

2010 ANNUAL REPORT

*Lending support to rural America™*



---

# FARM CREDIT OF CENTRAL FLORIDA, ACA

## *2010 ANNUAL REPORT*

### **Contents**

Message from the President .....	2-3
Report of Management .....	4
Report on Internal Control Over Financial Reporting .....	5
Five-Year Summary of Selected Financial Data .....	6
Management's Discussion & Analysis of Financial Condition & Results of Operations.....	7-18
Disclosure Required by FCA Regulations .....	19-22
Report of the Audit Committee .....	23
Report of Independent Auditors .....	24
Financial Statements .....	25-28
Notes to Financial Statements.....	29-47

### **Management**

Reginald T. Holt.....	President
Craig A. Register.....	Executive Vice President
D. Scott Fontenot .....	Senior Vice President & Treasurer
Courtney A. Eelman.....	Senior Vice President
Jeffrey T. Phillips .....	Senior Vice President
Regina W. Thomas.....	Senior Vice President
Johan S. Dam .....	Senior Vice President
Michael R. "Ron" O'Connor .....	Senior Vice President
Scarlet D. Detjen .....	Vice President – Director of Internal Audit

### **Board of Directors**

Al Bellotto .....	Chairman
David J. Stanford.....	Vice Chairman
L. Baylis Carnes, III.....	Director
C. Dennis Carlton, Sr. ....	Director
W. Rex Clonts, Jr. ....	Director
Homer E. Hunnicutt, Jr. ....	Director
John S. Langford.....	Director
Robert R. Roberson.....	Director
Lewis S. Stidham .....	Director
Ronald R. Wetherington .....	Director

---

## *Message from the President & Chief Executive Officer*

The past couple of years have been one of the most challenging periods in our Association's history. The "Great Recession" that started with the burst of the U. S. housing bubble in late 2007, rippled through our economy causing significant stress throughout most sectors, especially the central Florida housing and real estate markets. The region is experiencing unemployment not seen in more than 35 years. Most of the Association's territory has experienced unemployment rates in excess of 11.0% for the past two years.

The region's economic dependence on the housing and real estate markets has been obvious as its significant decline adversely affected many members' farm and nonfarm incomes along with real estate values. This has been especially apparent among nursery producers and members dependent on nonfarm income to help supplement their agricultural income. The steep decline of home sales and home values, which began in 2007 and continued thru 2010, has adversely affected land prices including most agricultural land values. In general, land values are 50% or more below their 2007 peak levels.

These recessionary effects have significantly impacted the Association's credit quality and earnings. Management continued to proactively identify problems and took the proactive and fiscally responsible approach to increase the Association's reserves to account for potential losses. During 2010 provisions for loan losses and net losses on other properties owned were \$8.8 million and \$1.2 million, respectively. Without these provisions and losses on other properties owned, 2010 net income would have been \$10.9 million. The Association entered these difficult times with a very strong capital position. To ensure the Association's continued strength, it is unlikely we will pay a 2010 patronage distribution in cash. In addition, it is unlikely the 2002 series of allocated surplus will be revolved during 2011. It is obvious 2011 will continue to present challenges and opportunities. Many growers will continue to face lower commodity prices as a result of decreased demand, which will likely be coupled with increased interest rates and increased input costs from higher energy costs and higher costs associated with protection from evasive disease and pests.

I am confident your Association is positioned to meet the challenges of the future. The diversity, expertise, and experience of your Board of Directors provide valuable insight into the direction and policy making of your Association to make sure your cooperative remains strong and viable. You can be assured the Board is focused on your interests and understands your challenges. The Board has approved a business plan and budget that will allow our very capable staff to continue to provide the level of products and services you have come to expect while improving efficiency and reducing costs. The Board continues to direct the staff to assist members facing adversity with all due consideration and reasonable avenues to work through difficult times.

The Association, its Board of Directors and staff are focused on meeting the objective and mission of the Farm Credit System for its members. We believe in cooperative principles and strive to see that they are always applied to our business practices. Agriculture and rural America are our business. Our Association's Mission is *"To be the lender of Choice to agriculture and rural communities of Central Florida."* We do not take that lightly in good times or bad. We are still financing creditworthy farmers, ranchers, and rural home owners, and will continue to do so as we have for over 90 years. When you need credit, we want your first thought to be **"FARM CREDIT."**



Reginald T. Holt  
Chief Executive Officer

March 14, 2011

## Report of Management

The accompanying Consolidated Financial Statements and related financial information appearing throughout this annual report have been prepared by management of Farm Credit of Central Florida, ACA (Association) in accordance with generally accepted accounting principles appropriate in the circumstances. Amounts which must be based on estimates represent the best estimates and judgments of management. Management is responsible for the integrity, objectivity, consistency, and fair presentation of the consolidated financial statements and financial information contained in this report.

Management maintains and depends upon an internal accounting control system designed to provide reasonable assurance that transactions are properly authorized and recorded, that the financial records are reliable as the basis for the preparation of all financial statements, and that the assets of the Association are safeguarded. The design and implementation of all systems of internal control are based on judgments required to evaluate the costs of controls in relation to the expected benefits and to determine the appropriate balance between these costs and benefits. The Association maintains an internal audit program to monitor compliance with the systems of internal accounting control. Audits of the accounting records, accounting systems and internal controls are performed and internal audit reports, including appropriate recommendations for improvement, are submitted to the Board of Directors.

The Consolidated Financial Statements have been examined by independent public auditors, whose report appears elsewhere in this annual report. The Association is also subject to examination by the Farm Credit Administration.

The Consolidated Financial Statements, in the opinion of management, fairly present the financial condition of the Association. The undersigned certify that we have reviewed the 2010 Annual Report of Farm Credit of Central Florida, ACA, that the report has been prepared under the oversight of the audit committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.



Al Bellotto  
Chairman of the Board



Reginald T. Holt  
Chief Executive Officer



D. Scott Fontenot  
Chief Financial Officer

March 14, 2011

## ***Report on Internal Control Over Financial Reporting***

The Association's principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining adequate internal control over financial reporting for the Association's Consolidated Financial Statements. For purposes of this report, "internal control over financial reporting" is defined as a process designed by, or under the supervision of the Association's principal executives and principal financial officers, or persons performing similar functions, and effected by its Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting information and the preparation of the Consolidated Financial Statements for external purposes in accordance with accounting principles generally accepted in the United States of America and includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Association, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial information in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Association, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Association's assets that could have a material effect on its Consolidated Financial Statements.

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of December 31, 2010. In making the assessment, management used the framework in *Internal Control — Integrated Framework*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Association concluded that as of December 31, 2010, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association determined that there were no material weaknesses in the internal control over financial reporting as of December 31, 2010.



Reginald T. Holt  
Chief Executive Officer



D. Scott Fontenot  
Chief Financial Officer

March 14, 2011

## Consolidated Five - Year Summary of Selected Financial Data

<i>(dollars in thousands)</i>	2010	2009	December 31, 2008	2007	2006
<b>Balance Sheet Data</b>					
Cash	\$ 13	\$ 61	\$ 36	\$ 72	\$ 63
Investment securities	45,476	49,648	50,376	30,247	38,704
Loans	376,001	370,775	422,431	369,663	349,172
Less: allowance for loan losses	4,426	5,959	5,243	1,473	1,639
Net loans	371,575	364,816	417,188	368,190	347,533
Investments in other Farm Credit institutions	13,348	16,225	14,043	15,114	15,822
Other property owned	6,806	2,026	504	1,061	—
Other assets	14,475	13,008	14,801	15,355	14,322
Total assets	\$ 451,693	\$ 445,784	\$ 496,948	\$ 430,039	\$ 416,444
Notes payable to AgFirst Farm Credit Bank*	\$ 369,260	\$ 363,528	\$ 412,134	\$ 343,677	\$ 334,575
Accrued interest payable and other liabilities with maturities of less than one year	4,949	5,462	8,475	12,609	12,769
Total liabilities	374,209	368,990	420,609	356,286	347,344
Protected borrower stock	19	33	39	64	97
Capital stock and participation certificates	1,110	1,213	1,259	1,267	1,209
Retained earnings					
Allocated	33,183	33,183	34,758	33,511	28,995
Unallocated	43,153	42,338	40,252	39,214	38,799
Accumulated other comprehensive income (loss)	19	27	31	(303)	—
Total members' equity	77,484	76,794	76,339	73,753	69,100
Total liabilities and members' equity	\$ 451,693	\$ 445,784	\$ 496,948	\$ 430,039	\$ 416,444
<b>Statement of Income Data</b>					
Net interest income	\$ 9,019	\$ 9,516	\$ 10,503	\$ 10,536	\$ 11,871
Provision for (reversal of allowance for) loan losses	8,817	7,415	3,975	(120)	(612)
Noninterest income (expense), net	695	(942)	428	1,734	(1,019)
Net income	\$ 897	\$ 1,159	\$ 6,956	\$ 12,390	\$ 11,464
<b>Key Financial Ratios</b>					
Rate of return on average:					
Total assets	0.21%	0.26%	1.57%	3.04%	2.63%
Total members' equity	1.15%	1.50%	8.98%	16.97%	16.71%
Net interest income as a percentage of					
average earning assets	2.38%	2.35%	2.54%	2.78%	2.84%
Net (chargeoffs) recoveries to average loans	(2.872)%	(1.790)%	(0.053)%	(0.013)%	0.031%
Total members' equity to total assets	17.15%	17.23%	15.36%	17.15%	16.59%
Debt to members' equity (:1)	4.83	4.80	5.51	4.83	5.03
Allowance for loan losses to loans	1.18%	1.61%	1.24%	0.40%	0.47%
Permanent capital ratio	16.28%	15.89%	15.14%	15.49%	16.55%
Total surplus ratio	15.65%	15.23%	14.54%	14.49%	15.88%
Core surplus ratio	13.48%	13.05%	11.70%	11.67%	13.46%
<b>Net Income Distribution</b>					
Estimated patronage refunds:					
Cash	\$ —	\$ —	\$ 2,619	\$ 4,666	\$ 3,554
Qualified allocated retained earnings	—	—	2,690	—	59
Nonqualified allocated retained earnings	—	—	899	6,998	6,541

\* General financing agreement is renewable on a one-year cycle. The next renewal date is December 31, 2011.

# Management's Discussion & Analysis of Financial Condition & Results of Operations

(dollars in thousands, except as noted)

## GENERAL OVERVIEW

The following commentary summarizes the financial condition and results of operations of Farm Credit of Central Florida, ACA, (Association) for the year ended December 31, 2010 with comparisons to the years ended December 31, 2009 and December 31, 2008. This information should be read in conjunction with the Consolidated Financial Statements, Notes to the Consolidated Financial Statements and other sections in this Annual Report. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors. For a list of the Audit Committee members, refer to the "Report of the Audit Committee" reflected in this Annual Report. Information in any part of this Annual Report may be incorporated by reference in answer or partial answer to any other item of the Annual Report.

The Association is an institution of the Farm Credit System (System), which was created by Congress in 1916 and has served agricultural producers for over 90 years. The System's mission is to maintain and improve the income and well-being of American farmers, ranchers, and producers or harvesters of aquatic products and farm-related businesses. The System is the largest agricultural lending organization in the United States. The System is regulated by the Farm Credit Administration, (FCA), which is an independent safety and soundness regulator.

The Association is a cooperative, which is owned by the members (also referred to throughout this Annual Report as stockholders or shareholders) served. The territory of the Association extends across a diverse agricultural region of central Florida. Refer to Note 1, "Organization and Operations," of the Notes to the Consolidated Financial Statements for counties in the Association's territory. The Association provides credit to farmers, ranchers, rural residents, and agribusinesses. Our success begins with our extensive agricultural experience and knowledge of the market.

The Association obtains funding from AgFirst Farm Credit Bank (AgFirst or Bank). The Association is materially affected and shareholder investment in the Association could be affected by the financial condition and results of operations of the Bank. Copies of the Bank's Annual and Quarterly Reports are on the AgFirst website, [www.agfirst.com](http://www.agfirst.com), or may be obtained at no charge by calling 1-800-845-1745, extension 2832, or writing Susanne Caughman, AgFirst Farm Credit Bank, Post Office Box 1499, Columbia, SC 29202.

Copies of the Association's Annual and Quarterly reports are also available upon request free of charge on the Association's website, [www.FarmCreditCFL.com](http://www.FarmCreditCFL.com), or by calling 1-800-533-2773, or writing D. Scott Fontenot, Chief Financial Officer, Farm Credit of Central Florida, ACA, Post Office Box 8009, Lakeland, FL 33802-8009. The Association prepares an electronic version of the Annual Report, which is available on the

website, within 75 days after the end of the fiscal year and distributes the Annual Reports to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly report, which is available on the internet, within 40 days after the end of each fiscal quarter, except that no report needs to be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Association.

## FORWARD LOOKING INFORMATION

This annual information statement contains forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Words such as "anticipates," "believes," "could," "estimates," "may," "should," "will", or other variations of these terms are intended to identify the forward-looking statements. These statements are based on assumptions and analyses made in light of experience and other historical trends, current conditions, and expected future developments. However, actual results and developments may differ materially from our expectations and predictions due to a number of risks and uncertainties, many of which are beyond our control. These risks and uncertainties include, but are not limited to:

- political, legal, regulatory and economic conditions and developments in the United States and abroad;
- economic fluctuations in the agricultural, rural utility, international, and farm-related business sectors;
- weather-related, disease, and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income;
- changes in United States government support of the agricultural industry and the Farm Credit System, as a government-sponsored enterprise, as well as investor and rating-agency reactions to events involving other government-sponsored enterprises and other financial institutions; and
- actions taken by the Federal Reserve System in implementing monetary policy.

## AGRICULTURAL OUTLOOK

The following United States Department of Agriculture (USDA) analysis provides a general understanding of the U.S. agricultural economic outlook. However, this outlook does not take into account all aspects of the Association's business. References to the USDA information in this section refer to the entire U.S. agricultural market and are not limited to the Association.

The February 2011 USDA forecast estimates that 2010 farmers' net cash income, which is a measure of the cash income after payment of business expenses, increased to \$91.3 billion, up \$22.2 billion from 2009, and up \$19.5 billion from its 10-year average of \$71.8 billion. The improvement in 2010 farmers' net cash income was primarily due to an increase in livestock receipts of \$21.7 billion. The USDA forecasts 2011 farmer's net cash income to increase to \$98.6 billion, a \$7.3 billion increase from 2010, and \$26.8 billion above the 10-year average. Contributing to this forecasted increase in 2011 farmers' net cash income are increases in crop receipts of \$24.0 billion, livestock receipts of \$4.3 billion, and farm-related income of \$300 million, partially offset by an increase in cash expenses of \$19.7 billion, and a decline in direct government payments of \$1.6 billion.

During 2010, feed prices declined through the first half of the year and export demand for livestock was strong resulting in the significant increase in livestock receipts. The forecast for crop receipts for 2010 was up from 2009 but not to the same extent as livestock. For 2011, crop receipts are forecasted to rise across a number of crop categories, particularly corn, soybeans, and cotton. Continued demand for ethanol, strong exports, and tight supplies are forecasted to contribute to significant commodity price increases. These increases, as well as uncertainty regarding future commodity price increases, could significantly raise input costs and place further pressure on certain dairy and livestock producers.

The following table sets forth the commodity prices per bushel for certain crops and by hundredweight for beef cattle from December 31, 2007 to December 31, 2010:

Commodity	12/31/10	12/31/09	12/31/08	12/31/07
Corn	\$4.82	\$3.60	\$4.11	\$3.76
Soybeans	\$11.60	\$9.80	\$9.24	\$10.00
Wheat	\$6.45	\$4.87	\$5.95	\$7.74
Beef Cattle	\$98.10	\$78.50	\$79.70	\$88.90

The USDA's February 2011 income outlook shows a great deal of variation depending on farm size, geographic location, and commodity specialties. The USDA classifies all farms into three primary categories: commercial farms, intermediate farms, and rural residential farms. Commercial farms, large-scale farms with gross sales greater than \$250 thousand, represent about 10 percent of U.S. farms by number and represent 80 percent of total U.S. farm production. Commercial farms are expected to have a nearly 29 percent increase in average net cash income in 2010. Intermediate farms, defined as ones in which the primary occupation is farming and gross sales are between \$10 thousand and \$250 thousand, represent 30 percent of U.S. farms by number and account for 18 percent of total production. Intermediate farms are expected to have a 78 percent increase in average net cash income in 2010. The remaining 60 percent of U.S. farms are classified as rural residential farms where the primary occupation is not farming and the farms produce less than \$10 thousand in products. Rural residential farms only account for 2 percent of total production.

In addition to farmers' net cash income, off-farm income is an important source of income for the repayment of farm debt obligations and is less subject to cycles in agriculture. However, off-farm income can be directly affected by conditions in the general economy. The USDA measures farm household

income, which is defined as earnings from farming activities plus off-farm income. Nearly 100 percent of farm household income for operators of rural residential farms and more than 90 percent of farm household income for intermediate farms is generated from off-farm sources. Further, USDA data suggests that approximately 25 percent of farm household income for commercial farms is generated from off-farm income.

According to the USDA February 2011 forecast, farm sector asset values are expected to increase \$64 billion or 3.1 percent to \$2.121 trillion for 2010, reflecting increased expected returns on farm investments. The values of land, machinery/equipment, and inventories of crop, livestock, and poultry are expected to rise modestly in 2010. Farmers' equity (farm business assets minus debt) is expected to rise 3.8 percent from \$1.812 trillion in 2009 to \$1.881 trillion in 2010, largely due to an expected 3.1 percent increase in farm asset values and a 2.1 percent decline in debt.

One measure of the financial health of the agricultural sector used by the USDA is the assessment of farmers' utilization of their capacity to repay debt (actual debt as a percentage of maximum debt that can be supported by farmers' current income). Higher capacity utilization rates indicate tighter cash flow positions and, consequently, higher exposure to financial risk. Lower rates indicate healthier cash flow and financial position. These estimates do not take into account, however, off-farm income sources. Since 1970, debt repayment capacity utilization has ranged from a low of 37 percent in 1973 to a high of 110 percent in 1981, and has remained relatively stable since 1987, averaging about 50 percent. During 2010, repayment capacity utilization decreased to 45 percent due to the increase in farmers' net cash income. The forecast for 2011 predicts farmers' utilization to decline from 45 percent in 2010 to approximately 43 percent for 2011.

As estimated by the USDA in February 2011, the Farm Credit System's market share of farm business debt, defined as debt incurred by those involved in on-farm agricultural production, grew to 40.1 percent at December 31, 2009 (latest available data), as compared with 39.0 percent at December 31, 2008. Farm business debt is forecasted to rise slightly in 2011 to \$241.6 billion from \$240.3 billion in 2010. The USDA's forecast of rising debt is due to rising production costs, such as energy and feed, in 2011, which will drive certain crop and livestock producers to increase their debt loads.

In general, agriculture has experienced a sustained period of favorable economic conditions, due to stronger commodity prices, higher land values, and, to a lesser extent, government support programs. To date, the Association's financial results have remained favorable as a result of these conditions. Production agriculture, however, remains a cyclical business that is heavily influenced by commodity prices. In an environment of less favorable economic conditions in agriculture and without sufficient government support programs, the Association's financial performance and credit quality measures would likely be negatively impacted. Conditions in the general and agricultural economies remain volatile. Certain agriculture sectors, as described more fully in this *Management Discussion and Analysis*, experienced significant financial stress during 2010 and could continue to experience financial stress in 2011. Any negative impact from these less favorable conditions should be lessened by geographic and commodity diversification

and the influence of off-farm income sources supporting agricultural-related debt. However, agricultural borrowers who are more reliant on off-farm income sources may be more adversely impacted by a weakened general economy.

### CRITICAL ACCOUNTING POLICIES

The financial statements are reported in conformity with accounting principles generally accepted in the United States of America. Our significant accounting policies are critical to the understanding of our results of operations and financial position because some accounting policies require us to make complex or subjective judgments and estimates that may affect the value of certain assets or liabilities. We consider these policies critical because management must make judgments about matters that are inherently uncertain. For a complete discussion of significant accounting policies, see Note 2, "Summary of Significant Accounting Policies," of the Notes to the Consolidated Financial Statements. The following is a summary of certain critical policies.

