JUNIATA VALLEY FINANCIAL CORP
Form 10-Q
May 10, 2007

**UNITED STATES**
**SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**
**FORM 10-Q**

(Mark One)

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

**For the quarterly period ended March 31, 2007**

**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 000-13232**

**Juniata Valley Financial Corp.**

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Pennsylvania | 23-2235254 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| Bridge and Main Streets, Mifflintown, Pennsylvania | 17059 |
| (Address of principal executive offices) | (Zip Code) |

(717) 436-8211

(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. þ Yes o No

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

Large accelerated filer o Accelerated filer þ Non-accelerated filer o

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

| Class | Outstanding as of May 9, 2007 |
|---|---|
| Common Stock ($1.00 par value) | 4,435,556 shares |

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**PART I FINANCIAL INFORMATION**
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**Juniata Valley Financial Corp. and Subsidiary**
**Consolidated Statements of Financial Condition**
(Amounts in thousands, except share data)

| | March 31, 2007 | December 31, 2006 |
|---|---|---|
| **ASSETS** | | |
| Cash and due from banks | $ 11,314 | $ 16,476 |
| Interest bearing deposits with banks | 128 | 102 |
| Federal funds sold | 10,000 | 1,200 |
| Cash and cash equivalents | 21,442 | 17,778 |
| Interest bearing time deposits with banks | 5,660 | 5,660 |
| Securities available for sale | 65,508 | 56,383 |
| Securities held to maturity, fair value of $6,448 and $2,480, respectively | 6,455 | 2,500 |
| Restricted investment in Federal Home Loan Bank (FHLB) stock | 994 | 1,076 |
| Investment in unconsolidated subsidiary | 2,887 | 2,892 |
| Total loans, net of unearned interest | 300,123 | 305,818 |
| Less: Allowance for loan losses | (2,598) | (2,572) |
| Total loans, net of allowance for loan losses | 297,525 | 303,246 |
| Premises and equipment, net | 6,440 | 6,542 |
| Bank owned life insurance and annuities | 11,130 | 11,017 |
| Core deposit intangible | 423 | 434 |
| Goodwill | 2,046 | 2,046 |
| Accrued interest receivable and other assets | 6,201 | 6,357 |
| **Total assets** | $ 426,711 | $ 415,931 |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | |
| **Liabilities:** | | |
| Deposits: | | |
| Non-interest bearing | $ 44,765 | $ 42,829 |
| Interest bearing | 316,883 | 312,340 |
| Total deposits | 361,648 | 355,169 |
| Securities sold under agreements to repurchase | 5,525 | 6,112 |
| Other interest bearing liabilities | 950 | 927 |
| Accrued interest payable and other liabilities | 10,566 | 5,937 |
| **Total liabilities** | 378,689 | 368,145 |
| **Stockholders Equity:** | | |
| Preferred stock, no par value: | | |
| Authorized 500,000 shares, none issued | | |
| Common stock, par value $1.00 per share: | | |
| Authorized 20,000,000 shares | | |

| | | |
|---|---|---|
| Issued 4,745,826 shares | | |
| Outstanding | | |
| 4,442,256 shares at March 31, 2007; | | |
| 4,457,934 shares at December 31, 2006 | 4,746 | 4,746 |
| Surplus | 18,264 | 18,259 |
| Retained earnings | 32,053 | 31,531 |
| Accumulated other comprehensive loss | (1,055) | (1,098) |
| Cost of common stock in Treasury: | | |
| 303,570 shares at March 31, 2007; | | |
| 287,892 shares at December 31, 2006 | (5,986) | (5,652) |
| **Total stockholders equity** | 48,022 | 47,786 |
| **Total liabilities and stockholders equity** | $ 426,711 | $ 415,931 |

See accompanying notes to consolidated financial statements.

