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2010 Annual Report

Alamogordo Financial Corp.

Est. 1934

BANK '34

LET'S MAKE IT POSSIBLE

Alamogordo FINANCIAL CORP.

Dear Shareholder,

We are pleased to present our audited financial statements for Alamogordo Financial Corporation. As of June 30, 2010, our total assets stood at $182 million. Total equity remains excellent at $29.3 million. On the following pages, you will find specific details as to our audited financial statements and related footnotes.

Our new building in Las Cruces should be ready to be occupied in mid-October. It will take a little while to get settled there so we plan to have a grand opening event sometime after the first of January so it doesn't conflict with the many holiday events that come this time of the year.

In spite of the economic climate of the world today and banking in general, we have been fortunate that we have been able to avoid the level of problem loans that some of our peers have experienced. We will continue to be conservative in our management in order to protect our strong capital while working hard to stimulate profit improvement.

BANK'34 and Alamogordo Financial Corporation have a long history of serving Alamogordo and Southern New Mexico. Because of the strength of this organization, we have the foundation we need to grow profitably while maintaining safe and sound banking principles.

Another strength of the organization is the Board of Directors and our Staff. Our Board is seasoned with professionals who understand today's issues and how they affect people and businesses. They are dedicated to serving our communities by providing the products and services necessary to accommodate all the communities we serve.

Our staff is experienced and devoted to customer service. We don't just want your business, we want a strong relationship that provides our customers with all of their banking needs and with all the technological amenities that are necessary in today's world.

We value the trust you have placed in us by investing your money. Please feel free to contact me personally if you have any questions regarding your Alamogordo Financial Corporation investment.

Sincerely,

Karlon Cox

Karlon Cox
President
Alamogordo Financial Corporation

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ALAMOGORDO FINANCIAL CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

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ALAMOGORDO FINANCIAL CORPORATION

MOSS-ADAMS LLP
CERTIFIED PUBLIC ACCOUNTANTS | BUSINESS CONSULTANTS
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Independent Auditors' Report

Board of Directors
Alamogordo Financial Corporation

We have audited the consolidated balance sheets of Alamogordo Financial Corporation and subsidiary (Company) as of June 30, 2010 and 2009 and the related consolidated statements of income, changes in equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Alamogordo Financial Corporation and subsidiary as of June 30, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Moss Adams LLP

Albuquerque, New Mexico
September 9, 2010

6100 Uptown Boulevard NE, Suite 400
Albuquerque, NM 87110

ALAMOGORDO FINANCIAL CORPORATION
CONSOLIDATED BALANCE SHEETS
June 30, 2010 and 2009

ASSETS		**2010**	2009
Cash and due from banks	$	**10,144,144**	1,675,704
Interest-bearing deposits with banks		**4,048,856**	8,931,190
Available-for-sale securities		**6,874,575**	4,092,503
Loans held for investment, net		**139,565,389**	144,491,277
Loans held for sale		**3,733,488**	616,215
Real estate owned		**139,816**	354,054
Premises and equipment, net		**9,345,817**	7,700,894
Stock in Federal Home Loan Bank, at cost, substantially restricted		**1,082,500**	1,079,800
Accrued interest receivable		**565,852**	587,932
Income taxes receivable		**247,299**	76,402
Deferred income taxes		**1,022,499**	469,451
Bank owned life insurance		**4,456,523**	-
Prepaid and other assets		**882,150**	196,555
Total assets	$	**182,108,908**	170,271,977
LIABILITIES AND EQUITY			
Liabilities			
Deposits	$	**133,346,310**	118,785,433
FHLB advances		**17,120,174**	20,520,132
Escrows		**359,164**	411,169
Accrued interest and other liabilities		**1,316,821**	943,055
Deferred income taxes		**645,651**	252,363
Total liabilities		**152,788,120**	140,912,152
Commitments and Contingencies			
Equity			
Preferred Stock, $.10 par value, 10,000,000 shares authorized, no shares issued or outstanding		**-**	-
Common stock, $.10 par value, 20,000,000 shares authorized, 1,319,732 and 1,316,996 issued and outstanding at 2010 and 2009, respectively		**131,973**	131,700
Treasury stock, at cost, 5,633 and 4,349 shares at 2010 and 2009, respectively		**(183,385)**	(135,056)
Additional paid in capital		**4,197,371**	4,134,142
Unearned stock awards		**(91,678)**	(114,299)
Retained earnings, substantially restricted		**25,220,497**	25,338,708
Accumulated other comprehensive income, net of tax		**46,010**	4,630
Total equity		**29,320,788**	29,359,825
Total liabilities and equity	$	**182,108,908**	170,271,977

See Notes to Consolidated Financial Statements.

ALAMOGORDO FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
Years Ended June 30, 2010 and 2009

		2010	2009
Interest Income			
Interest and fees on loans	$	9,273,493	8,979,302
Interest on securities		26,259	124,559
Interest on mortgage-backed securities		111,180	97,033
Interest on other interest-earning assets		4,343	18,592
Total interest income		9,415,275	9,219,486
Interest Expense			
Interest on deposits		2,764,521	3,058,137
Interest on FHLB and other borrowings		713,073	677,639
Total interest expense		3,477,594	3,735,776
Net interest income		5,937,681	5,483,710
Provision for loan losses		469,082	656,224
Net interest income after provision for loan losses		5,468,599	4,827,486
Other Income (Loss)			
Service charges and fees		461,807	547,254
Gain (loss) on sale of other real estate owned		1,641	(51,572)
Gain on sale of investments		-	547,636
Gain on sale of mortgage loans		558,517	105,347
Loss on sale of property		-	(92,596)
Other		289,325	180,346
Total other income		1,311,290	1,236,415
Other Expenses			
Salaries and benefits		3,217,115	2,565,828
Occupancy		803,690	787,485
Data processing fees		481,577	454,771
Federal insurance premiums and other insurance expense		243,293	136,920
Advertising		148,061	161,318
Other		1,153,549	1,046,930
Total other expenses		6,047,285	5,153,252
Income before income taxes		732,604	910,649
Provision for income taxes		274,501	359,276
Net income	$	458,103	551,373

See Notes to Consolidated Financial Statements.

