

PEOPLES FINANCIAL CORP /MS/
Form 10-Q
August 13, 2014

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

**x QUARTERLY REPORT PURSUANT TO SECTION 13 or 15 (D) OF THE SECURITIES EXCHANGE
ACT OF 1934**

For the quarterly period ended June 30, 2014

or

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

Commission File Number 001-12103

PEOPLES FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

**Mississippi
(State or other jurisdiction of**

**64-0709834
(I.R.S. Employer**

incorporation or organization)

Identification No.)

Lameuse and Howard Avenues, Biloxi, Mississippi
(Address of principal executive offices)

39533
(Zip Code)

(228) 435-5511

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files.) Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the last practicable date. Peoples Financial Corporation has only one class of common stock authorized. At July 31, 2014, there were 15,000,000 shares of \$1 par value common stock authorized, with 5,123,186 shares issued and outstanding.

Part 1 Financial Information**Item 1: Financial Statements****Peoples Financial Corporation and Subsidiaries****Consolidated Statements of Condition****(in thousands except share data)**

	June 30, 2014 (unaudited)	December 31, 2013 (audited)
Assets		
Cash and due from banks	\$ 31,990	\$ 36,264
Available for sale securities	272,718	275,440
Held to maturity securities, fair value of \$12,882 at June 30, 2014; \$10,686 at December 31, 2013	13,011	11,142
Other investments	3,056	3,262
Federal Home Loan Bank Stock, at cost	3,566	3,834
Loans	361,519	375,349
Less: Allowance for loan losses	9,434	8,934
Loans, net	352,085	366,415
Bank premises and equipment, net of accumulated depreciation	24,538	25,308
Other real estate	8,924	9,630
Accrued interest receivable	2,784	2,607
Cash surrender value of life insurance	17,765	17,456
Other assets	8,723	10,906
Total assets	\$ 739,160	\$ 762,264

Peoples Financial Corporation and Subsidiaries

Consolidated Statements of Condition (continued)

(in thousands except share data)

	June 30, 2014 (unaudited)	December 31, 2013 (audited)
Liabilities and Shareholders Equity		
Liabilities:		
Deposits:		
Demand, non-interest bearing	\$ 114,471	\$ 107,117
Savings and demand, interest bearing	222,924	217,005
Time, \$100,000 or more	44,941	60,519
Other time deposits	41,507	43,917
Total deposits	423,843	428,558
Federal funds purchased and securities sold under agreements to repurchase	117,370	139,639
Borrowings from Federal Home Loan Bank	76,566	77,684
Employee and director benefit plans liabilities	13,373	12,725
Other liabilities	4,406	4,511
Total liabilities	635,558	663,117
Shareholders Equity:		
Common stock, \$1 par value, 15,000,000 shares authorized, 5,123,186 shares issued and outstanding at June 30, 2014 and December 31, 2013	5,123	5,123
Surplus	65,780	65,780
Undivided profits	34,661	34,259
Accumulated other comprehensive loss, net of tax	(1,962)	(6,015)
Total shareholders equity	103,602	99,147
Total liabilities and shareholders equity	\$ 739,160	\$ 762,264

See notes to consolidated financial statements.

Peoples Financial Corporation and Subsidiaries

Consolidated Statements of Operations

(in thousands except per share data)(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Interest income:				
Interest and fees on loans	\$ 4,165	\$ 4,339	\$ 8,417	\$ 8,778
Interest and dividends on securities:				
U.S. Treasuries	158	108	314	291
U.S. Government agencies	798	748	1,605	1,479
Mortgage-backed securities	241	139	486	230
States and political subdivisions	382	382	764	756
Other investments	3	3	4	6
Interest on federal funds sold	3	31	7	64
Total interest income	5,750	5,750	11,597	11,604
Interest expense:				
Deposits	274	315	483	635
Borrowings from Federal Home Loan Bank	56	40	106	81
Federal funds purchased and securities sold under agreements to repurchase	22	43	49	89
Total interest expense	352	398	638	805
Net interest income	5,398	5,352	10,959	10,799
Provision for allowance for loan losses	537	3,538	1,074	4,077
Net interest income after provision for allowance for loan losses	\$ 4,861	\$ 1,814	\$ 9,885	\$ 6,722

