

FINANCIAL INSTITUTIONS INC

Form 11-K

June 28, 2007

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 11-K**

**þ ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934**

For the fiscal year ended December 31, 2006

**o TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934**

Commission File Number 0-26481

A. Full title of the plan and the address of the plan, if different from that of the issuer named below:

FINANCIAL INSTITUTIONS, INC. 401(k) PLAN

B. Name of issuer of the securities held pursuant to the plan and the address of its principal executive office:

220 Liberty Street

Warsaw, NY 1456

FINANCIAL INSTITUTIONS, INC.
401(k) PLAN
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Participants and the Plan Administrator of the Financial Institutions, Inc. 401(k) Plan:

We have audited the accompanying statements of net assets available for benefits of Financial Institutions, Inc. 401(k) Plan as of December 31, 2006 and 2005, and the related statements of changes in net assets available for benefits for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of Financial Institutions, Inc. 401(k) Plan as of December 31, 2006 and 2005, and the changes in its net assets available for benefits for the years then ended in conformity with accounting principles generally accepted in the United States.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. Supplemental Schedules H, Line 4i Schedule of Assets (Held at End of Year) and H, Line 4j Schedule of Reportable Transactions, as of and for the year ended December 31, 2006 are presented for the purpose of additional analysis and are not a required part of the basic financial statements but are supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. These supplemental schedules are the responsibility of the Plan's management. The supplemental schedules have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole

\s\ Bonadio & Co., LLP

Pittsford, New York

June 26, 2007

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**FINANCIAL INSTITUTIONS, INC. 401(k) PLAN
STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS
DECEMBER 31, 2006 AND 2005**

	2006	2005
ASSETS:		
Investments, at fair value -		
Cash and cash equivalents	\$ 19,234,115	\$ 58,587
Mutual funds	971,761	21,988,192
Financial Institutions, Inc. common stock	780,104	772,008
Participant loans	375,123	452,951
 Total investments	 21,361,103	 23,271,738
 Receivables -		
Employer contributions	321,919	10,948
Participant contributions	59,973	63,665
Other	5,649	5,875
 Total receivables	 387,541	 80,488
 NET ASSETS AVAILABLE FOR BENEFITS	 \$ 21,748,644	 \$ 23,352,226

The accompanying notes are an integral part of these statements.

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FINANCIAL INSTITUTIONS, INC. 401(k) PLAN
STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	2006	2005
ADDITIONS:		
Investment income -		
Net appreciation in fair value of investments	\$ 2,311,958	\$ 1,293,690
Interest from participant loans	30,385	30,781
Interest and dividends		15,305
 Total investment income	 2,342,343	 1,339,776
 Contributions and transfers -		
Transfers in from other plans	373,506	165,157
Participant	1,703,622	2,039,276
Employer	602,951	1,250,930
 Total contributions and transfers	 2,680,079	 3,455,363
 Total additions	 5,022,422	 4,795,139
DEDUCTIONS:		
Benefits paid to participants	(6,626,004)	(1,791,651)
Transfer to First Niagara Financial Group 401(k) Plan		(1,532,100)
 Total deductions	 (6,626,004)	 (3,323,751)
 CHANGE IN NET ASSETS AVAILABLE FOR BENEFITS	 (1,603,582)	 1,471,388
NET ASSETS AVAILABLE FOR BENEFITS beginning of year	23,352,226	21,880,838
 NET ASSETS AVAILABLE FOR BENEFITS end of year	 \$ 21,748,644	 \$ 23,352,226

The accompanying notes are an integral part of these statements.

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**FINANCIAL INSTITUTIONS, INC. 401(k) PLAN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006 and 2005**

1. DESCRIPTION OF PLAN

The following description of the Financial Institutions, Inc. 401(k) Plan (the Plan) is provided for general information purposes only. Participants should refer to the Plan agreement for a more complete description of the Plan's provisions.

