic 320, Investments - Debt and Equity Securities*; accordingly, the provisions of ASC *Topic 320* are not applicable to this investment. The FHLB stock is reported in the consolidated financial statements at cost. Dividend income is recognized when earned.

(1) Summary of Significant Accounting Policies (Continued)

Equity Investment

In December 2020, the Bank made a $3,500,000 perpetual investment in Commerce Home Mortgage. Commerce Home Mortgage is a Community Reinvestment Act ("CRA") credit origination firm, that will assist the Bank in meeting its CRA requirements. The Bank's investment is less than 20 percent and has been recorded at cost.

Changes in Accounting Principles and Effects of New Accounting Pronouncements

Accounting Standards Update (ASU) 2018-13 - *Fair Value Measurement (Topic 820)* ("ASU-2018-13"). The amendments in this update affect fair value measurement disclosure requirements by removing certain requirements, modifying certain requirements, and adding certain new requirements. Disclosure requirements removed include the following: transfers between Level 1 and Level 2 of the fair value hierarchy; the policy for determining when transfers between any of the three levels have occurred; the valuation processes for Level 3 measurements; and the changes in unrealized gains or losses presented in earnings for Level 3 instruments held at end of the reporting period. Disclosure requirements that have been modified include the following: for investments in certain entities that calculate net asset value, an entity is required to disclose the timing of liquidation of an investee's assets and the date when restrictions from redemption might lapse only if the investee has communicated the timing to the entity or announced the timing publicly; and clarification that the Level 3 measurement uncertainty disclosure should communicate information about the uncertainty at the balance sheet date. New disclosure requirements include the following: the changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 instruments held at the end of the reporting period; and the range and weighted average of significant unobservable inputs used for Level 3 measurements or disclosure of other quantitative information in place of the weighted average to the extent that it would be a more reasonable and rational method to reflect the distribution of unobservable inputs. ASU 2018-13 was effective for interim and annual periods beginning after December 15, 2019. The adoption of this standard did not have a material impact on the Company's fair value measurement disclosures.

ASU 2017-08 - *Premium Amortization on Purchased Callable Debt Securities (Subtopic 310-20)*. This update shortens the amortization period for certain callable debt securities held at a premium. Specifically, the amendments require the premium to be amortized to the earliest call date. For securities held at a discount, the discount will continue to be amortized to maturity. For private entities, this update was effective for fiscal years beginning after December 15, 2019, with modified retrospective application. The adoption of this update did not have a material impact on the Company's consolidated financial statements.

(1) Summary of Significant Accounting Policies (Continued)

Changes in Accounting Principles and Effects of New Accounting Pronouncements (Continued)

ASU 2016-13 - *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.* ASU 2016-13 significantly changes how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. The standard will replace the current incurred loss approach with an expected loss model, referred to as the current expected credit loss ("CECL") model. The new standard will apply to financial assets subject to credit losses and measured at amortized cost and certain off-balance sheet credit exposures, which include, but are not limited to, loans, leases, held-to-maturity securities, loan commitments and financial guarantees. ASU 2016-13 simplifies the accounting for purchased credit- impaired debt securities and loans and expands the disclosure requirements regarding an entity's assumptions, models, and methods for estimating the allowance for loan and lease losses. In addition, entities will need to disclose the amortized cost balance for each class of financial asset by credit quality indicator, disaggregated by the year of origination. ASU 2016-13 is effective for interim and annual reporting periods beginning after December 15, 2019. Early adoption is permitted for interim and annual reporting periods beginning after December 15, 2018. Upon adoption, ASU 2016-13 provides for a modified retrospective transition by means of a cumulative-effect adjustment to equity as of the beginning of the period in which the guidance is effective. While the Company is currently evaluating the impact, this standard will have on the results of operations, financial position and disclosures, the Company expects to recognize a one-time cumulative effect adjustment to the allowance for loan losses as of the beginning of the first reporting period in which the new standard is effective. On November 15, 2018, the FASB issued ASU 2018-19. The amendments in this update mitigate transition complexity by requiring that for nonpublic business entities the amendments in Update 2016-13 are effective for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. In November 2019, the FASB issued ASU 2019-10. The amendment in this update changed the effective implementation date of ASU 2016-13 to fiscal years beginning after December 15, 2022, including interim periods within those fiscal years, for all nonpublic reporting entities. The Company is currently evaluating the impact this standard will have on the Company's results of operations, financial position, or disclosures.

(2) Business Combinations

FMB Equibanc, Inc.

On April 30, 2019, the Company completed its acquisition of Equibanc, Inc. ("FMB"). Upon consummation of the acquisition, FMB was merged with and into the Company, with Morris State Bancshares, Inc. as the surviving entity in the merger. At that time, FMB's wholly owned banking subsidiary, Farmers & Merchants Bank, was also merged with and into the Bank. Under the terms of the merger agreement, FMB's stockholders received 0.1423 shares of Company common stock or $9.25 in cash for each share of FMB common stock or preferred stock they previously held. As a result, the Company issued 206,720 common shares at a fair value of $12,403,200 and paid $9,916,392 in cash to the former shareholders of FMB as merger consideration, resulting in an aggregate purchase price of $23,353,192.

(2) Business Combinations (Continued)

The following table presents the assets acquired and liabilities assumed as of April 30, 2019 and their fair value estimates. The fair value adjustments shown in the following table continue to be evaluated by management and may be subject to further adjustment:

	Recorded By FMB	Initial Fair Value Adjustment	Recorded By Morris Bank
Assets			
Cash and Due from Banks	$ 21,742,399	$ -	$ 21,742,399
Interest Bearing Deposits in Other Banks	8,412,067	-	8,412,067
Federal Funds Sold	4,100,000	-	4,100,000
AFS Securities	30,360,250	-	30,360,250
Restricted Investments	253,200	-	253,200
Loans, Net	113,480,243	(2,472,296)	111,007,947
Interest Receivable	603,077	-	603,077
Premises and Equipment	3,296,135	2,188,923	5,485,058
Other Real Estate	331,900	-	331,900
Deferred Taxes	3,804,635	(1,287,881)	2,516,754
Other Assets	427,292	(112,816)	314,476
Core Deposit Intangible	-	3,028,582	3,028,582
Total Assets	186,811,198	1,344,512	188,155,710
Liabilities			
Deposits			
Noninterest Bearing	57,218,320	-	57,218,320
Interest Bearing	110,216,875	66,389	110,283,264
Note Payable	4,124,000	-	4,124,000
Accrued Interest Payable	82,408	-	82,408
Other Liabilities	147,635	-	147,635
Total Liabilities	171,789,238	66,389	171,855,627
Net Identifiable Assets Acquired Over (Under) Liabilities Assumed	15,021,960	1,278,123	16,300,083
Goodwill	-	7,123,814	7,123,814
Net Assets Acquired Over Liabilities Assumed	$ 15,021,960	$ 8,401,937	$ 23,423,897
Consideration			
Cash Paid as Deposit Premium	$ 23,423,897		
Fair Value of Total Consideration Transferred	$ 23,423,897		

Goodwill in the amount of $7,123,814 which is the excess of the purchase consideration over the fair value of the net assets acquired, was recorded in the branch acquisitions and is the result of expected operational synergies and other factors.

Additionally, a core deposit intangible on the acquired core deposits in the amount of $3,028,582 was recognized to be amortized over a 10 year period. All other fair value adjustments presented were management's estimates of the values of the loans, premises, and deposits acquired from FMB.

(2) Business Combinations (Continued)

CertusBank

On September 28, 2015, the Company completed its acquisition of the Warner Robins, Georgia branch from CertusBank. The acquisition of the branch was accounted for using the acquisition method of accounting in accordance with FASB Accounting Standards Codification (ASC) 805, *Business Combinations*. Assets acquired, liabilities assumed, and consideration exchanged were recorded at their respective acquisition date fair values. Determining the fair value of assets and liabilities is a complicated process involving significant judgment regarding methods and assumptions used to calculate estimated fair values. Fair values are preliminary and subject to refinement for up to one year after the closing date of the acquisition as additional information regarding the closing date fair values becomes available. Management continues to evaluate its initial estimates regarding the valuation of loans, premises and intangible assets acquired.

The following table presents the assets acquired and liabilities assumed as of September 28, 2015 and their fair value estimates. The fair value adjustments shown in the following table continue to be evaluated by management and may be subject to further adjustment:

	Recorded By CertusBank	Initial Fair Value Adjustment	Recorded By Morris Bank
Assets			
Cash and Cash Equivalents	$ 47,981,741	$ -	$ 47,981,741
Loans	1,985,497	(11,059)	1,974,438
Premises and Equipment	642,461	626,311	1,268,772
Core Deposit Intangible	-	455,782	455,782
Accrued Interest Receivable	4,437	-	4,437
Total Assets	50,614,136	1,071,034	51,685,170
Liabilities			
Deposits			
Demand Deposits	27,192,878	-	27,192,878
Time Deposits	26,290,469	41,461	26,331,930
Other Liabilities	9,437	-	9,437
Total Liabilities	53,492,784	41,461	53,534,245
Net Identifiable Assets Acquired Over (Under) Liabilities Assumed	(2,878,648)	1,029,573	(1,849,075)
Goodwill	-	1,849,075	1,849,075
Net Assets Acquired Over (Under) Liabilities Assumed	$ (2,878,648)	$ 2,878,648	$ -
Consideration			
Cash Paid as Deposit Premium	$ 2,878,648		
Fair Value of Total Consideration Transferred	$ 2,878,648		

Goodwill in the amount of $1,849,075 which is the excess of the purchase consideration over the fair value of the net assets acquired, was recorded in the branch acquisitions and is the result of expected operational synergies and other factors. Additionally, a core deposit intangible on the acquired core deposits in the amount of $455,782 was recognized to be amortized over a 10 year period. All other fair value adjustments presented were management's estimates of the values of the loans, premises, and deposits acquired from CertusBank.

(3) Investment Securities

Debt and equity securities have been classified in the consolidated balance sheets according to management's intent. The following table reflects the amortized cost and estimated market values of investments in debt and equity securities held at December 31, 2020 and 2019. In addition, gross unrealized gains and gross unrealized losses are disclosed as of December 31.

