CITIZENS FINANCIAL CORP /KY/
Form 10-Q
August 14, 2002

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

FORM 10-Q

X QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2002

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 0-20148

CITIZENS FINANCIAL CORPORATION
(Exact name of registrant as specified in its charter)

Kentucky	61-1187135
(State of Incorporation)	(I.R.S. Employer Identification No.)

12910 Shelbyville Road, Louisville, Kentucky 40243
(Address of principal executive offices)

(502) 244-2420
(Registrant's telephone number)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 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 ~~X~~ No ~~~~~

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: Class A Stock - 1,716,815 as of August 12, 2002.

The date of this Report is August 14, 2002.

Part I - Financial Information; Item 1 - Financial Statements

Citizens Financial Corporation and Subsidiaries
Condensed Consolidated Statements of Operations
(Unaudited)

Six Months Ended June 30	2002
Revenues:	
Premiums and other considerations	$18,434,777
Premiums ceded	(645,273)
Net premiums earned	17,789,504
Net investment income	2,896,643
Net realized investment losses	(1,796,551)
Other income	108,830
Total Revenues	18,998,426
Policy Benefits and Expenses:	
Policyholder benefits	9,797,107
Policyholder benefits ceded	(849,674)
Net benefits	8,947,433
Increase in net benefit reserves	5,699,527
Interest credited on policyholder deposits	403,041
Commissions	3,537,980
General expenses	3,275,113
Interest expense	159,404
Policy acquisition costs deferred	(1,283,785)
Amortization of deferred policy acquisition costs, value of insurance acquired, and goodwill	919,654
Total Policy Benefits and Expenses	21,658,367
Loss before income tax and cumulative effect of a change in accounting principle	(2,659,941)
Income Tax Benefit	(415,000)
Loss before cumulative effect of a change in accounting principle	(2,244,941)
Cumulative effect from prior years (since January 1, 1999) of accounting for embedded options	
Net Loss	$ (2,244,941)
Per Share Amounts:	
Loss before cumulative effect of a change in accounting principle	$ (1.31)
Cumulative effect from prior years (since January 1, 1999) of accounting for embedded options	---
Net Loss	$ (1.31)

Part I - Financial Information; Item 1 - Financial Statements

Citizens Financial Corporation and Subsidiaries
Condensed Consolidated Statements of Operations
(Unaudited)

Three Months Ended June 30	2002
Revenues:	
Premiums and other considerations	$9,838,801
Premiums ceded	(306,539)
Net premiums earned	9,532,262
Net investment income	1,428,820
Net realized investment losses	(1,468,150)
Other income	57,007
Total Revenues	9,549,939
Policy Benefits and Expenses:	
Policyholder benefits	5,021,002
Policyholder benefits ceded	(358,546)
Net benefits	4,662,456
Increase in net benefit reserves	3,413,033
Interest credited on policyholder deposits	215,719
Commissions	1,843,347
General expenses	1,774,230
Interest expense	78,176
Policy acquisition costs deferred	(712,890)
Amortization of deferred policy acquisition costs, value of insurance acquired, and goodwill	468,866
Total Policy Benefits and Expenses	11,742,937
Loss before income tax and cumulative effect of a change in accounting principle	(2,192,998)
Income Tax Benefit	(345,000)
Net Loss	$ (1,847,998)
Net Loss Per Common Share	$ (1.08)

Part I; Item 1 (continued)

Citizens Financial Corporation and Subsidiaries
Condensed Consolidated Statements of Financial Condition

	June 30, 2002
ASSETS	(Unaudited)
Investments:	
Securities available for sale, at fair value:	
Fixed maturities (amortized cost of $80,651,162 and $75,872,277 in 2002 and 2001 respectively)	$81,964,555
Equity securities (cost of $5,817,578 and $7,055,402 in 2002 and 2001, respectively)	6,568,127
Investment real estate	3,386,956
Mortgage loans on real estate	156,000
Policy loans	4,131,522
Short-term investments	652,192
Total Investments	96,859,352
Cash and cash equivalents	18,940,265
Accrued investment income	1,431,897
Reinsurance recoverable	2,746,217
Premiums receivable	423,645
Property and equipment	2,789,996
Deferred policy acquisition costs	9,339,467
Value of insurance acquired	3,901,389
Goodwill	755,782
Federal income tax receivable	1,782,501
Other assets	259,669
Total Assets	$139,230,180