ALAMOGORDO FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
Years Ended June 30, 2010 and 2009

	Common Stock		Treasury
	Shares	Amount	Stock
Balances June 30, 2008	1,315,059	$ 131,506	(132,915)
Release of stock awards	1,937	194	-
Cancellation of stock awards	-	-	-
Acquisition of common stock by the Company	-	-	(2,141)
Release of ESOP stock	-	-	-
Dividends declared and paid to stockholders	-	-	-
Comprehensive income			
Net income	-	-	-
Unrealized gain on available-for-sale securities, net of taxes	-	-	-
Total comprehensive income			
Balances June 30, 2009	1,316,996	131,700	(135,056)
Stock awards issued	-	-	-
Release of stock awards	2,736	273	-
Cancellation of stock awards	-	-	-
Acquisition of common stock by the Company	-	-	(48,329)
Dividends declared and paid to stockholders	-	-	-
Comprehensive income			
Net income	-	-	-
Unrealized gain on available-for-sale securities, net of taxes	-	-	-
Total comprehensive income			
Balances June 30, 2010	1,319,732	$ 131,973	(183,385)

See Notes to Consolidated Financial Statements.

Additional Paid In Capital	Unearned ESOP Shares & Stock Awards	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total Equity
$ 4,125,121	(213,749)	25,282,831	(9,814)	29,182,980
(194)	50,238	-	-	50,238
(20,652)	20,652	-	-	-
-	-	-	-	(2,141)
29,867	28,560	-	-	58,427
-	-	(495,496)	-	(495,496)
				28,794,008
-	-	551,373	-	551,373
-	-	-	14,444	14,444
				565,817
4,134,142	(114,299)	25,338,708	4,630	29,359,825
126,558	(126,558)	-	-	-
(273)	86,123	-	-	86,123
(63,056)	63,056	-	-	-
-	-	-	-	(48,329)
-	-	(576,314)	-	(576,314)
				(538,520)
-	-	458,103	-	458,103
-	-	-	41,380	41,380
				499,483
$ 4,197,371	(91,678)	25,220,497	46,010	29,320,788

ALAMOGORDO FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended June 30, 2010 and 2009

		2010	2009
Cash Flows From Operating Activities			
Net income	$	**458,103**	551,373
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation		**357,247**	372,315
Stock dividend on FHLB stock		**(2,700)**	(7,100)
Net amortization of premiums and discounts on securities		**-**	5,011
(Gain) loss on sale of other real estate owned		**(1,641)**	51,573
Loss on exchange of property		**-**	62,270
Gain on sale of investments		**-**	(547,636)
Gain on sale of loans		**(558,517)**	(105,347)
Benefit on deferred income taxes		**(181,301)**	(100,822)
Release of ESOP stock		**-**	58,427
Release of stock awards		**86,123**	50,238
Provision for loan losses		**469,082**	656,224
Changes in assets and liabilities			
Loans held for sale		**(2,558,756)**	(510,868)
Accrued interest		**22,080**	(21,959)
Income taxes		**(170,897)**	3,746
Bank owned life insurance		**(4,456,523)**	-
Other assets		**(685,595)**	(94,610)
Other real estate owned		**(238,398)**	(460,286)
Accrued interest and other liabilities		**373,766**	576,224
Net cash (used) provided by operating activities		**(7,087,927)**	538,773
Cash Flows From Investing Activities			
Proceeds from sales of and principal pay downs on securities available-for-sale		**1,836,405**	377,147
Proceeds from maturities and principal payments of securities held-to-maturity		**-**	6,547,636
Purchase of FHLB stock		**-**	(472,800)
Purchases of securities available-for-sale		**(4,555,556)**	(4,165,421)
Net change in loans		**4,456,806**	(18,818,023)
Purchases of premises and equipment		**(2,002,170)**	(1,446,313)
Disposals of premises and equipment		**-**	168,537
Net proceeds from sales of other real estate owned		**454,277**	54,659
Net cash provided (used) by investing activities		**189,762**	(17,754,578)

See Notes to Consolidated Financial Statements.

ALAMOGORDO FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
Years Ended June 30, 2010 and 2009

		2010	2009
Cash Flows From Financing Activities			
Net increase (decrease) in deposits	$	**14,560,877**	16,385,268
Net decrease in escrows		**(52,005)**	(50,433)
Payments on FHLB Advances		**(3,399,958)**	(2,000,000)
Proceeds from FHLB advances		**-**	10,700,093
Repurchase of Company stock		**(48,329)**	(2,141)
Cash dividends paid on common stock		**(576,314)**	(495,496)
Net cash provided by financing activities		**10,484,271**	24,537,291
Net increase in cash and cash equivalents		**3,586,106**	7,321,486
Cash and cash equivalents, beginning of year		**10,606,894**	3,285,408
Cash and cash equivalents, end of year	$	**14,193,000**	10,606,894
Noncash investing and financing activities			
Transfers of loans to real estate owned	$	**189,816**	354,054
Unrealized gain on available-for-sale securities, net of tax		**41,380**	14,444
Supplemental disclosures			
Cash paid during the year for			
Income taxes	$	**626,700**	286,000
Interest on deposits and advances		**3,492,543**	3,705,414

See Notes to Consolidated Financial Statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations. Alamogordo Financial Corporation is a stock holding company that owns 100% of BANK'34 (Bank). On March 31, 2008, the Bank changed its name from Alamogordo Federal Savings and Loan Association to BANK'34. The Bank is a federally chartered stock savings bank and has a wholly-owned subsidiary, Space Age City Service Corporation. Space Age City Service Corporation was organized to hold, purchase and sell real estate assets. In September 2007, a statement of intent to dissolve the Space Age City Service Corporation was submitted to the Office of Thrift Supervision and approved. Final dissolution of Space Age City Service Corporation was completed during the year ended June 30, 2009. Alamogordo Financial Corporation (Company) was incorporated on April 30, 1997 and is a majority owned subsidiary of AF Mutual Holding Company.