- *Allowance for loan losses* — The allowance for loan losses is maintained at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through allowance reversals and loan charge-offs. The allowance for loan losses is determined based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including economic and political conditions, loan portfolio composition, credit quality and prior loan loss experience.

Significant individual loans are evaluated based on the borrower's overall financial condition, resources, and payment record, the prospects for support from any financially responsible guarantor, and, if appropriate, the estimated net realizable value of any collateral. The allowance for loan losses encompasses various judgments, evaluations and appraisals with respect to the loans and their underlying security that, by nature, contains elements of uncertainty and imprecision. Changes in the agricultural economy and their borrower repayment capacity will cause these various judgments, evaluations and appraisals to change over time. Accordingly, actual circumstances could vary from the Association's expectations and predictions of those circumstances.

Management considers the following factors in determining and supporting the levels of allowance for loan losses: the concentration of lending in agriculture, combined with uncertainties in farmland values, commodity prices, exports, government assistance programs, regional economic effects and weather-related influences. Changes in the factors considered by management in the evaluation of losses in the loan portfolios could result in a change in the allowance for loan losses and could have a direct impact on the provision for loan losses and the results of operations.

- *Valuation methodologies* — Management applies various valuation methodologies to assets and liabilities that often involve a significant degree of judgment, particularly when liquid markets do not exist for the particular items being

valued. Quoted market prices are referred to when estimating fair values for certain assets for which an observable liquid market exists, such as most investment securities. Management utilizes significant estimates and assumptions to value items for which an observable liquid market does not exist. Examples of these items include impaired loans, pension and other postretirement benefit obligations, and certain other financial instruments. These valuations require the use of various assumptions, including, among others, discount rates, rates of return on assets, repayment rates, cash flows, default rates, costs of servicing and liquidation values. The use of different assumptions could produce significantly different results, which could have material positive or negative effects on the Association's results of operations.

- *Pensions* — The Bank and its related Associations participate in defined benefit retirement plans. These plans are noncontributory and benefits are based on salary and years of service. In addition, the Bank and its related Associations also participate in defined contribution retirement savings plans. Pension expense for all plans is recorded as part of salaries and employee benefits. Pension expense for the defined benefit retirement plans is determined by actuarial valuations based on certain assumptions, including expected long-term rate of return on plan assets and discount rate. The expected return on plan assets for the year is calculated based on the composition of assets at the beginning of the year and the expected long-term rate of return on that portfolio of assets. The discount rate is used to determine the present value of our future benefit obligations. The discount rate for 2009 was selected by reference to analysis and yield curves of the plans' actuary and industry norms.

### REGIONAL ECONOMICS

For the past few decades, Florida enjoyed rapid economic expansion fueled by population-driven growth in construction and real estate. Florida was a job creation engine, consistently ranking among the fastest growing states across numerous measures, from growth in economic output to employment growth. Now, Florida is struggling to emerge from the 2008-09 global recession that has significantly impacted businesses and led to an unemployment rate of approximately 11%.

Florida was one of the states hardest hit by the recent Great Recession in large part due to its significant exposure to the housing sector. After sharp contractions in 2008 and the first half of 2009, the state's GDP growth turned positive in mid-2009, around the same time as that of the U.S. as a whole.

Since then, both the Florida and national economies have seen consistently positive yet anemic growth. Following a 3.4% decline for all of 2009, this year Florida's real GDP is forecast to increase by 2.6%, then by another 1.9% in 2011. Given the severity of the recent downturn, however, Florida's total economic output is not expected to again reach pre-recessionary levels until early 2012. The forecast for both the Florida and U.S. economies calls for positive but sluggish growth – the recovery will continue to not feel like much of one.

The Great Recession has taken a particularly severe toll on labor markets, with more than 900,000 jobs lost in Florida and some 8.5 million nationally. Since the recession officially ended more than a year ago, job creation has been extremely weak, especially compared to previous economic recoveries. Recent monthly data reveal modest gains for Florida payrolls during much of this year, but these have not been sufficient to replace the number of jobs lost during the recession.

It is not expected that Florida's total employment will rebound to pre-recessionary levels until 2015 at the earliest. As of August 2010, Florida's 11.7% unemployment rate stood a couple of percentage points above the national rate, and is forecast to remain in the double digits through late 2012.

Florida is the 4<sup>th</sup> most populous state in the nation and the most populous state in the Southeast with 18.33 million residents at the end of 2008. Population growth is expected to reach only 1.57% in 2011-12. Florida is on track to break the 20-million mark in 2014. Sometime before then, Florida will become the third most populous state – surpassing New York.

Real Gross Domestic Product (GDP) is an inflation-adjusted measurement of a state's total economic output. GDP growth is one of the most common ways of assessing a state's overall economic health and performance, and the pace of its expansion. Florida's real GDP contracted by 3.4% in 2009, ranking the state 45<sup>th</sup> in real GDP growth over the year – slightly better than its 48<sup>th</sup> place ranking in 2008. Although Florida experienced growth in Utilities, Agriculture, Healthcare, and Government, declines in other industries negated overall growth. Florida's share of total U.S. GDP remained unchanged at 5.2% in 2009. Over the longer 2000-2009 period, Florida's real GDP grew by 21.8%, outpacing the nation as a whole (15.0%) and all but one of its competitor states (Virginia, 24.1%). Florida had the 4<sup>th</sup> highest GDP among U.S. states in 2009 – it's proportionate share given its size (as the 4<sup>th</sup> most populous state).

### **Housing**

Florida's housing spell continues. Foreclosures continue to be a problem while nearly half of Floridians are underwater on their mortgages. For these homeowners, the house is no longer a net asset, but a net liability. Mortgage rates have increased from historical lows, but unfortunately credit is still constrained. Low rates are not spurring high levels of activity in the housing sector. Sales have continued to substantially decline from their first time home buyer tax credit peaks. Refinancing to take advantage of these ultra-low mortgage rates is nearly impossible for those who have seen their home values plummet and now find themselves underwater in their mortgage. High and persistent unemployment, flat job growth, and slow population growth, combined with these tight credit conditions, will prolong the recovery period in the housing sector. These fundamental weaknesses in the underpinnings of the housing demand are prolonging the absorption of an inventory that is further swelled by foreclosure.

### **Construction Sector**

Florida's real estate and construction industries have been particularly hard hit by the recession. After reaching peak levels in mid 2006, employment in Florida's construction industry has fallen by nearly 266,000 jobs – roughly a 39% decline. With downward revisions in state population growth projections and remaining excesses in inventory, opportunities for

diversification may include "Green" building and high skill construction (power plants, bridges, industrial facilities, etc.).

### **Leisure & Hospitality Sector**

More than 84.2 million tourists visited Florida last year, resulting in \$65.2 billion in taxable sales revenue and employing more than 1 million Floridians. Florida's tourism industry accounts for more than one-fifth of the state's total sales tax revenue. The collective impacts of the economic downturn and the oil spill caused significant challenges to the tourism industry. In light of the recent business downturn, Florida is expected to reap benefits from the Tourism Promotion Act, which was passed by Congress in February 2010 and created a non-profit corporation to promote U.S. tourism overseas.

### **Manufacturing Sector**

Florida manufacturers are a powerful economic engine for the state's economy. Many Florida manufacturing operations benefit from the presence of advanced research facilities at Florida's universities and colleges, military installations, and NASA. The industry cluster counts more than 17,000 manufacturers who employ nearly 324,000 workers across the state.

### **Health Care & Education Sector**

Florida has a vibrant healthcare sector that encompasses one of the largest and most sophisticated health care systems in the country. Many of the 703,000 employees who work in healthcare in Florida are engaged in a broad range of research activities and clinical trials. Florida's hospitals specialize in clinical trials for diseases such as Alzheimer's, cancer, diabetes, heart disease and others. The health care and education sector of the Florida economy has been and will continue to be one of the bright spots for the state. Despite job losses in most major industries within the state this sector has managed to continue expanding. Continued population growth as well as the overall aging of the population continues to support growth in this sector. Positive job growth is projected to continue in this sector for the foreseeable future.

### **Government Spending**

Recently passed legislation, House Bill 1B, establishes a comprehensive framework for Florida's current and future passenger rail system, including SunRail, Tri-Rail and plans for high speed rail. The Florida Department of Transportation (FDOT) is working with the federal government and Central Florida officials to develop and operate SunRail, a commuter transit project that will run along a 61-mile stretch of existing rail freight tracks in Orange, Seminole, Volusia, and Osceola counties. The legislation also provides additional funding for Tri-Rail, which currently operates 60 trains daily from Palm Beach County to Miami-Dade County. Further, the legislation creates the Florida Statewide Rail Commission to advise the FDOT and the Legislature on the development and operation of Florida's passenger rail systems. Finally, it creates the Florida Rail Enterprise within FDOT to oversee all state-owned passenger rail systems. The legislation addresses liability risks associated with state-owned passenger corridors and requires FDOT to work with communities affected by increased freight rail traffic resulting from routing modifications. Florida was recently awarded \$1.25 billion in federal funding to open high speed rail express service between Tampa and Orlando – connecting cities in less than an hour at maximum speeds of 168 mph. Five stations are planned along the Tampa-Orlando

corridor, with downtown Tampa and Orlando International Airport stations anchoring each end of this corridor. All stations would be served by some combination of regional rail, bus transit, taxi, pedestrian and automobile access to ensure seamless connectivity.

Agriculture, agribusiness, and food processing and manufacturing are still a significant economic driver to the local and state economy. These business segments provided significant jobs and revenues to the state and local economies.

The agricultural industry in the Central Florida region produces a wide variety of farm commodities with horticulture, citrus, and fruit and vegetables the largest market segments. None of the commodities produced in the region are included in any USDA government support programs and not materially impacted by U.S. farm bill legislation. Other significant factors that continue to affect the agricultural economy include the introduction of pest and plant diseases, weather-related risks, water-use regulations, environmental rules and regulations, and competition for agricultural lands. All Florida producers, particularly fruit and vegetable producers are concerned about foreign trade issues, primarily the Free Trade of the America's Agreement (FTAA) and World Trade Organization initiatives. State agencies continue to pursue the purchase of significant parcels of agricultural property for water resource protection and environmental protection purposes. Florida rural property owners are now facing new challenges as special interest groups and government officials attempt to limit their future land use through growth management regulations.

The region served by the Association was spared any natural disaster in 2010. There were no material impacts by hurricanes and the region has enjoyed generally favorable weather conditions. The region continues to experience below average rainfall and water authorities are continuing to maintain restrictions.

The forecasted 2010/11 U.S. citrus production is at 11.9 million tons, up 9 percent from last season and virtually the same as 2 seasons ago. Production of all citrus crops is forecast higher than last year, except for grapefruit. These flat supplies have caused an increase in 2010/11 season cash prices for round oranges. Some growers, however, are still receiving prices exceeding the cash market through multi-year contracts or fruit participation arrangements. All crop producers are facing higher input costs resulting primarily from increased prices for energy and fertilizer. Furthermore, citrus growers are dealing with the added cost of dealing with canker and greening diseases. A majority of the Association's citrus growers were able to significantly reduce leverage over the past several years because of strong fruit prices. Strawberry growers experienced good growing conditions and favorable operating results over the past three seasons. Cow-calf operators have enjoyed good prices and returns over the past two years, but are now faced with some price softening. Most of the Association's cow-calf operators have diversified income sources. As noted above, construction dependent horticulture has been most affected by the recession. In response to economic conditions, nursery operators have instituted significant cost cutting measures while focusing on marketing efforts. Association management continually reviews its loan portfolio. During 2010 credit quality remained relatively unchanged from 2009 with 88% of loan assets rated Acceptable and OAEM at December 31, 2010. Association delinquencies showed a

dramatic improvement during 2010, and the rolling twelve month average delinquency rate was 1.10 % at December 31, 2010 compared to 1.78% at December 31, 2009.

There has been little change in the Association's market region over the past year. The Association's Agribusiness Lending Group continues to serve and target large high-quality farm and agribusiness customers. The group continues to report good growth in 2010. The Lifestyle and Small Business Lending Group has maintained a consistent market presence in consumer and middle market lending and its growth has stabilized in 2010. The Association continues to maintain its marketing efforts and activity in the lifestyle farm and rural residential market segments. The Association also continues to serve young, beginning and small farm customers in this lending group.

## LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners, and farm-related businesses for financing of short and intermediate-term loans and long-term real estate mortgage loans through numerous product types.

The diversification of the Association loan volume by type for each of the past three years is shown below.

Loan Type	December 31,					
	2010		2009		2008	
	<i>(dollars in thousands)</i>					
Production and intermediate-term	\$ 175,070	46.56%	\$ 157,556	42.49%	\$ 167,294	39.60%
Real estate mortgage	135,214	35.96	140,205	37.81	201,237	47.63
Rural residential real estate	20,834	5.54	27,204	7.34	29,302	6.94
Loans to cooperatives	18,711	4.98	22,063	5.95	-	-
Farm-related business	17,270	4.59	6,433	1.74	4,133	0.98
Processing and marketing	5,933	1.58	14,145	3.81	17,106	4.05
Energy	2,969	0.79	3,169	0.85	3,359	0.80
Total	\$ 376,001	100.00%	\$ 370,775	100.00%	\$ 422,431	100.00%

While we make loans and provide financially related services to qualified borrowers in the agricultural and rural sectors and to certain related entities, our loan portfolio is diversified.

The distribution of the loan volume by line of business for the past three years is as follows:

Line of Business	December 31,		
	2010	2009	2008
Apopka	10.94%	13.31%	10.57%
Plant City	6.09	6.07	6.07
Brooksville	3.64	4.21	4.76
Lake Wales	3.91	4.10	4.90
Lakeland	2.89	3.44	3.57
Agribusiness	58.70	52.69	58.27
Capital Markets	7.24	7.22	8.72
Residential Lending	0.08	0.06	0.16
Special Assets	6.50	8.90	2.98
	100.00%	100.00%	100.00%

Commodity and industry categories are based upon the Standard Industrial Classification system published by the federal government. The system is used to assign commodity or industry categories based upon the largest agricultural commodity of the customer.

The major commodities in the Association loan portfolio are shown below. The predominant commodities are nursery, citrus, strawberries, and livestock, which constitute over 70 percent of the entire portfolio.

Commodity Group per SIC Codes	December 31					
	2010		2009		2008	
	<i>(dollars in thousands)</i>					
Nursery	\$ 96,809	25.75%	\$ 90,956	24.53%	\$ 104,517	24.74%
Citrus	68,515	18.22	65,086	17.55	60,751	14.38
Strawberries	51,849	13.79	47,247	12.74	52,655	12.46
Livestock	45,795	12.18	47,296	12.76	61,900	14.65
Blueberries	26,602	7.07	14,421	3.89	18,887	4.47
Fruits & Vegetables	16,362	4.35	17,273	4.66	19,926	4.72
Rural Home	16,067	4.27	19,898	5.37	23,455	5.55
Timber	14,252	3.79	13,904	3.75	19,855	4.70
Landlord/Lessors	9,895	2.63	10,258	2.77	9,481	2.24
Other	29,854	7.94	44,436	11.98	51,002	12.07
Total	\$ 376,001	100.00%	\$ 370,775	100.00%	\$ 422,431	100.00%

The Association manages concentration risks; both industry and large borrower, through an internal hold limit policy based on individual loan risk ratings, loss given defaults, and industry concentrations. Industry concentrations for hold limit purposes are calculated using the repayment dependency code rather than the SIC code. As a result, for portfolio management purposes, industry classifications are determined based on high dependency of repayment coming from the actual commodity itself. Repayment ability is closely related to the commodities produced by our borrowers, and increasingly, the off-farm income of borrowers. For example, citrus and livestock industries are a large percent of the total portfolio but each also have very low repayment dependency coming from the actual commodity itself. Portfolio management industries concentrations are classified in three concentration levels based on the industry concentration (with high dependency) as a percent of total ACA capital; 1) High – greater than 100% of total capital; 2) Medium – between 50% and 100% of total capital; and 3) Low – less than 50% of total capital. The Association’s loan portfolio contains a high concentration in the nursery industry and a medium concentration in the strawberry industry. All other industries are in the low concentration level.

Portfolio Management Industry as % of Capital	December 31	
	2010	2009
	<i>(% of Total Capital)</i>	
Nursery	109.17%	138.69 %
Strawberries	69.98	71.90
Citrus	44.62	39.97
Fruits & Vegetables	31.09	32.59
Blueberries	23.46 %	20.47%

Even though the concentration of large loans has increased over the past several years, the agricultural enterprise mix of these loans is diversified and similar to that of the overall portfolio. The risk in the portfolio associated with commodity concentration and large loans is reduced by the range of diversity of enterprises in the Association’s territory as well as the new internal hold limit policy which will limit any additional increases to already high concentrations.

The increase in loan volume for the twelve months ended December 31, 2010, is primarily attributed to increased demand for loans from within the Association’s chartered territory combined with decreased participation loan asset sales to AgFirst. The implementation of the internal hold limit policy offset with the

utilization of FarmerMac’s Long-Term Standby Commitment Guarantee program contributed to lower volumes being sold to AgFirst. In addition, demand for loan refinancings increased due to agricultural lending retrenchment by some local commercial banks.

For the past few years, the Association has experienced a shift in loan assets. Expressed as a percentage of net loans, the long-term volume trend has been downward while the short-and intermediate-term loan volume trend is upward. The short-term portfolio, which is cyclical in nature and heavily influenced by operating-type loans, normally reaches a minimum balance in August or September and rapidly increases in the fall months as strawberry and other winter vegetable growers increase their borrowings to prepare for the next crop season. The Association has grown the long-term portfolio through increased mortgage lending on real estate and facilities used for agriculture production.

During 2010, the Association decreased activity in total loan participations within and outside of the System. Loan participations provides a means for the Association to spread credit concentration risk and realize non-patronage sourced interest and fee income, which may strengthen its capital position.

Loan Participations:	December 31,		
	2010	2009	2008
	<i>(dollars in thousands)</i>		
Participations Purchased			
– FCS Institutions	\$ 27,235	\$ 26,889	\$ 36,842
Participations Sold	(351,673)	(418,563)	(341,733)
Total	<u>\$(324,438)</u>	<u>\$(391,674)</u>	<u>\$(304,891)</u>

For the years ended December 31, 2010, 2009, and 2008, the Association did not have any loans sold with recourse, retained subordinated participation interests in loans sold, or interests in pools of subordinated participation interests.

The Association sells qualified long-term residential mortgage loans into the secondary market. For the years ended December 31, 2010, 2009, and 2008, the Association originated loans for resale totaling \$8,645, \$11,025, and \$10,848, respectively, which were sold into the secondary market.

## INVESTMENT SECURITIES

As permitted under FCA regulations, the Association is authorized to hold eligible investments for the purposes of reducing interest rate risk and managing surplus short-term funds. The Bank is responsible for approving the investment policies of the Association. The Bank annually reviews the investment portfolio of every Association that it funds. The Association’s investments consist of pools of Small Business Administration (SBA) guaranteed loans. These investments carry the full faith and credit of the United States government. The balance of these SBA investments, classified as being held-to-maturity, amounted to \$45,476 at December 31, 2010, \$49,648 at December 31, 2009, and \$50,376 at December 31, 2008.

