

CITIZENS FINANCIAL SERVICES INC
Form DEF 14A
March 11, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No. [])

Filed by Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission
Only (as permitted by Rule 14a-6(e)2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to Sec. 240.14a-11(c) or Sec. 240.14a-12

Citizens Financial Services, Inc.
(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

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1) Title of each class of securities to which transaction applies:

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4) Proposed maximum aggregate value of transaction:

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CITIZENS FINANCIAL SERVICES, INC.

**PROXY STATEMENT FOR THE ANNUAL MEETING OF
SHAREHOLDERS TO BE HELD ON APRIL 15, 2003**

GENERAL INFORMATION

Date, Time and Place of Annual Meeting

This proxy statement is furnished in connection with the solicitation by the Board of Directors of Citizens Financial Services, Inc., a Pennsylvania business corporation, of proxies to be voted at the corporation's Annual Meeting of Shareholders to be held at 12:00 p.m., prevailing time, on Tuesday, April 15, 2003 at the Tioga County Fairgrounds Youth Building, Whitneyville, Pennsylvania 16901.

Description of the Corporation

The principal executive office of the corporation is located at First Citizens National Bank, 15 South Main Street, Mansfield, Pennsylvania 16933. The telephone numbers for the corporation are 570-662-2121 or 800-326-9486. All inquiries should be directed to Richard E. Wilber, President and Chief Executive Officer of the corporation.

Citizens Financial Services, Inc. was established in 1984 as a one-bank holding company under the laws of Pennsylvania and the Bank Holding Company Act of 1956. Thus, the corporation's activities consist of owning and supervising First Citizens National Bank, its wholly-owned depository subsidiary. In March 2001, First Citizens National Bank established a subsidiary, First Citizens Insurance Agency, Inc. This agency, which was not activated until October 1, 2001, allows the bank to sell insurance within our marketing area.

Included with this proxy statement is the corporation's notice of meeting, your proxy card, and a copy of the corporation's Annual Report to Shareholders for the fiscal year ended December 31, 2002. You may obtain a copy of the Annual Report to Shareholders for the 2001 fiscal year at no cost by contacting Richard E. Wilber, President and Chief Executive Officer, via mail at 15 South Main Street, Mansfield, Pennsylvania 16933 or via telephone at 800-326-9486.

We have not authorized anyone to provide you with information about the corporation; therefore, you should rely only on the information contained in this document or on documents to which we refer you. Although we believe we have provided you with all the information helpful to you in your decision to vote, events may occur at Citizens Financial Services, Inc. subsequent to printing this proxy statement that might affect your decision or the value of your stock.

VOTING PROCEDURES

Solicitation and Voting of Proxies

This proxy statement and the enclosed form of proxy are first being sent to the corporation's shareholders on or about March 12, 2003.

Shares represented by proxies on the accompanying proxy, if properly signed and returned, will be voted in accordance with the specifications made by the shareholders. Any properly signed and returned proxy not specifying to the contrary will be voted **FOR** the election of the nominees for Class 3 Director named below to serve for a three-year term and until their successors are elected and qualified.

Execution and return of the enclosed proxy will not affect a shareholder's right to attend the annual meeting and vote in person, after giving written notice to the Secretary of the corporation. The cost of preparing, assembling, printing, mailing and soliciting proxies, and any additional material which the corporation may furnish shareholders in connection with the annual meeting, will be borne by the corporation. In addition to the use of the mail, certain directors, officers and employees of the corporation and the bank may solicit proxies personally,

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by telephone, telecopier, or other electronic means. Arrangements will be made with brokerage firms and other custodians, nominees and fiduciaries to forward proxy solicitation material to the beneficial owners of stock held of record by these persons. The corporation will reimburse them for their reasonable forwarding expenses.

Quorum and Vote Required For Approval

At the close of business on March 5, 2003, the corporation had outstanding 2,826,906 shares of common stock, par value \$1.00 per share, the only authorized class of stock.

Only holders of record of common stock at the close of business on March 5, 2003 are entitled to vote at the annual meeting. Cumulative voting rights do not exist with respect to the election of directors. On all matters to come before the annual meeting, each share of common stock is entitled to one vote.

Under Pennsylvania law and the corporation's Bylaws, the presence of a quorum is required for each matter to be acted upon at the annual meeting. Pursuant to the corporation's Bylaws, the presence, in person or by proxy, of shareholders entitled to cast at least a majority of the votes which all shareholders are entitled to cast constitutes a quorum for the transaction of business at the annual meeting. Votes withheld and abstentions are counted as "present" for determining the presence of a quorum for the particular matter.

Assuming the presence of a quorum, the four nominees for director receiving the highest number of votes cast by shareholders entitled to vote for the election of directors will be elected. The proxy holders will not cast votes for or against any director candidate where the broker or shareholder withheld authority.

Revocability of Proxy

A shareholder who returns a proxy may revoke the proxy at any time before it is voted at the annual meeting only:

* by giving written notice of revocation to Terry B. Osborne, Secretary of Citizens Financial Services, Inc., at 15 South Main Street, Mansfield, Pennsylvania 16933,

* by executing a later-dated proxy and giving written notice to the Secretary of the corporation, or

* by attending the annual meeting and voting in person after giving written notice to the Secretary of the corporation.

Methods of Voting

Proxy Voting:

* Mark your selections.

* Date your proxy and sign your name exactly as it appears on your proxy.

* Mail the proxy to Citizens Financial Services, Inc. in the enclosed postage-paid envelope.

Voting in Person:

* Attend the annual meeting and show proof of eligibility to vote.

* Obtain a ballot.

* Mark your selections.

* Date your ballot and sign your name exactly as it appears in the corporation's transfer books.

