SOUTHERN MISSOURI BANCORP INC
Form 10-Q
November 14, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 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 September 30, 2012

OR

___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 0-23406

Southern Missouri Bancorp, Inc.
(Exact name of registrant as specified in its charter)

Missouri 43-1665523
(State or jurisdiction of incorporation) (IRS employer id. no.)

531 Vine Street Poplar Bluff, MO 63901
(Address of principal executive offices) (Zip code)

(573) 778-1800
Registrant's telephone number, including area code

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

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 (§232.405 of this chapter) during the proceeding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes X No

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

Large accelerated filer	Accelerated filer	Non-accelerated filer	Smaller reporting company	X

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12 b-2 of the Exchange Act)

Yes No X

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

Class	Outstanding at November 14, 2012
Common Stock, Par Value $.01	3,252,076 Shares

SOUTHERN MISSOURI BANCORP, INC.
FORM 10-Q

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PART I: Item 1: Condensed Consolidated Financial Statements

SOUTHERN MISSOURI BANCORP, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 2012, AND JUNE 30, 2012

	September 30, 2012 (unaudited)	June 30, 2012
Cash and cash equivalents	$9,006,056	$33,421,099
Interest-bearing time deposits	2,154,000	1,273,000
Available for sale securities	71,973,898	75,126,845
Stock in FHLB of Des Moines	2,819,200	2,018,200
Stock in Federal Reserve Bank of St. Louis	1,001,050	1,001,050
Loans receivable, net of allowance for loan losses of $8,080,838 and $7,492,054 at September 30, 2012 and June 30, 2012, respectively	608,689,480	583,464,521
Accrued interest receivable	4,432,400	3,694,344
Premises and equipment, net	13,085,526	11,347,064
Bank owned life insurance – cash surrender value	16,083,321	15,957,500
Intangible assets, net	1,353,274	1,457,557
Prepaid expenses and other assets	12,993,319	10,427,788
Total assets	$743,591,524	$739,188,968
Deposits	$571,884,338	$584,813,623
Securities sold under agreements to repurchase	22,940,577	25,642,407
Advances from FHLB of Des Moines	42,500,000	24,500,000
Accounts payable and other liabilities	1,492,583	1,662,208
Accrued interest payable	545,289	625,659
Subordinated debt	7,217,000	7,217,000
Total liabilities	646,579,787	644,460,897
Commitments and contingencies	-	-
Preferred stock, $.01 par value, $1,000 liquidation value; 500,000 shares authorized; 20,000 shares issued and outstanding at September 30, 2012, and June 30, 2012	20,000,000	20,000,000
Common stock, $.01 par value; 4,000,000 shares authorized; 3,252,706 shares issued at September 30 and June 30, 2012	32,527	32,527
Warrants to acquire common stock	176,790	176,790
Additional paid-in capital	22,538,803	22,479,767
Retained earnings	53,345,861	51,365,401
Treasury stock of 630 and 2,230 shares at September 30 and June 30, 2012, at cost, respectively	(7,435)	(26,315)
Accumulated other comprehensive income	925,191	699,901
Total stockholders' equity	97,011,737	94,728,071
Total liabilities and stockholders' equity	$743,591,524	$739,188,968

See Notes to Condensed Consolidated Financial Statements

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SOUTHERN MISSOURI BANCORP, INC
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
FOR THE THREE-MONTH PERIODS ENDED SEPTEMBER 30, 2012 AND 2011 (Unaudited)

