

CITIZENS FINANCIAL SERVICES INC
Form 10-Q
May 10, 2012

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

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

For the quarterly period ended March 31, 2012
Or

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 0-13222

CITIZENS FINANCIAL SERVICES, INC.
(Exact name of registrant as specified in its charter)

PENNSYLVANIA
(State or other jurisdiction of incorporation or organization)
No.)

23-2265045
(I.R.S. Employer Identification
No.)

15 South Main Street
Mansfield, Pennsylvania 16933
(Address of principal executive offices)(Zip Code)

Registrant's telephone number, including area code: (570) 662-2121

Indicate by check mark whether the registrant (1) has filed all reports 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 (§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 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.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a 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

The number of outstanding shares of the Registrant's Common Stock, as of May 2, 2012, was 2,897,313.

Citizens Financial Services, Inc.
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CITIZENS FINANCIAL SERVICES, INC.
CONSOLIDATED BALANCE SHEET
(UNAUDITED)

(in thousands except share data)	March 31 2012	December 31 2011
ASSETS:		
Cash and due from banks:		
Noninterest-bearing	\$ 11,835	\$ 9,960
Interest-bearing	2	20,472
Total cash and cash equivalents	11,837	30,432
Available-for-sale securities	362,148	318,823
Loans (net of allowance for loan losses: 2012, \$6,545 and 2011, \$6,487)	484,747	481,022
Premises and equipment	11,582	11,702
Accrued interest receivable	4,305	3,621
Goodwill	10,256	10,256
Bank owned life insurance	13,794	13,669
Other assets	10,757	9,042
TOTAL ASSETS	\$ 909,426	\$ 878,567
LIABILITIES:		
Deposits:		
Noninterest-bearing	\$ 89,806	\$ 85,605
Interest-bearing	653,020	648,388
Total deposits	742,826	733,993
Borrowed funds	72,768	53,882
Accrued interest payable	1,320	1,512
Other liabilities	8,736	7,712
TOTAL LIABILITIES	825,650	797,099
STOCKHOLDERS' EQUITY:		
Preferred Stock		
\$1.00 par value; authorized 3,000,000 shares		
March 31, 2012 and December 31, 2011;		
none issued in 2012 or 2011		
	-	-
Common stock		
\$1.00 par value; authorized 15,000,000		
shares; issued 3,132,866 at March 31, 2012 and		
December 31, 2011	3,133	3,133
Additional paid-in capital	15,445	15,313
Retained earnings	65,931	63,337
Accumulated other comprehensive income	4,612	4,949
Treasury stock, at cost: 232,433 shares at		
March 31, 2012		
and 230,203 shares at December 31, 2011	(5,345)	(5,264)

TOTAL STOCKHOLDERS' EQUITY	83,776	81,468
TOTAL LIABILITIES AND		
STOCKHOLDERS' EQUITY	\$ 909,426	\$ 878,567

The accompanying notes are an integral part of these unaudited consolidated financial statements.

CITIZENS FINANCIAL
SERVICES, INC.
CONSOLIDATED
STATEMENT OF INCOME
(UNAUDITED)

Three Months Ended
March 31

(in thousands, except share and
per share data)

	2012	2011
INTEREST INCOME:		
Interest and fees on loans	\$ 7,465	\$ 7,395
Interest-bearing deposits with banks	5	22
Investment securities:		
Taxable	1,197	1,172
Nontaxable	954	865
Dividends	16	15
TOTAL INTEREST INCOME	9,637	9,469
INTEREST EXPENSE:		
Deposits	1,666	2,088
Borrowed funds	413	445
TOTAL INTEREST EXPENSE	2,079	2,533
NET INTEREST INCOME	7,558	6,936
Provision for loan losses	105	225
NET INTEREST INCOME AFTER		
PROVISION FOR LOAN LOSSES	7,453	6,711
NON-INTEREST INCOME:		
Service charges	1,078	945
Trust	173	157
Brokerage and insurance	150	95
Investment securities gains, net	108	120
Gains on loans sold	54	41
Earnings on bank owned life insurance	124	121
Other	156	140
TOTAL NON-INTEREST INCOME	1,843	1,619
NON-INTEREST EXPENSES:		
Salaries and employee benefits	2,753	2,515
Occupancy	310	390
Furniture and equipment	106	117
Professional fees	268	157
FDIC insurance	123	250
Pennsylvania shares tax	166	147
Other	1,129	1,204
TOTAL NON-INTEREST EXPENSES	4,855	4,780