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BOARD OF DIRECTORS AND EXECUTIVE OFFICERS

Governance

The Board of Directors oversees all of the corporation's business, property, and affairs. The Chairman and the corporation's officers keep the members of the Board informed of the corporation's business through discussions at Board meetings and by providing them reports and other materials.

During fiscal year 2002, the Board of Directors of the corporation held seven meetings. The Board of Directors of First Citizens National Bank held 27 meetings during fiscal year 2002.

Directors of Citizens Financial Services, Inc.

The following table sets forth (in alphabetical order) selected information about the directors of the corporation.

<u>Name</u>	<u>Class of Director</u>	<u>Director Since</u>	<u>Age as of March 5, 2003</u>
R. Lowell Coolidge	1	1984	62
Larry J. Croft	1	1990	67
Mark L. Dalton	2	1998	48

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Roger C. Graham, Jr.	3	2001	47
E. Gene Kosa	3	2001	56
R. Joseph Landy	3	2001	48
John E. Novak	2	1984	66
Carol J. Tama	1	1986	62
John M. Thomas	1	1990	69
Rudolph J. van der Hiel	2	1984	63
William D. Van Etten	3	1984	68
Richard E. Wilber	1	1984	54

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Executive Officers of Citizens Financial Services, Inc.

The following table sets forth, as of March 5, 2003, selected information about the executive officers of the corporation, each of whom is elected by the Board of Directors and each of whom holds office at the discretion of the Board of Directors.

<u>Name and Position</u>	<u>Held Since</u>	<u>Employee Since</u>	<u>Number of Shares</u>	<u>Age as of</u>
			<u>Beneficially Owned⁽¹⁾</u>	<u>March 5, 2003</u>
R. Lowell Coolidge Chairman of the Board	1984	(2)	150,000	62
Richard E. Wilber President and Chief Executive Officer	1984	1984	8,892	54
Terry B. Osborne Secretary	1984	1984	1,198	49
Rudolph J. van der Hiel Assistant Secretary	1984	(2)	17,456	63
Thomas C. Lyman Treasurer	1988	1988	225	57
Randall E. Black Assistant Treasurer	1999	1993	947	36

(1) See Table entitled "Share Ownership by Directors, Officers and Nominees" on page 13 for additional share ownership information.

(2) This individual is not an employee of Citizens Financial Services, Inc. or First Citizens National Bank.

Executive Officers of First Citizens National Bank

The following table sets forth, as of March 5, 2003, selected information about the executive officers of First Citizens National Bank, the corporation's wholly-owned subsidiary. Each officer is elected by the bank's Board of Directors and each holds office at the discretion of the Board of Directors. All shares are held individually unless otherwise noted. Footnotes follow the next table.

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<u>Name and Position</u>	<u>Held Since</u>	<u>Employee Since</u>	<u>Number of Shares Beneficially Owned</u>	<u>Age as of March 5, 2003</u>
R. Lowell Coolidge Chairman of the Board	1984	(1)	150,000	62
Richard E. Wilber President and Chief Executive Officer	1983	1981	8,892	54
Terry B. Osborne Executive Vice President	1991	1975	1,198 (2)	49
Thomas C. Lyman Vice President, Investments & Strategic Planning	1988	1988	225 (3)	57
David W. Poch Senior Vice President, Investments & Trust Division Manager	2000	2000 (7)	110 (4)	62
Cynthia T. Pazzaglia Vice President, Human Resources	1985	1983	1,505 (5)	44
Randall E. Black Senior Vice President, Chief Financial Officer	1999	1993	947 (6)	36
Kathleen M. Campbell Senior Vice President, Marketing/Training Manager	2001	2001 (8)	20	42
Douglas W. Whitten Vice President, Operations Division Manager	2001	2000 (9)	0	60
Alex D. Nadalini Senior Vice President Senior Credit Officer	2003	2003 (10)	0	62

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Executive Officers of First Citizens Insurance Agency, Inc.

The following table sets forth, as of March 5, 2003, selected information about the executive officers of First Citizens Insurance Agency, Inc., the bank's wholly-owned subsidiary. Each officer is elected by the bank's Board of Directors and each holds office at the discretion of the Board of Directors. All shares are held individually unless otherwise noted.

<u>Name and Position</u>	<u>Held Since</u>	<u>Employee Since</u>	<u>Number of Shares Beneficially Owned</u>	<u>Age as of March 5, 2003</u>
R. Lowell Coolidge Chairman	1984	(1)	150,000	62
Richard E. Wilber President	1983	1981	8,892	54

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Mark L. Dalton	1997	(1)	1,103	48
David W. Poch Secretary	2000	2000 (7)	110 (4)	62
Randall E. Black Treasurer	1999	1993	947 (6)	36

(1) This individual is not an employee of Citizens Financial Services, Inc. or First Citizens National Bank.

(2) Mr. Osborne holds 1,013 shares jointly with his spouse, 48 shares individually, and 137 shares are held by his spouse.

(3) Mr. Lyman holds 225 shares jointly with his spouse.

(4) Mr. Poch holds 110 shares jointly with his spouse.

(5) Mrs. Pazzaglia holds 1,505 shares jointly with her spouse.

(6) Mr. Black holds 947 shares jointly with his spouse.

(7) Prior to joining First Citizens National Bank, Mr. Poch owned and operated CHAIRO, Inc., a business and financial services consulting corporation.

(8) Prior to joining First Citizens National Bank, Ms. Campbell, worked at Keystone Financial, Inc. as a Marketing Officer.

(9) Prior to joining First Citizens National Bank, Mr. Whitten worked at The Bank of Castile as Vice President of Management Information Systems.

