Central Texas Farm Credit, ACA

2011 Annual Report

December 31, 2011

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 overseeing 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 or her knowledge or belief.

Boyd J. Chambers

Boyd J. Chambers, Chief Executive Officer and President

February 28, 2012

Brent Heinze

Brent Heinze, Chairman, Board of Directors

February 28, 2012

Alan E. Benedict

Alan E. Benedict, Controller and Treasurer

February 28, 2012

REPORT OF AUDIT COMMITTEE

The Audit Committee (committee) is composed of the entire board of directors of Central Texas Farm Credit, ACA. In 2011, 12 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 by request or on Central Texas Farm Credit, ACA's website. The committee approved the appointment of Simonton & Kutac, LLP for 2011. 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, 2011 (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 $59,991 for audit services and $11,400 for tax services in 2011. There were no other services provided to the association by Simonton & Kutac, LLP in 2011.

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, 2011.

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, 2012

CENTRAL TEXAS FARM CREDIT, ACA

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

	2011	2010	2009	2008	2007
Balance Sheet Data					
Assets					
Cash	**$ 1,150**	$ 766	$ 734	$ 736	$ 1,267
Investments	**-**	-	-	-	-
Loans	**378,541**	390,781	407,461	411,702	400,838
Less: allowance for loan losses	**879**	1,622	2,740	194	104
Net loans	**377,662**	389,159	404,721	411,508	400,734
Investment in and receivable from the bank	**6,273**	6,596	7,076	6,923	6,148
Other property owned, net	**553**	-	-	-	-
Other assets	**4,515**	6,214	8,249	5,124	7,012
Total assets	**$ 390,153**	$ 402,735	$ 420,780	$ 424,291	$ 415,161
Liabilities					
Obligations with maturities of one year or less	**$ 6,848**	$ 11,065	$ 4,592	$ 5,280	$ 7,369
Obligations with maturities greater than one year	**301,018**	314,807	344,289	349,375	340,999
Total liabilities	**307,866**	325,872	348,881	354,655	348,368
Members' Equity					
Capital stock and participation certificates	**2,206**	2,255	2,273	2,275	2,248
Additional paid-in capital	**-**	-	-	-	-
Allocated retained earnings	**-**	-	-	-	-
Unallocated retained earnings	**80,222**	74,666	69,508	67,227	64,278
Accumulated other comprehensive income (loss)	**(141)**	(58)	118	134	267
Total members' equity	**82,287**	76,863	71,899	69,636	66,793
Total liabilities and members' equity	**$ 390,153**	$ 402,735	$ 420,780	$ 424,291	$ 415,161
Statement of Income Data					
Net interest income	**$ 12,074**	$ 11,090	$ 10,957	$ 10,273	$ 9,791
(Provision for loan losses) or loan loss reversal	**259**	(1,022)	(3,441)	(2,336)	(706)
Income from the bank	**1,468**	1,825	1,618	1,293	1,194
Other noninterest income	**596**	1,052	832	702	1,036
Noninterest expense	**(4,320)**	(4,587)	(5,187)	(4,468)	(3,923)
Income taxes	**(20)**	-	-	-	-
Extraordinary items	**-**	-	-	-	-
Net income (loss)	**$ 10,057**	$ 8,358	$ 4,779	$ 5,464	$ 7,392
Key Financial Ratios for the Year					
Return on average assets	**2.5%**	2.1%	1.1%	1.3%	2.0%
Return on average members' equity	**12.4%**	11.2%	6.7%	7.8%	11.5%
Net interest income as a percentage of average earning assets	**3.1%**	2.8%	2.6%	2.5%	2.7%
Net charge-offs (recoveries) as a percentage of average loans	**0.1%**	0.5%	0.2%	0.6%	0.2%

CENTRAL TEXAS FARM CREDIT, ACA

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

	2011	2010	2009	2008	2007
Key Financial Ratios at Year End					
Members' equity as a percentage of total assets	**21.1%**	19.1%	17.1%	16.4%	16.1%
Debt as a percentage of members' equity	**374.1%**	424.0%	485.2%	509.3%	521.6%
Allowance for loan losses as a percentage of loans	**0.2%**	0.4%	0.7%	0.0%	0.0%
Permanent capital ratio	**19.7%**	17.4%	14.7%	15.0%	14.9%
Core surplus ratio	**19.2%**	16.7%	14.6%	14.5%	14.4%
Total surplus ratio	**19.2%**	16.7%	14.6%	14.5%	14.4%
Net Income Distribution					
Cash dividends paid	**$ -**	$ -	$ -	$ -	$ -
Patronage dividends:					
Cash	**3,200**	2,500	2,500	2,500	3,000
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 Federal Land Bank, FLCA (association) for the years ended December 31, 2011, 2010 and 2009, 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 2011, the association received a direct loan patronage of $1,309,704 from the Farm Credit Bank of Texas (the bank), representing 42 basis points on the average daily balance of the association's direct loan with the bank. During 2011, the association received $158,326 in patronage payments from the bank, based on the association's stock investment in the bank.

Prior Year – 2010

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 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, association Director Larry Damron resigned from his position, 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 (eight stockholder-elected and one 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.

Current Year – 2011

In December 2011, association director Cody Richmond resigned from his position, with the board formally accepting his resignation.

Problem Loans

During the second quarter of 2008 all loans held by the association with one large borrower were deemed nonviable and were transferred to nonaccrual. These loans were transferred to nonaccrual 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 were 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. No expenses have been incurred related to this account thus far in 2011. 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 containing significant financial stress which resulted in these accounts being transferred to nonaccrual in the fourth quarter of 2008 totaling $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. On March 11, 2011, a $51,304 recovery of expenses was obtained on the larger of these two fully charged-off accounts. Adjustments to this first quarter recovery of expenses have been reduced by $13,181 due to ongoing legal expenses resulting in a remaining amount recovered of $38,123 as of December 31, 2011.

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 nonaccrual balance. Outstanding balances on these four nonaccrual 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 resulting in an unrealized gain of $55,000 being recorded. Due to underlying credit weaknesses, however, the new loan remained in a nonaccrual 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 nonaccrual 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 identified 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 nonaccrual. 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 nonaccrual 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 $1,506,440 at March 31, 2011. As of June 30, 2011, $951,416 of the acquired property value was reclassed to a formally restructured loan, returning the acquired property value to the original $523,049. At December 31 the acquired property value remained at $523,049, and the formally restructured loan had a balance of $692,017. 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 nonaccrual, three additional participation loans had to be moved to nonaccrual 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 nonaccrual. During the fourth quarter of 2009 the purchase/finance account remained in nonaccrual status as indicated above with its related specific allowance returned to income. 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 nonaccrual 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 nonaccrual 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 an 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. On February 28, 2011, a $11,667 recovery was obtained on this fully charged-off account. The other of these two nonaccrual accounts has remained in nonaccrual status with a $750,000 specific allowance. The balance of this nonaccrual account was $1,120,023 at June 30, 2011. On September 22, 2011, this account was collected in full with $424,897 of the $750,000 allowance being returned to income.

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 containing significant financial stress which resulted in this account being transferred to nonaccrual. 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 nonaccrual, and a specific allowance for loan loss was not deemed necessary at that time. As of June 30, 2011, the balance of this participation loan remained at $4,637,524. This balance was collected in full as of September 23, 2011.

Year-end Weather and Crop Conditions

Cool days, cold nights and the occasional heavy freeze warning prevailed in most of the association's region with the arrival of winter. Many counties in the association's territory received moisture in December and saw some improvement in rangeland and pastures with burn bans temporarily lifted as a result. Winter wheat, oats, as well as some winter grasses, and forbs improved enough to provide grazing, but most fields remained in poor condition. A continued need to provide supplemental feeding of livestock (cattle, goats, and sheep) with a dwindling supply of available hay left many producers in the territory hoping to bale winter wheat not grazed. A significant increase in precipitation and moderate temperatures within the association's area will help to improve crop conditions in the territory in order to sustain winter crops as producers begin plowing fields for spring plantings.

Summation

For over 94 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.