Part I; Item 1 (continued)

Citizens Financial Corporation and Subsidiaries
Condensed Consolidated Statements of Financial Condition

	June 30, 2002
LIABILITIES AND SHAREHOLDERS' EQUITY	(Unaudited)
Liabilities:	

Policy Liabilities:	
Future policy benefits	$95,062,043
Policyholder deposits	15,887,304
Policy and contract claims	1,684,577
Unearned premiums	252,904
Other	212,236
Total Policy Liabilities	113,099,064
Notes payable	6,437,501
Accrued expenses and other liabilities	2,151,873
Deferred federal income tax	193,174
Total Liabilities	121,881,612
Commitments and Contingencies	
Shareholders' Equity:	
Common stock, 6,000,000 shares authorized; 1,716,815 shares issued and outstanding in 2002 and 2001, respectively	1,716,815
Additional paid-in capital	7,285,938
Accumulated other comprehensive income	1,348,131
Retained earnings	6,997,684
Total Shareholders' Equity	17,348,568
Total Liabilities and Shareholders' Equity	$139,230,180

Part I; Item 1 (continued)

Citizens Financial Corporation and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(Unaudited)

Six Months Ended June 30	2002
Cash Flows from Operations:	
Net loss	$ (2,244,941)
Adjustments to reconcile net loss to cash from operations:	
Increase in benefit reserves	5,721,141
Increase (decrease) in claim liabilities	242,221
(Increase) in reinsurance recoverable	9,463
Interest credited on policyholder deposits	403,041
Provision for amortization and depreciation, net of deferrals	(210,285)
Amortization of premium and accretion of discount on securities purchased, net	47,549
Net realized investment losses	1,796,551
(Increase) decrease in accrued investment income	(41,347)
Change in other assets and liabilities	214,254

Decrease in deferred federal income tax liability	(106,379)
Decrease in federal income taxes receivable	1,072,432
Cumulative effect of a change in accounting principle	---
Net Cash provided by Operations	6,903,700
Cash Flows from Investment Activities:	
Cost of securities acquired	(20,820,724)
Investments sold or matured	15,584,807
Investment management fees	(44,743)
Additions to property and equipment, net	(29,727)
Other investing activities, net	5,127
Net Cash provided by (used in) Investment Activities	(5,305,260)
Cash Flows from Financing Activities:	
Policyholder deposits	423,324
Policyholder withdrawals	(856,792)
Payments on notes payable - bank	(658,333)
Repurchase of common stock	---
Net Cash used in Financing Activities	(1,091,801)
Net Increase in Cash and Cash Equivalents	506,639
Cash and Cash Equivalents at Beginning of Period	18,433,626
Cash and Cash Equivalents at End of Period	$ 18,940,265

Part I; Item 1 (continued)

Citizens Financial Corporation and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Note 1 - BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q in conformity with accounting principles generally accepted in the United States. The accompanying unaudited condensed financial statements reflect all adjustments which are, in the opinion of management, necessary to a fair presentation of the results for the interim periods. All such adjustments are of a normal recurring nature. For further information, refer to the December 31, 2001 consolidated financial statements and footnotes included in the Company's annual report on Form 10-K.