The book and market values of securities available for sale were:

	2020			
	Amortized Cost	**Unrealized Gains**	**Unrealized Losses**	**Estimated Market Value**
Nonmortgage Backed Debt Securites of				
U.S. Government Agencies	**$ 2,485,390**	**$ 55,630**	**$ -**	**$ 2,541,020**
U.S. Treasury Securities	**7,506,110**	**638,108**	**-**	**8,144,218**
State, County, and Municipal Securities	**104,203,518**	**4,189,625**	**(42,053)**	**108,351,090**
Other Debt Securities	**8,516,490**	**284,349**	**(174,055)**	**8,626,784**
Total Nonmortgage Backed Debt Securities	**122,711,508**	**5,167,712**	**(216,108)**	**127,663,112**
Mortgage Backed Securities				
Residential Mortgage Backed Securities	**24,887,955**	**1,159,652**	**-**	**26,047,607**
Commercial Mortgage Backed Securities	**49,750,469**	**2,005,534**	**(39,052)**	**51,716,951**
Total Mortgage Backed Securities	**74,638,424**	**3,165,186**	**(39,052)**	**77,764,558**
	$ 197,349,932	**$ 8,332,898**	**$ (255,160)**	**$205,427,670**

	2019			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Market Value
Nonmortgage Backed Debt Securites of				
U.S. Government Agencies	$ 6,703,427	$ 37,011	$ (27)	$ 6,740,411
U.S. Treasury Securities	7,501,842	267,950	(14,994)	7,754,798
State, County, and Municipal Securities	24,438,299	853,890	(32,203)	25,259,986
Other Debt Securities	4,904,408	61,749	(30,770)	4,935,387
Total Nonmortgage Backed Debt Securities	43,547,976	1,220,600	(77,994)	44,690,582
Mortgage Backed Securities				
Residential Mortgage Backed Securities	31,023,294	503,111	(46,572)	31,479,833
Commercial Mortgage Backed Securities	47,426,748	744,784	(26,849)	48,144,683
Total Mortgage Backed Securities	78,450,042	1,247,895	(73,421)	79,624,516
	$ 121,998,018	$ 2,468,495	$ (151,415)	$ 124,315,098

(3) Investment Securities (Continued)

The book and market values of securities held to maturity as of December 31 were as follows:

	2020			
	Amortized Cost	**Unrealized Gains**	**Unrealized Losses**	**Estimated Market Value**
Non-Mortgage Backed Debt Securites of				
State, County, and Municipal Securities	**$ 3,321,106**	**$ 261,385**	**$ -**	**$ 3,582,491**
Other Debt Securities	**8,250,000**	**82,290**	**-**	**8,332,290**
Residential Mortgage Backed Securities	**1,159,731**	**21,745**	**-**	**1,181,476**
	$ 12,730,837	**$ 365,420**	**$ -**	**$ 13,096,257**

	2019			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Market Value
Non-Mortgage Backed Debt Securites of				
State, County, and Municipal Securities	$ 3,323,985	$ 200,904	$ -	$ 3,524,889
Residential Mortgage Backed Securities	1,428,399	-	(14,588)	1,413,811
	$ 4,752,384	$ 200,904	$ (14,588)	$ 4,938,700

The book and market values of pledged securities were $58,462,040 and $60,775,749 at December 31, 2020, respectively and $24,401,983 and $24,830,013 at December 31, 2019, respectively.

The proceeds from sales of securities and the associated gains and losses are as follows as of December 31:

	2020	2019	2018
Proceeds	**$ 89,271**	$ 4,453,903	$ 7,464,908
Gross Gains	**46,323**	2,020	-
Gross Losses	**-**	26,491	3,351

Taxable interest income on securities was $3,016,702 and $2,151,071 for the years ended December 31, 2020 and 2019, respectively. Interest income exempt from Federal income tax was $998,754 and $734,751 for the years ended December 31, 2020 and 2019, respectively.

(3) Investment Securities (Continued)

The amortized cost and estimated market value of debt securities held to maturity and available for sale at December 31, 2020 and 2019, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or repay obligations with or without call or prepayment penalties.

	2020	
	Available for Sale	
	Amortized Cost	**Estimated Market Value**
Nonmortgage Backed Securities		
Due In One Year or Less	**$ 17,166,483**	**$ 17,219,766**
Due After One Year Through Five Years	**31,037,812**	**31,858,733**
Due After Five Years Through Ten Years	**64,606,276**	**67,834,248**
Due After Ten Years	**9,900,937**	**10,750,365**
Total Nonmortgage Backed Securities	**122,711,508**	**127,663,112**
Mortgage Backed Securities		
Residential Mortgage Backed Securities	**24,887,955**	**26,047,607**
Commercial Mortgage Backed Securities	**49,750,469**	**51,716,951**
Total Mortgage Backed Securities	**74,638,424**	**77,764,558**
	$ 197,349,932	**$ 205,427,670**

	2019	
	Available for Sale	
	Amortized Cost	Estimated Market Value
Nonmortgage Backed Securities		
Due In One Year or Less	$ 9,013,944	$ 9,065,303
Due After One Year Through Five Years	10,265,328	10,445,518
Due After Five Years Through Ten Years	21,136,723	21,836,116
Due After Ten Years	3,131,981	3,343,645
Total Nonmortgage Backed Securities	43,547,976	44,690,582
Mortgage Backed Securities		
Residential Mortgage Backed Securities	31,023,294	31,479,833
Commercial Mortgage Backed Securities	47,426,748	48,144,683
Total Mortgage Backed Securities	78,450,042	79,624,516
	$ 121,998,018	$ 124,315,098

(3) Investment Securities (Continued)

	2020	
	Held to Maturity	
	Amortized Cost	Estimated Market Value
Nonmortgage Backed Securities		
Due In One Year or Less	**$ 290,000**	**$ 290,382**
Due After One Year Through Five Years	**8,597,903**	**8,822,912**
Due After Five Years Through Ten Years	**2,683,203**	**2,801,487**
Due After Ten Years	**-**	**-**
Total Nonmortgage Backed Securities	**11,571,106**	**11,914,781**
Mortgage Backed Securities		
Residential Mortgage Backed Securities	**1,159,731**	**1,181,476**
	$ 12,730,837	**$ 13,096,257**

	2019	
	Held to Maturity	
	Amortized Cost	Estimated Market Value
Nonmortgage Backed Securities		
Due In One Year or Less	$ 290,000	$ 290,200
Due After One Year Through Five Years	1,165,193	1,214,031
Due After Five Years Through Ten Years	1,541,719	1,678,756
Due After Ten Years	327,073	341,902
Total Nonmortgage Backed Securities	3,323,985	3,524,889
Mortgage Backed Securities		
Residential Mortgage Backed Securities	1,428,399	1,413,811
	$ 4,752,384	$ 4,938,700

The market value is established by an independent pricing service as of the approximate dates indicated. The differences between the book value and market value reflect current interest rates and represent the potential loss (or gain) had the portfolio been liquidated on that date. Security losses (or gains) are realized only in the event of dispositions prior to maturity.

(3) Investment Securities (Continued)

At December 31, 2020 and 2019, the Company did not hold investment securities of any single issuer, other than obligations of the U. S. Treasury and other U. S. Government agencies, whose aggregate book value exceeded ten percent of shareholders' equity.

Information pertaining to securities with gross unrealized losses at December 31, 2020 and 2019, aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	2020			
	Less Than Twelve Months		**Twelve Months Or More**	
Securities Available For Sale	**Unrealized Losses**	**Estimated Market**	**Unrealized Losses**	**Estimated Market**
Nonmortgage Backed Debt Securities of				
State, County, and Municipal Securities	**$ 42,053**	**$10,441,904**	**$ -**	**$ -**
Other Debt Securities	**157,995**	**342,005**	**16,060**	**483,940**
Total Nonmortgage Backed Debt	**200,048**	**10,783,909**	**16,060**	**483,940**
Mortgage Backed Securities				
Commercial Mortgage Backed Securities	**39,052**	**3,608,938**	**-**	**-**
Total Mortgage Backed Securities	**39,052**	**3,608,938**	**-**	**-**
	$ 239,100	**$14,392,847**	**$ 16,060**	**$ 483,940**

	2019			
	Less Than Twelve Months		Twelve Months Or More	
Securities Available For Sale	Unrealized Losses	Estimated Market Value	Unrealized Losses	Estimated Market Value
Nonmortgage Backed Debt Securities of				
U.S. Government Agencies	$ 27	$ 1,499,973	$ -	$ -
U.S. Treasury Securities	14,994	1,510,664	-	-
State, County, and Municipal Securities	30,818	1,620,869	1,385	613,220
Other Debt Securities	30,770	2,385,521	-	-
Total Nonmortgage Backed Debt Securities	76,609	7,017,027	1,385	613,220
Mortgage Backed Securities				
Residential Mortgage Backed Securities	32,505	4,975,837	14,067	823,607
Commercial Mortgage Backed Securities	21,266	6,795,730	5,583	403,475
Total Mortgage Backed Securities	53,771	11,771,567	19,650	1,227,082
	$ 130,380	$ 18,788,594	$ 21,035	$ 1,840,302
Securities Held To Maturity				
Nonmortgage Backed Debt Securities of				
State, County, and Municipal Securities	$ -	$ -	$ -	$ -
Residentional Mortgage Backed Securites	1,324	702,914	13,264	710,897
	$ 1,324	$ 702,914	$ 13,264	$ 710,897

(3) Investment Securities (Continued)

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

As of December 31, 2020, the Company held 15 debt securities that had unrealized losses with aggregate depreciation of 1.7 percent from the Company's amortized cost basis.

As of December 31, 2020, the Company held four commercial mortgage-backed securities and that were in an unrealized loss position, all of which were issued by U.S. government sponsored entities and agencies. Because the decline in fair value is attributable to changes in interest rates and illiquidity, and not credit quality, and because the Company does not have the intent to sell these mortgage-backed securities and it is likely that it will not be required to sell the securities before their anticipated recovery, management does not consider these securities to be other-than-temporarily impaired at December 31, 2020.

As of December 31, 2020, the Company held nine state, county, and municipal securities that were in an unrealized loss position. Because the decline in fair value is attributable to changes in interest rates, and not credit quality, and because the Company does not have the intent to sell these securities and it is likely that it will not be required to sell the securities before their anticipated recovery, management does not consider these securities to be other-than-temporarily impaired at December 31, 2020.

As of December 31, 2020, the Company held two corporate bonds that were in an unrealized loss position. Because the decline in fair value is attributable to changes in interest rates, and not credit quality, and because the Company does not have the intent to sell these securities and it is likely that it will not be required to sell the securities before their anticipated recovery, management does not consider these securities to be other-than-temporarily impaired at December 31, 2020.

(4) Loans

The Company engages in a full complement of lending activities, including real estate-related loans, commercial and industrial loans, and consumer installment loans. The majority of its lending activities are concentrated in real estate loans. While risk of loss in the Company's portfolio is primarily tied to the credit quality of the various borrowers, risk of loss may increase due to factors beyond the Company's control, such as local, regional and/or national economic downturns. General conditions in the real estate market may also impact the relative risk in the real estate portfolio.

(4) Loans (Continued)

Loans are stated at unpaid balances, net of unearned income and deferred loan fees. Balances within the major loans receivable categories at December 31are presented in the following table:

	2020	2019
Commercial	**$ 142,689,088**	$ 77,589,719
Commercial Real Estate	**415,771,913**	401,062,989
Consumer	**24,009,928**	28,766,767
Residential Real Estate	**198,294,134**	188,995,514
Agriculture	**42,829,245**	41,485,918
Other	**1,979,006**	2,054,796
Total Loans	**825,573,314**	739,955,703
Other		
Overdraft, In-Process, and Suspense Accounts	**11,759,846**	(1,069,298)
Gross Loans	**837,333,160**	738,886,405
Allowance for Loan Losses	**(10,781,434)**	(9,716,060)
Net Loans	**$ 826,551,726**	$ 729,170,345

Overdrafts included in loans were $192,809 and $233,299 at December 31, 2020 and 2019, respectively.

As of December 31, 2020, commercial loans include approximately $63,976,000 of loans originated under the U.S. Small Business Administration (the SBA) Paycheck Protection Program. The Company expects all remaining balances to be forgiven by the SBA.

Nonaccrual and Past Due Loans

A loan is placed on nonaccrual status when, in management's judgment, the collection of the interest income appears doubtful. Interest receivable that has been accrued and is subsequently determined to have doubtful collectability is charged to interest income. Interest on loans that are classified as nonaccrual is recognized when received. Past due loans are loans' whose principal or interest is 30 days or more past due. In some cases, where borrowers are experiencing financial difficulties, loans may be restructured to provide terms significantly different from the original contractual terms.