The economy in the association's chartered territory remains stable despite the drought and economic factors due to proper management and mitigation of risk by the areas farmers and ranchers. Land values leveled off during the latter part of 2008, and although sales activity has slowed considerably, prices have remained stable through year-end 2011. At year end, prices for cattle, sheep, and goats were high but relatively stable. Milo prices were relatively stable while wheat prices at harvest were at near historical highs; however, this was due to short supply of harvestable crop. Cotton prices were good; however, supply was limited due to the drought. Most cotton farmers were able to mitigate risk through the prudent use of crop insurance.

A large percentage of the association's new loans are 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 the 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 the association's territory have survived, sometimes for multiple generations, through times of volatile commodity prices and dry weather.

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 and prime-based interest rates. Loan maturities range from one to 40 years, with annual operating loans comprising the majority of the commercial loans and 20- to 30-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.

Due to economic conditions, the association has seen significant declines in the chartered territory's portfolio over the past two years with the most significant loss of volume, $7,934,390, occurring during 2011 as well as a $3,929,955 decline in 2010. Loan volume in the outlying Texas counties also showed a decline of $4,846,183 in 2011. The only portfolio segment that showed growth was the out-of-state portion, which increased slightly. The composition of the association's loan portfolio volume (including principal less funds held), totaled $378,541,377, $390,781,482 and $407,460,874 as of December 31, 2011, 2010 and 2009, 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. In the past, nearly all of the association's adversity in asset quality has stemmed from loans in its participation loan portfolio. As of year-end 2011, all nonaccrual accounts had been settled, collected or upgraded. There have been no material changes in the association's core borrower profile, geographic distribution, commodity concentration or asset quality.

Purchase and Sales of Loans:

During 2011, 2010 and 2009, the association was participating in loans with other lenders. As of December 31, 2011, 2010 and 2009, these participations totaled $70,147,773, $74,625,682 and $84,648,119, or 18.4 percent, 19.1 percent and 20.8 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 sold a participation loan during 2011, which had an ending balance of $345,083 at December 31, 2011.

The association has not sold to or participated in any loans with the Federal Agricultural Mortgage Corporation or any other secondary market entity.

Risk Exposure:

High-risk assets include nonaccrual 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:

	2011		2010		2009	
	Amount	**%**	Amount	%	Amount	%
Nonaccrual	**$ 1,339,888**	**70.8%**	$ 7,288,155	82.8%	$ 6,498,487	100.0%
90 days past due and still accruing interest	**-**	**0.0%**	-	0.0%	-	0.0%
Formally restructured	**692,248**	**0.0%**	-	0.0%	-	0.0%
Other property owned, net	**552,549**	**29.2%**	1,509,066	17.2%	-	0.0%
Total	**$ 2,584,685**	**100.0%**	$ 8,797,221	100.0%	$ 6,498,487	100.0%

At December 31, 2011, 2010 and 2009, loans that were considered impaired were $2,032,136, $7,288,155 and $6,498,487, representing 0.5 percent, 1.9 percent and 1.7 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 collectability 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:

	2011	2010	2009
Allowance for loan losses	**$ 878,513**	$ 1,621,793	$ 2,740,323
Allowance for loan losses to total loans	**0.2%**	0.4%	0.7%
Allowance for loan losses to nonaccrual loans	**65.6%**	22.3%	42.2%
Allowance for loan losses to impaired loans	**43.2%**	22.3%	42.2%
Net charge-offs to average loans	**0.1%**	0.5%	0.2%

The allowance for loan losses is maintained based upon individual evaluations of borrower risk and collateral ratings as well as 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 $878,513, $1,621,793 and $2,740,323 at December 31, 2011, 2010 and 2009, respectively, is considered adequate by management to compensate for inherent losses in the loan portfolio at such dates. Management continues to evaluate and refine its risk weighting methodology 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, 2011, was $10,056,448 as compared to $8,358,406 for the year ended December 31, 2010, reflecting an increase of $1,698,042, or 20.3 percent. The association's net income for the year ended December 31, 2009 was $4,779,851. Net income increased $3,578,555, or 74.9 percent, in 2010 versus 2009.

Net interest income for 2011, 2010 and 2009 was $12,074,322, $11,090,472 and $10,956,675, respectively, reflecting increases of $983,850, or 8.9 percent, for 2011 versus 2010 and $133,797, or 1.2 percent, for 2010 versus 2009. 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 effects of changes in average volume and interest rates on net interest income over the past three years are presented in the following tables:

	2011		2010		2009	
	Average Balance	**Interest**	Average Balance	Interest	Average Balance	Interest
Loans	**$ 385,007,602**	**$ 19,751,507**	$ 394,938,855	$ 19,857,485	$ 418,666,994	$ 21,487,044
Investments	**-**	**-**	-	-	-	-
Total interest-earning assets	**385,007,602**	**19,751,507**	394,938,855	19,857,485	418,666,994	21,487,044
Interest-bearing liabilities	**311,886,116**	**7,677,185**	327,434,466	8,767,013	353,596,388	10,530,369
Impact of capital	**$ 73,121,486**		$ 67,504,389		$ 65,070,606	
Net interest income		**$ 12,074,322**		$ 11,090,472		$ 10,956,675

	Average Yield	Average Yield	Average Yield
Yield on loans	**5.13%**	5.03%	5.13%
Yield on investments	**0.00%**	0.00%	0.00%
Total yield on interest-earning assets	**5.13%**	5.03%	5.13%
Cost of interest-bearing liabilities	**2.46%**	2.68%	2.98%
Interest rate spread	**2.67%**	2.35%	2.15%

	2011 vs. 2010			2010 vs. 2009		
	Increase (decrease) due to			Increase (decrease) due to		
	Volume	**Rate**	**Total**	Volume	Rate	Total
Interest income - loans	**$ (499,343)**	**$ 393,365**	**$ (105,978)**	$ (1,217,799)	$ (411,760)	$ (1,629,559)
Interest income - investments	**-**	**-**	**-**	-	-	-
Total interest income	**(499,343)**	**393,365**	**(105,978)**	(1,217,799)	(411,760)	(1,629,559)
Interest expense	**(416,307)**	**(673,521)**	**(1,089,828)**	(779,128)	(984,228)	(1,763,356)
Net interest income	**$ (83,036)**	**$ 1,066,886**	**$ 983,850**	$ (438,671)	$ 572,468	$ 133,797

Gross interest income for 2011 decreased slightly, by $105,978, or 0.5 percent, compared to 2010, due to declining loan volume. The decrease in gross interest income was minimized by an increase in spreads. Interest expense for 2011 decreased by $1,089,828, or 12.4 percent, compared to 2010 due to a decreased cost of funds. The interest rate spread increased by 32 basis points to 2.67 percent in 2011 from 2.35 percent in 2010, primarily due to a lowering of funding costs and a slight increase in borrower rates. In 2011, 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 2011 was a net decrease of $50,113 or 1.3 basis points. The interest rate spread increased by 20 basis points to 2.35 percent in 2010 from 2.15 percent in 2009, primarily because reductions in the cost of funds were not fully incorporated into the lending rate.

Noninterest income for 2011 decreased by $813,529, or 28.3 percent, compared to 2010, due primarily to a FCSIC refund distribution of excess reserves from prior years of $410,939 and a $357,286 reduction from FCBT patronage received in 2010. Authoritative accounting guidance requiring the capitalization and amortization of loan origination fees and costs was implemented during 2011 for loans closed in 2011, resulting in the capitalization of $300,667 in origination fees and $350,779 of origination expense, which will be amortized over the life of the loans as an adjustment to yield in net interest income. In 2010 the accounting guidance resulted in the capitalization of $293,565 in origination fees and $337,528 of origination expense. Noninterest income for 2010 increased by $426,309, or 17.4 percent, compared to 2009, due primarily to receipt of a FCSIC refund distribution of excess reserves from prior years of $410,939 and a $206,662 increase from FCBT patronage received in 2009. 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.

Allowance for loan losses decreased by $743,280, or 45.8 percent, compared to 2010. Provision for loan loss expense ended at a credit balance of $258,656 for 2011 compared to an expense of $1,021,878 in 2010 or a net difference of $1,280,534. These changes were due primarily to liquidation of one large participation account and reversal of a related specific allowance. Other factors contributing to the changes include updated risk rating criteria, movements in the PD and LGD of borrowers and changes in credit quality classification, as well as an overall decline in loan volume.