Note 2 - COMPREHENSIVE INCOME

The components of comprehensive income, net of related tax, for the three months and six months ended June 30, 2002 and 2001 are as follows:

	Three Months Ended June 30,		Six Months En

COMPREHENSIVE INCOME:	2002	2001	2002
Net Loss	$(1,847,998)	$(2,740,141)	$(2,244,941)
Net unrealized gains (losses) on securities	328,811	2,308,564	(408,974)
Comprehensive Loss	$(1,519,187)	$ (431,577)	$(2,653,915)

Note 3 - DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

Effective January 1, 2001, the Company adopted Financial Accounting Standards Board Statement (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended by SFAS Nos. 137 and 138. This statement requires that all derivatives be recognized as either assets or liabilities in the balance sheet at their fair value, and sets forth the manner in which gains or losses thereon are to be recorded. The treatment of such gains and losses is dependent upon the type of exposure, if any, for which the derivative is designed as a hedge. Currently, the Company has not designated any derivatives as hedges. In accordance with SFAS 133, as of January 1, 2001, the Company recorded a $311,211 transition adjustment loss. This adjustment represents the cumulative market value change (since January 1, 1999) of options embedded within convertible bonds, along with a recalculation of discount accretion for the related host bonds and corresponding income tax impacts. The net transition adjustment includes a $539,090 gross market value decline, $67,558 of discount accretion, and a $160,321 income tax benefit.

Note 4 - NET REALIZED INVESTMENT GAINS, NET OF EXPENSES

The Company recorded pretax reductions to the carrying value of available for sale securities totaling $1,932,000 and $2,715,000 for the six months ended June 30, 2002 and 2001, respectively, relating to declines in value which were considered by management to be other than temporary. These amounts are reported as additions to net realized investment losses. The Company also includes certain direct, incremental investment management fees with net realized investment losses presented in the Condensed Consolidated Statements of Income. Such costs are based directly on or, are primarily associated with, realized capital gains and losses. Costs included with realized investment losses totaled $6,000 and $23,000 for the six months ended June 30, 2002 and 2001, respectively.

Part I; Item 1 (continued)

Note 5 - INCOME TAXES

Current taxes are provided based on estimates of the projected effective annual tax rate. Deferred taxes reflect the net effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Note 6 - SEGMENT INFORMATION

The Company's operations are managed along five principal insurance product lines: Home Service Life, Broker Life, Preneed Life, Dental, and Other Health. Products in all five lines are sold through independent agency operations. Home Service Life consists primarily of traditional life insurance coverage sold in amounts of $10,000 and under to middle and lower income individuals. This distribution channel is characterized by a significant amount of agent contact with customers throughout the year. Broker Life product sales consist primarily of simplified issue and graded-benefit policies in amounts of $10,000 and under. Other products in this segment which are not aggressively marketed include: group life, universal life, annuities and participating life coverages. Preneed Life products are sold to individuals in connection with prearrangement of their funeral and include single premium and multi-pay policies with coverages generally in amounts of $10,000 and less. These policies are generally sold to older individuals at increased premium rates. Dental products are term coverages generally sold to small and intermediate size employer groups. Other Health products include various accident and health coverages sold to individuals and employer groups. Segment information as of June 30, 2002 and 2001, and for the periods then ended is as follows:

	Three Months Ended June 30,		Six Months En
REVENUE:	2002	2001	2002
Home Service Life	$ 2,313,622	$ 2,344,220	$ 4,629,906
Broker Life	1,492,992	1,602,379	3,046,215
Preneed Life	4,825,708	2,530,092	8,352,974
Dental	2,030,442	2,073,328	4,043,340
Other Health	355,325	385,411	722,542
Segment Totals	11,018,089	8,935,430	20,794,977
Net realized investment losses	(1,468,150)	(3,469,996)	(1,796,551)
Total Revenue	$ 9,549,939	$ 5,465,434	$18,998,426

Below are the net investment income amounts which are included in the revenue totals above.

	Three Months Ended June 30,		Six Months En
NET INVESTMENT INCOME:	2002	2001	2002
Home Service Life	$ 456,245	$ 549,316	$ 933,076
Broker Life	554,808	685,730	1,142,345
Preneed Life	389,733	387,505	765,293
Dental	7,286	9,822	14,308
Other Health	20,748	24,191	41,621
Segment Totals	$1,428,820	$1,656,564	$2,896,643

Part I; Item 1 (continued)

The Company evaluates performance based on several factors, of which the primary financial measure is segment profit. Segment profit represents pretax earnings, except net realized investment gains and interest expense are excluded. A significant portion of the Company's realized investment gains and losses are generated from investments in equity securities. The equities portfolio averaged (on a cost basis) approximately $7,149,000 and $12,739,000 during the six months ended June 30, 2002 and 2001, respectively.

