

FSB Community Bankshares Inc
Form 10-Q
May 13, 2011

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

FORM 10-Q

Quarterly Report Pursuant To Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 2011

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 No. 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 Number)
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45 South Main Street, Fairport, New York (Address of Principal Executive Offices)	14450 Zip Code
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(585) 223-9080

(Registrant's telephone number)

N/A

(Former name or former address, if changed since last report)

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 such reports), and (2) has been subject to such requirements for the past 90 days.

YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES NO

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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. (Check one)

filer	<input type="radio"/>	Large accelerated	Accelerated filer	<input type="radio"/>
filer	<input type="radio"/>	Non-accelerated	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 May 13, 2011 there were 1,785,000 shares of the Registrant's common stock, par value \$0.10 per share, outstanding, 946,050 of which were held by FSB Community Bankshares, MHC, the Registrant's mutual holding company.

FSB Community Bankshares, Inc.
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Part I. Financial Information

Item 1. Consolidated Financial Statements

FSB COMMUNITY BANKSHARES, INC.

Consolidated Balance Sheets
 March 31, 2011 and December 31, 2010 (unaudited)
 (Dollars in thousands, except share data)

Assets	March 31, 2011	December 31, 2010
Cash and due from banks	\$3,715	\$4,533
Interest-earning demand deposits	4,405	3,301
Cash and Cash Equivalents	8,120	7,834
Securities available for sale	70,429	72,634
Securities held to maturity (fair value 2011 \$7,169; 2010 \$7,305)	7,040	7,183
Investment in FHLB stock	1,487	1,513
Loans receivable, net of allowance for loan losses (2011 \$392; 2010 \$384)	116,323	114,819
Bank owned life insurance	3,174	3,144
Accrued interest receivable	829	888
Premises and equipment, net	2,745	2,705
Prepaid FDIC premium	514	579
Other assets	748	1,108
Total Assets	\$211,409	\$212,407
Liabilities & Stockholders' Equity		
Deposits:		
Non-interest-bearing	\$3,737	\$3,705
Interest-bearing	159,455	158,701
Total Deposits	163,192	162,406
Borrowings	26,218	26,732
Advances from borrowers for taxes and insurance	1,372	1,926
Official bank checks	200	363
Other liabilities	202	488
Total Liabilities	191,184	191,915
Stockholders' Equity		
Preferred Stock- no par value- 1,000,000 shares authorized; no shares issued and outstanding	-	-
Common Stock- \$0.10 par value – 10,000,000 shares authorized; 1,785,000 shares issued and outstanding	179	179
Additional paid-in-capital	7,268	7,269
Retained earnings	13,491	13,537

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Accumulated other comprehensive income (loss)	(162)	67	
Unearned ESOP shares – at cost	(551)	(560)
Total Stockholders' Equity	20,225		20,492	
Total Liabilities and Stockholders' Equity	\$211,409		\$212,407	

See accompanying notes to consolidated financial statements

FSB COMMUNITY BANKSHARES, INC.

Consolidated Statements of Income
 Three Months Ended March 31, 2011 and 2010 (unaudited)
 (Dollars in thousands, except per share data)

	2011	2010
Interest and Dividend Income		
Loans	\$1,524	\$1,593
Securities – taxable	264	447
Securities – tax exempt	12	-
Mortgage-backed securities	240	217
Other	2	2
Total Interest and Dividend Income	2,042	2,259
Interest expense		
Deposits	505	735
Borrowings	229	354
Total Interest Expense	734	1,089
Net Interest Income	1,308	1,170
Provision for Loan Losses	8	3
Net Interest Income After Provision for Loan Losses	1,300	1,167
Other Income		
Service fees	44	57
Fee income	3	6
Realized loss on sale of securities	-	(8
Increase in cash surrender value of bank owned life insurance	30	33
Realized gain on sale of loans	46	14
Mortgage fee income	55	30
Other	30	27
Total Other Income	208	159
Other Expense		
Salaries and employee benefits	855	687
Occupancy expense	173	150
Data processing costs	27	17
Advertising	43	41
Equipment expense	125	103
Electronic banking	22	16
Directors' fees	32	27
Mortgage fees and taxes	55	30
FDIC premium expense	70	57
Other expense	195	175
Total Other Expenses	1,597	1,303
Income (Loss) Before Income Taxes	(89) 23

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Provision (Benefit) for Income Taxes	(43)	(10)
Net Income (Loss)	\$(46)	\$33	
Earnings (Loss) per common share – basic and diluted	\$(0.03)	\$0.02	

See accompanying notes to consolidated financial statements

FSB COMMUNITY BANKSHARES, INC.

