AMES NATIONAL CORP
Form 10-Q
May 08, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q
[Mark One]
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2014

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ____________ to ____________

Commission File Number 0-32637

AMES NATIONAL CORPORATION
(Exact Name of Registrant as Specified in Its Charter)

IOWA	42-1039071
(State or Other Jurisdiction of Incorporation or Organization)	(I. R. S. Employer Identification Number)

405 FIFTH STREET
AMES, IOWA 50010
(Address of Principal Executive Offices)

Registrant's Telephone Number, Including Area Code: (515) 232-6251

NOT APPLICABLE
(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this Chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer, or a smaller reporting company. See definition of “accelerated filer”, “large accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act:

Large accelerated filer o Accelerated filer x Non-accelerated filer o Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o   No x

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

COMMON STOCK, $2.00 PAR VALUE	9,310,913
(Class)	Shares Outstanding at April 30, 2014)

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AMES NATIONAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(unaudited)

ASSETS	March 31, 2014	December 31, 2013
Cash and due from banks	$30,409,845	$24,270,031
Interest bearing deposits in financial institutions	40,366,808	23,628,117
Securities available-for-sale	600,831,476	580,039,080
Loans receivable, net	548,545,071	564,501,547
Loans held for sale	-	295,618
Bank premises and equipment, net	11,251,540	11,892,329
Accrued income receivable	7,432,502	7,437,673
Other real estate owned	8,880,467	8,861,107
Deferred income taxes	3,049,156	5,027,103
Core deposit intangible, net	963,816	1,029,564
Goodwill	5,600,749	5,600,749
Other assets	649,449	501,242
Total assets	$1,257,980,879	$1,233,084,160
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits		
Demand, noninterest bearing	$173,459,774	$179,946,472
NOW accounts	299,537,933	299,788,852
Savings and money market	316,704,817	289,307,102
Time, $100,000 and over	95,697,308	97,077,717
Other time	142,393,181	145,683,035
Total deposits	1,027,793,013	1,011,803,178
Securities sold under agreements to repurchase and federal funds purchased	39,910,174	39,616,644
Federal Home Loan Bank (FHLB) advances	16,722,546	14,540,526
Other long-term borrowings	20,000,000	20,000,000
Dividend payable	1,675,964	1,489,746
Accrued expenses and other liabilities	4,691,477	3,527,882
Total liabilities	1,110,793,174	1,090,977,976
STOCKHOLDERS' EQUITY		
Common stock, $2 par value, authorized 18,000,000 shares; issued 9,432,915 shares; outstanding 9,310,913 shares as of March 31, 2014 and December 31, 2013	18,865,830	18,865,830
Additional paid-in capital	22,651,222	22,651,222
Retained earnings	105,004,625	102,154,498
Accumulated other comprehensive income - net unrealized gain on securities available-for-sale	2,682,526	451,132
Treasury stock, at cost; 122,002 shares at March 31, 2014 and December 31, 2013	(2,016,498)	(2,016,498)
Total stockholders' equity	147,187,705	142,106,184

Total liabilities and stockholders' equity	$1,257,980,879	$1,233,084,160

See Notes to Consolidated Financial Statements.

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AMES NATIONAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
(unaudited)

	Three Months Ended March 31, 2014	2013
Interest income:		
Loans, including fees	$6,409,431	$6,158,513
Securities:		
Taxable	1,763,603	1,379,962
Tax-exempt	1,674,108	1,728,433
Interest bearing deposits and federal funds sold	73,139	109,733
Total interest income	9,920,281	9,376,641
Interest expense:		
Deposits	892,010	995,840
Other borrowed funds	294,486	295,911
Total interest expense	1,186,496	1,291,751
Net interest income	8,733,785	8,084,890
Provision for loan losses	39,231	13,574
Net interest income after provision for loan losses	8,694,554	8,071,316
Noninterest income:		
Trust services income	625,524	487,254
Service fees	357,479	375,825
Securities gains, net	135,081	68,991
Gain on sale of loans held for sale	98,653	355,543
Merchant and card fees	259,389	340,486
Gain on the sale of premises and equipment	1,256,924	-
Other noninterest income	212,734	214,869
Total noninterest income	2,945,784	1,842,968
Noninterest expense:		
Salaries and employee benefits	3,291,452	3,216,082
Data processing	571,350	572,635
Occupancy expenses, net	469,220	405,724
FDIC insurance assessments	162,344	160,308
Professional fees	282,447	272,455
Business development	207,861	191,351
Other real estate owned, net	704	(5,181)
Core deposit intangible amortization	65,748	73,773
Other operating expenses, net	277,976	231,949
Total noninterest expense	5,329,102	5,119,096
Income before income taxes	6,311,236	4,795,188

