CODORUS VALLEY BANCORP INC
Form 10-Q
August 13, 2013
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UNITED STATES 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, 2013
or
o Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from ____________to______________

Commission file number: 0-15536

CODORUS VALLEY BANCORP, INC.

(Exact name of registrant as specified in its charter)

Pennsylvania	**23-2428543**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

105 Leader Heights Road, P.O. Box 2887, York, Pennsylvania 17405
(Address of principal executive offices) (Zip code)

717-747-1519
(Registrant s telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year,
if changed since the last report.)

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 x No o

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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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 definition of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer o
Non-accelerated filer o	Smaller reporting company x

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

APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date. On August 1, 2013, 4,520,123 shares of common stock, par value $2.50, were outstanding.

Codorus Valley Bancorp, Inc.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Codorus Valley Bancorp, Inc.
Consolidated Balance Sheets
Unaudited

(dollars in thousands, except share and per share data)	**June 30, 2013**	**December 31, 2012**
Assets		
Interest bearing deposits with banks	$ 53,695	$ 34,866
Cash and due from banks	11,121	14,891
Total cash and cash equivalents	64,816	49,757
Securities, available-for-sale	221,184	234,062
Restricted investment in bank stocks, at cost	3,093	2,863
Loans held for sale	1,144	3,091
Loans (net of deferred fees of $1,609 - 2013 and $1,186 - 2012)	768,600	737,134
Less-allowance for loan losses	(9,459)	(9,302)
Net loans	759,141	727,832
Premises and equipment, net	13,029	11,493
Other assets	36,643	30,639
Total assets	$ 1,099,050	$ 1,059,737
Liabilities		
Deposits		
Noninterest bearing	$ 102,977	$ 88,476
Interest bearing	821,873	812,831
Total deposits	924,850	901,307
Short-term borrowings	23,130	19,356
Long-term debt	40,533	30,815
Other liabilities	7,281	6,928
Total liabilities	995,794	958,406
Shareholders equity		
Preferred stock, par value $2.50 per share; $1,000 liquidation preference, 1,000,000 shares authorized; 25,000 Series B shares issued and outstanding - 2013 and 2012	25,000	25,000
Common stock, par value $2.50 per share; 15,000,000 shares authorized; shares issued and outstanding: 4,520,123 at June 30, 2013 and 4,482,319 at December 31, 2012	11,300	11,206
Additional paid-in capital	41,101	40,524
Retained earnings	23,062	18,868
Accumulated other comprehensive income	2,793	5,733
Total shareholders equity	103,256	101,331
Total liabilities and shareholders equity	$ 1,099,050	$ 1,059,737

See accompanying notes.

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Codorus Valley Bancorp, Inc.
Consolidated Statements of Income
Unaudited

	Three months ended June 30,		Six months ended June 30,	
(dollars in thousands, except per share data)	**2013**	**2012**	**2013**	**2012**
Interest income				
Loans, including fees	$ 10,209	$ 10,164	$ 20,277	$ 20,034
Investment securities:				
Taxable	621	910	1,266	1,817
Tax-exempt	612	592	1,240	1,189
Dividends	3	3	9	7
Other	28	23	42	38
Total interest income	11,473	11,692	22,834	23,085
Interest expense				
Deposits	1,951	2,415	3,960	4,871
Federal funds purchased and other short-term borrowings	29	29	57	53
Long-term debt	192	196	364	407
Total interest expense	2,172	2,640	4,381	5,331
Net interest income	9,301	9,052	18,453	17,754
Provision for loan losses	560	250	820	500
Net interest income after provision for loan losses	8,741	8,802	17,633	17,254
Noninterest income				
Trust and investment services fees	464	405	937	813
Income from mutual fund, annuity and insurance sales	173	243	422	431
Service charges on deposit accounts	670	633	1,304	1,244
Income from bank owned life insurance	185	174	351	330
Other income	180	170	346	332
Net gain on sales of loans held for sale	322	281	641	540
Net gain on sales of securities	44	0	44	49
Total noninterest income	2,038	1,906	4,045	3,739
Noninterest expense				
Personnel	4,115	3,761	8,295	7,439
Occupancy of premises, net	512	504	1,023	1,012
Furniture and equipment	489	461	1,005	924
Postage, stationery and supplies	157	134	307	268
Professional and legal	165	150	302	309
Marketing and advertising	254	197	400	407
FDIC insurance	138	189	309	408
Debit card processing	195	178	373	355
Charitable donations	11	34	486	481
External data processing	157	142	304	270
Foreclosed real estate including (gains) losses on sales	74	211	137	804
Impaired loan carrying costs	36	185	115	230
Other	854	806	1,354	1,315
Total noninterest expense	7,157	6,952	14,410	14,222
Income before income taxes	3,622	3,756	7,268	6,771
Provision for income taxes	977	977	1,961	1,702
Net income	2,645	2,779	5,307	5,069
Preferred stock dividends	62	71	125	259
Net income available to common shareholders	$ 2,583	$ 2,708	$ 5,182	$ 4,810
Net income per common share, basic	$ 0.57	$ 0.61	$ 1.15	$ 1.09
Net income per common share, diluted	$ 0.56	$ 0.60	$ 1.13	$ 1.08

See accompanying notes.