(10) Prior to joining First Citizens National Bank, Mr. Nadalini was a financial institution consultant, specializing in commercial and residential lending, credit policy and credit administration.

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The Board of Directors and its Committees

During 2002, the corporation's Board of Directors held seven regular meetings and the bank's Board of Directors held 27. Each of the directors attended at least 75% of the combined total number of meetings of the corporation's and the bank's Board of Directors meetings and committee meetings except for Director Thomas. First Citizens National Bank maintains seven standing committees: Strategic Planning, Asset/Liability, Credit, Audit, Human Resource, Trust, and Building.

The corporation's Board of Directors does not maintain a standing audit committee, nominating committee, or compensation committee. Matters within the jurisdiction of these committees are considered by the bank's Board of Directors. The bank's Human Resource Committee currently performs the functions of a compensation committee.

There is no family relationship, by blood, marriage, or adoption, between any of the directors and any other director, officer, or full-time employee, of the corporation or of the bank.

Compensation of the Board of Directors

Directors of the corporation, except for the Chairman, receive a fee of \$200 per meeting. Directors of the bank, except for the Chairman, receive \$660 per month plus fees of \$190 per meeting, for attendance at various committee meetings, and \$200 per additional board meeting within the same month. Mr. Coolidge, who serves as the corporation's and the bank's Chairman, receives a fixed annual sum of \$28,000 in lieu of all director's fees. Mr. Wilber does not receive director's fees. Directors are permitted to defer their fees subject to provisions of the director's deferred compensation plan. The plan provides for the bank to distribute funds to a director whenever they are no longer a member of the Board. In addition to these fees, each director is provided a \$50,000 life insurance benefit. Once a director retires, insurance coverage continues but the benefit declines as the age of the retired director increases. In the aggregate, the Board of Directors received \$167,078 for all Board of Directors meetings of the corporation, of the bank and various committee meetings attended in 2002. Total premiums paid, in 2002, for life insurance on behalf of the current and retired directors was \$1,512.

NOMINATIONS FOR DIRECTORS

Nominations for directors, other than those made by or on behalf of the existing Board of Directors, to be elected at an annual meeting of shareholders must be submitted to the Secretary of the corporation in writing not less than ninety (90) days nor more than one-hundred twenty (120) days prior to the date of the meeting. The nominations must be in accordance with Section 202 of the corporation's Bylaws and contain the specified information.

AUDIT COMMITTEE REPORT

The Audit Committee of the bank's Board of Directors is comprised of five independent directors. The bank's Board of Directors has adopted a written charter for the Audit Committee, and the Audit Committee, in fulfilling its oversight responsibilities regarding the audit process:

- * reviewed and discussed the fiscal year 2002 audited financial statements with management;
- * discussed with the independent auditors, S.R. Snodgrass, A.C., the matters required to be discussed by Statement on Accounting Standards No. 61 (Codification of Statements on Auditing Standards, AU 380, as amended or supplemented); and
- * reviewed the written disclosures and the letter from the independent accountants required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees, as modified or supplemented), and discussed with the independent auditors any relationships that may impact their objectivity and independence.

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Based upon the review and discussions referred to above and the Audit Committee's review of management's representations, and the report of the independent accountants to the Audit Committee, the Audit Committee recommended that the Board of Directors include the audited financial statements for the year ended December 31, 2002 in the corporation's Annual Report on Form 10-K to be filed with the Securities and Exchange Commission.

Aggregate fees billed to the corporation by S.R. Snodgrass, A.C., the independent accountants, for services rendered during the year ended December 31, 2002 were as follows:

Audit Fees	\$50,655
Financial Information Systems Design and Implementation Fees	\$0
All Other Fees	\$65,689

All other fees include compliance and tax related matters, and assistance with the evaluation of process efficiencies.

This report of the Audit Committee shall not be deemed incorporated by reference by any general statement incorporating by reference this proxy statement into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that the corporation specifically incorporates this information by reference, and shall not otherwise be deemed filed under such Acts.

The foregoing report has been furnished by the current members of the Audit Committee.

AUDIT COMMITTEE

William D. Van Etten

John M. Thomas, M.D.

Mark L. Dalton

John E. Novak

E. Gene Kosa

BOARD OF DIRECTOR'S REPORT ON EXECUTIVE COMPENSATION

Board Committee Report on Compensation

The corporation's Board of Directors is responsible for the governance of the corporation and its subsidiary, First Citizens National Bank. In fulfilling its fiduciary duties, the Board of Directors engages competent persons who undertake to accomplish strategic goals and objectives with integrity and in a cost-effective manner.

The bank's Human Resource Committee, comprised of the President and Chief Executive Officer, and five outside directors (Directors Novak, Croft, van der Hiel, Van Etten, and Kosa), makes recommendations on compensation policies and practices to the Board of Directors. The Human Resource Committee met eight times in 2002. The fundamental philosophy of the corporation's and the bank's compensation program is to offer competitive compensation opportunities for all employees based on the individual's contribution and personal performance. Compensation policies are designed to attract and motivate competent and dedicated individuals to enhance the corporation's and bank's growth and profitability and the ultimate financial return to shareholders.

The compensation of the President and Chief Executive Officer, and of the Executive Vice President is reviewed and approved in April of each year by the Board of Directors. As a basis for determining compensation, the Board of Directors examines information from a peer group of banks relative to performance and compensation. The peer group for overall bank performance analysis consists primarily of those contained within the Uniform Bank Performance Report prepared by the Office of the Comptroller of the Currency (banks with assets of \$300 million to \$500 million throughout the United States). The peer group for analysis of compensation paid to other bank holding company and banking institution executives is obtained primarily from L.R. Weber Associates, Inc.