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 $4,320,439, $4,587,626 and $5,186,594 for 2011, 2010 and 2009, respectively. These expense totals reflect a decrease in operating expense of $267,187 or 5.8 percent from 2010 to 2011. The $267,187 decrease in operating expenses contains a reduction in purchased services, salary and benefit expenses. A decrease in operating expense of $598,968 or 11.6 percent from 2009 to 2010 was due to 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. In 2010 the capitalization required by the accounting guidance for loans closed, resulted in the capitalization of $43,963 in net origination costs, which will continue to be amortized over the life of the loans as an adjustment to yield in net interest income. The capitalized costs in 2010 consisted of salaries and benefits totaling $337,528 related to the origination of loans.

For the year ended December 31, 2011, the association's return on average assets was 2.6 percent, as compared to 2.1 percent and 1.1 percent for the years ended December 31, 2010 and 2009, respectively. For the year ended December 31, 2011, the association's return on average members' equity was 12.6 percent, as compared to 11.4 percent and 6.9 percent for the years ended December 31, 2010 and 2009, respectively. The association's improved returns on assets and equity are most significantly impacted by the recognition of nonaccrual interest income; reduction in adverse loan activity, other reductions in expense, and increased loan spreads.

For the year ended December 31, 2011, the association's net interest margin when measured against average loan volume for the year was 3.14 percent as compared to 2.81 percent and 2.62 percent at year-end 2010 and 2009, respectively. The increase in net interest margin from 2010 to 2011 was due to recognition of nonaccrual interest income as well as a decrease in average earning assets and a slight increase in net interest income. The increase in net interest margin from 2009 to 2010 is reflective of the association's level of average earning assets decreasing 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 reduced 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 $300,441,402, $314,107,511 and $343,459,699 as of December 31, 2011, 2010 and 2009, respectively, is recorded as a liability on the association's balance sheet. The note carried a weighted average interest rate of 2.46 percent, 2.68 percent and 2.98 percent at December 31, 2011, 2010 and 2009, respectively. The indebtedness is collateralized by a pledge of substantially all of the association's assets to the bank and is governed by a general financing agreement. The decrease in note payable to the bank and related accrued interest payable since December 31, 2010, is due to application of net income, the pay down of existing loans and decreased demand for financing. The association's own funds, which represent the amount of the association's loan portfolio funded by the association's equity, were $78,225,710, $77,663,225 and $64,008,175 at December 31, 2011, 2010 and 2009, respectively. The maximum amount the association may borrow from the bank as of December 31, 2011, was $380,414,532 as defined by the general financing agreement. The indebtedness continues in effect until the expiration date of the general financing agreement, which is October 1, 2012, unless sooner terminated by the bank upon the occurrence of an event of default, or by the association, in the event of a breach of this agreement by the bank, upon giving the bank 30 calendar days prior written notice, or in all other circumstances, upon giving the bank 120 days prior written notice.

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 2012. 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. It is management's opinion that funds available to the association through the bank are sufficient to fund its operations in the foreseeable future.

Capital Resources:

The association's capital position remains strong, with total members' equity of $82,287,460, $76,863,226 and $71,898,848 at December 31, 2011, 2010 and 2009, respectively. Capital continues to grow due to the association's sustained level of earnings. 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 loss accounts. The association's permanent capital ratio at December 31, 2011, 2010 and 2009 was 19.7 percent, 17.3 percent and 14.7 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, 2011, 2010 and 2009 was 19.2 percent, 16.7 percent and 14.4 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, 2011, 2010 and 2009 was 19.2 percent, 16.7 percent and 14.4 percent, respectively, which is in compliance with the FCA's minimum ratio requirement of 7.0 percent.

Total members' equity increased by $5,424,234 during 2011 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.

In 2011, 2010 and 2009, the association paid patronage of $3,200,000, $2,500,000 and $2,500,000, respectively. In December 2011, the board of directors approved a $4,500,000 patronage distribution. See Note 8 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 7 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 7 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 10 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 94 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 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 8 to the consolidated financial statements, "Members' Equity," included in this annual report.

DESCRIPTION OF LIABILITIES

The description of liabilities required to be disclosed in this section is incorporated herein by reference from Note 8 to the consolidated financial statements, "Members' Equity," and in "Management's Discussion and Analysis of Financial Condition and Results of Operations," included in this annual report.

The description of contingent liabilities required to be disclosed in this section is incorporated herein by reference from Notes 2 and 11 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, 2011, required to be disclosed, is incorporated herein by reference to the "Five-Year Summary of Selected Consolidated 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 consolidated 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 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	2014
Jerry Don Klose	Director	-	2008	2014
Mike Finlay	Director	-	2008	2014
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
Boyd J. Chambers	Chief Executive Officer	1 Year	1987	-
Ronnie L. Reinisch	Chief Operating Officer	14 Years	1986	Retired July-2011
Zach May	Chief Operating Officer	5 Months	2008	-
Alan E. Benedict	Controller/Treasurer	18 Years	1975	-
Frankie Gregg	Operations Manager I	8 Years	1993	-
Travis B. McKinney	Senior Vice-President - Lending	2 Years	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 54. 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 Stockholder 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 31. 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 Stockholder 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 2014.

Jerry Don Klose, age 68. 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 2014.

Mike Finlay, age 63. 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. He also has 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 2014.

Glenn T. Miller, age 60. 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 68. 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 54. 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 69. 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.

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.

Boyd J. (Jimmy) Chambers, age 51. Mr. Chambers is the chief executive officer of the association. His principal occupation is serving as the CEO of this association. He has served in the position of CEO for the past year and previously served as the association's executive vice president/CCO. 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.

Zach May, age 33. Mr. May is the chief operating officer of the association. His principal occupation is serving as COO of this association, and he has served in this position since the retirement of Ronnie Reinisch on July 31, 2011. Prior to this position, he trained under Mr. Reinisch for two years as an operations manager. Mr. May spent nearly a year with Capital Farm Credit, ACA in the capacity of senior credit analyst before joining this association. Mr. May also served for three and one-half years with the Farm Credit Administration, attaining the position of a commissioned examiner. He has been employed in the Farm Credit System since 2008.

Alan E. Benedict, age 61. 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 18 years. Prior to joining this association in June 2004, Mr. Benedict served in the same capacity with AgriLand FCS, ACA and Ag New Mexico, ACA. He has been employed in the Farm Credit System since 1975.

Frankie Gregg, age 61. 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 eight 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.

Travis B. McKinney, age 35. 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 two years. 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 drafting and implementing association lending policies, 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, $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 2011 was paid at the IRS-approved rate of 55.5 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 2011**
Brent M. Heinze	11	6.0	9,350
Robby A. Halfmann	12	7.0	9,750
Jerry Don Klose	12	9.0	10,550
Cody B. Richmond	6	4.0	8,550
Mike Finlay	12	4.0	8,150
Glenn T. Miller	9	3	8,150
Mickey D. Dillard	12	3	8,150
Philip W. Hinds	12	6	9,350
A.Wayland Shurley	12	13	12,150
			$ 84,150

The aggregate compensation paid to directors in 2011, 2010 and 2009 was $84,150, $90,400 and $97,850, 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	$ -0-	$ 150	$ -0-
Robby A. Halfmann	-0-	150	-0-
Jerry Don Klose	-0-	150	-0-
Cody B. Richmond	-0-	150	-0-
Mike Finlay	-0-	150	-0-
Glenn T. Miller	-0-	150	-0-
Mickey D. Dillard	-0-	150	-0-
Philip W. Hinds	-0-	150	-0-
A.Wayland Shurley	-0-	150	-0-
	$ -0-	$ 1,350	$ -0-

The aggregate amount of reimbursement for travel, subsistence and other related expenses paid to directors and on their behalf was $21,800, $17,666 and $20,890 in 2011, 2010 and 2009, respectively. All compensation paid to directors in 2011 was cash compensation. There was no noncash compensation provided to any director during 2011.

COMPENSATION OF SENIOR OFFICERS

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.

The Association Bonus Program states that the amount of bonuses paid to employees in the aggregate, excluding the CEO, can be up to 16.7 percent of the total combined salaries of those employees. This means that 16.7 percent of employees' total salaries, excluding the CEO's salary, is the maximum amount of bonuses that can be paid to employees. 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. In addition, final approval of bonuses to employees and to the CEO is to be given at the November board meeting, and the payment of bonuses shall always be at the sole discretion of the board.

