

FSB Community Bankshares Inc
Form 10-K
March 31, 2011

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

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934
For the Fiscal Year Ended December 31, 2010

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: 001- 52751

FSB Community Bankshares, Inc.
(Exact Name of Registrant as Specified in its Charter)

United States
(State or Other Jurisdiction of Incorporation or Organization)

74-3164710
(I.R.S. Employer Identification No.)

45 South Main Street, Fairport, New York
(Address of Principal Executive Offices)

14450
(Zip Code)

(585) 223-9080
(Issuer's Telephone Number including area code)

Securities Registered Pursuant to Section 12(b) of the Act:
None

Title of Class	Name of Each Exchange On Which Registered
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Securities Registered Pursuant to Section 12(g) of the Act:

Common Stock, par value \$0.10 per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
YES NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act.

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YES NO

Indicate by check mark whether the registrant: (1) has filed all reports required 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 reports), and (2) has been subject to such requirements for the past 90 days.

(1) YES NO

(2) YES NO

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or such shorter period that the Registrant was required to submit and post such files). YES NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer”, “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="radio"/>	Accelerated filer	<input type="radio"/>
Non-accelerated filer	<input type="radio"/>	Smaller reporting company	<input checked="" type="radio"/>

(Do not check if 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

As of June 30, 2010 the aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant, computed by reference to the closing price of the common stock as of June 30, 2010, was \$5.8 million.

As of March 31, 2011, there were 1,785,000 shares of the Registrant’s common stock, par value \$0.10 per share, outstanding, of which 946,050 shares, or 53%, were held by FSB Community Bankshares, MHC, the Registrant’s mutual holding company parent.

DOCUMENTS INCORPORATED BY REFERENCE

1. Proxy Statement for the 2011 Annual Meeting of Stockholders (Parts II and III).
 2. Annual Report to Shareholders for the year ended December 31, 2010 (Part II).
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Index

		Page
	Part I.	
Item 1.	BUSINESS	1
Item 1A.	RISK FACTORS	34
Item 1B.	UNRESOLVED STAFF COMMENTS	39
Item 2.	PROPERTIES	39
Item 3.	LEGAL PROCEEDINGS	40
Item 4.	(REMOVED AND RESERVED)	40
	Part II.	
Item 5.	MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES	40
Item 6.	SELECTED FINANCIAL DATA	40
Item 7.	MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	40
Item 7A.	QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	40
Item 8.	FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA	40
Item 9.	CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE	41
Item 9A.	CONTROLS AND PROCEDURES	41
Item 9B.	OTHER INFORMATION	42
	Part III.	
Item 10.	DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE	42
Item 11.	EXECUTIVE COMPENSATION	42
Item 12.		42
		4

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS
AND MANAGEMENT AND RELATED STOCKHOLDER
MATTERS

Item 13.	CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE	42
Item 14.	PRINCIPAL ACCOUNTANT FEES AND SERVICES	42
Item 15.	EXHIBITS	42
	SIGNATURES	44
	EX-31.1	
	EX-31.2	
	EX-32	

PART I

ITEM 1. BUSINESS

Forward-Looking Statements

This Annual Report contains certain “forward-looking statements” which may be identified by the use of words such as “believe,” “expect,” “anticipate,” “should,” “planned,” “estimated” and “potential.” Examples of forward-looking statements include, but are not limited to, estimates with respect to our financial condition, results of operations and business that are subject to various factors which could cause actual results to differ materially from these estimates and most other statements that are not historical in nature. These factors include, but are not limited to, general and local economic conditions, changes in interest rates, deposit flows, demand for mortgage, commercial and other loans, real estate values, competition, changes in accounting principles, policies, or guidelines, changes in legislation or regulation, and other economic, competitive, governmental, regulatory, and technological factors affecting our operations, pricing products and services.

FSB Community Bankshares, MHC

FSB Community Bankshares, MHC is a federally chartered mutual holding company which currently owns 53.0% of the outstanding common stock of FSB Community Bankshares, Inc. FSB Community Bankshares, MHC has not engaged in any significant business other than owning the common stock of FSB Community Bankshares, Inc. So long as FSB Community Bankshares, MHC exists, it is required to own a majority of the voting stock of FSB Community Bankshares, Inc. The executive office of FSB Community Bankshares, MHC is located at 45 South Main Street, Fairport, New York 14450, and its telephone number is (585) 223-9080. FSB Community Bankshares, MHC is subject to comprehensive regulation and examination by the Office of Thrift Supervision (“OTS”).

FSB Community Bankshares, Inc.

FSB Community Bankshares, Inc. is a federally chartered mid-tier stock holding company of Fairport Savings Bank (the “Bank”). FSB Community Bankshares, Inc. has not engaged in any significant business activity other than owning 100% of the common stock of the Bank and \$3.0 million in investment securities, and currently does not intend to expand materially its business activities, other than through its ownership of the Bank.

FSB Community Bankshares, Inc. completed its initial public offering in August 2007 by selling 838,950 shares, or 47.0% of our outstanding common stock, at a price of \$10.00 per share, to the Bank’s eligible depositors, the Bank’s employee stock ownership plan and the public. Additionally, we issued 946,050 shares, or 53.0% of our common stock, to FSB Community Bankshares, MHC our federally chartered mutual holding company parent.

At December 31, 2010, we had total consolidated assets of \$212.4 million, total deposits of \$162.4 million and stockholders’ equity of \$20.5 million. Our consolidated net income for the year ended December 31, 2010 was \$220,000.

Our executive offices and the Bank’s executive offices are located at 45 South Main Street, Fairport, New York 14450, and our telephone number is (585) 223-9080.

Our website address is www.fairportsavingsbank.com. Information on our website is not and should not be considered a part of this Annual Report on Form 10-K. We make our Annual Report on Form 10-K and amendments thereto available on our website as soon as reasonably practicable after filing or furnishing them to the SEC. Also available on the website is our Corporate Profile, our officers and directors, corporate governance, and a link to our

SEC filings.

1

Fairport Savings Bank

Fairport Savings Bank is a federally chartered savings bank headquartered in Fairport, New York and was originally founded in 1888. Fairport Savings Bank conducts business from its main office in Fairport, New York and our branch offices located in Penfield, New York which opened in 2003, Irondequoit, New York, which opened in January 2007 and Webster, New York which opened in September 2009. The telephone number at our main office is (585) 223-9080. Fairport Savings Bank is subject to comprehensive regulation and examination by the OTS.

Our principal business consists of originating one-to-four-family residential real estate mortgage loans and home equity lines of credit, and to a lesser extent, originations of commercial real estate, multi-family, construction and other consumer loans. The Bank has three mortgage origination offices located in Pittsford, New York, Canandaigua, New York, and Watertown, New York. We attract retail deposits from the general public in the areas surrounding our main office and our branch offices. We offer our customers a variety of deposit products with interest rates that are competitive with those of similar products offered by other financial institutions in our market area. Loans that we sell into the secondary market consist of long-term, fixed-rate residential real estate mortgage loans and correspondent FHA mortgage loans. We retain the servicing rights primarily on all fixed-rate residential mortgage loans that we sell. These loans are sold without recourse. Correspondent FHA mortgage loans are sold in the secondary market on a servicing-released basis. We also broker government mortgage loans including FHA, VA, SONYMA, and USDA directly to investors in the secondary market. We have not entered into loan participations in recent years. Our revenues are derived primarily from interest on loans and, to a lesser extent, interest on investment securities and mortgage-backed securities. We also generate revenues from other income including deposit fees and service charges, realized gain on sale of securities, earnings on bank owned life insurance, and mortgage fee income and realized gain on sale of loans associated with loan production generated from our loan origination offices. Our primary sources of funds are deposits, borrowings, and principal and interest payments on loans and securities. Additionally, we derive a portion of our other income through Oakleaf Services Corporation, our subsidiary that offers non-deposit investments such as annuities, insurance products and mutual funds.

Market Area

Fairport Savings Bank considers its market area to consist of Monroe County, New York, and to a lesser extent, the surrounding counties in Western New York. Monroe County is a suburban market dominated by the City of Rochester, the third largest city in the State of New York. In 2009, Monroe County had a population of 737,000. Population growth has been largely stagnant over the last two decades. The Monroe County economy is largely dependent on several large manufacturing companies, as well as sizeable higher education and health care facilities centered in Rochester. The University of Rochester and Strong Memorial Hospital were two of the largest employers in the Rochester area in 2010. Rochester is also home to a number of international businesses, including Eastman Kodak, Bausch & Lomb, and Paychex. Additionally, Xerox, while no longer headquartered in Rochester, has its principal offices and manufacturing facilities in Monroe County.

Competition

We face intense competition in our market area both in making loans and attracting deposits. Our market area has a high concentration of financial institutions, including large money center and regional banks, community banks and credit unions. We face additional competition for deposits from money market funds, brokerage firms, mutual funds and insurance companies. Some of our competitors offer products and services that we currently do not offer, such as commercial business loans, trust services and private banking.

The majority of our depositors live and/or work in Monroe County, New York. At June 30, 2010, the latest date for which information is available through the Federal Deposit Insurance Corporation, we held approximately 1.6% of the thrift and bank deposits available in Monroe County.

Our primary strategy for increasing and retaining our customer base is to offer competitive deposit and loan rates and product features, delivered with exceptional customer service. Our primary focus is to build and develop profitable customer relationships across all lines of business while maintaining our role as a community bank.

Lending Activities

Our principal lending activity is the origination of first mortgage loans to purchase or refinance one-to-four-family residential real estate. We also originate a significant number of home equity lines of credit and, to a lesser extent, multi-family residential, construction, commercial real estate and other loans (consisting of automobile, passbook, overdraft protection and unsecured loans). At December 31, 2010, one-to-four-family residential real estate mortgage loans totaled \$102.3 million, or 89.3% of our loan portfolio, home equity lines of credit totaled \$8.9 million, or 7.8% of our loan portfolio, commercial real estate loans totaled \$1.4 million or 1.2% of our loan portfolio, and other loans totaled \$1.9 million or 1.7% of our loan portfolio.

Our strategic plan continues to focus on residential real estate lending, whereby a portion of fixed-rate long term residential loan originations will be sold, on a servicing-retained basis, to increase non-interest income, a portion of fixed-rate FHA, VA, SONYMA or USDA loans will be sold, on a servicing-released basis, to increase non-interest income, and the remaining loans will be added to our loan portfolio for interest earning income. In 2010, we sold \$10.4 million in long-term, fixed-rate one-to-four-family real estate loans and correspondent FHA mortgage loans in the secondary market. We also brokered \$10.7 million of fixed-rate residential mortgage and FHA mortgage loans in 2010 to investors in the secondary market. Our total loans sold and serviced as of December 31, 2010 was \$19.1 million. We may experience declines in the residential mortgage loan portfolio during 2011 if the economy continues to weaken. Additionally, based on our desired interest rate sensitivity position, we may increase the amount of residential mortgages we sell in the secondary market.

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Loan Portfolio Composition. The following table sets forth the composition of our loan portfolio by type of loan at the dates indicated.

	2010		2009		At December 31, 2008		2007		2006	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
(Dollars in thousands)										
Real estate loans:										
One-to-four-family residential (1)	\$102,295	89.3 %	\$104,960	90.2 %	\$123,880	91.4 %	\$113,267	91.2 %	\$109,786	90.6 %
Home equity lines of credit	8,900	7.8	8,496	7.3	8,214	6.1	6,622	5.3	6,929	5.7
Multi-family residential	1,165	1.0	781	0.7	846	0.6	918	0.7	1,040	0.9
Construction(2)	652	0.6	170	0.1	316	0.2	1,114	0.9	380	0.3
Commercial	1,395	1.2	1,809	1.6	2,119	1.6	2,123	1.7	2,745	2.3
Other loans	73	0.1	91	0.1	148	0.1	200	0.2	241	0.2
Total loans receivable	114,480	100.0%	116,307	100.0%	135,523	100.0%	124,244	100.0%	121,121	100.0%
Deferred loan origination costs	381		433		535		401		338	
Allowance for loan losses	(384)		(368)		(345)		(319)		(322)	
Total loans receivable, net	\$114,477		\$116,372		\$135,713		\$124,326		\$121,137	

(1) Includes \$ 3.2 million, \$3.9 million, \$4.7 million, \$4.7 million and \$3.9 million of closed-end home equity loans at December 31, 2010, 2009, 2008, 2007 and 2006, respectively.

(2) Represents amounts disbursed at December 31, 2010, 2009, 2008, 2007 and 2006.

Loan Portfolio Maturities. The following table summarizes the scheduled repayments of our gross loan portfolio at December 31, 2010. Demand loans, loans having no stated repayment schedule or maturity, and overdraft loans are reported as being due in the year ending December 31, 2011. Maturities are based on the final contractual payment date and do not reflect the impact of prepayments and scheduled principal amortization.

Due During the Years Ending December 31,	One-to- Four Family Residential Real Estate Loans	Home Equity Lines of Credit	Multi- Family Residential Real Estate Loans	Construction Loans	Commercial Real Estate Loans	Other Loans	Total

(In thousands)

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2011	\$145	\$ -	\$ 10	\$ -	\$ 5	\$ 29	\$189
2012	267	-	-	-	-	11	278
2013	2,765	-	36	-	20	16	2,837
2014 to 2015	1,985	-	160	-	48	17	2,210
2016 to 2020	19,140	-	101	-	713	-	19,954
2021 to 2025	19,877	-	-	-	609	-	20,486
2026 and beyond	58,116	8,900	858	652	-	-	68,526
Total	\$102,295	\$ 8,900	\$ 1,165	\$ 652	\$ 1,395	\$ 73	\$114,480

4

The following table sets forth the scheduled repayments of fixed- and adjustable-rate loans at December 31, 2010 that are contractually due after December 31, 2011.

