



***Mound City
Financial Services, Inc.***

2009 ANNUAL REPORT

**MOUND CITY FINANCIAL SERVICES, INC.
AND SUBSIDIARIES**

ANNUAL REPORT

YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007



MESSAGE FROM THE PRESIDENT

Dear Shareholder:

The most severe recession since the Great Depression of the 1930s has had a significant impact on the banking industry. The collapse of the housing industry, which began in 2008, has had a domino effect on all sectors of the general economy, and has led to record loan losses and bank failures.

The FDIC closed 140 banks in 2009, the most since 1991, with expectations for more failures in 2010. As a result our FDIC insurance premiums increased from \$34,582 in 2008 to \$474,343 in 2009, a 1,371% increase.

Non-performing loans and other real estate owned totaled \$8,820,586 or 3.39% of assets as of year-end 2009. While the non-performing asset totals are high, the transition from non-performing loans to other real estate owned is encouraging. It is also encouraging that our locally originated loans make up less than 20% of our non-performing assets. This is an indication that the local loan portfolio, which is by far the largest portion of our portfolio, is still demonstrating good asset quality.

The combination of the increased FDIC insurance premiums and non-performing asset totals resulted in year end net income of \$732,041, a 31% decrease from the prior year. Despite the disappointing earnings levels, Tier I Capital to average assets remains at a strong 8.25%. All of our current capital ratios for the bank and the holding company meet the definition of "well capitalized" by regulatory standards.

The low interest rate environment combined with the efforts of our entire staff, management team, and board of directors to control non-interest expenses helped to mitigate the unexpected FDIC insurance increases. The non replacement of employee terminations, delayed new product implementation, and daily expense monitoring, led to a reduction from budget of \$310,243 or a 4.48% savings on our non-interest expense totals.

Due to the asset quality concerns, and the need to preserve capital, management set a course to control growth in 2009, which resulted in a -5.21% growth rate in lending, and -1.28% growth rate for deposits. Despite our desire to curtail growth, it was important to grow relationships, loans, and deposits in our new branches. Year end deposit totals indicate growth of 10.26% and 67.17% at our Mount Horeb and Mineral Point branches respectively.

Our 2010 budget calls for a 58% increase in net income over 2009. As I indicated last year, our performance certainly has been and will continue to be affected by national economic conditions. We expect continued challenges as we begin 2010 with a return to improved earnings performance in the second half of the year.

On behalf of our board of directors, management team, and staff, I am pleased to present you with our 2009 Annual Report.

Sincerely,



Robert J. Just, Jr.
President & CEO

MOUND CITY FINANCIAL SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 2009 and 2008

ASSETS	2009	2008
Cash and due from banks	\$ 6,402,536	\$ 5,691,314
Federal funds sold	380,053	253,000
Cash and cash equivalents	6,782,590	5,944,314
Interest bearing deposits in banks	2,846,777	2,856,824
Securities available-for-sale	36,520,204	32,760,127
Securities held-to-maturity, at amortized cost	3,800,000	3,550,000
Federal Home Loan Bank stock, at cost	1,190,000	1,091,113
Loans, net of allowance of \$2,015,698 and \$2,372,150 in 2009 and 2008	194,858,718	205,322,861
Premises and equipment, net	4,446,004	4,596,811
Cash surrender value of life insurance	2,769,600	2,670,603
Other real estate owned	2,962,943	331,548
Other assets	3,897,358	3,096,895
TOTAL ASSETS	\$ 260,074,193	\$ 262,221,096

LIABILITIES AND STOCKHOLDERS' EQUITY

Liabilities

Deposits:

Demand	\$ 20,151,312	\$ 19,192,095
Savings and NOW	65,910,016	57,110,968
Other time	127,094,132	139,935,785
Total Deposits	213,155,461	216,238,848

Notes payable	1,500,000	-
FHLB borrowings	21,800,000	21,800,000
Subordinated debt	5,155,000	5,155,000
Other liabilities	1,373,438	2,162,269
Total Liabilities	242,983,899	245,356,117

Stockholders' Equity

Common stock, no par value; 300,000 shares authorized; 31,494 shares issued and 28,174 and 28,791 shares outstanding as of December 31, 2009 and 2008, respectively	31,494	31,494
Additional paid-in capital	7,618,010	7,618,010
Retained earnings	10,991,236	10,569,109
Accumulated other comprehensive income	394,744	200,044
Treasury stock, at cost; 3,320 and 2,703 shares at December 31, 2009 and 2008, respectively	(1,945,190)	(1,553,678)
Total Stockholders' Equity	17,090,294	16,864,979

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 260,074,193	\$ 262,221,096
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MOUND CITY FINANCIAL SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

