KENTUCKY BANCSHARES INC /KY/
Form 10-Q
May 09, 2018
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period March 31, 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: 000-52598

KENTUCKY BANCSHARES, INC.

(Exact name of registrant as specified in its charter)

Kentucky	61-0993464
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

P.O. Box 157, Paris, Kentucky	40362-0157
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (859) 987-1795

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 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 (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes 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
Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company
	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

Number of shares of Common Stock outstanding as of April 30, 2018: 2,978,440.

KENTUCKY BANCSHARES, INC.

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Item 1 – Financial Statements

KENTUCKY BANCSHARES, INC.

CONSOLIDATED BALANCE SHEETS (unaudited)

(Dollar amounts in thousands except per share data)

	3/31/2018	12/31/2017
ASSETS		
Cash and due from banks	$ 23,519	$ 38,851
Federal funds sold	3,266	321
Cash and cash equivalents	26,785	39,172
Interest bearing time deposits	1,785	1,830
Securities available for sale	305,998	318,177
Loans held for sale	1,221	1,231
Loans	649,845	648,535
Allowance for loan losses	(7,905)	(7,720)
Net loans	641,940	640,815
Federal Home Loan Bank stock	7,034	7,034
Real estate owned, net	2,276	2,404
Bank premises and equipment, net	17,293	16,539
Interest receivable	3,809	3,951
Mortgage servicing rights	1,568	1,511
Goodwill	14,001	14,001
Other intangible assets	333	369
Bank owned life insurance	10,007	—
Other assets	7,086	6,159
Total assets	$ 1,041,136	$ 1,053,193
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits		
Non-interest bearing	$ 230,692	$ 230,241
Time deposits, $250,000 and over	62,674	79,578
Other interest bearing	523,376	505,454
Total deposits	816,742	815,273
Repurchase agreements	12,233	19,900
Short-term Federal Home Loan Bank advances	8,200	8,400
Long-term Federal Home Loan Bank advances	88,512	90,332
Note payable	3,084	3,321
Subordinated debentures	7,217	7,217
Interest payable	641	838
Other liabilities	5,241	7,583
Total liabilities	941,870	952,864
Stockholders' equity		
Preferred stock, 300,000 shares authorized and unissued	—	—
	21,040	20,931

Common stock, no par value; 10,000,000 shares authorized; 2,978,440 and 2,971,522 shares issued and outstanding at March 31, 2018 and December 31, 2017		
Retained earnings	82,620	80,395
Accumulated other comprehensive (loss)	(4,394)	(997)
Total stockholders' equity	99,266	100,329
Total liabilities and stockholders' equity	$ 1,041,136	$ 1,053,193

See Accompanying Notes

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KENTUCKY BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF INCOME (unaudited)

(Dollar amounts in thousands except per share data)

	Three Months Ended	
	3/31/2018	3/31/2017
INTEREST INCOME:		
Loans, including fees	$ 8,012	$ 7,494
Securities		
Taxable	1,502	1,062
Tax exempt	513	608
Trading assets	—	34
Other	193	178
Total interest income	10,220	9,376
INTEREST EXPENSE:		
Deposits	847	645
Repurchase agreements and federal funds purchased	23	26
Federal Home Loan Bank advances	435	397
Note payable	36	50
Subordinated debentures	85	80
Total interest expense	1,426	1,198
Net interest income	8,794	8,178
Provision for loan losses	—	350
Net interest income after provision	8,794	7,828
NON-INTEREST INCOME:		
Service charges	1,288	1,223
Loan service fee income, net	52	114
Trust department income	315	288
Gain on sale of available for sale securities, net	(44)	—
Gain (loss) on trading assets	—	17
Gain on sale of loans	374	550
Brokerage income	209	193
Debit card interchange income	763	731
Gain on bank premises	—	1,194
Other	94	40
Total other income	3,051	4,350
NON-INTEREST EXPENSE:		
Salaries and employee benefits	4,493	4,445
Occupancy expenses	980	965
Repossession expenses, net	15	79
FDIC Insurance	79	94
Legal and professional fees	229	283
Data processing	469	406
Debit card expenses	434	375
Amortization expense of intangible assets, excluding mortgage servicing right	36	43
Advertising and marketing	219	212

Taxes other than payroll, property and income	312	300
Telephone	79	122
Postage	85	93
Loan fees	40	63
Other	820	706
Total other expenses	8,290	8,186
Income before income taxes	3,555	3,992
Provision for income taxes	407	855
Net income	$ 3,148	$ 3,137
Earnings per share		
Basic	$ 1.06	$ 1.06
Diluted	1.06	1.06
Dividends per share	0.31	0.29

See Accompanying Notes

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KENTUCKY BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)

(Dollar amounts in thousands)

	Three Months Ended	
	3/31/2018	3/31/2017
Net income	$ 3,148	$ 3,137
Other comprehensive income (loss)		
Unrealized gains (losses) on securities arising during the period	(4,344)	1,115
Reclassification of realized amount	44	—
Net change in unrealized gain (loss) on securities	(4,300)	1,115
Less: Tax impact	903	(379)
Other comprehensive income (loss)	(3,397)	736
Comprehensive income (loss)	$ (249)	$ 3,873

See Accompanying Notes

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KENTUCKY BANCSHARES, INC.

