Part of the Farm Credit System

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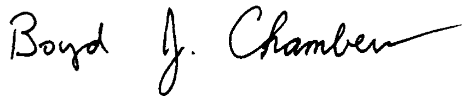
REPORT OF MANAGEMENT

The consolidated financial statements of Central Texas Farm Credit, ACA (association) are prepared by management, who is responsible for the statements' integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America appropriate in the circumstances. Other financial information included in the annual report is consistent with that in the consolidated financial statements.

To meet its responsibility for reliable financial information, management depends on the Farm Credit Bank of Texas' and the association's accounting and internal control systems, which have been designed to provide reasonable, but not absolute, assurance that assets are safeguarded and transactions are properly authorized and recorded. The systems have been designed to recognize that the cost of controls must be related to the benefits derived. The consolidated financial statements are audited by Simonton & Kutac, LLP, independent accountants, who conduct a review of internal controls solely for the purpose of establishing a basis for reliance thereon in determining the nature, extent and timing of audit tests applied in the audit of the consolidated financial statements in accordance with auditing standards generally accepted in the United States of America. The association is also examined by the Farm Credit Administration.

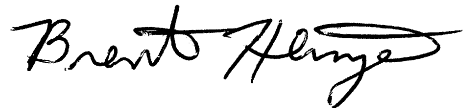
The board of directors has overall responsibility for the association's systems of internal control and financial reporting. The board consults regularly with management and reviews the results of the audits and examinations referred to previously.

The undersigned certify that this annual report has been reviewed and prepared in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate and complete to the best of his knowledge or belief.



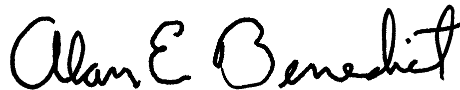
Boyd J. Chambers, Chief Executive Officer and President

February 28, 2011



Brent Heinze, Chairman, Board of Directors

February 28, 2011



Alan E. Benedict, Controller and Treasurer

February 28, 2011

REPORT OF AUDIT COMMITTEE

The Audit Committee (committee) is composed of the entire board of directors of Central Texas Farm Credit, ACA. In 2010, ten (10) committee meetings were held. The committee oversees the scope of Central Texas Farm Credit, ACA's system of internal controls and procedures, and the adequacy of management's action with respect to recommendations arising from those auditing activities. The committee's approved responsibilities are described more fully in the Audit Committee Charter, which is available on request or on Central Texas Farm Credit, ACA's Web site. The committee approved the appointment of Simonton & Kutac, LLP, for 2010. This appointment of Simonton & Kutac, LLP reflects no change in auditing firms from past years. Simonton & Kutac, LLP has performed this association's annual audits since 2004.

Management is responsible for Central Texas Farm Credit, ACA's internal controls and the preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. The consolidated financial statements are prepared under the oversight of the committee. Simonton & Kutac, LLP is responsible for performing an independent audit of Central Texas Farm Credit, ACA's consolidated financial statements in accordance with auditing standards generally accepted in the United States of America and for issuing a report thereon. The committee's responsibilities include monitoring and overseeing the processes.

In this context, the committee reviewed and discussed Central Texas Farm Credit, ACA's audited consolidated financial statements for the year ended December 31, 2010 (audited consolidated financial statements) with management and Simonton & Kutac, LLP. The committee also reviews with Simonton & Kutac, LLP the matters required to be discussed by Statement on Auditing Standards No. 114 (The Auditor's Communication With Those Charged With Governance) and both Simonton & Kutac, LLP and Central Texas Farm Credit, ACA's internal auditors directly provide reports on significant matters to the committee.

The committee discussed with Simonton & Kutac, LLP its independence from Central Texas Farm Credit, ACA. The committee also reviewed the non-audit services provided by Simonton & Kutac, LLP, and concluded that these services were not incompatible with maintaining the independent accountant's independence. The committee has discussed with management and Simonton & Kutac, LLP, such other matters and received such assurances from them as the committee deemed appropriate. Based on these discussions, the Audit Committee approved all services provided by Simonton & Kutac, LLP in the amount of $71,425 for audit services and $11,050 for tax services in 2010. There were no other services provided to the association by Simonton & Kutac, LLP in 2010.

Based on the foregoing review and discussions and relying thereon, the committee recommended that the board of directors include the audited consolidated financial statements in Central Texas Farm Credit, ACA's Annual Report to Stockholders for the year ended December 31, 2010.

Audit Committee Members

NAME	POSITION
Brent M. Heinze	Chairman
Robby A. Halfmann	Vice Chairman
Jerry Don Klose	Member
Mike Finlay	Member
Cody B. Richmond	Member
Glenn T. Miller	Member
Mickey D. Dillard	Member
Philip W. Hinds	Member
A. Wayland Shurley	Member

February 28, 2011

Central Texas Farm Credit, ACA

FIVE-YEAR SUMMARY OF SELECTED CONSOLIDATED FINANCIAL DATA
(unaudited)
(dollars in thousands)

	2010	2009	2008	2007	2006
Balance Sheet Data					
Assets					
Cash	**$ 766**	$ 734	$ 736	$ 1,267	$ 960
Investments	**-**	-	-	-	-
Loans	**390,781**	407,461	411,702	400,838	340,231
Less: allowance for loan losses	**1,622**	2,740	194	104	-
Net loans	**389,159**	404,721	411,508	400,734	340,231
Investment in and receivable from the bank	**6,596**	7,076	6,923	6,148	4,651
Other assets	**6,214**	8,249	5,124	7,012	6,321
Total assets	**$ 402,735**	$ 420,780	$ 424,291	$ 415,161	$ 352,163
Liabilities					
Obligations with maturities of one year or less	**$ 11,065**	$ 4,592	$ 5,280	$ 7,369	$ 5,303
Obligations with maturities greater than one year	**314,807**	344,289	349,375	340,999	285,374
Total liabilities	**325,872**	348,881	354,655	348,368	290,677
Members' Equity					
Capital stock and participation certificates	**2,255**	2,273	2,275	2,248	2,100
Additional paid-in capital	**-**	-	-	-	-
Allocated retained earnings	**-**	-	-	-	-
Unallocated retained earnings	**74,666**	69,508	67,227	64,278	59,386
Accumulated other comprehensive income (loss)	**(58)**	118	134	267	-
Total members' equity	**76,863**	71,899	69,636	66,793	61,486
Total liabilities and members' equity	**$ 402,735**	$ 420,780	$ 424,291	$ 415,161	$ 352,163
Statement of Income Data					
Net interest income	**$ 11,090**	$ 10,957	$ 10,273	$ 9,791	$ 8,853
(Provision for loan losses) or loan loss reversal	**(1,022)**	(3,441)	(2,336)	(706)	-
Income from the bank	**1,825**	1,618	1,293	1,194	925
Other noninterest income	**1,052**	832	702	1,036	984
Noninterest expense	**(4,587)**	(5,187)	(4,468)	(3,923)	(3,537)
Benefit from income taxes	**-**	-	-	-	-
Extraordinary items	**-**	-	-	-	-
Net income (loss)	**$ 8,358**	$ 4,779	$ 5,464	$ 7,392	$ 7,225
Key Financial Ratios for the Year					
Return on average assets	**2.1%**	1.1%	1.3%	2.0%	2.4%
Return on average members' equity	**11.2%**	6.7%	7.8%	11.5%	12.0%
Net interest income as a percentage of average earning assets	**2.8%**	2.6%	2.5%	2.7%	3.0%
Net charge-offs (recoveries) as a percentage of average loans	**0.5%**	0.2%	0.6%	0.2%	0.0%

Central Texas Farm Credit, ACA

FIVE-YEAR SUMMARY OF SELECTED CONSOLIDATED FINANCIAL DATA
(unaudited)
(dollars in thousands)

	2010	2009	2008	2007	2006
Key Financial Ratios at Year End					
Members' equity as a percentage of total assets	**19.1%**	17.1%	16.4%	16.1%	17.5%
Debt as a percentage of members' equity	**424.0%**	485.2%	509.3%	521.6%	472.8%
Allowance for loan losses as a percentage of loans	**0.4%**	0.7%	0.0%	0.0%	0.0%
Permanent capital ratio	**17.3%**	14.7%	15.0%	14.9%	16.9%
Core surplus ratio	**16.7%**	14.4%	14.5%	14.4%	16.3%
Total surplus ratio	**16.7%**	14.4%	14.5%	14.4%	16.3%
Net Income Distribution					
Cash dividends paid	**$ -**	$ -	$ -	$ -	$ -
Patronage refunds:					
Cash	**2,500**	2,500	2,500	3,000	3,861
Stock	**-**	-	-	-	-
Allocated retained earnings	**-**	-	-	-	-

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following commentary explains management's assessment of the principal aspects of the consolidated financial condition and results of operations of Central Texas Farm Credit, ACA, including its wholly-owned subsidiaries, Central Texas PCA and Central Texas Land Bank, FLCA (association) for the years ended December 31, 2010, 2009 and 2008, and should be read in conjunction with the accompanying consolidated financial statements. The accompanying financial statements were prepared under the oversight of the association's audit committee.

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-related, 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
- actions taken by the Federal Reserve System in implementing monetary policy.

Significant Events:

In December 2010, the association received a direct loan patronage of $1,637,018 from the bank, representing 50 basis points on the average daily balance of the association's direct loan with the bank. During 2010, the association received $188,298 in patronage payments from the bank, based on the association's stock investment in the bank.

In April 2010, the association received a refund from the Farm Credit System Insurance Corporation (FCSIC) of prior year insurance premiums totaling $410,939 which was taken into income for 2010.

During the second quarter of 2008 all loans held by the association with one large borrower were deemed nonviable and were transferred to non-accrual. These loans were transferred to non-accrual on May 28, 2008, and amounted to $3,673,011 in PCA loan balances and $3,155,256 in FLCA loan balances for a total principal debt to the association of $6,828,267. A charge-off of $412,027 and an additional charge to the allowance for loan losses of $573,000 was made related to the PCA portion of this debt. As of June 30, 2008, the PCA debt was $3,323,217 and the FLCA debt remained at $3,155,256 for a total principal of $6,478,473.

Within the third quarter of 2008 all collateral related to these loans was acquired and liquidated by the association with all proceeds being applied against the debt. During the process of collateral acquisition and liquidation an additional charge-off of $3,394 was made against the PCA loan for a total PCA loan charge-off of $415,421. Upon disposition of the acquired collateral all the FLCA debt was recovered but a charge-off of $338,149 was incurred related to the PCA collateral. Other legal and administrative expenses were also incurred related to the liquidation of the PCA debt which totaled $89,786 at December 31, 2008 and $92,910 at December 31, 2009. Further expenditures related to this account did not occur during the first quarter of 2010 but an additional $59 in expense was incurred during the second quarter, bringing the cumulative expense to $92,969 at December 31, 2010. Additional expense and/or expense recovery may occur related to the PCA loans, but significant activity is not anticipated.

During the fourth quarter of 2008 four district participation loans which the association participated in were deemed nonviable or as containing significant financial stress which resulted in these accounts being transferred to non-accrual. The accounts transferred to non-accrual in the fourth quarter of 2008 totaled $8,257,898. A specific reserve was set up and a charge-off taken in December 2008 for one account totaling $1,829,688. A specific reserve of $64,148 was established for another account, but no related charge-off

was taken as of year-end 2008. In the fourth quarter of 2009, however, this account was fully charged off with a charge of $64,910. Effective March 31, 2009, a specific reserve and charge-off of $55,000 was also established for yet another of these four accounts. On May 28, 2009, acquired property valued at $1,632,986 was received related to this particular account eliminating the remaining non-accrual balance. Outstanding balances on these four non-accrual participation accounts were a combined total of $6,353,371 at March 31, 2009, with one of the four accounts eliminated and $4,617,107 at June 30, 2009, with two of the four accounts eliminated. The acquired property received was liquidated on July 31, 2009, through a purchase/finance of the related collateral by another entity which resulted in an unrealized gain of $55,000 being recorded. Due to underlying credit weaknesses, however, the new loan remained in a non-accrual status with a specific allowance of $108,031 being booked on related loans totaling $2,033,320 at September 30, 2009. During the fourth quarter of 2009 the specific allowance on this account was reversed and taken back into income. The account did, however, remain in a non-accrual status and as of December 31, 2009, had an outstanding balance of $1,988,417. On March 17, 2010, this account was returned to accrual status with an unrealized gain of $55,000 being maintained on this account. The unrealized gain was fully collected during the year ended December 31, 2010. The last of these four large accounts originating in 2008 had no further adverse actions during 2009 and was returned to accruing status in the fourth quarter of 2009 with an outstanding accrual balance of $3,272,844 and a recapture of $100,023 in foregone interest back into income.

During the second quarter of 2009 two additional participation loans were deemed nonviable and moved to non-accrual. The first of these two loans was transferred in May of 2009 and totaled $2,118,363 at the time of transfer with a $25,026 reversal of current year (2009) interest income accruals being made. A specific allowance of $985,039 was set up for this account with no charge-off being taken. The second loan was transferred effective June 30, 2009, and totaled $3,723,942 at the time of transfer with an $18,185 reversal of current year (2009) interest income accruals being made. A specific allowance of $1,456,530 was set up for this account with no charge-off being taken as of the second quarter. During the fourth quarter of 2009 the account originally transferred at $2,118,363 remained in a non-accrual status with no further adverse action taken on the account and the year-end outstanding balance being $2,052,571. As of June 30, 2010, the balance of this account stood at $2,027,987 with the related specific allowance remaining at $985,039. As of September 29, 2010, the account was liquidated with a charge-off of $964,889 against the $985,039 allowance, with the excess allowance being brought back into income. The liquidation also resulted in the association's portion of an acquired property valued at $1,050,248 being recorded as of September 29, 2010. Due to the receipt or recovery of $523,049 in additional collateral during November 2010 and a $64,231 liquidation of a portion of the original acquired property, the value of the acquired property relating to this loan was $1,509,066 at December 31, 2010. The account originally transferred at $3,723,942 was upgraded back to accrual status during the fourth quarter of 2009 and the $1,456,530 specific allowance was brought back into income.