The Company provides a variety of banking services to individuals and businesses through its locations in Alamogordo and Las Cruces, New Mexico. The primary deposit products are demand deposits, certificates of deposit, NOW and money market accounts. The primary lending products are real estate mortgages and commercial loans. The Company is subject to competition from other financial institutions and to regulation by certain federal agencies and undergoes periodic examinations by these regulatory authorities.

A large portion of the Bank's loans are secured by real estate in Otero County, New Mexico. Otero County's economy is heavily dependent on two U.S. Government military installations located in the county. In January, 2008 the Bank expanded its number of locations by opening a new branch in Las Cruces, New Mexico. Las Cruces is the second largest city in New Mexico and one of the fastest growing in the country for its demographics. Accordingly, the ultimate collectibility of the Company's loan portfolio is susceptible to changes in market conditions in southern New Mexico. In addition, the Company's investment portfolio is directly impacted by fluctuations in market interest rates.

Rising and falling interest rate environments can have various impacts on the Bank's net interest income, depending on the short-term interest rate gap that the Bank maintains, the relative changes in interest rates that occur when the Bank's various assets and liabilities reprice, unscheduled repayments of loans, early withdrawals of deposits, and other factors.

Basis of Consolidation. The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany accounts and transactions have been eliminated.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates. The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America 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 reporting period. Actual results could differ from these estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for losses on loans and the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans. In connection with the determination of the allowances for losses on loans and foreclosed real estate, management obtains independent appraisals for significant properties.

Cash and Cash Equivalents. For the purpose of reporting cash flows, the Company defines cash and cash equivalents as cash on hand, cash items, amounts due from banks, amounts held with the Federal Reserve, interest-bearing deposits with the Federal Home Loan Bank, and investments in certificates of deposits with original maturities of three months or less.

Advertising Costs. The Company conducts direct and non-direct response advertising. These costs are expensed as incurred. Advertising costs for the years ended June 30, 2010 and 2009 are $148,061 and $161,318, respectively.

Securities. Securities classified as available-for-sale are debt securities the Bank intends to hold for an indefinite period of time, but not necessarily to maturity. Any decision to sell a security classified as available-for-sale would be based on various factors, including significant movements in interest rates, changes in the maturity mix of the Bank's assets and liabilities, liquidity needs, regulatory capital considerations and other similar factors. Securities available-for-sale are reported at fair value with unrealized gains or losses reported as other comprehensive income, net of the related deferred tax effect. Realized gains or losses, determined on the basis of the cost of specific securities sold, are included in earnings.

Purchase premiums and discounts are generally recognized in interest income using the interest method over the term of the securities. For mortgage-backed securities, estimates of prepayments are considered in the constant yield calculations.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Declines in the fair value of individual securities classified as available-for-sale below their amortized cost that are determined to be other than temporary, result in write-downs of the individual. Impairment is assessed at the individual security level. An investment security is impaired if the fair value of the security is less than its amortized cost basis. Once the security is impaired, a determination must be made to see if the impairment is other than temporary.

In determining other than temporary losses, management considers many factors, including: current market conditions, fair value in relationship to cost; extent and nature of the change in fair value; issuer rating changes and trends; whether to sell the security before recovery of the amortized cost basis of the investment, which may be maturity; and other factors. For debt securities, if management intends to sell the security or it is likely that the Bank will be required to sell the security before recovering its cost basis, the entire impairment loss would be recognized in earnings as an OTTI. If management does not intend to sell the security and it is not likely that the Bank will be required to sell the security, but management does not expect to recover the entire amortized cost basis of the security, only the portion of the impairment loss representing credit losses would be recognized in earnings. The credit loss on a security is measured as the difference between the amortized cost basis and the present value of the cash flows expected to be collected. Project cash flows are discounted by the original or current effective interest rate depending on the nature of the security being measured for potential OTTI. The remaining impairment related to all other factors, i.e., the difference between the present value of the cash flows expected to be collected and fair value, is recognized as a charge to other comprehensive income. Impairment losses related to all other factors are presented as separate categories within other comprehensive income.

Loans. The Bank grants mortgage, commercial and consumer loans to customers. A substantial portion of the portfolio is represented by mortgage loans throughout Alamogordo and the surrounding area. The ability of the Bank's debtors to honor their contracts is dependent upon the real estate and general economic conditions in this area.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are reported at their outstanding unpaid principal balances adjusted for loan participations sold, charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the interest method.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The accrual of interest on mortgage and commercial loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Personal loans are typically charged off no later than 180 days past due. Past due status is based on contractual terms of the loan. In all cases, loans are placed on non-accrual or charged-off at an earlier date if management believes that collection of principal or interest is considered doubtful.

All interest accrued, but not collected for loans that are placed on non-accrual or charged off, is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are brought current and future payments are reasonably assured.

Allowance for Loan Losses. The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available. While management may periodically allocate portions of the allowance for specific problem loan situations, including impaired loans discussed below, the whole allowance is available for any charge-offs that occur. Additionally, regulatory agencies, as part of their examination process, periodically review the allowance and may require additions to the allowance based on their judgments of information available during their examinations.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Bank does not separately identify individual consumer and residential loans for impairment disclosures, unless such loans are the subject of a restructuring agreement.

Loans Held for Sale: Loans held for sale are those loans the Bank intends to sell. They are carried at the lower of aggregate cost or market value. Gains and losses on sales of loans are recognized at settlements dates and are determined by the difference between the sales proceeds and carrying value of the loans. These are generally sold within 30 to 60 days of origination.

Premises and Equipment. Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are computed using the straight line method in amounts sufficient to relate the cost of depreciable assets to operations over the estimated useful lives of the assets which range from three to seven years for equipment and fifteen to forty years for leasehold improvements and buildings. Maintenance and repairs that do not extend the useful lives of premises and equipment are charged to expense as incurred.

Real Estate Owned. Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value at the date of foreclosure less estimated selling cost, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in valuation allowance are included in net expense, whereas costs relating to improvement of the property are capitalized.