Provision for income taxes	1,785,145	1,209,254
Net income	$4,526,091	$3,585,934
Basic and diluted earnings per share	$0.49	$0.39
Dividends declared per share	$0.18	$0.16

See Notes to Consolidated Financial Statements.

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AMES NATIONAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

	Three Months Ended March 31,	
	2014	2013
Net income	$4,526,091	$3,585,934
Other comprehensive income (loss), before tax:		
Unrealized gains (losses) on securities before tax:		
Unrealized holding gains (losses) arising during the period	3,676,974	(1,613,929)
Less: reclassification adjustment for gains realized in net income	135,081	68,991
Other comprehensive income (loss) before tax	3,541,893	(1,682,920)
Tax effect related to other comprehensive income (loss)	(1,310,499)	622,680
Other comprehensive income (loss), net of tax	2,231,394	(1,060,240)
Comprehensive income	$6,757,485	$2,525,694

See Notes to Consolidated Financial Statements.

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AMES NATIONAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(unaudited)
Three Months Ended March 31, 2014 and 2013

	Common Stock	Additional Paid-in-Capital	Retained Earnings	Accumulated Other Comprehensive Income, Net of Taxes	Treasury Stock	Total Stockholders' Equity
Balance, December 31, 2012	$18,865,830	$22,651,222	$94,159,839	$11,075,342	$(2,016,498)	$144,735,735
Net income	-	-	3,585,934	-	-	3,585,934
Other comprehensive (loss)	-	-	-	(1,060,240)	-	(1,060,240)
Cash dividends declared, $0.16 per share	-	-	(1,489,747)	-	-	(1,489,747)
Balance, March 31, 2013	$18,865,830	$22,651,222	$96,256,026	$10,015,102	$(2,016,498)	$145,771,682
Balance, December 31, 2013	$18,865,830	$22,651,222	$102,154,498	$451,132	$(2,016,498)	$142,106,184
Net income	-	-	4,526,091	-	-	4,526,091
Other comprehensive income	-	-	-	2,231,394	-	2,231,394
Cash dividends declared, $0.18 per share	-	-	(1,675,964)	-	-	(1,675,964)
Balance, March 31, 2014	$18,865,830	$22,651,222	$105,004,625	$2,682,526	$(2,016,498)	$147,187,705

See Notes to Consolidated Financial Statements.
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AMES NATIONAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)
Three Months Ended March 31, 2014 and 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$4,526,091	$3,585,934
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	39,231	13,574
Provision for off-balance sheet commitments	35,000	14,000
Amortization, net, securities available-for-sale	1,099,195	1,649,643
Amortization of core deposit intangible asset	65,748	73,773
Depreciation	187,611	190,428
Credit for deferred income taxes	667,448	29,639
Securities gains, net	(135,081)	(68,991)
(Gain) on sale of premises and equipment	(1,256,924)	-
(Gain) on sale of other real estate owned, net	-	(25,351)
Change in assets and liabilities:		
Increase (decrease) in loans held for sale	295,618	(423,802)
Decrease in accrued income receivable	5,171	12,636
(Increase) in other assets	(150,386)	(62,459)
Increase in accrued expenses and other liabilities	1,128,595	1,187,690
Net cash provided by operating activities	6,507,317	6,176,714
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of securities available-for-sale	(35,980,382)	(48,732,167)
Proceeds from sale of securities available-for-sale	3,478,851	1,701,395
Proceeds from maturities and calls of securities available-for-sale	14,209,166	23,698,932
Net (increase) in interest bearing deposits in financial institutions	(16,738,691)	(31,431,850)
Net decrease in loans	15,939,754	2,398,188
Net proceeds from the sale of other real estate owned	-	334,068
Net proceeds from the sale of bank premises and equipment	1,746,444	-
Purchase of bank premises and equipment, net	(34,163)	(27,089)
Other	(2,750)	-
Net cash used in investing activities	(17,381,771)	(52,058,523)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in deposits	16,028,464	29,552,707
Increase in securities sold under agreements to repurchase and federal funds purchased	293,530	7,633,505
Payments on FHLB borrowings	(17,980)	(2,017,417)
Proceeds from short-term FHLB borrowings, net	2,200,000	-
Dividends paid	(1,489,746)	(1,396,627)
Net cash provided by financing activities	17,014,268	33,772,168
Net increase (decrease) in cash and due from banks	6,139,814	(12,109,641)
CASH AND DUE FROM BANKS		
Beginning	24,270,031	34,805,371

