

CITIZENS FINANCIAL SERVICES INC
Form 10-Q
November 05, 2015

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 September 30, 2015
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)
Identification No.)

23-2265045

(I.R.S. Employer

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.

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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 October 26, 2015, was 3,001,071.

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

(in thousands except share data)	September 30, 2015	December 31, 2014
ASSETS:		
Cash and due from banks:		
Noninterest-bearing	\$ 9,437	\$ 10,091
Interest-bearing	877	1,332
Total cash and cash equivalents	10,314	11,423
Interest bearing time deposits with other banks	6,460	5,960
Available-for-sale securities	300,630	306,146
Loans held for sale	1,248	497
Loans (net of allowance for loan losses: 2015, \$7,045 and 2014, \$6,815)		
	575,964	547,290
Premises and equipment	12,544	12,357
Accrued interest receivable	3,566	3,644
Goodwill	10,256	10,256
Bank owned life insurance	20,773	20,309
Other assets	12,222	7,166
TOTAL ASSETS	\$ 953,977	\$ 925,048
LIABILITIES:		
Deposits:		
Noninterest-bearing	\$ 106,957	\$ 95,526
Interest-bearing	690,891	678,407
Total deposits	797,848	773,933
Borrowed funds	44,657	41,799
Accrued interest payable	693	756
Other liabilities	6,875	8,032
TOTAL LIABILITIES	850,073	824,520
STOCKHOLDERS' EQUITY:		
Preferred Stock		
\$1.00 par value; authorized 3,000,000 shares		
September 30, 2015 and December 31, 2014;		
none issued in 2015 or 2014		
	-	-
Common stock		
\$1.00 par value; authorized 15,000,000		
shares; issued 3,335,236 at September 30, 2015		
and		
December 31, 2014	3,335	3,335
Additional paid-in capital	25,131	25,150
Retained earnings	84,698	79,512
Accumulated other comprehensive income	842	767

Treasury stock, at cost: 334,165 shares at
September 30, 2015

and 296,280 shares at December 31, 2014	(10,102)	(8,236)
TOTAL STOCKHOLDERS' EQUITY	103,904	100,528
TOTAL LIABILITIES AND		
STOCKHOLDERS' EQUITY	\$ 953,977	\$ 925,048

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

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

(in thousands, except share and per share data)	Three Months Ended September30,		Nine Months Ended September30,	
	2015	2014	2015	2014
INTEREST INCOME:				
Interest and fees on loans	\$ 7,248	\$ 7,094	\$ 21,416	\$ 21,200
Interest-bearing deposits with banks	33	25	103	51
Investment securities:				
Taxable	798	805	2,317	2,542
Nontaxable	749	844	2,398	2,526
Dividends	35	40	168	159
TOTAL INTEREST INCOME	8,863	8,808	26,402	26,478
INTEREST EXPENSE:				
Deposits	1,044	1,092	3,088	3,291
Borrowed funds	174	142	521	451
TOTAL INTEREST EXPENSE	1,218	1,234	3,609	3,742
NET INTEREST INCOME	7,645	7,574	22,793	22,736
Provision for loan losses	120	150	360	480
NET INTEREST INCOME AFTER				
PROVISION FOR LOAN LOSSES	7,525	7,424	22,433	22,256
NON-INTEREST INCOME:				
Service charges	1,054	1,098	3,058	3,239
Trust	149	151	523	528
Brokerage and insurance	181	141	563	398
Gains on loans sold	85	40	183	110
Investment securities gains, net	129	242	430	488
Earnings on bank owned life insurance	158	124	464	366
Other	109	128	327	337
TOTAL NON-INTEREST INCOME	1,865	1,924	5,548	5,466
NON-INTEREST EXPENSES:				
Salaries and employee benefits	3,069	2,790	9,118	8,600
Occupancy	347	313	1,064	967
Furniture and equipment	108	86	323	280
Professional fees	202	207	614	649
FDIC insurance	116	116	348	345
Pennsylvania shares tax	201	101	602	485
Merger and acquisition	282	187	405	237
ORE expenses	328	106	686	243
Other	1,199	1,161	3,455	3,352

TOTAL NON-INTEREST EXPENSES	5,852	5,067	16,615	15,158
Income before provision for income taxes	3,538	4,281	11,366	12,564
Provision for income taxes	681	913	2,200	2,655
NET INCOME	\$ 2,857	\$ 3,368	\$ 9,166	\$ 9,909
PER COMMON SHARE DATA:				
Net Income - Basic	\$ 0.95	\$ 1.11	\$ 3.04	\$ 3.26
Net Income - Diluted	\$ 0.95	\$ 1.11	\$ 3.03	\$ 3.26
Cash Dividends Paid	\$ 0.510	\$ 1.000	\$ 1.320	\$ 1.772
Number of shares used in computation - basic	3,011,687	3,035,214	3,019,202	3,038,973
Number of shares used in computation - diluted	3,013,151	3,036,700	3,020,670	3,040,400