Peoples Financial Corporation and Subsidiaries

Consolidated Statements of Operations (continued)

(in thousands except per share data)(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Non-interest income:				
Trust department income and fees	\$ 357	\$ 336	\$ 717	\$ 694
Service charges on deposit accounts	1,633	1,523	3,219	3,031
Gain on sales and calls of securities		255		255
Income from other investments	23	31	30	9
Increase in cash surrender value of life insurance	126	122	245	243
Other income	141	144	286	300
Total non-interest income	2,280	2,411	4,497	4,532
Non-interest expense:				
Salaries and employee benefits	3,202	2,850	6,415	5,991
Net occupancy	675	662	1,267	1,236
Equipment rentals, depreciation and maintenance	857	762	1,573	1,442
FDIC assessments	265	154	540	445
Data processing	355	300	676	620
ATM expense	760	613	1,415	1,191
Other expense	927	873	1,906	1,701
Total non-interest expense	7,041	6,214	13,792	12,626
Income (loss) before income tax benefit	100	(1,989)	590	(1,372)
Income tax benefit	(235)	(842)	(324)	(831)
Net income (loss)	\$ 335	\$ (1,147)	\$ 914	\$ (541)
Basic and diluted earnings (loss) per share	\$.07	\$ (.23)	\$.18	\$ (.11)
Dividends declared per share	\$.10	\$	\$.10	\$

See notes to consolidated financial statements.

Peoples Financial Corporation and Subsidiaries

Consolidated Statements of Comprehensive Income (Loss)

(in thousands)(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net income (loss)	\$ 335	\$ (1,147)	\$ 914	\$ (541)
Other comprehensive income (loss), net of tax:				
Net unrealized gain (loss) on available for sale securities, net of tax of \$1,093 and \$3,185 for the three months ended June 30, 2014 and 2013, respectively, and \$2,088 and \$3,458 for the six months ended June 30, 2014 and 2013, respectively	2,121	(6,182)	4,053	(6,713)
Reclassification adjustment for realized gains on available for sale securities called or sold, net of tax of \$87 for the three months ended June 30, 2013 and \$87 for the six months ended June 30, 2013		(168)		(168)
Total other comprehensive income (loss)	2,121	(6,350)	4,053	(6,881)
Total comprehensive income (loss)	\$ 2,456	\$ (7,497)	\$ 4,967	\$ (7,422)

See notes to consolidated financial statements.

Peoples Financial Corporation and Subsidiaries

Consolidated Statement of Changes in Shareholders' Equity

(in thousands except share and per share data)

	Number of Common Shares	Common Stock	Surplus	Undivided Profits	Accumulated Other Comprehensive Loss	Total
Balance, January 1, 2014	5,123,186	\$ 5,123	\$ 65,780	\$ 34,259	\$ (6,015)	\$ 99,147
Net income				914		914
Other comprehensive income, net of tax					4,053	4,053
Cash dividends (\$.10 per share)				(512)		(512)
Balance, June 30, 2014	5,123,186	\$ 5,123	\$ 65,780	\$ 34,661	\$ (1,962)	\$ 103,602

Note: Balances as of January 1, 2014 were audited.

See notes to consolidated financial statements.

