TI TRUST

TRUE INTEGRITY FIDUCIARY SERVICES

# ANNUAL REPORT 2019

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## Corporate Description

TI-Trust, Inc. is a national provider of fiduciary services. Headquartered in Quincy, Illinois, TI-TRUST has been serving individuals and institutional clients for more than 60 years. With solid core values and decades of proven commitment to high ethical standards, we are a leading provider of fiduciary services dedicated to earning and maintaining the trust and confidence of our clients. Our team of experienced financial, legal, and administrative professionals provide a wide range of highly specialized fiduciary services focused on Employee Benefits, Personal Trust, and Farm Services. With more than $10 billion in assets under management, we service clients nationwide, with offices in Illinois, Missouri, Pennsylvania, Arizona, and Georgia.

For additional financial information contact:
Brian A. Ippensen, President
(217) 228-8060

## Board of Directors

Donald K. Gnuse
Brian A. Ippensen
Steven E. Siebers

## Stockholder Information

| | |
|---|---|
| Common shares authorized: | 5,000,000 |
| Common shares outstanding as of December 31, 2019: | 3,089,773 |
| Certificate holders of record: | 313* |

*As of March 20, 2020

Inquiries regarding transfer requirements, lost certificates, changes of address and account status should be directed to the corporation's transfer agent:

AST Shareholder Services
6201 15th Avenue
Brooklyn, NY 11219

## Corporate Address

TI-Trust, Inc.
2900 North 23rd Street
Quincy, IL 62305

## Independent Auditors

BKD, LLP
211 N. Broadway, Suite 600
St. Louis, Missouri 63102

## General Counsel

Bryan Cave
Leighton Paisner
211 N Broadway #3600
St. Louis Missouri 63102

## TI-TRUST Officers

### President/CEO

Brian A. Ippensen

### Executive Vice Presidents

Steven P. Eckert
Michele R. Foster
P. Dawn Goestenkors
Julie E. Kenning
Jayson E. Martin
Larry E. Shepherd

### Internal Auditor

Timothy W. Corrigan

### Senior Vice Presidents

Frank "Chip" Brown
Joseph E. Harris
Ashley Melton
Mary A. Schmidt
Kimberly A. Serbin

### Vice Presidents

Teresa L. Daggett
Paul R. Edwards, III
Robin L. Fitzgibbons
Susan K. Knoche
Brenda K. Martin
Blake R. Mock
John Shelton

### Senior Trust Officers

Craig L. Baker
Teresa F. Kuchling
Deborah J. Staff

### Officers

Holly Allen
John T. Cifaldi
Marilyn J. Crim
Maria D. Eckert
Marisa J. Ermeling
Jennifer L. Gordley
Betsy Gustison
Joy Hanks
Kelly M. Ponce
Sherri A. Zuspann

April 2, 2020

To our shareholders:

**Brian A. Ippensen**
President and CEO

I'm proud to welcome you to our first annual meeting as TI-TRUST, Inc.! Our Annual Meeting of Shareholders will be on Thursday, May 14, 2020. We will be following the current guidance on best practices and requirements for you and our employees for this meeting. You can find more details in the proxy statement. Like all of America, we are adjusting and proceeding forward and hope you are healthy and safe.

2019 was an incredible year and one of historical significance. On July 1, 2019, TI-TRUST, Inc. became an independent trust company, joining the approximately 200 other independent trust companies in the United States, and like TI-TRUST, almost all are closely-held companies. Our assets under management on 12/31/19 was $10.5 billion, placing us near the top 100 largest trust functions in the US. All of this was possible because of the great group of employees we have at TI-TRUST. I am truly thankful for these wonderful people that every day support the needs of nearly 1,800 clients all across the United States.

In the following pages you will find our audited financial statements for the year ending December 31, 2019. We finished last year with a strong balance sheet and a record net income since the organization's inception in 2004 as First Bankers Trust Services, Inc. In 2019, our recurring trust fees exceeded expectations by 2%. Our transaction and distribution fees exceeded our 2019 budget by 68%, thanks in large part to a strong economy and its high demand for our ESOP and Farm services. We maintained our operating expenses within 2% of budget, despite the nearly $200,000 of additional expenses necessary for the conversion to TI-TRUST.