Consolidated Statements of Stockholders' Equity
 Three Months Ended March 31, 2011 and 2010 (unaudited)
 (Dollars in thousands)

	Common Stock	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Unearned ESOP Shares	Total
Balance – January 1, 2010	\$179	\$7,275	\$13,317	\$ 174	\$(595)	\$20,350
Comprehensive income:						
Net income	-	-	33	-	-	33
Change in net unrealized gain on securities available for sale, net of reclassification adjustment and taxes	-	-	-	265	-	265
Total Comprehensive Income						298
ESOP shares committed to be Released (875 shares)	-	(1)	-	-	9	8
Balance – March 31, 2010	\$179	\$7,274	\$13,350	\$ 439	\$(586)	\$20,656
Balance – January 1, 2011	\$179	\$7,269	\$13,537	\$ 67	\$(560)	\$20,492
Comprehensive loss:						
Net loss	-	-	(46)	-	-	(46)
Change in net unrealized loss on securities available for sale, net of reclassification adjustment and taxes	-	-	-	(229)	-	(229)
Total Comprehensive Loss						(275)
ESOP shares committed to be Released (875 shares)	-	(1)	-	-	9	8
Balance – March 31, 2011	\$179	\$7,268	\$13,491	\$ (162)	\$(551)	\$20,225

See accompanying notes to consolidated financial statements

FSB COMMUNITY BANKSHARES, INC.

Consolidated Statements of Cash Flows
Three Months Ended March 31, 2011 and 2010 (unaudited)
(Dollars in thousands)

	2011		2010
Cash Flows From Operating Activities			
Net income (loss)	\$(46	)	\$33
Adjustments to reconcile net income to net cash used by operating activities:			
Net amortization of premiums and discounts on investments	174		280
Gain on sale of securities available for sale	-		(2)
Loss on sale of securities held to maturity	-		10
Gain on sale of loans	(46	)	(14)
Proceeds from loans sold	83		2,125
Loans originated for sale	(37	)	(2,111)
Amortization of net deferred loan origination costs	5		15
Amortization of premium on FHLB advances	49		-
Depreciation and amortization	98		78
Provision for loan losses	8		3
Expense related to ESOP	8		8
Deferred income tax benefit	(59	)	(16)
Earnings on investment in bank owned life insurance	(30	)	(33)
Decrease (increase) in accrued interest receivable	59		(87)
Decrease in prepaid FDIC premium	65		54
Decrease (increase) in other assets	360		(489)
Decrease in other liabilities	(109	)	(81)
Net Cash Provided By/(Used By) Operating Activities	582		(227)
Cash Flows From Investing Activities			
Purchases of securities available for sale	(5,544	)	(21,506)
Proceeds from maturities and calls of securities available for sale	5,500		17,000
Proceeds from sales of securities available for sale	-		11
Proceeds from principal paydowns on securities available for sale	1,732		3,380
Proceeds from principal paydowns on securities held to maturity	139		114
Proceeds from sales of securities held to maturity	-		686
Net decrease (increase) in loans	(1,517	)	3,204
Redemption of FHLB stock	26		150
Purchase of premises and equipment	(138	)	(56)
Net Cash Provided By Investing Activities	198		2,983
Cash Flows From Financing Activities			
Net increase in deposits	786		6,680
Proceeds from borrowings	2,000		-
Repayments on borrowings	(2,563	)	(3,330)
Net decrease in advances from borrowers for taxes and insurance	(554	)	(666)
Net increase (decrease) in official bank checks	(163)	38
Net Cash Provided By/(Used By) Financing Activities	(494)	2,722