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

Chief Executive Officer (CEO) Compensation

The CEO's total compensation for the last three years is detailed in the table below. "Change in Pension Value" is an item that is being reported for the first time in 2011. This amount represents the change in actuarial value of the CEO's defined benefit pension plan. Changes in this value are based on additional years of service, compensation increases or decreases, plan amendments, and increases or decreases in value due to interest.

Name of Individual	Year	Salary	Bonus	Change in Pension Value**	Other*	Total
Boyd J. Chambers CEO	**2011**	**$195,007**	**$50,000**	**$149,339**	**$13,863**	**$408,210**
James R. Isenhower CEO	2010	$232,109	$49,343	N/A	$93,974	$375,426
	2009	$220,000	$0	N/A	$16,326	$236,326

*Amounts in the "Other" column include matching contributions to the employee's 401(k), automobile benefits and the IRS value of life insurance premiums paid. This column also includes payouts for accrued annual leave when applicable.

**NOTE: The "Change in Pension Value" amount in 2011 was significantly impacted by Mr. Chambers' promotion to CEO and the accompanying increase in salary.

Pension Benefits Table for the CEO

The following table presents the total annual benefit provided from the defined benefit pension plan applicable to the CEO for the year ended December 31, 2011:

Name	Plan Name	Number of Years Credited Service	Present Value of Accumulated Benefit	Payments During 2011
Boyd J. Chambers	Farm Credit Bank of Texas Pension Plan	22	$ 433,453	$ -

Pension Benefits Table Narrative Disclosure for the CEO

The CEO of the association participates in the Farm Credit of Texas Pension Plan (the Pension Plan), which is a qualified defined benefit retirement plan. Compensation, as defined in the Pension Plan, includes wages, incentive compensation, and deferrals to the 401(k) and flexible spending account plans, but excludes annual leave or sick leave that may be paid in cash at the time of termination, retirement, or transfer of employment, severance payments, retention bonuses, taxable fringe benefits, and any other payments. Pension Plan benefits are based on the average of monthly eligible compensation over the 60 consecutive months that produce the highest average after 1996 (FAC60). The Pension Plan's benefit formula for a Normal Retirement Pension is the sum of (a) 1.65 percent of FAC60 times "Years of Benefit Service" and (b) 0.50 percent of (i) FAC60 in excess of Social Security covered compensation items (ii) times "Years of Benefit Service" (not to exceed 35). The present value of the CEO's accumulated Pension Plan calculation assumes retirement had occurred at the measurement date used for financial reporting purposes with the retirement at age 65. The Pension Plan's benefit formula for the Normal Retirement Pension assumes that the CEO is married on the date the annuity begins, that the spouse is exactly two years younger than the CEO, and that the benefit is payable in the form of a 50 percent joint and survivor annuity. If any of those assumptions are incorrect, the benefit is recalculated to be the actuarial equivalent benefit.

Compensation of Other Senior Officers

The following table summarizes the compensation paid to all other senior officers of the association during 2011, 2010 and 2009. This may include other nonsenior officers if their total compensation is within the top five highest paid officers. Amounts reflected in the table are presented in the year the compensation was earned.

Name of Group	Year	Salary	Bonus	Other*	Total
5 Highest Paid Officers 2011, 2010 & 2009 (Excluding CEO)					
5 Senior Officers	**2011**	**$482,685**	**$121,467**	**$72,862**	**$677,014**
5 Senior Officers	2010	$556,316	$126,000	$30,092	$712,408
5 Senior Officers	2009	$529,220	$30,000	$28,886	$601,969

*Amounts in the "Other" column include matching contributions to the employee's 401(k), automobile benefits, and the IRS value of life insurance premiums paid. This column also includes payouts for accrued annual leave when applicable.

NOTE: The "Other" compensation category for 2011 includes a payout for accrued annual leave. Accrued annual leave is usually only paid when an employee leaves the association.

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 are available and will be disclosed to shareholders of the institution upon request.

Employees assigned association automobiles reimburse the association for personal miles. Employees who use their personal automobile for business purposes were reimbursed during 2011 at the IRS-approved rate of 51 cents per mile for the period of January through June. The IRS-approved rate increased to 55.5 cents per mile for the period of July through December.

Neither the CEO nor any other senior officer received noncash compensation, other than company auto, exceeding $5,000 in 2011, 2010 or 2009.

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 10 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 5 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 nonaudit tax services provided by Simonton & Kutac, LLP and concluded that these services were compatible 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 nonaudit tax services for 2011 totaled $59,991 and $11,400, respectively. There were no other services provided to the association by Simonton & Kutac, LLP in 2011.

FINANCIAL STATEMENTS

The financial statements, together with the report thereon of Simonton & Kutac, LLP dated February 28, 2012, 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 governs their conduct. This Code of Ethics is intended to supplement the association's Standards of Conduct Policy.

Each director, officer and employee agrees to:

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

- 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.

- 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.

- 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.

- 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.

- 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.

MEMBER/SHAREHOLDER PRIVACY

Members' nonpublic personal financial information is protected by Farm Credit Administration regulation. Our directors and employees are restricted from disclosing information not normally contained in published reports or press releases about the association or its members.

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 full 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 the following:

1. Maximum coordination among the following:
   - Between this association and other associations when developing a joint line of credit for an applicant/borrower.
   - Between this association and a non-System lender when involved in developing a joint line of credit for an applicant/borrower.
   - Between this association and other associations and cosigners or guarantors, whether governmental or private.

   The association will determine whether coordinated financing to a credit-worthy 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 credit-worthy financing package.

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

   Loan approvals will fully utilize available lengths 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 the following:
   - Developing expertise in meeting the special financing and related service needs of program applicants.
   - Implementing the association program.
   - 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:

   Quarterly reports of the program's progress will be provided to the board by the association's CEO.

5. Credit-related services will be offered 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 record keeping, financial analysis and management, leasing, capital investment decision-making, marketing strategies, and other such management areas. Specific activities and services to be provided such as "financial planning in agriculture," will be made available at all territory public libraries, 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 will also expand the criteria used to determine a full-time farmer to include those part-time Young, Beginning and Small Farmers and Ranchers who demonstrate 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:

- 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.
- The intent of the borrower to actively engage in agricultural production, as evidenced by his education, training, experience, business plan or some other means.
- A level or projected level of gross agricultural income or production that evidences a clear commitment to agricultural production.
- 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 policy and program implementation 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. (*Adjusted census figures used due to the lack of credit needs of the Small Farmers.)

As of the end of the Fourth Quarter 2011, the number of YBS loans in the association's portfolio is as follows:

Young Farmers:

> There were 483 loans to this group of borrowers. This equates to 18.52 percent of the total portfolio and 87.5 percent of the total number of Young Farmers in our territory cited in the 2007 census.

Beginning Farmers:

> There were 1,075 loans to this group of borrowers. This equates to 41.22 percent of the total portfolio and 24.54 percent of the total number of Beginning Farmers in our territory cited in the 2007 census.

Small Farmers:

> There were 1,942 loans to this group of borrowers. This equates to 74.46 percent of the total portfolio and 30.29 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

The association's goal for 2011 was to have at least 60 percent of new loans go to borrowers who meet one or more of the YBS criteria. This goal was met and exceeded as of December 31, 2011.

REPORTING

The association shall incorporate the goals of its YBS Program into the 2012 Three-Year Business Plan, 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 the annual report, with the YBS Program information, on its website.

