Northeast Indiana Bancorp, Inc.

Auditor’s Report and Consolidated Financial Statements

December 31, 2014 and 2013

Northeast Indiana Bancorp, Inc.
December 31, 2014 and 2013

Contents

BKD LLP
CPAs & Advisors
201 N. Illinois Street, Suite 700 // P.O. Box 44998 // Indianapolis, IN 46244-0998
317.383.4000 // fax 317.383.4200 // bkd.com

Independent Auditor's Report

Board of Directors
Northeast Indiana Bancorp, Inc.
Huntington, Indiana

We have audited the accompanying consolidated financial statements of Northeast Indiana Bancorp, Inc. and its subsidiary, which comprise the consolidated balance sheets as of December 31, 2014 and 2013, 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.

Management's Responsibility for the Financial Statements

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; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Northeast Indiana Bancorp, Inc. and its subsidiary as of December 31, 2014 and 2013, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

BKD, LLP

Indianapolis, Indiana
February 27, 2015

Northeast Indiana Bancorp, Inc.

Consolidated Balance Sheets
December 31, 2014 and 2013

Assets

	2014	2013
Interest-earning cash and cash equivalents	$ 5,969,837	$ 5,476,740
Noninterest-earning cash and cash equivalents	5,015,780	2,481,418
Cash and cash equivalents	10,985,617	7,958,158
Interest-earning time deposits	8,355,733	7,135,000
Available-for-sale securities	70,476,838	82,528,835
Held-to-maturity securities	1,129,168	1,466,003
Loans held for sale	125,000	142,500
Loans receivable, net of allowance for loan losses of $3,402,355 in 2014 and $3,355,534 in 2013	168,728,783	150,790,666
Accrued interest receivable	933,935	932,105
Premises and equipment, net	2,998,086	2,929,520
FHLB stock	2,240,200	3,766,800
Cash surrender value of life insurance	7,722,193	7,497,893
Goodwill	130,972	130,972
Other assets	2,385,930	3,347,979
Total assets	$ 276,212,455	$ 268,626,431

Liabilities and Shareholders' Equity

	2014	2013
Liabilities		
Deposits		
Demand - noninterest-bearing	$ 20,666,024	$ 18,196,448
Savings	25,049,358	24,096,032
Negotiable order of withdrawal	76,265,807	72,137,808
Money market demand account	45,246,137	52,949,070
Time	45,935,145	41,503,141
Total deposits	213,162,471	208,882,499
Borrowed funds	29,911,662	28,755,460
Accrued expenses and other liabilities	2,836,528	3,288,628
Total liabilities	245,910,661	240,926,587
Shareholders' Equity		
Common stock, $.01 par value; 4,000,000 shares authorized; 2,593,988 shares issued and outstanding - 2014 and 2013	26,407	26,407
Additional paid-in capital	29,819,136	29,811,013
Retained earnings, substantially restricted	22,317,465	20,155,355
Accumulated other comprehensive income (loss), net of tax	450,992	(623,282)
Treasury stock, at cost; 1,394,109 shares - 2014; 1,366,042 shares - 2013	(22,312,206)	(21,669,649)
Total shareholders' equity	30,301,794	27,699,844
Total liabilities and shareholders' equity	$ 276,212,455	$ 268,626,431

Northeast Indiana Bancorp, Inc.

Consolidated Statements of Income

Years Ended December 31, 2014 and 2013

	2014	2013
Interest Income		
Loans, including fees	$ 8,744,903	$ 8,148,697
Taxable securities	1,096,847	941,713
Nontaxable securities	684,282	643,992
Deposits with financial institutions	99,319	86,152
Total interest income	10,625,351	9,820,554
Interest Expense		
Deposits	939,250	1,033,278
Borrowed funds	300,410	320,834
Total interest expense	1,239,660	1,354,112
Net Interest Income	9,385,691	8,466,442
Provision for Loan Losses	625,000	1,250,000
Net Interest Income After Provision for Loan Losses	8,760,691	7,216,442
Noninterest Income		
Service charges on deposit accounts	516,431	509,473
Interchange fees	355,429	325,881
Net gain (loss) on securities	(25,782)	244,945
Net gains on sales of loans	1,194,371	952,841
Net gain (loss) on sale of repossessed assets	2,017	(82,337)
Increase in cash surrender value of life insurance	224,300	236,550
Brokerage fees	513,456	423,125
Other	357,156	341,923
Total noninterest income	3,137,378	2,952,401
Noninterest Expense		
Salaries and employee benefits	3,923,855	3,534,070
Occupancy	1,122,401	1,071,202
Data processing	831,241	787,886
Deposit insurance premium	203,000	240,000
Professional fees	378,237	340,694
Advertising and marketing	229,518	169,129
Correspondent bank charges	123,549	119,788
Other	778,963	691,199
Total noninterest expense	7,590,764	6,953,968
Income Before Income Tax	4,307,305	3,214,875
Income tax expense	1,179,521	737,967
Net Income	$ 3,127,784	$ 2,476,908
Basic Earnings Per Common Share	$ 2.59	$ 2.01
Diluted Earnings Per Common Share	$ 2.59	$ 2.01

Northeast Indiana Bancorp, Inc.

Consolidated Statements of Comprehensive Income
Years Ended December 31, 2014 and 2013

	2014	2013
Net Income	$ 3,127,784	$ 2,476,908
Other Comprehensive Income (Loss)		
Unrealized appreciation (depreciation) on available-for-sale securities, net of tax expense (benefit) of $694,408 and $(834,349) for 2014 and 2013, respectively	1,058,704	(1,272,062)
Less: reclassification adjustment for realized gains (losses) included in net income, net of tax expense (benefit) of $(10,212) and $97,023 for 2014 and 2013, respectively.	(15,570)	147,922
	1,074,274	(1,419,984)
Comprehensive Income	$ 4,202,058	$ 1,056,924

Northeast Indiana Bancorp, Inc.

Consolidated Statements of Shareholders' Equity
Years Ended December 31, 2014 and 2013

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net of Tax	Treasury Stock	Total
Balance, January 1, 2013	$ 26,407	$ 29,792,647	$ 18,638,807	$ 796,702	$ (21,425,409)	$ 27,829,154
Net income			2,476,908			2,476,908
Other comprehensive loss				(1,419,984)		(1,419,984)
Cash dividends ($.765 per share)			(960,360)			(960,360)
Purchase 12,000 shares of treasury stock					(244,240)	(244,240)
Amortization of RRP contributions		18,366				18,366
Balance, December 31, 2013	26,407	29,811,013	20,155,355	(623,282)	(21,669,649)	27,699,844
Net income			3,127,784			3,127,784
Other comprehensive income				1,074,274		1,074,274
Cash dividends ($.785 per share)			(965,674)			(965,674)
Purchase 29,567 shares of treasury stock					(658,518)	(658,518)
Issuance of 1,500 shares of treasury stock		(15,961)			15,961	-
Amortization of RRP contributions		24,084				24,084
Balance, December 31, 2014	$ 26,407	$ 29,819,136	$ 22,317,465	$ 450,992	$ (22,312,206)	$ 30,301,794

See Notes to Consolidated Financial Statements

Northeast Indiana Bancorp, Inc.
Consolidated Statements of Cash Flows
Years Ended December 31, 2014 and 2013

	2014	2013
Operating Activities		
Net income	$ 3,127,784	$ 2,476,908
Items not requiring (providing) cash		
Depreciation and amortization	929,049	1,394,988
Provision for loan losses	625,000	1,250,000
Deferred income tax expense	106,176	203,952
Net (gain) loss on sale of		
Foreclosed real estate and repossessed assets	(2,017)	82,337
Premises and equipment	3,260	-
Loans held for sale	(1,194,371)	(952,841)
Securities available for sale	25,782	(244,945)
Amortization of RRP	24,084	18,366
Originations of loans held for sale	(24,569,391)	(25,628,714)
Proceeds from loans sold	25,781,262	27,988,530
Changes in		
Other assets	(387,826)	285,891
Accrued interest receivable	(1,830)	(3,044)
Accrued expenses and other liabilities	(452,100)	(96,901)
Net cash provided by operating activities	4,014,862	6,774,527
Investing Activities		
Net change in interest-earning time deposits	(1,220,733)	(1,225,000)
Purchases of available-for-sale securities	(3,904,888)	(42,561,815)
Purchases of held-to-maturity securities	-	(325,806)
Proceeds from maturities and principal payments of		
Available-for-sale securities	10,918,994	19,357,326
Held-to-maturity securities	290,000	160,000
Proceeds from the sales of available-for-sale securities	6,112,601	5,552,834
Proceeds from FHLB stock redemption	1,526,600	-
Purchases of loans	(3,962,689)	-
Proceeds from sale of participation loans	4,740,407	1,000,000
Net change in loans	(19,386,367)	1,309,157
Proceeds from sale of foreclosed real estate and repossessed assets	441,537	1,505,290
Expenditures on premises and equipment	(354,847)	(218,978)
Net cash used in investing activities	(4,799,385)	(15,446,992)
Financing Activities		
Net change in deposits	4,279,972	(2,703,388)
Proceeds from FHLB advances	26,000,000	8,000,000
Repayment of FHLB advances	(23,000,000)	(8,000,000)
Net change in other borrowed funds	(1,843,798)	(147,024)
Dividends paid	(965,674)	(960,360)
Purchase of treasury stock	(658,518)	(244,240)
Net cash provided by (used in) financing activities	3,811,982	(4,055,012)
Net Change in Cash and Cash Equivalents	3,027,459	(12,727,477)
Cash and Cash Equivalents, Beginning of Year	7,958,158	20,685,635
Cash and Cash Equivalents, End of Year	$ 10,985,617	$ 7,958,158
Supplemental Cash Flows Information		
Interest paid	$ 1,267,804	$ 1,366,096
Income taxes paid	1,175,000	425,000
Noncash Transactions		
Transfer from loans to other real estate and repossessed assets	45,532	396,581
Due to broker	-	300,000