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and Bank Administration Institute (such peer data is compiled on both a regional and asset size basis). These peer groups are different from the peer group utilized in the performance graph appearing on page 15.

The Board of Directors does not deem Section 162(m) of the Internal Revenue Code to be applicable to the corporation at this time. The Board of Directors intends to monitor the future application of Section 162(m) of the IRC to the compensation paid to its executive officers and in the event that this section does become applicable, the Board of Directors intends to amend the corporation's and the bank's compensation plans to preserve the deductibility of the compensation payable under such plans.

Compensation of the Executive Officers

The Board of Directors evaluated the compensation of the President and Chief Executive Officer, and the Executive Vice President in April 2002. Compensation increases were determined based on an analysis of the contribution of these individuals in achieving the corporation's strategic goals and objectives. In determining whether strategic goals had been achieved, the Board of Directors considered, among numerous factors, the following: the corporation's performance as measured by earnings, revenues, return on assets, return on equity, market share, total assets, and non-performing loans. Although the performance and increases in compensation were measured in light of these factors, there was no direct correlation between any specific criterion and compensation of these executives, nor was any specific weight provided to any such criteria.

The Board of Directors believes that the President and Chief Executive Officer's 2002 salary of \$189,869, the Executive Vice President's 2002 salary of \$111,688, and the Senior Vice President/Investment & Trust Division Manager's 2002 salary of \$93,154 is appropriate in light of the corporation's 2002 accomplishments (a 49% increase in net income, a 16.53% return on average equity, and a 2.7% increase in assets). In addition to this compensation, the President and Chief Executive Officer, Executive Vice President, and Senior Vice President/Investment & Trust Division Manager participate in the bank's deferred profit-sharing plan on the same basis as all other eligible employees. The bank maintains a corporation wide incentive compensation plan whereby employees including the President and Chief Executive Officer, Executive Vice President and Senior Vice President/Investment & Trust Division Manager may receive cash bonuses based upon varying corporation performance objectives.

This report of the Human Resource Committee shall not be deemed incorporated by reference by any general statement incorporating by reference this proxy statement into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that we specifically incorporated this information by reference, and shall not otherwise be deemed filed under such Acts.

HUMAN RESOURCE COMMITTEE

Richard E. Wilber

John E. Novak

Larry J. Croft

Rudolph J. van der Hiel

William D. Van Etten

E. Gene Kosa

BOARD COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

Mr. Richard E. Wilber, President and Chief Executive Officer of the corporation and of the bank, is a member of the Human Resource Committee which makes recommendations on compensation policies and practices to the Board of Directors. Mr. Wilber does not participate in conducting his review nor does he vote on his annual compensation

package.

EXECUTIVE COMPENSATION

Information concerning the annual cash and non-cash compensation paid, awarded or earned for services in all capacities to the corporation and the bank for the fiscal years ended December 31, 2002, 2001 and 2000 of those

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persons who were, as of December 31, 2002, (i) the President and Chief Executive Officer, and (ii) the two other most highly compensated executive officers of the corporation, is set forth below. No other executive officer's total annual salary and bonus exceeded \$100,000 during 2002.

Summary Compensation Table								
Name and Principal Position	Year	Annual Compensation			Long Term Compensation			All Other Compensation (\$)(2)
		Salary (\$)(1)	Bonus (\$)	Other Annual Compensation (\$)	Awards		Payouts	
					Restricted Stock Award(s) (\$)	Securities Underlying Options/SARs (#)	LTIP Payouts (\$)	
Richard E. Wilber President & CEO of the corporation and bank	2002	\$189,869	\$32,753	None	None	None	None	\$12,228
	2001	\$185,885	\$11,576					\$7,176
	2000	\$166,923	\$5,592					\$3,833
Terry B. Osborne Executive Vice President & Secretary of the corporation and bank	2002	\$115,708	\$19,941	None	None	None	None	\$8,227
	2001	\$112,481	\$7,002					\$4,295
	2000	\$104,052	\$3,469					\$2,319
David W. Poch Senior Vice President/ Investment & Trust Division Manager	2002	\$93,154	\$15,963	None	None	None	None	\$7,300

- (1) The "Salary" column includes fees paid to Mr. Osborne as Secretary of the corporation and of the bank totaling \$4,020 in 2002, \$4,020 in 2001 and \$4,090 in 2000.

(2) Includes approximately \$11,400, \$6,348 and \$3,005 for tax deferred profit sharing contributions paid on behalf of Mr. Wilber by the bank in the respective years of 2002, 2001 and 2000. Includes approximately \$7,732, \$3,840 and \$1,864 for tax deferred profit sharing contributions paid on behalf of Mr. Osborne by the bank in the respective years of 2002, 2001 and 2000. Includes approximately \$6,220 for tax deferred profit sharing contributions paid on behalf of

Mr. Poch by the bank in 2002. Also includes \$828 for imputed income on life insurance for Mr. Wilber in each of the years of 2002, 2001 and 2000. Includes \$495, \$455 and \$455 for imputed income on life insurance for Mr. Osborne in 2002, 2001 and 2000. Includes \$1,080 for imputed income on life insurance for Mr. Poch for 2002.

Employment Contract with Executive Officer

On April 16, 1996, the corporation and Mr. Richard E. Wilber, President and Chief Executive Officer of the corporation and of the bank, entered into an ongoing employment agreement. The employment agreement sets forth the benefits to which Mr. Wilber is entitled in the event of termination of Mr. Wilber's employment. If Mr. Wilber's employment is terminated without "cause", Mr. Wilber becomes entitled to severance benefits under the agreement. Depending upon the reason for Mr. Wilber's termination, Mr. Wilber would receive a lump-sum payment in cash and be entitled to remain a participant in any health and accident, disability and life insurance plan of the corporation or of the bank, in which he was a participant on his date of termination. If such participation violates provisions of any such plan or policy, then the corporation would pay Mr. Wilber, on a monthly basis, a sum equal to the premiums that the corporation would have paid on his behalf. The agreement provides that Mr. Wilber will be entitled to only those pension and profit sharing benefits that have accrued prior to his termination.

