

GUARANTY FEDERAL BANCSHARES INC
Form 10-Q
August 09, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
(Mark One)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 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 0-23325

Guaranty Federal Bancshares, Inc.

(Exact name of registrant as specified in its charter)

Delaware 43-1792717
(State or other jurisdiction of incorporation or organization) (IRS Employer Identification No.)

2144 E Republic Rd, Suite F200
Springfield, Missouri 65804
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (417) 520-4333

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 preceding 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, a smaller reporting company or an emerging growth company. See 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 [] 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 of 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.

<u>Class</u>	<u>Outstanding as of August 1, 2018</u>
Common Stock, Par Value \$0.10 per share	4,451,723 Shares

**GUARANTY
FEDERAL
BANCSHARES,
INC.**

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PART I FINANCIAL INFORMATION**Item 1. Financial Statements**

GUARANTY FEDERAL BANCSHARES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
JUNE 30, 2018 (UNAUDITED) AND DECEMBER 31, 2017

	6/30/18	12/31/17
ASSETS		
Cash and due from banks	\$5,275,544	\$4,094,694
Interest-bearing deposits in other financial institutions	25,081,703	33,312,236
Cash and cash equivalents	30,357,247	37,406,930
Available-for-sale securities	89,316,993	81,478,673
Held-to-maturity securities	14,111	16,457
Stock in Federal Home Loan Bank, at cost	4,791,200	4,597,500
Mortgage loans held for sale	1,771,560	1,921,819
Loans receivable, net of allowance for loan losses of June 30, 2018 - \$7,572,510 - December 31, 2017 - \$7,107,418	772,517,090	629,605,009
Accrued interest receivable	2,996,175	2,449,847
Prepaid expenses and other assets	4,825,645	3,846,686
Goodwill	2,615,352	-
Core deposit intangible	3,300,000	-
Foreclosed assets held for sale	1,546,951	282,785
Premises and equipment, net	22,306,826	10,607,094
Bank owned life insurance	19,966,634	19,740,623
Deferred and income taxes receivable	4,193,271	2,506,097
	\$960,519,055	\$794,459,520

LIABILITIES AND STOCKHOLDERS' EQUITY**LIABILITIES**

Deposits	\$764,771,510	\$607,364,350
Federal Home Loan Bank advances	90,400,000	94,300,000
Note payable to bank	5,000,000	-
Subordinated debentures	21,804,760	15,465,000
Advances from borrowers for taxes and insurance	560,802	180,269
Accrued expenses and other liabilities	2,021,887	1,962,865
Accrued interest payable	711,911	295,543
	885,270,870	719,568,027

COMMITMENTS AND CONTINGENCIES

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STOCKHOLDERS' EQUITY

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Capital Stock:

Common stock, \$0.10 par value; authorized 10,000,000 shares; issued June 30, 2018 and December 31, 2017 - 6,890,503 and 6,878,503 shares; respectively	689,050	687,850
Additional paid-in capital	51,043,177	50,856,069
Retained earnings, substantially restricted	60,625,026	60,679,308
Accumulated other comprehensive loss	(142,119)	(206,193)
	112,215,134	112,017,034
Treasury stock, at cost; June 30, 2018 and December 31, 2017 - 2,443,246 and 2,453,728 shares, respectively	(36,966,949)	(37,125,541)
	75,248,185	74,891,493
	\$960,519,055	\$794,459,520

See Notes to Condensed Consolidated Financial Statements

**GUARANTY
FEDERAL
BANCSHARES,
INC.
CONDENSED
CONSOLIDATED
STATEMENTS
OF INCOME
THREE MONTHS
AND SIX
MONTHS ENDED
JUNE 30, 2018
AND 2017
(UNAUDITED)**