	Due After December 31, 2011		
	Fixed	Adjustable (In thousands)	Total
Real estate loans:			
One-to-four-family residential	\$ 97,334	\$ 4,816	\$ 102,150
Home equity lines of credit	-	8,900	8,900
Multi-family residential	741	414	1,155
Construction	652	-	652
Commercial	629	761	1,390
Other loans	44	-	44
Total	\$ 99,400	\$ 14,891	\$ 114,291

One-to-four-Family Residential Real Estate Mortgage Loans. Our primary lending activity is the origination of one-to-four-family residential real estate mortgage loans. At December 31, 2010 \$102.3 million, or 89.3%, of our total loan portfolio consisted of one-to-four-family residential real estate mortgage loans. We offer conforming and non-conforming, fixed-rate and adjustable-rate residential real estate mortgage loans with maturities of up to 30 years and maximum loan amounts generally of up to \$750,000.

We currently offer fixed-rate conventional mortgage loans with terms of up to 30 years that are fully amortizing with monthly loan payments, and adjustable-rate mortgage loans that provide an initial fixed interest rate for one, three, five, seven or ten years and that amortize over a period of up to 30 years. We originate fixed-rate mortgage loans with terms of less than 15 years, but at rates applicable to our 15-year loans. We originate fixed-rate bi-weekly mortgage loans with terms of up to 30 years that are fully amortizing with bi-weekly loan payments. We also offer “interest only” loans, where the borrower pays interest for an initial period (ten years), after which the loan converts to a fully amortizing loan.

One-to-four-family residential real estate mortgage loans are generally underwritten according to Freddie Mac guidelines, and we refer to loans that conform to such guidelines as “conforming loans.” We generally originate both fixed-rate and adjustable-rate mortgage loans in amounts up to the maximum conforming loan limits as established by the Office of Federal Housing Enterprise Oversight, which at December 31, 2010 was \$417,000 for single-family homes in our market area. We also originate loans above the lending limit for conforming loans, which we refer to as “jumbo loans.” We generally underwrite jumbo loans in a manner similar to conforming loans generally with increased rates. These loans are generally eligible for sale to various firms that specialize in purchasing non-conforming loans. Jumbo loans are not uncommon in our market area. For first mortgage loans with loan-to-value ratios in excess of 80% we require private mortgage insurance.

As a result of our conservative underwriting standards, we do not have any loans in our loan portfolio that are considered sub-prime, or Alt-A.

We actively monitor our interest rate risk position to determine the desirable level of investment in fixed-rate mortgages. Depending on market interest rates and our capital and liquidity position, we may retain all of our newly originated longer-term fixed-rate residential mortgage loans, or we may sell all or a portion of such loans in the secondary mortgage market to government sponsored entities such as Freddie Mac or other purchasers.

During periods of low interest rates such as we experienced in 2010 and are currently experiencing at the beginning of 2011, we may sell a portion of our newly originated fixed-rate residential real estate mortgage loans. During 2010, we sold \$10.4 million in long-term fixed-rate residential mortgage loans and correspondent FHA loans in the secondary market and \$10.7 million in direct brokered loans. For the year ended December 31, 2010, we realized a gain of \$398,000 on the sale of loans, and we received servicing fees of \$45,000. As of December 31, 2010, the principal balance of loans serviced for others totaled \$19.1 million.

We currently offer several adjustable-rate mortgage loans secured by residential properties with interest rates that are fixed for an initial period ranging from one year to ten years. After the initial fixed period, the interest rate on adjustable-rate mortgage loans is generally reset every year based upon a contractual spread or margin above the average yield on U.S. Treasury securities, adjusted to a constant maturity of one year, as published weekly by the Federal Reserve Board, subject to periodic and lifetime limitations on interest rate changes. All of our interest-only loans and our traditional adjustable-rate mortgage loans with initial fixed-rate periods of one, three, five, seven and ten years have initial and periodic caps of two percentage points on interest rate changes, with a cap of six percentage points for the life of the loan. Many of the borrowers who select these loans have shorter-term credit needs than those who select long-term, fixed-rate mortgage loans. We do not offer "Option ARM" loans, where borrowers can pay less than the interest owed on their loan, resulting in an increased principal balance during the life of the loan.

Adjustable-rate mortgage loans generally present different credit risks than fixed-rate mortgage loans primarily because the underlying debt service payments of the borrowers increase as interest rates increase, thereby increasing the potential for default. Interest-only loans present different credit risks than fully amortizing loans, as the principal balance of the loan does not decrease during the interest-only period. As a result, our exposure to loss of principal in the event of default does not decrease during this period.

We generally require title insurance on all of our one-to-four-family residential real estate mortgage loans, and we also require that borrowers maintain fire and extended coverage casualty insurance (and, if appropriate, flood insurance) in an amount at least equal to the lesser of the loan balance or the replacement cost of the improvements. For fixed-rate mortgage loans with terms of 15 years or less, we will accept an attorney's letter in lieu of title insurance. A majority of our residential real estate mortgage loans have a mortgage escrow account from which disbursements are made for real estate taxes and flood insurance. We do not conduct environmental testing on residential real estate mortgage loans unless specific concerns for hazards are identified by the appraiser used in connection with the origination of the loan.

Home Equity Lines of Credit. We offer home equity lines of credit, which are primarily secured by a second mortgage on one-to-four-family residences. At December 31, 2010, home equity lines of credit totaled \$8.9 million, or 7.8% of total loans receivable. At this date we had an additional \$7.8 million of undisbursed home equity lines of credit.

The underwriting standards for home equity lines of credit include a determination of the applicant's credit history, an assessment of the applicant's ability to meet existing obligations and payments on the proposed loan and the value of the collateral securing the loan. The combined loan-to-value ratio (first and second mortgage liens) for home equity lines of credit is generally limited to 90%. We originate our home equity lines of credit without application fees or borrower-paid closing costs. Our home equity lines of credit are offered with adjustable-rates of interest indexed to the prime rate, as reported in The Wall Street Journal.

Multi-Family Residential Loans. Loans secured by multi-family real estate totaled \$1.2 million or 1.0%, of the total loan portfolio at December 31, 2010. Multi-family residential loans generally are secured by rental properties. All multi-family residential loans are secured by properties located within our lending area. At December 31, 2010, we had seven multi-family loans with an average principal balance of \$166,000, and the largest multi-family real estate loan had a principal balance of \$480,000. At December 31, 2010, all of our loans secured by multi-family real estate were performing in accordance with their terms. Multi-family real estate loans are offered with fixed and adjustable interest rates. Multi-family real estate loans are originated for terms of up to 20 years. Adjustable-rate multi-family real estate loans are tied to the average yield on U.S. Treasury securities, subject to periodic and lifetime limitations on interest rate changes.

We consider a number of factors in originating multi-family real estate loans. We evaluate the qualifications and financial condition of the borrower (including credit history), profitability and expertise, as well as the value and condition of the mortgaged property securing the loan. When evaluating the qualifications of the borrower, we consider the financial resources of the borrower, the borrower's experience in owning or managing similar property and the borrower's payment history with us and other financial institutions. In evaluating the property securing the loan, the factors we consider include the net operating income of the mortgaged property before debt service and depreciation, the debt service coverage ratio (the ratio of net operating income to debt service) to ensure that it is at least 120% of the monthly debt service and the ratio of the loan amount to the appraised value of the mortgaged property. Multi-family real estate loans are originated in amounts up to 70% of the appraised value of the mortgaged property securing the loan. All multi-family loans are appraised by outside independent appraisers approved by the board of directors.

Loans secured by multi-family real estate generally involve a greater degree of credit risk than one-to four-family residential mortgage loans and carry larger loan balances. This increased credit risk is a result of several factors, including the concentration of principal in a limited number of loans and borrowers, the effects of general economic conditions on income producing properties, and the increased difficulty of evaluating and monitoring these types of loans. Furthermore, the repayment of loans secured by multi-family real estate typically depends upon the successful operation of the real estate property securing the loans. If the cash flow from the project is reduced, the borrower's ability to repay the loan may be impaired.

Construction Loans. We originate construction loans for the purchase of developed lots and for the construction of single-family residences. Construction loans are offered to individuals for the construction of their personal residences by a qualified builder (construction/permanent loans). At December 31, 2010, construction loans totaled \$652,000, or 0.6% of total loans receivable. At December 31, 2010, the additional unadvanced portion of these construction loans totaled \$357,000.

Before making a commitment to fund a construction loan, we require an appraisal of the property by an independent licensed appraiser. We generally also review and inspect each property before disbursement of funds during the term of the construction loan.

Construction financing generally involves greater credit risk than long-term financing on improved, owner-occupied real estate. Risk of loss on a construction loan depends largely upon the accuracy of the initial estimate of the value of the property at completion of construction compared to the estimated cost (including interest) of construction and other assumptions. If the estimate of construction cost proves to be inaccurate, we may be required to advance additional funds beyond the amount originally committed in order to protect the value of the property. Moreover, if the estimated value of the completed project proves to be inaccurate, the borrower may hold a property with a value that is insufficient to assure full repayment of the loan.

Commercial Real Estate Loans. At December 31, 2010, \$1.4 million, or 1.2% of our total loan portfolio consisted of commercial real estate loans. Commercial real estate loans are secured by office buildings, mixed use properties, places of worship and other commercial properties. We generally originate adjustable-rate commercial real estate loans with maximum terms of up to 15 years. The maximum loan-to-value ratio of commercial real estate loans is 70%. At December 31, 2010, we had 11 commercial real estate loans with an average outstanding balance of \$127,000. At December 31, 2010, our largest loan secured by commercial real estate consisted of a \$481,000 loan secured by an office building/warehouse. At December 31, 2010 all of our loans secured by commercial real estate were performing in accordance with their terms.

We consider a number of factors in originating commercial real estate loans. We evaluate the qualifications and financial condition of the borrower (including credit history), profitability and expertise, as well as the value and condition of the mortgaged property securing the loan. When evaluating the qualifications of the borrower, we consider the financial resources of the borrower, the borrower's experience in owning or managing similar property and the borrower's payment history with us and other financial institutions. In evaluating the property securing the loan, the factors we consider include the net operating income of the mortgaged property before debt service and depreciation, the debt service coverage ratio (the ratio of net operating income to debt service) to ensure that it is at least 120% of the monthly debt service, and the ratio of the loan amount to the appraised value of the mortgaged property. Commercial real estate loans are originated in amounts up to 70% of the appraised value of the mortgaged property securing the loan. All commercial loans are appraised by outside independent appraisers approved by the board of directors. Personal guarantees are generally obtained from commercial real estate borrowers.

Loans secured by commercial real estate generally are larger than one-to-four-family residential loans and involve greater credit risk. Commercial real estate loans often involve large loan balances to single borrowers or groups of related borrowers. Repayment of these loans depends to a large degree on the results of operations and management of the properties securing the loans or the businesses conducted on such property, and may be affected to a greater extent by adverse conditions in the real estate market or the economy in general. Accordingly, the nature of these loans makes them more difficult for management to monitor and evaluate.

Other Loans. We offer a variety of loans secured by property other than real estate. These loans include automobile, passbook, overdraft protection and unsecured loans. At December 31, 2010, these other loans totaled \$73,000, or 0.1% of the total loan portfolio.

Loan Originations, Sales, and Servicing. Lending activities are conducted by our loan personnel operating at our main and branch office locations and through our mortgage division's three origination offices. All loans that we originate are underwritten pursuant to our policies and procedures, which incorporate Freddie Mac underwriting guidelines to the extent applicable. We originate both adjustable-rate and fixed-rate loans. Our ability to originate fixed or adjustable-rate loans is dependent upon the relative customer demand for such loans, which is affected by current market interest rates as well as anticipated future market interest rates. Our loan origination and sales activity may be adversely affected by a rising interest rate environment that typically results in decreased loan demand. Historically, a majority of our one-to-four-family residential real estate mortgage loan originations have been generated by local mortgage brokers, as well as our in-house loan representatives. Loans obtained from brokers are underwritten and funded by us. We also obtain referrals from existing or past customers and by referrals from local builders, real estate brokers and attorneys.

Loans that we sell are sold without recourse. Historically, we have retained the servicing rights on all residential real estate mortgage loans that we have sold. At December 31, 2010, we were servicing loans owned by others with a principal balance of \$19.1 million. Loan servicing includes collecting and remitting loan payments, accounting for principal and interest, contacting delinquent borrowers, supervising foreclosures and property dispositions in the event of unremedied defaults, making certain insurance and tax payments on behalf of the borrowers and generally administering the loans. We retain a portion of the interest paid by the borrower on the loans we service as consideration for our servicing activities. We have not engaged in loan purchases or entered into loan participations in recent years. The value of servicing rights was not material at December 31, 2010.

The following table shows our loan originations, sales and repayment activities for the years indicated.

	For the year ended December 31,				
	2010	2009	2008	2007	2006
	(In thousands)				
Total loans at beginning of period	\$116,307	\$135,523	\$124,244	\$121,121	\$108,601
Loan originations:					
Real estate loans:					
One-to four-family residential	35,418	26,303	25,479	19,198	22,721
Home equity lines of credit	1,658	1,199	2,184	1,431	2,295
Multi-family residential	-	-	-	-	137
Construction	2,489	1,485	2,818	-	1,115
Commercial	480	-	-	-	-
Other loans	55	56	129	113	165
Total loans originated	40,100	29,043	30,610	20,742	26,433
Sales and loan principal repayments:					
Deduct:					
Principal repayments	31,496	34,360	16,454	16,605	12,734
Loan sales	10,431	13,899	2,877	1,014	1,179
Net loan activity	(1,827)	(19,216)	11,279	3,123	12,520
Total loans at end of period	\$114,480	\$116,307	\$135,523	\$124,244	\$121,121

Loan Approval Policy and Authority. Fairport Savings Bank's lending activities follow written, non-discriminatory underwriting standards and loan origination policies approved by Fairport Savings Bank's board of directors. The loan approval process is intended to assess the borrower's ability to repay the loan and value of the property that will secure the loan. To assess the borrower's ability to repay, we review the borrower's employment and credit history and information on the historical and projected income and expenses of the borrower.

We generally require independent third-party appraisals of real property securing loans. Appraisals are performed by independent licensed appraisers. All appraisers are approved by the board of directors annually.

