

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1995-05-10** | Period of Report: **1995-03-31**  
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**TRI CITY BANKSHARES CORP**

CIK: **313337** | IRS No.: **391158740** | State of Incorp.: **WI** | Fiscal Year End: **1231**  
Type: **10-Q** | Act: **34** | File No.: **000-09785** | Film No.: **95536038**  
SIC: **6022** State commercial banks

Mailing Address  
6400 SOUTH 27TH STREET  
OAK CREEK WI 53154

Business Address  
6400 S 27TH ST  
OAK CREEK WI 53154  
4147611610

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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

For the quarterly period ended March 31, 1995

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

Commission file number 0-9785

TRI CITY BANKSHARES CORPORATION  
(Exact name of registrant as specified in its charter)

Wisconsin 39-1158740  
(State or other jurisdiction of (IRS Employer ID Number)  
incorporation or organization)

6400 S. 27th Street, Oak Creek, WI 53154  
(Address of principal executive offices)

(414) 761-1610  
(Registrant's phone number, including area code)

Indicate by check mark whether the registrant (1) has filed all documents and reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES X NO

The number of shares outstanding of \$1.00 par value common stock, as of March 31, 1995: 2,460,894

FORM 10-Q

TRI CITY BANKSHARES CORPORATION

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TRI CITY BANKSHARES CORPORATION  
CONSOLIDATED BALANCE SHEETS (UNAUDITED)

ASSETS	March 31, 1995 -----	December 31, 1994 -----
Cash and due from banks	\$ 21,498,074	\$ 28,042,066
Federal funds sold	4,750,000	0
Investment securities (market value: 1995 - \$90,213,302; 1994 - \$87,698,918)	92,851,134	93,277,595
Loans	223,099,529	213,287,740
Allowance for loan losses	(3,471,252)	(3,395,101)
NET LOANS	219,628,277	209,892,639
Premises and equipment	19,823,965	19,857,706
Other assets	5,899,746	6,259,987
	----- \$ 364,451,196 =====	----- \$ 357,329,993 =====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Non-interest bearing	\$ 82,783,020	\$ 83,072,574
Interest bearing (over \$100,000)	10,773,000	9,691,000
Interest bearing	227,415,610	207,312,921

TOTAL DEPOSITS	320,971,630	300,076,495
Short-term borrowings:		
Federal funds purchased and securities sold under agreements to repurchase	0	13,900,000
Other	626,690	2,406,970
	-----	-----
TOTAL BORROWINGS	626,690	16,306,970
Other Liabilities	1,809,810	1,153,632
	-----	-----
TOTAL LIABILITIES	323,408,130	317,537,097
Stockholders' equity:		
Cumulative preferred stock, par value - \$1 per share		
Authorized - 200,000 shares		
Issued and outstanding - none		
Common stock, par value - \$1 per share		
Authorized - 5,000,000 shares		
Issued and outstanding: 1995-2,460,894 shares; 1994-2,457,489	2,460,894	2,457,489
Additional paid in capital	8,162,371	8,091,712
Retained earnings	30,419,801	29,243,695
	-----	-----
TOTAL STOCKHOLDERS' EQUITY	41,043,066	39,792,896
	\$ 364,451,196	\$ 357,329,993
	=====	=====

See Notes to Unaudited Consolidated Financial Statements.

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TRI CITY BANKSHARES CORPORATION  
CONSOLIDATED STATEMENTS OF INCOME  
FOR THREE MONTHS ENDED MARCH 31, 1995 AND 1994  
(UNAUDITED)

	1995	1994
	-----	-----
Interest income:		
Loans, including fees	\$ 5,104,048	\$ 4,450,126
Investment securities:		
Taxable	1,048,960	1,086,820
Exempt from federal income tax	381,548	441,366
Federal funds sold	43,378	21,470
	-----	-----
TOTAL INTEREST INCOME	6,577,934	5,999,782

Interest expense:		
Deposits	1,952,565	1,538,149
Short-term borrowings	114,752	128,252
	-----	-----
TOTAL INTEREST EXPENSE	2,067,317	1,666,401
	-----	-----
NET INTEREST INCOME	4,510,617	4,333,381
Provision for loan losses	(75,000)	(150,000)
	-----	-----
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	4,435,617	4,183,381
Other income:		
Service charge income	739,231	648,937
Rental income	209,130	205,551
Investment securities gains	0	2,000
Other	781,614	372,227
	-----	-----
TOTAL OTHER INCOME	1,729,975	1,228,715
Other expense:		
Salaries and employee benefits	2,106,812	1,979,413
Net occupancy	602,397	632,840
Equipment	306,619	291,999
Data processing	122,847	155,246
Advertising	93,897	85,023
Regulatory Agency Assessments	186,701	181,037
Office Supplies	97,343	94,097
Other	566,341	527,496
	-----	-----
TOTAL OTHER EXPENSE	4,082,957	3,947,151
	-----	-----
Income before income taxes	2,082,635	1,464,945
Provision for income taxes	641,641	363,700
	-----	-----
NET INCOME	\$ 1,440,994	\$ 1,101,245
	=====	=====
Per share data:		
Net income	\$ 0.59	\$ 0.47
	-----	-----
Average shares outstanding	2,460,289	2,367,629
	-----	-----

See Notes to Unaudited Consolidated Financial Statements.

