Board of Governors of the Federal Reserve System

Annual Report of Holding Companies—FR Y-6

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Report at the close of business as of the end of fiscal year

This Report is required by law: Section 5(c)(1)(A) of the Bank Holding Company Act (12 U.S.C. § 1844 (c)(1)(A)); Section 8(a) of the International Banking Act (12 U.S.C. § 3106(a)); Sections 11(a)(1), 25 and 25A of the Federal Reserve Act (12 U.S.C. §§ 248(a)(1), 602, and 611a); Section 211.13(c) of Regulation K (12 C.F.R. § 211.13(c)); and Section 225.5(b) of Regulation Y (12 C.F.R. § 225.5(b)) and section 10(c)(2)(H) of the Home Owners' Loan Act. Return to the appropriate Federal Reserve Bank the original and the number of copies specified.

This report form is to be filed by all top-tier bank holding companies and top-tier savings and loan holding companies organized under U.S. law, and by any foreign banking organization that does not meet the requirements of and is not treated as a qualifying foreign banking organization under Section 211.23 of Regulation K (12 C.F.R. § 211.23). (See page one of the general instructions for more detail of who must file.) The Federal Reserve may not conduct or sponsor, and an organization (or a person) is not required to respond to, an information collection unless it displays a currently valid OMB control number.

NOTE: The *Annual Report of Holding Companies* must be signed by one director of the top-tier holding company. This individual should also be a senior official of the top-tier holding company. In the event that the top-tier holding company does not have an individual who is a senior official and is also a director, the chairman of the board must sign the report.

I, Bill Stovall
Name of the Holding Company Director and Official

CEO / Director
Title of the Holding Company Director and Official

attest that the *Annual Report of Holding Companies* (including the supporting attachments) for this report date has been prepared in conformance with the instructions issued by the Federal Reserve System and are true and correct to the best of my knowledge and belief.

With respect to information regarding individuals contained in this report, the Reporter certifies that it has the authority to provide this information to the Federal Reserve. The Reporter also certifies that it has the authority, on behalf of each individual, to consent or object to public release of information regarding that individual. The Federal Reserve may assume, in the absence of a request for confidential treatment submitted in accordance with the Board's "Rules Regarding Availability of Information," 12 C.F.R. Part 261, that the Reporter and individual consent to public release of all details in the report concerning that individual.

Signature of Holding Company Director and Official

Date of Signature

For holding companies not registered with the SEC–
Indicate status of Annual Report to Shareholders:

- [x] is included with the FR Y-6 report
- [ ] will be sent under separate cover
- [ ] is not prepared

For Federal Reserve Bank Use Only

RSSD ID 2868950
C.I.

Date of Report (top-tier holding company's fiscal year-end):
December 31, 2015
Month / Day / Year

N/A
Reporter's Legal Entity Identifier (LEI) (20-Character LEI Code)

Reporter's Name, Street, and Mailing Address

Midland Bancshares Inc.
Legal Title of Holding Company

P.O. Box 3903
(Mailing Address of the Holding Company) Street / P.O. Box

Midland	TX	79702
City	State	Zip Code

401 W. Texas Midland, TX 79701
Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Sandra Villareal	Controller
Name	Title

432-262-1701
Area Code / Phone Number / Extension

432-262-1543
Area Code / FAX Number

svillarreal@cnbtx.com
E-mail Address

www.cnbtx.net
Address (URL) for the Holding Company's web page

Does the reporter request confidential treatment for any portion of this submission?

- [ ] Yes Please identify the report items to which this request applies:
  - [ ] In accordance with the instructions on pages GEN-2 and 3, a letter justifying the request is being provided.
  - [ ] The information for which confidential treatment is sought is being submitted separately labeled "Confidential."
- [x] No

For Use By Tiered Holding Companies

Top-tiered holding companies must list the names, mailing address, and physical locations of each of their subsidiary holding companies below.

Legal Title of Subsidiary Holding Company	Legal Title of Subsidiary Holding Company
(Mailing Address of the Subsidiary Holding Company) Street / P.O. Box	(Mailing Address of the Subsidiary Holding Company) Street / P.O. Box
City State Zip Code	City State Zip Code
Physical Location (if different from mailing address)	Physical Location (if different from mailing address)
Legal Title of Subsidiary Holding Company	Legal Title of Subsidiary Holding Company
(Mailing Address of the Subsidiary Holding Company) Street / P.O. Box	(Mailing Address of the Subsidiary Holding Company) Street / P.O. Box
City State Zip Code	City State Zip Code
Physical Location (if different from mailing address)	Physical Location (if different from mailing address)
Legal Title of Subsidiary Holding Company	Legal Title of Subsidiary Holding Company
(Mailing Address of the Subsidiary Holding Company) Street / P.O. Box	(Mailing Address of the Subsidiary Holding Company) Street / P.O. Box
City State Zip Code	City State Zip Code
Physical Location (if different from mailing address)	Physical Location (if different from mailing address)
Legal Title of Subsidiary Holding Company	Legal Title of Subsidiary Holding Company
(Mailing Address of the Subsidiary Holding Company) Street / P.O. Box	(Mailing Address of the Subsidiary Holding Company) Street / P.O. Box
City State Zip Code	City State Zip Code
Physical Location (if different from mailing address)	Physical Location (if different from mailing address)

MIDLAND BANCSHARES, INC.

MIDLAND, TEXAS 79702

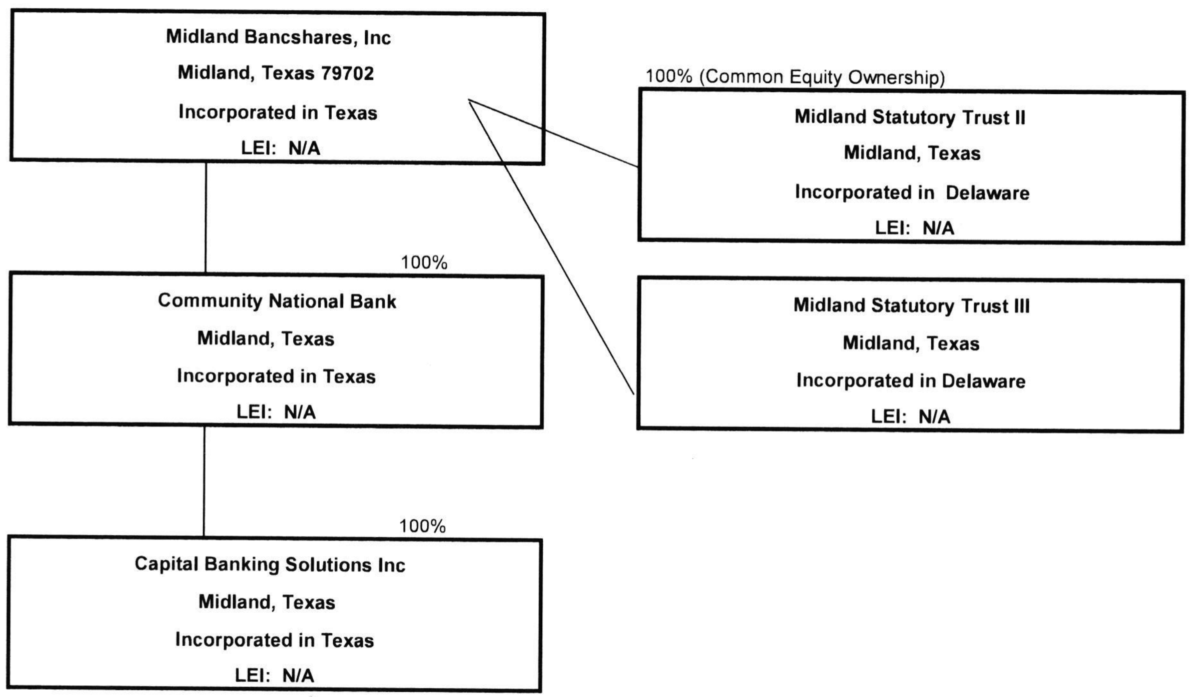
FISCAL YEAR ENDING DECEMBER 31, 2015

FORM FRY-6

Report Item:

 # 1. Midland Bancshares, Inc. does prepare an annual report for its shareholders. Two copies of the annual report are enclosed. Midland Bancshares, inc. is not registered with the SEC.

 # 2a. Organizational Chart:



#2b. Domestic branch listing provided to the Federal Reserve Bank

Results: A list of branches for your depository institution: COMMUNITY NATIONAL BANK (ID_RSSD: 293053).
This depository institution is held by MIDLAND BANCSHARES, INC. (2868950) of MIDLAND, TX.
The data are as of 12/31/2015. Data reflects information that was received and processed through 01/07/2016.

Reconciliation and Verification Steps

1. In the **Data Action** column of each branch row, enter one or more of the actions specified below.
2. If required, enter the date in the **Effective Date** column.

Actions

OK: If the branch information is correct, enter 'OK' in the **Data Action** column.
Change: If the branch information is incorrect or incomplete, revise the data, enter 'Change' in the **Data Action** column and the date when this information first became valid in the **Effective Date** column.
Close: If a branch listed was sold or closed, enter 'Close' in the **Data Action** column and the sale or closure date in the **Effective Date** column.
Delete: If a branch listed was never owned by this depository institution, enter 'Delete' in the **Data Action** column.
Add: If a reportable branch is missing, insert a row, add the branch data, and enter 'Add' in the **Data Action** column and the opening or acquisition date in the **Effective Date** column.

If printing this list, you may need to adjust your page setup in MS Excel. Try using landscape orientation, page scaling, and/or legal sized paper.

Submission Procedure

When you are finished, send a saved copy to your FRB contact. See the detailed instructions on this site for more information.
If you are e-mailing this to your FRB contact, put your institution name, city and state in the subject line of the e-mail.

Note:
To satisfy the **FR Y-10 reporting requirements**, you must also submit FR Y-10 Domestic Branch Schedules for each branch with a **Data Action** of Change, Close, Delete, or Add.
The FR Y-10 report may be submitted in a hardcopy format or via the FR Y-10 Online application - https://y10online.federalreserve.gov.

* FDIC UNINUM, Office Number, and ID_RSSD columns are for reference only. Verification of these values is not required.

Data Action	Effective Date	Branch Service Type	Branch ID_RSSD*	Popular Name	Street Address	City	State	Zip Code	County	Country	FDIC UNINUM*	Office Number*	Head Office	Head Office ID_RSSD*	Comments
OK		Full Service (Head Office)	293053	COMMUNITY NATIONAL BANK	401 WEST TEXAS AVENUE	MIDLAND	TX	79701	MIDLAND	UNITED STATES	17260	0	COMMUNITY NATIONAL BANK	293053	
OK		Full Service	2012052	A. STREET BRANCH	719 WEST LOUISIANA AVENUE	MIDLAND	TX	79701	MIDLAND	UNITED STATES	256819	6	COMMUNITY NATIONAL BANK	293053	
OK		Full Service	2260442	CUTHBERT BRANCH	3005 WEST CUTHBERT AVENUE	MIDLAND	TX	79701	MIDLAND	UNITED STATES	256821	7	COMMUNITY NATIONAL BANK	293053	
OK		Full Service	506557	EAST FLORIDA BRANCH	601 EAST FLORIDA AVENUE	MIDLAND	TX	79701	MIDLAND	UNITED STATES	16702	5	COMMUNITY NATIONAL BANK	293053	
OK		Full Service	3010345	MIDLAND DRIVE BRANCH	1609 NORTH MIDLAND DRIVE	MIDLAND	TX	79703	MIDLAND	UNITED STATES	257712	2	COMMUNITY NATIONAL BANK	293053	
OK		Full Service	3651122	PLAZA OAKS BRANCH	2101 WEST WADLEY AVENUE, SUITE 21	MIDLAND	TX	79705	MIDLAND	UNITED STATES	464049	12	COMMUNITY NATIONAL BANK	293053	
OK		Full Service	1902763	SAN MIGUEL SQUARE BRANCH	3303 NORTH MIDKIFF ROAD, SUITE 101	MIDLAND	TX	79705	MIDLAND	UNITED STATES	257711	1	COMMUNITY NATIONAL BANK	293053	
OK		Full Service	3538362	TREMONT BRANCH	5329 LOOP 250 NORTH	MIDLAND	TX	79707	MIDLAND	UNITED STATES	360959	4	COMMUNITY NATIONAL BANK	293053	
OK		Full Service	3884836	EAST ODESSA BRANCH	2659 JOHN BEN SHEPPERD PARKWAY	ODESSA	TX	79761	ECTOR	UNITED STATES	492758	13	COMMUNITY NATIONAL BANK	293053	
OK		Full Service	3388941	ODESSA BRANCH	619 NORTH GRANT AVENUE, SUITE 100	ODESSA	TX	79761	ECTOR	UNITED STATES	445515	11	COMMUNITY NATIONAL BANK	293053	
OK		Full Service	268163	STANTON BRANCH	1211 LAMESA HIGHWAY	STANTON	TX	79782	MARTIN	UNITED STATES	32123	8	COMMUNITY NATIONAL BANK	293053	

MIDLAND BANCSHARES, INC
DIRECTORS AND EXECUTIVE OFFICERS
FISCAL YEAR ENDING 12/31/2015

Report Item:

#3. Securities holders

Current securities holders with ownership, control or holdings of 5% or more with power to vote as of fiscal year ending 12/31/2015

Name and Address (1)(a)	Country of Citizenship (1)(b)	Number of Voting Shares (1)(c)	Percentage of Voting Shares in Holding Company (1) (c)
Jeb B. Hughes Midland, TX 79707	USA	83,210	9.6374%
Yates Entities Artesia, NM 88210	USA	74,346	8.6108%
James A. Hightower Midland, TX 79705	USA	43,827	5.0761%