Loans to One Borrower. A federal savings bank generally may not make a loan or extend credit to a single or related group of borrowers in excess of 15% of unimpaired capital and surplus. An additional amount may be loaned equal to 10% of unimpaired capital and surplus if the loan is secured by readily marketable collateral, which generally does not include real estate. Our loans to one borrower limit under this regulation is \$5.1 million (including the additional amount). Our policy provides that loans to one borrower (or related borrowers) should not exceed \$750,000. At December 31, 2010, we had one loan exceeding this amount for \$928,000 which was secured by the borrower's primary residence. This loan was performing in accordance with its terms. Our next largest lending relationship to

one borrower at December 31, 2010 totaled \$648,000, and was also secured by the borrower's primary residence. This loan was performing in accordance with its terms.

Non-Performing Assets and Delinquent Loans

System-generated late notices are mailed to borrowers after the late payment “grace period,” which is 15 days in the case of all loans secured by real estate and 10 days in the case of other loans. A second notice will be mailed to borrowers if the loan remains past due after 30 days. When a loan is more than 60 days past due, we attempt to contact the borrower and develop a plan of repayment. By the 90th day of delinquency, we will have our attorneys issue a demand letter. The demand letter will require the borrowers to bring the loan current within 30 days in order to avoid the beginning of foreclosure proceedings for loans secured by real estate. With respect to automobile loans we will seek to repossess the vehicle if the loan is 90 days delinquent. A report of all loans 30 days or more past due is provided to the board of directors monthly.

Loans are generally placed on non-accrual status when payment of principal or interest is more than 90 days delinquent, unless the loans are well-secured and in the process of collection. Loans are also placed on non-accrual status if collection of principal or interest in full is in doubt or if the loan has been restructured. At December 31, 2010, 2009, 2008, 2007 and 2006, we had no restructured loans. When loans are placed on a non-accrual status, unpaid accrued interest is fully reversed, and further income is recognized only to the extent received. The loan may be returned to accrual status if unpaid principal and interest are repaid so that the loan is less than 90 days delinquent and a satisfactory payment history has been established. Loans not secured by real estate will be charged-off if they become 120 days past due. At December 31, 2010 we had no non-performing loans.

Non-Performing Assets. The table below sets forth the amounts and categories of our non-performing assets at the dates indicated.

	2010	2009	At December 31,		
	(Dollars in thousands)				
	2010	2009	2008	2007	2006
Non-accrual loans:					
Real estate loans:					
One-to-four-family residential	\$ —	\$ 23	\$ 121	\$ 63	\$ 143
Home equity lines of credit	—	—	25	—	28
Multi-family residential	—	—	—	—	—
Construction	—	—	—	—	—
Commercial	—	—	—	—	—
Other loans	—	—	—	—	—
Total		23	146	63	171
Accruing loans 90 days or more past due:	—	—	—	—	—
Total non-performing loans	—	23	146	63	171
Foreclosed real estate	—	79	—	—	—
Other non-performing assets	—	—	—	—	—

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Total non-performing assets	\$ —	\$ 102	\$ 146	\$ 63	\$ 171
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Ratios:

Total non-performing loans to total loans	0.00 %	0.02 %	0.11 %	0.05 %	0.14 %
Total non-performing loans to total assets	0.00 %	0.01 %	0.07 %	0.04 %	0.11 %
Total non-performing assets to total assets	0.00 %	0.05 %	0.07 %	0.04 %	0.11 %

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Delinquent Loans. The following table sets forth our loan delinquencies by type, by amount and by percentage of type at the dates indicated.

	Loans Delinquent For				Total	
	30-89 Days		90 Days and Over		Number	Amount
	Number	Amount	Number	Amount		
	(Dollars in thousands)					
At December 31, 2010						
Real estate loans:						
One-to-four-family residential	1	\$57	—	\$—	1	\$57
Home equity lines of credit	2	116	—	—	2	116
Multi-family residential	—	—	—	—	—	—
Construction	—	—	—	—	—	—
Commercial	—	—	—	—	—	—
Other loans	—	—	—	—	—	—
Total	3	\$173	—	\$—	3	\$173
At December 31, 2009						
Real estate loans:						
One-to-four-family residential	2	\$224	—	\$—	2	\$224
Home equity lines of credit	—	—	—	—	—	—
Multi-family residential	—	—	—	—	—	—
Construction	—	—	—	—	—	—
Commercial	—	—	—	—	—	—
Other loans	—	—	—	—	—	—
Total	2	\$224	—	\$—	2	\$224
At December 31, 2008						
Real estate loans:						
One-to-four-family residential	4	\$59	—	\$—	4	\$59
Home equity lines of credit	1	17	—	—	1	17
Multi-family residential	—	—	—	—	—	—
Construction	—	—	—	—	—	—
Commercial	—	—	—	—	—	—
Other loans	1	1	—	—	1	1
Total	6	\$77	—	\$—	6	\$77
At December 31, 2007						
Real estate loans:						
One-to-four-family residential	8	\$358	—	\$—	8	\$358
Home equity lines of credit	4	64	—	—	4	64
Multi-family residential	—	—	—	—	—	—
Construction	—	—	—	—	—	—
Commercial	—	—	—	—	—	—
Other loans	—	—	—	—	—	—
Total	12	\$422	—	\$—	12	\$422
At December 31, 2006						

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Real estate loans:

One-to-four-family residential	2	\$110	—	\$—	2	\$110
Home equity lines of credit	—	—	—	—	—	—
Multi-family residential	—	—	—	—	—	—
Construction	—	—	—	—	—	—
Commercial	—	—	—	—	—	—
Other loans	—	—	—	—	—	—
Total	2	\$110	—	\$—	2	\$110

Foreclosed Real Estate. Real estate acquired by us as a result of foreclosure or by deed in lieu of foreclosure is classified as foreclosed real estate until sold. When property is acquired it is recorded at the estimated fair market value less cost to sell at the date of foreclosure, establishing a new cost basis. Estimated fair value generally represents the sale price a buyer would be willing to pay on the basis of current market conditions, including normal terms from other financial institutions, less the estimated costs to sell the property. Holding costs and declines in estimated fair market value result in charges to expense after acquisition. At December 31, 2010, we had no foreclosed real estate.

Classification of Assets. Our policies, consistent with regulatory guidelines, provide for the classification of loans and other assets that are considered to be of lesser quality as substandard, doubtful, or loss assets. An asset is considered substandard if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Substandard assets include those assets characterized by the distinct possibility that we will sustain some loss if the deficiencies are not corrected. Assets classified as doubtful have all of the weaknesses inherent in those classified substandard with the added characteristic that the weaknesses present make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. Assets (or portions of assets) classified as loss are those considered uncollectible and of such little value that their continuance as assets is not warranted. Assets that do not expose us to risk sufficient to warrant classification in one of the aforementioned categories, but which possess potential weaknesses that deserve our close attention, are required to be designated as special mention. As of December 31, 2010, we had no assets designated as special mention.

When we classify assets as either substandard, doubtful, or loss we allocate a portion of the related general loss allowances to such assets as we deem prudent. The allowance for loan losses is the amount estimated by management as necessary to absorb credit losses incurred in the loan portfolio that are both probable and reasonably estimable at the balance sheet date. Our determination as to the classification of our assets and the amount of our loss allowances are subject to review by our principal federal regulator, the Office of Thrift Supervision, which can require that we establish additional loss allowances. We regularly review our asset portfolio to determine whether any assets require classification in accordance with applicable regulations. On the basis of our review of our assets, at December 31, 2010, classified assets consisted of three substandard assets totaling \$173,000, and no assets classified as doubtful or loss.

Allowance for Loan Losses

We provide for loan losses based on the allowance method. Accordingly, all loan losses are charged to the related allowance and all recoveries are credited to it. Additions to the allowance for loan losses are provided by charges to income based on various factors which, in our judgment, deserve current recognition in estimating probable losses. We regularly review the loan portfolio and make provisions for loan losses in order to maintain the allowance for loan losses in accordance with accounting principles generally accepted in the United States of America.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as doubtful, substandard or special mention. For such loans that are also classified as impaired, an allowance is generally established when the collateral value of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

A loan is considered impaired when, based on current information and events, it is probable that we will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management considers the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, we do not separately identify individual consumer and residential loans for impairment disclosures.

We periodically evaluate the carrying value of loans and the allowance is adjusted accordingly. While we use the best information available to make evaluations, future adjustments to the allowance may be necessary if conditions differ substantially from the information used in making the evaluations. In addition, as an integral part of their examination process, the Office of Thrift Supervision periodically reviews the allowance for loan losses. The Office of Thrift Supervision may require us to recognize additions to the allowance based on their analysis of information available to them at the time of their examination.

The following table sets forth activity in our allowance for loan losses for the years indicated.

	At or For the Years Ended December 31,				
	2010	2009	2008	2007	2006
	(Dollars in thousands)				
Balance at beginning of year	\$ 368	\$ 345	\$ 319	\$ 322	\$ 331
Charge-offs:					
Real estate loans:					
One-to-four-family residential	5	5	—	—	—
Home equity lines of credit	—	—	—	—	—
Multi-family residential	—	—	—	—	—
Construction	—	—	—	—	—
Commercial	—	—	—	—	—
Other loans	—	—	—	3	9
Total charge-offs	5	5	—	3	9
Net charge-offs	5	5	—	3	9
Recoveries	—	—	2	—	—
Provision for loan losses	21	28	24	—	—
Balance at end of year	\$ 384	\$ 368	\$ 345	\$ 319	\$ 322
Ratios:					
Net charge-offs to average loans outstanding	0.00 %	0.00 %	0.00 %	0.00 %	0.01 %
Allowance for loan losses to non-performing loans at end of year	0.00 %	1600.00 %	236.30 %	506.35 %	188.30 %
Allowance for loan losses to total loans at end of year	0.34 %	0.32 %	0.25 %	0.26 %	0.27 %

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Allocation of Allowance for Loan Losses. The following table sets forth the allowance for loan losses allocated by loan category, the total loan balances by category, and the percent of loans in each category to total loans at the dates indicated. The allowance for loan losses allocated to each category is not necessarily indicative of future losses in any particular category and does not restrict the use of the allowance to absorb losses in other categories.

	At December 31,													
	2010				2009				2008					
	Percent of Allowance to Total Amount	Percent of Loans in Category to Total Loans			Percent of Allowance to Total Amount	Percent of Loans in Category to Total Loans			Percent of Allowance to Total Amount	Percent of Loans in Category to Total Loans				
	(Dollars in thousands)													
Real estate loans:														
One-to-four-family residential	\$242	63.0 %	89.3 %	\$210	57.1 %	90.2 %	\$247	71.6 %	91.4 %					
Home equity lines of credit	55	14.3	7.8	64	17.4	7.3	67	19.4	6.1					
Multi-family residential	9	2.3	1.0	6	1.6	0.7	6	1.7	0.6					
Construction	3	0.8	0.6	1	0.3	0.1	2	0.6	0.2					
Commercial	14	3.7	1.2	16	4.3	1.6	20	5.8	1.6					
Other loans	1	0.3	0.1	1	0.3	0.1	1	0.3	0.1					
Total allocated allowance	324	84.0	100.0	298	81.0	100.0	343	99.4	100.0					
Unallocated allowance	60	15.6	0.0	70	19.0	—	2	0.6	—					
Total allowance for loan losses	\$384	100.0 %	100.0 %	\$368	100.0 %	100.0 %	\$345	100.0 %	100.0 %					

	At December 31,									
	2007					2006				
	Amount	Percent of Allowance to Total Allowance	Percent of Loans in Category to Total Loans			Amount	Percent of Allowance to Total Allowance	Percent of Loans in Category to Total Loans		
	(Dollars in thousands)									
Real estate loans:										
One- to four-family residential	\$218	68.3 %	91.2 %	\$228	70.8 %	\$90.6	90.6 %			
Home equity lines of credit	67	21.0	5.3	55	17.1	5.7				
Multi-family residential	7	2.2	0.7	8	2.5	0.9				
Construction	5	1.6	0.9	2	0.6	0.3				
Commercial	21	6.6	1.7	28	8.7	2.3				

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Other loans	1	0.3	0.2	1	0.3	0.2
Total allocated allowance	319	100.0	100.0	322	100.0	100.0
Unallocated allowance	—	—	—	—	—	—
Total allowance for loan losses	\$319	100.0	% 100.0	% \$322	100.0	% 100.0

15

Investments

Our board of directors is responsible for approving and overseeing our investment policy. The investment policy is reviewed at least annually by management and any changes to the policy are recommended to the board of directors and are subject to its approval. This policy dictates that investment decisions be made based on the safety of the investment, liquidity requirements, potential returns, the ability to provide collateral for pledging requirements, and consistency with our interest rate risk management strategy. Our asset/liability management committee, which consists of our chief executive officer, chief financial officer and other members of management, oversees our investing activities and strategies. All transactions are formally reviewed by the board of directors at least quarterly. Any investment which, subsequent to its purchase, fails to meet the guidelines of the policy is reported to the asset/liability management committee, which decides whether to hold or sell the investment.

Our current investment policy permits us to invest in debt securities issued by the U.S. Government, agencies of the U.S. Government or U.S. Government-sponsored enterprises. The policy also permits investments in mortgage-backed securities, including pass-through securities issued and guaranteed by Fannie Mae, Freddie Mac and Ginnie Mae. We also may hold investments in New York State municipal obligations. The investment policy also permits investments in asset-backed securities, pooled trust securities, bankers' acceptances, money market funds, term federal funds, repurchase agreements and reverse repurchase agreements.

Our current investment policy prohibits hedging through the use of such instruments as financial futures, interest rate options and swaps.

Debt and equity securities investment accounting guidance requires that, at the time of purchase, we designate a security as held to maturity, available for sale, or trading, depending on our ability and intent. Securities available for sale are reported at fair value, while securities held to maturity are reported at amortized cost. We do not have a trading portfolio.