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Retirement Plans

The bank has a noncontributory defined benefit pension plan for all employees meeting certain age and length of service requirements. Benefits are based primarily on years of service and the average annual compensation during the highest five consecutive years within the final ten years of employment. The bank's funding policy is consistent with the funding requirements of federal law and regulations. The First Citizens National Bank Investments & Trust Division is the trustee of the pension plan.

The following table sets forth the estimated annual benefits payable on retirement at age 65 by a participating employee, assuming final average earnings as shown. This table reflects the benefit available through the pension plan exclusive of social security. For 2002, a minimum contribution of \$312,006 was required.

<u>Average Annual Earnings</u>	<u>Annual Pension Benefits Upon Retirement with Years of Service Indicated</u>				
	15	20	25	30	35
	---	---	---	---	---
\$20,000	3,750	5,000	6,250	7,500	7,500
\$40,000	7,563	10,083	12,604	15,125	15,125
\$60,000	13,563	18,083	22,604	27,125	27,125
\$80,000	19,563	26,083	32,604	39,125	39,125
\$100,000	25,563	34,083	42,604	51,125	51,125
\$120,000	31,563	42,083	52,604	63,125	63,125
\$140,000	37,563	50,083	62,604	75,125	75,125
\$160,000	43,563	58,083	72,604	87,125	87,125
\$180,000	49,563	66,083	82,604	99,125	99,125
\$200,000	55,563	74,083	92,604	111,125	111,125
\$220,000	55,563	74,083	92,604	111,125	111,125

Richard E. Wilber, President and Chief Executive Officer of the corporation and the bank, has 21 years of credited service to the corporation and bank. His average salary upon which his benefits would be calculated at December 31, 2002 is \$176,778. Terry B. Osborne, Executive Vice President and Secretary of the corporation and bank, has 27 years of credited service to the corporation and bank. His average salary upon which his benefits would be calculated at December 31, 2002 is \$111,621. David W. Poch, Senior Vice President/Investment & Trust Division Manager has three years of credited service to the bank. His average salary upon which his benefits would be calculated at December 31, 2002 is \$87,616.

Profit-Sharing Plan

The bank has a profit-sharing plan, covering substantially all employees, which provides tax deferred salary savings to plan participants. Contributions to the profit-sharing plan are allocated to participants based upon a percentage of their compensation. The total amount of the profit-sharing contribution is determined by the Board of Directors annually on a discretionary basis. Total contributions for 2002, 2001 and 2000 were \$299,304, \$131,436 and \$49,382, respectively. As reported in the Summary Compensation Table, the contributions paid by the bank on behalf of Richard E. Wilber, President and Chief Executive Officer of the corporation and the bank, were approximately \$11,400 in 2002, \$6,348 in 2001 and \$3,005 in 2000. Contributions paid by the bank on behalf of Terry B. Osborne, Executive Vice President and Secretary of the corporation and the bank were approximately \$7,732 in 2002, \$3,840 in 2001 and \$1,864 in 2000. Contributions paid by the bank on behalf of David W. Poch, Senior Vice President/Investment & Trust Division Manager of the bank were approximately \$6,220 in 2002.

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CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Certain of the corporation's directors and executive officers and their associates are and have been customers of the bank and have had transactions with the bank in the ordinary course of business. In addition, certain directors are and have been directors and officers of corporations which are customers of the bank and have had transactions with the bank in the ordinary course of business. All transactions with these directors and officers of the corporation and their associates were made on substantially the same terms (including interest rates and collateral) as those prevailing at the time of the transactions. These transactions did not involve more than a normal risk of collectibility or present other unfavorable features.

During 2002, business and law firms, of which Directors Rudolph J. van der Hiel, R. Lowell Coolidge, R. Joseph Landy, and Mark L. Dalton were officers and/or partners, rendered services or sold products to the corporation and/or the bank in the normal course of business. Van der Hiel & Chappell, Walrath and Coolidge, and Landy & Landy received \$21,622.60, \$19,175.67 and \$20,456.61, respectively, for legal services rendered to the corporation and/or bank during 2002. Also during 2002, Dalton Insurance Agency, which Director Mark L. Dalton owns, was paid \$26,728.43 in premiums for various insurance coverages for the corporation and the bank.

Total loans outstanding from the corporation and the bank at December 31, 2002, to the corporation's and the bank's officers and directors as a group and members of their immediate families and companies in which they had an ownership interest of 10% or more was \$3,678,029, or approximately 9.6% of the total equity capital of the bank. Loans to such persons were made in the ordinary course of business, were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons, and did not involve more than the normal risk of collectibility or present other unfavorable features. The aggregate

amount of indebtedness outstanding as of the latest practicable date, February 25, 2003, to the above described group was \$3,714,272.

ELECTION OF DIRECTORS

Qualification and Nomination of Directors

The Articles of Incorporation provide that the Board of Directors shall consist of not less than five nor more than 25 directors, the exact number to be fixed and determined from time to time by resolution of a majority of the full Board of Directors or by resolution of the shareholders at any annual or special meeting. The number of directors is currently set at 12. The Articles further provide that the directors shall be divided into three classes, as nearly equal in number as possible, known as Class 1, Class 2 and Class 3. The Class 3 Directors elected at this annual meeting will serve for a three year term. The Class 2 and Class 1 Directors will continue to serve for one and two years, respectively, in order to complete their three year terms.