Ending	$30,409,845	$22,695,730

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AMES NATIONAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
(unaudited)
Three Months Ended March 31, 2014 and 2013

	2014	2013
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash payments for:		
Interest	$1,275,692	$1,394,056
Income taxes	48,701	55,440
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES		
Transfer of loans receivable to other real estate owned	$16,610	$5,205

See Notes to Consolidated Financial Statements.

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AMES NATIONAL CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (unaudited)

1. Significant Accounting Policies

The consolidated financial statements for the three months ended March 31, 2014 and 2013 are unaudited. In the opinion of the management of Ames National Corporation (the "Company"), these financial statements reflect all adjustments, consisting only of normal recurring accruals, necessary to present fairly these consolidated financial statements. The results of operations for the interim periods are not necessarily indicative of results which may be expected for an entire year. Certain information and footnote disclosures normally included in complete financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted in accordance with the requirements for interim financial statements. The interim financial statements and notes thereto should be read in conjunction with the year-end audited financial statements contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2013 (the "Annual Report"). The consolidated financial statements include the accounts of the Company and its wholly-owned banking subsidiaries (the "Banks"). All significant intercompany balances and transactions have been eliminated in consolidation.

Goodwill: Goodwill represents the excess of cost over the fair value of net assets acquired. Goodwill resulting from acquisitions is not amortized, but is tested for impairment annually or whenever events change and circumstances indicate that it is more likely than not that an impairment loss has occurred. Goodwill is tested for impairment using a two-step process that begins with an estimation of the fair value of a reporting unit. The second step, if necessary, measures the amount of impairment, if any.

Significant judgment is applied when goodwill is assessed for impairment. This judgment includes developing cash flow projections, selecting appropriate discount rates, identifying relevant market comparables, incorporating general economic and market conditions and selecting an appropriate control premium. At March 31, 2014, Company management has performed a goodwill impairment analysis and determined goodwill was not impaired.

New Accounting Pronouncements: In January 2014, the Financial Accounting Standards Board issued Accounting Standards Update No. 2014-04, Receivables—Troubled Debt Restructuring by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans Upon Foreclosure. The update clarifies when an in substance foreclosure occurs, that is, when a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan. This is the point when the consumer mortgage loan should be derecognized and the real property recognized. For public companies, this update will be effective for interim and annual periods beginning after December 31, 2014 and early adoption is permitted. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements.

2. Dividends

On February 11, 2014, the Company declared a cash dividend on its common stock, payable on May 15, 2014 to stockholders of record as of May 1, 2014, equal to $0.18 per share.

3. Earnings Per Share

Earnings per share amounts were calculated using the weighted average shares outstanding during the periods presented. The weighted average outstanding shares for the three months ended March 31, 2014 and 2013 were 9,310,913. The Company had no potentially dilutive securities outstanding during the periods presented.

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4. Off-Balance Sheet Arrangements

The Company is party to financial instruments with off-balance sheet risk in the normal course of business. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheet. No material changes in the Company's off-balance sheet arrangements have occurred since December 31, 2013.

