OFFICIAL RECORD COPY

Board of Governors of the Federal Reserve System

# Annual Report of Holding Companies—FR Y-6

RECEIVED
SEP 28 2015
BANKING SUPERVISION DEPARTMENT

## Report at the close of business as of the end of fiscal year

This Report is required by law: Section 5(c)(1)(A) of the Bank Holding Company Act (12 U.S.C. § 1844 (c)(1)(A)); Section 8(a) of the International Banking Act (12 U.S.C. § 3106(a)); Sections 11(a)(1), 25 and 25A of the Federal Reserve Act (12 U.S.C. §§ 248(a)(1), 602, and 611a); Section 211.13(c) of Regulation K (12 C.F.R. § 211.13(c)); and Section 225.5(b) of Regulation Y (12 C.F.R. § 225.5(b)) and section 10(c)(2)(H) of the Home Owners' Loan Act. Return to the appropriate Federal Reserve Bank the original and the number of copies specified.

This report form is to be filed by all top-tier bank holding companies and top-tier savings and loan holding companies organized under U.S. law, and by any foreign banking organization that does not meet the requirements of and is not treated as a qualifying foreign banking organization under Section 211.23 of Regulation K (12 C.F.R. § 211.23). (See page one of the general instructions for more detail of who must file.) The Federal Reserve may not conduct or sponsor, and an organization (or a person) is not required to respond to, an information collection unless it displays a currently valid OMB control number.

NOTE: The *Annual Report of Holding Companies* must be signed by one director of the top-tier holding company. This individual should also be a senior official of the top-tier holding company. In the event that the top-tier holding company does not have an individual who is a senior official and is also a director, the chairman of the board must sign the report.

I, William A. Cunningham
Name of the Holding Company Director and Official

President-Director
Title of the Holding Company Director and Official

attest that the *Annual Report of Holding Companies* (including the supporting attachments) for this report date has been prepared in conformance with the instructions issued by the Federal Reserve System and are true and correct to the best of my knowledge and belief.

*With respect to information regarding individuals contained in this report, the Reporter certifies that it has the authority to provide this information to the Federal Reserve. The Reporter also certifies that it has the authority, on behalf of each individual, to consent or object to public release of information regarding that individual. The Federal Reserve may assume, in the absence of a request for confidential treatment submitted in accordance with the Board's "Rules Regarding Availability of Information," 12 C.F.R. Part 261, that the Reporter and individual consent to public release of all details in the report concerning that individual.*

William A. Cunningham
Signature of Holding Company Director and Official

09/23/2015
Date of Signature

*For holding companies not registered with the SEC–*
Indicate status of Annual Report to Shareholders:
- ☒ is included with the FR Y-6 report
- ☐ will be sent under separate cover
- ☐ is not prepared

**For Federal Reserve Bank Use Only**
RSSD ID 3823451
C.I.

**Date of Report** (top-tier holding company's fiscal year-end):
June 30, 2015
Month / Day / Year

N/A
Reporter's Legal Entity Identifier (LEI) (20-Character LEI Code)

Reporter's Name, Street, and Mailing Address
Dalhart Federal Mutual Holding Company
Legal Title of Holding Company

P.O. Box 1509
(Mailing Address of the Holding Company) Street / P.O. Box

| City | State | Zip Code |
|---|---|---|
| Dalhart | TX | 79022-1509 |

502 Denrock Ave.
Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

| Name | Title |
|---|---|
| Denise R. Clayton | Secretary/Treasurer |

806-249-8561
Area Code / Phone Number / Extension

806-249-8144
Area Code / FAX Number

dclayton@dalhartfederal.com
E-mail Address

www.dalhartfederal.com
Address (URL) for the Holding Company's web page

*Does the reporter request confidential treatment for any portion of this submission?*

☐ Yes Please identify the report items to which this request applies:

☐ In accordance with the instructions on pages GEN-2 and 3, a letter justifying the request is being provided.
☐ The information for which confidential treatment is sought is being submitted separately labeled "Confidential."

☒ No

Public reporting burden for this information collection is estimated to vary from 1.3 to 101 hours per response, with an average of 5.25 hours per response, including time to gather and maintain data in the required form and to review instructions and complete the information collection. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden to: Secretary, Board of Governors of the Federal Reserve System, 20th and C Streets, NW, Washington, DC 20551, and to the Office of Management and Budget, Paperwork Reduction Project (7100-0297), Washington, DC 20503.

# For Use By Tiered Holding Companies

*Top-tiered holding companies must list the names, mailing address, and physical locations of each of their subsidiary holding companies below.*

Dalhart Federal Corporation
Legal Title of Subsidiary Holding Company

P. O. Box 1509
(Mailing Address of the Subsidiary Holding Company) Street / P.O. Box

| City | State | Zip Code |
|---|---|---|
| Dalhart | TX | 79022-1509 |

502 Denrock Ave.
Physical Location (if different from mailing address)

Legal Title of Subsidiary Holding Company

(Mailing Address of the Subsidiary Holding Company) Street / P.O. Box

City State Zip Code

Physical Location (if different from mailing address)

Legal Title of Subsidiary Holding Company

(Mailing Address of the Subsidiary Holding Company) Street / P.O. Box

City State Zip Code

Physical Location (if different from mailing address)

Legal Title of Subsidiary Holding Company

(Mailing Address of the Subsidiary Holding Company) Street / P.O. Box

City State Zip Code

Physical Location (if different from mailing address)

Legal Title of Subsidiary Holding Company

(Mailing Address of the Subsidiary Holding Company) Street / P.O. Box

City State Zip Code

Physical Location (if different from mailing address)

Legal Title of Subsidiary Holding Company

(Mailing Address of the Subsidiary Holding Company) Street / P.O. Box

City State Zip Code

Physical Location (if different from mailing address)

Legal Title of Subsidiary Holding Company

(Mailing Address of the Subsidiary Holding Company) Street / P.O. Box

City State Zip Code

Physical Location (if different from mailing address)

Legal Title of Subsidiary Holding Company

(Mailing Address of the Subsidiary Holding Company) Street / P.O. Box

City State Zip Code

Physical Location (if different from mailing address)

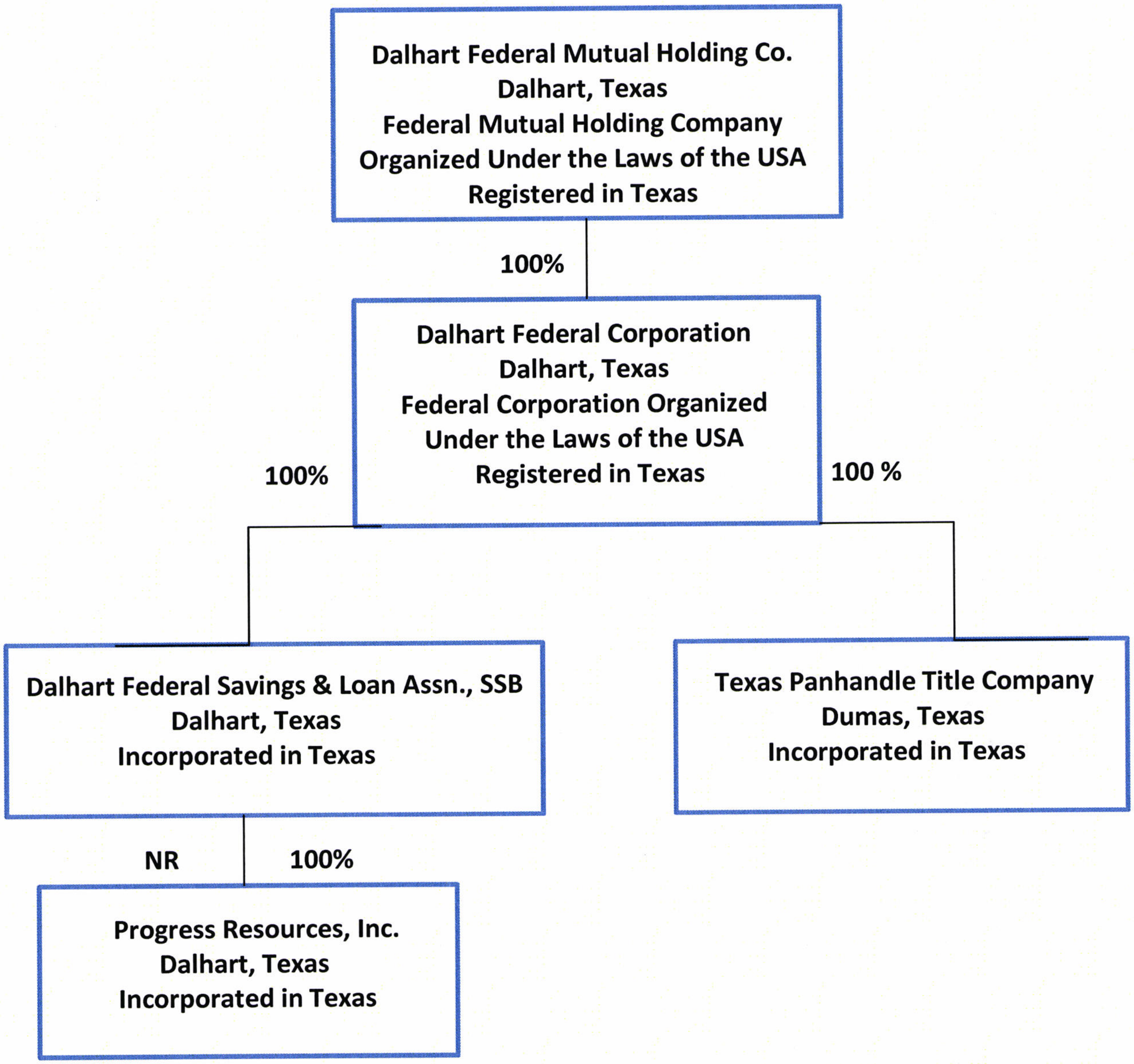
Form FR Y-6

Dalhart Federal Mutual Holding Company
Dalhart, Texas
Fiscal Year Ending June 30, 2015

Report Item

1: The savings and loan holding company prepares an annual report for its Annual Meeting of Members and is not registered with the SEC. As specified by the responsible Reserve Bank, 1 copy is enclosed.

2a: Organizational Chart




NR=Not reportable on the FR Y-10

2b: Domestic branch listing provided to the Federal Reserve Bank by e-mail on 09/22/2015.

**Results:** A list of branches for your depository institution: DALHART FEDERAL SAVINGS & LOAN ASSOCIATION, SSB (ID_RSSD: 971070).
This depository institution is held by DALHART FEDERAL MUTUAL HOLDING COMPANY (3823451) of DALHART, TX.
The data are as of 06/30/2015. Data reflects information that was received and processed through 07/06/2015.

**Reconciliation and Verification Steps**

1. In the **Data Action** column of each branch row, enter one or more of the actions specified below.
2. If required, enter the date in the **Effective Date** column.

**Actions**

**OK:** If the branch information is correct, enter 'OK' in the **Data Action** column.
**Change:** If the branch information is incorrect or incomplete, revise the data, enter 'Change' in the **Data Action** column and the date when this information first became valid in the **Effective Date** column.
**Close:** If a branch listed was sold or closed, enter 'Close' in the **Data Action** column and the sale or closure date in the **Effective Date** column.
**Delete:** If a branch listed was never owned by this depository institution, enter 'Delete' in the **Data Action** column.
**Add:** If a reportable branch is missing, insert a row, add the branch data, and enter 'Add' in the **Data Action** column and the opening or acquisition date in the **Effective Date** column.

If printing this list, you may need to adjust your page setup in MS Excel. Try using landscape orientation, page scaling, and/or legal sized paper.

**Submission Procedure**

When you are finished, send a saved copy to your FRB contact. See the detailed instructions on this site for more information.
If you are e-mailing this to your FRB contact, put your institution name, city and state in the subject line of the e-mail.

Note:
To satisfy the **FR Y-10 reporting requirements**, you must also submit FR Y-10 Domestic Branch Schedules for each branch with a **Data Action** of Change, Close, Delete, or Add.
The FR Y-10 report may be submitted in a hardcopy format or via the FR Y-10 Online application - https://y10online.federalreserve.gov.

* FDIC UNINUM, Office Number, and ID_RSSD columns are for reference only. Verification of these values is not required.

| Data Action | Effective Date | Branch Service Type | Branch ID_RSSD* | Popular Name | Street Address | City | State | Zip Code | County | Country | FDIC UNINUM* | Office Number* | Head Office | Head Office ID_RSSD* | Comments |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| OK | | Full Service (Head Office) | 971070 | DALHART FEDERAL SAVINGS & LOAN ASSOCIATION, SSB | 502 DENROCK AVE. | DALHART | TX | 79022 | DALLAM | UNITED STATES | 42042 | 0 | DALHART FEDERAL SAVINGS & LOAN ASSOCIATION, SSB | 971070 | |
| OK | | Full Service | 4167518 | DUMAS BRANCH | 202 EAST 7TH STREET | DUMAS | TX | 79029 | MOORE | UNITED STATES | 273668 | 1 | DALHART FEDERAL SAVINGS & LOAN ASSOCIATION, SSB | 971070 | |

Form FR Y-6

Dalhart Federal Mutual Holding Company
Dalhart, Texas
Fiscal Year Ending June 30, 2015

Report Item 3: Securities Holders

| Current Securities Holders with ownership, control or holdings of 5% or more with power to vote as of fiscal year ending 06-30-2015 | | | Securities Holders not listed in 3(1)(a) through (3)(1)(c) that had ownership, control or holdings of 5% or more with power to vote during the fiscal year ending 06-30-2015 | | |
|---|---|---|---|---|---|
| (1)(a) Name & Address (City, State, Country) | (1)(b) Country of Citizenship or Incorporation | (1)(c) Number and Percentage of Each Class of Voting Securities | (2)(a) Name & Address (City, State, Country) | (2)(b) Country of Citizenship or Incorporation | (2)(c) Number and Percentage of Each Class of Voting Securities |
| NONE | | | NONE | | |

Form FR Y-6

**Dalhart Federal Mutual Holding Company**
**Dalhart, Texas**
**Fiscal Year Ending June 30, 2015**

**Report Item 4: Insiders**
(1)(a)(b)(c) and (2)(a)(b)(c)

| (1) | (2) | (3)(a) | (3)(b) | (3)(c) | (4)(a) | (4)(b) | (4)(c) |
|---|---|---|---|---|---|---|---|
| **Names & Address (City, State, Country)** | **Principal Occupation if other than with Bank Holding Company** | **Title & Position with Bank Holding Company** | **Title & Position with Subsidiaries (include names of subsidiaries)** | **Title & Position with Other Businesses (include names of other businesses)** | **Percentage of Voting Securities in Bank Holding Company** | **Percentage of Voting Securities in Subsidiaries (include names of subsidiaries)** | **List names of other companies (includes partnerships) if 25% or more of voting securities are held (List names of companies and percentage of voting securities held)** |
| William A. Cunningham<br>Dalhart, Texas, USA | Banker | Director & President | Director & President<br>Dalhart Federal Corporation | N/A | None | None | N/A |
| Duane R. Brewer<br>Dalhart, Texas, USA | Retired | Director | Director<br>Dalhart Federal Corporation | N/A | None | None | N/A |
| Gary C. Finch<br>Dalhart, Texas, USA | Rancher | Director & Chairman | Director & Chairman<br>Dalhart Federal Corporation | Managing Member<br>Gary Finch Family Ranch LLC | None | None | N/A |
| Paul W. Henderson<br>Dalhart, Texas, USA | Retired | Director | Director<br>Dalhart Federal Corporation | N/A | None | None | N/A |

**Form FR Y-6**

**Dalhart Federal Mutual Holding Company**
**Dalhart, Texas**
**Fiscal Year Ending June 30, 2015**

**Report Item 4: Insiders**
(1)(a)(b)(c) and (2)(a)(b)(c)

| (1) Names & Address (City, State, Country) | (2) Principal Occupation if other than with Bank Holding Company | (3)(a) Title & Position with Bank Holding Company | (3)(b) Title & Position with Subsidiaries (include names of subsidiaries) | (3)(c) Title & Position with Other Businesses (include names of other businesses) | (4)(a) Percentage of Voting Securities in Bank Holding Company | (4)(b) Percentage of Voting Securities in Subsidiaries (include names of subsidiaries) | (4)(c) List names of other companies (includes partnerships) if 25% or more of voting securities are held (List names of companies and percentage of voting securities held) |
|---|---|---|---|---|---|---|---|
| Rodney J. White<br>Dalhart, Texas, USA | Banker | Director & Executive Vice President | Director & Executive Vice President<br>Dalhart Federal Corporation | Secretary/Treasurer<br>DKAR Limited Partnership DBA Anspacher Financial Services | None | None | N/A |
| Ray A. "Bud" Snead III<br>Dalhart, Texas, USA | Rancher | Director | Director<br>Dalhart Federal Corporation | Partner<br>B & W Farm Service<br>Partner<br>Taylor Farms GP<br>Partner<br>Snead Farms<br>Partner<br>Full Circle Insurance<br>Partner<br>L S Properties | None | None | N/A |

