
FARM CREDIT OF NORTH FLORIDA, ACA
2010 ANNUAL REPORT

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Management (of Farm Credit of Florida, ACA)

Don Rice	President/Chief Executive Officer
Roger Scarborough	Chief Lending Officer
Linda Rusciano.....	Chief Financial Officer
Esther Morales.....	Chief Credit Officer
Blanca Aquino.....	Chief Operations Officer
Daniel Irby.....	Chief Risk Officer
Sonja Newland	Special Assets Officer

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John L. Alger	Director
T. Richard Barber, Jr.	Director
Howard P. Bateman	Director
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E. E. Waldron	Outside Director
J. Mark Wheeler	Director

Message from the President & Chief Executive Officer

Farm Credit celebrates its 95th anniversary in 2011. Since 1916, the Farm Credit System has served farmers, ranchers, cooperatives and rural communities through local associations owned by the people who use its services. This cooperative model has served us well for that entire time. However, what began as thousands of local associations has now consolidated down to just over 80 associations nationwide. In early 2010, three of Florida's five Farm Credit associations: Farm Credit of North Florida, Farm Credit of Southwest Florida and Farm Credit of South Florida began to consider merging to better serve the farmers, ranchers, cooperatives and rural communities in our respective geographic territories. In November, our stockholders overwhelmingly approved the merger and, on January 1, 2011, the merger became effective with the new association named Farm Credit of Florida.

As the President and CEO of Farm Credit of Florida, I would like to update you on the financial performance of each of those entities during 2010 and provide additional details specific to your former association.

Since the national economic recession began in late 2007, Florida has been one of the most severely impacted states. We entered the recession well before the rest of the nation and continue to struggle as the rest of the country begins to recover. Unemployment across the state reached much higher peaks than the national average and remains well above 10 percent. Home prices across the state have fallen by almost one-half, thousands are in foreclosure and many more may default as the economy continues to struggle in numerous parts of the state.

While the production conditions and prices for most agricultural products were stable-to-good over the past few years, nursery growers, timber producers and loans to individuals dependent on non-farm income for repayment are closely tied to the general economy. These borrowers have struggled to maintain sufficient cash flow to repay loans. Moreover, almost all agriculture producers have seen a marked decline in their financial position as farm land prices have fallen as dramatically as home prices. These adverse conditions for our borrowers have also stressed the performance of all three of the merging associations.

While the former South Florida Association had relatively strong net earnings at \$8.5 million, both the former Southwest and North associations had net operating losses in 2010 of \$9 million and \$12.5 million, respectively. All three ended the year with strong permanent capital ratios, the principle regulatory measure of capital. South had a permanent capital ratio of 17.19%, North had 12.67% and Southwest had 14.58%. The minimum permanent capital ratio required by the regulator is 7.0%. Loan losses from charge-offs were the primary drag on association capital with 1.6% of total assets at South Florida, 4.8% at Southwest and 1.7% at North. Provisions for future losses significantly reduced earnings in all three associations. Provisions for loan losses reduced North's income by \$15.2 million, Southwest's by \$9.7 million and South's by \$7.9 million. While the new association faces significant credit quality and loan performance challenges over the next few years, we feel the aggressive charge-offs taken and provisions for future loan losses recorded, by each association in 2010, has positioned us to face those challenges without material declines in income and capital in future years. Also, to facilitate the merger, the associations entered into an agreement with AgFirst Farm Credit Bank (the funding bank for the Association) that limits future losses, which could jeopardize the viability of Farm Credit of Florida.

The following pages provide a detailed report on the financial performance of your previous association, Farm Credit of North Florida, during 2010. We believe Florida's recession has bottomed, and we are currently seeing signs of improvement in the new association's portfolio. We are optimistic about the future of farming in our new larger territory and the future performance of Farm Credit of Florida. While each of the three former associations leaves behind a 95-year heritage of serving our members, we are confident in the new association's ability to provide even more efficient and high-quality service to our combined members in the future.

I also want to acknowledge the Boards of the three merging associations for the courage and cooperation they exhibited in facilitating the merger. Even more, I want to commend and thank our staff for the extra effort they made to make the merger a success while still providing a high level of service to our members.