	Three Months Ended June 30,		Six Months En
SEGMENT PROFIT (LOSS):	2002	2001	2002
Home Service Life	$ (144,248)	$ 3,820	$ (147,852)
Broker Life	(181,591)	(202,945)	(142,998)
Preneed Life	(133,245)	104,739	(349,298)
Dental	(51,539)	(10,800)	105,218
Other Health	(136,049)	6,091	(169,056)
Segment Totals	(646,672)	(99,095)	(703,986)
Net realized investment losses	(1,468,150)	(3,469,996)	(1,796,551)
Interest expense	78,176	143,050	159,404
Loss before Federal Income Tax	$(2,192,998)	$(3,712,141)	$(2,659,941)

Depreciation and amortization amounts below consist of depreciation expense along with amortization of the value of insurance acquired and deferred policy acquisition costs. Goodwill amortization of approximately $29,000 and $51,000 is also included for the three months and six months, respectively, ended June 30, 2001. As further described in Note 8, beginning in 2002, goodwill amortization is no longer permitted.

	Three Months Ended June 30,		Six Months En
DEPRECIATION AND AMORTIZATION:	2002	2001	2002
Home Service Life	$ 121,640	$ 115,131	$ 280,910
Broker Life	115,246	171,747	275,952
Preneed Life	283,588	178,919	464,538
Dental	14,848	18,006	29,692
Other Health	10,480	15,818	22,410
Segment Totals	$ 545,802	$ 499,621	$1,073,502

Segment asset totals are determined based on policy liabilities outstanding in each segment.

ASSETS:	June 30, 2002	December 31, 2001
Home Service Life	$ 44,467,594	$ 44,818,038
Broker Life	53,622,142	54,954,194
Preneed Life	38,511,045	34,138,535
Dental	634,439	726,728
Other Health	1,994,960	1,959,588
Segment Totals	$ 139,230,180	$ 136,597,083

Part I; Item 1 (continued)

Note 7 - LITIGATION

United Liberty Life Insurance Company ("United Liberty"), which the Company acquired in 1998, is defending an action in an Ohio state court brought by two policyholders. The Complaint refers to a particular class of life insurance policies that United Liberty issued over a period of years ending around 1971. It alleges that United Liberty's dividend payments on these policies from 1993 through 1999 were less than the required amount. It does not specify the amount of the alleged underpayment but implies a maximum of about $850,000. The plaintiffs also allege that United Liberty is liable to pay punitive damages, also in an unspecified amount, for breach of an implied covenant of good faith and fair dealing to the plaintiffs in relation to the dividends. The action has been certified as a class action on behalf of all policyholders whose policies were issued in Ohio and were still in force in 1993. United Liberty has denied the material allegations of the Complaint and is defending the action vigorously. Pre-trial discovery is continuing. United Liberty has filed a motion for summary judgment to which the plaintiffs have not yet responded. Although United Liberty has requested mediation of the action, the plaintiffs would not agree to the request for mediation until United Liberty made an offer to settle the case. Consequently, United Liberty has offered to settle the matter for payments over time, which would include attorneys' fees, and which would be contingent upon an exchange or reformation of the insurance policies currently owned by the members of the class for policies with an increased premium and a set dividend. At this stage of the litigation, the Company is unable to determine whether an unfavorable outcome of the action is likely to occur or, alternatively, whether the chance of such an outcome is remote. Therefore, at this time, management has no basis for estimating potential losses, if any. In addition, the Company is party to other lawsuits in the normal course of business. Management believes recorded claims liabilities are adequate to ensure these other suits will be resolved without material financial impact to the Company.

