

## **FSB COMMUNITY BANKSHARES, INC. AUDIT COMMITTEE CHARTER**

### **PURPOSE**

The Audit Committee (the “Committee”) will assist the Board of Directors in fulfilling its oversight responsibilities of FSB Community Bankshares, Inc. and its subsidiaries (the “Company”), including Fairport Savings Bank. This Charter governs the Committee’s operations in overseeing (1) the integrity of the Company’s financial statements, (2) the Company’s compliance with legal and regulatory requirements, (3) the independent registered public accounting firm’s qualifications and independence, (4) the performance of the Company’s internal audit function and internal audit staff and (5) the Company’s auditing, accounting and financial reporting processes.

### **COMPOSITION**

The Committee will consist of no less than 3 or more members appointed by the Board of Directors. Each Committee member will be both independent as defined in Securities Act Section 10A-3 and the Nasdaq Marketplace Rules, as well as financially literate. At least one member shall be designated as the “financial expert,” as defined by applicable legislation and regulation. No Committee member shall simultaneously serve on the Audit Committees of more than two other public companies. No member will have participated in preparation of the Company’s financial statements within the past three years.

### **AUTHORITY**

The Committee is responsible for overseeing the Company’s financial accounting, regulatory compliance and internal investigative functions. It is empowered to:

- Appoint, compensate, retain and oversee the work of the independent registered public auditing firm hired by the Company to conduct the annual audit. This firm will report directly to the Committee.
- Appoint, compensate and oversee the work of the outsourced internal auditing firm employed by the Company to conduct the internal audits. This firm will report directly to the Committee.
- Resolve any disagreements between management and the independent registered public accounting firm regarding financial reporting.
- Pre-approve all auditing and permitted non-audit services performed by the Company’s independent registered public accounting firm.
- Retain independent counsel, accountants, or others to advise the Committee or assist in the conduct of an investigation.
- Seek any information it requires from associates or external parties.

- Meet with Company officers, independent registered public accounting firms or outside counsel, as necessary.
- Delegate authority to subcommittees, or to the Committee Chairman, including the authority to pre-approve all auditing and permitted non-audit services, providing that such decisions are presented to the Committee at its next scheduled meeting.

## **MEETINGS**

The Committee will meet at least four times a year, with authority to convene additional meetings as circumstances require. All Committee members are expected to attend each meeting, in person or via telephone. The Committee will invite members of management, the independent registered public accounting firm, outsourced internal auditors, or others to attend meetings and provide pertinent information as necessary. Meeting agendas will be prepared and provided in advance to Committee members, along with appropriate briefing materials. Minutes will be prepared by the Committee Secretary and approved by the Committee Chairman, and shared with the Board of Directors.

The Committee will periodically meet separately with management, the internal auditors, and with the independent registered public accounting firm. The Committee will also meet in executive session as determined by the Committee members.

## **RESPONSIBILITIES**

The Committee will carry out the following responsibilities in fulfilling its oversight responsibilities to the Board of Directors and the Company's stockholders:

### **Financial Statements**

- Review significant accounting and reporting issues and understand their impact on the financial statements. These issues include:
  - Complex or unusual transactions and matters requiring significant judgment,
  - Major issues regarding accounting principles and financial statement presentations, including any significant changes in the Company's selection or application of accounting principles, and
  - The effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on the financial statements of the Company.
- Review analyses prepared by management and/or the independent registered public accounting firm setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effects of alternative GAAP methods on the financial statements.
- Review with management and the independent registered public accounting firm the results of the annual audit, including any difficulties encountered. This review will include any restrictions on the scope of the independent

registered public accounting firm's activities or on access to requested information, and any significant disagreements with management.

- Review and discuss the annual audited financial statements and interim quarterly financial statements with management and the independent registered public accounting firm, including the Company's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations."
- Review disclosures made by the CEO and CFO in certification of Forms 10-KSB and 10-QSB about significant deficiencies or material weaknesses in the design or operation of internal controls or any fraud that involves management or other employees who have a significant role in the Company's internal controls.
- Review earnings press releases, particularly the use of "pro forma," or "adjusted" non-GAAP, information. This review may be general (i.e. the types of information to be disclosed and the types of presentation to be made). The Committee does not need to discuss each release in advance.

### **Internal Controls**

- Consider the effectiveness of the Company's internal control environment, including information technology security and control.
- Understand the scope of the internal and independent registered public accounting firm's review of internal control over financial reporting, and obtain reports on significant findings and recommendations, together with management's responses. Consider significant control weaknesses and their implications as well as management's remediation plans.
- Annually review and approve the process utilized by the Internal Audit Department in developing the annual risk assessment and integrated audit plan.
- Review quarterly the written status report on the Integrated Internal Audit Plan and its completion.
- Review quarterly the written summary of all audit reports completed since the prior meeting. Discuss areas of high risk identified during each audit.
- Inquire of significant risks or exposures facing the Company.
- Review quarterly the report of open audit examination issues including managements' action plans and remediation target dates.
- Discuss with management the Company's major policies with respect to risk assessment and risk management.