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

The consolidated financial statements include the accounts of Northeast Indiana Bancorp, Inc. (Northeast Indiana Bancorp) and its wholly owned subsidiary, First Federal Savings Bank (First Federal) and its wholly owned subsidiary, FFSB Portfolio Holdings, Inc. (Nevada Investment Subsidiary) and its wholly owned subsidiary, FFSB Real Estate Holdings, Inc. (REIT), together referred to as (Company). Northeast Indiana Bancorp, Inc. was organized for the purpose of owning all of the outstanding stock of First Federal.

During 2009, First Federal organized the Nevada Investment Subsidiary and transferred certain securities to be managed by the Nevada Investment Subsidiary. In addition, the REIT was organized in Maryland as a subsidiary of the Nevada Investment Subsidiary. First Federal transferred a significant amount of its single family mortgage portfolio into the REIT during 2009. The establishment of these two operating subsidiaries of First Federal will help the Company to reduce its state franchise tax liability going forward.

The primary source of income for the Company is the origination of commercial and residential real estate loans in northeastern Indiana. Loans secured by real estate mortgages comprise approximately 71% and 76% of the loan portfolio at December 31, 2014 and 2013, respectively, and are primarily secured by residential mortgages.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

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

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses and the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans. In connection with the determination of the allowance for loan losses and the valuation of foreclosed assets held for sale, management obtains independent appraisals for significant properties.

Interest-Earning Time Deposits in Banks

Interest-earning time deposits 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 or trading, 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 (loss). Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

For debt securities with fair value below amortized cost when the Company does not intend to sell a debt security, and it is more likely than not the Company will not have to sell the security before recovery of its cost basis, it recognizes the credit component of an other-than-temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income (loss). For held-to-maturity debt securities, the amount of an other-than-temporary impairment recorded in other comprehensive income (loss) for the noncredit portion of a previous other-than-temporary impairment is amortized prospectively over the remaining life of the security on the basis of the timing of future estimated cash flows of the security.

For equity securities, when the Company has decided to sell an impaired available-for-sale security and the entity does not expect the fair value of the security to fully recover before the expected time of sale, the security is deemed other-than-temporarily impaired in the period in which the decision to sell is made. The Company recognizes an impairment loss when the impairment is deemed other-than-temporary even if a decision to sell has not been made.

Loans Held for Sale

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or fair value in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance by charges to noninterest income. Gains and losses on loan sales 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 the loan.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoffs are reported at their outstanding principal balances adjusted for unearned income, charge-offs, the allowance for loan losses, any unamortized deferred fees or costs on originated loans and unamortized premiums or discounts on purchased loans.

For loans amortized at cost, interest income is accrued based on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, as well as premiums and discounts, are deferred and amortized as a level yield adjustment over the respective term of the loan.

The accrual of interest on mortgage and commercial loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Past-due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual or charged off are reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to income. 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 revision as more information becomes available.

The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired. For those 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 that loan. The general component covers nonclassified loans and is based on historical charge-off experience and expected loss given default derived from the Company's internal risk rating process. Other adjustments may be made to the allowance for pools of loans after an assessment of internal or external influences on credit quality that are not fully reflected in the historical loss or risk rating data.

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 of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons 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.

Groups of loans with similar risk characteristics are collectively evaluated for impairment based on the group's historical loss experience adjusted for changes in trends, conditions and other relevant factors that affect repayment of the loans. Accordingly, the Company does not separately identify individual consumer and residential loans for impairment measurements, unless such loans are the subject of a restructuring agreement due to financial difficulties of the borrower.

Foreclosed Assets

Assets acquired through or instead of loan foreclosure are initially recorded at fair value, less estimated costs to sell when acquired, establishing a new cost basis. If the value subsequently declines, a valuation allowance is recorded through expense. Costs after acquisition are expensed. Foreclosed assets totaled $134,000 and $528,000 at December 31, 2014 and 2013, respectively.

Investments in Limited Liability Partnerships

These represent the Company's investments in affordable housing projects for the primary purpose of available tax benefits. They are accounted for using the cost method of accounting. The excess of the carrying amount of the investment over its estimated residual value is amortized during the periods in which associated tax credits are allocated to the investor. The annual amortization of the investment is based on the proportion of tax credits received in the current year to total estimated tax credits to be allocated to the Company. These investments are reviewed for impairment when events indicate their carrying amounts may not be recoverable from future undiscounted cash flows. If impaired, the investments are reported at discounted amounts.

Premises and Equipment

Land is carried at cost. Premises and equipment is stated at cost, less accumulated depreciation. Depreciation is computed over asset useful lives on the straight-line basis. The useful lives for buildings and leasehold improvements range from 10 to 40 years. The useful lives for furniture, fixtures and equipment range from 3 to 10 years.

Federal Home Loan Bank Stock

Federal Home Loan Bank stock is a required investment for institutions that are members of the Federal Home Loan Bank system. The required investment in the common stock is based on a predetermined formula, carried at cost and evaluated for impairment.

Company (or Bank) Owned Life Insurance

The Company has purchased life insurance policies on certain key executives. Company-owned life insurance is recorded at its cash surrender value, or the amount that can be realized.

Goodwill and Other Intangible Assets

Goodwill results from business acquisitions and represents the excess of the purchase price over the fair value of acquired tangible assets and liabilities and identifiable intangible assets. Goodwill is assessed at least annually for impairment and any such impairment will be recognized in the period identified.

Other intangible assets consist of acquired customer relationship intangible assets arising from business acquisitions. They are initially measured at fair value and then are amortized on an accelerated method over the estimated useful lives of eight years. Such assets are periodically evaluated as to the recoverability of their carrying value.

Mortgage-Servicing Rights

Mortgage-servicing rights on originated loans that have been sold are initially recorded at fair value. Amortized mortgage-servicing rights include commercial and mortgage loan-servicing rights. Under the amortization method, servicing rights are amortized in proportion to and over the period of estimated net servicing income. The amortized assets are assessed for impairment or increased obligation based on fair value at each reporting date.

Each class of separately recognized servicing assets subsequently measured using the amortization method are evaluated and measured for impairment. Impairment is determined by stratifying rights into tranches based on predominant characteristics, such as interest rate, loan type and investor type. Impairment is recognized through a valuation allowance for an individual tranche, to the extent that fair value is less than the carrying amount of the servicing assets for that tranche. The valuation allowance is adjusted to reflect changes in the measurement of impairment after the initial measurement of impairment. Fair value in excess of the carrying amount of servicing assets for that stratum is not recognized.

Servicing fee income is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal or a fixed amount per loan and are recorded as income when earned. The amortization of mortgage-servicing rights is netted against loan servicing fee income.

Securities Sold Under Repurchase Agreements

Substantially all securities sold under repurchase agreements represent amounts advanced by various customers. Securities are pledged to cover these liabilities, which are not covered by federal deposit insurance.

Treasury Stock

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

Stock Options

At December 31, 2014 and 2013, the Company has a share-based employer compensation plan, which is more fully described in Note 15.

Income Taxes

Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax basis of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

Earnings Per Common Share

Basic earnings per common share is net income divided by the weighted-average number of common shares outstanding during the period. ESOP and Recognition and Retention Plan (RRP) shares are considered outstanding for this calculation unless unearned. Diluted earnings per common share includes the dilutive effect of additional potential common shares issuable under stock options and RRP plans.

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income or loss. Other comprehensive income or loss includes unrealized gains and losses on securities available for sale, net of tax, which are also recognized as separate components of shareholders' equity.

Dividend Restriction

Banking regulations require maintaining certain capital levels and may limit the dividends paid by First Federal to Northeast Indiana Bancorp or by Northeast Indiana Bancorp to shareholders.