In addition to the third quarter purchase/finance participation loan remaining in non-accrual, three additional participation loans had to be moved to non-accrual at the end of the third quarter of 2009. As of September 30, 2009, these three loans totaled $5,739,970 with specific allowances totaling $1,097,884 having been booked. In 2009, current year interest income reversals of $39,728 were booked at the same time these loan accounts were transferred to non-accrual. During the fourth quarter of 2009 the purchase/finance account remained in non-accrual status as indicated above with its related specific allowance returned to income. Also, as previously noted, the purchase/finance participation loan was returned to accrual status on March 17, 2010. Two of the other accounts with transfers originating in the third quarter also remained in a non-accrual status with balances totaling $1,818,210 at December 31, 2009, with additional specific allowances of $693,210 having been established. As of March 31 and June 30, 2010, the balance of these two non-accrual accounts totaled $1,828,911 and $1,796,594, respectively, and the related specific allowances remained at $1,122,678.

Also, due to a contractual obligation to make additional disbursements on one of these accounts, a $1,031,766 specific reserve for undisbursed commitment was established as of March 30, 2010, with additional reserves of $325,806 being added as of September 21, 2010, for a total of $1,357,572 at September 30, 2010. The funded principal balance on this account was fully charged off on September 21, 2010, using the related allowance of $372,678 plus an additional charge-off of $12,630. The other of these two non-accrual accounts remained in non-accrual status with a balance of $1,319,933 and a specific allowance of $750,000 at September 30, 2010. As of December 31, 2010, this non-accrual account had a balance of $1,252,586 with the $750,000 specific allowance still in place.

The third transferred account originating in the third quarter of 2009 was sold during the fourth quarter of 2009 resulting in $2,594,689 accounts receivable. This sale also resulted in an additional specific allowance of $11,848 and a subsequent charge-off of $794,733 in the fourth quarter of 2009. The $2,594,689 account receivable was collected in full as of March 11, 2010.

Additionally, during the fourth quarter of 2009 another accruing account was deemed as being troubled debt and was sold. This account's sale resulted in a $570,506 account receivable and a charge-off of $11,643 with a $1,909 reversal of current year (2009) interest accruals. The $570,506 accounts receivable was collected in full as of February 23, 2010.

During the second quarter of 2010, another district participation loan which the association participated in was deemed nonviable or as containing significant financial stress which resulted in this account being transferred to non-accrual. The account totaled $4,573,087 at transfer and $4,637,524 at June 30, 2010. A $114,408 reversal of current year (2010) interest accruals was made at the transfer to non-accrual, and a specific allowance for loan loss was not deemed necessary at that time. As of December 31, 2010, the balance of this participation loan was $4,637,524.

Temperatures in the association's territory were slightly warmer than normal for the season through fall and early winter. The first half of the year saw pretty good rainfall in most areas, but by year end most parts of the region were badly in need of precipitation. Small amounts of rain were reported in a few areas but nothing of a significant nature. Burn bans remained in effect in most of the association's chartered counties. Wheat that had been planted early was showing signs of severe stress due to dry conditions, and later plantings had not even come up in some areas. The cotton harvest was wrapping up, and ginning was nearly finished. Some cotton modules remained in the fields, but it was expected they would be moved to gins soon. Cotton producers reported average to a little above average yields. Rangeland and pasture conditions continued to decline due to lack of rainfall. Livestock remained in fair condition. Producers increased supplemental feeding of livestock during the last few weeks of the year. Pecan yields were good, and the harvest was expected to be completed during January. Pecan prices were excellent going into year end where quality was good.

The local economy in our chartered territory remains stable. Land values leveled off during the latter part of 2008, and although sales activity has slowed considerably, prices have remained stable during 2009 and 2010. At year end, prices for many of the area's major commodities such as cotton, wheat, milo, cattle, sheep and goats were high. Wheat prices at harvest were poor as the local discount (basis) to the national markets increased significantly over previous years, and grain buyers steeply discounted grain that did not meet rigid specifications for protein content. Many cotton farmers did not realize the higher prices for cotton due to having sold their cotton through various "marketing pools" that had forward contracted at lower prices. Cattle prices increased throughout the year and ended the year very high.

A large percentage of the association's new loans is made to individuals from urban areas in Texas purchasing land for small agriculture operations or for recreational use. These buyers are typically strong financially and are able to support their agricultural operations and make loan payments using income from outside sources. As a general rule, they do not have to rely on agricultural production to service debt. Because our territory is attractive to this type of borrower, the association has a well-diversified loan portfolio that is not concentrated in any one industry. Most of those borrowers who are primarily agricultural producers have well-diversified operations that are not concentrated in any single commodity. Many also have outside income from part-time employment, a spouse's employment, investments or other sources to help service debt and provide for living expenses. The true full-time agricultural producers in our territory have survived, sometimes for multiple generations, through times of volatile commodity prices and dry weather.

During the third quarter of 2010, Association Director Chris West paid his loans in full and thereby became ineligible to continue serving as a director. In addition, Director Larry Damron resigned from the board with the board formally accepting his resignation.

In December, 2010, the board of directors agreed to amend the bylaws to allow for the reduction of the board from 11 to nine directors (8 stockholder-elected and 1 director-elected). Subsequent to year end, the board formally adopted this change to the bylaws by resolution at the January 2011 board meeting.

Mr. James R. Isenhower retired as CEO of Central Texas Farm Credit, ACA effective December 31, 2010. Mr. Boyd J. Chambers became the new CEO effective January 1, 2011.

For over 93 years, the association has continued to provide its members with quality financial services. The board of directors and management remain committed to maintaining the financial integrity of the association while offering competitive loan products that meet the financial needs of agricultural producers.

Loan Portfolio:

The association makes and services loans to farmers, ranchers, rural homeowners and certain farm-related businesses. The association's loan volume consists of long-term farm mortgage loans, production and intermediate-term loans, and farm-related business loans. These loan products are available to eligible borrowers with competitive variable, fixed, adjustable, prime-based and LIBOR-based interest rates. Loan maturities range from one to 40 years, with annual operating loans comprising the majority of the commercial loans and 15- to 20-year maturities comprising the majority of the mortgage loans. Loans serviced by the association offer several installment payment cycles, the timing of which usually coincides with the seasonal cash-flow capabilities of the borrower.

The association has not originated any loans for sale to other entities nor does it have any loans that have been sold to or participated with the Federal Agricultural Mortgage Corporation.

Significant changes have not occurred in most aspects of the association's loan portfolio composition during the past three years; however, the volume of loans in the "Other" enterprises and "Other States" geographic categories have been reduced due to a systematic approach for reducing the association's risk in the participation portfolio. The composition of the association's loan portfolio, including principal less funds held of $390,781,482, $407,460,874 and $411,702,117 as of December 31, 2010, 2009 and 2008, respectively, is described more fully in detailed tables in Note 3 to the consolidated financial statements, "Loans and Allowance for Loan Losses," included in this annual report. Nearly all of the association's adversity in asset quality has stemmed from loans in its participation loan portfolio which were purchased through the Capital Markets Department of the Farm Credit Bank of Texas. There have been no material changes in the association's core portfolio's borrower profile, geographic distribution, commodity concentration or asset quality.

Purchase and Sales of Loans:

During 2010, 2009 and 2008, the association was participating in numerous loans with other lenders. As of December 31, 2010, 2009 and 2008, these participations totaled $74,625,682, $84,648,119 and $103,969,260, or 19.1 percent, 20.8 percent and 25.3 percent of loans, respectively. The association has never purchased any participation interest in any loans from any entities outside of the Tenth Farm Credit District. The association has also sold participations of $0, $0, and $772,203 as of December 31, 2010, 2009 and 2008, respectively. All such sales of participation interests have been to other associations within our district.

Risk Exposure:

High-risk assets include non-accrual loans, loans that are past due 90 days or more and still accruing interest, formally restructured loans and other property owned, net. The following table illustrates the association's components and trends of high-risk assets serviced for the prior three years as of December 31:

	2010		2009		2008	
	Amount	**%**	Amount	%	Amount	%
Nonaccrual	**$ 7,288,155**	**82.9%**	$ 6,498,487	100.0%	$ 7,326,444	100.0%
90 days past due and still accruing interest	**-**	**0.0%**	-	0.0%	-	0.0%
Formally restructured	**-**	**0.0%**	-	0.0%	-	0.0%
Other property owned, net	**1,509,066**	**17.2%**	-	0.0%	-	0.0%
Total	**$ 8,797,221**	**100.1%**	$ 6,498,487	100.0%	$ 7,326,444	100.0%

At December 31, 2010, 2009 and 2008, loans considered impaired were $7,288,155, $6,498,487 and $7,326,444, representing 1.9 percent, 1.6 percent and 1.8 percent of loan volume, respectively. Impaired loans consist of all high-risk assets except other property owned, net.

The association is not affected to any material extent by any seasonal characteristics. This is due in part to the fact that true production loans comprise a small part of the association's total loan portfolio and in part to the diversification in the portfolio, both in geographic distribution and in sources of repayment. In addition, the association is not dependent upon any single customer or single commodity or industry because of loan size or commodity concentration, again due to the lack of very large loans in the portfolio and the diversity present in the loan portfolio. No loans in the portfolio have any inherent special features that would have a material impact on the expected collectibility of said loans.

Allowance for Loan Losses:

The following table provides relevant information regarding the allowance for loan losses as of, or for the year ended, December 31:

	2010	2009	2008
Allowance for loan losses	**$ 1,621,793**	$ 2,740,323	$ 194,148
Allowance for loan losses to total loans	**0.42%**	0.67%	0.05%
Allowance for loan losses to nonaccrual loans	**22.25%**	42.17%	2.65%
Allowance for loan losses to impaired loans	**22.25%**	42.17%	2.65%
Net charge-offs to average loans	**0.54%**	0.21%	0.55%

The allowance for loan losses is maintained based upon estimates that consider the general financial strength of the agricultural economy, loan portfolio composition, credit administration and the portfolio's prior loan loss experience. Based upon ongoing risk assessment and the allowance for loan losses procedures outlined above, the allowance for loan losses of $1,621,793, $2,740,323 and $194,148 at December 31, 2010, 2009 and 2008, respectively, is considered adequate by management to compensate for inherent losses in the loan portfolio at such dates. Upon further analysis of the allowance for loan loss process, management refined its risk weighting methodology during the last half of 2010 for determining the levels of allowance for loan losses needed and for striking the proper distribution of these allowances between specific and general reserves.

Results of Operations:

The association's net income for the year ended December 31, 2010, was $8,358,406 as compared to $4,779,851 for the year ended December 31, 2009, reflecting an increase of $3,578,555, or 74.9 percent. The lower level of net income for 2009 was primarily due to an increased level of general allowance, significant amounts of specific reserves on participation loans and loan charge-offs. The association's net income for the year ended December 31, 2008 was $5,463,965. Net income decreased $684,114, or 12.5 percent, in 2009 versus 2008.

Net interest income for 2010, 2009 and 2008 was $11,090,472, $10,956,675 and $10,272,675, reflecting increases of $133,797, or 1.2 percent, for 2010 versus 2009 and $684,000, or 6.7 percent, for 2009 versus 2008. 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 factors in the increase of net interest income were our loan pricing policy and a decrease in our cost of funds. However, the increase was relatively small in 2010 as the result of an offsetting decrease in loan volume. The effects of changes in average volume and interest rates on net interest income over the past three years are presented in the following tables:

	2010		2009		2008	
	Average Balance	**Interest**	Average Balance	Interest	Average Balance	Interest
Loans	**$ 394,938,855**	**$ 19,857,485**	$ 418,666,994	$ 21,487,044	$ 408,075,261	$ 24,366,232
Investments	**-**	**-**	-	-	-	-
Total interest-earning assets	**394,938,855**	**19,857,485**	418,666,994	21,487,044	408,075,261	24,366,232
Interest-bearing liabilities	**327,434,466**	**8,767,013**	353,596,388	10,530,369	347,353,437	14,093,557
Impact of capital	**$ 67,504,389**		$ 65,070,606		$ 60,721,824	
Net interest income		**$ 11,090,472**		$ 10,956,675		$ 10,272,675

	Average Yield	Average Yield	Average Yield
Yield on loans	**5.03%**	5.13%	5.97%
Yield on investments	**0.00%**	0.00%	0.00%
Total yield on interest-earning assets	**5.03%**	5.13%	5.97%
Cost of interest-bearing liabilities	**2.68%**	2.98%	4.06%
Interest rate spread	**2.35%**	2.15%	1.91%

	2010 vs. 2009			2009 vs. 2008		
	Increase (decrease) due to			Increase (decrease) due to		
	Volume	**Rate**	**Total**	Volume	Rate	Total
Interest income - loans	**$ (1,217,799)**	**$ (411,760)**	**$ (1,629,559)**	$ 632,432	$ (3,511,620)	$ (2,879,188)
Interest income - investments	**-**	**-**	**-**	-	-	-
Total interest income	**(1,217,799)**	**(411,760)**	**(1,629,559)**	632,432	(3,511,620)	(2,879,188)
Interest expense	**(779,128)**	**(984,228)**	**(1,763,356)**	253,301	(3,816,490)	(3,563,189)
Net interest income	**$ (438,671)**	**$ 572,468**	**$ 133,797**	$ 379,131	$ 304,870	$ 684,001

Gross interest income decreased by $1,629,559, or 7.6 percent, compared to 2009, primarily due to a decreased level of loan volume. Interest expense for 2010 decreased by $1,763,356, or 16.8 percent, compared to 2009 due to a decreased level of loan funding and a lower funding cost. The interest rate spread increased by 20 basis points to 2.35 percent in 2010 from 2.15 percent in 2009, primarily because the reductions in funding cost were not fully passed through to the borrower rates. In 2010, the association implemented authoritative accounting guidance that requires loan origination fees and costs to be capitalized and amortized over the life of the loans as an adjustment to yield. The resulting adjustment to loan yield for 2010 was an increase of $43,963 or 1.1 basis points. The interest rate spread increased by 20 basis points to 2.35 percent in 2010 and had increased by 24 basis points to 2.15 percent in 2009 from 1.91 percent in 2008, primarily because of spreads being allowed to creep up slightly to make up for lost income on the association's own funds that occurs when interest rates are falling.