Note 8 - RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141, "Business Combinations", and No. 142, "Goodwill and Other Intangible Assets", effective for fiscal years beginning after December 15, 2001. Under the new rules, goodwill will no longer be amortized but will be subject to annual impairment tests in accordance with the Statements. Other intangible assets will continue to be amortized over their useful lives. The Company adopted the new rules on accounting for goodwill and other intangible assets in the first quarter of 2002. Application of the nonamortization provisions of the Statement is expected to increase net income approximately $90,000 ($0.05 per share) per year. During 2002, the Company completed the first step in evaluating the potential impairment of its goodwill. Based on the results of this test, there was no impairment.

Below is a proforma illustration of earnings adjusted to exclude the goodwill amortization recorded during 2001.

	Three Months Ended June 30,		Six Months En
	2002	2001	2002
Net Loss - excluding goodwill amortization	$(1,847,998)	$(2,717,638)	$(2,244,941)
Goodwill amortization	---	22,503	---
Net Loss - as reported	$(1,847,998)	$ (2,740,141)	$(2,244,941)
Net Loss per Share:			
Excluding goodwill amortization	$ (1.08)	$ (1.55)	$ (1.31)
As reported	$ (1.08)	$ (1.57)	$ (1.31)

Total goodwill outstanding at June 30, 2002 is approximately $756,000 with $304,000 allocable to Broker Life, $270,000 to Home Service Life, and $182,000 to Preneed Life.

Part I; Item 1 (continued)

Note 9 - DEBT

The Company did not meet covenants relating to a ratio of outstanding bank debt to adjusted earnings and a specified capital amount as of June 30, 2002. The lender has waived these covenant violations with respect to that date and, during the third quarter of 2002, the Company expects to evaluate strategic alternatives necessary for returning to compliance.

Part I; Item 2 - Management's Discussion and Analysis

FINANCIAL POSITION. Shareholders' equity totaled approximately $17,349,000 and $20,002,000 at June 30, 2002 and December 31, 2001, respectively. These balances reflect a 7.6% and 13.3% decrease for the three months and six months ended June 30, 2002, respectively. As described above, comprehensive losses totaled approximately $1,519,000 and $432,000 for the three months ended June 30, 2002 and 2001, respectively. For the six months ended June 30, 2002 and 2001 comprehensive losses totaled $2,654,000 and $437,000, respectively. A significant portion of the 2002 comprehensive loss is attributable to changes in the value of the Company's fixed maturity and equity portfolios. As of June 30, 2002 and December 31, 2001, equity securities comprised approximately 5% and 6%, respectively of the Company's total assets, and 38% and 41%, respectively of shareholders' equity. Accordingly, as also described below, the Company's financial position can be significantly affected by movements in the equities markets. Equity portfolio positions decreased $1,238,000 on a cost basis and $1,549,000 on a market value basis, during the first six months of 2002. Fixed maturity portfolio positions increased $4,779,000 on an amortized cost basis and $4,430,000 on a market value basis during the same period. Cash and cash equivalent positions also increased by approximately $507,000, to $18,940,000 during the six months ended June 30, 2002 and comprise approximately 13.5% of total assets at June 30, 2002 and December 31, 2001.

Equity markets continue to be highly volatile and have declined during 2002 to a greater extent than previously anticipated. In addition, interest yields on fixed maturity investments have also declined during 2002 to a greater extent than previously anticipated. Accordingly, although the Company had maintained significant cash and cash equivalent balances in anticipation of potentially rising interest rates, the significant decline in short-term rates has and, continues to adversely impact the Company's investment portfolio yield and operating earnings. The Company's 2002 investment impairments include writedowns of certain highly publicized companies such as Cablevision ($362,000), MCI/Worldcom ($348,000) and Adelphia ($145,000). Due to continuing accounting investigations at a wide range of companies and the generally adverse economic environment, the Company cannot predict the potential of future investment impairments. The 2002 environment described above has produced a higher level of qualitative investment risk. However, the previously disclosed measures of quantitative risk per unit of investment are not believed to have changed significantly.