On behalf of Farm Credit of Florida's Board and staff, I want to thank you for your support of the merger, your past patronage of the former associations and for your future business.

Sincerely,

A handwritten signature in black ink, appearing to read "Don Rice", enclosed within a large, loopy oval flourish.

Don Rice
President/Chief Executive Officer
of Farm Credit of Florida, ACA,
successor by merger to Farm Credit of
South Florida, ACA

March 14, 2011

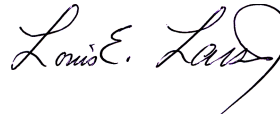
Report of Management

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

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

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

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



Louis E. Larson Jr.
Chairman of the Board



Don Rice
President



Linda Rusciano
Chief Financial Officer

March 14, 2011

Report on Internal Control Over Financial Reporting

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

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

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



Don Rice
President



Linda Rusciano
Chief Financial Officer

March 14, 2011

Consolidated Five - Year Summary of Selected Financial Data

<i>(dollars in thousands)</i>	2010	2009	December 31, 2008	2007	2006
Balance Sheet Data					
Cash	\$ 13	\$ 68	\$ 59	\$ 13	\$ 940
Loans	404,425	454,713	475,687	470,186	449,836
Less: allowance for loan losses	11,614	3,562	6,877	2,146	1,629
Net loans	392,811	451,151	468,810	468,040	448,207
Investments in other Farm Credit institutions	9,486	9,863	9,804	9,741	9,084
Other property owned	6,310	5,009	2,487	—	—
Other assets	22,582	25,378	26,353	29,100	28,758
Total assets	\$ 431,202	\$ 491,469	\$ 507,513	\$ 506,894	\$ 486,989
Notes payable to AgFirst Farm Credit Bank*	\$ 366,559	\$ 411,638	\$ 421,771	\$ 408,613	\$ 395,346
Accrued interest payable and other liabilities with maturities of less than one year	5,615	8,237	14,386	25,762	23,833
Total liabilities	372,174	419,875	436,157	434,375	419,179
Protected borrower stock	40	55	71	96	143
Capital stock and participation certificates	1,411	1,505	1,609	1,713	1,792
Retained earnings					
Allocated	40,872	40,782	40,688	42,708	39,158
Unallocated	16,705	29,252	28,988	28,002	26,717
Total members' equity	59,028	71,594	71,356	72,519	67,810
Total liabilities and members' equity	\$ 431,202	\$ 491,469	\$ 507,513	\$ 506,894	\$ 486,989
Statement of Operations Data					
Net interest income	\$ 8,171	\$ 9,154	\$ 11,041	\$ 13,001	\$ 12,681
Provision for (reversal of allowance for) loan losses	15,217	2,810	5,542	512	—
Noninterest income (expense), net	(5,496)	(4,304)	(2,944)	(1,963)	(1,741)
Net income (loss)	\$ (12,542)	\$ 2,040	\$ 2,555	\$ 10,526	\$ 10,940
Key Financial Ratios					
Rate of return on average:					
Total assets	(2.72)%	0.41%	0.50%	2.14%	2.38%
Total members' equity	(18.22)%	2.85%	3.51%	14.81%	16.62%
Net interest income as a percentage of					
average earning assets	2.03%	1.97%	2.27%	2.76%	2.88%
Net (chargeoffs) recoveries to average loans	(1.664)%	(1.302)%	(0.169)%	0.001%	0.002%
Total members' equity to total assets	13.69%	14.57%	14.06%	14.31%	13.92%
Debt to members' equity (:1)	6.31	5.86	6.11	5.99	6.18
Allowance for loan losses to loans	2.87%	0.78%	1.45%	0.46%	0.36%
Permanent capital ratio	12.67%	13.50%	13.59%	14.32%	14.19%
Total surplus ratio	12.30%	13.16%	13.24%	13.93%	13.77%
Core surplus ratio	11.72%	12.88%	12.24%	11.25%	11.53%
Net Income Distribution					
Estimated patronage refunds:					
Cash	\$ —	\$ 540	\$ 880	\$ 3,272	\$ 3,267
Nonqualified allocated retained earnings	—	960	733	6,348	6,796
Nonqualified retained earnings	—	—	—	—	572

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

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

(dollars in thousands, except as noted)