Noninterest income for 2010 increased by $426,491, or 17.4 percent, compared to 2009, due primarily to a refund of FCSIC insurance premiums from prior years and due to increased patronage provided by the Bank on the association's direct note. Authoritative accounting guidance requiring the capitalization and amortization of loan origination fees and costs was implemented during 2010 for loans closed in 2010, resulting in the capitalization of $293,565 in origination fees and $337,528 of origination expense which will be amortized over the life of the loans as an adjustment to yield in net interest income. Noninterest income for 2009 increased by $456,098, or 22.9 percent, compared to 2008, due primarily to the increased patronage provided by the bank on the association's direct note and because acquired property costs were much less in 2009. The current year increase in noninterest income included $410,939 in refund distributions of excess reserves from prior years from the Farm Credit System Insurance Corporation (FCSIC or Insurance Fund). The distributions from the FCSIC included reserves it held in excess of its secure base amount in 2003 which had been previously allocated to its Allocated Insurance Reserves Accounts, and also included reserves in excess of its secure base amount in 2009 which were likewise allocated. The 2008 Farm Bill amended the Farm Credit Act and simplified the formula for payments from the Allocated Insurance Reserves Accounts to allow more immediate distribution of excess Insurance Fund balances to System Banks.

Provisions for loan losses decreased by $2,419,481, or 70.3 percent, compared to 2009, due primarily to decreased adverse activity in the association's loan portfolio, particularly as it relates to participation loans. Recoveries of $700,379 on previously charged off loans accounted for 28.9 percent of the $2,419,481 reduction in provision expense.

Operating expenses consist primarily of salaries, employee benefits and purchased services. Expenses for purchased services may include administrative services, marketing, information systems, accounting and loan processing, among others. The association's operating expenses were $4,587,626, $5,186,594 and $4,468,097 for 2010, 2009 and 2008, respectively. These expense totals reflect a decrease in operating expense of $598,968, or 11.5 percent from 2009 to 2010 and an increase in operating expense of $718,497 or 16.1 percent from 2008 to 2009. Authoritative accounting guidance requiring the capitalization and amortization of loan origination fees and costs was implemented during 2010 for loans closed in 2010, resulting in the capitalization of $43,963 in net origination costs, which will be amortized over the life of the loans as an adjustment to yield in net interest income. The capitalized costs consisted of salaries and benefits totaling $337,528 related to the origination of loans. The $598,786 decrease in operating expenses included a decrease of $522,249 in premiums to the Insurance Fund, resulting from a decrease in the premium rates from 20 basis points in 2009 to 5 basis points in 2010.

For the year ended December 31, 2010, the association's return on average assets was 2.1 percent, as compared to 1.1 percent and 1.3 percent for the years ended December 31, 2009 and 2008, respectively. For the year ended December 31, 2010, the association's return on average members' equity was 11.2 percent, as compared to 6.7 percent and 7.8 percent for the years ended December 31, 2009 and 2008, respectively. The association's improved returns on assets and equity are most significantly impacted by the reduction in adverse loan activity but also by the refunds and expense reduction provided by the FCSIC. Other reductions in expense, an increase in bank patronage, and increased loan spreads also aided in the improved return percentages of the association.

For the year ended December 31, 2010, the association's net interest margin was 2.86% as compared to 2.68% and 2.53% at year end 2009 and 2008, respectively. The increase in net interest margin from 2009 to 2010 was due to a decrease in average earning assets and a slight increase in net interest income. The increase in net interest margin from 2008 to 2009 is reflective of the association's level of average earning assets staying relatively stable during that period while net interest income increased. Increases in net income were discussed earlier in this section.

Because the association depends on the bank for funding, any significant positive or negative factors affecting the operations of the bank would have a similar effect on the operations of the association.

Liquidity and Funding Sources:

The interest rate risk inherent in the association's loan portfolio is substantially mitigated through the funding relationship with the bank. The bank manages interest rate risk through its direct loan pricing and asset/liability management process.

The primary source of liquidity and funding for the association is a direct loan from the bank. The outstanding balance of $314,107,511, $343,459,699 and $348,241,892 as of December 31, 2010, 2009 and 2008, respectively, is recorded as a liability on the association's balance sheet. The note carried a weighted average interest rate of 2.68 percent, 2.80 percent and 3.50 percent at December 31, 2010, 2009 and 2008, respectively. The indebtedness is collateralized by a pledge of substantially all of the association's assets to the bank and is governed by a financing agreement. The decrease in note payable to the bank and related accrued interest payable since December 31, 2009, is primarily due to the association's systematic reduction of participation loan volume to reduce risk in the association's overall loan portfolio. The association's own funds, which represent the amount of the association's loan portfolio funded by the association's equity, were $77,663,225, $64,008,175 and $63,332,201 at December 31, 2010, 2009 and 2008, respectively. The maximum amount the association may borrow from the bank as of December 31, 2010, was $391,957,937 as defined by the general financing agreement.

The liquidity policy of the association is to manage cash balances to maximize debt reduction, and to increase accrual loan volume. This policy will continue to be pursued during 2011. As borrower payments are received, they are applied to the association's note payable to the bank.

The association will continue to fund its operations through direct borrowings from the bank, capital surplus from prior years and borrower stock. It is management's opinion that funds available to the association are sufficient to fund its operations for the coming year.

Capital Resources:

The association's capital position remains strong, with total members' equity of $76,863,226, $71,898,848 and $69,636,391 at December 31, 2010, 2009 and 2008, respectively. Under regulations governing minimum permanent capital adequacy and other capitalization issues, the association is required to maintain a minimum adjusted permanent capital of 7.0 percent of risk-adjusted assets as defined by the FCA. The permanent capital ratio measures available at-risk capital relative to risk-adjusted assets and off-balance-sheet contingencies. The ratio is an indicator of the institution's financial capacity to absorb potential losses beyond that provided in the allowance for loan loss accounts. The association's permanent capital ratio at December 31, 2010, 2009 and 2008 was 17.3 percent, 14.7 percent and 15.0 percent, respectively. The core surplus ratio measures available core surplus capital relative to risk-adjusted assets and off-balance-sheet contingencies. The ratio is an indicator of the quality of capital that exists to maintain stable earnings and financial strength. The association's core surplus ratio at December 31, 2010, 2009 and 2008 was 16.7 percent, 14.4 percent and 14.5 percent, respectively, which is in compliance with the FCA's minimum ratio requirement of 3.5 percent. The total surplus ratio measures available surplus capital relative to risk-adjusted assets and off-balance-sheet contingencies. The ratio is an indicator of the reserves existing to protect borrowers' investments in the association. The association's total surplus ratio at December 31, 2010, 2009 and 2008 was 16.7 percent, 14.4 percent and 14.5 percent, respectively, which is in compliance with the FCA's minimum ratio requirement of 7.0 percent.

Total members' equity increased by $4.96 million during 2010 due to the net income for the period. The association's capital plan is designed to maintain an adequate amount of surplus and allowance for loan losses, which represents the association's reserve for adversity prior to impairment of stock. The association manages its capital in such a manner as to allow itself the ability to meet member needs and protect member interests, both now and in the future.

At December 31, 2010 the association's permanent capital ratio, total surplus ratio and core surplus ratio significantly exceeded the regulatory minimum requirements. See Note 7 to the consolidated financial statements, "Members' Equity," included in this annual report for further discussions of these regulatory ratios. The sustainability of the ratios noted above are the result of the association implementing its capital plan to utilize its strong capital position to increase quality loan volume and, therefore, net earnings, for the benefit of its stockholders through competitive interest rates and its patronage program. This utilization of capital has allowed the association to achieve these goals while maintaining a capital base adequate to protect the members' interests in the association and to allow for future growth and investment in new products and services, while at the same time avoiding any adverse variances from regulatory requirements.

In 2010, 2009 and 2008, the association paid patronage of $2,500,000, $2,500,000 and $2,500,000, respectively. In December 2010, the board of directors approved a $3,200,000 patronage distribution to be paid in March 2011. See Note 7 to the consolidated financial statements, "Members' Equity," included in this annual report, for further information.

Relationship with the Bank:

The association's statutory obligation to borrow only from the bank is discussed in Note 6 to the consolidated financial statements, "Note Payable to the Bank," included in this annual report.

The bank's ability to access capital of the association is discussed in Note 2 to the consolidated financial statements, "Summary of Significant Accounting Policies," included in this annual report, within the section "Capital Stock Investment in the Bank."

The bank's role in mitigating the association's exposure to interest rate risk is described in the section "Liquidity and Funding Sources" of Management's Discussion and Analysis and in Note 6 to the consolidated financial statements, "Note Payable to the Bank," included in this annual report.

The bank provides computer systems to support the critical operations of all district associations. In addition, each association has operating systems and facility-based systems that are not supported by the bank. As disclosed in Note 9 to the consolidated financial statements, "Related Party Transactions," included in this annual report, the bank provides many services that the association can utilize, such as administrative, marketing, information systems and accounting services. Additionally, the bank allocates district expenses to the associations, such as the Farm Credit System Insurance Corporation insurance premiums.

Summary:

Over the past 93 years, regardless of the state of the agricultural economy, your association's board of directors and management, as well as the board of directors and management of the bank, have been committed to offering their borrowers a ready source of financing at a competitive price. Your continued support will be critical to the success of this association.

DISCLOSURE INFORMATION AND INDEX

Disclosures Required by Farm Credit Administration Regulations

DESCRIPTION OF BUSINESS

The description of the territory served, the persons eligible to borrow, the types of lending activities engaged in and the financial services offered, and related Farm Credit organizations required to be disclosed in this section is incorporated herein by reference from Note 1 to the consolidated financial statements, "Organization and Operations," included in this annual report.

The descriptions of significant developments that had or could have a material impact on earnings or interest rates to borrowers and acquisitions or dispositions of material assets, if any, required to be disclosed in this section are incorporated herein by reference from "Management's Discussion and Analysis of Financial Condition and Results of Operations," included in this annual report.

DESCRIPTION OF PROPERTY

The Central Texas Farm Credit, ACA (association) serves its 19-county territory through its main administrative and lending office at 215 West Elm Street, Coleman, Texas. Additionally, there are six (6) branch lending offices located throughout the territory. The association owns office buildings in Brady, Brownwood, Coleman, Haskell and San Angelo, Texas, free of debt. The association leases office buildings in Baird and Comanche, Texas.

LEGAL PROCEEDINGS

In the ordinary course of business, the association is involved in various legal proceedings. In the opinion of legal counsel and management, there are no legal proceedings at this time that are likely to materially affect the consolidated financial statements of the association.

DESCRIPTION OF CAPITAL STRUCTURE

The information required to be disclosed in this section is incorporated herein by reference from Note 7 to the consolidated financial statements, "Members' Equity," included in this annual report.

DESCRIPTION OF LIABILITIES

The description of contingent liabilities required to be disclosed in this section is incorporated herein by reference from Notes 2 and 10 to the consolidated financial statements, "Summary of Significant Accounting Policies" and "Commitments and Contingencies," respectively, included in this annual report.

RELATIONSHIP WITH THE FARM CREDIT BANK OF TEXAS

The association's financial condition may be impacted by factors that affect the Farm Credit Bank of Texas (bank), as discussed in Note 1 to the consolidated financial statements, "Organization and Operations," included in this annual report. The financial condition and results of operations of the bank may materially affect the stockholders' investment in the association.

The Tenth Farm Credit District's (district) annual and quarterly stockholder reports are available free of charge, upon request. These reports can be obtained by writing to Farm Credit Bank of Texas, The Ag Agency, P.O. Box 202590, Austin, Texas 78720-2590 or calling (512) 483-9204. Copies of the district's annual and quarterly stockholder reports can also be requested by e-mailing *fcb@farmcreditbank.com*. The district's annual and quarterly stockholder reports are also available on its website at *www.farmcreditbank.com*

The association's quarterly stockholder reports are also available free of charge, upon request. These reports will be available approximately 40 days after quarter end and can be obtained from the association's website at www.centraltexasaca.com or by writing to Central Texas Farm Credit, ACA, P.O. Box 511, Coleman, Texas 76834, or calling (325) 625-2165. Copies of the association's quarterly stockholder reports can also be requested by e-mailing *alan.benedict@farmcreditbank.com.* The association also makes its annual stockholder reports available on its website at *www.centraltexasaca.com* 75 days after the fiscal year end. Copies of the association's annual stockholder report can also be requested at any Central Texas Farm Credit, ACA office 90 days after the fiscal year end. Hard copies of the published annual report are also mailed to all association stockholders by no later than 90 days after the fiscal year end.

SELECTED FINANCIAL DATA

The selected financial data for the five years ended December 31, 2010, required to be disclosed, is incorporated herein by reference to the "Five-Year Summary of Selected Combined Financial Data" included in this annual report to stockholders.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

"Management's Discussion and Analysis," which precedes the combined financial statements in this annual report, is incorporated herein by reference.

DIRECTORS AND SENIOR OFFICERS

The association's member-elected and director-elected board of directors and senior officers as of December 31, 2010 are as follows:

NAME	POSITION	LENGTH OF TIME SERVED IN THIS POSITION	DATE ELECTED/ EMPLOYED	TERM EXPIRES
Brent M. Heinze	Chairman	-	2006	2012
Robby A. Halfmann	Vice Chairman	-	2008	2011
Jerry Don Klose	Director	-	2008	2011
Cody B. Richmond	Director	-	2005	2013
Mike Finlay	Director	-	2008	2011
Glenn T. Miller	Director-Elected Director	-	2006	2012
Mickey D. Dillard	Director	-	1995	2013
Philip W. Hinds	Director	-	2009	2012
A.Wayland Shurley	Director	-	2007	2013
James R. Isenhower	Chief Executive Officer	41 Years	1966	-
Ronnie L. Reinisch	Chief Operating Officer	13 Years	1986	-
Boyd J. Chambers	Executive V.P./Chief Credit Officer	5 Years	1987	-
Alan E. Benedict	Controller/Treasurer	10 Years	1975	-
Frankie Gregg	Operations Manager I	7 Years	1993	-
Zach May	Operations Manager II	2 Years	2008	-
Travis B. McKinney	Senior Vice-President - Lending	1 Year	2000	-

A brief statement of the business and employment background of each director and senior officer is provided for informational purposes.

DIRECTORS:

The following represents information regarding directors who served as of December 31, 2010. All directors have been engaged in agriculture related activities during the past five years:

Brent M. Heinze, age 53. Mr. Heinze is a farmer and rancher in Runnels and Tom Green counties. His principal business consists of farming wheat, grain sorghum and cotton and raising sheep and goats. He is past president of the Miles Young Farmers organization, served as a director of the Miles Co-op Gin, and serves as a director of the Willow Creek Water District. He is a member of the Tom Green County Farm Bureau, the Harriett Baptist Church and the Texas Sheep and Goat Raisers Association. Mr. Heinze is chairman of the board and also serves as chairman on the association's Audit, Compensation, Executive and Credit Review committees. He also is the association's representative on the district bank's Stockholders Advisory Committee and Nominating Committee. Mr. Heinze was first elected to the board in 2006 and is currently serving a three-year term expiring in 2012.

