



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

2010 ANNUAL REPORT

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

**ANNUAL REPORT**

**YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008**



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## MESSAGE FROM THE PRESIDENT

Dear Shareholder:

The continued decline in commercial real estate valuations that began in 2008 and persisted through 2010, has resulted in significant write-downs of values in our Other Real Estate Owned portfolio and historically high provisions to our Loan Loss Reserve. These unprecedented expenses result in disappointing net earnings for 2011 of \$334,716 at the bank level and \$58,014 for Mound City Financial Services, Inc.

Strict requirements for annual appraisals of non-performing assets and other real estate owned lead to charge-downs totaling \$1,090,134 in 2010. Adding to our expense burden was a provision to the loan loss reserve of \$2,660,000, more than double the highest provision in our previous history, and the high cost of FDIC Insurance premiums at \$359,757 compared to \$34,582 in the year preceding the financial crisis.

The lower than projected net earnings combined with elevated levels of non-performing assets were the principal reasons for the disallowance of a shareholder dividend for the year 2010. While the national and local economies display continued weakness and reasons for concern, your management team is confident that 2011 will bring improved results and hopefully a return to a shareholder dividend.

While disappointed with our low net earnings performance, we are pleased to have overcome the abnormally high expenses. Our positive earnings are the result of the low interest rate environment, which allowed us to improve our net interest margin from 2.87% in 2009 to 3.32% in 2010 despite the high levels of non-accrual assets, combined with improved non-interest income levels. We enjoyed significant loan origination and servicing fee income due to the wide acceptance of our 1-4 family loan offerings. Improved earnings from the sale of non-traditional bank product including mutual funds, annuities, and crop insurance commissions, all contributed to our effort at overcoming the asset quality driven expenses.

Asset quality is, as always, the most important factor in determining the future earning potential for a financial institution. I am pleased to report that our asset quality trend analysis indicates a steady improvement with non-performing loans reduced by 78.40% to \$1,727,784 at year end 2010, compared to a high point of \$8,000,000 in June of 2009. Likewise, our total non-performing assets to total assets ratio has been reduced from 3.39% in December of 2009 to 2.40% at year end 2010. While it is difficult to project the future, these trend lines are very positive and suggest a more optimistic earnings projection for 2011.

As we begin the new year, we are cautiously optimistic that net earnings will increase as we continue to reduce our non-performing assets. At the same time, we remain wary of a possible double dip recession due to higher oil prices that could further impact commercial real estate values and subsequently our earnings performance. Other challenges not fully understood at this time are the expected negative effects of the recent banking legislation, including the establishment of a consumer financial protection bureau and other restrictions on bank fee income. Despite the challenges, we look forward to an improved performance for Mound City Bank and Mound City Financial Services, Inc. in 2011.

On behalf of our board of directors, officers, and staff, I present our 2010 Annual Report.

Sincerely,



Robert J. Just, Jr.  
President & CEO

# MOUND CITY FINANCIAL SERVICES, INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

December 31, 2010 and 2009

<b>ASSETS</b>	<b>2010</b>	<b>2009</b>
Cash and due from banks	\$ 6,665,420	\$ 6,402,536
Federal funds sold	486,489	380,053
Cash and cash equivalents	7,151,909	6,782,589
Interest bearing deposits in banks	\$ 3,489,320	\$ 2,846,777
Securities available-for-sale	33,558,342	36,520,204
Securities held-to-maturity, at amortized cost	3,550,000	3,800,000
Federal Home Loan Bank stock, at cost	1,190,000	1,190,000
Loans and loans held for sale, net of allowance of \$2,538,198 and \$2,015,698 in 2010 and 2009	197,953,265	194,858,718
Premises and equipment, net	4,106,902	4,446,004
Cash surrender value of life insurance	2,870,363	2,769,600
Other real estate owned	4,408,623	2,962,943
Prepaid FDIC insurance	1,014,866	1,348,752
Other assets	3,282,740	2,548,606
<b>TOTAL ASSETS</b>	<b>\$ 262,576,330</b>	<b>\$ 260,074,193</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Liabilities</b>		
Deposits:		
Demand	\$ 25,365,542	\$ 20,151,312
Savings and NOW	68,860,801	65,910,016
Other time	124,111,725	127,094,132
<b>Total Deposits</b>	218,338,068	213,155,460
Line of credit	1,925,000	1,500,000
FHLB borrowings	19,800,000	21,800,000
Subordinated debt	5,155,000	5,155,000
Accrued salary continuation liabilities	594,329	555,854
Other liabilities	764,326	817,584
<b>Total Liabilities</b>	246,576,723	242,983,898
<b>Stockholders' Equity</b>		
Common stock, no par value; 300,000 shares authorized; 31,494 shares issued and 27,313 and 28,174 shares outstanding as of December 31, 2010 and 2009, respectively.	31,494	31,494
Additional paid-in capital	7,618,010	7,618,010
Retained earnings	11,049,251	10,991,237
Accumulated other comprehensive income	(229,640)	394,744
Treasury stock, at cost; 4,181 and 3,320 shares at December 31, 2010 and 2009, respectively	(2,469,508)	(1,945,190)
<b>Total Stockholders' Equity</b>	15,999,607	17,090,295
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 262,576,330</b>	<b>\$ 260,074,193</b>