At December 31, 2010 our investment portfolio, classified as available for sale, consisted of: \$39.8 million, or 18.7% of total assets, of U.S. Government and agency obligations with a fair value of \$39.3 million; \$28.9 million, or 13.6% of total assets, of mortgage-backed securities guaranteed by Fannie Mae, Ginnie Mae, Federal Farm Credit and Freddie Mac with a fair value of \$29.4 million; and \$3.9 million, or 1.8% of total assets, of SBA pools with a fair value of \$3.9 million. Our investment portfolio, classified as held to maturity, consisted of: \$4.9 million, or 2.3% of total assets, of mortgage-backed securities guaranteed by Fannie Mae, Ginnie Mae, Federal Farm Credit and Freddie Mac with a fair value of \$5.1 million; and \$2.3 million, or 1.1% of total assets, of State and Municipal securities with a fair value of \$2.2 million.

U.S. Government and Agency Obligations. U.S. Government and agency securities are utilized as shorter-term investment vehicles and as an alternative to loan originations. Investment in U.S. government and agency securities provide lower yields than loans, however, they provide greater liquidity on a short-term basis.

Mortgage-Backed Securities. We purchase both fixed-rate and adjustable-rate mortgage-backed securities insured or guaranteed by Fannie Mae, Freddie Mac or Ginnie Mae. We invest in mortgage-backed securities to achieve higher interest income and monthly cash flow with minimal administrative expense, and to lower our credit risk as a result of the guarantees provided by Freddie Mac, Federal Farm Credit, Fannie Mae or Ginnie Mae.

Mortgage-backed securities are created by the pooling of mortgages and the issuance of a security with an interest rate that is less than the interest rate on the underlying mortgages. Mortgage-backed securities typically represent a participation interest in a pool of single-family or multi-family mortgages, although we invest only in mortgage-backed securities backed by one-to-four-family mortgages. The issuers of such securities (generally Ginnie Mae, a U.S. Government agency, and government sponsored enterprises, such as Fannie Mae, Federal Farm Credit, and Freddie Mac) pool and resell the participation interests in the form of securities to investors such as Fairport Savings Bank, and guarantee the payment of principal and interest to investors. Mortgage-backed securities generally yield less than the loans that underlie such securities because of the cost of payment guarantees and credit enhancements. However, mortgage-backed securities are more liquid than individual mortgage loans since there is an active trading market for such securities. In addition, mortgage-backed securities may be used to collateralize our specific liabilities and obligations. Investments in mortgage-backed securities involve a risk that actual payments will be greater or less than the prepayment rate estimated at the time of purchase, which may require adjustments to the amortization of any premium or acceleration of any discount relating to such interests, thereby affecting the net yield on our securities. We periodically review current prepayment speeds to determine whether prepayment estimates require modification that could cause amortization or accretion adjustments. Our mortgage-backed securities portfolio contains no sub-prime mortgage loans and has no exposure to sub-prime investment activity.

The following table sets forth the amortized cost and fair value of our securities portfolio at the dates indicated.

	2010		At December 31, 2009		2008	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
			(In thousands)			
Securities held to maturity:						
State and Municipal securities	\$2,265	\$2,205	\$—	\$—	\$—	\$—
Mortgage-backed securities - residential	4,918	5,100	6,098	6,183	7,289	7,091
Total securities held to maturity	\$7,183	\$7,305	\$6,098	\$6,183	\$7,289	\$7,091
Securities available for sale:						
U.S. Government and agency obligations	\$39,764	\$39,336	\$54,842	\$54,629	\$22,196	\$22,229
Mortgage-backed securities - residential	28,882	29,361	20,369	20,842	21,785	21,690
SBA pools	3,886	3,937	—	—	—	—
Equity Securities	—	—	9	12	9	6
Total securities available for sale	\$72,532	\$72,634	\$75,220	\$75,483	\$43,990	\$43,925

Portfolio Maturities and Yields. The composition and maturities of the investment securities portfolio and the mortgage-backed securities portfolio at December 31, 2010 are summarized in the following table. Maturities are based on the final contractual payment dates, and do not reflect the impact of prepayments or early redemptions that may occur. The State and Municipal securities have not been adjusted to a tax-equivalent basis.

	One Year or Less Weighted Amortized Cost	One Year through Five Years Weighted Amortized Cost	More than One Year through Five Years Average Yield	More than Five Years through Ten Years Weighted Amortized Cost	More than Five Years through Ten Years Average Yield	More than Ten Years Weighted Amortized Cost	More than Ten Years Average Yield	Total Securities Amortized Cost	Total Securities Fair Value	Total Securities Weighted Average Yield	
(Dollars in thousands)											
Securities held to maturity:											
State and Municipal securities	\$—	—%	\$947	1.47 %	\$1,318	2.44 %	\$—	— %	\$2,265	\$2,205	2.03 %
Mortgage-backed securities	—	—%	—	— %	—	— %	4,918	2.32 %	4,918	5,100	2.32 %
Total securities held to maturity	\$—	—%	\$947	1.47 %	\$1,318	2.44 %	\$4,918	2.32 %	\$7,183	\$7,305	2.23 %
Securities available for sale:											
U.S. Government and agency obligations	\$—	—%	\$5,513	1.08 %	\$18,074	2.17 %	\$16,177	2.27 %	\$39,764	\$39,336	2.06 %
Mortgage-backed securities	—	—%	—	— %	—	— %	28,882	2.80 %	28,882	29,361	2.80 %
SBA pools	—	—%	—	— %	—	— %	3,886	1.66 %	3,886	3,937	1.66 %
Total securities available for sale	\$—	—%	\$5,513	1.08 %	\$18,074	2.17 %	\$48,945	2.53 %	\$72,532	\$72,634	2.33 %

Sources of Funds

General. Deposits traditionally have been our primary source of funds for our lending and investment activities. We also borrow, primarily from the Federal Home Loan Bank of New York; to supplement cash flow needs, to lengthen the maturities of liabilities for interest rate risk management purposes and to manage our cost of funds. Our additional sources of funds are scheduled loan payments, loan prepayments, maturing investments, mortgage-backed securities amortizations and pre-payments, proceeds of loan sales, and retained earnings.

Deposits. We generate deposits primarily from the areas in which our branch offices are located. We rely on our competitive pricing, convenient locations and customer service to attract and retain deposits. We offer a variety of deposit accounts with a range of interest rates and terms. Our deposit accounts consist of savings accounts, NOW accounts, money market accounts, certificates of deposit and individual retirement accounts and non-interest bearing demand deposits. We currently do not accept brokered deposits.

Interest rates paid, maturity terms, service fees and withdrawal penalties are established on a periodic basis. Deposit rates and terms are based primarily on current operating strategies and market interest rates, liquidity requirements, interest rates paid by competitors and our deposit growth goals.

At December 31, 2010, our deposits totaled \$162.4 million. Specifically, at December 31, 2010, NOW accounts totaled \$11.0 million, savings accounts totaled \$24.8 million, money market accounts totaled \$27.9 million and non-interest bearing checking accounts totaled \$3.7 million. At December 31, 2010, certificates of deposit, including individual retirement accounts (all of which were certificate of deposit accounts), totaled \$95.1 million, of which \$55.4 million had remaining maturities of one year or less. Based on historical experience and our current pricing strategy, we believe we will retain a large portion of these accounts upon maturity.

The following table sets forth the distribution of our average total deposit accounts, by account type, for the years indicated.

	For the Years Ended December 31,												
	2010			2009			2008						
Deposit type:	Average Balance	Percent	Weighted Average Rate	Average Balance	Percent	Weighted Average Rate	Average Balance	Percent	Weighted Average Rate				
	(Dollars in thousands)												
NOW	\$10,211	6.3	% 0.61	% \$8,333	5.8	% 0.67	% \$6,940	5.4	% 1.08	%			
Savings	26,466	16.3	0.75	17,392	12.1	0.84	13,897	10.9	0.96				
Money market	25,970	16.0	0.92	20,868	14.5	1.61	12,429	9.7	2.12				
Individual retirement accounts	18,171	11.2	2.80	17,681	12.3	3.67	16,362	12.8	4.33				
Certificates of deposit	77,237	47.7	1.96	76,104	52.8	2.92	74,725	58.6	3.96				
Non-interest bearing demand deposits	4,061	2.5	0.00	3,620	2.5	—	3,256	2.6	—				

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Total deposits	\$162,116	100.0 %	1.56 %	\$143,998	100.0 %	2.37 %	\$127,609	100.0 %	3.24 %
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19

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As of December 31, 2010, the aggregate amount of our outstanding certificates of deposit, including our individual retirement accounts, in amounts greater than or equal to \$100,000 was approximately \$27.6 million. The following table sets forth the maturity of those certificates as of December 31, 2010.

	At December 31, 2010 (In thousands)	
Three months or less	\$	4,261
Over three months through six months		4,220
Over six months through one year		7,729
Over one year to three years		8,773
Over three years		2,569
Total	\$	27,552

The following table sets forth, by interest rate ranges, information concerning the period to maturity of our certificates of deposit, including our individual retirement accounts.

Interest Rate Range:	At December 31, 2010 Period to Maturity				Total	Percent of Total
	Less Than or Equal to One Year	More Than One to Two Years	More Than Two to Three Years	More Than Three Years		
0.99% and below	\$ 19,873	\$ 1,221	\$ —	\$ —	\$ 21,094	22.2 %
1.00% to 1.99%	27,428	11,331	4,793	1,094	44,646	47.0
2.00% to 2.99%	4,806	6,682	4,068	5,850	21,406	22.5
3.00% to 3.99%	312	200	733	70	1,315	1.4
4.00% to 4.99%	2,149	1,921	11	—	4,081	4.3
5.00% to 5.99%	825	1,695	—	—	2,520	2.6
Total	\$ 55,393	\$ 23,050	\$ 9,605	\$ 7,014	\$ 95,062	100.0 %

The following table sets forth our time deposits, including our individual retirement accounts classified by interest rate range at the dates indicated.

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	2010	At December 31, 2009 (In thousands)	2008
Interest Rate Range:			
0.99% and below	\$ 21,094	\$ 6,158	\$ —
1.00% to			
1.99%	44,646	28,771	6,749
2.00% to			
2.99%	21,406	25,890	20,705
3.00% to			
3.99%	1,315	21,980	43,019
4.00% to			
4.99%	4,081	8,239	13,351
5.00% to			
5.99%	2,520	3,106	3,487
Total	\$ 95,062	\$ 94,144	\$ 87,311

Borrowings. Our long-term borrowings consist primarily of loans, commonly referred to as advances, from the Federal Home Loan Bank of New York. At December 31, 2010, we had the ability to borrow approximately \$81.6 million under our credit facilities with the Federal Home Loan Bank of New York of which \$27.3 million were advanced. Borrowings from the Federal Home Loan Bank of New York are secured by our investment in the common stock of the Federal Home Loan Bank of New York as well as by a blanket pledge of our mortgage portfolio not otherwise pledged.

In July 2010, the Company restructured a portion of its Federal Home Loan Bank advances by repaying \$13.2 million of existing borrowings and replacing these borrowings with \$13.2 million of new, lower cost FHLB advances. This transaction resulted in \$638,000 in prepayment penalties that will be deferred and recognized in interest expense as an adjustment to the cost of the Company's new borrowings in future periods. The borrowings which we refinanced were a combination of fixed-rate and amortizing advances with an average cost of 4.29% and an average duration of 1.47 years. The new borrowings are all fixed-rate borrowings with an average cost of 3.09% including the deferred adjustment to the carrying value of the new borrowings. The \$13.2 million of new advances have an average duration of 3.11 years. The relevant accounting treatment for this transaction was an interpretation of the guidance provided in ASC 470-50. This transaction was executed as an earnings and interest rate risk strategy, resulting in lower FHLB advance costs and an extension of average duration.

Our short-term borrowings consist of Federal Home Loan Bank advances. The following table sets forth information concerning balances and interest rates on all of our short-term borrowings at and for the periods shown:

	At or For the Years Ended December 31,		
	2010	2009	2008
	(Dollars in thousands)		
Balance at end of year	\$ —	\$ —	\$ 3,850
Average balance during year	27	180	536
Maximum outstanding at any month end	—	—	3,850
Weighted average interest rate at end of year	—	—	0.46 %
Average interest rate during year	—	—	0.75 %

The Company also has a repurchase agreement with Morgan Keegan providing an additional \$10 million in liquidity collateralized by the Company's U.S. Government obligations. There were no advances outstanding under the repurchase agreement at December 31, 2010.

Subsidiary Activities

Oakleaf Services Corporation, our subsidiary, provides investment advisory services to our customers by providing annuities, insurance products and mutual funds. At December 31, 2010 we had a \$100,000 investment in Oakleaf Services Corporation, and during the year ended December 31, 2010, we derived \$50,000 of fee income from Oakleaf Services Corporation.

Personnel

As of December 31, 2010, we had fifty full-time employees and nine part-time employees. Our employees are not represented by any collective bargaining group. Management believes that our relationship with our employees is good.

FEDERAL AND STATE TAXATION

Federal Taxation

General. FSB Community Bankshares, Inc. and Fairport Savings Bank are subject to federal income taxation in the same general manner as other corporations, with some exceptions discussed below. FSB Community Bankshares, Inc. files consolidated tax returns with Fairport Savings Bank, its wholly owned subsidiary. Our consolidated federal tax returns are not currently under audit and have not been audited during the past five years. The following discussion of federal taxation is intended only to summarize certain pertinent federal income tax matters and is not a comprehensive description of the tax rules applicable to FSB Community Bankshares, MHC, FSB Community Bankshares, Inc. or Fairport Savings Bank.

Method of Accounting. For federal income tax purposes, FSB Community Bankshares, MHC currently reports its income and expenses on the accrual method of accounting and uses a tax year ending December 31 for filing its federal and state income tax returns.

Bad Debt Reserves. Historically, Fairport Savings Bank was subject to special provisions in the tax law applicable to qualifying savings associations regarding allowable tax bad debt deductions and related reserves. Tax law changes were enacted in 1996 that eliminated the ability of savings associations to use the percentage of taxable income method for computing tax bad debt reserves for tax years after 1995, and required recapture into taxable income over a six-year period of all bad debt reserves accumulated after a savings association's last tax year beginning before January 1, 1988. At December 31, 2010, Fairport Savings Bank had recaptured all amounts that resulted from these changes in the tax law. FSB Community Bankshares, Inc. uses the specific chargeoff method to account for tax bad debt deductions.