Income Taxes. The Company records income tax expense based on the amount of taxes due on its tax return, plus deferred taxes computed based on the expected future tax consequences of temporary differences between the carrying amounts and tax basis of assets and liabilities, using the enacted tax rates.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loan Origination Fees and Costs. Loan origination fees and certain direct origination costs are capitalized and recognized as an adjustment of the yield over the contractual life of the related loan.

Comprehensive Income. Comprehensive income consists of net income and unrealized gains and losses on securities available for sale, net of taxes.

Investment in Federal Home Loan Bank Stock. The Bank, as a member of the Federal Home Loan Bank System, is required to maintain an investment in the capital stock of the Federal Home Loan Bank (FHLB) in an amount equal to .06% of its total assets plus 4.1% of advances from the FHLB. No ready market exists for the Federal Home Loan Bank Stock, and it has no quoted market value.

Stock-Based Compensation. The Company has a Stock Option Plan and a Recognition and Retention Plan (RRP) which both award shares of the Company's stock to directors and key employees.

The Company separates each award into vesting tranches and recognizes expense on the fair value of the option for each tranche over the vesting period. The fair value of options granted are estimated using the Black-Scholes option pricing model with the following assumptions: expected dividend yield, expected stock price volatility, risk free rate of return, and expected life of options.

During the years ended June 30, 2010 and 2009, there were no options that vested.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value of Assets and Liabilities. Effective July 1, 2008, the Company adopted the FASB ASC Topic 820 provisions regarding fair value measurements for financial assets and financial liabilities. The Company's valuation techniques are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's assumption about market value. These two types of inputs create the following fair value hierarchy:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Reclassifications. Certain reclassifications have been made to the 2009 financial statements to conform to the 2010 presentation.

Adoption of Accounting Standards Codification. On July 1, 2009, the Financial Accounting Standards Board ("FASB") issued ASC 105-10, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, (formerly Statement of Financial Accounting Standards "SFAS" No. 168, The Hierarchy of GAAP). This Statement establishes FASB Accounting Standards Codification ("ASC") as the single source of authoritative GAAP in the United States. In these consolidated financial statements, a singular presentation of the ASC reference has been adopted. The adoption of the ASC does not impact the Company's financial statements except for references made to authoritative accounting literature in the footnotes.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent Events. Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are issued. The Company recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the financial statements. The Company's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before the financial statements are available to be issued.

The Company has evaluated subsequent events through September 9, 2010.

NOTE 2. SECURITIES

The amortized cost and fair values of investment securities are as follows:

Available-for-sale

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2010				
Mortgage-backed securities				
FHLMC	**$ 1,107,853**	**16,231**	**-**	**1,124,084**
GNMA	**1,165,335**	**1,921**	**-**	**1,167,256**
FNMA	**1,527,152**	**30,943**	**-**	**1,558,095**
Agency securities	**3,003,598**	**21,542**	**-**	**3,025,140**
	$ 6,803,938	**70,637**	**-**	**6,874,575**

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2009				
Mortgage-backed securities				
FHLMC	$ 1,845,897	1,325	-	1,847,222
GNMA	2,094,663	4,934	-	2,099,597
FNMA	144,225	1,459	-	145,684
	$ 4,084,785	7,718	-	4,092,503

NOTE 2. SECURITIES (CONTINUED)

During the year ended June 30, 2009, the Company sold its held-to-maturity portfolio of U.S. Treasury securities prior to the maturity. At the time of the sale, the securities were classified as held-to-maturity and had a book value of $3,990,326. The Company realized a gain of $547,636 on the sale of these investments. Changes in interest rates resulted in market conditions in which these investments could be sold for a gain and the resulting funds reinvested more effectively. The Company believes the sale of these held-to-maturity investments was isolated, nonrecurring and unusual in nature.

U.S. government securities, carried at approximately $825,925 and $258,777 at June 30, 2010 and 2009, respectively, are pledged to secure public deposits and for other purposes required or permitted by law.

Amortized cost and fair value of securities by contractual maturity are shown below. Expected maturities may differ from contractual maturities because borrowers may call or repay obligations.

	June 30, 2010	
	Amortized Cost	Fair Value
Due in one to five years	$ 3,003,598	3,025,140
Due in six to ten years	562,113	562,795
Due in greater than ten years	3,238,227	3,286,640
	$ 6,803,938	6,874,575

NOTE 3. LOANS AND THE ALLOWANCE FOR LOAN LOSSES

Loans held for investment reflected in the consolidated balance sheets consist of the following as of June 30:

	2010	2009
Mortgage loans		
One-to-four family	$ 71,561,091	81,411,163
Multi-family and nonresidential	40,866,065	39,102,478
Construction	11,878,189	11,436,021
Land	10,656,832	8,046,455
Total first mortgage loans	134,962,177	139,996,117
Consumer and other loans		
Second mortgage	304,384	487,247
Consumer	981,780	1,028,848
Commercial	4,695,561	4,243,930
Deposit account	206,286	365,688
Total consumer and other loans	6,188,011	6,125,713
Gross Loans	141,150,188	146,121,830
Deferred loan fees and discounts	(365,125)	(517,725)
Loans in process	(23,798)	(378,330)
Allowance for loan loss	(1,195,876)	(734,498)
Net loans, held for investment	$ 139,565,389	144,491,277

An analysis of the allowance for loan losses follows:

	2010	2009
Balance at beginning of year	$ 734,498	271,385
Provision for loan losses	469,082	656,224
Loans charged off, net of recoveries	(7,704)	(193,111)
Balance at end of year	$ 1,195,876	734,498

Certain loans within the Company's loan and real estate owned portfolios are guaranteed by the Veterans Administration (VA). In the event of default by the borrower, the VA can elect to pay the guaranteed amount or take possession of the property. If the VA takes possession of the property, the Company is entitled to be reimbursed for the outstanding principal balance, accrued interest and certain other expenses. There were no commitments from the VA to take title to foreclosed VA properties at June 30, 2010 and 2009.