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**Juniata Valley Financial Corp. and Subsidiary**
**Consolidated Statements of Income**
(Unaudited)
(Dollar amounts in thousands, except share data)

| | Three Months Ended March 31, 2007 | Three Months Ended March 31, 2006 |
|---|---|---|
| **Interest income:** | | |
| Loans, including fees | $ 5,620 | $ 5,202 |
| Taxable securities | 506 | 498 |
| Tax-exempt securities | 171 | 164 |
| Federal funds sold | 88 | |
| Other interest income | 62 | 60 |
| **Total interest income** | 6,447 | 5,924 |
| **Interest expense:** | | |
| Deposits | 2,593 | 2,153 |
| Securities sold under agreements to repurchase | 66 | 48 |
| Short-term borrowings | | 92 |
| Long-term debt | | 35 |
| Other interest bearing liabilities | 9 | 5 |
| **Total interest expense** | 2,668 | 2,333 |
| **Net interest income** | 3,779 | 3,591 |
| Provision for loan losses | 67 | 30 |
| **Net interest income after provision for loan losses** | 3,712 | 3,561 |
| **Noninterest income:** | | |
| Trust fees | 117 | 136 |
| Customer service fees | 387 | 342 |
| Earnings on bank-owned life insurance and annuities | 104 | 92 |
| Comnmissions from sales of annuities and mutual funds | 226 | 83 |
| Income from unconsolidated subsidiary | 41 | |
| Gain on sale of loans and other assets | 12 | 13 |
| Gain on sale of securities | | 67 |
| Other noninterest income | 151 | 137 |
| **Total noninterest income** | 1,038 | 870 |
| **Noninterest expense:** | | |
| Employee compensation expense | 1,187 | 1,086 |
| Employee benefits | 404 | 378 |
| Occupancy | 238 | 202 |
| Equipment | 167 | 156 |
| Data processing expense | 324 | 317 |

| | | |
|---|---|---|
| Director compensation | 119 | 125 |
| Professional fees | 104 | 86 |
| Taxes, other than income | 138 | 114 |
| Amortization of intangibles | 11 | |
| Other noninterest expense | 276 | 280 |
| **Total noninterest expense** | 2,968 | 2,744 |
| **Income before income taxes** | 1,782 | 1,687 |
| Provision for income taxes | 503 | 483 |
| **Net income** | $ 1,279 | $ 1,204 |
| **Earnings per share** | | |
| Basic | $ 0.29 | $ 0.27 |
| Diluted | $ 0.29 | $ 0.27 |
| Cash dividends declared per share | $ 0.17 | $ 0.16 |
| Weighted average basic shares outstanding | 4,450,211 | 4,490,243 |
| Weighted average diluted shares outstanding | 4,460,246 | 4,505,178 |

See accompanying notes to consolidated financial statements.

**Juniata Valley Financial Corp. and Subsidiary**
**Consolidated Statements of Changes in Stockholders Equity**
(Unaudited)
(Amounts in thousands, except share data)

**Three Months Ended March 31, 2007**

| | **Number of Shares Outstanding** | **Common Stock** | **Surplus** | **Retained Earnings** | **Accumulated Other Comprehensive Income (Loss)** | **Treasury Stock** | **Total Stockholders Equity** |
|---|---|---|---|---|---|---|---|
| **Balance at December 31, 2006** | 4,457,934 | $ 4,746 | $ 18,259 | $ 31,531 | $ (1,098) | $ (5,652) | $ 47,786 |
| Comprehensive income: | | | | | | | |
| Net income | | | | 1,279 | | | 1,279 |
| Change in unrealized losses on securities available for sale, net of reclassification adjustment and tax effects | | | | | 43 | | 43 |
| Total comprehensive income | | | | | | | 1,322 |
| Cash dividends at $0.17 per share | | | | (757) | | | (757) |
| Stock-based compensation activity | | | 10 | | | | 10 |
| Purchase of treasury stock, at cost | (17,200) | | | | | (364) | (364) |
| Treasury stock issued for stock option plan | 1,522 | | (5) | | | 30 | 25 |
| **Balance at March 31, 2007** | 4,442,256 | $ 4,746 | $ 18,264 | $ 32,053 | $ (1,055) | $ (5,986) | $ 48,022 |

**Three Months Ended March 31, 2006**

| | | | | | |
|---|---|---|---|---|---|
| | | | **Accumulated** | | **Total** |
| | | **Retained** | | **Treasury** | **Stockholders** |

| | Number of Shares Outstanding | Common Stock | Surplus | Earnings | Other Comprehensive Loss | Stock | Equity |
|---|---|---|---|---|---|---|---|
| **Balance at December 31, 2005** | 4,503,392 | $ 4,746 | $ 18,177 | $ 29,486 | $ (694) | $ (4,596) | $ 47,119 |
| Comprehensive income: | | | | | | | |
| Net income | | | | 1,204 | | | 1,204 |
| Change in unrealized losses on securities available for sale, net of reclassifica- tion adjustment and tax effects | | | | | (73) | | (73) |
| Total comprehensive income | | | | | | | 1,131 |
| Cash dividends at $0.16 per share | | | | (717) | | | (717) |
| Stock-based compensation activity | | | 9 | | | | 9 |
| Purchase of treasury stock, at cost | (22,000) | | | | | (531) | (531) |
| Treasury stock issued for dividend reinvestment plan | 8,147 | | 38 | | | 158 | 196 |
| **Balance at March 31, 2006** | 4,489,539 | $ 4,746 | $ 18,224 | $ 29,973 | $ (767) | $ (4,969) | $ 47,207 |

See accompanying notes to consolidated financial statements.