As you are aware, the COVID-19 pandemic has wreaked havoc on our U.S. economy, as reflected in significant declines in equity values and an unprecedented number of unemployed in a very short period of time. It has brought levels of uncertainty into business and social circles unseen for generations. In response, TI -TRUST has implemented its Business Continuity Plan to maintain its expected and high standard of trust account administration service levels while most of our staff are working remotely. All of these factors will create significant business headwinds which will have a notable financial impact to our business, including greater costs to operate and reduced revenues from both our trust recurring and transactional fees. This disruption has increased the value of available capital, and with our solid balance sheet, it will help us weather this storm. Nonetheless, we forge forward, agile in our endeavors and grateful for our blessings.

The Company engaged Mercer Capital, Inc., to conduct an annual valuation for TI-TRUST, Inc. as of December 31, 2019. The appraised value per common share is $4.95. While this valuation was concluded after December 31, 2019, the value does not reflect the significant economic impacts of the COVID-19 virus presently occurring.

The Company is announcing a dividend of $0.03 per share, to be paid on Friday May 29, 2020 for shareholders of record as of Thursday April 30, 2020.

Thank you for your encouragement and continued investment in TI-TRUST, Inc.!

Sincerely,

Brian Ippensen

Brian A. Ippensen
President/CEO

BKD
CPAs & Advisors

One Metropolitan Square | 211 N. Broadway, Suite 600 | St. Louis, MO 63102-2733
314.231.5544 | Fax 314.231.9731 | bkd.com

## Independent Auditor's Report

Board of Directors, Audit Committee
and Management
TI-Trust, Inc.
Quincy, Illinois

We have audited the accompanying financial statements of TI-Trust, Inc. (Company) which comprise the balance sheet as of December 31, 2019, and the related statements of income and comprehensive income, changes in stockholders' equity and cash flows for the year then ended, and the related notes to the financial statements.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these 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 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 financial statements based on our audit. We conducted our audit 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the 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 Company'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 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 financial statements referred to above present fairly, in all material respects, the financial position of TI-Trust, Inc. as of December 31, 2019, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As discussed in Note 11, beginning retained earnings in the 2019 financial statements has been adjusted to correct an error. Our opinion is not modified with respect to this matter.

BKD, LLP

St. Louis, Missouri
March 30, 2020

# Balance Sheet
## December 31, 2019

### Assets

| | | |
|---|---|---|
| Cash and due from banks | | |
| Noninterest-bearing | $ | 873,453 |
| Interest-bearing | | 2,346,373 |
| Total cash and due from banks | | 3,219,826 |
| Interest-bearing time deposits | | 971,000 |
| Trust fee income receivable, net of allowance for uncollectible accounts ($45,000) | | 390,016 |
| Interest receivable | | 38,866 |
| Available-for-sale debt securities | | 5,820,034 |
| Goodwill | | 240,000 |
| Property and equipment, net | | 1,630,533 |
| Other assets | | 269,399 |
| Total assets | $ | 12,579,674 |

### Liabilities and Stockholders' Equity

| | | |
|---|---|---|
| **Liabilities** | | |
| Trust deferred fee income | $ | 2,791,505 |
| Payroll and benefits accrued expenses | | 916,038 |
| Accounts payable and other accrued expenses | | 290,129 |
| Total liabilities | | 3,997,672 |
| **Stockholders' Equity** | | |
| Preferred stock, $.01 par value, authorized 2,000,000 shares; 0 issued and outstanding | | - |
| Common stock, $.01 par value, authorized 5,000,000 shares; 3,089,773 issued and outstanding | | 30,898 |
| Additional paid-in capital | | 3,469,102 |
| Retained earnings | | 5,015,038 |
| Accumulated other comprehensive income | | 66,964 |
| Total stockholders' equity | | 8,582,002 |
| Total liabilities and stockholders' equity | $ | 12,579,674 |