OPERATIONS. Net premiums and other considerations increased approximately $2,323,000 or 32% during the three months ended June 30, 2002 compared to the three months ended June 30, 2001 and increased $3,559,000, or 25% during the first six months of 2002 compared to the first six months of 2001. For the first six months of 2002, Preneed Life and Home Service Life premium increases were approximately $3,680,000 and $131,000, respectively, while Broker Life and Dental each experienced modest decreases. The Preneed Life segment growth is attributable primarily to continued expansion into independently owned funeral homes and a joint marketing agreement with a casket distributor. Preneed Life growth also accounts for approximately eighty percent of the Increase in Net Benefit Reserves for six months ended June 30, 2002. Broker Life and Dental premium reductions are primarily attributable to increased competition in the broker market, and the mid-2001 loss of certain dental groups which had above average claim rates. The Other Health segment represents approximately 4% of total premium.

Pretax earnings (loss) (before the cumulative effect of a new accounting principle) improved approximately $723,000 to $(2,660,000) for the six months ended June 30, 2002, primarily due to an approximate $1,502,000 decrease in realized investment losses, partially offset by increased segment losses. Pretax Segment Profit (Loss) (excluding realized investment gains and interest expense) for the first six months of 2002 was approximately $(704,000), compared to $230,000 for the first six months of 2001. The Pretax Segment Loss for the three months ended June 30, 2002 and 2001 was $(647,000) and $(99,000), respectively. These decreases resulted primarily from declines in investment yields, increased mortality rates, and higher disability claim levels. Below are the approximate, annualized pretax investment income and total return yields for the six months ended June 30, 2002 and 2001.

Part I; Item 2 - Management's Discussion and Analysis (continued)

Six Months Ended June 30	2002	2001
Investment Income	$ 2,896,643	$3,341,497
Realized and Unrealized Losses	(2,456,404)	(325,428)
Total Return	$ 440,239	$3,016,069

Average Cash and Investments	$113,549,504	$113,452,219
Investment Income Yield - Annualized	5.10%	5.89%
Total Return - Annualized	0.78%	5.32%

The change in the Company's effective income tax rate is due to the lack of tax loss carryback potential for a portion of the Company's operations.

CASH FLOW AND LIQUIDITY. Cash flow from operations totaled $6,904,000 for the six months ended June 30, 2002 compared to $3,251,000 for the same period in the prior year. This increase is primarily attributable to growth in Preneed Life business. The $5,305,000 of cash used by investing activities for the six months ended June 30, 2002 resulted primarily from investing the proceeds of Preneed Life sales in fixed maturity securities. The $1,092,000 of cash used in financing activities during the first quarter of 2002 is primarily attributable to bank loan principal repayments along with annuity and Universal Life account withdrawals. Due to continued investment losses and earnings pressure from lower yields on investments and cash equivalents, and in consideration of bank loan covenants, the Company will be evaluating options for strengthening its overall financial position, including reassessing the strategic value of its business segments. Continuation of existing earnings trends could also prompt state insurance department regulatory action and/or rating agency reevaluations.

FORWARD-LOOKING INFORMATION. All statements, trend analyses and other information contained in this report relative to markets for the Company's products and trends in the Company's operations or financial results, as well as other statements including words such as "anticipate", "believe", "plan", "estimate", "expect", "intend", and other similar expressions, constitute forward-looking statements under the Private Securities Litigation Reform Act of 1995. These forward-looking statements are subject to known and unknown risks, uncertainties and other factors which may cause actual results to be materially different from those contemplated by the forward-looking statements. Such factors include, among other things:

|X| the market value of the Company's investments, including stock market performance and prevailing interest rate levels;
|X| customer and agent response to new products, distribution channels and marketing initiatives, including exposure to unrecoverable advanced commissions;
|X| mortality, morbidity, lapse rates, and other factors which may affect the profitability of the Company's insurance products;
|X| regulatory changes or actions, including those relating to regulation of insurance products and companies;
|X| ratings assigned to the Company and its subsidiaries by independent rating organizations which the Company believes are important to the sale of its products;
|X| general economic conditions and competition which may affect the Company's ability to sell its products;
|X| the Company's ability to achieve anticipated levels of operating efficiencies and meet cash requirements based upon projected liquidity sources;
|X| unanticipated adverse litigation outcomes; and
|X| changes in the Federal income tax laws and regulations which may affect the relative tax advantages of some of the Company's products.