(4) Loans (Continued)

The following tables present an analysis of past due loans and loans accounted for on a nonaccrual basis as of December 31:

2020

	Current and < 30 Days Past Due	Past Due and Still Accruing: 30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Accruing Past Due	Nonaccrual	Total Loans
Commercial	**$ 142,137,936**	**$ 170,131**	**$ 17,438**	**$ -**	**$ 187,569**	**$ 363,583**	**$ 142,689,088**
Commercial Real Estate	**407,058,590**	**694,264**	**241,805**	**-**	**936,069**	**7,777,254**	**415,771,913**
Consumer	**23,270,763**	**347,869**	**74,068**	**-**	**421,937**	**317,228**	**24,009,928**
Residential Real Estate	**196,352,051**	**501,205**	**362,042**	**-**	**863,247**	**1,078,836**	**198,294,134**
Agriculture	**42,377,422**	**-**	**86,228**	**-**	**86,228**	**365,595**	**42,829,245**
Other	**1,979,006**	**-**	**-**	**-**	**-**	**-**	**1,979,006**
Total	**$ 813,175,768**	**$ 1,713,469**	**$ 781,581**	**$ -**	**$ 2,495,050**	**$ 9,902,496**	**825,573,314**
Overdraft, In-process and Suspense Accounts							**11,759,846**
							$ 837,333,160

2019

	Current and < 30 Days Past Due	Past Due and Still Accruing: 30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Accruing Past Due	Nonaccrual	Total Loans
Commercial	$ 75,901,451	$ 894,667	$ 218,603	$ -	$ 1,113,270	$ 574,998	$ 77,589,719
Commercial Real Estate	416,738,982	723,768	373,466	-	1,097,234	9,493,231	401,062,989
Consumer	27,798,036	461,920	273,142	-	735,062	233,669	28,766,767
Residential Real Estate	159,933,732	999,948	362,860	-	1,362,808	1,432,516	188,995,514
Agriculture	41,232,113	-	-	-	-	253,805	41,485,918
Other	2,054,796	-	-	-	-	-	2,054,796
Total	$ 723,659,110	$ 3,080,303	$ 1,228,071	$ -	$ 4,308,374	$ 11,988,219	739,955,703
Overdraft, In-process and Suspense Accounts							(1,069,298)
							$ 738,886,405

(4) Loans (Continued)

Impaired Loans

Loans are considered impaired when, based on current information and events, it is probable the Company will be unable to collect all amounts due in accordance with the original contractual terms of the loan agreements. Impaired loans include loans on nonaccrual status and troubled debt restructurings. If a loan is deemed impaired, a specific valuation allowance is allocated, if necessary, so that the loan is reported net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Interest payments on impaired loans are typically applied to principal unless collectability of the principal amount is reasonably assured, in which case interest is recognized on a cash basis.

The following is a summary of information pertaining to interest income on impaired loans as of December 31:

	2020		
	Average Investment in Impaired Loans	**Interest Income Recognized on Impaired Loans**	**Interest Income Recognized on Cash Basis on Impaired Loans**
Commercial	**$ 131,330**	**$ 14,187**	**$ 27,113**
Commercial Real Estate	**9,464,373**	**178,887**	**182,287**
Consumer	**-**	**-**	**-**
Residential Real Estate	**718,030**	**34,048**	**26,296**
Agriculture	**574,188**	**37,695**	**15,951**
Total	**$ 10,887,921**	**$ 264,817**	**$ 251,647**

	2019		
	Average Investment in Impaired Loans	Interest Income Recognized on Impaired Loans	Interest Income Recognized on Cash Basis on Impaired Loans
Commercial	$ 3,064,502	$ -	$ 1,556
Commercial Real Estate	6,394,517	438,589	309,117
Consumer	16,527	-	-
Residential Real Estate	898,446	47,674	12,977
Agriculture	533,320	46,027	43,922
Total	$ 10,907,312	$ 532,290	$ 367,572

(4) Loans (Continued)

Impaired Loans (Continued)

	2018		
	Average Investment in Impaired Loans	Interest Income Recognized on Impaired Loans	Interest Income Recognized on Cash Basis on Impaired Loans
Commercial	$ 4,853,121	$ 295,034	$ 249,745
Commercial Real Estate	3,085,305	70,737	69,280
Consumer	119,182	1,760	1,760
Residential Real Estate	1,264,031	65,387	64,550
Agriculture	469,527	26,079	19,800
Total	$ 9,791,166	$ 458,997	$ 405,135

The following is an analysis of information pertaining to impaired loans as of December 31:

	2020				
	Unpaid Total Principal Balance	**Recorded Investment With No Allowance**	**Recorded Investment With Allowance**	**Total Recorded Investment**	**Related Allowance**
Commercial	**$ 197,311**	**$ 70,807**	**$ 126,504**	**$ 197,311**	**$ 4,619**
Commercial Real Estate	**8,546,760**	**3,107,610**	**5,439,150**	**8,546,760**	**1,273,856**
Residential Real Estate	**635,379**	**124,034**	**511,345**	**635,379**	**248,548**
Agriculture	**365,594**	**365,594**	**-**	**365,594**	**-**
Total	**$ 9,745,044**	**$ 3,668,045**	**$6,076,999**	**$ 9,745,044**	**$1,527,023**

	2019				
	Unpaid Total Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance
Commercial	$ 65,349	$ 44,467	$ 20,882	$ 65,349	$ 20,882
Commercial Real Estate	10,381,986	10,381,986	-	10,381,986	-
Residential Real Estate	800,682	378,789	421,893	800,682	197,420
Agriculture	782,781	253,806	528,975	782,781	10,328
Total	$12,030,798	$11,059,048	$ 971,750	$ 12,030,798	$ 228,630

The recorded investment in loans excludes accrued interest receivable and loan origination fees, net, due to immateriality.

(4) Loans (Continued)

Credit Quality Indicators

The Company uses a nine-category risk grading system to assign a risk grade to each loan in the portfolio. The following is a description of the general characteristics of the grades:

Grade 1 - Excellent Risk

Loans in this category are considered to have very little, if any, credit risk. The following characteristics are common for loans in this category:

- Loan is fully secured by cash or cash equivalents.
- Loan is secured by marketable securities with no less than a 25 percent margin.
- There are no material exceptions to the Bank's loan policy.
- Alternative sources of cash exist, such as commercial paper market, capital market, internal liquidity, or other bank lines.
- Borrower is a national or regional company with excellent cash flow which covers all debt service requirements and a significant portion of capital expenditures.
- Balance sheet strength and liquidity are excellent and exceed industry norms.
- Financial trends are positive.
- Borrower is a market leader within the industry, and industry performance is excellent.
- Borrower is of unquestioned strength. Financial wherewithal is known.
- Borrower exhibits excellent liquidity, net worth, cash flow, and leverage.

Grade 2 - High Quality

Loans in this category are considered to be an excellent credit risk with minimal risk of loss. The following characteristics are common for loans in this category:

- Loan is secured by marketable securities with margin below 25 percent.
- There are no material exceptions to the Bank's loan policy.
- Borrower has stable and reliable cash flow and above-average liquidity.
- Borrower exhibits moderate risk from exposure to contingent liabilities.
- Borrower has strong, stable financial trends.
- Borrower has strong cash flow which covers all debt service requirements and some portion of capital expenditures.
- Alternative sources of repayment are evident and financial ratios are comparable to or exceed the industry norms.
- Borrower holds a prominent position in the industry or local economy.
- Borrower's industry's performance is above average.
- Management is strong in most areas and with good back-up depth.

(4) Loans (Continued)

Credit Quality Indicators (Continued)

Grade 3 - Average Risk

Loans in this category are considered to be of normal risk and of average quality. The following characteristics are common for loans in this category:

- Borrower has reliable cash flow, but alternative sources of repayment would require sale of assets that may be considered illiquid.
- Borrower's financial position has been leveraged to an average degree or individual has an average net worth position considering income and debt.
- Cash flow is adequate to cover all debt service requirements but not capital expenditures.
- Balance sheet may be leveraged but still comparable to the industry.
- Financial trends are stable to mixed over long-term, but no significant concerns exist at this time.
- Borrower's industry has a generally stable outlook and may have some cyclical characteristics.
- Borrower holds an average position in the industry or local economy.
- Management is considered capable and stable.
- Start-up venture with experienced management, adequate capitalization, and favorable performance versus projections.

Grade 4 - Acceptable

Loans in this category are considered to be of above-average risk or of below-average quality. The following characteristics are common for loans in this category:

- Borrower's sources of income or cash flow have become unstable or limited.
- Borrower's income has declined due to current business or economic conditions.
- Borrower has a somewhat highly leveraged condition and limited capital.
- Moderate history of some degree of slow payment.
- Loan conditions require more frequent monitoring than the higher-graded loans.
- Stability is lacking in the primary repayment source, cash flow, credit history, or liquidity, however, the instability is manageable and considered temporary.
- Overall trends are not yet adverse.
- Loan involves speculative activity where the primary source for repayment is the activity itself and the borrower has limited ability to support the debt outside the successful completion of the activity.

(4) Loans (Continued)

Credit Quality Indicators (Continued)

Grade 5 - Watch

Loans in this category have potential financial weaknesses, the loan officer may not have properly supervised the credit, or material collateral exceptions exist. This category includes loans which do not presently expose the Bank to a sufficient degree of risk to warrant adverse classification but do possess credit deficiencies deserving of management's close attention. Failure to correct deficiencies could result in greater credit risk in the future. The following characteristics are common for loans in this category:

- There is a material exception to the Bank's loan policy.
- Management has potential weakness and back-up depth is weak.
- Principal and interest are currently protected through sufficient cash flows, collateral values, or secondary repayment sources, but downward trends in profitability and cash flow are evident.
- Financial leverage is excessive, and margins and financial ratios fall below industry averages.
- Adequate financial statements are not produced and/or provided timely, or the borrower exhibits an uncooperative attitude.
- Moderate delinquency may exist from time to time.
- A loss may not be readily apparent, but sufficient problems have arisen to cause the lender to go to abnormal lengths to protect its position.

Grade 6 - Substandard

Loans in this category display a well-defined weakness or weaknesses that may jeopardize collection of the debt. Assets do not appear to possess any loss but exhibit more than a normal degree of risk. Lack of continued close attention on the part of the Bank could result in deterioration and potential loss. The following characteristics are common for loans in this category:

- Cash flows are not sufficient to meet scheduled obligations and/or the financial strengths of the guarantors are questionable.
- Losses have eroded the net worth so that survivability of the business is in question.
- Primary and secondary sources of repayment are believed to offer marginal protection to the credit.
- Repayment of debt is likely to come from the liquidation of collateral or payments from guarantors.
- Past due problems are apparent.
- The loan has been placed on nonaccrual status and/or is in bankruptcy with current repayment history for less than three months.
- The value of the collateral is questionable or has declined significantly.

Grade 7 - Impaired

Loans in this category have been classified as impaired. The classification of impaired is based upon the likelihood that the Bank will not be able to collect all principal and interest under the original terms of the note. The following characteristics are common for loans in this category:

- Loan has been placed on nonaccrual.
- Repayment of the debt is dependent upon the sale of collateral.
- The value of the collateral has declined such that its liquidation would not be sufficient to retire the debt.
- Repayment is dependent upon cash flows, and the cash flows are no longer sufficient to cover principal and interest payments under the terms of the debt.

(4) Loans (Continued)

Credit Quality Indicators (Continued)

Grade 8 - Doubtful

Loans in this category have all the weaknesses inherent in those classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions, and values, highly questionable and improbable. The following characteristics are common for loans in this category:

- Borrower is having financial difficulties, and the collateral does not cover the loan balance.
- Loan is unsecured and repayment is highly questionable.
- Bank's access or rights to the collateral is unclear (e.g., because the lender's lien is subordinate to substantial other liens or there is a dispute over title to the collateral).
- Business is on the verge of closing, being sold, or liquidated.

Grade 9 - Loss

Loans in this category are considered not collectible and of such little value that their continuance as active assets are not warranted. This classification does not mean that the loan has absolutely no recovery or salvage value but rather it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be affected in the future.

