MIDDLEFIELD BANC CORP
Form 10-Q
November 06, 2018

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 September 30, 2018
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 001-36613

Middlefield Banc Corp.
(Exact Name of Registrant as Specified in its Charter)

Ohio	34-1585111
State or Other	I.R.S. Employer

Jurisdiction of Incorporation or Organization	Identification No.
15985 East High Street, Middlefield, Ohio	44062-0035
Address of Principal Executive Offices	Zip Code

440-632-1666
Registrant's Telephone Number, Including Area Code

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes **X** No

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

Large accelerated filer Accelerated filer **X**

Non-accelerated filer	Smaller reporting company **X**
	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

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

Class: Common Stock, without par value
Outstanding at November 6, 2018: 3,238,346

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MIDDLEFIELD BANC CORP.

CONSOLIDATED BALANCE SHEET

(Dollar amounts in thousands, except share data)

(Unaudited)

	September 30, 2018	December 31, 2017
ASSETS		
Cash and cash equivalents	$81,951	$39,886
Equity securities, at fair value	671	-
Investment securities available for sale, at fair value	99,717	95,283
Loans held for sale	925	463
Loans	972,968	923,213
Less allowance for loan and lease losses	7,494	7,190
Net loans	965,474	916,023
Premises and equipment, net	13,002	11,853
Goodwill	15,071	15,071
Core deposit intangibles	2,484	2,749
Bank-owned life insurance	15,970	15,652
Other real estate owned	257	212
Accrued interest receivable and other assets	10,806	9,144
TOTAL ASSETS	$1,206,328	$1,106,336
LIABILITIES		
Deposits:		
Noninterest-bearing demand	$205,357	$192,438
Interest-bearing demand	96,565	83,990
Money market	191,261	150,277
Savings	224,704	208,502
Time	295,874	242,987
Total deposits	1,013,761	878,194
Short-term borrowings	55,304	74,707
Other borrowings	8,956	29,065
Accrued interest payable and other liabilities	4,074	4,507
TOTAL LIABILITIES	1,082,095	986,473
STOCKHOLDERS' EQUITY		
Common stock, no par value; 10,000,000 shares authorized, 3,622,854 and 3,603,881 shares issued; 3,236,689 and 3,217,716 shares outstanding	85,687	84,859

Retained earnings	53,520	47,431
Accumulated other comprehensive (loss) income	(1,456)	1,091
Treasury stock, at cost; 386,165 shares	(13,518)	(13,518)
TOTAL STOCKHOLDERS' EQUITY	124,233	119,863
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$1,206,328	$1,106,336

See accompanying notes to unaudited consolidated financial statements.

MIDDLEFIELD BANC CORP.

CONSOLIDATED STATEMENT OF INCOME

(Dollar amounts in thousands, except per share data)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
INTEREST AND DIVIDEND INCOME				
Interest and fees on loans	$11,821	$10,443	$34,109	$29,539
Interest-earning deposits in other institutions	178	107	412	248
Federal funds sold	8	5	29	9
Investment securities:				
Taxable interest	167	159	506	600
Tax-exempt interest	598	579	1,673	1,846
Dividends on stock	57	37	169	189
Total interest and dividend income	12,829	11,330	36,898	32,431
INTEREST EXPENSE				
Deposits	2,178	1,468	5,803	3,820
Short-term borrowings	296	202	764	652
Other borrowings	104	148	344	413
Total interest expense	2,578	1,818	6,911	4,885
NET INTEREST INCOME	10,251	9,512	29,987	27,546
Provision for loan losses	210	280	630	615
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	10,041	9,232	29,357	26,931
NONINTEREST INCOME				
Service charges on deposit accounts	491	479	1,416	1,397
Investment securities gains on sale, net	-	398	-	886
Gain on equity securities	15	-	46	-
Earnings on bank-owned life insurance	108	109	318	316
Gain on sale of loans	43	255	164	720
Other income	291	200	807	622
Total noninterest income	948	1,441	2,751	3,941
NONINTEREST EXPENSE				
Salaries and employee benefits	3,839	3,725	11,684	10,624

Occupancy expense	460	476	1,468	1,397
Equipment expense	262	242	696	789
Data processing costs	481	468	1,360	1,376
Ohio state franchise tax	244	186	603	558
Federal deposit insurance expense	150	165	450	368
Professional fees	346	434	1,118	1,230
Advertising expense	236	248	694	660
Software amortization expense	155	118	460	280
Core deposit intangible amortization	87	101	265	276
Merger expense	-	338	-	1,032
Other expense	832	796	2,702	2,678
Total noninterest expense	7,092	7,297	21,500	21,268
Income before income taxes	3,897	3,376	10,608	9,604
Income taxes	593	914	1,602	2,535
NET INCOME	$3,304	$2,462	$9,006	$7,069
EARNINGS PER SHARE				
Basic	$1.02	$0.77	$2.79	$2.38
Diluted	1.02	0.76	2.78	2.37
DIVIDENDS DECLARED PER SHARE	$0.28	$0.27	$0.89	$0.81

See accompanying notes to unaudited consolidated financial statements.