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Codorus Valley Bancorp, Inc.
Consolidated Statements of Comprehensive Income
Unaudited

(dollars in thousands)		**Three months ended June 30, 2013**		**2012**
Net income	$	2,645	$	2,779
Other comprehensive (loss) income:				
Securities available for sale:				
Net unrealized holding (losses) gains arising during the period (net of tax (benefit) expense of $(1,283) and $110, respectively)		(2,489)		214
Reclassification adjustment for (gains) included in net income (net of tax expense of $15 and $0, respectively) (a) (b)		(29)		0
Net unrealized (losses) gains		(2,518)		214
Comprehensive income	$	127	$	2,993

(dollars in thousands)		**Six months ended June 30, 2013**		**2012**
Net income	$	5,307	$	5,069
Other comprehensive (loss) income:				
Securities available for sale:				
Net unrealized holding (losses) gains arising during the period (net of tax (benefit) expense of $(1,500) and $171, respectively)		(2,911)		331
Reclassification adjustment for (gains) included in net income (net of tax expense of $15 and $17, respectively) (a) (b)		(29)		(32)
Net unrealized (losses) gains		(2,940)		299
Comprehensive income	$	2,367	$	5,368

(a) Amounts are included in net gain on sales of securities on the Consolidated Statements of Income within noninterest income.
(b) Income tax amounts are included in provision for income taxes on the Consolidated Statements of Income.

See accompanying notes.

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Codorus Valley Bancorp, Inc.
Consolidated Statements of Cash Flows
Unaudited

(dollars in thousands)	**Six months ended June 30, 2013**	**2012**
Cash flows from operating activities		
Net income	$ 5,307	$ 5,069
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation/amortization	729	682
Net amortization of premiums on securities	722	670
Amortization of deferred loan origination fees and costs	(277)	(122)
Amortization of intangible assets	0	15
Provision for loan losses	820	500
Provision for losses on foreclosed real estate	0	1,088
Amortization of investment in real estate partnership	161	172
Increase in cash surrender value and death benefit on bank owned life insurance	(351)	(330)
Originations of loans held for sale	(33,537)	(31,487)
Proceeds from sales of loans held for sale	36,125	33,102
Net gain on sales of loans held for sale	(641)	(540)
Gain on disposal of premises and equipment	0	7
Net gain on sales of securities available-for-sale	(44)	(49)
Net (gain) loss on sales of foreclosed real estate	(15)	8
Stock-based compensation	157	201
Decrease in interest receivable	181	286
Decrease in other assets	621	19
Decrease in interest payable	(79)	(43)
Increase (decrease) in other liabilities	439	(398)
Net cash provided by operating activities	10,318	8,850
Cash flows from investing activities		
Purchases of securities, available-for-sale	(14,143)	(31,488)
Maturities, repayments and calls of securities, available-for-sale	20,961	21,929
Sales of securities, available-for-sale	927	8,047
(Purchase) redemption of restricted investment in bank stock	(230)	347
Net increase in loans made to customers	(31,852)	(13,276)
Purchases of premises and equipment	(2,265)	(486)
Investment in bank owned life insurance	(5,300)	(230)
Proceeds from bank owned life insurance	0	206
Investment in foreclosed real estate	0	(17)
Proceeds from sales of foreclosed real estate	207	2,635
Net cash used in investing activities	(31,695)	(12,333)
Cash flows from financing activities		
Net increase in demand and savings deposits	19,877	20,510
Net increase in time deposits	3,666	3,134
Net increase in short-term borrowings	3,774	15,071
Proceeds from issuance of long-term debt	10,000	0
Repayment of long-term debt	(282)	(10,488)
Cash dividends paid to preferred shareholders	(125)	(501)
Cash dividends paid to common shareholders	(988)	(757)
Issuance of common stock	514	327
Net cash provided by financing activities	36,436	27,296
Net increase in cash and cash equivalents	15,059	23,813
Cash and cash equivalents at beginning of year	49,757	32,195
Cash and cash equivalents at end of period	$ 64,816	$ 56,008

See accompanying notes.