	Three months ended September 30,	
	2012	2011
INTEREST INCOME:		
Loans	$8,853,934	$9,555,125
Investment securities	362,703	353,177
Mortgage-backed securities	125,763	276,567
Other interest-earning assets	19,249	29,034
Total interest income	9,361,649	10,213,903
INTEREST EXPENSE:		
Deposits	1,579,702	2,282,984
Securities sold under agreements to repurchase	48,302	59,702
Advances from FHLB of Des Moines	254,712	339,391
Subordinated debt	59,126	54,048
Total interest expense	1,941,842	2,736,125
NET INTEREST INCOME	7,419,807	7,477,778
PROVISION FOR LOAN LOSSES	610,689	516,683
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	6,809,118	6,961,095
NONINTEREST INCOME:		
Deposit account charges and related fees	431,816	371,151
Bank credit transaction fees	298,519	263,606
Loan late charges	51,556	58,924
Other loan fees	72,560	50,303
Net realized gains on sale of loans	53,156	93,678
Earnings on bank owned life insurance	125,821	71,553
Other income	26,553	207,279
Total noninterest income	1,059,981	1,116,494
NONINTEREST EXPENSE:		
Compensation and benefits	2,461,166	2,252,091
Occupancy and equipment, net (inc data)	691,911	582,205
Deposit insurance premiums	94,546	93,072
Legal and professional fees	99,059	98,151
Advertising	58,899	87,068
Postage and office supplies	103,523	122,585
Intangible amortization	104,283	104,283
Bank card network fees	144,110	132,076
Other operating expense	380,462	311,459
Total noninterest expense	4,137,959	3,782,990
INCOME BEFORE INCOME TAXES	3,731,140	4,294,599
INCOME TAXES	1,140,886	1,444,207
NET INCOME	$2,590,254	$2,850,392
Less: effective dividend on preferred shares	195,115	230,398
Net income available to common shareholders	$2,395,139	$2,619,994

Basic earnings per common share	$0.74	$1.25
Diluted earnings per common share	$0.71	$1.21
Dividends per common share	$0.15	$0.12

See Notes to Condensed Consolidated Financial Statements

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SOUTHERN MISSOURI BANCORP, INC
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE THREE-MONTH PERIODS ENDED SEPTEMBER 30, 2012 AND 2011 (Unaudited)

	Three months ended September 30,	
	2012	2011
Net income	$2,590,254	$2,850,392
Other comprehensive income:		
Unrealized gains on securities available-for-sale	357,688	425,956
Unrealized losses on available-for-sale securities for which a portion of an other-than-temporary impairment has been recognized in income	(84)	(14,030)
Tax expense	(132,313)	(152,413)
Total other comprehensive income	225,291	259,513
Comprehensive income	$2,815,545	$3,109,905

See Notes to Condensed Consolidated Financial Statements

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SOUTHERN MISSOURI BANCORP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE-MONTH PERIODS ENDED SEPTEMBER 30, 2012 AND 2011 (Unaudited)

	Three months ended September 30,	
	2012	2011
Cash Flows From Operating Activities:		
Net income	$2,590,254	$2,850,392
Items not requiring (providing) cash:		
Depreciation	262,864	214,363
Loss on disposal of fixed assets	20,875	
MRP and SOP expense	53,548	5,508
Loss on sale of foreclosed assets	(20,874)	(73,983)
Amortization of intangible assets	104,283	104,283
Increase in cash surrender value of bank owned life insurance	(125,821)	(71,553)
Provision for loan losses and off-balance sheet credit exposures	610,689	516,683
Net amortization of premiums and discounts on securities	135,976	50,558
Changes in:		
Accrued interest receivable	(738,056)	(502,260)
Prepaid expenses and other assets	(2,455,486)	210,029
Accounts payable and other liabilities	(709,708)	(1,926,929)
Accrued interest payable	(80,370)	(8,452)
Net cash provided by operating activities	(351,826)	1,368,639
Cash flows from investing activities:		
Net increase in loans	(25,916,148)	(7,928,546)
Net change in interest-bearing deposits	(881,000)	-
Proceeds from maturities of available for sale securities	11,688,771	6,058,908
Net purchases of Federal Home Loan Bank stock	(801,000)	-
Purchases of available-for-sale securities	(8,314,197)	(7,054,020)
Purchases of premises and equipment	(2,048,701)	(606,015)
Proceeds from sale of fixed assets	26,500	-
Proceeds from sale of foreclosed assets	399,100	186,075
Net cash used in investing activities	(25,846,675)	(9,343,598)
Cash flows from financing activities:		
Net (decrease) increase in demand deposits and savings accounts	(6,745,685)	17,216,235
Net (decrease) increase in certificates of deposits	(6,183,601)	1,460,533
Net (decrease) increase in securities sold under agreements to repurchase	(2,701,830)	144,920
Proceeds from Federal Home Loan Bank advances	18,000,000	-
Redemption of preferred stock	-	(9,550,000)
Issuance of preferred stock	-	19,973,208
Dividends paid on preferred stock	(116,438)	(87,542)
Dividends paid on common stock	(493,356)	(251,877)
Exercise of stock options	24,368	15,230
Purchase of treasury stock	--	--
Net cash provided by financing activities	1,783,458	28,920,707