The following tables present the loan portfolio by risk grade as of December 31:

	2020						
	Commercial	Commercial Real Estate	Consumer	Residential Real Estate	Agriculture	Other	Total
Grade 1 (Excellent Risk)	$ 69,893,716	$ 50,900	$ 1,398,552	$ -	$ -	$ -	$ 71,343,168
Grade 2 (High Quality)	36,635	10,727	18,622	68,731	1,561,223	-	1,695,938
Grade 3 (Average Risk)	2,408,227	8,982,499	124,792	3,397,435	2,229,371	596,990	17,739,314
Grade 4 (Acceptable)	66,392,876	389,072,127	21,854,586	189,309,253	37,495,317	1,382,016	705,506,175
Grade 5 (Watch)	3,160,867	9,087,836	196,978	3,538,739	1,177,740	-	17,162,160
Grade 6 (Substandard)	796,767	837,437	410,252	1,344,597	-	-	3,389,053
Grade 7 (Impaired)	-	7,730,387	-	635,379	365,594	-	8,731,360
Grade 8 (Doubtful)	-	-	6,146	-	-	-	6,146
Grade 9 (Loss)	-	-	-	-	-	-	-
	$142,689,088	$415,771,913	$24,009,928	$198,294,134	$42,829,245	$ 1,979,006	825,573,314
Overdraft, In-Process, and Suspense Accounts							11,759,846
Total Loans							$837,333,160

(4) Loans (Continued)

Credit Quality Indicators (Continued)

	2019						
	Commercial	Commercial Real Estate	Consumer	Residential Real Estate	Agriculture	Other	Total
Grade 1 (Excellent Risk)	$ 4,516,764	$ -	$ 1,177,467	$ 15,618	$ -	$ -	$ 5,709,849
Grade 2 (High Quality)	120,639	15,554	214,613	342,111	1,761,198	-	2,454,115
Grade 3 (Average Risk)	4,471,883	16,070,997	238,509	5,994,511	7,963,087	635,607	35,374,594
Grade 4 (Acceptable)	63,755,715	363,728,272	26,380,629	175,541,407	29,732,921	1,419,189	660,558,133
Grade 5 (Watch)	3,458,560	10,445,781	312,597	5,005,136	996,926	-	20,219,000
Grade 6 (Substandard)	1,200,809	420,399	427,789	1,296,049	249,005	-	3,594,051
Grade 7 (Impaired)	65,349	10,381,986	-	800,682	782,781	-	12,030,798
Grade 8 (Doubtful)	-	-	15,163	-	-	-	15,163
Grade 9 (Loss)	-	-	-	-	-	-	-
	$ 77,589,719	$401,062,989	$28,766,767	$188,995,514	$41,485,918	$ 2,054,796	739,955,703
Overdraft, In-Process, and Suspense Accounts							(1,069,298)
Total Loans							$738,886,405

Troubled Debt Restructurings (TDRs)

The restructuring of a loan is deemed to be a TDR if the borrower is experiencing financial difficulties and the Company grants certain concessions to the borrower that it would not otherwise consider for new debt with similar risk characteristics. Loan modifications are reviewed and approved by the Company's senior lending staff, who then determine whether the loan meets the criteria for a TDR. In order to determine whether a borrower is experiencing financial difficulties, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without modification. This evaluation is conducted under the Company's internal underwriting process. Concessions that may be granted include interest rate reductions, principal, or interest forgiveness, restructuring of amortization schedules or maturity date, forbearance, and other actions intended to minimize economic loss and to avoid foreclosure or repossession of the collateral. Each potential loan modification is reviewed individually, and the terms of the loan are modified to meet the borrower's specific circumstances at a point in time. Not all loan modifications are TDRs. Generally, a nonaccrual loan that has been modified in a TDR remains on nonaccrual status for a period subsequent of modification to demonstrate that the borrower is able to meet the terms of the modified loan. However, performance prior to the modification, or significant events that coincide with the modification, are included in assessing whether the borrower can meet the new terms and may result in the loan being returned to accrual status at the time of loan modification or after a shorter performance period. If the borrower's ability to meet the revised payment schedule is uncertain, the loan remains on nonaccrual status. Once a loan is modified in a troubled debt restructuring, it is accounted for as an impaired loan, regardless of its accrual status, until the loan is paid in full, sold or charged off.

As of December 31, 2020, and 2019, the Company had a recorded investment in TDRs of $2,594,448 and $3,134,838, respectively. The Company had previous charge offs of $-0- on such loans as of December 31, 2020 and 2019. The Company's allowance for loan losses included an allocation of $201,507 and $10,328 of specific allowance for those loans as of December 31, 2020 and 2019, respectively. The Company had no unfunded commitments to lend to customers with loans modified as TDRs as of December 31, 2020.

(4) Loans (Continued)

Troubled Debt Restructurings (TDRs) (Continued)

The following table presents loans modified as TDRs by class of loan and type of modification that occurred during the years ended December 31.

	2020		
	Number of Loans	**Recorded Investment Prior to Modification**	**Recorded Investment After Modification**
Commercial			
Payment Modification Only	**4**	**$ 197,311**	**$ 197,311**
Commercial Real Estate			
Payment Modification Only	**4**	**671,925**	**671,925**
Consumer			
Payment Modification Only	**1**	**3,072**	**3,072**
Rate Reduction, Payment Modification	**2**	**8,696**	**8,696**
Residential Real Estate			
Forbearance of Interest	**1**	**180,626**	**180,626**
Rate Reduction, Payment Modification	**1**	**90,883**	**90,883**
Agriculture			
Forbearance of Interest	**1**	**127,746**	**127,746**
Other	**0**	**-**	**-**
	14	**$ 1,280,259**	**$ 1,280,259**

	2019		
	Number of Loans	Recorded Investment Prior to Modification	Recorded Investment After Modification
Commercial Real Estate			
Payment Modification Only	3	$ 1,755,341	$ 1,755,341
Rate Reduction, Payment Modification	1	48,176	48,176
Consumer			
Payment Modification Only	1	1,332	1,332
Rate Reduction, Payment Modification	9	41,133	41,133
Residential Real Estate			
Rate Reduction, Payment Modification	1	85,408	85,408
Agriculture			
Payment Modification Only	1	528,976	528,976
Other	0	-	-
	16	$ 2,460,366	$ 2,460,366

(4) Loans (Continued)

Troubled Debt Restructurings (TDRs) (Continued)

The TDRs described above increased the allowance for loan losses of $20,881 and $10,328 during the years ended December 31, 2020 and 2019, respectively. The above TDRs resulted in charge offs of $1,088,189 and $0 during the years ended December 31, 2020 and 2019.

During the years ended December 31, 2020 and 2019, the Company reported $527,081 and $0 loans modified as troubled debt restructurings, respectively, for which there was a payment default within the twelve months following the modification.

The Company is working with borrowers impacted by COVID-19 and providing modifications to include interest only deferral or principal and interest deferral. These modifications are excluded from troubled debt restructuring classification under Section 4013 of the CARES Act or under applicable interagency guidance of the federal banking regulators. As of December 31, 2020, The Company modified 92 loans with outstanding balances of $14,638,124.

Allowance for Loan Losses

The allowance for loan losses represents a reserve for inherent losses in the loan portfolio. The adequacy of the allowance for loan losses is evaluated periodically based on a review of all significant loans, with a particular emphasis on nonaccruing, past due and other loans that management believes might be potentially impaired or warrant additional attention. The Company segregates the loan portfolio by type of loan and utilizes this segregation in evaluating exposure to risks within the portfolio. In addition, based on internal reviews and external reviews performed by independent auditors and regulatory authorities, the Company further segregates the loan portfolio by loan grades based on an assessment of risk for a particular loan or group of loans. Certain reviewed loans are assigned specific allowances when a review of relevant data determines that a general allocation is not sufficient or when the review affords management the opportunity to fine tune the amount of exposure in a given credit. In establishing allowances, management considers historical loan loss experience but adjusts this data with a significant emphasis on data such as current loan quality trends, current economic conditions, and other factors in the markets where the Company operates. Factors considered include, among others, current valuations of real estate in their markets, unemployment rates, the effect of weather conditions on agricultural related entities and other significant local economic events.

The Company has developed a methodology for determining the adequacy of the allowance for loan losses which is monitored by the Company's Senior Credit Officer. Loans are segregated by loan type and historical loss rates for each type are used to estimate a general reserve percentage for loans that are not considered impaired and assigned specific reserves. Procedures provide for the assignment of a risk rating for every loan included in the total loan portfolio. The risk rating schedule provides seven ratings of which four ratings are classified as pass ratings and three ratings are classified as criticized ratings. Loans classified as substandard or below are reviewed on a quarterly basis by management for potential impairment. As a result of these evaluations, loans deemed impaired may be assigned specific reserve allocations and excluded from general reserve pools. Past due loans are assigned risk ratings based on the number of days past due. The calculation of the allowance for loan losses, including underlying data and assumptions, is reviewed regularly by executive management and the Board of Directors.

(4) Loans (Continued)

Allowance for Loan Losses (Continued)

The following tables detail activity in the allowance for loan losses by portfolio segment for the year ended December 31, 2020 and 2019. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

	2020						
	Commercial	Commercial Real Estate	Consumer	Residential Real Estate	Agriculture	Other	Total
Allowance for Credit Losses							
Beginning Balance	$ 3,298,619	$ 1,518,226	$ 1,422,736	3,354,931	$ 113,505	$ 8,043	$ 9,716,060
Chargeoffs	(1,880,390)	(231,202)	(525,252)	(37,160)	(96,582)	-	(2,770,586)
Recoveries	26,786	2,000	130,188	40,809	-	1,177	200,960
Provisons	1,358,258	4,492,780	(507,520)	(2,111,489)	397,622	5,349	3,635,000
Ending Balance	$ 2,803,273	$ 5,781,804	$ 520,152	1,247,091	$ 414,545	$ 14,569	$ 10,781,434
Period-End Amount Allocated to							
Individually Evaluated for Impairment	$ 4,619	$ 1,273,856	$ -	248,548	$ -	$ -	$ 1,527,023
Collectively Evaluated for Impairment	2,798,654	4,507,948	520,152	998,543	414,545	14,569	9,254,411
Ending Balance	$ 2,803,273	$ 5,781,804	$ 520,152	$ 1,247,091	$ 414,545	$ 14,569	$ 10,781,434
Loans							
Individually Evaluated for Impairment	$ 197,311	$ 8,546,760	$ -	$ 635,379	$ 365,594	$ -	$ 9,745,044
Collectively Evaluated for Impairment	142,491,777	439,057,186	24,009,928	165,826,722	42,463,651	1,979,006	815,828,270
Ending Balance	$ 142,689,088	$447,603,946	$24,009,928	$ 166,462,101	$42,829,245	$ 1,979,006	825,573,314
Overdraft, In-Process and Suspence Accounts							11,759,846
Total Loans							$837,333,160

(4) Loans (Continued)

Allowance for Loan Losses (Continued)

	2019						
	Commercial	Commercial Real Estate	Consumer	Residential Real Estate	Agriculture	Other	Total
Allowance for Credit Losses							
Beginning Balance	$ 2,994,524	$ 4,174,000	$ 766,843	$ 1,460,511	$ 74,948	$ 10,163	$ 9,480,989
Chargeoffs	(965,136)	-	(445,719)	(175,756)		-	(1,586,611)
Recoveries	71,304	5,500	67,597	27,281	-	-	171,682
Provisons	1,197,927	(2,661,274)	1,034,015	2,042,895	38,557	(2,120)	1,650,000
Ending Balance	$ 3,298,619	$ 1,518,226	$ 1,422,736	$ 3,354,931	$ 113,505	$ 8,043	$ 9,716,060
Period-End Amount Allocated to							
Individually Evaluated for Impairment	$ 20,882	$ -	$ -	$ 197,420	$ 10,328	$ -	$ 228,630
Collectively Evaluated for Impairment	3,277,737	1,518,226	1,422,736	3,157,511	103,177	8,043	9,487,430
Ending Balance	$ 3,298,619	$ 1,518,226	$ 1,422,736	$ 3,354,931	$ 113,505	$ 8,043	$ 9,716,060
Loans							
Individually Evaluated for Impairment	$ 65,349	$ 10,381,986	$ -	$ 800,682	$ 782,781	$ -	$ 12,030,798
Collectively Evaluated for Impairment	77,524,370	416,947,461	28,766,767	161,928,374	40,703,137	2,054,796	727,924,905
Ending Balance	$ 77,589,719	$ 427,329,447	$ 28,766,767	$ 162,729,056	$ 41,485,918	$ 2,054,796	739,955,703
Overdraft, In-Process and Suspence Accounts							(1,069,298)
Total Loans							$738,886,405

(4) Loans (Continued)

Allowance for Loan Losses (Continued)

Risk characteristics relevant to each portfolio segment are as follows:

Commercial Loans - Loans in this segment are generally made to businesses and are typically secured by business assets, equipment, inventory, and accounts receivable. Repayment is expected from the cash flows of the business entity. A weakened economy and decreased consumer spending will have a negative impact on the credit quality in this portfolio segment.