**CREDIT RISK MANAGEMENT**

Credit risk arises from the potential inability of an obligor to meet its repayment obligation. As part of the process to evaluate the success of a loan, the Association continues to review the credit quality of the loan portfolio on an ongoing basis. With the approval of the Association Board of Directors, the Association establishes underwriting standards and lending policies that provide direction to loan officers. Underwriting standards include, among other things, an evaluation of:

- Character – borrower integrity and credit history
- Capacity – repayment capacity of the borrower based on cash flows from operations or other sources of income
- Collateral – protection for the lender in the event of default and a potential secondary source of repayment
- Capital – ability of the operation to survive unanticipated risks
- Conditions – intended use of the loan funds

The credit risk management process begins with an analysis of the borrower's credit history, repayment capacity, and financial position. Repayment capacity focuses on the borrower's ability to repay the loan based upon cash flows from operations or other sources of income, including non-farm income. Real estate loans must be collateralized by first liens on the real estate (collateral). As required by FCA regulations, each institution that makes loans on a collateralized basis must have collateral evaluation policies and procedures. Real estate mortgage loans may be made only in amounts up to 85 percent of the original appraised value of the property taken as collateral or up to 97 percent of the appraised value if guaranteed by a state, federal, or other governmental agency. The actual loan to appraised value when loans are made is generally lower than the statutory maximum percentage. With certain exceptions identified in Association policy, appraisals are required for loans of more than \$250,000. In addition, each loan is assigned a credit risk rating based upon the underwriting standards. This credit risk rating process incorporates objective and subjective criteria to identify inherent strengths, weaknesses, and risks in a particular relationship.

We review the credit quality of the loan portfolio on an ongoing basis as part of our risk management practices. Each loan is classified according to the Uniform Classification System, which is used by all Farm Credit System institutions. Below are the classification definitions.

- Acceptable – Assets are expected to be fully collectible and represent the highest quality.
- Other Assets Especially Mentioned (OAEM) – Assets are currently collectible but exhibit some potential weakness.
- Substandard – Assets exhibit some serious weakness in repayment capacity, equity, and/or collateral pledged on the loan.
- Doubtful – Assets exhibit similar weaknesses to substandard assets. However, doubtful assets have additional weaknesses in existing facts, conditions and values that make collection in full highly questionable.
- Loss – Assets are considered uncollectible.

The following table presents selected statistics related to the credit quality of loans including accrued interest at December 31.

<b>Credit Quality</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
Acceptable & OAEM	88.27%	88.24%	95.87%
Substandard	11.73%	11.76%	4.13%
Doubtful	–%	–%	–%
Loss	–%	–%	–%
Total	100.00%	100.00%	100.00%

*Nonperforming Assets*

The Association's loan portfolio is divided into performing and high-risk categories. A Special Assets Management Department is responsible for servicing loans classified as high-risk. The high-risk assets, including accrued interest, are detailed below:

<b>High-risk Assets</b>	<b>December 31,</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>
	<i>(dollars in thousands)</i>		
Nonaccrual loans	\$ 23,910	\$ 31,860	\$ 11,963
Restructured loans	–	–	146
Accruing loans 90 days past due	–	–	796
Total high-risk loans	23,910	31,860	12,905
Other property owned	6,806	2,026	504
Total high-risk assets	\$ 30,716	\$ 33,886	\$ 13,409
<b>Ratios</b>			
Nonaccrual loans to total loans	6.36%	8.59%	2.83%
High-risk assets to total assets	6.80%	7.60%	2.70%

Nonaccrual loans represent all loans where there is a reasonable doubt as to the collection of principal and/or future interest accruals, under the contractual terms of the loan. In substance, nonaccrual loans reflect loans where the accrual of interest has been suspended. Nonaccrual loans decreased \$7,950 or 25 percent in 2010. This decrease is a result of charge-offs ranging from various industries and loan types. The largest sectors are residential lot loans and nursery loans due to the weakness associated with the individual borrower's repayment capacity and continuing decline of overall collateral values. In addition, there was an increase in nonaccrual loans being transferred to Other Property Owned. Of the \$23,910 in nonaccrual volume at December 31, 2010, \$5,792 or 24%, was current as to scheduled principal and interest payments, but did not meet all regulatory requirements to be transferred into accrual status compared to 27% and 9% at December 31, 2009 and 2008, respectively. The 2010 other property owned balance of \$6,806 consists of 27 real estate parcels obtained through foreclosure or deed-in-lieu of foreclosure actions.

Loan restructuring is available to financially distressed borrowers. Restructuring of loans occurs when the Association grants a concession to a borrower based on either a court order or good faith in a borrower's ability to return to financial viability. The concessions can be in the form of a modification of terms or rates, a compromise of amounts owed, or deed in lieu of foreclosure. Other receipts of assets and/or equity to pay the loan in full or in part are also considered restructured loans. The type of alternative financing structure chosen is based on minimizing the loss incurred by both the Association and the borrower.

*Allowance for Loan Losses*

The allowance for loan losses at each period end was considered by Association management to be adequate to absorb probable losses existing in and inherent to its loan portfolio. The allowance for loan losses is broken down between specific reserves assigned to an individual loan and general reserves which are available for the expected losses within the entire portfolio. The current allowance for loan losses at December 31, 2010 contains \$2,679 in specific reserves and \$1,747 in general reserves.

The following table presents the activity in the allowance for loan losses for the most recent three years:

Allowance for Loan Losses Activity:	Year Ended December 31,		
	2010	2009	2008
	<i>(dollars in thousands)</i>		
Balance at beginning of year	\$ 5,959	\$ 5,243	\$ 1,473
Charge-offs:			
Real estate mortgage	(2,170)	(4,242)	(134)
Production and intermediate-term	(7,048)	(474)	(44)
Agribusiness	(111)	(1,299)	-
Rural residential real estate	(1,315)	(684)	(77)
Total charge-offs	(10,644)	(6,699)	(255)
Recoveries:			
Real estate mortgage	15	-	-
Production and intermediate-term	244	-	50
Rural residential real estate	35	-	-
Total recoveries	294	-	50
Net (charge-offs) recoveries	(10,350)	(6,699)	(205)
Provision for (reversal of allowance for) loan losses	8,817	7,415	3,975
Balance at end of year	\$ 4,426	\$ 5,959	\$ 5,243
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	(2.87)%	(1.79)%	(0.05)%

The \$8,817 provision for loan loss taken in 2010 was associated with nursery, real estate lot loans, cattle, and citrus due to weaknesses with the individual borrower's repayment capacity and continuing decline of overall collateral values. The net loan charge-offs of \$10,350 were primarily associated with the same industries and were attributed to the overall decline in collateral values causing increased expected loan losses. In addition, increased nonaccrual transfers and the write-down to the net realizable value upon acquisition and transfer to other property owned also attributed to the increase in net charge-offs.

The allowance for loan losses by loan type for the most recent three years is as follows:

Allowance for Loan Losses by Type	December 31,		
	2010	2009	2008
	<i>(dollars in thousands)</i>		
Real estate mortgage	\$ 2,266	\$ 2,144	\$ 2,501
Production and intermediate-term	1,585	2,729	2,074
Agribusiness	59	143	263
Energy	4	12	41
Rural residential real estate	512	931	364
Total loans	\$ 4,426	\$ 5,959	\$ 5,243

The allowance for loan losses as a percentage of loans outstanding and as a percentage of certain other credit quality indicators is shown below:

Allowance for Loan Losses as a Percentage of:	December 31,		
	2010	2009	2008
Total loans	1.18%	1.61%	1.24%
Nonperforming loans	18.51%	18.70%	40.63%
Nonaccrual loans	18.51%	18.70%	43.83%

Please refer to Note 4, "Loans and Allowance for Loan Losses," of the Notes to the Consolidated Financial Statements, for further information concerning the allowance for loan losses. The Allowance for Loan Losses was determined according to generally accepted accounting principles.

**RESULTS OF OPERATIONS**

*Net Interest Income*

Net interest income was \$9,019, \$9,516, and \$10,503 in 2010, 2009 and 2008, respectively. Net interest income is the difference between interest income and interest expense. Net interest income is the principal source of earnings for the Association and is impacted by volume, yields on assets and cost of debt. The primary reason for the decline in net interest income is the decrease in average loan volume offset with an increased in average loan spreads as compared to the same time last year. The effects of changes in average volume and interest rates on net interest income over the past three years are presented in the following table:

**Change in Net Interest Income:**

	Volume*	Rate	Nonaccrual	
			Income	Total
	<i>(dollars in thousands)</i>			
<b>12/31/10 - 12/31/09</b>				
Interest income	\$ (1,343)	\$ (1,215)	\$ (15)	\$ (2,573)
Interest expense	(409)	(1,667)	-	(2,076)
Change in net interest income	\$ (935)	\$ 452	\$ (15)	\$ (497)
<b>12/31/09 - 12/31/08</b>				
Interest income	\$ (554)	\$ (6,793)	\$ 42	\$ (7,305)
Interest expense	95	(6,413)	-	(6,318)
Change in net interest income	\$ (649)	\$ (380)	\$ 42	\$ (987)

\* Volume variances can be the result of increased/decreased loan volume or from changes in the percentage composition of assets and liabilities between periods.

*Noninterest Income*

Noninterest income for each of the three years ended December 31 is shown in the following table:

<b>Noninterest Income</b>	<b>For the Year Ended December 31,</b>			<b>Percentage Increase/(Decrease)</b>	
	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2010/ 2009</b>	<b>2009/ 2008</b>
	<i>(dollars in thousands)</i>				
Loan fees	\$ 662	\$ 911	\$ 1,049	(27.33)%	(13.16)%
Fees for financially related services	246	456	440	(46.05)	3.64
Patronage refund from other Farm Credit Institutions	7,500	5,286	6,398	41.88	(17.38)
Gains (losses) on other property owned, net	(1,158)	(81)	(348)	1,329.63	(76.72)
Gains (losses) on sales of rural home loans, net	197	216	185	(8.80)	16.76
Insurance Fund Refund	428	—	—	—	—
Other noninterest income	98	143	85	(31.47)	68.24
<b>Total noninterest income</b>	<b>\$ 7,973</b>	<b>\$ 6,931</b>	<b>\$ 7,809</b>	<b>15.03%</b>	<b>(11.24)%</b>

Noninterest income increased \$1,042 or 15.03% for December 31, 2010, as compared to the same period of 2009. December 31, 2009 noninterest income decreased \$878 or 11.24% when compared to the same period of 2008. The increase in noninterest income for 2010 is primarily the result of the increase in patronage refund from other Farm Credit Institutions. The Association's patronage earnings from the Capitalized Participation Pool (CPP) with AgFirst were \$2,014 compared to prior year's \$227 due to improved credit quality in the CPP portfolio. In addition, the Association received a Special Patronage Payment from AgFirst in the amount of \$1,123 compared to prior year's payment of \$565.

*Noninterest Expense*

Noninterest expense for each of the three years ended December 31 is shown in the following table:

<b>Noninterest Expense</b>	<b>For the Year Ended December 31,</b>			<b>Percentage Increase/(Decrease)</b>	
	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2010/ 2009</b>	<b>2009/ 2008</b>
	<i>(dollars in thousands)</i>				
Salaries and employee benefits	\$5,018	\$5,085	\$4,516	(1.32)%	12.60%
Occupancy and equipment	685	702	683	(2.42)	2.78
Insurance Fund premium	179	640	554	(72.03)	15.52
Other operating expenses	1,396	1,446	1,628	(3.46)	(11.18)
<b>Total noninterest expense</b>	<b>\$7,278</b>	<b>\$7,873</b>	<b>\$7,381</b>	<b>(7.56)%</b>	<b>6.67%</b>

Noninterest expense decreased \$595 or 7.56 percent for December 31, 2010, as compared to the same period of 2009 and increased \$492 or 6.67 percent compared to December 31, 2008. The primary reason for the decrease in 2010 was the decrease in Insurance Fund premiums.

Insurance Fund premiums decreased 72.03 percent for the twelve months ended December 31, 2010, compared to the same period of 2009. The Farm Credit System Insurance Corporation (FCSIC) changed the methodology in assessing the insurance premiums as a result of the 2008 Farm Bill. Please refer to the "Regulatory Matters" section of this Management's Discussion and Analysis for details concerning the 2008 Farm Bill. The FCSIC set premiums at 5 basis points on adjusted insured debt outstanding for 2010 with an additional 10 basis point premium on the average

principal outstanding of nonaccrual loans and any other-than-temporarily impaired investments. For 2009, the FCSIC premium was set at 20 basis points on adjusted insured debt outstanding with an additional 10 basis point premium on the average principal outstanding of nonaccrual loans and any other-than-temporarily impaired investments. For 2008, the FCSIC set premiums at 15 basis points on adjusted insured debt outstanding for the third quarter of 2008 and 18 basis points on adjusted insured debt outstanding for the fourth quarter of 2008. In addition, for the second half of 2008, there was a 10 basis point premium on the average principal outstanding of nonaccrual loans and any other-than-temporarily impaired investments. For all previous years, premiums of up to 15 basis points could be charged on accruing loans and up to 25 basis points for nonaccrual loans.

*Income Taxes*

The Association did not record a provision or benefit for income taxes for the year ended December 31, 2010, 2009, or 2008. Refer to Note 2, "Summary of Significant Accounting Policies, Income Taxes," of the Notes to the Consolidated Financial Statements, for more information concerning Association income taxes.

*Key Results of Operations Comparisons*

Key results of operations comparisons for each of the twelve months ended December 31 are shown in the following table:

<b>Key Results of Operations Comparisons</b>	<b>For the 12 Months Ended</b>		
	<b>12/31/10</b>	<b>12/31/09</b>	<b>12/31/08</b>
Return on average assets	0.21%	0.26%	1.57%
Return on average members' equity	1.15%	1.50%	8.98%
Net interest income as a percentage of average earning assets	2.38%	2.35%	2.54%
Net (charge-offs) recoveries to average loans	(2.87)%	(1.79)%	(0.05)%

A key factor in the growth of net income for future years will be continued improvement in net interest and noninterest income as well as improvement in overall asset quality. Our goal is to generate earnings sufficient to fund operations, adequately capitalize the Association, and achieve an adequate rate of return for our members. To meet this goal, the agricultural economy must stabilize and improve and the Association must meet certain objectives. These objectives are to attract and maintain high quality loan volume priced at competitive rates and to manage credit risk in our entire portfolio, while efficiently meeting the credit needs of our members.

**LIQUIDITY AND FUNDING SOURCES***Liquidity and Funding*

The principal source of funds for the Association is the borrowing relationship established with the Bank through a General Financing Agreement (GFA). The GFA utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The Bank advances the funds to the Association, creating notes payable (or direct loans) to the Bank. The Bank manages interest rate risk through direct loan pricing and asset/liability management. The notes payable are segmented into variable rate

and fixed rate components. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. Association capital levels effectively create a borrowing margin between the amount of loans outstanding and the amount of notes payable outstanding. This margin is commonly referred to as "Loanable Funds."

Total notes payable to the Bank at December 31, 2010, was \$369,260 as compared to \$363,528 at December 31, 2009 and \$412,134 at December 31, 2008. The increase of 1.58 percent compared to December 31, 2009 was attributable to the increase of total loan assets. The average volume of outstanding notes payable to the Bank was \$348,040 and \$361,757 for the years ended December 31, 2010 and 2009, respectively. Refer to Note 8, "Notes Payable to AgFirst Farm Credit Bank," of the Notes to the Consolidated Financial Statements, for weighted average interest rates and maturities, and additional information concerning the Association's notes payable.

Liquidity management is the process whereby funds are made available to meet all financial commitments including the extension of credit, payment of operating expenses and payment of debt obligations. The Association receives access to funds through its borrowing relationship with the Bank and from income generated by operations. The liquidity policy of the Association is to manage cash balances to maximize debt reduction and to increase loan volume. As borrower payments are received, they are applied to the Association's note payable to the Bank. The Association's investments and other secondary market programs provide additional liquidity. Sufficient liquid funds have been available to meet all financial obligations. There are no known trends likely to result in a liquidity deficiency for the Association.

The Association had no lines of credit from third party financial institutions as of December 31, 2010.

#### *Funds Management*

The Bank and the Association manage assets and liabilities to provide a broad range of loan products and funding options, which are designed to allow the Association to be competitive in all interest rate environments. The primary objective of the asset/liability management process is to provide stable and rising earnings, while maintaining adequate capital levels by managing exposure to credit and interest rate risks.

Demand for loan types is a driving force in establishing a funds management strategy. The Association offers fixed, adjustable and variable rate loan products that are marginally priced according to financial market rates. Variable rate loans may be indexed to market indices such as the Prime Rate or the 90-day London Interbank Offered Rate (LIBOR). Adjustable rate mortgages are indexed to U.S. Treasury Rates. Fixed rate loans are priced based on the current cost of System debt of similar terms to maturity.

The majority of the interest rate risk in the Association's Consolidated Balance Sheets is transferred to the Bank through the notes payable structure. The Bank, in turn, actively utilizes funds management techniques to identify, quantify and control risk associated with the loan portfolio.

#### *Relationship with the Bank*

The Association's statutory obligation to borrow only from the Bank is discussed in Note 8, "Notes Payable to AgFirst Farm Credit Bank" of the Notes to the Consolidated Financial Statements in this annual report.

The Bank's ability to access capital of the Association is discussed in Note 5, "Investment in AgFirst Farm Credit Bank" of the Notes to the Consolidated Financial Statements.

The Bank's role in mitigating the Association's exposure to interest rate risk is described in the "Liquidity and Funding" section of this Management's Discussion and Analysis and in Note 8, "Notes Payable to AgFirst Farm Credit Bank" included in this annual report.

#### **CAPITAL RESOURCES**

Capital serves to support asset growth and provide protection against unexpected credit and interest rate risk and operating losses. Capital is also needed for future growth and investment in new products and services.

The Association Board of Directors establishes, adopts, and maintains a formal written capital adequacy plan to ensure that adequate capital is maintained for continued financial viability, to provide for growth necessary to meet the needs of members/borrowers, and to ensure that all stockholders are treated equitably. There were no material changes to the capital plan for 2010 that would affect minimum stock purchases or would have an effect on the Association's ability to retire stock and distribute earnings.

Total members' equity at December 31, 2010, increased 0.90 percent to \$77,484 from the December 31, 2009, total of \$76,794. At December 31, 2009, total members' equity increased 0.60 percent from the December 31, 2008 total of \$76,339. The increase was primarily attributed to the increase in retained earnings (allocated surplus and unallocated surplus) being partially offset by the reduction in capital stock and participation certificates.

Total capital stock and participation certificates were \$1.129 on December 31, 2010, compared to \$1.246 on December 31, 2009 and \$1.298 on December 31, 2008. The 2010 decrease from 2009 and the 2009 decrease from 2008 were attributed to the retirement of protected borrower stock and participation certificates on loans liquidated in the normal course of business and the retirement of excess stock through revolvement.

FCA sets minimum regulatory capital requirements for System banks and associations. Capital adequacy is evaluated using a number of regulatory ratios. According to the FCA regulations, each institution's permanent capital ratio is calculated by dividing permanent capital by a risk adjusted asset base. Risk adjusted assets mean the total dollar amount of the institution's assets adjusted by an appropriate credit conversion factor as defined by regulation. For all periods represented, the Association exceeded minimum regulatory standard for all the ratios.

The Association's capital ratios as of December 31 and the FCA minimum requirements follow:

	2010	2009	2008	Regulatory Minimum
Permanent capital ratio	16.28%	15.89%	15.14%	7.00%
Total surplus ratio	15.65%	15.23%	14.54%	7.00%
Core surplus ratio	13.48%	13.05%	11.70%	3.50%

The increase in the Association's Permanent Capital for December 31, 2010 from December 31, 2009 was attributed to the decrease in risk adjusted assets (primarily loan participations sold). This decrease in risk adjusted assets also caused the increase in the Association's Total Surplus Ratio and Core Surplus Ratio for 2010. The nominal increase in the Association's 2009 Total Surplus and Core Surplus ratios results from the increase in allocated surplus as compared to 2008. There are no trends, commitments, contingencies, or events that are likely to affect the Association's ability to meet regulatory minimum capital standards and capital adequacy requirements.

See Note 9, "Members' Equity," of the Consolidated Financial Statements, for further information concerning capital resources.