TRI CITY BANKSHARES CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THREE MONTHS ENDED MARCH 31, 1995 AND 1994  
(UNAUDITED)

	1995	1994
OPERATING ACTIVITIES		
Net income	\$ 1,440,994	\$ 1,101,245
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	75,000	150,000
Provision for depreciation	383,925	393,742
(Increase) in interest receivable	(367,596)	(271,514)
Increase in interest payable	623,485	436,260
	-----	-----
NET CASH PROVIDED BY OPERATING ACTIVITIES	2,155,808	1,809,733
INVESTING ACTIVITIES		
Proceeds from maturities and redemptions of investment securities	428,323	1,619,705
Purchases of investment securities	(1,862)	(527,322)
Net (increase) decrease in loans	(9,810,638)	6,717,307
Purchases of premises and equipment	(310,859)	(190,370)
Net (increase) decrease in other assets	727,837	(250,332)
	-----	-----
NET CASH (USED) PROVIDED BY INVESTING ACTIVITIES	(8,967,199)	7,368,988
FINANCING ACTIVITIES		
Net increase in deposits	20,895,135	902,366
Net decrease in short-term borrowings	(15,680,280)	(12,182,711)
Cash dividends	(233,090)	(110,436)
Net increase in other liabilities	35,634	225,927
	-----	-----
NET CASH (USED) PROVIDED BY FINANCING ACTIVITIES	5,017,399	(11,164,854)
	-----	-----
DECREASE IN CASH AND CASH EQUIVALENTS	(1,793,992)	(1,986,133)
Cash and cash equivalents at the beginning of the period	28,042,066	22,189,794
	-----	-----
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	\$ 26,248,074	\$ 20,203,661

See Notes to Unaudited Consolidated Financial Statements.

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TRI CITY BANKSHARES CORPORATION  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(A) Basis of Presentation

The unaudited consolidated financial statements included herein omit certain information and footnote disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principals. Such condensation is permitted by generally accepted accounting principals applicable to interim financial data and by rules and regulations of the Securities and Exchange Commission. These financial statements should be read in conjunction with the financial statements and the notes thereto included in the latest Annual Report on Form 10-K of Tri City Bankshares Corporation ("Tri City") for the year ended December 31, 1994. The December 31, 1994 financial information included herein is derived from the December 31, 1994 Consolidated Balance Sheet of Tri City which is included in the aforesaid Annual Report on Form 10-k.

In the opinion of Tri City's management, the accompanying unaudited consolidated financial statements contain all adjustments consisting of normal recurring accruals considered necessary to present fairly Tri City's financial position as of March 31, 1995 and December 31, 1994 and the results of its operations and cash flows for the three month period ending March 31, 1995 and 1994.

(B) Accounting Changes

Effective January 1, 1995, the Company adopted Financial Accounting Standards Board Statement No. 114, "Accounting by Creditors for Impairment of a Loan." As a result of applying the new rules, certain impaired loans are reported at the present value of expected future cash flows using the loan's effective interest rate, or as a practical expedient, at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. The adoption of Statement 114 has not had, and is not expected to have, a material impact on the Company's financial position or results of operations.

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TRI CITY BANKSHARES CORPORATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL  
CONDITION AND RESULTS OF OPERATIONS



## CHANGES IN FINANCIAL POSITION

Net assets for Tri City Bankshares Corporation (the "Corporation") have increased \$7.1 million (2.0%) during the first quarter of 1995 compared to a decrease of \$9.6 million (2.8%) during the same period in 1994. Loan and deposit growth account entirely for this increase. Loan demand which was not very strong during the last half of 1994, has increased during the first three months of 1995. Loan balances increased \$9.8 million (4.6%) in the first three months of 1995 compared to a decrease of \$6.7 million (3.3%) in the first three months of 1994. The stability of interest rates and the slow down of inflation appear to have enticed loan customers into pursuing their monetary endeavors. Federal funds sold increased \$4.8 million during the first quarter of 1995 compared to an increase of \$3.1 million during the first quarter of 1994. Management does not intend to actively engage in the purchase and sale of securities and therefore tries to purchase those investments which will best benefit the Corporation over the term of the security. Since management wants to maintain a certain level of liquidity as well as have funds available for loans and suitable investments, the Corporation will generally invest excess funds in the Federal funds market which is basically an "on call" investment.

Investment securities decreased \$426,000 (0.5%) during the first three months of 1995 compared to a decrease of \$1.1 million (1.1%) during the first three months of 1994. The decrease is due entirely to the normal maturity of the investments in the Corporation's portfolio. Management has been cautious about purchasing investment securities with low yields. Since interest rates have risen and there remains the possibility that rates may increase, management is interested in those securities which will provide the best yield without compromising the integrity of the investment portfolio.