CENTRAL TEXAS FARM CREDIT, ACA

CONSOLIDATED BALANCE SHEETS

	December 31, 2011	December 31, 2010	December 31, 2009
ASSETS			
Cash	$ 1,150,203	$ 766,289	$ 734,130
Loans	378,541,377	390,781,482	407,460,874
Less: allowance for loan losses	(878,513)	(1,621,793)	(2,740,323)
Net loans	377,662,864	389,159,689	404,720,551
Accrued interest receivable	3,739,673	3,861,139	4,255,984
Investment in the Bank	6,272,795	6,596,195	7,075,995
Premises and equipment, net	611,477	663,800	707,024
Other assets	716,265	1,688,222	3,285,829
Total Assets	$ 390,153,277	$ 402,735,334	$ 420,779,513
LIABILITIES & MEMBERS' EQUITY			
Note payable to the Bank	$ 300,441,402	$ 314,107,511	$ 343,459,699
Accrued interest payable	576,116	699,547	829,222
Drafts outstanding	301,417	6,165,115	64,638
Patronage distributions payable	4,500,000	3,200,000	2,500,000
Other liabilities	2,046,882	1,699,935	2,027,106
Total Liabilities	307,865,817	325,872,108	348,880,665
Capital stock and participation certificates	2,206,060	2,254,885	2,273,210
Unallocated retained earnings	80,222,323	74,665,875	69,507,469
Accumulated other comprehensive income	(140,923)	(57,534)	118,169
Total Members' Equity	82,287,460	76,863,226	71,898,848
Total Liabilities and Members' Equity	$ 390,153,277	$ 402,735,334	$ 420,779,513

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,		
	2011	2010	2009
INTEREST INCOME			
Interest income on loans	$ 19,751,507	$ 19,857,485	$ 21,487,044
Interest expense on note payable to the Bank	(7,677,185)	(8,767,013)	(10,530,369)
Net Interest Income	12,074,322	11,090,472	10,956,675
PROVISION FOR CREDIT LOSSES			
Provision for (reversal of) credit losses	(258,656)	1,021,878	3,441,359
Net Interest Income after Provision for Credit Losses	12,332,978	10,068,594	7,515,316
NONINTEREST INCOME			
Patronage income from the Bank	1,468,030	1,825,316	1,618,654
Loan fees	521,056	540,737	795,968
Fees for financially related services	11,309	12,446	14,170
Gain (loss) on other property owned, net	(2,593)	70,546	(2,729)
Other	66,107	428,393	25,066
Total Noninterest Income	2,063,909	2,877,438	2,451,129
NONINTEREST EXPENSES			
Salaries and employee benefits	2,975,275	3,027,305	3,245,028
Directors' expense	105,950	108,066	118,740
Purchased services	315,493	450,203	971,983
Travel	133,562	165,104	144,109
Occupancy and equipment	167,422	160,140	143,370
Communications	28,948	36,065	36,346
Advertising	120,900	108,854	123,746
Public and member relations	76,597	61,016	59,014
Supervisory and examination expense	163,741	163,503	155,388
Professional fees	140,292	205,541	103,812
Other	92,259	101,829	85,058
Total Noninterest Expenses	4,320,439	4,587,626	5,186,594
Income Before Income Taxes	10,076,448	8,358,406	4,779,851
Income Taxes	20,000	-	-
Net Income	$ 10,056,448	$ 8,358,406	$ 4,779,851

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, 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
Comprehensive income				
Net income	-	10,056,448	-	10,056,448
Change in postretirement benefit plans	-	-	(83,389)	(83,389)
Total comprehensive income	-	10,056,448	(83,389)	9,973,059
Capital stock / participation certificates issued	229,160	-	-	229,160
Capital stock / participation certificates retired	(277,985)	-	-	(277,985)
Patronage distributions declared	-	(4,500,000)	-	(4,500,000)
Balance at December 31, 2011	$ 2,206,060	$ 80,222,323	$ (140,923)	$ 82,287,460

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Years Ended December 31,		
	2011	2010	2009
Cash Flows from Operating Activities			
Net income	$ 10,056,448	$ 8,358,406	$ 4,779,851
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	100,606	135,390	122,211
Provision for (reversal of) credit loss allowance	(258,656)	1,021,878	3,441,359
(Gain) on sale of other property owned	-	(74,170)	(394)
(Gain) on disposal of assets, net	(19,541)	(182)	-
(Increase) decrease in operating assets:			
Accrued interest receivable	121,466	394,845	188,201
Other assets	15,440	3,106,672	(3,285,829)
Increase (decrease) in operating liabilities:			
Accrued interest payable	(123,431)	(129,675)	(303,496)
Other liabilities	108,913	(502,874)	172,439
Net cash provided by operating activities	10,001,245	12,310,290	5,114,342
Cash Flows from Investing Activities			
Net decrease in loans	12,862,392	12,279,907	3,274,503
Cash recoveries of loans previously charged off	4,251	700,379	71,950
(Purchases) redemption in investment in the Bank	323,400	479,800	(153,390)
Purchases of property and equipment	(48,742)	(94,391)	(148,878)
Proceeds from sales of premises and equipment	20,000	2,407	-
Proceeds from sales of other property owned	-	123,803	-
Net cash provided by investing activities	13,161,301	13,491,905	3,044,185

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

CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

	For the Years Ended December 31,		
	2011	2010	2009
Cash Flows from Financing Activities			
Net (repayments) of note payable to Bank	(13,666,109)	(29,352,188)	(4,782,193)
Capital stock / participation certificates issued	229,160	248,420	231,555
Capital stock / participation certificates retired	(277,985)	(266,745)	(233,165)
Increase (decrease) in drafts outstanding	(5,863,698)	6,100,477	(876,749)
Patronage distributions paid	(3,200,000)	(2,500,000)	(2,500,000)
Net cash (used) by financing activities	(22,778,632)	(25,770,036)	(8,160,552)
Net increase (decrease) in cash and cash equivalents	383,914	32,159	(2,025)
Cash and cash equivalents, beginning of year	766,289	734,130	736,155
Cash and cash equivalents, end of year	$ 1,150,203	$ 766,289	$ 734,130
Supplemental Schedule of Non-Cash Investing and Financing Transactions:			
Patronage distributions declared	$ 4,500,000	$ 3,200,000	$ 2,500,000
Financed sales of other property owned	986,016	237,916	1,687,968
Loans transferred to other property owned	29,499	1,796,614	1,632,986
Loans charged off	334,230	2,840,787	967,314
Transfer of allowance for loan losses into reserve for unfunded commitments	154,645	-	-
Supplemental Cash Information:			
Cash paid during the year for:			
Interest	$ 7,800,616	$ 8,896,688	$ 10,833,865
Income taxes	20,000	-	-

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2011, 2010 and 2009

NOTE 1 - ORGANIZATION AND OPERATIONS

Organization --- Central Texas Farm Credit, ACA and its wholly-owned subsidiaries, Central Texas Land Bank, 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 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). At December 31, 2011, the System was composed of four Farm Credit Banks (FCBs) and their affiliated associations, one Agricultural Credit Bank (ACB) and its affiliated associations, the Federal Farm Credit Banks Funding Corporation (Funding Corporation), and various service and other organizations. With the merger of CoBank, ACB and U.S. AgBank, FCB effective January 1, 2012, the nation is currently served by three FCBs and one ACB.

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, 2011, the district consisted of the bank, one 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 safe 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 has been 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 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 percent 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 operations of the bank may materially affect stockholders' investment in the association. Upon request, stockholders of the association will be provided with the Farm Credit Bank of Texas and District Associations' 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 may 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 September 2011, the Financial Accounting Standards Board (FASB) issued guidance entitled "Compensation ─ Retirement Benefits ─ Multi-employer Plans." The guidance is intended to provide more information about an employer's financial obligations to a multi-employer pension plan and a postretirement benefits plan other than pension, which should help financial statement users better understand the financial health of significant plans in which the employer participates. The additional disclosures include: a) a description of the nature of plan benefits, b) a qualitative description of the extent to which the employer could be responsible for the obligations of the plan, including benefits earned by employees during employment with another employer, and c) other quantitative information to help users understand the financial information about the plan.

The amendments are effective for annual periods for fiscal years ending after December 15, 2011 for public entities. The amendments should be applied retrospectively for all prior periods presented. The adoption of this Standard did not have an impact on the bank and association's financial condition or results of operations, but did result in additional disclosures.

In June 2011, the FASB issued guidance entitled, "Comprehensive Income ─ Presentation of Comprehensive Income." This guidance is intended to increase the prominence of other comprehensive income in financial statements. The current option that permits the presentation of other comprehensive income in the statement of changes in equity has been eliminated. The main provisions of the guidance provide that an entity that reports items of other comprehensive income has the option to present comprehensive income in either one or two consecutive financial statements: 1) a single statement must present the components of net income and total net income, the components of other comprehensive income and total other comprehensive income, and a total for comprehensive income; 2) in a two-statement approach, an entity must present the components of net income and total net income in the first statement; this statement must be immediately followed by a financial statement that presents the components of other comprehensive income, a total for other comprehensive income and a total for comprehensive income.