*See Notes to Financial Statements*

# Statement of Income and Comprehensive Income
## Year Ended December 31, 2019

| | | |
|---|---|---|
| **Revenues** | | |
| Annual trust fees, net | $ | 9,664,595 |
| Transaction fees | | 2,188,269 |
| Distribution fees | | 568,766 |
| Interest income | | |
| Taxable Securities | | 127,312 |
| Non-taxable securities | | 3,605 |
| Other | | 89,815 |
| Other | | 83,179 |
| Total Revenues | | 12,725,541 |
| **Expenses** | | |
| Salaries and employee benefits | | 6,150,215 |
| Occupancy | | 316,316 |
| Depreciation | | 171,573 |
| Professional fees | | 364,490 |
| Computer processing | | 328,849 |
| General and administrative | | 877,345 |
| Other | | 56,492 |
| Total expenses | | 8,265,280 |
| **Income Before Income Taxes** | | 4,460,261 |
| **Provision for Income Taxes** | | 1,278,844 |
| **Net Income** | | 3,181,417 |
| **Other Comprehensive Income** | | |
| Unrealized appreciation on available-for-sale securities, net of income taxes ($56,177) | | 140,903 |
| **Comprehensive Income** | $ | 3,322,320 |

*See Notes to Financial Statements*

# Statement of Changes in Stockholders' Equity

## Year Ended December 31, 2019

| | Common Stock | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Total |
|---|---|---|---|---|---|
| **Balance, January 1, 2019** | $ 100,000 | $ 3,400,000 | $ 5,033,621 | $ (73,939) | $ 8,459,682 |
| Reallocation for change in par value | (69,102) | 69,102 | - | - | - |
| Net income | - | - | 3,181,417 | - | 3,181,417 |
| Dividends paid ($32 per share) | - | - | (3,200,000) | - | (3,200,000) |
| Other comprehensive income | - | - | - | 140,903 | 140,903 |
| **Balance, December 31, 2019** | $ 30,898 | $ 3,469,102 | $ 5,015,038 | $ 66,964 | $ 8,582,002 |



*See Notes to Financial Statements*

# Statement of Cash Flows
## Year Ended December 31, 2019

| | | |
|---|---|---|
| **Operating Activities** | | |
| Net Income | $ | 3,181,417 |
| Items not requiring cash | | |
| Depreciation on property and equipment | | 171,573 |
| Amortization on securities, net of accretion | | 14,896 |
| Loss on asset disposal | | 16,599 |
| Changes in | | |
| Fee income receivable, net | | 159,951 |
| Interest receivable | | (4,395) |
| Other assets | | (57,286) |
| Deferred tax liability | | (42,976) |
| Deferred fee income | | (24,001) |
| Payroll and benefits accrued expenses | | 169,190 |
| Accounts payable and other accrued expenses | | 130,829 |
| Net cash provided by operating activities | | 3,715,797 |
| **Investing Activities** | | |
| Net change in interest-bearing time deposits | | 900,000 |
| Purchases of property and equipment | | (238,209) |
| Net cash provided by investing activities | | 661,791 |
| **Financing Activities** | | |
| Dividends paid | | (3,200,000) |
| Net cash used in financing activity | | (3,200,000) |
| **Increase in Cash and Cash Equivalents** | | 1,177,588 |
| **Cash and Cash Equivalents, Beginning of Year** | | 2,042,238 |
| **Cash and Cash Equivalents, End of Year** | $ | 3,219,826 |
| **Supplemental Cash Flows Information** | | |
| Income taxes paid | $ | 1,048,196 |

*See Notes to Financial Statements*

## Note 1: Nature of Operations and Summary of Significant Accounting Policies

### Nature of Operations

TI-Trust, Inc. (Company) provides asset and custodial management services for individual and corporate clients throughout the country. All administration is conducted in Quincy, Illinois, with sales offices in Hinsdale, Illinois, St. Peters, Missouri, Philadelphia, Pennsylvania, Atlanta, Georgia and Phoenix, Arizona. The Company is subject to competition from investment management firms along with other trust companies and banks with trust powers.

Assets held by the Company on the behalf of clients are not assets of the Company, and accordingly, are not included in the financial statements. Assets under management totaled $10,602,258,572 as of December 31, 2019. During the course of discharging its respective responsibilities for each client, the Company is subject to a number of federal and state regulatory bodies and associated rules governing each type of account. The Company is regulated by the Illinois Department of Financial and Professional Regulation.