Deposits of the Corporation increased \$20.9 million (6.96%) during the first quarter of 1995 compared to an increase of \$902,400 (0.3%) during the first quarter of 1994. Management has run a special promotion during the first quarter of 1995 which has helped to attract new deposit money to the Corporation. With additional funds to use, the Corporation was able to get out of a borrowed position in the Federal funds market and into a sold position. Accordingly, total borrowings for the first three months of 1995 declined \$15.7 million (96.2%) compared to a decline of \$12.2 million (68.0%) during the same period in 1994.

The liquidity of the Corporation has remained strong through the efforts of management in monitoring the correlation between interest earning assets and interest bearing liabilities. The fluctuation in interest rates has continued to be a concern for the banking industry and is closely watched. Management has been careful not to overextend the Corporation in its borrowing and to maintain a more than adequate reserve to provide for the everyday monetary transactions which may occur.

## CAPITAL RESOURCES

During the first quarter of 1995 the Corporation opened a new full service banking facility at a new Pick 'N Save food store located in Oak Creek, Wisconsin. Funding for this facility was generated internally and was considered nominal.

The Corporation has plans for the opening of at least two more full service banking facilities to be located inside Pick 'N Save food stores during 1995. The cost of these facilities is considered to be nominal, based on past experience, and will be borne by the Corporation.

There are no other major capital expenditures which are planned for the current year. However, management is continually looking for opportunities which would help in the continued growth of the Corporation and would pursue such opportunities if presented to them.

## RESULTS OF OPERATIONS

Net income during the first quarter of 1995 increased \$339,800 (30.8%) compared to an increase of \$11,900 (1.1%) during the first quarter of 1994. Since loan demand increased during 1995, interest income and fees on loans increased \$653,900 (14.7%) in the first three months of 1995 compared to a decrease of \$304,900 (6.4%) in the first three months of 1994.

Interest income on investment securities, both taxable and exempt from federal tax, decreased \$97,700 (6.4%) during the first quarter of 1995 compared to an increase of \$288,200 (23.2%) during the same period in 1994. As investment securities mature, they are automatically being replaced. Management intends to continue to seek securities which will provide a good yield without compromising the integrity of the current portfolio.

Interest expense on deposits increased \$414,400 (26.9%) in the first three months of 1995 compared to a decrease of \$129,300 (7.8%) in the first three months of 1994. During 1994 interest rates on deposit accounts remained low and did not begin to rise until later in the year. While rates are currently at the highest they have been in the past two years, and if rates continue to rise at a similar pace, management believes that they should be able to adjust interest earnings and maintain the Corporation's profitable growth.

During the first quarter of 1995, the Corporation was able to sell some of its other real estate holdings at a substantial profit. This gain accounts for approximately \$400,000 in other income on the income statement. Other expenses increased only \$135,800 (3.4%) during the first three months of 1995 compared to \$315,300 (8.7%) increase during the first three months of 1994.

A summarized change in income for the quarters appears below:

Three Months Ended	March 31, 1995 (Unaudited)	March 31, 1994 (Unaudited)	1995 Over (Under) 1994
	-----	-----	-----
Revenue and Expenses: (000's)			
Interest Income	\$6,578	\$6,000	\$ 578
Less: Interest Expense	2,067	1,666	401
	-----	-----	-----
Net Interest Income	4,511	4,334	177
Less: Provision for Loan Loss	75	150	( 75)
Other Operating Expense Net of Other Operating Revenues	2,353	2,719	(366)
	-----	-----	-----
Income Before Income Taxes	2,083	1,465	618
Tax Provision	642	364	278
	-----	-----	-----
NET INCOME	\$1,441	\$1,101	\$ 340
	=====	=====	=====

#### CAPITAL ADEQUACY

Federal banking regulatory agencies have established capital adequacy rules which take into account risk attributable to balance sheet assets and off-balance-sheet activities. All banks and bank holding companies must meet a minimum risk-based capital ratio of 8.0% of which 4.0% must be comprised of tier 1 capital. The federal banking agencies also have adopted leverage capital guidelines which banking organizations must meet. Under these guidelines, the most highly rated banking organizations must meet a minimum leverage ratio of at least 3.0% tier 1 capital to total assets, while lower rated banking organizations must maintain a ratio of at least 4.0% to 5.0%.

The risk-based capital ratio as of March 31, 1995 for the Corporation is 16.7% and its leverage ratio is 11.3%.

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#### PART II - OTHER INFORMATION

Item 1 Legal Proceedings  
None

Item 2 Changes in Securities  
None

Item 3 Defaults Upon Senior Securities  
None

Item 4 Submission of Matters to a Vote of Security Holders  
None

Item 5 Other Information  
None

Item 6 Exhibits and Reports on Form 8-K  
Exhibits - None

Tri City did not file any reports on form 8-K during the three month period 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.

TRI CITY BANKSHARES CORPORATION

DATE: May 10, 1995

/s/Henry Karbiner

-----  
Henry Karbiner, Jr.  
Executive Vice President,  
Secretary/Treasurer

DATE: May 10, 1995

/s/Thomas W. Vierthaler

-----  
Thomas W. Vierthaler  
Vice President and Comptroller  
(Chief Accounting Officer)



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