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Codorus Valley Bancorp, Inc.
Consolidated Statements of Changes in Shareholders Equity
Unaudited

(dollars in thousands, except per share data)	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance, January 1, 2013	$ 25,000	$ 11,206	$ 40,524	$ 18,868	$ 5,733	$ 101,331
Net income				5,307		5,307
Other comprehensive loss, net of tax					(2,940)	(2,940)
Common stock cash dividends ($0.22 per share)				(988)		(988)
Preferred stock cash dividends				(125)		(125)
Stock-based compensation			157			157
Issuance of common stock:						
10,453 shares under the dividend reinvestment and stock purchase plan		26	151			177
23,105 shares under the stock option plan		58	226			284
4,246 shares under employee stock purchase plan		10	43			53
Balance, June 30, 2013	$ 25,000	$ 11,300	$ 41,101	$ 23,062	$ 2,793	$ 103,256
Balance, January 1, 2012	$ 25,000	$ 10,507	$ 37,253	$ 14,558	$ 5,924	$ 93,242
Net income				5,069		5,069
Other comprehensive income, net of tax					299	299
Common stock cash dividends ($.0172 per share, adjusted)				(757)		(757)
Preferred stock cash dividends				(259)		(259)
Stock-based compensation			201			201
Issuance of common stock:						
11,673 shares under the dividend reinvestment and stock purchase plan		29	107			136
13,602 shares under the stock option plan		34	114			148
5,330 shares under employee stock purchase plan		15	28			43
Balance, June 30, 2012	$ 25,000	$ 10,585	$ 37,703	$ 18,611	$ 6,223	$ 98,122

See accompanying notes.

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Note 1 Basis of Presentation

The accompanying unaudited consolidated balance sheet at December 31, 2012 has been derived from audited financial statements, and the unaudited interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information, the instructions to Form 10-Q, and FASB Accounting Standards Codification (ASC) 270. Accordingly, the interim financial statements do not include all of the financial information and notes required by generally accepted accounting principles for complete financial statements. In the opinion of management, the interim consolidated financial statements include all adjustments necessary to present fairly the financial condition and results of operations for the reported periods, and all such adjustments are of a normal and recurring nature.

These consolidated statements should be read in conjunction with the notes to the audited consolidated financial statements contained in the Corporation s Annual Report on Form 10-K for the year ended December 31, 2012.

The consolidated financial statements include the accounts of Codorus Valley Bancorp, Inc. and its wholly owned bank subsidiary, PeoplesBank, A Codorus Valley Company (PeoplesBank), and its wholly owned nonbank subsidiary, SYC Realty Company, Inc. (collectively referred to as Codorus Valley or the Corporation). PeoplesBank has four wholly-owned subsidiaries, Codorus Valley Financial Advisors, Inc., SYC Settlement Services, Inc. and two subsidiaries whose purpose is to temporarily hold foreclosed properties pending eventual liquidation. All significant intercompany account balances and transactions have been eliminated in consolidation. The combined results of operations of the nonbank subsidiaries are not material to the consolidated financial statements.

The results of operations for the three and six month periods ended June 30, 2013 are not necessarily indicative of the results to be expected for the full year.

In accordance with FASB ASC 855, the Corporation evaluated the events and transactions that occurred after the balance sheet date of June 30, 2013 and through the date these consolidated financial statements were issued, for items of potential recognition or disclosure.

Note 2 Significant Accounting Policies

Loans

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff, are stated at their outstanding unpaid principal balances less amounts charged off, net of an allowance for loan losses and any deferred fees or costs. Interest income is accrued on the unpaid principal balance. Generally, loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the yield (interest income) over the contractual life of the loan. The loans receivable portfolio is segmented into commercial and consumer loans. Commercial loans consist of the following industry classes: builder & developer, commercial real estate investor, residential real estate investor, hotel/motel, wholesale & retail, agriculture, manufacturing and all other. Consumer loans consist of the following classes: residential mortgage, home equity and all other.

For all classes of loans receivable, the accrual of interest is discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about further collectability of principal or interest, even though the loan is currently performing. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. When a loan is placed on nonaccrual status, unpaid interest credited to income in the current year is reversed and unpaid interest accrued in prior years is charged against the allowance for loan losses. Interest received on nonaccrual loans, including impaired loans, generally is either applied against principal or reported as interest income, according to the Corporation s judgment as to the collectability of principal. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time, generally six months, and the ultimate collectability of the total contractual principal and interest is no longer in doubt. The past due status of all classes of loans receivable is determined based on contractual due dates for loan payments.