Robby A. Halfmann, age 30. Mr. Halfmann is a farmer and rancher in Runnels, Coleman and Concho counties. His principal business is operating a stocker cattle and cow-calf operation, along with farming small grains. He is also an order buyer for Frey Cattle Company and serves as foreman for that company. Mr. Halfmann has served on the nominating board of the Coleman County Electric Cooperative. Mr. Halfmann is vice chairman of the board and also serves on the association's Audit, Compensation and Executive committees. He is also the association's alternate representative on the district bank's Stockholders Advisory Committee and Nominating Committee. Mr. Halfmann was first appointed to the board in 2008 and is currently serving a three-year term expiring in 2011.

Jerry Don Klose, age 67. Mr. Klose is a farmer and rancher in Haskell County. His principal business consists of farming cotton, wheat and hay crops, along with running a cow-calf operation. He is a member of the Trinity Lutheran Church. Mr. Klose has served on the board of the Haskell County Farm Bureau, the Haskell County Appraisal Review Board for eight years, the Haskell Co-op Gin Board where he also served as chairman, and served as chairman of the Sons of Hermann Lodge No. 241. Mr. Klose has been recognized by the Texas Family Land Heritage Program for continuous family operation of the same land for at least 100 years. Mr. Klose also serves on the association's Audit and Compensation committees. Mr. Klose was first elected to the board in 2008 and is currently serving a three-year term expiring in 2011.

Cody B. Richmond, age 38. Mr. Richmond is a farmer and rancher in Brown County. His principal business consists of a commercial cow-calf operation, a registered Angus operation, and wheat and oats production. He is also employed as executive vice president of operations with Nelson Wholesale Service in Brownwood, Texas. He has served in volunteer positions with the Brown County Youth Fair and the Blanket United Methodist Church. Mr. Richmond also serves on the association's Audit and Compensation committees. Mr. Richmond was first appointed to the board in 2005 and is currently serving a three-year term expiring in 2013.

Mike Finlay, age 62. Mr. Finlay is a farmer and rancher in McCulloch and Coleman counties. His principal business consists of farming cotton, wheat, grain sorghum and hay crops, along with running a cattle and sheep operation. He is a member of the McCulloch County Conservation Board, the McCulloch County Tax Appraisal District Board and the First United Methodist Church in Brady. Mr. Finlay has also served on the Lohn Co-op Gin Board, the McCulloch County Soil & Water Conservation Board, the Lohn School Board and the Millersview-Doole Water Supply Corporation Board. Mr. Finlay also serves on the association's Audit and Compensation committees. Mr. Finlay was first elected to the board in 2008 and is currently serving a three-year term expiring in 2011.

Glenn T. Miller, age 59. Mr. Miller is a certified public accountant with his business located in Brady, Texas. Although his principal business is that of his CPA practice, Mr. Miller also operates a stock farm on which he runs a sheep operation. He serves as the director-elected director of this association and brings a wealth of financial expertise to the board. Mr. Miller is actively involved with the Brady Industrial Foundation and with the Brady Presbyterian Church. Mr. Miller also serves on the association's Audit, Compensation and Credit Review committees. Mr. Miller was first appointed to the director-elected director position in 2006 and is currently serving a three-year term expiring in 2012.

Mickey D. Dillard, age 67. Mr. Dillard is a farmer and rancher in Concho and McCulloch counties. His principal business consists of farming wheat, grain sorghum and cotton, along with operating commercial cow-calf and Rambouillet sheep operations. He has served on the boards of the Millersview/Doole Water Supply Corporation, the Millersview Senior Citizens Center and the Eden Consolidated Independent School District. Mr. Dillard retired from the Texas Department of Transportation after 31 years of service. Mr. Dillard also serves on the association's Audit and Compensation committees. Mr. Dillard was first elected to the board in 1995 and is currently serving a three-year term expiring in 2013.

Philip W. Hinds, age 53. Mr. Hinds is a stock farmer in Coleman County. His principal business is that of owner/operator of a furniture business in Coleman. He has been a member of the Coleman County Farm Bureau and the Coleman County Rodeo Association. He is a member of the First Baptist Church in Coleman. Mr. Hinds also serves on the association's Audit and Compensation committees. Mr. Hinds was first appointed to the board in 2009 and is currently serving a three-year term expiring in 2012.

A. Wayland Shurley, age 68. Mr. Shurley is a farmer and rancher in Jones County. His principal business consists of farming cotton and wheat, along with managing a cow-calf and stocker operation. He currently serves on the Lutheran Church Council and the Stamford EMS Board. Mr. Shurley is retired from the USDA after 26 years of service with the Farm Service Agency, holding the position of state executive director for the state of Texas. Mr. Shurley also serves on the association's Audit and Compensation committees. Mr. Shurley was first elected to the board in 2007 and is currently serving a three-year term expiring in 2013.

NOTE: Director Chris West paid his loans in full in August 2010 and thereby became ineligible to continue to serve as a director of the Association. Also, in August 2010, Director Larry Damron resigned from the board.

SENIOR OFFICERS:

The following represents information regarding senior officers of the association for the past five years. No senior officer of the association has had any other business interest wherein they served as a director or served as a senior officer of such business during the past five years:

James R. Isenhower, age 67. Mr. Isenhower is the chief executive officer of the association. His principal occupation is serving as the CEO of this association, and he has served in the position of CEO for the past 41 years. He has been employed in the Farm Credit System since 1966. Mr. Isenhower also operates a part-time farm and ranch in Coleman and Callahan counties. Mr. Isenhower retired effective December 31, 2010.

Ronnie L. Reinisch, age 59. Mr. Reinisch is the chief operating officer of the association. His principal occupation is serving as the COO of this association, and he has served in the position of COO for the past 13 years. He has been employed in the Farm Credit System since 1986. Mr. Reinisch also operates a small part-time farm in McCulloch County.

Boyd J. (Jimmy) Chambers, age 50. Mr. Chambers is the executive vice president/chief credit officer of the association. His principal occupation is serving as the executive vice president/CCO of this association. He has served in the position of CCO for the past five years and in the position of executive vice president for the past one year. Prior to joining this association in February, 2006, Mr. Chambers served as vice president of lending with Southwest Texas, ACA. He has been employed in the Farm Credit System since 1987. Mr. Chambers also operates a small part-time farm in Coleman County. Mr. Chambers became the chief executive officer effective January 1, 2011.

Alan E. Benedict, age 60. Mr. Benedict is the controller/treasurer of the association. His principal occupation is serving as the controller/treasurer of this association, and he has served in this position for the past 10 years. Prior to joining this association in June 2004, Mr. Benedict served in the same capacity with AgriLand FCS, ACA. He has been employed in the Farm Credit System since 1975.

Frankie Gregg, age 60. Mrs. Gregg is the operations manager of the association. Her principal occupation is serving as the operations manager of this association, and she has served in this position for the past seven years. Prior to her promotion to operations manager, Mrs. Gregg served in the position of office manager in the association. She has been employed in the Farm Credit System since 1993.

Zach May, age 32. Mr. May is also an operations manager of the association. His principal occupation is serving as operations manager of this association, and he has served in this position for the past two years. His primary duties involve training to eventually assume the COO position upon the retirement of the current COO. Prior to his employment with this association, Mr. May served for nearly three and one-half years with the Farm Credit Administration, attaining the position of a commissioned examiner. Mr. May also spent nearly a year with Capital Farm Credit, ACA in the capacity of senior credit analyst before joining this association. He has been employed in the Farm Credit System since 2008.

Travis B. McKinney, age 34. Mr. McKinney is the senior vice president–lending of the association. His principal occupation is serving as senior vice president–lending of this association, and he has served in this position for the past one year. Prior to his promotion, he served as the branch president of the Brownwood branch office and continues his duties as branch president at Brownwood. His primary duties involve assisting the chief credit officer in the analysis of loans made by the credit staff, training all credit staff in the extension of short-, intermediate- and long-term credit and managing the Brownwood branch office. He has been employed in the Farm Credit System since 2000.

COMPENSATION OF DIRECTORS

Directors were compensated for their service to the association in the form of an honorarium at the rate of $600 per month. Directors are also compensated at the rate of $400 per day for out-of-town meetings and $150 for each special committee meeting, and they were reimbursed for certain expenses incurred while representing the association in an official capacity. Mileage for attending official meetings during 2010 was paid at the IRS-approved rate of 50 cents per mile. A copy of the travel policy is available to stockholders of the association upon request.

	Number of Days Served Associated With		
Director	Board Meetings (No.)	Other Official Activities (Days)	Total Compensation in 2010
Brent M. Heinze	11	8.5	9,700
Robby A. Halfmann	11	3.0	7,500
Jerry Don Klose	11	13.5	11,700
Cody B. Richmond	9	1.0	7,350
Mike Finlay	10	3.0	7,500
Glenn T. Miller	8	10.5	10,900
Mickey D. Dillard	11	5.5	8,500
Philip W. Hinds	11	5.5	8,500
A.Wayland Shurley	9	2.0	7,500
Chris West	7	5.0	6,300
Larry G. Damron	5	1.0	4,950
			$ 90,400

The aggregate compensation paid to directors in 2010, 2009 and 2008 was $90,400, $97,850 and $96,050, respectively. Additional detail regarding director compensation paid for committee service (which is included in the table above) is as follows:

	Committee		
Director	Audit	Compensation	Other Committees, if Any
Brent M. Heinze	$ 800	$ 150	$ 800
Robby A. Halfmann	-0-	150	-0-
Jerry Don Klose	800	150	-0-
Cody B. Richmond	-0-	150	-0-
Mike Finlay	-0-	150	-0-
Glenn T. Miller	1,800	-0-	400
Mickey D. Dillard	-0-	150	-0-
Philip W. Hinds	1,000	150	-0-
A.Wayland Shurley	-0-	150	-0-
Chris West	-0-	-0-	-0-
Larry G. Damron	-0-	-0-	-
	$ 4,400	$ 1,200	$ 1,200

The aggregate amount of reimbursement for travel, subsistence and other related expenses paid to directors and on their behalf was $17,666, $20,890 and $22,518 in 2010, 2009 and 2008, respectively. All compensation paid to directors in 2010 was cash compensation. There was no noncash compensation provided to any director during 2010.

COMPENSATION OF SENIOR OFFICERS

Name of Individual	Year	Salary	Bonus	Perquisite	Deferred/ Other*	Total
James R. Isenhower,						
CEO and President	2010	$ 232,109	$ 49,343	-	$ 93,974	$ 375,426
	2009	220,000	0	-	16,326	236,326
	2008	220,000	46,000	-	17,983	283,983

Name of Group	Year	Salary	Bonus	Perquisite	Deferred/ Other*	Total
5 Highest Paid Officers 2010, 2009 & 2008 (Excluding CEO)						
5 Senior Officers	2010	$ 556,316	$ 126,000	-	$ 30,092	$ 712,408
5 Senior Officers	2009	529,220	30,000	-	28,886	588,106
5 Senior Officers	2008	495,000	81,030	-	25,939	601,969

* "Other" includes contributions to 401(k) and defined contribution plans, automobile benefits, and IRS value of life insurance premiums paid.

NOTE: The above CEO compensation data also includes the payment to him for his unused annual leave and the gift of one month's pay upon the CEO's retirement on December 31, 2010, all per Association policy.

Disclosure of information on the total compensation paid and the arrangements of the compensation plans during the last fiscal year to any senior officer or to any other officer included in the aggregate is available and will be disclosed to shareholders of the institution upon request.

Total compensation paid to the five most highly paid officers of the association, including the CEO and including bonuses, was $976,385, $730,749 and $786,939 in 2010, 2009 and 2008, respectively. Bonuses paid to such officers for 2010, 2009 and 2008 were $161,343, $30,000 and $118,430, respectively.

Employees assigned association automobiles reimburse the association for personal miles at a board-established rate. Employees who use their personal automobile for business purposes were reimbursed during 2010 at the IRS-approved rate of 50 cents per mile.

All employee salaries and bonuses are administered in accordance with the board-approved Association Salary Plan and Association Bonus Program, respectively, as recommended by the Compensation Committee. In each case, the board of directors sets the CEO's salary and bonus each year. The board also annually provides the CEO with an aggregate amount for other employee bonuses to be distributed by the CEO based on merit. Employee salaries, other than the CEO's, are set by the CEO each year in accordance with the Association Salary Plan and reported to the board. Compensation is based on a calendar year with salaries paid twice a month and bonuses generally paid in December of each calendar year. The association does not defer any compensation.

In December 2010 the board of directors amended the Association Bonus Program to explicitly state that the amount of bonuses paid to employees excluding the CEO may, in the aggregate, be up to 16.7 percent of employees' total salaries, excluding the CEO's salary, meaning that 16.7 percent of employees' total salaries, excluding the CEO's salary, is the maximum amount of bonuses that could be paid to employees, excluding the CEO. The amended Bonus Program also states that if the association's net income is such that the association cannot pay a patronage, then no bonuses will be paid to employees. It also states that final approval of bonuses to employees and to the CEO shall be made at the November meeting of the board of directors and shall be made at the sole discretion of the board.

The association does not have an employee compensation "incentive plan."

Neither the CEO nor any other senior officer received non-cash compensation exceeding $5,000 in 2010.

Senior officers, including the CEO, are reimbursed for reasonable travel, subsistence and other related expenses while conducting association business. A copy of the association's travel policy is available to shareholders upon request.

TRANSACTIONS WITH DIRECTORS AND SENIOR OFFICERS

The association's policies on loans to and transactions with its officers and directors, required to be disclosed in this section, are incorporated herein by reference from Note 9 to the consolidated financial statements, "Related Party Transactions," included in this annual report.

DIRECTORS' AND SENIOR OFFICERS' INVOLVEMENT IN CERTAIN LEGAL PROCEEDINGS

No directors or senior officers of the association have had any involvement in any events or legal proceedings as required to be disclosed per FCA Regulation 620.5(k) during the past five years.