(Decrease) increase in cash and cash equivalents	(24,415,043)	20,945,748
Cash and cash equivalents at beginning of period	33,421,099	33,895,706
Cash and cash equivalents at end of period	$9,006,056	$54,841,454
Supplemental disclosures of Cash flow information:		
Noncash investing and financing activities:		
Conversion of loans to foreclosed real estate	$20,000	$292,000
Conversion of foreclosed real estate to loans	45,000	507,050
Conversion of loans to repossessed assets	105,500	110,005
Cash paid during the period for:		
Interest (net of interest credited)	$1,914,897	$634,616
Income taxes	1,541,084	2,831,570

See Notes to Condensed Consolidated Financial Statements

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SOUTHERN MISSOURI BANCORP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1: Basis of Presentation

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Securities and Exchange Commission (SEC) Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all material adjustments (consisting only of normal recurring accruals) considered necessary for a fair presentation have been included. The consolidated balance sheet of the Company as of June 30, 2012, has been derived from the audited consolidated balance sheet of the Company as of that date. Operating results for the three-month periods ended September 30, 2012, are not necessarily indicative of the results that may be expected for the entire fiscal year. For additional information, refer to the audited consolidated financial statements included in the Company’s June 30, 2012, Form 10-K, which was filed with the SEC.

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Southern Bank (Bank). All significant intercompany accounts and transactions have been eliminated in consolidation.

Note 2: Organization and Summary of Significant Accounting Policies

Organization. Southern Missouri Bancorp, Inc., a Missouri corporation (the Company) was organized in 1994 and is the parent company of Southern Bank (the Bank). Substantially all of the Company’s consolidated revenues are derived from the operations of the Bank, and the Bank represents substantially all of the Company’s consolidated assets and liabilities.

The Bank is primarily engaged in providing a full range of banking and financial services to individuals and corporate customers in its market areas. The Bank and Company are subject to competition from other financial institutions. The Bank and Company are subject to regulation by certain federal and state agencies and undergo periodic examinations by those regulatory authorities.

Basis of Financial Statement Presentation. The financial statements of the Company have been prepared in conformity with accounting principles generally accepted in the United States of America and general practices within the banking industry. In the normal course of business, the Company encounters two significant types of risk: economic and regulatory. Economic risk is comprised of interest rate risk, credit risk, and market risk. The Company is subject to interest rate risk to the degree that its interest-bearing liabilities reprice on a different basis than its interest-earning assets. Credit risk is the risk of default on the Company’s investment or loan portfolios resulting from the borrowers’ inability or unwillingness to make contractually required payments. Market risk reflects changes in the value of the investment portfolio, collateral underlying loans receivable, and the value of the Company’s investments in real estate.

Principles of Consolidation. The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, the Bank. All significant intercompany accounts and transactions have been eliminated.

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 disclosures 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.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses, estimated fair values of purchased loans, other-than-temporary impairments (OTTI), and fair value of financial instruments.

Cash and Cash Equivalents. For purposes of reporting cash flows, cash and cash equivalents includes cash, due from depository institutions and interest-bearing deposits in other depository institutions with original maturities of three months or less. Interest-bearing deposits in other depository institutions were $6,582, 000 and $31,048,000 at September 30 and June 30, 2012, respectively. The deposits are held in various commercial banks in amounts not exceeding the FDIC's deposit insurance limits, as well as at the Federal Reserve, the Federal Home Loan Bank of Des Moines, and the Federal Home Loan Bank of Dallas.