5. Fair Value Measurements

Assets and liabilities carried at fair value are required to be classified and disclosed according to the process for determining fair value. There are three levels of determining fair value.

Level 1: Inputs to the valuation methodology are quoted prices, unadjusted, for identical assets or liabilities in active markets. A quoted price in an active market provides the most reliable evidence of fair value and shall be used to measure fair value whenever available.

Level 2: Inputs to the valuation methodology include: quoted prices for similar assets or liabilities in active markets; quoted process for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability (such as interest rates, volatility, prepayment speeds, credit risk); or inputs derived principally from or can be corroborated by observable market data by correlation or other means.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Level 3 assets and liabilities include financial instruments whose value is determined using discounted cash flow methodologies, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

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The following table presents the balances of assets measured at fair value on a recurring basis by level as of March 31, 2014 and December 31, 2013.

Description	Total	Level 1	Level 2	Level 3
2014				
U.S. government agencies	$86,396,000	$-	$86,396,000	$ -
U.S. government mortgage-backed securities	150,010,000	-	150,010,000	-
State and political subdivisions	314,176,000	-	314,176,000	-
Corporate bonds	46,460,000	-	46,460,000	-
Equity securities, financial industry common stock	776,000	776,000	-	-
Equity securities, other	3,013,000	-	3,013,000	-
	$600,831,000	$776,000	$600,055,000	$ -
2013				
U.S. government agencies	$61,178,000	$-	$61,178,000	$ -
U.S. government mortgage-backed securities	155,142,000	-	155,142,000	-
State and political subdivisions	315,224,000	-	315,224,000	-
Corporate bonds	44,752,000	-	44,752,000	-
Equity securities, financial industry common stock	841,000	841,000	-	-
Equity securities, other	2,902,000	-	2,902,000	-
	$580,039,000	$841,000	$579,198,000	$ -

Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, as well as U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets. Other securities available-for-sale are reported at fair value utilizing Level 2 inputs. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the security’s terms and conditions, among other things.

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Certain assets are measured at fair value on a nonrecurring basis; that is, they are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). The following table presents the assets carried on the balance sheet (after specific reserves) by caption and by level with the valuation hierarchy as of March 31, 2014 and December 31, 2013.

Description	Total	Level 1	Level 2	Level 3
2014				
Loans receivable	$752,000	$ -	$ -	$752,000
Other real estate owned	8,880,000	-	-	8,880,000
Total	$9,632,000	$ -	$ -	$9,632,000
2013				
Loans receivable	$648,000	$ -	$ -	$648,000
Other real estate owned	8,861,000	-	-	8,861,000
Total	$9,509,000	$ -	$ -	$9,509,000

Loans Receivable: Loans in the tables above consist of impaired credits held for investment. In accordance with the loan impairment guidance, impairment was measured based on the fair value of collateral less estimated selling costs for collateral dependent loans. Fair value for impaired loans is based upon appraised values of collateral adjusted for trends observed in the market. A valuation allowance was recorded for the excess of the loan's recorded investment over the amounts determined by the collateral value method. This valuation is a component of the allowance for loan losses. The Company considers these fair value measurements as level 3.

Other Real Estate Owned: Other real estate owned in the table above consists of real estate obtained through foreclosure. Other real estate owned is recorded at fair value less estimated selling costs, at the date of transfer. Subsequent to the transfer, other real estate owned is carried at the lower of cost or fair value, less estimated selling costs. The carrying value of other real estate owned is not re-measured to fair value on a recurring basis but is subject to fair value adjustments when the carrying value exceeds the fair value less estimated selling costs. Management uses appraised values and adjusts for trends observed in the market and for disposition costs in determining the value of other real estate owned. A valuation allowance was recorded for the excess of the asset's recorded investment over the amount determined by the fair value, less estimated selling costs. This valuation allowance is a component of the allowance for other real estate owned. The valuation allowance was $4,644,000 as of March 31, 2014 and December 31, 2013. The Company considers these fair values level 3.