RELATIONSHIP WITH INDEPENDENT AUDITOR

The association board and audit committee have approved the association's contracting with Simonton & Kutac, LLP, for both the association's financial auditing and income tax related services. This appointment of Simonton & Kutac, LLP reflects no change in auditing firms from past years. The board and audit committee reviewed the non-audit tax services provided by Simonton & Kutac, LLP and concluded that these services were not incompatible with maintaining the independent accountant's independence. The board and audit committee have discussed with management and Simonton & Kutac, LLP such other matters and received such assurances from them as the board and audit committee deemed appropriate. Based on these discussions, the audit committee approved all services provided by Simonton & Kutac, LLP. Amounts paid to Simonton & Kutac, LLP for audit and non-audit tax services for 2010 totaled $71,425 and $11,050, respectively. There were no other services provided to the association by Simonton & Kutac, LLP in 2010.

FINANCIAL STATEMENTS

The financial statements, together with the report thereon of Simonton & Kutac, LLP dated February 28, 2011, and the report of management in this annual report to stockholders, are incorporated herein by reference.

CODE OF ETHICS

Central Texas Farm Credit, ACA

The association and its directors, officers and employees have committed to conduct business in accordance with the highest ethical standards as set forth in the association's Standards of Conduct Policy relating to ethical conduct, conflicts of interest and compliance with the law.

This Code of Ethics applies to the board chairman, board members, officers and all other association employees. The association is responsible for the preparation and distribution of its financial statements and related disclosures and for providing relevant information that is true, accurate and complete to the Federal Farm Credit Banks Funding Corporation for use in preparing the Farm Credit System financial statements and related disclosures.

The association expects all of its directors, officers, and other employees to act in accordance with the highest standards of personal and professional integrity in all aspects of their activities, to comply with all applicable laws, rules and regulations, to deter wrongdoing and abide by its Standards of Conduct Policy and other policies and procedures approved by the board of directors and employed by the association that govern the conduct of its directors, officers and employees. This Code of Ethics is intended to supplement the association's Standards of Conduct Policy.

Each director, officer and employee agrees to:

a. Engage in and promote honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships.

b. Avoid conflicts of interest and disclose to the association's standards of conduct official any material transaction or relationship that reasonably could be expected to give rise to a conflict of interest, or gives the appearance of a conflict of interest.

c. Take all reasonable measures to protect the confidentiality of nonpublic information about the association and its customers obtained or created in connection with its activities and to prevent the unauthorized disclosure of this information unless required by applicable law or regulation or legal or regulatory process.

d. Produce full, fair, accurate, timely and understandable disclosure in association financial statements and related financial reports or communications as well as association reports and documents filed with, or submitted to, the Funding Corporation and the Farm Credit Administration.

e. Comply with applicable governmental laws, rules and regulations, as well as the rules and regulations of self-regulatory agreements to which the association is a party.

f. Promptly report any possible violation of this Code of Ethics to the association's standards of conduct official.

Directors, officers and employees are prohibited from directly or indirectly taking any action to fraudulently influence, coerce, manipulate or mislead the association's independent public accountant, other director, officer or employee for the purpose of rendering the financial statements of the association misleading or for any other purpose that is in violation of standards of conduct.

Directors, officers and employees understand that they will be held accountable for adherence to the Code of Ethics. Failure to observe the terms of this Code of Ethics may result in disciplinary action, up to and including termination of employment or removal from the board of directors. Violations of the Code of Ethics may also constitute violations of law and may result in civil and criminal penalties.

Any questions regarding the best course of action in a particular situation should be promptly addressed to the association's standards of conduct official. Any individual reporting any possible violation of this Code of Ethics may remain anonymous when reporting a possible violation of this Code of Ethics.

The association has retained a qualified, independent third-party individual to serve as the association's standard of conduct official who shall be the primary contact for reporting of alleged violations of this Code of Ethics or association standards of conduct.

CREDIT AND SERVICES TO YOUNG, BEGINNING AND SMALL FARMERS AND RANCHERS, AND PRODUCERS OR HARVESTERS OF AQUATIC PRODUCTS

MISSION STATEMENT

The mission of the Central Texas Farm Credit, ACA is to make a concerted and cooperative effort to finance young, beginning, or small farmers, ranchers and producers or harvesters of aquatic products through a program designed to meet the needs of such applicants to the fullest extent of their creditworthiness.

DEFINITIONS

1. Young Borrower: A farmer, rancher or producer or harvester of aquatic products is one who is age 35 or younger as of the loan transaction date.

2. Beginning Borrower: A farmer, rancher or producer or harvester of aquatic products who has 10 years or less farming, ranching or aquatic experience as of the loan transaction date.

3. Small Borrower: A farmer, rancher or producer or harvester of aquatic products who normally generated less than $250,000 in annual gross sales of agricultural or aquatic products at the date the loan was originally made.

STRATEGY

To accomplish this mission, the association will provide:

1. Maximum coordination a) between this association and other associations when developing a joint line of credit for an applicant/borrower; b) between this association and a nonSystem lender when involved in developing a joint line of credit for an applicant/borrower; c) between this association and other associations and cosigners or guarantors, whether governmental or private.

   The association will determine whether coordinated financing to a creditworthy applicant will result in an appropriate sound loan package. If so, the association will take the responsibility to work in combination with the applicant and such other association, commercial lender, private or governmental entity to develop a creditworthy financing package.

   Any loan rejection file involving an eligible program applicant shall contain documentation that coordination efforts with other lenders were pursued.

2. Maximum utilization of the flexibilities of existing loan programs to the advantage of these applicants.

   Loan approvals will fully utilize all flexibilities in length of term, repayment schedules, amortization requirements, initial deferments, schedule of advances, and other such loan approval conditions consistent with existing lending standards and policies.

   Loan servicing remedies such as reamortizations, deferments, extensions, renewals and other techniques will be available to program borrowers to the fullest extent possible within policies.

3. A commitment of staff resources and expertise to effectively make and service loans and provide credit-related services to this group of farmers, ranchers, and producers or harvesters of aquatic products.

   The association's CEO will have primary responsibility for a) developing expertise in meeting the special financing and related service needs of program applicants; b) implementing the association program; and c) developing and submitting reports on the program.

4. A commitment of financial resources and a risk management philosophy to ensure the objective of this policy is met.

   The association board of directors will monitor this program to assure itself that adequate financial and human resources and an appropriate risk management philosophy exist on a continuing basis to meet program objectives without compromising the ability of the association to serve nonprogram farmers, ranchers, and producers of aquatic products. The board will monitor this program in the following manner:
   Reports of the program's progress will be given by CEO to the board at least quarterly.

5. The offering of credit-related services to this specialized group of farmers as needed.

   The association will provide instruction and guidance to young, beginning, and small farmers, ranchers and producers in areas such as recordkeeping, financial analysis and management, leasing, capital investment decision-making, marketing strategies, and other such management areas. Specific activities and services to be provided will include:

   "Financial planning in agriculture" - will be made available at all territory public libraries, and to county agents and vocational agricultural teachers. Our support will be given to extension service and young farmer groups in sponsoring and helping with seminars, field days and special events.

6. The association has also expanded the criteria used to determine a full-time farmer to include those part-time Young, Beginning and Small Farmers and Ranchers who demonstrate an intent to progress toward farming and/or ranching as their primary business and vocation. Such demonstration of intent shall be documented in the loan file and will include, but is not limited to, the following criteria:

   a The degree of day-to-day involvement the borrower must have in the agricultural production operation, through either labor or management, or both, to evidence a clear commitment to agricultural production;

   b. The intent of the borrower to actively engage in agricultural production, as evidenced by his education, training, experience, business plan or some other means;

   c. A level or projected level of gross agricultural income or production that evidences a clear commitment to agricultural production; or

   d. The terms and structure of the loan, as well as planned use of loan proceeds, evidence a commitment to be truly engaged in agricultural production.

The association has in place internal controls and an annual YBS audit program to ensure that its YBS policies and program are implemented for the benefit of all YBS farmers and ranchers, thus ensuring them the opportunity to begin, grow, or remain in agricultural production.

TARGETS

Based on USDA's 2007 Census of Agriculture, there are 552 Young Farmers, 4,380 Beginning Farmers, and 6,412* Small Farmers in the association's chartered territory. (*Actual Census figures for this category adjusted by 50 percent due to the lack of credit needs of the Small Farmers.)

As of the end of the fourth quarter, 2010, the number of YBS loans in the association's portfolio was as follows:

Young Farmers:

483 loans to this group of borrowers. This equates to 17.76 percent of the total portfolio and 87.50 percent of the total number of Young Farmers in our territory cited in the 2007 census.

Beginning Farmers:

1,100 loans to this group of borrowers. This equates to 40.44 percent of the total portfolio and 25.11 percent of the total number of Beginning Farmers in our territory cited in the 2007 census.

Small Farmers:

2,037 loans to this group of borrowers. This equates to 74.89 percent of the total portfolio and 31.77 percent of the total adjusted number of Small Farmers in our territory cited in the 2007 census.

The association will continue all efforts to target those remaining YBS farmers and ranchers in our territory through the use of outreach programs, including but not limited to, advertising, participating in educational programs, working with extension agents, participations in agricultural field days, livestock shows and agricultural seminars, etc. In addition, association loan officers and

senior management will offer credit counseling and work with other financial institutions to the extent possible to ensure the credit needs of these borrowers are met.

GOALS

It was the goal of the association in 2010 that at least 60 percent of all new loans made in 2010 be made to borrowers who met one or more of the YBS criteria. This goal was met and exceeded as of December 31, 2010.

It is the goal of the Central Texas Farm Credit, ACA that at least 60 percent of all new loans made in 2011, 2012 and 2013 be made to borrowers who meet one or more of the YBS criteria.

REPORTING

The association shall incorporate the goals of its YBS Program into its 2011 Three-Year Business Plan for three succeeding years, shall report the performance results to the board of directors at least quarterly and to the district bank annually, and shall include in its annual report a description of its YBS program and a status report on each component thereof. In addition, the association shall continue to post its annual report, with the YBS program information, on its website.

CENTRAL TEXAS FARM CREDIT, ACA

CONSOLIDATED BALANCE SHEETS

	December 31,		
	2010	2009	2008
ASSETS			
Cash	$ 766,289	$ 734,130	$ 736,155
Loans	390,781,482	407,460,874	411,702,117
Less: allowance for loan losses	(1,621,793)	(2,740,323)	(194,148)
Net loans	389,159,689	404,720,551	411,507,969
Accrued interest receivable	3,861,139	4,255,984	4,444,185
Investment in the Bank	6,596,195	7,075,995	6,922,605
Premises and equipment, net	663,800	707,024	680,357
Other assets	1,688,222	3,285,829	-
Total Assets	$ 402,735,334	$ 420,779,513	$ 424,291,271
LIABILITIES & MEMBERS' EQUITY			
Note payable to the Bank	$ 314,107,511	$ 343,459,699	$ 348,241,892
Accrued interest payable	699,547	829,222	1,132,718
Drafts outstanding	6,165,115	64,638	941,387
Patronage distributions payable	3,200,000	2,500,000	2,500,000
Other liabilities	1,699,935	2,027,106	1,838,883
Total Liabilities	325,872,108	348,880,665	354,654,880
Capital stock and participation certificates	2,254,885	2,273,210	2,274,820
Unallocated retained earnings	74,665,875	69,507,469	67,227,618
Accumulated other comprehensive income	(57,534)	118,169	133,953
Total Members' Equity	76,863,226	71,898,848	69,636,391
Total Liabilities and Members' Equity	$ 402,735,334	$ 420,779,513	$ 424,291,271

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

CENTRAL TEXAS FARM CREDIT, ACA

CONSOLIDATED STATEMENTS OF INCOME

	For the Years Ended December 31,		
	2010	2009	2008
INTEREST INCOME			
Interest income on loans	$ 19,857,485	$ 21,487,044	$ 24,366,232
Interest expense on note payable to Bank	(8,767,013)	(10,530,369)	(14,093,557)
Net Interest Income	11,090,472	10,956,675	10,272,675
PROVISION FOR LOSSES			
Provision for loan losses	1,021,878	3,441,359	2,335,644
Net Interest Income after Provision for Loan Losses	10,068,594	7,515,316	7,937,031
NONINTEREST INCOME			
Patronage income from the Bank	1,825,316	1,618,654	1,293,288
Loan fees	540,737	795,968	1,093,549
Fees for financially related services	12,446	14,170	15,747
Gain (loss) on other property owned, net	70,546	(2,729)	(427,936)
Other	428,393	25,066	20,383
Total Noninterest Income	2,877,438	2,451,129	1,995,031
NONINTEREST EXPENSES			
Salaries and employee benefits	3,027,305	3,245,028	2,659,198
Directors' expense	108,066	118,740	118,568
Purchased services	450,203	971,983	868,033
Travel	165,104	144,109	143,183
Occupancy and equipment	160,140	143,370	142,736
Communications	36,065	36,346	37,093
Advertising	108,854	123,746	102,744
Public and member relations	61,016	59,014	61,707
Supervisory and examination expense	163,503	155,388	142,271
Professional fees	205,541	103,812	100,754
Other	101,829	85,058	91,810
Total Noninterest Expenses	4,587,626	5,186,594	4,468,097
Net Income	$ 8,358,406	$ 4,779,851	$ 5,463,965

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

CENTRAL TEXAS FARM CREDIT, ACA

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

	Capital Stock / Participation Certificates	Unallocated Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2007	$ 2,248,420	$ 64,277,633	$ 267,227	$ 66,793,280
Adjustment to beginning balance due to the pension accounting change	-	(13,980)	-	(13,980)
Balance at January 1, 2008	2,248,420	64,263,653	267,227	66,779,300
Comprehensive income				
Net income	-	5,463,965	-	5,463,965
Change in postretirement benefit plans	-	-	(133,274)	(133,274)
Total comprehensive income	-	5,463,965	(133,274)	5,330,691
Capital stock / participation certificates issued	283,985	-	-	283,985
Capital stock / participation certificates retired	(257,585)	-	-	(257,585)
Patronage distributions declared	-	(2,500,000)	-	(2,500,000)
Balance at December 31, 2008	2,274,820	67,227,618	133,953	69,636,391
Comprehensive income				
Net income	-	4,779,851	-	4,779,851
Change in postretirement benefit plans	-	-	(15,784)	(15,784)
Total comprehensive income	-	4,779,851	(15,784)	4,764,067
Capital stock / participation certificates issued	231,555	-	-	231,555
Capital stock / participation certificates retired	(233,165)	-	-	(233,165)
Patronage distributions declared	-	(2,500,000)	-	(2,500,000)
Balance at December 31, 2009	2,273,210	69,507,469	118,169	71,898,848
Comprehensive income				
Net income	-	8,358,406	-	8,358,406
Change in postretirement benefit plans	-	-	(175,703)	(175,703)
Total comprehensive income	-	8,358,406	(175,703)	8,182,703
Capital stock / participation certificates issued	248,420	-	-	248,420
Capital stock / participation certificates retired	(266,745)	-	-	(266,745)
Patronage distributions declared	-	(3,200,000)	-	(3,200,000)
Balance at December 31, 2010	$ 2,254,885	$ 74,665,875	$ (57,534)	$ 76,863,226