#### PATRONAGE PROGRAM

Prior to the beginning of any fiscal year, the Association's Board of Directors, by adoption of a resolution, may establish a Patronage Allocation Program to distribute its available consolidated net earnings. This resolution provides for the application of net earnings in the manner described in the Association's Bylaws. This includes the setting aside of funds to increase surplus to meet minimum capital adequacy standards established by FCA Regulations, to increase surplus to meet Association capital adequacy standards to a level necessary to support competitive pricing at targeted earnings levels, and for reasonable reserves for necessary purposes of the Association. After excluding net earnings attributable to (a) the portion of loans participated to another institution, (b) participation loans purchased, and (c) other non-patronage sourced activities, the remaining consolidated net earnings are eligible for allocation to borrowers. Refer to Note 9, "Members' Equity," of the Notes to the Consolidated Financial Statements, for more information concerning the patronage distributions. The Association did not declare any patronage distributions in 2010 due to a negative amount available for patronage distribution, after the exclusion of all non-patronage sourced activities. The Association elected to retain this income for future reserves. The Association did not declare patronage distributions in 2009, and declared \$6,208 in patronage distributions in 2008.

#### YOUNG, BEGINNING AND SMALL (YBS) FARMERS AND RANCHERS PROGRAM

The Association's mission is to provide financial services to agriculture and the rural community, which includes providing credit to Young\*, Beginning\*\* and Small\*\*\* farmers. Because of the unique needs of these individuals, and their importance to the future growth of the Association, the Association has established annual marketing goals to increase our market share of loans to YBS farmers. Specific marketing plans have been

developed to target these groups, and resources have been designated to help ensure YBS borrowers have access to a stable source of credit. As a result, 2010 goals for new volume were established. However, due to continued credit quality issues within all portfolios, the established goals were not met during 2010.

The following table outlines the loan volume and number of YBS loans in the loan portfolio for the Association.

	As of December 31, 2010	
	Number of Loans	Amount of Loans
Young	114	\$10,564
Beginning	330	70,047
Small	630	74,171

*Note: For purposes of the above table, a loan could be classified in more than one category, depending upon the characteristics of the underlying borrower.*

The 2010 USDA Ag census data has been used as a benchmark to measure penetration of the Association's marketing efforts. The census data indicated that within the Association's chartered territory (counties) there were 18,560 reported farmers of which by definition 412 or 2.22 percent were Young, 4,927 or 26.55 percent were Beginning, and 13,221 or 71.23 percent were Small. Comparatively, as of December 31, 2010, the demographics of the Association's agricultural portfolio contained 1,074 YBS farmers, of which by definition 114 or 10.61 percent were Young, 330 or 30.73 percent were Beginning and 630 or 58.66 percent were Small.

The Association Board of Directors has adopted a Young, Beginning, and Small Farmer Plan with specific goals for the number of loans and new volume closed for 2011 and two succeeding years. The Association will continue to review the demographics of its territory during 2011 utilizing 2010 Ag census data.

The following strategies and outreach programs have been conducted which assists and supports the Association's efforts to meet its objectives and goals for financing to the Young, Beginning, and Small farmers.

- Support of 4-H, FFA, and young farmer organizations through sponsorships and donations.
- Sponsor seminars on farm transition planning and financial management.
- Youth livestock financing program for Youth Steer and Swine Shows. Available territory wide.
- Financial Training in cooperation with Florida Southern College, Citrus and Horticulture Dept.
- Employees serve as judges for youth livestock project record books.
- Sponsor participants and participate in Florida Council of Coops, Young Cooperator Conference.
- Sponsor Florida Nursery Growers Young Professional Award.

In addition, the Association's lending personnel actively participate in various commodity trade group conferences and continuing education programs.

Association lenders have established performance goals to provide informational and financial training to agricultural youth groups and industry trade associations.

The Association is committed to the future success of Young, Beginning and Small farmers.

- \* Young farmers are defined as those farmers, ranchers, producers or harvesters of aquatic products who are age 35 or younger as of the date the loan is originally made.
- \*\* Beginning farmers are defined as those farmers, ranchers, producers or harvesters of aquatic products who have 10 years or less farming or ranching experience as of the date the loan is originally made.
- \*\*\* Small farmers are defined as those farmers, ranchers, producers or harvesters of aquatic products who normally generate less than \$250 in annual gross sales of agricultural or aquatic products at the date the loan is originally made.

#### **REGULATORY MATTERS**

For the twelve months ended December 31, 2010, the FCA took no enforcement action against the Association.

#### **RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS**

Please refer to Note 2, *Summary of Significant Accounting Policies*, in the Notes to the Consolidated Financial Statements for recently issued accounting pronouncements.

# *Disclosure Required by Farm Credit Administration Regulations*

## Description of Business

Descriptions of the territory served, persons eligible to borrow, types of lending activities engaged in, financial services offered and related Farm Credit organizations are incorporated herein by reference to Note 1 of the Consolidated Financial Statements, "Organization and Operations," included in this Annual Report to shareholders.

The description of significant developments that had or could have a material impact on earnings or interest rates to borrowers, acquisitions or dispositions of material assets, material changes in the manner of conducting the business, seasonal characteristics, and concentrations of assets, if any, is incorporated in "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in this Annual Report.

## Description of Property

The following table sets forth certain information regarding the properties of the reporting entity, all of which are located in Florida:

<u>Location</u>	<u>Description</u>	<u>Form of Ownership</u>
115 S. Missouri Ave.* Lakeland	Administrative/ Branch	Leased
507 E. Third Street Apopka	Branch	Owned
36 W. Polk Avenue Lake Wales	Branch	Owned
2301 Thonotosassa Road Plant City	Branch	Owned
31081 Cortez Blvd.** Brooksville	Branch	Leased

\* The Administrative / branch office located at 115 S. Missouri Ave. is leased through December 31, 2016 with a 4-year option to renew.

\*\* The branch office located at 31081 Cortez Blvd. is leased through November 30, 2012.

## Legal Proceedings

Information, if any, to be disclosed in this section is incorporated herein by reference to Note 13 of the Consolidated Financial Statements, "Commitments and Contingencies," included in this Annual Report.

## Description of Capital Structure

Information to be disclosed in this section is incorporated herein by reference to Note 9 of the Consolidated Financial Statements, "Members' Equity," included in this Annual Report.

## Description of Liabilities

The description of liabilities, contingent liabilities and obligations to be disclosed in this section is incorporated herein by reference to Notes 2, 8 and 13 of the Consolidated Financial Statements included in this Annual Report.

## Management's Discussion and Analysis of Financial Condition and Results of Operations

"Management's Discussion and Analysis of Financial Condition and Results of Operations," which appears in this Annual Report and is to be disclosed in this section, is incorporated herein by reference.

## Senior Officers

The following represents certain information regarding the senior officers of the Association and their business experience for the past five years:

<u>Senior Officer</u>	<u>Time in Position</u>	<u>Prior Experience</u>
Reginald T. Holt, <i>President &amp; Chief Executive Officer</i>	3 years	Sr. VP & Director of Agribusiness Lending from October 1997 to April 2008. Area VP from June 1992 to October 1997. Also serves on the Executive Committee of the AgFirst Farm Credit Council.
Craig A. Register, <i>Executive Vice President / Chief Lending Officer</i>	3 years	Director of Credit Administration at AgFirst from December 2004 to February 2008. Various positions of increasing responsibilities in the Association's Credit Department from January 1986 to November 2004.
D. Scott Fontenot, <i>Senior Vice President &amp; Corporate Treasurer / CFO</i>	1.5 years	Association Director of Risk Management from March 2009 to June 2009. EVP & CFO of Jack M. Berry, Inc from 2005 to 2009. CFO of Farm Credit of Southwest Florida from 2000 to 2004.
Courtney A. Eelman <i>Sr. Vice President Director of Loan Administration</i>	3 years	Association Credit Administrator from December 2003 to March 2008. Credit Analyst with AmSouth Bank from November 2001 to December 2003. Association Credit Analyst from December 1999 to October 2001.

<u>Senior Officer</u>	<u>Time in Position</u>	<u>Prior Experience</u>
Jeffrey T. Phillips, <i>Sr. Vice President / Chief Relationship Manager</i>	3 years	Association Sr. Relationship Manager from January 2001 to March 2008, Association Credit Analyst from August 1997 to January 2001.
Regina W. Thomas, <i>Sr. Vice President / Chief Business Development Officer</i>	3 years	Association Relationship Manager from November 1999 to March 2008. Branch Manager at Carolina Farm Credit from April 1994 to November 1999. Also serves on the Executive Committee of the University of Florida IFAS Share Council, the FNGLA State Board of Directors, Treasurer of Florida Agri-Women, Inc., and past President and Treasurer of the FNGLA Action Chapter.
M. Ronald O'Connor <i>Sr. Vice President /Marketing Related Service Manager and Governmental Affairs</i>	2 years	Association Marketing Related Service Manager from March 1987 to March 2009. Also member of the Florida Citrus Mutual, Florida Cattleman's Association's, FNGLA's allied committees, Florida Ag Hall of Fame, Florida Council of Cooperatives and awarded an Honorary FFA membership.
Johan S. Dam <i>Sr. Vice President /Corporate Relationship Manager and Special Asset Manager</i>	2 years	Association Corporate Relationship Manager from May 2007 to February 2009. AVP Commercial Relationship Manager SunTrust Bank from December 1999 to April 2007.

The total amount of compensation earned by the CEO and the highest paid officers as a group during the years ended December 31, 2010, 2009 and 2008, is as follows:

Name of Individual or Number in Group	Yea	Annual				
		Salary	Bonus	Deferred Comp.	Perq/ Other*	Total
Reginald T. Holt	2010	\$264,010	-	-	-	\$264,010
Reginald T. Holt	2009	\$264,010	-	-	-	\$264,010
Reginald T. Holt**	2008	\$192,007	-	-	-	\$192,007
Richard W. Joyner	2008	\$ 81,253	-	-	-	\$ 81,253
8	2010	\$984,053	-	-	-	\$984,053
9**	2009	\$951,571	-	-	-	\$951,571
8**	2008	\$653,955	\$2,000	-	-	\$655,955

\* Amounts in the above table classified as Perquisites include travel incentives, group life insurance, automobile compensation, purchased automobile, spousal travel, relocation and tuition reimbursement, if the annual aggregate value of such Perquisites is more than \$5,000.

\*\* Includes information for three Association Officers that resigned effective February 29, 2008, April 30, 2008, and May 28, 2009. Information for CEO Holt is for nine months of 2008 with first three months of 2008 included with other Association Officers.

Disclosure of information on the total compensation paid during 2010 to any senior officer, or to any other individual included in the total, is available to shareholders upon request.

In addition to base salary, all Association employees may earn additional compensation under a corporate bonus plan. However, during 2010 no bonuses were paid to employees.

The Association also sponsors a non-qualified defined benefit supplemental executive retirement plan for the Association's former CEO. The purpose of the non-qualified plan is to provide benefits that supplement the qualified defined benefit plan in which the Association's employees participate. For the former CEO, compensation in excess of the 401(a)(17) limit and benefits in excess of the 415(b) limit in the qualified defined benefit plan will be made up through the non-qualified plan. As a non-qualified plan, assets have been allocated and separately invested for this plan, but are not isolated from the general creditors of the Association. Additionally, all employees are reimbursed for all direct travel expenses incurred when traveling on Association business. A copy of the travel policy is available to shareholders upon written request.

**Directors**

The following chart details the year the director began serving on the board, the current term of expiration, current committee assignments and total cash compensation paid:

DIRECTOR	ORIGINAL YEAR OF ELECTION OR APPOINTMENT	CURRENT TERM EXPIRATION	TOTAL COMP. PAID DURING 2010
Al Bellotto, <i>Chairman</i>	1991	2012	\$46,000
David J. Stanford, <i>Vice-Chairman</i>	1992	2011	37,800
C. Dennis Carlton, Sr.	2004	2013	11,800
L. Baylis Carnes, III	2008	2011	17,400
W. Rex Clonts, Jr.	1997	2012	10,800
Homer E. Hunnicutt, Jr.	1991	2013	18,500
John S. Langford	2005	2012	13,600
Robert R. Roberson	1997	2013	15,800
Lewis S. Stidham, <i>Outside Director</i>	1995	2013	19,400
Ronald R. Wetherington	1993	2011	17,000
			\$208,100

The following represents certain information regarding the directors of the Association, including their principal occupation and employment for the past five years. Unless specifically listed, the principal occupation of the board member for the past five years has been as a self-employed farmer.

**Al Bellotto, Chairman,** is a cattleman and citrus grower and serves on the boards of the Florida Cattleman's Association and the Polk County Cattleman's Association (Beef Promotion). His principal occupation and employment for the past 5 years was with Al Bellotto, Inc.

**David J. Stanford, Vice-Chairman,** is a citrus grower and now retired citrus processor and serves on the board of South Lake Apopka Citrus Growers Association (citrus cooperative).

**C. Dennis Carlton, Sr.** is a cattleman, citrus grower and real estate broker and serves on the boards of Valrico State Bank, Center State Bank & Agricultural Economic Development Council of Hillsborough County.

**L. Baylis Carnes, III** operates sand and gravel plants and is a timber and citrus producer and serves on the board of Standard Sand and Silica Company. His principal occupation for the past 5 years was with Standard Sand and Silica Company.

**W. Rex Clonts, Jr.** is a citrus grower and serves on the board of Florida Citrus Mutual and the Florida Fruit and Vegetable Association. His principal occupation and employment for the past 5 years was with Clonts Groves, Inc.

**Homer E. Hunnicutt, Jr.** is a cattleman and serves on the boards of SunTrust Bank – Nature Coast. His principal occupation and employment for the past 5 years was with Finest Farms.

**John S. Langford** is a citrus grower, citrus fruit dealer and real estate agent and serves on the boards of Community Southern Bank (Lakeland, FL), the Polk County Farm Bureau, and has served as Vice-Chairman of the Polk County Planning Commission. His principal occupation and employment for the past 5 years was with John Langford, Inc.

**Robert R. Roberson** is a nurseryman and serves on the board of Bank First (Apopka, FL). His principal occupation and employment for the past 5 years was with Rob-S Holdings LLC dba FFT Nursery in Zellwood, FL and with Lou Haubner Realty in Apopka, FL. He also owns Less Energy Systems LLC, an energy savings company.

**Lewis S. Stidham** is a former commercial banker from Citrus & Chemical Bank. His principal occupation for the past 5 years has been self-employment.

**Ronald R. Wetherington** is a strawberry and citrus grower and serves on the boards of the Hillsborough County Farm Bureau, Florida Farm Bureau Insurance Company, Florida Farm Bureau Federation, and Hillsborough County Law Enforcement Association. His principal occupation and employment for the past 5 years was with Wetherington Farms.

Subject to approval by the board, the Association may allow directors an annual retainer of \$3,000 to be paid monthly and honoraria of \$400 for attendance at meetings and committee meetings, \$300 for special assignments, \$200 for telephone conference calls and \$200 for travel days that include an overnight stay. Total compensation paid to directors as a group was \$208,100 for 2010. No director received more than \$5,000 in non-cash compensation during the year.

The following chart details the number of meetings, other activities and additional compensation paid for other activities (if applicable) for each director:

Name of Director	Days Served		Committee Assignments	Comp. Paid for Other Activities*
	Regular Board Meetings	Other Official Activities*		
Al Bellotto, <b>Chairman</b>	12	100	Executive, Compensation, Legislative	\$ 41,200
David J. Stanford, <b>Vice-Chairman</b>	12	79	Executive, Compensation, Risk Management	33,000
C. Dennis Carlton, Sr.	11	12	Risk Management, Legislative	7,400
L. Baylis Carnes, III	11	27	Compensation, Risk Management	13,000
W. Rex Clonts, Jr.	11	10	Audit, Legislative	6,400
Homer E. Hunnicutt, Jr.	12	30	Audit, Risk Management	13,700
John S. Langford	12	17	Audit, Risk Management	8,800
Robert R. Roberson	10	25	Audit, Legislative	11,800
Lewis S. Stidham	12	31	Audit, Risk Management	14,600
Ronald R. Wetherington	12	26	Audit, Legislative	12,200
				\$ 162,100

\* Includes board committee meetings and other board activities other than regular board meetings.

Directors are reimbursed on an actual cost basis for all expenses incurred in the performance of official duties. Such expenses may include transportation, lodging, meals, tips, tolls, parking of cars, laundry, registration fees, and other expenses associated with travel on official business. A copy of the policy is available to shareholders of the Association upon request.

The aggregate amount of reimbursement for travel, subsistence and other related expenses for all directors as a group was \$26,250 for 2010, \$52,402 for 2009 and \$69,756 for 2008.

**Transactions with Senior Officers and Directors**

The reporting entity’s policies on loans to and transactions with its officers and directors, to be disclosed in this section are incorporated herein by reference to Note 12 of the Consolidated Financial Statements, “*Related Party Transactions*,” included in this Annual Report. There have been no transactions between the Association and senior officers or directors which require reporting per FCA regulations.

**Involvement in Certain Legal Proceedings**

There were no matters which came to the attention of management or the board of directors regarding involvement of current directors or senior officers in specified legal proceedings which should be disclosed in this section. No directors or senior officers have been involved in any legal proceedings during the last five years which require reporting per FCA regulations.

**Relationship with Independent Auditor**

There were no changes in or material disagreements with our independent auditor on any matter of accounting principles or financial statement disclosure during this period.

Aggregate fees for services rendered by its independent auditor for the year ended December 31, 2010 were as follows:

	<u>2010</u>
<b>Independent Auditor</b>	
PricewaterhouseCoopers LLP	
Audit services	\$ 55,320
Total	<u>\$ 55,320</u>

PricewaterhouseCoopers audit fees were for the annual audit of and for rendering an opinion on the Association's Consolidated Financial Statements.

### Consolidated Financial Statements

The Consolidated Financial Statements, together with the report thereon of PricewaterhouseCoopers LLP dated March 14, 2011 and the report of management, which appear in this Annual Report are incorporated herein by reference.

Copies of the Association's Annual and Quarterly reports are available upon request free of charge by calling 1-800-533-2773 or writing D. Scott Fontenot, Chief Financial Officer, Farm Credit of Central Florida, ACA, P.O. Box 8009, Lakeland, FL 33802 or accessing the web site, [www.farmcreditfl.com](http://www.farmcreditfl.com). The Association prepares an electronic version of the Annual Report which is available on the Association's web site within 75 days after the end of the fiscal year and distributes the Annual Reports to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

### Borrower Information Regulations

Since 1972, Farm Credit Administration (FCA) regulations have required that borrower information be held in strict confidence by Farm Credit System (FCS) institutions, their directors, officers and employees. These regulations provide Farm Credit institutions clear guidelines for protecting their borrowers' nonpublic personal information.

On November 10, 1999, the FCA Board adopted a policy that requires FCS institutions to formally inform new borrowers at loan closing of the FCA regulations on releasing borrower information and to address this information in the Annual Report. The implementation of these measures ensures that new and existing borrowers are aware of the privacy protections afforded them through FCA regulations and Farm Credit System institution efforts.

### Credit and Services to Young, Beginning, and Small Farmers and Ranchers and Producers or Harvesters of Aquatic Products

Information to be disclosed in this section is incorporated herein by reference to the similarly named section in the Management's Discussion and Analysis of Financial Condition and Results of Operations section included in this Annual Report to the shareholders.

### Shareholder Investment

Shareholder investment in the Association could be affected by the financial condition and results of operations of AgFirst Farm Credit Bank (Bank or AgFirst). Copies of the Bank's Annual and Quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2832, or writing Susanne Caughman, AgFirst Farm Credit Bank, P. O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained by going to AgFirst's web site at [www.agfirst.com](http://www.agfirst.com). The Bank prepares an electronic version of the Annual Report, which is available on the website, within 75 days after the end of the fiscal year and distributes the Annual Reports to shareholders within 90 days after the end of the fiscal year. The Bank prepares an electronic version of the Quarterly report within 40 days after the end of each fiscal quarter, except that no report needs to be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Bank.

## *Report of the Audit Committee*

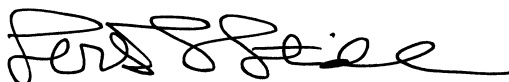
The Audit Committee of the Board of Directors (Committee) is comprised of the directors named below. None of the directors who serve on the Committee is an employee of Farm Credit of Central Florida, ACA and in the opinion of the Board of Directors, each is free of any relationship with the Association or management that would interfere with the director's independent judgment on the Committee.