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The significant inputs used in the fair value measurements for Level 3 assets measured at fair value on a nonrecurring basis as of March 31, 2014 and December 31, 2013 are as follows:

	2014 Fair Value	Valuation Techniques	Range of Unobservable Inputs	Range (Average)
Impaired Loans	$752,000	Evaluation of collateral	Estimation of value	NM*
Other real estate owned	$8,880,000	Appraisal	Appraisal adjustment	6%-10% (8%)

	2013 Fair Value	Valuation Techniques	Range of Unobservable Inputs	Range (Average)
Impaired Loans	$648,000	Evaluation of collateral	Estimation of value	NM*
Other real estate owned	$8,861,000	Appraisal	Appraisal adjustment	6%-10% (8%)

* Not Meaningful. Evaluations of the underlying assets are completed for each impaired loan with a specific reserve. The types of collateral vary widely and could include accounts receivables, inventory, a variety of equipment and real estate. Collateral evaluations are reviewed and discounted as appropriate based on knowledge of the specific type of collateral. In the case of real estate, an independent appraisal may be obtained. Types of discounts considered included aging of receivables, condition of the collateral, potential market for the collateral and estimated disposal costs. These discounts will vary from loan to loan, thus providing a range would not be meaningful.

Accounting principles generally accepted in the United State of America (GAAP) requires disclosure of the fair value of financial assets and financial liabilities, including those that are not measured and reported at fair value on a recurring basis or nonrecurring basis. The methodologies for estimating the fair value of financial assets and financial liabilities that are measured at fair value on a recurring or nonrecurring basis are discussed above. The methodologies for other financial assets and financial liabilities are discussed below.

Fair value of financial instruments:

Disclosure of fair value information about financial instruments, for which it is practicable to estimate that value, is required whether or not recognized in the consolidated balance sheets. In cases in which quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimate of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases could not be realized in immediate settlement of the instruments. Certain financial instruments with a fair value that is not practicable to estimate and all non-financial instruments are excluded from the disclosure requirements. Accordingly, the aggregate fair value amounts presented do not necessarily represent the underlying value of the Company.

The following disclosures represent financial instruments in which the ending balances at March 31, 2014 and December 31, 2013 are not carried at fair value in their entirety on the consolidated balance sheets.

Cash and due from banks and interest bearing deposits in financial institutions: The recorded amount of these assets approximates fair value.

Securities available-for-sale: Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the securities credit rating, prepayment assumptions and other factors such as credit loss assumptions.

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Loans held for sale: The fair value of loans held for sale is based on prevailing market prices.

Loans receivable: The fair value of loans is calculated by discounting scheduled cash flows through the estimated maturity using estimated market discount rates, which reflect the credit and interest rate risk inherent in the loan. The estimate of maturity is based on the historical experience, with repayments for each loan classification modified, as required, by an estimate of the effect of current economic and lending conditions. The effect of nonperforming loans is considered in assessing the credit risk inherent in the fair value estimate.

Deposit liabilities: Fair values of deposits with no stated maturity, such as noninterest-bearing demand deposits, savings and NOW accounts, and money market accounts, are equal to the amount payable on demand as of the respective balance sheet date. Fair values of certificates of deposit are based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for deposits of similar remaining maturities. The fair value estimates do not include the benefit that results from the low-cost funding provided by the deposit liabilities compared to the cost of borrowing funds in the market.

Securities sold under agreements to repurchase and federal funds purchased: The carrying amounts of securities sold under agreements to repurchase and federal funds purchased approximate fair value because of the generally short-term nature of the instruments.

FHLB advances and other long-term borrowings: Fair values of FHLB advances and other long-term borrowings are estimated using discounted cash flow analysis based on interest rates currently being offered with similar terms.

Accrued income receivable and accrued interest payable: The carrying amounts of accrued income receivable and accrued interest payable approximate fair value.

Commitments to extend credit and standby letters of credit: The fair values of commitments to extend credit and standby letters of credit are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreement and credit worthiness of the counterparties. The carry value and fair value of the commitments to extend credit and standby letters of credit are not considered significant.