NOTE 3. LOANS AND THE ALLOWANCE FOR LOAN LOSSES (CONTINUED)

Included in net loans were loans on non-accrual status. Such loans approximated $8,028,451 and $4,867,536 at June 30, 2010 and 2009, respectively. For the years ended June 30, 2010 and 2009, gross interest income which would have been recorded had the non-accruing loans been current in accordance with their original terms amounted to $499,878 and $111,925, respectively. No amounts were included in interest income on such loans for the years ended June 30, 2010 and 2009, respectively.

The total recorded investment in impaired loans, all of which had allowances determined in accordance with generally accepted accounting principles (GAAP), amounted to $9,126,075 and $3,149,793 at June 30, 2010 and 2009, respectively. The allowance for loan losses related to impaired loans amounted to approximately $648,000 and $290,000 at June 30, 2010 and 2009, respectively. Interest income on impaired loans of $481,194 and $168,595 was recognized for cash payments received in 2010 and 2009, respectively.

During the years ended June 30, 2010 and 2009, the Company originated and sold loans of approximately $30,071,000 and $8,171,000, respectively. The Company recognized approximately $559,000 and $105,000 of revenue on these transactions during the years ended June 30, 2010 and 2009, respectively.

At June 30, 2010, fixed and variable rate loans were $112,426,201 and $28,723,987, respectively. At June 30, 2009, fixed and variable rate loans were $117,357,919 and $28,763,911, respectively.

Loans to related parties at June 30 were as follows:

	2010	2009
Beginning balance	**$ 5,208,539**	3,654,697
New loans	**351,173**	4,162,314
Paydowns and payoffs	**(977,282)**	(2,608,472)
Ending balance	**$ 4,582,430**	5,208,539

NOTE 4. PREMISES AND EQUIPMENT

Premises and equipment reflected in the consolidated balance sheets consist of the following at June 30:

	2010	2009
Land	$ 2,296,637	1,998,260
Buildings	7,637,809	7,634,799
Leasehold improvements	27,031	27,031
Furniture and equipment	2,309,614	2,187,480
Automobiles	129,902	75,950
	12,400,993	11,923,520
Accumulated depreciation	(4,579,876)	(4,222,626)
Construction in progress	1,524,700	-
Balance at end of year	$ 9,345,817	7,700,894

At June 30, 2010, the Bank had $1,524,700 in construction in progress related to the construction of a permanent branch in Las Cruces. Included in this balance is $13,658 in imputed capitalized interest.

NOTE 5. DEPOSITS

The composition of deposits is as follows at June 30:

	2010	2009
Demand deposits, noninterest bearing	$ 8,031,141	5,150,637
NOW and money market accounts	19,697,381	16,882,020
Savings deposits	13,077,147	8,511,133
Time certificates, $100,000 or more	33,429,268	30,069,383
Other time certificates	59,111,373	58,172,260
Total	$ 133,346,310	118,785,433

NOTE 5. DEPOSITS (CONTINUED)

At June 30, 2010, the scheduled maturities of time deposits were as follows:

2011	$57,191,534
2012	18,993,185
2013	7,658,459
2014	3,474,024
2015	5,223,439
	$92,540,641

Interest expense as of June 30, is summarized below:

	2010	2009
Transaction and saving deposits	**$ 226,811**	261,760
Certificate accounts	**2,537,710**	2,796,377
	$ 2,764,521	3,058,137

The Company held deposits of $2,773,218 and $1,954,311 for related parties at June 30, 2010 and 2009, respectively. The related parties consist of officers and directors of the Company and are made on the same terms and conditions as other non-related parties.

NOTE 6. ADVANCES FROM FEDERAL HOME LOAN BANK

The Bank has the ability to borrow funds from the Federal Home Loan Bank of Dallas (FHLB) up to 50% of total assets. Advances are secured by a blanket-floating lien on qualifying 1-4 family first mortgage loans and commercial loans. At June 30, 2010 and 2009, the Bank had $17,120,174 and $20,520,132, respectively, in outstanding advances with the FHLB. The advances bear interest at fixed rates, which range from 3.36% to 5.15%, and mature as follows:

Maturities for fiscal years ending June 30:

2011	$ 854,990
2012	790,800
2013	4,233,512
2014	4,630,942
2015	363,230
Thereafter	6,246,700
	$17,120,174

NOTE 7. EMPLOYEE RETIREMENT BENEFIT PLANS

The Company has established a profit-sharing 401(k) type salary reduction plan for all employees that meet the necessary eligibility requirements for participation in the plan. Participants fully vest after six years of service. Annual contributions are at the discretion of the Board of Directors of the Company. The Company made contributions to the plan of $28,123 and $26,195 for the years ended June 30, 2010 and 2009, respectively.

The Company also participates in a multi-employer defined benefit pension plan. The pension plan is available to all employees completing one year of service. Segregated statements of plan assets or separate actuarial valuations are not available. On June 1, 2006, the Company froze the benefits available under the defined benefit pension plan. Total pension expense was $85,103 and $78,698 for the years ended June 30, 2010 and 2009, respectively. At June 30, 2010 and 2009, the estimated expected unfunded accrued liability under this plan was $72,144 and $77,277, respectively.

NOTE 8. BOARD OF DIRECTORS RETIREMENT PLAN

The Board has adopted a deferred compensation plan (Plan) to compensate board members for their service to the Company. The retirement date for directors is the later of the last month in which they reach age 70 or upon completion of their term if they were elected to the board during the annual meeting resulting in service beyond age 70. Upon retirement, board members receive the deferred compensation for the remainder of their life up to a maximum of $2,000 per month. Directors receive credit for service at 5% a year. Board members also vest in the Plan based on service as follows: 0 to 4 years of service (20%), 5 years of service (40%), 6 years of service (60%), 7 years of service (80 %) and 8 years of service (100 %). The total liability for the Plan at June 30, 2010 was $236,784.