The Committee has adopted a written charter that has been approved by the Board of Directors. The Committee has reviewed and discussed the Association's audited financial statements with management, which has primary responsibility for the financial statements.

PricewaterhouseCoopers LLP (PwC), the Association's independent auditor for 2010, is responsible for expressing an opinion on the conformity of the Association's audited financial statements with accounting principles generally accepted in the United States of America. The Committee has discussed with PwC the matters that are required to be discussed by Statement on Auditing Standards No. 114 (*The Auditor's Communication With Those Charged With Governance*). PwC has provided to the Committee the written disclosures and the letter required by Independence Standards Board Standard No. 1 (*Independence Discussions with Audit Committees*), and the Committee has discussed with PwC that firm's independence.

The Committee has also concluded that PwC's provision of non-audit services, if any, to the Association is compatible with PwC's independence.

Based on the considerations referred to above, the Committee recommended to the Board of Directors that the audited financial statements be included in the Association's Annual Report for 2010. The foregoing report is provided by the following independent directors, who constitute the Committee:



Lewis S. Stidham  
Chairman of the Audit Committee

### **Members of Audit Committee**

W. Rex Clonts, Jr.  
Homer E. Hunnicutt, Jr.  
John S. Langford  
Robert R. Roberson  
Ronald R. Wetherington

March 14, 2011

## *Report of Independent Auditors*



### Report of Independent Auditors

To the Board of Directors and Members  
of Farm Credit of Central Florida, ACA

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of changes in members' equity and of cash flows present fairly, in all material respects, the financial position of Farm Credit of Central Florida, ACA (the Association) and its subsidiaries at December 31, 2010, 2009 and 2008, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

*PricewaterhouseCoopers* LLP

March 14, 2011

*PricewaterhouseCoopers LLP, 10 Tenth Street, Suite 1400, Atlanta, GA 30309-3851  
T: (678) 419 1000, F: (678) 419 1239, www.pwc.com/us*

# Consolidated Balance Sheets

<i>(dollars in thousands)</i>	December 31, 2010	December 31, 2009	December 31, 2008
<b>Assets</b>			
Cash	\$ 13	\$ 61	\$ 36
Investment securities:			
Held to maturity (fair value of \$45,946, \$50,057 and \$50,540 respectively)	45,476	49,648	50,376
Loans	376,001	370,775	422,431
Less: allowance for loan losses	4,426	5,959	5,243
Net loans	371,575	364,816	417,188
Loans held for sale	—	149	—
Accrued interest receivable	1,735	1,819	2,624
Investments in other Farm Credit institutions	13,348	16,225	14,043
Premises and equipment, net	870	998	1,032
Other property owned	6,806	2,026	504
Due from AgFirst Farm Credit Bank	6,980	4,942	6,017
Other assets	4,890	5,100	5,128
Total assets	\$ 451,693	\$ 445,784	\$ 496,948
<b>Liabilities</b>			
Notes payable to AgFirst Farm Credit Bank	\$ 369,260	\$ 363,528	\$ 412,134
Accrued interest payable	724	768	1,253
Patronage refund payable	29	34	2,648
Other liabilities	4,196	4,660	4,574
Total liabilities	374,209	368,990	420,609
Commitments and contingencies			
<b>Members' Equity</b>			
Protected borrower stock	19	33	39
Capital stock and participation certificates	1,110	1,213	1,259
Retained earnings			
Allocated	33,183	33,183	34,758
Unallocated	43,153	42,338	40,252
Accumulated other comprehensive income (loss)	19	27	31
Total members' equity	77,484	76,794	76,339
Total liabilities and members' equity	\$ 451,693	\$ 445,784	\$ 496,948

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

# Consolidated Statements of Income

<i>(dollars in thousands)</i>	For the year ended December 31,		
	2010	2009	2008
<b>Interest Income</b>			
Investment securities	\$ 871	\$ 945	\$ 1,441
Loans	16,854	19,353	26,162
Total interest income	17,725	20,298	27,603
<b>Interest Expense</b>			
Notes payable to AgFirst Farm Credit Bank	8,706	10,782	17,100
Net interest income	9,019	9,516	10,503
Provision for loan losses	8,817	7,415	3,975
Net interest income after provision for loan losses	202	2,101	6,528
<b>Noninterest Income</b>			
Loan fees	662	911	1,049
Fees for financially related services	246	456	440
Patronage refund from other Farm Credit institutions	7,500	5,286	6,398
Gains (losses) on other property owned, net	(1,158)	(81)	(348)
Gains (losses) on sales of rural home loans, net	197	216	185
Insurance Fund refund	428	—	—
Other noninterest income	98	143	85
Total noninterest income	7,973	6,931	7,809
<b>Noninterest Expense</b>			
Salaries and employee benefits	5,018	5,085	4,516
Occupancy and equipment	685	702	683
Insurance Fund premiums	179	640	554
Other operating expenses	1,396	1,446	1,628
Total noninterest expense	7,278	7,873	7,381
Income before income taxes	897	1,159	6,956
Provision for income taxes	—	—	—
Net income	\$ 897	\$ 1,159	\$ 6,956

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

## Consolidated Statements of Changes in Members' Equity

<i>(dollars in thousands)</i>	Protected Borrower Stock	Capital Stock and Participation Certificates	Retained Earnings		Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
			Allocated	Unallocated		
Balance at December 31, 2007	\$ 64	\$ 1,267	\$33,511	\$ 39,214	\$ (303)	\$ 73,753
Comprehensive income						
Net income				6,956		6,956
Employee benefit plans adjustments (Note 11)				(25)	334	309
Total comprehensive income						7,265
Protected borrower stock retired	(25)					(25)
Capital stock/participation certificates issued/(retired), net		(8)				(8)
Patronage distribution						
Cash				(2,619)		(2,619)
Qualified allocated retained earnings			2,690	(2,690)		—
Nonqualified allocated retained earnings			899	(899)		—
Retained earnings retired			(2,178)			(2,178)
Patronage distribution adjustment			(164)	315		151
Balance at December 31, 2008	39	1,259	34,758	40,252	31	76,339
Comprehensive income						
Net income				1,159		1,159
Employee benefit plans adjustments (Note 11)					(4)	(4)
Total comprehensive income						1,155
Protected borrower stock retired	(6)					(6)
Capital stock/participation certificates issued/(retired), net		(46)				(46)
Retained earnings retired			(1,142)			(1,142)
Patronage distribution adjustment			(433)	927		494
Balance at December 31, 2009	33	1,213	33,183	42,338	27	76,794
Comprehensive income						
Net income				897		897
Employee benefit plans adjustments (Note 11)					(8)	(8)
Total comprehensive income						889
Protected borrower stock retired	(14)					(14)
Capital stock/participation certificates issued/(retired), net		(103)				(103)
Patronage distribution adjustment				(82)		(82)
Balance at December 31, 2010	\$ 19	\$ 1,110	\$33,183	\$ 43,153	\$ 19	\$ 77,484

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

# Consolidated Statements of Cash Flows

<i>(dollars in thousands)</i>	For the year ended December 31,		
	2010	2009	2008
<b>Cash flows from operating activities:</b>			
Net income	\$ 897	\$ 1,159	\$ 6,956
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation on premises and equipment	182	199	172
Amortization (accretion) of net deferred loan origination costs (fees)	54	(12)	(225)
Premium amortization (discount accretion) on investments	759	783	627
Provision for (reversal of allowance for) loan losses	8,817	7,415	3,975
(Gains) losses on other property owned, net	1,158	81	348
Changes in operating assets and liabilities:			
(Increase) decrease in loans held for sale, net	149	(149)	—
(Increase) decrease in accrued interest receivable	84	805	75
(Increase) decrease in due from AgFirst Farm Credit Bank	(2,038)	1,075	1,343
(Increase) decrease in other assets	210	28	(646)
Increase (decrease) in accrued interest payable	(44)	(485)	(435)
Increase (decrease) in other liabilities	(472)	82	(1,335)
Total adjustments	8,859	9,822	3,899
Net cash provided by (used in) operating activities	9,756	10,981	10,855
<b>Cash flows from investing activities:</b>			
Purchases of investment securities, held to maturity	(6,004)	(10,565)	(28,119)
Proceeds from maturities of or principal payments received on investment securities, held to maturity	9,417	10,510	7,363
Net (increase) decrease in loans	(23,562)	43,353	(53,238)
(Increase) decrease in investment in other Farm Credit institutions	2,877	(2,182)	1,071
Purchases of premises and equipment	(54)	(165)	(205)
Proceeds from sales of other property owned	1,994	13	514
Net cash provided by (used in) investing activities	(15,332)	40,964	(72,614)
<b>Cash flows from financing activities:</b>			
Advances on (repayment of) notes payable to AgFirst Farm Credit Bank, net	5,732	(48,606)	68,457
Protected borrower stock retired	(14)	(6)	(25)
Capital stock and participation certificates issued/(retired), net	(103)	(46)	(8)
Patronage refunds and dividends paid	(87)	(2,120)	(4,523)
Retained earnings retired	—	(1,142)	(2,178)
Net cash provided by (used in) financing activities	5,528	(51,920)	61,723
Net increase (decrease) in cash	(48)	25	(36)
Cash, beginning of period	61	36	72
Cash, end of period	\$ 13	\$ 61	\$ 36
<b>Supplemental schedule of non-cash activities:</b>			
Loans transferred to other property owned	\$ 7,932	\$ 1,616	\$ 305
Cash dividends or patronage distributions declared or payable	—	—	2,619
Employee benefit plans adjustments (Note 11)	8	4	(309)
<b>Supplemental information:</b>			
Interest paid	8,750	11,267	17,535

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

# Notes to the Consolidated Financial Statements

(dollars in thousands, except as noted)

## Note 1 — Organization and Operations

A. **Organization:** Farm Credit of Central Florida, ACA (the Association or ACA) is a member-owned cooperative which provides credit and credit-related services to or for the benefit of eligible borrowers/shareholders for qualified purposes in the counties of Brevard, Citrus, Hernando, Hillsborough, Lake, Orange, Osceola, Pasco, Pinellas, Polk, Seminole, Sumter, and Volusia in the state of Florida.

The Association is a lending institution of the Farm Credit System (System), a nationwide system of cooperatively owned banks and associations, which was established by Acts of Congress to meet the credit needs of American agriculture and is subject to the provisions of the Farm Credit Act of 1971, as amended (Farm Credit Act). The most recent significant amendment to the Farm Credit Act was the Agricultural Credit Act of 1987. At December 31, 2010, the System was comprised of four Farm Credit Banks, one Agricultural Credit Bank and eighty-six associations.

AgFirst Farm Credit Bank (Bank) and its related associations are collectively referred to as the "District." The Bank provides funding to associations within the District and is responsible for supervising certain activities of the Association, as well as the other associations operating within the District. The District consists of the Bank and twenty-two Agricultural Credit Associations (ACAs), all of which are structured as ACA parent-companies, which have two wholly owned subsidiaries, a Federal Land Credit Association (FLCA) and a Production Credit Association (PCA). FLCA's are tax-exempt while ACAs and PCAs are taxable.

ACA parent-companies provide financing and related services through its FLCA and PCA subsidiaries. The FLCA makes collateralized long-term agricultural real estate and rural home mortgage loans. The PCA makes short- and intermediate-term loans for agricultural production or operating purposes; however, the Association is operating its short- and intermediate-term business through the ACA instead of the PCA.

The Farm Credit Administration (FCA) is delegated authority by Congress to regulate the System banks and associations. The FCA examines the activities of the associations and certain actions by the associations are subject to the prior approval of the FCA and the supervising bank.

The Farm Credit Act established the Farm Credit System Insurance Corporation (Insurance Corporation) to administer the Farm Credit Insurance Fund (Insurance Fund). The Insurance Fund is required to be used (1) to ensure the timely payment of principal and interest on Systemwide debt obligations (Insured debt), (2) to ensure the retirement of protected borrower capital at par or stated value, and (3) for other specified purposes. The Insurance Fund is also available for discretionary uses by the

Insurance Corporation to provide assistance to certain troubled System institutions and to cover the operating expenses of the Insurance Corporation. Each System bank has been required to pay premiums, which may be passed on to the Association, into the Insurance Fund, based on its annual average adjusted outstanding insured debt until the assets in the Insurance Fund reach the "secure base amount." The secure base amount is defined in the Farm Credit Act as 2.0 percent of the aggregate insured obligations (adjusted to reflect the reduced risk on loans or investments guaranteed by federal or state governments) or such other percentage of the aggregate obligations as the Insurance Corporation in its sole discretion determines to be actuarially sound. When the amount in the Insurance Fund exceeds the secure base amount, the Insurance Corporation is required to reduce premiums, but it still must ensure that reduced premiums are sufficient to maintain the level of the Insurance Fund at the secure base amount.

B. **Operations:** The Farm Credit Act sets forth the types of authorized lending activity, persons eligible to borrow, and financial services which can be offered by the Association. The Association is authorized to provide, either directly or in participation with other lenders, credit, credit commitments and related services to eligible borrowers. Eligible borrowers include farmers, ranchers, producers or harvesters of aquatic products, rural residents, and farm-related businesses.

The Association may sell to any System borrowing member, on an optional basis, credit or term life insurance appropriate to protect the loan commitment in the event of death of the debtor(s). The sale of other insurance necessary to protect a member's farm or aquatic unit is permitted, but limited to hail and multi-peril crop insurance, and insurance necessary to protect the facilities and equipment of aquatic borrowers.

## Note 2 — Summary of Significant Accounting Policies

The accounting and reporting policies of the Association conform with accounting principles generally accepted in the United States of America (GAAP) and prevailing practices within the banking industry. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the Consolidated Financial Statements and accompanying notes. Significant estimates are discussed in these footnotes, as applicable. Actual results may differ from these estimates.

Certain amounts in prior years' financial statements may have been reclassified to conform to the current year's presentation. Such reclassifications had no effect on net income or total members' equity of prior years. The Consolidated Financial Statements include the accounts of the FLCA and the PCA. All

significant inter-company transactions have been eliminated in consolidation.

- A. **Cash:** Cash, as included in the statements of cash flows, represents cash on hand and on deposit at banks.
- B. **Investment Securities:** The Association, as permitted under the FCA regulations, holds investments for purposes of maintaining a liquidity reserve, managing short-term surplus funds and managing interest rate risk. The Association's investments are classified as held-to-maturity and accordingly have been reported at amortized cost. Purchase premiums and discounts are amortized or accreted ratably over the term of the respective security which approximates the effective interest method.

The Association may also hold additional investments in accordance with mission-related investment and other investment programs approved by the Farm Credit Administration. These programs allow the Association to make investments that further the System's mission to serve rural America. Mortgage-backed securities issued by Farmer Mac are considered other investments. Mission-related investments for which the Association has the intent and ability to hold to maturity are classified as held-to-maturity and carried at cost, adjusted for the amortization of premiums and accretion of discounts. Farmer Mac investments are classified either as held-to-maturity or available-for-sale depending on the institution's ability and intent to hold the investment to maturity.

The Association reviews all investments that are in a loss position in order to determine whether the unrealized loss, which is considered an impairment, is temporary or other-than-temporary. In the event of other-than-temporary impairment, the carrying value of the security would be written down to fair value, the credit-related loss would be included in earnings in the period of impairment and the non-credit related portion would be recognized in other comprehensive income. Credit related loss is defined as the shortfall of the present value of the cash flows expected to be collected in relation to the amortized cost basis.

- C. **Loans and Allowance for Loan Losses:** Long-term real estate mortgage loans generally have original maturities ranging from 5 to 40 years. Substantially all short- and intermediate-term loans for agricultural production or operating purposes have maturities of 10 years or less. Loans are carried at their principal amount outstanding adjusted for charge-offs and deferred loan fees or costs.

Loans are generally placed in nonaccrual status when principal or interest is delinquent for 90 days (unless adequately collateralized and in the process of collection) or circumstances indicate that collection of principal and/or interest is in doubt. When a loan is placed in nonaccrual status, accrued interest deemed uncollectible is reversed (if accrued in the current year) or charged against the allowance for loan losses (if accrued in the prior year).

When loans are in nonaccrual status, the interest portion of payments received in cash is recognized as interest income if collection of the recorded investment in the loan is fully expected and the loan does not have a remaining unrecovered

prior charge-off associated with it. Otherwise, loan payments are applied against the recorded investment in the loan. Nonaccrual loans may be returned to accrual status when principal and interest are current, prior charge-offs have been recovered, the ability of the borrower to fulfill the contractual repayment terms is fully expected and the loan is not classified "doubtful" or "loss."

Loans are charged-off, wholly or partially, as appropriate, at the time they are determined to be uncollectible.

In cases where a borrower experiences financial difficulties and the Association makes certain monetary concessions to the borrower through modifications to the contractual terms of the loan, the loan is classified as a restructured loan. If the borrower's ability to meet the revised payment schedule is uncertain, the loan is classified as a nonaccrual loan.

Loan origination fees and direct loan origination costs are deferred as part of the carrying amount of the loan and the net fee or cost is amortized over the life of the related loan as an adjustment to interest income using the effective interest method.

The allowance for loan losses is a valuation account used to reasonably estimate loan and lease losses existing as of the financial statement date. Determining the appropriate allowance for loan losses balance involves significant judgment about when a loss has been incurred and the amount of that loss.

The Association uses a two-dimensional loan rating model based on an internally generated combined system risk rating guidance that incorporates a 14-point risk-rating scale to identify and track the probability of borrower default and a separate scale addressing loss given default over a period of time. Probability of default is the probability that a borrower will experience a default within 12 months from the date of the determination of the risk rating. A default is considered to have occurred if the lender believes the borrower will not be able to pay its obligation in full or the borrower is past due more than 90 days. The loss given default is management's estimate as to the anticipated economic loss on a specific loan assuming default has occurred or is expected to occur within the next 12 months.

Each of the probability of default categories carries a distinct percentage of default probability. The 14-point risk rating scale provides for granularity of the probability of default, especially in the acceptable ratings. There are nine acceptable categories that range from a borrower of the highest quality to a borrower of minimally acceptable quality. The probability of default between 1 and 9 is very narrow and would reflect almost no default to a minimal default percentage. The probability of default grows more rapidly as a loan moves from a "9" to other assets especially mentioned and grows significantly as a loan moves to a substandard (viable) level. A substandard (non-viable) rating indicates that the probability of default is almost certain.

The credit risk rating methodology is a key component of the Association's allowance for loan losses evaluation, and is generally incorporated into the institution's loan underwriting

standards and internal lending limit. The allowance for loan losses is based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including current production and economic conditions, loan portfolio composition, collateral value, portfolio quality, and prior loan loss experience. It is based on estimates, appraisals and evaluations of loans which, by their nature, contain elements of uncertainty and imprecision. The possibility exists that changes in the economy and its impact on borrower repayment capacity will cause these estimates, appraisals and evaluations to change.

The level of allowance for loan losses is generally based on recent charge-off experience adjusted for relevant environmental factors. The Association considers the following factors when adjusting the historical charge-offs experience:

- Changes in credit risk classifications,
- Changes in collateral values,
- Changes in risk concentrations,
- Changes in weather related conditions, and
- Changes in economic conditions.

Impaired loans are loans for which it is probable that not all principal and interest will be collected according to the contractual terms of the loan. Impaired loans include nonaccrual loans, restructured loans, and could include loans past due 90 days or more and still accruing interest. A loan is considered contractually past due when any principal repayment or interest payment required by the loan instrument is not received on or before the due date. A loan shall remain contractually past due until it is formally restructured or until the entire amount past due, including principal, accrued interest, and penalty interest incurred as the result of past due status, is collected or otherwise discharged in full.

A specific allowance may be established for impaired loans under Financial Accounting Standards Board (FASB) guidance on accounting by creditors for impairment of a loan. Impairment of these loans is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as practically expedient, at the loan's observable market price or fair value of the collateral if the loan is collateral dependent.