Peoples Financial Corporation and Subsidiaries

Consolidated Statements of Cash Flows

(in thousands)(unaudited)

	Six Months Ended June 30,	
	2014	2013
Cash flows from operating activities:		
Net income (loss)	\$ 914	\$ (541)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	894	884
Provision for allowance for loan losses	1,074	4,077
Loss on sales of other real estate	76	5
Writedown of other real estate	174	22
Gain on sales of bank premises and equipment		(15)
Income from other investments	(30)	(9)
Gain on sales and calls of securities		(255)
Accretion of held to maturity securities	(1)	(1)
Change in accrued interest receivable	(177)	195
Increase in cash surrender value of life insurance	(245)	(243)
Change in other assets	1,508	1,032
Change in other liabilities	(868)	(980)
Net cash provided by operating activities	\$ 3,319	\$ 4,171

Peoples Financial Corporation and Subsidiaries
Consolidated Statements of Cash Flows (continued)
(in thousands) (unaudited)

	Six Months Ended June 30,	
	2014	2013
Cash flows from investing activities:		
Proceeds from maturities, sales and calls of available for sale securities	\$ 10,705	\$ 122,214
Proceeds from maturities of held to maturity securities	215	
Purchases of available for sale securities	(1,844)	(155,825)
Purchases of held to maturity securities	(2,083)	(2,606)
Redemption of Federal Home Loan Bank stock	268	1,729
Redemption of other investments	236	230
Proceeds from sales of bank premises and equipment		19
Proceeds from sales of other real estate	650	515
Insurance proceeds from casualty loss on other real estate		57
Loans, net change	13,062	26,785
Acquisition of bank premises and equipment	(124)	(723)
Investment in cash surrender value of life insurance	(64)	(59)
Net cash provided by (used in) investing activities	21,021	(7,664)
Cash flows from financing activities:		
Demand and savings deposits, net change	13,273	16,867
Time deposits, net change	(17,988)	(11,981)
Cash dividends	(512)	
Retirement of common stock		(99)
Borrowings from Federal Home Loan Bank	1,309,500	
Repayments to Federal Home Loan Bank	(1,310,618)	(113)
Federal funds purchased and securities sold under agreements to repurchase, net change	(22,269)	(2,863)
Net cash provided by (used in) financing activities	(28,614)	1,811
Net decrease in cash and cash equivalents	(4,274)	(1,682)
Cash and cash equivalents, beginning of period	36,264	54,020
Cash and cash equivalents, end of period	\$ 31,990	\$ 52,338

See notes to consolidated financial statements.

PEOPLES FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

For the Six Months Ended June 30, 2014 and 2013

1. Basis of Presentation:

Peoples Financial Corporation (the Company) is a one-bank holding company headquartered in Biloxi, Mississippi. It has two operating subsidiaries, PFC Service Corp., an inactive company, and The Peoples Bank, Biloxi, Mississippi (the Bank). The Bank provides a full range of banking, financial and trust services to state, county and local government entities and individuals and small and commercial businesses operating in those portions of Mississippi, Louisiana and Alabama which are within a fifty mile radius of the Waveland, Wiggins and Gautier branches, the Bank's three most outlying locations (the trade area).

The accompanying unaudited consolidated financial statements and notes thereto contain all adjustments, consisting only of normal recurring adjustments, necessary to present fairly, in accordance with accounting principles generally accepted in the United States of America (GAAP), the financial position of the Company and its subsidiaries as of June 30, 2014 and the results of their operations and their cash flows for the periods presented. The interim financial information should be read in conjunction with the annual consolidated financial statements and the notes thereto included in the Company's 2013 Annual Report and Form 10-K.

The results of operations for the quarter or six months ended June 30, 2014, are not necessarily indicative of the results to be expected for the full year.

Use of Estimates The preparation of financial statements in conformity with GAAP 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 consolidated financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates. Material estimates common to the banking industry that are particularly susceptible to significant change in the near term include, but are not limited to, the determination of the allowance for loan losses, the valuation of other real estate acquired in connection with foreclosure or in satisfaction of loans and valuation allowances associated with the realization of deferred tax assets, which are based on future taxable income.

Summary of Significant Accounting Policies The accounting and reporting policies of the Company conform with GAAP and general practices within the banking industry. There have been no material changes or developments in the application of principles or in our evaluation of the accounting estimates and the underlying assumptions or methodologies that we believe to be Critical Accounting Policies as disclosed in our Form 10-K for the year ended December 31, 2013.