Taxable Distributions and Bad Debt Recapture. Prior to 1996, bad debt reserves created prior to 1988 were subject to recapture into taxable income if Fairport Savings Bank failed to meet certain thrift asset and definitional tests or made certain distributions. Tax law changes in 1996 eliminated thrift-related recapture rules. However, under current law, pre-1988 tax bad debt reserves remain subject to recapture if Fairport Savings Bank makes certain non-dividend distributions, repurchases any of its common stock, pays dividends in excess of earnings and profits, or fails to qualify as a bank for tax purposes.

At December 31, 2010, the total federal pre-base year bad debt reserve of Fairport Savings Bank was approximately \$1,518,000.

Alternative Minimum Tax. The Internal Revenue Code of 1986, as amended, imposes an alternative minimum tax at a rate of 20% on a base of regular taxable income plus certain tax preferences, less any available exemption. The alternative minimum tax is imposed to the extent it exceeds the regular income tax. Net operating losses can offset no more than 90% of alternative taxable income. Certain payments of alternative minimum tax may be used as credits against regular tax liabilities in future years. Our consolidated group has not been subject to the alternative minimum tax and has no such amounts available as credits for carryover.

Net Operating Loss Carryovers. A financial institution may carry back net operating losses to the preceding two taxable years and forward to the succeeding 20 taxable years. At December 31, 2010, our consolidated group had no net operating loss carryforwards for federal income tax purposes.

Corporate Dividends-Received Deduction. FSB Community Bankshares, Inc. may exclude from its federal taxable income 100% of dividends received from Fairport Savings Bank as a wholly owned subsidiary. The corporate dividends-received deduction is 80% when the corporation receiving the dividend owns at least 20% of the stock of the distributing corporation. The dividends-received deduction is 70% when the corporation receiving the dividend owns less than 20% of the distributing corporation.

State Taxation

FSB Community Bankshares, Inc. and Fairport Savings Bank report income on a calendar year basis to New York State. New York State franchise tax on corporations is imposed in an amount equal to the greater of (a) 7.1% of "entire net income" allocable to New York State, (b) 3% of "alternative entire net income" allocable to New York State, (c) 0.01% of the average value of assets allocable to New York State, or (d) nominal minimum tax. Entire net income is based on Federal taxable income, subject to certain modifications. Alternative entire net income is equal to entire net income without certain modifications.

Expense and Tax Allocation

Fairport Savings Bank has entered into an agreement with FSB Community Bankshares, Inc. and FSB Community Bankshares, MHC to provide them with certain administrative support services, whereby Fairport Savings Bank will be compensated at not less than the fair market value of the services provided. In addition, Fairport Savings Bank and FSB Community Bankshares, Inc. have entered into an agreement to establish a method for allocating and for reimbursing the payment of their consolidated tax liability.

SUPERVISION AND REGULATION

General

Fairport Savings Bank is examined and supervised by the Office of Thrift Supervision and is subject to examination by the Federal Deposit Insurance Corporation. This regulation and supervision establishes a comprehensive framework of activities in which an institution may engage and is intended primarily for the protection of the Federal Deposit Insurance Corporation's deposit insurance funds and depositors. Under this system of federal regulation, financial institutions are periodically examined to ensure that they satisfy applicable standards with respect to their capital adequacy, assets, management, earnings, liquidity and sensitivity to market interest rates. Following completion of its examination, the federal agency critiques the institution's operations and assigns its rating (known as an institution's CAMELS rating). Under federal law, an institution may not disclose its CAMELS rating to the public. Fairport Savings Bank also is a member of and owns stock in the Federal Home Loan Bank of New York, which is one of the twelve regional banks in the Federal Home Loan Bank System. Fairport Savings Bank also is regulated to a lesser extent by the Board of Governors of the Federal Reserve System, governing reserves to be maintained against deposits and other matters. The Office of Thrift Supervision will examine Fairport Savings Bank and prepare reports for the consideration of its board of directors on any operating deficiencies. Fairport Savings Bank's relationship with its depositors and borrowers also is regulated to a great extent by federal law and, to a much lesser extent, state law, especially in matters concerning the ownership of deposit accounts and the form and content of Fairport Savings Bank's mortgage documents.

Any change in these laws or regulations, whether by the Federal Deposit Insurance Corporation, the Office of Thrift Supervision or Congress, could have a material adverse impact on FSB Community Bankshares, Inc., Fairport Savings Bank and their operations.

FSB Community Bankshares, Inc. and FSB Community Bankshares, MHC, as savings and loan holding companies, are required to file certain reports with, are subject to examination by, and otherwise must comply with the rules and regulations of the Office of Thrift Supervision. FSB Community Bankshares, Inc. is also subject to the rules and regulations of the Securities and Exchange Commission under the federal securities laws.

Certain of the regulatory requirements that are or will be applicable to Fairport Savings Bank, FSB Community Bankshares, Inc. and FSB Community Bankshares, MHC are described below. This description of statutes and regulations is not intended to be a complete explanation of such statutes and regulations and their effects on Fairport Savings Bank, FSB Community Bankshares, Inc. and FSB Community Bankshares, MHC and is qualified in its entirety by reference to the actual statutes and regulations.

Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the “Dodd-Frank Act”) made extensive changes in the regulation of federal savings banks such as Fairport Savings Bank. Under the Dodd-Frank Act, the Office of Thrift Supervision will be eliminated. Responsibility for the supervision and regulation of federal savings banks will be transferred to the Office of the Comptroller of the Currency, which is the agency that is currently primarily responsible for the regulation and supervision of national banks. The Office of the Comptroller of the Currency will assume responsibility for implementing and enforcing many of the laws and regulations applicable to federal savings banks. The transfer of regulatory functions will take place over a transition period of up to one year from the Dodd-Frank Act enactment date of July 21, 2010, subject to a possible six-month extension. At the same time, responsibility for the regulation and supervision of savings and loan holding companies, such as FSB Community Bankshares, Inc., will be transferred to the Federal Reserve Board, which currently supervises bank holding companies. Additionally, the Dodd-Frank Act creates a new Consumer Financial Protection Bureau as an independent bureau of the Federal Reserve Board. The Consumer Financial Protection Bureau will assume responsibility for the implementation of the federal financial consumer protection and fair lending laws and regulations, a function currently assigned to prudential regulators, and will have authority to impose new requirements. However, institutions of less than \$10 billion in assets, such as Fairport Savings Bank, will continue to be examined for compliance with consumer protection and fair lending laws and regulations by, and be subject to the primary enforcement authority of, their prudential regulator rather than the Consumer Financial Protection Bureau.

The legislation also broadens the base for Federal Deposit Insurance Corporation insurance assessments. Assessments will now be based on the average consolidated total assets less tangible equity capital of a financial institution. The Dodd-Frank Act also permanently increases the maximum amount of deposit insurance for banks, savings institutions and credit unions to \$250,000 per depositor, retroactive to January 1, 2008, and non-interest bearing transaction accounts have unlimited deposit insurance through December 31, 2012. Lastly, the Dodd-Frank Act will increase stockholder influence over boards of directors by requiring companies to give stockholders a non-binding vote on executive compensation (smaller reporting companies are exempt until 2013) and so-called “golden parachute” payments, and authorizing the Securities and Exchange Commission to promulgate rules that would allow stockholders to nominate and solicit votes for their own candidates using a company’s proxy materials. The legislation also directs the Federal Reserve Board to promulgate rules prohibiting excessive compensation paid to bank holding company executives, regardless of whether the company is publicly traded or not.

Federal Banking Regulation

Business Activities. A federal savings bank derives its lending and investment powers from the Home Owners’ Loan Act, as amended, and the regulations of the Office of Thrift Supervision. Under these laws and regulations, Fairport Savings Bank may invest in: mortgage loans secured by residential real estate without limitation as a percentage of assets; non-residential real estate loans up to 400% of capital in the aggregate; commercial business loans up to 20% of assets in the aggregate; consumer loans up to 35% of assets in the aggregate; and certain types of debt securities and certain other assets. Fairport Savings Bank also may establish subsidiaries that may engage in activities not otherwise permissible for Fairport Savings Bank, including real estate investment and securities and insurance brokerage. The Dodd-Frank Act authorized the payment of interest on commercial checking accounts effective July 21, 2011.

Capital Requirements. Office of Thrift Supervision regulations require savings associations to meet three minimum capital standards: a 1.5% tangible capital ratio, a 4% leverage ratio (3% for savings associations receiving the highest rating on the CAMELS rating system) and an 8% risk-based capital ratio.

The risk-based capital standard for savings associations requires the maintenance of Tier 1 (core) and total capital (which is defined as core capital and supplementary capital) to risk-weighted assets of at least 4% and 8%, respectively. In determining the amount of risk-weighted assets, all assets, including certain off-balance sheet assets, are multiplied by a risk-weight factor of 0% to 100%, assigned by the Office of Thrift Supervision, based on the risks believed inherent in the type of asset. Core capital is defined as common shareholders' equity (including retained earnings), certain noncumulative perpetual preferred stock and related surplus and minority interests in equity accounts of consolidated subsidiaries, less intangibles other than certain mortgage servicing rights and credit card relationships. The components of supplementary capital currently include cumulative preferred stock, long-term perpetual preferred stock, mandatory convertible securities, subordinated debt and intermediate preferred stock, the allowance for loan and lease losses limited to a maximum of 1.25% of risk-weighted assets and up to 45% of net unrealized gains on available for sale equity securities with readily determinable fair market values. Overall, the amount of supplementary capital included as part of total capital cannot exceed 100% of core capital. Additionally, a savings association that retains credit risk in connection with an asset sale may be required to maintain additional regulatory capital because of the recourse back to the savings association. Fairport Savings Bank does not typically engage in asset sales.

The following table shows Fairport Savings Bank's Tangible capital, Core capital, Tier-1 risk based capital and Total Risk Based Capital ratios at December 31, 2010.

As of December 31, 2010					
	Capital	Percent of Assets (1)		Required Percent of Assets (1)	
(Dollars in thousands)					
Tangible capital	\$ 16,756	8.01	%	1.5	%
Core capital	16,756	8.01		4.0	%
Tier 1 risk-based capital	16,756	19.71		4.0	%
Total risk-based capital	\$ 17,140	20.16		8.0	%

(1) Tangible capital levels are shown as a percentage of tangible assets. Core capital levels are shown as a percentage of total adjusted assets. Total risk-based capital levels are shown as a percentage of risk-weighted assets.

As the table shows, at December 31, 2010, Fairport Savings Bank's capital exceeded all applicable requirements.

Loans-to-One Borrower. Generally, a federal savings association may not make a loan or extend credit to a single or related group of borrowers in excess of 15% of unimpaired capital and surplus. An additional amount may be loaned, equal to 10% of unimpaired capital and surplus, if the loan is secured by readily marketable collateral, which generally does not include real estate. As of December 31, 2010, Fairport Savings Bank's largest lending relationship with a single or related group of borrowers was a residential mortgage loan totaling \$928,000 which represented 4.5% of unimpaired capital and surplus, and therefore, Fairport Savings Bank was in compliance with the loans-to-one borrower limitations.

Qualified Thrift Lender Test. As a federal savings association, Fairport Savings Bank must satisfy the qualified thrift lender, or “QTL,” test. Under the QTL test, Fairport Savings Bank must maintain at least 65% of its “portfolio assets” in “qualified thrift investments” (primarily residential mortgages and related investments, including mortgage-backed securities) in at least nine months of the most recent 12-month period.

A savings association that fails the qualified thrift lender test must operate under specified restrictions set forth in the Home Owners' Loan Act. The Dodd-Frank Act made non-compliance with the QTL Test potentially subject to agency enforcement action for a violation of law. At December 31, 2010, Fairport Savings Bank maintained approximately 84.33% of its portfolio assets in qualified thrift investments, and therefore satisfied the QTL test.

Capital Distributions. Office of Thrift Supervision regulations govern capital distributions by a federal savings association, which include cash dividends, stock repurchases and other transactions charged to the capital account. A savings association must file an application for approval of a capital distribution if:

- the total capital distributions for the applicable calendar year exceed the sum of the savings association's net income for that year to date plus the savings association's retained net income for the preceding two years;
- the savings association would not be at least adequately capitalized following the distribution;
- the distribution would violate any applicable statute, regulation, agreement or Office of Thrift Supervision-imposed condition; or
- the savings association is not eligible for expedited treatment of its filings.

Even if an application is not otherwise required, every savings association that is a subsidiary of a holding company must still file a notice with the Office of Thrift Supervision at least 30 days before the board of directors declares a dividend or approves a capital distribution.

The Office of Thrift Supervision may disapprove a notice or application if:

- the savings association would be undercapitalized following the distribution;
- the proposed capital distribution raises safety and soundness concerns; or
- the capital distribution would violate a prohibition contained in any statute, regulation or agreement.

In addition, the Federal Deposit Insurance Act provides that an insured depository institution shall not make any capital distribution, if after making such distribution the institution would be undercapitalized.

Liquidity. A federal savings association is required to maintain a sufficient amount of liquid assets to ensure its safe and sound operation. We seek to maintain a ratio of 10.0% or greater of liquid assets to total assets. For the year ended December 31, 2010, our liquidity ratio averaged 22.08%. We believe that we have enough sources of liquidity to satisfy our short and long-term liquidity needs as of December 31, 2010.

Community Reinvestment Act and Fair Lending Laws. All savings associations have a responsibility under the Community Reinvestment Act and related regulations of the Office of Thrift Supervision to help meet the credit needs of their communities, including low and moderate-income neighborhoods. In connection with its examination of a federal savings association, the Office of Thrift Supervision is required to assess the savings association's record of compliance with the Community Reinvestment Act. In addition, the Equal Credit Opportunity Act and the Fair Housing Act prohibit lenders from discriminating in their lending practices on the basis of characteristics specified in those statutes. A savings association's failure to comply with the provisions of the Community Reinvestment Act could, at a minimum, result in denial of certain corporate applications such as branches or mergers, or in restrictions on its activities. The failure to comply with the Equal Credit Opportunity Act and the Fair Housing Act could result in enforcement actions by the Office of Thrift Supervision, as well as other federal regulatory agencies and the Department of Justice. Fairport Savings Bank received a "satisfactory" Community Reinvestment Act rating in its most recent federal examination.