There can be no assurance that other factors not currently anticipated by management will not also materially and adversely affect the Company's results of operations.

Part I; Item 3 - Quantitative and Qualitative Disclosures about Market Risk

The primary changes in quantitative market risks during the six months ended June 30, 2002 are discussed in Part I, Item 2 above.

Part II - Other Information

Item 4. Submission of Matters to a Vote of Security Holders.

The 2002 annual meeting of shareholders of the Company was held on May 23, 2002. At the meeting, eight incumbent directors were re- elected to serve until the 2003 annual meeting of shareholders. The names of the incumbent directors and shares of the Company's Class A Stock voted for each were as follows:

Candidate	Votes
John H. Harralson, Jr.	1,167,467
Lane A. Hersman	1,052,179
Frank T. Kiley	1,165,967
Earle V. Powell	1,167,392
Thomas G. Ward	1,167,467
Darrell R. Wells	1,088,279
Margaret A. Wells	1,088,279

Item 6. Exhibits and Reports on Form 8-K.

a). Exhibits: See Exhibit Index enclosed.

b). Reports on Form 8-K: None.

SIGNATURES

In accordance with the requirements of the Securities and Exchange Act of 1934, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CITIZENS FINANCIAL CORPORATION

By: /s/ Darrell R. Wells
Darrell R. Wells
President and Chief Executive Officer

By: /s/ Brent L. Nemec
Brent L. Nemec
Treasurer and Principal Accounting Officer

Date: August 14, 2002

EXHIBIT INDEX

Exhibit No.	Description
11	Statement re: computation of per share earnings
99.1	Certification of Chief Executive Officer
99.2	Certification of Chief Financial Officer

EXHIBIT 11

Citizens Financial Corporation and Subsidiaries
Computation of Per Share Earnings
(Unaudited)

Six Months Ended June 30	2002	
Numerator(s):		
Loss before cumulative effect of a change in accounting principle	$(2,244,941)	$
Cumulative effect of a change in accounting principle	---	
Net Loss	$(2,244,941)	$
Denominator:		
Weighted average common shares	1,716,815	
Earnings Per Share:		
Loss before cumulative effect of a change in accounting principle	$ (1.31)	$
Cumulative effect of a change in accounting principle	---	
Net Loss	$ (1.31)	$

Three Months Ended June 30	2002	
Numerator:		
Net Loss	$(1,847,998)	$
Denominator:		
Weighted average common shares	1,716,815	
Earnings Per Share:		
Net Loss	$ (1.08)	$

EXHIBIT 99.1
Citizens Financial Corporation and Subsidiaries
CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350

In connection with the Quarterly Report on Form 10-Q of Citizens Financial Corporation (the "Company") for the quarterly period ended June 30, 2002, as filed with the Securities and Exchange Commission on the date hereof (the "Report") I, Darrell R. Wells, Chief Executive Officer of the Company, certify pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss.906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ Darrel R. Wells

Darrell R. Wells
Chief Executive Officer

Date: August 14, 2002

EXHIBIT 99.2
Citizens Financial Corporation and Subsidiaries
CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350

In connection with the Quarterly Report on Form 10-Q of Citizens

Financial Corporation (the "Company") for the quarterly period ended June 30, 2002, as filed with the Securities and Exchange Commission on the date hereof (the "Report") I, Brent L. Nemec, Vice President and Chief Financial Officer of the Company, certify pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss.906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ Brent L. Nemec

Brent L. Nemec
Chief Financial Officer

Date: August 14, 2002