On July 1, 2019, the Company was divested from its former parent company, First Bankers Trustshares, Inc. The Company was rebranded as TI-Trust, Inc. at that time. As a result of this divestiture, the Company's Articles of Incorporation were restated and the par value of the Company's common stock was reduced to $.01 from $1 per share. The dividends paid during 2019 were paid to First Bankers Trustshares, Inc. and the dividends per share amount is stated in the Statement of Changes in Stockholders' Equity based on the shares of the Company owned by First Bankers Trustshares, Inc. at the time the dividends were declared.

### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

A material estimate that is particularly susceptible to significant change relates to the fair value of available-for-sale debt securities.

### Cash Equivalents

The Company considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2019, cash equivalents consisted primarily of money market accounts with brokers and certificates of deposit. At December 31, 2019, the Company's cash accounts exceeded federally insured limits by approximately $3,043,000.

### Interest-Bearing Time Deposits

Interest-bearing time deposits in banks mature within 62 months and are carried at cost, which approximates fair value.

### Debt Securities

The Company's debt securities are classified as "available for sale" and recorded at fair value, with unrealized gains and losses excluding from earnings and reported in other comprehensive income. Purchase premiums and discounts are recognized in interest income using the interest method over the earlier of the call date or the terms of the securities. Gains and losses on the sales of securities are recorded on the trade dates and are determined using the specific identification method.

For a debt security with a fair value below amortized cost when the Company does not intend to sell a debt security, and it is more likely than not, the Company will not have to sell the security before recovery of its cost basis, it recognizes the credit component of an OTTI of a debt security in earnings and the remaining portion in other comprehensive income. The credit loss component recognized in earnings is identified as the amount of principal cash flows not expected to be received over the remaining term of the security as projected based on cash flow projections.

### Trust Fee Income Receivable and Trust Deferred Fee Income

Trust fee income receivable and trust deferred fee income represent servicing fees due from client account relationships. The Company collects fees for services in either one of two methods: in arrears or in advance. Trust fee income receivable is stated at the amount of consideration from clients for which the Company has an unconditional right to receive in arrears of the service. For accounts that pay after the services are completed, those fees are collected at the end of the billing period. Trust deferred fee income is stated as the net amount of cash received in advance and revenue earned. Revenues are recognized ratably during the term of the service period which is typically year-to-year. On a periodic basis, management evaluates the Company's trust fee income receivable and determines which accounts to charge off based on aging, past write-offs and current credit conditions. There was no provision for doubtful accounts charged to expense as of December 31, 2019.

### Property and Equipment

Depreciable assets are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful lives of the assets.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

| | |
|---|---|
| Building | 40 years |
| Building and leasehold improvements | 3 - 15 years |
| Furniture and equipment | 3 - 15 years |

### Goodwill

Goodwill is evaluated annually for impairment or more frequently if impairment indicators are present. If the implied fair value of goodwill is lower than its carrying amount, a goodwill impairment is indicated and goodwill is written down to its implied values. Subsequent increases in goodwill value are not recognized in the financial statements.

### Income Taxes

The Company accounts for income taxes in accordance with income tax accounting guidance (Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 740, Income Taxes).The income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur. Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

Tax positions are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more likely- than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances and information available at the reporting date and is subject to management's judgment.

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

## Comprehensive Income

Comprehensive income consists of net income and other comprehensive income, net of applicable income taxes. Other comprehensive income includes unrealized appreciation on available-for-sale securities.

## Revenue Recognition

Annual trust fees represent fees earned in conjunction with providing annual fiduciary services such as trust administration, investment management or asset custody. Transaction fees represent non-recurring fees for the execution of specific transactions related to trust administration, investment management or asset custody. Distribution fees represent fees for distribution of principal or income to beneficiaries.