Commercial Real Estate Loans - Loans in this segment include all mortgages and other liens on commercial real estate. The underlying cash flows generated by the properties are adversely impacted by a downturn in the economy as evidenced by increased vacancy rates, which in turn will have an effect on the credit quality in this portfolio segment.

Consumer Loans - Loans in this segment include unsecured loans, cash value loans and auto loans. Loans in these categories are primarily dependent on the credit quality of the borrower. The overall health of the economy, including unemployment rates in the Bank's market area will have an effect on the credit quality of this portfolio segment.

Residential Real Estate Loans - Loans in this segment include all mortgages and other liens on residential real estate, as well as vacant land designated as residential real estate. Loans in this segment are dependent on the credit quality of the individual borrower. The overall health of the economy, including unemployment rates will have an effect on the credit quality of this portfolio segment.

Agriculture loans - Loans in this segment include loans to finance agricultural production and other loans to farmers. The overall health of the economy will have an effect on the credit quality of this portfolio segment.

Other loans - Loans in this segment do not belong in the other categories previously described. Loans in this segment are dependent on the credit quality of the individual borrower. The overall health of the economy, including unemployment rates will have an effect on the credit quality of the segment.

(5) Bank Premises and Equipment

Premises and equipment as of December 31 are summarized as follows:

	2020	2019
Land	**$ 3,556,936**	$ 3,556,936
Buildings and Improvements	**13,088,813**	12,891,552
Leasehold Improvements	**584,465**	487,026
Equipment, Furniture and Fixtures	**5,177,726**	4,804,253
Vehicles	**121,636**	140,985
Total	**22,529,576**	21,880,752
Less - Accumulated Depreciation	**(7,180,879)**	(6,262,554)
Bank Premises and Equipment, Net	**$15,348,697**	$15,618,198

Depreciation included in operating expenses amounted to $924,175, $815,912, and $585,214 for the years ended December 31, 2020, 2019 and 2018, respectively.

(6) Leases

The Company has entered into operating leases for branch locations, storage, and equipment with terms extending through October 2025. These leases have initial terms of one to five years. The exercise of lease renewal options is at the sole discretion of the Company, which does not consider exercise of any lease renewal options reasonably certain. The lease agreements do not contain early termination options. No renewal options or early termination options have been included in the calculation of the operating right-of-use asset or operating lease liability.

At the commencement date of the lease, the Company recognizes a lease liability of the lease payments not yet paid. The Company also recognizes a right-of-use asset measured at the initial measurement of the lease liability. Lease expense is recognized on a straight-line basis over the lease term. At December 31, 2020, the Company had no leases classified as finance leases. The Company's right-of-use lease asset and lease liability also include leases for storage space and small equipment. Estimated minimum lease payments as of December 31, 2020, for each of the next five years are as follows:

2021	$	333,079
2022		219,731
2023		87,983
2024		54,050
2025		54,050
	$	748,893

The weighted average remaining lease term was 29 months as of December 31, 2020. The Company recognized lease expenses of $277,171, $247,216 and $224,939 for the years ended December 31, 2020, 2019, and 2018, respectively.

(7) Goodwill and Intangible Assets

The Company recorded $7,123,814 of goodwill on the acquisition of FMB during 2020. Previously, the Company reported goodwill in the amount of $2,237,890 which resulted in total reported goodwill of $9,361,704 and $2,237,890 for the years ended December 31, 2020 and 2019, respectively. Impairment exists when a reporting unit's carrying value of goodwill exceeds its fair value. At December 31, 2020, the Company's management determined reporting unit had positive equity and the Company elected to perform a qualitative assessment to determine if it was more likely than not that the fair value of the reporting unit exceeded its carrying value, including goodwill. The qualitative assessment indicated that it was more likely than not that the fair value of the reporting unit exceeded it carrying value, resulting in no impairment.

The Bank recorded a core deposit intangible asset of $3,028,582 associated with the acquisition of FMB during 2020. The amortization period used for the core deposit intangible is 10 years. The intangible asset's carrying amount, accumulated amortization and amortization expense for December 31, 2020 and the five succeeding fiscal years are as follows:

	2020	2021	2022	2023	2024	2025
Amortizing Intangible Assets						
Core Deposit Premium						
Gross Carrying Amount	**$3,028,582**	$ 3,028,582	$ 3,028,582	$ 3,028,582	$ 3,028,582	$ 3,028,582
Accumulated Amortization	**(504,760)**	(807,616)	(1,110,472)	(1,413,328)	(1,716,184)	(2,019,040)
Net Carrying Value	**$2,523,822**	$ 2,220,966	$ 1,918,110	$ 1,615,254	$ 1,312,398	$ 1,009,542
Amortizing Expense	**$ 302,856**	$ 302,856	$ 302,856	$ 302,856	$ 302,856	$ 302,856

The Bank recorded a core deposit intangible asset of $455,782 associated with the branch purchase from CertusBank during 2015. The amortization period used for the core deposit intangible is 10 years. The intangible asset's carrying amount, accumulated amortization and amortization expense for December 31, 2020 and the five succeeding fiscal years are as follows:

	2020	2021	2022	2023	2024	2025
Amortizing Intangible Assets						
Core Deposit Premium						
Gross Carrying Amount	**$ 455,782**	$ 455,782	$ 455,782	$ 455,782	$ 455,782	$ 455,782
Accumulated Amortization	**(262,293)**	(307,358)	(350,352)	(391,047)	(429,216)	(455,782)
Net Carrying Value	**$ 193,489**	$ 148,424	$ 105,430	$ 64,735	$ 26,566	$ -
Amortizing Expense	**$ 46,908**	$ 45,065	$ 42,994	$ 40,695	$ 38,169	$ 26,566

(8) Other Real Estate and Foreclosed Assets

At December 31, 2020 and 2019 the Bank reported $141,255 and $396,486, respectively, as other real estate and foreclosed assets. At December 31, 2020 and 2019, the balance of foreclosed real estate included $0 and $384,100, respectively of foreclosed residential real estate properties recorded as a result of obtaining physical possession of the property. At December 31, 2020, the Bank had one consumer mortgage loan secured by residential real estate totaling $124,034 for which formal foreclosure procedures were in process.

(9) Cash Surrender Value of Life Insurance

The Bank has established a BOLI program under which single-premium, split-dollar, whole-life insurance contracts are purchased on certain eligible officers. Initial investments in the policies are non-deductible for income tax purposes and the related investment income and death benefits are non-taxable when received. Death benefits are divided among the Bank and beneficiaries designated by the insured officer. The cash surrender value of these policies was $13,620,443 and $13,248,384 at December 31, 2020 and 2019, respectively. Income earned on the cash surrender value of these policies was $372,059, $213,246 and $183,956 for the years ended December 31, 2020, 2019, and 2018, respectively.

(10) Deposits

The aggregate amount of time deposits that meet or exceed $250,000 at December 31, 2020 and 2019 was $49,375,117 and $61,358,756, respectively.

At December 31, 2020, the scheduled maturities of time deposits are as follows:

2021	$	132,016,108
2022		30,162,939
2023		10,124,061
2024		3,782,430
2025		4,194,377
Total Time Deposits	$	180,279,915

(11) Short-Term Borrowings

The Bank had five lines of credit for federal funds purchased totaling $31,500,000 and one line of credit for repurchase transactions and reverse repurchase transactions in the amount of $10,000,000 with correspondent institutions as of December 31, 2020. At December 31, 2020 and 2019, there were no outstanding balances on these lines of credit.

(12) Subordinated Debentures

On April 30, 2019, the Company acquired FMB Equibanc, Inc. ("FMB") by merger. In connection with such transaction, the Company assumed the obligations of FMB related to its prior issuance of trust preferred securities. In 2005, FMB's statutory trust subsidiary, FMB 2005 Capital Trust I, issued $4,000,000 in principal amount of trust preferred securities at a rate per annum equal to the 3-month LIBOR plus 1.57 percent through a pool sponsored by a national brokerage firm. These trust preferred securities have a maturity of 30 years and are redeemable at the Company's option on any quarterly interest payment date.

On April 15, 2019, the Company completed the sale of $10,000,000 in aggregate principal amount of its 6.25 percent Fixed-To-Floating Rate Subordinated Notes due 2029 (the "2029 subordinated notes"). The 2029 subordinated notes will mature on April 15, 2029 and through April 14, 2024 will bear a fixed rate of interest of 6.25 percent per annum, payable quarterly in arrears on March 31, June 30, September 30, and December 31 of each year. Beginning December 15, 2024, the interest rate on the 2029 subordinated notes resets quarterly to a floating rate per annum equal to the then-current 3-month LIBOR plus 4.08 percent, payable quarterly in arrears on March 31, June 30, September 30, and December 31 of each year to the maturity date or earlier redemption. On any scheduled interest payment date beginning April 15, 2024, the Company may, at its option, redeem the 2029 subordinated notes, in whole or in part, at a redemption price equal to 100 percent of the principal amount plus accrued and unpaid interest.

On July 22, 2020, the Company completed the sale of $15,000,000 in aggregate principal amount of its 5.25 percent Fixed-To-Floating Rate Subordinated Notes due 2030 (the "2030 subordinated notes"). The 2030 subordinated notes will mature on July 22, 2030 and through July 22, 2025 will bear a fixed rate of interest of 5.25 percent per annum, payable semiannually in arrears on June 30 and December 31 of each year. Beginning July 22, 2025, the interest rate on the 2030 subordinated notes resets quarterly to a floating rate per annum equal to the then-current LIBOR plus 4.92 percent, payable quarterly in arrears on March 31, June 30, September 30, and December 31 of each year to the maturity date or earlier redemption. On any scheduled interest payment date beginning July 22, 2025, the Company may, at its option, redeem the 2030 subordinated notes, in whole or in part, at a redemption price equal to 100 percent of the principal amount plus accrued and unpaid interest.

(13) Long-Term Borrowings

The Bank became a member of the Federal Home Loan Bank ("FHLB") of Atlanta during 1998 establishing a Credit Availability of $15,000,000. This agreement was modified in 2008 to increase credit availability to 20 percent of total assets. Amounts advanced against this line of credit were $-0- at December 31, 2020 and 2019. In the event the Bank requests future advances, the Bank has pledged loans with a carrying value of $152,720,073 and $24,130,699 at December 31, 2020 and 2019, respectively.

As of December 31, 2020, letters of credit issued by the FHLB totaling $41,000,000 were used to guarantee the Bank's performance related to a portion of its public fund deposit balances. The collateral discussed above is also pledged to secure the letters of credit.

Based on the pledged collateral and the Bank's holdings of FHLB stock, the Bank is eligible to borrow up to a total of $66,007,033.