Available for Sale Securities. Available for sale securities, which include any security for which the Company has no immediate plan to sell but which may be sold in the future, are carried at fair value. Unrealized gains and losses, net of tax, are reported in accumulated other comprehensive income, a component of stockholders' equity. All securities have been classified as available for sale.

Premiums and discounts on debt securities are amortized or accreted as adjustments to income over the estimated life of the security using the level yield method. Realized gains or losses on the sale of securities is based on the specific identification method. The fair value of securities is based on quoted market prices or dealer quotes. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

The Company does not invest in collateralized mortgage obligations that are considered high risk.

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 other-than-temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income. As a result, the Company's balance sheet as of the dates presented reflects the full impairment (that is, the difference between the security's amortized cost basis and fair value) on debt securities that the Company intends to sell or would more likely than not be required to sell before the expected recovery of the amortized cost basis. For available-for-sale debt securities that management has no intent to sell and believes that it more likely than not will not be required to sell prior to recovery, only the credit loss component of the impairment is recognized in earnings, while the noncredit loss is recognized in accumulated 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.

Federal Reserve Bank and Federal Home Loan Bank Stock. The Bank is a member of the Federal Reserve and the Federal Home Loan Bank (FHLB) systems. Capital stock of the Federal Reserve and the FHLB is a required investment based upon a predetermined formula and is carried at cost.

Loans. Loans are generally stated at unpaid principal balances, less the allowance for loan losses and net deferred loan origination fees.

Interest on loans is accrued based upon the principal amount outstanding. The accrual of interest on loans is discontinued when, in management's judgment, the collectibility of interest or principal in the normal course of business is doubtful. The Company complies with regulatory guidance which indicates that loans should be placed in nonaccrual status when 90 days past due, unless the loan is both well-secured and in the process of collection. A loan that is "in the process of collection" may be subject to legal action or, in appropriate circumstances, through other collection efforts reasonably expected to result in repayment or restoration to current status in the near future. A loan is considered delinquent when a payment has not been made by the contractual due date. Interest income previously accrued but not collected at the date a loan is placed on nonaccrual status is reversed against interest income. Cash receipts on a nonaccrual loan are applied to principal and interest in accordance with its contractual terms unless full payment of principal is not expected, in which case cash receipts, whether designated as principal or interest, are applied as a reduction of the carrying value of the loan. A nonaccrual loan is generally returned to accrual status when principal and interest payments are current, full collectability of principal and interest is reasonably assured, and a consistent record of performance has been demonstrated.

The allowance for losses on loans represents management's best estimate of losses probable in the existing loan portfolio. The allowance for losses on loans is increased by the provision for losses on loans charged to expense and reduced by loans charged off, net of recoveries. Loans are charged off in the period deemed uncollectible, based on management's analysis of expected cash flow (for non-collateral dependent loans) or collateral value (for

collateral-dependent loans). Subsequent recoveries of loans previously charged off, if any, are credited to the allowance when received. The provision for losses on loans is determined based on management's assessment of several factors: reviews and evaluations of specific loans, changes in the nature and volume of the loan portfolio, current economic conditions and the related impact on specific borrowers and industry groups, historical loan loss experience, the level of classified and nonperforming loans and the results of regulatory examinations.

Loans are considered impaired if, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Depending on a particular loan's circumstances, we measure impairment of a loan based upon either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price, or the fair value of the collateral less estimated costs to sell if the loan is collateral dependent. Valuation allowances are established for collateral-dependent impaired loans for the difference between the loan amount and fair value of collateral less estimated selling costs. For impaired loans that are not collateral dependent, a valuation allowance is established for the difference between the loan amount and the present value of expected future cash flows discounted at the historical effective interest rate or the

observable market price of the loan. Impairment losses are recognized through an increase in the required allowance for loan losses. Cash receipts on loans deemed impaired are recorded based on the loan's separate status as a nonaccrual loan or an accrual status loan.

