

CITIZENS FINANCIAL SERVICES INC
Form 10-Q
May 10, 2017

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, 2017
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 23 2265045
(State or other jurisdiction of incorporation or organization) (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

N/A

(Former Name, former address and former fiscal year, if changed since last report)

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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer", "smaller reporting company" and "emerging growth 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) _____ Emerging
growth company _____

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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, 2017, was 3,320,366.

Citizens Financial Services, Inc.
Form 10-Q

INDEX

	PAGE
Part I FINANCIAL INFORMATION	
Item 1. Financial Statements (unaudited):	
Consolidated Balance Sheet as of March 31,2017 and December 31, 2016	1
Consolidated Statement of Income for the Three Months Ended March 31, 2017 and 2016	2
Consolidated Statement of Comprehensive Income for the Three Months ended March 31, 2017 and 2016	3
Consolidated Statement of Cash Flows for the Three Months ended March 31, 2017 and 2016	4
Notes to Consolidated Financial Statements	5-32
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	33-51
Item 3. Quantitative and Qualitative Disclosures About Market Risk	52
Item 4. Controls and Procedures	52
Part II OTHER INFORMATION	
Item 1. Legal Proceedings	52
Item 1A. Risk Factors	52
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	53
Item 3. Defaults Upon Senior Securities	53
Item 4. Mine Safety Disclosures	53
Item 5. Other Information	53
Item 6. Exhibits	53-54
Signatures	55

CITIZENS FINANCIAL SERVICES, INC.
CONSOLIDATED BALANCE SHEET
(UNAUDITED)

(in thousands except share data)	March 31 2017	December 31 2016
ASSETS:		
Cash and due from banks:		
Noninterest-bearing	\$13,587	\$16,854
Interest-bearing	1,210	900
Total cash and cash equivalents	14,797	17,754
Interest bearing time deposits with other banks	6,708	6,955
Available-for-sale securities	281,773	314,017
Loans held for sale	1,581	1,827
Loans (net of allowance for loan losses: 2017, \$9,405 and 2016, \$8,886)	835,902	790,725
Premises and equipment	16,949	17,030
Accrued interest receivable	3,618	4,089
Goodwill	21,089	21,089
Bank owned life insurance	26,389	26,223
Other intangibles	2,012	2,096
Receivable for settlement of security sales	1,297	7,759
Other assets	12,409	13,454
TOTAL ASSETS	\$1,224,524	\$1,223,018
LIABILITIES:		
Deposits:		
Noninterest-bearing	\$157,426	\$147,425
Interest-bearing	880,183	858,078
Total deposits	1,037,609	1,005,503
Borrowed funds	46,836	79,662
Accrued interest payable	612	720
Other liabilities	14,511	13,865
TOTAL LIABILITIES	1,099,568	1,099,750
STOCKHOLDERS' EQUITY:		
Preferred Stock		
\$1.00 par value; authorized 3,000,000 shares March 31, 2017 and December 31, 2016; none issued in 2017 or 2016	-	-
Common stock		
\$1.00 par value; authorized 15,000,000 shares; issued 3,704,375 at March 31, 2017 and December 31, 2016	3,704	3,704
Additional paid-in capital	42,256	42,250
Retained earnings	93,172	91,278
Accumulated other comprehensive loss	(1,421)	(1,392)
Treasury stock, at cost: 388,190 shares at March 31, 2017 and 384,671 shares at December 31, 2016	(12,755)	(12,572)

TOTAL STOCKHOLDERS' EQUITY	124,956	123,268
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$1,224,524	\$1,223,018

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

1

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

(in thousands, except share and per share data)	Three Months Ended	
	2017	2016
INTEREST INCOME:		
Interest and fees on loans	\$9,717	\$8,596
Interest-bearing deposits with banks	35	71
Investment securities:		
Taxable	804	944
Nontaxable	668	771
Dividends	76	80
TOTAL INTEREST INCOME	11,300	10,462
INTEREST EXPENSE:		
Deposits	1,045	1,074
Borrowed funds	258	183
TOTAL INTEREST EXPENSE	1,303	1,257
NET INTEREST INCOME	9,997	9,205
Provision for loan losses	615	135
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	9,382	9,070
NON-INTEREST INCOME:		
Service charges	1,058	1,102
Trust	221	196
Brokerage and insurance	191	209
Gains on loans sold	101	46
Investment securities gains, net	172	27
Earnings on bank owned life insurance	166	170
Other	126	166
TOTAL NON-INTEREST INCOME	2,035	1,916
NON-INTEREST EXPENSES:		
Salaries and employee benefits	4,319	3,882
Occupancy	527	445
Furniture and equipment	139	157
Professional fees	310	287
FDIC insurance	105	157
Pennsylvania shares tax	281	150
Amortization of intangibles	76	82
ORE expenses	90	92
Other	1,344	1,660
TOTAL NON-INTEREST EXPENSES	7,191	6,912
Income before provision for income taxes	4,226	4,074
Provision for income taxes	923	791
NET INCOME	\$3,303	\$3,283
PER COMMON SHARE DATA:		
Net Income - Basic	\$1.00	\$0.98
Net Income - Diluted	\$1.00	\$0.98
Cash Dividends Paid	\$0.425	\$0.411