#3-2. Securities holders not listed on 3-1. N/A

MIDLAND BANCSHARES, INC
DIRECTORS AND EXECUTIVE OFFICERS
FISCAL YEAR ENDING 12/31/2015

Report Item 4: Insiders

Name and Address (1)	Principal **Occupation** if other than with the Bank Holding Company (2)	Title and Position with the Bank Holding Company (3)	Title and Position with Subsidiaries (3)(b)	Title and Position with Other Businesses (3)(c)	Percentage of Voting Shares in Holding Company (4)(a)	Percentage of Voting Shares in Subsidiaries (4)(b)	List Names of other companies (4)(c)
Stan C. Conley	Investor	Director	N/A	Owner - Craig Investment	2.0529%	None	Craig Investment Co. - 100%
Midland, TX 79707				Owner - The Check Sore			The Check Store - 100%
				Owner/Manager - Amerimed			Amerimed RX, LP - 100%
				Owner - PB Mortgage			Permian Basin Mortgage Group, LLC - 46%
Stephen T. Goree	Agri Business Company Owner	Director	N/A	President - STC	3.9494%	None	STC Prpoerties Inc - 90%
Midland, TX 79705				Limited Partner - GGB			GGB Leasing LP - 100%
				President - Anchor B&S			Anchor Bolt & Supply Inc - 90%
				President - Goree Cattle			Goree Cattle Co., LLC - 50%
				President - Goree O&G			Goree Oil &Gas LLC - 100%
				President - STG Dev			STG Development - 100%
				President - Sierra Gulf			Sierra Gulf Equip., LLC - 100%
				President - Legado			Legado Investments LLC - 40%
				President - Goree L&C			Goree Land & Cattle LLC - 100%
				President - Goree Family			Goree Family LP - 99.50%
				President - Goree Mgmt			Goree Management LLC - 49%
				President - Agri			Agri Properties - 100%
				President - Hargor			Hargor LLC - 50%
				President - STG Dev II			STG Development II - 95%
James A. Hightower	Real Estate Developer	Director	N/A	General/LP - Loraine at Tx Office Tower	5.0761%	None	Loraine at Texas Office Tower LTD - 90%
Midland, TX 79705				Owner/Mgr - MMJC			MMJC Properties LC - 90%
				Owner/Mgr - Hightower Prop			Hightower Properties - 75%
Jeb B. Hughes	Banker	Chairman	N/A	N/A	9.6374%	None	N/A
Midland, TX 79707		of The Board					
John E. Malone	N/A	Director	N/A	N/A	0.9266%	None	N/A

AMENDED
AUG 10 2016

AMENDED AUG 10 2016

MIDLAND BANCSHARES, INC							
Midland, TX 79707							
Patrick M. Moore	Investor	Director	N/A	Owner - 4/Moore Inc	3.0673%	None	4/Moore Inc. - 100%
Midland, TX 79707				Owner - MJL			MJL Inc - 100%
				Owner - MJLR			MJLR LLC - 100%
				Owner - GPAT			GPAT LLC - 100%
Kenneth A. Peeler	N/A	Director	N/A	N/A	1.0353%	None	N/A
Midland, TX 79705							
John D. Perini	Oil & Gas Co. Executive	Director	N/A	CFO/Director - Yates Petroleum	0.0232%	None	N/A
Artesia, NM 88210							
Melvin G. Riggs, Jr.	Oil & Gas Co. Executive	Director	N/A	COO/Director - Clayton Williams	1.5175%	None	Clayton Williams Energy, Inc - 25.20%
Midland, TX 79707							
Dr. Tulsi Dyal Singh	Retired Physician	Director	N/A	Shareholder - Abacus/Valcom	1.2740%	None	Abacus Computers, Inc. dba Valcom Computers - 31%
Midland, TX 79705				Chairman, Board of Directors - Amadura			Amadura Corporation - 50%
Bill D. Stovall	Banker	Director and CEO	N/A	N/A	4.7837%	None	N/A
Midland, TX 79707							
Word B. Wilson	Investor	Director	N/A	VP/Director - Wilson Bros	2.8756%	None	Wilson Bros. Leasing Co., Inc - 26.60
Midland, TX 79701				President - WB Wilson Inv			Word B Wilson Investments - 100%
				Corp President - WB Wilson LLC			Word B Wilson LLC - 100%
				LTD Partner - Wil-Gor			Wil-Gor Energy LTD - 50%
				President - GW			GW Energy Inc - 50%
				President - Wall St Partners			Wall Street Partners LP - 100%
				Manager - Flyguys			Flyguys Aviation LLC - 33%
				President - Wilson Family Caritable Foundation			Wilson Family Charitable Foundation - 100%
				President - Terra Firma			Terra Firma Energy LTD - 80%
				Manager - Basin SWD			Basin SWD LLC - 100%
					36.2189%		
*****All Shareholders of Midland Bancshares, Inc. are U.S.A. Citizens.							

MIDLAND BANCSHARES, INC							
Patrick M. Moore	Owner	Director	N/A	Owner	3.0673%	None	4/Moore Inc. - 100%
Midland, TX 79707	Private Investments			Owner			MJL Inc - 100%
				Owner			MJLR LLC - 100%
				Owner			GPAT LLC - 100%
Kenneth A. Peeler	Retired	Director	N/A	President	1.0353%	None	N/A
Midland, TX 79705	Equipment Leasing						
John D. Perini	CFO,	Director	N/A	CFO/Director	0.0232%	None	N/A
Artesia, NM 88210	Yates Petroleum, Inc.						
Melvin G. Riggs, Jr.	CFO,	Director	N/A	COO/Director	1.5175%	None	Clayton Williams Energy, Inc - 25.20%
Midland, TX 79707	Clayton Williams Energy, Inc						
Dr. Tulsi Dyal Singh	Retired Physician	Director	N/A	Shareholder	1.2740%	None	Abacus Computers, Inc. dba Valcom Computers - 31%
Midland, TX 79705				Chairman, Board of Directors			Amadura Corporation - 50%
Bill D. Stovall	N/A	Director and CEO	N/A	N/A	4.7837%	None	N/A
Midland, TX 79707							
Word B. Wilson	President	Director	N/A	VP/Director	2.8756%	None	Wilson Bros. Leasing Co., Inc - 26.60
Midland, TX 79701	Word B.Wilson Investments			President			Word B Wilson Investments - 100%
				Corp President			Word B Wilson LLC - 100%
				LTD Partner			Wil-Gor Energy LTD - 50%
				President			GW Energy Inc - 50%
				President			Wall Street Pertners LP - 100%
				Manager			Flyguys Aviation LLC - 33%
				President			Wilson Family Charitable Foundation - 100%
				President			Terra Firma Energy LTD - 80%
				Manager			Basin SWD LLC - 100%
					36.2189%		
*****All Shareholders of Midland Bancshares, Inc. are U.S.A. Citizens.							

MIDLAND BANCSHARES, INC.
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION

together with

REPORT OF INDEPENDENT AUDITORS

FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

MIDLAND BANCSHARES, INC. AND SUBSIDIARIES

CONTENTS

Davis Kinard & Co, PC
CERTIFIED PUBLIC ACCOUNTANTS
Quality. Integrity. Knowledge.

First Financial Bank Building
400 Pine Street, Ste. 600, Abilene, TX 79601
325.672.4000 / 800.588.2525 / f: 325.672.7049
www.dkcpa.com

Report of Independent Auditors

To the Board of Directors and Shareholders of
Midland Bancshares, Inc. and Subsidiaries

We have audited the accompanying consolidated financial statements of Midland Bancshares, Inc. and Subsidiaries (the Company) which comprises the consolidated statements of financial condition as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for the years then ended and the related notes to the financial statements. We also have audited management's assertion, included in the accompanying Management Report Regarding Statement of Management's Responsibilities, Compliance with Designated Laws and Regulations, and Management's Assessment of Internal Control over Financial Reporting, that Community National Bank and Subsidiary (the Bank) maintained effective internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with Federal Financial Institutions Examination Council Instructions for Consolidated Reports of Condition and Income (call report instructions) as of December 31, 2015 based on the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control – Integrated Framework* (2013 Framework).

Management's Responsibility for the Financial Statements and Internal Control over Financial Reporting

The Company's management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, for maintaining internal control over financial reporting including the design, implementation and maintenance of controls relevant to the preparation and fair presentation of these financial statements that are free from material misstatement, whether due to error or fraud, and for its assertion of the effectiveness of internal control over financial reporting, included in the accompanying Management Report Regarding Statement of Management's Responsibilities, Compliance with Designated Laws and Regulations, and Management's Assessment of Internal Control over Financial Reporting.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements and an opinion on management's assertion regarding the effectiveness of the Bank's internal control over financial reporting based on our audits. We conducted our audits of the consolidated financial statements in accordance with auditing standards generally accepted in the United States of America and our audit of internal control over financial reporting in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects.

An audit of the consolidated financial statements involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit of internal control over financial reporting involves obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk.

Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our audit opinions.

Definition and Inherent Limitations of Internal Control

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America. Because management's assessment and our examination were conducted to meet the reporting requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA), our audit of Community National Bank's internal control over financial reporting included controls over the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and controls over the preparation of schedules equivalent to basic financial statements in accordance with the Federal Financial Institutions Examination Council Instructions for Consolidated Reports of Condition and Income (call report instructions). An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Opinions

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Midland Bancshares, Inc. and Subsidiaries as of December 31, 2015 and 2014, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, management's assertion that Community National Bank and Subsidiary maintained effective internal control over financial reporting as of December 31, 2015 is fairly stated, in all material respects, based on the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control – Integrated Framework* (2013 Framework).

Davis Kinard & Co, PC
Certified Public Accountants

Abilene, Texas
March 7, 2016

Management Report Regarding Statement of Management's Responsibilities, Compliance with Designated Laws and Regulations, and Management's Assessment of Internal Control over Financial Reporting
Community National Bank and Subsidiary

Statement of Management's Responsibilities

The management of Community National Bank and Subsidiary (the Bank) is responsible for preparing the Bank's annual consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; for establishing and maintaining an adequate internal control structure and procedures for financial reporting, including controls over the preparation of regulatory financial statements in accordance with Federal Financial Institutions Examination Council Instructions for Consolidated Reports of Condition and Income (call report instructions); and for complying with the federal laws and regulations pertaining to insider loans and the federal and, if applicable, state laws and regulations pertaining to dividend restrictions.

Management's Assessment of Compliance With Designated Laws and Regulations

The management of the Bank has assessed the Bank's compliance with the federal laws and regulations pertaining to insider loans and the federal and, if applicable, state laws and regulations pertaining to dividend restrictions during the fiscal year that ended on December 31, 2015. Based upon its assessment, management has concluded that the Bank complied with the federal laws and regulations pertaining to insider loans and the federal and, if applicable, state laws and regulations pertaining to dividend restrictions during the fiscal year that ended on December 31, 2015.

Management's Assessment of Internal Control Over Financial Reporting

The Bank's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America and financial statements for regulatory reporting purposes, i.e., the Federal Financial Institutions Examination Council Instructions for Consolidated Reports of Condition and Income (call report instructions). The Bank's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Bank; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and financial statements for regulatory reporting purposes, and that receipts and expenditures of the Bank are being made only in accordance with authorizations of management and directors of the Bank; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the Bank's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Management assessed the effectiveness of the Bank's internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for the Federal Financial Institutions Examination Council Instructions for Consolidated Reports of Condition and Income (call report instructions), as of December 31, 2015, based on the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control—Integrated Framework* (2013 Framework). Based upon its assessment, management has concluded that, as of December 31, 2015, the Bank's internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for the Federal Financial Institutions Examination Council Instructions for Consolidated Reports of Condition and Income (call report instructions), is effective based on the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control—Integrated Framework* (2013 Framework).

Management's assessment of the effectiveness of internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with Federal Financial Institutions Examination Council Instructions for Consolidated Reports of Condition and Income (call report instructions), as of December 31, 2015 has been audited by Davis Kinard & Co, PC, an independent public accounting firm, as stated in their report dated March 7, 2016.

Jeb B. Hughes
Chairman of the Board
(Midland Bancshares Inc. and Community National Bank)

William D. Stovall
Chief Executive Officer (Midland Bancshares Inc.) and
Chief Executive Officer (Community National Bank)

John Ory
Senior Vice President and Chief Operating Officer
(Midland Bancshares Inc. and Community National Bank)

MIDLAND BANCSHARES, INC. AND SUBSIDIARIES
Consolidated Statements of Financial Condition
December 31, 2015 and 2014

Assets	2015	2014
Cash and due from banks	$ 24,225,099	$ 24,296,163
Cash and cash equivalents	24,225,099	24,296,163
Interest bearing deposits in banks	56,388,529	143,263,968
Securities available for sale	233,105,640	294,796,838
Investment in Midland Statutory Trust II	85,000	85,000
Investment in Midland Statutory Trust III	202,000	202,000
Loans held for sale	668,415	1,833,427
Loans receivable, net of allowance for loan losses of $10,831,499 in 2015 and $8,155,988 in 2014	711,275,087	650,024,010
Accrued interest receivable	3,816,246	3,896,397
Premises and equipment	8,491,134	8,602,374
Goodwill	15,251,182	15,251,182
Cash surrender value of life insurance	23,606,107	12,534,748
Restricted investments held at cost	1,773,644	1,743,929
Other assets	1,753,821	1,119,906
	$ 1,080,641,904	$ 1,157,649,942
Liabilities and Shareholders' Equity		
Noninterest bearing	$ 492,104,310	$ 563,092,383
Interest bearing	468,014,972	495,557,873
Total deposits	960,119,282	1,058,650,256
Accrued expenses and other liabilities	2,175,263	1,677,888
Line of credit	-	4,248,000
Subordinated debentures	9,512,000	9,512,000
Total liabilities	971,806,545	1,074,088,144
Shareholders' equity		
Common stock, $1 par value; 2,000,000 shares authorized; 875,247 and 869,623 shares issued in 2015 and 2014, respectively; 863,406 and 855,749 shares outstanding in 2015 and 2014, respectively	875,247	869,623
Preferred stock, $10 par value; 2,000 shares authorized; 1,826 shares issued and outstanding in 2015	18,260	-
Capital surplus	43,049,575	24,329,180
Retained earnings	65,031,612	58,704,852
Treasury stock, at cost	(433,529)	(505,903)
Net unrealized appreciation on available for sale securities, net of taxes of $158,412 and $88,332 in 2015 and 2014, respectively	294,194	164,046
Total shareholders' equity	108,835,359	83,561,798
	$ 1,080,641,904	$ 1,157,649,942

The accompanying notes are an integral part
of these consolidated financial statements.