Form FR Y-6

**Dalhart Federal Mutual Holding Company**
**Dalhart, Texas**
**Fiscal Year Ending June 30, 2015**

**Report Item 4: Insiders**
(1)(a)(b)(c) and (2)(a)(b)(c)

| (1) Names & Address (City, State, Country) | (2) Principal Occupation if other than with Bank Holding Company | (3)(a) Title & Position with Bank Holding Company | (3)(b) Title & Position with Subsidiaries (include names of subsidiaries) | (3)(c) Title & Position with Other Businesses (include names of other businesses) | (4)(a) Percentage of Voting Securities in Bank Holding Company | (4)(b) Percentage of Voting Securities in Subsidiaries (include names of subsidiaries) | (4)(c) List names of other companies (includes partnerships) if 25% or more of voting securities are held (List names of companies and percentage of voting securities held) |
|---|---|---|---|---|---|---|---|
| Denise R. Clayton<br>Dalhart, Texas, USA | Banker | Director &<br>Secretary/Treasurer-Controller | Director &<br>Secretary/Treasurer-Controller<br>Dalhart Federal Corporation | N/A | None | None | N/A |

Form FR Y-6

Dalhart Federal Corporation
Dalhart, Texas
Fiscal Year Ending June 30, 2015

Report Item 3: Securities Holders

| Current Securities Holders with ownership, control or holdings of 5% or more with power to vote as of fiscal year ending 06-30-2014 | | | Securities Holders not listed in 3(1)(a) through (3)(1)(c) that had ownership, control or holdings of 5% or more with power to vote during the fiscal year ending 06-30-2014 | | |
|---|---|---|---|---|---|
| (1)(a) Name & Address (City, State, Country) | (1)(b) Country of Citizenship or Incorporation | (1)(c) Number and Percentage of Each Class of Voting Securities | (2)(a) Name & Address (City, State, Country) | (2)(b) Country of Citizenship or Incorporation | (2)(c) Number and Percentage of Each Class of Voting Securities |
| Dalhart Federal Mutual Holding Company Dalhart, Texas, USA | USA | 1 - 100% Common Stock | N/A | | |

Form FR Y-6



**Dalhart Federal Corporation**
**Dalhart, Texas**
**Fiscal Year Ending June 30, 2015**

**Report Item 4: Insiders**
(1)(a)(b)(c) and (2)(a)(b)(c)

| (1)<br>Names & Address (City, State, Country) | (2)<br>Principal Occupation if other than with Bank Holding Company | (3)(a)<br>Title & Position with Bank Holding Company | (3)(b)<br>Title & Position with Subsidiaries (include names of subsidiaries) | (3)(c)<br>Title & Position with Other Businesses (include names of other businesses) | (4)(a)<br>Percentage of Voting Securities in Bank Holding Company | (4)(b)<br>Percentage of Voting Securities in Subsidiaries (include names of subsidiaries) | (4)(c)<br>List names of other companies (includes partnerships) if 25% or more of voting securities are held (List names of companies and percentage of voting securities held) |
|---|---|---|---|---|---|---|---|
| Dalhart Federal Mutual Holding Company<br>Dalhart, Texas, USA | N/A | N/A | N/A | N/A | 100% | None | N/A |
| William A. Cunningham<br>Dalhart, Texas, USA | Banker | Director & President | Director & President/CEO-General Counsel<br>Dalhart Federal Savings & Loan Association, SSB<br><br>Director & President<br>Texas Panhandle Title Company, Inc. | N/A | None | None | N/A |
| Duane R. Brewer<br>Dalhart, Texas, USA | Retired | Director | Director<br>Dalhart Federal Savings & Loan Association, SSB<br>Director<br>Texas Panhandle Title Company, Inc. | N/A | None | None | N/A |

Form FR Y-6



**Dalhart Federal Corporation**
**Dalhart, Texas**
**Fiscal Year Ending June 30, 2015**

**Report Item 4: Insiders**
(1)(a)(b)(c) and (2)(a)(b)(c)

| (1) Names & Address (City, State, Country) | (2) Principal Occupation if other than with Bank Holding Company | (3)(a) Title & Position with Bank Holding Company | (3)(b) Title & Position with Subsidiaries (include names of subsidiaries) | (3)(c) Title & Position with Other Businesses (include names of other businesses) | (4)(a) Percentage of Voting Securities in Bank Holding Company | (4)(b) Percentage of Voting Securities in Subsidiaries (include names of subsidiaries) | (4)(c) List names of other companies (includes partnerships) if 25% or more of voting securities are held (List names of companies and percentage of voting securities held) |
|---|---|---|---|---|---|---|---|
| Gary C. Finch<br>Dalhart, Texas, USA | Rancher | Director & Chairman | Director & Chairman<br>Dalhart Federal Savings & Loan Association, SSB<br>Director & Chairman<br>Texas Panhandle Title Company, Inc. | Managing Member<br><br>Gary Finch Family Ranch LLC | None | None | N/A |
| Paul W. Henderson<br>Dalhart, Texas, USA | Retired | Director | Director<br><br>Dalhart Federal Savings & Loan Association, SSB<br>Director<br>Texas Panhandle Title Company, Inc. | N/A | None | None | N/A |

Form FR Y-6

Dalhart Federal Corporation
Dalhart, Texas
Fiscal Year Ending June 30, 2015



**Report Item 4: Insiders**
(1)(a)(b)(c) and (2)(a)(b)(c)

| (1) Names & Address (City, State, Country) | (2) Principal Occupation if other than with Bank Holding Company | (3)(a) Title & Position with Bank Holding Company | (3)(b) Title & Position with Subsidiaries (include names of subsidiaries) | (3)(c) Title & Position with Other Businesses (include names of other businesses) | (4)(a) Percentage of Voting Securities in Bank Holding Company | (4)(b) Percentage of Voting Securities in Subsidiaries (include names of subsidiaries) | (4)(c) List names of other companies (includes partnerships) if 25% or more of voting securities are held (List names of companies and percentage of voting securities held) |
|---|---|---|---|---|---|---|---|
| Rodney J. White<br>Dalhart, Texas, USA | Banker | Director & Executive Vice President | Director & Executive Vice President<br>Dalhart Federal Savings & Loan Association, SSB<br><br>Director & Executive Vice President<br>Texas Panhandle Title Company, Inc. | Secretary/Treasurer<br><br>DKAR Limited Partnership DBA Anspacher Financial Services | None | None | N/A |
| Ray A. "Bud" Snead III<br>Dalhart, Texas, USA | Rancher | Director | Director<br>Dalhart Federal Savings & Loan Association, SSB<br>Director<br>Texas Panhandle Title Company, Inc. | Partner<br>B & W Farm Service<br><br>Partner<br>Taylor Farms GP<br><br>Partner<br>Snead Farms<br>Partner<br>Full Circle Insurance<br>Partner<br>L S Properties | None | None | N/A |

Form FR Y-6

Dalhart Federal Corporation
Dalhart, Texas
Fiscal Year Ending June 30, 2015



Report Item 4: Insiders
(1)(a)(b)(c) and (2)(a)(b)(c)

| (1) | (2) | (3)(a) | (3)(b) | (3)(c) | (4)(a) | (4)(b) | (4)(c) |
|---|---|---|---|---|---|---|---|
| Names & Address (City, State, Country) | Principal Occupation if other than with Bank Holding Company | Title & Position with Bank Holding Company | Title & Position with Subsidiaries (include names of subsidiaries) | Title & Position with Other Businesses (include names of other businesses) | Percentage of Voting Securities in Bank Holding Company | Percentage of Voting Securities in Subsidiaries (include names of subsidiaries) | List names of other companies (includes partnerships) if 25% or more of voting securities are held (List names of companies and percentage of voting securities held) |
| Denise R. Clayton<br>Dalhart, Texas, USA | Banker | Director & Secretary/Treasurer-Controller | Director & Secretary/Treasurer-Controller<br>Dalhart Federal Savings & Loan Association, SSB<br>Director & Secretary/Treasurer-Controller<br>Texas Panhandle Title Company, Inc. | N/A | None | None | N/A |

**Dalhart Federal Mutual Holding Company**
**Dalhart Federal Corporation**
**Dalhart Federal Savings & Loan Association, SSB**
**Texas Panhandle Title Company, Inc.**
**June 30, 2015**

**Dalhart Federal Mutual Holding Company**
**Dalhart, Texas**
**Reviewed Financial Statements**
**June 30, 2015 and 2014**

Certified Public Accountants

# Gaskill, Pharis & Pharis, L.L.P.

Telephone (806) 244-5533 Fax (806) 244-6331
www.gaskillpharis.com
P.O. Box 1060 / 521 Denver Avenue
Dalhart, Texas 79022

Edward M. Hopkins, CPA
Chad A. Miller, CPA
Lee E. Moore, CPA
Nicole Bowers, CPA
Earl D. Pharis, CPA
Van J. Josselet, CPA

To the Board of Directors
Dalhart Federal Mutual Holding Co.
PO Box 461
Dalhart, Texas 79022

This letter is to confirm our understanding of the terms and objectives of our engagement and the nature and limitations of the services we will provide.

We will perform the following services:

1. We will review the balance sheets of Dalhart Federal Mutual Holding Co. as of June 30, 2015 and June 30, 2014, and the related statements of income, retained earnings, and cash flows for the years then ended, and issue an accountant's report thereon in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

   The objective of a review is to obtain limited assurance that there are no material modifications that should be made to the financial statements in order for the statements to be in conformity with accounting principles generally accepted in the United States of America.

   You are responsible for:

   a. The preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America.

   b. Designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

   c. Preventing and detecting fraud.

   d. Identifying and ensuring that the company complies with the laws and regulations applicable to its activities.

   e. Making all financial records and related information available to us and for the accuracy and completeness of that information.

   f. Providing us, at the conclusion of the engagement, with a letter that confirms certain representations made during the review.

   We will conduct our review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

A review includes primarily applying analytical procedures to your financial data and making inquiries of company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. A review does not contemplate obtaining an understanding of the Company's internal control; assessing fraud risk; testing accounting records by obtaining sufficient appropriate audit evidence through inspection, observation, confirmation, or the examination of source documents (for example, cancelled checks or bank images); or other procedures ordinarily performed in an audit. Accordingly, we will not express an opinion regarding the financial statements as a whole.

Our engagement cannot be relied upon to disclose errors, fraud, or illegal acts. However, we will inform the appropriate level of management of any material errors and of any evidence or information that comes to our attention during the performance of our review procedures that fraud may have occurred. In addition, we will inform you of any evidence or information that comes to our attention during the performance of our review procedures regarding illegal acts that may have occurred, unless they are clearly inconsequential. In addition, we have no responsibility to identify and communicate deficiencies in your internal control as part of this engagement.

If, for any reason, we are unable to complete our review of your financial statements, we will not issue a report on such statements as a result of this engagement.

You are responsible for making all management decisions and performing all management functions, and for designating an individual who possesses suitable skill, knowledge, or experience to oversee any bookkeeping services, tax services, or other services we provide. In addition, you are responsible for evaluating the adequacy and results of the services performed and accepting responsibility for such services.

Chad Miller is the engagement partner and is responsible for supervising the engagement and signing the report or authorizing another individual to sign it.

To ensure that Dalhart Federal Mutual Holding Co.'s independence is not impaired under the AICPA *Code of Professional Conduct*, you agree to inform the engagement partner before entering into any substantive employment discussions with any of our personnel.

We will bill you for our services.

We appreciate the opportunity to be of service to you and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy and return it to us.

Sincerely,

Gaskill, Pharis & Pharis, L.L.P.

Acknowledged:

Dalhart Federal Mutual Holding Co.

William A. Cunningham

President

05/14/2015

Date

**Dalhart Federal Mutual Holding Company**
**Dalhart, Texas**

## Table of Contents

Certified Public Accountants

# Gaskill, Pharis & Pharis, L.L.P.

Telephone (806) 244-5533 Fax (806) 244-6331
www.gaskillpharis.com
P.O. Box 1060 / 521 Denver Avenue
Dalhart, Texas 79022

Edward M. Hopkins, CPA
Chad A. Miller, CPA
Lee E. Moore, CPA
Nicole Bowers, CPA

Earl D. Pharis, CPA
Van J. Josselet, CPA

## INDEPENDENT ACCOUNTANT'S REVIEW REPORT

To the Board of Directors
Dalhart Federal Mutual Holding Company
Dalhart, Texas

We have reviewed the accompanying financial statements of Dalhart Federal Mutual Holding Company (a corporation), which comprise the balance sheets as of June 30, 2015 and 2014, and the related statements of income and retained earnings and cash flows for the years then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementing, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error.

**Accountant's Responsibility**

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

**Accountant's Conclusion**

Based on our review, except for the issue noted in the Known Departure From Accounting Principles Generally Accepted in the United States of America paragraph, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

**Known Departure From Accounting Principles Generally Accepted in the United States of America**

As disclosed in Note 3 to the financial statements, U.S. generally accepted accounting principles require that consolidated financial statements be prepared for parent and subsidiary corporations. Management has informed us that the Company has stated the investment in subsidiaries using the equity method and has adopted the policy not to prepare consolidated financial statements.

Gaskill, Pharis & Pharis, L.L.P.

September 2, 2015

**Dalhart Federal Mutual Holding Company**
**Dalhart, Texas**
**Balance Sheet**
**June 30, 2015 and 2014**

| | 2015 | 2014 |
|---|---|---|
| **Current Assets** | | |
| Cash in bank | $ 44,621 | $ 2,374 |
| Receivable - Federal income tax | - | - |
| Total current assets | 44,621 | 2,374 |
| **Other Assets** | | |
| Investment in wholly owned subsidiaries | | |
| Dalhart Federal Corporation | 12,056,771 | 11,500,563 |
| Unrealized gain (loss) on securities available-for-sale | (50,259) | (19,367) |
| Prepaid accounts | 0 | 0 |
| Receivable - Dalhart Federal Corporation - deferred income tax | 441,619 | 360,936 |
| Total other assets | 12,448,131 | 11,842,132 |
| Total assets | $ 12,492,752 | $ 11,844,506 |
| **Current Liabilities** | | |
| Federal income taxes payable | 33,722 | 33,722 |
| Accounts payable | 1,000 | 1,000 |
| Payable - Dalhart Federal Corporation, etc. | - | - |
| Total current liabilities | 34,722 | 34,722 |
| **Long-term Liabilities** | | |
| Deferred Federal income taxes | $ 457,551 | 359,100 |
| **Stockholders' equity** | | |
| Capital stock | 0 | 0 |
| Additional paid in capital | 8,337,672 | 8,337,672 |
| Retained earnings | 3,713,066 | 3,132,379 |
| Unrealized gain (loss) on securities available-for-sale | (50,259) | (19,367) |
| Total stockholders' equity | 12,000,479 | 11,450,684 |
| Total liabilities and stockholders' equity | $ 12,492,752 | $ 11,844,506 |

The accompanying notes and independent accountant's review report.

**Dalhart Federal Mutual Holding Company**
**Dalhart, Texas**
**Statements of Income and Retained Earnings**
**June 30, 2015 and 2014**

| | 2015 | 2014 |
|---|---|---|
| **Income** | | |
| Income (loss) from wholly owned subsidiary: | | |
| Dalhart Federal Corporation | $ 740,926 | $ 731,827 |
| **Expenses** | | |
| Contract labor | 3,720 | 3,650 |
| Professional fees | 1,200 | 1,200 |
| Office expense | 600 | 600 |
| Total operating expense | 5,520 | 5,450 |
| Income (loss) before income taxes | 735,406 | 726,377 |
| Provision for income tax expense | 154,719 | 187,114 |
| Net income (loss) | 580,687 | 539,263 |
| Retained earnings, July 1, | 3,132,379 | 2,593,116 |
| Retained earnings, June 30, | $ 3,713,066 | $ 3,132,379 |

The accompanying notes and independent accountant's review report.

**Dalhart Federal Mutual Holding Company**
**Dalhart, Texas**
**Statements of Cash Flows**
**June 30, 2015 and 2014**

| | 2015 | 2014 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Net income (loss) | $ 580,687 | $ 539,263 |
| Non-cash income from subsidiaries, net of taxes | (586,208) | (544,713) |
| (Increase) decrease in: | | |
| Receivable - subsidiary | (80,683) | (97,007) |
| Increase (decrease) in: | | |
| Deferred income tax | 98,451 | 95,171 |
| Net cash provided (used) by operating activities | 12,247 | (7,286) |
| **Cash flows from investing activities** | 0 | 0 |
| Dividends received | 30,000 | - |
| Net cash provided by investing | 30,000 | - |
| **Cash flows from financing activities** | - | - |
| Net increase (decrease) in cash and cash equivalents | 42,247 | (7,286) |
| Cash and cash equivalents at July 1, | 2,374 | 9,660 |
| Cash and cash equivalents at June 30, | $ 44,621 | $ 2,374 |
| Supplemental disclosure of cash flow information | | |
| Interest paid | $ - | $ - |
| Taxes paid | $ - | $ 168,164 |

The accompanying notes and independent accountant's review report.