A general allowance may also be established under FASB guidance on accounting for contingencies, to reflect estimated probable credit losses inherent in the remainder of the loan portfolio which excludes impaired loans considered under the specific allowance discussed above. A general allowance can be evaluated on a pool basis for those loans with similar characteristics. The level of the general allowance may be based on management's best estimate of the likelihood of default adjusted for other relevant factors reflecting the current environment.

The allowance for loan losses is maintained at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through allowance for loan losses reversals and loan charge-offs.

- D. Gains/(Losses) on Rural Home Loans Held for Sale:** Certain rural home mortgage loans originated by the Association are sold on a servicing released basis primarily to the Bank or into the secondary market to unrelated third parties. Gains or losses on sales of rural home mortgage loans are recognized based on the difference between the selling price and the carrying value of the related rural home mortgage loans sold.
- E. Investment in AgFirst Farm Credit Bank and Other Farm Credit Institutions:** The Association is required to maintain ownership in the Bank in the form of Class B and Class C stock. Accounting for this investment is on the cost plus allocated equities basis. Patronage refunds from the Bank are accrued as earned. The receivable for such patronage refunds is classified as due from AgFirst Farm Credit Bank.
- F. Other Property Owned:** Other property owned, consisting of real and personal property acquired through a collection action, is recorded upon acquisition at fair value less estimated selling costs. Revised estimates to the fair value less cost to sell are reported as adjustments to the carrying amount of the asset, provided that such adjusted value is not in excess of the carrying amount at acquisition. Income, expenses, and carrying value adjustments related to other property owned are included in gains (losses) on other property owned, net.
- G. Premises and Equipment:** Premises and equipment are carried at cost less accumulated depreciation. Land is carried at cost. Depreciation is provided on the straight-line method over the estimated useful lives of the assets. Useful life ranges from 3 to 10 years for furniture, equipment, and automobiles and up to 40 years for buildings and leasehold improvements. Gains and losses on dispositions are reflected in current earnings. Maintenance and repairs are charged to expense and improvements are capitalized.
- H. Advanced Conditional Payments:** The Association is authorized under the Farm Credit Act to accept advance payments from borrowers. To the extent the borrower's access to such advance payments is restricted, the advanced conditional payments are netted against the borrower's related loan balance. Amounts in excess of the related loan balance and amounts to which the borrower has unrestricted access are presented as interest-bearing liabilities in the accompanying Consolidated Balance Sheets. Advanced conditional payments are not insured. Interest is generally paid by the Association on such accounts.
- I. Employee Benefit Plans:** Substantially all employees of the Association may participate in either the AgFirst Farm Credit Final Average Pay Retirement Plan or the AgFirst Farm Credit Cash Balance Plan (collectively referred to as the "Plans"), which are defined benefit plans and considered multi-employer plans. These two Plans are noncontributory and include eligible District employees. The "Projected Unit Credit" actuarial method is used for financial reporting purposes. The actuarially-determined costs of these Plans are allocated to each participating entity, including the Association, by multiplying the Plans' net pension expense by each institution's eligible service cost and accumulated benefit obligation as a percentage of the total eligible

service cost and total accumulated benefit obligation for all Plans' participants.

Substantially all employees of the Association may also be eligible to participate in a defined contribution Districtwide 401(k) plan, which qualifies as a 401(k) plan as defined by the Internal Revenue Code. For employees hired on or prior to December 31, 2002, the Association contributes \$.50 for each \$1.00 of the maximum employee contribution of 6 percent of total compensation. For employees hired on or after January 1, 2003, the Association contributes \$1.00 for each \$1.00 of the maximum employee contribution of 6 percent of total compensation. Employee deferrals are not to exceed the maximum deferral as adjusted by the Internal Revenue Service. 401(k) plan costs are expensed as funded.

The Association may provide certain health care and life insurance benefits to eligible retired employees. Substantially all employees may become eligible for these benefits if they reach early retirement age while working for the Association. Authoritative accounting guidance requires the accrual of the expected cost of providing these benefits to an employee and an employee's beneficiaries and covered dependents during the years that the employee renders service necessary to become eligible for these benefits.

The Association also sponsors a single employer supplemental retirement plan for certain key employees. The plans are nonqualified; therefore, the associated liabilities are included in the Association's Consolidated Balance Sheets in other liabilities. See Note 11 for the impact of FASB guidance on employers' accounting for defined benefit pension and other postretirement plans for the current period for the defined benefit supplemental retirement plan.

- J. **Income Taxes:** The Association is generally subject to Federal and certain other income taxes. As previously described, the ACA holding company has two wholly-owned subsidiaries, a PCA and a FLCA. The FLCA subsidiary is exempt from federal and state income taxes as provided in the Farm Credit Act. The ACA holding company and the PCA subsidiary are subject to federal, state and certain other income taxes.

The Association is eligible to operate as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, the Association can exclude from taxable income amounts distributed as qualified patronage refunds in the form of cash, stock or allocated surplus. Provisions for income taxes are made only on those taxable earnings that will not be distributed as qualified patronage refunds. The Association distributes patronage on the basis of book income.

The Association accounts for income taxes under the asset and liability method, recognizing deferred tax assets and liabilities for the expected future tax consequences of the temporary differences between the carrying amounts and tax bases of assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be realized or settled.

The Association records a valuation allowance at the balance sheet dates against that portion of the Association's deferred tax assets that based on management's best estimates of future events and circumstances, more likely than not (a likelihood of more than 50 percent) will not be realized. The consideration of valuation allowances involves various estimates and assumptions as to future taxable earnings, including the effects of our expected patronage program, which reduces taxable earnings.

- K. **Patronage Refund from AgFirst and Other Financial Institutions:** The Association records patronage refunds from the Bank and certain District Associations on an accrual basis.
- L. **Fair Value Measurement:** Effective January 1, 2008, the Association adopted FASB guidance on fair value measurements. This guidance defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability. This guidance also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. It describes three levels of inputs that may be used to measure fair value as discussed in Note 14.
- M. **Recently Issued Accounting Pronouncements:** The Financial Accounting Standards Board (FASB) issued guidance "Accounting for Transfers of Financial Assets," which amended previous guidance by improving the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement, if any, in transferred financial assets.

This guidance was effective January 1, 2010. This guidance must be applied to transfers occurring on or after the effective date. Additionally, the concept of a qualifying special purpose entity is no longer relevant for accounting purposes. Therefore, formerly qualifying special-purpose entities (as defined under previous accounting guidance) should be evaluated for consolidation by reporting entities on and after the effective date in accordance with the applicable consolidation guidance. If the evaluation on the effective date results in consolidation, the reporting entity should apply the transition guidance that requires consolidation. The Association evaluated the impact of adoption on its loan participation agreements to ensure that loan participations would meet the requirements for sales treatment. The impact of adoption on January 1, 2010 was immaterial to the Association's financial condition and results of operations.

In June 2009, the FASB also issued guidance to improve financial reporting for those enterprises involved with variable interest entities, which amends previous guidance by requiring an enterprise to perform an analysis to determine whether the enterprise's variable interest or

interests give it a controlling financial interest in a variable interest entity. Additionally, an enterprise is required to assess whether it has an implicit financial responsibility to ensure that a variable interest entity operates as designed when determining whether it has the power to direct the activities of the variable interest entity that most significantly impact the entity's economic performance. This guidance was effective January 1, 2010. The Association does not have any variable interest or controlling interest in a variable entity. Therefore, there was no impact of adoption of the guidance for the Association.

Effective January 1, 2010, the Association adopted FASB guidance "Fair Value Measurements and Disclosures," which is intended to improve disclosures about fair value measurement by increasing transparency in financial reporting. The changes provide a greater level of disaggregated information and more detailed disclosures of valuation techniques and inputs to fair value measurement. The new disclosures and clarification of existing disclosures were effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the rollforward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The adoption of this guidance had no impact on the Association's financial condition and results of operations but resulted in additional disclosures (see Note 14).

In July 2010, the FASB issued guidance on "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses." This guidance provides additional information to assist financial statement users in assessing an entity's credit risk exposures and evaluating the adequacy of its allowance for credit losses. Existing disclosures were amended to include additional disclosures of financing receivables on both a portfolio segment and class of financing receivable basis. This includes a rollforward schedule of the allowance for credit losses from the beginning of the reporting period to the end of the period on a portfolio segment basis, with the ending balance further disclosed on the basis of the method of impairment (individually or collectively evaluated). The guidance also calls for new disclosures including but not limited to credit quality indicators at the end of the reporting period by class of financing receivables, the aging of past due financing receivables, nature and extent of financing receivables modified as troubled debt restructurings by class and the effect on the allowance for credit losses. For public entities, the disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. The adoption of this guidance should have no impact on the Association's financial condition or results of operations, but it will result in additional disclosures.

### Note 3 — Investment Securities

A summary of the amortized cost and fair value of investment securities held-to-maturity at December 31, 2010, 2009 and 2008 follows:

	December 31, 2010				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Asset backed securities	\$ 45,476	\$ 530	\$ (60)	\$ 45,946	1.82%

	December 31, 2009				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Asset backed securities	\$ 49,648	\$ 490	\$ (81)	\$ 50,057	1.87%

	December 31, 2008				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Asset backed securities	\$ 50,376	\$ 315	\$ (151)	\$ 50,540	3.64%

A summary of the expected maturity, amortized cost and estimated fair value of investment securities held-to-maturity at December 31, 2010 follows:

	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	\$ 33	\$ 33	1.46%
After one year through five years	1,738	1,771	1.37
After five years through ten years	31,382	31,785	1.90
After ten years	12,323	12,357	1.67
Total	\$ 45,476	\$ 45,946	1.82%

The Association's investments consist of asset-backed securities (ABSs). These ABSs are rated AAA and they are guaranteed by the full faith and credit of the United States government. Asset-backed securities are held for managing short-term surplus funds and managing interest rate risk. These securities must meet the applicable Farm Credit Administration (FCA) regulatory guidelines, which require these securities to be high quality, senior class, and rated AAA at the time of purchase. To achieve the ratings, these securities have a guarantee of timely payment of principal and interest or credit enhancement achieved through over collateralization and the priority of payments of senior classes over junior classes. The FCA considers an asset-backed security investment ineligible if it falls below the AAA credit rating criteria and requires System institutions to divest of such an investment unless approval is granted to continue to hold by the FCA. All of the Association's asset-backed securities at December 31, 2010 are considered eligible under FCA regulatory guidelines.

An investment is considered impaired if its fair value is less than its cost. A continuous unrealized loss position for an investment is based on the date the impairment was first identified. The following table shows the fair value and gross unrealized losses for investments that were in a continuous unrealized loss position aggregated by investment category at December 31, 2010, 2009 and 2008:

	December 31, 2010			
	Less than 12 Months		Greater than 12 Months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Asset-backed securities	\$ 1,885	\$ (11)	\$ 1,369	\$ (49)

	December 31, 2009			
	Less than 12 Months		Greater than 12 Months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Asset-backed securities	\$ -	\$ -	\$ 2,837	\$ (81)

	December 31, 2008			
	Less than 12 Months		Greater than 12 Months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Asset-backed securities	\$ 1,029	\$ 3	\$ 5,670	\$ 148

The Association performs periodic credit reviews, including other-than-temporary impairment analyses, on its investment securities portfolio. The objective is to quantify any future possible loss of principal or interest due on each security identified for additional analysis. Factors considered in determining whether an impairment is other-than-temporary include among others as applicable: 1) the length of time and the extent to which the fair value is less than cost, 2) adverse conditions specifically related to the industry, 3) geographic area and the condition of the underlying collateral, 4) payment structure of the security, 5) ratings by rating agencies, 6) the credit worthiness of bond insurers, and 7) volatility of the fair value changes. Based on the results of all analyses, the Association has not recognized any other-than-temporary impairment as the unrealized losses resulted primarily from reduced liquidity in the securities markets stemming from general adversity in the financial markets. The Association has the ability and intent to hold these investments until a recovery of unrealized losses occurs, which may be at maturity, and at this time expects to collect the full principal amount and interest due on these securities, especially after considering credit enhancements. The Association does not intend to sell these investments and it is not more likely than not that the Association would be required to sell these investments before recovering its costs. Substantially all of these investments were in U. S. government agency securities and the Association expects these securities would not be settled at a price less than their amortized cost. All securities continue to perform.

**Note 4 — Loans and Allowance for Loan Losses**

A summary of loans follows:

<i>(dollars in thousands)</i>	December 31,		
	2010	2009	2008
Real estate mortgage	\$ 135,214	\$ 140,205	\$ 201,237
Production and intermediate-term Agribusiness	175,070	157,556	167,294
Loans to cooperatives	18,711	22,063	-
Processing and marketing	5,933	14,145	17,106
Farm-related business	17,270	6,433	4,133
Total agribusiness	41,914	42,641	21,239
Energy	2,969	3,169	3,359
Rural residential real estate	20,834	27,204	29,302
Total Loans	\$ 376,001	\$ 370,775	\$ 422,431

A substantial portion of the Association’s lending activities is collateralized and the Association’s exposure to credit loss associated with lending activities is reduced accordingly. An estimate of the Association’s credit risk exposure is considered in the determination of the allowance for loan losses.

The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management’s credit evaluation of the borrower. Collateral held varies, but typically includes farmland and income-producing property, such as crops and livestock, as well as receivables. Long-term real estate loans are collateralized by the first liens on the underlying real property. Federal regulations state that long-term real estate loans are not to exceed 85 percent (97 percent if guaranteed by a government agency) of the property’s appraised value. However, a decline in a property’s market value subsequent to loan origination or advances, or other actions necessary to protect the financial interest of the Association in the collateral, may result in the loan to value ratios in excess of the regulatory maximum.

The Association may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume, and comply with Farm Credit Administration regulations. The following table presents participations purchased and sold balances at December 31, 2010:

	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
<i>(dollars in thousands)</i>								
Real estate mortgage	\$ -	\$ 81,750	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 81,750
Production and intermediate term	18,318	256,485	-	-	-	-	18,318	256,485
Agribusiness								
Loans to cooperatives	1,008	8,673	-	-	-	-	1,008	8,673
Processing and marketing	4,940	6,995	-	-	-	-	4,940	6,995
Farm-related business	-	2,324	-	-	-	-	-	2,324
Total agribusiness	5,948	17,992	-	-	-	-	5,948	17,992
Energy	2,969	-	-	-	-	-	2,969	-
Total	\$ 27,235	\$ 356,227	\$ -	\$ -	\$ -	\$ -	\$ 27,235	\$ 356,227

A significant source of liquidity for the Association is the repayments and maturities of loans. The following table presents the contractual maturity distribution of loans by loan type at December 31, 2010 and indicates that approximately 28.06 percent of loans had maturities of one year or less:

<i>(dollars in thousands)</i>	Due less than 1 year	Due 1 Through 5 years	Due after 5 years	Total
Real estate mortgage	\$ 15,653	\$ 42,038	\$ 77,523	\$ 135,214
Production and intermediate term	70,983	75,524	28,563	175,070
Agribusiness				
Loans to cooperatives	5,618	8,181	4,912	18,711
Processing and marketing	4,395	1,225	313	5,933
Farm-related business	1,506	10,743	5,021	17,270
Total agribusiness	11,519	20,149	10,246	41,914
Energy	2,969	-	-	2,969
Rural residential real estate	4,394	4,611	11,829	20,834
Total Loans	\$ 105,518	\$ 142,322	\$ 128,161	\$ 376,001

The following table shows loans and related accrued interest classified under the Farm Credit Administration Uniform Loan Classification System as a percentage of total loans and related accrued interest receivable by loan type as of December 31, 2010, 2009, and 2008:

	2010	2009	2008		2010	2009	2008
<b>Real estate mortgage:</b>				<b>Farm-related business</b>			
Acceptable	77.31%	80.57%	92.91%	Acceptable	84.35%	84.33%	99.68%
OAEM	7.10	9.41	2.95	OAEM	9.85	13.33	0.32
Substandard/doubtful/loss	15.59	10.02	4.14	Substandard/doubtful/loss	5.80	2.34	-
	100.00%	100.00%	100.00%		100.00%	100.00%	100.00%
<b>Production and intermediate-term:</b>				<b>Total agribusiness</b>			
Acceptable	75.53%	71.47%	89.91%	Acceptable	88.98%	89.12%	99.94%
OAEM	14.95	13.60	5.87	OAEM	8.20	4.23	0.06
Substandard/doubtful/loss	9.52	14.93	4.22	Substandard/doubtful/loss	2.82	6.65	-
	100.00%	100.00%	100.00%		100.00%	100.00%	100.00%
<b>Agribusiness:</b>				<b>Energy and water/waste disposal:</b>			
<b>Loans to cooperatives:</b>				Acceptable	100.00%	100.00%	100.00%
Acceptable	92.71%	88.21%	100.00%	OAEM	-	-	-
OAEM	6.33	4.29	-	Substandard/doubtful/loss	-	-	-
Substandard/doubtful/loss	0.96	7.50	-		100.00%	100.00%	100.00%
	100.00%	100.00%	100.00%	<b>Rural residential real estate:</b>			
<b>Processing and marketing</b>				Acceptable	70.68%	81.53%	90.57%
Acceptable	90.72%	92.71%	100.00%	OAEM	4.44	6.77	2.33
OAEM	9.28	-	-	Substandard/doubtful/loss	24.88	11.70	7.10
Substandard/doubtful/loss	-	7.29	-		100.00%	100.00%	100.00%
	100.00%	100.00%	100.00%	<b>Total Loans:</b>			
				Acceptable	77.60%	77.92%	91.97%
				OAEM	10.67	10.32	3.90
				Substandard/doubtful/loss	11.73	11.76	4.13
					100.00%	100.00%	100.00%

The following table provides an age analysis of past due loans and related accrued interest as of December 31, 2010:

<i>(dollars in thousands)</i>	<b>30 Through 89 Days Past Due</b>	<b>90 Days or More Past Due</b>	<b>Total Past Due</b>	<b>Not Past Due or Less Than 30 Days Past Due</b>	<b>Total Loans</b>	<b>Recorded Investment 90 Days or More Past Due and Accruing Interest</b>
Real estate mortgage	\$ 1,993	\$ 5,354	\$ 7,347	\$ 128,457	\$ 135,804	\$ -
Production and intermediate-term	6,024	5,024	11,048	164,605	175,653	-
Agribusiness						
Loans to cooperatives	-	-	-	18,835	18,835	-
Processing and marketing	-	-	-	5,948	5,948	-
Farm-related business	-	41	41	17,312	17,353	-
Total agribusiness	-	41	41	42,095	42,136	-
Energy and water/waste disposal	-	-	-	2,969	2,969	-
Rural residential real estate	275	1,505	1,780	19,135	20,915	-
Total	<u>\$ 8,292</u>	<u>\$ 11,924</u>	<u>\$ 20,216</u>	<u>\$ 357,261</u>	<u>\$ 377,477</u>	<u>\$ -</u>

The recorded investment in the receivable is the face amount increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, or acquisition costs and may also reflect a previous direct write-down of the investment.