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Number of shares used in computation - basic	3,313,616	3,356,573
Number of shares used in computation - diluted	3,313,636	3,356,573

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

2

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

(in thousands)	Three Months Ended	
	March 31,	
	2017	2016
Net income	\$3,303	\$3,283
Other comprehensive income (loss):		
Change in unrealized gains on available for sale securities	70	1,694
Income tax effect	(24)	(577)
Change in unrecognized pension cost	60	61
Income tax effect	(21)	(21)
Less: Reclassification adjustment for investment security gains included in net income	(172)	(27)
Income tax effect	58	9
Other comprehensive income (loss), net of tax	(29)	1,139
Comprehensive income	\$3,274	\$4,422

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,	
(in thousands)	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$3,303	\$3,283
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	615	135
Depreciation and amortization	108	76
Amortization and accretion of investment securities	382	567
Deferred income taxes	(174)	(115)
Investment securities gains, net	(172)	(27)
Earnings on bank owned life insurance	(166)	(170)
Originations of loans held for sale	(4,727)	(3,913)
Proceeds from sales of loans held for sale	5,075	3,005
Realized gains on loans sold	(101)	(46)
Decrease in accrued interest receivable	471	115
Decrease in accrued interest payable	(108)	(74)
Other, net	1,801	(467)
Net cash provided by operating activities	6,307	2,369
CASH FLOWS FROM INVESTING ACTIVITIES:		
Available-for-sale securities:		
Proceeds from sales	18,766	5,020
Proceeds from maturity and principal repayments	29,858	9,757
Purchase of securities	(11,039)	(25,840)
Purchase of interest bearing time deposits with other banks	(746)	-
Proceeds from redemption of regulatory stock	2,617	112
Purchase of regulatory stock	(1,288)	-
Net increase in loans	(45,880)	(4,454)
Purchase of premises and equipment	(113)	(166)
Proceeds from sale of interest bearing time deposits with other banks	750	-
Proceeds from sale of foreclosed assets held for sale	125	289
Net cash used in investing activities	(6,950)	(15,282)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in deposits	32,106	29,780
Proceeds from long-term borrowings	2	2
Net increase in short-term borrowed funds	(32,828)	(1,637)
Purchase of treasury and restricted stock	(396)	(860)
Dividends paid	(1,198)	(1,377)
Net cash (used) provided by financing activities	(2,314)	25,908
Net (decrease) increase in cash and cash equivalents	(2,957)	12,995
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	17,754	24,384
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$14,797	\$37,379
Supplemental Disclosures of Cash Flow Information:		
Interest paid	\$1,411	\$1,331
Income taxes paid	\$-	\$450
Loans transferred to foreclosed property	\$307	\$64

Investments and time deposits sold and not settled	\$1,297	\$-
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The accompanying notes are an integral part of these unaudited consolidated financial statements.

4

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 and the holding company of its wholly owned subsidiary, First Citizens Community Bank (the "Bank"), and of the Bank's wholly owned 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 at March 31, 2017 and for the periods ended March 31, 2017 and 2016 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 periods. 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, 2017 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, 2016.

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,	
	2017	2016
Net income applicable to common stock	\$3,303,000	\$3,283,000
Basic earnings per share computation		
Weighted average common shares outstanding	3,313,616	3,356,573
Earnings per share - basic	\$1.00	\$0.98
Diluted earnings per share computation		
Weighted average common shares outstanding for basic earnings per share	3,313,616	3,356,573
Add: Dilutive effects of restricted stock	20	-
Weighted average common shares outstanding for dilutive earnings per share	3,313,636	3,356,573
Earnings per share - diluted	\$1.00	\$0.98

For the three months ended March 31, 2017 and 2016, there were 2,087 and 5,325 shares, respectively, related to the restricted stock plan that were excluded from the diluted earnings per share calculations since they were anti-dilutive. These anti-dilutive shares had per share prices ranging from \$49.87-\$53.15 for the three month period ended March

31, 2017 and per share prices ranging from \$46.69-\$53.15 for the three month period ended March 31, 2016.

5

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 affordable housing tax credits.

Investments in Qualified Affordable Housing Projects

As of March 31, 2017 and December 31, 2016, the Company was invested in four partnerships that provide affordable housing. The balance of the investments, which is included within other assets in the Consolidated Balance Sheet, was \$660,000 and \$700,000 as of March 31, 2017 and December 31, 2016, respectively. Investments purchased prior to January 1, 2015, are accounted for utilizing the effective yield method. As of March 31, 2017, the Company had \$811,000 of tax credits remaining that will be recognized over 5.75 years. Tax credits of \$35,000 and \$50,000 were recognized as a reduction of tax expense during the three months ended March 31, 2017 and 2016, respectively. Amortization of the investment included in other expenses on the Consolidated Statement of Income was \$40,000 and \$65,000 during the three months ended March 31, 2017 and 2016, respectively.