**Dalhart Federal Mutual Holding Company**
**Dalhart, Texas**
**Notes to Financial Statements**
**June 30, 2015 and 2014**

## Note 1. Summary of Significant Accounting Policies

The accounting and reporting policies of Dalhart Federal Mutual Holding Company are in accordance with U.S. generally accepted accounting principles, except for the departure described in Note 3. The more significant of the principles used in preparing the financial statements are briefly described below.

Nature of Operations
Dalhart Federal Mutual Holding Company is a federal mutual holding company for subsidiary business investments.

Estimates
The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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 those estimates.

Basis of Accounting
The accompanying financial statements have been prepared in conformity with U.S. generally accepted accounting principles, on the accrual basis of accounting, except for the departure described in Note 3.

Income Taxes
The Company is consolidated with its subsidiaries for federal income taxes. It is currently the policy of the controlled group for each entity to pay its applicable portion of the group's federal income tax, or receive from the group the tax benefit if applicable, it would receive if filing its own tax return.

Cash and Cash Equivalents
For purposes of the statement of cash flows, cash equivalents include time deposits, certificates of deposit and all highly liquid debt instruments, if any, with original maturities of three months or less.

Years Subject to Examination
The Company is no longer subject to examination by the Internal Revenue Service or the Texas State Comptroller for years prior to June 30, 2011 and June 30, 2010 respectively.

Date of Management's Review of Subsequent Events
Management has evaluated subsequent events through September 5, 2015, the date which the financial statements were available to be issued.

## Note 2. Investment in Subsidiary

On August 1, 2004, Dalhart Federal Mutual Holding Company, a newly formed corporation, acquired all of the stock of Dalhart Federal Corporation.

The Company owns 100% of the common stock of Dalhart Federal Corporation. There is no market for the entity's common shares, and it was impracticable to estimate fair value of the Corporation's investment.

## Note 3. Departure from Generally Accepted Accounting Principles

Consolidated financial statements are required by GAAP when one company has a controlling interest in one or more other companies. The presumption is that consolidated statements are more meaningful than separate statements and that they are usually necessary for a fair presentation.

The accompanying financial statements do not include the accounts of all of its wholly owned subsidiaries. Inter-company transactions and balances have not been eliminated.

Investments in unconsolidated subsidiaries in which the company has a 20% to 50% interest or otherwise exercises significant influence are carried at cost, adjusted for the company's proportionate share of their undistributed earnings or losses.

Following is a summary of financial position and results of operations of the Company's wholly owned subsidiary:

| | Dalhart Federal Corporation 6-30-15 | Dalhart Federal Corporation 6-30-14 |
|---|---|---|
| Total assets | $12,481,745 | $11,875,769 |
| Total liabilities | $ 475,233 | $ 394,573 |
| Stockholder's equity | 12,006,512 | 11,481,196 |
| | $12,481,745 | $11,875,769 |
| Revenues | $ 746,447 | $ 737,278 |
| Net income (loss) | $ 586,208 | $ 544,713 |

## Note 4: Income Taxes

The Company and subsidiary file a consolidated Federal income tax return. The provision for income taxes consisted of the following for the years ended June 30:

| | 2015 | 2014 |
|---|---|---|
| Income tax provisions: | | |
| Current | $ 174,376 | $ 187,551 |
| Deferred | (19,657) | (437) |
| Total | $ 154,719 | $ 187,114 |

The reasons for the difference between the statutory Federal income tax rates and the effective tax rates are summarized as follows:

| | | |
|---|---|---|
| Expected tax provision at a 34% rate | $ 250,038 | $ 248,822 |
| Increase (decrease) resulting from: | | |
| Effect of statutory bad debt deduction | 0 | 0 |
| Other, net | (95,319) | (61,708) |
| | $ 154,719 | $ 187,114 |

Deferred tax assets and liabilities in other liabilities at June 30, consist of the following:

| | | |
|---|---|---|
| Deferred tax assets: | | |
| Deferred loan fees | $ 556 | $ 0 |
| Reserve for loan losses - Book Deduction in excess of tax basis | 0 | 0 |
| Unrealized loss on available-for-sale securities | 25,891 | 0 |
| | 26,447 | 0 |

| | | |
|---|---|---|
| Deferred tax liabilities: | | |
| Accumulated depreciation | 176,523 | 170,603 |
| Stock dividend - FHLB | 185,028 | 179,653 |
| Unrealized gain on available for sale securities | 0 | (9,976) |
| Accrued interest receivable on pre 9-29-85 first mortgage loans | 0 | 0 |
| Reserve for loan losses - book deduction in excess of tax basis | 10,056 | 9,764 |
| Other items | 94,583 | 9,056 |
| | 466,190 | 359,100 |
| Net deferred tax liability | $ 439,743 | $ 359,100 |

**Dalhart Federal Corporation**
**Dalhart, Texas**
**Reviewed Financial Statements**
**June 30, 2015 and 2014**

C ertified
G P P ublic
A ccountants

**Gaskill, Pharis & Pharis, L.L.P.**
Telephone (806) 244-5533 Fax (806) 244-6331
www.gaskillpharis.com
P.O. Box 1060 / 521 Denver Avenue
Dalhart, Texas 79022

Edward M. Hopkins, CPA
Chad A. Miller, CPA
Lee E. Moore, CPA
Nicole Bowers, CPA

Earl D. Pharis, CPA
Van J. Josselet, CPA

To the Board of Directors
Dalhart Federal Stock Corporation
PO Box 461
Dalhart, Texas 79022

This letter is to confirm our understanding of the terms and objectives of our engagement and the nature and limitations of the services we will provide.

We will perform the following services:

1. We will review the balance sheets of Dalhart Federal Stock Corporation as of June 30, 2015 and June 30, 2014, and the related statements of income, retained earnings, and cash flows for the years then ended, and issue an accountant's report thereon in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

   The objective of a review is to obtain limited assurance that there are no material modifications that should be made to the financial statements in order for the statements to be in conformity with accounting principles generally accepted in the United States of America.

   You are responsible for:

   a. The preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America.

   b. Designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

   c. Preventing and detecting fraud.

   d. Identifying and ensuring that the company complies with the laws and regulations applicable to its activities.

   e. Making all financial records and related information available to us and for the accuracy and completeness of that information.

   f. Providing us, at the conclusion of the engagement, with a letter that confirms certain representations made during the review.

   We will conduct our review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

A review includes primarily applying analytical procedures to your financial data and making inquiries of company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. A review does not contemplate obtaining an understanding of the Company's internal control; assessing fraud risk; testing accounting records by obtaining sufficient appropriate audit evidence through inspection, observation, confirmation, or the examination of source documents (for example, cancelled checks or bank images); or other procedures ordinarily performed in an audit. Accordingly, we will not express an opinion regarding the financial statements as a whole.

Our engagement cannot be relied upon to disclose errors, fraud, or illegal acts. However, we will inform the appropriate level of management of any material errors and of any evidence or information that comes to our attention during the performance of our review procedures that fraud may have occurred. In addition, we will inform you of any evidence or information that comes to our attention during the performance of our review procedures regarding illegal acts that may have occurred, unless they are clearly inconsequential. In addition, we have no responsibility to identify and communicate deficiencies in your internal control as part of this engagement.

If, for any reason, we are unable to complete our review of your financial statements, we will not issue a report on such statements as a result of this engagement.

You are responsible for making all management decisions and performing all management functions, and for designating an individual who possesses suitable skill, knowledge, or experience to oversee any bookkeeping services, tax services, or other services we provide. In addition, you are responsible for evaluating the adequacy and results of the services performed and accepting responsibility for such services.

Chad Miller is the engagement partner and is responsible for supervising the engagement and signing the report or authorizing another individual to sign it.

To ensure that Dalhart Federal Stock Corporation's independence is not impaired under the AICPA *Code of Professional Conduct*, you agree to inform the engagement partner before entering into any substantive employment discussions with any of our personnel.

We will bill you for our services.

We appreciate the opportunity to be of service to you and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy and return it to us.

Sincerely,

Gaskill, Pharis & Pharis, L.L.P.

Acknowledged:

Dalhart Federal Stock Corporation

William Cunningham

President

05/14/2015

Date

**Dalhart Federal Corporation**
**Dalhart, Texas**

## Table of Contents

C ertified
G P P ublic
A ccountants

**Gaskill, Pharis & Pharis, L.L.P.**
Telephone (806) 244-5533 Fax (806) 244-6331
www.gaskillpharis.com
P.O. Box 1060 / 521 Denver Avenue
Dalhart, Texas 79022

Edward M. Hopkins, CPA
Chad A. Miller, CPA
Lee E. Moore, CPA
Nicole Bowers, CPA

Earl D. Pharis, CPA
Van J. Josselet, CPA

# INDEPENDENT ACCOUNTANT'S REVIEW REPORT

To the Board of Directors
Dalhart Federal Corporation
Dalhart, Texas

We have reviewed the accompanying financial statements of Dalhart Federal Corporation, which comprise the balance sheets as of June 30, 2015 and 2014, and the related statements of income and retained earnings and cash flows for the years then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementing, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error.

**Accountant's Responsibility**

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

**Accountant's Conclusion**

Based on our review, except for the issue noted in the Known Departure From Accounting Principles Generally Accepted in the United States of America paragraph, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

**Known Departure From Accounting Principles Generally Accepted in the United States of America**

As disclosed in Note 3 to the financial statements, U.S. generally accepted accounting principles require that consolidated financial statements be prepared for parent and subsidiary corporations. Management has informed us that the Company has stated the investment in subsidiaries using the equity method and has adopted the policy not to prepare consolidated financial statements.

*Gaskill, Pharis & Pharis, L.L.P.*

September 2, 2015

**Dalhart Federal Corporation**
**Dalhart, Texas**
**Balance Sheet**
**June 30, 2015 and 2014**

| | 2015 | 2014 |
|---|---|---|
| **Current Assets** | | |
| Cash in bank | $ 24,848 | $ 8,514 |
| Receivable - Federal income tax | 1,876 | 1,853 |
| Total current assets | 26,724 | 10,367 |
| **Other Assets** | | |
| Investment in wholly owned subsidiaries | | |
| Dalhart Federal Savings & Loan Association, SSB | 11,521,786 | 11,057,768 |
| Unrealized gain (loss) on securities available-for-sale | (50,259) | (19,367) |
| Texas Panhandle Title Co., Inc. | 543,751 | 467,918 |
| Receivable - Dalhart Federal Savings & Loan Association, SSB, etc. | 439,743 | 359,083 |
| Total other assets | 12,455,021 | 11,865,402 |
| Total assets | $ 12,481,745 | $ 11,875,769 |
| **Current Liabilities** | | |
| Federal income taxes payable | 0 | 0 |
| Accounts payable | 900 | 900 |
| Total current liabilities | 900 | 900 |
| **Long-term Liabilities** | | |
| Deferred Federal income taxes | 474,333 | 393,673 |
| **Stockholders' equity** | | |
| Preferred stock $.01 par value; authorized 1,000,000 shares; of which no shares have been issued | 0 | 0 |
| Common stock, $.01 par value; authorized 9,000,000 shares; of which 1 share is issued | 10,000 | 10,000 |
| Additional paid in capital | 8,227,672 | 8,227,672 |
| Retained earnings | 3,819,099 | 3,262,891 |
| Unrealized gain (loss) on securities available-for-sale net of Federal income taxes | (50,259) | (19,367) |
| Total stockholders' equity | 12,006,512 | 11,481,196 |
| Total liabilities and stockholders' equity | $ 12,481,745 | $ 11,875,769 |

The accompanying notes and independent accountant's review report.

**Dalhart Federal Corporation**
**Dalhart, Texas**
**Statements of Income and Retained Earnings**
**June 30, 2015 and 2014**

| | 2015 | 2014 |
|---|---|---|
| **Income** | | |
| Income (loss) from wholly owned subsidiary: | | |
| Dalhart Federal Savings & Loan Association, SSB | $ 632,019 | $ 685,708 |
| Texas Panhandle Title Co., Inc. | 114,428 | 51,570 |
| Total income (loss) | 746,447 | 737,278 |
| **Expenses** | | |
| Contract labor | 3,720 | 3,650 |
| Professional fees | 1,200 | 1,200 |
| Office expense | 600 | 600 |
| Total operating expense | 5,520 | 5,450 |
| Income (loss) before income taxes | 740,927 | 731,828 |
| Provision for income tax expense | (154,719) | (187,115) |
| Net income (loss) | 586,208 | 544,713 |
| Retained earnings, July 1, | 3,262,891 | 2,718,178 |
| Dividends declared and paid | (30,000) | 0 |
| Retained earnings, June 30, | $ 3,819,099 | $ 3,262,891 |

The accompanying notes and independent accountant's review report.

**Dalhart Federal Corporation**
**Dalhart, Texas**
**Statements of Cash Flows**
**June 30, 2015 and 2014**

| | 2015 | 2014 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Net income (loss) | $ 586,208 | $ 544,713 |
| Non-cash income from subsidiaries, net of taxes | (589,852) | (548,310) |
| (Increase) decrease in: | | |
| Receivable - Related Parties | (80,660) | (129,744) |
| Federal income tax receivable | (22) | (17) |
| Increase (decrease) in: | | |
| Accounts payable | 0 | 0 |
| Deferred Federal income tax | 80,660 | 129,744 |
| Federal income tax payable | 0 | 0 |
| Net cash provided (used) by operating activities | (3,666) | (3,614) |
| **Cash flows from financing activities** | | |
| Dividends received | 50,000 | 0 |
| Dividends paid | (30,000) | 0 |
| Net cash provided by investing | 20,000 | 0 |
| Net increase (decrease) in cash and cash equivalents | 16,334 | (3,614) |
| Cash and cash equivalents at July 1, | 8514 | 12,128 |
| Cash and cash equivalents at June 30, | $ 24,848 | $ 8,514 |
| Supplemental disclosure of cash flow information | | |
| Interest paid | $ - | $ - |
| Taxes paid | $ - | $ - |

The accompanying notes and independent accountant's review report.

**Dalhart Federal Corporation**
**Dalhart, Texas**
**Notes to Financial Statements**
**June 30, 2015 and 2014**

## Note 1. Summary of Significant Accounting Policies

The accounting and reporting policies of Dalhart Federal Corporation are in accordance with U.S. generally accepted accounting principles, except for the departure described in Note 3. The more significant of the principles used in preparing the financial statements are briefly described below.

Nature of Operations
Dalhart Federal Corporation is a federal holding company for two subsidiary business investments.

Estimates
The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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 those estimates.

Basis of Accounting
The accompanying financial statements have been prepared in conformity with U.S. generally accepted accounting principles, on the accrual basis of accounting, except for the departure described in Note 3.

Income Taxes
The Company is consolidated with its parent for federal income taxes. It is currently the policy of the controlled group for each entity to pay its applicable portion of the group's federal income tax, or receive from the group the tax benefit if applicable, it would receive if filing its own tax return.

Cash and Cash Equivalents
For purposes of the statement of cash flows, cash equivalents include time deposits, certificates of deposit and all highly liquid debt instruments, if any, with original maturities of three months or less.

Years subject to Examination
The Company is no longer subject to examination by the Internal Revenue Service or the Texas State Comptroller for years prior to June 30, 2011 and June 30, 2010 respectively.

Date of Management's Review of Subsequent Events
Management has evaluated subsequent events through September 5, 2015, the date which the financial statements were available to be issued.

## Note 2. Investment in Subsidiary

On August 1, 2004, Dalhart Federal Corporation a newly formed corporation, acquired all of the stock of Dalhart Federal Savings & Loan Association, SSB and Progress Resources, Inc.

The Company owns 100% of the common stock of Dalhart Federal Savings & Loan Association, SSB and Progress Resources, Inc. There is no market for the entity's common shares, and it was impracticable to estimate fair value of the Corporation's investment.

On November 12, 2004, the Company approved the organization and formation of Texas Panhandle Title Co., Inc. and acquired the common stock investment.

## Note 3. Departure from Generally Accepted Accounting Principles

Consolidated financial statements are required by GAAP when one company has a controlling interest in one or more other companies. The presumption is that consolidated statements are more meaningful than separate statements and that they are usually necessary for a fair presentation.

The accompanying financial statements do not include the accounts of all of its wholly owned subsidiaries. Inter-company transactions and balances have not been eliminated.

Investments in unconsolidated subsidiaries in which the company has a 20% to 50% interest or otherwise exercises significant influence are carried at cost, adjusted for the company's proportionate share of their undistributed earnings or losses.