New Accounting Pronouncements In April 2014, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2014-06, *Technical Corrections and Improvements Related to Glossary Terms*. This ASU added, deleted, corrected and modified terms in the Master Glossary of the Codification and was effective upon issuance. The adoption of this ASU did not have a material effect on the Company's financial position, results of operations or cash flows.

2. Earnings Per Share:

Per share data is based on the weighted average shares of common stock outstanding of 5,123,186 and 5,132,494 for the quarters ended June 30, 2014 and 2013, respectively, and 5,123,186 and 5,134,620 for the six months ended June 30, 2014 and 2013, respectively.

3. Statements of Cash Flows:

The Company has defined cash and cash equivalents as cash and due from banks. The Company paid \$525,244 and \$814,566 for the six months ended June 30, 2014 and 2013, respectively, for interest on deposits and borrowings. Income tax payments of \$320,000 and \$310,000 were made during the six months ended June 30, 2014 and 2013, respectively. Loans transferred to other real estate amounted to \$194,328 and \$415,959 during the six months ended June 30, 2014 and 2013, respectively.

4. Investments:

The amortized cost and fair value of securities at June 30, 2014 and December 31, 2013, are as follows (in thousands):

June 30, 2014	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale securities:				
Debt securities:				
U.S. Treasuries	\$ 44,658	\$ 133	\$ (593)	\$ 44,198
U.S. Government agencies	148,797	750	(6,430)	143,117
Mortgage-backed securities	48,214	512	(447)	48,279
States and political subdivisions	35,096	1,378		36,474
Total debt securities	276,765	2,773	(7,470)	272,068
Equity securities	650			650
Total available for sale securities	\$ 277,415	\$ 2,773	\$ (7,470)	\$ 272,718
Held to maturity securities:				
States and political subdivisions	\$ 13,011	\$ 45	\$ (174)	\$ 12,882
Total held to maturity securities	\$ 13,011	\$ 45	\$ (174)	\$ 12,882

December 31, 2013	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale securities:				
Debt securities:				
U.S. Treasuries	\$ 44,636	\$ 54	\$ (1,042)	\$ 43,648
U.S. Government agencies	155,772	734	(10,701)	145,805
Mortgage-backed securities	51,454	141	(1,269)	50,326
States and political subdivisions	33,764	1,248	(1)	35,011
Total debt securities	285,626	2,177	(13,013)	274,790
Equity securities	650			650
Total available for sale securities	\$ 286,276	\$ 2,177	\$ (13,013)	\$ 275,440
Held to maturity securities:				
States and political subdivisions	\$ 11,142	\$ 13	\$ (469)	\$ 10,686
Total held to maturity securities	\$ 11,142	\$ 13	\$ (469)	\$ 10,686

The amortized cost and fair value of debt securities at June 30, 2014 (in thousands), by contractual maturity, are shown on the next page. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
Available for sale securities:		
Due in one year or less	\$ 16,420	\$ 16,516
Due after one year through five years	62,763	62,922
Due after five years through ten years	61,068	61,216
Due after ten years	88,300	83,135
Mortgage-backed securities	48,214	48,279
Totals	\$ 276,765	\$ 272,068
Held to maturity securities:		
Due in one year or less	\$ 659	\$ 662
Due after one year through five years	3,031	3,035
Due after five years through ten years	5,877	5,852
Due after ten years	3,444	3,333
Totals	\$ 13,011	\$ 12,882

Available for sale and held to maturity securities with gross unrealized losses at June 30, 2014 and December 31, 2013, aggregated by investment category and length of time that individual securities have been in a continuous loss position, are as follows (in thousands):