GENERAL OVERVIEW

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

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

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

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

Copies of the Association's Annual and Quarterly reports are also available upon request free of charge on the Association's website, www.fcnf.com, or by calling 1-800-342-3795, or writing Roger Scarborough, Farm Credit of North Florida, ACA, 12300 NW US HWY 441, Alachua, FL 32615. The Association prepares an electronic version of the Annual Report, which is available on the website, within 75 days after the end of the

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

FORWARD LOOKING INFORMATION

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

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

AGRICULTURAL OUTLOOK

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

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

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

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

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

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

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

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

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

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

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

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

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

CRITICAL ACCOUNTING POLICIES

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

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

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

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

- *Valuation methodologies* — Management applies various valuation methodologies to assets and liabilities that often involve a significant degree of judgment, particularly when

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

- *Pensions* — The Bank and its related Associations participate in defined benefit retirement plans. These plans are noncontributory and benefits are based on salary and years of service. In addition, the Bank and its related Associations also participate in defined contribution retirement savings plans. Pension expense for all plans is recorded as part of salaries and employee benefits. Pension expense for the defined benefit retirement plans is determined by actuarial valuations based on certain assumptions, including expected long-term rate of return on plan assets and discount rate. The expected return on plan assets for the year is calculated based on the composition of assets at the beginning of the year and the expected long-term rate of return on that portfolio of assets. The discount rate is used to determine the present value of our future benefit obligations. The discount rate for 2010 was selected by reference to analysis and yield curves of the plans' actuary and industry norms.

ECONOMIC CONDITIONS

During 2010, economic conditions in our region remained unstable.

Continued distress in the overall financial markets, and the banking sector in particular, has caused commercial banks to reduce the amount of available credit to farmers and related businesses. Our seasoned, knowledgeable lending staff is well equipped to compete for the viable lending opportunities that have arisen due to the stress in the banking industry.

For the year December 31, 2010, the credit quality of the loan portfolio declined significantly with adverse movements in some quality measures compared to earlier reporting periods. The volatility in the financial markets and the generally weaker economy experienced over the past twelve months have affected both the overall farm sector and the Association's customers in a negative way.

High fuel costs continue to adversely impact all producers. High feed costs continue to put pressure on the livestock and poultry industries. Industries tied to housing such as forestry, sawmills, sod, and landscape nurseries still see decreased demand for their products and profitability continues to be low. During 2010, the Association targeted certain areas of our business with hopes of increasing market share.

LOAN PORTFOLIO

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

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

Loan Type	December 31,					
	2010		2009		2008	
	<i>(dollars in thousands)</i>					
Real estate mortgage	\$ 268,771	66.46%	\$ 311,266	68.45%	\$ 327,088	68.76%
Production and intermediate-term	103,414	25.57	103,375	22.73	98,721	20.75
Farm-related business	14,572	3.60	20,991	4.62	26,816	5.64
Processing and marketing	8,741	2.16	6,509	1.43	10,895	2.29
Rural residential real estate	8,062	2.00	9,622	2.12	11,568	2.43
Communication	704	0.17	—	—	—	—
Loans to cooperatives	161	0.04	2,950	0.65	—	—
Energy	—	—	—	—	599	0.13
Total	\$ 404,425	100.00%	\$ 454,713	100.00%	\$ 475,687	100.00%

The geographic distribution of the loan volume by branch for the past three years is as follows:

Branch	December 31,		
	2010	2009	2008
Alachua	47.18%	52.79%	53.15%
Palatka	25.82	18.34	17.85
Live Oak	13.55	14.95	13.49
Ocala	7.72	9.72	9.68
Trenton	5.73	4.20	3.95
Lake City*	—	—	1.88
	100.00%	100.00%	100.00%

*The Lake City branch was closed in 2009. The loan volume managed by that branch was reallocated to the other branches.

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

The major commodities in the Association loan portfolio are shown below. The predominant commodities are forestry, equine, and livestock, which constitute over 61 percent of the entire portfolio.