Following is a summary of financial position and results of operations of the Company's wholly owned subsidiaries:

| | Dalhart Federal Savings & Loan Association, SSB | Texas Panhandle Title Co., Inc. |
|---|---|---|
| Total assets | $108,391,563 | $ 733,710 |
| Total liabilities | $ 96,920,037 | $ 189,959 |
| Stockholder's equity | 11,471,526 | 543,751 |
| | $108,391,563 | $ 733,710 |
| Revenues | $ 4,707,618 | $ 331,550 |
| Net income (loss) | $ 514,018 | $ 75,833 |

## Note 4: Income Taxes

The Company and subsidiaries file a consolidated Federal income tax return. The provision for income taxes consisted of the following for the years ended June 30:

| | 2015 | 2014 |
|---|---|---|
| Income tax provisions: | | |
| Current | $ 176,253 | $ 187,552 |
| Deferred | (21,534) | (437) |
| Total | $ 154,719 | $ 187,115 |

The reasons for the difference between the statutory Federal income tax rates and the effective tax rates are summarized as follows:

| | 2015 | 2014 |
|---|---|---|
| Expected tax provision at a 34% rate | $ 251,915 | $ 185,202 |
| Increase (decrease) resulting from: | | |
| Effect of statutory bad debt deduction | 0 | 0 |
| Other, net | (97,196) | 1,913 |
| | $ 154,719 | $ 187,115 |

Deferred tax assets and liabilities in other liabilities at June 30, consist of the following:

| | 2015 | 2014 |
|---|---|---|
| Deferred tax assets: | | |
| Deferred loan fees | $ 556 | $ 0 |
| Reserve for loan losses - Book Deduction in excess of tax basis | 0 | 0 |
| Unrealized loss on available-for-sale securities | 25,891 | 0 |
| | 26,447 | 0 |
| Deferred tax liabilities: | | |
| Accumulated depreciation | 176,523 | 170,603 |
| Stock dividend - FHLB | 185,028 | 179,653 |
| Accrued interest receivable on pre 9-29-85 first mortgage loans | 0 | 0 |
| Reserve for loan losses - book deduction in excess of tax basis | 10,056 | 9,764 |
| Unrealized gain on available for sale securities | 0 | (9,976) |
| Other items | 94,583 | 9,039 |
| | 466,190 | 359,083 |
| Net deferred tax liability | $ 439,743 | $ 359,083 |

**DALHART FEDERAL SAVINGS & LOAN ASSOCIATION, SSB**
**Independent Auditor's Report**
**on Financial Statements**
**at June 30, 2015 and 2014**
**Management Letter Comments**

Certified Public Accountants

**Gaskill, Pharis & Pharis, L.L.P.**
Telephone (806) 244-5533 Fax (806) 244-6331
www.gaskillpharis.com
P.O. Box 1060 / 521 Denver Avenue
Dalhart, Texas 79022

Edward M. Hopkins, CPA
Chad A. Miller, CPA
Lee E. Moore, CPA
Nicole Bowers, CPA

Earl D. Pharis, CPA
Van J. Josselet, CPA

Dalhart Federal Savings and Loan Association
Chairman of Audit Committee
Mr. Gary Finch
P.O. Box 1509
Dalhart, Texas 79022

Dear Mr. Gary Finch:

We are pleased to confirm our understanding of the services we are to provide for Dalhart Federal Savings and Loan Association, for the years ended June 30, 2015 and June 30, 2014.

We will audit the balance sheets of Dalhart Federal Savings and Loan Association as of June 30, 2015 and June 30, 2014, and the related statements of income, retained earnings, and cash flows for the years then ended, and the related notes to the financial statements. Also, the supplemental schedule of other operating expenses accompanying the financial statements will be subjected to the auditing procedures applied in our audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, in accordance with auditing standards generally accepted in the United States of America, and we will provide an opinion on it in relation to the financial statements as a whole.

We will also prepare the financial institution's federal income tax return for the 2014 year ended June 30, 2015 and the applicable Texas franchise return due.

**Audit Objective**

The objective of our audit is the expression of an opinion as to whether your financial statements are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit will be conducted in accordance with generally accepted auditing standards in the United States of America and will include tests of your accounting records and other procedures we consider necessary to enable us to express such an opinion. We cannot provide assurance that an unmodified opinion will be expressed. Circumstances may arise in which it is necessary for us to modify our opinion or add an emphasis-of-matter or other-matter paragraph. If our opinion is other than unqualified, we will discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed an opinion, we may decline to express an opinion or withdraw from this engagement.

**Audit Procedures**

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, consideration of the allowance for loan losses and other estimates made by management, and direct confirmation of loans, deposits, investments, and certain other assets and liabilities by correspondence with selected customers, creditors, safekeeping agents, and correspondent banks. Certain of our audit procedures, such as direct verification of loans and deposits, may be on an unannounced basis. We will also request written representations from your attorneys as part of the engagement, and they may bill you for responding to this inquiry. At the conclusion of our audit, we will also request certain written representations from you about the financial statements and related matters.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We will plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the financial institution or to acts by management or employees acting on behalf of the institution.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, and because we will not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us, even though the audit is properly planned and performed in accordance with U.S. generally accepted auditing standards. In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements. However, we will inform the appropriate level of management of any material errors, fraudulent financial reporting, or misappropriation of assets that come to our attention. We will also inform the appropriate level of management of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential.

Our audit will include obtaining an understanding of the institution and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. An audit is not designed to provide assurance on internal control or to identify deficiencies in internal control. However, during the audit, we will communicate to you and those changed with governance internal control related matters that are required to be communicated under professional standards.

We may from time to time, and depending on the circumstances, use third-party service providers in serving your account. We may share confidential information about you with these service providers, but remain committed to maintaining the confidentiality and security of your information. Accordingly, we maintain internal policies, procedures, and safeguards to protect the confidentiality of your personal information. In addition, we will secure confidentiality agreements with all service providers to maintain the confidentiality of your information and we will take reasonable precautions to determine that they have appropriate procedures in place to prevent the unauthorized release of your confidential information to others. In the event that we are unable to secure an appropriate confidentiality agreement, you will be asked to provide your consent prior to the sharing of your confidential information with the third-party service provider. Furthermore, we will remain responsible for the work provided by any such third-party service providers.

**Management Responsibilities**

You agree to assume all management responsibilities for the tax services and any other nonattest services we provide; oversee the services by designating an individual, preferably from senior management, with suitable skill, knowledge, or experience; evaluate the adequacy and results of the services; and accept responsibility for them.

You are responsible for establishing and maintaining internal controls, including monitoring ongoing activities; for the selection and application of accounting principles; and for the fair presentation in the financial statements of financial position, results of operations, and cash flows in conformity with U.S. generally accepted accounting principles. You are also responsible for making all financial records and related information available to us and for the accuracy and completeness of that information. You are also responsible for providing us with (a) access to all information of which you are aware that is relevant to the preparation and fair presentation of the financial statements, (b) additional information that we may request for the purpose of the audit, and (c) unrestricted access to persons within the institution from whom we determine it necessary to obtain audit evidence.

Your responsibilities include adjusting the financial statements to correct material misstatements and confirming to us in the management representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

You are responsible for the design and implementation of programs and controls to prevent and detect fraud and for informing us about all known or suspected fraud affecting the institution involving (1) management, (2) employee who have significant roles in internal control, and (3) others where the fraud could have a material effect on the financial statements. Your responsibilities include informing us of your knowledge of any allegations of fraud or suspected fraud affecting the institution received in communications from employees, former employees, regulators, or others. In addition, you are also responsible for identifying and ensuring that the financial institution complies with applicable laws and regulations. You are responsible for the preparation of the supplementary information in conformity with U.S. generally accepted accounting principles. You agree to include the audited financial statements with any presentation of the supplementary information that includes our report thereon.

**Engagement Administration, Fees and Other**

We understand that your employees will prepare all cash, loans receivable, deposit, and other confirmations we request and will locate any loan documents and support for other transactions selected by us for testing.

In accordance with FDIC regulations, we, as your auditors, are required to make the following commitments:

The audit documentation for this engagement are the property of Gaskill, Pharis & Pharis, L.L.P. and constitutes confidential information. However, we may be requested to make certain workpapers and policies and procedures related to services performed, available to the FDIC and/or Texas Department of Savings and Mortgage Lending pursuant to authority given to it by law or regulation. If requested, access to such workpapers, policies, and procedures will be provided under the supervision of Gaskill, Pharis & Pharis, L.L.P. personnel. Furthermore, upon request, we may provide photocopies of selected workpapers, policies, and procedures to the FDIC. The FDIC may intend, or decide, to distribute the photocopies or information contained therein to others, including other governmental agencies.

The information that we obtain in auditing is confidential, as required by Section ET301 of the AICPA Code of Professional Conduct. Therefore, your acceptance of this engagement letter will serve as your advance consent to our compliance with above commitments.

Chad Miller is the engagement partner and is responsible for supervising the engagement and signing the report or authorizing another individual to sign it.

Our fees for these services will be based on the actual time spent at our standard hourly rates, plus travel and other out-of-pocket costs such as report production, typing, postage, etc. not to exceed $28,000. The fee estimate is based on anticipated cooperation from your personnel and the assumption that unexpected circumstances will not be encountered during the engagement. If significant additional time is necessary, we will discuss it with you and arrive at a new fee estimate before we incur the additional costs. Our standard hourly rates vary according to the degree of responsibility involved and the experience level of the personnel assigned to your audit. Every effort will be made to keep our time at a minimum consistent with the engagement requirements.

As part of our engagement, we will also prepare the information needed for a consolidated Federal income tax return for your financial institution and their holding companies for the year ended June 30, 2015 and will bill at our standard hourly rates. We will advise you with regard to tax positions taken in the preparation of the tax returns, bu the responsibility for the tax returns remains with you.

We appreciate the opportunity to be of service to you and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy and return to us.

Very truly yours,

*Gaskill, Pharis & Pharis, L.L.P.*

CM/pcc

Response:

This letter correctly sets forth the understanding of Dalhart Federal Savings & Loan Association.

William Cunningham

Officer's Signature

President 05/14/2015

Title Date

**Dalhart Federal Savings & Loan Association, SSB**
**Dalhart, Texas**

## Table of Contents

Certified Public Accountants

# Gaskill, Pharis & Pharis, L.L.P.

Telephone (806) 244-5533 Fax (806) 244-6331
www.gaskillpharis.com
P.O. Box 1060 / 521 Denver Avenue
Dalhart, Texas 79022

Edward M. Hopkins, CPA
Chad A. Miller, CPA

Lee E. Moore, CPA
Nicole Bowers, CPA

Earl D. Pharis, CPA
Van J. Josselet, CPA

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Dalhart Federal Savings & Loan Association, SSB
Dalhart, Texas

We have audited the accompanying financial statements of Dalhart Federal Savings & Loan Association, SSB (a Texas corporation) which comprise the statements of financial condition as of June 30, 2015 and 2014, and the related statements of operations, retained income, cash flows, and supplemental schedule of other operating expenses for the years then ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America: this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Dalhart Federal Savings & Loan Association, SSB as of June 30, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Report on Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Gaskill, Pharis & Pharis, L.L.P.

September 8, 2015

## DALHART FEDERAL SAVINGS & LOAN ASSOCIATION, SSB

### Statements of Financial Condition
### June 30, 2015 and 2014

| | 2015 | 2014 |
|---|---|---|
| **Assets** | | |
| **Cash and cash equivalents:** | | |
| Cash and amounts due from depository institutions | $ 2,505,937 | $ 2,332,192 |
| Interest bearing deposits in other banks | 4,954,990 | 6,553,390 |
| Federal Funds sold | 22,311 | 23,763 |
| | 7,483,238 | 8,909,345 |
| Time deposits | 0 | 0 |
| Securities held-to-maturity (Note 1 and 2)(fair value approximates $25,081,645 in 2015 and $26,291,283 in 2014) | 25,096,909 | 26,314,414 |
| Securities available-for-sale (Note 1 and 2) at fair value | 4,742,906 | 3,286,368 |
| Bank owned life insurance (BOLI) | 2,821,132 | 2,737,328 |
| Loans (Note 1 and 3) | 65,580,031 | 66,541,068 |
| Accrued interest receivable (Note 4) | 514,381 | 483,133 |
| Federal income tax receivable - current | 225,205 | 151,029 |
| Foreclosed real estate, net (Notes 1 and 5) | 0 | 260,000 |
| Restricted investment - Federal Home Loan Bank stock - at cost (Note 8) | 223,600 | 343,000 |
| Office properties and equipment - less accumulated depreciation of $2,958,696 in 2015 and $3,032,693 in 2014 (Notes 1 and 6) | 1,501,021 | 1,518,647 |
| Prepaid expenses and other assets | 203,140 | 170,753 |
| | $ 108,391,563 | $ 110,715,085 |
| **Liabilities and Retained Income** | | |
| **Liabilities** | | |
| Demand deposits - non-interest bearing | $ 10,412,178 | $ 10,492,038 |
| Savings and NOW deposits | 28,804,677 | 27,014,279 |
| Other time deposits | 52,529,780 | 55,297,129 |
| Total deposits (Note 7) | 91,746,635 | 92,803,446 |
| Notes payable - FHLB (Note 8) | 2,766,748 | 4,323,062 |
| Advances from borrowers for taxes and insurances | 1,042,297 | 1,073,038 |
| Accrued expenses and sundry liabilities | 1,047,629 | 1,186,811 |
| Federal income taxes: | | |
| Current | 0 | 0 |
| Deferred (Note 9) | 316,728 | 290,328 |
| Total liabilities | 96,920,037 | 99,676,685 |
| **Retained income** | | |
| Unappropriated | 11,521,785 | 11,057,767 |
| Unrealized gain (loss) on securities available-for-sale | (50,259) | (19,367) |
| Total retained income | 11,471,526 | 11,038,400 |
| | $ 108,391,563 | $ 110,715,085 |

The accompanying notes are an integral part of these financial statements.

## DALHART FEDERAL SAVINGS & LOAN ASSOCIATION, SSB

### Statements of Operations
### June 30, 2015 and 2014

| | 2015 | 2014 |
|---|---|---|
| **Interest income** | | |
| First mortgage income | $ 3,644,539 | $ 3,686,766 |
| Consumer and other loans | 225,838 | 219,660 |
| Mortgage backed securities | 214,747 | 313,516 |
| Investment securities (including tax exempt of $418,199 for 2015 and $292,107 for 2014) | 622,494 | 471,397 |
| Total interest income | 4,707,618 | 4,691,339 |
| **Interest expense** | | |
| Deposits | 882,772 | 866,271 |
| Advances from Federal Home Loan Bank | 82,889 | 111,392 |
| Total interest expense | 965,661 | 977,663 |
| Net interest income | 3,741,957 | 3,713,676 |
| Provision for losses on loans | (65,118) | (59,006) |
| Net interest income after provision for losses on loans and real estate | 3,676,839 | 3,654,670 |
| **Non-interest income** | | |
| Loan fees and service charges | 130,692 | 138,350 |
| Other operating income | 119,284 | 94,256 |
| Total non-interest income | 249,976 | 232,606 |
| **Non-interest expenses** | | |
| Salaries and employee benefits (Note 10) | 2,063,270 | 2,010,453 |
| Occupancy expenses | 300,832 | 279,715 |
| Data processing | 186,430 | 187,993 |
| Deposit insurance premiums | 68,496 | 52,651 |
| Other operating expenses | 675,727 | 683,116 |
| (Loss) income on foreclosed real estate, net | 42 | (7,359) |
| Total other expenses | 3,294,797 | 3,206,569 |
| Net income from operations before income taxes | 632,018 | 680,707 |
| Income taxes | 118,000 | 166,200 |
| Net income (loss) | 514,018 | 514,507 |
| **Other comprehensive income** | | |
| Unrealized gains (losses) on securities, net of deferred income taxes of $15,914 and $29,512 | (30,892) | 57,286 |
| Comprehensive income (loss) | $ 483,126 | $ 571,793 |

The accompanying notes are an integral part of these financial statements.

## DALHART FEDERAL SAVINGS & LOAN ASSOCIATION, SSB

### Statements of Retained Income
### June 30, 2015 and 2014

| | 2015 | 2014 |
|---|---|---|
| **Unappropriated** | | |
| Balance, July 1 | $ 11,057,767 | $ 10,543,260 |
| Allocation of net income (loss) | 514,018 | 514,507 |
| Dividends paid | (50,000) | 0 |
| Balance, June 30 | 11,521,785 | 11,057,767 |
| | | |
| Balance, July 1 | (19,367) | (76,653) |
| Net change in unrealized gains (loss) on available-for-sale securities | (46,806) | 86,798 |
| Deferred income taxes on change of available-for-sale securities | 15,914 | (29,512) |
| Balance, June 30 | (50,259) | (19,367) |
| | | |
| Total retained income | $ 11,471,526 | $ 11,038,400 |

The accompanying notes are an integral part of these financial statements.