General

The Plan is a defined contribution plan sponsored and administered by Financial Institutions, Inc. (the Company). The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

Administration of the Plan is the responsibility of the Executive Committee of the Company. Fidelity Investments Institutional Brokerage Group (the Custodian or Fidelity) holds the assets of the Plan and invests, controls, and disburses the funds of the Plan in accordance with the Plan agreement. The Burke Group is the record keeper for the Plan (party-in-interest). The Burke Group was a subsidiary of the Company until September 11, 2005, on which date the Company sold all of its interest in the Burke Group.

Eligibility

All employees of the Company and its subsidiaries are eligible to participate in the Plan on the first of the month following the date of their employment and upon the attainment of age 20-1/2. Participants become eligible to receive the employer match following completion of one year of service, based on hire date anniversary.

Contributions

Eligible participants may contribute up to 50% of their pre-tax annual compensation, as defined by the Plan. Participants may also contribute amounts representing distributions from other qualified defined benefit or defined contribution plans. Participants direct the investment of their contributions and the Company's matching contributions into various investment options offered by the Plan. Participants are able to select the Company's common stock as an investment option for up to 25% of their total account balance. The Company matches 25% of a participant's contributions up to the first 8% of compensation. The Company may also make additional discretionary matching contributions. During the year ended December 31, 2005, the Company made a discretionary contribution of \$911,679. This discretionary contribution was declared during 2004. During the year ended December 31, 2006, the Company declared a discretionary contribution of \$257,514. This discretionary contribution was paid in 2007. Contributions are subject to certain limitations.

Participant Accounts

Each participant's account is credited with the participant's contributions, the Company's matching contributions, and all earnings or losses (realized or unrealized) thereon.

Vesting

Company and participant contributions are fully vested at the time of contribution. Earnings are also immediately vested.

Payment of Benefits

The participant's account balance will be distributed upon termination of employment due to separation from service, retirement, disability, or death, or upon financial hardship as defined in the Internal Revenue Code (IRC). Distributions are recorded by the Plan when paid.

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1. DESCRIPTION OF PLAN (Continued)

Payment of Benefits (Continued)

When a participant terminates employment, the participant may elect to receive benefits in a lump-sum distribution or a deferred annuity. If the participant's account attributable to Company contributions is \$1,000 or less, the form of the distribution is at the discretion of the Plan administrator. An unpaid loan balance at the time a participant withdraws from the Plan is presented as a benefit paid to participants on the statement of changes in net assets available for benefits.

Withdrawal of an active employee's before-tax contributions prior to a participant reaching age 59-1/2 may only be made on account of financial hardship as determined by the Trustee.

Participant Loans

Participants may borrow from their accounts up to the lesser of \$50,000 or 50% of their account balance. Loan terms must have a definite repayment period not to exceed five years unless the loan is used for the purchase of a principal residence, in which case the repayment period may not exceed 15 years. The loans are secured by the participant's account and bear interest at 2% above the prime rate at the time of the loan origination, currently ranging from 6.0% to 10.5%. Principal and interest are paid ratably through after-tax payroll deductions.

Plan Expenses

Expenses related to the administration and investment activity of the Plan are paid for by the Company, at its discretion, and are therefore not reflected in the accompanying financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements have been prepared on the accrual basis in conformity with accounting principles generally accepted in the United States

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts of net assets available for benefits and the changes in net assets available for benefits during the reporting period. Actual results could differ from those estimates.

Investments

Investments are carried at fair value. Participant loans are carried at their outstanding balances, which approximate fair value. Transactions are accounted for on a trade date basis. Investment income includes interest, dividends, and realized and unrealized gains and losses applicable to the plan shares in the funds. The Plan presents in the statement of changes in net assets available for plan benefits the net appreciation (depreciation) in the fair value of its investments, which consists of the realized gains and losses and the unrealized appreciation or depreciation on these investments during the year.

Investments are exposed to various risks, such as interest rate, market and credit risk. Due to the level of risk associated with certain investments and the level of uncertainty related to changes in the value of investments, it is at least reasonably possible that changes in the near term would materially affect participants' account balances and the amounts reported in the statement of net assets available for benefits and the statement of changes in net assets available for benefits.

Table of Contents**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)****Contributions**

Contributions from participants and any related employer match are recognized on the accrual basis as participants earn salary deferrals. Additional discretionary employer matching contributions are recognized when declared by the Company.