Note 4 – Investments

The amortized cost, gross unrealized gains and losses, and fair value of investment securities at March 31, 2017 and December 31, 2016 were as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2017				
Available-for-sale securities:				
U.S. agency securities	\$ 147,624	\$ 297	\$ (263) \$ 147,658
Obligations of state and political subdivisions	87,082	1,500	(339) 88,243
Corporate obligations	3,000	95	-	3,095
Mortgage-backed securities in government sponsored entities	41,292	82	(256) 41,118
Equity securities in financial institutions	899	760	-	1,659
Total available-for-sale securities	\$ 279,897	\$ 2,734	\$ (858) \$ 281,773
December 31, 2016				
Available-for-sale securities:				
U.S. agency securities	\$ 170,276	\$ 407	\$ (269) \$ 170,414
U.S. treasury securities	2,999	1	-	3,000
Obligations of state and political subdivisions	95,956	1,463	(493) 96,926
Corporate obligations	3,000	50	-	3,050
Mortgage-backed securities in government sponsored entities	37,987	88	(347) 37,728
Equity securities in financial institutions	1,821	1,078	-	2,899
Total available-for-sale securities	\$ 312,039	\$ 3,087	\$ (1,109) \$ 314,017

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, which individual securities have been in a continuous unrealized loss position, at March 31, 2017 and December 31, 2016 (in thousands). As of March 31, 2017, the Company owned 80 securities whose fair value was

less than their cost basis.

6

		Less than Twelve Months		Twelve Months or Greater			Total	
		Gross		Gross			Gross	
		Unrealized		Unrealized			Unrealized	
		Fair Value	Losses	Fair Value	Losses	Fair Value	Losses	
March 31, 2017		0	0	0	0	0	0	
U.S. agency securities	Item 3.		Ratification of appointment of Ernst & Young, LLP as Independent Auditors for fiscal year ending September 30, 2004.					
Nominees:						Item 4.	Stockholder Proposal Board Declassification	
01 Michael P. Hoopis						FOR	o	
02 William G. Ouchi						AGAINST	o	
						ABSTAIN	o	

Note: Please sign as name appears hereon. Joint owners should each sign. When signing as attorney, executor, administrator, trustee or guardian, please give your full title as such

* FOLD AND DETACH HERE *

Vote by Internet or Telephone or Mail

24 Hours a Day, 7 Days a Week

Internet and telephone voting is available through 11:59 PM Eastern Time the day prior to annual meeting day.

Your telephone or Internet vote authorizes the named proxies to vote your shares in the same manner as if you marked, signed and returned your proxy card.

<p>Internet http://www.eproxy.com/pik</p> <p>Use the internet to vote your proxy. Have your proxy card in hand when you access the web site.</p>	<p>Telephone 1-800-435-6710</p> <p>Use any touch-tone telephone to vote your proxy. Have your proxy card in hand when you call.</p>	<p>Mail</p> <p>Mark sign and date your proxy card and return it in the enclosed postage-paid envelope.</p>
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If you vote your proxy by Internet or by telephone, you do NOT need to mail back your proxy card.

You can view the Annual Report and Proxy Statement on the internet at www.waterpik.com

QuickLinks

[PROXY STATEMENT TABLE OF CONTENTS](#)

[PROXY STATEMENT FOR 2004 ANNUAL MEETING OF STOCKHOLDERS To Be Held May 13, 2004](#)

[PROXY SOLICITATION AND VOTING INFORMATION](#)

[BOARD COMPOSITION AND PRACTICES](#)

[CORPORATE GOVERNANCE](#)

[PROPOSAL ONE ELECTION OF DIRECTORS](#)

[COMMITTEES OF THE BOARD OF DIRECTORS](#)

[REPORT OF THE AUDIT AND FINANCE COMMITTEE](#)

[INDEPENDENT AUDIT FIRM FEES](#)

[DIRECTOR COMPENSATION](#)

[PROPOSAL TWO AMENDMENT OF THE 1999 INCENTIVE PLAN](#)

[PROPOSAL THREE RATIFICATION OF INDEPENDENT AUDITORS](#)

[PROPOSAL FOUR STOCKHOLDER PROPOSAL CONCERNING BOARD DECLASSIFICATION](#)

[STOCK OWNERSHIP INFORMATION](#)

[EQUITY COMPENSATION PLAN INFORMATION](#)

[REPORT ON EXECUTIVE COMPENSATION](#)

[EXECUTIVE COMPENSATION](#)

[COMPARATIVE STOCK PERFORMANCE](#)

[CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS WITH THE COMPANY](#)

[OTHER BUSINESS](#)

[OTHER INFORMATION](#)