Commodity Group	December 31,					
	2010		2009		2008	
	<i>(dollars in thousands)</i>					
Forestry	\$ 159,471	40%	\$ 164,528	36%	\$ 191,225	40%
Equine	42,886	11	48,769	11	54,119	11
Livestock	41,936	10	47,034	10	49,408	10
Field/Grain	32,040	8	33,970	7	29,690	6
Horticulture/Nurseries	28,132	7	34,033	7	32,010	7
Dairy	21,625	5	31,819	7	26,729	6
Fruit, Nut and Vegetable	16,985	4	29,598	7	25,551	5
Rural Home	7,494	2	8,050	2	8,805	2
Potatoes	5,871	1	5,263	1	4,989	1
Poultry	4,455	1	4,580	1	6,810	1
Tobacco	2,444	1	3,019	1	2,970	1
Other	41,086	10	44,050	10	43,381	9
Total	\$ 404,425	100%	\$ 454,713	100%	\$ 475,687	100%

Repayment ability is closely related to the commodities produced by our borrowers, and increasingly, the off-farm income of borrowers. While the Association's loan portfolio contains a concentration of forestry producers, many of these operations are diversified within their enterprise with crop production and/or nonfarm income that reduces overall risk exposure. Demand for beef, prices of field grains, and international trade are some of the factors affecting the price of these commodities. Even though the concentration of large loans has increased over the past several years, the agricultural enterprise mix of these loans is diversified and similar to that of the overall portfolio. The risk in the portfolio associated with commodity concentration and large loans is reduced by the range of diversity of enterprises in the Association's territory.

During 2010, the Association continued in the buying and selling of loan participations within and outside of the System. This provides a means for the Association to spread credit concentration risk and realize non-patronage sourced interest and fee income, which strengthened our capital position.

Loan Participations:	December 31,		
	2010	2009	2008
	<i>(dollars in thousands)</i>		
Participations Purchased			
– FCS Institutions	\$ 23,147	\$ 28,940	\$ 33,012
Participations Purchased			
– Non-FCS Institutions	—	—	83
Participations Sold	(142,602)	(156,900)	(200,188)
Total	\$ (119,455)	\$ (127,960)	\$ (167,093)

The Association did not have any loans sold with recourse, retained subordinated participation interests in loans sold, or interests in pools of subordinated participation interests for the period ended December 31, 2010.

In addition to the participations sold listed in the above table, the Association sells qualified long-term mortgage loans into the secondary market. For the period ended December 31, 2010, the Association originated loans for resale totaling \$11,625, which were sold into the secondary market.

The Association also participates in the Farmer Mac Long Term Stand-By Commitment program. Farmer Mac was established by Congress to provide liquidity to agricultural lenders. At December 31, 2010, December 31, 2009, and December 31, 2008 the Association had loans amounting to \$20,767, \$23,874 and \$27,203, respectively, that were 100 percent guaranteed by Farmer Mac.

MISSION-RELATED INVESTMENTS

During 2005, the FCA initiated an investment program to stimulate economic growth and development in rural areas. The FCA outlined a program to allow System institutions to hold such investments, subject to approval by the FCA on a case-by-case basis. FCA approved the Rural America Bonds pilot and the Tobacco Buyout Program under the mission-related investments umbrella, as described below.

In October 2005, the FCA authorized AgFirst and the Associations to make investments in Rural America Bonds under a three-year pilot period. Rural America Bonds may include debt obligations issued by public and private enterprises, corporations,

cooperatives, other financing institutions, or rural lenders where the proceeds would be used to support agriculture, agribusiness, rural housing, or economic development, infrastructure, or community development and revitalization projects in rural areas. Examples include investments that fund value-added food and fiber processors and marketers, agribusinesses, commercial enterprises that create and maintain employment opportunities in rural areas, community services, such as schools, hospitals, and government facilities, and other activities that sustain or revitalize rural communities and their economies. The objective of this pilot program was to help meet the growing and diverse financing needs of agricultural enterprises, agribusinesses, and rural communities by providing a flexible flow of money to rural areas through bond financing. These bonds may be classified as Loans or Investments on the Consolidated Balance Sheets depending on the nature of the investment. As of December 31, 2010, December 31, 2009, and December 31, 2008 the Association had \$756, \$852 and \$941, respectively, in Rural America Bonds, and they are classified as Loans on the Consolidated Balance Sheets.