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MIDDLEFIELD BANC CORP.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(Dollar amounts in thousands)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income	$3,304	$2,462	$9,006	$7,069
Other comprehensive (loss) gain:				
Net unrealized holding (loss) gain on available-for-sale investment securities	(1,297)	(264)	(3,282)	1,153
Tax effect	272	89	689	(392)
Reclassification adjustment for investment securities gains included in net income	-	(398)	-	(886)
Tax effect	-	135	-	301
Total other comprehensive (loss) gain	(1,025)	(438)	(2,593)	176
Comprehensive income	$2,279	$2,024	$6,413	$7,245

See accompanying notes to unaudited consolidated financial statements.

MIDDLEFIELD BANC CORP.

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY

(Dollar amounts in thousands, except share and per share data)

(Unaudited)

	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
Balance, December 31, 2017	$ 84,859	$ 47,431	$ 1,091	$ (13,518)	$ 119,863
Change in accounting principle for adoption of ASU 2016-01		141	(141)		-
Change in accounting principle for adoption of ASU 2018-02		(187)	187		-
Net income		9,006			9,006
Other comprehensive loss			(2,593)		(2,593)
Dividend reinvestment and purchase plan (8,763 shares)	441				441
Stock options exercised (4,650 shares)	107				107
Stock-based compensation (5,560 shares)	280				280
Cash dividends ($0.89 per share)		(2,871)			(2,871)
Balance, September 30, 2018	$ 85,687	$ 53,520	$ (1,456)	$ (13,518)	$ 124,233

See accompanying notes to unaudited consolidated financial statements.

MIDDLEFIELD BANC CORP.

CONSOLIDATED STATEMENT OF CASH FLOWS

(Dollar amounts in thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2018	2017
OPERATING ACTIVITIES		
Net income	$9,006	$7,069
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	630	615
Investment securities gains on sale, net	-	(886)
Gain on equity securities	(46)	-
Depreciation and amortization of premises and equipment, net	694	661
Software amortization expense	460	280
Amortization of premium and discount on investment securities, net	317	343
Accretion of deferred loan fees, net	(690)	(246)
Amortization of core deposit intangibles	265	276
Stock-based compensation expense	360	33
Origination of loans held for sale	(9,588)	(13,345)
Proceeds from sale of loans	9,290	7,811
Gain on sale of loans	(164)	(239)
Origination of student loans held for sale	-	(321,942)
Proceeds from sale of student loans	-	328,853
Gain on sale of student loans	-	(481)
Earnings on bank-owned life insurance	(318)	(316)
Deferred income tax	184	(532)
Net loss (gain) on other real estate owned	5	(211)
Increase in accrued interest receivable	(445)	(311)
Increase in accrued interest payable	126	124
Other, net	(1,721)	(2,338)
Net cash provided by operating activities	8,365	5,218
INVESTING ACTIVITIES		
Investment securities available for sale:		
Proceeds from repayments and maturities	4,340	9,560
Proceeds from sale of securities	-	6,474
Purchases	(12,998)	(250)
Increase in loans, net	(49,467)	(75,307)
Proceeds from the sale of other real estate owned	26	1,767
Purchase of bank-owned life insurance	-	(5)

Purchase of premises and equipment	(1,843)	(1,037)
Purchase of restricted stock	(90)	(899)
Redemption of restricted stock	-	795
Acquisition, net of cash paid	-	5,431
Net cash used in investing activities	(60,032)	(53,471)
FINANCING ACTIVITIES		
Net increase in deposits	135,567	69,677
Decrease in short-term borrowings, net	(19,403)	(48,085)
Repayment of other borrowings	(20,109)	(164)
Proceeds from other borrowings	-	30,000
Proceeds from common stock issued	-	15,164
Stock options exercised	107	180
Proceeds from dividend reinvestment and purchase plan	441	407
Cash dividends	(2,871)	(2,490)
Net cash provided by financing activities	93,732	64,689
Increase in cash and cash equivalents	42,065	16,436
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	39,886	32,495
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$81,951	$48,931

See accompanying notes to unaudited consolidated financial statements.