## DALHART FEDERAL SAVINGS & LOAN ASSOCIATION, SSB

### Statements of Cash Flows
### June 30, 2015 and 2014

| | 2015 | 2014 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Interest received - loans | $ 3,867,989 | $ 3,899,814 |
| Interest received - securities | 632,579 | 460,014 |
| Interest received - mortgage backed securities | 308,504 | 318,205 |
| Other income received | 166,172 | 147,965 |
| Interest paid - deposit accounts | (229,201) | (237,847) |
| Interest paid - borrowed funds | (85,057) | (114,848) |
| Loan losses - net of recoveries | 7,276 | (9,470) |
| Cash paid to employees and suppliers for expenses | (3,049,774) | (3,373,445) |
| Income taxes paid | (149,862) | (118,250) |
| Cash from real estate owned | 0 | 3,700 |
| Net cash flow from operating activities | 1,468,626 | 975,838 |
| **Cash flows from investing activities** | | |
| Purchase of fixed assets | (90,535) | (79,709) |
| Principal reduction from loans | 13,879,541 | 15,018,451 |
| Advances for loans | (12,918,504) | (16,211,447) |
| Purchase of securities held to maturity | (5,104,719) | (6,815,938) |
| Proceeds from called or matured securities | 6,281,479 | 5,432,466 |
| Purchase of available-for-sale securities | (2,475,844) | (250,644) |
| Proceeds from available-for-sale securities | 880,543 | 128,387 |
| Proceeds from real estate owned | 187,564 | 0 |
| Net cash flow (used) from investing activities | 639,525 | (2,778,434) |
| **Cash flows from financing activities** | | |
| Net advances (payment) from borrowed funds | (1,556,314) | (2,767,518) |
| Proceeds (payments) - net from advances - taxes and insurance, net | (30,741) | 51,172 |
| Proceeds (purchases) FHLB stock | 119,400 | 0 |
| Cash deposits (withdrawals) - savings accounts, net | (2,016,603) | 7,942,650 |
| Dividends paid | (50,000) | 0 |
| Net cash flows (used) from financing activities | (3,534,258) | 5,226,304 |
| Net increase (decrease) in cash | (1,426,107) | 3,423,708 |
| Cash and cash equivalent at beginning of year | 8,909,345 | 5,485,637 |
| Cash and cash equivalent at end of year | $ 7,483,238 | $ 8,909,345 |

The accompanying notes are an integral part of these financial statements.

## DALHART FEDERAL SAVINGS & LOAN ASSOCIATION, SSB

### Statements of Cash Flows (con't)
### June 30, 2015 and 2014

| | 2015 | 2014 |
|---|---|---|
| **Reconciliation of net income (loss) to net cash from operating activities** | | |
| Net income (loss) | $ 514,018 | $ 514,507 |
| Adjustments to reconcile net income (loss) to net cash provided: | | |
| Amortization of premiums on securities | 132,702 | 123,827 |
| Depreciation | 108,161 | 106,809 |
| Interest on savings accounts credited directly to account | 605,677 | 629,423 |
| Non-cash dividends - FHLB | 0 | (1,200) |
| Earnings on BOLI | (83,804) | (83,441) |
| Provision for loan losses | 7,276 | 1,761 |
| **(Increase) decrease in** | | |
| Accrued interest receivable | (31,248) | (13,306) |
| Others assets, net | (32,387) | 35,466 |
| **Increase (decrease) in** | | |
| Accrued interest payable | 31,248 | (3,691) |
| Federal income taxes | 47,776 | 103,862 |
| Accrued expenses | 169,207 | (438,179) |
| Cash provided by operating activities | $ 1,468,626 | $ 975,838 |
| Supplemental schedule of noncash activities: | | |
| Transfers from loans to real estate acquired through foreclosure | $ - | $ 369,054 |
| Proceeds from sales of real estate held for investment financed through loans | $ 187,564 | $ 190,300 |

The accompanying notes are an integral part of these financial statements.

## DALHART FEDERAL SAVINGS & LOAN ASSOCIATION, SSB

### Notes to Financial Statements
### June 30, 2015 and 2014

**Note 1: Summary of Significant Accounting Policies:**

Nature of Operations:

The Association provides financial services to individuals and corporate customers, and is subject to competition from other financial institutions. The Association is also subject to the regulations of certain Federal and State agencies and undergoes periodic examinations by those regulatory authorities.

On January 21, 2004 the Association's Board of Directors unanimously adopted a Plan of Reorganization pursuant to which the Association did, in a series of steps, reorganize into a federally-chartered mutual holding company structure. All of the outstanding capital stock of the Association is held by Dalhart Federal Corporation and all of the outstanding capital stock of the Dalhart Federal Corporation is held by Dalhart Federal Mutual Holding Company. The Reorganization was accomplished in accordance with the procedures set forth in the Plan of Reorganization, as well as the requirements of applicable laws and regulations and the policies of the Office of Thrift Supervision (OTS).

On April 14, 2011 the Association's Board of Directors unanimously adopted a plan of conversion to become a Texas Savings Bank. The plan was approved by the Texas Savings and Mortgage Lending Department effective July 1, 2011.

Use of Estimates:

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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 those 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 foreclosed real estate. In connection with the determination of the estimated losses on loans and foreclosed real estate, management obtains independent appraisals for significant properties.

While management uses available information to recognize losses on loans and foreclosed real estate, further reductions in the carrying amounts of loans and foreclosed assets may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the estimated losses on loans and foreclosed real estate. Such agencies may require the Association to recognize additional losses based on their judgments about information available to them at the time of their examination. Because of these factors, it is reasonably possible that the estimated losses on loans and foreclosed real estate may change materially in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

Securities Held-to-Maturity:

U.S. Government, agency securities, and specific municipal bonds for which the Association has the positive intent and ability to hold to maturity are reported at cost, adjusted for premium and discounts that are recognized in interest income using the interest method over the period to maturity.

Mortgage and pool securities represent participating interests in pools of long-term first mortgage loans originated and serviced by issuers of the securities. Mortgage-backed securities are carried at unpaid principal balances, adjusted for unamortized premiums and unearned discounts. Premiums and discounts are amortized using methods approximating the interest method over the remaining period to contractual maturity, adjusted for anticipated prepayments. Should any be sold, cost of securities sold is determined using the specific identification method.

Securities Available-for-Sale:

Management has classified specific investments in municipal bonds and SBA Pool securities as available-for-sale because the Association anticipates that the securities could be sold in response to rate changes, prepayment risk, liquidity, availability of and the yield on alternative investments and other market and economic factors. Management makes the classification on the purchase date. These investments are reported at fair value.

Unrealized gains and losses on securities available-for-sale are recognized as direct increases or decreases in other comprehensive income. Purchase premiums and discounts are recognized in interest income. Declines in the fair value of the available-for-sale securities below their cost that are deemed to be other than temporary are reflected as realized losses. In estimating other-than-temporary impairment losses, management considers the length of time and the extent to which the fair value has been less than cost, the financial condition and the near-term prospects of the issuer and the intent and ability of the Association to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Gains and losses realized on sale of investment securities, are determined using the adjusted cost basis of the specific securities sold, are included in noninterest income in the statements of operations.

FHLB Stock:

Federal Home Loan Bank ("FHLB") stock is restricted as to its marketability. Because no ready market exists for this investment and that it doesn't have a quoted market value the Association investment in FHLB stock is carried at cost. It is the only investment of the Association carried at cost.

The Association does not evaluate FHLB stock for impairment.

Equity Method of Accounting for Investments:

Investments in companies in which the Association has a 20% to 100% interest are carried at cost, adjusted for the company's proportionate share of their undistributed earnings or losses.

Bank Owned Life Insurance:

The Association purchased life insurance on certain employees of the Association. Appreciation in value of the insurance policies is classified as noninterest income. Premiums are recorded in noninterest expense.

Premises and Equipment:

Land is carried at cost. Bank premises, furniture and equipment are carried at cost, less accumulated depreciation and amortization computed principally by the straight-line method.

Income Taxes:

Income taxes are provided for the tax effects of the transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the basis of allowance for loan losses, and accumulated depreciation for financial and income tax reporting. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred tax assets and liabilities are reflected at income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. A consolidated tax return will be prepared with the mutual holding companies.

The Association does not have uncertain tax positions that are deemed material, and did not recognize any adjustments for unrecognized tax benefits. The Association's policy is to recognize interest and penalties on income taxes in other noninterest expenses.

<u>Statements of Cash Flows</u>:

The Association considers all cash and amounts due from depository institutions, interest-bearing deposits in other banks and Federal funds sold to be cash equivalents for purposes of the statement of cash flows.

<u>Loans and Allowance for Loan Losses</u>:

Loans are carried at the amount of unpaid principal, adjusted for deferred loan fees and origination costs. Interest on loans is accrued based on the principal amounts outstanding. Nonrefundable loan fees and related direct costs are deferred and the net amount is amortized to income as a yield adjustment over the life of the loan using the interest method. When principal or interest is delinquent for ninety days or more, the Association evaluates the loan for nonaccrual status.

After a loan is placed on nonaccrual status, all interest previously accrued but not collected is reversed against current period interest income. Subsequent collections of interest payments on nonaccrual loans are recognized as interest income unless ultimate collectibility of the loan is in doubt. Cash collections on loans where ultimate collectibility remains in doubt are applied as reductions of the loan principal balance and no interest income is recognized until the principal has been collected.

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 is based on two basic principles of accounting: (i) FASB ASC 450, *Contingencies*, which requires that losses be accrued when they are probable of occurring and estimable and (ii) FSAB ASC 310, *Receivables*, which requires that losses or impaired loans be accrued based on the differences between the loan balance and either the value of collateral, if such loans are considered to be collateral dependent and in the process of collection, or the present value of future cash flows, or the loan's value as observable in the secondary market. A loan is considered impaired when, based on current information and events, the Association has concerns about the ability 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. 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 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.

The Association's allowance for loan losses has three basic components: the specific allowance, the formula allowance and the pooled allowance. Each of these components is determined based upon estimates that can and do change when the actual events occur. As a result of the uncertainties inherent in the estimation process, management's estimate of loan losses and related allowance could change in the near term.

The specific allowance component is used to individually establish an allowance for loans identified for impairment testing. When impairment is identified, a specific reserve may be established based on the Association's calculation of the estimated loss embedded in the individual loan. Impairment testing includes consideration of the borrower's overall financial condition, resources and payment record, support available from financing guarantors and the fair market value of collateral. These factors are combined to estimate the probability and severity of inherent losses. Large groups of smaller balance, homogeneous loans are collectively evaluated for impairment. Accordingly, The Association does not separately evaluate individual consumer and residential loans for impairment.

The formula allowance component is used for estimating the loss on internally risk rated loans exclusive of those identified as impaired. The loans meeting the Association's internal criteria for classification, such as special mention, substandard, doubtful and loss, as well as specifically identified impaired loans, are segregated from performing loans within the portfolio. These internally classified loans are then grouped by loan type (commercial, commercial real estate, commercial construction, residential real estate, residential construction or installment). Each loan type is assigned an allowance factor based on management's estimate of the associated risk, complexity and size of the individual loans within the particular loan category. Classified loans are assigned a higher allowance factor than non-classified loans due to management's concerns regarding collectibility or management's knowledge of particular elements surrounding the borrower. Allowance factors increase with the worsening of the internal risk rating.

The pooled formula component is used to estimate the losses inherent in the pools of non-classified loans. These loans are then also segregated by loan type and allowance factors are assigned by management based on delinquencies, loss history, trends in volume and terms of loans, effects of changes in lending policy, the experience and depth of management, national and local economic trends, concentrations of credit, results of the loan review system and effect of external factors (i.e. competition and regulatory requirements). Current economic conditions take into account the average unemployment rate for Dallam County, Texas, the State of Texas and for the nation, with the most significance given to the Dallam County data. The allowance factors assigned differ by loan type.

Allowance factors and overall size of the allowance may change from period to period based on management's assessment of the above-described factors and the relative weights given to each factor. In addition, various regulatory agencies periodically review the allowance for loan losses. These agencies may require the Association to make additions to the allowance for loan losses based on their judgments of collectibility based on information available to them at the time of their examination.

Loans are placed into a nonaccruing status and classified as nonperforming when the principal or interest has been in default for a period of 90 days or more unless the obligation is well secured and in the process of collection. A debt is "well secured" if it is secured by (i) pledges of real or personal property, including securities, that have a realizable value sufficient to discharge the debt, (including accrued interest), in full, or (ii) the guarantee of a financially responsible party. A debt is "in the process of collection" if collection on the debt is proceeding in due course either through legal action, including judgment enforcement procedure, or, in appropriate circumstances, through collection efforts not involving legal action which are reasonably expected to result in repayment of the debt or in its restoration to a current status.

Loans classified as substandard or worse are considered for impairment testing. A substandard loan shows signs of continuing negative financial trends and unprofitability and therefore, is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. The borrower on such loans typically exhibits one or more of the following characteristics: financial ratios and profitability margins are well below industry average; a negative cash flow position exists; debt service capacity is insufficient to the service debt and an improvement in the cash flow position is unlikely within the next twelve months; secondary and tertiary means of debt repayment are weak. Loans classified as substandard are characterized by the probability that the Association will not collect amounts due according to the contractual terms or will sustain some loss if the deficiencies are not corrected.

Loss potential, while existing with respect to the aggregate amount of substandard (or worse) loans, does not have to exist in any individual assets classified as substandard. Such credits are also evaluated for nonaccrual status.

Impaired loans include loans that have been classified as substandard or worse. However, certain loans have made payments as agreed and have remained current, with some financial issues related to cash flow that have caused some concern as to the ability of the borrower to perform in accordance with the current loan terms but not to such an extent as to require the loan be put into a nonaccruing status. Cash receipts on impaired loans are recorded as interest income as received, unless the loan is in a nonaccrual status.

The Association's charge-off policy states after all collection efforts have been exhausted and the loan is deemed to be a loss, it will be charged to the Association's established allowance for loan losses. Consumer loans subject to the Uniform Retail Credit Classification are charged-off as follows: (a) closed end loans are charged-off no later than 120 days after becoming delinquent. (b) consumer loans to borrowers who subsequently declare bankruptcy, where the Association is an unsecured creditor, are charged-off within 60 days of receipt of the notification from the bankruptcy court, (c) fraudulent loans are charged-off within 90 days of discovery and (d) death of a borrower will cause a charge-off to be incurred as such time an actual loss is determined. All other types of loans are generally evaluated for loss potential at the 90$^{th}$ day past due threshold, and any loss is recognized no later than the 120$^{th}$ day past due threshold; each loss is evaluated on its specific facts regarding the appropriate timing to recognize the loss.

Advertising Cost:

Advertising costs of $58,764 for 2015 and $68,535 for 2014 are charged to operations when incurred.

Foreclosed Real Estate:

Foreclosed real estate includes both formally foreclosed property and in-substance foreclosed property. In-substance foreclosed properties are those properties for which the institution has taken physical possession, regardless of whether formal foreclosure proceedings have taken place.

At the time of foreclosure, foreclosed real estate is recorded at the lower of the carrying amount or fair value less cost to sell, which becomes the property's new basis. Any write-downs based on the asset's fair value at date of acquisition are charged to the allowance for loan losses. Fair value is determined by an independent appraisal unless it is clearly inconsequential. Costs incurred in maintaining foreclosed real estate and subsequent adjustments to the carrying amount of the property are included in income (loss) on foreclosed real estate.

Financial Instruments:

In the ordinary course of business the Association has entered into off-balance-sheet financial instruments consisting of commitments to extend credit. Such financial instruments are recorded in the financial statements when they are funded or related fees are incurred or received.

Fair Values of Financial Instruments:

The Association has elected not to estimate the fair value of its financial instruments for which a quoted market price is not available because it has not yet obtained or developed the valuation model necessary to estimate fair value and the cost of obtaining an independent valuation appears excessive considering the materiality of the instruments to the Association.

Fair Value Hierarchy

In accordance with this guidance, the Association groups its financial assets and financial liabilities generally measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

Level 1 – Valuation is based on quoted prices in active markets for identical assets or liabilities that the Association has the ability to access at the measurement date. Level 1 assets and liabilities generally include debt and equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 – Valuation is based on inputs other than quoted prices included with level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on quoted prices for similar assets or liabilities; quoted prices in 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 asset or liability.

Level 3 – Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation.

Compensated Absences:

Employees of the Association are entitled to paid vacation, paid sick days and personal days off, depending on job classification, length of service, and other factors. It is impracticable to estimate the amount of compensation for future absences, and, accordingly, no liability has been recorded in the accompanying financial statements. The Association's policy is to recognize the costs of compensated absences when actually paid to employees.

Pension Plan:

The Association has a pension plan covering substantially all employees. It is the policy of the Association to fund the maximum amount that can be deducted for Federal income tax purposes but in amounts not less than the minimum amounts required by law.

Concentration of Credit Risk Arising from Cash Deposits in Excess of Insured Limits:

The Association maintains cash balances at other financial institutions. These accounts are insured by FDIC up to $250,000 each. At June 30, 2015 the Association had $1,397,536 of uninsured balances.

Years Subject to Examination:

The Association is no longer subject to examination by the Internal Revenue Service or the Texas State Comptroller for years prior to June 30, 2011 and June 30, 2010 respectively.

Date of Management's Review of Subsequent Events:

Management has evaluated subsequent events through September 8, 2015, the date which the financial statements were available to be issued.