On October 22, 2004, Congress enacted the “Fair and Equitable Tobacco Reform Act of 2004” (Tobacco Act) as part of the “American Jobs Creation Act of 2004.” The Tobacco Act repealed the Federal tobacco price support and quota programs, provided for payments to tobacco “quota owners” and producers for the elimination of the quota and included an assessment mechanism for tobacco manufacturers and importers to pay for the buyout. Tobacco quota holders and producers will receive equal annual payments under a contract with the Secretary of Agriculture. The Tobacco Act also includes a provision that allows the quota holders and producers to assign to a “financial institution” the right to receive the contract payments (Successor-in-Interest Contracts (SIIC)) so that they may obtain a lump sum or other payment. On April 4, 2005, the United States Department of Agriculture (USDA) issued a Final Rule implementing the “Tobacco Transition Payment Program” (Tobacco Buyout). At December 31, 2010, December 31, 2009, and December 31, 2008 the Association had \$10,211, \$12,320 and \$12,650, respectively, in SIIC outstanding net of discount and these are classified as Other Investments on the Consolidated Balance Sheets.

CREDIT RISK MANAGEMENT

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

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

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

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

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

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

Credit Quality	2010	2009	2008
Acceptable & OAEM	75.97%	87.16%	96.00%
Substandard	24.03%	12.84%	4.00%
Doubtful	–%	–%	–%
Loss	–%	–%	–%
Total	100.00%	100.00%	100.00%

Nonperforming Assets

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

High-risk Assets	December 31,		
	2010	2009	2008
	<i>(dollars in thousands)</i>		
Nonaccrual loans	\$ 49,927	\$ 25,717	\$ 11,283
Restructured nonaccrual loans	14,306	294	579
Accruing loans 90 days past due	-	-	363
Accruing loans less than 90 days past due	-	10,119	-
Total high-risk loans	64,233	36,130	12,225
Other property owned	6,310	5,009	2,487
Total high-risk assets	\$ 70,543	\$ 41,139	\$ 14,712

Ratios

Nonaccrual loans to total loans	15.88%	5.72%	2.49%
High-risk assets to total assets	16.36%	8.37%	2.90%

Nonaccrual loans represent all loans where there is a reasonable doubt as to the collection of principal and/or future interest accruals, under the contractual terms of the loan. In substance, nonaccrual loans reflect loans where the accrual of interest has been suspended. Nonaccrual loans increased \$38,222 or 146.95 percent in 2010. This increase resulted primarily from a slowdown in the general economy, particularly a decline in real estate sales activity and real estate values. Of the \$64,233 in nonaccrual volume at December 31, 2010, \$28,355 or 44.14 percent, compared to 29.46 percent and 3.36 percent at December 31, 2009 and 2008, respectively, was current as to scheduled principal and interest payments, but did not meet all regulatory requirements to be transferred into accrual status.

The 25.97 percent increase in other property owned is the result of 12 borrowers who defaulted. One borrower chose to provide the Association a deed in lieu of foreclosure, while the others were acquired through foreclosure.

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

Allowance for Loan Losses

The allowance for loan losses at each period end was considered by Association management to be adequate to absorb probable losses existing in and inherent to its loan portfolio.

The allowance for loan losses by loan type for each of the three years ended is as follows:

Allowance for Loan Losses by Type	December 31,		
	2010	2009	2008
	<i>(dollars in thousands)</i>		
Real estate mortgage	\$ 6,906	\$ 2,354	\$ 5,429
Production and intermediate-term	4,346	1,074	912
Agribusiness	263	96	466
Rural residential real estate	93	38	67
Communication	6	-	-
Energy	-	-	3
Total loans	\$ 11,614	\$ 3,562	\$ 6,877

The following table presents the activity in the allowance for loan losses for each of the three years ended:

Allowance for Loan Losses Activity:	December 31,		
	2010	2009	2008
	<i>(dollars in thousands)</i>		
Balance at beginning of year	\$ 3,562	\$ 6,877	\$ 2,146
Charge-offs:			
Real estate mortgage	(4,227)	(4,820)	(749)
Production and intermediate-term	(3,156)	(98)	(4)
Agribusiness	(421)	(451)	
Rural residential real estate	(12)	(770)	(64)
Total charge-offs	(7,816)	(6,139)	(817)
Recoveries:			
Real estate mortgage	636	7	2
Production and intermediate-term	12	6	4
Rural residential real estate	3	1	
Total recoveries	651	14	6
Net (charge-offs) recoveries	(7,165)	(6,125)	(811)
Provision for (reversal of allowance for) loan losses	15,217	2,810	5,542
Balance at end of year	\$ 11,614	\$ 3,562	\$ 6,877
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	(1.664)%	(1.302)%	(0.169)%

The majority of net charge-offs were the result of the collateral value decreasing from the time of the loan origination, resulting in inadequately secured loans.