MIDLAND BANCSHARES, INC. AND SUBSIDIARIES
Consolidated Statements of Income
Years Ended December 31, 2015 and 2014

	2015	2014
Interest income		
Loans, including fees	$ 34,228,737	$ 36,381,484
Debt securities		
Taxable	1,786,580	1,867,499
Tax exempt	724,528	732,827
Deposits with banks	564,064	533,431
Total interest income	37,303,909	39,515,241
Interest expense		
Deposits	942,552	850,971
Line of credit	171,219	263,412
Subordinated debentures	191,977	186,802
Total interest expense	1,305,748	1,301,185
Net interest income	35,998,161	38,214,056
Provision for loan losses	5,086,199	1,825,000
Net interest income after provision for loan losses	30,911,962	36,389,056
Noninterest income		
Service charges on deposit accounts	1,036,061	1,036,919
Real estate mortgage fees	1,174,693	1,087,209
Debit card income	941,127	989,018
Other income	1,119,666	508,467
Total noninterest income	4,271,547	3,621,613
Noninterest expenses		
Salaries and employee benefits	14,155,611	13,107,638
Occupancy and equipment expense	3,113,121	3,147,601
IT and data processing	1,232,649	1,713,355
FDIC assessments	609,424	565,060
Director compensation	553,500	567,500
Other expense	3,593,535	3,370,297
Total noninterest expenses	23,257,840	22,471,451
Income before income taxes	11,925,669	17,539,218
Income tax expense	3,880,910	6,038,946
Net income	$ 8,044,759	$ 11,500,272

The accompanying notes are an integral part of these consolidated financial statements.

MIDLAND BANCSHARES, INC. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income
Years Ended December 31, 2015 and 2014

		2015		2014
Net income	$	8,044,759	$	11,500,272
Other items of comprehensive income				
Change in unrealized appreciation on investment securities available for sale, before tax		200,228		(52,036)
Total other items of comprehensive income		200,228		(52,036)
Comprehensive income before tax		8,244,987		11,448,236
Income tax (expense) benefit related to other items of comprehensive income		(70,080)		15,169
Comprehensive income	$	8,174,907	$	11,463,405

The accompanying notes are an integral part of these consolidated financial statements.

MIDLAND BANCSHARES, INC. AND SUBSIDIARIES
Consolidated Statements of Shareholders' Equity
Years Ended December 31, 2015 and 2014

	Common Stock	Preferred Stock
Balance at January 1, 2014	$ 866,311	$ -
Sale of treasury stock	-	-
Stock options exercised	3,312	-
Net income for 2014	-	-
Dividends paid	-	-
Stock-based compensation	-	-
Net changes in unrealized appreciation on available for sale securities, net of taxes of ($15,169)	-	-
Balance at December 31, 2014	869,623	-
Sale of treasury stock	-	-
Sale of preferred stock	-	18,260
Stock options exercised	5,624	-
Net income for 2015	-	-
Dividends paid	-	-
Stock-based compensation	-	-
Net changes in unrealized appreciation on available for sale securities, net of taxes of $70,080	-	-
Balance at December 31, 2015	$ 875,247	$ 18,260

The accompanying notes are an integral part
of these consolidated financial statements.

	Capital Surplus		Retained Earnings		Treasury Stock, at Cost		Net Unrealized Appreciation on Available for Sale Securities, Net of Taxes		Total Shareholders' Equity
$	23,834,833	$	48,909,528	$	(562,258)	$	200,913	$	73,249,327
	156,084		-		56,355		-		212,439
	124,763		-		-		-		128,075
	-		11,500,272		-		-		11,500,272
	-		(1,704,948)		-		-		(1,704,948)
	213,500		-		-		-		213,500
	-		-		-		(36,867)		(36,867)
	24,329,180		58,704,852		(505,903)		164,046		83,561,798
	174,838		-		72,374		-		247,212
	18,241,740		-		-		-		18,260,000
	248,305		-		-		-		253,929
	-		8,044,759		-		-		8,044,759
	-		(1,717,999)		-		-		(1,717,999)
	55,512		-		-		-		55,512
	-		-		-		130,148		130,148
$	43,049,575	$	65,031,612	$	(433,529)	$	294,194	$	108,835,359

MIDLAND BANCSHARES, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
Years Ended December 31, 2015 and 2014

	2015	2014
Cash flows from operating activities		
Net income	$ 8,044,759	$ 11,500,272
Adjustments to reconcile net income to		
net cash provided by operating activities		
Provision for loan losses	5,086,199	1,825,000
Net amortization of securities	3,144,466	3,496,622
Depreciation	1,067,265	903,899
Appreciation in cash surrender value of life insurance	(406,910)	(34,748)
Deferred income tax	(488,409)	(295,607)
Stock based compensation	55,512	213,500
Net change in		
Loans held for sale	1,165,012	187,156
Accrued interest receivable	80,151	(329,671)
Other assets	(633,915)	(17,238)
Accrued expenses and other liabilities	915,704	144,754
Net cash provided by operating activities	18,029,834	17,593,939
Cash flows from investing activities		
Net change in interest bearing deposits in banks	86,875,439	(1,159,523)
Activity in available for sale securities		
Maturities, prepayments and calls	210,789,917	223,689,931
Purchases	(152,042,957)	(247,387,207)
Purchase of life insurance policies	(10,664,449)	(12,500,000)
Net change in restricted investments held at cost	(29,715)	(110,297)
Loan originations and principal collections, net	(66,337,276)	(66,068,706)
Additions to premises and equipment	(956,025)	(1,556,562)
Net cash provided by (used in) investing activities	67,634,934	(105,092,364)
Cash flows from financing activities		
Net change in deposits	(98,530,974)	74,726,150
Net change in short term borrowing	(4,248,000)	(3,352,000)
Proceeds from sale of preferred stock	18,260,000	-
Proceeds from sale of treasury stock	247,212	212,439
Proceeds from exercise of stock options	253,929	128,075
Dividends paid	(1,717,999)	(1,704,948)
Net cash (used in) provided by financing activities	(85,735,832)	70,009,716
Net change in cash and cash equivalents	(71,064)	(17,488,709)
Cash and cash equivalents at beginning of year	24,296,163	41,784,872
Cash and cash equivalents at end of year	$ 24,225,099	$ 24,296,163

The accompanying notes are an integral part
of these consolidated financial statements.

NOTE 1: Summary of Significant Accounting Policies

Nature of Operations

Midland Bancshares, Inc. (the Company) and its subsidiary, Community National Bank (the Bank), provide loans and banking services to consumers and commercial customers in Midland, Texas and the surrounding area. Capital Banking Solutions, Inc. (CBS) was formed on September 18, 2014 as a subsidiary of the Bank to provide consulting services to other banks. The accounting and reporting policies of the Company conform with U.S. generally accepted accounting principles and to general practices of the banking industry. Policies and practices which materially affect the determination of financial position, results of operations and cash flows are summarized as follows:

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

Use of Estimates

In preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses and fair value of financial instruments.

Significant Group Concentrations of Credit Risk

Most of the Company's activities are with customers located within Midland and the surrounding areas. Note 2 discusses the types of securities in which the Company invests. Note 3 discusses the types of lending in which the Company engages. The Company does not have any significant concentrations to any one industry or customer.

The Company carries certain assets with other financial institutions which are subject to credit risk by the amount such assets exceed federal deposit insurance limits. At December 31, 2015 and 2014, the deposits, as reported by the banks, were $43,491,818 and $77,767,322, respectively. Management monitors the financial stability of correspondent banks and considers amounts advanced in excess of FDIC insurance limits to present no significant additional risk to the Company.

Cash and Cash Equivalents

For the purpose of the consolidated statements of cash flows, cash and cash equivalents include cash and balances due from banks and federal funds sold and securities purchased under agreements to resell, all of which mature within ninety days.

NOTE 1: Summary of Significant Accounting Policies – continued

Cash and Cash Equivalents – continued

The Company is required to maintain average balances on hand or with the Federal Reserve Bank. The Company properly maintained amounts in excess of $-0- and $52,050,000 as of December 31, 2015 and 2014, respectively.

Interest Bearing Deposits in Banks

Interest bearing deposits in banks mature within one year and are carried at cost.

Securities

Certain debt securities that management has the positive intent and ability to hold to maturity are classified as "held to maturity" and recorded at amortized cost. Securities not classified as held to maturity, including equity securities with readily determinable fair values, are classified as "available for sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the fair value of held to maturity and available for sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses.

In determining whether other-than-temporary impairment exists, management considers many factors, including (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Investments in equity securities are carried at the lower of cost or estimated fair value. Any changes to the cost basis of these investments are recorded in the income statement. These investments are reviewed annually to determine if an impairment charge is necessary. As of December 31, 2015 and 2014, no impairment charges were recorded.

Loans Held for Sale

Loans originated and intended for sale in the secondary market are carried at the lower of cost or market. Gains and losses on loan sales (sales proceeds minus carrying value) are recorded in noninterest income, and direct loan origination costs and fees are deferred at origination of the loan and are recognized in noninterest income upon sale of loan.

NOTE 1: Summary of Significant Accounting Policies – continued

Loans

The Company grants mortgage, commercial and consumer loans to customers. A substantial portion of the loan portfolio is represented by commercial loans throughout the Midland County area. The ability of the Company's debtors to honor their contracts is dependent upon the general economic conditions in this area.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off which are measured at historical cost are generally reported at their outstanding unpaid principal balances net of any unearned income, charge-offs, and unamortized deferred fees and costs on originated loans. Loan origination fees and certain direct origination costs are deferred and recognized as adjustments to interest income over the lives of the related loans. Unearned income is amortized to interest income using a level yield methodology.

The Company makes disclosures of loans and other financing receivables and the related allowance in accordance with ASC Topic 310, *Receivables*. The accounting guidance defines a portfolio segment as the level at which an entity develops and documents a systematic methodology to determine the allowance for credit losses, and a class of financing receivables as the level of disaggregation of portfolio segments based on the initial measurement attribute, risk characteristics and methods for assessing risk. The Company's portfolio segments are Real estate, Construction, Energy, Consumer and Commercial. The classes of financing receivables within the real estate segment are 1-4 Residential and Commercial real estate. The remaining portfolio segments contain a single class of financing receivables. Under this accounting guidance, the allowance is presented by portfolio segment.

Allowance for Loan Losses

The allowance for credit losses, which includes the allowance for loan losses and the reserve for unfunded lending commitments, represents management's estimate of probable losses inherent in the Company's lending activities. The allowance for loan losses does not include amounts related to accrued interest receivable as accrued interest receivable is reversed when a loan is placed on nonaccrual status.

The allowance for loan losses represents the estimated probable credit losses in funded consumer and commercial loans while the reserve for unfunded lending commitments, including standby letters of credit and binding unfunded loan commitments, represents estimated probable credit losses on these unfunded credit instruments based on utilization assumptions. Credit exposures deemed to be uncollectible are charged against these accounts. Cash recovered on previously charged off amounts is recorded as a recovery to these accounts.

Management evaluates the adequacy of the allowance for loan losses based on the combined total of these two components. The Company performs periodic and systematic detailed reviews of its lending portfolios to identify credit risks and assess the overall collectability of those portfolios. The allowance on certain homogenous loan portfolios is based on aggregated portfolio segment evaluations.

NOTE 1: Summary of Significant Accounting Policies – continued

Allowance for Loan Losses – continued

Loss forecast models are utilized for these portfolios which consider a variety of factors including, but not limited to, historical loss experience, estimated defaults or foreclosures based on portfolio trends, delinquencies, bankruptcies, economic conditions and credit scores.

The Company's real estate portfolio segment is comprised primarily of homogenous loans secured by residential and commercial real estate. The amount of losses incurred in the homogenous loan pools is estimated based upon how many of the loans will default and the loss in the event of default. Using modeling methodologies, the Company estimates how many of the homogenous loans will default based on the individual loans' attributes aggregated into pools of homogenous loans with similar attributes. The attributes that are most significant to the probability of default and are used to estimate default include the loan-to-value, borrower credit score, months since origination, geography, and present collection status. The estimate is based on the Company's historical experience with the loan portfolio. The estimate is adjusted to reflect an assessment of environmental factors that are not reflected in the historical data, such as changes in real estate values, local and national economies, underwriting standards and the regulatory environment.

The allowance on the remaining portfolio segments (Construction, Energy, Consumer and Commercial) are calculated using loss rates delineated by risk rating and product type. Factors considered when assessing loss rates include the value of the underlying collateral, the industry of the obligor, the obligor's liquidity and other financial and qualitative factors. These statistical models are updated regularly for changes in economic and business conditions. Included in the analysis of these loan portfolios are reserves which are maintained to cover uncertainties that affect the Company's estimate of probable losses including economic uncertainty and large single defaults.