Restriction on Cash and Due From Banks

The Bank considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2014 and 2013, cash equivalents consisted primarily of deposit accounts with financial institutions.

The Bank is required to maintain reserve funds in cash and/or on deposit with the Federal Reserve Bank. The reserve required at December 31, 2014 was $2,140,000.

At December 31, 2014, the Company’s cash accounts exceeded federally insured limits by approximately $5,806,000, of which $5,412,000 was held by either the Federal Reserve Bank or Federal Home Loan Bank of Indianapolis.

Reclassifications

Certain reclassifications have been made to the 2013 financial statements to conform to the 2014 financial statement presentation. These reclassifications had no effect on net income.

Note 2: Securities

The fair value of available-for-sale securities and the related gross unrealized gains and losses recognized in accumulated other comprehensive income (loss) were as follows:

	Amortization Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-Sale Securities:				
December 31, 2014:				
U.S. Government agencies	$ 5,685,019	$ 2,632	$ (29,400)	$ 5,658,251
U.S. Government agency-sponsored mortgage-backed securities	35,235,352	421,536	(135,699)	35,521,189
State and political subdivision	28,848,473	555,176	(106,251)	29,297,398
	$ 69,768,844	$ 979,344	$ (271,350)	$ 70,476,838
December 31, 2013:				
U.S. Government agencies	$ 7,728,290	$ 3,437	$ (105,680)	$ 7,626,047
U.S. Government agency-sponsored mortgage-backed securities	47,624,898	305,485	(610,260)	47,320,123
State and political subdivisions	28,167,337	192,773	(777,445)	27,582,665
	$ 83,520,525	$ 501,695	$ (1,493,385)	$ 82,528,835

There were securities held to maturity at December 31, 2014 and 2013 with an amortized cost of approximately $1,129,000 and $1,466,000, respectively, and a fair value of approximately $1,119,000 and $1,435,000, respectively.

The amortized cost and fair value of available-for-sale and held-to-maturity securities at December 31, 2014, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available-for-Sale	
	Amortized Cost	Fair Value
Within one year	$ 3,008,108	$ 3,009,241
One to five years	8,125,461	8,127,229
Five to ten years	17,358,924	17,634,916
After ten years	6,040,999	6,184,263
	34,533,492	34,955,649
Mortgage-backed securities	35,235,352	35,521,189
Totals	$ 69,768,844	$ 70,476,838

	Held-to-Maturity	
	Amortized Cost	Fair Value
Due in one year or less	$ -	$ -
One to five years	816,941	802,148
Five to ten years	-	-
After ten years	312,227	317,160
Totals	$ 1,129,168	$ 1,119,308

Sales of securities available for sale were as follows:

	2014	2013
Proceeds	$ 6,112,601	$ 5,552,834
Gross gains	28,725	249,982
Gross losses	(54,507)	(5,037)

Securities pledged at December 31, 2014 and 2013 had a carrying value of $7,558,000 and $9,909,000, respectively, and were pledged to secure securities sold under repurchase agreements and Federal Home Loan Bank advances.

Certain investments in debt and marketable equity securities are reported in the consolidated financial statements at an amount less than their historical cost. Total fair value of these investments at December 31, 2014 and 2013 was approximately $25,886,000 and $49,178,000, respectively, which is approximately 36% and 59% of the Company’s investment portfolio.

The following tables show the Company's investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2014 and 2013:

	2014					
	Less Than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-Sale Securities:						
U.S. Government agencies	$ 996,154	$ (3,846)	$ 3,254,782	$ (25,554)	$ 4,250,936	$ (29,400)
U.S. Government agency-sponsored mortgage-backed securities	1,578,489	(5,895)	10,483,450	(129,804)	12,061,939	(135,699)
State and political subdivisions	3,476,016	(20,405)	5,427,497	(85,846)	8,903,513	(106,251)
	6,050,659	(30,146)	19,165,729	(241,204)	25,216,388	(271,350)
Held-to-Maturity Securities:						
State and political subdivisions	206,346	(206)	463,642	(18,318)	669,988	(18,524)
Total temporarily impaired securities	$ 6,257,005	$ (30,352)	$ 19,629,371	$ (259,522)	$ 25,886,376	$ (289,874)

	2013					
	Less Than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-Sale Securities:						
U.S. Government agencies	$ 5,263,139	$ (105,680)	$ -	$ -	$ 5,263,139	$ (105,680)
U.S. Government agency-sponsored mortgage-backed securities	23,055,070	(525,419)	3,472,836	(84,841)	26,527,906	(610,260)
State and political subdivisions	14,876,085	(724,152)	1,254,668	(53,293)	16,130,753	(777,445)
	43,194,294	(1,355,251)	4,727,504	(138,134)	47,921,798	(1,493,385)
Held-to-Maturity Securities:						
State and political subdivisions	783,603	(22,599)	472,815	(15,834)	1,256,418	(38,433)
Total temporarily impaired securities	$ 43,977,897	$ (1,377,850)	$ 5,200,319	$ (153,968)	$ 49,178,216	$ (1,531,818)

U.S. Government Agencies

The unrealized losses on the Company's investments in direct obligations of U.S. government agencies were caused by interest rate increases. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost basis of the investments. Because the Company does not intend to sell the investments and it is not more likely than not the Company will be required to sell the investments before recovery of their amortized cost basis, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2014.

U.S. Government Agency-Sponsored Mortgage-Backed Securities

The unrealized losses on the Company's investment in residential mortgage-backed securities were caused by interest rate increases. The Company expects to recover the amortized cost basis over the term of the securities. 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 the Company will be required to sell the investments before recovery of their amortized cost basis, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2014.

State and Political Subdivisions

The unrealized losses on the Company's investments in securities of state and political subdivisions were caused by interest rate increases. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost basis of the investments. Because the Company does not intend to sell the investments and it is not more likely than not the Company will be required to sell the investments before recovery of their amortized cost basis, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2014.

Note 3: Loans Receivable, Net

Categories of loans at December 31, include:

	2014	2013
Residential mortgage		
Permanent mortgage	$ 41,698,368	$ 43,631,108
Construction - residential	2,132,804	1,235,900
Commercial mortgage	69,004,324	57,256,124
Construction and land development		
Construction - nonresidential	1,148,267	1,690,582
Land and land development	9,561,499	9,869,815
Commercial and industrial	32,700,497	24,111,612
Consumer		
Automobile	8,559,131	8,971,716
Home equity and second mortgage	6,984,215	7,016,646
Other	1,178,705	1,302,667
Total loans	172,967,810	155,086,170
Less		
Loans in process	(40,742)	(33,365)
Undisbursed portion of construction loans	(639,075)	(740,621)
Net deferred loan origination fees	(156,855)	(165,984)
Allowance for loan losses	(3,402,355)	(3,355,534)
Net loans	$ 168,728,783	$ 150,790,666

Note 4: Allowance for Loan Losses

The following tables present the balance in the allowance for loan losses and the recorded investment in loans based on portfolio segment and impairment method as of December 31, 2014 and 2013:

	2014					
	Residential Mortgage	Commercial Mortgage	Construction and Land Development	Commercial and Industrial	Consumer	Total
Allowance for loan losses:						
Balance, January 1	$ 385,404	$ 1,550,347	$ 461,730	$ 749,461	$ 208,592	$ 3,355,534
Provision charged to expense	(76,539)	(59,086)	(96,549)	783,508	73,666	625,000
Charge-offs	(45,664)	(175,000)	-	(330,000)	(211,351)	(762,015)
Recoveries	3,535	50,000	-	-	130,301	183,836
Balance, December 31	$ 266,736	$ 1,366,261	$ 365,181	$ 1,202,969	$ 201,208	$ 3,402,355
Individually evaluated for impairment	$ 95,000	$ 325,000	$ 54,000	$ 369,000	$ -	$ 843,000
Collectively evaluated for impairment	171,736	1,041,261	311,181	833,969	201,208	2,559,355
Balance, December 31	$ 266,736	$ 1,366,261	$ 365,181	$ 1,202,969	$ 201,208	$ 3,402,355
Ending balance:						
Individually evaluated for impairment	$ 1,922,209	$ 3,538,988	$ 696,912	$ 1,830,545	$ -	$ 7,988,654
Collectively evaluated for impairment	41,908,963	65,465,336	10,012,854	30,869,952	16,722,051	164,979,156
Ending balance: December 31	$ 43,831,172	$ 69,004,324	$ 10,709,766	$ 32,700,497	$ 16,722,051	$ 172,967,810