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Allowance for Loan Losses

The allowance for loan losses represents the Corporation s estimate of losses inherent in the loan portfolio as of the balance sheet date and is recorded as a reduction to loans. The allowance for loan losses is increased by the provision for loan losses, and decreased by charge-offs, net of recoveries. Loans deemed to be uncollectible are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance. All, or part, of the principal balance of loans receivable are charged off to the allowance as soon as it is determined that the repayment of all, or part, of the principal balance is highly unlikely. While the Corporation attributes a portion of the allowance to individual loans and groups of loans that it evaluates and determines to be impaired, the allowance is available to cover all charge-offs that arise from the loan portfolio.

The allowance for loan losses is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. The Corporation performs a quarterly evaluation of the adequacy of the allowance. The allowance is based on the Corporation s past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower s ability to repay, the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions and other relevant factors. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant revision as more information becomes available.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as impaired, generally substandard and nonaccrual loans. For loans that are classified as impaired, an allowance is established when the collateral value (or discounted cash flows or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers pools of loans by loan class including commercial loans not considered impaired, as well as smaller balance homogeneous loans, such as residential real estate, home equity and other consumer loans. These pools of loans are evaluated for loss exposure based upon historical loss rates for each of these classes of loans, adjusted for qualitative (environmental) risk factors. Historical loss rates are based on a two year rolling average of net charge-offs. Qualitative risk factors that supplement historical losses in the evaluation of loan pools include:

Changes in national and local economies and business conditions
Changes in the value of collateral for collateral dependent loans
Changes in the level of concentrations of credit
Changes in the volume and severity of classified and past due loans
Changes in the nature and volume of the portfolio
Changes in collection, charge-off, and recovery procedures
Changes in underwriting standards and loan terms
Changes in the quality of the loan review system
Changes in the experience/ability of lending management and key lending staff
Regulatory and legal regulations that could affect the level of credit losses
Other pertinent environmental factors

Each factor is assigned a value to reflect improving, stable or declining conditions based on the Corporation s best judgment using relevant information available at the time of the evaluation. An unallocated component is maintained to cover uncertainties that could affect the Corporation s estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the loan portfolio.

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As disclosed in Note 5-Loans, the Corporation engages in commercial and consumer lending. Loans are made within the Corporation s primary market area and surrounding areas, and include the purchase of whole loan or participation interests in loans from other financial institutions. Commercial related loans, which pose the greatest risk of loss to the Corporation, whether originated or purchased, are generally secured by real estate. Within the broad commercial loan segment, the builder & developer and commercial real estate investor loan classes generally present a higher level of risk than other commercial loan classifications. This greater risk is due to several factors, including the concentration of principal in a limited number of loans and borrowers, the effect of general economic conditions on income producing properties, unstable real estate prices and the dependency upon successful construction and sale or operation of the real estate project. Within the consumer loan segment, junior (i.e., second) liens present a slightly higher risk to the Corporation because economic and housing market conditions can adversely affect the underlying value of the collateral and the ability of some borrowers to service their debt.

A loan is considered impaired when, based on current information and events, it is probable that the Corporation 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 in determining impairment include payment status 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. The Corporation 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. Loans that are deemed impaired are evaluated for impairment loss based on the net realizable value of the collateral, as applicable. Loans that are not collateral dependent will rely on the present value of expected future cash flows discounted at the loan s effective interest rate to determine impairment loss. Large groups of smaller balance homogeneous loans such as residential mortgage loans, home equity loans and other consumer loans are collectively evaluated for impairment, unless they are considered to be a troubled debt restructuring.

An allowance for loan losses is established for an impaired commercial loan if its carrying value exceeds its estimated fair value. For commercial loans secured by real estate, estimated fair values are determined primarily through third-party appraisals of the underlying collateral. When a real estate secured loan becomes impaired, a decision is made regarding whether an updated certified appraisal of the real estate is necessary. This decision is based on various considerations, including the age of the most recent appraisal, the loan-to-value ratio based on the most recent appraisal and the condition of the property. Appraisals are generally discounted to provide for selling costs and other factors to determine an estimate of the net realizable value of the property. For commercial loans secured by non-real estate collateral, such as accounts receivable, inventory and equipment, estimated fair values are determined based on the borrower s financial statements, inventory reports, accounts receivable aging or equipment appraisals or invoices. Indications of value from these sources are generally discounted based on the age of the financial information or the quality of the assets. In instances when specific consumer related loans become impaired, they may be partially or fully charged off, which obviates the need for a specific allowance.