	Three months ended		Six months ended	
	6/30/2018	6/30/2017	6/30/2018	6/30/2017
Interest Income				
Loans	\$9,818,707	\$6,743,613	\$17,197,282	\$12,990,123
Investment securities	492,931	454,040	942,300	929,509
Other	67,487	43,855	195,859	93,278
	10,379,125	7,241,508	18,335,441	14,012,910
Interest Expense				
Deposits	1,719,614	746,701	3,142,184	1,368,555
FHLB advances	405,817	449,698	739,344	849,625
Subordinated debentures	277,594	155,910	446,561	307,590
Other	3,833	-	3,833	-
	2,406,858	1,352,309	4,331,922	2,525,770
Net Interest Income	7,972,267	5,889,199	14,003,519	11,487,140
Provision for Loan Losses	500,000	575,000	725,000	1,050,000
Net Interest Income After Provision for Loan Losses	7,472,267	5,314,199	13,278,519	10,437,140
Noninterest Income				
Service charges	552,011	290,926	869,177	558,032
Net gain (loss) on sale of investment securities	(10,388)	62,274	(7,205)	62,274
Gain on sale of mortgage loans held for sale	616,928	523,534	996,485	932,148
Gain on sale of Small Business Administration loans	225,379	124,857	396,241	255,345
Net gain (loss) on foreclosed assets	76,481	(29,809)	120,812	8,264
Other income	493,401	395,278	897,341	780,362
	1,953,812	1,367,060	3,272,851	2,596,425
Noninterest Expense				
Salaries and employee benefits	4,101,741	2,934,648	7,275,165	5,792,419
Occupancy	1,037,665	485,154	1,808,072	971,383
FDIC deposit insurance premiums	116,837	59,377	195,135	112,489
Data processing	464,360	232,436	766,892	461,752
Advertising	134,650	131,250	265,900	262,500
Merger costs	3,192,050	-	3,420,050	-

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Other expense	1,175,334	725,051	1,967,278	1,386,993
	10,222,637	4,567,916	15,698,492	8,987,536
Income (Loss) Before Income Taxes	(796,558)	2,113,343	852,878	4,046,029
Provision (Credit) for Income Taxes	(453,574)	520,770	(159,883)	1,024,215
Net Income (Loss) Available to Common Shareholders	\$(342,984)	\$1,592,573	\$1,012,761	\$3,021,814
Basic Income (Loss) Per Common Share	\$(0.08)	\$0.36	\$0.23	\$0.69
Diluted Income (Loss) Per Common Share	\$(0.08)	\$0.36	\$0.23	\$0.68

See Notes to Condensed Consolidated Financial Statements

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**GUARANTY
FEDERAL
BANCSHARES,
INC.
CONDENSED
CONSOLIDATED
STATEMENTS OF
COMPREHENSIVE
INCOME
THREE MONTHS
AND SIX MONTHS
ENDED JUNE 30,
2018 AND 2017
(UNAUDITED)**

	Three months ended		Six months ended	
	6/30/2018	6/30/2017	6/30/2018	6/30/2017
NET INCOME (LOSS)	\$ (342,984)	\$ 1,592,573	\$ 1,012,761	\$ 3,021,814
OTHER ITEMS OF COMPREHENSIVE INCOME:				
Change in unrealized gain (loss) on investment securities available-for-sale, before income taxes	(391,138)	812,311	(1,689,930)	1,448,165
Change in unrealized gain on interest rate swaps, before income taxes	502,917	227,642	1,768,729	227,642
Less: Reclassification adjustment for realized (gains) losses on investment securities included in net income, before income taxes	10,388	(62,274)	7,205	(62,274)
Total other items of comprehensive income	122,167	977,679	86,004	1,613,533
Income tax expense related to other items of comprehensive income	31,151	361,742	21,930	597,008
Other comprehensive income	91,016	615,937	64,074	1,016,525
TOTAL COMPREHENSIVE INCOME (LOSS)	\$ (251,968)	\$ 2,208,510	\$ 1,076,835	\$ 4,038,339

See Notes to Condensed Consolidated Financial Statements

**GUARANTY
FEDERAL
BANCSHARES,
INC.
CONDENSED
CONSOLIDATED
STATEMENT OF
STOCKHOLDERS'
EQUITY
SIX MONTHS
ENDED JUNE 30,
2018 (UNAUDITED)**

	Common Stock	Additional Paid- In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance, January 1, 2018	\$ 687,850	\$ 50,856,069	\$ (37,125,541)	\$ 60,679,308	\$ (206,193)	\$ 74,891,493
Net income	-	-	-	1,012,761	-	1,012,761
Other comprehensive income	-	-	-	-	64,074	64,074
Dividends on common stock (\$0.24 per share)	-	-	-	(1,067,043)	-	(1,067,043)
Stock award plans	-	125,878	158,592	-	-	284,470
Stock options exercised	1,200	61,230	-	-	-	62,430
Balance, June 30, 2018	\$ 689,050	\$ 51,043,177	\$ (36,966,949)	\$ 60,625,026	\$ (142,119)	\$ 75,248,185