	2013					
	Residential Mortgage	Commercial Mortgage	Construction and Land Development	Commercial and Industrial	Consumer	Total
Allowance for loan losses:						
Balance, January 1	$ 553,577	$ 1,618,553	$ 458,828	$ 1,001,668	$ 213,395	$ 3,846,021
Provision charged to expense	33,577	769,729	115,402	226,080	105,212	1,250,000
Charge-offs	(208,021)	(910,736)	(145,000)	(672,258)	(209,271)	(2,145,286)
Recoveries	6,271	72,801	32,500	193,971	99,256	404,799
Balance, December 31	$ 385,404	$ 1,550,347	$ 461,730	$ 749,461	$ 208,592	$ 3,355,534
Individually evaluated for impairment	$ 72,000	$ 727,000	$ 16,000	$ 191,000	$ -	$ 1,006,000
Collectively evaluated for impairment	313,404	823,347	445,730	558,461	208,592	2,349,534
Balance, December 31	$ 385,404	$ 1,550,347	$ 461,730	$ 749,461	$ 208,592	$ 3,355,534
Ending balance:						
Individually evaluated for impairment	$ 1,651,790	$ 4,327,661	$ 754,436	$ 2,058,984	$ -	$ 8,792,871
Collectively evaluated for impairment	43,215,218	52,928,463	10,805,961	22,052,628	17,291,029	146,293,299
Ending balance: December 31	$ 44,867,008	$ 57,256,124	$ 11,560,397	$ 24,111,612	$ 17,291,029	$ 155,086,170

We rate all loans by credit quality using the following designations:

Grade 1 - Excellent

Loans secured by liquid collateral, such as certificates of deposit, reputable bank letters of credit, or other cash equivalents; loans that are guaranteed or otherwise backed by the full faith and credit of the United States government or an agency thereof, such as the Small Business Administration; or loans to any publicly held company with a current long-term debt rating of A or better.

Grade 2 - Good

Loans to businesses that have strong financial statements containing an unqualified opinion from a CPA firm and at least three consecutive years of profits; loans supported by unaudited financial statements containing strong balance sheets, five consecutive years of profits, a five-year satisfactory relationship with the Bank, and key balance sheet and income statement trends that are either stable or positive; loans secured by publicly traded marketable securities where there is no impediment to liquidation; loans to individuals backed by liquid personal assets, established credit history, and unquestionable character; or loans to publicly held companies with current long-term debt ratings of Baa or better.

Grade 3 - Satisfactory

Loans supported by financial statements (audited or unaudited) that indicate average or slightly below average risk and having some deficiency or vulnerability to changing economic conditions; loans with some weakness but offsetting features of other support are readily available; loans that are meeting the terms of repayment, but which may be susceptible to deterioration if adverse factors are encountered.

Loans may be graded Satisfactory when there is no recent information on which to base a current risk evaluation and the following conditions apply:

- At inception, the loan was properly underwritten, did not possess an unwarranted level of credit risk, and the loan met the above criteria for a risk grade of Excellent, Good or Satisfactory.
- At inception, the loan was secured with collateral possessing a loan value adequate to protect the Bank from loss.
- The loan has exhibited two or more years of satisfactory repayment with a reasonable reduction of the principal balance.
- During the period that the loan has been outstanding, there has been no evidence of any credit weakness. Some examples of weakness include slow payment, lack of cooperation by the borrower, breach of loan covenants, or the borrower is in an industry known to be experiencing problems. If any of these credit weaknesses is observed, a lower risk grade may be warranted.

Grade 4 - Satisfactory/Monitored

Loans in this category are considered to be of acceptable credit quality, but contain greater credit risk than Satisfactory loans due to weak balance sheets, marginal earnings or cash flow, or other uncertainties. These loans warrant a higher than average level of monitoring to ensure that weaknesses do not advance. The level of risk in a Satisfactory/Monitored loan is within acceptable underwriting guidelines so long as the loan is given the proper level of management supervision.

Grade 5 - Special Mention

Loans, which possess some credit deficiency, or potential weakness, which deserves close attention. Such loans pose an unwarranted financial risk that, if not corrected, could weaken the loan by adversely impacting the future repayment ability of the borrower. The key distinctions of a Special Mention classification are that (1) it is indicative of an unwarranted level of risk and (2) weaknesses are considered “potential,” not “defined,” impairments to the primary source of repayment.

Grade 6 - Substandard

One or more of the following characteristics may be exhibited in loans classified Substandard:

- Loans, which possess a defined, credit weakness. The likelihood that a loan will be paid from the primary source of repayment is uncertain. Financial deterioration is underway and very close attention is warranted to ensure that the loan is collected without loss.
- Loans are inadequately protected by the current net worth and paying capacity of the obligor.
- The primary source of repayment is gone, and the Bank is forced to rely on a secondary source of repayment, such as collateral liquidation or guarantees.
- Loans have a distinct possibility that the Bank will sustain some loss if deficiencies are not corrected.
- Unusual courses of action are needed to maintain a high probability of repayment.
- The borrower is not generating enough cash flow to repay loan principal; however, it continues to make interest payments.
- The lender is forced into a subordinated or unsecured position due to flaws in documentation.
- Loans have been restructured so that payment schedules, terms and collateral represent concessions to the borrower when compared to the normal loan terms.
- The lender is seriously contemplating foreclosure or legal action due to the apparent deterioration in the loan.
- There is a significant deterioration in market conditions to which the borrower is highly vulnerable.

Grade 7 - Doubtful

One or more of the following characteristics may be present in loans classified Doubtful:

- Loans have all of the weaknesses of those classified as Substandard. However, based on existing conditions, these weaknesses make full collection of principal highly improbable.
- The primary source of repayment is gone, and there is considerable doubt as to the quality of the secondary source of repayment.
- The possibility of loss is high but because of certain important pending factors, which may strengthen the loan, loss classification is deferred until the exact status of repayment is known.

Grade 8 - Loss

Loans are considered uncollectible and of such little value that continuing to carry them as assets is not feasible. Loans will be classified Loss when it is neither practical nor desirable to defer writing off or reserving all or a portion of a basically worthless asset, even though partial recovery may be possible at some time in the future.

The risk characteristics of each loan portfolio segment are as follows:

<u>Commercial Mortgage</u>

Commercial mortgage loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Commercial mortgage lending typically involves higher loan principal amounts and the repayment of these loans is generally dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Commercial mortgage loans may be more adversely affected by conditions in the real estate markets or in the general economy. The characteristics of properties securing the Company's commercial mortgage portfolio are diverse, but with geographic location almost entirely in the Company's market area. Management monitors and evaluates commercial real estate loans based on collateral, geography and risk grade criteria. In general, the Company avoids financing single purpose projects unless other underwriting factors are present to help mitigate risk. In addition, management tracks the level of owner-occupied commercial real estate versus nonowner-occupied loans.

<u>Construction and Land Development</u>

Construction loans are underwritten utilizing feasibility studies, independent appraisal reviews and financial analysis of the developers and property owners. Construction loans are generally based on estimates of costs and value associated with the complete project. These estimates may be inaccurate. Construction loans often involve the disbursement of substantial funds with repayment substantially dependent on the success of the ultimate project. Sources of repayment for these types of loans may be pre-committed permanent loans from approved long-term lenders, sales of developed property or an interim loan commitment from the Company until permanent financing is obtained. These loans are closely monitored by on-site inspections and are considered to have higher risks than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, governmental regulation of real property, general economic conditions and the availability of long-term financing.

<u>Commercial and Industrial</u>

Commercial and industrial loans are primarily based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. The cash flows of borrowers, however, may not be as expected and the collateral securing these loans may fluctuate in value. Most commercial loans are secured by the assets being financed or other business assets, such as accounts receivable or inventory, and may include a personal guarantee. Short-term loans may be made on an unsecured basis. In the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers.

Residential Mortgage and Consumer

Residential and consumer loans consist of two segments - residential mortgage loans and consumer loans. For residential mortgage loans that are secured by 1-4 family residences and are generally owner-occupied, the Company generally establishes a maximum loan-to-value ratio and requires private mortgage insurance if that ratio is exceeded. Home equity loans are typically secured by a subordinate interest in 1-4 family residences, and consumer personal loans are secured by consumer personal assets, such as automobiles or recreational vehicles. Some consumer personal loans are unsecured, such as small installment loans and certain lines of credit. Repayment of these loans is primarily dependent on the personal income of the borrowers, which can be impacted by economic conditions in their market areas, such as unemployment levels. Repayment can also be impacted by changes in property values on residential properties. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers.

The following tables present the credit risk profile of the Company's loan portfolio based on rating category and payment activity as of December 31, 2014 and 2013:

	2014			
	Commercial Mortgage	Construction and Land Development	Commercial and Industrial	Total
1-4 - Pass	$ 65,833,955	$ 10,012,854	$ 27,045,979	$ 102,892,788
5 - Special Mention	242,141	-	3,395,713	3,637,854
6 - Substandard	2,928,228	696,912	2,041,767	5,666,907
7 - Doubtful	-	-	217,038	217,038
8 - Loss	-	-	-	-
	$ 69,004,324	$ 10,709,766	$ 32,700,497	$ 112,414,587

	Residential Mortgage	Consumer	Total
Performing	$ 39,866,809	$ 16,387,961	$ 56,254,770
Accruing restructured	609,702	-	609,702
Delinquent less than 90 days	1,694,848	275,707	1,970,555
Nonperforming	1,659,813	58,383	1,718,196
	$ 43,831,172	$ 16,722,051	$ 60,553,223
Subtotal			$ 172,967,810
Deferred loan fees and costs, overdrafts, in-process accounts			(836,672)
Total portfolio loans			$ 172,131,138

	2013			
	Commercial Mortgage	Construction and Land Development	Commercial and Industrial	Total
1-4 - Pass	$ 51,796,116	$ 11,178,839	$ 17,141,779	$ 80,116,734
5 - Special Mention	1,363,675	-	4,304,643	5,668,318
6 - Substandard	4,096,333	381,558	2,448,152	6,926,043
7 - Doubtful	-	-	217,038	217,038
8 - Loss	-	-	-	-
	$ 57,256,124	$ 11,560,397	$ 24,111,612	$ 92,928,133

	Residential Mortgage	Consumer	Total
Performing	$ 40,837,986	$ 16,867,211	$ 57,705,197
Accruing restructured	107,479	-	107,479
Delinquent less than 90 days	2,243,911	399,452	2,643,363
Nonperforming	1,677,632	24,366	1,701,998
	$ 44,867,008	$ 17,291,029	$ 62,158,037
Subtotal			$ 155,086,170
Deferred loan fees and costs, overdrafts, in-process accounts			(939,970)
Total portfolio loans			$ 154,146,200

The following tables present the Company's loan portfolio aging analysis as of December 31, 2014 and 2013:

2014

	Delinquent Loans						
	30-59 Days Past Due	60-89 Days Past Due	90 Days and Over	Total Past Due	Current	Total Portfolio Loans	Total Loans > 90 Days Accruing
Residential mortgage	$ 825,244	$ 409,800	$ 1,600,542	$ 2,835,586	$ 40,995,586	$ 43,831,172	$ -
Commercial mortgage	764,057	-	1,958,420	2,722,477	66,281,847	69,004,324	-
Construction and land development	459,804	-	-	459,804	10,249,962	10,709,766	-
Commercial and industrial	1,940	4,044	719,144	725,128	31,975,369	32,700,497	-
Consumer	129,577	146,130	58,383	334,090	16,387,961	16,722,051	-
Subtotal	$ 2,180,622	$ 559,974	$ 4,336,489	$ 7,077,085	$ 165,890,725	172,967,810	$ -
Deferred loan fees and costs, overdrafts, in-process accounts						(836,672)	
Total portfolio loans						$ 172,131,138	

2013

	Delinquent Loans						
	30-59 Days Past Due	60-89 Days Past Due	90 Days and Over	Total Past Due	Current	Total Portfolio Loans	Total Loans > 90 Days Accruing
Residential mortgage	$ 1,271,910	$ 972,001	$ 1,677,632	$ 3,921,543	$ 40,945,465	$ 44,867,008	$ -
Commercial mortgage	218,102		1,376,052	1,594,154	55,661,970	57,256,124	-
Construction and land development	-	-	-	-	11,560,397	11,560,397	-
Commercial and industrial	177,428	-	1,493,455	1,670,883	22,440,729	24,111,612	-
Consumer	270,058	129,394	21,549	421,001	16,870,028	17,291,029	-
Subtotal	$ 1,937,498	$ 1,101,395	$ 4,568,688	$ 7,607,581	$ 147,478,589	155,086,170	$ -
Deferred loan fees and costs, overdrafts, in-process accounts						(939,970)	
Total portfolio loans						$ 154,146,200	

The following table presents the Company's nonaccrual loans at December 31, 2014 and 2013:

	2014	2013
Residential mortgage	$ 1,659,813	$ 1,677,632
Commercial mortgage	2,479,112	2,248,321
Commercial and industrial	198,452	1,493,455
Consumer	58,383	24,366
	$ 4,395,760	$ 5,443,774

The following tables present impaired loans for the years ended December 31, 2014 and 2013:

	2014				
	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized
Loans without a specific valuation allowance					
Residential mortgage	$ 1,138,221	$ 1,138,221	$ -	$ 1,215,310	$ 23,276
Commercial mortgage	2,342,418	2,342,418	-	4,152,036	35,940
Construction and land development	341,558	341,558	-	803,311	15,092
Commercial and industrial	1,224,345	1,224,345	-	1,925,132	103,243
	$ 5,046,542	$ 5,046,542	$ -	$ 8,095,789	$ 177,551
Loans with a specific valuation allowance					
Residential mortgage	$ 783,988	$ 783,988	$ 95,000	$ 84,159	$ 47,616
Commercial mortgage	1,196,570	1,196,570	325,000	96,701	77,135
Construction and land development	355,354	355,354	54,000	15,486	11,649
Commercial and industrial	606,200	606,200	369,000	16,438	16,439
	$ 2,942,112	$ 2,942,112	$ 843,000	$ 212,784	$ 152,839
Total impaired loans					
Residential mortgage	$ 1,922,209	$ 1,922,209	$ 95,000	$ 1,299,469	$ 70,892
Commercial mortgage	3,538,988	3,538,988	325,000	4,248,737	113,075
Construction and land development	696,912	696,912	54,000	818,797	26,741
Commercial and industrial	1,830,545	1,830,545	369,000	1,941,570	119,682
Total impaired loans	$ 7,988,654	$ 7,988,654	$ 843,000	$ 8,308,573	$ 330,390

	2013				
	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized
Loans without a specific valuation allowance					
Residential mortgage	$ 840,612	$ 840,612	$ -	$ 856,825	$ 18,660
Commercial mortgage	2,090,524	2,090,524	-	3,641,914	85,028
Construction and land development	381,558	381,558	-	424,998	15,743
Commercial and industrial	1,741,047	1,741,047	-	2,161,374	86,673
	$ 5,053,741	$ 5,053,741	$ -	$ 7,085,111	$ 206,104
Loans with a specific valuation allowance					
Residential mortgage	$ 811,178	$ 811,178	$ 72,000	$ 566,735	$ 26,032
Commercial mortgage	2,237,137	2,237,137	727,000	2,401,989	108,376
Construction and land development	372,878	372,878	16,000	444,977	14,580
Commercial and industrial	317,937	317,937	191,000	403,198	8,478
	$ 3,739,130	$ 3,739,130	$ 1,006,000	$ 3,816,899	$ 157,466
Total impaired loans					
Residential mortgage	$ 1,651,790	$ 1,651,790	$ 72,000	$ 1,423,560	$ 44,692
Commercial mortgage	4,327,661	4,327,661	727,000	6,043,903	193,404
Construction and land development	754,436	754,436	16,000	869,975	30,323
Commercial and industrial	2,058,984	2,058,984	191,000	2,564,572	95,151
Total impaired loans	$ 8,792,871	$ 8,792,871	$ 1,006,000	$ 10,902,010	$ 363,570

At December 31, 2014 and 2013, the Company had a number of loans that were modified in troubled debt restructurings and impaired. The modification of terms of such loans included one or a combination of the following: an extension of maturity, a reduction of the stated interest rate or a permanent reduction of the recorded investment in the loan.

The following tables present information regarding troubled debt restructurings by class for the years ended December 31, 2014 and 2013.

Newly classified troubled debt restructurings:

	2014		
	Number of Loans	Pre-Modification Recorded Balance	Post-Modification Recorded Balance
Residential mortgage	6	$ 609,702	$ 609,702

	2013		
	Number of Loans	Pre-Modification Recorded Balance	Post-Modification Recorded Balance
Residential mortgage	1	$ 107,479	$ 107,479

The troubled debt restructurings described above did not increase the allowance for loan losses and did not result in charge-offs during the years ended December 31, 2014 and 2013.

Newly restructured loans by type of modification:

	2014			
	Interest Only	Term	Combination	Balance
Residential mortgage	$ 609,702	$ -	$ -	$ 609,702

	2013			
	Interest Only	Term	Combination	Balance
Residential mortgage	$ 107,479	$ -	$ -	$ 107,479

No troubled debt restructurings modified in the past 12 months have subsequently defaulted in 2014 and 2013.

Note 5: Secondary Mortgage Marketing Activities

Activity for capitalized mortgage-servicing rights was as follows:

	2014	2013
Servicing rights		
Carrying amount, beginning of year	$ 665,131	$ 581,401
Assumptions of servicing obligations	108,648	201,243
Amortized to expense	(95,598)	(117,513)
Carrying amount, end of year	$ 678,181	$ 665,131

At December 31, 2014 and 2013, the estimated fair value of mortgage-servicing rights exceeded the carrying value. Mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of loans serviced for others totaled $89,423,000 and $87,397,000 at December 31, 2014 and 2013, respectively.