As a result of the acquisition of the former First Southern Bank, Batesville, Arkansas, the Company acquired certain loans with an outstanding principal balance of $14.2 million for which it was deemed probable that we would be unable to collect all contractually required payments. These loans are accounted for in accordance with ASC 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality. The Company recorded a fair value discount of $3.9 million related to these loans acquired with deteriorated credit quality ("purchased credit impaired loans"), and began carrying them at a value of $10.3 million. For these loans, we determined the contractual amount and timing of undiscounted principal and interest payments (the "undiscounted contractual cash flows"), and estimated the amount and timing of undiscounted expected principal and interest payments, including expected prepayments (the "undiscounted expected cash flows"). Under acquired impaired loan accounting, the difference between the undiscounted contractual cash flows and the undiscounted expected cash flows is the nonaccretable difference. The nonaccretable difference is an estimate of the loss exposure of principal and interest related to the purchased credit impaired loans, and the amount is subject to change over time based on the performance of the loans. The carrying value of purchased credit impaired loans is initially determined as the discounted expected cash flows. The excess of expected cash flows at acquisition over the initial fair value of the purchased credit impaired loans is referred to as the "accretable yield" and is recorded as interest income over the estimated life of the acquired loans using the level-yield method, if the timing and amount of the future cash flows is reasonably estimable. The carrying value of purchased credit impaired loans is reduced by payments received, both principal and interest, and increased by the portion of the accretable yield recognized as interest income. Subsequent to acquisition, the Company evaluates the purchased credit impaired loans on a quarterly basis. Increases in expected cash flows compared to those previously estimated increase the accretable yield and are recognized as interest income prospectively. Decreases in expected cash flows compared to those previously estimated decrease the accretable yield and may result in the establishment of an allowance for loan losses and a provision for loan losses. Purchased credit impaired loans are generally considered accruing and performing loans, as the loans accrete interest income over the estimated life of the loan when expected cash flows are reasonably estimable. Accordingly, purchased credit impaired loans that are contractually past due are still considered to be accruing and performing as long as there is an expectation that the estimated cash flows will be received. If the timing and amount of cash flows is not reasonably estimable, the loans may be classified as nonaccrual loans.

Loan fees and certain direct loan origination costs are deferred, and the net fee or cost is recognized as an adjustment to interest income using the interest method over the contractual life of the loans.

Foreclosed Real Estate. Real estate acquired by foreclosure or by deed in lieu of foreclosure is initially recorded at fair value less estimated selling costs. Costs for development and improvement of the property are capitalized.

Valuations are periodically performed by management, and an allowance for losses is established by a charge to operations if the carrying value of a property exceeds its estimated fair value, less estimated selling costs.

Loans to facilitate the sale of real estate acquired in foreclosure are discounted if made at less than market rates. Discounts are amortized over the fixed interest period of each loan using the interest method.

Premises and Equipment. Premises and equipment are stated at cost less accumulated depreciation and include expenditures for major betterments and renewals. Maintenance, repairs, and minor renewals are expensed as incurred. When property is retired or sold, the retired asset and related accumulated depreciation are removed from the accounts and the resulting gain or loss taken into income. The Company reviews property and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If such assets are considered to be impaired, the impairment loss recognized is measured by the amount by which the

carrying amount exceeds the fair value of the assets.

Depreciation is computed by use of straight-line and accelerated methods over the estimated useful lives of the assets. Estimated lives are generally 10 to 40 years for premises, five to seven years for equipment, and three years for software.

Intangible Assets. Identifiable intangible assets are being amortized on a straight-line basis over periods ranging from five to fifteen years. Such assets are periodically evaluated as to the recoverability of their carrying value. Goodwill is tested periodically for impairment.

Income Taxes. The Company accounts for income taxes in accordance with income tax accounting guidance (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

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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 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 or not 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. 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.