Substantially all of the Company's revenue is generated from contracts with clients in which fees are earned from the management and administration of trusts and other assets. The Company's performance obligation is generally satisfied over time and the resulting fees are recognized monthly based upon the month-end market value of the assets under management and the applicable fee rate. Payment is generally either prepaid or paid at the end of a specified period and can be paid through a direct charge to clients' accounts. The Company does not earn performancebased incentives. The Company's performance obligation for transactional-based services is generally satisfied, and related revenue recognized, at a point in time, i.e., as incurred. Payment is to be received shortly after services begin or at the time the service is rendered.

### Contract Balances

A contract asset balance occurs when the Company performs a service for a client before the client pays consideration (resulting in a contract receivable) or before payment is due (resulting in a contract asset). A contract liability is the Company's obligation to perform a service for which the Company has already received payment (or payment is due) from the client. The Company's revenue streams are largely based on transactional activity, or standard month-end revenue accruals such as asset management fees based on month-end market values. Consideration is often received immediately or shortly after the Company satisfies its performance obligation and revenue is recognized. The Company does not typically enter into long-term revenue contracts with clients, and therefore, does not experience significant contract balances. As of December 31, 2019, the
Company did not have any significant contract balances.

### Contract Acquisition Costs

In connection with the adoption of Topic 606, the Company is required to capitalize and subsequently amortize into expense, certain incremental costs of obtaining a contract with a client if these costs are expected to be recovered. The incremental costs of obtaining a contract are those costs that the Company incurs to obtain a contract with a client that it would not have incurred if the contract had not been obtained (for example, sales commission). The Company utilizes the practical expedient which allows an entity to immediately expense contract acquisition costs when the asset that would have resulted from capitalizing these costs would have been amortized in one year or less. Upon adoption of Topic 606, the Company did not capitalize any contract acquisition costs.

## Subsequent Events

Subsequent events have been evaluated through March 30, 2020, which is the date the financial statements were available to be issued.

As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which may negatively affect the financial position, results of operations and cash flows of the Company. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.

## Note 2: Securities

The amortized cost and approximate fair values of available-for-sale debt securities are as follows:

| December 31, 2019 | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| U.S. government-sponsored enterprises (GSEs) | $ 5,526,301 | $ 94,068 | $ (1,001) | $ 5,619,368 |
| State and political subdivisions | 200,077 | 589 | - | 200,666 |
| Total | $ 5,726,378 | $ 94,657 | $ (1,001) | $ 5,820,034 |

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

| December 31, 2019 | Amortized Cost | Fair Value |
|---|---|---|
| Within one year | $ 800,563 | $ 804,342 |
| One to five years | 3,361,553 | 3,399,542 |
| Five to 10 years | 1,564,262 | 1,616,150 |
| Total | $ 5,726,378 | $ 5,820,034 |

As of December 31, 2019, securities with a carrying value of $1,135,230 were pledged to various state regulatory agencies for trust operations.

Certain investments in debt securities are reported in the financial statements at an amount less than their historical cost. Total fair value of these investments at December 31, 2019, was $999,562, which is approximately 17 percent of the Company's available-for-sale debt securities portfolio. These declines primarily resulted from changes in market rates. Management believes the declines in fair value for these securities are temporary.

The following table shows the Company's investments' gross unrealized losses and fair value of the Company's available-for-sale debt securities with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position.

| | December 31, 2019 | | | | | |
|---|---|---|---|---|---|---|
| | Less than 12 Months | | 12 Months of More | | Total | |
| Description of Securities | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| U.S. government-sponsored enterprises (GSEs) | $ - | $ - | $ 999,562 | $ (1,001) | $ 999,562 | $ (1,001) |
| Total temorarily impaired securities | $ - | $ - | $ 999,562 | $ (1,001) | $ 999,562 | $ (1,001) |

***U.S. Government-Sponsored Enterprises (GSEs)***

The unrealized losses on the Company's investments in direct obligations of U.S. GSEs were caused by interest rate increases. The contractual terms of those investments do not permit the issuer to settle the securities at prices less than the amortized cost bases of the investments. Because the Company does not intend to sell the investments and it is not more likely than not the Company will be required to sell the investments before recovery of its amortized cost bases, which may be maturity, the Company does not consider those investments to be other-thantemporarily impaired at December 31, 2019.