Years Ended December 31, 2009, 2008 and 2007

	2009	2008	2007
INTEREST INCOME:			
Loans, including fees	\$ 12,087,593	\$ 12,338,413	\$ 11,513,923
Investment securities:			
Taxable	815,502	989,259	1,216,852
Tax exempt	620,253	624,422	525,400
Federal funds sold	5,539	27,690	75,646
Other	27,080	42,214	76,796
Total Interest Income	13,555,967	14,021,998	13,408,617
INTEREST EXPENSE:			
Deposits	5,278,989	5,828,353	6,224,687
Federal funds purchased	4,069	31,725	57,175
Notes payable	34,687	-	
FHLB borrowings	986,366	936,324	841,322
Subordinated debt	344,870	344,870	371,130
Total Interest Expense	6,648,981	7,141,272	7,494,314
Net interest income before provision for loan losses	6,906,986	6,880,726	5,914,303
PROVISION FOR LOAN LOSSES	1,264,617	1,234,163	217,151
Net interest income after provision for loan losses	5,642,369	5,646,563	5,697,152
NONINTEREST INCOME:			
Service fees	652,774	680,315	646,397
Net gain on sale of securities available-for-sale	198,613	-	5,174
Net gain on loan sales	262,025	65,308	39,882
Mutual fund sales commission	203,360	214,141	206,215
Other income	793,799	740,107	653,905
Total Noninterest Income	2,110,571	1,699,871	1,551,573
NONINTEREST EXPENSES:			
Salaries and employee benefits	3,826,609	3,706,507	3,097,414
Occupancy	666,975	670,700	540,659
Computer services	337,493	325,637	314,149
Other real estate owned	391,084	110,250	46,040
Other	1,779,641	1,382,942	1,237,572
Total Noninterest Expenses	7,001,802	6,196,036	5,235,834
Income Before Income Taxes	751,138	1,150,398	2,012,891
INCOME TAX EXPENSE	19,097	89,494	531,379
NET INCOME	\$ 732,041	\$ 1,060,904	\$ 1,481,512
Earnings Per Share	\$ 25.64	\$ 36.78	\$ 50.50
Weighted Average Shares Outstanding	28,554	28,844	29,337

MOUND CITY FINANCIAL SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Years Ended December 31, 2009, 2008 and 2007

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance, December 31, 2006	\$ 31,494	\$ 7,618,010	\$ 8,662,185	\$ (251,534)	\$ (1,035,816)	<u>\$ 15,024,339</u>
Comprehensive income:						
Net income	-	-	1,481,512	-	-	1,481,512
Change in net unrealized gains (losses) on available-for-sale securities	-	-	-	481,863	-	481,863
Reclassification adjustment for net gains realized in net income	-	-	-	(5,174)	-	(5,174)
Income tax effect	-	-	-	(162,073)	-	<u>(162,073)</u>
Comprehensive income						<u>1,796,128</u>
Cash dividends paid - \$11.00 per share	-	-	(318,791)	-	-	(318,791)
Purchase of 616 shares of treasury stock	-	-	-	-	(452,004)	<u>(452,004)</u>
Balance, December 31, 2007	31,494	7,618,010	9,824,906	63,082	(1,487,820)	<u>16,049,672</u>
Comprehensive income:						
Net income	-	-	1,060,904	-	-	1,060,904
Change in net unrealized gains on available-for-sale securities	-	-	-	207,518	-	207,518
Income tax effect	-	-	-	(70,556)	-	<u>(70,556)</u>
Comprehensive income						<u>1,197,866</u>
Cash dividends paid - \$11.00 per share	-	-	(316,701)	-	-	(316,701)
Purchase of 90 shares of treasury stock	-	-	-	-	(65,858)	<u>(65,858)</u>
Balance, December 31, 2008	31,494	7,618,010	10,569,109	200,044	(1,553,678)	16,864,979
Comprehensive income:						
Net income	-	-	732,041	-	-	732,041
Change in net unrealized gains on available-for-sale securities	-	-	-	493,613	-	493,613
Reclassification adjustment for net gains realized in net income	-	-	-	(198,613)	-	(198,613)
Income tax effect	-	-	-	(100,300)	-	<u>(100,300)</u>
Comprehensive income						<u>926,741</u>
Cash dividends paid - \$11.00 per share	-	-	(309,914)	-	-	(309,914)
Purchase of 617 shares of treasury stock	-	-	-	-	(391,512)	<u>(391,512)</u>
Balance, December 31, 2009	<u>\$ 31,494</u>	<u>\$ 7,618,010</u>	<u>\$ 10,991,236</u>	<u>\$ 394,744</u>	<u>\$ (1,945,190)</u>	<u>\$ 17,090,294</u>