Loans whose terms are modified are classified as troubled debt restructurings if the Corporation grants borrowers experiencing financial difficulties concessions that it would not otherwise consider. Concessions granted under a troubled debt restructuring may involve an interest rate that is below the market rate given the associated credit risk of the loan or an extension of a loan s stated maturity date. Loans classified as troubled debt restructurings are designated as impaired. Non-accrual troubled debt restructurings are restored to accrual status if principal and interest payments, under the modified terms, are current for a reasonable period of time, generally six consecutive months after modification and future payments are reasonably assured.

Banking regulatory agencies, as an integral part of their examination process, periodically review the Corporation s allowance for loan losses and may require the Corporation to recognize additions to the allowance based on their judgments about information available to them at the time of their examination, which may not be currently available to the Corporation. Based on a comprehensive analysis of the loan portfolio, the Corporation believes that the level of the allowance for loan losses at June 30, 2013 is adequate.

Foreclosed Real Estate

Foreclosed real estate, included in other assets, is comprised of property acquired through a foreclosure proceeding or property that is acquired through in substance foreclosure. Foreclosed real estate is initially recorded at fair value minus estimated costs to sell at the date of foreclosure, establishing a new cost basis. Any difference between the carrying value and the new cost basis is charged against the allowance for loan losses. Appraisals, based upon an independent third party, are generally used to determine fair value. After foreclosure, management reviews valuations at least quarterly and adjusts the asset to the lower of cost or fair value minus estimated costs to sell through a valuation allowance or a charge-off. Costs related to the improvement of foreclosed real estate are generally capitalized until the real estate reaches a saleable condition subject to fair value limitations. Revenue and expense from operations and changes in the valuation allowance are included in noninterest expense. When a foreclosed real estate asset is ultimately sold, any gain or loss on the sale is included in the income statement as a component of noninterest expense. At June 30, 2013, foreclosed real estate, net of allowance, was $3,441,000, compared to $3,633,000 for December 31, 2012.

Per Common Share Computations

All per share computations include the effect of stock dividends distributed. The computation of net income per common share is provided in the table below.

	Three months ended June 30,		**Six months ended June 30,**	
(in thousands, except per share data)	**2013**	**2012**	**2013**	**2012**
Net income available to common shareholders	$ 2,583	$ 2,708	$ 5,182	$ 4,810
Weighted average shares outstanding (basic)	4,506	4,432	4,495	4,425
Effect of dilutive stock options	83	63	83	47
Weighted average shares outstanding (diluted)	4,589	4,495	4,578	4,472
Basic earnings per common share	$ 0.57	$ 0.61	$ 1.15	$ 1.09
Diluted earnings per common share	$ 0.56	$ 0.60	$ 1.13	$ 1.08
Anti-dilutive stock options and common stock warrants excluded from the computation of earnings per share	28	79	28	79

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Comprehensive Income

Accounting principles generally accepted in the United States of America require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the shareholders equity section of the balance sheet, such items, along with net income, are components of comprehensive income.

Cash Flow Information

For purposes of the statements of cash flows, the Corporation considers interest bearing deposits with banks, cash and due from banks, and federal funds sold to be cash and cash equivalents.

Supplemental cash flow information is provided in the table below.

(dollars in thousands)	**Six months ended June 30, 2013**	**2012**
Cash paid during the period for:		
Income taxes	$ 1,965	$ 1,882
Interest	$ 4,460	$ 5,374
Noncash investing activities:		
Transfer of loans to foreclosed real estate	$ 0	$ 156

Reclassification

Certain amounts in the 2012 consolidated financial statements have been reclassified to conform to the 2013 presentation, which did not impact net income or shareholders equity.

Recent Accounting Pronouncements

There were no new accounting pronouncements affecting the Corporation during the reporting period that were not already adopted.

Note 3-Securities

A summary of securities available-for-sale at June 30, 2013 and December 31, 2012 is provided below. The securities available-for-sale portfolio is generally comprised of high quality debt instruments, principally obligations of the United States government or agencies thereof. Also included in the portfolio are investments in the obligations of states and municipalities. With the exception of an approximately $13 million portfolio (fair value) of Texas municipal utility district bonds, which has its own criteria for investment (e.g., maximum debt to assessed valuation, minimum assessed valuation and district size, proximity to employment, etc.), the remaining municipal bonds were all rated A or above by a national rating service at June 30, 2013. The majority of municipal bonds in the portfolio are general obligation bonds, which can draw upon multiple sources