# MOUND CITY FINANCIAL SERVICES, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF INCOME

	2010	2009	2008
<b>INTEREST INCOME:</b>			
Loans, including fees	\$ 11,962,067	\$ 12,087,593	\$ 12,338,413
Investment securities:			
Taxable	602,217	815,502	989,259
Tax exempt	567,190	620,253	624,422
Federal funds sold	1,848	5,539	27,690
Other	14,448	27,080	42,214
<b>Total Interest Income</b>	<b>13,147,770</b>	<b>13,555,967</b>	<b>14,021,998</b>
<b>INTEREST EXPENSE:</b>			
Deposits	3,838,824	5,278,989	5,828,353
Federal funds purchased	771	4,069	31,725
Line of Credit	84,959	34,687	0
FHLB borrowings	881,023	986,366	936,324
Subordinated debt	344,870	344,870	344,870
<b>Total Interest Expense</b>	<b>5,150,447</b>	<b>6,648,981</b>	<b>7,141,271</b>
<b>Net interest income before provision for loan losses</b>	<b>7,997,323</b>	<b>6,906,986</b>	<b>6,880,726</b>
<b>PROVISION FOR LOAN LOSSES</b>	<b>2,659,814</b>	<b>1,264,617</b>	<b>1,234,163</b>
<b>Net interest income after provision for loan losses</b>	<b>5,337,509</b>	<b>5,642,369</b>	<b>5,646,563</b>
<b>NONINTEREST INCOME:</b>			
Service fees	682,016	652,774	680,315
Net gain on sale of securities available-for-sale	305,343	198,613	0
Net gain on loan sales	265,179	262,025	65,308
Mutual fund sales commission	247,432	203,360	214,141
Other income	904,644	793,799	740,107
<b>Total Noninterest Income</b>	<b>2,404,614</b>	<b>2,110,571</b>	<b>1,699,870</b>
<b>NONINTEREST EXPENSES:</b>			
Salaries and employee benefits	3,850,623	3,826,609	3,706,507
Occupancy	676,971	666,975	670,700
Computer services	356,961	337,493	325,637
Other real estate owned	1,090,134	391,084	110,250
Other than temporary impairment securities held to maturity	250,000		
Other	1,783,691	1,779,641	1,382,942
<b>Total Noninterest Expenses</b>	<b>8,008,380</b>	<b>7,001,802</b>	<b>6,196,035</b>
<b>(Loss) Income Before Income Taxes</b>	<b>(266,257)</b>	<b>751,138</b>	<b>1,150,398</b>
<b>INCOME TAX (BENEFIT) EXPENSE</b>	<b>(324,271)</b>	<b>19,097</b>	<b>89,494</b>
<b>NET INCOME</b>	<b>\$ 58,014</b>	<b>\$ 732,041</b>	<b>\$ 1,060,904</b>
<b>Earnings Per Share</b>	<b>\$ 2.11</b>	<b>\$ 25.64</b>	<b>\$ 36.78</b>
<b>Weighted Average Shares Outstanding</b>	<b>27,536</b>	<b>28,554</b>	<b>28,844</b>

# MOUND CITY FINANCIAL SERVICES, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Years Ended December 31, 2010, 2009 and 2008