Nonperforming loans are reviewed in accordance with applicable accounting guidance on impaired loans and troubled debt restructurings (TDRs). If necessary, a specific allowance is established for these loans if they are deemed to be impaired. A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all the circumstances surrounding the loan and the borrower, including the length of delay, the reason for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent. For such loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of the loan.

NOTE 1: Summary of Significant Accounting Policies – continued

Allowance for Loan Losses – continued

The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer and residential loans for impairment disclosures, unless such loans are subject of a restructuring agreement.

In addition to the allowance for loan losses, the Company also estimates probable losses related to unfunded lending commitments, such as letters of credit and financial guarantees, and binding unfunded loan commitments. Unfunded lending commitments are subject to individual reviews and are analyzed and segregated by risk according to the Company's internal risk rating scale. These risk classifications, in conjunction with an analysis of historical loss experience, utilization assumptions, current economic conditions, performance trends within the portfolio and any other pertinent information, result in the estimation of the reserve for unfunded lending commitments.

The allowance for credit losses related to the loan portfolio is reported as a part of loans in the consolidated statement of condition whereas the reserve for unfunded lending commitments is reported on the consolidated statement of condition in accrued expenses and other liabilities. Provision for credit losses related to the loan portfolio and unfunded lending commitments is reported separately in the consolidated statement of income.

Nonperforming Loans, Charge-Offs and Delinquencies

Nonperforming loans generally include loans that have been placed on nonaccrual status including nonaccrual loans whose contractual terms have been restructured in a manner that grants a concession to a borrower experiencing financial difficulties.

The entire balance of a loan is contractually delinquent if the minimum payment is not received by the specified due date on the customer's billing statement. Interest and fees continue to accrue on past due loans until the date the loan goes into nonaccrual status, if applicable.

The outstanding balance of real estate secured loans, including all classes of financing receivables within the real estate portfolio segment, that is in excess of the estimated property value, less estimated costs to sell, is charged off no later than the end of the month in which the account becomes 180 days past due. The estimated property value, less costs to sell, is determined utilizing appraisals or broker price opinions of the fair value of the collateral. The outstanding balance of loans within the remaining loan segments (Construction, Energy, Consumer and Commercial) are charged off no later than the end of the month in which the account becomes 120 days past due. For secured loans, accounts are written down to the collateral value.

NOTE 1: Summary of Significant Accounting Policies – continued

Nonperforming Loans, Charge-Offs and Delinquencies – continued

The fair value of the collateral is estimated by management based on current financial information, inspections, and appraisals. For unsecured loans, the outstanding balance is written off.

Loans within all portfolio segments are generally placed on nonaccrual status and classified as nonperforming at 90 days past due. Accrued interest receivable is reversed when a loan is placed on nonaccrual status. Interest collections on nonaccruing loans for which the ultimate collectability of principal is uncertain are applied as principal reductions; otherwise, such collections are credited to interest income when received. These loans may be restored to accrual status when all principal and interest is current and full repayment of the remaining contractual principal and interest is expected, or when the loan otherwise becomes well-secured and is in the process of collection.

Loans whose contractual terms have been modified in a TDR and are current at the time of the restructuring remain on accrual status if there is demonstrated performance prior to the restructuring and repayment in full under the restructured terms is expected. Otherwise, the loans are placed on nonaccrual status and reported as nonperforming until there is sustained repayment performance for a reasonable period, generally six months. TDRs that are on accrual status are reported as performing TDRs through the end of the calendar year in which the restructuring occurred or the year in which the loans are returned to accrual status, however, will continue to be reported as an impaired loan until paid in full due to the inherent risk associated with a TDR. In addition, if accruing TDRs bear less than a market rate of interest at the time of modification, they are reported as performing TDRs throughout the remaining lives of the loans.

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revisions as more information becomes available.

Troubled Debt Restructured Loans

A troubled debt restructured loan is a loan which the Company, for reasons related to a borrower's financial difficulties, grants a concession to the borrower that the Company would not otherwise consider. The loan terms which have been modified or restructured due to a borrower's financial difficulty, include but are not limited to a reduction in the stated interest rate; an extension of the maturity at an interest rate below current market; a reduction in the face amount of the debt; a reduction in the accrued interest; or re-aging, extensions, deferrals, renewals and rewrites. A troubled debt restructured loan would generally be considered impaired in the year of modification and will be considered impaired for the remainder of the loan until paid in full.

NOTE 1: Summary of Significant Accounting Polices – continued

Financial Instruments

In the ordinary course of business the Company has entered into commitments to extend credit, including standby letters of credit. Such financial instruments are recorded when they are funded.

Foreclosed Assets

Assets acquired through, or in lieu of, loan foreclosure are initially recorded at fair value less estimated cost to sell at the date of foreclosure. All write-downs based on the asset's fair value at the date of acquisition are charged to the allowance for loan loss. After foreclosure, property held for sale is carried at the lower of the new cost basis or fair value less cost to sell and depreciation is not recorded.

Impairment losses on property to be held and used are measured at the amount by which the carrying amount of a property exceeds its fair value and depreciated based on the remaining useful life. Costs of significant property improvements are capitalized, whereas cost related to holding property are expensed. Valuations are periodically performed by management, and any subsequent write-downs are recorded as a charge to operations, if necessary, to reduce the carrying value of the property to lower of its costs or fair value less costs to sell.

Banking Premises and Equipment

Land is carried at cost. Buildings and equipment are carried at cost, less accumulated depreciation and amortization computed on the straight-line method over the estimated useful lives of the assets or the expected terms of the leases, if shorter.

Income Taxes

On January 1, 2009, the Company adopted changes to FASB ASC 740 – *Accounting for Income Taxes* related to accounting for uncertainty in income taxes, which sets out a consistent framework to determine the appropriate level of tax reserves to maintain for uncertain tax positions. The Company had no unrecognized tax benefits and believes it has no uncertain tax positions at December 31, 2015 and 2014.

The Company's income tax expense consists of a current and a deferred component. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur.

Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination.

NOTE 1: Summary of Significant Accounting Polices – continued

Income Taxes – continued

The term more likely than not means a likelihood of more than 50%; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information.

The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management's judgment. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

The Company recognizes interest and penalties on income taxes as a component of income tax expense. During the year ended December 31, 2015, the Company recognized no interest and penalties. Based on management's analysis, the Company did not have any uncertain tax positions as of December 31, 2015 and 2014. The Company files income tax returns in the U.S. federal jurisdiction and the state of Texas. There are currently no income tax examinations underway for these jurisdictions. The Company's income tax returns are subject to examination by the relevant taxing authorities as follows: U.S. federal income tax returns for tax years 2012 and forward; Texas income and margin tax returns for tax years 2011 and forward.

In May of 2006, the State of Texas implemented a new tax on taxable margin, effective for years ended after December 31, 2006. For the Company, taxable margin is revenue less interest expense. The margin tax was insignificant for the year ended December 31, 2015. The deferred tax component of this tax is insignificant.

Cash Surrender Value of Life Insurance

The Company has purchased life insurance policies on certain executives. Life insurance policies are initially recorded at cost at the date of purchase. Subsequent to purchase, the policies are periodically adjusted for changes in contract value. The adjustment to contract value increases or decreases the carrying value of the policies and is recorded as an income or expense on the consolidated statement of income.

Derivatives

Derivatives are recognized as assets and liabilities on the statement of condition and measured at fair value. For exchange-traded contracts, fair value is based on quoted market prices. For nonexchange traded contracts, fair value is based on dealer quotes, pricing models, discounted cash flow methodologies, or similar techniques for which the determination of fair value may require significant management judgment or estimation.

NOTE 1: Summary of Significant Accounting Polices – continued

Derivative Loan Commitments

Mortgage loan commitments that relate to the origination of a mortgage that will be held for sale upon funding are considered derivative instruments under the derivatives and hedging accounting guidance (FASB ASC 815, *Derivatives and Hedging*). Loan commitments that are derivatives are recognized at fair value on the statement of condition in other assets and other liabilities with changes in their fair values recorded in noninterest income.

Forward Loan Commitments

The Company carefully evaluates all loan sales agreements to determine whether they meet the definition of a derivative under FASB ASC 815 as facts and circumstances may differ significantly.

If agreements qualify, to protect against the price risk inherent in derivative loan commitments, the Company uses "best efforts" forward loan sale commitments to mitigate the risk of potential decreases in the values of loans that would result from the exercise of the derivative loan commitments. Accordingly, forward loan sale commitments are recognized at fair value on the statement of condition in other assets and liabilities with changes in their fair values recorded in other noninterest income.

The Company estimates the fair value of its forward loan sales commitments using a methodology similar to that used for derivative loan commitments.

Treasury Stock

Treasury stock is accounted for on the cost method and consists of 11,841 shares in 2015 and 13,874 shares in 2014.

Advertising

Advertising costs are expensed as incurred. Advertising expenses for the years ended December 31, 2015 and 2014 amounted to $127,850 and $215,309, respectively.

Business Combinations, Goodwill and Other Intangible Assets

Authoritative accounting guidance requires that all business combinations initiated after June 30, 2001 are accounted for under the purchase method and addresses the initial recognition and measurement of goodwill and other intangible assets acquired in a business combination. The guidance addresses the initial recognition and measurement of intangible assets acquired in a business combination and the accounting for goodwill and other intangible assets subsequent to their acquisition. The guidance provides that intangible assets with finite useful lives be amortized and that goodwill and intangible assets with indefinite lives not be amortized, but rather be tested at least annually for impairment. The goodwill recorded on acquisitions amounted to $15,251,182 and is not subject to amortization. The Company conducted a goodwill impairment test for the years ended December 31, 2015 and 2014. There were no reductions of recorded goodwill resulting from the impairment test.

NOTE 1: Summary of Significant Accounting Policies – continued

Stock Based Compensation

Stock compensation authoritative guidance requires that the compensation cost relating to share-based payment transactions be recognized in financial statements. That cost will be measured based on the grant date fair value of the equity or liability instruments issued. The stock compensation accounting guidance covers a wide range of share-based compensation arrangements including stock options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans.

The stock compensation accounting guidance requires that compensation cost for all stock awards be calculated and recognized over the employees' service period, generally defined as the vesting period. The guidance permits entities to use any option-pricing model that meets the fair value objective in the guidance.

The Company elected to adopt the guidance on October 1, 2007 under the modified prospective method.

Software Development Costs

The Company capitalizes certain costs incurred to produce proprietary software used to process money transfers. Such costs, including coding, testing, and product quality assurance, are capitalized once technological feasibility has been established. Amortization is computed on a case-by-case basis over the estimated economic life of the software, which is 5 years.

Recent Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update No. 2014-9, "Revenue from Contracts with Customers (Topic 606)." This guidance is a comprehensive new revenue recognition standard that will supersede substantially all existing revenue recognition guidance. The new standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In doing so, companies will need to use more judgement and make more estimates than under existing guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. On July 9, 2015, the FASB agreed to delay the effective date of the standard by one year. Therefore, the new standard will be effective in the first quarter of 2018 and is not expected to have a significant impact to the Company's financial statements.

In 2015, FASB amended its authoritative guidance related to debt issuance costs. The amendment requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of the debt liability. However, the recognition and measurement guidance related to debt issuance costs is not affected by this amendment. The amendment is effective for annual and interim reporting periods beginning after December 15, 2015 and is to be applied on a retrospective basis. The Company does not expect this amendment to have a significant impact to the Company's financial statements.

NOTE 1: Summary of Significant Accounting Policies – continued

Recent Accounting Pronouncements - continued

In January 2016, the FASB issued ASU No. 2016-01, "Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities." The amendment has a number of provisions including the requirements that public business entities use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, a separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e. securities or loans receivables), and eliminating the requirement for public business entities to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost. The amendment is effective for annual and interim reporting periods beginning after December 15, 2017. The Company is evaluating the potential impact of the amendment on the financial statements

Preferred Stock

The Company has the authority to issue up the 2,000 shares of preferred stock. The preferred stock is available for issuance from time to time to strengthen the Bank's capital ratios, support loan growth and for general corporate purposes.

The preferred stock has a subscription price of $10,000 per share and a par value of $10 per share. Cumulative dividends will accrue at a rate of 5% per annum. Dividends are payable quarterly in arrears on each January 15, April 15, July 15 and October 15.

The Company has the option to redeem the preferred shares three years after the date the shares are issued. The Company must redeem the preferred shares five years after the shares are issued. The preferred stock ranks senior to the common stock with respect to the payments of dividends and distributions and amounts payable upon liquidation, dissolution and winding up of the Company. The preferred stock generally is non-voting.

NOTE 2: Securities

The amortized cost and fair value of securities, with gross unrealized gains and losses, follows:

	December 31, 2015			
Available for Sale	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government and agency	$ 165,736,633	$ 188,133	$ (64,334)	$ 165,860,432
State and political subdivisions	66,916,401	414,170	(85,363)	67,245,208
Total securities available for sale	$ 232,653,034	$ 602,303	$ (149,697)	$ 233,105,640

NOTE 2: Securities - continued

The amortized cost and fair value of securities, with gross unrealized gains and losses, follows:

	December 31, 2014			
Available for Sale	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government and agency	$ 217,138,033	$ 342,558	$ (175,499)	$ 217,305,092
State and political subdivisions	77,406,427	303,781	(218,462)	77,491,746
Total securities available for sale	$ 294,544,460	$ 646,339	$ (393,961)	$ 294,796,838

For the years ended December 31, 2015 and 2014, there were no proceeds from sales of securities available for sale. There were no gross realized gains or losses for the years ended December 31, 2015 and 2014.

At December 31, 2015 and 2014, securities with a carrying value of $164,391,261 and $189,947,783, respectively, were pledged to secure public deposits and for other purposes required or permitted by law.