Limitations: Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. Because no market exists for a significant portion of the Company's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

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The estimated fair values of the Company’s financial instruments as described above were as follows:

	Fair Value Hierarchy Level	March 31, 2014 Carrying Amount	Fair Value	December 31, 2013 Carrying Amount	Fair Value
Financial assets:					
Cash and due from banks	Level 1	$30,409,845	$30,410,000	$24,270,031	$24,270,000
Interest bearing deposits	Level 1	40,366,808	40,367,000	23,628,117	23,628,000
Securities available-for-sale	See previous table	600,831,476	600,831,000	580,039,080	580,039,000
Loans receivable, net	Level 2	548,545,071	548,149,000	564,501,547	562,073,000
Loans held for sale	Level 2	-	-	295,618	296,000
Accrued income receivable	Level 1	7,432,502	7,433,000	7,437,673	7,438,000
Financial liabilities:					
Deposits	Level 2	$1,027,793,013	$1,029,998,781	$1,011,803,178	$1,014,150,000
Securities sold under agreements to repurchase	Level 1	39,910,174	39,910,000	39,616,644	39,617,000
FHLB advances	Level 2	16,722,546	17,577,000	14,540,526	15,441,000
Other long-term borrowings	Level 2	20,000,000	21,754,000	20,000,000	22,033,000
Accrued interest payable	Level 1	543,656	544,000	594,223	594,000

The methodologies used to determine fair value as of March 31, 2014 did not change from the methodologies described in the December 31, 2013 Annual Financial Statements.

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6. Debt and Equity Securities

The amortized cost of securities available-for-sale and their fair values are summarized below:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2014:				
U.S. government agencies	$86,250,287	$1,179,941	$(1,034,378)	$86,395,850
U.S. government mortgage-backed securities	147,744,732	2,970,908	(705,335)	150,010,305
State and political subdivisions	311,717,311	5,278,009	(2,818,889)	314,176,431
Corporate bonds	47,218,869	731,812	(1,490,191)	46,460,490
Equity securities, financial industry common stock	629,700	146,100	-	775,800
Equity securities, other	3,012,600	-	-	3,012,600
	$596,573,499	$10,306,770	$(6,048,793)	$600,831,476

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2013:				
U.S. government agencies	$61,569,302	$1,116,644	$(1,508,155)	$61,177,791
U.S. government mortgage-backed securities	153,857,058	2,846,821	(1,561,923)	155,141,956
State and political subdivisions	314,177,458	5,055,906	(4,009,231)	315,224,133
Corporate bonds	46,186,879	756,222	(2,191,401)	44,751,700
Equity securities, financial industry common stock	629,700	211,200	-	840,900
Equity securities, other	2,902,600	-	-	2,902,600
	$579,322,997	$9,986,793	$(9,270,710)	$580,039,080

The proceeds, gains and losses from securities available-for-sale are summarized as follows:

	Three Months Ended March 31, 2014	2013
Proceeds from sales of securities available-for-sale	$3,478,851	$1,701,395
Gross realized gains on securities available-for-sale	135,081	70,502
Gross realized losses on securities available-for-sale	-	1,511
Tax provision applicable to net realized gains on securities available-for-sale	50,000	26,000

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Unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position are summarized as follows:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
March 31, 2014:						
Securities available-for-sale:						
U.S. government agencies	$35,509,515	$(1,034,378)	$-	$-	$35,509,515	$(1,034,378)
U.S. government mortgage-backed securities	52,185,115	(653,242)	2,679,015	(52,093)	54,864,130	(705,335)
State and political subdivisions	88,082,052	(1,925,797)	20,322,416	(893,092)	108,404,468	(2,818,889)
Corporate bonds	16,103,518	(472,849)	15,274,024	(1,017,342)	31,377,542	(1,490,191)
	$191,880,200	$(4,086,266)	$38,275,455	$(1,962,527)	$230,155,655	$(6,048,793)

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2013:						
Securities available-for-sale:						
U.S. government agencies	$31,806,447	$(1,508,155)	$-	$-	$31,806,447	$(1,508,155)
U.S. government mortgage-backed securities	71,326,568	(1,479,321)	2,771,874	(82,602)	74,098,442	(1,561,923)
State and political subdivisions	99,974,091	(3,028,851)	15,438,484	(980,380)	115,412,575	(4,009,231)
Corporate bonds	21,382,087	(1,150,658)	8,798,047	(1,040,743)	30,180,134	(2,191,401)
	$224,489,193	$(7,166,985)	$27,008,405	$(2,103,725)	$251,497,598	$(9,270,710)