Income before provision for income taxes	4,441	3,550
Provision for income taxes	992	720
NET INCOME	\$ 3,449	\$ 2,830

PER COMMON SHARE DATA:

Net Income - Basic	\$ 1.19	\$ 0.97
Net Income - Diluted	\$ 1.19	\$ 0.97
Cash Dividends Paid	\$ 0.295	\$ 0.260

The accompanying notes are an integral part of these unaudited consolidated financial statements.

CITIZENS FINANCIAL SERVICES,
 INC.
 CONSOLIDATED STATEMENT
 OF COMPREHENSIVE INCOME
 (UNAUDITED)

(in thousands)	Three Months Ended	
	March 31, 2012	2011
Net income	\$ 3,449	\$ 2,830
Other comprehensive income:		
Change in unrealized gains on available for sale securities	(424)	892
Income tax effect	144	(303)
Change in unrealized loss on interest rate swap	21	60
Income tax effect	(7)	(20)
Less: Reclassification adjustment for gain included in net income	(108)	(120)
Income tax effect	37	41
Other comprehensive (loss) income, net of tax	(337)	550
Comprehensive income	\$ 3,112	\$ 3,380

The accompanying notes are an integral part of these unaudited consolidated financial statements.

CITIZENS FINANCIAL SERVICES,
INC.CONSOLIDATED STATEMENT OF
CASH FLOWS

(UNAUDITED)

Three Months Ended

March 31,

2012 2011

(in thousands)

CASH FLOWS FROM OPERATING
ACTIVITIES:

Net income	\$ 3,449	\$ 2,830
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	105	225
Depreciation and amortization	105	142
Amortization and accretion of investment securities	595	439
Deferred income taxes	42	34
Investment securities gains, net	(108)	(120)
Earnings on bank owned life insurance	(124)	(121)
Originations of loans held for sale	(4,404)	(3,045)
Proceeds from sales of loans held for sale	4,458	3,086
Realized gains on loans sold	(54)	(41)
Increase in accrued interest receivable	(684)	(598)
Decrease in accrued interest payable	(192)	(189)
Other, net	925	795
Net cash provided by operating activities	4,113	3,437
CASH FLOWS FROM INVESTING ACTIVITIES:		
Available-for-sale securities:		
Proceeds from sales	11,236	3,189
Proceeds from maturity and principal repayments of securities	26,048	7,557
Purchase of securities	(81,628)	(44,025)
Proceeds from redemption of regulatory stock	25	175
Purchase of regulatory stock	(1,405)	-
Net (increase) decrease in loans	(3,841)	6,384
Purchase of premises and equipment	(33)	(63)
Proceeds from sale of foreclosed assets held for sale	108	81
Net cash used in investing activities	(49,490)	(26,702)

CASH FLOWS FROM FINANCING
ACTIVITIES:

Net increase in deposits	8,833	23,818
Proceeds from long-term borrowings	5	5
Repayments of long-term borrowings	(109)	-
Net increase in short-term borrowed funds	18,990	1,114
Purchase of treasury and restricted stock	(81)	(361)
Dividends paid	(856)	(752)
Net cash provided by financing activities	26,782	23,824
Net (decrease) increase in cash and cash equivalents	(18,595)	559
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	30,432	43,995
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 11,837	\$ 44,554

Supplemental Disclosures of Cash
Flow Information:

Interest paid	\$ 2,271	\$ 2,722
Income taxes paid	\$ 210	\$ -
Loans transferred to foreclosed property	\$ 72	\$ 335

The accompanying notes are an integral part of these unaudited consolidated financial statements.

CITIZENS FINANCIAL SERVICES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1 - Basis of Presentation

Citizens Financial Services, Inc., (individually and collectively with its direct and indirect subsidiaries, the “Company”) is a Pennsylvania corporation organized as the holding company of its wholly owned subsidiary, First Citizens National Bank (the “Bank”), and the Bank’s subsidiary, First Citizens Insurance Agency, Inc. (“First Citizens Insurance”).