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
<b>Balance, December 31, 2007</b>	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>
<b>Balance, December 31, 2008</b>	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>
<b>Balance, December 31, 2009</b>	31,494	7,618,010	10,991,237	394,744	(1,945,190)	17,090,295
Comprehensive income:						
Net income	-	-	58,014	-	-	58,014
Change in net unrealized gains on available-for-sale securities	-	-	-	(640,690)	-	(640,690)
Reclassification adjustment for net gains realized in net income	-	-	-	(305,343)	-	(305,343)
Income tax effect	-	-	-	321,649	-	321,649
Comprehensive income						<u>(566,370)</u>
Purchase of 861 shares of treasury stock	-	-	-	-	(524,318)	<u>(524,318)</u>
<b>Balance, December 31, 2010</b>	<b>\$ 31,494</b>	<b>\$ 7,618,010</b>	<b>\$ 11,049,251</b>	<b>\$ (229,640)</b>	<b>\$ (2,469,508)</b>	<b>\$ 15,999,607</b>

# FINANCIAL HIGHLIGHTS

	December 31,				
	2010	2009	2008	2007	2006
<b>Statement of Operations</b>					
Interest Income	\$ 13,147,770	\$ 13,555,967	\$ 14,021,998	\$ 13,408,617	\$ 12,477,308
Interest Expense	5,150,447	6,648,981	7,141,272	7,494,314	6,960,055
Net Interest Income	7,997,323	6,906,986	6,880,726	5,914,303	5,517,253
Provision for Loan Losses	2,659,814	1,264,617	1,234,163	217,151	225,976
Net Interest Income After Provision for Loan Losses	5,337,509	5,642,369	5,646,563	5,697,152	5,291,277
Noninterest Income	2,404,614	2,110,571	1,699,871	1,551,573	1,421,488
Noninterest Expenses	8,008,380	7,001,802	6,196,036	5,235,834	4,848,825
Income Before Income Taxes	(226,259)	751,138	1,150,398	2,012,891	1,863,940
Provision for Income Taxes	(324,271)	19,097	89,494	531,379	481,157
Net Income	\$ 58,014	\$ 732,041	\$ 1,060,904	\$ 1,481,512	\$ 1,382,783

## Statement of Condition

Total Assets	\$ 262,576,330	\$ 260,074,193	\$ 262,221,096	\$ 223,786,748	\$ 210,414,243
Federal Funds Sold	486,489	380,053	253,000	NONE	2,401,000
Investment Securities	37,108,342	40,320,204	36,310,127	37,576,822	39,252,631
Loans	197,953,265	194,858,718	205,322,861	167,815,375	152,913,704
Total Deposits	218,338,068	213,155,461	216,238,848	176,297,615	169,650,499
Other Borrowings	21,725,000	23,300,000	21,800,000	21,000,000	19,000,000
Subordinated Debentures	5,155,000	5,155,000	5,155,000	5,155,000	4,130,000
Stockholders' Equity	15,999,607	17,090,294	16,864,979	16,049,672	15,024,339

## Averages

Average Assets	\$ 263,763,389	\$ 267,769,605	\$ 242,450,946	\$ 212,859,261	\$ 204,749,099
Average Loans	197,441,886	204,050,091	187,618,194	157,043,704	150,040,001
Average Deposits	217,616,076	219,279,675	195,960,739	171,028,072	167,667,123
Average Equity	16,544,495	16,977,637	16,457,326	15,537,006	14,615,429

## Ratios

Asset Growth Rate	1.00%	-0.82%	17.17%	6.36%	3.76%
Loan Growth Rate	1.59%	-5.10%	22.35%	9.75%	3.49%
Deposit Growth	2.43%	-1.45%	22.66%	3.73%	0.27%
Loan to Deposit Ratio	90.66%	91.42%	94.95%	95.19%	89.98%
Return on Average Assets	0.03%	0.27%	0.44%	0.70%	0.68%
Return on Average Equity	0.35%	4.31%	6.45%	9.54%	9.46%
Stockholders' Equity to Average Assets	6.07%	6.38%	6.96%	7.54%	7.34%
Earnings per Share	\$ 2.11	\$ 25.64	\$ 36.78	\$ 50.50	\$ 46.46
Dividend Paid per Share	none	\$ 11.00	\$ 11.00	\$ 11.00	\$ 10.00