The proxies solicited hereunder will be voted **FOR** (unless otherwise directed) the four nominees named below. The corporation does not contemplate that any nominee will be unable to serve as a director for any reason. Each nominee has agreed to serve if elected. However, in the event one or more of the nominees should be unable to stand for election, the vote will be cast for the remaining nominees in accordance with the best judgment of the Board of Directors.

Cumulative voting rights do not exist with respect to the election of directors. Each share of common stock is entitled to cast only one vote for each nominee. For example, if a shareholder owns ten shares of common stock, he or she may cast up to ten votes for each of the directors in the class to be elected.

Information as to Nominees and Directors

The following table contains certain information with respect to the corporation's directors and nominees for Class 3 Director. The date appearing in parenthesis opposite each director's name in the "Director Since" column represents the year in which each individual became a director of the bank, or any predecessor institution acquired

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by the bank. Each nominee presently serves as a director of the bank, as well as a director of the corporation. All directors have been engaged in the principal occupation indicated for five years or more.

<u>Name</u>	Age as of March 5, 2003	Principal Occupation for Past Five Years	Director Since Corporation/Bank
CURRENT CLASS 3 DIRECTORS WHOSE TERM EXPIRES IN 2003 AND NOMINEES FOR CLASS 3 DIRECTOR WHOSE TERM EXPIRES IN 2006			
William D. Van Etten	68	Dairy Farmer, located in Ulysses, PA	1984 (1978)
E. Gene Kosa	56		

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		Partner in EDKO Farms, a vegetable and dairy farm, located in Ulysses, PA	2001 (2001)
R. Joseph Landy	48	Attorney-at-Law with the Firm of Landy & Landy, located in Sayre, PA	2001 (2001)
Roger C. Graham, Jr.	47	Owner of Graham Excavating, located in Canton, PA	2001 (2001)

CURRENT CLASS 2 DIRECTORS WHOSE TERM EXPIRES IN 2004

John E. Novak	66	Retired School Administrator with Southern Tioga School District; since 1993 has supervised Student Teachers at Elmira College, located in Elmira, NY	1984 (1976)
Rudolph J. van der Hiel	63	Attorney-at-Law with the Law Offices of van der Hiel & Chappell, located in Mansfield, PA; Rector at St. James Episcopal Church, Mansfield, PA; and Trinity Episcopal Church, Antrim, PA	1984 (1975)
Mark L. Dalton	48	Owner of Robert E. Dalton General Insurance, located in Blossburg, PA	1998 (1997)

CURRENT CLASS 1 DIRECTORS WHOSE TERM EXPIRES IN 2005

Carol J. Tama	62	Retired President of Monaghan Transportation Company	1986 (1984)
R. Lowell Coolidge	62	Attorney-at-Law with the firm of Walrath and Coolidge, locate in Wellsboro, PA	1984 (1984)
Richard E. Wilber	54	President and Chief Executive Officer of Citizens Financial Services, Inc. and First Citizens National Bank	1984 (1983)
John M. Thomas, M.D.	69	Retired Executive Chairman of Guthrie Healthcare System; President of Chemung Spring Water Company, located in Chemung, NY	1990 (1985)
Larry J. Croft	67	Owner of Croft Ford, Inc., located in Athens, PA	1990 (1969)

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BENEFICIAL OWNERSHIP OF THE CORPORATION'S STOCK OWNED BY PRINCIPAL OWNERS AND MANAGEMENT

Principal Shareholders

The following table sets forth, as of March 5, 2003, the name and address of each person who owns of record or who is known by the Board of Directors to be the beneficial owner of more than 5% of the corporation's outstanding common stock, the number of shares beneficially owned by such person and the percentage of the corporation's outstanding common stock so owned.

<u>Name and Address</u>		Percent of Outstanding Common Stock <u>Beneficially Owned</u>
	<u>Number of Shares Beneficially Owned</u> ⁽¹⁾	

R. Lowell Coolidge Post Office Box 41 Wellsboro, Pennsylvania 16901	150,000	5.31%
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Share Ownership by Directors, Officers and Nominees

The following table sets forth as of March 5, 2003, the amount and percentage of the common stock beneficially owned by each director, each nominee for director and all executive officers and directors of the corporation and bank as a group. This information is furnished by the directors and the corporation. All shares are held individually unless otherwise noted.

<u>Name of Beneficial Owner</u>	<u>Amount and Nature of Beneficial Ownership</u> ⁽¹⁾		<u>Percent of Class</u>
CURRENT CLASS 3 DIRECTORS WHOSE TERM EXPIRES IN 2003 AND NOMINEES FOR CLASS 3 DIRECTOR WHOSE TERM EXPIRES IN 2006			
William D. Van Etten	5,115	(2)	.18%
E. Gene Kosa	991	(3)	.04%
R. Joseph Landy	6,607	(4)	.23%
Roger C. Graham, Jr.	8,405		.30%
CURRENT CLASS 2 DIRECTORS WHOSE TERM EXPIRES IN 2004			
John E. Novak	3,439	(5)	.12%
Rudolph J. van der Hiel	17,456	(6)	.62%
Mark L. Dalton	1,103		.04%
CURRENT CLASS 1 DIRECTORS WHOSE TERM EXPIRES IN 2005			
Carol J. Tama	73,111		2.59%
R. Lowell Coolidge	150,000	(7)	5.31%
John M. Thomas, M.D.	49,512	(8)	1.75%
Larry J. Croft	27,783	(9)	.98%
Richard E. Wilber	8,892		.31%
All Nominees, Directors and Executive Officers as a Group 12 directors, 8 officers, 20 persons	356,419		12.61%

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(1) The securities "beneficially owned" by an individual are determined in accordance with the definitions of "Beneficial Ownership" set forth in the general rules and regulations of the Securities and Exchange Commission and may include securities owned by or for the individual's spouse and minor children and any other relative who has the same home, as well as securities to which the individual has or shares voting or investment power or has the right to acquire beneficial ownership within 60 days after March 5, 2003. Beneficial ownership may be disclaimed as to certain of the securities.