The amortized cost and fair value of debt securities by contractual maturity at December 31, 2015, follows:

	Available for Sale	
	Amortized Cost	Fair Value
Due in one year or less	$ 75,891,054	$ 75,918,720
Due from one to five years	152,487,169	152,805,225
Due from five to ten years	4,274,811	4,381,695
Total	$ 232,653,034	$ 233,105,640

NOTE 2: Securities – continued

The following table shows the gross unrealized losses and fair value of the Company's investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position for twelve months or more:

	December 31, 2015			
	Less than 12 months		12 months or longer	
Category (number of securities)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. government and agency (41)	$ 71,461,101	$ 64,334	$ -	$ -
State and political subdivision (31, 10)	28,845,806	47,106	5,369,581	38,257
Total	$ 100,306,907	$ 111,440	$ 5,369,581	$ 38,257

	December 31, 2014			
	Less than 12 months		12 months or longer	
Category (number of securities)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. government and agency (40)	$ 64,577,956	$ 133,208	$ 19,059,900	$ 42,291
State and political subdivision (69)	39,475,627	218,462	-	-
Total	$ 104,053,583	$ 351,670	$ 19,059,900	$ 42,291

U.S. Government and agency

The unrealized losses on the Company's investment in U.S. government and agency securities were caused by interest rate increases. The Company purchased those investments at a discount relative to their face amount, and the contractual cash flows of those investments are guaranteed by an agency of the U.S. government. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost bases of the Company's investments. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2015 and 2014.

NOTE 2: Securities – continued

State and political subdivisions

The unrealized losses on the Company's investment in state and political subdivisions securities were caused by interest rate increases. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost bases of the Company's investments. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2015 and 2014.

Other-than-temporary impairment

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) evaluation by the Company of (a) its intent to sell a debt security prior to recovery and (b) whether it is more likely than not the Company will have to sell the debt security prior to recovery. As of December 31, 2015 and 2014, no investment securities were other-than-temporarily impaired.

NOTE 3: Loans

A summary of the balances of loans follows:

	December 31,	
	2015	2014
Real estate	$ 288,433,018	$ 223,979,545
Construction	62,745,208	59,763,297
Energy	112,750,848	124,297,450
Consumer	12,481,171	11,014,414
Commercial	245,696,341	239,125,292
	722,106,586	658,179,998
Less: Allowance for loan losses	(10,831,499)	(8,155,988)
Loans, net	$ 711,275,087	$ 650,024,010

NOTE 3: Loans – continued

The following table sets forth information regarding the activity in the allowance for loans losses for the year ended December 31, 2015 (in thousands):

	Real estate	Construction	Energy	Consumer	Commercial	Total
Allowance for credit losses:						
Beginning balance	$ 2,709	$ 518	$ 993	$ 104	$ 3,832	$ 8,156
Charge-offs	-	-	-	(13)	(2,867)	(2,880)
Recoveries	-	9	-	-	460	469
Provision	2,877	129	(501)	64	2,517	5,086
Ending balance	$ 5,586	$ 656	$ 492	$ 155	$ 3,942	$ 10,831
Ending balance allocated to loans individually evaluated for impairment	$ 227	$ -	$ 413	$ -	$ 1,669	$ 2,309
Ending balance allocated to loans collectively evaluated for impairment	$ 5,359	$ 656	$ 79	$ 155	$ 2,273	$ 8,522
Loans receivable						
Ending balance of loans individually evaluated for impairment	$ 5,320	$ 681	$ 751	$ -	$ 7,806	$ 14,558
Ending balance of loans collectively evaluated for impairment	283,113	62,064	112,000	12,481	237,890	707,548
Ending balance	$ 288,433	$ 62,745	$ 112,751	$ 12,481	$ 245,696	$ 722,106

NOTE 3: Loans – continued

The following table sets forth information regarding the activity in the allowance for loans losses for the year ended December 31, 2014 (in thousands):

	Real estate	Construction	Energy	Consumer	Commercial	Total
Allowance for credit losses:						
Beginning balance	$ 2,109	$ 522	$ 773	$ 123	$ 3,832	$ 7,359
Charge-offs	(2)	-	(127)	(9)	(948)	(1,086)
Recoveries	8	-	-	4	46	58
Provision	594	(4)	347	(14)	902	1,825
Ending balance	$ 2,709	$ 518	$ 993	$ 104	$ 3,832	$ 8,156
Ending balance allocated to loans individually evaluated for impairment	$ -	$ -	$ 292	$ -	$ 78	$ 370
Ending balance allocated to loans collectively evaluated for impairment	$ 2,709	$ 518	$ 701	$ 104	$ 3,754	$ 7,786
Loans receivable						
Ending balance of loans individually evaluated for impairment	$ 183	$ -	$ 800	$ -	$ 1,563	$ 2,546
Ending balance of loans collectively evaluated for impairment	223,797	59,763	123,497	11,014	237,563	655,634
Ending balance	$ 223,980	$ 59,763	$ 124,297	$ 11,014	$ 239,126	$ 658,180

The Company monitors credit quality within its portfolio segments based on primary credit quality indicators. All of the Company's loans are evaluated using pass rated or reservable criticized as the primary credit quality indicator. The term reservable criticized refers to those loans that are internally classified or listed by the Company as special mention, substandard, doubtful or loss. These assets pose an elevated risk and may have a high probability of default or total loss.

NOTE 3: Loans – continued

The classifications of loans reflect a judgment about the risks of default and loss associated with the loan. The Company reviews the ratings on credits monthly. Ratings are adjusted to reflect the degree of risk and loss that is felt to be inherent in each credit as of each monthly reporting period. The methodology is structured so that specific allocations are increased in accordance with deterioration in credit quality (and a corresponding increase in risk and loss) or decreased in accordance with improvement in credit quality (and a corresponding decrease in risk and loss).

Credits rated special mention show clear signs of financial weaknesses or deterioration in credit worthiness, however, such concerns are not so pronounced that the Company generally expects to experience significant loss within the short-term. Such credits typically maintain the ability to perform within standard credit terms and credit exposure is not as prominent as credits rated more harshly.

Credits rated substandard are those in which the normal repayment of principal and interest may be, or has been, jeopardized by reason of adverse trends or developments of a financial, managerial, economic or political nature, or important weaknesses exist in collateral. A protracted workout on these credits is a distinct possibility. Prompt corrective action is therefore required to strengthen the Company's position, and/or to reduce exposure and to assure that adequate remedial measures are taken by the borrower. Credit exposure becomes more likely in such credits and a serious evaluation of the secondary support to the credit is performed.

Credits rated doubtful are those in which full collection of principal appears highly questionable, and which some degree of loss is anticipated, even though the ultimate amount of loss may not yet be certain and/or other factors exist which could affect collection of debt. Based upon available information, positive action by the Company is required to avert or minimize loss. Credits rated doubtful are generally also placed on nonaccrual.

Credits rated loss are those that are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather that it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be affected in the future.

Pass rated refers to loans that are not considered criticized. In addition to this primary credit quality indicator, the Company uses other credit quality indicators for certain types of loans.

NOTE 3: Loans – continued

The following table sets forth information regarding the internal classification of the loan portfolio as of December 31, 2015 and 2014 (in thousands):

	December 31, 2015					
	Pass	Special Mention	Substandard	Doubtful	Loss	Total
Real estate:						
1-4 Residential	$ 60,749	$ 674	$ 1,322	$ -	$ -	$ 62,745
Commercial real estate	212,729	-	12,732	227	-	225,688
Construction	62,064	-	681	-	-	62,745
Energy	90,281	9,949	12,521	-	-	112,751
Consumer	12,437	-	44	-	-	12,481
Commercial	217,357	9,209	19,130	-	-	245,696
Total	$ 655,617	$ 19,832	$ 46,430	$ 227	$ -	$ 722,106

	December 31, 2014					
	Pass	Special Mention	Substandard	Doubtful	Loss	Total
Real estate:						
1-4 Residential	$ 49,024	$ -	$ 1,928	$ -	$ -	$ 50,952
Commercial real estate	170,233	465	2,330	-	-	173,028
Construction	59,763	-	-	-	-	59,763
Energy	123,397	-	900	-	-	124,297
Consumer	10,857	123	34	-	-	11,014
Commercial	235,839	287	3,000	-	-	239,126
Total	$ 649,113	$ 875	$ 8,192	$ -	$ -	$ 658,180

NOTE 3: Loans – continued

The following table sets forth information regarding the credit risk profile based on payment activity of the loan portfolio (in thousands):

	December 31, 2015			December 31, 2014		
	Performing	Nonperforming	Total	Performing	Nonperforming	Total
Real estate:						
1-4 Residential	$ 62,049	$ 696	$ 62,745	$ 50,952	$ -	$ 50,952
Commercial real estate	221,064	4,624	225,688	172,845	183	173,028
Construction	62,064	681	62,745	59,763	-	59,763
Energy	112,001	750	112,751	123,497	800	124,297
Consumer	12,481	-	12,481	11,014	-	11,014
Commercial	237,889	7,807	245,696	237,563	1,563	239,126
Total	$ 707,548	$ 14,558	$ 722,106	$ 655,634	$ 2,546	$ 658,180

NOTE 3: Loans – continued

The following table sets forth information regarding the delinquencies within the loan portfolio as of (in thousands):

	December 31, 2015					
	30-89 Days Past Due	90 Days and Greater	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days and Still Accruing
Real estate:						
1-4 Residential	$ 245	$ -	$ 245	$ 62,500	$ 62,745	$ -
Commercial real estate	239	-	239	225,449	225,688	-
Construction	249	-	249	62,496	62,745	-
Energy	868	-	868	111,883	112,751	-
Consumer	53	-	53	12,428	12,481	-
Commercial	970	55	1,025	244,671	245,696	55
Total	$ 2,624	$ 55	$ 2,679	$ 719,427	$ 722,106	$ 55

	December 31, 2014					
	30-89 Days Past Due	90 Days and Greater	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days and Still Accruing
Real estate:						
1-4 Residential	$ -	$ 16	$ 16	$ 50,936	$ 50,952	$ 16
Commercial real estate	153	-	153	172,875	173,028	-
Construction	218	-	218	59,545	59,763	-
Energy	84	-	84	124,213	124,297	-
Consumer	18	-	18	10,996	11,014	-
Commercial	1,152	508	1,660	237,466	239,126	508
Total	$ 1,625	$ 524	$ 2,149	$ 656,031	$ 658,180	$ 524

NOTE 3: Loans – continued

The following table sets forth information regarding the nonaccrual within the loan portfolio as of December 31, 2015 (in thousands):

	2015	2014
Real estate:		
1-4 Residential	$ 696	$ -
Commercial real estate	4,545	-
Construction	681	-
Energy	-	-
Consumer	-	-
Commercial	7,369	1,479
Total	$ 13,291	$ 1,479

A loan is considered impaired, in accordance with the impairment accounting guidance, when based on current information and events, it is probable that the Company will be unable to collect all amounts due from the borrower in accordance with the contractual terms of the loan. Impaired loans include nonperforming commercial loans but also include loans modified in troubled debt restructurings (including those accruing interest) when concessions have been granted to borrowers experiencing financial difficulties. These concessions could include a reduction in the interest rate on the loan, payment extensions, forgiveness of principal, forbearance or other actions intended to maximize collection. The Company did not recognize any interest income on a cash basis on impaired loans during the years ended December 31, 2015 and 2014.

NOTE 3: Loans – continued

The following table sets forth information regarding modifications within the loan portfolio (dollars in thousands):

	2015		
	Number	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructuring			
Real estate:			
1-4 Residential	-	$ -	$ -
Commercial real estate	1	184	79
Construction	1	680	681
Energy	2	884	750
Consumer	-	-	-
Commercial	24	2,879	2,476

	2014		
	Number	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructuring			
Real estate:			
1-4 Residential	-	$ -	$ -
Commercial real estate	1	184	183
Construction	-	-	-
Energy	2	853	800
Consumer	-	-	-
Commercial	2	94	84

There have been no subsequently defaulted troubled debt restructurings.

NOTE 3: Loans – continued

The following table sets forth information regarding impaired loans as of December 31, 2015 (in thousands):

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance:					
Real estate:					
1-4 Residential	$ 696	$ 696	$ -	$ 348	$ 22
Commercial real estate	1,658	1,658	-	921	18
Construction	681	681	-	341	-
Energy	-	-	-	-	-
Consumer	-	-	-	-	-
Commercial	4,785	5,059	-	3,132	278
With a related allowance:					
Real estate:					
1-4 Residential	-	-	-	-	-
Commercial real estate	2,966	2,966	227	1,483	-
Construction	-	-	-	-	-
Energy	751	751	413	776	44
Consumer	-	-	-	-	-
Commercial	3,021	3,272	1,669	1,553	140
Total:					
Real estate:					
1-4 Residential	696	696	-	348	22
Commercial real estate	4,624	4,624	227	2,404	18
Construction	681	681	-	341	-
Energy	751	751	413	776	44
Consumer	-	-	-	-	-
Commercial	7,806	8,331	1,669	4,685	418
	$ 14,558	$ 15,083	$ 2,309	$ 8,554	$ 502

NOTE 3: Loans – continued

The following table sets forth information regarding impaired loans as of December 31, 2014 (in thousands):

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance:					
Real estate:					
1-4 Residential	$ -	$ -	$ -	$ 90	$ -
Commercial real estate	183	183	-	92	1
Construction	-	-	-	-	-
Energy	-	-	-	236	-
Consumer	-	-	-	-	-
Commercial	1,479	1,798	-	1,241	53
With a related allowance:					
Real estate:					
1-4 Residential	-	-	-	-	-
Commercial real estate	-	-	-	-	-
Construction	-	-	-	-	-
Energy	800	800	292	608	22
Consumer	-	-	-	-	-
Commercial	84	84	78	1,093	6
Total:					
Real estate:					
1-4 Residential	-	-	-	90	-
Commercial real estate	183	183	-	92	1
Construction	-	-	-	-	-
Energy	800	800	292	844	22
Consumer	-	-	-	-	-
Commercial	1,563	1,882	78	2,334	59
	$ 2,546	$ 2,865	$ 370	$ 3,360	$ 82

NOTE 4: Premises and Equipment

A summary of the cost and accumulated depreciation of premises and equipment follows:

	December 31,	
	2015	2014
Land	$ 2,041,050	$ 2,041,050
Building and improvements	5,400,899	5,101,562
Equipment	5,897,495	7,946,641
Software	1,639,173	1,103,793
Construction in progress	544,508	843,811
	15,523,125	17,036,857
Accumulated depreciation	(7,031,991)	(8,434,483)
	$ 8,491,134	$ 8,602,374

Depreciation expense for the years ended December 31, 2015 and 2014 amounted to $1,067,265 and $903,899, respectively.