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Net Increase in Cash and Cash Equivalents	286	5,478
Cash and Cash Equivalents- Beginning	7,834	5,965
Cash and Cash Equivalents- Ending	\$8,120	\$11,443
Supplementary Cash Flows Information		
Interest paid	\$741	\$1,101
Income taxes paid	\$-	\$-

See accompanying notes to consolidated financial statements

Notes to Consolidated Financial Statements

Note 1-Basis of Presentation

The accompanying unaudited consolidated financial statements of FSB Community Bankshares, Inc. and its wholly owned subsidiary Fairport Savings Bank (collectively, the “Company”) have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and the applicable instructions to Form 10-Q and Regulation S-X. Accordingly, they do not include all of the information and footnotes necessary for a complete presentation of consolidated financial position, results of operations, and cash flows in conformity with generally accepted accounting principles. In the opinion of management, all adjustments, consisting of normal recurring accruals, considered necessary for a fair presentation have been included.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported periods. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant changes in the near term relate to the determination of the allowance for loan losses, the evaluation of other-than-temporary impairment of investment securities, and the valuation of deferred tax assets. For additional information and disclosures required under GAAP, reference is made to the Company’s Annual Report on Form 10-K for the period ended December 31, 2010 filed on Form 10-K with the Securities and Exchange Commission (“SEC”) on March 31, 2011.

The unaudited consolidated financial statements and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” should be read in conjunction with the Company’s audited consolidated financial statements for the year ended December 31, 2010, included in the Annual Report filed on Form 10-K with the Securities and Exchange Commission (“SEC”) on March 31, 2011.

Operating results for the three months ended March 31, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011.

The consolidated financial statements at March 31, 2011 and December 31, 2010 and for the three months ended March 31, 2011 and 2010 include the accounts of the Company, Fairport Savings Bank (the “Bank”) and the Bank’s wholly-owned subsidiary, Oakleaf Services Corporation (“Oakleaf”). All inter-company balances and transactions have been eliminated in consolidation. Certain amounts from prior periods may have been reclassified, when necessary, to conform to current period presentation. Such reclassifications had no impact on net income (loss) or stockholders’ equity.

The Company has evaluated subsequent events through the date these consolidated financial statements were issued.

Note 2-Fair Value Measurement and Disclosure

Management uses its best judgment in estimating the fair value of the Company’s financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates herein are not necessarily indicative of the amounts the Company could have realized in a sale transaction on the dates indicated. The estimated fair value amounts have been measured as of their respective reporting dates and have not been re-evaluated or updated for purposes of these consolidated financial statements subsequent to those respective dates. As such, the estimated fair values of these financial instruments subsequent to the respective reporting dates may be different than the amounts reported at each reporting date.

The Company follows Accounting Standards Codification (ASC) Topic 820, Fair Value Measurements and Disclosures, which defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measurements. ASC Topic 820 applies to other accounting pronouncements that require or permit fair value measurements.

Note 2--Fair Value Measurement and Disclosure (Continued)

ASC Topic 820 establishes a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under ASC Topic 820 are as follows:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical unrestricted assets or liabilities.

Level 2: Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly, for substantially the full term of the asset or liability.

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e. supported with little or no market activity).

An asset or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

For assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used are as follows at March 31, 2011 and at December 31, 2010:

March 31, 2011				
Securities Available for Sale:				
(In Thousands)	Total	Level 1	Level 2	Level 3
U.S. Government and agency obligations	\$37,582	\$2,000	\$35,582	\$-
Mortgage-backed securities - residential	28,994	-	28,994	-
SBA pools	3,853	-	3,853	-
Total Available for Sale Securities	\$70,429	\$2,000	\$68,429	\$-
December 31, 2010				
Securities Available for Sale:				
(In Thousands)	Total	Level 1	Level 2	Level 3
U.S. Government and agency obligations	\$39,336	\$8,014	\$31,322	\$-
Mortgage-backed securities - residential	29,361	1,673	27,688	-
SBA pools	3,937	-	3,937	-
Total Available for Sale Securities	\$72,634	\$9,687	\$62,947	\$-

There were seven U.S Government and agency obligations for \$5.5 million and one Mortgage-backed security for \$1.7 million transferred out of level 1 assets to level 2 assets during the three months ended March 31, 2011. All of the transfers were the result of an increase in the availability of observable market data used in the securities' pricing obtained through independent pricing services or dealer market participants. No assets or liabilities have been measured on a non-recurring basis at or for the three months ended March 31, 2011 or for the year ended December 31, 2010.