NOTE 9. CONTINGENT LIABILITIES AND COMMITMENTS

In the normal course of business, various commitments are outstanding, such as commitments to extend credit. These financial instruments with off-balance sheet risk are not reflected in the consolidated financial statements. Management does not anticipate any significant losses as a result of these transactions. The following summarizes these financial instruments:

	2010	2009
Commitments to originate and sell mortgage loans	**$ 4,583,963**	2,687,000
Commitments to extend credit	**8,006,193**	7,903,481
Unused lines-of-credit	**17,860,577**	15,426,152
Commercial letters of credit	**328,727**	47,266
	$30,779,460	26,063,899

Since certain commitments to make loans and fund lines-of-credit expire without being used, the amounts do not necessarily represent future cash commitments. In addition, commitments used to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. The Company's exposure to credit loss in the event of nonperformance by the other party to these financial instruments is represented by the contractual amount of these instruments. The Company follows the same credit policy to make such commitments as is followed for those loans recorded on the consolidated balance sheet.

At of June 30, 2010, fixed rate and variable rate commitments to make loans amounted to $5,215,093 and $2,791,100 respectively. The interest rates on fixed and variable rate commitments ranged from 3.25% to 9.50%. At of June 30, 2009, fixed rate and variable rate commitments to make loans amounted to $6,231,732 and $1,671,749, respectively. The interest rates on fixed and variable rate commitments ranged from 4.75% to 8.5%.

The Company is required by regulatory authorities to maintain certain daily cash balances. The Company's reserve requirements were met through vault cash at June 30, 2010 and 2009.

In 2010 and 2009, the Bank leased space for its branch in Las Cruces. Lease expense for the years ended June 30, 2010 and 2009 was $39,887 and $44,270 respectively. The lease for the Las Cruces branch began October 1, 2007 and was renewed on October 1, 2009 on a month to month basis.

NOTE 9. CONTINGENT LIABILITIES AND COMMITMENTS (CONTINUED)

The former Bank President's (former President) is currently employed by the Bank. The former President signed an employment agreement, effective December 31, 2008, that provides the former President compensation of $58,200 per year over his lifetime. The former President began receiving the $58,200 per year annual salary starting February 1, 2010. This agreement requires the former President to consult, when requested to do so, in an advisory capacity, at a service level of no more than fifty percent of the average services provided to the Company during the period of January 31, 2007 to January 31, 2010. The agreement also includes a non-compete clause whereby the former President can not compete with the Company's business in Otero, Dona Ana, or Lincoln counties in New Mexico. Additionally, the employment agreement requires the Company to purchase and maintain a life insurance policy of $600,000 during the former President's lifetime.

NOTE 10. INCOME TAXES

The Company and its subsidiary file a consolidated income tax return. The Company recognizes deferred tax assets and liabilities for future tax consequences of events that have been previously recognized in the Company's financial statements or tax returns. The measurement of deferred tax assets and liabilities is based on provisions of the currently enacted tax law. The effects of future changes in tax laws or rates are not anticipated.

Effective July 1, 2009, the Company adopted ASC 740, relating to accounting for uncertain tax positions. ASC 740 prescribes a recognition threshold and measurement process for accounting for uncertain tax positions and also provides guidance on various related matters such as derecognition, interest, penalties and disclosures required. The application of the standard did not have significant impact on the financial statements for the year ended June 30, 2010. As of the July 1, 2009 date of adoption and as of June 30, 2009, the Company had no unrecognized tax benefits. The Company does not anticipate that the amount of unrecognized tax benefits will significantly increase or decrease in the next 12 months. There were no interest and penalties accrued for the years ended June 30, 2009. The Company files consolidated U.S. federal and New Mexico income tax returns, which are subject to examination by the taxing authorities for years 2006 and later

NOTE 10. INCOME TAXES (CONTINUED)

The provision (benefit) for income taxes consists of the following:

	2010	2009
Current		
Federal	$ **384,667**	391,569
State	**71,135**	68,529
	455,802	460,098
Deferred		
Federal	**(154,106)**	(94,773)
State	**(27,195)**	(6,049)
	(181,301)	(100,822)
	$ **274,501**	359,276

The income tax differs from the amounts computed by applying the statutory federal income tax rate of 34% to income before income taxes as follows:

	2010	2009
Expense at statutory rate	$ **249,085**	309,621
State income taxes, net of federal benefit	**29,664**	27,307
Other, net	**(4,248)**	22,348
	$ **274,501**	359,276

NOTE 10. INCOME TAXES (CONTINUED)

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities are as follows:

	2010	2009
Deferred tax assets		
Bank Owned Life Insurance	$ 52,071	-
Bad debt reserve	565,131	380,458
Reorganization expenses	8,128	8,128
Non-accrual loan interest	244,721	44,770
REO specific allowance	-	16,000
Stock awards	54,544	20,095
Board of Directors Retirement Plan	97,904	-
Total deferred tax assets	1,022,499	469,451
Deferred tax liabilities		
Unrealized gain on available-for-sale securities	(24,630)	(3,086)
FHLB stock dividends	(89,387)	(88,210)
Book/tax depreciation	(500,626)	(130,059)
Loan origination costs	(31,008)	(31,008)
Total deferred tax liabilities	(645,651)	(252,363)
Net deferred tax assets	$ 376,848	217,088

NOTE 11. CONCENTRATIONS OF CREDIT RISK

All of the Company's loans, commitments, and standby letters of credit have been granted to customers in the Company's market area, which is the southern region of the state of New Mexico. As such, significant changes in economic conditions in this region or with its primary industries could adversely affect the Company's ability to collect loans. Investments in state and municipal securities also involve governmental entities within the Company's market area. The concentrations of credit by type of loan are set forth in Note 3. The distribution of commitments to extend credit approximates the distribution of loans outstanding. Standby letters of credit were granted primarily to commercial borrowers. The Company maintains certain balances with other institutions. The balances on deposit with other banks are insured by the Federal Deposit Insurance Corporation up to $250,000 at each institution. The Company had no uninsured cash balances at June 30, 2010 and 2009.

NOTE 12. REGULATORY CAPITAL

The Bank is subject to various regulatory capital requirements administered by the federal thrift agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly discretionary, actions by regulators that, if undertaken, could have a direct and material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier I capital (as defined) to average assets (as defined). Management believes, as of June 30, 2010 and 2009, that the Bank meets all capital adequacy requirements to which it is subject.

As of June 30, 2010, the most recent notification from the Office of Thrift Supervision categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the Bank's category.