Nonperforming assets (including related accrued interest) and related credit quality statistics are as follows:

<i>(dollars in thousands)</i>	<b>December 31,</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>
<b>Nonaccrual loans:</b>			
Real estate mortgage	\$ 7,375	\$ 8,463	\$ 6,997
Production and intermediate-term	13,981	19,307	3,223
Agribusiness			
Loans to cooperatives	-	1,482	-
Farm-related business	41	151	-
Total agribusiness	41	1,633	-
Rural residential real estate	2,513	2,457	1,743
Total nonaccrual loans	<u>\$ 23,910</u>	<u>\$ 31,860</u>	<u>\$ 11,963</u>
<b>Accruing restructured loans:</b>			
Real estate mortgage	\$ -	\$ -	\$ 146
Total accruing restructured loans	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 146</u>
<b>Accruing loans 90 days or more past due:</b>			
Production and intermediate-term	\$ -	\$ -	\$ 796
Total accruing loans 90 days or more past due	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 796</u>
Total nonperforming loans	\$ 23,910	\$ 31,860	\$ 12,905
Other property owned	6,806	2,026	504
Total nonperforming assets	<u>\$ 30,716</u>	<u>\$ 33,886</u>	<u>\$ 13,409</u>
Nonaccrual loans as a percentage of total loans	6.36%	8.59%	2.83%
Nonperforming assets as a percentage of total loans and other property owned	8.02%	9.09%	3.17%
Nonperforming assets as a percentage of capital	<u>39.64%</u>	<u>44.13%</u>	<u>17.57%</u>

The following table presents information relating to impaired loans (including accrued interest) as defined in Note 2:

<i>(dollars in thousands)</i>	<b>December 31,</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>
<b>Impaired nonaccrual loans:</b>			
Current as to principal and interest	\$ 5,792	\$ 16,568	\$ 3,235
Past due	18,118	15,292	8,728
Total impaired nonaccrual loans	<u>23,910</u>	<u>31,860</u>	<u>11,963</u>
<b>Impaired accrual loans:</b>			
Restructured	-	-	146
90 days or more past due	-	-	796
Total impaired accrual loans	<u>-</u>	<u>-</u>	<u>942</u>
Total impaired loans	<u>\$ 23,910</u>	<u>\$ 31,860</u>	<u>\$ 12,905</u>

Additional impaired loan information is as follows:

<i>(dollars in thousands)</i>	December 31, 2010			Year Ended December 31, 2010	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
<b>Impaired loans with a related allowance for credit losses:</b>					
Real estate mortgage	\$ 3,918	\$ 4,109	\$ 1,392	\$ 4,940	\$ 12
Production and intermediate-term	4,768	5,579	949	6,011	15
Rural residential real estate	1,013	1,037	338	1,277	3
Total	<u>\$ 9,699</u>	<u>\$ 10,725</u>	<u>\$ 2,679</u>	<u>\$ 12,228</u>	<u>\$ 30</u>
<b>Impaired loans with no related allowance for credit losses:</b>					
Real estate mortgage	\$ 3,457	\$ 4,349	\$ —	\$ 4,358	\$ 11
Production and intermediate-term	9,213	15,276	—	11,615	28
Agribusiness					
Farm-related business	41	54	—	52	—
Total agribusiness	<u>41</u>	<u>54</u>	<u>—</u>	<u>52</u>	<u>—</u>
Rural residential real estate	1,500	2,404	—	1,892	5
Total	<u>\$ 14,211</u>	<u>\$ 22,083</u>	<u>\$ —</u>	<u>\$ 17,917</u>	<u>\$ 44</u>
<b>Total impaired loans:</b>					
Real estate mortgage	\$ 7,375	\$ 8,458	\$ 1,392	\$ 9,298	\$ 23
Production and intermediate-term	13,981	20,855	949	17,626	43
Agribusiness					
Farm-related business	41	54	—	52	—
Total agribusiness	<u>41</u>	<u>54</u>	<u>—</u>	<u>52</u>	<u>—</u>
Rural residential real estate	2,513	3,441	338	3,169	8
Total	<u>\$ 23,910</u>	<u>\$ 32,808</u>	<u>\$ 2,679</u>	<u>\$ 30,145</u>	<u>\$ 74</u>

Unpaid principal balance represents the contractual principal balance of the loan.

There were no material commitments to lend additional funds to debtors whose loans were classified as impaired at December 31, 2010.

The following table summarizes interest income on nonaccrual and accruing restructured loans that would have been recognized under the original terms of the loans:

<i>(dollars in thousands)</i>	Year Ended December 31,		
	2010	2009	2008
Interest income which would have been recognized under the original loan terms	\$ 1,217	\$ 1,269	\$ 683
Less: interest income recognized	<u>74</u>	<u>89</u>	<u>47</u>
Foregone interest income	<u>\$ 1,143</u>	<u>\$ 1,180</u>	<u>\$ 636</u>

A summary of changes in the allowance for loan losses and period end recorded investment in loans is as follows:

<i>(dollars in thousands)</i>	Real Estate Mortgage	Production and Intermediate- term	Agribusiness	Energy and Water/Was te Disposal	Rural Residential Real Estate	Total
<b>Allowance for credit losses:</b>						
Balance at December 31, 2009	\$ 2,144	\$ 2,729	\$ 143	\$ 12	\$ 931	\$ 5,959
Charge-offs	(2,170)	(7,048)	(111)	—	(1,315)	(10,644)
Recoveries	15	244	—	—	35	294
Provision for loan losses	2,277	5,660	27	(8)	861	8,817
Balance at December 31, 2010	<u>\$ 2,266</u>	<u>\$ 1,585</u>	<u>\$ 59</u>	<u>\$ 4</u>	<u>\$ 512</u>	<u>\$ 4,426</u>
2010 allowance ending balance:						
Individually evaluated for impairment	<u>\$ 1,392</u>	<u>\$ 949</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 338</u>	<u>\$ 2,679</u>
Collectively evaluated for impairment	<u>\$ 874</u>	<u>\$ 636</u>	<u>\$ 59</u>	<u>\$ 4</u>	<u>\$ 174</u>	<u>\$ 1,747</u>
<b>Recorded investment in loans outstanding:</b>						
Ending Balance at December 31, 2010	<u>\$ 135,804</u>	<u>\$ 175,653</u>	<u>\$ 42,136</u>	<u>\$ 2,969</u>	<u>\$ 20,915</u>	<u>\$ 377,477</u>
2010 recorded investment ending balance:						
Loans individually evaluated for impairment	<u>\$ 7,375</u>	<u>\$ 13,981</u>	<u>\$ 41</u>	<u>\$ —</u>	<u>\$ 2,513</u>	<u>\$ 23,910</u>
Loans collectively evaluated for impairment	<u>\$ 128,429</u>	<u>\$ 161,672</u>	<u>\$ 42,095</u>	<u>\$ 2,969</u>	<u>\$ 18,402</u>	<u>\$ 353,567</u>

**Note 5 — Investment in AgFirst Farm Credit Bank**

The Association is required to maintain ownership in the Bank of Class B and Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements.

**Note 6 — Premises and Equipment**

Premises and equipment consists of the following:

	December 31,		
	2010	2009	2008
Land	\$ 224	\$ 224	\$ 224
Buildings and improvements	873	873	871
Furniture and equipment	1,296	1,248	1,208
	<u>2,393</u>	<u>2,345</u>	<u>2,303</u>
Less: accumulated depreciation	1,523	1,347	1,271
Total	<u>\$ 870</u>	<u>\$ 998</u>	<u>\$ 1,032</u>

The Association is obligated under various noncancellable operating leases for offices. At December 31, 2010 future minimum lease payments for all noncancellable operating leases are as follows:

2011	\$ 365
2012	374
2013	358
2014	369
2015	380
Subsequent years	<u>391</u>
Total minimum lease payments	<u>\$ 2,237</u>

**Note 7 — Other Property Owned**

Net gains (losses) on other property owned consist of the following:

	December 31,		
	2010	2009	2008
Gains (losses) on sale, net	\$ (202)	\$ —	\$ (70)
Carrying value unrealized gains (losses)	(741)	(72)	(264)
Operating income (expense), net	<u>(215)</u>	<u>(9)</u>	<u>(14)</u>
Gains (losses) on other property owned, net	<u>\$(1,158)</u>	<u>\$ (81)</u>	<u>\$(348)</u>

**Note 8 — Notes Payable to AgFirst Farm Credit Bank**

The Association's indebtedness to the Bank represents borrowings by the Association primarily to fund its loan portfolio. This indebtedness is collateralized by a pledge of substantially all of the Association's assets and the terms of the revolving line of credit are governed by the General Financing Agreement (GFA). The GFA defines Association performance criteria for borrowing from the Bank, which includes borrowing base margin, earnings and capital covenants. During 2010 the Association operated under a special credit arrangement pursuant to its GFA and failed to meet its earnings covenant at December 31, 2010. The default allows the Bank, in conjunction with the FCA, to accelerate repayment of all indebtedness. The Bank has approved a temporary waiver of the default and has allowed the Association to continue to operate under a special credit arrangement pursuant to its GFA.

Interest rates on both variable and fixed rate notes payable are generally established loan-by-loan based on the Bank's marginal cost of funds, capital position, operating costs and return objectives. The interest rate is periodically adjusted by the Bank based upon agreement between the Bank and the Association. The weighted average interest rates on the variable rate notes were 1.58 percent for LIBOR-based loans, 1.95 percent for Prime-based loans, and the weighted average remaining maturities were 3.0 years and 8.2 years, respectively, at December 31, 2010. The weighted average interest rate on the fixed rate and adjustable rate mortgage (ARM) loans which are match funded by the Bank was 3.73 percent and the weighted average remaining maturity was 7.2 years at December 31, 2010. The weighted average interest rate on all interest-bearing notes payable was 2.69 percent and the weighted average remaining maturity was 5.4 years at December 31, 2010.

Variable rate and fixed rate notes payable represent approximately 47.47 percent and 52.53 percent, respectively, of total notes payable at December 31, 2010.

Under the Farm Credit Act, the Association is obligated to borrow only from the Bank, unless the Bank approves borrowing from other funding sources. The Bank, consistent with FCA regulations, has established limitations on the Association's ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition.

**Note 9 — Members' Equity**

A description of the Association's capitalization requirements, protection mechanisms, regulatory capitalization requirements and restrictions, and equities are provided below.

**A. Protected Borrower Equity**

Protection of certain borrower equity is provided under the Farm Credit Act which requires the Association, when retiring protected borrower equity, to retire such equity at par or stated value regardless of its book value. Protected borrower equity includes capital stock, participation certificates and allocated equities which were outstanding as of January 6, 1988, or were issued or allocated prior to October 6, 1988. If an Association is unable to retire

protected borrower equity at par value or stated value, amounts required to retire this equity would be obtained from the Insurance Fund.

**B. Capital Stock and Participation Certificates**

In accordance with the Farm Credit Act and the Association's capitalization bylaws, each borrower is required to invest in Class C stock for agricultural loans, or participation certificates in the case of rural home and farm related business loans, as a condition of borrowing. The initial borrower investment, through either purchase or transfer, must be in an amount equal to the lesser of \$1 thousand or two percent of the amount of the loan. The Board of Directors may increase the amount of investment if necessary to meet the Association's capital needs. Loans designated for sale or sold into the Secondary Market on or after April 16, 1996 will have no voting stock or participation certificate purchase requirement if sold within 180 days following the date of designation.

The borrower acquires ownership of the capital stock or participation certificates at the time the loan is made, but usually does not make a cash investment. The aggregate par value is generally added to the principal amount of the related loan obligation. The Association retains a first lien on the stock or participation certificates owned by borrowers. Retirement of such equities will generally be at the lower of par or book value, and repayment of a loan does not automatically result in retirement of the corresponding stock or participation certificates.

**C. Regulatory Capitalization Requirements and Restrictions**

FCA's capital adequacy regulations require the Association to achieve permanent capital of 7.00 percent of risk adjusted assets and off-balance-sheet commitments. Failure to meet the 7.00 percent capital requirement can initiate certain mandatory and possibly additional discretionary actions by FCA that, if undertaken, could have a direct material effect on the Association's financial statements. The Association is prohibited from reducing permanent capital by retiring stock or making certain other distributions to shareholders unless prescribed capital standards are met. FCA regulations also require that additional minimum standards for capital be achieved. These standards require all System institutions to achieve and maintain ratios as defined by FCA regulations. These required ratios are total surplus as a percentage of risk adjusted assets of 7.00 percent and of core surplus as a percentage of risk adjusted assets of 3.50 percent. The Association's permanent capital, total surplus and core surplus ratios at December 31, 2010 were 16.28 percent, 15.65 percent and 13.48 percent, respectively.

An FCA regulation empowers it to direct a transfer of funds or equities by one or more System institutions to another System institution under specified circumstances. The Association has not been called upon to initiate any transfers and is not aware of any proposed action under this regulation.

**D. Description of Equities**

The Association is authorized to issue or have outstanding Classes A and D Preferred Stock, Classes A, B and C Common Stock, Classes B and C Participation Certificates and such other classes of equity as may be provided for in amendments to the bylaws in such amounts as may be necessary to conduct the Association's business. All stock and participation certificates have a par or face value of five dollars (\$5.00) per share.

The Association had the following shares outstanding at December 31, 2010:

Class	Protected	Shares Outstanding	
		Number	Aggregate Par Value
B Common/Nonvoting	Yes	3,565	\$ 17
C Common/Voting	No	185,162	926
B Participation Certificates/Nonvoting	Yes	334	2
C Participation Certificates/Nonvoting	No	36,796	184
Total Capital Stock and Participation Certificates		225,857	\$ 1,129

Protected common stock and participation certificates are retired at par or face value in the normal course of business. At-risk common stock and participation certificates are retired at the sole discretion of the Board at book value not to exceed par or face amounts, provided the minimum capital adequacy standards established by the Board are met.

*Retained Earnings*

The Association maintains an unallocated retained earnings account and an allocated retained earnings account. The minimum aggregate amount of these two accounts is determined by the Board. At the end of any fiscal year, if the retained earnings accounts otherwise would be less than the minimum amount determined by the Board as necessary to maintain adequate capital reserves to meet the commitments of the Association, the Association shall apply earnings for the year to the unallocated retained earnings account in such amounts as may be determined necessary by the Board. Unallocated retained earnings are maintained for each borrower to permit liquidation on a patronage basis.

The Association maintains an allocated retained earnings account consisting of earnings held and allocated to borrowers on a patronage basis. In the event of a net loss for any fiscal year, such allocated retained earnings account will be subject to full impairment in the order specified in the bylaws beginning with the most recent allocation.

The Association has a first lien and security interest on all retained earnings account allocations owned by any borrowers, and all distributions thereof, as additional collateral for their indebtedness to the Association. When the debt of a borrower is in default or is in the process of final liquidation by payment or otherwise, the Association, upon approval of the Board, may order any and all retained earnings account allocations owned by such borrower to be applied on the indebtedness.

Allocated equities shall be retired solely at the discretion of the Board, provided that minimum capital standards established by the FCA and the Board are met.

At December 31, 2010, allocated members' equity consisted of \$11,359 of qualified surplus, \$20,655 of nonqualified allocated surplus and \$1,169 of nonqualified retained surplus. Nonqualified distributions are tax deductible only when redeemed.

*Dividends*

The Association may declare noncumulative dividends on its capital stock and participation certificates provided the dividend rate does not exceed 20 percent of the par value of the respective capital stock and participation certificates. Such dividends may be paid solely on Classes A and D Preferred Stock or on all classes of stock and participation certificates.

The rate of dividends paid on Class A Preferred Stock for any fiscal year may not be less than the rate of dividends paid on Classes A, B or C Common Stock or participation certificates for such year. The rate of dividends on Classes A, B and C Common Stock and participation certificates shall be at the same rate per share.

Dividends may not be declared if, after recording the liability, the Association would not meet its capital adequacy standards. No dividends were declared by the Association for any of the periods included in these Consolidated Financial Statements.

*Patronage Distributions*

Prior to the beginning of any fiscal year, the Board, by adoption of a resolution, may obligate the Association to distribute to borrowers on a patronage basis all or any portion of available net earnings for such fiscal year or for that and subsequent fiscal years. Patronage distributions are based on the proportion of the borrower's interest to the amount of interest earned by the Association on its total loans unless another proportionate patronage basis is approved by the Board.

If the Association meets its capital adequacy standards after making the patronage distributions, the patronage distributions may be in cash, authorized stock of the Association, allocations of earnings retained in an allocated members' equity account, or any one or more of such forms of distribution. Patronage distributions of the Association's earnings may be paid on either a qualified or nonqualified basis, or a combination of both, as determined by the Board. A minimum of 20 percent of the total qualified patronage distribution to any borrower for any fiscal year shall always be paid in cash.

*Transfer*

Classes A and D Preferred, Classes A, B and C Common Stocks, and Classes B and C Participation Certificates may be transferred to persons or entities eligible to purchase or hold such equities.

*Impairment*

Any net losses recorded by the Association shall first be applied against unallocated members' equity. To the extent that such losses would exceed unallocated members' equity, such losses would be applied consistent with the Association's bylaws and distributed pro rata to each share and/or unit outstanding in the class, in the following order:

- a) **First**, Assistance Preferred Stock issued and outstanding (if any);
- b) **Second**, allocated surplus evidenced by nonqualified written notices of allocation, in its entirety, with application to most recent allocation first and then in reverse order until all such allocated surplus has been exhausted;
- c) **Third**, allocated surplus evidenced by qualified written notices of allocation, in its entirety, with application to most recent allocation first and then in reverse order until all such allocated surplus has been exhausted;
- d) **Fourth**, Class A Common and Class B Common Stock, Class C Common Stock, Class E Common Stock, Class C Participation Certificates and Class B Participation Certificates issued and outstanding, pro rata until such stock is fully impaired;
- e) **Fifth**, Class A Preferred and Class D Preferred Stock issued and outstanding, if any.

*Liquidation*

In the event of liquidation or dissolution of the Association, any assets of the Association remaining after payment or retirement of all liabilities should be distributed to the holders of the outstanding stock and participation certificates in the following order:

- a) **First**, to the holders of Class A Preferred and Class D Preferred Stock until an amount equal to the aggregate par value of all shares of said stock then issued and outstanding has been distributed to such holders;
- b) **Second**, to the holders of Class A Common, Class B Common, Class C Common Stock, Class E Common Stock, and Class B Participation Certificates and Class C Participation Certificates, pro rata in proportion to the number of shares or units of each such class of stock or participation certificate then issued and outstanding, until an amount equal to the aggregate par value or face amount of all such shares or units has been distributed to such holders;
- c) **Third**, to the holders of allocated surplus evidenced by qualified written notices of allocation, in the order of year of issuance and pro rata by year of issuance, until the total amount of such allocated surplus has been distributed;

- d) **Fourth**, to the holders of allocated surplus evidenced by nonqualified written notices of allocation, in the order of year of issuance and pro rata by year of issuance, until the total amount of such allocated surplus has been distributed;
- e) **Fifth**, in so far as practicable, all unallocated surplus issued after April 15, 1999, shall be distributed to Patrons of the Association from the period beginning April 15, 1999, through the date of liquidation, on a patronage basis; and
- f) **Sixth**, any remaining assets of the Association after such distributions shall be distributed ratably to the holders of all classes of stock and participation certificates in proportion to the number of shares or units of such class of stock or participation certificates held by such holders.

All distributions to the holders of any class of stock and/or participation certificate holders shall be made pro rata in proportion to the number of shares or units of such class of stock or participation certificates held by such holders.

**E. Other Comprehensive Income (Loss)**

The Association reports other comprehensive income (loss) (OCI) in its consolidated statements of changes in members' equity. The Association reported OCI of \$(8), \$(4), and \$334 in 2010, 2009 and 2008, respectively, due to FASB guidance on employers' accounting for defined benefit pension and other postretirement plans (see Note 11 for further information).

**Note 10 — Income Taxes**

At December 31, 2010, 2009 and 2008, the Association recorded no provision or benefit for federal or state income taxes.

The provision (benefit) for income tax differs from the amount of income tax determined by applying the applicable U.S. statutory federal income tax rate to pretax income as follows:

	<b>December 31,</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>
Federal tax at statutory rate	\$ 305	\$ 394	\$ 2,365
Effect of non-taxable FLCA subsidiary	(2,585)	(2,124)	840
Patronage distributions	2	(5)	(1,805)
Change in valuation allowance	2,511	1,905	(1,412)
Other	(233)	(170)	12
Provision (benefit) for income taxes	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Deferred tax assets and liabilities are comprised of the following at:

	December 31,		
	2010	2009	2008
Deferred income tax assets:			
Allowance for loan losses	\$ 945	\$ 1,142	\$ 387
Net operating loss – carryforward	4,860	2,080	1,501
Nonaccrual loan interest	510	587	(2)
Gross deferred tax assets	6,315	3,809	1,886
Less: valuation allowance	(6,282)	(3,771)	(1,866)
Gross deferred tax assets, net of valuation allowance	33	38	20
Deferred income tax liabilities:			
Loan origination fees	(33)	(38)	(20)
Gross deferred tax liability	(33)	(38)	(20)
Net deferred tax asset (liability)	\$ -	\$ -	\$ -

At December 31, 2010, deferred income taxes have not been provided by the Association on approximately \$1.2 million of patronage refunds received from the Bank prior to January 1, 1993. Such refunds, distributed in the form of stock, are subject to tax only upon conversion to cash. The tax liability related to future conversions is not expected to be material.