	Less Than Twelve Months		Over Twelve Months		Total	
	Gross Unrealized		Gross Unrealized		Gross Unrealized	
	Fair Value	Losses	Fair Value	Losses	Fair Value	Losses
June 30, 2014:						
U.S. Treasuries	\$ 10,949	\$ 42	\$ 33,249	\$ 551	\$ 44,198	\$ 593
U.S. Government agencies	9,769	251	133,347	6,179	143,116	6,430
Mortgage-backed securities	17,934	45	30,345	402	48,279	447
States and political subdivisions	5,999	17	36,326	157	42,325	174
TOTAL	\$ 44,651	\$ 355	\$ 233,267	\$ 7,289	\$ 277,918	\$ 7,644
December 31, 2013:						
U.S. Treasuries	\$ 29,708	\$ 1,042	\$	\$	\$ 29,708	\$ 1,042
U.S. Government agencies	113,446	10,322	4,621	379	118,067	10,701
Mortgage-backed securities	44,269	1,269			44,269	1,269
States and political subdivisions	7,690	470			7,690	470
TOTAL	\$ 195,113	\$ 13,103	\$ 4,621	\$ 379	\$ 199,734	\$ 13,482

At June 30, 2014, 7 of the 11 securities issued by the U.S. Treasury, 24 of the 29 securities issued by U.S. Government agencies, 7 of the 13 mortgage-backed securities and 23 of the 160 securities issued by states and political subdivisions contained unrealized losses.

Management evaluates securities for other-than-temporary impairment on a monthly basis. In performing this evaluation, the length of time and the extent to which the fair value has been less than cost, the fact that the Company's securities are primarily issued by U.S. Treasury and U.S. Government Agencies and the cause of the decline in value are considered. In addition, the Company does not intend to sell and it is not more likely than not that it will be required to sell these securities before maturity. While some available for sale securities have been sold for liquidity purposes or for gains, the Company has traditionally held its securities, including those classified as available for sale, until maturity. As a result of the evaluation of these securities, the Company has determined that the unrealized losses summarized in the tables above are not deemed to be other-than-temporary.

Securities with a fair value of \$272,208,237 and \$262,830,011 at June 30, 2014 and December 31, 2013, respectively, were pledged to secure public deposits, federal funds purchased and other balances required by law.

Proceeds from the sale of available for sale debt securities were \$24,989,844 for the six months ended June 30, 2013. Available for sale debt securities were sold for a realized gain of \$254,841. There were no sales of available for sale securities in 2014.

5. Loans:

The composition of the loan portfolio at June 30, 2014 and December 31, 2013, is as follows (in thousands):

	June 30, 2014	December 31, 2013
Gaming	\$ 27,993	\$ 29,570
Residential and land development	19,060	19,403
Real estate, construction	43,333	44,987
Real estate, mortgage	233,364	237,158
Commercial and industrial	28,896	35,007
Other	8,873	9,224
Total	\$ 361,519	\$ 375,349

The age analysis of the loan portfolio, segregated by class of loans, as of June 30, 2014 and December 31, 2013, is as follows (in thousands):

	Number of Days Past Due			Total Past Due	Current	Total Loans	Loans Past Due Greater Than 90 Days & Still Accruing
	30 - 59	60 - 89	Greater Than 90				
June 30, 2014:							
Gaming	\$	\$	\$ 591	\$ 591	\$ 27,402	\$ 27,993	\$
Residential and land development			13,391	13,391	5,669	19,060	
Real estate, construction	1,082	772	1,963	3,817	39,516	43,333	
Real estate, mortgage	9,790	1,828	4,645	16,263	217,101	233,364	497
Commercial and industrial	5,157	10	15	5,182	23,714	28,896	15
Other	95	61		156	8,717	8,873	
Total	\$ 16,124	\$ 2,671	\$ 20,605	\$ 39,400	\$ 322,119	\$ 361,519	\$ 512
December 31, 2013:							
Gaming	\$	\$	\$	\$	\$ 29,570	\$ 29,570	\$
Residential and land development	51		13,572	13,623	5,780	19,403	
Real estate, construction	3,846		9,452	13,298	31,689	44,987	146
Real estate, mortgage	6,910	2,684	5,134	14,728	222,430	237,158	505
Commercial and industrial	1,192			1,192	33,815	35,007	
Other	227	5		232	8,992	9,224	
Total	\$ 12,226	\$ 2,689	\$ 28,158	\$ 43,073	\$ 332,276	\$ 375,349	\$ 651