This guidance is to be applied retrospectively and is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The adoption of this guidance will not impact financial condition or results of operations, but will result in changes to the presentation of comprehensive income.

In May 2011, the FASB issued guidance entitled, "Fair Value Measurement ─ Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs." The amendments change the wording used to describe the requirement in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. The amendments are to be applied prospectively and are effective during interim and annual periods beginning after December 15, 2011. The adoption of this guidance will not impact the association's financial condition or results of operations, but will result in additional disclosure requirements.

In January 2011, the FASB issued guidance entitled, "Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings." This guidance temporarily delayed the effective date of the disclosures about troubled debt restructurings required by the guidance previously issued on "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses." The effective date of the new disclosures about troubled debt restructuring (TDR) coincides with the guidance for determining what constitutes a TDR as described below.

In April 2011, the FASB issued it guidance entitled, "A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring," which provides for clarification on whether a restructuring constitutes a TDR. In evaluating whether a restructuring is a TDR, a creditor must separately conclude that both of the following exists; (1) the restructuring constitutes a concession, and (2) the debtor is experiencing financial difficulties. For public entities, the guidance is effective for annual periods ending on or after December 15, 2012, including interim periods within those annual periods. The adoption of this Standard did not have an impact on the associations' financial condition or results of operations, but did result in additional disclosures.

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. Interest on loans is accrued and credited to interest income based upon the daily principal amount outstanding. 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. Prior to 2010, this guidance was not implemented due to its immaterial effect on the association's financial position or results of operation for any year presented. The guidance was implemented 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.

Impaired 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. Additionally, all loans over 180 days past due are placed in nonaccrual status. 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). Loans are charged off at the time they are determined to be uncollectible.

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. 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.

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, the borrower has demonstrated payment performance, there are no unrecovered prior charge-offs, and collection of future payments is no longer in doubt. If previously unrecognized interest income exists at the time the loan is transferred to accrual status, cash received at the time of or subsequent to the transfer is first recorded as interest income until such time as the recorded balance equals the contractual indebtedness of the borrower.

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. Management considers the following factors in determining and supporting the level of allowance for loan losses: the concentration of lending in agriculture, combined with uncertainties associated with farmland values, commodity prices, exports, government assistance programs, regional economic effects and weather-related influences.

The allowance for loan losses encompasses various judgments, evaluations and appraisals with respect to the loans and their underlying security that, by their nature, contain elements of uncertainty and imprecision. Changes in the agricultural economy and their impact on borrower repayment capacity will cause these various judgments, evaluations and appraisals to change over time. Accordingly, actual circumstances could vary significantly from the institution's expectations and predictions of those circumstances.

The allowance for loan losses includes components for loans individually evaluated for impairment and loans collectively evaluated for impairment. Generally, for loans individually evaluated the allowance for loan losses represents the difference between the recorded investment in the loan and the present value of the cash flows expected to be collected discounted at the loan's effective interest rate, or at the fair value of the collateral, less estimated costs to sell, if the loan is collateral-dependent. For those loans collectively evaluated for impairment, the allowance for loan losses is determined using the risk-rating model.

Capital Stock Investment in the 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 consolidated 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). All eligible employees may 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 pay for the year ended December 31, 2011, 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 $46,043, $41,781 and $31,798 for the years ended December 31, 2011, 2010 and 2009, respectively. For the DB Plan, the association recognized pension costs of $770,007, $759,513 and $1,134,593 for the years ended December 31, 2011, 2010, and 2009, 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 eligible earnings 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 eligible earnings. Association 401(k) plan costs are expensed as incurred. The association's contributions to the 401(k) plan were $64,200, $70,032 and $53,532 for the years ended December 31, 2011, 2010 and 2009, 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, 2011 approximates $2,300,000 and may be carried forward approximately twenty years. Generally, 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, 2011, 2010 and 2009.

Patronage Refunds from the Farm Credit Bank of Texas --- The association records patronage refunds from the bank on an accrual basis.

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 relate to deferred compensation and supplemental retirement plans. The trust funds 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, highly structured or long-term derivative contracts, certain loans 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 other property owned evaluated for impairment on a non-recurring basis at December 31, 2011, 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 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 estimated value of the collateral, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established. At December 31, 2011, 2010 and 2009, certain loans of $1,339,888, $1,252,586 and $3,841,247 were reported at fair value of $1,339,888, $502,586 and $1,787,998, as a result of recording specific reserves of $0, $750,000 and $2,053,249, respectively. At December 31, 2011, 2010 and 2009, other property owned has been reflected at its estimated fair value of $552,549, $1,509,066 and $0, respectively.

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:

Loan Type	2011	2010	2009
Real estate mortgage	$ 289,307,694	$ 290,500,857	$ 302,334,596
Production and intermediate term	30,553,576	35,921,267	38,586,046
Agribusiness:			
Processing and marketing	30,102,944	32,043,483	33,709,829
Farm-related business	6,216,892	9,238,511	8,944,925
Loans to cooperatives	-	348,595	-
Communication	10,590,606	11,205,791	8,984,963
Energy	9,631,042	9,120,885	12,591,236
Rural residential real estate	1,905,777	2,156,093	2,309,279
Water and waste disposal	232,846	246,000	-
Total	$ 378,541,377	$ 390,781,482	$ 407,460,874

County Distribution	2011	2010	2009
Brown	9.0%	8.8%	8.7%
Comanche	7.6%	7.0%	6.9%
Coleman	6.9%	6.8%	7.3%
Runnels	5.6%	5.4%	4.9%
McCulloch	4.5%	4.8%	4.5%
Concho	4.4%	4.3%	3.8%
Callahan	3.9%	3.7%	2.8%
Mills	3.8%	4.3%	3.9%
Jones	3.7%	3.9%	3.6%
Tom Green	3.6%	3.5%	3.3%
Haskell	3.5%	4.0%	4.1%
San Saba	2.8%	2.8%	4.0%
Knox	1.9%	2.0%	2.0%
Coke	1.6%	1.7%	1.5%
Menard	1.2%	1.1%	1.2%
Baylor	0.9%	0.8%	0.8%
Other counties	17.0%	17.4%	17.6%
Other states	18.1%	17.7%	19.1%
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.

Commodity	2011	2010	2009
Cattle and calves	$ 128,455,320	$ 130,275,670	$ 127,251,853
General livestock and fowl	69,276,414	69,447,355	78,016,197
Other	52,690,568	48,825,281	50,561,797
Hunting and recreation	35,886,850	35,163,616	40,728,526
Cotton	24,800,970	27,565,073	26,302,680
Field crops	20,401,915	19,726,928	21,305,196
Wheat	13,857,292	15,257,211	15,300,088
Fruit, nuts and vegetables	9,222,023	11,421,392	14,435,922
Timber	7,212,978	12,301,032	11,574,426
Feed products and milling	6,796,987	9,230,011	9,819,026
Sheep and goats	6,729,985	7,523,950	7,575,278
Rural home loans	1,905,777	2,156,093	2,309,279
Sorghum, corn and other grains	1,304,298	1,887,870	2,280,606
Total	$ 378,541,377	$ 390,781,482	$ 407,460,874

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 with other farm credit institutions as of December 31, 2011:

	Other Farm Credit Institutions	
	Participations Purchased	Participations Sold
Agribusiness	$ 25,356,566	$ -
Real estate mortgage	15,220,906	345,083
Communication	10,506,217	-
Energy	9,631,042	-
Production and intermediate term	9,433,042	-
Total	$ 70,147,773	$ 345,083

During 2011, the association did not purchase participations from or sell participations to institutions outside of the System.

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.

Nonperforming assets (including related accrued interest) and related credit quality statistics as of December 31 are as follows:

	2011	2010	2009
Nonaccrual loans:			
Real estate mortgage	$ 1,339,888	$ 7,288,155	$ 2,727,577
Agribusiness	-	-	3,386,346
Energy	-	-	317,522
Production and intermediate term	-	-	67,042
Accruing restructured loans:			
Real estate mortgage	692,248	-	-
Total nonperforming loans	2,032,136	7,288,155	6,498,487
Other property owned	552,549	1,509,066	-
Total nonperforming assets	$ 2,584,685	$ 8,797,221	$ 6,498,487

One credit quality indicator utilized by the bank and association is the Farm Credit Administration's Uniform Loan Classification System that categorizes loans into five categories. The categories are defined as follows: Acceptable — assets are expected to be fully collectible and represent the highest quality; Other assets especially mentioned (OAEM) — assets are currently collectible but exhibit some potential weakness; Substandard — assets exhibit some serious weakness in repayment capacity, equity and/or collateral pledged on the loan; Doubtful — assets exhibit similar weaknesses to substandard assets; however, doubtful assets have additional weaknesses in existing factors, conditions and values that make collection in full highly questionable; and Loss — assets are considered uncollectible.