The Association recorded a valuation allowance of \$6,282, \$3,771 and \$1,866 during 2010, 2009 and 2008, respectively. The Association will continue to evaluate the realizability of these deferred tax assets and adjust the valuation allowance accordingly.

There were no uncertain tax positions identified related to the current year and the Association has no unrecognized tax benefits at December 31, 2010 for which liabilities have been established. The Association recognizes interest and penalties, if any, related to unrecognized tax benefits as a component of income tax expense. The tax years that remain open for federal and major state income tax jurisdictions are 2006 and forward.

#### Note 11 — Employee Benefit Plans

The Association participates in district sponsored benefit plans. These plans include a defined benefit final average pay retirement plan, a defined benefit cash balance retirement plan, a defined benefit other postretirement benefits plan, and a defined contribution 401(k) plan. Financial information regarding each of these plans follows.

Substantially all employees of the Association are eligible to participate in either the defined benefit final average pay retirement plan (the FAP Plan) or the defined benefit cash balance retirement plan (the CB Plan.) These two plans are noncontributory and include eligible District employees. For participants hired prior to January 1, 2003, benefits are provided under the FAP Plan and are based on eligible compensation and years of service. For participants hired on or after January 1, 2003, benefits are provided under the CB Plan and are determined using a percent of eligible compensation formula. The employer contribution under the CB Plan is based on a formula of 3.00-5.00 percent of eligible compensation

(depending on years of service) and interest credits as allocated to an employee's theoretical account balance. As a participant in these District defined benefit plans, the Association funded \$1,000 for 2010, \$1,169 for 2009, and \$900 for 2008, through its note payable to the Bank. Plan expenses included in salaries and employee benefits were \$1,105 for 2010, \$1,396 for 2009, and \$292 for 2008.

The District sponsors a plan providing certain benefits (primarily health care) to its retirees. Certain Association charges related to this plan are an allocation of District charges based on the Association's proportional share of the plan liability. This plan is unfunded with expenses paid as incurred. Postretirement benefits other than pensions (primarily health care benefits) included in salaries and employee benefits were \$178 for 2010, \$177 for 2009, and \$169 for 2008.

Under FASB guidance on employers' accounting for defined benefit pension and other postretirement plans, accounting for the guidance follows the plan sponsor, which is at the District entity level for the Districtwide benefit plans in which the Association participates. Therefore, there is no impact to the Association's financial statements due to this guidance for the defined benefit plans discussed above. Additional financial information for the District sponsored plans, including the impact of this guidance, may be found in Notes to the Combined Financial Statements of AgFirst Farm Credit Bank and District Associations' 2010 Annual Report.

In addition, supplemental retirement benefits are provided to certain key employees under a supplemental defined benefit executive plan adopted during 2007. Assets have been allocated and separately invested for this plan but are not isolated from the general creditors of the Association.

The supplemental defined benefit executive plan is unfunded and had a projected benefit obligation of \$281 and a net underfunded status of \$281 at December 31, 2010. Net periodic pension cost for the period was \$16. The assumptions used to determine the projected benefit obligation included a discount rate of 5.65 percent.

FASB guidance requires the recognition of the overfunded or underfunded status of pension and other postretirement benefit plans on the balance sheet. The balance sheet recognition provisions of this guidance were adopted at December 31, 2007 by the Association for the single employer supplemental nonqualified plan, resulting in an adjustment of \$303 to accumulated other comprehensive income (AOCI).

FASB guidance also requires that employers measure the benefit obligation and plan assets as of the fiscal year end for fiscal years ending after December 15, 2008. In fiscal 2007 and earlier, a September 30 measurement date was used for pension and other postretirement benefit plans. This guidance provides two approaches for an employer to transition to a fiscal year end measurement date. The approach applied by the Association allows for the use of the measurements determined for the prior year end. Under this alternative, pension and other postretirement benefit expense measured for the three-month period October 1, 2007 to December 31, 2007 (determined using the September 30, 2007 measurement date) is reflected as an adjustment to beginning 2008 unallocated retained earnings. As

a result, the Association decreased unallocated retained earnings by \$25.

FASB guidance further requires the determination of the fair value of plan assets and recognition of actuarial gains and losses, prior service costs or credits, and transition assets or obligations as a component of AOCI. These amounts are subsequently recognized as components of net periodic benefit costs over time. For 2010, 2009 and 2008, \$(8), \$(4) and 334 has been recognized as net debits and a net credit, respectively, to AOCI to reflect these elements.

The Association participates in a defined contribution Districtwide 401(k) plan, which qualifies as a 401(k) plan as defined by the Internal Revenue Code. For employees hired on or prior to December 31, 2002, the Association will contribute \$.50 for each \$1.00 of the maximum employee contribution of 6 percent of total compensation. For employees hired on or after January 1, 2003, the Association will contribute \$1.00 for each \$1.00 of the maximum employee contribution of 6 percent of total compensation. Employee deferrals are not to exceed the maximum deferral as adjusted by the Internal Revenue Service. Employer contributions to this plan were \$143, \$136, and \$133 for the years ended December 31, 2010, 2009 and 2008, respectively.

#### Note 12 — Related Party Transactions

In the ordinary course of business, the Association enters into loan transactions with officers and directors of the Association, their immediate families and other organizations with which such persons may be associated. Such loans are subject to special approval requirements contained in the FCA regulations and are made on the same terms, including interest rates, amortization schedule, and collateral, as those prevailing at the time for comparable transactions with unaffiliated borrowers.

Total gross loans to such persons at December 31, 2010 amounted to \$61,037. During 2010, \$90,102 of new loans were made and repayments totaled \$91,588. Due to portfolio management policies and internal hold limits, the Association does not hold the entire loan balance and sells loan participations to AgFirst and other Farm Credit Institutions. The net credit risk exposure to the Association on these loans was \$9,753 at December 31, 2010 with \$10,310 of new net loans and \$10,670 of net repayments made during 2010. In the opinion of management, none of these loans outstanding at December 31, 2010 involved more than a normal risk of collectability, except as described below.

Production and intermediate term loans totaling \$53,206 gross and \$4,780 net at December 31, 2010 to one director of the Association, L. Baylis Carnes, III through two corporate entities, were classified OAEM due to more than a normal risk of collectability as determined by the Association. This classification of OAEM was the result of declining profitability and corresponding debt repayment capacity. These loans are current and adequately secured. The largest outstanding balance on these loans during 2010 was \$53,806 gross and \$4,834 net and the balance outstanding at January 31, 2011 was \$53,105 gross and \$4,771 net.

#### Note 13 — Commitments and Contingencies

The Association has various commitments outstanding and contingent liabilities.

The Association may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of its borrowers and to manage their exposure to interest-rate risk. These financial instruments include commitments to extend credit and/or commercial letters of credit. The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commercial letters of credit are agreements to pay a beneficiary under conditions specified in the letter of credit. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. At December 31, 2010, \$54,984 of commitments to extend credit and no commercial letters of credit were outstanding.

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their amounts are not reflected on the Consolidated Balance Sheets until funded or drawn upon. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers and management applies the same credit policies to these commitments. Upon fully funding a commitment, the credit risk amounts are equal to the contract amounts, assuming that borrowers fail completely to meet their obligations and the collateral or other security is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower.

The Association also participates in standby letters of credit to satisfy the financing needs of its borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. At December 31, 2010, the Association had outstanding \$3,797 of standby letters of credit, with expiration dates ranging from January 1, 2010 to March 5, 2013. The maximum potential amount of future payments the Association may be required to make under these existing guarantees is \$3,797.

A guarantor is required to recognize at the inception of a guarantee, a liability for the fair value of the guarantee commitment. The Association has determined the fair value of the guarantee commitment based upon the fees to be earned over the life of the guarantee. The fair value is updated periodically to reflect changes in individual guarantee amounts and the remaining life to maturity of the individual guarantees in the Association's inventory. At December 31, 2010, the Association's inventory of standby letters of credit had a fair value of \$61 and was included in other liabilities.

#### Note 14 — Fair Value Measurement

As described in Note 2, effective January 1, 2008, the Association adopted FASB guidance on fair value measurements. This guidance defines fair value, establishes a framework for measuring fair value and expands the Association's fair value

disclosures for certain assets and liabilities measured at fair value on a recurring and non-recurring basis. These assets and liabilities consist primarily of assets held in trust funds, standby letters of credit, impaired loans, and other property owned.

This guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability.

This guidance establishes a fair value hierarchy for disclosure of fair value measurements to maximize the use of observable inputs, that is, inputs that reflect the assumptions market participants would use in pricing an asset or liability based on market data obtained from sources independent of the reporting entity. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The three levels of inputs and the classification of the Association's financial instruments within the fair value hierarchy are as follows:

#### Level 1

Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets. The Association's Level 1 assets at December 31, 2010 consist of assets held in trust funds related to a supplemental retirement plan. The trust funds include investments in securities that are actively traded and have quoted net asset value prices that are directly observable in the marketplace.

#### Level 2

Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets; quoted prices in markets that are not active; and inputs that are observable, or can be corroborated, for substantially the full term of the asset or liability. The Association has no Level 2 assets or liabilities measured at fair value on a recurring basis at December 31, 2010.

#### Level 3

Level 3 inputs to the valuation methodology are unobservable and supported by little or no market activity. Valuation is determined using pricing models, discounted cash flow methodologies, or similar techniques, and could include significant management judgment or estimation. Level 3 assets and liabilities include instruments whose price has been adjusted based on dealer quoted pricing that is different than the third-party valuation or internal model pricing.

Level 3 assets at December 31, 2010 include impaired loans which represent the fair value of certain loans that were evaluated for impairment under FASB guidance. The fair value was based upon the underlying collateral since these were collateral-dependent loans. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market

conditions, specific issues relating to the collateral and other matters. As a result, these fair value measurements fall within Level 3 of the hierarchy. When the value of the collateral, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established. Other property owned is classified as a Level 3 asset at December 31, 2010. The fair value for other property owned is based upon the collateral value. Costs to sell represent transaction costs and are not included as a component of the fair value of other property owned. Level 3 liabilities at December 31, 2010 include standby letters of credit whose market value is internally calculated based on information that is not observable either directly or indirectly in the marketplace.

#### Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following tables present the assets and liabilities that are measured at fair value on a recurring basis at December 31, 2010, 2009 and 2008 for each of the fair value hierarchy levels:

	December 31, 2010			Total Fair Value
	Level 1	Level 2	Level 3	
<b>Assets:</b>				
Assets held in trust funds	\$ 151	\$ –	\$ –	\$ 151
Total Assets	\$ 151	\$ –	\$ –	\$ 151

<b>Liabilities:</b>				
Standby letters of credit	\$ –	\$ –	\$ 61	\$ 61
Total Liabilities	\$ –	\$ –	\$ 61	\$ 61

	December 31, 2009			Total Fair Value
	Level 1	Level 2	Level 3	
<b>Assets:</b>				
Assets held in trust funds	\$ 159	\$ –	\$ –	\$ 159
Total Assets	\$ 159	\$ –	\$ –	\$ 159

<b>Liabilities:</b>				
Standby letters of credit	\$ –	\$ –	\$ 97	\$ 97
Total Liabilities	\$ –	\$ –	\$ 97	\$ 97

	December 31, 2008			Total Fair Value
	Level 1	Level 2	Level 3	
<b>Assets:</b>				
Assets held in trust funds	\$ 143	\$ –	\$ –	\$ 143
Total Assets	\$ 143	\$ –	\$ –	\$ 143

<b>Liabilities:</b>				
Standby letters of credit	\$ –	\$ –	\$ 110	\$ 110
Total Liabilities	\$ –	\$ –	\$ 110	\$ 110

The Association had no transfers of assets or liabilities into or out of Level 1 or Level 2 during 2010 or 2009. The following tables present the changes in Level 3 assets and liabilities measured at fair value on a recurring basis for 2010, 2009 and 2008:

	<b>Standby Letters Of Credit</b>
Balance at January 1, 2010	\$ 97
<b>Total gains or (losses) realized/unrealized:</b>	
Included in earnings	-
Included in other comprehensive loss	-
Purchases, sales, issuances and settlements, net	(36)
Transfers in and/or out of level 3	-
Balance at December 31, 2010	<u>\$ 61</u>

	<b>Standby Letters Of Credit</b>
Balance at January 1, 2009	\$ 110
<b>Total gains or (losses) realized/unrealized:</b>	
Included in earnings	-
Included in other comprehensive loss	-
Purchases, sales, issuances and settlements, net	(13)
Transfers in and/or out of level 3	-
Balance at December 31, 2009	<u>\$ 97</u>

	<b>Standby Letters Of Credit</b>
Balance at January 1, 2008	\$ 143
<b>Total gains or (losses) realized/unrealized:</b>	
Included in earnings	-
Included in other comprehensive loss	-
Purchases, sales, issuances and settlements, net	(33)
Transfers in and/or out of level 3	-
Balance at December 31, 2008	<u>\$ 110</u>

**Assets and Liabilities Measured at Fair Value on a Non-recurring Basis**

Assets and liabilities measured at fair value on a non-recurring basis at December 31, 2010, 2009 and 2008 for each of the fair value hierarchy values are summarized below. As discussed in Note 2, fair value disclosure of nonfinancial instruments, such as other property owned, began in 2009.

	<b>December 31, 2010</b>				<b>YTD</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total Fair Value</b>	<b>Total Gains (Losses)</b>
<b>Assets:</b>					
Impaired loans	\$ -	\$ -	\$ 7,020	\$ 7,020	\$ (9,296)
Other property owned	\$ -	\$ -	\$ 6,876	\$ 6,876	\$ (943)

	<b>December 31, 2009</b>				<b>YTD</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total Fair Value</b>	<b>Total Gains (Losses)</b>
<b>Assets:</b>					
Impaired loans	\$ -	\$ -	\$ 19,589	\$ 19,589	\$ (7,254)
Other property owned	\$ -	\$ -	\$ 1,954	\$ 1,954	\$ (72)

	<b>December 31, 2008</b>				<b>YTD</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total Fair Value</b>	<b>Total Gains (Losses)</b>
<b>Assets:</b>					
Impaired loans	\$ -	\$ -	\$ 6,430	\$ 6,430	\$ (3,243)

**Note 15 — Disclosures About Fair Value Of Financial Instruments**

The following table presents the carrying amounts and fair values of the Association's financial instruments at December 31, 2010, 2009 and 2008.

Quoted market prices are generally not available for certain System financial instruments, as described below. Accordingly fair values are based on judgments regarding anticipated cash flows, future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates involve uncertainties and matters of judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

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

	December 31, 2010		December 31, 2009	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
<b>Financial assets:</b>				
Cash	\$ 13	\$ 13	\$ 61	\$ 61
Loans, net of allowance	\$ 373,051	\$ 369,038	\$ 366,349	\$ 369,745
Investment securities	\$ 45,735	\$ 45,946	\$ 49,934	\$ 50,057
Assets held in trust funds	\$ 151	\$ 151	\$ 159	\$ 159
<b>Financial liabilities:</b>				
Notes payable to AgFirst Farm Credit Bank	\$ 369,984	\$ 368,102	\$ 364,296	\$ 366,737

	December 31, 2008	
	Carrying Amount	Estimated Fair Value
<b>Financial assets:</b>		
Cash	\$ 36	\$ 36
Loans, net of allowance	\$ 419,428	\$ 424,861
Investment securities	\$ 50,760	\$ 50,540
Assets held in trust funds	\$ 143	\$ 143
<b>Financial liabilities:</b>		
Notes payable to AgFirst Farm Credit Bank	\$ 413,387	\$ 417,955

A description of the methods and assumptions used to estimate the fair value of each class of the Association's financial instruments for which it is practicable to estimate that value follows:

- A. **Cash:** The carrying value is primarily a reasonable estimate of fair value.
- B. **Loans:** Because no active market exists for the Association's loans, fair value is estimated by discounting the expected future cash flows using the Association's current interest rates at which similar loans would be made to borrowers with similar credit risk. Discount rates are based on the Bank's loan rates as well as management estimates.

For purposes of determining fair value of accruing loans, the loan portfolio is segregated into pools of loans with homogeneous characteristics based upon repricing and credit risk. Expected future cash flows and interest rates reflecting appropriate credit risk are separately determined for each individual pool.

Fair value of loans in a nonaccrual status is estimated to be the carrying amount of the loan less specific reserves.

The carrying value of accrued interest approximates its fair value.

- C. **Investment Securities:** Fair value is primarily based upon prices obtained from a third party valuation service.
- D. **Investment in AgFirst Farm Credit Bank and Other Farm Credit Institutions:** Estimating the fair value of the Association's investment in the Bank and Other Farm Credit Institutions is not practicable because the stock is not traded. As described in Note 5, the net investment is a requirement of borrowing from the Bank and is carried at cost plus allocated equities in the accompanying Consolidated Balance Sheets. The Association owns 3.59 percent of the issued stock of the Bank as of December 31, 2010 net of any reciprocal investment. As of that date, the Bank's assets totaled \$30.8 billion and shareholders' equity totaled \$1.9 billion. The Bank's earnings were \$417 million during 2010.

In addition, the Association has an investment of \$296 related to other Farm Credit institutions.

- E. **Notes Payable to AgFirst Farm Credit Bank:** The notes payable are segregated into pricing pools according to the types and terms of the loans (or other assets) which they fund. Fair value of the notes payable is estimated by discounting the anticipated cash flows of each pricing pool using the current rate that would be charged for additional borrowings. For purposes of this estimate it is assumed the cash flow on the notes is equal to the principal payments on the Association's loan receivables plus accrued interest on the notes payable. This assumption implies that earnings on the Association's interest margin are used to fund operating expenses and capital expenditures.
- F. **Commitments to Extend Credit:** The estimated market value of off-balance-sheet commitments is minimal since the committed rate approximates current rates offered for commitments with similar rate and maturity characteristics and since the related credit risk is not significant.
- G. **Assets Held in Trust Funds:** See Note 14 for discussion of estimation of fair value for this instrument.

**Note 16 — Quarterly Financial Information (Unaudited)**

Quarterly results of operations for the years ended December 31, 2010, 2009 and 2008 follow:

	2010				
	First	Second	Third	Fourth	Total
Net interest income	\$ 2,237	\$ 2,126	\$ 2,276	\$ 2,380	\$ 9,019
Provision for (reversal of allowance for) loan losses	2,155	1,470	2,380	2,812	8,817
Noninterest income (expense), net	365	563	(491)	258	695
Net income (loss)	\$ 447	\$ 1,219	\$ (595)	\$ (174)	\$ 897

	2009				
	First	Second	Third	Fourth	Total
Net interest income	\$ 2,607	\$ 2,389	\$ 2,283	\$ 2,237	\$ 9,516
Provision for (reversal of allowance for) loan losses	1,890	2,135	1,200	2,190	7,415
Noninterest income (expense), net	(327)	(304)	(545)	234	(942)
Net income (loss)	\$ 390	\$ (50)	\$ 538	\$ 281	\$ 1,159

	2008				
	First	Second	Third	Fourth	Total
Net interest income	\$ 2,792	\$ 2,476	\$ 2,341	\$ 2,894	\$ 10,503
Provision for (reversal of allowance for) loan losses	600	460	1,460	1,455	3,975
Noninterest income (expense), net	383	175	513	(643)	428
Net income (loss)	\$ 2,575	\$ 2,191	\$ 1,394	\$ 796	\$ 6,956

**Note 17 – Subsequent Events**

The Association has evaluated subsequent events and has determined that, except as described in Note 8, there are none requiring disclosure through March 14, 2011, which is the date the financial statements were issued.