(13) Long-Term Borrowings (Continued)

On September 24, 2014, the Company executed a promissory agreement in the amount of $2,000,000 with a variable interest rate of Prime minus .25 percent, with a minimum rate of three percent. Principal and interest payments were due quarterly beginning February 2015 through maturity of the note in August 2021. The Company pledged, as collateral, its interest in Morris Bank shares consisting of 33,000 shares of common stock with a par value of $10 per share. In addition, during the life of the borrowing agreement the Company was required to maintain a deposit account with the lender with a minimum deposit of $100,000 at all times. The outstanding principal balance due was $-0- and $571,429 as of December 31, 2020 and 2019, respectively.

(14) Income Taxes and Change In Tax Status

For the year ended December 31, 2018 and prior years, the Company, with the consent of its shareholders, elected to be taxed under sections of federal and Georgia income tax law which provide that, in lieu of corporate income taxes, the shareholders separately account for their pro rata shares of the Company's income, deductions, losses, and credits. On March 19, 2019, the Company's shareholders terminated this election effective with the year beginning on January 1, 2019.

As a result of the January 1, 2019 termination, on that date, the Company recorded a net deferred tax asset of $1,965,947, by a credit to income tax expense, for temporary differences between the financial reporting and the income tax basis of property and equipment, reserve for bad debts, and deferred compensation. The deferred tax asset related to deferred compensation was $76,177.

The provision for income taxes for the years ended December 31 are as follows:

	2020	2019
Current Tax Expense	**$ 4,687,019**	$ 3,302,198
Deferred Tax Benefit	**(88,067)**	(2,135,051)
Change in Valuation Allowance	**(743,146)**	941,558
Net Provision for Income Taxes	**$ 3,855,806**	$ 2,108,705

Deferred income taxes are reflected for certain timing differences between book and taxable income and will be reduced in future years as these timing differences reverse. The reasons for the difference between the actual tax expense and tax computed at the federal income tax rate are as follows as of December 31:

	2020	2019
Tax on Pretax Income at Statutory Rate	**$ 4,464,938**	$ 3,303,228
Change Resulting from:		
Tax Exempt Interest Income	**(216,581)**	(130,842)
State Income Taxes, Net of Federal Tax Benefit	**(120,120)**	(87,422)
Life Insurance Income	**(78,132)**	(44,782)
Other	**(194,299)**	(931,477)
Total	**$ 3,855,806**	$ 2,108,705
Net Effective Tax Rate	**18.13%**	13.40%

(14) Income Taxes and Change In Tax Status (Continued)

The sources and tax effects of temporary differences that give rise to significant portions of deferred income tax assets and liabilities are as follows as of December 31:

	2020	2019
Deferred Income Tax Assets		
Net Operating Loss Carryover	**$ 3,040,601**	$ 3,222,389
Provision for Loan Losses	**2,884,033**	2,599,046
Deferred Compensation	**150,690**	107,456
Deferred Loan Fees	**70,978**	65,138
Core Deposit	**72,870**	41,075
Other Real Estate	**4,922**	19,418
AMT Tax Credit Carryover	**-**	17,179
Other	**3,655**	63,349
Total Deferred Tax Assets	**6,227,749**	6,135,050
Less Valuation Allowance	**(1,486,293)**	(2,229,439)
Net Deferred Tax Assets	**4,741,456**	3,905,611
Deferred Income Tax Liabilities		
Unrealized Gains on Securities Available for Sale	**(1,552,723)**	(342,984)
Depreciation	**(865,986)**	(861,352)
Total Deferred Tax Liabilities	**(2,418,709)**	(1,204,336)
Net Deferred Tax Asset	**$ 2,322,747**	$ 2,701,275

Realization of deferred tax assets associated with net operating loss carryforwards is dependent upon generating sufficient taxable income prior to their expiration. A valuation allowance to reflect management's estimate of the temporary deductible differences that may expire prior to their utilization has been recorded at year-end 2020.

At December 31, 2020, the Company had federal net operating loss carryforwards of approximately $10,600,000 which expire at various dates from 2031 to 2039. The Company also had state operating loss carryforwards of approximately $14,200,000 which expire at various dates from 2030 to 2039. Deferred tax assets are recognized for net operating losses because the benefit is more likely than not to be realized.

The Company and its subsidiaries are subject to U.S. federal income tax as well as tax of the state of Georgia. The Company is subject to examination by taxing authorities for years ended December 31, 2018 and thereafter.

(15) Employee Benefit Plans

401(k) Plan

The Company adopted a 401(k) plan in 1996 and made contributions to the plan totaling $387,023, $329,650, and $259,374 for the years ended December 31, 2020, 2019, and 2018, respectively.

Employee Stock Ownership Plan and Trust

The Bank established Morris Bank Employee Stock Ownership Plan and Trust ("the Plan") effective as of January 1, 2012. The Plan covers substantially all of its full-time employees meeting length of service requirements. Under the Plan, shares of stock in the Company are purchased on behalf of eligible employees. Contributions are made to the plan at management's discretions based on a percentage of salary, not to exceed 16 percent or $17,000. Dividend income is accrued on the ex-dividend date and allocated based on the individual ownership percentage of the participants. The fair value of shares under the plan are valued based upon an independent appraisal. As of December 31, 2020, the Plan owned 156,719 shares of stock. The amount of pension expense charged to operations for the years ended December 31, 2020, 2019, and 2018 were $257,435, $192,687, and $255,976, respectively.

Shares held by the Plan were as follows as of December 31:

	2020	2019
Shares Held by the Plan were as Follows		
Allocated to Participants	$ 156,719	$ 155,801
Unearned	-	-
Total KSOP Shares	$ 156,719	$ 155,801
Fair Value of Unearned Shares	$ -	$ -

Stock Grant Plans

The Company initiated a Stock Grant Plan (Plan 1) on February 1, 2017 in which 6,000 shares of granted stock has a three year vesting period. The fair value of each grant under Plan 1 was estimated on the date of grant using the same valuation model used for shares granted under the Plan. Under Plan 1, there were no stock grants were outstanding as of December 31, 2020. Dividend income is accrued on the ex-dividend date and allocated based on the individual ownership percentage of the participants. The Company recognized $-0- and $73,150 in expense for the portion of the stock value vested in the years ended December 31, 2020 and 2019, respectively. As of December 31, 2020, there was no unrecognized cost remaining related to nonvested shares granted under Plan 1.

The Company initiated a Stock Grant Plan (Plan 2) on September 25, 2019 in which 26,910 shares of granted stock has a three year vesting period. The fair value of each grant under Plan 2 was estimated on the date of grant using the same valuation model used for shares granted under the Plan. The term for shares granted under Plan 2 was two years as of December 31, 2020. Under Plan 2, there were 13,439 stock grants outstanding as of December 31, 2020. Dividend income is accrued on the ex-dividend date and allocated based on the individual ownership percentage of the participants. The Company recognized $290,618 and $292,656 in expense for the portion of the stock value vested in 2020 and 2019, respectively. As of December 31, 2020, there was $583,274 of total unrecognized cost related to nonvested shares granted under Plan 2; that cost is expected to be recognized over a period of two years.

15) Employee Benefit Plans (Continued)

The Company initiated a Stock Grant Plan ("Plan 3") on September 25, 2019 in which 16,364 shares of granted stock has a 5.22 year vesting period. The fair value of each grant under Plan 3 was estimated on the date of grant using the same valuation model used for shares granted under the Plan. The term for shares granted under Plan 3 was four years as of December 31, 2020. Under Plan 3, there were 10,909 stock grants outstanding as of December 31, 2020. Dividend income is accrued on the ex-dividend date and allocated based on the individual ownership percentage of the participants. The Company recognized $118,015 and $118,594 in expense for the portion of the stock value vested in 2020 and 2019, respectively. As of December 31, 2020, there was $472,944 of total unrecognized cost related to nonvested shares granted under Plan 3; that cost is expected to be recognized over a period of four years.

Deferred Compensation Plan

In 2014, the Bank commenced a salary continuation plan covering seven executive officers through individual contracts. Under this plan, the Bank is committed to pay the individuals an annual benefit as defined in each individual contract. The officers vest zero percent during the first five years of service and 100 percent after five years of service. The benefit will be paid over a period of 15 years beginning at age 60 for one officer and 65 for the other officers.

In 2019, the Bank commenced another salary continuation plan covering four executive officers. Under this plan, the Bank is committed to pay the individuals an annual benefit as defined in the individual contract over a period of 15 years beginning at age 60 for two officers and age 65 for the other two officers. The officers vest zero percent during the first year of service and 100 percent after the first year of service.

The liability accrued under these plans totaled $563,327, and $401,703 as of December 31, 2020 and 2019, respectively. Expense charged to operations totaled $161,624, $116,929 and $69,342 for the years ended December 31, 2020, 2019 and 2018, respectively. No benefits were paid as of December 31, 2020 and 2019.

Equity Incentive Plans

In September 2018, the Bank granted 22,550 equity incentive units (EIUs) to certain employees under the Morris Bank 2018 Equity Incentive Unit Plan (the 2018 EIU Plan). The 2018 EIU Plan permits the grant of equity incentive units to employees of the Bank to promote the long-term financial interests of the Bank including its growth and performance. A EIU granted under the 2018 EIU Plan entitles the recipient to receive cash in an amount equal to the excess of the per unit book value on the payment date, which shall be determined by the compensation committee of the board of directors, over the base value of the EIU. The payment date is defined as the earlier of (a) the last day of the fiscal year of the Bank following the fiscal year in which the grant date occurred; (b) the last day of the fiscal year following the employee's death; or (c) the effective date of a change in control.

In October 2019, the Company granted 18,000 stock appreciation rights (SARs) to certain individuals under the Morris State Bancshares, Inc. 2019 Equity Incentive Plan. The SARs granted vest over six years. Once vested the portion of the SARs that became vested may be exercised and will be converted to the right to receive a cash payment from the Company in an amount equal to the positive difference between the fair market value of the Company's common stock as of the exercise date and the initial value of the SAR.

15) Employee Benefit Plans (Continued)

Equity Incentive Plans (Continued)

The following table details activity in the equity incentive plans for the years ended December 31:

	2020	2019	2018
Shares Outstanding at January 1	**$ 40,550**	$ 22,550	$ -
Granted	**-**	18,000	22,550
Exercised	**-**	-	-
Shares Outstanding at December 31	**$ 40,550**	$ 40,550	$ 22,550
Liability at December 31	**$ 485,696**	$ 254,268	$ 100,000
Compensation Expense for the Years Ended December 31	**$ 231,428**	$ 154,268	$ 100,000

The initial value for the stock appreciation rights granted in 2019 was $43.35 per SAR. The base value for the equity incentive units granted in 2018 was $37.67.

(16) Limitation on Dividends

The Board of Directors of any state-chartered bank in Georgia may declare and pay cash dividends on its outstanding capital stock without any request for approval of the Bank's regulatory agency if the following conditions are met:

- Total classified assets at the most recent examination of the Bank do not exceed 80 percent of Tier 1 capital plus the allowance for loan losses;
- The aggregate amount of dividends declared in the calendar year does not exceed 50 percent of the net profits, after taxes but before dividends, for the previous calendar year; and
- The ratio of Tier 1 capital to adjusted total assets shall not be less than six percent.

As of December 31, 2020, the amount available for distribution as dividends in the subsequent year without regulatory consent was $9,485,915.