(2) Mr. Van Etten holds 5,115 shares jointly with his spouse.

(3) Mr. Kosa holds 914 shares jointly with his spouse, 20 shares are held by his spouse, and 57 shares are held in an investment club.

(4) Mr. Landy holds 3,326 shares individually, 2,401 shares jointly with his spouse, and 880 as custodian for his children

(5) Mr. Novak holds 3,353 shares individually, and 86 shares are held by his spouse.

(6) Mr. van der Hiel holds 15,922 shares individually, 22 shares are held jointly with his spouse, and 1,512 shares are held by his spouse.

(7) Mr. Coolidge holds 120,587 shares individually, and 29,413 shares are held by his spouse.

(8) Dr. Thomas holds 48,979 shares individually, and 533 shares are held by his spouse.

(9) Mr. Croft holds 17,577 shares individually, 9,657 shares jointly with his spouse, and 549 shares are held by his spouse.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the corporation's officers and directors, and persons who own more than 10% of the registered class of the corporation's equity securities, to file reports of ownership and changes of ownership with the Securities and Exchange Commission. Officers, directors and greater than 10% shareholders are required by SEC regulation to furnish the corporation with copies of all Section 16(a) forms that they file.

Based solely on its review of the copies of such forms received by it, and written representations from certain reporting persons that no Forms 5 were required for those persons, the corporation believes that during the period January 1, 2002, through December 31, 2002, its officers, directors and 10% shareholders were in compliance with all applicable filing requirements.

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PERFORMANCE GRAPH

The Stock Price Performance Graph below shall not be deemed incorporated by reference by any general statement incorporating by reference this proxy statement into any filing under the Securities Act of 1933, as amended, or under the Securities Exchange Act of 1934, as amended, except to the extent that the corporation specifically incorporates this information by reference, and shall not otherwise be deemed under such Acts.

The graph compares the corporation's stock performance from January 1, 1998 through December 31, 2002, against the performance of the S&P 500 Index, and Mid-Atlantic Custom Peer Group for the same period. The peer group represented in the graph includes the corporations listed below. The graph shows the cumulative investment return to shareholders, based on the assumption that a \$100 investment was made on December 31, 1997, in each of the corporation's common stock, the S&P 500 Index, and the Mid-Atlantic Custom Peer Group, and that all dividends

were reinvested in such securities over the past five fiscal years. Shareholder return shown on the graph below is not necessarily indicative of future performance.

[PERFORMANCE GRAPH OMITTED: Following is a description of the performance graph in tabular format.]

	12/31/97	12/31/98	12/31/99	12/31/00	12/31/01	12/31/21
Citizens Financial Services, Inc.	100.00	131.96	97.21	71.70	89.68	147.90
S&P 500	100.00	128.55	155.60	141.42	124.63	96.95
Mid-Atlantic Custom Peer Group	100.00	110.71	96.37	85.44	104.28	132.79

NOTE: The Mid-Atlantic Custom Peer Group consists of Mid-Atlantic commercial banks with assets less than \$1 billion.

SOURCE: SNL Financial L.C.

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PROPOSALS

1. To Elect Four Class 3 Directors

Nominees for Class 3 Director are:

- * William D. Van Etten (director since 1984).
- * E. Gene Kosa (director since 2001).
- * R. Joseph Landy (director since 2001).
- * Roger C. Graham, Jr. (director since 2001).

Each has consented to serve a three year term. (See page 11 for more information.)

If any director is unable to stand for re-election, the Board may designate a substitute. The proxy holders will vote in favor of a substitute nominee. The Board of Directors has no reason to believe the four nominees for Class 3 Director will be unable to serve if elected.

Cumulative voting rights do not exist with respect to the election of directors. The individuals receiving the highest number of votes of the shares present (in person or by proxy and entitled to vote at the annual meeting) will be elected as a director.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR THE ELECTION OF THE FOUR NOMINEES AS CLASS 3 DIRECTOR.

INDEPENDENT AUDITORS

S.R. Snodgrass, A.C., Certified Public Accountants, of Wexford, Pennsylvania, served as the corporation's independent public accountants for its 2002 fiscal year. The corporation has been advised by S.R. Snodgrass that none of its members has any financial interest in the corporation. In addition to performing customary audit services, S.R. Snodgrass assisted the corporation and the bank with preparation of their federal and state tax returns, and provided assistance in connection with regulatory matters, charging the bank for such services at its customary hourly billing rates. These non-audit services were approved by the corporation's and the bank's Board of Directors after due consideration of the effect of the performance thereof on the independence of the auditors and after the conclusion by the corporation's and the bank's Board of Directors that there was no effect on the independence of the auditors. S.R. Snodgrass will serve as the corporation's independent public accountants for its 2003 fiscal year. A representative of S.R. Snodgrass will be present at the Annual Meeting of Shareholders. The representative will have an opportunity to make a statement, if he desires to do so, and will be available to respond to any appropriate questions presented by shareholders at the annual meeting.

SHAREHOLDER PROPOSALS FOR 2004 ANNUAL MEETING

Securities and Exchange Commission Regulations permit shareholders to submit proposals for consideration at the Annual Meeting of Shareholders. Any proposals for the corporation's Annual Meeting of Shareholders to be held in 2004, must be submitted to the President and Chief Executive Officer of Citizens Financial Services, Inc., at its principal office at 15 South Main Street, Mansfield, Pennsylvania 16933 on or before Friday, November 14, 2003, in order to be included in proxy materials relating to that annual meeting.