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Years Ended December 31,		
	2010	2009	2008
Cash Flows from Operating Activities			
Net income	$ 8,358,406	$ 4,779,851	$ 5,463,965
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	135,390	122,211	101,492
Provision for loan losses	1,021,878	3,441,359	2,335,644
(Gain) loss on sale of other property owned	(74,170)	(394)	338,149
(Gain) loss on disposal of assets, net	(182)	-	10,516
(Increase) decrease in operating assets:			
Accrued interest receivable	394,845	188,201	1,727,120
Other assets	3,106,672	(3,285,829)	100,687
Increase (decrease) in operating liabilities:			
Accrued interest payable	(129,675)	(303,496)	(340,750)
Other liabilities	(502,874)	172,439	88,554
Net cash provided by operating activities	12,310,290	5,114,342	9,825,377
Cash Flows from Investing Activities			
Net (increase) decrease in loans	12,279,907	3,274,503	(16,170,870)
Cash recoveries of loans previously charged off	700,379	71,950	-
Purchases of investment in the Bank	479,800	(153,390)	(774,530)
Purchases of property and equipment	(94,391)	(148,878)	(55,747)
Proceeds from sales of premises and equipment	2,407	-	3,000
Proceeds from sales of other property owned	123,803	-	2,723,524
Net cash provided (used) by investing activities	13,491,905	3,044,185	(14,274,623)

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

CENTRAL TEXAS FARM CREDIT, ACA

CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

	For the Years Ended December 31,		
	2010	2009	2008
Cash Flows from Financing Activities			
Net draws (payments) on note payable to Bank	(29,352,188)	(4,782,193)	8,715,995
Capital stock / participation certificates issued	248,420	231,555	283,985
Capital stock / participation certificates retired	(266,745)	(233,165)	(257,585)
Increase (decrease) in drafts outstanding	6,100,477	(876,749)	(2,324,233)
Stock equalization / patronage distributions paid	(2,500,000)	(2,500,000)	(2,500,000)
Net cash provided (used) by financing activities	(25,770,036)	(8,160,552)	3,918,162
Net increase (decrease) in cash and cash equivalents	32,159	(2,025)	(531,084)
Cash and cash equivalents, beginning of year	734,130	736,155	1,267,239
Cash and cash equivalents, end of year	$ 766,289	$ 734,130	$ 736,155
Supplemental Schedule of Non-Cash Investing and Financing Transactions:			
Patronage distributions declared	$ 3,200,000	$ 2,500,000	$ 2,500,000
Financed sales of other property owned	237,916	1,687,968	3,600,000
Loans transferred to other property owned	1,796,614	1,632,986	6,661,673
Loans charged off	2,840,787	967,134	2,245,109
Supplemental Cash Information:			
Cash paid during the year for:			
Interest	$ 8,896,688	$ 10,833,865	$ 14,434,307

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010, 2009 and 2008

NOTE 1 - ORGANIZATION AND OPERATIONS

Organization --- Central Texas Farm Credit, ACA and its wholly-owned subsidiaries, Central Texas Land Bank, FLCA, (formerly named Federal Land Bank Association of Texas, FLCA) and Central Texas PCA, (collectively called "the association"), is a member-owned cooperative which provides credit and credit-related services to, or for the benefit of, eligible borrowers/stockholders for qualified agricultural purposes in the counties of Baylor, Brown, Callahan, Coke, Coleman, Comanche, Concho, Haskell, Irion, Jones, Knox, McCulloch, Menard, Mills, Reagan, Runnels, San Saba, Sterling and Tom Green in the state of Texas. The association offers no financially related services other than credit life insurance.

The association is a lending institution of the Farm Credit System (System), a nationwide system of cooperatively owned banks and associations that 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 (Act). The most recent significant amendment to the Farm Credit Act was the Agricultural Credit Act of 1987 (1987 Act). At December 31, 2010, the System was composed of four Farm Credit Banks, one Agricultural Credit Bank, the Federal Farm Credit Banks Funding Corporation (Funding Corporation) and 89 associations (80 ACAs and 9 FLCAs).

The Farm Credit Bank of Texas (bank) and its related associations are collectively referred to as the “district”. The bank provides funding to all associations within the district and is responsible for supervising certain activities of the district associations. At December 31, 2010, the district consisted of the bank, 1 FLCA and 16 ACA parent companies, which have two wholly-owned subsidiaries, an FLCA and a PCA, operating in or servicing the states of Alabama, Louisiana, Mississippi, New Mexico and Texas. ACA parent companies provide financing and related services through their FLCA and PCA subsidiaries. The FLCA makes secured long-term agricultural real estate and rural home mortgage loans. The PCA makes short and intermediate term loans for agricultural production or operating purposes.

The Farm Credit Administration (FCA) is delegated authority by Congress to regulate the System banks and associations. The FCA examines the activities of System associations to ensure their compliance with the Farm Credit Act, FCA regulations and sound banking practices.

The Act established the Farm Credit System Insurance Corporation (FCSIC) 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, (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 the discretionary uses by the FCSIC of providing assistance to certain troubled System institutions and to cover the operating expenses of the FCSIC.

Each System bank is required to pay premiums, which may be passed on to the associations into the Insurance Fund, based on its annual average adjusted outstanding insured debt until the monies in the Insurance Fund reach the "secure base amount", which is defined in the Farm Credit Act as 2.0 percent of the aggregate insured obligations (adjusted to reflect the reduced risk on loan or investments guaranteed by federal or state governments) or other such 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 FCSIC is required to reduce premiums as necessary to maintain the Insurance Fund at the 2% level. As required by the Farm Credit Act, as amended, the Insurance Corporation may return excess funds above the secure base amount to System institutions.

FCA regulations require borrower information to be held in strict confidence by Farm Credit institutions, their directors, officers and employees. Directors and employees of the Farm Credit institutions are prohibited, except under specified circumstances, from disclosing nonpublic personal information about members.

Operations --- The 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 makes and services short- and intermediate-term loans for agricultural production or operating purposes, and secured long-term real estate mortgage loans, with funding from the bank.

The association also serves as an intermediary in offering credit life insurance.

The association's financial condition may be affected by factors that affect the bank. The financial condition and results of operation of the bank may materially affect stockholders' investment in the association. Upon request, stockholders of the association will be provided with the Tenth Farm Credit District's Annual Report to Stockholders, which includes the combined financial statements of the bank and all of the district associations. The district's annual report discusses the material aspects of the financial condition, changes in financial condition, and results of operations for the bank and the district. In addition, the district's annual report identifies favorable and unfavorable trends, significant events, uncertainties and the impact of activities of the Insurance Fund.

The lending and financial services offered by the bank are described in Note 1, "Organization and Operations," of the district's annual report to stockholders.

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 consolidated 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 could differ from those estimates. Certain amounts in prior years' consolidated financial statements have been reclassified to conform to current financial statement presentation. The consolidated financial statements include the accounts of Central Texas Land Bank, FLCA and Central Texas PCA. All significant intercompany transactions have been eliminated in consolidation.

Recently Issued or Adopted Accounting Pronouncements --- In July 2010, the Financial Accounting Standards Board (FASB) issued guidance on "Disclosures about the Credit Quality of Financing Receivable and the Allowance for Credit Losses," which is intended to provide additional information to assist financial statement users in assessing an entity's credit risk exposures and evaluating the adequacy of the allowance for credit losses. Existing disclosures are amended to include additional disclosures of financing receivables on a disaggregated basis (by portfolio segment and class of financing receivable) including, among others, 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 disaggregated 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 nonpublic entities, the disclosures are effective for annual reporting periods ending on or after December 15, 2011. The adoption of this Standard will not have an impact on the association's financial condition or results of operations, but will result in additional disclosures for annual reporting periods ending after December 15, 2011.

In January 2010, the FASB issued guidance on "Fair Value Measurements and Disclosures," which is to improve disclosures about fair value measurement by increasing transparency in financial reporting. The changes will provide a greater level of disaggregated information and more robust 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, sale, 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.

In June 2009, the FASB issued guidance on "Accounting for Transfers of Financial Assets, " which amends 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 as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. Earlier application was prohibited. This statement must be applied to transfers occurring on or after the effective date. Additionally, on and after the effective date, 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 standards) 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 provided in the pronouncement that requires consolidation. System institutions reviewed their loan participation agreements to ensure that participations would meet the requirements for sales treatment and not be required to be consolidated. 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 as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. Earlier application was prohibited. System institutions reviewed transactions that are included in the scope of this guidance and determined that the impact of adoptions on January 1, 2010, was immaterial to the association's financial condition and results of operations.

Cash and Cash Equivalents --- Cash and cash equivalents, as included in the statement of cash flows, represent cash on hand and on deposit at local banks.

Loans and Allowance for Loan Losses --- Long-term real estate mortgage loans generally have original maturities ranging from five 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. Authoritative accounting guidance requires loan origination fees and direct loan origination costs, if material, to be capitalized and the net fee or cost to be amortized over the life of the related loan as an adjustment to yield. The association elected to implement this guidance in 2010 for loans closed in 2010, resulting in the capitalization of $293,565 in origination fees and $337,528 in origination costs, primarily salaries and benefits related to the origination of loans. The resulting adjustment to reported interest income from loans in 2010 was a decrease of $1,691.

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 and are generally considered substandard or doubtful, which is in accordance with the loan rating model, as described below. Impaired loans include nonaccrual loans, restructured loans, and 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 a result of past-due status, is collected or otherwise discharged in full.

Loans are generally placed in nonaccrual status when principal or interest is delinquent for 90 days (unless adequately secured 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 either reversed (if accrued in the current year) or charged against the allowance for loan losses (if accrued in prior years).

A restructured loan constitutes a troubled debt restructuring if for economic or legal reasons related to the debtor's financial difficulties the association grants a concession to the debtor that it would not otherwise consider.

Payments received on nonaccrual loans are generally applied to the recorded investment in the loan asset. 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, the interest portion of payments is recognized as current interest income. Nonaccrual loans may be transferred 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". If previously unrecognized interest income exists upon transfer of a nonaccrual loan to accrual status, interest income will be recognized as cash payments are received.

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.

Loans are charged off at the time they are determined to be uncollectible.

The bank and related associations use 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 that 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 (OAEM) 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 maintained at a level considered adequate by management to provide for probable losses inherent in the loan portfolio. The allowance is based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including economic conditions, loan portfolio composition, collateral value, portfolio quality, current production conditions and economic conditions, 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.

Capital Stock Investment in Bank --- The association's investment in the bank is in the form of Class A voting capital stock and allocated retained earnings. This investment is adjusted periodically based on the association's proportional utilization of the bank compared to other district associations. The bank requires a minimum stock investment of 2 percent of the association’s average borrowing from the bank. This investment is carried at cost plus allocated equities in the accompanying consolidated balance sheet.

If needed to meet regulatory capital adequacy requirements, the board of directors of the bank may increase the percentage of stock held by an association from 2 percent of the average outstanding balance of borrowings from the bank to a maximum of 5 percent of the average outstanding balance of borrowings from the bank.

Other Property Owned, Net --- Other property owned, net, consisting of real and personal property acquired through foreclosure or deed in lieu of foreclosure is recorded at fair value less estimated selling costs upon acquisition and is included in other assets in the consolidated balance sheet. Any initial reduction in the carrying amount of a loan to the fair value of the collateral received is charged to the allowance for loan losses. On at least an annual basis, revised estimates to the fair value less costs 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 and expenses from operations and carrying value adjustments are included in net gains (losses) on other property owned in the consolidated statement of income.

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 using estimated useful lives of the assets. Gains and losses on dispositions are reflected in current operations. Maintenance and repairs are charged to operating expense and improvements are capitalized.

Advance Conditional Payments --- The association is authorized under the Act to accept advance payments from borrowers. To the extent the borrower’s access to such funds 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 liabilities in the accompanying balance sheet. Advance conditional payments are not insured. Interest is generally paid by the association on such accounts at rates established by the board of directors.

Employee Benefit Plans --- Employees of the association participate in either the defined benefit retirement plan (DB Plan) or the defined contribution plan (DC Plan) and are eligible to participate in the Farm Credit Benefits Alliance 401(k) plan. The DB Plan is closed to new participants. Participants generally include employees hired prior to January 1, 1996. The DB Plan is noncontributory and provides benefits based on salary and years of service. The "Projected Unit Credit" actuarial method is used for financial reporting and funding purposes for the DB Plan.

Participants in the DC Plan generally include employees who elected to transfer from the DB Plan prior to January 1, 1996, and employees hired on or after January 1, 1996. Participants in the DC Plan direct the placement of their employers' contributions, 5.0 percent of eligible compensation, for the year ended December 31, 2010, made on their behalf into various investment alternatives.

The structure of the district's DB is characterized as multi-employer, since neither the assets, liabilities nor costs of any plan are segregated or separately accounted for by the associations. No portion of any surplus assets is available to the associations, nor are the associations required to pay for plan liabilities upon withdrawal from the plans. As a result, the associations recognize as pension cost the required contribution to the plans for the year. Contributions due and unpaid are recognized as a liability. The association recognized pension costs for the DC Plan of $41,781, $31,798, and $29,754 for the years ended December 31, 2010, 2009 and 2008, respectively. For the DB Plan, the association recognized pension costs of $759,513, $1,134,593, and $535,590 for the years ended December 31, 2010, 2009, and 2008, respectively.

The association also participates in the Farm Credit Benefits Alliance 401(k) plan which requires the associations to match 100 percent of employee contributions up to 3.0 percent of base salary and to match 50 percent of employee contributions for the next 2.0 percent of employee contributions, up to a maximum employer contribution of 4.0 percent of base salary. Association 401(k) plan costs are expensed as incurred. The association's contributions to the 401(k) plan were $70,032, $53,532, and $59,734 for the years ended December 31, 2010, 2009 and 2008, respectively.