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

	2011	2010	2009
Real estate mortgage			
Acceptable	75%	73%	73%
OAEM	1%	1%	0%
Substandard/doubtful	1%	1%	1%
Production and intermediate term			
Acceptable	8%	9%	9%
Processing and marketing			
Acceptable	6%	5%	6%
OAEM	1%	1%	1%
Substandard/doubtful	1%	1%	1%
Farm-related business			
Acceptable	2%	1%	1%
Substandard/doubtful	0%	1%	1%
Communication			
Acceptable	3%	3%	2%
Energy			
Acceptable	2%	2%	3%
Rural residential real estate			
Acceptable	1%	1%	1%
Total Loans			
Acceptable	96%	95%	95%
OAEM	2%	2%	1%
Substandard/doubtful	2%	3%	4%
Total	100%	100%	100%

The following table provides an age analysis of past due loans including accrued interest receivable as of December 31, 2011:

	Not Past Due or less than 30 Days Past Due	Past Due 30-89 Days	Total Loans
Real estate mortgage	$ 292,507,118	$ 157,568	$ 292,664,686
Production and intermediate-term	30,823,867	-	30,823,867
Processing and marketing	30,156,902	-	30,156,902
Communication	10,622,339	-	10,622,339
Energy	9,633,250	-	9,633,250
Farm-related business	6,225,304	-	6,225,304
Rural residential real estate	1,921,856	-	1,921,856
Water and waste disposal	232,846	-	232,846
Total	$ 382,123,482	$ 157,568	$ 382,281,050

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

The following table presents additional information regarding troubled debt restructurings that occurred during the year ended December 31, 2011:

	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment
Troubled debt restructurings:		
Real estate mortgage	$ 692,017	$ 692,017

There were no troubled debt restructurings that occurred within the previous 12 months and for which there was a payment default during the period.

As of December 31, 2011, there were no commitments to lend funds to borrowers whose loan terms have been modified in a troubled debt restructuring.

Additional impaired loan information as of December 31, 2011 and for the year then ended is as follows:

	Recorded Investment & Unpaid Principal at December 31	Average Impaired Loans	Interest Income Recognized During 2011
Impaired loans with no related allowance for credit losses:			
Real estate mortgage	$ 2,031,906	$ 2,025,338	$ 39,796
Total impaired loans	$ 2,031,906	$ 2,025,338	$ 39,796

There were no material commitments to lend additional funds to debtors whose loans were classified as impaired at December 31, 2011.

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

	2011	2010	2009
Interest income which would have been recognized under the original terms	$ 586,873	$ 784,956	$ 791,753
Less: interest income recognized	(479,858)	(279,543)	(361,477)
Foregone interest income	$ 107,015	$ 505,413	$ 430,276

A summary of the changes in the allowance for credit losses for the year ending December 31, 2011 and the balance of loans outstanding as of December 31, 2011 are as follows:

	Real Estate Mortgage	Production & Intermediate Term	Agri - business	Communi- cation	Energy	Water & Waste Disposal	Total
Allowance for Credit Losses —							
Beginning Balance	$ 158,055	$ 199,059	$ 1,261,759	$ -	$ 808	$ 2,112	$ 1,621,793
Charge-offs	-	(9,127)	(325,103)	-	-	-	(334,230)
Recoveries	-	615	3,636	-	-	-	4,251
Provision for loan losses	68,181	133,194	(636,720)	20,770	156,551	(632)	(258,656)
Other	(19)	(53,030)	(88,264)	(1,133)	(12,199)	-	(154,645)
Ending Balance	$ 226,217	$ 270,711	$ 215,308	$ 19,637	$ 145,160	$ 1,480	$ 878,513
Ending Balance:							
Collectively evaluated for impairment	$ 226,217	$ 270,711	$ 215,308	$ 19,637	$ 145,160	$ 1,480	$ 878,513
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -

The "Other" reduction of $154,645 in the above rollforward of the allowance for credit losses represents amounts transferred to the reserve for unfunded commitments.

	Real Estate Mortgage	Production & Intermediate Term	Agri - business	Communi- cation	Energy	Water & Waste Disposal	Total
Recorded Investments in Outstanding Loans —							
Ending Balance	$ 292,664,686	$ 30,823,867	$ 36,382,206	$ 10,622,339	$ 9,866,096	$ 1,921,856	$ 382,281,050
Ending Balance:							
Collectively evaluated for impairment	$ 292,664,686	$ 30,823,867	$ 36,382,206	$ 10,622,339	$ 9,866,096	$ 1,921,856	$ 382,281,050
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -

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

	2011	2010	2009
Balance at beginning of year	$ 1,621,793	$ 2,740,323	$ 194,148
Provision for loan losses	(258,656)	1,021,878	3,441,359
Loans charged off	(334,230)	(2,840,787)	(967,134)
Recoveries	4,251	700,379	71,950
Other	(154,645)	-	-
Balance at end of year	$ 878,513	$ 1,621,793	$ 2,740,323

NOTE 4 - INVESTMENT IN THE FARM CREDIT BANK OF TEXAS

The investment in the Farm Credit Bank of Texas is a requirement of borrowing from the bank and is carried at cost plus allocated equities, not fair value, in the accompanying consolidated balance sheet. Estimating the fair value of the association's investment in the Farm Credit Bank of Texas is not practicable because the stock is not traded. The association owns 2.87% of the issued stock of the bank as of December 31, 2011. As of that date, the bank's assets totaled $14.0 billion and members' equity totaled $1.210 billion. The bank's earnings were $174.2 million during 2011.

NOTE 5 - PREMISES AND EQUIPMENT

Premises and equipment consisted of the following at December 31:

	2011	2010	2009
Land	$ 143,995	$ 143,995	$ 143,995
Building and improvements	867,471	856,028	856,677
Vehicles, furniture and equipment	451,015	510,611	494,205
	1,462,481	1,510,634	1,494,877
Less: accumulated depreciation	(851,004)	(846,834)	(787,853)
Total	$ 611,477	$ 663,800	$ 707,024

NOTE 6 - NET GAIN (LOSS) ON OTHER PROPERTY OWNED

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

	2011	2010	2009
Gain (loss) on sale, net	$ -	$ 74,171	$ 394
Operating income (expenses), net	(2,593)	(3,625)	(3,123)
Net gain (loss) on other property owned	$ (2,593)	$ 70,546	$ (2,729)

NOTE 7 - 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 indebtedness continues in effect until the expiration date of the general financing agreement, which is October 1, 2012, unless sooner terminated by the bank upon the occurrence of an event of default, or by the association, in the event of a breach of this agreement by the bank, upon giving the bank (30) calendar days prior written notice, of in all other circumstances, upon giving the bank one hundred twenty (120) days prior written notice.

The total amount and the weighted average interest rate of the association's direct loan from the bank at December 31, 2011, 2010 and 2009 was $300,441,402 at 2.5%, $314,107,511 at 2.7%, and $343,459,699 at 3.0%, 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, 2011, 2010 and 2009, the association's note payable was within the specified limitations. The maximum amount the association may borrow from the bank as of December 31, 2011 was $380,414,532, 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, 2011, 2010 and 2009, the association was not subject to remedies associated with the covenants in the financing agreement.

NOTE 8 - 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, 2011, 2010 and 2009, 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 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 2011, 2010 and 2009, the association declared annual patronage distributions of $4,500,000, $3,200,000 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, 2011, the association is not prohibited from retiring stock or distributing earnings. The association's permanent capital ratio, core surplus ratio and total surplus ratio at December 31, 2011 were 19.7 percent, 19.2 percent and 19.2 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		
	2011	2010	2009
Class A stock	437,121	445,710	448,883
Participation certificates	4,091	5,267	5,759
Total	441,212	450,977	454,642

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

	2011	2010	2009
Nonpension post-retirement benefits	$ (140,923)	$ (57,534)	$ 118,169

NOTE 9 - 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. The structure of the district's DB plan is characterized as multi-employer, since neither the assets, liabilities nor cost of any plan is segregated or separately accounted for by participating employers (bank and associations). No portion of any surplus assets is available to any participating employer. As a result, participating employers of the plan only recognize as cost the required contributions for the period and a liability for any unpaid contributions required for the period of their financial statements. Plan obligations, assets and the components of annual benefit expenses are recorded and reported upon district combination only. The association records current contribution to the DB plan as an expense in the current year.