**Note 2: Securities:**

Debt securities have been classified in the statements of financial condition according to management's intent. The carrying amount of securities and their approximate fair values at June 30 follow:

| Securities Held to Maturity | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value (Level 1) |
|---|---|---|---|---|
| June 30, 2015: | | | | |
| U.S. Government and agency Securities | $ 0 | $ 0 | $ 0 | $ 0 |
| Mortgage and pool securities | 13,761,683 | 245,879 | (41,100) | 13,966,462 |
| Municipal | 11,335,226 | 317,860 | (537,903) | 11,115,183 |
| | $25,096,909 | $ 563,739 | $(579,003) | $25,081,645 |
| June 30, 2014: | | | | |
| U.S. Government and agency Securities | $ 1,000,000 | $ 8,446 | $ 0 | $ 1,008,446 |
| Mortgage and pool securities | 14,824,384 | 269,416 | (29,993) | 15,063,807 |
| Municipal | 10,490,030 | 328,645 | (599,645) | 10,219,030 |
| | $26,314,414 | $606,507 | $(629,638) | $26,291,283 |
| Securities Available-for-Sale | | | | |
| The carrying amount of securities held as available for sale are: | | | | |
| June 30, 2015: | | | | |
| Municipal Bonds | $ 4,508,536 | $ 14,268 | $ (91,760) | $ 4,431,044 |
| SBA Pool | 310,520 | 1,342 | 0 | 311,862 |
| | $ 4,819,056 | $ 15,610 | $ (91,760) | $ 4,742,906 |
| June 30, 2014: | | | | |
| Municipal Bonds | $ 2,917,047 | $ 20,901 | $ (50,387) | $ 2,887,561 |
| SBA Pool | 398,665 | 142 | 0 | 398,807 |
| | $ 3,315,712 | $ 21,043 | $ (50,387) | $ 3,286,368 |

| | Continuous unrealized losses existing for less than 12 months | | Continuous unrealized losses existing for 12 months and greater | | Total | |
|---|---|---|---|---|---|---|
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| Securities Held to Maturity | | | | | | |
| June 30, 2015: | | | | | | |
| U.S. Government and agency securities | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 |
| Mortgage and pool securities | 1,515,655 | 14,374 | 2,241,266 | 26,726 | 3,756,921 | 41,100 |
| Municipal | 0 | 0 | 2,486,788 | 537,903 | 2,486,788 | 537,903 |
| | $ 1,515,655 | $ 14,374 | $ 4,728,054 | $ 564,629 | $ 6,243,709 | $ 579,003 |
| June 30, 2014: | | | | | | |
| U.S. Government and agency securities | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 |
| Mortgage and pool securities | 559,149 | 4,845 | 1,337,816 | 25,148 | 1,896,965 | 29,993 |
| Municipal | 2,196,629 | 394,392 | 1,252,442 | 205,253 | 3,449,071 | 599,645 |
| | $ 2,755,778 | $ 399,237 | $ 2,590,258 | $ 230,401 | $ 5,346,036 | $ 629,638 |
| Securities Available-for-Sale | | | | | | |
| The carrying amount of securities | | | | | | |
| June 30, 2015: | | | | | | |
| Municipal Bonds | $ 1,734,514 | $ 69,823 | $ 1,506,162 | $ 21,937 | $ 3,240,676 | $ 91,760 |
| SBA Pool | 0 | 0 | 0 | 0 | 0 | 0 |
| | $ 1,734,514 | $ 69,823 | $ 1,506,162 | $ 21,937 | $ 3,240,676 | $ 91,760 |

| | | | | | | |
|---|---|---|---|---|---|---|
| June 30, 2014: | | | | | | |
| Municipal Bonds | $ 238,878 | $ 1,104 | $ 1,751,351 | $ 49,283 | $ 1,990,229 | $ 50,387 |
| SBA Pool | 0 | 0 | 0 | 0 | 0 | 0 |
| | $ 238,878 | $ 1,104 | $ 1,751,351 | $ 49,283 | $ 1,990,229 | $ 50,387 |

Fair values for investment securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

There were no sales of securities held to maturity for the years ended June 30, 2015 and 2014.

The scheduled maturities of securities at June 30, 2015 were as follows:

| | Amortized Cost | Fair Value |
|---|---|---|
| Due in one year or less | $ 2,758,339 | $ 2,787,534 |
| Due from one to five year | 7,624,685 | 7,729,850 |
| Due from five to ten years | 9,560,947 | 9,702,432 |
| Due after ten years | 9,971,995 | 9,604,735 |

The amortized cost and fair value of mortgage-backed securities are segregated in the preceding table based on contractual maturity. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations without penalties.

Eleven securities with book values of $2,214,141 and a fair value of $2,210,370 at June 30, 2015 were pledged to secure public deposits or other purposes required or permitted by law.

**Note 3: Loans and Allowance for Loan Losses:**

Loans consist of the following at June 30:

| | 2015 | 2014 |
|---|---|---|
| Real estate – construction and land development, Net of undisbursed portion | $ 2,446,030 | $ 2,320,542 |
| Real estate – mortgage: | | |
| Commercial properties | 5,632,314 | 5,505,859 |
| Residential properties | 54,496,684 | 56,059,158 |
| Total real estate – mortgage | 60,128,998 | 61,565,017 |
| Commercial and industrial | 460,216 | 454,906 |
| Consumer | 2,639,115 | 2,302,331 |
| Total loans | 65,674,359 | 66,642,796 |
| Less: Allowance for loan losses | (92,692) | (99,968) |
| Deferred loan fees | (1,636) | (1,760) |
| Net loans | $65,580,031 | $66,541,068 |

At June 30, 2015 and 2014 the Association has $2,766,748 and $4,323,062 of commercial real estate and residential real estate mortgage loans pledged as collateral for certain borrowings.

The Association's goal is to mitigate risks from an unforeseen threat to the loan portfolio as a result of an economic downturn or other negative influences. Plans that aid in mitigating these potential risk in managing the loan portfolio include: enforcing loan policies and procedures, evaluating the borrower's business plan through the loan term, identifying and monitoring primary and alternative sources of repayment, and obtaining adequate collateral to mitigate loss in the event of liquidation. Specific reserves are established based upon credit and/or collateral risks on an individual loan basis. A risk rating system is used to estimate potential loss exposure and to provide a measuring system for setting general and specific reserve allocations.

As of June 30, 2015, the real estate loan portfolio constituted 95% of the total loan portfolio. This can be broken down further into the following categories: 3.7% construction and land development, 8.6% commercial real estate and 82.7% residential real estate loans, as a percent of total loans. The commercial real estate can be further broken down to 6.81% of owner occupied properties and 1.79% of non-owner occupied properties, as a percent of total loans.

The Association's construction and land development loans are secured by real property where the loan funds will be used to acquire land and to construct or improve appropriately zoned real property for the creation of income producing, owner occupied, or commercial properties. Borrowers are generally required to put equity into the project at levels determined by the loan committee and usually are underwritten with a maximum term of 24 months.

Commercial real estate loans are secured by improved real property which is generating income in the normal course of business. Debt service coverage, assuming stabilized occupancy, must be satisfied to support a permanent loan. The debt service coverage ratio is ordinarily at 1.20 to 1.00. These loans are generally underwritten with a term not greater than 10 years or the remaining useful life of the property, whichever is lower. The preferred term is between 5 to 7 years, with amortization to a maximum of 25 years.

Residential real estate loans are secured by the improved real property of the borrower and are usually underwritten with a term of 1 to 5 years, but may be underwritten with terms up to 30 years.

The Association also makes commercial and industrial loans for a variety of purposes, which include working capital, equipment and accounts receivable financing. This category represents about 0.70% of the loan portfolio at June 30, 2015. Loans in this category generally carry a variable interest rate. Commercial loans meet reasonable underwriting standards, including appropriate collateral and cash flow necessary to support debt service. Personal guarantees are generally required, but may be limited.

The following tables show the allowance for loan losses and recorded investment in loans for the years ended June 30, 2015 and 2014:

**Allowance for loan losses:**

| June 30, 2015 | Mortgage | Consumer |
|---|---|---|
| Beginning balance | $ 70,166 | $ 29,802 |
| Charge-offs | (65,118) | (10,496) |
| Recoveries | 0 | 3,220 |
| Provisions | 65,118 | 0 |
| Ending balance | $ 70,166 | $ 22,526 |
| Ending balance: individually evaluated for impairment | $ 48,118 | $ 0 |
| Ending balance: collectively evaluated for impairment | $ 48,118 | $ 0 |

**Loans:**

| | | |
|---|---|---|
| Ending balance | $62,575,028 | $ 3,099,331 |
| Ending balance: individually evaluated for impairment | $ 946,235 | $ 0 |
| Ending balance: collectively evaluated for impairment | $ 946,235 | $ 0 |

**Allowance for loan losses:**

| June 30, 2014 | Mortgage | Consumer |
|---|---|---|
| Beginning balance | $ 66,166 | $ 32,041 |
| Charge-offs | (49,450) | (16,956) |
| Recoveries | 0 | 5,958 |
| Provisions | 53,450 | 8,759 |
| Ending balance | $ 70,166 | $ 29,802 |
| Ending balance: individually evaluated for impairment | $ 47,905 | $ 213 |
| Ending balance: collectively evaluated for impairment | $ 47,905 | $ 213 |

**Loans:**

| | | |
|---|---|---|
| Ending balance | $63,874,925 | $ 2,302,331 |
| Ending balance: individually evaluated for impairment | $ 1,138,414 | $ 5,617 |
| Ending balance: collectively evaluated for impairment | $ 1,138,414 | $ 5,617 |

Credit quality indicators as of June 30, 2015 and 2014 are as follows:

internally assigned grade:

Pass - loans in this category have strong asset quality and liquidity along with a multi-year track record of profitability.

Special mention - loans in this category are currently protected but are potentially weak. The credit risk may be relatively minor, yet constitute an increased risk in light of the circumstances surrounding a specific loan.

Substandard - loans in this category show signs of continuing negative financial trends and unprofitability at various times, and therefore, are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any.

Doubtful - loans in this category are illiquid and highly leveraged, have negative net worth, cash flow, and continuing trend serious losses. The possibility of loss is extremely high, but because of certain important and reasonably specific pending factors which may work to the advantage and strengthening of the asset, its classification as loss is deferred until its more exact status may be determined.

Loss - loans in this category are considered uncollectible and of such little value that their continuance as bankable loans is not warranted. This classification does not mean that the loan has no recovery value, but that it is not practical to defer writing it off, even though partial recovery may be affected in the future. Such credits should be recommended for charge-off.

The information for each of the credit quality indicators is updated on a quarterly basis in conjunction with the determination of the adequacy of the allowance for loan losses.

Commercial credit exposure – Credit risk profile by internally assigned grade:

| June 30, 2015 | Construction and Land Development | Commercial Real Estate | Commercial and Industrial |
|---|---|---|---|
| Pass | $ 0 | $ 0 | $ 2,284 |
| Special mention | 0 | 0 | 53,972 |
| Substandard | 0 | 0 | 45,386 |
| Total | $ 0 | $ 0 | $101,642 |

| June 30, 2014 | Construction and Land Development | Commercial Real Estate | Commercial and Industrial |
|---|---|---|---|
| Pass | $ 0 | $ 0 | $ 0 |
| Special mention | 0 | 0 | 1,935 |
| Substandard | 0 | 0 | 53,757 |
| Total | $ 0 | $ 0 | $ 55,692 |

Consumer credit exposure – Credit risk profile by internally assigned grade:

| June 30, 2015 | Residential Real Estate | Consumer |
|---|---|---|
| Pass | $ 528,330 | $ 0 |
| Special mention | 2,017,581 | 0 |
| Substandard | 900,849 | 0 |
| Total | $ 3,446,760 | $ 0 |

| June 30, 2014 | Residential Real Estate | Consumer |
|---|---|---|
| Pass | $ 990,119 | $ 294,054 |
| Special mention | 45,970 | 213 |
| Substandard | 1,084,657 | 5,617 |
| Total | $ 2,120,746 | $ 299,884 |

Information on impaired loans for the years ended June 30, 2015 and 2014 are as follows:

| June 30, 2015 | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment | Interest Income Recognized |
|---|---|---|---|---|---|
| With no related allowance recorded: | | | | | |
| Residential real estate | $ 213,095 | $ 238,577 | $ 25,482 | $ 0 | $ 0 |
| Consumer | 0 | 0 | 0 | 0 | 0 |
| Total | $ 213,095 | $ 238,577 | $ 25,482 | $ 0 | $ 0 |

With an allowance recorded: None

| June 30, 2014 | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment | Interest Income Recognized |
|---|---|---|---|---|---|
| With no related allowance recorded: | | | | | |
| Residential real estate | $ 229,852 | $ 241,816 | $ 11,963 | $ 0 | $ 0 |
| Consumer | 2,656 | 2,820 | 163 | 0 | 0 |
| Total | $ 232,508 | $ 244,636 | $ 12,126 | $ 0 | $ 0 |

Age analysis tables of past due loans of June 30, 2015 and 2014 are as follows:

| June 30, 2015 | 31-60 Days Past Due | 61-90 Days Past Due | Over 90 Days | Total Past Due | Current | Total | 90 Days or Greater and Still Accruing |
|---|---|---|---|---|---|---|---|
| Construction and land development | $ 0 | $ 262,400 | $ 0 | $ 262,400 | $ 0 | $ 0 | $ 0 |
| Commercial Real estate | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Residential Real Estate | 939,165 | 804,881 | 0 | 1,744,046 | 0 | 0 | 0 |
| Commercial and industrial | 45,386 | 0 | 0 | 45,386 | 0 | 0 | 0 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Consumer | 4,874 | 15,542 | 4,690 | 25,106 | 0 | 0 | 4,690 |
| Total | $ 989,425 | $ 1,082,823 | $ 4,690 | $ 2,076,938 | $ 0 | $ 0 | $ 4,690 |

| June 30, 2014 | 31-60 Days Past Due | 61-90 Days Past Due | Over 90 Days | Total Past Due | Current | Total | 90 Days or Greater and Still Accruing |
|---|---|---|---|---|---|---|---|
| Construction and land development | $ 17,125 | $ 0 | $ 0 | $ 17,125 | $ 0 | $ 0 | $ 0 |
| Commercial Real estate | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Residential Real Estate | 554,728 | 352,583 | 203,605 | 1,110,916 | 0 | 0 | 24,479 |
| Commercial and industrial | 0 | 53,757 | 0 | 53,757 | 0 | 0 | 0 |
| Consumer | 29,595 | 0 | 2,820 | 32,415 | 0 | 0 | 0 |
| Total | $ 601,448 | $ 406,340 | $ 206,425 | $ 1,214,213 | $ 0 | $ 0 | $ 24,479 |

Information on performing and nonaccrual impaired loans as of June 30, 2015 and 2014 is as follows:

| | June 30, 2015 | June 30, 2014 |
|---|---|---|
| Impaired performing loans: | | |
| Residential real estate | $ 213,095 | $ 229,852 |
| Total impaired performing loans | $ 213,095 | $ 229,852 |
| Impaired nonperforming loans: | | |
| Consumer | $ 0 | $ 2,656 |

Information on troubled debt restructurings for the years ended June 30, 2015 and 2014 is as follows:

There were no loans as of June 30, 2015 that had been modified as troubled debt restructurings during 2015 and then subsequently re-defaulted in 2015.

At June 30, 2015 there are no commitments to lend additional funds to any borrower whose loan terms have been modified in a troubled debt restructuring.

Significant Group Concentrations of Credit Risk:

Most of the Association's business activity is with customers located within a small geographic area of the Texas panhandle that is primarily an agricultural economy. Although the Association's loan portfolio is diverse, its major emphasis in lending has been the origination of permanent single-family dwelling loans, and such loans comprise the majority of the Association's loan portfolio. A substantial portion of its debtors ability to honor their contracts is dependent on the agribusiness economic sector.

## Note 4: Accrued Interest Receivable:

Accrued interest receivable at June 30 is summarized as follows:

| | 2015 | 2014 |
|---|---|---|
| Investment securities | $ 182,205 | $ 151,545 |
| Mortgage-backed securities | 23,311 | 25,111 |
| Loans receivable | 308,865 | 306,477 |
| | $ 514,381 | $ 483,133 |

## Note 5: Foreclosed Real Estate:

| | 2015 | 2014 |
|---|---|---|
| Acquired in settlement of loans at June 30, | $ 0 | $ 309,286 |
| Less specific reserve for losses | 0 | (49,286) |
| Real estate owned at the lower of cost or estimated net realizable value | 0 | 0 |
| Acquired for development | 0 | 0 |
| Total real estate owned | $ 0 | $ 260,000 |

## Note 6: Office Properties and Equipment:

Office properties and equipment at June 30, are summarized by major classifications as follows:

| | 2015 | 2014 |
|---|---|---|
| Land | $ 64,240 | $ 64,240 |
| Office building and improvement | 2,770,489 | 2,763,650 |
| Furniture, fixtures and equipment | 1,454,414 | 1,550,537 |
| Software | 170,574 | 172,913 |
| | 4,459,717 | 4,551,340 |
| Accumulated depreciation | (2,958,696) | (3,032,693) |
| | $ 1,501,021 | $ 1,518,647 |

Depreciation expense has been recorded of $108,161 and $106,809 for the years ended June 30, 2015 and 2014.

