

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.
Form 10-Q

INDEX

| | PAGE | |
|----------|---|-------|
| Part I | FINANCIAL INFORMATION | |
| Item 1. | Financial Statements (unaudited): | |
| | Consolidated Balance Sheet as of March 31, 2012 and December 31, 2011 | 1 |
| | Consolidated Statement of Income for the Three Months Ended March 31, 2012 and 2011 | 2 |
| | Consolidated Statement of Comprehensive Income for the Three Months Ended March 31, 2012 and 2011 | 3 |
| | Consolidated Statement of Cash Flows for the Three Months Ended March 31, 2012 and 2011 | 4 |
| | Notes to Consolidated Financial Statements | 5-26 |
| Item 2. | Management's Discussion and Analysis of Financial Condition and Results of Operations | 27-46 |
| Item 3. | Quantitative and Qualitative Disclosures About Market Risk | 46 |
| Item 4. | Controls and Procedures | 46 |
| Part II | OTHER INFORMATION | |
| Item 1. | Legal Proceedings | 47 |
| Item 1A. | Risk Factors | 47 |
| Item 2. | Unregistered Sales of Equity Securities and Use of Proceeds | 47 |
| Item 3. | Defaults Upon Senior Securities | 47 |
| Item 4. | Mine Safety Disclosures | 48 |
| Item 5. | Other Information | 48 |
| Item 6. | Exhibits | 48 |
| | Signatures | 49 |

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 | | |