### **Independent Audits**

- Review the independent registered public accounting firm's proposed audit scope and approach, including coordination of audit efforts with internal audit.
- Review the performance of the independent registered public accounting firm, and exercise final approval on the appointment or discharge of the

independent registered public accounting firm. In performing this review, the Committee will:

- at least annually, obtain and review a written report by the independent registered public accounting firm describing the firm's internal quality control procedures and any material issues raised by the most recent internal quality control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities within the preceding five years, respecting one or more independent audits carried out by the firm, and any steps taken to deal with any such issue; and (to assess the independent registered public accounting firm's independence) all relationships between the independent registered public accounting firm and the Company,
- Consider whether the provision of permitted non-audit services is compatible with maintaining the independent registered public accounting firm's independence,
- take into account the opinions of management and the internal auditor, and
- review and evaluate the lead audit partner of the independent registered public accounting firm.
- Ensure the rotation of the lead audit partner every five years and other audit partners every seven years, and consider whether there should be regular rotation of the audit firm itself.
- Present the Committee's conclusions with respect to the independent registered public accounting firm to the Board of Directors.
- Determine appropriate compensation for the independent registered public accounting firm engaged for the purpose of rendering or issuing the annual audit report or related review or attestation services for the Company.
- Set clear policies for the Company regarding the hiring of current or former employees of the independent auditing firm.
- On a regular basis, meet separately with the independent registered public accounting firm to discuss any matters that the Committee or independent registered public accounting firm believes should be discussed privately.

### **Internal Audits**

- At least annually, review with management and the Audit Coordinator the charter, plans, activities, staffing, and organizational structure of the internal audit function.
- Ensure there are no unjustified restrictions or limitations on the internal audit function, and review and concur in the appointment, replacement, or dismissal of the Audit Coordinator.
- Annually review the Internal Audit Department's relationships with strategic partners and the Audit Coordinator's oversight of them.
- Annually review the effectiveness and quality assurance of the internal audit function, including compliance with the Institute of Internal Auditors' *Standards for the Professional Practice of Internal Auditing*.

- On a regular basis, meet separately with the Audit Coordinator to discuss any matters that the Committee or the Internal Auditor believes are appropriate.

## **Compliance**

- Review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management’s investigation and follow-up (including disciplinary action) of any instances of noncompliance.
- Review findings of any examinations by regulatory agencies, and any internal audit compliance observations.
- Determine the adequacy and completeness of the Company’s Code of Conduct and Ethics through appropriate interaction with management.
- Establish procedures for the:
  - Receipt, retention, resolution, reporting and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters, and
  - Confidential, anonymous submission by employees of the Company of concern regarding questionable accounting or auditing matters.
- Obtain regular updates from management and the Company’s legal counsel regarding compliance matters. Understand matters that may materially impact the Company’s financial statements.
- The Committee has been designated by the Board of Directors to:
  - Receive reports of evidence of material violations by the Company or any of its officers, directors, employees or agents, of an applicable U.S. federal or state securities law, a material breach of fiduciary duty arising under U.S. federal or state law, or similar material violations of any U.S. federal or state law,
  - Inform the Company’s general counsel and Chief Executive Officer of any report of evidence of a material violation,
  - Determine whether an investigation is necessary, and if so, to notify the Board of Directors, initiate an investigation, and retain additional expert personnel as necessary,
  - At the conclusion of any such investigation, recommend implementation of an “appropriate response” (as defined by rule or regulation of the Securities and Exchange Commission (the “SEC”) and inform the Company’s general counsel and the Chief Executive Officer of the results of such investigation and the appropriate remedial measures to be adopted, and
  - Take all other appropriate action, including notifying the SEC if the Company fails to implement appropriate response recommended by the Committee.

## **Reporting Responsibilities**

- Regularly report to the Board of Directors about Committee activities and issues that arise with respect to the quality or integrity of the (1) Company’s

financial statements, (2) Company's compliance with legal or regulatory requirements, (3) performance and independence of the Company's independent registered public accounting firm, and (4) performance of the internal audit function.

- Provide an open avenue of communication between internal audit, the independent registered public accounting firm, the Board of Directors and management.
- Report annually to shareholders, the Committee's composition, responsibilities and any other information required by law or regulation, including approval of non-audit services.
- Review any other reports the Company issues that relate to the Committee's responsibilities.

### **Other Responsibilities**

- Prepare the Report of the Audit Committee to be included in the Company's annual proxy statement.
- Perform other activities related to this Charter as requested by the Board of Directors.
- Annually perform an evaluation of Committee performance and report to the Board of Directors.
- The Committee will review and assess the adequacy of the Committee Charter annually, requesting Board approval for proposed changes, and ensure appropriate disclosure as may be required by law or regulation.

### **FUNDING**

The Company shall provide for appropriate funding, as determined by the Committee, for payment of compensation to the independent registered public accounting firm for the purpose of rendering or issuing an audit report and to any advisors employed by the Committee.

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