## Note 3: Property and Equipment

Major classifications of property and equipment, stated at cost as of December 31, 2019, are as follows:

| | | |
|---|---|---|
| Land | $ | 98,470 |
| Building Improvements | | 1,764,876 |
| Furniture and equipment | | 1,480,066 |
| Total Cost | | 3,343,412 |
| Less accumulated depreciation | | 1,712,879 |
| Net property and equipment | $ | 1,630,533 |

## Note 4: Operating Leases

Noncancellable operating leases for office space expire in various years through 2021. These leases generally contain renewal options of varying length. Rent expense for these leases was $123,842 for 2019. Future minimum lease payments at December 31, 2019, were:

| **Years Ending December 31,** | | |
|---|---|---|
| 2020 | $ | 84,890 |
| 2021 | | 30,657 |
| Totals | $ | 115,547 |

## Note 5: Income Taxes

The Company files income tax returns in the U.S. federal and state of Illinois, Arizona and Georgia jurisdictions.

The provision for income taxes includes these components as of December 31, 2019:

| | | |
|---|---|---|
| Taxes currently payable | $ | 1,321,820 |
| Deferred income taxes | | (42,976) |
| Income tax expense | $ | 1,278,844 |

A reconciliation of income tax expense at the statutory rate to the Company's actual income tax expense as of December 31, 2019, is shown below:

| | | |
|---|---|---|
| Computed at the statutory rate (21%) | $ | 936,655 |
| Increase resulting from | | |
| Non-deductible expenses | | 53,889 |
| State income taxes | | 239,328 |
| Other | | 48,972 |
| Actual tax expense | $ | 1,278,844 |

The tax effects of temporary differences related to deferred taxes shown on the balance sheet was as follows as of December 31, 2019. Net deferred tax liability is recorded within accounts payable and other accrued expenses on the balance sheet.

| | | |
|---|---|---|
| Deferred tax assets | | |
| Payroll and benefits accrued expenses | $ | 46,000 |
| Impact of Topic 606 implementation | | 471,000 |
| Other | | 113,385 |
| Deferred tax asset | | 630,385 |

| | | |
|---|---|---|
| Deferred tax liability | | |
| State income tax deduction | | (444,000) |
| Prepaid expenses | | (110,000) |
| Depreciation | | (172,000) |
| Unrealized gains on available-for-sale debt securities | | (56,177) |
| Deferred tax liability | | (782,177) |
| Net deferred tax liability | $ | (151,792) |

## Note 6: Minimum Organizational Capital

The Company is subject to the Illinois Department of Financial and Professional Regulation's minimum organizational capital requirement of $3,000,000. Failure to meet minimum capital requirements can initiate certain mandatory and possible additional discretionary action by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. The Company had maintained its capital levels in excess of the required minimum at December 31, 2019.

The Company is also required to pledge to the Illinois Department of Financial and Professional Regulation a surety bond or securities in the amount of $2,000,000 for the purpose of covering any costs attributable to a receivership of the trust company. The pledged securities or surety bond is in addition to the Company's minimum capital requirement. The Company has a surety bond of $1,000,000 and has pledged securities of $1,000,000 at December 31, 2019 to meet this requirement.

## Note 7: Related Party Transacations

On July 1, 2019, the Company became an independent trust company. From January 1 through June 30, 2019, the Company was affiliated with First Bankers Trust Company, Inc. (First Bankers), a sister organization. The Company recognized intercompany revenue of $35,008 from First Bankers from January 1 through June 30, 2019. This is recorded within other income on the statement of income. The Company also recognized $21,714 of intercompany management expense with First Bankers from January 1 through June 30, 2019. This is recorded within professional services on the statement of income. Rental expense of $37,692 was paid to First Bankers for the year ended December 31, 2019. This is recorded within occupancy expense on the statement of income.

## Note 8: Profit-Sharing and Incentive Compensation Plans

The Company has a 401(k) profit-sharing plan and an incentive compensation plan. The accrued expenses related to these employee benefits are recorded within payroll and benefits accrued expenses on the balance sheet.