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (unaudited)

(Dollar amounts in thousands except per share data)

(Dollars in thousands)	Common Stock Shares	Common Stock Amount	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
Balances, December 31, 2017	2,971,522	$ 20,931	$ 80,395	$ (997)	$ 100,329
Common stock issued (employee stock grants of 5,337 shares, net of 383 shares forfeited, director stock awards of 981 shares and director stock options exercised of 600 shares)	6,918	64	—	—	64
Stock compensation expense	—	45	—	—	45
Other comprehensive loss	—	—	—	(3,397)	(3,397)
Net income	—	—	3,148	—	3,148
Dividends declared - $0.31 per share	—	—	(923)	—	(923)
Balances, March 31, 2018	2,978,440	$ 21,040	$ 82,620	$ (4,394)	$ 99,266

(1) Common Stock has no par value; amount includes Additional Paid-in Capital

See Accompanying Notes

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KENTUCKY BANCSHARES, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS (unaudited)

(Dollar amounts in thousands)

	Three Months Ended	
	3/31/2018	3/31/2017
Cash Flows From Operating Activities		
Net Income	$ 3,148	$ 3,137
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	299	301
Amortization (accretion), net	(133)	(147)
Securities amortization (accretion), net	232	231
Stock based compensation expense	45	40
Provision for loan losses	—	350
Securities losses (gains) available for sale gains, net	44	—
Net change in trading assets	—	(52)
Net change in cash surrender value of bank owned life insurance	(7)	—
Originations of loans held for sale	(11,343)	(12,296)
Proceeds from sale of loans	11,727	12,381
Losses (gains) on sale of bank premises and equipment	—	(1,194)
Losses (gains) on other real estate	1	(46)
Gain on sale of loans	(374)	(550)
Changes in:		
Interest receivable	142	66
Other assets	21	312
Interest payable	(197)	(25)
Deferred taxes	(45)	320
Other liabilities	(2,342)	(1,813)
Net cash from operating activities	1,218	1,015
Cash Flows From Investing Activities		
Net change in interest bearing time deposits	45	370
Purchases of securities available for sale	(9,599)	(37,701)
Purchase of bank owned life insurance	(10,000)	—
Proceeds from sales of securities available for sale	3,922	—
Proceeds from principal payments, maturities and calls securities available for sale	13,280	10,399
Net change in loans	(1,013)	(1,593)
Purchases of bank premises and equipment	(1,053)	(454)
Proceeds from the sale of bank premises and equipment	—	2,093
Capitalized expenditures for other real estate	(74)	—
Proceeds from the sale of other real estate	201	623
Net cash used in investing activities	(4,291)	(26,263)
Cash Flows From Financing Activities:		
Net change in deposits	1,469	21,364
Net change in repurchase agreements	(7,667)	938
Net change in short-term Federal Home Loan Bank advances	(200)	—
Repayment of long-term Federal Home Loan Bank advances	(1,820)	(1,888)

Repayment of note payable	(237)	(107)
Proceeds from issuance of common stock	64	64
Purchase of common stock	—	(263)
Dividends paid	(923)	(862)
Net cash (used in) from financing activities	(9,314)	19,246
Net change in cash and cash equivalents	(12,387)	(6,002)
Cash and cash equivalents at beginning of period	39,172	43,250
Cash and cash equivalents at end of period	$ 26,785	$ 37,248
Supplemental disclosures of cash flow information Cash paid during the year for:		
Interest expense	$ 1,623	$ 1,223
Supplemental disclosures of non-cash investing activities		
Real estate acquired through foreclosure	—	126

See Accompanying Notes

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Notes to Consolidated Financial Statements

(Dollar amounts in thousands except per share data)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial information presented as of any date other than December 31 has been prepared from the Company's books and records without audit. The accompanying consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Certain financial information that is normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America, but is not required for interim reporting purposes, has been condensed or omitted. There have been no significant changes to the Company's accounting and reporting policies as disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2017. In the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of such financial statements, have been included. The results of operations for the interim periods are not necessarily indicative of the results to be expected for the full year. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

Basis of Presentation: The consolidated financial statements include the accounts of Kentucky Bancshares, Inc. ("Kentucky Bancshares", the "Company", "we", "our" or "us"), its wholly-owned subsidiaries, Kentucky Bank (the "Bank") ar KBI Insurance Company, Inc., and the Bank's wholly-owned subsidiary, KB Special Assets Unit, LLC. Intercompany transactions and balances have been eliminated in consolidation.