## Note 7: Deposit Account Analysis:

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | Amount | % | Amount | % |
| 0.00% N.O.W. Accounts | $10,412,178 | 11.0 | $10,492,038 | 11.3 |
| 0.00% to 1.99% N.O.W. Accounts | 28,804,677 | 31.5 | 27,014,279 | 29.1 |
| 2.0% to 2.5% N.O.W. Accounts | 0 | 0 | 0 | 0 |
| 2.50 to 4.10% N.O.W. Accounts | 0 | 0 | 0 | 0 |
| Total N.O.W. and passbook accounts | 39,216,855 | | 37,506,317 | |
| Certificate Accounts | | | | |
| 0.00 to 4.00% | 52,529,780 | 57.5 | 55,297,129 | 59.6 |
| 4.10 to 5.24% | 0 | 0 | 0 | 0 |
| 5.25 to 6.49% | 0 | 0 | 0 | 0 |
| Total certificate accounts | 52,529,780 | | 55,297,129 | |
| | $91,441,895 | 100.0 | $92,803,446 | 100.0 |

The aggregate amount of time deposit accounts exceeding $100,000 was approximately $44,382,942 at June 30, 2015 and time accounts with balances exceeding $100,000 of $41,447,323 at June 30, 2014.

At June 30, 2015 the scheduled maturities of CDs are as follows:

| | |
|---|---|
| 2016 | $44,144,515 |
| 2017 | 6,821,643 |
| 2018 | 20,000 |
| 2019 | 1,517,447 |
| Five or more years | 26,175 |
| Total | $52,529,780 |

The Association held deposits of approximately $2,333,428 and $2,048,458 for related parties at June 30, 2015 and 2014.

**Note 8: Notes Payable - FHLB:**

Outstanding advances from the Federal Home Loan Bank (FHLB) at June 30, are summarized as follows:

| | 2015 | 2014 |
|---|---|---|
| Notes payable with fixed interest rates ranging from .32% to 5.039% | $ 2,766,748 | $ 4,323,062 |

Pursuant to collateral agreements with the Federal Home Loan Bank (FHLB), advances are secured by all stock in the FHLB and qualifying first mortgage loans. Advances have maturity dates as follows:

| Years Ending June 30 | Amount |
|---|---|
| 2016 | $ 1,079,505 |
| 2017 | 755,281 |
| 2018 | 0 |
| 2019 | 0 |
| 2020 | 0 |
| After 5 years | 931,962 |
| | $ 2,766,748 |

The Association is required to maintain an investment in FHLB stock valued at par which is $100 per share. The required amount is a minimum of 3% of advances not to exceed 5%. At June 30, 2015 and June 30, 2014 the Association had investments in FHLB stock of $223,600 (8.1%) and $343,000 (7.9%) respectively.

**Note 9: Income Taxes:**

The Association will file a consolidated Federal income tax return with its parent companies. Income tax expense is allocated to each company based on earnings as if each company was filing its own tax return. The provision for income taxes consisted of the following for the years ended June 30:

| Income tax provisions: | 2015 | 2014 |
|---|---|---|
| Current | $ 91,600 | $ 165,665 |
| Deferred | 26,400 | 535 |
| Total | $ 118,000 | $ 166,200 |

The reasons for the difference between the statutory Federal income tax rates and the effective tax rates are summarized as follows:

| | 2015 | 2014 |
|---|---|---|
| Expected tax provision at a 34% rate | $ 214,886 | $ 231,441 |
| Increase (decrease) resulting from: | | |
| Effect of statutory bad debt deduction | 0 | 0 |
| Other, net | 30,825 | 30,490 |
| Non-taxable (income) loss of $375,621 and $283,136 | (127,711) | (96,266) |
| | $ 118,000 | $ 165,665 |

Deferred tax assets and liabilities in other liabilities at June 30, consist of the following:

| | 2015 | 2014 |
|---|---|---|
| Deferred tax assets: | | |
| Deferred loan fees | $ 556 | $ 0 |
| Reserve for loan losses - Book Deduction in excess of tax basis | 0 | 0 |
| Unrealized loss on available-for-sale securities | 25,891 | 9,977 |
| Deferred tax liabilities: | | |
| Accumulated depreciation | 127,142 | 111,259 |
| Stock dividend - FHLB | 133,268 | 116,620 |
| Reserve for loan losses - Book Deduction in excess of tax basis | 7,243 | 6,338 |
| Unrealized gain (loss) on available-for-sale securities | 0 | 0 |
| Other items | 75,522 | 66,088 |
| Net deferred tax liability | $ 316,728 | $ 290,328 |

**Note 10: Pension Plan:**

The Association has a qualified non-contributory, defined benefit pension plan which covers substantially all of its employees. The benefits are primarily based on years of service and earnings.

The following is a summary of the plan as of June 30, 2015 and 2014.

| | 2015 | 2014 |
|---|---|---|
| Benefit obligation at June 30 | $ 3,095,837 | $ 2,904,505 |
| Fair Value of plan assets at June 30 | 2,690,910 | 2,553,297 |
| Unfunded projected benefit | $ 404,927 | $ 351,208 |

The amounts of contributions and benefits payable from the plan are as follows:

| | 2015 | 2014 |
|---|---|---|
| Employer contributions | $ 120,001 | $ 189,998 |
| Participant contributions | 0 | 0 |
| Benefit payments (annuity purchase - 2014) | 56,328 | 32,578 |

The following table provides the amounts recognized in the statement of financial position as of June 30:

| | 2015 | 2014 |
|---|---|---|
| Prepaid benefit cost | $ 0 | $ 0 |
| Accrued benefit liability | (2,434,303) | (2,234,239) |

| | | |
|---|---|---|
| Intangible assets | 0 | 0 |
| Accumulated other comprehensive income | 0 | 0 |
| Net amount recognized | $(2,434,303) | $(2,234,239) |

The following table provides the net periodic benefit cost for June 30:

| | | |
|---|---|---|
| Service cost | $ 128,033 | $ 175,146 |
| Interest cost on benefit obligation | 165,273 | 155,648 |
| Expected return on assets | (177,340) | (158,573) |
| Net asset gain (loss) during the period deferred for later recognition | 0 | 0 |
| Other, net | 0 | 0 |
| Net periodic benefit cost | $ 115,966 | $ 172,221 |

The assumptions used in the measurement of the Association's benefit obligation are shown in the following table:

Weighted-average assumptions as of June 30:

| | |
|---|---|
| Discount rate | 5.45% |
| Expected return on plan assets | 7.0% |
| Rate of compensation increase | 4.0% |

## Note 11: Commitments and Contingencies:

In the ordinary course of business, the Association has various outstanding commitments and contingent liabilities that are not reflected in the accompanying financial statements. The principal commitments of the Association are as follows:

Loan Commitments

At June 30, the Association and subsidiary had outstanding firm commitments to originate loans as follows:

| | 2015 | 2014 |
|---|---|---|
| First mortgage loans | $ 2,024,704 | $ 558,440 |
| Mortgage construction loans | 469,600 | 853,570 |
| Revolving open-end loans on 1-4 dwelling units | 0 | 525,947 |
| Commercial lines | 616,000 | 133,484 |
| Other | 0 | 93,318 |
| Standby letters of credit | 0 | 40,000 |
| Total | $ 3,110,304 | $2,204,759 |

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Association evaluates each customer's credit worthiness on a case-by-case basis. The amount and type of collateral obtained, if deemed necessary by the Association upon extension of credit, varies and is based on management's credit evaluation of the counter-party.

## Note 12: Related Parties:

The Association has entered into transactions with its officers and directors, and their affiliates (related parties). The aggregate amount of loans to such related parties at June 30, 2015 and 2014 was $1,208,758 and $1,036,998. During the year ended June 30, 2015, loan advances to such related parties amounted to $296,414 and repayments amounted to $124,653.

On July 1, 2009 Progress Resources, Inc. became a service corporation wholly owned by Dalhart Federal Savings & Loan Association. Generally accepted accounting principles require the Association to consolidate Progress Resource, Inc. into its financial statements. Management has informed us that the Association accounts for its investment in Progress Resources, Inc. on the equity basis and has not consolidated its financial statements and has not eliminated intercompany transactions. On the Association's regulatory reports, it reports the investment as a real estate investment. If the Association had consolidated Progress Resources, Inc. total assets and liabilities would have increased by $11,173 and $930 for years ending June 30, 2015 and 2014 respectively and income and expenses would have increased by $208,460 and $115,685 for years ending June 30, 2015 and 2014 respectively.

At June 30, 2015 and 2014 the Association had outstanding loans to Progress Resources, Inc. in the amounts of $328,716 and $462,021.

Following is aggregate summarized financial information of Progress Resources, Inc.

| | 2015 | 2014 |
|---|---|---|
| Assets | $ 366,886 | $ 509,087 |
| Liabilities | $ 334,298 | $ 465,124 |
| Revenues | $ 219,835 | $ 140,662 |
| Net income (loss) | $ (11,375) | $ (4,582) |

## Note 13: Regulatory Matters:

The Association is subject to various regulatory capital requirements administered by federal and state banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory--and possibly additional discretionary--actions by regulators that, if undertaken, could have a direct material effect on the Association's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Association must meet specific capital guidelines that involve quantitative measures of the Association's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Association'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 Association to maintain minimum amounts and ratios (set forth in the table 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, 2015, that the Association meets all capital adequacy requirements to which it is subject.

As of June 30, 2015, the most recent notification from the Texas Department of Savings and Mortgage Lending categorized the Association as adequately capitalized under the regulatory framework for prompt corrective action. To be categorized as adequately capitalized the Association must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the institution's category. The June 30, 2015 Call Report was used to compute the following ratios:

| | Actual | | For Capital Adequacy Purposes: | | To Be Well Capitalized Under Prompt Corrective Action Provisions: | |
|---|---|---|---|---|---|---|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| As of June 30, 2015 | | | | | | |
| Total capital | | | | | | |
| (to risk weighted assets) | $11,472,000 | 23.98 | $ 3,827,520 | ≥ 8.0% | $ 4,784,400 | ≥ 10.0% |
| Tier I Capital | | | | | | |
| (to risk weighted assets) | 11,159,000 | 23.32 | 1,913,760 | ≥ 4.0% | 2,870,640 | ≥ 6.0% |
| Tier I Capital | | | | | | |
| (to average assets) | 11,159,000 | 9.74 | 4,361,640 | ≥ 4.0% | 5,452,050 | ≥ 5.0% |
| As of June 30, 2014 | | | | | | |
| Total capital | | | | | | |
| (to risk weighted assets) | $11,039,000 | 22.15 | $ 3,845,680 | ≥ 8.0% | $ 4,807,100 | ≥ 10.0% |
| Tier I Capital | | | | | | |
| (to risk weighted assets) | 10,550,000 | 21.95 | 1,922,840 | ≥ 4.0% | 2,884,260 | ≥ 6.0% |
| Tier I Capital | | | | | | |
| (to average assets) | 10,550,000 | 9.73 | 4,354,920 | ≥ 4.0% | 5,443,650 | ≥ 5.0% |

**DALHART FEDERAL SAVINGS & LOAN ASSOCIATION, SSB**

**Supplemental Schedule of Other Operating Expenses**
**Years Ended June 30, 2015 and 2014**

| | 2015 | 2014 |
|---|---|---|
| Insurance and bond expense | $ 189,179 | $ 174,874 |
| Dues, fees, subscriptions | 159,008 | 144,514 |
| Audit and examination | 71,101 | 73,452 |
| Advertising | 58,764 | 68,535 |
| Printing and stationary expense | 44,493 | 45,558 |
| Postage | 30,446 | 43,935 |
| Employee training | 49,348 | 40,355 |
| Telephone | 23,203 | 28,369 |
| Franchise taxes | 27,939 | 27,836 |
| Vehicle expense | 28,832 | 27,654 |
| Officers expense | 8,482 | 9,962 |
| Community support | 7,693 | 5,969 |
| Food service expense | 5,488 | 5,249 |
| Contributions | 3,244 | 4,537 |
| Miscellaneous | 1,613 | 3,139 |
| Credit card expense | 4,436 | 3,066 |
| Loan expense | 2,965 | 2,175 |
| ATM expense | (40,507) | (26,063) |
| | $ 675,727 | $ 683,116 |

The accompanying notes are an integral part of these financial statements.

**DALHART FEDERAL SAVINGS & LOAN ASSOCIATION, SSB**
**Supplemental Report of**
**Management Letter Comments**
**June 30, 2015**

Certified Public Accountants

# Gaskill, Pharis & Pharis, L.L.P.

Telephone (806) 244-5533 Fax (806) 244-6331
www.gaskillpharis.com
P.O. Box 1060 / 521 Denver Avenue
Dalhart, Texas 79022

Edward M. Hopkins, CPA
Chad A. Miller, CPA
Lee E. Moore, CPA
Nicole Bowers, CPA

Earl D. Pharis, CPA
Van J. Josselet, CPA

September 8, 2015

To the Board of Directors
Dalhart Federal Savings & Loan Association, SSB
Dalhart, Texas 79022

Gentlemen:

In planning and performing our audit of the financial statements of Dalhart Federal Savings & Loan Association, SSB for the year ended June 30, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered Dalhart Federal Savings & Loan Association's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Institution's internal control. Accordingly, we do not express an opinion on the effectiveness of the Institution's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and, therefore, material weaknesses or significant deficiencies may exist that were not identified.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

A review of the Deposits, Lending, General Ledger, Gold Phone and Gold Home Banker applications of FPS Gold a wholly owned subsidiary of DHI Computing Services, Inc. was performed by Ernst & Young, LLP, Certified Public Accountants. The report was dated October 31, 2014. We have reviewed their report and letter to management and a copy of the report is on file.

The accompanying schedule summarizes the significant deficiencies, material weaknesses and other recommendations for your consideration. We considered these significant deficiencies and material weaknesses in determining the nature, timing and extent of the audit tests that we applied in our audit of the June 30, 2015, financial statements. This communication does not affect our report on these financial statements dated September 8, 2015. We have not considered internal control since the date of our report.

This communication is intended solely for the information and use of management, the Board of Directors, and regulatory agencies and is not intended to be and should not be used by anyone other than these specified parties.

### *Report on Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information is presented for purposes of additional analysis and is not required part of the financial statements. Such information in the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

<u>Other Recommendations</u>

The Association needs to continue its monitoring of Bank Owned Life Insurance due to its percentage of capital.

Gaskill, Pharis & Pharis, L.L.P.

DALHART FEDERAL
SAVINGS & LOAN ASSOCIATION, SSB

September 23, 2015

The Board of Directors
Dalhart Federal Savings and Loan Association, SSB
Dalhart, TX 79022

Ref: Management Letter Comments
2015 Annual Independent Audit – Gaskill, Pharis & Pharis, L.L.P.

Gentlemen:

This letter is "Management's Response" to the recommendations made as a result of the Annual Independent Audit - Management Letter Comments report dated September 8, 2015 (date of the audit June 30, 2015).

**OTHER RECOMMENDATIONS - Report Page 29**

***The Association needs to continue its monitoring of Bank Owned Life Insurance due to its percentage of capital.***

***RESPONSE:***

Management is monitoring the investment in the bank owned life insurance (BOLI) very closely. The maximum investment is supposed to be no more than 25% of capital. The investment is in triple A companies and is performing well. The investment spiked to over 27% when we had to deduct the loss on our investment in FNMA and FHLMC preferred stock from capital. Our earnings since that time have been very good and the concentration percentage has decreased. We went through our federal exam in October, 2014 and mention was made of our BOLI concentration situation but it did not rise to the level of a violation. The level at our September Board meeting was 25.306%. We will continue to monitor the situation on at least a monthly basis.

Sincerely,

William A. Cunningham

William A. Cunningham
President/CEO

Copies to: Texas Department of Savings and Mortgage Lending, Austin
FDIC, Dallas, Texas
Federal Home Loan Bank of Dallas
Credit and Collateral Department
Executive Benefits Specialists
Federal Reserve Bank - Banking Supervision Department
Zurich Insurance Company

**Texas Panhandle Title Company, Inc.**
**Dumas, Texas**
**Reviewed Financial Statements**
**June 30, 2015 and 2014**

C ertified
G P P ublic
A ccountants

**Gaskill, Pharis & Pharis, L.L.P.**
Telephone (806) 244-5533 Fax (806) 244-6331
www.gaskillpharis.com
P.O. Box 1060 / 521 Denver Avenue
Dalhart, Texas 79022

Edward M. Hopkins, CPA
Chad A. Miller, CPA
Lee E. Moore, CPA
Nicole Bowers, CPA

Earl D. Pharis, CPA
Van J. Josselet, CPA

To the Board of Directors
Texas Panhandle Title Co. Inc.
PO Box 461
Dalhart, Texas 79022

This letter is to confirm our understanding of the terms and objectives of our engagement and the nature and limitations of the services we will provide.

We will perform the following services:

1. We will review the balance sheets of Texas Panhandle Title Co. Inc. as of June 30, 2015 and June 30, 2014, and the related statements of income, retained earnings, and cash flows for the years then ended, and issue an accountant's report thereon in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

   The objective of a review is to obtain limited assurance that there are no material modifications that should be made to the financial statements in order for the statements to be in conformity with accounting principles generally accepted in the United States of America.