FINANCIAL HIGHLIGHTS

December 31,

	2009	2008	2007	2006	2005
Statement of Operations					
Interest Income	\$ 13,555,967	\$ 14,021,998	\$ 13,408,617	\$ 12,477,308	\$ 11,017,612
Interest Expense	6,648,981	7,141,272	7,494,314	6,960,055	5,625,072
Net Interest Income	6,906,986	6,880,726	5,914,303	5,517,253	5,392,540
Provision for Loan Losses	1,264,617	1,234,163	217,151	225,976	300,000
Net Interest Income After Provision for Loan Losses	5,642,369	5,646,563	5,697,152	5,291,277	5,092,540
Noninterest Income	2,110,571	1,699,871	1,551,573	1,421,488	1,358,107
Noninterest Expenses	7,001,802	6,196,036	5,235,834	4,848,825	4,765,408
Income Before Income Taxes	751,138	1,150,398	2,012,891	1,863,940	1,685,239
Provision for Income Taxes	19,097	89,494	531,379	481,157	485,173
Net Income	\$ 732,041	\$ 1,060,904	\$ 1,481,512	\$ 1,382,783	\$ 1,200,066

Statement of Condition

Total Assets	\$ 260,074,193	\$ 262,221,096	\$ 223,786,748	\$ 210,414,243	\$ 202,782,616
Federal Funds Sold	380,053	253,000	NONE	2,401,000	3,591,000
Investment Securities	40,320,204	36,310,127	37,576,822	39,252,631	37,641,481
Loans, Net	194,858,718	205,322,861	167,815,375	152,913,704	147,750,095
Total Deposits	213,155,461	216,238,848	176,297,615	169,650,499	169,495,195
Other Borrowings	23,300,000	21,800,000	21,000,000	19,000,000	13,000,000
Subordinated Debentures	5,155,000	5,155,000	5,155,000	4,130,000	4,130,000
Stockholders' Equity	17,090,294	16,864,979	16,049,672	15,024,339	14,489,060

Averages

Average Assets	\$ 267,769,605	\$ 242,450,946	\$ 212,859,261	\$ 204,749,099	\$ 199,160,445
Average Loans	204,050,091	187,618,194	157,043,704	150,040,001	146,483,450
Average Deposits	219,279,675	195,960,739	171,028,072	167,667,123	169,424,888
Average Equity	16,977,637	16,457,326	15,537,006	14,615,429	14,161,242

Ratios

Asset Growth Rate	-0.82%	17.17%	6.36%	3.76%	2.84%
Loan Growth Rate	-5.10%	22.35%	9.75%	3.49%	2.53%
Deposit Growth	-1.43%	22.66%	3.73%	0.27%	4.36%
Loan to Deposit Ratio	91.42%	94.95%	95.19%	89.98%	87.17%
Return on Average Assets	0.27%	0.44%	0.70%	0.68%	0.60%
Return on Average Equity	4.31%	6.45%	9.54%	9.46%	8.47%
Stockholders' Equity to Average Assets	6.38%	6.96%	7.54%	7.34%	7.28%
Earnings per Share	\$ 25.64	\$ 36.78	\$ 50.50	\$ 46.46	\$ 39.79
Dividend Paid per Share	\$ 11.00	\$ 11.00	\$ 11.00	\$ 10.00	\$ 9.00

MOUND CITY FINANCIAL SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Mound City Financial Services, Inc. (Parent Company Only) Financial Information

	December 31,	
CONDENSED BALANCE SHEETS	2009	2008
ASSETS		
Cash and due from banks	\$ 336,541	\$ 285,137
Investment in subsidiaries	23,570,219	21,794,620
Other assets	168,631	271,293
TOTAL ASSETS	\$ 24,075,391	\$ 22,351,050
 LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Notes payable	\$ 1,500,000	\$ -
Subordinated debt	5,155,000	5,155,000
Other liabilities	330,097	331,071
Total Liabilities	6,985,097	5,486,071
 Stockholders' Equity		
Common stock	31,494	31,494
Additional paid-in capital	7,618,010	7,618,010
Retained earnings	10,991,236	10,569,109
Accumulated other comprehensive income	394,744	200,044
Treasury stock	(1,945,190)	(1,553,678)
Total Stockholders' Equity	17,090,294	16,864,979
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 24,075,391	\$ 22,351,050

MOUND CITY FINANCIAL SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Mound City Financial Services, Inc. (Parent Company Only) Financial Information (Continued)