Transactions with Related Parties. A federal savings association's authority to engage in transactions with its affiliates is limited by Office of Thrift Supervision regulations and by Sections 23A and 23B of the Federal Reserve Act and its implementing Regulation W. An affiliate is a company that controls, is controlled by, or is under common control with an insured depository institution such as Fairport Savings Bank. FSB Community Bankshares, Inc. is an affiliate of Fairport Savings Bank. In general, loan transactions between an insured depository institution and its affiliates are subject to certain quantitative and collateral requirements. In this regard, transactions between an insured depository institution and its affiliates are limited to 10% of the institution's unimpaired capital and unimpaired surplus for transactions with any one affiliate and 20% of unimpaired capital and unimpaired surplus for transactions in the aggregate with all affiliates. Collateral in specified amounts ranging from 100% to 130% of the amount of the transaction must usually be provided by affiliates in order to receive loans from the savings association. In addition, Office of Thrift Supervision regulations prohibit a savings association from lending to any of its affiliates that are engaged in activities that are not permissible for bank holding companies and from purchasing the securities of any affiliate, other than a subsidiary. Finally, transactions with affiliates must be consistent with safe and sound banking practices, not involve low-quality assets and be on terms that are as favorable to the institution as comparable transactions with non-affiliates. The Office of Thrift Supervision requires savings associations to maintain detailed records of all transactions with affiliates.

Fairport Savings Bank's authority to extend credit to its directors, executive officers and 10% shareholders, as well as to entities controlled by such persons, is currently governed by the requirements of Sections 22(g) and 22(h) of the Federal Reserve Act and Regulation O of the Federal Reserve Board. Among other things, these provisions require that extensions of credit to insiders:

- (i) be made on terms that are substantially the same as, and follow credit underwriting procedures that are not less stringent than, those prevailing for comparable transactions with unaffiliated persons and that do not involve more than the normal risk of repayment or present other unfavorable features, and
- (ii) not exceed certain limitations on the amount of credit extended to such persons, individually and in the aggregate, which limits are based, in part, on the amount of Fairport Savings Bank's capital.

In addition, extensions of credit in excess of certain limits must be approved by Fairport Savings Bank's board of directors.

Enforcement. The Office of Thrift Supervision has primary enforcement responsibility over federal savings institutions and has the authority to bring enforcement action against all "institution-affiliated parties," including shareholders, attorneys, appraisers and accountants who knowingly or recklessly participate in wrongful action likely to have an adverse effect on an insured institution. Formal enforcement action by the Office of Thrift Supervision may range from the issuance of a capital directive or cease and desist order, to removal of officers and/or directors of the institution and the appointment of a receiver or conservator. Civil penalties cover a wide range of violations and actions, and range up to \$25,000 per day, unless a finding of reckless disregard is made, in which case penalties may be as high as \$1 million per day. The Federal Deposit Insurance Corporation also has the authority to terminate deposit insurance or to recommend to the Director of the Office of Thrift Supervision that enforcement action be taken with respect to a particular savings institution. If action is not taken by the Director, the Federal Deposit Insurance Corporation has authority to take action under specified circumstances.

The Comptroller of the Currency will assume The Office of Thrift Supervision's enforcement authority under the Dodd-Frank regulatory restructuring.

Standards for Safety and Soundness. Federal law requires each federal banking agency to prescribe certain standards for all insured depository institutions. These standards relate to, among other things, internal controls, information systems and audit systems, loan documentation, credit underwriting, interest rate risk exposure, asset growth, compensation, and other operational and managerial standards as the agency deems appropriate. The federal banking agencies adopted Interagency Guidelines Prescribing Standards for Safety and Soundness to implement the safety and soundness standards required under federal law. The guidelines set forth the safety and soundness standards that the federal banking agencies use to identify and address problems at insured depository institutions before capital becomes impaired. If the appropriate federal banking agency determines that an institution fails to meet any standard prescribed by the guidelines, the agency may require the institution to submit to the agency an acceptable plan to achieve compliance with the standard. If an institution fails to meet these standards, the appropriate federal banking agency may require the institution to submit a compliance plan.

Prompt Corrective Action Regulations. Under the prompt corrective action regulations, the Office of Thrift Supervision is required and authorized to take supervisory actions against undercapitalized savings associations. For this purpose, a savings association is placed in one of the following five categories based on the savings association's capital:

well-capitalized (at least 5% leverage capital, 6% Tier 1 risk-based capital and 10% total risk-based capital);

adequately capitalized (at least 4% leverage capital, 4% Tier 1 risk-based capital and 8% total risk-based capital);

undercapitalized (less than 8% total risk-based capital, 4% Tier 1 risk-based capital or 3% leverage capital);

significantly undercapitalized (less than 6% total risk-based capital, 3% Tier 1 risk-based capital or 3% leverage capital); and

critically undercapitalized (less than 2% tangible capital).

Generally, the banking regulator is required to appoint a receiver or conservator for a savings association that is "critically undercapitalized" within specific time frames. The regulations also provide that a capital restoration plan must be filed with the Office of Thrift Supervision within 45 days of the date a savings association receives notice that it is "undercapitalized," "significantly undercapitalized" or "critically undercapitalized." The criteria for an acceptable capital restoration plan include, among other things, the establishment of the methodology and assumptions for attaining adequately capitalized status on an annual basis, procedures for ensuring compliance with restrictions imposed by applicable federal regulations, the identification of the types and levels of activities the savings association will engage in while the capital restoration plan is in effect, and assurances that the capital restoration plan will not appreciably increase the current risk profile of the savings association. Any holding company for the savings association required to submit a capital restoration plan must guarantee the lesser of an amount equal to 5% of the savings association's assets at the time it was notified or deemed to be under capitalized by the Office of Thrift Supervision, or the amount necessary to restore the savings association to adequately capitalized status. This guarantee remains in place until the Office of Thrift Supervision notifies the savings association that it has maintained adequately capitalized status for each of four consecutive calendar quarters, and the Office of Thrift Supervision has the authority to require payment and collect payment under the guarantee. Failure by a holding company to provide the required guarantee will result in certain operating restrictions on the savings association, such as restrictions on the ability to declare and pay dividends, pay executive compensation and management fees, and increase assets or expand operations. The Office of Thrift Supervision may also take any one of a number of discretionary supervisory actions

against undercapitalized associations, including the issuance of a capital directive and the replacement of senior executive officers and directors.

At December 31, 2010, Fairport Savings Bank met the criteria for being considered “well-capitalized.”

Insurance of Deposit Accounts. Fairport Savings Bank’s deposits are insured up to applicable limits by the Deposit Insurance Fund of the Federal Deposit Insurance Corporation.

Under the Federal Deposit Insurance Corporation’s risk-based assessment system, insured institutions are assigned to one of four risk categories based on supervisory evaluations, regulatory capital levels and certain other factors, with less risky institutions paying lower assessments. An institution’s assessment rate depends upon the category to which it is assigned, and certain adjustments specified by Federal Deposit Insurance Corporation regulations. Assessment rates currently range from seven to 77.5 basis points of assessable deposits. The Federal Deposit Insurance Corporation may adjust the scale uniformly, except that no adjustment can deviate more than three basis points from the base scale without notice and comment. No institution may pay a dividend if in default of the federal deposit insurance assessment.

The Dodd-Frank Act requires the Federal Deposit Insurance Corporation to revise its procedures to base its assessments upon total assets less tangible equity instead of deposits. The Federal Deposit Insurance Corporation recently finalized a rule that would implement that change, effective April 1, 2011. Among other things, the final rule changes the assessment range.

The Federal Deposit Insurance Corporation imposed on all insured institutions a special emergency assessment of five basis points of total assets minus Tier 1 capital (as of June 30, 2009), capped at ten basis points of an institution’s deposit assessment base, in order to cover losses to the Deposit Insurance Fund. That special assessment was collected on September 30, 2009. The Federal Deposit Insurance Corporation provided for similar assessments during the final two quarters of 2009, if deemed necessary. In lieu of further special assessments, however, the Federal Deposit Insurance Corporation required insured institutions to prepay estimated quarterly risk-based assessments for the fourth quarter of 2009 through the fourth quarter of 2012. The estimated assessments, which included an assumed annual assessment base increase of 5%, were recorded as a prepaid expense asset as of December 31, 2009. As of December 31, 2009, and each quarter thereafter, a charge to earnings is recorded for each regular assessment with an offsetting credit to the prepaid asset.

Due to the recent difficult economic conditions, deposit insurance per account owner has been raised to \$250,000. That coverage was made permanent by the Dodd-Frank Act. In addition, the Federal Deposit Insurance Corporation adopted an optional Temporary Liquidity Guarantee Program by which, for a fee, noninterest-bearing transaction accounts would receive unlimited insurance coverage until June 30, 2010, subsequently extended to December 31, 2010, and certain senior unsecured debt issued by institutions and their holding companies between October 13, 2008 and October 31, 2009 would be guaranteed by the Federal Deposit Insurance Corporation through June 30, 2012, or in some cases, December 31, 2012. Fairport Savings Bank opted to participate in the unlimited noninterest-bearing transaction account coverage and opted to participate in the unsecured debt guarantee program. The Dodd-Frank Act extended the unlimited coverage for certain noninterest-bearing transaction accounts from January 1, 2011 until December 31, 2012 without the opportunity for opt out.

In addition to the assessment for deposit insurance, institutions are required to make payments on bonds issued in the late 1980s by the Financing Corporation to recapitalize a predecessor deposit insurance fund. That payment is established quarterly and during the four quarters ended December 31, 2010 averaged 1.045 basis points of assessable deposits.

The Dodd-Frank Act increased the minimum target Deposit Insurance Fund ratio from 1.15% of estimated insured deposits to 1.35% of estimated insured deposits. The Federal Deposit Insurance Corporation must seek to achieve the 1.35% ratio by September 30, 2020. Insured institutions with assets of \$10 billion or more are supposed to fund the increase. The Dodd-Frank Act eliminated the 1.5% maximum fund ratio, instead leaving it to the discretion of the Federal Deposit Insurance Corporation and the Federal Deposit Insurance Corporation has recently exercised that discretion by establishing a long range fund ratio of 2%.

The Federal Deposit Insurance Corporation has authority to increase insurance assessments. A significant increase in insurance premiums would likely have an adverse effect on the operating expenses and results of operations of Fairport Savings Bank. We cannot predict what insurance assessment rates will be in the future.

Insurance of deposits may be terminated by the Federal Deposit Insurance Corporation upon a finding that the institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or regulatory condition imposed in writing. We do not know of any practice, condition or violation that might lead to termination of deposit insurance.

Prohibitions Against Tying Arrangements. Federal savings associations are prohibited, subject to some exceptions, from extending credit to or offering any other service, or fixing or varying the consideration for such extension of credit or service, on the condition that the customer obtain some additional service from the institution or its affiliates or not obtain services of a competitor of the institution.

Federal Home Loan Bank System. Fairport Savings Bank is a member of the Federal Home Loan Bank System, which consists of 12 regional Federal Home Loan Banks. The Federal Home Loan Bank System provides a central credit facility primarily for member institutions. As a member of the Federal Home Loan Bank of New York, Fairport Savings Bank is required to acquire and hold shares of capital stock in the Federal Home Loan Bank in an amount at least equal to 1% of the aggregate principal amount of its unpaid residential mortgage loans and similar obligations at the beginning of each year, 1/20 of its borrowings from the Federal Home Loan Bank, or 0.3% of assets, whichever is greater. As of December 31, 2010, Fairport Savings Bank was in compliance with this requirement.

Other Regulations

Interest and other charges collected or contracted for by Fairport Savings Bank are subject to state usury laws and federal laws concerning interest rates. Fairport Savings Bank's operations are also subject to federal laws applicable to credit transactions, such as the:

Truth-In-Lending Act, governing disclosures of credit terms to consumer borrowers;

Home Mortgage Disclosure Act of 1975, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves;

Equal Credit Opportunity Act, prohibiting discrimination on the basis of race, creed or other prohibited factors in extending credit;

Fair Credit Reporting Act of 1978, governing the use and provision of information to credit reporting agencies;

Fair Debt Collection Act, governing the manner in which consumer debts may be collected by collection agencies; and

rules and regulations of the various federal agencies charged with the responsibility of implementing such federal laws.

The operations of Fairport Savings Bank also are subject to the:

Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records;

Electronic Funds Transfer Act and Regulation E promulgated thereunder, which govern automatic deposits to and withdrawals from deposit accounts and customers' rights and liabilities arising from the use of automated teller machines and other electronic banking services;

Title III of The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (referred to as the "USA PATRIOT Act"), which significantly expanded the responsibilities of financial institutions, including savings and loan associations, in preventing the use of our financial system to fund terrorist activities. Among other provisions, the USA PATRIOT Act and the related regulations of the Office of Thrift Supervision require savings associations operating in the United States to develop new anti-money laundering compliance programs, due diligence policies and controls to ensure the detection and reporting of money laundering. Such required compliance programs are intended to supplement existing compliance requirements, also applicable to financial institutions, under the Bank Secrecy Act and the Office of Foreign Assets Control Regulations; and

The Gramm-Leach-Bliley Act, which placed limitations on the sharing of consumer financial information by financial institutions with unaffiliated third parties. Specifically, the Gramm-Leach-Bliley Act requires all financial institutions offering financial products or services to retail customers to provide such customers with the financial institution's privacy policy and provide such customers the opportunity to "opt out" of the sharing of certain personal financial information with unaffiliated third parties.