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

The Company files consolidated income tax returns with its subsidiary.

Equity Incentive Plan. The Company accounts for its Equity Incentive Plan (EIP) and Management Recognition Plan (MRP) in accordance with ASC 718, “Share-Based Payment.” Compensation expense is based on the market price of the Company’s stock on the date the shares are granted and is recorded over the vesting period.

Outside Directors’ Retirement. The Bank adopted a directors’ retirement plan in April 1994 for outside directors. The directors’ retirement plan provides that each non-employee director (participant) shall receive, upon termination of service on the Board on or after age 60, other than termination for cause, a benefit in equal annual installments over a five year period. The benefit will be based upon the product of the participant’s vesting percentage and the total Board fees paid to the participant during the calendar year preceding termination of service on the Board. The vesting percentage shall be determined based upon the participant’s years of service on the Board.

In the event that the participant dies before collecting any or all of the benefits, the Bank shall pay the participant’s beneficiary. No benefits shall be payable to anyone other than the beneficiary, and shall terminate on the death of the beneficiary.

Stock Options. With limited exceptions, the amount of compensation cost is measured based on the grant-date fair value of the equity instruments issued. Compensation cost is recognized over the vesting period during which an employee provides service in exchange for the award. Stock-based compensation has been recognized for all stock options granted or modified after July 1, 2005.

Earnings Per Share. Basic earnings per share available to common stockholders is computed using the weighted-average number of common shares outstanding. Diluted earnings per share available to common stockholders includes the effect of all weighted-average dilutive potential common shares (stock options and warrants) outstanding during each period.

Comprehensive Income. Comprehensive income consists of net income and other comprehensive income, net of applicable income taxes. Other comprehensive income includes unrealized appreciation (depreciation) on available-for-sale securities, unrealized appreciation (depreciation) on available-for-sale securities for which a portion of an other-than-temporary impairment has been recognized in income, and changes in the funded status of defined benefit pension plans.

Treasury Stock. Treasury stock is stated at cost. Cost is determined by the first-in, first-out method.

Reclassification. Certain amounts included in the consolidated financial statements have been reclassified to conform to the 2012 presentation. These reclassifications had no effect on net income.

The following paragraphs summarize the impact of new accounting pronouncements:

In July 2012, the Financial Accounting Standards board (FASB) issued Accounting Standards Update (ASU) 2012-02, Intangibles – Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment. The amendments in this ASU allow an entity to first assess qualitative factors to determine whether it is necessary to perform a quantitative impairment test. An entity would not be required to calculate the fair value of an indefinite-lived intangible assets unless the entity determines, based on qualitative assessment, that it is more likely than not the indefinite-lived intangible asset is impaired. The ASU is effective for annual and interim impairment tests performed for fiscal years beginning after September 15 2012. The

Company adopted the standard on July 1, 2012, and adoption did not have a significant impact on the Company's financial statements.

In October 2012, the FASB issued ASU 2012-04, Technical Corrections and Improvements. The amendments in this ASU make technical corrections, clarifications, and limited-scope improvements to various Topics throughout the Codification. This ASU is effective for public entities for fiscal periods beginning after December 15, 2012.

Note 3: Securities

The amortized cost, gross unrealized gains, gross unrealized losses, and approximate fair value of securities available for sale consisted of the following:

	September 30, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Investment and mortgage backed securities:				
U.S. government-sponsored enterprises (GSEs)	$14,033,274	$55,190	$(1,633)	$14,086,831
State and political subdivisions	36,832,089	2,129,587	(80,612)	38,881,064
Other securities	2,643,778	42,014	(1,233,735)	1,452,057
Mortgage-backed: GSE residential	11,317,686	533,408	-	11,851,094
Mortgage-backed: other U.S. government agencies	5,706,837	47	(4,032)	5,702,852
Total investments and mortgage-backed securities	$70,533,664	$2,760,246	$(1,320,012)	$71,973,898

June 30, 2012			
Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair