

SECURITIES AND EXCHANGE COMMISSION

FORM 10QSB

Optional form for quarterly and transition reports of small business issuers under section 13 or 15(d)

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FILER

**COMMUNITY NATIONAL BANCORPORATION**

CIK: 855386 | IRS No.: 581856963 | State of Incorporation: GA | Fiscal Year End: 1231  
Type: 10QSB | Act: 34 | File No.: 033-31013-A | Film No.: 95536206  
SIC: 6021 National commercial banks

Mailing Address  
600 EAST WASHINGTON  
AVENUE  
PO BOX 2619  
ASHBURN GA 31714

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600 EAST WASHINGTON AVE  
P O BOX 2619  
ASHBURN GA 31714  
9125679686

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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FORM 10-QSB

(Mark One)

X QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 1995.

OR

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 33-31013-A

COMMUNITY NATIONAL BANCORPORATION

(Exact name of small business issuer as specified in its charter)

Georgia

58-1856963

(State of Incorporation) (I.R.S. Employer Identification No.)

561 E. Washington Avenue, P.O. Box 2619, Ashburn, Georgia 31714

(Address of Principal Executive Offices)

(912) 567-9686

(Issuer's Telephone Number, Including Area Code)

Not Applicable

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Check whether the issuer (1) filed all reports required to be filed by section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the issuer was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X

No

APPLICABLE ONLY TO CORPORATE ISSUERS: Indicate the number of shares outstanding of each of the issuer's classes of common equity as of the latest practicable date.

Common stock, \$5.00 par value per share, 353,417 shares issued and outstanding as of May 1, 1995.

(Page 1 of 17)

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

COMMUNITY NATIONAL BANCORPORATION  
ASHBURN, GEORGIA  
Consolidated Balance Sheets

ASSETS

	March 31, 1995 (Unaudited)	December 31, 1994 (Unaudited)
Cash and due from banks	\$ 1,226,448	\$ 1,883,503
Federal funds sold	3,550,000	3,500,000
Total cash and cash equivalents	\$ 4,776,448	\$ 5,383,503
Securities:		
Available for sale, at fair values	7,857,819	9,822,680
Held to maturity (Fair value of \$1,656,282 (3-31-95) and \$1,629,938 (12-31-94))	1,670,644	1,674,191
Loans, net	46,602,971	41,566,324
Property and equipment, net	1,131,339	1,166,912
Other assets	1,516,260	1,587,807
Total Assets	\$63,555,481	\$61,201,417

LIABILITIES AND SHAREHOLDERS' EQUITY

Liabilities:		
Deposits		
Non-interest bearing deposits	\$ 3,607,592	\$ 4,956,350
Interest bearing deposits	54,476,277	50,992,030
Total deposits	\$58,083,869	\$55,948,380
Obligation under capital lease	124,196	145,588
Other liabilities	566,141	617,602
Total liabilities	\$58,774,206	\$56,711,570

Commitments and contingencies

Shareholders' Equity:

Common stock, \$5.00 par value, 10,000,000 shares authorized, 353,417 issued and outstanding	\$ 1,767,085	\$ 1,767,085
Paid-in-capital	1,712,903	1,712,903

Retained earnings	1,337,170	1,182,091
Unrealized (loss) on securities, net	(35,883)	(172,232)
Total Shareholders' Equity	4,781,275	\$ 4,489,847
Total liabilities and shareholders' equity	\$63,555,481	\$61,201,417

Refer to notes to the consolidated financial statements.

COMMUNITY NATIONAL BANCORPORATION  
ASHBURN, GEORGIA  
Unaudited Consolidated Statements of Income

	For the quarter	
	Ended March 31,	
	1995	1994
Interest income	\$1,352,219	\$1,198,060
Interest expense	623,779	497,804
Net interest margin	728,440	700,256
Provision for possible loan losses	55,000	144,000
Net interest income after provision for possible loan losses	673,440	556,256
Gain on sale of securities	689	106,608
Other income	94,163	97,629
Total other income	94,852	204,237
Salaries and benefits	219,941	190,418
Other operating expenses	189,282	273,200
Total operating expenses	409,223	463,618
Net income (loss) before taxes	359,069	296,875
Provision for income taxes	140,375	124,372
Net income after taxes	\$ 218,694	\$ 172,503
Net Income Per Share	\$ .52	\$ .44
Weighted average number of shares outstanding	424,100	396,951

Refer to notes to the financial statements.

COMMUNITY NATIONAL BANCORPORATION  
ASHBURN, GEORGIA  
Unaudited Consolidated Statements of Cash Flows  
for the quarter ended

	March 31,	
	1995	1994
Cash flows from operating activities	\$ 333,939	\$ 380,619
Cash flows from investing activities:		
Funds from matured securities and paydowns	106,056	1,164,942
Funds from sale of securities	1,999,999	3,204,687
Purchase of securities	- -	(3,507,809)
(Increase) in loans, net	(5,091,647)	(444,528)
Purchase of property and equipment	(5,884)	(6,576)
Net cash used in investing activities	\$ (2,991,476)	\$ 410,716
Cash flows from financing activities:		
Increase in customer deposits	\$ 2,135,489	\$ 507,320
Payment of cash dividends	(63,615)	(63,360)
(Decrease) in lease obligations	(21,392)	(20,164)
Net cash provided from financing activities	\$ 2,050,482	\$ 423,796
Net increase in cash and cash equivalents	\$ (607,055)	\$ 1,215,131
Cash and cash equivalents, beginning of period	5,383,503	6,627,123
Cash and cash equivalents, end of period	\$ 4,776,448	\$ 7,842,254

Refer to notes to the financial statements.

COMMUNITY NATIONAL BANCORPORATION  
ASHBURN, GEORGIA  
Notes to financial statements (Unaudited)  
March 31, 1995

Note 1 - Basis of Presentation

The accompanying unaudited financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-QSB. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three-month period ended March 31, 1995 are not necessarily indicative of the results that may be expected for the year ending December 31, 1995. For further information, refer to the financial statements and footnotes included in the Company's annual report on Form 10-KSB for the year ended December 31, 1994.

Note 2 - Organization of the Business

Community National Bancorporation, Ashburn, Georgia (the "Company") was organized in August, 1989 to serve as a holding company for a proposed de novo bank, Community National Bank, Ashburn, Georgia (the "Bank"). The Bank was chartered and is currently regulated by the Office of the Comptroller of the Currency; its deposits are each insured up to \$100,000, subject to aggregation rules, by the Federal Deposit Insurance Corporation. The Company purchased 100 percent of the Bank's shares by injecting \$3.3 million into the Bank's capital accounts immediately prior to commencement of banking operations (August, 1990).

Note 3 - Summary of Significant Accounting Policies

Basis of Presentation and Reclassification. The consolidated financial statements include the accounts of both the Company and the Bank. All

intercompany accounts and transactions have been eliminated in consolidation. Certain prior year amounts have been reclassified to conform to the current year presentation.

Basis of Accounting. The accounting and reporting policies of the Company conform to generally accepted accounting principles and to general practices in the banking industry. The Company uses

COMMUNITY NATIONAL BANCORPORATION  
ASHBURN, GEORGIA  
Notes to financial statements (Unaudited)  
March 31, 1995

the accrual basis of accounting by recognizing revenues when they are earned and expenses in the period incurred, without regard to the time of receipt or payment of cash.

Organizational Costs. In accordance with the Financial Accounting Standards Board ("FASB") Statement No. 7, the Company and the Bank capitalized all direct organizational costs that were incurred in the expectation that they would generate future revenues or otherwise be of benefit after the Bank opened for business. These capitalized costs are amortized over a sixty-month period using the straight line method.

Investment Securities. In May, 1993, FASB issued Statement of Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities" ("SFAS No. 115"), which the Company adopted as of December 31, 1993. SFAS No. 115 requires the reporting of certain securities at fair value except those securities which the Company has the positive intent and ability to hold to maturity. (Prior to the adoption of SFAS No. 115, all investment securities were carried at amortized cost). Management determines the appropriate classification of its investment securities at the time of purchase and accounts for them as follows:

(i) Held to maturity - The category of securities "held to maturity" are those investment securities that management has the intent to and the Company has the ability at the time of purchase to hold until maturity. Securities in this category are carried at amortized cost, adjusted for accretion of discounts and amortization of premiums using the straight line method over the estimated life of each security. If a security has a decline in fair value below its amortized cost that is other than temporary, that security will be written down to its new cost basis by recording a loss in the consolidated statement of income.

(ii) Available for sale - Investment securities to be held for indefinite periods of time and not intended to be held to maturity are classified as "available for sale". Assets included in this category are those assets that

management intends to use as part of its asset/liability management strategy and that may be sold

COMMUNITY NATIONAL BANCORPORATION  
ASHBURN, GEORGIA  
Notes to financial statements (Unaudited)  
March 31, 1995

in response to changes in interest rates. Securities available for sale are recorded at fair value. Both unrealized holding gains and losses on securities available for sale, net of taxes, are included as a separate component of shareholders' equity in the consolidated balance sheet until these gains or losses are realized. The cost of investment securities sold is determined by the specific identification method. If a security has a decline in fair value that is other than temporary, that security will be written down to its fair value by recording a loss in the consolidated statement of income.

(iii) Trading securities - Securities that are held principally for the purpose of selling in the near future are classified as trading securities. These securities are recorded at fair value. Both unrealized gains and losses are included in the consolidated statement of income. The Company currently has no securities classified as trading securities.

Loans, Interest and Fee Income on Loans. Loans are stated at the principal balance outstanding. Unearned discount, unamortized loan fees, if any, and the allowance for possible loan losses are deducted from total loans in the consolidated balance sheet. Interest income is recognized over the term of the loan based on the principal amount outstanding.

Loans are generally placed on non-accrual status when principal or interest becomes ninety days past due, or when payment in full is not anticipated. When a loan is placed on non-accrual status, interest accrued but not received is generally reversed against interest income. If collectibility is in doubt, cash receipts on non-accrual loans are first applied to reduce principal rather than to principal and interest, as in accrual loans. Classification of a loan as non-accrual is not necessarily indicative of a potential loss of principal. Points on real estate loans are taken into income to the extent they represent the direct cost of initiating a loan. The amount in excess of direct costs is deferred and amortized over the expected life of the loan.

Allowance for Possible Loan Losses. The provisions for loan losses charged to operating expenses reflect the amount deemed appropriate by management to establish an adequate reserve to meet the present and foreseeable risk characteristics of the current

COMMUNITY NATIONAL BANCORPORATION  
ASHBURN, GEORGIA



Notes to financial statements (Unaudited)  
March 31, 1995

loan portfolio. Management's judgement is based on periodic evaluation of individual loans, the overall risk characteristics of the various portfolio segments, past experience with losses and prevailing and anticipated economic conditions. Note, however, that ultimate losses may vary from the current estimates and any adjustments are charged against earnings in the periods in which they become known. Loans which are determined to be uncollectible are charged against the allowance. Provisions for loan losses and recoveries on loans previously charged-off are added to the allowance.

Property and Equipment. Furniture, equipment and leasehold improvements are stated at cost, net of accumulated depreciation. Depreciation is computed using the straight line method over the estimated useful lives of the related assets. Maintenance and repairs are charged to operations, while major improvements are capitalized. Upon retirement, sale or other disposition of property and equipment, the cost and accumulated depreciation are eliminated from the accounts, and gains or losses are included in income from operations.

Income Taxes. The Company and the Bank file consolidated income tax returns. The Company and the Bank adopted Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS No. 109") to be effective for the calendar year ended December 31, 1993. SFAS No. 109 utilizes the asset and liability method of accounting for income taxes rather than the deferred method which was previously utilized under Accounting Principles Board Opinion 11. Under SFAS No. 109, deferred income taxes are recognized for the tax consequences of "temporary differences" by applying enacted statutory tax rates applicable to future years to differences between financial statement carrying amounts and the tax basis of existing assets and liabilities. The effect on deferred income taxes of a change in tax rates is recognized in income in the period including the enactment date.

For years prior to 1993, the Bank and the Company used the deferred method of accounting for income taxes. Deferred federal and state income taxes were based on income and expenses reported in different periods for financial statement and income tax purposes at the then current statutory rate.

Statement of Cash Flows. For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks and federal funds sold. Generally, federal funds are purchased or sold for one-day periods.

COMMUNITY NATIONAL BANCORPORATION  
ASHBURN, GEORGIA  
Notes to financial statements (Unaudited)  
March 31, 1995

Profit Sharing Plan. During 1992, the Company instituted a Profit Sharing Plan (the "Plan") which covers substantially all of its full time employees upon their completion of one year of service, provided they are at least twenty-one years old. The Board of Directors determines the amounts to be contributed to the Plan on an annual basis.

Earnings Per Share. Primary earnings per share are computed by dividing net earnings by the weighted average number of common stock and common stock equivalents outstanding during the year. The outstanding options and warrants are considered common stock equivalents. In the computation of primary earnings per share, however, a common stock equivalent is only used if its effect is dilutive.

Dividends. The Company paid \$.18 in dividends for each share of common stock, or \$63,615 and \$63,360 to all shareholders during the quarters ended March 31, 1995 and 1994, respectively. The declaration of future dividends is within the discretion of the Board of Directors and will depend, among other things, upon business conditions, earnings, the financial condition of the Bank and the Company, and regulatory requirements.

Item 2 - Management Discussion and Analysis of Financial Condition and Results of Operation.

#### Liquidity and sources of capital

Community National Bancorporation (the "Company") was organized in August, 1989 and began banking operations through its wholly owned subsidiary, Community National Bank (the "Bank"), on August 6, 1990. During the period from April, 1989 (inception) to August 6, 1990, the Company was in the development stage and devoted most of its efforts to organizing, incorporating, planning, raising capital and recruiting personnel.