The 401(k) profit sharing plan, which is a tax qualified savings plan, covers substantially all of the Company's employees. All full time employees are eligible to participate upon the first day of the month following 30 days of employment and attaining the age of 18. Part time or seasonal workers are eligible to participate in the Plan after completion of one year or 1,000 hours of service and attaining the age of 18. The employee may elect to contribute a percentage or a flat dollar amount of compensation before taxes in a traditional 401(k) and/or a percentage of compensation after taxes using the Company's Roth 401(k) option. The Company may match a percentage of employee contributions. Historically this has been up to 2 percent of employee contributions based upon employee gross wages. Additionally, based upon profits, a profit sharing contribution may be made by the Company. For the year ended December 31, 2019, the Company contributed an additional amount of 5 percent of employee gross wages. Employees are 100 percent vested in the Company's contribution plan after five years of service. Employee contributions and vested Company contributions may be withdrawn only on termination of employment, retirement, death or hardship withdrawal.

Under the incentive compensation plan, established funds are distributed to certain employees based on their performance and the funds are based on discretionary approval from the Board of Directors.

The financial statements include expense related to the 401(k) plan of $278,869 for the year ended December 31, 2019. The financial statements include expense related to the incentive compensation plan of $431,488 for the year ended December 31, 2019.

## Note 9: Disclosures About Fair Value of Assets

Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. The hierarchy comprises three levels of inputs that may be used to measure fair value:

**Level 1** Quoted prices in active markets for identical assets

**Level 2** 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

**Level 3** Unobservable inputs supported by little or no market activity and that are significant to the fair value of the assets

### Recurring Measurements

The following table presents the fair value measurements of assets recognized in the accompanying balance sheet measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2019:

| | | Fair Value Measurements Using | | |
|---|---|---|---|---|
| **December 31, 2019** | **Total Fair Value** | **Quoted Prices in Active Markets for Identical Assets (Level 1)** | **Significant Other Observable Inputs (Level 2)** | **Significant Unobservable Inputs (Level 3)** |
| **Assets** | | | | |
| Available-for-sale debt securities | | | | |
| U.S. government-sponsored enterprises (GSEs) | $ 5,619,368 | $ - | $ 5,619,368 | $ - |
| State and political subdivisions | 200,666 | - | 200,666 | - |
| Total available-for-sale debt securities | $ 5,820,034 | $ - | $ 5,820,034 | $ - |

Following is a description of the valuation methodology and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying balance sheet, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended December 31, 2019.

### Available-for-Sale Debt Securities

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 quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently secured market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 2 of the hierarchy.

## Note 10: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

### General Litigation

The Company is subject to claims and lawsuits that arise primarily in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the financial position, results of operations and cash flows of the Company. For the year ended December 31, 2019, there were no lawsuits or anticipated lawsuits.

### Self-Insurance

Under the Company's health insurance program, coverage is obtained for medical and pharmaceutical claims of which up to $65,000 per claim is paid by the Company. Provisions for losses expected under these programs are recorded based upon the Company's estimates of the aggregate liability for claims incurred and totaled approximately $450,000 during 2019. The amount of actual losses incurred could differ materially from estimates reflected in salaries and employee benefits expense in these financial statements.

## Note 11: Correction of an Error

In connection with the preparation of the Company's 2019 financial statements, management determined that certain revenues transactions had not been recognized in the proper year, under GAAP. Therefore, beginning retained earnings was adjusted to reflect the revenues that should have been recorded during fiscal year 2018.

The error correction resulted in an increase of $336,685 to beginning retained earnings.

## Note 12: Future Change in Accounting Principle

### Accounting for Leases

The FASB amended its standard related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the balance sheet as both a right-of-use asset and a liability. The standard has two types of leases for statement of income recognition purposes: operating leases and finance leases. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing standards. The determination of lease classification as operating or finance will be done in a manner similar to existing standards. The new standard also contains amended guidance regarding the identification of embedded leases in service contracts and the identification of lease and nonlease components in an arrangement. The new standard is effective for annual periods beginning after December 15, 2020, and any interim periods within annual reporting periods that begin after December 15, 2021. The Company is evaluating the effect the standard will have on the financial statements.

## Notes

## Notes

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