The following is a reconciliation of the Bank's equity under accounting principles generally accepted in the United States of America (GAAP) to regulatory capital (dollars in thousands):

		2010	2009
GAAP equity	$	**28,890**	27,982
Unrealized (gain) loss on securities available-for-sale, net of taxes		**(46)**	(5)
Tier I (Core) capital		**28,844**	27,977
General allowance for loan losses		**548**	445
Total Risk-Based Capital	$	**29,392**	28,422

NOTE 12. REGULATORY CAPITAL (CONTINUED)

The Bank's OTS capital ratios are (dollars in thousands):

	Actual		Requirements to be Adequately Capitalized		Requirements to be well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
June 30, 2010						
Tier 1 capital (to adjusted total assets)	**$ 28,780**	**15.9%**	**$ 5,432**	**3.0%**	**$ 9,053**	**5.0%**
Tier 1 capital (to risk weighted assets)	**28,780**	**23.4**	**4,919**	**4.0**	**7,379**	**6.0**
Total risk-based capital (to risk weighted assets)	**29,392**	**23.9**	**9,839**	**8.0**	**12,298**	**10.0**
Tangible capital (to adjusted total assets)	**28,780**	**15.9**	**N/A**	**N/A**	**2,716**	**1.5**
June 30, 2009						
Tier 1 capital (to adjusted total assets)	$ 27,977	16.5%	$ 5,098	3.0%	$ 8,497	5.0%
Tier 1 capital (to risk weighted assets)	27,977	24.0	4,653	4.0	6,980	6.0
Total risk-based capital (to risk weighted assets)	28,422	24.4	9,307	8.0	11,634	10.0
Tangible capital (to adjusted total assets)	27,977	16.5	N/A	N/A	2,549	1.5

NOTE 13. DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

FASB ASC 820 requires that the Company disclose estimated fair values for its financial instruments. Fair value estimates, methods and assumptions are set forth below for the Company's financial instruments.

Cash and Cash Equivalents. The carrying amount approximates fair value because of the short maturity of these instruments.

Securities. The fair value of securities is estimated based on market values received from a securities broker.

NOTE 13. DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Loans. The fair value of one-to-four-family, fixed, and adjustable-rate mortgages is calculated by using the option-based pricing approach that makes use of the Monte Carlo simulation. The Monte Carlo model uses an interest rate simulation program to generate numerous random interest rate paths that, in conjunction with a prepayment model, are used to estimate mortgage cash flows along each path. The fair value of other loans in the portfolio is calculated by using the static discounted cash flow approach. Under the static discounted cash flow approach, the economic value of a financial instrument is estimated by calculating the present value of the instrument's expected cash flows. The present value is determined by discounting the cash flows the instrument is expected to generate by the yield currently available to investors from an instrument of comparable risk and duration.

Deposits. The fair value of deposits with no stated maturity, such as non-interest bearing demand deposits, NOW accounts, money market demand and savings accounts, is equal to the amount payable on demand. The fair value of certificate accounts is based on the static discounted cash flow approach. The discount rate is estimated using the rates currently offered for deposits of similar remaining maturities.

Advances from the Federal Home Loan Bank (FHLB). The fair value of the advance from the FHLB is based on the static discounted cash flow approach. Monthly cash flows are discounted by the LIBOR appropriate to each month.

Off-Balance Sheet Financial Instruments. The fair value of financial instruments with off-balance sheet risk is based on the credit quality and relationship, probability of funding and other requirements. Fair values of off-balance sheet financial instruments are not material to the consolidated financial statements.

Limitations. Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument. Because no market exists for a significant portion of the Company's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

NOTE 13. DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value estimates are based on existing on-and off-balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. For example, significant assets that are not considered financial instruments include premises and equipment. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in any of the estimates.

The estimated fair values of the Company's financial instruments are as follows:

		June 30, 2010		June 30, 2009	
		Carrying Value	**Estimated Fair Value**	Carrying Value	Estimated Fair Value
Financial Assets					
Cash and due from banks	$	**10,144,144**	**10,144,144**	1,631,849	1,631,849
Interest-bearing deposits with banks		**4,048,856**	**4,048,856**	8,975,045	8,975,045
Securities		**6,874,575**	**6,874,575**	4,092,503	4,092,503
Total loans		**144,883,676**	**149,216,626**	145,107,492	151,543,601
Bank owned life insurance		**4,456,523**	**4,456,523**	-	-
Accrued interest		**565,852**	**565,852**	587,932	587,932
Financial Liabilities					
Deposits		**133,346,310**	**135,397,665**	118,785,433	120,933,300
Escrows		**359,164**	**362,522**	411,169	412,986
Accrued interest		**61,813**	**61,813**	76,762	76,762
Advances from FHLB		**17,120,174**	**16,987,345**	20,520,132	20,361,653

NOTE 13. DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Effective July 1, 2008, the Company adopted the FASB ASC Topic 820 provisions regarding fair value measurements for financial assets and financial liabilities. The Company's valuation techniques are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's assumption about market value. These two types of inputs create the following fair value hierarchy:

- Level 1 - Quoted prices for identical instruments in active markets.
- Level 2 - Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable.
- Level 3- Instruments whose significant value drivers are unobservable.

The fair value estimates that follow are subjective in nature and involve uncertainties and matters of significant judgment; therefore, they are not necessarily indicative of the amounts the Company could realize in a current market exchange. The Company has not included certain material items in its disclosure, such as the value of the long-term relationships with the Company's lending and deposit clients, since this is an intangible and not a financial instrument. Additionally, the estimates do not include any tax ramifications. There may be inherent weaknesses in any calculation technique, and changes in the underlying assumptions used, including discount rates and estimates of future cash flows that could materially affect the results. For all of these reasons, the aggregation of the fair value calculations presented herein do not represent, and should not be construed to represent, the underlying value of the Company.