	Nine Months Ended September 30, 2018	2017
SUPPLEMENTAL INFORMATION		
Cash paid during the year for:		
Interest on deposits and borrowings	$6,785	$4,761
Income taxes	1,675	4,455
Noncash investing transactions:		
Transfers from loans to other real estate owned	$76	$1,179
Common stock issued in business acquisition	-	20,995
Transfer of equity securities from investment securities available for sale, at fair value	(625)	-

Acquisition of Liberty Bank, N.A.	
Noncash assets acquired	
Loans	$195,388
Loans held for sale	5,953
Premises and equipment, net	325
Accrued interest receivable	440
Bank-owned life insurance	1,681
Core deposit intangible	3,087
Other assets	997
Goodwill	10,740
Total noncash assets acquired	218,611
Liabilities assumed	
Time deposits	(30,744)
Deposits other than time deposits	(167,300)
Accrued interest payable	(47)
Deferred taxes	(1,134)
Other liabilities	(2,754)
Total liabilities assumed	(201,979)
Liberty stock acquired in business combination	(1,068)
Net noncash assets acquired	$15,564
Cash and cash equivalents acquired, net	$5,431

See accompanying notes to unaudited consolidated financial statements.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - BASIS OF PRESENTATION

The consolidated financial statements of Middlefield Banc Corp. ("Company") include its bank subsidiary, The Middlefield Banking Company (“MBC” or “Middlefield Bank”), and a nonbank asset resolution subsidiary EMORECO, Inc. All significant inter-company items have been eliminated.

The unaudited condensed consolidated financial statements have been prepared in conformity with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles (“GAAP”) for complete financial statements. The financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company’s Form 10-K for the year ended December 31, 2017. The interim consolidated financial statements include all adjustments (consisting of only normal recurring items) that, in the opinion of management, are necessary for a fair presentation of the financial position and results of operations for the periods presented. The results of operations for the interim periods disclosed herein are not necessarily indicative of the results that may be expected for a full year.

Recently Adopted Accounting Pronouncements –

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities.* This Update applies to all entities that hold financial assets or owe financial liabilities and is intended to provide more useful information on the recognition, measurement, presentation, and disclosure of financial instruments. Among other things, this Update (a) requires equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income; (b) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment; (c) eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities; (d) eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; (e) requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; (f) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements; and (g) clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity’s other deferred tax assets. For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. For all other entities, including not-for-profit entities and employee benefit plans within the scope of Topics 960 through 965 on plan accounting, the amendments in this Update are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. All entities that are not public business entities may adopt the amendments in this Update earlier as of the fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. In February 2018, the FASB issued ASU No. 2018-03 which includes technical corrections and improvements to clarify the guidance in ASU No. 2016-01. On January 1, 2018, the Company adopted ASU 2016-01 which resulted in a reclassification of $141,000 between accumulated other comprehensive income and retained earnings on the Consolidated Balance Sheet and Consolidated Statement of Changes in Stockholders' Equity.

In February 2018, the FASB issued ASU 2018-02, *Income Statement – Reporting Comprehensive Income (Topic 220)*, to allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. Consequently, the amendments eliminate the stranded tax effects resulting from the Tax Cuts and Jobs Act and will improve the usefulness of information reported to financial statement users. The amendments in this Update are effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption of the amendments in this Update is permitted, including adoption in any interim period, (1) for public business entities for reporting periods for which financial statements have not yet been issued and (2) for all other entities for reporting periods for which financial statements have not yet been made available for issuance. The amendments in this Update should be applied either in the period of adoption or retrospectively to each period (or periods) in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act is recognized. On January 1, 2018, the Company adopted this standard which resulted in a reclassification of $187,000 between accumulated other comprehensive income and retained earnings on the Consolidated Balance Sheet and Consolidated Statement of Changes in Stockholders' Equity.