3. INVESTMENTS

The following investments represented 5% or more of the Plan's net assets at December 31:

	2006	2005
Fidelity Cash Reserves Fund	\$ 19,234,115	\$ 4,733,623
Federated Capital Preservation Fund	\$	\$ 4,733,623
Fidelity Equity Income Fund	\$	\$ 2,117,366
Franklin Capital Growth Fund	\$	\$ 2,067,948
Gabelli Westwood Balanced Retail Fund	\$	\$ 1,329,938
Oppenheimer Global A Fund	\$	\$ 1,699,728
Pimco Total Return Administrative Fund	\$	\$ 1,171,424
Waddell & Reed Accumulative Y Fund	\$	\$ 1,449,871
Wasatch Small Cap Growth Fund	\$	\$ 1,852,574

Net appreciation in fair value of investments for the years ended December 31, 2006 and 2005 was as follows:

	2006	2005
Mutual funds	\$ 2,167,217	\$ 1,392,996
Financial Institutions, Inc., common stock	144,741	(99,306)
	\$ 2,311,958	\$ 1,293,690

4. TRANSFER TO FIRST NIAGARA FINANCIAL GROUP 401(k) PLAN

In December 2005, the Plan transferred all balances related to participants employed by the Company's Burke Group subsidiary to the First Niagara Financial Group 401(k) Plan. This transfer was required under the terms of the Company's sale of the Burke Group to First Niagara Bank on September 11, 2005. Invested balances related to affected participants at the time of the transfer consisted of:

Mutual funds	\$ 1,452,227
Financial Institutions, Inc. common stock	42,086
Participant loans	37,787
	\$ 1,532,100

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The following is a reconciliation of net assets reported on the statements of net assets available for benefits to Forms 5500 as of December 31, 2006 and 2005:

	2006	2005
Net assets available for benefits	\$ 21,748,644	\$ 23,352,226
Participant contributions receivable	(59,973)	
Employer contributions receivable	(29,939)	
Other receivables	(5,649)	
Distributions payable		(45,140)
Other	393	
Net assets as reported on line 1 (L) of Form 5500 (Schedule H)	\$ 21,653,476	\$ 23,307,086

The following is a reconciliation of change in net assets available for benefits as reported on the statements of changes in net assets available for benefits to Form 5500 for the years ended December 31, 2006 and 2005:

	2006	2005
Change in net assets available for benefits	\$ (1,603,582)	\$ 1,471,388
Participant contributions receivable	(59,973)	
Employer contributions receivable	(29,939)	
Other receivables	(5,649)	
Distribution payable at December 31, 2005	45,140	(45,140)
Other	393	
Net income (loss) as reported on line 2(K) of Form 5500 (Schedule H)	\$ (1,653,610)	\$ 1,426,248

6. PLAN TERMINATION

Although it has not expressed any intent to do so, the Company has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA. In the event of Plan termination, participants will be entitled to the entire amount of their account balances at the date of such termination.

7. TAX STATUS

The Internal Revenue Service has determined and informed the Company by a letter dated March 28, 2000, that the Plan is designed in accordance with applicable sections of the Internal Revenue Code (IRC). Although the Plan has been amended since receiving the determination letter, the plan administrator believes that the Plan is designed and is currently being operated in compliance with the applicable requirements of the IRC. Accordingly, there is no provision for income taxes in the accompanying financial statements due to the applicable exemption under the IRC.

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8. RELATED-PARTY TRANSACTIONS

Plan investments include mutual funds and cash managed by Fidelity, which totaled \$20,205,876 and \$22,046,779 at December 31, 2006 and 2005, respectively. Fidelity is the custodian as defined by the Plan and, therefore, transactions in these funds qualify as party-in-interest transactions. Plan investments also include common stock of the Company, which totaled \$780,104 and \$772,008 at December 31, 2006 and 2005, respectively. Transactions in this common stock qualify as party-in-interest transactions. The Burke Group, a subsidiary of the Company through September 11, 2005, was the Plan record-keeper through December 31, 2006. The Company pays all costs related to these record-keeping services. Participant loans, totaling \$375,123 and \$452,951 at December 31, 2006 and 2005, respectively, are also considered party-in-interest transactions.