Holding Company Regulation

General. FSB Community Bankshares, Inc. is a non-diversified savings and loan holding company within the meaning of the Home Owners' Loan Act. As such, FSB Community Bankshares, Inc. is registered with the Office of Thrift Supervision and subject to Office of Thrift Supervision regulations, examinations, supervision and reporting requirements. In addition, the Office of Thrift Supervision has enforcement authority over FSB Community Bankshares, Inc. and its subsidiaries. Among other things, this authority permits the Office of Thrift Supervision to restrict or prohibit activities that are determined to be a serious risk to the subsidiary savings institution. The Dodd-Frank Act regulatory restructuring transfers to the Federal Reserve Board the responsibility for regulating and supervising savings and loan holding companies. That will occur one year from the July 21, 2010 effective date of the Dodd-Frank Act, subject to a possible six-month extension. As a federal corporation, FSB Community Bankshares, Inc. is generally not subject to state business organization laws.

Savings and loan holding companies are not currently subject to specific regulatory capital requirements. The Dodd-Frank Act, however, requires the Federal Reserve Board to promulgate consolidated capital requirements for depository institution holding companies that are no less stringent, both quantitatively and in terms of components of capital, than those applicable to institutions themselves. Instruments such as cumulative preferred stock and trust preferred securities will no longer be includable as Tier 1 capital, as is currently the case with bank holding companies. Instruments issued by May 19, 2010 will be grandfathered for companies with consolidated assets of \$15 billion or less. There is a five-year transition period (from the July 21, 2010 effective date of the Dodd-Frank Act) before the capital requirements will apply to savings and loan holding companies.

Permitted Activities. Pursuant to Section 10(o) of the Home Owners' Loan Act and Office of Thrift Supervision regulations and policy, a mutual holding company and a federally chartered mid-tier holding company such as FSB Community Bankshares, Inc. may engage in the following activities: (i) investing in the stock of a savings bank; (ii) acquiring a mutual association through the merger of such association into a savings bank subsidiary of such holding company or an interim savings bank subsidiary of such holding company; (iii) merging with or acquiring another holding company, one of whose subsidiaries is a savings bank; (iv) investing in a corporation, the capital stock of which is available for purchase by a savings bank under federal law or under the law of any state where the subsidiary savings bank or associations share their home offices; (v) furnishing or performing management services for a savings bank subsidiary of such company; (vi) holding, managing or liquidating assets owned or acquired from a savings subsidiary of such company; (vii) holding or managing properties used or occupied by a savings bank subsidiary of such company; (viii) acting as trustee under deeds of trust; (ix) any other activity: (a) that the Federal Reserve Board, by regulation, has determined to be permissible for bank holding companies under Section 4(c) of the Bank Holding Company Act of 1956, unless the Director, by regulation, prohibits or limits any such activity for savings and loan holding companies; or (b) in which multiple savings and loan holding companies were authorized (by regulation) to directly engage on March 5, 1987; (x) any activity permissible for financial holding companies under Section 4(k) of the Bank Holding Company Act, including securities and insurance underwriting; and (xi) purchasing, holding, or disposing of stock acquired in connection with a qualified stock issuance if the purchase of such stock by such savings and loan holding company is approved by the Director. The Dodd-Frank Act added that any savings and loan holding company that engages in activities permissible for a financial holding company must meet the qualitative requirements for a bank holding company to be a financial holding company and conduct the activities in accordance with the requirements that would apply to a financial holding company's conduct of the activity. If a mutual holding company acquires or merges with another holding company, the holding company acquired or the holding company resulting from such merger or acquisition may only invest in assets and engage in activities listed in (i) through (x) above, and has a period of two years to cease any nonconforming activities and divest any nonconforming investments.

The Home Owners' Loan Act prohibits a savings and loan holding company, including FSB Community Bankshares, Inc., directly or indirectly, or through one or more subsidiaries, from acquiring more than 5% of another savings institution or holding company thereof, without prior written approval of the Office of Thrift Supervision. It also prohibits the acquisition or retention of, with certain exceptions, more than 5% of a nonsubsidiary company engaged in activities other than those permitted by the Home Owners' Loan Act, or acquiring or retaining control of an institution that is not federally insured. In evaluating applications by holding companies to acquire savings institutions, the Office of Thrift Supervision must consider the financial and managerial resources, future prospects of the company and institution involved, the effect of the acquisition on the risk to the federal deposit insurance fund, the convenience and needs of the community and competitive factors.

Waivers of Dividends by FSB Community Bankshares, MHC. Office of Thrift Supervision regulations require FSB Community Bankshares, MHC to notify the Office of Thrift Supervision of any proposed waiver of its receipt of dividends from FSB Community Bankshares, Inc. The Office of Thrift Supervision reviews dividend waiver notices on a case-by-case basis, and, in general, does not object to any such waiver if:

- (i) the waiver would not be detrimental to the safe and sound operation of the subsidiary savings association; and
- (ii) the mutual holding company's board of directors determines that such waiver is consistent with such directors' fiduciary duties to the mutual holding company's members.

We anticipate that FSB Community Bankshares, MHC will waive any dividends paid by FSB Community Bankshares, Inc. Under Office of Thrift Supervision regulations, our public shareholders would not be diluted because of any dividends waived by FSB Community Bankshares, MHC (and waived dividends would not be considered in determining an appropriate exchange ratio) in the event FSB Community Bankshares, MHC converts to stock form.

The Dodd-Frank Act addressed the issue of dividend waivers by mutual savings and loan holding companies in the context of the transfer of the supervision of savings and loan holding companies from the OTS to the Federal Reserve Board. The Dodd-Frank Act specified that dividends may be waived if certain conditions are met, including that the Federal Reserve Board does not object after being given written notice of the dividend and proposed waiver. The Dodd-Frank Act indicates that the Federal Reserve Board may not object to such a waiver (i) if the mutual holding company involved has, prior to December 1, 2009, reorganized into a mutual holding company structure, engaged in a minority stock offering and waived dividends; (ii) the board of directors of the mutual holding company expressly determines that a waiver of the dividend is consistent with its fiduciary duties to members and (iii) the waiver would not be detrimental to the safe and sound operation of the savings association subsidiaries of the holding company.

The Federal Reserve Board has not permitted dividend waivers by mutual savings bank holding companies in the past and it is uncertain whether the Federal Reserve Board would permit dividend waivers by mutual savings and loan holding companies notwithstanding the Dodd-Frank provision that would otherwise allow FSB Community Bankshares, MHC to waive dividends.

The Dodd-Frank Act also extends the "source of strength" doctrine to savings and loan holding companies. The regulatory agencies must issue regulations requiring that all bank and savings and loan holding companies serve as a source of strength to their subsidiary depository institutions by providing capital, liquidity and other support in times of financial stress.

Conversion of FSB Community Bankshares, MHC to Stock Form. Office of Thrift Supervision regulations permit FSB Community Bankshares, MHC to convert from the mutual form of organization to the capital stock form of organization. There can be no assurance when, if ever, a conversion transaction would occur, and the board of directors has no current intention or plan to undertake a conversion transaction. In a conversion transaction a new stock holding company would be formed as the successor to FSB Community Bankshares, Inc., FSB Community Bankshares, MHC's corporate existence would end, and certain depositors and borrowers of Fairport Savings Bank would receive the right to subscribe for additional shares of the new holding company. In a conversion transaction, each share of common stock held by shareholders other than FSB Community Bankshares, MHC would be automatically converted into a number of shares of common stock of the new holding company determined pursuant an exchange ratio that ensures that shareholders other than FSB Community Bankshares, MHC own the same percentage of common stock in the new holding company as they owned in FSB Community Bankshares, Inc. immediately prior to the conversion transaction, subject to adjustment for any assets held by FSB Community Bankshares, MHC.

Federal Securities Laws

Our common stock is registered with the Securities and Exchange Commission under the Securities Exchange Act of 1934, and we are subject to the information, proxy solicitation, insider trading restrictions and other requirements under the Securities Exchange Act of 1934.

Sarbanes-Oxley Act

The Sarbanes-Oxley Act addresses, among other issues, corporate governance, auditing and accounting, executive compensation, and enhanced and timely disclosure of corporate information. As directed by the Sarbanes-Oxley Act, our Chief Executive Officer and Chief Financial Officer are each required to certify that our quarterly and annual reports do not contain any untrue statement of a material fact. The rules adopted by the Securities and Exchange Commission under the Sarbanes-Oxley Act have several requirements, including having these officers certify that: they are responsible for establishing, maintaining and regularly evaluating the effectiveness of our internal control over financial reporting; they have made certain disclosures to our auditors and the audit committee of the board of directors about our internal control over financial reporting; and they have included information in our quarterly and annual reports about their evaluation and whether there have been changes in our internal control over financial reporting or in other factors that could materially affect internal control over financial reporting.

ITEM 1A. RISK FACTORS

The risks set forth below, in addition to the other risks described in this Annual Report on Form 10-K, may adversely affect our business, financial condition and operating results. In addition to the risks set forth below and the other risks described in this annual report, there may also be additional risks and uncertainties that are not currently known to us or that we currently deem to be immaterial that could materially and adversely affect our business, financial condition or operating results. As a result, past financial performance may not be a reliable indicator of future performance, and historical trends should not be used to anticipate results or trends in future periods. Further, to the extent that any of the information contained in this Annual Report on Form 10-K constitutes forward-looking statements, the risk factors set forth below also are cautionary statements identifying important factors that could cause our actual results to differ materially from those expressed in any forward-looking statements made by or on behalf of us.

Risks Related to Recent Economic Conditions and Governmental Response Efforts

Our business has been and may continue to be adversely affected by current conditions in the financial markets and economic conditions generally. The global, United States and New York State economies are experiencing significantly reduced business activity and consumer spending as a result of, among other factors, disruptions in the capital and credit markets. Dramatic declines in the housing market, with falling home prices and increasing foreclosures and unemployment, have resulted in significant write-downs of asset values by financial institutions, including government-sponsored entities and major commercial and investment banks. A sustained weakness or weakening in business and economic conditions generally or specifically in the principal markets in which we do business could have one or more of the following adverse effects on our business:

- a decrease in the demand for loans or other products and services offered by us;
 - a decrease in the value of our loans or other assets secured by real estate;
 - a decrease in deposit balances due to overall reductions in the accounts of customers;
 - an impairment of our investment securities;
- an increase in the number of borrowers who become delinquent, file for protection under bankruptcy laws or default
- on their loans or other obligations to us. An increase in the number of delinquencies, bankruptcies or defaults could result in a higher level of nonperforming assets, net charge-offs and provision for credit losses, which would reduce our earnings.

Financial reform legislation recently enacted by Congress will, among other things, tighten capital standards, create a new Consumer Financial Protection Bureau and result in new laws and regulations that are expected to increase our costs of operations.

Congress recently enacted the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”). This new law will significantly change the current bank regulatory structure and affect the lending, deposit, investment, trading and operating activities of financial institutions and their holding companies. The Dodd-Frank Act requires various federal agencies to adopt a broad range of new implementing rules and regulations, and to prepare numerous studies and reports for Congress. The federal agencies are given significant discretion in drafting the implementing rules and regulations, and consequently, many of the details and much of the impact of the Dodd-Frank Act may not be known for many months or years.

Certain provisions of the Dodd-Frank Act are expected to have a near term effect on us. For example, the new law provides that the Office of Thrift Supervision, which is the current primary federal regulator for Fairport Savings Bank, will cease to exist one year from the date of the new law’s enactment. The Office of the Comptroller of the Currency, which is currently the primary federal regulator for national banks, will become the primary federal regulator for federal thrifts. Moreover, the Board of Governors of the Federal Reserve System will supervise and regulate all savings and loan holding companies that were formerly regulated by the Office of Thrift Supervision, including FSB Community Bankshares, Inc.

Also effective one year after the date of enactment is a provision of the Dodd-Frank Act that eliminates the federal prohibitions on paying interest on demand deposits, thus allowing businesses to have interest bearing checking accounts. Depending on competitive responses, this significant change to existing law could have an adverse effect on our interest expense.

The Dodd-Frank Act also broadens the base for Federal Deposit Insurance Corporation insurance assessments. Assessments will now be based on the average consolidated total assets less tangible equity capital of a financial institution. The Dodd-Frank Act also permanently increases the maximum amount of deposit insurance for banks, savings institutions and credit unions to \$250,000 per depositor, retroactive to January 1, 2008, and non-interest bearing transaction accounts have unlimited deposit insurance through December 31, 2012.

The Dodd-Frank Act requires publicly traded companies to give stockholders a non-binding vote on executive compensation (smaller reporting companies are exempt until 2013) and so-called “golden parachute” payments, and authorizes the Securities and Exchange Commission to promulgate rules that would allow stockholders to nominate their own candidates using a company’s proxy materials. The legislation also directs the Federal Reserve Board to promulgate rules prohibiting excessive compensation paid to bank holding company executives, regardless of whether the company is publicly traded or not.

The Dodd-Frank Act creates a new Consumer Financial Protection Bureau with broad powers to supervise and enforce consumer protection laws. The Consumer Financial Protection Bureau has broad rule-making authority for a wide range of consumer protection laws that apply to all banks and savings institutions, including the authority to prohibit “unfair, deceptive or abusive” acts and practices. The Consumer Financial Protection Bureau has examination and enforcement authority over all banks and savings institutions with more than \$10 billion in assets. Banks and savings institutions with \$10 billion or less in assets will be examined by their applicable bank regulators. The Dodd-Frank Act also weakens the federal preemption rules that have been applicable for national banks and federal savings associations, and gives state attorneys general the ability to enforce federal consumer protection laws.

It is difficult to predict at this time what specific impact the Dodd-Frank Act and the yet to be written implementing rules and regulations will have on community banks. However, it is expected that at a minimum they will increase our operating and compliance costs and could increase our interest expense.

We operate in a highly regulated environment and may be adversely affected by changes in laws and regulations.

We are subject to extensive regulation, supervision, and examination by the Office of Thrift Supervision and the Federal Deposit Insurance Corporation. Federal regulations govern the activities in which we may engage, and are primarily for the protection of depositors and the Deposit Insurance Fund. These regulatory authorities have extensive discretion in connection with their supervisory and enforcement activities, including the imposition of restrictions on the operations of a bank, the classification of assets by a bank, and the adequacy of a bank’s allowance for loan losses. Any change in such regulation and oversight, whether in the form of regulatory policy, regulations or legislation, could have a material impact on our results of operations. Because our business is highly regulated, the laws, rules and applicable regulations are subject to regular modification and change. Any legislative, regulatory or policy changes adopted in the future could make compliance more difficult or expensive or otherwise adversely affect our business, financial condition or prospects. Further, we expect any such new laws, rules or regulations will add to our compliance costs and place additional demands on our management team.