See Notes to Condensed Consolidated Financial Statements

**GUARANTY
FEDERAL
BANCSHARES,
INC.
CONDENSED
CONSOLIDATED
STATEMENTS
OF CASH FLOWS
SIX MONTHS
ENDED JUNE 30,
2018 AND 2017
(UNAUDITED)**

	6/30/2018	6/30/2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$1,012,761	\$3,021,814
Items not requiring (providing) cash:		
Deferred income taxes	(145,762	) (786,131)
Depreciation	660,972	465,587
Provision for loan losses	725,000	1,050,000
Gain on sale of mortgage loans held for sale and investment securities	(989,280	) (994,422)
Gain on sale of foreclosed assets	(141,477	) (60,132)
Gain on sale of Small Business Administration Loans	(396,241	) (255,345)
Amortization of deferred income, premiums and discounts	337,877	398,523
Amortization of intangible assets	220,000	-
Accretion of purchase accounting adjustments	(454,792) -
Stock award plan expense	284,470	194,724
Origination of loans held for sale	(34,084,892	) (30,824,846)
Proceeds from sale of loans held for sale	35,155,111	32,037,565
Increase in cash surrender value of bank owned life insurance	(226,011	) (232,729)
Changes in:		
Accrued interest receivable	(546,328	) (113,583)
Prepaid expenses and other assets	5,300,310	(302,583)
Accounts payable and accrued expenses	(1,530,909	) 456,151
Income taxes receivable	(323,051	) 619,280
Net cash provided by operating activities	4,857,758	4,673,873
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds on sale of loans	5,273,649	19,683,510
Net change in loans	(4,240,878	) (90,700,542)
Principal payments on available-for-sale securities	1,139,659	3,655,127
Principal payments on held-to-maturity securities	2,347	6,573
Purchase of premises and equipment	(2,294,704	) (1,311,938)
Net cash received for acquisition	2,455,964	-
Purchase of available-for-sale securities	(9,788,468	) (5,568,959)
Proceeds from sale of available-for-sale securities	6,497,699	10,717,148
Redemption (purchase) of Federal Home Loan Bank stock	(193,700) 33,500

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Purchase of tax credit investments	(452,171)	(223,750)
Proceeds from sale of foreclosed assets held for sale	142,193	1,644,191
Net cash used in investing activities	(1,458,410)	(62,065,140)
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash dividends paid on common stock	(1,063,744)	(883,131)
Net increase in demand deposits, NOW accounts and savings accounts	1,507,491	38,682,025
Net increase (decrease) in certificates of deposit	(5,276,741)	22,968,861
Proceeds from Federal Home Loan Bank advances	336,550,000	149,500,000
Repayments of Federal Home Loan Bank and Federal Reserve advances	(342,450,000)	(151,400,000)
Proceeds from issuance of notes payable	5,000,000	-
Repayment of notes payable	(3,000,000)	-
Net decrease of securities sold under agreements to repurchase	(2,159,000)	-
Advances from borrowers for taxes and insurance	380,533	182,418
Stock options exercised	62,430	-
Net cash provided by (used in) financing activities	(10,449,031)	59,050,173
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(7,049,683)	1,658,906
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	37,406,930	9,088,441
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 30,357,247	\$ 10,747,347

See Notes to Condensed Consolidated Financial Statements

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1: Basis of Presentation

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Rule 8-03 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring accruals) considered necessary for a fair presentation have been included.

These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in Guaranty Federal Bancshares, Inc.'s (the "Company") Annual Report on Form 10-K for the year ended December 31, 2017 ("2017 Annual Report") filed with the Securities and Exchange Commission (the "SEC"). The results of operations for the periods are not necessarily indicative of the results to be expected for the full year. The condensed consolidated balance sheet of the Company as of December 31, 2017, has been derived from the audited consolidated balance sheet of the Company as of that date. Certain information and note disclosures normally included in the Company's annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted.

Note 2: Principles of Consolidation

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

Note 3: Acquisition

On April 2, 2018, the Company completed the acquisition of Carthage, Missouri-based Hometown Bancshares, Inc. (“Hometown”), including its wholly owned bank subsidiary, Hometown Bank, National Association. Under the terms of the Agreement and Plan of Merger, each share of Hometown common stock was exchanged for \$20.00 in cash and the transaction was valued at approximately \$4.6 million. Hometown’s subsidiary bank, Hometown Bank, National Association, was merged into Guaranty Bank on June 8, 2018.