The DB plan is noncontributory and benefits are based on salary and years of service. The legal name of the plan is Farm Credit Bank of Texas Pension Plan; its employer identification number is 74-1110170. The DB plan is not subject to any contractual expiration dates. The DB plan's funding policy is to fund current year benefits expected to be earned by covered employees plus an amount to improve the accumulated benefit obligation funded status by five percent. The "projected unit credit" actuarial method is used for both financial reporting and funding purposes. District employers have the option of providing enhanced retirement benefits, under certain conditions, with the DB plan, to facilitate reorganization and/or restructuring. Actuarial information regarding the DB pension plan accumulated benefit obligation and plan asset is calculated for the district as a whole and is presented in the district's Annual Report to Stockholders. The actuarial present value of vested and nonvested accumulated benefit obligation exceed the net assets of the DB plan as of December 31, 2011.

The risks of participating in these multi-employer plans are different from single-employer plans in the following aspects: (a) assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers; (b) if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers; and (c) if the association chooses to stop participating in some of its multi-employer plans, it may be required to pay the plan an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

The following table includes additional information regarding the funded status of the plan, that association's contributions, and the percentage of association contribution to total plan contributions for the years ended December 31, 2011, 2010 and 2009:

	2011	2010	2009
Funded status of plan	64.9%	71.6%	61.4%
Association's contribution	$ 770,007	$ 759,513	$ 1,134,593
Percentage of association's contribution to total contributions	3.4%	3.8%	3.5%

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 consolidated 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:

	2011		2010		2009	
Change in Accumulated Postretirement Benefit Obligation -						
Accumulated postretirement benefit obligation, beginning of year	$	1,282,458	$	1,055,815	$	990,007
Service cost		46,200		39,075		39,608
Interest cost		72,289		63,109		61,571
Plan participants' contributions		16,567		16,164		15,015
Plan amendments		-		-		-
Special termination benefits		-		-		-
Actuarial loss (gain)		64,759		147,533		(12,386)
Benefits paid		(39,846)		(39,238)		(38,000)
Accumulated postretirement benefit obligation, end of year	$	1,442,427	$	1,282,458	$	1,055,815
Change in Plan Assets -						
Plan assets at fair value, beginning of year	$	-	$	-	$	-
Actual return on plan assets		-		-		-
Company contributions		23,279		23,074		22,985
Plan participants' contributions		16,567		16,164		15,015
Benefits paid		(39,846)		(39,238)		(38,000)
Plan assets at fair value, end of year	$	-	$	-	$	-
Funded status of plan	$	(1,442,427)	$	(1,282,458)	$	(1,055,815)
Amounts Recognized in the Balance Sheet -						
Other liabilities	$	(1,442,427)	$	(1,282,458)	$	(1,055,815)
Total	$	(1,442,427)	$	(1,282,458)	$	(1,055,815)
Amounts Recognized in Accumulated Other Comprehensive Income -						
Net actuarial loss (gain)	$	268,330	$	212,083	$	64,550
Prior service cost (credit)		(127,407)		(154,549)		(182,719)
Net transition obligation (asset)		-		-		-
Total	$	140,923	$	57,534	$	(118,169)
Weighted-Average Assumptions Used to Determine Obligations at Year-end -						
Measurement date		12/31/2011		12/31/2010		12/31/2009
Discount rate		5.10%		5.70%		6.05%
Medical cost trend rate assumed for next year		8.5%/6.75%		7.5%/6.5%		8.0%/7.0%
Drug cost trend rate assumed for next year		8.00%		10.50%		10.50%
Ultimate health care cost trend rate		5.00%		5.00%		5.00%
Year that the rate reached the ultimate trend rate		2018		2017		2017
Net Postretirement Benefit Cost -						
Service cost	$	46,200	$	39,075	$	39,608
Interest cost		72,289		63,109		61,571
Expected return on plan assets		-		-		-
Amortization of:						
Unrecognized net transition obligation (asset)		-		-		-
Unrecognized prior service cost		(27,142)		(28,170)		(28,170)
Unrecognized net loss (gain)		8,512		-		-
Net postretirement benefit cost	$	99,859	$	74,014	$	73,009

Other Changes in Plan Assets and Projected Benefit Obligation Recognized in Other Comprehensive Income -			
Net actuarial loss (gain)	$ 64,759	$ 147,533	$ (12,386)
Amortization of net actuarial (gain)	(8,512)	-	-
Amortization of prior service cost	27,142	28,170	28,170
Total	$ 83,389	$ 175,703	$ 15,784

AOCI Amounts Expected to be Amortized into Expense in 2012 -	
Unrecognized net transition obligation (asset)	$ -
Unrecognized prior service cost	(21,965)
Unrecognized net loss (gain)	12,807
Total	$ (9,158)

Weighted-Average Assumptions Used to Determine Net Benefit Cost -			
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	10.00%	10.50%	11.00%
Ultimate health care cost trend rate	5.00%	5.00%	5.00%
Year that the rate reached the ultimate trend rate	2017	2017	2015

Expected Future Cash Flows -	
Expected benefit payments (net of employee contributions) -	
Fiscal 2012	$ 33,970
Fiscal 2013	36,914
Fiscal 2014	47,078
Fiscal 2015	51,248
Fiscal 2016	48,694
Fiscal 2017-2021	462,223
Expected contributions -	
Fiscal 2012	$ 33,970

NOTE 10 - 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, amortization schedule and collateral, as those prevailing at the time for comparable transactions with unrelated borrowers.

Total loans to such persons amounted to $3,466,385, $4,158,290 and $5,288,625 at December 31, 2011, 2010 and 2009, respectively. During 2011, $3,316,794 of advances were made and reductions totaled $4,008,699. In the opinion of management, no such loans outstanding at December 31, 2011, 2010 and 2009 involved more than a normal risk of collectibility.

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 $315,493, $450,203 and $971,983 for 2011, 2010 and 2009, respectively. As of April 2011, the bank only bills associations for direct pass through expenses and no longer bills for allocated expenses.

The association received patronage payments from the bank totaling $1,468,030, $1,825,316 and $1,618,654 during 2011, 2010 and 2009, respectively.

NOTE 11 - 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, 2011, $43,511,807 of commitments to extend credit and $2,036,175 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 12 - 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, 2011, 2010 and 2009. 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:

2011	Carrying Value	Fair Value
Financial assets:		
Cash	$ 1,150,203	$ 1,150,203
Loans, net	377,662,864	377,283,883
Financial liabilities:		
Note payable to the bank	300,441,402	300,026,189

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

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 --- Fair value is estimated by discounting the expected future cash flows using the bank's and/or 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 district's current loan origination rates as well as on management estimates of credit risk, management has no basis to determine whether the estimated fair values presented would be indicative of the assumptions and adjustments that a purchaser of the association's loans would seek in an actual sale, which could be less.

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 to 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 that 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.

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.

NOTE 13 - SUBSEQUENT EVENTS

The association has evaluated subsequent events through February 24, 2012, which is the date the financial statements were available to be issued.

NOTE 14 - QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

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

	2011				
	First	Second	Third	Fourth	Total
Net interest income	$ 2,934	$ 2,902	$ 3,259	$ 2,979	$ 12,074
(Provision for) reversal of credit losses	19	(2)	222	20	259
Noninterest income (expense), net	(922)	(845)	(760)	250	(2,277)
Net income	$ 2,031	$ 2,055	$ 2,721	$ 3,249	$ 10,056

	2010				
	First	Second	Third	Fourth	Total
Net interest income	$ 2,795	$ 2,734	$ 2,728	$ 2,833	$ 11,090
(Provision for) reversal of credit 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) reversal of credit 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

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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, 2011, 2010 and 2009 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, 2011, 2010 and 2009 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 24, 2012