(17) Commitments and Contingencies

Credit-Related Financial Instruments

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

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

The Bank does require collateral or other security to support financial instruments with credit risk as follows as of December 31:

	2020	2019
Financial Instruments Whose Contract Amount Represent Credit Risk		
Commitments to Extend Credit	**$129,289,348**	$ 98,369,000
Standby Letters of Credit	**1,130,986**	3,823,000
Total	**$130,420,334**	$102,192,000

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. 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 Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Bank upon extension of credit is based on management's credit evaluation. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment and income-producing commercial properties.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing and similar transactions. All letters of credit are due within one year of the original commitment date. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

(18) Related Party Transactions

In the ordinary course of business, the Company, through the Bank, has direct and indirect loans outstanding to or for the benefit of certain executive officers and directors. These loans were made on substantially the same terms as those prevailing, at the time made, for comparable loans to other persons and did not involve more than the normal risk of collectability or present other unfavorable features. The following is a summary of activity during the years ended December 31with respect to such loans to these individuals:

	2020	2019
Balances, Beginning	**$ 14,279,422**	$ 11,096,196
New loans	**7,451,756**	4,968,614
Repayments	**(2,992,044)**	(1,785,388)
Balances, Ending	**$ 18,739,134**	$ 14,279,422

The Bank also had deposits from these related parties of approximately $24,785,456 and $13,943,768 at December 31, 2020 and 2019, respectively.

The Bank leases office space for its Warner Robins branch from Red Thunder Properties, LLC, of which a member of the Bank's Board of Directors is the managing member. On December 19, 2016, the organizers of Morris Bank entered into a lease agreement for office space located in Warner Robins, Georgia. This lease agreement includes a period of five years beginning December 16, 2016 and ending December 31, 2021. The lease agreement states that at the end of the lease term, the Bank may renew the lease for an additional term of five years. The Bank will have a total of three, five-year options to extend the original lease term for an aggregate term of 20 years. Monthly lease payments for the first five-year period were established at $8,668, after which time, monthly lease payments may increase by no more than 10 percent of the price of the previous lease term.

(19) Fair Values of Financial Instruments

The fair value of a financial instrument is the current amount that would be exchanged between willing parties, other than in a forced liquidation. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company's various financial instruments. In cases where quoted market prices are not available, fair value is based on discounted cash flows or other valuation techniques. These techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. The accounting standard for disclosures about the fair value of financial instruments excludes financial instruments not recorded at fair value and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Company.

The fair value hierarchy describes three levels of inputs that may be used to measure fair value:

Level 1 - Valuation is based upon quoted prices for identical instruments traded in active markets.

(19) Fair Values of Financial Instruments (Continued)

Level 2 - Valuation is based upon 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 for substantially the full term of the assets or liabilities.

Level 3 - Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of assets or liabilities.

Following is a description of valuation methodologies used for assets and liabilities which are either recorded or disclosed at fair value:

Investment Securities Available for Sale

The fair value of securities available for sale is determined by various valuation methodologies. Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. 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 flows. Level 2 securities include mortgage-backed securities issued by government sponsored enterprises and municipal bonds. The Level 2 fair value pricing is provided by an independent third-party and is based upon similar securities in an active market. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy and include certain residual municipal securities and other less liquid securities.

Loans

The Company does not record loans at fair value on a recurring basis. However, from time to time, a loan is considered impaired and an allowance for loan losses is established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Once a loan is identified as individually impaired, management measures impairment based on the present value of expected future cash flows discounted at the loan’s effective interest rate, except that as a practical expedient, a creditor may measure impairment based on a loan’s observable market price, or the fair value of the collateral if repayment of the loan is dependent upon the sale of the underlying collateral. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. In accordance with ASC 820, impaired loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the impaired loan as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the impaired loan as nonrecurring Level 3.

Other Real Estate and Foreclosed Assets

Other real estate and foreclosed assets are adjusted to fair value, less cost to sell, upon transfer of the loans to other real estate and foreclosed assets. Subsequently, foreclosed assets are carried at the lower of carrying value or fair value. Fair value is based upon independent market prices, appraised values of the collateral or management’s estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the other real estate and foreclosed asset as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the other real estate and foreclosed asset as nonrecurring Level 3.

(19) Fair Values of Financial Instruments (Continued)

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

The table below presents the recorded amount of assets and liabilities measured at fair value on a recurring basis as of December 31, aggregated by the level in the fair value hierarchy within which those measurements fall.

	2020			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Investment Debt Securities Available for Sale				
U.S. Government Agencies	**$ -**	**$ 2,541,020**	**$ -**	**$ 2,541,020**
U.S. Treasury Securities	**-**	**8,144,218**	**-**	**8,144,218**
State, County and Municipal Securities	**15,717,706**	**92,633,384**	**-**	**108,351,090**
Other Debt Securities	**3,133,137**	**5,493,647**	**-**	**8,626,784**
Residential Mortgage Backed Securities	**-**	**26,047,607**	**-**	**26,047,607**
Commercial Mortgage Backed Securities	**3,022,500**	**41,309,149**	**7,385,302**	**51,716,951**
Total Investment Securities	**$21,873,343**	**$176,169,025**	**$ 7,385,302**	**$ 205,427,670**

	2019			
	Level 1	Level 2	Level 3	Total
Assets				
Investment Debt Securities Available for Sale				
U.S. Government Agencies	$ -	$ 6,740,411	$ -	$ 6,740,411
U.S. Treasury Securities	-	7,754,798	-	7,754,798
State, County and Municipal Securities	1,467,942	23,792,044	-	25,259,986
Other Debt Securities	-	4,435,387	500,000	4,935,387
Residential Mortgage Backed Securities	3,071,818	26,396,596	2,011,419	31,479,833
Commercial Mortgage Backed Securities	-	43,147,643	4,997,040	48,144,683
Total Investment Securities	$ 4,539,760	$ 112,266,879	$ 7,508,459	$ 124,315,098

(19) Fair Values of Financial Instruments (Continued)

Assets Recorded at Fair Value on a Nonrecurring Basis

The Company may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis in accordance with U.S. generally accepted accounting principles. These include assets that are measured at the lower of cost or market that were recognized at fair value below cost at the end of the period. The table below presents the Company's assets and liabilities measured at fair value on a nonrecurring basis as of December 31, aggregated by the level in the fair value hierarchy within which those measurements fall.

	2020			
	Level 1	**Level 2**	**Level 3**	**Total**
Impaired Loans	**$ -**	**$ -**	**$ 8,731,361**	**$ 8,731,361**
Other Real Estate and Foreclosed Assets	**-**	**-**	**141,255**	**141,255**
	$ -	**$ -**	**$ 8,872,616**	**$ 8,872,616**

	2019			
	Level 1	Level 2	Level 3	Total
Impaired Loans	$ -	$ -	$ 11,802,168	$ 11,802,168
Other Real Estate and Foreclosed Assets	-	-	396,486	396,486
	$ -	$ -	$ 12,198,654	$ 12,198,654

(19) Fair Values of Financial Instruments (Continued)

The following table presents a reconciliation of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended December 31, 2020 and 2019.

	Total	Residential Mortgage Backed Securities	Commercial Mortgage Backed Securities	Other Debt Securities
Balance - December 31, 2019	$ 7,508,459	$ 2,011,419	$ 4,997,040	$ 500,000
Transfers Into Level 3	-	-	-	-
Transfers Out of Level 3	(5,580,452)	(2,011,419)	(3,069,033)	(500,000)
Total Net Gains (Losses) Included in	-	-	-	-
Net Income	(8,125)	-	(8,125)	-
Other Comprehensive Income	-	-	-	-
Transactions During the Period	-	-	-	-
Purchases	5,527,500	-	5,527,500	-
Sales and Calls	-	-	-	-
Settlements	(62,080)	-	(62,080)	-
Balance, December 31, 2020	$ 7,385,302	$ -	$ 7,385,302	$ -
Change in Unrealized Gains (Losses) Included in Net Income for the Year For Assets Held as of December 31, 2020	$ -	$ -	$ -	$ -

	Total	Residential Mortgage Backed Securities	Commercial Mortgage Backed Securities	Other Debt Securities
Balance - December 31, 2018	$ -	$ -	$ -	$ -
Transfers Into Level 3	-	-	-	-
Transfers Out of Level 3	-	-	-	-
Total Net Gains (Losses) Included in	-	-	-	-
Net Income	-	-	-	-
Other Comprehensive Income	-	-	-	-
Transactions During the Period	-	-	-	-
Purchases	7,508,459	2,011,419	4,997,040	500,000
Sales	-	-	-	-
Settlements	-	-	-	-
Balance - December 31, 2019	$ 7,508,459	$ 2,011,419	$ 4,997,040	$ 500,000
Change in Unrealized Gains (Losses) Included in Net Income for the Year For Assets Held as of December 31, 2019	$ -	$ -	$ -	$ -

(19) Fair Values of Financial Instruments (Continued)

The following table shows significant unobservable inputs used in the fair value measurement of Level 3 assets and liabilities as of December 31:

Measurements	**Fair Value at 2020**	**Valuation Technique**	**Unobservable Inputs**	**Range**
Recurring				
Commercial Mortgage Backed Securities	**$ 7,385,302**	Third party book price	Credit quality of issuer	**0.00%**
Nonrecurring				
Impaired Loans	**8,731,361**	Third party appraisals, discounted cash flows , and loan pricing	Collateral discounts, estimated selling expenses, and discount rates	**0.00 -100**
Other Real Estate and Foreclosed Assets	**141,255**	Third party appraisals	Collateral discounts, estimated selling expenses,	**10.00 -39.09**

Measurements	Fair Value at 2019	Valuation Technique	Unobservable Inputs	Range
Recurring				
Residential mortgage Backed Securities	$ 2,011,419	Third party book price	Credit quality of issuer	0.00%
Commercial Mortgage Backed Securities	4,997,040	Third party book price	Credit quality of issuer	0.00
Nonrecurring				
Corporate Bonds	500,000	Third party book price	Credit quality of issuer	0.00
Impaired Loans	11,802,168	Third party appraisals, discounted cash flows , and loan pricing	Collateral discounts, estimated selling expenses, and discount rates	0.00-100
Other Real Estate and Foreclosed Assets	396,486	Third party appraisals	Collateral discounts, estimated selling expenses,	10.00-39.09

(20) Credit Risk Concentration

The Bank grants agribusiness, commercial and residential loans to customers. Although the Bank has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent on the area's economic stability. The primary trade area for the Bank is generally that area within fifty miles in each direction.

(20) Credit Risk Concentration (Continued)

The distribution of commitments to extend credit approximates the distribution of loans outstanding. Commercial and standby letters of credit were granted primarily to commercial borrowers. The Bank, as a matter of policy, does not extend credit in excess of the legal lending limit to any single borrower or group of related borrowers.

The Company's bank subsidiary maintains its cash at several financial institutions located in the Southeast. On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act was signed into law and permanently raised the FDIC coverage limit to $250,000. The Company had uninsured balances of $30,924,955 as of December 31, 2020.

The Company maintains a cash balance in an account held with the Federal Home Loan Bank (FHLB). The FHLB is not a financial institution, and as a result, funds held are not subject to FDIC coverage. As of December 31, 2020, the Company had an outstanding balance of $54,102 with the FHLB, which is entirely uninsured.

The Company also maintains an account with the Federal Reserve Bank of Atlanta. Although funds held by this institution are not insured with the FDIC, funds are backed by the full faith and credit of the United States Government. As of December 31, 2020, the Company had an outstanding balance of $2,082,652 with the Federal Reserve Bank, which is backed by the full faith and credit of the United States Government.

Pandemics, natural disasters such as extreme weather conditions, hurricanes, floods, and other acts of nature, and geopolitical events involving civil unrest, changes in government regimes, terrorism, or military conflict could adversely affect our business operations and those of our customers and have significant negative impacts upon economic conditions and cause substantial damage and loss to real and personal property. These pandemics, natural disasters and geopolitical events could impair our borrowers' ability to service their loans, decrease the level and duration of deposits by customers, erode the value of loan collateral, and result in an increase in the amount of our nonperforming loans and a higher level of nonperforming assets (including real estate owned), net charge-offs, and provision for loan losses, and could materially and adversely affect our business, financial condition, results of operations, and the value of our common stock.