NOTE 5: Deposits

The aggregate amount of time deposits in denominations of $100,000 or more at December 31, 2015 and 2014 was $72,555,388 and $123,511,881, respectively. At December 31, 2015, the scheduled maturities of time deposits are as follows:

2016	$ 84,381,630
2017	3,676,589
2018	1,125,585
2019	-
2020 and thereafter	-
	$ 89,183,804

NOTE 6: Income Taxes

Allocation of income taxes between current and deferred portions is as follows:

	December 31, 2015	December 31, 2014
Current federal income tax	$ 4,297,319	$ 6,262,553
Current state income tax	72,000	72,000
Deferred federal income tax benefit	(488,409)	(295,607)
Total provision for income tax	$ 3,880,910	$ 6,038,946

Income tax expense, as a percentage of pretax earnings, differs from the statutory federal income tax rate at December 31, 2015 and 2014 is as follows:

	2015	2014
Income tax expense at the statutory rate	35.0 %	35.0 %
State income taxes	0.6	0.4
Nontaxable earnings	(3.5)	(1.5)
Nondeductible expenses	0.4	0.6
Other	-	(0.1)
Effective tax rate	32.5 %	34.4 %

Income exempt from federal income tax is the primary reason the effective tax rate differs from statutory federal income tax rates. The components of the net deferred tax asset (liability), included in other liabilities, are as follows:

	December 31, 2015	December 31, 2014
Deferred tax assets		
Loans receivable	$ 3,932,237	$ 2,995,808
Other	-	283,759
	3,932,237	3,279,567
Deferred tax liabilities		
Premises and equipment	(345,100)	(426,578)
Intangible asset amortization deductible for tax purposes	(2,997,782)	(2,777,675)
Unrealized gain on securities available for sale	(158,412)	(88,332)
Other	(25,632)	-
	(3,526,926)	(3,292,585)
Net deferred tax asset (liability)	$ 405,311	$ (13,018)

NOTE 7: Off-Balance-Sheet Activities

The Company is a party to credit related financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the statements of condition.

The Company's exposure to credit risk is represented by the contractual amount of these commitments. The Company follows the same credit policies in making commitments as it does for on-balance-sheet instruments.

At December 31, 2015 and 2014, the following financial instruments were outstanding whose contract amounts represent credit risk:

	Contract Amount	
	2015	2014
Commitments to extend credit	$ 187,145,332	$ 216,956,495
Standby letters of credit	14,905,376	16,588,565

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee.

The commitments for equity lines of credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Company, is based on management's credit evaluation of the customer.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those letters of credit are primarily issued to support public and private borrowing arrangements. Essentially all letters of credit issued have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company generally holds collateral supporting those commitments if deemed necessary.

The Company has no other off-balance-sheet arrangements or transactions with unconsolidated, special purpose entities that would expose the Company to liability that is not reflected on the face of the financial statements.

NOTE 8: Legal Contingencies

Various legal claims also arise from time to time in the normal course of business which, in the opinion of management, will have no material effect on the Company's financial statements.

NOTE 9: Related Party Transaction

In the ordinary course of business, the Company has granted loans to principal officers and directors and their affiliates.

Annual activity consisted of the following:

	December 31,	
	2015	2014
Beginning balance	$ 14,825,457	$ 8,195,755
Additions	3,971,400	9,833,621
Repayments	(15,821,825)	(3,203,919)
Ending balance	$ 2,975,032	$ 14,825,457

Deposits from related parties held by the Company at December 31, 2015 and 2014 amounted to $31,769,894 and $19,455,202, respectively.

NOTE 10: Minimum Regulatory Capital Requirements

The Company (on a consolidated basis) and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's and Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk-weightings, and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the following table) of total and Tier I capital (as defined in the regulations) to risk weighted assets (as defined) and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2015 and 2014, that the Company and the Bank met all capital adequacy requirements to which they are subject.

As of December 31, 2015, the most recent notification from the Office of the Comptroller of the Currency categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Bank must maintain minimum total risk-based, Tier I risk-based and Tier I leverage ratios as set forth in the following tables. There are no conditions or events since the notification that management believes have changed the Bank's category.

NOTE 10: Minimum Regulatory Capital Requirements – continued

Beginning January 1, 2015, community banking organizations became subject to a new regulatory rule recently adopted by federal banking agencies (commonly referred to as Basel III). The new rule establishes a new regulatory framework that incorporates revisions to the Basel capital framework, strengthens the definition of regulatory capital, increases risk-based capital requirements, and amends the methodologies for determining risk-weighted organizations. Basel III includes a multiyear transition period from January 1, 2015 through December 31, 2019.

Management believes that as of December 31, 2015, the Bank would meet all capital requirements under the Basel III Capital rules on a fully phased-in basis as if the requirements were currently in effect; however, final rules are subject to regulatory discretion and could result in the need for additional capital levels in the future.

There are no conditions or events since the notification that management believes have changed the Bank's category. The Company's and the Bank's actual capital amounts and ratios as of December 31, 2015 are also presented in the table (in thousands).

	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2015:						
Total Risk-Based Capital to Risk Weighted Assets						
Consolidated	$ 89,588	9.9 %	$ 72,224	8.0 %	$ N/A	N/A
Bank	116,157	12.9	72,174	8.0	90,218	10.0
Common Equity Tier I Capital (CETI) to Risk Weighted Assets						
Consolidated	78,462	8.7	40,626	4.5	N/A	N/A
Bank	105,031	11.6	40,598	4.5	58,642	6.5
Tier I Capital to Risk Weighted Assets						
Consolidated	78,462	8.7	54,168	6.0	N/A	N/A
Bank	105,031	11.6	54,131	6.0	72,174	8.0
Tier I Capital to Adjusted Total Assets						
Consolidated	78,462	7.3	43,071	4.0	N/A	N/A
Bank	105,031	9.8	43,071	4.0	53,839	5.0

	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2014:						
Total Capital to Risk Weighted Assets						
Consolidated	$ 88,487	10.7 %	$ 66,187	8.0 %	$ N/A	N/A
Bank	92,350	11.2	66,149	8.0	82,686	10.0
Tier I Capital to Risk Weighted Assets						
Consolidated	80,036	9.7	33,093	4.0	N/A	N/A
Bank	83,899	10.1	33,074	4.0	49,612	6.0
Tier I Capital to Average Total Assets						
Consolidated	80,036	6.9	46,520	4.0	N/A	N/A
Bank	83,899	7.3	46,076	4.0	57,595	5.0

NOTE 11: Employee Benefit Plan

Profit-Sharing Plan

The Bank has a profit-sharing plan covering substantially all employees. The plan is a qualified salary reduction plan under Section 401(k) of the Internal Revenue Code, which allows deferral of compensation, effective January 1, 1987. The plan became effective February 29, 2000. Under this plan, the Bank's annual contribution to the plan cannot exceed five percent (5%) of eligible compensation, three percent (3%) of which is nondiscretionary and the other two percent (2%) is at the discretion of the Bank's Board of Directors. Bank contributions are made in the form of cash or treasury stock. The Bank contributed $357,539 and $301,349 to the profit-sharing plan in 2015 and 2014, respectively.

Deferred Compensation Plans

The Company has entered into deferred compensation contracts with current key employees. The contracts provide fixed benefits payable in equal annual installments upon retirement. The Company purchased life insurance contracts that may be used to fund the payments. The charge to expense is based on the present value computations of anticipated liabilities. For the years ended December 31, 2015 and 2014, the total expense was $328,562 and $157,350, respectively. The Company has recorded a liability for the deferred compensation plan of, $478,338 and $157,350 at December 31, 2015 and 2014, respectively, which are included in accrued expenses and other liabilities in the consolidated statements of financial condition.

Stock Option Plan

The Company has entered into various stock option agreements that grant options to its officers for a fixed number of shares of common stock. The exercise price of each option equals the book value of the Company's stock on the date of grant and is directly adjusted for dividends paid over the life of the option. Due to the direct reduction of dividends paid adjusting the exercise price of the options, the option valuation model does not utilize a dividend yield as a factor. All options have maximum terms that extend through the end of employment or retirement.

Vesting periods range from one to seven years from the date of grant. Effective January 1, 2006, the Company adopted new authoritative guidance, which requires that compensation cost relating to share-based payment transactions be recognized in the financial statements with measurement based upon the fair value of the equity or liability instruments issued. For the years ended December 31, 2015 and 2014, the Company recognized compensation expense related to stock options totaling $55,512 and $213,500, respectively, and is included as a part of salaries and employee benefits in the statement of income. As of December 31, 2015, the remaining compensation expense has been fully recognized.

Stock Option Plan – continued

The fair value of each option grant is estimated on the date of the grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	December 31, 2014
Dividend yield	0%
Expected life	10 years
Expected volatility	46%
Risk-free interest rate	2.0%

The expected volatility is based on historical volatility. The risk-free interest rates for periods within the contractual life of the awards are based on the U.S. Treasury yield curve in effect at the time of the grant. The expected life is based on historical exercise experience. No options were granted during the year ended December 31, 2015.

A summary of the status of the Company's stock option plans is presented below:

	2015		2014	
	Shares	Wtd. Avg. Ex. Price	Shares	Wtd. Avg. Ex. Price
Outstanding, beginning of year	18,872	$ 58.44	21,080	$ 55.83
Granted	-	-	1,104	73.26
Exercised	(5,624)	44.45	(3,312)	37.67
Cancelled	-	-	-	-
Outstanding, end of year	13,248	$ 61.78	18,872	$ 58.44
Exercisable at end of year	13,248	$ 61.78	17,768	$ 56.84

NOTE 11: Employee Benefit Plan – continued

Information pertaining to options outstanding at December 31, 2015 is as follows:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Shares	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Shares Excercisable	Weighted Average Exercise Price
$42-$82	13,248	14.54	$ 61.78	13,248	$ 61.78
Total	13,248	14.54	$ 61.78	13,248	$ 61.78

	Number of Shares	Weighted Average Grant Date Fair Value
Non-vested stock options, December 31, 2014	1,104	$ 84.09
Granted	-	-
Vested	(1,104)	84.09
Non-vested stock options, December 31, 2015	-	$ -

NOTE 12: Restrictions on Dividends

Federal and state banking regulations place certain restrictions on dividends paid by the Bank to the Company. Such regulations generally restrict cash dividends for the year 2015 to the extent of the Bank's earnings for 2015 plus $12,095,485 of available earnings from prior years. In addition, dividends paid by the Bank would be prohibited if the effect thereof would cause the Bank's capital to be reduced below applicable minimum capital requirements.

NOTE 13: Fair Value Measurements

Authoritative guidance defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall not be adjusted for transaction costs.

NOTE 13: Fair Value Measurements – continued

An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets and liabilities; it is not a forced transaction. Market participants are buyers and sellers in the principal market that are (i) independent, (ii) knowledgeable, (iii) able to transact and (iv) willing to transact.

Authoritative guidance requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. The income approach uses valuation techniques to convert future amounts, such as cash flows or earnings, to a single present amount on a discounted basis. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (replacement costs). Valuation techniques should be consistently applied. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability.

Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, authoritative guidance establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs.

The fair value hierarchy is as follows:

Level 1 Inputs - Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 Inputs - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (for example, interest rates, volatilities, prepayment speeds, loss severities, credit risks and default rates) or inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 Inputs - Significant unobservable inputs that reflect an entity's own assumptions that market participants would use in pricing the assets or liabilities.

NOTE 13: Fair Value Measurements – continued

A description of the valuation methodologies used for assets and liabilities measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below. In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. While management believes the Company's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Securities Available for Sale - Securities classified as available for sale are reported at fair value utilizing Level 1 and Level 2 inputs. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U. S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayments speeds, credit information and the bond's terms and conditions, among other things.

Impaired Loans - Impaired loans are reported at the fair value of the underlying collateral if repayment is expected solely from the collateral. Collateral values are estimated using Level 3 inputs based on internally customized discounting criteria.

NOTE 13: Fair Value Measurements – continued

The following table summarizes financial assets and nonfinancial liabilities measured at fair value on a recurring basis as of December 31, 2015, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	December 31, 2015			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Financial assets:				
Investment securities				
U.S. government and agency	$ -	$ 165,860,432	$ -	$ 165,860,432
State and political subdivision	-	67,245,208	-	67,245,208
Total financial assets	$ -	$ 233,105,640	$ -	$ 233,105,640

	December 31, 2014			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Financial assets:				
Investment securities				
U.S. government and agency	$ -	$ 217,305,092	$ -	$ 217,305,092
State and political subdivision	-	77,491,746	-	77,491,746
Total financial assets	$ -	$ 294,796,838	$ -	$ 294,796,838

Certain nonfinancial assets are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment).