Note 6: Premises and Equipment, Net

Premises and equipment were as follows:

	2014	2013
Land	$ 908,331	$ 908,332
Automobiles	66,580	66,580
Buildings and leasehold improvements	3,170,852	2,980,683
Furniture, fixtures and equipment	2,484,546	2,911,280
	6,630,309	6,866,875
Less accumulated depreciation	(3,632,223)	(3,937,355)
Net premises and equipment	$ 2,998,086	$ 2,929,520

Depreciation expense was approximately $283,000 and $271,000 for 2014 and 2013, respectively.

Note 7: Goodwill and Intangible Assets

Goodwill

The changes in the carrying amount of goodwill for the years ended December 31 were:

	2014	2013
Balance as of January 1	$ 130,972	$ 130,972
Acquired goodwill	-	-
Balance as of December 31	$ 130,972	$ 130,972

Note 8: Deposits

Time deposits of $100,000 or more were $28,637,000 and $21,864,000 at December 31, 2014 and 2013, respectively. Time deposits of $250,000 or more were $6,429,000 at December 31, 2014. Scheduled maturities of time deposits for the next five years were as follows:

2015	$ 25,413,118
2016	5,722,831
2017	4,008,931
2018	8,967,279
2019	1,822,986
	$ 45,935,145

Note 9: Borrowed Funds

Borrowed funds included the following at December 31:

	2014	2013
Federal Home Loan Bank (FHLB) advances	$ 23,000,000	$ 20,000,000
Securities sold under repurchase agreements	6,911,662	8,755,460
	$ 29,911,662	$ 28,755,460

Securities sold under agreements to repurchase are secured by government agency and mortgage-backed securities with a carrying amount of $7,558,000 and $9,909,000 for the years ended December 31, 2014 and 2013, respectively.

Securities sold under agreements to repurchase are financing arrangements that mature within one day. At maturity, the securities underlying the agreements are returned to the Company. Information concerning securities sold under agreements to repurchase is summarized as follows:

	2014	2013
Average daily balance during the year	$ 6,061,776	$ 8,172,138
Average interest rate during the year	0.03%	0.06%
Maximum month-end balance during the year	7,849,515	12,199,028
Weighted-average interest rate during the year	0.03%	0.06%

FHLB Advances

FHLB advances have fixed and variable interest rates ranging from 0.43% to 2.80%. Scheduled maturities and the weighted-average interest rates by maturity for the years ended December 31, were as follows:

	2014		2013	
	Amount	Weighted-Average Interest Rate	Amount	Weighted-Average Interest Rate
2014	$ -	-	$ 5,000,000	1.71%
2015	8,000,000	1.13%	5,000,000	1.55%
2016	5,000,000	1.58%	5,000,000	1.59%
2017	5,000,000	1.11%	2,000,000	1.23%
2018	5,000,000	1.51%	3,000,000	1.42%
	$ 23,000,000	1.30%	$ 20,000,000	1.55%

FHLB advances are secured by FHLB stock, eligible mortgage loans and specifically pledged securities. At December 31, 2014 and 2013, in addition to FHLB stock, collateral of approximately $40,116,756 and $40,485,000, respectively, was pledged to the FHLB to secure advances outstanding.

Note 10: Employee Benefits

Employee Pension Plan

The Company participates in the Pentegra Defined Benefit Plan for Financial Institutions (Pentegra Plan), an industry-wide, tax-qualified defined-benefit pension plan. The Pentegra Plan's Employer Identification Number is 13-5645888 and the Plan Number is 333. The Pentegra Plan operates as a multi-employer plan for accounting purposes and as a multiple employer plan under the *Employee Retirement Income Security Act of 1974* and the Internal Revenue Code. There are no collective bargaining agreements in place that require contributions to the Pentegra Plan. The Pentegra Plan is a single plan under Internal Revenue Code Section 413(c) and, as a result, all of the assets stand behind all of the liabilities.

The risks of participating in a multi-employer plan are different from a single-employer plan in the following aspects:

1. Assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers.
2. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
3. If the Company chooses to stop participating in some of its multi-employer plans, the Company may be required to pay those plans an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

The Company froze the benefits in the Pentegra Plan effective July 1, 2006. Full-time employees of the Company who had attained at least 21 years of age and completed one year of service were eligible to participate in the Pentegra Plan. In addition, employees who would have been eligible after July 1, 2006 are not eligible to participate. No further benefits will accrue subsequent to the freeze, and the freeze does not reduce the benefits accrued up to the date of the freeze.

Total contributions by all employer participants in the Pentegra Plan, as reported on Form 5500, totaled $170.1 million and $135.2 million, respectively, for the plan years ended June 30, 2014 and 2013. The Company’s contributions to the Pentegra Plan totaled $79,000 and $73,000, respectively, for the years ended December 31, 2014 and 2013 and do not represent more than 5% of the total contributions made by all employer participants in the Pentegra Plan. There have been no significant changes that affect the comparability of 2014 and 2013 contributions. Given the current interest rate environment, the lower asset valuations, and other factors impacting the operations of the Pentegra Plan, it is likely that our future funding obligations could increase.

401(k) Plan

Northeast Indiana Bancorp has a 401(k) plan for all employees who have completed one year of service (1,000 hours) and attained a minimum age of 21 years. Participants may make deferrals up to 75% of compensation. Northeast Indiana Bancorp matches 50% of elective deferrals on the first 6% of the participant's compensation. Expense for 2014 and 2013 was approximately $68,000 and $65,000, respectively.

Supplemental Retirement Plans

First Federal has a supplemental retirement plan for the Chairman of the Board of Directors and a deferred compensation plan for certain directors. First Federal also has a salary continuation plan for certain executive officers. First Federal is recording an expense equal to the change in the present value of the payment due at retirement based on the projected remaining years of service using the projected unit credit method. The balance of the plans was approximately $1,578,000 and $1,515,000 at December 31, 2014 and 2013, respectively. Expense related to the plans was approximately $154,000 and $149,000 for 2014 and 2013, respectively.

First Federal has purchased insurance on the lives of the participants in the supplemental retirement plan and the deferred compensation plan with First Federal as beneficiary. In addition, life insurance was purchased on a pool of officers both during 2003 and 2004 with First Federal as beneficiary. The cash surrender value of the life insurance was approximately $7,722,000 and $7,498,000 at December 31, 2014 and 2013, respectively. The income derived from the investment in life insurance included in other income was approximately $224,000 and $237,000 for 2014 and 2013, respectively.

Employee Stock Ownership Plan (ESOP)

An ESOP exists for the benefit of substantially all employees. Contributions to the ESOP are made by Northeast Indiana Bancorp and are determined by the Board of Directors at their discretion. The contributions may be made in the form of cash or common stock. The annual contributions may not be greater than the amount deductible for federal income tax purposes and cannot cause Northeast Indiana Bancorp to violate regulatory capital requirements.

There were no cash contributions or expense associated with the ESOP in 2014 and 2013. At December 31, 2014, the fair value of the 88,879 allocated shares held by the ESOP was $2,311,000. The fair value of the 87,379 allocated shares held by the ESOP at December 31, 2013 was $1,835,000.

Recognition and Retention Plan (RRP)

The RRP provides for issue of shares to directors, officers and employees. The maximum total shares available under the RRP were 105,620 but there are no new shares available for future grant. In 2002, the Omnibus Incentive Plan was approved with 158,753 shares available to be awarded through either stock options or RRP grants. There are currently 153,753 shares remaining available to be granted as of December 31, 2014. The shares awarded in prior periods will vest 20% per year over a period of five years. There were 1,500 RRP grants awarded in 2014 and no new RRP grants awarded in 2013. The expense associated with the RRP was approximately $24,000 in 2014 and $18,000 2013.

	2014	
	Shares	Weighted-Average Grant-Date Fair Value
Nonvested, beginning of year	3,711	$ 9.90
Awarded	1,500	20.79
Vested	(1,855)	9.90
Nonvested, end of year	3,356	$ 14.77

Unearned compensation at December 31, 2014 and 2013 related to the RRP shares is $50,000 and $37,000, respectively, and will be recognized over a weighted-average period of four years.