(21) Operating Income and Expenses

Components of other operating expenses greater than one percent of total interest income and other income for the years ended December 31, are as follows:

	2020	2019	2018
Data Processing	**$ 2,749,847**	$ 2,526,627	$ 1,880,949
Legal And Accounting Fees	**604,665**	885,926	291,433
Business Development	**801,124**	648,650	514,027
Miscellaneous Expenses	**414,506**	1,219,245	80,193

There were no components of other operating income greater than one percent of total interest income and other income for the years ended December 31, 2020, 2019, and 2018.

(22) Regulatory Matters

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's 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 amount and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

The final rules implementing Basel Committee on Banking Supervision's capital guidelines for U.S. banks (Basel III rules) became effective for the Company on January 1, 2015 with full compliance with all of the requirements being phased in over a multi-year schedule, and fully phased in as of January 1, 2019. Under the Basel III rules, the Bank must hold a capital conservation buffer above the adequately capitalized risk-based capital ratios. The capital conservation buffer was phased in at a rate of 0.625 percent per year from 0.0 percent in 2015 to 2.50 percent on January 1, 2019. The Company and its bank subsidiaries have elected to exclude the net unrealized gain or loss on available for sale securities, if any, in computing regulatory capital.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total risk-based, Tier I capital and Common Equity Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2020, the Bank meets all capital adequacy requirements to which it is subject. As of December 31, 2020, the most recent notification from regulatory agencies categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Bank must maintain minimum total risk-based, Tier I risk-based, Common Equity Tier I risk-based, and Tier I leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's category.

The Bank's actual capital amounts and ratios are presented in the following table.

	Actual		For Capital Adequacy		To Be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(In Thousands)			
As of December 31, 2020						
Total Capital to Risk-Weighted Assets	**$ 142,178**	**14.25 %**	**$ 79,819**	**8.00 %**	**$ 99,774**	**10.00 %**
Tier I Capital to Risk-Weighted Assets	**131,397**	**13.17**	**59,862**	**6.00**	**79,816**	**8.00**
Common Equity Tier I Capital to Risk-Weighted Assets	**131,397**	**13.17**	**44,896**	**4.50**	**64,850**	**6.50**
Tier I Capital to Average Assets	**131,397**	**11.21**	**46,886**	**4.00**	**58,607**	**5.00**
As of December 31, 2019						
Total Capital to Risk-Weighted Assets	112,291	13.53	66,394	8.00	82,992	10.00
Tier I Capital to Risk-Weighted Assets	102,575	12.36	49,795	6.00	66,394	8.00
Common Equity Tier I Capital to Risk-Weighted Assets	102,575	12.36	37,346	4.50	53,945	6.50
Tier I Capital to Average Assets	102,575	10.38	39,516	4.00	49,395	5.00

(23) Segment Reporting

Reportable segments are strategic business units that offer different products and services. Reportable segments are managed separately because each segment appeals to different markets and, accordingly, requires different technology and marketing strategies.

The Company and its subsidiaries do not have any separately reportable operating segments. The entire operations of the Company are managed as one operation.

(24) Subsequent Events

The Company performed an evaluation of subsequent events through March 19, 2021, the date upon which the Company's financial statements were available to issue.

On February 3, 2021, the Bank entered into an endorsement split dollar arrangement with six of its officers. This plan is intended to be an employee welfare benefit plan as defined in ERISA §3(1) which is intended to provide death benefits solely to a select group of management. The Bank is the owner of the life insurance contracts. The officers are not entitled to any of the cash value and have no rights except to name a beneficiary for a portion of the death proceeds. Death benefits for five of the officers are $75,000 each. The death benefit for one of the officers is $425,000.

In early 2020, an outbreak of a novel strain of coronavirus (COVID-19) emerged globally. As a result, events have occurred domestically in United States and globally, including mandates from federal, state and local authorities, leading to an overall decline in economic activity. The ultimate impact of COVID-19 on the financial performance of the Company cannot be reasonably estimated at this time.

Additionally, it is reasonably possible that estimates made in the financial statements have been, or will be, materially and adversely impacted in the near term as a result of these conditions, including the allowance for loan losses, impairment losses related to goodwill, valuation allowances on deferred tax assets, and market values of securities and other real estate properties held.

(25) Condensed Financial Statements (Parent Company Only)

Condensed parent company financial information on Morris State Bancshares, Inc. at December 31, is as follows:

Balance Sheets

	2020	2019
Assets		
Cash in Subsidiary	**$ 3,426,123**	$ -
Deposits in Other Banks	**2,802,994**	6,780,510
Investment in Subsidiaries, at Equity in Underlying Net Assets	**150,164,112**	117,141,358
Goodwill	**388,816**	388,816
Other Assets	**1,359,481**	1,768,646
Total Assets	**$158,141,526**	$126,079,330
Liabilities		
Due to Subsidiary	**$ -**	$ 117,144
Notes Payable	**28,677,477**	14,483,605
Accrued Expenses	**44,965**	52,949
Total Liabilities	**28,722,442**	14,653,698
Shareholders' Equity		
Common Stock, $1 Par Value, Authorized 10,000,000 Shares, 2,144,766 Issued and 2,093,839 Outstanding in 2020 and 2,144,766 Issued and 2,098,249 Outstanding in 2019	**2,144,766**	2,144,766
Paid-in Capital Surplus	**39,292,064**	39,292,064
Retained Earnings	**83,266,070**	69,537,950
Accumulated Other Comprehensive Income	**6,381,381**	1,830,484
Treasury Stock, at Cost 50,927 in 2020 and 46,517 Shares in 2019	**(1,665,197)**	(1,379,632)
Total Shareholders' Equity	**129,419,084**	111,425,632
Total Liabilities and Shareholders' Equity	**$158,141,526**	$126,079,330

(25) Condensed Financial Statements (Parent Company Only) (Continued)

Statements of Income and Retained Earnings

	Years Ended December 31,		
	2020	2019	2018
Revenues			
Dividend Income	**$ 2,500,000**	$ 7,750,000	$ 5,450,000
Interest Income	**25,489**	65,870	301
Other	**500**	500	-
Total Revenues	**2,525,989**	7,816,370	5,450,301
Expenses			
Interest Expense	**1,091,608**	657,054	54,018
Other	**498,222**	613,579	68,540
Total Expenses	**1,589,830**	1,270,633	122,558
Income Before Equity Income of Subsidiary	**936,159**	6,545,737	5,327,743
Equity in Undistributed Income of Subsidiaries	**16,471,830**	7,075,217	9,908,401
Net Income	**17,407,989**	13,620,954	15,236,144
Retained Earnings, Beginning	**69,537,950**	57,792,589	47,332,599
Stock and Cash Dividends	**(3,679,869)**	(1,875,593)	(4,776,154)
Retained Earnings, Ending	**$ 83,266,070**	$ 69,537,950	$ 57,792,589

(25) Condensed Financial Statements (Parent Company Only) (Continued)

Statements of Cash Flows

	Years Ended December 31,		
	2020	2019	2018
Cash Flows from Operating Activities			
Net Income	**$ 17,407,989**	$ 13,620,954	$ 15,236,144
Adjustments to Reconcile Net Income to			
Net Cash Provided by Operating Activities			
Equity in Undistributed Income of Subsidiary	**(16,471,830)**	(7,075,217)	(9,908,401)
Net Change in Operating Assets and Liabilities			
Accrued Income and Other Assets	**409,165**	(1,403,830)	(224,109)
Changes in Accrued Expenses and Other Liabilities	**(359,854)**	127,271	22,692
Net Cash Provided by Operating Activities	**985,470**	5,269,178	5,126,326
Cash Flows from Investing Activities			
Capital Injection to Subsidiaries	**(12,000,000)**	(27,195,462)	-
Cash Flows from Financing Activities			
Proceeds from Borrowed Funds	**15,000,000**	13,912,176	-
Repayment of Other Borrowed Funds	**(571,429)**	(285,714)	(285,713)
Purchase of Treasury Stock	**(285,565)**	(168,533)	-
Proceeds from Issuance of Common Stock	**-**	15,328,908	1,414,441
Cash Dividends Paid	**(3,679,869)**	(1,875,593)	(4,776,154)
Net Cash Provided by (Used in) Financing Activities	**10,463,137**	26,911,244	(3,647,426)
Net Increase (Decrease) in Cash and Cash Equivalents	**(551,393)**	4,984,960	1,478,900
Cash and Cash Equivalents - Beginning of Year	**6,780,510**	1,795,550	316,650
Cash and Cash Equivalents - End of Year	**$ 6,229,117**	$ 6,780,510	$ 1,795,550

The following additional information is related to the Holding Company's cash flows during the periods reported.

	2020	2019	2018
Cash Paid for Interest			
Interest on Borrowings	**$ 1,131,680**	$ 621,357	$ 47,046
Noncash Items			
Changes in Unrealized Gain/Loss on Investments	**$ 5,760,658**	$ 2,287,731	$ (667,946)

(26) Other Comprehensive Income (Loss)

The tax effects allocated to each component of other comprehensive income (loss) are as follows:

	2020		
	Before Tax Amount	**Tax Expense (Benefit)**	**Net of Tax Amount**
Securities Available for Sale			
Change in Net Unrealized Gain (Loss) During the Period	**$ 5,806,981**	**$ 1,219,489**	**$ 4,587,492**
Reclassification Adjustment for Net (Gain) Loss Included in Net Income	**(46,323)**	**(9,728)**	**(36,595)**
	$ 5,760,658	**$ 1,209,761**	**$ 4,550,897**

	2019		
Securities Available for Sale			
Change in Net Unrealized Gain (Loss) During the Period	$ 2,749,874	$ 482,322	$ 2,267,552
Reclassification Adjustment for Net (Gain) Loss Included in Net Income	24,471	4,292	20,179
	$ 2,774,345	$ 486,614	$ 2,287,731

	2018		
Securities Available for Sale			
Change in Net Unrealized Gain (Loss) During the Period	$ (671,297)	$ -	$ (671,297)
Reclassification Adjustment for Net (Gain) Loss Included in Net Income	3,351	-	3,351
	$ (667,946)	$ -	$ (667,946)

(27) Accumulated Other Comprehensive Income (Loss)

Changes in accumulated other comprehensive income (loss) by component, net of tax, for the years ended December 31 are as follows:

	2020	2019	2018
Beginning Balance	**$ 1,830,484**	$ (457,247)	$ 210,699
Other Comprehensive Income (Loss) Before Reclassification	**4,587,492**	2,267,552	(671,297)
Amounts Reclassified from Accumulated Other Comprehensive Income	**(36,595)**	20,179	3,351
Net Current Period Other Comprehensive Income (Loss)	**4,550,897**	2,287,731	(667,946)
Ending Balance	**$ 6,381,381**	$ 1,830,484	$ (457,247)

(28) Revenues from Contracts with Customers

The Company's revenue from contracts with customers within the scope of ASU 2014-09 included in noninterest income (expense) in the income statement is comprised of the following for the years ended December 31:

	2020	2019	2018
Noninterest Income (Expense)			
Service Charges on Deposits	**$ 1,951,402**	$ 2,303,975	$ 1,852,192
ATM Interchange Fees	**1,128,301**	759,501	548,040
Net Gains (Losses) on Sales of Other Real Estate	**(67,595)**	305,390	(136,708)
	$ 3,012,108	$ 3,368,866	$ 2,263,524

A description of the Company's revenue streams accounted for under ASU 2014-09 is as follows:

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

ATM Interchange Fees: The Company earns interchange fees from cardholder transactions conducted through the Visa/MasterCard or other payment network. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder.

(28) Revenues from Contracts with Customers (Continued)

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