In February 2018, the FASB issued ASU 2018-03, *Technical Corrections and Improvements to Financial Instruments—Overall (Subtopic 825-10)*, to clarify certain aspects of the guidance issued in ASU 2016-01. (1) An entity measuring an equity security using the measurement alternative may change its measurement approach to a fair value method in accordance with Topic 820, Fair Value Measurement, through an irrevocable election that would apply to that security and all identical or similar investments of the same issuer. Once an entity makes this election, the entity should measure all future purchases of identical or similar investments of the same issuer using a fair value method in accordance with Topic 820. (2) Adjustments made under the measurement alternative are intended to reflect the fair value of the security as of the date that the observable transaction for a similar security took place. (3) Remeasuring the entire value of forward contracts and purchased options is required when observable transactions occur on the underlying equity securities. (4) When the fair value option is elected for a financial liability, the guidance in paragraph 825-10- 45-5 should be applied, regardless of whether the fair value option was elected under either Subtopic 815-15, *Derivatives and Hedging—Embedded Derivatives, or 825-10, Financial Instruments—Overall.* (5) Financial liabilities for which the fair value option is elected, the amount of change in fair value that relates to the instrument specific credit risk should first be measured in the currency of denomination when presented separately from the total change in fair value of the financial liability. Then, both components of the change in the fair value of the liability should be remeasured into the functional currency of the reporting entity using end-of-period spot rates. (6) The prospective transition approach for equity securities without a readily determinable fair value in the amendments in Update 2016-01 is meant only for instances in which the measurement alternative is applied. An insurance entity subject to the guidance in Topic 944, *Financial Services— Insurance*, should apply a prospective transition method when applying the amendments related to equity securities without readily determinable fair values. An insurance entity should apply the selected prospective transition method consistently to the entity's entire population of equity securities for which the measurement alternative is elected. For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years beginning after June 15, 2018. Public business entities with fiscal years beginning between December 15, 2017, and June 15, 2018, are not required to adopt these amendments until the interim period beginning after June 15, 2018, and public business entities with fiscal years beginning between June 15, 2018, and December 15, 2018, are not required to adopt these amendments before adopting the amendments in Update 2016-01. For all other entities, the effective date is the same as the effective date in Update 2016-01. All entities may early adopt these amendments for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, as long as they have adopted Update 2016-01. The adoption of this standard has not had a significant impact on the Company's financial position or results of operations.

Recently Issued Accounting Pronouncements –

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The standard requires lessees to recognize the assets and liabilities that arise from leases on the balance sheet. A lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. A short-term lease is defined as one in which (a) the lease term is 12 months or less and (b) there is not an option to purchase the underlying asset that the lessee is reasonably certain to exercise. For short-term leases, lessees may elect to recognize lease payments over the lease term on a straight-line basis. For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2018, and interim periods within those years. For all other entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2019, and for interim periods within fiscal years beginning after December 15, 2020. The amendments should be applied at the beginning of the earliest period presented using a modified retrospective approach with earlier application permitted as of the beginning of an interim or annual reporting period. The Company is currently assessing the practical expedients it may elect at adoption, but does not anticipate the amendments will have a significant impact on the financial statements. Based on the Company's preliminary analysis of its current portfolio, the impact to the Company's balance sheet is estimated to result in less than a 1 percent increase in assets and liabilities. The Company also anticipates additional disclosures to be provided at adoption.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments ("CECL"),* which changes the impairment model for most financial assets. This Update is intended to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. The underlying premise of the Update is that financial assets measured at amortized cost should be presented at the net amount expected to be collected, through an allowance for credit losses that is deducted from the amortized cost basis. The allowance for credit losses should reflect management's current estimate of credit losses that are expected to occur over the remaining life of a financial asset. The income statement will be effected for the measurement of credit losses for newly recognized financial assets, as well as the expected increases or decreases of expected credit losses that have taken place during the period. ASU 2016-13 is effective for annual and interim periods beginning after December 15, 2019, and early adoption is permitted for annual and interim periods beginning after December 15, 2018. With certain exceptions, transition to the new requirements will be through a cumulative effect adjustment to opening retained earnings as of the beginning of the first reporting period in which the guidance is adopted. Management is currently evaluating the impact of the adoption of this guidance on the Company's consolidated financial statements. Management will oversee the implementation of CECL and is currently in the process of implementing a software solution to assist in the adoption of this ASU. Management plans to run the current incurred loss model and the CECL model concurrently for 12 months prior to the adoption of this guidance on January 1, 2020.

ASU 2018-04, *Investments – Debt Securities (Topic 320)* and *Regulated Operations (Topic 980) - Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 117 and SEC Release No. 33-9273*, ASU 2018-04 supersedes various SEC paragraphs and adds an SEC paragraph pursuant to the issuance of Staff Accounting Bulletin No. 117. This Update is not expected to have a significant impact on the Company's financial statements.

In June 2018, the FASB issued ASU 2018-07, *Compensation – Stock Compensation (Topic 718)*, which simplified the accounting for nonemployee share-based payment transactions. The amendments in this update expand the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from nonemployees. The amendments in this Update improve the following areas of nonemployee share-based payment accounting: (a) the overall measurement objective, (b) the measurement date, (c) awards with performance conditions, (d) classification reassessment of certain equity-classified awards, (e) calculated value (nonpublic entities only), and (f) intrinsic value (nonpublic entities only). The amendments in this Update are effective for public business entities for fiscal years beginning after December 15, 2018, including interim periods within that fiscal year. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. The Company is currently evaluating the impact the adoption of the standard will have on the Company's financial position or results of operations.