Including the effects of the acquisition method accounting adjustments, the Company acquired approximately \$178.8 million in assets, including approximately \$143.9 million in loans (inclusive of loan discounts) and approximately \$161.2 million in deposits. Goodwill of \$2.6 million was recorded as a result of the transaction. The merger strengthened the Company’s position in Southwest Missouri and the Company will be able to achieve cost savings by integrating the two companies and combining accounting, data processing, and other administrative functions all of which gave rise to the goodwill recorded. The goodwill will not be deductible for tax purposes.

A summary, at fair value, of the assets acquired and liabilities assumed in the Hometown transaction, as of acquisition date, is as follows:

**Guaranty
Federal
Bancshares,
Inc.
Net Assets
Acquired
from
Hometown
April 2,
2018**
(In
Thousands)

	Acquired from Hometown	Fair Value Adjustments	Fair Value
Assets Acquired			
Cash and Due From Banks	\$7,083	\$ -	\$7,083
Investment Securities	7,521	-	7,521
Loans	150,390	(6,471)	143,919
Allowance for Loan Losses	(2,348)	2,348	-
Net Loans	148,042	(4,123)	143,919
Fixed Assets	9,268	798	10,066
Foreclosed Assets held for sale	1,647	(400)	1,247
Core Deposit Intangible	-	3,520	3,520
Other Assets	4,146	1,283	5,429
Total Assets Acquired	\$177,707	\$ 1,078	\$178,785
Liabilities Assumed			
Deposits	161,001	247	161,248
Federal Home Loan Bank advances	2,000	-	2,000
Securities Sold Under Agreements to Repurchase	2,159	-	2,159
Other borrowings	3,000	-	3,000
Subordinated debentures	6,186	176	6,362
Other Liabilities	2,003	-	2,003
Total Liabilities Assumed	176,349	\$ 423	176,772
Stockholders' Equity			
Common Stock	231	(231)	-

Capital Surplus	18,936	(18,936)	-
Retained Earnings	(17,587)	17,587	-
Accumulated Other Comprehensive Loss	(222)	222	-
Treasury Stock	-	-	-
Total Stockholders' Equity Assumed	1,358	\$ (1,358)	-
Total Liabilities and Stockholders' Equity Assumed	\$ 177,707	\$ (935)	\$ 176,772
Net Assets Acquired			\$ 2,013
Purchase Price			4,628
Goodwill			\$ 2,615

The following is a description of the methods used to determine the fair values of significant assets and liabilities presented in the acquisitions above.

Cash and due from banks – The carrying amount of these assets is a reasonable estimate of fair value based on the short-term nature of these assets.

Investment securities – Investment securities were acquired with an adjustment to fair value based upon quoted market prices if material. Otherwise, the carrying amount of these assets was deemed to be a reasonable estimate of fair value.

Loans acquired – Fair values for loans were based on a discounted cash flow methodology that considered factors including the type of loan and related collateral, classification status, fixed or variable interest rate, term of loan and whether or not the loan was amortizing, and current discount rates. The discount rates used for loans are based on current market rates for new originations of comparable loans and include adjustments for liquidity concerns. The discount rate does not include a factor for credit losses as that has been included in the estimated cash flows. Loans were grouped together according to similar characteristics and were treated in the aggregate when applying various valuation techniques.

Fixed assets – Fixed assets were acquired with an adjustment to fair value, which represents the difference between the Company's current analysis of property and equipment values completed in connection with the acquisition and book value acquired.

Foreclosed assets held for sale – These assets are presented at the estimated present values that management expects to receive when the properties are sold, net of related costs of disposal.

Core deposit intangible – This intangible asset represents the value of the relationships that Hometown had with its deposit customers. The fair value of this intangible asset was estimated based on a discounted cash flow methodology that gave appropriate consideration to expected customer attrition rates, cost of the deposit base and the net maintenance cost attributable to customer deposits.

Other assets – The fair value adjustment results from recording additional deferred tax assets related to the transaction. Otherwise, the carrying amount of these assets was deemed to be a reasonable estimate of fair value.