# MOUND CITY FINANCIAL SERVICES, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	December 31,	
<b>CONDENSED BALANCE SHEETS</b>	2010	2009
<b>ASSETS</b>		
Cash and due from banks	\$ 115,453	\$ 336,541
Investment in subsidiary	22,830,550	23,570,219
Other assets	155,432	168,631
	<b>TOTAL ASSETS</b>	<b>\$ 24,075,391</b>
	<b>\$ 23,101,435</b>	<b>\$ 24,075,391</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Liabilities</b>		
Line of credit	\$ 1,925,000	\$ 1,500,000
Subordinated debt	5,155,000	5,155,000
Other liabilities	21,828	330,097
	<b>Total Liabilities</b>	<b>6,985,097</b>
	<b>7,101,828</b>	<b>6,985,097</b>
<b>Stockholders' Equity</b>		
Common stock	\$ 31,494	\$ 31,494
Additional paid-in capital	7,618,010	7,618,010
Retained earnings	11,049,251	10,991,236
Accumulated other comprehensive income	(229,640)	394,744
Treasury stock	(2,469,508)	(1,945,190)
	<b>Total Stockholders' Equity</b>	<b>17,090,294</b>
	<b>15,999,607</b>	<b>17,090,294</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 23,101,435</b>	<b>\$ 24,075,391</b>

# 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,		
<b>CONDENSED STATEMENT OF INCOME</b>	2010	2009	2008
<b>INCOME:</b>			
Dividends from subsidiary	\$ 450,000	\$ 900,000	\$ 450,000
Other income	10,584	10,695	12,454
<b>Total Income</b>	460,584	910,695	462,454
<b>EXPENSES:</b>			
Interest on line of credit	84,959	34,688	-
Interest on subordinated debt	344,870	344,870	344,870
Other expenses	-	8,194	8,350
<b>Total Expenses</b>	429,829	387,752	353,220
Income before income taxes and equity in undistributed earnings of subsidiary	30,755	522,943	109,234
<b>Income Tax Benefit</b>	(142,543)	(128,199)	(115,861)
Income before equity in undistributed earnings of subsidiary	173,298	651,142	225,095
<b>Equity In Undistributed (Loss) Earnings Of Subsidiaries</b>	(115,284)	80,899	835,809
<b>Net Income</b>	\$ 58,014	\$ 732,041	\$ 1,060,904

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## Board of Directors

Barry J. Brodbeck  
Keith R. Buchert  
Robert J. Just, Jr.  
Richard J. Kopp  
Craig L. Trongaard

Steven R. Brogley  
Dennis R. Cooley  
W. Phil Karrmann  
Richard L. McWilliams

## 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  
Lori Bahr - Assistant Vice President - Trust Officer  
Shane Bowdish - Commercial Lending/Business Development Officer, Mt Horeb  
Lexie Buschor - Branch Manager and Personal Banking Officer, Belmont  
George Byykkonen - Senior Alternative Investment Representative  
Patricia Cullen - Assistant Vice President - 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  
Kari Geyer - Human Resources Officer  
Molly Heimerdinger - Credit Analyst  
Gloria Holmes - Retail Lending Underwriter  
Tyler Kennicker - Investment Representative  
Keri Kluck - Loan Operations Supervisor  
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  
Tammy Reynolds - Compliance Officer  
Sarah Rogers - Branch Manager and Personal Banking Officer, Cuba City  
Nancy Salzmman - Assistant Vice President - Personal Banking  
Susan Smith - Vice President - Retail Lending  
Jeffrey Stange - Assistant Vice President - Commercial Lending  
Barbara Winkler - Marketing Officer

## Staff

Loren Adams - Youth Apprentice, Belmont  
Sandy Adams - Administrative Assistant  
Barb Bratton - Accounting Clerk  
Sarah Brindley - Customer Service Representative, Mineral Point  
Tami Brogley - Customer Service Representative, Cuba City  
Amanda Brown - Customer Service Representative  
Sally Carey - Loan Clerk and Administrative Assistant  
Dylan Cudo - Customer Service Representative, Mount Horeb  
Chellesse 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  
Deanne Gorman - Lobby Receptionist  
Sarah Imobersteg - Investment Services Assistant  
Sara Jacobson - Customer Service Representative  
Toni Klein - ATM Customer Service Representative  
Linda Kress - Accounting Clerk  
Janice Laufenberg - Customer Service Representative, Mineral Point  
Roxanne Leahy - Administrative Assistant  
Linda Martin - Senior Accounting Clerk  
Denise McDonald - Customer Service Representative, Belmont  
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  
Julie Runde - Administrative Assistant  
Tyler Speth - Customer Service Representative, 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  
Amanda Witzig - Customer Service Representative

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