	Year Ended December 31,		
CONDENSED STATEMENTS OF INCOME	2009	2008	2007
Income:			
Dividends from subsidiaries	\$ 900,000	\$ 450,000	\$ 400,000
Other income	10,695	12,454	47,145
Total Income	910,695	462,454	447,145
Expenses:			
Interest on notes payable	34,688	-	-
Interest on subordinated debt	344,870	344,870	371,130
Other expenses	8,194	8,350	15,525
Total Expenses	387,752	353,220	386,655
Income before income taxes and equity in undistributed earnings of subsidiaries	522,943	109,234	60,490
Income Tax Benefit	(128,199)	(115,861)	(115,433)
Income before equity in undistributed earnings of subsidiaries	651,142	225,095	175,923
Equity in undistributed earnings of subsidiaries	80,899	835,809	1,305,589
Net Income	\$ 732,041	\$ 1,060,904	\$ 1,481,512

Board of Directors

Barry J. Brodbeck
Dennis R. Cooley
W. Phil Karrmann
Richard L. McWilliams
Craig L. Trongaard

Keith R. Buchert
Robert J. Just, Jr.
Richard J. Kopp
Douglas W. Speth

Officers

Robert J. Just, Jr. - President & CEO
Craig L. Trongaard - Vice President and
Chairman of the Board of Directors
Donna J. Hoppenjan - Senior Vice President of
Retail Services
Joseph L. Witmer - Senior Vice President of
Lending Services
Peter Mumm - Vice President - Ag Lending

John R. Arendt - Vice President - Commercial Lending
Chad Bahr - Ag/Commercial Lending Officer,
Mineral Point
Shane Bowdish - Commercial Lending/Business
Development Officer, Mt Horeb
Lexie Buschor - Branch Manager and Personal Banking
Officer, Belmont
George Byykkonen - Alternative Investment
Representative
Patricia Cullen - Internal Auditor
John Digman - Assistant Vice President - Retail Lending
Kathy Digman - Customer Service Representative
Supervisor
Jenny Dochnahl - Branch Manager and
Personal Banking Officer, Mineral Point
Diane Genthe - Vice President - Operations
Molly Heimerdinger - Credit Analyst
Gloria Holmes - Retail Lending Underwriter
Tyler Kennicker - Investment Representative
Keri Kluck - Loan Operations Supervisor
Jessica Link - Branch Manager and Personal
Banking Officer, Cuba City
Donna Martin - Compliance Officer
Amanda McWilliams - Branch Manager and
Personal Banking Officer, Mount Horeb
Jeffrey Miesen - Assistant Vice President - Lending
Cara Nodorft - Personal Banking Officer
Justin Olthafer - Assistant Vice President -
Information Technology
Jayne Osterholz - Personal Banking Officer
Vicki Pluemer - Personal Banking Officer and Heritage
Club Director
Nancy Salzmann - Assistant Vice President -
Personal Banking
Barbara Skaife - Marketing Officer
Susan Smith - Vice President - Retail Lending
Jeffrey Stange - Assistant Vice President -
Commercial Lending

Staff

Sandy Adams - Administrative Assistant
Barb Bratton - Accounting Clerk
Sarah Brindley - Customer Service Representative,
Mineral Point
Amanda Brown - Customer Service Representative
Sally Carey - Loan Clerk and Administrative Assistant
Chelesse Custer - Executive Assistant
Loni Droessler - Customer Service Representative
Heather Fitzsimons - Customer Service Representative,
Belmont
Sarah Frisch - Customer Service Representative,
Mount Horeb
Betty Frost - Customer Service Representative,
Mount Horeb
Kari Geyer - Human Resources Assistant
Deanne Gorman - Lobby Receptionist
Sarah Imobersteg - Investment Services Assistant
Sara Jacobson - Customer Service Representative
Molly Kieler - Youth Apprentice, Platteville
Toni Klein - ATM Customer Service Representative
MacKenzie Krantz - Customer Service
Representative - Mount Horeb
Linda Kress - Accounting Clerk
Janice Laufenberg - Customer Service Representative,
Mineral Point
Linda Martin - Senior Accounting Clerk
Denise McDonald - Customer Service Representative,
Belmont
Amanda McFall - Customer Service Representative
Jenni Mullikin - Senior Accounting Clerk
Jennifer Nolan - Customer Service Representative,
Cuba City
Sarah Olson - Administrative Assistant
Carole Peterson - Customer Service Representative
Brandon Popp - Network Administrator Assistant
Sarah Rogers - Administrative Assistant
Julie Runde - Administrative Assistant
Tyler Speth - Youth Apprenticeship, Cuba City
Pam Stark - Senior Customer Service Representative,
Motor Branch
Judy Steinhoff - Accounting Clerk
Vicki Stuelke - Accounting Clerk
Tammy Wagner - Customer Service Representative
Motor Branch
Ellen Wedige - Senior Customer Service Representative