In addition to pension benefits, the association provides certain health care and life insurance benefits to qualifying retired employees (other postretirement benefits). These benefits are not characterized as multi-employer and, consequently, the liability for these benefits is included in other liabilities.

Income Taxes --- The ACA holding company conducts its business activities through two wholly-owned subsidiaries. Long-term mortgage lending activities are operated through the wholly-owned FLCA subsidiary which is exempt from federal and state income tax. Short- and intermediate-term lending activities are operated through the wholly-owned PCA subsidiary. Operating expenses are allocated to each subsidiary based on estimated relative service. All significant transactions between the subsidiaries and the parent company have been eliminated in consolidation. The ACA, along with the PCA subsidiary, is subject to income tax.

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 retained earnings. Provisions for income taxes are made only on those earnings that will not be distributed as qualified patronage refunds. The association distributes patronage on the basis of book income. Deferred taxes are recorded on the tax effect of all temporary differences based on the assumption that such temporary differences are retained by the institution and will therefore impact future tax payments.

A valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (over 50 percent probability), based on management's estimate, that they will not be realized. The consideration of valuation allowances involves various estimates and assumptions as to future taxable earnings, including the effects of the expected patronage program, which reduces taxable earnings. The association's net operating loss carryforward at December 31, 2010 approximates $3,000,000 and may be carried forward approximately twenty years. The annual taxable earnings of the association are offset predominately by the declaration of the patronage refunds. Association management anticipates the continuation of the patronage program into the future. A valuation allowance has been established to completely offset any computed deferred tax benefits as of December 31, 2010, 2009 and 2008.

Patronage Refunds from the Farm Credit Bank of Texas --- The association records patronage refunds from the bank upon receipt of the patronage.

Fair Value Measurement --- The FASB guidance defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. It describes three levels of inputs that may be used to measure fair value:

Level 1 --- Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 asset and liabilities include debt and equity securities and derivative contracts that are traded in an active exchange market, as well as certain U.S. Treasury, other U.S. Government and agency mortgage-backed debt securities that are highly liquid and are actively traded in over-the-counter markets. Also included in Level 1 are assets held in trust funds, which may relate to deferred compensation and supplemental retirement plans. The trust funds may include investments that are actively traded and have quoted net asset values that are observable in the marketplace. Pension plan assets that are invested in equity securities, including mutual funds and fixed-income securities that are actively traded, are also included in Level 1.

Level 2 --- Observable inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly. Level 2 inputs include the following: (a) quoted prices for similar assets or liabilities in active markets; (b) quoted prices for identical or similar assets or liabilities in markets that are not active so that they are traded less frequently than exchange-traded instruments, the prices are not current or principal market information is not released publicly; (c) inputs other than quoted prices that are observable such as interest rates and yield curves, prepayment speeds, credit risks and default rates; and (d) inputs derived principally from or corroborated by observable market data by correlation or other means. This category generally includes certain U.S. Government and agency mortgage-backed debt securities, corporate debt securities, and derivative contracts. Pension plan assets that are derived from observable inputs, including corporate bond and mortgage-backed securities, are reported in Level 2.

Level 3 --- Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities are considered Level 3. These unobservable inputs reflect the reporting entity's own assumptions about assumptions that market participants would use in pricing the asset or liability. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category generally includes certain private equity investments, retained residual interest in securitizations, asset-backed securities, and highly structured or long-term derivative contracts, certain loan and other property owned. Pension plan assets such as certain mortgage-backed securities that are supported by little or no market data in determining the fair value, are included in Level 3.

The association's assets and liabilities that are required to be reported at fair value in accordance with FASB guidance relate to certain loans and acquired property evaluated for impairment on a non-recurring basis at December 31, 2010 and 2009. The fair value of these assets were based upon the underlying collateral. 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 that the principle balance of the loan, a specific reserve is established. At December 31, 2010 and 2009, loans of $1,252,586 and $3,841,247 were reported at fair value of $502,586 and $1,787,998, respectively, as a result of recording specific reserves of $750,000 and $2,053,249. At December 31, 2010, acquired property has been reflected at its estimated fair value of $1,509,066.

Off-balance-sheet Credit Exposures --- Commitments to extend credit are agreements to lend to customers, generally having fixed expiration dates or other termination clauses that may require payment of a fee. Commercial letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. These letters of credit are issued to facilitate commerce and typically result in the commitment being funded when the underlying transaction is consummated between the customer and third party. The credit risk associated with commitments to extend credit and commercial letters of credit is essentially the same as that involved with extending loans to customers and is subject to normal credit policies. Collateral may be obtained based on management's assessment of the customer's creditworthiness.

NOTE 3 - LOANS AND ALLOWANCE FOR LOAN LOSSES

A summary of loans as of December 31 follows:

	2010	2009	2008
Loan Type:			
Real estate mortgage	$ 290,500,857	$ 302,334,596	$ 296,936,140
Production and intermediate term	35,921,267	38,586,046	35,797,199
Agribusiness:			
Processing and marketing	32,043,483	33,709,829	38,062,886
Farm-related business	9,238,511	8,944,925	9,709,780
Loans to cooperatives	348,595	-	-
Communication	11,205,791	8,984,963	15,453,878
Energy	9,120,885	12,591,236	13,622,439
Rural residential real estate	2,156,093	2,309,279	2,119,795
Water and waste disposal	246,000	-	-
Total	$ 390,781,482	$ 407,460,874	$ 411,702,117

	2010	2009	2008
County Distribution:			
Brown	8.8%	8.7%	7.9%
Comanche	7.0%	6.9%	5.5%
Coleman	6.8%	7.3%	7.4%
Runnels	5.4%	4.9%	4.3%

McCulloch	4.8%	4.5%	4.3%
Mills	4.3%	3.9%	4.0%
Concho	4.3%	3.8%	3.6%
Haskell	4.0%	4.1%	3.9%
Jones	3.9%	3.6%	3.4%
Callahan	3.7%	2.8%	2.7%
Tom Green	3.5%	3.3%	3.4%
San Saba	2.8%	4.0%	3.9%
Knox	2.0%	2.0%	2.0%
Coke	1.7%	1.5%	1.4%
Menard	1.1%	1.2%	1.2%
Baylor	0.8%	0.8%	0.8%
Other counties	17.4%	17.6%	16.8%
Other states	17.7%	19.1%	23.5%
Total	100.0%	100.0%	100.0%

The association's concentration of credit risk in various agricultural commodities is shown in the following table. While the amounts represent the association's maximum potential credit risk as it relates to recorded loan principal, 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.

	2010	2009	2008
Commodity:			
Cattle and calves	$ 130,275,670	$ 127,251,853	$ 126,774,978
General livestock and fowl	69,447,355	78,016,197	69,089,349
Other	48,825,281	50,561,797	64,732,592
Hunting and recreation	35,163,616	40,728,526	38,563,894
Cotton	27,565,073	26,302,680	25,918,169
Field crops	19,726,928	21,305,196	21,613,450
Wheat	15,257,211	15,300,088	15,401,299
Timber	12,301,032	11,574,426	12,132,600
Fruit, nuts and vegetables	11,421,392	14,435,922	16,368,268
Feed products and milling	9,230,011	9,819,026	10,328,518
Sheep and goats	7,523,950	7,575,278	6,648,342
Rural home loans	2,156,093	2,309,279	2,135,012
Sorghum, corn and other grains	1,887,870	2,280,606	1,995,646
Total	$ 390,781,482	$ 407,460,874	$ 411,702,117

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 information regarding participations purchased and sold during 2010:

	Participations	
	Purchased	Sold
Real Estate Mortgage	$ 14,907,071	$ -
Production & intermediate term	9,936,349	-
Agribusiness	29,536,736	-
Communication	11,107,828	-
Energy	9,137,698	-
Total	$ 74,625,682	$ -

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 secured by the first liens on the underlying real property. Federal regulations state that long-term real estate loans are not to exceed 85 percent (or 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.

Asset Quality:

The following table reflects the credit quality of the association's loan volume as of December 31:

	2010	2009	2008
Acceptable	94.6%	94.6%	96.4%
Special mention	2.4%	1.5%	0.6%
Substandard	3.0%	3.9%	3.0%
Doubtful	0.0%	0.0%	0.0%
Loss	0.0%	0.0%	0.0%
Total	100.0%	100.0%	100.0%

Impaired loans are loans for which it is probable that not all principal and interest will be collected according to the contractual terms. The following table represents information relating to impaired loans as of December 31:

	2010	2009	2008
Nonaccrual loans:			
Current as to principal and interest	$ 2,650,631	$ 4,537,281	$ 7,326,444
Past due	4,637,524	1,961,206	-
Total nonaccrual loans	7,288,155	6,498,487	7,326,444
Accrual loans:			
90 days or more past due	-	-	-
Formally restructured	-	-	-
Total impaired accrual loans	-	-	-
Total impaired loans	$ 7,288,155	$ 6,498,487	$ 7,326,444

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

Interest income is recognized and cash payments are applied on nonaccrual impaired loans as described in Note 2, "Summary of Significant Accounting Policies". The following table presents interest income recognized on impaired loans:

	2010	2009	2008
Interest income recognized on nonaccrual loans	$ 101,745	$ 27,480	$ (34,870)
Interest income recognized on impaired accrual loans	177,798	333,997	335,770
Interest income recognized on impaired loans	$ 279,543	$ 361,477	$ 300,900

A summary of the allowance for loan losses as of December 31 follows:

	2010	2009	2008
Balance at beginning of year	$ 2,740,323	$ 194,148	$ 103,613
Provision for loan losses	1,021,878	3,441,359	2,335,644
Loans charged off	(2,840,787)	(967,134)	(2,245,109)
Recoveries	700,379	71,950	-
Balance at end of year	$ 1,621,793	$ 2,740,323	$ 194,148

The following table presents information concerning impaired loans as of December 31:

	2010	2009	2008
Impaired loans with related allowance	$ 1,252,585	$ 3,841,247	$ 7,326,444
Impaired loans with no related allowance	6,035,570	2,657,240	-
Total impaired loans	$ 7,288,155	$ 6,498,487	$ 7,326,444
Allowance on impaired loans	$ 750,000	$ 2,053,249	$ 94,853

The following table summarizes impaired loan information for the years ended December 31:

	2010	2009	2008
Average impaired loans	$ 6,460,525	$ 9,396,356	$ 1,583,727

Interest income on nonaccrual and accruing restructured loans that would have been recognized under the original terms of the loans at December 31:

	2010	2009	2008
Interest income which would have been recognized under the original terms	$ 784,956	$ 791,753	$ 461,896
Net nonaccrual interest reversed (recognized)	(279,543)	(361,477)	(300,900)
Foregone interest income	$ 505,413	$ 430,276	$ 160,996

NOTE 4 - PREMISES AND EQUIPMENT

Premises and equipment consisted of the following at December 31:

	2010	2009	2008
Land	$ 143,995	$ 143,995	$ 143,995
Building and improvements	856,028	856,677	856,677
Vehicles, furniture and equipment	510,611	494,205	449,102
	1,510,634	1,494,877	1,449,774
Less: accumulated depreciation	(846,834)	(787,853)	(769,417)
Total	$ 663,800	$ 707,024	$ 680,357

NOTE 5 - OTHER PROPERTY OWNED, NET

Net gain (loss) on other property owned, net consists of the following for the years ended December 31:

	2010	2009	2008
Gain (loss) on sale, net	$ 74,171	$ 394	$ (338,149)
Operating income (expenses), net	(3,625)	(3,123)	(89,787)
Net gain (loss) on other property owned	$ 70,546	$ (2,729)	$ (427,936)

NOTE 6 - NOTE PAYABLE TO THE BANK

The interest rate risk inherent in the association's loan portfolio is substantially mitigated through the funding relationship with the bank. The bank manages interest rate risk through its direct loan pricing and asset/liability management process. The association's indebtedness to the bank represents borrowings by the association to fund the majority of its loan portfolio. The indebtedness is collateralized by a pledge of substantially all of the association's assets and is governed by a general financing agreement. The interest rate on the direct loan is based upon the bank's cost of funding the loans the association has outstanding to its borrowers.

The total amount and the weighted average interest rate of the association's direct loan from the bank at December 31, 2010, 2009 and 2008 was $314,107,511 at 2.7%, $343,459,699 at 2.8%, and $348,241,892 at 3.5%, respectively.

Under the Act, the association is obligated to borrow only from the bank unless the bank approves borrowing from other funding sources. The bank and FCA regulations have established limitations on the association's ability to borrow funds based on specific factors or formulas relating primarily to credit quality and financial condition. At December 31, 2010, 2009 and 2008, the association's note payable was within the specified limitations. The maximum amount the association may borrow from the bank as of December 31, 2010 was $391,957,937 as defined by the general financing agreement.

In addition to borrowing limits, the financing agreement establishes certain covenants including limits on leases, investments, other debt, and dividend and patronage distribution; minimum standards for return on assets and for liquidity; and provisions for conducting business, maintaining records, reporting financial information, and establishing policies and procedures. Remedies specified in the financing agreement associated with the covenants include additional reporting requirements, development of action plans, increases in interest rates on indebtedness, reduction of lending limits or repayment of indebtedness. As of December 31, 2010, 2009 and 2008, the association was not subject to remedies associated with the covenants in the financing agreement.

NOTE 7 - MEMBERS' EQUITY

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

Protection of certain borrower equity is provided under the Act that 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 that 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.

In accordance with the Act and association's capitalization bylaws, each borrower is required to invest in the association as a condition of borrowing. The Association has limited the borrower's required capitalization to the lesser of 2 percent of the loan amount or $1,000 per loan. The borrower acquires ownership of the capital stock or participation certificates at the time the loan is made, usually by adding the aggregate par value of the capital stock or participation certificates to the principal amount of the related loan obligation. The capital stock or participation certificates are subject to a first lien by the association. 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 capital stock or participation certificates.

If needed to meet regulatory capital adequacy requirements, the board of directors of the association may increase the percentage of stock requirement for each borrower up to a maximum of 10 percent of the loan amount.

Each owner of Class A capital stock is entitled to a single vote, while participation certificates provide no voting rights to their owners.