NOTE 13: Fair Value Measurements – continued

The following table summarizes financial assets and nonfinancial liabilities, measured at fair value on a nonrecurring basis as of December 31, 2015 and 2014, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	December 31, 2015			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Financial assets:				
Impaired loans	$ -	$ -	$ 12,249,000	$ 12,249,000
	$ -	$ -	$ 12,249,000	$ 12,249,000

	December 31, 2014			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Financial assets:				
Impaired loans	$ -	$ -	$ 2,176,000	$ 2,176,000
	$ -	$ -	$ 2,176,000	$ 2,176,000

During the years ended December 31, 2015 and 2014, certain impaired loans were remeasured and reported at fair value through a specific valuation allowance allocation of the allowance for possible loan losses based upon the fair value of the underlying collateral. At December 31, 2015, impaired loans with a carrying value of $14,558,000 were reduced by specific valuation allowance allocations totaling $2,309,000 to a reported fair value of $12,249,000. At December 31, 2014, impaired loans with a carrying value of $2,546,000 were reduced by specific valuation allowance allocations totaling $370,000 to a total reported fair value of $2,176,000. The fair value of impaired loans is determined based on collateral valuations utilizing Level 3 valuation inputs.

NOTE 13: Fair Value Measurements – continued

Quantitative information about Significant Unobservable Inputs Used in Level 3 Fair Value Measurements – The following table represents the Company's Level 3 financial assets and liabilities, the valuation techniques used to measure the fair value of those financial assets and liabilities, and the significant unobservable inputs and the ranges of values for those inputs:

Instrument	Fair Value at December 31, 2015	Principal Valuation Technique	Significant Unobservable Inputs	Range of Significant Input Values
Impaired loans	$ 12,249,000	Appraisal of collateral (1)	Appraisal adjustment	10-35%

(1) Fair value is generally determined through independent appraisals of the underlying collateral, which generally include various Level 3 inputs which are not identifiable, less associated allowance.

Instrument	Fair Value at December 31, 2014	Principal Valuation Technique	Significant Unobservable Inputs	Range of Significant Input Values
Impaired loans	$ 2,176,000	Appraisal of collateral (1)	Appraisal adjustment	10-35%

(1) Fair value is generally determined through independent appraisals of the underlying collateral, which generally include various Level 3 inputs which are not identifiable, less associated allowance.

Impaired loans that are unsecured are fully reduced by specific valuation allowances.

Those financial instruments not subject to the initial implementation of this guidance, are required to have their fair value disclosed, both assets and liabilities recognized and not recognized in the statement of financial condition, for which it is practicable to estimate fair value. Below is a table that summarizes the fair market values of all financial instruments of the Company at December 31, 2015, followed by methods and assumptions that were used by the Company in estimating the fair value of the classes of financial instruments. The estimated fair value amounts of financial instruments have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is required to interpret data to develop the estimates of fair value.

Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts (in thousands).

NOTE 13: Fair Value Measurements – continued

The estimated carrying values, and related estimated fair values, of the Company's financial instruments are as follows (in thousands):

		Total Estimated Fair Value		
December 31, 2015	Carrying Amount	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Financial assets				
Cash and cash equivalents	$ 24,225	$ 24,225	$ -	$ -
Interest bearing deposits	56,389	56,389	-	-
Loans held for sale	668	-	668	-
Loans receivable	699,026	-	-	697,266
Accrued interest receivable	3,816	3,816	-	-
Restricted investments held at cost	1,774	1,774	-	-
Cash surrender value of life insurance	23,606	23,606	-	-
Financial liabilities				
Deposit liabilities				
Noninterest bearing	492,104	492,104	-	-
Interest bearing	468,015	-	-	463,213
Accrued interest payable	142	142	-	-
Subordinated debentures	9,512	-	-	9,512

		Total Estimated Fair Value		
December 31, 2014	Carrying Amount	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Financial assets				
Cash and cash equivalents	$ 24,296	$ 24,296	$ -	$ -
Interest bearing deposits	143,264	143,264	-	-
Loans held for sale	1,833	-	1,833	-
Loans receivable	650,024	-	-	651,857
Accrued interest receivable	3,896	3,896	-	-
Restricted investments held at cost	1,744	1,744	-	-
Cash surrender value of life insurance	12,535	12,535	-	-
Financial liabilities				
Deposit liabilities				
Noninterest bearing	563,092	563,092	-	-
Interest bearing	495,558	-	-	490,473
Accrued interest payable	146	146	-	-
Line of credit	4,248	4,248	-	-
Subordinated debentures	9,512	-	-	9,512

NOTE 13: Fair Value Measurements – continued

The following methods and assumptions were used by the Company in estimating the fair value of the above classes of financial instruments.

Cash and Cash Equivalents, Interest Bearing Deposits, Accrued Interest Receivable, and Accrued Interest Payable - The carrying amounts approximate fair value due to the relatively short period of time between the origination of these instruments and their expected realization.

Loans Held for Sale - These loans are reported at the lower of cost or fair value. Fair value is determined based on expected proceeds based on sales contracts and commitments.

Loans Receivable, Net - Fair values are estimated by stratifying the loan portfolio into groups of loans with similar financial characteristics. Loans are segregated by type such as real estate, commercial, and consumer, with each category further segmented into fixed and adjustable rate interest terms.

For mortgage loans, the Company uses the secondary market rates in effect for loans that have similar characteristics. The fair value of other fixed rate loans is calculated by discounting scheduled cash flows through the anticipated maturities adjusted for prepayment estimates. Adjustable interest rate loans are assumed to approximate fair value because they generally reprice within the short term. Fair values are adjusted for credit risk based on assessment of risk identified with specific loans, and risk adjustments on the remaining portfolio based on credit loss experience.

Assumptions regarding credit risk are judgmentally determined using specific borrower information, internal credit quality analysis, and historical information on segmented loan categories for non-specific borrowers.

Restricted Investments Carried at Cost - The carrying value of these investments approximates fair value based on the redemption provisions contained in each.

Cash surrender value of life insurance - The carrying amount of Bank owned life insurance is based on information received from the insurance carriers indicating the financial performance of the policies and the amount the Company would receive should the policies be surrendered.

Deposits Liabilities - The fair value of deposits with no stated maturity, such as checking, passbook, and money market, is equal to the amount payable on demand. The fair value of time certificates of deposit is based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for deposits of similar maturities.

Line of Credit - The fair value of the Company's lines of credit are estimated using discounted cash flow analysis based on the interest rate that would be effective if the borrowings repriced according to their stated terms.

NOTE 13: Fair Value Measurements – continued

Subordinated Debentures - The fair value of the Company's debentures are estimated using discounted cash flow analysis based on the interest rate that would be effective December 31, 2015, if the borrowings repriced according to their stated terms.

Off-balance-sheet Instruments - Fair values for off-balance-sheet, credit-related financial instruments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. These instruments have no carrying value.

NOTE 14: Subordinated Debentures

On September 15, 2005, the Company completed the private placement of $2,810,000 in subordinated debentures to Midland Statutory Trust II (Trust II). Trust II funded the purchase of the subordinated debentures through the sale of trust preferred securities to Preferred Term Securities, Ltd. XIX with a liquidation value of $2,810,000. The annual percentage rate of the interest payable on the subordinated debentures and distributions payable on the preferred securities is 3-Month LIBOR plus 1.70% (currently 1.95%). Dividends on the preferred securities are cumulative and Trust II may defer the payments as long as no acceleration event of default has occurred and is continuing, by extending the interest payment period on the debentures for up to twenty (20) consecutive quarterly periods. The preferred securities mature in September 2035.

On September 21, 2006, the Company completed the private placement of $6,702,000 in subordinated debentures to Midland Statutory Trust III (Trust III). Trust III funded the purchase of the subordinated debentures through the sale of trust preferred securities to Preferred Term Securities, Ltd. XIX with a liquidation value of $6,702,000. The annual percentage rate of the interest payable on the subordinated debentures and distributions payable on the preferred securities is 3-Month LIBOR plus 1.70% (currently 1.95%). Dividends on the preferred securities are cumulative and Trust III may defer the payments as long as no acceleration event of default has occurred and is continuing, by extending the interest payment period on the debentures for up to twenty (20) consecutive quarterly periods. The preferred securities mature in December 2036.

Subordinated debt may be included in regulatory Tier 1 capital subject to a limitation that such amounts not exceed 25% of Tier 1 capital. The remainder of subordinated debt is included in Tier II capital. There is no limitation for inclusion of subordinated debt in total risk-based capital and, as such, all subordinated debt was included in total risk-based capital. Interest expense on the subordinated debentures was $191,977 and $186,802 for the years ended December 31, 2015 and 2014.

NOTE 15: Lines of Credit

As of December 31, 2015, the Bank has unused commitments from four commercial banks to fund purchases up to $49,000,000. The Company has an additional revolving line of credit with Frost Bank for $10,000,000 which was unused at December 31, 2015.

NOTE 16: Supplementary Cash Flow Information

	2015	2014
Interest paid	$ 1,309,748	$ 1,305,400
Income tax paid	2,780,000	5,240,000

NOTE 17: Derivatives

Derivative Loan Commitments

Mortgage loan commitments are referred to as derivative loan commitments if the loan that will result from exercise of the commitment will be held for sale upon funding. The Company enters into commitments to fund residential mortgage loans at specified times in the future, with the intention that these loans will subsequently be sold in the secondary market. A mortgage loan commitment binds the Company to lend funds to a potential borrower at a specified interest rate and within a specified period of time, generally up to 60 days after inception of the rate lock. Outstanding derivative loan commitments expose the Company to the risk that the price of the loans arising from exercise of the loan commitment might decline from inception of the rate lock to funding of the loan due to increases in mortgage interest rates.

If interest rates increase, the value of these loan commitments decreases. Conversely, if interest rates decrease, the value of these loan commitments increases. The notional amount of undesignated mortgage loan commitments was $4,179,757 and $3,521,723 at December 31, 2015 and 2014, respectively. The fair value of such commitments was insignificant.

Forward Loan Sale Commitments

To protect against the price risk inherent in derivative loan commitments, the Company utilizes "best efforts" forward loan sale commitments to mitigate the risk of potential decreases in the values of loans that would result from the exercise of the derivative loan commitments.

With a "best efforts" contract, the Company commits to deliver an individual mortgage loan of a specified principal amount and quality to an investor if the loan to the underlying borrower closes. Generally, the price the investor will pay the seller for an individual loan is specified prior to the loan being funded (for example, on the same day the lender commits to lend funds to a potential borrower).

The Company expects that these forward loan sale commitments will experience changes in fair value opposite to the change in fair value of derivative loan commitments. The notional amount of undesignated forward loan sale commitments was $4,179,757 and $3,521,723 at December 31, 2015 and 2014, respectively. The fair value of such commitments was insignificant.

NOTE 18: Subsequent Events

The Company has evaluated all subsequent events through March 7, 2016, the date the consolidated financial statements were available to be issued.

Davis Kinard & Co, PC
CERTIFIED PUBLIC ACCOUNTANTS
Quality. Integrity. Knowledge.

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Report of Independent Auditors On Supplementary Information

To the Board of Directors and Shareholders of
Midland Bancshares, Inc. and Subsidiaries

We have audited the consolidated financial statements of **Midland Bancshares, Inc. and Subsidiaries** as of and for the years ended December 31, 2015 and 2014, and our report thereon dated March 7, 2016, which expressed an unmodified opinion on those consolidated financial statements, appears on page 1. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating, parent company, and bank financial statements are presented for the purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Davis Kinard & Co, PC
Certified Public Accountants

Abilene, Texas
March 7, 2016

MIDLAND BANCSHARES, INC. AND SUBSIDIARIES
Consolidating Statement of Financial Condition
December 31, 2015

Assets	Midland Bancshares, Inc.	Community National Bank and Subsidiary
Cash and due from banks	$ 156,840	$ 24,225,099
Cash and cash equivalents	156,840	24,225,099
Interest bearing deposits in banks	-	56,388,529
Securities available for sale	-	233,105,640
Investment in Midland Statutory Trust II	85,000	-
Investment in Midland Statutory Trust III	202,000	-
Investment in subsidiaries	117,578,077	-
Loans held for sale	-	668,415
Loans receivable, net of allowance for loan losses	-	711,275,087
Accrued interest receivable	-	3,816,246
Premises and equipment	-	8,491,134
Goodwill	-	15,251,182
Cash surrender value of life insurance	-	23,606,107
Restricted investments held at cost	-	1,773,644
Other assets	336,173	1,417,648
	$ 118,358,090	$ 1,080,018,731
Liabilities and Shareholders' Equity		
Noninterest bearing	$ -	$ 492,261,150
Interest bearing	-	468,014,972
Total deposits		960,276,122
Accrued expenses and other liabilities	10,731	2,164,532
Subordinated debentures	9,512,000	-
Total liabilities	9,522,731	962,440,654
Shareholders' equity		
Common stock	875,247	1,750,000
Preferred stock	18,260	-
Capital surplus	43,049,575	67,704,793
Retained earnings	65,031,612	47,829,090
Treasury stock, at cost	(433,529)	-
Net unrealized appreciation on available for sale securities, net of tax	294,194	294,194
Total shareholders' equity	108,835,359	117,578,077
	$ 118,358,090	$ 1,080,018,731

	Eliminations	Consolidated
	$ (156,840)	$ 24,225,099
	(156,840)	24,225,099
	-	56,388,529
	-	233,105,640
	-	85,000
	-	202,000
	(117,578,077)	-
	-	668,415
	-	711,275,087
	-	3,816,246
	-	8,491,134
	-	15,251,182
	-	23,606,107
	-	1,773,644
	-	1,753,821
	$ (117,734,917)	$ 1,080,641,904
	$ (156,840)	$ 492,104,310
	-	468,014,972
	(156,840)	960,119,282
	-	2,175,263
	-	9,512,000
	(156,840)	971,806,545
	(1,750,000)	875,247
	-	18,260
	(67,704,793)	43,049,575
	(47,829,090)	65,031,612
	-	(433,529)
	(294,194)	294,194
	(117,578,077)	108,835,359
	$ (117,734,917)	$ 1,080,641,904