The following table summarizes the Company's financial instruments that were measured at fair value on a recurring basis at June 30:

	Quoted Prices in Active Markets For Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Balance as of June 30
2010				
Securities available for sale	$ -	6,874,574	-	6,874,574
Total assets at fair market value	$ -	6,874,574	-	6,874,574

NOTE 13. DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

2009				
Securities available for sale	$ -	4,092,503	-	4,092,503
Total assets at fair market value	$ -	4,092,503	-	4,092,503

Securities available for sale are valued based upon open-market quotes obtained from reputable third-party brokers. Market pricing is based upon specific CUSIP identification for each individual security. Changes in fair market value are recorded in other comprehensive income as the securities are available for sale.

Certain financial assets and financial liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). These assets are recorded at the lower of amortized cost or current market value, and a valuation allowance reflects any unrealized market value losses, offset to an expense account. The following table summarizes the Company's financial instruments that were measured at fair value on a non-recurring basis at June 30:

	Quoted Prices in Active Markets For Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Balance as of June 30
2010				
Impaired loans	**$ -**	**-**	**9,126,075**	**9,126,075**
Total assets at fair market value	**$ -**	**-**	**9,126,075**	**9,126,075**
2009				
Impaired loans	$ -	-	3,149,793	3,149,793
Total assets at fair market value	$ -	-	3,149,793	3,149,793

NOTE 13. DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value measurements for impaired loans are performed in accordance with ASC 310, and are based upon one of three methods to measure impairment: the fair value of the collateral less disposition costs, the present value of expected future cash flows method, or the observable market price of a loan method. A loan may be considered impaired, but the value is considered sufficient to support a fair value equal to or greater than the carrying value of the loan, and no specific reserve is deemed necessary to record such impairment. The change in fair value of impaired assets that were valued based upon level three inputs, for which there was a specifically identified reserve, resulted in an increase of specifically allocated reserve of approximately $648.000 and $289,000 for the years ended June 30, 2010 and 2009, respectively. The loss or gain in specifically allocated reserve is not recorded directly as an adjustment to current earnings or comprehensive income, but rather as an adjustment component in determining the overall adequacy of the loan loss reserve. Such adjustments to the estimated fair value of impaired loans may result in increases or decreases to the provision for loan losses recorded in current earnings.

NOTE 14. STOCK-BASED COMPENSATION PLANS

The Company adopted an employee stock ownership plan (ESOP) effective January 1, 2000 for all employees meeting certain age and service requirements. Participants begin vesting after three years of employment and fully vest after seven years of service. The plan acquired 28,560 shares of the Company's common stock at $10 per share. The ESOP shares are held in trust and released to the Plan pro rata as principal payments are made. On June 30, 2009, the trust allocated the remaining 2,856 shares of stock to participant accounts. As of June 30, 2010, the value of the 22,818 shares of common stock owned by the ESOP was equal to $22.00 per share, or $501,996 in the aggregate. The Company shares owned by the ESOP are subject to a "put option" as described in the ESOP Plan documents which require the Company to repurchase distributed shares upon retirement if the employee so wishes.

The following information relates to the ESOP for the years ended June 30, 2010 and 2009:

		2010	2009
Shares committed to be released		-	2,856
Estimated fair value of unallocated (unearned) shares	$	-	-
Compensation expense		-	58,427

NOTE 14. STOCK-BASED COMPENSATION PLANS (CONTINUED)

Shares held by the ESOP at June 30 are as follows:

	2010	2009
Allocated shares	**28,560**	28,560
Unallocated shares	-	-
Total ESOP shares	**28,560**	28,560

The Company adopted a Stock Option Plan effective June 25, 2001. Under the terms of the plan, the Company authorized the awarding of 35,700 shares of the Company's common stock to directors and key employees at an exercise price of $18.50 per share. The directors are 100% vested in the options becoming exercisable as of June 25, 2001. The options become exercisable for the key employees at a vesting rate of 20% per year over five years beginning July 1, 2002 and have an exercise date of ten years from the date of grant. The exercise price equaled the market price on the date the options were granted. The weighted average remaining life of common stock options at June 30, 2010 and 2009 is two and three years, respectively.

A summary of common stock options under the Stock Option Plan follows:

	Options	Price Range	Weighted Average Price	Options Exercisable
Balance, June 30, 2008	5,004	$ 18.50	$ 18.50	5,004
Granted	-			
Forfeited	-			
Exercised	-			
Balance, June 30, 2009	5,004	18.50	18.50	5,004
Granted	-			
Forfeited	-			
Exercised	-			
Balance, June 30, 2010	**5,004**	**$ 18.50**	**$ 18.50**	**5,004**

There were no options exercised during the year ended June 30, 2010 and 2009.

NOTE 14. STOCK-BASED COMPENSATION PLANS (CONTINUED)

The Company adopted a Recognition and Retention Plan (RRP) effective June 25, 2001.

In 2001, the Company contributed $320,365 allowing the RRP to acquire 17,317 shares of common stock of the Company, at $18.50 per share, awarded to directors and key employees. Stock awards for 7,586 shares to the directors vested 50% on November 1, 2001 and 50% on November 1, 2002. Stock awards for 9,731 shares to key employees vest at 20% per year over five years beginning July 1, 2002. The un-amortized cost of shares not yet earned (vested) is reported as a reduction of stockholders' equity.

In November 2007, the Company contributed $323,068 allowing the RRP to acquire 9,502 shares of common stock of the Company, at $34.00 per share, awarded to directors and key employees. Stock awards for 3,670 shares to the directors vested 50% on January 1, 2008 and the remaining 50% vested on January 1, 2009. Stock awards for 5,832 shares to key employees vest at 20% per year over five years beginning July 1, 2008. The un-amortized cost of shares not yet earned (vested) is reported as a reduction of stockholders' equity.

In July 2009, the Company contributed $126,558 allowing the RRP to acquire 6,408 shares of common stock of the Company, at $19.25 per share, awarded to directors and key employees. Stock awards for 2,000 shares to the directors vested 50% on July 1, 2009 and the remaining 50% vested on July 1, 2010. Stock awards for 4,408 shares to key employees vest at 20% per year over five years beginning July 1, 2009. The un-amortized cost of shares not yet earned (vested) is reported as a reduction of stockholders' equity.

RRP compensation expense was $86,193 and $50,238 for the years ended June 30, 2010 and 2009, respectively.

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Thank you

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