Gross unrealized losses on debt securities totaled $6,048,793 as of March 31, 2014. These unrealized losses are generally due to changes in interest rates or general market conditions. In analyzing an issuer’s financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and industry analysts’ reports. Management concluded that the gross unrealized losses on debt securities were temporary. Due to potential changes in conditions, it is at least reasonably possible that changes in fair values and management’s assessments will occur in the near term and that such changes could materially affect the amounts reported in the Company’s financial statements.

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7. Loan Receivable and Credit Disclosures

Activity in the allowance for loan losses, on a disaggregated basis, for the three months ended March 31, 2014 and 2013 is as follows: (in thousands)

	Three Months Ended March 31, 2014							
	Construction Real Estate	1-4 Family Residential Real Estate	Commercial Real Estate	Agricultural Real Estate	Commercial	Agricultural	Consumer and Other	Total
Balance, December 31, 2013	$392	$ 1,523	$ 3,230	$ 686	$ 1,435	$ 1,165	$ 141	$8,572
Provision (credit) for loan losses	48	18	(31)	45	(31)	(58)	48	39
Recoveries of loans charged-off	-	4	-	-	1	-	5	10
Loans charged-off	-	(5)	-	-	-	-	(48)	(53)
Balance, March 31 2014	$440	$ 1,540	$ 3,199	$ 731	$ 1,405	$ 1,107	$ 146	$8,568

	Three Months Ended March 31, 2013							
	Construction Real Estate	1-4 Family Residential Real Estate	Commercial Real Estate	Agricultural Real Estate	Commercial	Agricultural	Consumer and Other	Total
Balance, December 31, 2012	$375	$ 1,433	$ 2,859	$ 523	$ 1,461	$ 945	$ 177	$7,773
Provision (credit) for loan losses	(49)	61	216	1	(157)	(41)	(17)	14
Recoveries of loans charged-off	-	21	-	-	1	-	4	26
Loans charged-off	-	(23)	-	-	-	-	(4)	(27)
Balance, March 31, 2013	$326	$ 1,492	$ 3,075	$ 524	$ 1,305	$ 904	$ 160	$7,786

Allowance for loan losses disaggregated on the basis of impairment analysis method as of March 31, 2014 and December 31, 2013 is as follows: (in thousands)

2014

	Construction Real Estate	1-4 Family Residential Real Estate	Commercial Real Estate	Agricultural Real Estate	Commercial	Agricultural	Consumer and Other	Total
Individually evaluated for impairment	$-	$ 122	$ 20	$ -	$ 300	$ 4	$ -	$446
Collectively evaluated for impairment	440	1,418	3,179	731	1,105	1,103	146	8,122
Balance March 31, 2014	$440	$ 1,540	$ 3,199	$ 731	$ 1,405	$ 1,107	$ 146	$8,568

2013

	Construction Real Estate	1-4 Family Residential Real Estate	Commercial Real Estate	Agricultural Real Estate	Commercial	Agricultural	Consumer and Other	Total
Individually evaluated for impairment	$-	$ 122	$ 20	$ -	$ 330	$ 5	$ -	$477
Collectively evaluated for impairment	392	1,401	3,210	686	1,105	1,160	141	8,095
Balance December 31, 2013	$392	$ 1,523	$ 3,230	$ 686	$ 1,435	$ 1,165	$ 141	$8,572

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Loans receivable disaggregated on the basis of impairment analysis method as of March 31, 2014 and December 31, 2013 is as follows (in thousands):

2014

	Construction Real Estate	1-4 Family Residential Real Estate	Commercial Real Estate	Agricultural Real Estate	Commercial	Agricultural	Consumer and Other	Total
Individually evaluated for impairment	$ 496	$ 461	$ 90	$ -	$ 796	$ 23	$ 14	$ 1,880
Collectively evaluated for impairment	25,297	111,845	198,818	52,234	82,723	71,851	12,503	555,271

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