   You are responsible for:

   a. The preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America.

   b. Designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

   c. Preventing and detecting fraud.

   d. Identifying and ensuring that the company complies with the laws and regulations applicable to its activities.

   e. Making all financial records and related information available to us and for the accuracy and completeness of that information.

   f. Providing us, at the conclusion of the engagement, with a letter that confirms certain representations made during the review.

   We will conduct our review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

A review includes primarily applying analytical procedures to your financial data and making inquiries of company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. A review does not contemplate obtaining an understanding of the Company's internal control; assessing fraud risk; testing accounting records by obtaining sufficient appropriate audit evidence through inspection, observation, confirmation, or the examination of source documents (for example, cancelled checks or bank images); or other procedures ordinarily performed in an audit. Accordingly, we will not express an opinion regarding the financial statements as a whole.

Our engagement cannot be relied upon to disclose errors, fraud, or illegal acts. However, we will inform the appropriate level of management of any material errors and of any evidence or information that comes to our attention during the performance of our review procedures that fraud may have occurred. In addition, we will inform you of any evidence or information that comes to our attention during the performance of our review procedures regarding illegal acts that may have occurred, unless they are clearly inconsequential. In addition, we have no responsibility to identify and communicate deficiencies in your internal control as part of this engagement.

If, for any reason, we are unable to complete our review of your financial statements, we will not issue a report on such statements as a result of this engagement.

You are responsible for making all management decisions and performing all management functions, and for designating an individual who possesses suitable skill, knowledge, or experience to oversee any bookkeeping services, tax services, or other services we provide. In addition, you are responsible for evaluating the adequacy and results of the services performed and accepting responsibility for such services.

Chad Miller is the engagement partner and is responsible for supervising the engagement and signing the report or authorizing another individual to sign it.

To ensure that Texas Panhandle Title Co. Inc.'s independence is not impaired under the AICPA *Code of Professional Conduct*, you agree to inform the engagement partner before entering into any substantive employment discussions with any of our personnel.

We will bill you for our services.

We appreciate the opportunity to be of service to you and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy and return it to us.

Sincerely,

*Gaskill, Pharis & Pharis, L.L.P.*

Acknowledged:

Texas Panhandle Title Co. Inc.

William A. Cunningham

President

05/14/2015

Date

Certified Public Accountants
GPP

**Gaskill, Pharis & Pharis, L.L.P.**
Telephone (806) 244-5533 Fax (806) 244-6331
www.gaskillpharis.com
P.O. Box 1060 / 521 Denver Avenue
Dalhart, Texas 79022

Edward M. Hopkins, CPA
Chad A. Miller, CPA
Lee E. Moore, CPA
Nicole Bowers, CPA

Earl D. Pharis, CPA
Van J. Josselet, CPA

Texas Panhandle Title Company, Inc.
Po Box 461
Dumas, Texas 79029

We are pleased to confirm our understanding of the services we are to provide for Texas Panhandle Title Company, Inc. for the year ended June 30, 2015.

We will audit the Statement of Assets and Liabilities of Trust (Escrow) Fund Accounts of Texas Panhandle Title Company, Inc. as of June 30, 2015; and the supplemental information contained in Exhibit C through F inclusive and Exhibit H.

**Audit Objective**

The objective of our audit is the expression of an opinion about whether your financial statements are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit will be conducted in accordance with auditing standards generally accepted in the United States of America and will include test of your accounting records and other procedures we consider necessary to enable us to express such an opinion. If our opinion is other than unqualified, we will discuss the reason with you in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed an opinion, we may decline to express an opinion or withdraw from this engagement.

**Audit Procedures**

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, tests of the physical existence of inventories, and direct confirmation of certain assets and liabilities by correspondence with selected customers, creditors, and financial institutions. We will also request written representations from your attorneys as part of the engagement. At the conclusion of our audit, we will require certain written representations from you about the financial statements and related matters.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. We will plan and perform he audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the entity.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, and because we will not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us, even though the audit is properly planned and performed in accordance with U.S. generally accepted auditing standards. In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements. However, we will inform the appropriate level of management of any material errors, fraudulent financial reporting, or misappropriation of assets that comes to our attention. We will also inform the appropriate level of management of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential. Our responsibility as auditors is limited to the period covered by our audit and does not extend to any later periods for which we are not engaged as auditors.

Our audit will include obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. An audit is not designed to provide assurance on internal control or to identity deficiencies in internal control. However, during the audit, we will communicate to you and those charged with governance internal control related matters that are required to be communicated under professional standards.

We may from time to time, and depending on the circumstances, use third-party service providers in serving your account. We may share confidential information about you with these service providers, but remain committed to maintaining the confidentiality and security of your information. Accordingly, we maintain internal policies, procedures, and safeguards to protect the confidentiality of your personal information. In addition, we will secure confidentiality agreements with all service providers to maintain the confidentiality of your information and we will take reasonable precautions to determine that they have appropriate procedures in place to prevent the unauthorized release of your confidential information to others. In the event that we are unable to secure an appropriate confidentiality agreement, you will be asked to provide your consent prior to the sharing of your confidential information with the third-party service provider. Furthermore, we will remain responsible for the work provided by any such third-party service providers.

## Management Responsibilities

You agree to assume all management responsibilities for the tax services and any other nonattest services we provide; oversee the services by designating an individual, preferably from senior management, with suitable skill, knowledge, or experience; evaluate the adequacy and results of the services; and accept responsibility for them.

You are responsible for establishing and maintaining internal controls, including monitoring on going activities; for the selection and application of accounting principles; and for the fair presentation in the financial statement of financial position, results of operations, and cash flows in conformity with U.S. generally accepted accounting principles. You are also responsible for making all financial records and related information available to us and for the accuracy and completeness of that information. You are also responsible for providing us with (a) access to all information of which you are aware that is relevant to the preparation and fair presentation of the financial statements, (b) additional information that we may request for the purpose of the audit, and (c) unrestricted access to persons within the company from whom we determine it necessary to obtain audit evidence.

Your responsibilities include adjusting the financial statements to correct material misstatements and confirming to us in the management representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

You are responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud affecting the company involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud could have a material effect on the financial statements. Your responsibilities include informing us of your knowledge of any allegations of fraud or suspected fraud affecting the company received in communications from employees, former employees, regulators, or others. In addition, you are responsible for identifying and ensuring that the entity complies with applicable laws and regulations. You are responsible for the preparation of the supplementary information in conformity with U.S. generally accepted accounting principles. You agree to include our report on the supplementary information in any document that contains, and indicates that we have reported on, the supplementary information. You also agree to include the audited financial statements with any presentation of the supplementary information that includes our report thereon.

## Engagement Administration, Fees, and Other

Chad Miller is the engagement partner and is responsible for supervising the engagement and signing the report or authorizing another individual to sign it. We expect to begin our audit on approximately July 7, 2015.

We will bill you for our services.

We appreciate the opportunity to be of service to you and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy and return it to us.

Very truly yours,

*Gaskill, Pharis & Pharis, L.L.P.*

RESPONSE:

This letter correctly sets forth the understanding of Texas Panhandle Title Company, Inc.

Officer signature:______________________________

Title: President

Date: 05/14/2015

**Texas Panhandle Title Company, Inc.**
**Dumas, Texas**

## Table of Contents

Certified Public Accountants

Gaskill, Pharis & Pharis, L.L.P.
Telephone (806) 244-5533 Fax (806) 244-6331
www.gaskillpharis.com
P.O. Box 1060 / 521 Denver Avenue
Dalhart, Texas 79022

Edward M. Hopkins, CPA
Chad A. Miller, CPA
Lee E. Moore, CPA
Nicole Bowers, CPA

Earl D. Pharis, CPA
Van J. Josselet, CPA

INDEPENDENT ACCOUNTANT'S REVIEW REPORT

To the Board of Directors
Texas Panhandle Title Company, Inc.
Dumas, Texas

We have reviewed the accompanying financial statements of Texas Panhandle Title Company, Inc. a wholly owned subsidiary of Dalhart Federal Corporation, which comprise the balance sheet as of June 30, 2015 and 2014, and the related statements of income and retained earnings and cash flows for the years then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementing, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error.

**Accountant's Responsibility**

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

**Accountant's Conclusion**

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Gaskill, Pharis & Pharis, L.L.P.

September 2, 2015

**Texas Panhandle Title Company, Inc.**
**Dumas, Texas**
**Balance Sheets**
**June 30, 2015 and 2014**

| | 2015 | 2014 |
|---|---|---|
| **Current Assets** | | |
| Cash in bank | $ 122,655 | $ 123,758 |
| Prepaid assets | 10,810 | 2,232 |
| Total current assets | 133,465 | 125,990 |
| **Property and Equipment** | | |
| Computer equipment, furniture, and fixtures | 41,943 | 41,943 |
| Building | 320,776 | 320,776 |
| Land | 46,728 | 46,728 |
| Total | 409,447 | 409,447 |
| Less accumulated depreciation | (111,747) | (101,138) |
| | 297,700 | 308,309 |
| **Other Assets** | | |
| Title Plant (Note 3) | 302,545 | 302,545 |
| | $ 733,710 | $ 736,844 |
| **Current Liabilities** | | |
| Accrued interest | 725 | $ 1,287 |
| Title premiums payable | 6,470 | 8,036 |
| Recording fees payable | 3,651 | 3,698 |
| Payroll tax liabilities | 2,827 | 2,654 |
| Other accrued expenses | 6,979 | 6,730 |
| Income tax payable | 38,595 | 17,768 |
| Current portion of long-term liabilities | 23,656 | 16,917 |
| Total current liabilities | 82,903 | 57,090 |
| **Noncurrent Liabilities** | | |
| Note payable | 130,712 | 228,753 |
| Less current portion | (23,656) | (16,917) |
| | 107,056 | 211,836 |
| **Stockholders' equity** | | |
| Common stock, $0 per value; authorized 1,000 shares; of which 100 shares are issued | 350,000 | 350,000 |
| Retained earnings | 193,751 | 117,918 |
| Total stockholders' equity | 543,751 | 467,918 |
| Total liabilities and stockholders' equity | $ 733,710 | $ 736,844 |

See accopanying notes and independent accountant's review report.

**Texas Panhandle Title Company, Inc.**
**Dumas, Texas**
**Statement of Income and Retained Earnings**
**June 30, 2015 and 2014**

| | 2015 | 2014 |
|---|---|---|
| **Income** | | |
| Title premiums | $ 232,927 | $ 180,942 |
| All other income | 98,623 | 72,673 |
| Total income | 331,550 | 253,615 |
| **Expenses** | | |
| Salaries | 111,143 | 105,578 |
| Interest | 13,596 | 16,056 |
| Employee insurance | 16,874 | 15,784 |
| Depreciation | 10,608 | 11,297 |
| Payroll taxes | 8,714 | 8,297 |
| Insurance | 8,227 | 7,958 |
| Property taxes | 7,500 | 7,225 |
| Utilities | 7,597 | 6,994 |
| Equipment lease | 4,668 | 4,668 |
| Office expense | 4,145 | 4,309 |
| Courier, overnight delivery & postage | 3,177 | 2,906 |
| Professional fees | 2,700 | 2,700 |
| Advertising | 1,829 | 2,196 |
| Repairs & maintenance | 9,970 | 1,882 |
| Contract labor | 1,242 | 1,706 |
| Other expense | 1,326 | 1,568 |
| Travel | 1,422 | 921 |
| Other agent expense | 2,384 | - |
| Total operating expenses | 217,122 | 202,045 |
| Income (loss) before income taxes | 114,428 | 51,570 |
| Applicable income tax to holding company | 38,595 | 17,768 |
| Net income (loss) | 75,833 | 33,802 |
| Retained earnings, July 1 | 117,918 | 84,116 |
| Retained earnings, June 30 | $ 193,751 | $ 117,918 |

See accompanying notes and independent accountant's review report.

**Texas Panhandle Title Company, Inc.**
**Dumas, Texas**
**Statements of Cash Flows**
**June 30, 2015 and 2014**

| | 2015 | 2014 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Net income (loss) | $ 75,833 | $ 33,802 |
| Depreciation | 10,608 | 11,297 |
| (Increase) decrease in: | | |
| Prepaid assets | (8,578) | 4,775 |
| Increase (decrease) in: | | |
| Accrued interest | (562) | (535) |
| Payroll tax liabilities | 174 | 111 |
| Title premiums payable | (1,566) | 2,799 |
| Recording fees payable | (47) | 1,404 |
| Other accrued expenses | 249 | (665) |
| Income tax payable | 20,827 | (6,193) |
| Net cash provided by operating activities | 96,938 | 46,795 |
| **Cash flows from investing activities** | | |
| Equipment purchases | - | (11,760) |
| Net cash (used) by investing activities | - | (11,760) |
| **Cash flows from financing activities** | | |
| Loan payments | (98,041) | (95,246) |
| Net cash (used) by financing activities | (98,041) | (95,246) |
| Net (decrease) in cash and cash equivalents | (1,103) | (60,211) |
| Cash and cash equivalents at July 1, | 123,758 | 183,969 |
| Cash and cash equivalents at June 30, | $ 122,655 | $ 123,758 |
| Supplemental disclosure of cash flow information | | |
| Interest paid | $ 14,158 | $ 16,056 |
| Income taxes paid | $ 17,768 | $ 23,961 |

See accompanying notes and independent accountant's review report.

**Texas Panhandle Title Company, Inc.**
**Dumas, Texas**
**Notes to Financial Statements**
**June 30, 2015 and 2014**

## Note 1. Summary of Significant Accounting Policies

The accounting and reporting policies of Texas Panhandle Title Company, Inc. are in accordance with U.S. generally accepted accounting principles. The more significant of the principles used in preparing the financial statements are briefly described below.

Nature of Operations
Texas Panhandle Title Company, Inc. is a 100% wholly owned subsidiary of Dalhart Federal Corporation. The Company operates a Texas licensed abstract business located in Dumas, Texas.

Estimates
The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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 those estimates.

Basis of Accounting
The accompanying financial statements have been prepared in conformity with U.S. generally accepted accounting principles, on the accrual basis of accounting.

Income Taxes
The Company is consolidated with its parent for Federal income taxes. It is currently the policy of the controlled group for each entity to pay its applicable portion of the group's Federal income tax, or receive from the group the tax benefit if applicable, as if it were filing a separate tax return.

Cash and Cash Equivalents
For purposes of the statement of cash flows, cash equivalents include time deposits, certificates of deposit and all highly liquid debt instruments, if any, with original maturities of three months or less.

Property and Equipment
Property and equipment are stated at cost. Expenditures for maintenance and repairs are charged against operations. Renewals and betterments that materially extend the life of the assets are capitalized. Depreciation is computed for financial statement purposes on a straight-line basis over the estimated useful lives of the related assets. The estimated useful lives of depreciable assets are:

| | Estimated Useful Lives |
|---|---|
| Building | 5-20 years |
| Equipment | 5-10 years |

For Federal income tax purposes, depreciation is computed under the modified accelerated cost recovery system.

Capitalized Interest
The amount of interest incurred was $13,596 for June 30, 2015 and $16,056 for June 30, 2014, all of which was charged to operations.

Advertising Costs
Advertising costs are charged to operations when incurred. Advertising expense for 2015 and 2014 was $1,829 and $2,196, respectively.

Years subject to Examination
The Company is no longer subject to examination by the Internal Revenue Service or the Texas State Comptroller for years prior to June 30, 2012 and June 30, 2011 respectively.

Date of Management's Review of Subsequent Events
Management has evaluated subsequent events through August 31, 2015, the date which the financial statements were available to be issued.

**Note 2. Related Party Transactions**

Following is a summary of debt at June 30, 2015 and June 30, 2014.

| | 2015 | 2014 |
|---|---|---|
| 6.75% note payable to Donald E. Gilbert, in monthly installments of $2,653.39 through April 1, 2020 secured by office building. | $ 130,712 | $ 228,753 |
| Less: Current maturities included in current liabilities | (23,656) | (16,917) |
| | $ 107,056 | $ 211,836 |

Following are maturities of long-term debt for each of the next five years.

| | |
|---|---|
| 2016 | $ 23,656 |
| 2017 | 25,397 |
| 2018 | 27,165 |
| 2019 | 29,057 |
| 2020 | 25,437 |

On April 9, 2015 the Company paid additional principal of $80,000 on the note. It will continue to make monthly payments of $2,648.30. No modifications were made to the original note.

Don Gilbert resigned as a director on February 28, 2014.

**Note 3. Title Plant**

The Company's title plant consists of Deeds, Deed of Trust, Oil and Gas, Mechanics and Materialmen's Lien, Abstracts of Judgment, State Tax Lien, Federal Tax Lien, Lis Pendens Records, District Court, County Court at Law and Probate Court indices filed in Moore County. These records do not have an estimated useful life; therefore, the title plant is not subject to amortization. Management will determine annually if the title plant has declined in value and will write the title plant down to the new determined value.

**Note 4. Concentration of Credit Risk**

The Company is located in Dumas, Texas and the majority of its customers are primarily involved in the farming and ranching industries centered in the Panhandle of Texas. Due to the Company's geographical base of customers and dependency on the agribusiness economic sector, credit risk is highly concentrated.