**Juniata Valley Financial Corp. and Subsidiary**
**Consolidated Statements of Cash Flows**
(Unaudited)
(Amounts in thousands)

| | Three Months Ended March 31, 2007 | Three Months Ended March 31, 2006 |
|---|---|---|
| **Operating activities:** | | |
| Net income | $ 1,279 | $ 1,204 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for loan losses | 67 | 30 |
| Provision for depreciation | 160 | 146 |
| Net amortization of securities premiums | 23 | 31 |
| Amortization of core deposit intangible | 11 | |
| Gains on sales of securities | | (67) |
| Gains on sales of loans and other assets | (12) | (13) |
| Earnings on investment in life insurance | (104) | (92) |
| Deferred income tax credit | (4) | (17) |
| Equity in earnings of unconsolidated subsidiary, net of dividends of $48 | 7 | |
| Stock-based compensation expense | 10 | 9 |
| (Increase) decrease in accrued interest receivable and other assets | 34 | (710) |
| Increase in accrued interest payable and other liabilities | 527 | 681 |
| **Net cash provided by operating activities** | 1,998 | 1,202 |
| **Investing activities:** | | |
| Purchases of: | | |
| Securities available for sale | (14,582) | (101) |
| Securities held to maturity | (3,955) | (5,100) |
| FHLB stock | | (258) |
| Premises and equipment | (58) | (20) |
| Bank owned life insurance and annuities | (29) | (25) |
| Proceeds from: | | |
| Maturities of and principal repayments on Securities available for sale | 9,547 | 1,261 |
| Redemption of FHLB stock | 82 | 107 |
| Bank owned life insurance and annuities | 20 | 110 |
| Sale of other real estate owned | 157 | |
| Net decrease (increase) in loans receivable | 5,614 | (4,519) |
| **Net cash used in investing activities** | (3,204) | (8,545) |
| **Financing activities:** | | |
| Net increase (decrease) in deposits | 6,479 | (1,727) |
| Net (decrease) increase in short-term borrowings and securities sold under agreements to repurchase | (587) | 3,458 |
| Cash dividends | (757) | (717) |
| Purchase of treasury stock | (290) | (531) |

| | | | | |
|---|---|---|---|---|
| Treasury stock issued for dividend reinvestment and employee stock purchase plan | | 25 | | 196 |
| **Net cash provided by financing activities** | | 4,870 | | 679 |
| Net increase (decrease) in cash and cash equivalents | | 3,664 | | (6,664) |
| Cash and cash equivalents at beginning of period | | 17,778 | | 16,439 |
| Cash and cash equivalents at end of period | $ | 21,442 | $ | 9,775 |
| **Supplemental information:** | | | | |
| Interest paid | $ | 2,702 | $ | 2,325 |
| Income taxes paid | $ | | $ | 475 |
| **Supplemental schedule of noncash investing and financing activities:** | | | | |
| Transfer of loans to other real estate owned | $ | 52 | $ | 148 |

See accompanying notes to consolidated financial statements.

**Juniata Valley Financial Corp. and Subsidiary**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE A Basis of Presentation and Accounting Policies

The financial information includes the accounts of Juniata Valley Financial Corp. (the Corporation ) and its wholly owned subsidiary, The Juniata Valley Bank (the Bank ). All significant intercompany accounts and transactions have been eliminated.

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments considered necessary for fair presentation have been included. Operating results for the three-month period ended March 31, 2007, are not necessarily indicative of the results for the year ended December 31, 2007. For further information, refer to the consolidated financial statements and footnotes thereto included in Juniata Valley Financial Corp. s Annual Report on Form 10-K for the year ended December 31, 2006.