Next year's annual meeting currently is scheduled to be held on Tuesday, April 20, 2004.

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OTHER MATTERS THAT MAY COME BEFORE THE ANNUAL MEETING

The Board of Directors of the corporation is not aware of any other matters to be presented for action other than described in the accompanying Notice of Annual Meeting of Shareholders, but if any other matters properly come before the meeting, and any adjournments or postponements of the meeting, the proxy holders are authorized to vote them in accordance with their best judgment.

ADDITIONAL INFORMATION

Upon written request of any shareholder, a copy of the corporation's Annual Report on SEC Form 10-K for its fiscal year ended December 31, 2002, including the financial statements and the schedules thereto, required to be filed with the Securities and Exchange Commission pursuant to Rule 13a-1 under the Securities Exchange

Act of 1934, as amended, may be obtained without charge, from Randall E. Black, Assistant Treasurer, Citizens Financial Services, Inc., 15 South Main Street, Mansfield, Pennsylvania 16933

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[Notice]

ANNEX A

CITIZENS FINANCIAL SERVICES, INC.

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD ON APRIL 15, 2003

TO THE SHAREHOLDERS OF CITIZENS FINANCIAL SERVICES, INC.:

Notice is hereby given that the Annual Meeting of Shareholders of CITIZENS FINANCIAL SERVICES, INC. will be held at 12:00 p.m., prevailing time, on Tuesday, April 15, 2003 at the Tioga County Fairgrounds Youth Building, Whitneyville, Pennsylvania, 16901, for the following purposes:

1. To elect four Class 3 Directors to serve for a three-year term and until their successors are elected and qualified.
2. To transact such other business as may properly come before the annual meeting or any adjournment or postponement thereof.

In accordance with the corporation's Bylaws and action by the Board of Directors, only those shareholders of record at the close of business on March 5, 2003 are entitled to vote at the annual meeting and any adjournment or postponement thereof.

A copy of the corporation's Annual Report to Shareholders for the fiscal year ended December 31, 2002 is enclosed with this Notice. Copies of the corporation's Annual Report to Shareholders for the 2001 fiscal year may be obtained at no cost by contacting Richard E. Wilber, President and Chief Executive Officer, 15 South Main Street, Mansfield, Pennsylvania 16933, telephone: 800-326-9486.

You are urged to mark, sign, date and promptly return your proxy in the enclosed envelope so that your shares may be voted in accordance with your wishes and in order that the presence of a quorum may be assured. **The prompt return of your signed proxy, regardless of the number of shares you hold, will aid the corporation in reducing the expense of additional proxy solicitation.** Even if you return a proxy, you may vote in person if you attend the meeting and give written notice to the Secretary of the corporation.

By Order of the Board of Directors,

/s/ Richard E. Wilber

Richard E. Wilber,
President and Chief Executive Officer

March 12, 2003
Mansfield, Pennsylvania

[Proxy Card]

ANNEX B

CITIZENS FINANCIAL SERVICES, INC.

PROXY

ANNUAL MEETING OF SHAREHOLDERS TO BE HELD ON APRIL 15, 2003
THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS

The undersigned hereby constitutes and appoints Terry B. Osborne and Thomas C. Lyman and each or any of them, proxies of the undersigned, with full power of substitution, to vote all of the shares of Citizens Financial Services, Inc. that the undersigned may be entitled to vote at the corporation's Annual Meeting of Shareholders to be held at the Tioga County Fairgrounds Youth Building, Whitneyville, Pennsylvania 16901, on Tuesday, April 15, 2003 at 12:00 p.m., prevailing time, and at any adjournment or postponement thereof as follows:

1. ELECTION OF CLASS 3 DIRECTORS TO SERVE FOR A THREE-YEAR TERM

William D. Van Etten **E. Gene Kosa** **R. Joseph Landy** **Roger C. Graham, Jr.**

// FOR all nominees
listed above (except
as marked to the
contrary below)

// WITHHOLD AUTHORITY
to vote for all nominees
listed above

*The Board of Directors recommends a vote **FOR** these nominees.*

(INSTRUCTION: TO WITHHOLD AUTHORITY TO VOTE FOR ANY INDIVIDUAL NOMINEE, WRITE THAT NOMINEE'S NAME ON THE SPACE PROVIDED BELOW.)

2. In their discretion, the proxies are authorized to vote upon such other business as may properly come before the meeting and any adjournment or postponement thereof.

THIS PROXY, WHEN PROPERLY SIGNED AND DATED, WILL BE VOTED IN THE MANNER DIRECTED HEREIN BY THE UNDERSIGNED SHAREHOLDER. IF NO DIRECTION IS MADE, THIS PROXY WILL BE VOTED **FOR** THE ELECTION OF THE NAMED NOMINEES.

Dated: _____, 2003

Number of Shares Held of Record
on March 5, 2003 (Indicated Above)

Signature(s) (Seal)

THIS PROXY MUST BE DATED, SIGNED BY THE SHAREHOLDER AND RETURNED PROMPTLY TO THE CORPORATION IN THE ENCLOSED ENVELOPE. WHEN SIGNING AS ATTORNEY, EXECUTOR, ADMINISTRATOR, TRUSTEE OR GUARDIAN, PLEASE GIVE FULL TITLE. IF MORE THAN ONE TRUSTEE, ALL SHOULD SIGN. IF STOCK IS HELD JOINTLY, EACH OWNER SHOULD SIGN.

Luncheon Reservation

I will attend the luncheon, please include my reservation for ___ person(s)

I will be unable to attend the luncheon