Within two years of repayment of a loan, the association capital bylaws require the conversion of any borrower's outstanding Class A capital stock to Class C capital stock. Class C stock has no voting rights except in a case where a new issuance of preferred stock has been submitted to stockholders affected by the preference. Redemption of Class C shares is made solely at the discretion of the association's board of directors. At December 31, 2010, 2009 and 2008, the association had no Class C capital stock.

All borrower stock is at-risk. As such, losses that result in impairment of capital stock or participation certificates shall be borne on a pro rata basis by all holders of Class A capital stock and participation certificates. In the event of liquidation of the association, capital stock and participation certificates would be utilized as necessary to satisfy any remaining obligations in excess of the amounts realized on the sale or liquidation of assets. Any excess of the amounts realized on the sale or liquidation of assets over the association's obligations to external parties and to the bank would be distributed to the association's stockholders.

Dividends and patronage distributions may be paid on the capital stock and participation certificates of the association as the board of directors may determine by resolution subject to capitalization requirements as defined by the FCA. Amounts not distributed are retained as unallocated retained earnings. In 2010, 2009 and 2008, the association declared annual patronage distributions of $3,200,000, $2,500,000 and $2,500,000, respectively.

The FCA's capital adequacy regulations require the association to achieve permanent capital and total surplus of at least 7.0 percent and core surplus of a least 3.5 percent of risk-adjusted assets and off-balance-sheet commitments. Failure to meet the ratio requirements can initiate certain mandatory and possibly additional discretionary actions by the 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 stockholders unless prescribed capital standards are met. As of December 31, 2010, the association is not prohibited from retiring stock or distributing earnings; furthermore, neither the board no senior management knows of any such prohibitions that may apply during the subsequent fiscal year. The association's permanent capital ratio, core surplus ratio and total surplus ratio at December 31, 2010 were 17.3 percent, 16.7 percent and 16.7 percent, respectively.

The association's capital adequacy plan meets all of the bank and FCA regulations. The association does not have protected stock. All of the association's stock is at risk and is retired upon repayment of the loan, subject to the approval of the board of directors. This function has been delegated to the loan officers and is reported at each board meeting. The association does not share any bank equities and has not had any capital calls from the bank. The above items have been considered in the association's business plan. The association does not have any intra-district loss sharing agreements.

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

At December 31, the association had the following shares of Class A capital stock and participation certificates outstanding at a par value of $5 per share:

	Number of Shares		
	2010	2009	2008
Class A stock	445,710	448,883	449,375
Participation certificates	5,267	5,759	5,589
Total	450,977	454,642	454,964

An additional component of equity is accumulated other comprehensive income, which is reported net of tax as follows:

	2010	2009	2008
Nonpension post-retirement benefits	$ (57,534)	$ 118,169	$ 133,953

NOTE 8 - EMPLOYEE BENEFIT PLANS

Employee Retirement Plans --- Employees of the association participate in either the defined benefit plan (DB Plan) or the defined contribution plan (DC Plan) and are eligible to participate in the Farm Credit Benefits Alliance 401(k) Plan. These plans are described more fully in Note 2 - Summary of Significant Accounting Policies.

Other Postretirement Benefits --- In addition to pension benefits, the association provides certain health care and life insurance benefits to qualifying retired employees (other postretirement benefits). These benefits are not characterized as multi-employer and, consequently, the liability for these benefits is included in other liabilities.

In September 2006, the FASB issued guidance which required 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. The 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, the System used a September 30 measurement date for pension and other postretirement benefit plans. The guidance provided two approaches for an employer to transition to a fiscal year-end measurement date. The System has applied the second approach, which allows for the use of the measurements determined for the prior year end.

Under this alternative, pension and postretirement benefit income measured for the three-month period October 1, 2007 to December 31, 2007 (determined using the September 2007 measurement date) was recorded as an adjustment to beginning 2008 retained earnings. As a result, the association decreased retained earnings $13,980, net of taxes and increased the pension and other postretirement benefit liabilities by $13,980.

The following table reflects the benefit obligation, cost and actuarial assumptions for the association's other postretirement benefits:

	2010	2009	2008
Change in Accumulated Postretirement Benefit Obligation -			
Accumulated postretirement benefit obligation, beginning of year	$ 1,055,815	$ 990,007	$ 811,055
Service cost	39,075	39,608	39,660
Interest cost	63,109	61,571	64,905
Plan participants' contributions	16,164	15,015	18,438
Plan amendments	-	-	-
Special termination benefits	-	-	-
Actuarial loss (gain)	147,533	(12,386)	98,609
Benefits paid	(39,238)	(38,000)	(42,660)
Accumulated postretirement benefit obligation, end of year	$ 1,282,458	$ 1,055,815	$ 990,007
Change in Plan Assets -			
Plan assets at fair value, beginning of year	$ -	$ -	$ -
Actual return on plan assets	-	-	-
Company contributions	23,074	22,985	24,222
Plan participants' contributions	16,164	15,015	18,438
Benefits paid	(39,238)	(38,000)	(42,660)
Plan assets at fair value, end of year	$ -	$ -	$ -
Funded status of plan	$ (1,282,458)	$ (1,055,815)	$ (990,007)
Amounts Recognized in the Balance Sheet -			
Other liabilities	$ (1,282,458)	$ (1,055,815)	$ (990,007)
Total	$ (1,282,458)	$ (1,055,815)	$ (990,007)

Amounts Recognized in Accumulated Other Comprehensive Income -			
Net actuarial loss (gain)	$ 212,083	$ 64,550	$ 76,936
Prior service cost (credit)	(154,549)	(182,719)	(210,889)
Net transition obligation (asset)	-	-	-
Total	$ 57,534	$ (118,169)	$ (133,953)
Weighted-Average Assumptions Used to Determine Obligations at Year-end -			
Measurement date	12/31/2010	12/31/2009	12/31/2008
Discount rate	5.70%	6.05%	6.30%
Medical cost trend rate assumed for next year	7.5%/6.5%	8.0%/7.0%	8.5%/6.5%
Drug cost trend rate assumed for next year	10.50%	10.50%	12.00%
Ultimate health care cost trend rate	5.00%	5.00%	5.00%
Year that the rate reached the ultimate trend rate	2017	2017	2015
Net Postretirement Benefit Cost -			
Service cost	$ 39,075	$ 39,608	$ 31,728
Interest cost	63,109	61,571	51,924
Expected return on plan assets	-	-	-
Amortization of:			
Unrecognized net transition obligation (asset)	-	-	-
Unrecognized prior service cost	(28,170)	(28,170)	(28,726)
Unrecognized net loss (gain)	-	-	994
Net postretirement benefit cost	$ 74,014	$ 73,009	$ 55,920
Other Changes in Plan Assets and Projected Benefit Obligation Recognized in Other Comprehensive Income -			
Net actuarial loss (gain)	$ 147,533	$ (12,386)	$ 97,366
Amortization of prior service cost	28,170	28,170	35,908
Total	$ 175,703	$ 15,784	$ 133,274
AOCI Amounts Expected to be Amortized into Expense in 2011 -			
Unrecognized net transition obligation (asset)	$ -		
Unrecognized prior service cost	(27,142)		
Unrecognized net loss (gain)	8,512		
Total	$ (18,630)		
Weighted-Average Assumptions Used to Determine Net Benefit Cost -			
Measurement date	12/31/2009	12/31/2008	9/30/2007
Discount rate	6.05%	6.30%	6.50%
Medical cost trend rate assumed for next year	8.0%/7.0%	8.5%/6.5%	9.00%/6.75%
Drug cost trend rate assumed for next year	10.50%	11.00%	13.00%
Ultimate health care cost trend rate	5.00%	5.00%	4.75%
Year that the rate reached the ultimate trend rate	2017	2015	2016
Expected Future Cash Flows -			
Expected benefit payments (net of employee contributions) -			
Fiscal 2011	$ 30,502		
Fiscal 2012	38,651		
Fiscal 2013	40,040		

Fiscal 2014		49,655
Fiscal 2015		52,115
Fiscal 2016-2020		382,627
Expected contributions -		
Fiscal 2011	$	30,502

NOTE 9 - RELATED PARTY TRANSACTIONS

Directors of the association, except for any director-elected directors, are required to be borrowers/stockholders of the association. Also, in the ordinary course of business, the association may enter into loan origination or servicing transactions with its officers, relatives of officers and directors, or with organizations with which such persons are associated. Such loans are subject to special approval requirements contained in FCA regulations and are made on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated borrowers.

Total loans to such persons amounted to $4,158,290, $5,288,625, and $5,520,487 at December 31, 2010, 2009 and 2008, respectively. During 2010, $1,459,120 of advances were made and repayments totaled $2,589,455. In the opinion of management, no such loans outstanding at December 31, 2010, 2009 and 2008 involved more than a normal risk of collectability.

Expenses included in purchased services may include purchased services such as administrative services, marketing, information systems, accounting services and allocations of expenses incurred by the bank passed through to the associations such as FCSIC expenses. The bank charges the individual associations directly for these services based on each association's proportionate usage. These expenses totaled $450,203, $971,983, and $868,033 for 2010, 2009 and 2008, respectively.

The association received patronage payments from the bank totaling $1,825,316, $1,618,654, and $1,293,288 during 2010, 2009 and 2008, respectively.

NOTE 10 - COMMITMENTS AND CONTINGENCIES

In addition to those commitments and contingencies discussed in Note 2 - Summary of Significant Accounting Policies, the association is involved in various legal proceedings in the ordinary course of business. In the opinion of legal counsel and management, there are no legal proceedings at this time that are likely to materially affect the association.

The association may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of its borrowers in the form of commitments to extend credit and commercial letters of credit. These financial 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, $35,605,383 of commitments to extend credit and $3,513,783 of 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 the amounts are not reflected on the balance sheet 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.

NOTE 11 - DISCLOSURE ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents the carrying amounts and estimated 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, discount rates, 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 as of December 31 follows:

	Carrying Value	Fair Value
2010		
Financial assets:		
Cash	$ 766,289	$ 766,289
Loans, net	389,159,689	387,014,039
Financial liabilities:		
Note payable to the bank	314,107,511	311,302,137
2009		
Financial assets:		
Cash	$ 734,130	$ 734,130
Loans, net	404,720,551	398,627,465
Financial liabilities:		
Note payable to the bank	343,459,699	337,408,034
2008		
Financial assets:		
Cash	$ 736,155	$ 736,155
Loans, net	411,507,969	419,223,453
Financial liabilities:		
Note payable to the bank	348,241,892	354,495,915

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:

Cash --- For cash and overnight investments, the carrying value is a reasonable estimate of fair value.

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. Since the discount rates are based on the associations' loan rates as well as on management estimates, management has no basis to determine whether the fair values presented would be indicative of the value negotiated in an actual sale.

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

Fair value of loans in a nonaccrual status that are current as to principal and interest is estimated as described above, with appropriately higher discount rates which reflect the uncertainty of continued cash flows. For noncurrent nonaccrual loans, it is assumed that collection will result only from the disposition of the underlying collateral. Fair value of these loans is estimated to equal the aggregate net realizable value of the underlying collateral, discounted at an interest rate which appropriately reflects the uncertainty of the expected future cash flows over the average disposal period. Where the net realizable value of the collateral exceeds the legal obligation for a particular loan, the legal obligation is generally used in place of the net realizable value.

The carrying value of accrued interest receivable approximates its fair value.

Investment in the Bank --- Estimating the fair value of the association's investment in the bank is not practicable because the stock is not traded. As described in Note 2 - Summary of Significant Accounting Policies, the investment is a requirement of borrowing from the bank and is carried at cost plus allocated equities in the accompanying balance sheet. The association owns 2.87 percent of the issued common stock of the bank as of December 31, 2010. As of that date, the bank's assets totaled $14.1 billion and members' equity totaled $1.151 billion. The bank's earnings were $168.5 million during 2010.

Note Payable to the Bank --- The note payable to the bank is not regularly traded; thus, quoted market prices are not available. Fair value of this instrument is discounted based on the association's and bank's loan rates as well as on management estimates. For purposes of this estimate, it is assumed the cash flow on the note is equal to the principal payments on the association's loan receivables plus accrued interest on the note payable. This assumption implies that earnings on the association's interest margin are used to fund operating expenses and capital expenditures. Management has no basis to determine whether the fair values would be indicative of the value negotiated in an actual sale.

The carrying value of accrued interest payable approximates its fair value.

Commitments to Extend Credit --- The association does not normally capitalize and amortize fees recognized on its commitments to extend credit; hence, there are no financial instruments associated with these commitments.

NOTE 12 - SUBSEQUENT EVENTS

The association has evaluated subsequent events through February 28, 2011, which is the date the financial statements were available to be issued.

NOTE 13 - QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Quarterly results of operations (in thousands) for the years ended December 31 follow:

	2010				
	First	Second	Third	Fourth	Total
Net interest income	$ 2,795	$ 2,734	$ 2,728	$ 2,833	$ 11,090
Provision for loan losses	(1,086)	(28)	(427)	520	(1,021)
Noninterest income (expense), net	(1,006)	(471)	(711)	477	(1,711)
Net income	$ 703	$ 2,235	$ 1,590	$ 3,830	$ 8,358

	2009				
	First	Second	Third	Fourth	Total
Net interest income	$ 2,720	$ 2,668	$ 2,600	$ 2,969	$ 10,957
Provision for loan losses	(103)	(2,562)	(1,545)	769	(3,441)
Noninterest income (expense), net	(1,058)	(1,030)	(1,025)	377	(2,736)
Net income	$ 1,559	$ (924)	$ 30	$ 4,115	$ 4,780

	2008				
	First	Second	Third	Fourth	Total
Net interest income	$ 2,654	$ 2,495	$ 2,697	$ 2,427	$ 10,273
Provision for loan losses	-	(986)	556	(1,906)	(2,336)
Noninterest income (expense), net	(760)	(619)	(1,186)	92	(2,473)
Net income	$ 1,894	$ 890	$ 2,067	$ 613	$ 5,464

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Report of Independent Auditors

To the Board of Directors and Stockholders of
Central Texas Farm Credit, ACA

We have audited the accompanying consolidated balance sheets of Central Texas Farm Credit, ACA and subsidiaries (Association) as of December 31, 2010, 2009 and 2008 and the related consolidated statements of income, changes in members' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Central Texas Farm Credit, ACA and subsidiaries as of December 31, 2010, 2009 and 2008 and the results of their operations, changes in members' equity and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Simonton & Kutac, LLP

February 28, 2011