Nature of Operations: As a state bank, the Bank is subject to regulation by the Kentucky Department of Financial Institutions and the Federal Deposit Insurance Corporation ("FDIC"). The Company, a bank holding company, is regulated by the Federal Reserve.

KBI Insurance Company, Inc. is a subsidiary of Kentucky Bancshares, Inc. and is located in Las Vegas, Nevada. It is a captive insurance subsidiary which provides various liability and property damage insurance policies for Kentucky Bancshares, Inc. and its related subsidiaries. KBI Insurance Company, Inc. is regulated by the State of Nevada Division of Insurance.

Estimates in the Financial Statements: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and such differences could be material to the financial statements.

Bank Owned Life Insurance: The Company has purchased life insurance policies on certain key executives. Bank owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

Loss Contingencies: Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated.

Reclassifications: Some items in the prior year financial statements were reclassified to conform to the current presentation. Reclassifications had no effect on prior period net income or stockholders' equity.

Adoption of New Accounting Standards

ASU 2016-13, "Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." Issued in June 2016, ASU 2016-13 will add Financial Accounting Standards Board "FASB" ASC Topic 326, "Financial Instruments-Credit Losses" and finalizes amendments to FASB ASC Subtopic 825-15, "Financial Instruments-Credit Losses." The amendments of ASU 2016-13 are intended to provide financial statement users with more decision-useful information related to expected credit losses on financial instruments and other commitments to extend credit by replacing the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to determine credit loss estimates.

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The amendments of ASU 2016-13 eliminate the probable initial recognition threshold and, in turn, reflect an entity's current estimate of all expected credit losses. ASU 2016-13 does not specify the method for measuring expected credit losses, and an entity is allowed to apply methods that reasonably reflect its expectations of the credit loss estimate. Additionally, the amendments of ASU 2016-13 require that credit losses on available for sale debt securities be presented as an allowance rather than as a writedown.

The amendments of ASU 2016-13 are effective for interim and annual periods beginning after December 15, 2019. Earlier application is permitted for interim and annual periods beginning after December 15, 2018. Kentucky Bancshares plans to adopt the amendments of ASU 2016-13 during the first quarter of 2020. Kentucky Bancshares has established a steering committee which includes the appropriate members of management to evaluate the impact this ASU will have on the Company's financial position, results of operations and financial statement disclosures and determine the most appropriate method of implementing the amendments in this ASU as well as any resources needed to implement the amendments.

ASU 2016-02, "Leases (Topic 842)." Issued in February 2016, ASU 2016-02 was issued by the FASB to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and by disclosing key information about leasing arrangements. ASU 2016-02 will, among other things, require lessees to recognize a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. ASU 2016-02 does not significantly change lease accounting requirements applicable to lessors; however, the ASU contains some targeted improvements that are intended to align, where necessary, lessor accounting with the lessee accounting model and with the updated revenue recognition guidance issued in 2014. The amendments of ASU 2016-02 are effective for interim and annual periods beginning after December 15, 2018. Kentucky Bancshares plans to adopt the amendments of ASU 2016-02 beginning in the first quarter of 2019. At adoption, Kentucky Bancshares will recognize a lease asset and a corresponding lease liability on its consolidated balance sheet for its total lease obligation measured on a discounted basis. As of March 31, 2018, all leases in which Kentucky Bancshares was the lessee were classified as operating leases. Kentucky Bancshares does not anticipate any material impact to its consolidated statements of income, balance sheet or regulatory capital as a result of the adoption of this ASU as the Company has an immaterial amount of leases in which it is the lessee.