Note 11: Income Taxes

The Company or one of its subsidiaries files income tax returns in the U.S. federal jurisdiction and various states and foreign jurisdictions. With a few exceptions, the Company is no longer subject to U.S. federal, state and local or non-U.S. income tax examinations by tax authorities for years before 2011. The provision for income taxes includes these components:

	2014	2013
Federal		
Current	$ 961,192	$ 543,132
Deferred	105,142	180,090
State		
Current	112,153	(9,117)
Deferred	1,034	23,862
Income tax expense	$ 1,179,521	$ 737,967

Effective tax rates differ from federal statutory rates applied to financial statement income due to the following:

	2014	2013
Federal statutory rate of 34% times financial statement income before income taxes	$ 1,464,484	$ 1,093,058
Tax effect of		
State tax benefit, net of federal income tax effect	74,704	9,732
Low income housing credit	-	(1,000)
Tax-exempt income	(310,182)	(304,998)
Other, net	(49,485)	(58,825)
Income tax expense	$ 1,179,521	$ 737,967

The components of the net deferred tax asset included in other assets on the consolidated balance sheets were:

	2014	2013
Deferred tax assets		
Deferred compensation	$ 643,391	$ 622,756
Bad debts	1,043,513	965,772
Unrealized losses on available-for-sale securities	-	368,409
Deferred loan fees	63,953	68,227
Interest on nonaccrual loans	46,638	29,683
Low income housing credit carryforwards	-	159,334
Other	63,765	93,991
	1,861,260	2,308,172
Deferred tax liabilities		
Unrealized gains on available-for-sale securities	(257,002)	-
Depreciation	(376,426)	(300,485)
Prepaids	(125,159)	(106,632)
FHLB stock dividends	(90,375)	(153,201)
Pension and employee benefits	(6,094)	(10,063)
	(855,056)	(570,381)
Net deferred tax asset	$ 1,006,204	$ 1,737,791

Retained earnings at December 31, 2014 and 2013 include approximately $1,300,000 for which no deferred federal income tax liability has been recognized. This amount represents an allocation of income to bad debt deductions for tax purposes only. Reduction of amounts so allocated for purposes other than tax bad debt losses or adjustments arising from carryback of net operating losses would create income for tax purposes only, which would be subject to the then-current corporate income tax rate. The unrecorded deferred income tax liability on the above amount was approximately $442,000 at December 31, 2014 and 2013, respectively.

Note 12: Changes in Accumulated Other Comprehensive Income (AOCI) by Component

Amounts reclassified from AOCI and the affected line items in the consolidated statements of income during the years ended December 31, 2014 and 2013, were as follows:

	Amounts Reclassified From AOCI 2014	Amounts Reclassified From AOCI 2013	
Unrealized (gains) losses on available-for-sale securities			
	$ 25,782	$ (244,945)	Net realized (gains) losses on securities
	(10,212)	97,023	Tax effect
	$ 15,570	$ (147,922)	Net reclassified amount

Note 13: Regulatory Matters

First Federal is subject to regulatory capital requirements administered by federal regulatory agencies. Capital adequacy guidelines and prompt corrective action regulations involve quantitative measures of assets, liabilities and certain off-balance-sheet items calculated under regulatory accounting practices.

Capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weightings, and other factors, and the regulators can lower classifications in certain cases. Failure to meet various capital requirements can initiate regulatory action that could have a direct material effect on the consolidated financial statements.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized, although these terms are not used to represent overall financial condition. If only adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required.

At December 31, actual First Federal capital levels (in millions) and minimum required levels were:

	Actual		Minimum Required For Capital Adequacy Purposes		Minimum Required To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2014						
Total capital						
(to risk-weighted assets)	$ 30.8	17.0%	$ 14.5	8.0%	$ 18.1	10.0%
Tier I (core) capital						
(to risk-weighted assets)	28.5	15.7%	7.3	4.0%	10.9	6.0%
Tier I (core) capital						
(to adjusted total assets)	28.5	10.3%	11.1	4.0%	13.8	5.0%
As of December 31, 2013						
Total capital						
(to risk-weighted assets)	$ 29.1	17.7%	$ 13.2	8.0%	$ 16.4	10.0%
Tier I (core) capital						
(to risk-weighted assets)	27.1	16.5%	6.6	4.0%	9.9	6.0%
Tier I (core) capital						
(to adjusted total assets)	27.1	9.9%	10.9	4.0%	13.6	5.0%

First Federal was categorized as well capitalized at December 31, 2014 and 2013. There are no conditions or events since that notification that management believes have changed First Federal’s category.

Regulations of the Department of Financial Institutions limit the amount of dividends and other capital distributions that may be paid by savings institutions without prior approval of the Department of Financial Institutions. The regulatory restriction is based on a three-tiered system with the greatest flexibility being afforded to well-capitalized (Tier 1) institutions. First Federal is currently a Tier 1 institution. Accordingly, First Federal can make, without prior regulatory approval, distributions during a calendar year up to 100% of its retained net income for the calendar year-to-date plus retained net income for the previous two calendar years as long as First Federal would remain well-capitalized, as defined by the Department of Financial Institutions prompt corrective action regulations, following the proposed distribution.

Note 14: Commitments and Contingencies and Financial Instruments With Off-Balance-Sheet Risk

Some financial instruments, such as loan commitments, credit lines, letters of credit and overdraft protection, are issued to meet customer financing needs. These agreements to provide credit or to support the credit of others, as long as conditions established in the contract are met, usually have expiration dates. Commitments may expire without being used. Off-balance-sheet risk to credit loss exists up to the face amount of these instruments, although material losses are not anticipated. The same credit policies are used to make such commitments as are used for loans, including obtaining collateral at exercise of the commitment.

Financial instruments with off-balance-sheet risk were as follows:

	2014	2013
Fixed rate commitments	$ 4,208,510	$ 2,983,885
Variable rate commitments	18,620,298	21,387,054
Letter of credit	12,806,493	12,867,193

Most loan commitments have terms up to 60 days. At December 31, 2014, fixed commitments have contractual interest rates ranging from 3.00% to 6.00%. Most variable rate arrangements are tied either to the national monthly median cost of funds, prime rate or the U.S. Treasury bill rate and have spreads between 3.50% and 4.75%.

Certain executives of the Bank have employment contracts, which are based upon changes of control. The employment contracts provide for the payment of one to three years' worth of the officers' salaries upon a change of control.

Note 15: Stock Options

Options to buy stock have been granted to directors, officers and employees under two different stock option and incentive plans. Exercise price is the market price at date of grant. The maximum option term is ten years and options vest over five years under both plans. The Board of Directors passed a special resolution during 2005 immediately vesting all nonvested outstanding shares granted from the 2002 Omnibus Incentive Plan making 9,500 options immediately exercisable.

The 2002 Omnibus Incentive Plan was added to the Company's proxy statement and approved by the shareholders at the May 1, 2002 Northeast Indiana Bancorp, Inc. Annual Meeting. There were 158,753 new stock options approved under the new plan. At December 31, 2014, there were 153,753 shares authorized for future grants.

At December 31, 2014 and 2013, the Company had no stock options outstanding or exercisable.

Note 16: Related Party Transactions

Certain directors and officers of First Federal are loan customers. In management's opinion, such loans and other extensions of credit and deposits were made in the ordinary course of business and were made on substantially the same terms (including interest rates and collateral) as those prevailing at the time for comparable transactions with other persons. Further, in management's opinion, these loans did not involve more than normal risk of collectability or present other unfavorable features. A summary of related party loan activity for loans aggregating $60,000 or more to any one related party is as follows:

	2014	2013
Balance as of January 1	$ 1,944,652	$ 2,141,044
New loans	199,741	85,865
Repayments	(1,154,095)	(282,257)
Balance as of December 31	$ 990,298	$ 1,944,652

Related party deposits were approximately $2,020,760 and $1,329,000 at December 31, 2014 and 2013, respectively.

Note 17: Earnings Per Common Share

A reconciliation of the numerators and denominators of the basic earnings per common share and diluted earnings per common share computations for the years ended December 31, is presented below:

	2014	2013
Basic earnings per common share		
Net income available to common shareholders	$ 3,127,784	$ 2,476,908
Weighted-average common shares outstanding before adjustment	1,210,408	1,235,923
Less: nonvested RRP shares	(3,356)	(3,711)
Weighted-average common shares outstanding for basis earnings per common shares	1,207,052	1,232,212
Basic earnings per common share	$ 2.59	$ 2.01
Diluted earnings per common share		
Net income available to common shareholders, per above	$ 3,127,784	$ 2,476,908
Weighted-average common shares outstanding	1,207,052	1,232,212
Add: dilutive effects of assumed conversions and exercises of stock options and RRP shares	155	195
Weighted-average common and dilutive shares outstanding for dilutive earnings per common shares	1,207,207	1,232,407
Diluted earnings per common share	$ 2.59	$ 2.01

Note 18: Disclosures About Fair Values of Financial Instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

Recurring Measurements

The following tables present the fair value measurements of assets recognized in the accompanying consolidated balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2014 and 2013:

		2014 Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available-for-sale securities				
U.S. agencies	$ 5,658,251	$ -	$ 5,658,251	$ -
U.S. Government agency-sponsored mortgage-backed securities	35,521,189	-	35,521,189	-
State and political subdivision	29,297,398	-	29,297,398	-
	$ 70,476,838	$ -	$ 70,476,838	$ -

	2013			
		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available-for-sale securities				
U.S. agencies	$ 7,626,047	$ -	$ 7,626,047	$ -
U.S. Government agency-sponsored mortgage-backed securities	47,320,123	-	47,320,123	-
State and political subdivision	27,582,665	-	27,582,665	-
	$ 82,528,835	$ -	$ 82,528,835	$ -

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended December 31, 2014.