In July 2018, the FASB issued ASU 2018-11, *Leases (Topic 842): Targeted Improvements*. This Update provides another transition method which allows entities to initially apply ASC 842 at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. Entities that elect this approach should report comparative periods in accordance with ASC 840, *Leases*. In addition, this Update provides a practical expedient under which lessors may elect, by class of underlying assets, to not separate nonlease components from the associated lease component, similar to the expedient provided for lessees. However, the lessor practical expedient is limited to circumstances in which the nonlease component or components otherwise would be accounted for under the new revenue guidance and both (a) the timing and pattern of transfer are the same for the nonlease component(s) and associated lease component and (b) the lease component, if accounted for separately, would be classified as an operating lease. If the nonlease component or components associated with the lease component are the predominant component of the combined component, an entity should account for the combined component in accordance with ASC 606, *Revenue from Contracts with Customers*. Otherwise, the entity should account for the combined component as an operating lease in accordance with ASC 842. If a lessor elects the practical expedient, certain disclosures are required. This Update is effective for public business entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years, with early adoption permitted. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. The Company is currently evaluating the impact the adoption of the standard will have on the Company's financial position or results of operations.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes the Disclosure Requirements for Fair Value Measurements*. The Update removes the requirement to disclose the amount of, and reasons for, transfers between Level I and Level II of the fair value hierarchy; the policy for timing of transfers between levels; and the valuation processes for Level III fair value measurements. The Update requires disclosure of changes in unrealized gains and losses for the period included in other comprehensive income (loss) for recurring Level III fair value measurements held at the end of the reporting period and the range and weighted average of significant unobservable inputs used to develop Level III fair value measurements. This Update is effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The Company is currently evaluating the impact the adoption of the standard will have on the Company's financial position or results of operations.

NOTE 2 – REVENUE RECOGNITION

Effective January 1, 2017, the Company adopted ASU 2014-09 *Revenue from Contracts with Customers-(Topic 606)* and all subsequent ASUs that modified ASC 606. The implementation of the new standard had no material impact on the measurement or recognition of revenue for prior periods and did not require any cumulative effect adjustment for adoption.

Management determined that the primary sources of revenue, which emanate from interest income on loans and investments, along with noninterest revenue resulting from investment security gains, gains on the sale of loans, and BOLI income, are not within the scope of ASC 606. As a result, no changes were made during the period related to these sources of revenue, which cumulatively comprise 92.9% of the total revenue of the Company.

The main types of noninterest income within the scope of the standard are as follows:

Service charges on deposit accounts – The Company has contracts with its deposit customers where fees are charged if the account balance falls below predetermined levels defined as compensating balances. These agreements can be cancelled at any time by either the Company or the deposit customer. Revenue from these transactions is recognized on a monthly basis as the Company has an unconditional right to the fee consideration. The Company also has transaction fees related to specific customer requests or activities that include overdraft fees, online banking fees, and other transaction fees. All of these fees are attributable to specific performance obligations of the Company where the revenue is recognized at a defined point in time, which is completion of the requested service/transaction.

Gains (losses) on sale of other real estate owned – Gains and losses are recognized at the completion of the property sale when the buyer obtains control of the real estate and all of the performance obligations of the Company have been satisfied. Evidence of the buyer obtaining control of the asset include transfer of the property title, physical possession of the asset, and the buyer obtaining control of the risks and rewards related to the asset. In situations where the Company agrees to provide financing to facilitate the sale, additional analysis is performed to ensure that the contract for sale identifies the buyer and seller, the asset to be transferred and the payment terms, that the contract has a true commercial substance and that amounts due from the buyer are reasonable. In situations where financing terms are not reflective of current market terms, the transaction price is discounted impacting the gain/loss and the carrying value of the asset.

The following table depicts the disaggregation of revenue derived from contracts with customers to depict the nature, amount, timing, and uncertainty of revenue and cash flows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
Noninterest Income	2018	2017	2018	2017
(Dollar amounts in thousands)				
Service charges on deposit accounts:				
Overdraft fees	$207	$209	$597	$583
ATM banking fees	219	209	634	528
Service charges and other fees	65	61	185	286
Investment securities gains on sale, net [(a)]	-	398	-	886
Equity securities, unrealized gains [(a)]	15	-	46	-
Earnings on bank-owned life insurance [(a)]	108	109	318	316
Gain on sale of loans [(a)]	43	255	164	720
Other income	291	200	807	622

Total noninterest income	$948	$1,441	$2,751	$3,941

(a) Not within scope of ASC 606