ASU 2016-01, "Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities (An Amendment of the FASB Accounting Standards Codification)." Issued in January 2016, ASU 2016-01 is intended to enhance the reporting model for financial instruments to provide users of financial statements with improved decision-making information. The amendments of ASU 2016-01 include: (i) requiring equity investments, except those accounted for under the equity method of accounting or those that result in the consolidation of an investee, to be measured at fair value with changes in fair value recognized in net income; (ii) requiring a qualitative assessment to identify impairment of equity investments without readily determinable fair values; (iii) eliminating the requirement to disclose the method and significant assumptions used to estimate the fair value for financial instruments measured at amortized cost on the balance sheet; (iv) requiring the use of the exit price notion when measuring the fair value of financial instruments for disclosure purposes; (v) requiring an entity that has elected the fair value option to measure the fair value of a liability to present separately in other comprehensive income the portion of the change in the fair value resulting from a change in the instrument-specific credit risk; (vi) requiring separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements and (vii) clarifying 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. The amendments of ASU 2016-01 are effective for interim and annual periods beginning after December 15, 2017. Kentucky Bancshares adopted the amendments of ASU 2016-01 during the first quarter of 2018. The adoption of this amendment did not have a material impact on the Company's consolidated financial statements.

ASU 2018-02, "Income Statement-Reporting Comprehensive Income (Topic 220) – Reclassification of Certain Tax Effects from Accumulated Other Comprehenisve Income." On December 22, 2017, the U.S. federal government enacted a tax bill, H.R.1, An Act to Provide for Reconciliation Pursuant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018 ("Tax Cuts and Jobs Act"). Stakeholders in the banking and insurance industries submitted unsolicited comment letters to the FASB about a narrow-scope financial reporting issue that arose as a consequence of the Tax Cuts and Jobs Act.

Notes to Consolidated Financial Statements

(Dollar amounts in thousands except per share data)

Specifically, stakeholders expressed concern about the guidance in current generally accepted accounting principles (GAAP) that requires deferred tax liabilities and assets to be adjusted for the effect of a change in tax laws or rates with the effect included in income from continuing operations in the reporting period that includes the enactment date. That guidance is applicable even in situations in which the related income tax effects of items in accumulated other comprehensive income were originally recognized in other comprehensive income (rather than in income from continuing operations).

Those stakeholders asserted that because the adjustment of deferred taxes due to the reduction of the historical corporate income tax rate to the newly enacted corporate income tax rate is required to be included in income from continuing operations, the tax effects of items within accumulated other comprehensive income (referred to as stranded tax effects for purposes of ASU 2018-02) do not reflect the appropriate tax rate.

The amendments in ASU 2018-02 allowed 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. However, because the amendments only relate to the reclassification of the income tax effects of the Tax Cuts and Jobs Act, the underlying guidance that requires that the effect of a change in tax laws or rates be included in income from continuing operations is not affected. The amendments in ASU 2018-02 also require certain disclosures about stranded tax effects.

The amendments in ASU 2018-02 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 ASU 2018-02 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 Company chose to early adopt the amendments in ASU 2018-02 as of December 31, 2017.

ASU 2014-09, “Revenue from Contracts with Customers (Topic 606).” Issued in May 2014, ASU 2014-09 will add FASB ASC Topic 606, “Revenue from Contracts with Customers,” and will supersede revenue recognition requirements in FASB ASC Topic 605, “Revenue Recognition,” as well as certain cost guidance in FASB ASC Topic 605-35, “Revenue Recognition – Construction-Type and Production-Type Contracts.” ASU 2014-09 provides a framework for revenue recognition that replaces the existing industry and transaction specific requirements under the existing standards. ASU 2014-09 requires an entity to apply a five-step model to determine when to recognize revenue and at what amount. The model specifies that revenue should be recognized when (or as) an entity transfers control of goods or services to a customer at the amount in which the entity expects to be entitled. Depending on whether certain criteria are met, revenue should be recognized either over time, in a manner that depicts the entity’s performance, or at a point in time, when control of the goods or services are transferred to the customer. ASU 2014-09 provides that an entity should apply the following steps: (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when (or as) the entity satisfies a performance obligation. In addition, the existing requirements for the recognition of a gain or loss on the transfer of non-financial assets that are not in a contract with a customer are amended to be consistent with the guidance on recognition and measurement in ASU 2014-09.

The amendments of ASU 2014-09 may be applied either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying ASU 2014-09 recognized at the date of initial application. If the transition method of application is elected, the entity should also provide the additional disclosures in reporting periods that include the date of initial application of (1) the amount by which each financial statement line item is affected in the current reporting period, as compared to the guidance that was in effect before the change, and (2) an explanation of the reasons for significant changes. ASU 2015-14, "Revenue from Contracts with Customers (Topic 606)-Deferral of the Effective Date," issued in August 2015, defers the effective date of ASU 2014-09 by one year. ASU 2015-14 provides that the amendments of ASU 2014-09 become effective for interim and annual periods beginning after December 15, 2017. All subsequently issued ASUs which provide additional guidance and clarifications to various aspects of FASB ASC Topic 606 will become effective when the amendments of ASU 2014-09 become effective. Kentucky Bancshares adopted these amendments during the first quarter of 2018 and there was no material impact to the Company's financial statements.