Available-for-Sale Securities

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Level 2 securities include U.S. Government agency securities, U.S. Government agency-sponsored mortgage-backed securities and obligations of state and political subdivisions. Level 2 securities are valued by a third-party pricing service commonly used in the banking industry, utilizing observable inputs. Observable inputs include dealer quotes, market spreads, cash flow analysis, the U.S. Treasury curve, trade execution data, market consensus prepayment spreads and available credit information. The pricing provided utilizes evaluated pricing models that are based on asset class. These models incorporate available market information including quoted prices of securities with similar characteristics and, because many fixed income securities do not trade on a daily basis, apply available information through processes such as benchmark curves. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

Nonrecurring Measurements

The following tables present the fair value measurement of assets measured at fair value on a nonrecurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2014 and 2013:

		2014 Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	$ 1,184,495	$ -	$ -	$ 1,184,495
Real estate owned	30,000	-	-	30,000

		2013 Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	$ 2,405,620	$ -	$ -	$ 2,405,620
Real estate owned	164,000	-	-	164,000

Following is a description of the valuation methodologies used for assets measured at fair value on a nonrecurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

Impaired Loans (Collateral Dependent)

The estimated fair value of collateral-dependent impaired loans is based on the appraised fair value of the collateral, less estimated cost to sell. Collateral-dependent impaired loans are classified within Level 3 of the fair value hierarchy.

The Company considers the appraisal or evaluation as the starting point for determining fair value and then considers other factors and events in the environment that may affect the fair value. Appraisals of the collateral underlying collateral-dependent loans are obtained when the loan is determined to be collateral-dependent and subsequently as deemed necessary by the Senior Credit Analyst. Appraisals are reviewed for reasonableness and consistency by the Senior Credit Analyst. Appraisers are selected from the list of approved appraisers maintained by management. The appraised values are reduced by discounts to consider lack of marketability and estimated cost to sell if repayment or satisfaction of the loan is dependent on the sale of the collateral. These discounts and estimates are developed by the Senior Credit Analyst's offices by comparison to historical results.

Real Estate Owned

Other real estate owned (OREO) is carried at the lower of fair value at acquisition date or current estimated fair value, less estimated cost to sell when the real estate is acquired. Estimated fair value of OREO is based on appraisals or evaluations. OREO is classified within Level 3 of the fair value hierarchy.

Appraisals of OREO are obtained when the real estate is acquired and subsequently as deemed necessary by the Chief Financial Officer. Appraisals are reviewed for reasonableness and consistency by the Chief Financial Officer. Appraisers are selected from the list of approved appraisers maintained by management.

Unobservable (Level 3) Inputs

The following tables present quantitative information about unobservable inputs used in nonrecurring Level 3 fair value measurements.

	Fair Value at December 31, 2014	Valuation Technique	Unobservable Inputs	Range
Collateral-dependent impaired loans	$ 1,184,495	Appraisal	Marketability discount	10% - 15%
Real estate owned	$ 30,000	Market comparable properties	Comparability adjustments	10% - 15%

	Fair Value at December 31, 2013	Valuation Technique	Unobservable Inputs	Range
Collateral-dependent impaired loans	$ 2,405,620	Appraisal	Marketability discount	10% - 15%
Real estate owned	$ 164,000	Market comparable properties	Comparability adjustments	10% - 15%

Fair Value of Financial Instruments

The following table presents estimated fair values of the Company's financial instruments at December 31, 2014 and 2013.

	2014		2013	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets				
Cash and cash equivalents	$ 10,985,617	$ 10,985,617	$ 7,958,158	$ 7,958,158
Interest-earning time deposits	8,355,733	8,355,733	7,135,000	7,135,000
Available-for-sale securities	70,476,838	70,476,838	82,528,835	82,528,835
Held-to-maturity securities	1,129,168	1,119,308	1,466,003	1,435,038
Loans held for sale	125,000	125,000	142,500	142,500
Loans receivable, net	168,728,783	172,111,783	150,790,666	156,090,666
Accrued interest receivable	933,935	933,935	932,105	932,105
FHLB stock	2,240,200	2,240,200	3,766,800	3,766,800
Financial liabilities				
Deposits	213,162,471	213,351,471	208,882,499	209,032,499
Borrowed funds	29,911,662	29,686,662	28,755,460	28,661,460
Accrued interest payable	63,428	63,428	63,014	63,014

While these estimates of fair value are based on management's judgment of the most appropriate factors, there is no assurance that were Northeast Indiana Bancorp to have disposed of such items at December 31, 2014 and 2013, the estimated fair values would necessarily have been achieved at that date, since market values may differ depending on various circumstances. The estimated fair values at December 31, 2014 and 2013 should not necessarily be considered to apply at subsequent dates.

The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying consolidated balance sheets at amounts other than fair value.

Cash and Cash Equivalents, Interest-Earning Time Deposits and Federal Home Loan Bank Stock

The carrying amount approximates fair value.

Held-to-Maturity Securities

Fair value is based on quoted market prices, if available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

Loans Held for Sale

The fair value for loans held for sale is based on market quotes.

Loans

The fair value of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. Loans with similar characteristics were aggregated for purposes of the calculations. The carrying amount of accrued interest approximates its fair value.

Deposits

Deposits include demand deposits, savings accounts, NOW accounts and certain money market deposits. The carrying amount approximates fair value. The fair value of fixed-maturity time deposits is estimated using a discounted cash flow calculation that applies the rates currently offered for deposits of similar remaining maturities.

Interest Receivable and Interest Payable

The carrying amount approximates fair value.

Borrowed Funds

Rates currently available to the Company for debt with similar terms and remaining maturities are used to estimate the fair value of existing debt.

Commitments to Originate Loans, Letters of Credit and Lines of Credit

The fair value of commitments to originate loans is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair value of forward sale commitments is estimated based on current market prices for loans of similar terms and credit quality. The fair values of letters of credit and lines of credit are based on fees currently charged for similar agreements or on the estimated cost to terminate or otherwise settle the obligations with the counterparties at the reporting date.

Note 19: Condensed Financial Information (Parent Company Only)

Presented below is condensed financial information as to financial position, results of operations and cash flows of Northeast Indiana Bancorp:

Condensed Balance Sheets

	2014	2013
Assets		
Cash and due from banks	$ 574,433	$ 535,804
Investment in subsidiary bank	29,674,570	27,119,680
Other assets	62,787	54,953
Total assets	$ 30,311,790	$ 27,710,437
Liabilities - accrued expenses	$ 9,996	$ 10,593
Shareholders' Equity	30,301,794	27,699,844
Total liabilities and shareholders' equity	$ 30,311,790	$ 27,710,437

Condensed Statements of Income and Comprehensive Income

	2014	2013
Income		
Dividends from subsidiaries	$ 1,750,000	$ 1,400,000
Expenses	150,869	139,368
Income Before Income Tax and Equity in Undistributed Income of Subsidiaries	1,599,131	1,260,632
Income Tax Benefit	(58,370)	(54,964)
Income Before Equity in Undistributed Income of Subsidiaries	1,657,501	1,315,596
Equity in Undistributed Income of Subsidiaries	1,470,283	1,161,312
Net Income	$ 3,127,784	$ 2,476,908
Comprehensive Income	$ 4,202,058	$ 1,056,924

Condensed Statements of Cash Flows

	2014	2013
Operating Activities		
Net income	$ 3,127,784	$ 2,476,908
Items not requiring (providing) cash		
Equity in undistributed income of subsidiaries	(1,470,283)	(1,161,312)
Change in		
Other assets	(7,834)	4,016
Accrued expenses	13,154	15,756
Net cash provided by operating activities	1,662,821	1,335,368
Financing Activities		
Dividends	(965,674)	(960,360)
Purchase of treasury stock	(658,518)	(244,240)
Net cash used in financing activities	(1,624,192)	(1,204,600)
Net Change in Cash and Due From Banks	38,629	130,768
Cash and Due From Banks at Beginning of Year	535,804	405,036
Cash and Due From Banks at End of Year	$ 574,433	$ 535,804

Note 20: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Estimates related to the allowance for loan losses are reflected in the footnote regarding loans. Current vulnerabilities due to certain concentrations of credit risk are discussed in the footnote on commitments and credit risk.

General Litigation

The Company is subject to claims and lawsuits that arise primarily in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the consolidated financial position, results of operations and cash flows of the Company.

Note 21: Subsequent Events

Subsequent events have been evaluated through the date of the Independent Auditor’s Report, which is the date the consolidated financial statements were available to be issued.