9. PLAN AMENDMENTS

During 2006, no new amendments were made to the Plan. During 2005, two amendments were made to the Plan: The involuntary cash-out limit for terminated participants was decreased from \$5,000 to \$1,000, effective March 31, 2005.

The normal retirement age was increased from 62 to 65 years of age, effective January 1, 2006.

10. SUBSEQUENT EVENTS

Stock Price

On June 26, 2007, the market value of the Company's common stock was \$20.16 per share, which represents a decrease of approximately 13% from the December 31, 2006 market value of \$23.05 per share. This decrease in the market value resulted in an unrealized loss of approximately \$97,800 for the 33,844 shares of the Company's common stock held by the Plan at December 31, 2006.

Change in Plan Service

Effective January 1, 2007, The Charles Schwab Trust Company was named the Plan custodian, trustee, and paying agent.

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Schedule I

FINANCIAL INSTITUTIONS, INC. 401(k) PLAN**SCHEDULE H, LINE 4i SCHEDULE OF ASSETS (HELD AT END OF YEAR)****December 31, 2006**

(a)	(b)	(c)	(e)
	Identity of Issue	Description of Investment	Current Value
*	Fidelity Spartan Money Market Fund	Mutual fund	\$ 3,030
	Pimco Total Return Administrative Fund	Mutual fund	968,720
	Wasatch Small Cap Growth Fund	Mutual fund	11
*	Fidelity Cash Reserves-Uninvested Cash	Cash	19,234,115
*	Financial Institutions, Inc. Company Stock	Common Stock of Plan Sponsor	780,104
*	Participant loans	6.00% 10.5%, due through 2019	375,123
			\$ 21,361,103

* Denotes
party-in-interest

The accompanying notes are an integral part of these schedules.

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Schedule II

FINANCIAL INSTITUTIONS, INC.**SCHEDULE H, line 4j SCHEDULE OF REPORTABLE TRANSACTIONS
FOR THE YEAR ENDED DECEMBER 31, 2006**

(a)	(b)	(c)	(d)	(g)	(h) Current Value of Asset on Transaction Date	(i)
Identity of Party Involved	Description of Asset	Purchase Price	Selling Price	Cost of Asset		Net Gain or (Loss)
I. Individual 5% Transactions						
Federated Capital Preservation Fund	Mutual Fund	\$	\$ 3,508,969	\$ 2,752,829	\$ 3,508,969	\$ 756,140
Franklin Capital Growth Fund	Mutual Fund	\$	\$ 1,783,918	\$ 1,436,588	\$ 1,783,918	\$ 347,330
Oppenheimer Global A Fund	Mutual Fund	\$	\$ 1,648,564	\$ 1,136,151	\$ 1,648,564	\$ 512,413
Fidelity Cash Reserves Uninvested Cash	Mutual Fund	\$ 19,217,456	\$	\$ 19,217,456	\$ 19,217,456	n/a
Wasatch Small Cap Growth Fund	Mutual Fund	\$	\$ 1,689,895	\$ 1,315,504	\$ 1,689,895	\$ 374,391
Waddell & Reed Accumulative Y Fund	Mutual Fund	\$	\$ 1,213,802	\$ 870,233	\$ 1,213,802	\$ 343,569
Westwood Balanced Retail Fund	Mutual Fund	\$	\$ 1,389,321	\$ 989,512	\$ 1,389,321	\$ 399,809
Fidelity Equity Income Fund	Mutual Fund	\$	\$ 1,946,005	\$ 1,195,008	\$ 1,946,005	\$ 750,997

II. Series of Transactions, Not Involving Securities, With a Single Person

None

III. Series of Transactions Involving Securities of the Same Issue

None

IV. Securities Transactions with the Same Person

None

The accompanying notes are an integral part of these schedules.

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SIGNATURE

The Plan. Pursuant to the requirements of the Securities Exchange Act of 1934, the trustees (or other persons who administer the employee benefit plan) have duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

FINANCIAL INSTITUTIONS, INC.
401(k) PLAN

Date: June 28, 2007

/s/ Peter G. Humphrey
Peter G. Humphrey
President and Chief Executive Officer

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