The accompanying consolidated financial statements have been prepared pursuant to rules and regulations of the Securities and Exchange Commission (“SEC”) and in conformity with U.S. generally accepted accounting principles. Because this report is based on an interim period, certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted. Certain of the prior year amounts have been reclassified to conform with the current year presentation. Such reclassifications had no effect on net income or stockholders’ equity. All material inter-company balances and transactions have been eliminated in consolidation.

In the opinion of management of the Company, the accompanying interim financial statements for the periods ended March 31, 2012 and 2011 include all adjustments, consisting of only normal recurring adjustments, necessary for a fair presentation of the financial condition and the results of operations for the period. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the period. The financial performance reported for the Company for the three month period ended March 31, 2012 is not necessarily indicative of the results to be expected for the full year. This information should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended December 31, 2011.

Note 2 - Earnings per Share

The following table sets forth the computation of earnings per share. Earnings per share calculations give retroactive effect to stock dividends declared by the Company.

	Three months ended	
	March 31,	
	2012	2011
Basic earnings per share computation		
Net income applicable to common stock	\$3,449,000	\$2,830,000
Weighted average common shares outstanding	2,895,810	2,917,353
Earnings per share - basis	\$1.19	\$0.97
Diluted earnings per share computation		
Net income applicable to common stock	\$3,449,000	\$2,830,000

Weighted average common shares outstanding for basic earnings per share	2,895,810	2,917,353
Add: Dilutive effects of restricted stock	165	-
Weighted average common shares outstanding for dilutive earnings per share	2,895,975	2,917,353
Earnings per share - dilutive	\$1.19	\$0.97

Restricted stock grants that were anti-dilutive were excluded from net income per share calculations. For the three months ended March 31, 2012 and 2011, 3,073 and 10,389 shares, respectively, related to the restricted stock program were excluded from the diluted earnings per share calculations since they were anti-dilutive.

Note 3 - Income Tax Expense

Income tax expense is less than the amount calculated using the statutory tax rate, primarily as a result of tax-exempt income earned from state and municipal securities and loans and investments in tax credits.

Note 4 – Investments

The amortized cost and fair value of investment securities at March 31, 2012 and December 31, 2011 were as follows (in thousands):

March 31, 2012	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale securities:				
U.S. Agency securities	\$ 172,233	\$ 1,853	\$ (456)	\$ 173,630
U.S. Treasury securities	3,916	42	-	3,958
Obligations of state and political subdivisions	95,606	5,170	(10)	100,766
Corporate obligations	10,843	328	(8)	11,163
Mortgage-backed securities in government sponsored entities	69,293	2,330	(226)	71,397
Equity securities in financial institutions	771	463	-	1,234
Total available-for-sale securities	\$ 352,662	\$ 10,186	\$ (700)	\$ 362,148

December 31, 2011	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale securities:				
U.S. Agency securities	\$ 166,534	\$ 2,087	\$ (21)	\$ 168,600
Obligations of state and political subdivisions	96,556	4,996	(5)	101,547
Corporate obligations	8,263	197	-	8,460

Mortgage-backed securities in government sponsored entities	36,630	2,356	(12)	38,974
Equity securities in financial institutions	823	420	(1)	1,242
Total available-for-sale securities	\$ 308,806	\$ 10,056	\$(39)	\$ 318,823

The following table shows the Company's gross unrealized losses and fair value of the Company's investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time, that the individual securities have been in a continuous unrealized loss position, at March 31, 2012 and December 31, 2011 (in thousands). As of March 31, 2012, the Company owned 31 securities whose fair value was less than their cost basis, respectively.

March

31, 2012	Less than Twelve Months	Twelve Months or Greater	Total
	Gross	Gross	Gross
	Unrealized	Unrealized	Unrealized
	Losses	Losses	Losses
	Fair	Fair	Fair
	Value	Value	Value
U.S.			
Agency securities	\$ 45,982	\$ -	\$ 45,982
Obligations of state and political subdivisions	(456)	-	(456)
Corporate obligations	520	-	520
Mortgage-backed securities in government sponsored entities	(8)	-	(8)
	34,501	-	34,501
	(226)	-	(226)