NOTE B Recent Accounting Pronouncements

In June 2006, the FASB issued FASB Interpretation No. 48 ( FIN 48 ), Accounting for Uncertainty in Income Taxes. FIN 48 is an interpretation of FAS No. 109, Accounting for Income Taxes, and it seeks to reduce the diversity in practice associated with certain aspects of measurement and recognition in accounting for income taxes. In addition, FIN 48 requires expanded disclosure with respect to the uncertainty in income taxes and is effective for fiscal years beginning January 1, 2007. Adoption of this standard had no material effect on the Corporation s financial position or results of operations.

In September 2006, the FASB issued FASB Statement No. 157, Fair Value Measurements , which defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measurements. FASB Statement No. 157 applies to other accounting pronouncements that require or permit fair value measurements. The new guidance is effective for financial statements issued for fiscal years beginning after November 15, 2007, and for interim periods within those fiscal years. The Corporation is currently evaluating the impact the adoption of the standard will have on the Corporation s results of operations and financial position.

In June 2006, the Emerging Issues Task Force (EITF) released Issue No. 06-4, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements (EITF 06-4). This EITF consensus opinion was ratified by the FASB on September 20, 2006. EITF 06-4 requires employers who have entered into a split-dollar life insurance arrangement with an employee that extends to post-retirement periods, to recognize a liability and related compensation costs in accordance with SFAS No. 106, Accounting for Post Retirement Benefit Obligations or Accounting Principles Board Opinion No. 12, Omnibus Opinion. The effective date of EITF No. 06-4 is for fiscal years beginning after December 15, 2007, and the opinion may be adopted through either a cumulative effect adjustment to retained earnings at the beginning of the year of adoption, or through retrospective application to prior periods. The Corporation has split-dollar life insurance arrangements and is currently evaluating the impact the adoption of the standard will have on the Corporation s results of operations and financial position.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115 ( FAS No 150 ). FAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected will be recognized in earnings at each subsequent reporting date. FAS No. 159 is effective for our Corporation January 1, 2008. The Corporation is currently evaluating the impact that the adoption of FAS No. 159 will have on the Corporation s consolidated results of operations and financial condition.

In March 2007, the FASB ratified Emerging Issues Task Force Issue No. 06-10 Accounting for Collateral Assignment Split-Dollar Life Insurance Agreements (EITF 06-10). EITF 06-10 provides guidance for determining a liability for the postretirement benefit obligation as well as recognition and measurement of the associated asset on the basis of the terms of the collateral assignment agreement. EITF 06-10 is effective for fiscal years beginning after December 15, 2007. The Corporation is currently assessing the impact of EITF 06-10 on its consolidated results of operations and financial position.

NOTE C Comprehensive Income

U.S. generally accepted accounting principles 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 equity section of the consolidated balance sheets, such items, along with net income, are components of comprehensive income.

The components of comprehensive income and related tax effects are as follows (in thousands):

| | Three Months Ended March 31, 2007 | | | Three Months Ended March 31, 2006 | | |
|---|---|---|---|---|---|---|
| | Before Tax Amount | Tax Expense or (Benefit) | Net-of-Tax Amount | Before Tax Amount | Tax Expense or (Benefit) | Net-of-Tax Amount |
| Net income | $ 1,782 | $ 503 | $ 1,279 | $ 1,687 | $ 483 | $ 1,204 |
| Other comprehensive income (loss): | | | | | | |
| Unrealized losses on available for sale securities: | | | | | | |
| Unrealized holding gains (losses) arising during the period | 64 | 21 | 43 | (44) | (15) | (29) |
| Less reclassification adjustment for gains included in net income | | | | (67) | (23) | (44) |
| Other comprehensive income (loss) | 64 | 21 | 43 | (111) | (38) | (73) |
| Total comprehensive income | $ 1,846 | $ 524 | $ 1,322 | $ 1,576 | $ 445 | $ 1,131 |

NOTE D Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share:

*(Amounts, except earnings per share, in thousands)*

| | **Three Months Ended March 31, 2007** | **Three Months Ended March 31, 2006** |
|---|---|---|
| Net income | $ 1,279 | $ 1,204 |
| Weighted-average common shares outstanding | 4,450 | 4,490 |
| **Basic earnings per share** | $ 0.29 | $ 0.27 |

| | | | | |
|---|---|---|---|---|
| Weighted-average common shares outstanding | | 4,450 | | 4,490 |
| Common stock equivalents due to effect of stock options | | 10 | | 15 |
| Total weighted-average common shares and equivalents | | 4,460 | | 4,505 |
| **Diluted earnings per share** | $ | 0.29 | $ | 0.27 |