Deposits – The fair values used for the demand and savings deposits that comprise the transaction accounts acquired, by definition equal the amount payable on demand at the acquisition date. The Company performed a fair value analysis of the estimated weighted average interest rate of the certificates of deposits compared to the current market rates and recorded a fair value adjustment for the difference when material.

Federal Home Loan Bank advances and Other borrowings – The fair value of Federal Home Loan Bank advances and other borrowings are estimated based on borrowing rates currently available to the Company for borrowings with similar terms and maturities.

Securities sold under agreement to repurchase – The carrying amount of securities sold under agreement to repurchase is a reasonable estimate of fair value based on the short-term nature of these liabilities.

Subordinated debentures – The fair value of subordinated debentures is estimated based on borrowing rates currently available to the Company for borrowings with similar terms and maturities.

Other liabilities – The carrying amount of these other liabilities was deemed to be reasonable estimate of fair value.

Pro Forma Financial Information

The results of operations of Hometown have been included in the Company's consolidated financial statements since the acquisition date. The following schedule includes pro forma results (unaudited) for the three and six months ended June 30, 2018 and 2017, as if the Hometown acquisition occurred as of the beginning of the reporting periods presented.

	Three months ended June 30, 2018 2017	
	<i>(In Thousands, Except Per Share Data)</i>	
Summary of Operations		
Net interest income	\$7,972	\$7,597
Provision for loan losses	500	437
Net interest income after provision for loan losses	7,472	7,160
Non interest income	1,954	1,753
Non interest expense	10,223	6,898
Income (loss) before income taxes	(797)	2,015
Provision (credit) for income taxes	(454)	680
Net income (loss)	\$(343)	\$1,335
Basic income (loss) per common share	\$(0.08)	\$0.31
Diluted income (loss) per common share	\$(0.08)	\$0.30

	Six months ended June 30, 2018 2017	
	<i>(In Thousands, Except Per Share Data)</i>	
Summary of Operations		
Net interest income	\$15,716	\$15,195
Provision for loan losses	725	875
Net interest income after provision for loan losses	14,991	14,320
Non interest income	3,574	3,505
Non interest expense	17,725	13,795
Income before income taxes	840	4,030
Provision (credit) for income taxes	(131)	1,360
Net income	\$971	\$2,670
Basic income per common share	\$0.22	\$0.61
Diluted income per common share	\$0.22	\$0.60

The pro forma information is presented for information purposes only and not indicative of the results of operations that actually would have been achieved had the acquisition been consummated as of that time, nor is it intended to be a projection of future results. The pro forma information includes net losses from Hometown of approximately (\$1,300,000) and (\$163,000) for the three and six months ended June 30, 2018 and 2017, respectively.

Note 4: Securities

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Approximate Fair Value
As of June 30, 2018				
Debt Securities:				
Agencies	\$5,537,396	\$ 10,914	\$(176)	\$5,548,134
Municipals	32,746,933	6,975	(883,396)	31,870,512
Corporates	3,000,000	22,500	(166)	3,022,334
Government sponsored mortgage-backed securities and SBA loan pools	50,429,427	18,016	(1,571,430)	48,876,013
	\$91,713,756	\$ 58,405	\$(2,455,168)	\$89,316,993
As of December 31, 2017				
Debt Securities:				
Municipals	\$33,908,207	\$ 253,872	\$(263,621)	\$33,898,458
Corporates	3,000,000	65,000	-	3,065,000
Government sponsored mortgage-backed securities and SBA loan pools	45,414,845	9,283	(908,913)	44,515,215
	\$82,323,052	\$ 328,155	\$(1,172,534)	\$81,478,673

Maturities of available-for-sale debt securities as of June 30, 2018:

	Amortized Cost	Approximate Fair Value
Less than 1 year	1,754,116	1,755,289
1-5 years	4,216,085	4,226,191

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6-10 years	11,951,057	11,712,349
After 10 years	23,363,071	22,747,151
Government sponsored mortgage-backed securities and SBA loan pools not due on a single maturity date	50,429,427	48,876,013
	\$91,713,756	\$89,316,993

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The amortized cost and approximate fair values of securities classified as held to maturity are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Approximate Fair Value
As of June 30, 2018				
Debt Securities:				
Government sponsored mortgage-backed securities	\$ 14,111	\$ 264	\$ (90)	\$ 14,285

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Approximate Fair Value
As of December 31, 2017				
Debt Securities:				
Government sponsored mortgage-backed securities	\$ 16,457	\$ 327	\$ (55)	\$ 16,729

Maturities of held-to-maturity securities as of June 30, 2018:

	Amortized Cost	Approximate Fair Value
Government sponsored mortgage-backed securities not due on a single maturity date	\$ 14,111	\$ 14,285

The book value of securities pledged as collateral, to secure public deposits and for other purposes, amounted to \$37,201,699 and \$35,774,863 as of June 30, 2018 and December 31, 2017, respectively. The approximate fair value of pledged securities amounted to \$36,104,346 and \$35,355,969 as of June 30, 2018 and December 31, 2017, respectively.