Financial Accounting Standards Board (FASB) ASC Topic 825-10-50, Disclosure about Fair Value of Financial Instruments, requires disclosure of fair value information about financial instruments, whether or not recognized in the consolidated balance sheets, for which it is practicable to estimate that value. In cases where quoted market prices are

not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the defined fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instrument. ASC Topic 825-10-50 excludes certain assets and liabilities from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company.

Note 2--Fair Value Measurement and Disclosure (Continued)

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments at March 31, 2011 and December 31, 2010:

Cash, Due from Banks, and Interest-Bearing Demand Deposits

The carrying amounts of these assets approximate their fair values.

Investment Securities

The fair value of securities available for sale (carried at fair value) and held to maturity (carried at amortized cost) are determined by obtaining quoted market prices on nationally recognized securities exchanges (Level 1), or matrix pricing (Level 2), which is a mathematical technique used widely in the banking industry to value debt securities without relying exclusively on quoted market prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted prices. For certain securities which are not traded in active markets or are subject to transfer restrictions, valuations are adjusted to reflect illiquidity and/or non-transferability, and such adjustments are based on observable market based assumptions (Level 3). In the absence of such evidence, management's best estimate is used. Management's best estimate consists of both internal and external support on certain Level 3 investments. Internal cash flow models using a present value formula that includes assumptions market participants would use along with indicative exit pricing obtained from broker/dealers (where available) were used to support fair values of certain Level 3 investments. The Company had no Level 3 investment securities at March 31, 2011 or at December 31, 2010.

Investment in FHLB Stock

The carrying value of Federal Home Loan Bank ("FHLB") stock approximates its fair value based on the restricted nature of the FHLB stock.

Loans

The fair values of loans held to maturity are estimated using discounted cash flow analyses, using market rates at the balance sheet date that reflect the credit and interest rate-risk inherent in the loans. Projected future cash flows are calculated based upon contractual maturity or call dates, projected repayments and prepayments of principal. Generally, for variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values.

Mortgage loans held for sale in the secondary market are carried at the lower of cost or fair value. Separate determinations of fair value for residential and commercial loans are made on an aggregate basis. Fair value is determined based solely on the effect of changes in secondary market interest rates and yield requirements from the commitment date to the date of the financial statements. Realized gains and losses on sales are computed using the specific identification method.

Accrued Interest Receivable and Payable

The carrying amount of accrued interest receivable and payable approximates fair value.

Deposits

The fair values disclosed for demand deposits (e.g., NOW accounts, non-interest checking, regular savings and certain types of money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). The carrying amounts for variable-rate certificates of deposit approximate their fair values at the reporting date. Fair values for fixed rate certificates of deposit are estimated using a discounted cash flow calculation that applies market interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

Note 2--Fair Value Measurement and Disclosure (Continued)

Borrowings

The fair values of FHLB borrowings are estimated using discounted cash flow analyses, based on the quoted rates for new FHLB advances with similar credit risk characteristics, terms and remaining maturity.

Off-Balance Sheet Instruments

The fair values for off-balance sheet financial instruments (lending commitments and lines of credit) are estimated using the fees currently charged to enter into similar agreements, taking into account market interest rates, the remaining terms and present credit worthiness of the counterparties.