The Company monitors the credit quality of its loan portfolio through the use of a loan grading system. A score of 1 to 5 is assigned to the loan on factors including repayment ability, trends in net worth and/or financial condition of the borrower and guarantors, employment stability, management ability, loan to value fluctuations, the type and structure of the loan, conformity of the loan to bank policy and payment performance. Based on the total score, a loan grade of A - F is applied. A grade of A will generally be applied to loans for customers that are well known to the Company and that have excellent sources of repayment. A grade of B will generally be applied to loans for customers that have excellent sources of repayment which have no identifiable risk of collection. A grade of C will generally be applied to loans for customers that have adequate sources of repayment which have little identifiable risk of collection. Loans with a grade of C may be placed on the watch list if weaknesses are not resolved which could result in potential loss or for other circumstances that require monitoring. A grade of D will generally be applied to loans for customers that are inadequately protected by current sound net worth, paying capacity of the borrower, or pledged collateral. Loans with a grade of D have unsatisfactory characteristics such as cash flow deficiencies, bankruptcy filing by the borrower or dependence on the sale of collateral for the primary source of repayment, causing more than acceptable levels of risk. Loans 60 to 89 days past due receive a grade of D. A grade of E will generally be applied to loans for customers with weaknesses inherent in the D classification and in which collection or liquidation in full is questionable. In addition, on a monthly basis the Company determines which loans are 90 days or more past due and assigns a grade of E to

them. A grade of F is applied to loans which are considered uncollectible and of such little value that their continuance in an active bank is not warranted. Loans with this grade are charged off, even though partial or full recovery may be possible in the future.

An analysis of the loan portfolio by loan grade, segregated by class of loans, as of June 30, 2014 and December 31, 2013, is as follows (in thousands):

	Loans With A Grade Of:					Total
	A or B	C	D	E	F	
June 30, 2014:						
Gaming	\$ 25,530	\$	\$	\$ 2,463	\$	\$ 27,993
Residential and land development	4,142	1,492	35	13,391		19,060
Real estate, construction	37,059	1,111	2,233	2,930		43,333
Real estate, mortgage	200,890	4,803	17,433	10,238		233,364
Commercial and industrial	26,309	309	2,250	28		28,896
Other	8,820	28	22	3		8,873
Total	\$ 302,750	\$ 7,743	\$ 21,973	\$ 29,053	\$	\$ 361,519
December 31, 2013:						
Gaming	\$ 23,975	\$ 2,500	\$	\$ 3,095	\$	\$ 29,570
Residential and land development	4,236	1,544	51	13,572		19,403
Real estate, construction	38,808	781	2,220	3,178		44,987
Real estate, mortgage	204,569	4,495	17,852	10,242		237,158
Commercial and industrial	31,902	682	2,402	21		35,007
Other	9,131	24	50	19		9,224
Total	\$ 312,621	\$ 10,026	\$ 22,575	\$ 30,127	\$	\$ 375,349

A loan may be impaired but not on nonaccrual status when the loan is well secured and in the process of collection. Total loans on nonaccrual as of June 30, 2014 and December 31, 2013, are as follows (in thousands):

	June 30, 2014	December 31, 2013
Gaming	\$ 591	\$ 1,223
Residential and land development	13,391	13,572
Real Estate, construction	2,533	2,588
Real Estate, mortgage	8,393	8,788
Total	\$ 24,908	\$ 26,171

The Company has modified certain loans by granting interest rate concessions to these customers. These loans are in compliance with their modified terms, are currently accruing and the Company has classified them as troubled debt restructurings. Troubled debt restructurings as of June 30, 2014 and December 31, 2013 were as follows (in thousands except for number of contracts):