Realized gains and losses are recorded as net securities gains. Gains on sales of securities are determined on the specific identification method. Gross gains (losses) of (\$7,205) and \$62,274 as of June 30, 2018 and June 30, 2017, respectively, were realized from the sale of available-for-sale securities. The tax effect of these net gains (losses) was (\$1,837) and \$23,041 as of June 30, 2018 and June 30, 2017, respectively.

The Company evaluates all securities quarterly to determine if any unrealized losses are deemed to be other than temporary. Certain investment securities are valued at less than their historical cost. These declines are primarily the result of the rate for these investments yielding less than current market rates, or declines in stock prices of equity securities. Based on evaluation of available evidence, management believes the declines in fair value for these securities are temporary. It is management's intent to hold the debt securities to maturity or until recovery of the unrealized loss. Should the impairment of any of these debt securities become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period the other-than-temporary impairment is identified, to the extent the loss is related to credit issues, and to other comprehensive income to the extent the decline on debt securities is related to other factors and the Company does not intend to sell the security prior to recovery of the unrealized loss.

Certain other investments in debt and equity securities are reported in the financial statements at an amount less than their historical cost. Total fair value of these investments at June 30, 2018 and December 31, 2017, was \$72,896,278 and \$62,107,660, respectively, which is approximately 82% and 76% of the Company's investment portfolio.

The following table shows gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at June 30, 2018 and December 31, 2017.

Description of Securities	June 30, 2018					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U. S. government agencies	\$1,015,035	\$(176)	\$-	\$-	\$1,015,035	\$(176)
Corporates	999,834	(166)	-	-	999,834	(166)
Municipals	21,278,029	(515,479)	8,539,798	(367,917)	29,817,827	(883,396)
Government sponsored mortgage-backed securities and SBA loan pools	21,537,912	(625,003)	19,525,670	(946,517)	41,063,582	(1,571,520)
	\$44,830,810	\$(1,140,824)	\$28,065,468	\$(1,314,434)	\$72,896,278	\$(2,455,258)

Description of Securities	December 31, 2017					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Municipals	\$11,024,593	\$(103,747)	\$8,802,796	\$(159,874)	\$19,827,389	\$(263,621)
Government sponsored mortgage-backed securities and SBA loan pools	20,088,694	(253,907)	22,191,577	(655,006)	42,280,271	(908,913)
	\$31,113,287	\$(357,654)	\$30,994,373	\$(814,880)	\$62,107,660	\$(1,172,534)

Note 5: Loans and Allowance for Loan Losses

Categories of loans at June 30, 2018 and December 31, 2017 include:

	June 30, 2018	December 31, 2017
Real estate - residential mortgage:		
One to four family units	\$ 135,439,026	\$ 106,300,790
Multi-family	83,204,490	85,225,074
Real estate - construction	105,974,945	64,743,582
Real estate - commercial	300,325,513	261,866,285
Commercial loans	120,292,323	94,522,840
Consumer and other loans	35,579,723	24,716,447
Total loans	780,816,020	637,375,018
Less:		
Allowance for loan losses	(7,572,510)	(7,107,418)
Deferred loan fees/costs, net	(726,420)	(662,591)
Net loans	\$ 772,517,090	\$ 629,605,009

Classes of loans by aging at June 30, 2018 and December 31, 2017 were as follows:

As of June 30, 2018

	30-59 Days Past Due	60-89 Days Past Due	90 Days and more Past Due	Total Past Due	Current	Total Loans Receivable	Total Loans > 90 Days and Accruing
<i>(In Thousands)</i>							
Real estate - residential mortgage:							
One to four family units	\$ 191	\$ 184	\$ 2,180	\$ 2,555	\$ 132,884	\$ 135,439	\$ -