MIDLAND BANCSHARES, INC. AND SUBSIDIARIES
Consolidating Statement of Income
Year Ended December 31, 2015

	Midland Bancshares, Inc.	Community National Bank and Subsidiary
Interest income		
Loans, including fees	$ -	$ 34,228,737
Debt securities		
Taxable	5,813	1,780,767
Tax exempt	-	724,528
Deposits with banks	-	564,064
Total interest income	5,813	37,298,096
Interest expense		
Deposits	-	942,552
Line of credit	171,219	-
Subordinated debentures	191,977	-
Total interest expense	363,196	942,552
Net interest (loss) income	(357,383)	36,355,544
Provision for loan losses	-	5,086,199
Net interest (loss) income after provision for loan losses	(357,383)	31,269,345
Noninterest income		
Service charges on deposit accounts	-	1,036,061
Real estate mortgage fees	-	1,174,693
Equity in earnings of subsidiaries	8,317,903	-
Debit card income	-	941,127
Other income	-	1,119,666
Total noninterest income	8,317,903	4,271,547
Noninterest expenses		
Salaries and employee benefits	-	14,155,611
Occupancy and equipment expense	-	3,113,121
IT and data processing	-	1,232,649
FDIC assessments	-	609,424
Director compensation	-	553,500
Other expense	62,851	3,530,684
Total noninterest expenses	62,851	23,194,989
Income before income taxes	7,897,669	12,345,903
Income tax (benefit) expense	(147,090)	4,028,000
Net income	$ 8,044,759	$ 8,317,903

Eliminations	Consolidated
$ -	$ 34,228,737
-	
-	1,786,580
-	724,528
-	564,064
-	37,303,909
-	942,552
	171,219
-	191,977
-	1,305,748
-	35,998,161
-	5,086,199
-	30,911,962
-	1,036,061
-	1,174,693
(8,317,903)	-
-	941,127
-	1,119,666
(8,317,903)	4,271,547
-	14,155,611
-	3,113,121
-	1,232,649
-	609,424
-	553,500
-	3,593,535
-	23,257,840
(8,317,903)	11,925,669
-	3,880,910
$ (8,317,903)	$ 8,044,759

MIDLAND BANCSHARES, INC. AND SUBSIDIARIES
Consolidating Statement of Cash Flows
Year Ended December 31, 2015

	Midland Bancshares, Inc.	Community National Bank and Subsidiary
Cash flows from operating activities		
Net income	$ 8,044,759	$ 8,317,903
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for loan losses	-	5,086,199
Net amortization of securities	-	3,144,466
Depreciation	-	1,067,265
Appreciation in cash surrender value of life insurance	-	(406,910)
Deferred income tax	-	(488,409)
Undistributed earnings of subsidiaries	(6,817,903)	-
Stock based compensation	55,512	-
Net change in		
Loans held for sale	-	1,165,012
Accrued interest receivable	-	80,151
Other assets	(147,110)	(486,805)
Accrued expenses and other liabilities	(2)	915,706
Net cash provided by operating activities	1,135,256	18,394,578
Cash flows from investing activities		
Net change in interest bearing deposits in banks	-	86,875,439
Capital contribution to subsidiary	(13,980,000)	-
Activity in available for sale securities		
Maturities, prepayments and calls	-	210,789,917
Purchases	-	(152,042,957)
Purchase of life insurance policies	-	(10,664,449)
Net change in restricted investements held at cost	-	(29,715)
Loan originations and principal collections, net	-	(66,337,276)
Additions to premises and equipment	-	(956,025)
Net cash (used in) provided by investing activities	(13,980,000)	67,634,934
Cash flows from financing activities		
Net decrease in deposits	-	(98,580,576)
Net change in short term borrowing	(4,248,000)	-
Proceeds from sale of preferred stock	18,260,000	-
Proceeds from sale of treasury stock	247,212	-
Proceeds from exercise of stock options	253,929	-
Capital contributions from Midland Bancshares, Inc.	-	13,980,000
Dividends paid	(1,717,999)	(1,500,000)
Net cash provided by (used in) financing activities	12,795,142	(86,100,576)
Net change in cash and cash equivalents	(49,602)	(71,064)
Cash and cash equivalents at beginning of year	206,442	24,296,163
Cash and cash equivalents at end of year	$ 156,840	$ 24,225,099

	Eliminations	Consolidated
	$ (8,317,903)	$ 8,044,759
	-	5,086,199
	-	3,144,466
	-	1,067,265
	-	(406,910)
	-	(488,409)
	6,817,903	-
	-	55,512
	-	1,165,012
	-	80,151
	-	(633,915)
	-	915,704
	(1,500,000)	18,029,834
	-	86,875,439
	13,980,000	-
	-	210,789,917
	-	(152,042,957)
		(10,664,449)
	-	(29,715)
	-	(66,337,276)
	-	(956,025)
	13,980,000	67,634,934
	49,602	(98,530,974)
	-	(4,248,000)
	-	18,260,000
	-	247,212
	-	253,929
	(13,980,000)	-
	1,500,000	(1,717,999)
	(12,430,398)	(85,735,832)
	49,602	(71,064)
	(206,442)	24,296,163
	$ (156,840)	$ 24,225,099

MIDLAND BANCSHARES, INC.
(PARENT COMPANY)
Statements of Financial Condition
December 31, 2015 and 2014

Assets		2015		2014
Cash and due from banks	$	156,840	$	206,442
Investment in Midland Statutory Trust II		85,000		85,000
Investment in Midland Statutory Trust III		202,000		202,000
Investment in subsidiaries		117,578,077		96,650,026
Other assets		336,173		189,063
	$	118,358,090	$	97,332,531
Liabilities and Shareholders' Equity				
Accrued expenses and other liabilities	$	10,731	$	10,733
Line of credit		-		4,248,000
Subordinated debentures		9,512,000		9,512,000
Total liabilities		9,522,731		13,770,733
Shareholders' equity				
Common stock		875,247		869,623
Preferred stock		18,260		-
Capital surplus		43,049,575		24,329,180
Retained earnings		65,031,612		58,704,852
Treasury stock, at cost		(433,529)		(505,903)
Net unrealized appreciation on available for sale securities, net of tax		294,194		164,046
Total shareholders' equity		108,835,359		83,561,798
	$	118,358,090	$	97,332,531

MIDLAND BANCSHARES, INC.
(PARENT COMPANY)
Statements of Income
Years Ended December 31, 2015 and 2014

	2015	2014
Income		
Interest income	$ 5,813	$ 5,636
Total income	5,813	5,636
Expenses		
Interest on subordinated debentures	191,977	186,802
Interest on line of credit	171,219	263,412
Other expense	62,851	10,920
Total expenses	426,047	461,134
Loss before income taxes and equity in earnings of subsidiaries	(420,234)	(455,498)
Income tax benefit	(147,090)	(159,417)
Loss before equity in earnings of subsidiaries	(273,144)	(296,081)
Equity in earnings of subsidiaries		
Dividend income	1,500,000	6,518,771
Undistributed earnings of subsidiaries	6,817,903	5,277,582
Total equity in earnings of subsidiaries	8,317,903	11,796,353
Net income	$ 8,044,759	$ 11,500,272

MIDLAND BANCSHARES, INC.
(PARENT COMPANY)
Statements of Cash Flows
Years Ended December 31, 2015 and 2014

	2015	2014
Cash flows from operating activities		
Net income	$ 8,044,759	$ 11,500,272
Adjustments to reconcile net income to		
net cash provided by operating activities		
Undistributed earnings of subsidiaries	(6,817,903)	(5,277,582)
Stock based compensation	55,512	213,500
Net change in		
Other assets	(147,110)	(37,991)
Accrued expenses and other liabilities	(2)	-
Net cash provided by operating activities	1,135,256	6,398,199
Cash flows from investing activities		
Capital contribution to subsidiary	(13,980,000)	(1,600,000)
Net cash used in investing activities	(13,980,000)	(1,600,000)
Cash flows from financing activities		
Net change in short term borrowing	(4,248,000)	(3,352,000)
Proceeds from sale of preferred stock	18,260,000	-
Proceeds from sale of treasury stock	247,212	212,439
Proceeds from exercise of stock options	253,929	128,075
Dividends paid	(1,717,999)	(1,704,948)
Net cash provided by (used in) financing activities	12,795,142	(4,716,434)
Net change in cash and cash equivalents	(49,602)	81,765
Cash and cash equivalents at beginning of year	206,442	124,677
Cash and cash equivalents at end of year	$ 156,840	$ 206,442

COMMUNITY NATIONAL BANK AND SUBSIDIARY

Statements of Financial Condition

December 31, 2015 and 2014

Assets		2015		2014
Cash and due from banks	$	24,225,099	$	24,296,163
Cash and cash equivalents		24,225,099		24,296,163
Interest bearing deposits in banks		56,388,529		143,263,968
Securities available for sale		233,105,640		294,796,838
Loans held for sale		668,415		1,833,427
Loans receivable, net of allowance for loan losses		711,275,087		650,024,010
Accrued interest receivable		3,816,246		3,896,397
Premises and equipment		8,491,134		8,602,374
Goodwill		15,251,182		15,251,182
Cash surrender value of life insurance		23,606,107		12,534,748
Restricted investments held at cost		1,773,644		1,743,929
Other assets		1,417,648		930,843
	$	1,080,018,731	$	1,157,173,879
Liabilities and Shareholders' Equity				
Noninterest bearing	$	492,261,150	$	563,298,825
Interest bearing		468,014,972		495,557,873
Total deposits		960,276,122		1,058,856,698
Accrued expenses and other liabilities		2,164,532		1,667,155
Total liabilities		962,440,654		1,060,523,853
Shareholders' equity				
Common stock		1,750,000		1,750,000
Capital surplus		67,704,793		53,724,793
Undivided profits		47,829,090		41,011,187
Net unrealized appreciation on available for sale securities, net of tax		294,194		164,046
Total shareholders' equity		117,578,077		96,650,026
	$	1,080,018,731	$	1,157,173,879

COMMUNITY NATIONAL BANK AND SUBSIDIARY
Statements of Income
Years Ended December 31, 2015 and 2014

	2015	2014
Interest income		
Loans, including fees	$ 34,228,737	$ 36,381,484
Debt securities		
Taxable	1,780,767	1,861,863
Tax exempt	724,528	732,827
Deposits with banks	564,064	533,431
Total interest income	37,298,096	39,509,605
Interest expense		
Deposits	942,552	850,971
Total interest expense	942,552	850,971
Net interest income	36,355,544	38,658,634
Provision for loan losses	5,086,199	1,825,000
Net interest income after provision for loan losses	31,269,345	36,833,634
Noninterest income		
Service charges on deposit accounts	1,036,061	1,036,919
Real estate mortgage fees	1,174,693	1,087,209
Debit card income	941,127	989,018
Other income	1,119,666	508,467
Total noninterest income	4,271,547	3,621,613
Noninterest expenses		
Salaries and employee benefits	14,155,611	13,107,638
Occupancy and equipment expense	3,113,121	3,147,601
IT and data processing	1,232,649	1,713,355
FDIC assessments	609,424	565,060
Director compensation	553,500	567,500
Other expense	3,530,684	3,359,377
Total noninterest expenses	23,194,989	22,460,531
Income before income taxes	12,345,903	17,994,716
Income tax expense	4,028,000	6,198,363
Net income	$ 8,317,903	$ 11,796,353

COMMUNITY NATIONAL BANK AND SUBSIDIARY
Statements of Cash Flows
Years Ended December 31, 2015 and 2014

	2015	2014
Cash flows from operating activities		
Net income	$ 8,317,903	$ 11,796,353
Adjustments to reconcile net income to		
net cash provided by operating activities		
Provision for loan losses	5,086,199	1,825,000
Net amortization of securities	3,144,466	3,496,622
Depreciation	1,067,265	903,899
Appreciation in cash surrender value of life insurance	(406,910)	(34,748)
Deferred income tax	(488,409)	(295,607)
Net change in		
Loans held for sale	1,165,012	187,156
Accrued interest receivable	80,151	(329,671)
Other assets	(486,805)	20,753
Accrued expenses and other liabilities	915,706	144,754
Net cash provided by operating activities	18,394,578	17,714,511
Cash flows from investing activities		
Net change in interest bearing deposits in banks	86,875,439	(1,159,523)
Activity in available for sale securities		
Maturities, prepayments and calls	210,789,917	223,689,931
Purchases	(152,042,957)	(247,387,207)
Purchase of life insurance policies	(10,664,449)	(12,500,000)
Net change in restricted investments held at cost	(29,715)	(110,297)
Loan originations and principal collections, net	(66,337,276)	(66,068,706)
Additions to premises and equipment	(956,025)	(1,556,562)
Net cash provided by (used in) investing activities	67,634,934	(105,092,364)
Cash flows from financing activities		
Net (decrease) increase in deposits	(98,580,576)	74,807,915
Capital contributions from Midland Bancshares, Inc.	13,980,000	1,600,000
Dividends paid	(1,500,000)	(6,518,771)
Net cash (used in) provided by financing activities	(86,100,576)	69,889,144
Net change in cash and cash equivalents	(71,064)	(17,488,709)
Cash and cash equivalents at beginning of year	24,296,163	41,784,872
Cash and cash equivalents at end of year	$ 24,225,099	$ 24,296,163