	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Related Allowance
June 30, 2014:				
Real estate, construction	2	\$ 881	\$ 881	\$ 265
Real estate, mortgage	6	9,915	9,915	2,136
Commercial and industrial	1	667	667	
Total	9	\$ 11,463	\$ 11,463	\$ 2,401
December 31, 2013:				
Real estate, construction	2	\$ 891	\$ 891	\$ 270
Real estate, mortgage	6	10,012	10,012	994
Commercial and industrial	1	678	678	
Total	9	\$ 11,581	\$ 11,581	\$ 1,264

Impaired loans, which include loans classified as nonaccrual and troubled debt restructurings, segregated by class of loans, as of June 30, 2014 and December 31, 2013, are as follows (in thousands):

	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
June 30, 2014:					
With no related allowance recorded:					
Gaming	\$ 1,691	\$ 591	\$	\$ 1,115	\$
Residential and land development	4,425	4,425		4,425	
Real estate, construction	2,271	2,271		2,271	13
Real estate, mortgage	9,995	9,396		9,464	19
Commercial and industrial	667	667		673	13
Total	\$ 19,049	\$ 17,350	\$	\$ 17,948	\$ 45
With a related allowance recorded:					
Residential and land development	\$ 17,395	\$ 8,966	\$ 436	\$ 8,970	\$
Real estate, construction	1,143	1,143	294	1,160	6
Real estate, mortgage	8,912	8,912	2,233	9,033	168
Total	\$ 27,450	\$ 19,021	\$ 2,963	\$ 19,163	\$ 174
Total by class of loans:					
Gaming	\$ 1,691	\$ 591	\$	\$ 1,115	\$
Residential and land development	21,820	13,391	436	13,395	
Real estate, construction	3,414	3,414	294	3,431	19
Real estate, mortgage	18,907	18,308	2,233	18,497	187
Commercial and industrial	667	667		673	13
Total	\$ 46,499	\$ 36,371	\$ 2,963	\$ 37,111	\$ 219

	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
December 31, 2013:					
With no related allowance recorded:					
Residential and land development	\$ 4,425	\$ 4,425	\$	\$ 4,465	\$
Real estate, construction	2,294	2,294		2,054	26
Real estate, mortgage	9,722	9,123		9,097	26
Commercial and industrial	678	678		689	24
Total	\$ 17,119	\$ 16,520	\$	\$ 16,305	\$ 76
With a related allowance recorded:					
Gaming	\$ 1,698	\$ 1,223	\$ 626	\$ 1,316	\$
Residential and land development	17,576	9,147	471	15,909	
Real estate, construction	1,185	1,185	337	1,239	23
Real estate, mortgage	9,677	9,677	1,110	8,801	306
Total	\$ 30,136	\$ 21,232	\$ 2,544	\$ 27,265	\$ 329
Total by class of loans:					
Gaming	\$ 1,698	\$ 1,223	\$ 626	\$ 1,316	\$
Residential and land development	22,001	13,572	471	20,374	
Real estate, construction	3,479	3,479	337	3,293	49
Real estate, mortgage	19,399	18,800	1,110	17,898	332
Commercial and industrial	678	678		689	24
Total	\$ 47,255	\$ 37,752	\$ 2,544	\$ 43,570	\$ 405

6. Allowance for Loan Losses:

Transactions in the allowance for loan losses for the quarters and six months ended June 30, 2014 and 2013, and the balances of loans, individually and collectively evaluated for impairment, as of June 30, 2014 and 2013, are as follows (in thousands):

	Gaming	Residential and Land Development	Real Estate, Construction	Real Estate, Mortgage	Commercial and Industrial	Other	Total
For the Six Months Ended							
June 30, 2014:							
Allowance for Loan Losses:							
Beginning Balance	\$ 977	\$ 776	\$ 695	\$ 5,553	\$ 632	\$ 301	\$ 8,934
Charge-offs	(626)		(4)	(36)	(6)	(116)	(788)
Recoveries	80			81	24	29	214
Provision	(76)	(71)	(5)	1,151	3	72	1,074