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		Nine Months Ended	
	September30, 2015	2014	September30, 2015	2014
Net income	\$ 2,857	\$ 3,368	\$ 9,166	\$ 9,909
Other comprehensive income (loss):				
Change in unrealized gains on available for sale securities	1,094	855	390	4,598
Income tax effect	(372)	(291)	(132)	(1,563)
Change in unrecognized pension cost	51	13	153	38
Income tax effect	(17)	(4)	(52)	(13)
Less: Reclassification adjustment for investment security gains included in net income	(129)	(242)	(430)	(488)
Income tax effect	44	82	146	166
Other comprehensive income, net of tax	671	413	75	2,738
Comprehensive income	\$ 3,528	\$ 3,781	\$ 9,241	\$ 12,647

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

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

Nine Months Ended
September 30,
2015 2014

(in thousands)

CASH FLOWS FROM OPERATING ACTIVITIES:

Net income	\$ 9,166	\$ 9,909
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	360	480
Depreciation and amortization	370	358
Amortization and accretion of investment securities	1,521	1,632
Deferred income taxes	(39)	562
Investment securities gains, net	(430)	(488)
Earnings on bank owned life insurance	(464)	(366)
Originations of loans held for sale	(13,510)	(8,055)
Proceeds from sales of loans held for sale	12,942	7,690
Realized gains on loans sold	(183)	(110)
Decrease in accrued interest receivable	78	39
Decrease in accrued interest payable	(63)	(142)
Other, net	(842)	(222)
Net cash provided by operating activities	8,906	11,287

CASH FLOWS FROM INVESTING ACTIVITIES:

Available-for-sale securities:		
Proceeds from sales	18,393	17,338
Proceeds from maturity and principal repayments	39,472	39,416
Purchase of securities	(58,667)	(44,769)
Purchase of interest bearing time deposits with other banks	(500)	(3,232)
Proceeds from redemption of regulatory stock	2,150	2,891
Purchase of regulatory stock	(2,097)	(1,895)
Net increase in loans	(29,148)	(4,680)
Purchase of premises and equipment	(633)	(555)
Proceeds from sale of foreclosed assets held for sale	340	647
Net cash (used) provide by investing activities	(30,690)	5,161

CASH FLOWS FROM FINANCING ACTIVITIES:

Net increase in deposits	23,915	19,726
Proceeds from long-term borrowings	5,288	6,815
Repayments of long-term borrowings	(700)	(4,200)
Net increase in short-term borrowed funds	(1,730)	(31,818)
Purchase of treasury and restricted stock	(2,315)	(733)
Dividends paid	(3,783)	(4,998)
Net cash (used) provided by financing activities	20,675	(15,208)
Net (decrease) increase in cash and cash equivalents	(1,109)	1,240

CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD

	11,423	10,083
	\$ 10,314	\$ 11,323

CASH AND CASH EQUIVALENTS AT END OF PERIOD**Supplemental Disclosures of Cash Flow Information:**

Interest paid	\$	3,672	\$	3,884
Income taxes paid	\$	2,425	\$	2,085
Loans transferred to foreclosed property	\$	241	\$	867
Premises and equipment transferred from other assets	\$	-	\$	549
Investments sold and not settled	\$	5,187	\$	-

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 Community Bank (the “Bank”), and 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 September 30, 2015 and for the periods ended September 30, 2015 and 2014 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 nine month period ended September 30, 2015 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, 2014.

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 September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Net income applicable to common stock	\$2,857,000	\$3,368,000	\$9,166,000	\$9,909,000
Basic earnings per share computation				
Weighted average common shares outstanding	3,011,687	3,035,214	3,019,202	3,038,973
Earnings per share - basic	\$0.95	\$1.11	\$3.04	\$3.26
Diluted earnings per share computation				
Weighted average common shares outstanding for basic earnings per share	3,011,687	3,035,214	3,019,202	3,038,973
Add: Dilutive effects of restricted stock	1,464	1,486	1,468	1,427
Weighted average common shares outstanding for dilutive earnings per share	3,013,151	3,036,700	3,020,670	3,040,400
Earnings per share - diluted	\$0.95	\$1.11	\$3.03	\$3.26

For the three months ended September 30, 2015 and 2014, there were 2,696 and 1,938 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 prices ranging from \$44.50-\$53.15 for the three month period ended September 30, 2015 and prices ranging from \$34.70-\$50.50 for the three month period ended September 30, 2014. For the nine months ended September 30, 2015 and 2014, 2,696 and 2,913 shares, respectively, related to the restricted stock plan were excluded from the diluted earnings per share calculations since they were anti-dilutive. These anti-dilutive shares had prices ranging from \$44.50-\$53.15 for the nine month period ended September 30, 2015 and prices ranging from \$34.70-\$50.50 for the nine month period ended September 30, 2014.