Any future Federal Deposit Insurance Corporation insurance premium increases will adversely affect our earnings.

On May 22, 2009, the Federal Deposit Insurance Corporation adopted a final rule levying a five basis point special assessment on each insured depository institution’s assets minus Tier 1 capital as of June 30, 2009. We recorded an expense of \$91,000 during the quarter ended June 30, 2009, to reflect the special assessment. Any further special assessments that the Federal Deposit Insurance Corporation levies will be recorded as an expense during the appropriate period. In addition, the Federal Deposit Insurance Corporation increased the general assessment rate. Therefore, our Federal Deposit Insurance Corporation general insurance premium expense will increase compared to prior periods.

Lack of Consumer Confidence in Financial Institutions May Decrease Our Level of Deposits.

Our level of deposits may be affected by lack of consumer confidence in financial institutions, which have caused fewer depositors to be willing to maintain deposits that are not FDIC-insured accounts. That may cause depositors to withdraw deposits and place them in other institutions or to invest uninsured funds in investments perceived as being more secure, such as securities issued by the U.S. Treasury. These consumer preferences may force us to pay higher interest rates to retain deposits and may constrain liquidity as we seek to meet funding needs caused by reduced deposit levels.

An Inadequate Allowance for Loan Losses Would Negatively Affect Our Results of Operations.

We are exposed to the risk that our customers will be unable to repay their loans according to their terms and that any collateral securing the payment of their loans will not be sufficient to avoid losses. Credit losses are inherent in the lending business and could have a material adverse effect on our operating results. Volatility and deterioration in the broader economy may also increase our risk of credit losses. The determination of an appropriate level of allowance for loan losses is an inherently uncertain process and is based on numerous assumptions. The amount of future losses is susceptible to changes in economic, operating and other conditions, including changes in interest rates, that may be beyond our control, and charge-offs may exceed current estimates. We evaluate the collectability of our loan portfolio and provide an allowance for loan losses that we believe is adequate based upon such factors as, including, but not limited to: the risk characteristics of various classifications of loans; previous loan loss experience; specific loans that have loss potential; delinquency trends; the estimated fair market value of the collateral; current economic conditions; the views of our regulators; and geographic and industry loan concentrations. If any of our evaluations are incorrect and borrower defaults result in losses exceeding our allowance for loan losses, our results of operations could be significantly and adversely affected. We cannot assure you that our allowance will be adequate to cover probable loan losses inherent in our portfolio.

The Need to Account for Assets at Market Prices May Adversely Affect Our Results of Operations.

We report certain assets, including investments and securities, at fair value. Generally, for assets that are reported at fair value we use quoted market prices or valuation models that utilize market data inputs to estimate fair value. Because we carry these assets on our books at their fair value, we may incur losses even if the asset in question presents minimal credit risk. Given the continued disruption in the capital markets, we may be required to recognize other-than-temporary impairments in future periods with respect to securities in our portfolio. The amount and timing of any impairment recognized will depend on the severity and duration of the decline in fair value of the securities and our estimation of the anticipated recovery period.

Other-Than-Temporary Impairment (OTTI) Could Reduce Our Earnings.

We evaluate our investment securities for other-than-temporary impairment (OTTI) as required by the respective accounting guidance. When a decline in fair value below cost is deemed to be other-than-temporary, the related loss must be recognized as a charge to earnings and the investment is recorded at fair value. In determining whether or not OTTI exists management considers several factors, including but not limited to, the length of time and extent that fair value has been less than cost, the financial condition and near term prospects of the issuer, adverse changes to projected cash flows, credit rating downgrades, and our intent to sell or be required to sell the security for a period sufficient to allow for any anticipated recovery in fair value.

Our Continuing Concentration of Loans in Our Primary Market Area May Increase Our Risk.

Our success depends primarily on the general economic conditions in the counties in which we conduct business. Unlike large banks that are more geographically diversified, we provide banking and financial services to customers primarily in our market area. The local economic conditions in our market area have a significant impact on our loans. A significant decline in general economic conditions caused by inflation, recession, unemployment or other factors beyond our control, would affect the local economic conditions and could adversely affect our financial condition and results of operations.

Future Changes in Interest Rates Could Reduce Our Profits

Our ability to make a profit largely depends on our net interest income, which could be negatively affected by changes in interest rates. Net interest income is the difference between:

the interest income we earn on our interest-earning assets, such as loans and securities; and

the interest expense we pay on our interest-bearing liabilities, such as deposits and borrowings.

Our liabilities generally have shorter maturities than our assets. This imbalance can create significant earnings volatility as market interest rates change. In periods of rising interest rates, the interest income earned on our assets may not increase as rapidly as the interest paid on our liabilities, resulting in a decline in our net interest income. In periods of declining interest rates, our interest income is generally positively affected although such positive effects may be reduced or eliminated by prepayments of loans and redemptions of callable securities. In addition, when long-term interest rates are not significantly higher than short-term rates thus creating a “flat” yield curve, the Company’s interest rate spread will decrease thus reducing net interest income. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Management of Market Risk.”

Changes in interest rates also affect the current market value of our interest-earning securities portfolio. Generally, the value of securities moves inversely with changes in interest rates. At December 31, 2010, the fair value of our securities classified as available for sale totalled \$72.5 million. Unrealized gain on available for sale securities totalled \$102,000 at December 31, 2010 and \$67,000 was reported, net of tax, as a separate component of shareholder’s equity. However, a rise in interest rates could cause a decrease in the fair value of securities available for sale in future periods which would have an adverse effect on shareholder’s equity. Depending on market conditions, we often place more emphasis on enhancing our net interest margin rather than matching the interest rate sensitivity of our assets and liabilities. In particular, we believe that the increased net interest income resulting from a mismatch in the maturity of our asset and liabilities portfolios can, during periods of stable or declining interest rates, provide high enough returns to justify increased exposure to sudden and unexpected increases in interest rates. As a result, our results of operations and the economic value of our equity will remain vulnerable to increases in interest rates and to declines in the difference between long- and short-term rates. See “Managements Discussion and Analysis of Financial Condition and Results of Operations—Management of Market Risk.”

If Our Investment in The Federal Home Loan Bank Of New York is Classified as Other-Than-Temporarily Impaired or as Permanently Impaired, Our Earnings and Stockholders' Equity Could Decrease.

We own common stock of the Federal Home Loan Bank of New York. We hold this stock to qualify for membership in the Federal Home Loan Bank System and to be eligible to borrow funds under the Federal Home Loan Bank of New York's advance program. The aggregate cost and fair value of our Federal Home Loan Bank common stock as of December 31, 2010 was \$1.5 million based on its par value. There is no market for our Federal Home Loan Bank common stock.

Recent published reports indicate that certain member banks of the Federal Home Loan Bank System may be subject to accounting rules and asset quality risks that could result in materially lower regulatory capital levels. In an extreme situation, it is possible that the capitalization of a Federal Home Loan Bank, including the Federal Home Loan Bank of New York, could be substantially diminished or reduced to zero. Consequently, we believe that there is a risk that our investment in Federal Home Loan Bank of New York common stock could be impaired at some time in the future, and if this occurs, it would cause our earnings and stockholders' equity to decrease by the after-tax amount of the impairment charge.

If the Federal Home Loan Bank of New York Stops Paying Dividends, This Will Negatively Affect Our Earnings.

Certain Federal Home Loan Banks have stopped paying dividends and are prohibited from paying dividends in the future so long as they fail to meet any of their regulatory capital requirements. We received dividends of \$93,000 on our Federal Home Loan Bank of New York stock in 2010. The failure of the Federal Home Loan Bank to pay dividends in the future will cause our earnings and stockholders' equity to decrease.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We operate from our main office in Fairport, New York which we own, our three branch offices, located in the towns of Penfield, Irondequoit and Webster, and our three mortgage origination offices, each of which is leased, located in the towns of Pittsford, Canandaigua, and Watertown. The consolidated net book value of our premises, land and equipment was \$2.7 million at December 31, 2010. The following is a list of our locations:

Fairport (Main Office) 45 South Main Street Fairport, New York 14450 (585) 223-9080	Penfield 2163 Rte 250 Fairport, New York 14450 (585) 377-8970	Irondequoit 2118 Hudson Ave. Irondequoit, New York 14617 (585) 266-4100	Webster 1075 Ridge Road East Suite 100 Webster, New York 14580 (585) 872-0100
Pittsford 1173 Pittsford Victor Rd, Suite 150 Pittsford, New York 14534 (585) 381-4040	Canandaigua 502 South Main Street Canandaigua, New York 14424 (585) 305-2470	Watertown 19805 Orchard Drive Watertown, New York 13601 (315) 783-5628	

ITEM 3. LEGAL PROCEEDINGS

We are periodically involved in various claims and lawsuits that arise incident to our financial services business. At December 31, 2010 we were not involved in any legal proceedings, the outcome of which would be material to our financial condition or results of operations.

ITEM 4. [REMOVED AND RESERVED]

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

(a) The information required by this item is incorporated by reference to our Annual Report to Shareholders. No equity securities were sold during the year ended December 31, 2010 that were not registered under the Securities Act.

(b) Not applicable.

(c) FSB Community Bankshares, Inc. did not repurchase any of its equity securities during the year ended December 31, 2010

ITEM 6. SELECTED FINANCIAL DATA

This item is not applicable to smaller reporting companies.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The information contained in the section captioned "Management's Discussion and Analysis of Financial Condition and Results of Operations" is incorporated by reference to our Annual Report to Shareholders.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Incorporated by reference to the Annual Report to Shareholders included as Exhibit 13 to this Form 10-K.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The consolidated financial statements included in our Annual Report to Shareholders are incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

(a) Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective.

There were no significant changes made in our internal controls over financial reporting during the registrant's last fiscal quarter covered by this report or, to our knowledge, in other factors that could significantly affect these controls subsequent to the date of their evaluation.

(b) Management's annual report on internal control over financial reporting.

Management of FSB Community Bankshares, Inc. (the "Company") is responsible for establishing and maintaining adequate internal control over financial reporting.

The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. The Company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2010, based on the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in "Internal Control-Integrated Framework." Based on the assessment, management determined that, as of December 31, 2010, the Company's internal control over financial reporting is effective, based on those criteria.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to provisions of the Dodd-Frank Act that permit the Company to provide only the management's report in this annual report.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

FSB Community Bankshares, Inc. has adopted a Code of Ethics that applies to FSB Community Bankshares, Inc.'s principal executive officer, principal financial officer and all other employees and directors. The Code of Ethics is available on our website at www.fairportsavingsbank.com.

Information concerning directors and executive officers of FSB Community Bankshares, Inc. is incorporated herein by reference from the Proxy Statement, specifically the section captioned "Proposal I—Election of Directors."

ITEM 11. EXECUTIVE COMPENSATION

Information concerning executive compensation is incorporated herein by reference from the Proxy Statement; specifically the section captioned "Executive Compensation."

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information concerning security ownership of certain owners and management is incorporated herein by reference from the Proxy Statement, specifically the section captioned "Voting Securities and Principal Holder Thereof."

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information concerning relationships, transactions and director independence is incorporated herein by reference from the Proxy Statement, specifically the section captioned "Transactions with Certain Related Persons" and "Board Independence."

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information concerning principal accountant fees and services is incorporated herein by reference from the Proxy Statement, specifically the section captioned "Proposal II-Ratification of Appointment of Auditor."

ITEM 15. EXHIBITS

The following exhibits are either filed or attached as part of this report or are incorporated herein by reference:

3.1 Charter of FSB Community Bankshares, Inc. (1)

3.2 Bylaws of FSB Community Bankshares, Inc. (1)

- 4 Form of common stock certificate of FSB Community Bankshares, Inc. (1)
- 10.1 Amended and Restated Employment Agreement of Dana C. Gavenda (2)
- 10.2 Supplemental Executive Retirement Plan (1, 4)
- 10.3 Employee Stock Ownership Plan (1)
- 13 Portions of Annual Report to Shareholders
- 14 Code of Ethics (3)
- 21 Subsidiaries of the Registrant
- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32 Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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- (1) Incorporated by reference to the Registration Statement on Form SB-2 of FSB Community Bankshares, Inc. (File No. 333-141380), originally filed with the Securities and Exchange Commission on March 16, 2007.
 - (2) Incorporated by reference to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 25, 2008.
 - (3) Available on our website at www.fairportsavingsbank.com.
 - (4) Incorporated by reference to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on August 4, 2010

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Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FSB Community Bankshares, Inc.

Date: March 31, 2011

By: /s/ Dana C. Gavenda
Dana C. Gavenda, President and
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/ Dana C. Gavenda
Dana C. Gavenda, President, and
Chief
Executive Officer
(Principal Executive Officer)

By: /s/ Lowell T. Twitchell
Lowell T. Twitchell

Chairman of the Board

Date: March 31, 2011

Date: March 31, 2011

By: /s/ Kevin D. Maroney
Kevin D. Maroney, Executive
Vice President
and Chief Financial Officer
(Principal Financial and
Accounting Officer)

By: /s/ Gary Lindsay
Gary Lindsay

Director

Date: March 31, 2011

Date: March 31, 2011

By: /s/ Terence O'Neil
Terence O'Neil
Vice Chairman of the Board

By: /s/ Alicia H. Pender
Alicia H. Pender
Director

Date: March 31, 2011

Date: March 31, 2011

By: /s/ James E. Smith
James E. Smith
Director

By: /s/ Lowell C. Patric
Lowell C. Patric
Director

Date: March 31, 2011

Date: March 31, 2011

By: /s/ Robert W. Sturn
Robert W. Sturn
Director

By: /s/ Charis W. Warshof
Charis W. Warshof
Director

Date: March 31, 2011

Date: March 31, 2011