On August 6, 1990 the subsidiary Bank was capitalized with a \$3.3 million injection from the Company. By March 31, 1995, the Bank's capital had increased to \$4.6 million through retained earnings. This level of capitalization, as measured by the Bank's primary regulator, the OCC, is adequate based on the following capital ratios and guidelines.

	Bank's Mar. 31, 1995	Minimum required by regulator
Leverage ratio	7.6%	4.0%
Risk weighted ratio	10.5%	8.0%

Total assets increased by \$2.3 million to \$63.5 million during the three-month period ended March 31, 1995. The increase was generated from higher deposits and profits. The additional funds that were generated through growth were utilized primarily to expand the loan portfolio.

Liquidity is the Company's ability to meet all deposit withdrawals

immediately, while also providing for the credit needs of customers. The March 31, 1995 financial statements evidence a satisfactory liquidity position as total cash and cash equivalents amounted to \$4.8 million, representing 7.5% of total assets. Investment securities amounted to \$9.5 million, representing 14.9% of total assets; these securities provide a secondary source of liquidity since they can be converted into cash in a timely manner. The subsidiary Bank is a member of the Federal Reserve System and is maintaining relationships with several correspondent banks and, thus, could obtain funds on short notice. The Company's management closely monitors and maintains appropriate levels of interest earning assets and interest bearing liabilities, so that maturities of assets are such that adequate funds are provided to meet customer withdrawals and loan demand. There are no trends, demands, commitments, events or uncertainties that will result in or are reasonably likely to result in the Company's liquidity increasing or decreasing in any material way.

### Results of Operations

Net income for the three months ended March 31, 1995 amounted to \$218,694 or \$.52 per share. This compares with net income of \$172,503 or \$.44 per share attained during the same three-month period one year earlier. The primary reasons for the increase in net income from 1994 to 1995 are as follows:

- a. Net interest income, which represents the difference between interest received on interest earning assets and interest paid on interest bearing liabilities, has increased from \$700,256 for the three months ended March 31, 1994 to \$728,440 for the same period one year later, representing an increase of \$28,184, or 4.0%.
- b. Total operating expenses were reduced from \$463,618 for the three months ended March 31, 1994 to \$409,223 for the same period one year later. The reduction of \$54,395 in operating expenses is the result of cost-cutting efforts undertaken by management.
- c. Provisions for loan losses were reduced from \$144,000 for the three-month period ended March 31, 1994 to \$55,000 for the same three-month period one year later. As discussed below, the allowance for loan losses appears adequate.
- d. Note that other income was reduced from \$204,237 for the three-month period ended March 31, 1994 to \$94,852 for the same period one year later. The significant reduction in other income is due to the sale of government-guaranteed loans for a profit of approximately \$105,000 during the three-month period ended March 31, 1994. There were no such sales during the three-month period ended March 31, 1995.

At March 31, 1995 the allowance for loan losses amounted to \$750,339, or 1.58 percent of gross loans. Management considers the allowance for loan losses to be adequate and sufficient to absorb possible future losses; however, there can be no assurance that charge-offs in future periods will not

exceed the allowance for loan losses or that additional provisions to the allowance will not be required.

The Company is not aware of any current recommendation by the regulatory authorities which, if they were to be implemented, would have a material effect on the Company's liquidity, capital resources, or results of operations.

## PART II - OTHER INFORMATION

Item 1. Legal Proceedings. There are no material pending legal proceedings to which the Company or the Bank is a party or of which any of their property is the subject.

Item 2. Changes in Securities.

(a) None.

(b) None.

Item 3. Defaults Upon Senior Securities. None.

Item 4. Submission of Matters to a Vote of Security Holders. No matter has been submitted to a vote of security-holders during the quarter ended March 31, 1995.

Item 5. Other Information. None.

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits

3(a) Articles of Incorporation of Registrant (incorporated by reference to Exhibit 3(a) of Registration Statement on Form S-18, File No. 33-31013-A).

3(b) By-laws of Registrant (incorporated by reference to Exhibit 3(b) of Registration Statement on Form S-18, File No. 33-31013-A).

27 Financial Data Schedule

(b) Reports on Form 8-K - There were no reports on Form 8-K filed during the quarter ended March 31, 1995.

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the

undersigned, thereunto duly authorized.

COMMUNITY NATIONAL BANCORPORATION  
(Registrant)

Date: May 5, 1995

BY: /s/ Theron G. Reed  
Theron G. Reed  
President,  
Principal Executive Officer and  
Principal Financial Officer

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