The carrying amounts and estimated fair values of the Company's financial instruments at March 31, 2011 and December 31, 2010 are as follows:

	March 31, 2011		December 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In Thousands)			
Financial assets:				
Cash and due from banks	\$3,715	\$3,715	\$4,533	\$4,533
Interest bearing demand deposits	4,405	4,405	3,301	3,301
Securities available for sale	70,429	70,429	72,634	72,634
Securities held to maturity	7,040	7,169	7,183	7,305
FHLB stock	1,487	1,487	1,513	1,513
Loans, net	116,323	117,349	114,819	116,692
Accrued interest receivable	829	829	888	888
Financial liabilities:				
Deposits	163,192	162,130	162,406	161,165
Borrowings	26,218	24,803	26,732	25,107
Accrued interest payable	61	61	68	68
Off-balance sheet instruments:				
Commitments to extend credit	-	-	-	-

Note 3 - Securities

The amortized cost and estimated fair value of securities with gross unrealized gains and losses at March 31, 2011 and at December 31, 2010 are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
March 31, 2011:				
Available for Sale:				
U.S. Government and agency obligations	\$38,166	\$25	\$(609)	\$37,582
Mortgage-backed securities - residential	28,673	484	(163)	28,994
SBA pools	3,835	18	-	3,853
	\$70,674	\$527	\$(772)	\$70,429
Held to Maturity:				
Mortgage-backed securities-residential	\$4,777	\$166	\$-	\$4,943
State and Municipal securities	2,263	1	(38)	2,226
	7,040	167	(38)	7,169
December 31, 2010:				
Available for Sale:				
U.S. Government and agency obligations	\$39,764	32	(460)	39,336
Mortgage-backed securities - residential	28,882	539	(60)	29,361
SBA pools	3,886	51	-	3,937
	\$72,532	\$622	\$(520)	\$72,634
Held to Maturity:				
Mortgage-backed securities – residential	\$4,918	\$182	\$-	\$5,100
State and Municipal securities	2,265	-	(60)	2,205
	7,183	182	(60)	7,305

Mortgage-backed securities consist of securities that are issued by Fannie Mae (“FNMA”), Freddie Mac (“FHLMC”), Ginnie Mae (“GNMA”), and Federal Farm Credit Bank (“FFCB”) and are collateralized by residential mortgages.

The amortized cost and estimated fair value by contractual maturity of debt securities at March 31, 2011 are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations.

Note 3 – Securities (continued)

	Available for Sale		Held to Maturity	
	Amortized Cost (In Thousands)	Estimated Fair Value (In Thousands)	Amortized Cost (In Thousands)	Estimated Fair Value (In Thousands)
Due in one year or less	\$-	\$-	\$-	\$-
Due after one year through five years	2,500	2,506	946	931
Due after five years through ten years	19,544	19,461	1,317	1,295
Due after ten years	16,122	15,615	-	-
Mortgage-backed securities – residential	28,673	28,994	4,777	4,943
SBA pools	3,835	3,853	-	-
	\$70,674	\$70,429	\$7,040	\$7,169

There were no sales of securities for the three months ended March 31, 2011. For the three months ended March 31, 2010 there was a \$10,573 gross realized loss on sale of mortgage-backed securities held to maturity resulting from proceeds of \$686,000, and a \$2,120 gross realized gain on sale of FHLMC common stock available for sale resulting from proceeds of \$11,000. In accordance with accounting guidance, the Company was able to sell securities classified as held to maturity after the Company had already collected a substantial portion (at least 85%) of the principal outstanding at acquisition due either to prepayments or to scheduled principal and interest payments on the debt securities.

No securities were pledged to secure public deposits or for any other purpose required or permitted by law at March 31, 2011 or at December 31, 2010.

Note 3 – Securities (continued)

The following table shows gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at March 31, 2011 and December 31, 2010:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
(In Thousands)						
March 31, 2011:						
Available for Sale						
U.S. Government and agency obligations	\$ 30,056	\$ 609	\$ -	\$ -	\$ 30,056	\$ 609
Mortgaged-backed securities - residential	15,366	163	-	-	15,366	163
Held to Maturity						
State and Municipal securities	1,716	38	-	-	1,716	38
	\$ 47,138	\$ 810	\$ -	\$ -	\$ 47,138	\$ 810
December 31, 2010:						
Available for Sale						
U.S. Government and agency obligations	\$24,757	\$460	\$-	\$-	\$24,757	\$460
Mortgaged-backed securities - residential	8,387	60				