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(Dollar amounts in thousands except per share data)

In March 2016, the FASB issued ASU No. 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net). The amendments relate to when another party, along with the entity, is involved in providing a good or service to a customer. Topic 606 requires an entity to determine whether the nature of its promise is to provide that good or service to the customer (that is, the entity is a principal) or to arrange for the good or service to be provided to the customer by the other party (that is, the entity is an agent). This determination is based upon whether the entity controls the good or the service before it is transferred to the customer. Topic 606 includes indicators to assist in this evaluation. The amendments in this update affect the guidance in ASU No. 2014-09 above. The effective date is the same as the effective date of ASU No. 2014-09.

In April 2016, the FASB issued ASU No. 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing. The amendments clarify the following two aspects of Topic 606: identifying performance obligations, and the licensing implementation guidance. Before an entity can identify its performance obligations in a contract with a customer, the entity first identifies the promised goods or services in the contract. The amendments in this update are expected to reduce the cost and complexity of applying the guidance on identifying promised goods or services. To identify performance obligations in a contract, an entity evaluates whether promised goods and services are distinct. Topic 606 includes two criteria for assessing whether promises to transfer goods or services are distinct. One of those criteria is that the promises are separately identifiable. This update will improve the guidance on assessing that criterion. Topic 606 also includes implementation guidance on determining whether as entity’s promise to grant a license provides a customer with either a right to use the entity’s intellectual property, which is satisfied at a point in time, or a right to access the entity’s intellectual property, which is satisfied over time. The amendments in this update are intended to improve the operability and understandability of the licensing implementation guidance. The amendments in this update affect the guidance in ASU No. 2014-09 above. The effective date is the same as the effective date of ASU No. 2014-09.

In May 2016, the FASB issued ASU No. 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients. The amendments do not change the core revenue recognition principle in Topic 606. The amendments provide clarifying guidance in certain narrow areas and add some practical expedients.

In December 2016, the FASB issued ASU No. 2016-20, Revenue from Contracts with Customers (Topic 606): Technical Corrections and Improvements. The FASB board decided to issue a separate update for technical corrections and improvements to Topic 606 and other Topics amended by ASU No. 2014-09 to increase awareness of the proposals and to expedite improvements to ASU No. 2014-09. The amendment affects narrow aspects of the guidance issued in ASU No. 2014-09.

On January 1, 2018, we adopted ASU 2014-09, Revenue from Contracts with Customers and all subsequent amendments to the ASU (collectively, "Topic 606"). We elected to implement using the modified retrospective application, with the cumulative effect recorded as an adjustment to opening retained earnings at January 1, 2018. Due to immateriality, we had no cumulative effect to record. Since interest income on loans and securities are both excluded from this topic, a significant majority of our revenues are not subject to the new guidance. Our services that fall within the scope of Topic 606 are presented within noninterest income and are recognized as revenue as we satisfy our obligation to the customer. Services within the scope of Topic 606 include trust department income, service charges, debit card interchange income, and brokerage income.

Trust department income: We earn wealth management fees based upon asset custody, investment management, trust, and estate services provided to customers. Most of these customers receive monthly billings for services rendered based upon the market value of assets and/or income generated. Fees that are transaction based are recognized at the point in time that the transaction is executed.

Service charges: We earn fees from our deposit customers for transaction-based, account maintenance, and overdraft services. Transaction-based fees and overdraft fees are recognized at a point in time, since the customer generally has a right to cancel the depository arrangement at any time. The arrangement is considered a day-to-day contract with ongoing renewals and optional purchases, so the duration of the contract does not extend beyond the services already performed. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which we satisfy our performance obligation.

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(Dollar amounts in thousands except per share data)

Debit card interchange income: As with the transaction-based fees on deposit accounts, debit card interchange income is recognized at the point in time that we fulfill the customer's request. We earn interchange fees from cardholder transactions processed through card association networks. Interchange rates are generally set by the card associations based upon purchase volumes and other factors. Interchange fees represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder.

Brokerage income: Brokerage income fees are the commissions and fees received from a registered broker/dealer and investment adviser that provide those services to our customers. We act as an agent in arranging the relationship between the customer and the third-party service provider. These fees are recognized monthly from the third-party broker based upon services already performed.

2.SECURITIES

SECURITIES AVAILABLE FOR SALE

Period-end securities are as follows:

(in thousands)

	Amortized Cost	Gross Unrealized	Gross Unrealized	Fair