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

Allowance for Loan Losses as a Percentage of:	December 31,		
	2010	2009	2008
Total loans	2.87%	0.78%	1.45%
Nonperforming loans	32.37%	23.18%	60.06%
Nonaccrual loans	18.08%	13.69%	57.98%

Please refer to Note 3, "Loans and Allowance for Loan Losses," of the Notes to the Consolidated Financial Statements, for further information concerning the allowance for loan losses.

RESULTS OF OPERATIONS*Net Interest Income*

Net interest income was \$8,171 million, \$9,154 million and \$11,041 million in 2010, 2009 and 2008, respectively. Net interest income is the difference between interest income and interest expense; it 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 table:

Change in Net Interest Income:

	Volume*		Rate		Nonaccrual Income		Total
	2010	2009	2010	2009	2010	2009	
<i>(dollars in thousands)</i>							
12/31/10 - 12/31/09							
Interest income	\$ (2,963)	\$ (871)	\$ 293		\$ (3,541)		
Interest expense	(1,043)	(1,515)	–		(2,558)		
Change in net interest income	<u>\$ (1,920)</u>	<u>\$ 644</u>	<u>\$ 293</u>		<u>\$ (983)</u>		
12/31/09 - 12/31/08							
Interest income	\$ (1,473)	\$ (6,683)	\$ (83)		\$ (8,239)		
Interest expense	(14)	(6,338)	–		(6,352)		
Change in net interest income	<u>\$ (1,459)</u>	<u>\$ (345)</u>	<u>\$ (83)</u>		<u>\$ (1,887)</u>		

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

Noninterest Income

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

Noninterest Income	For the Year Ended			Percentage Increase/(Decrease)	
	2010	2009	2008	2010/2009	2009/2008
<i>(dollars in thousands)</i>					
Loan fees	\$ 294	\$ 321	\$ 1,108	(8.41)%	(71.03)%
Fees for financially related services	9	12	20	(25.00)	(40.00)
Patronage refund from other Farm Credit Institutions	4,450	4,399	3,959	1.16	11.11
Gains (losses) on other property owned, net	(2,566)	(361)	(96)	610.80	276.04
Gains (losses) on sales of rural home loans, net	108	112	75	(3.57)	49.33
Gains (losses) from sales of premises and equipment, net	5	(2)	(11)	(350.00)	(81.82)
Insurance Fund refund	514	–	–	–	–
Other noninterest income	268	165	116	62.42	42.24
Total noninterest income	<u>\$ 3,082</u>	<u>\$ 4,646</u>	<u>\$ 5,171</u>	<u>(33.66)%</u>	<u>(10.15)%</u>

Effective January 1, 2009, the Association began deferring loan origination fees and netting them against the carrying amount of the loan. The amount of loan fees deferred in 2010 was \$602 and \$558 in 2009.

The majority of the increase in gains (losses) on other property owned is the result of valuation allowances set-up on the properties acquired.

Other income increased due to fees earned in lieu of patronage on loan participations originated and sold.

Noninterest Expense

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

Noninterest Expense	For the Year Ended			Percentage Increase/(Decrease)	
	2010	2009	2008	2010/2009	2009/2008
<i>(dollars in thousands)</i>					
Salaries and employee benefits	\$ 5,729	\$ 5,658	\$ 4,685	1.25%	20.77%
Occupancy and equipment expense	641	655	707	(2.14)	(7.36)
Insurance Fund premium	224	820	699	(72.68)	17.31
Other operating expense	1,979	1,781	1,970	11.12	(9.59)
Total noninterest expense	<u>\$ 8,573</u>	<u>\$ 8,914</u>	<u>\$ 8,061</u>	<u>(3.83)%</u>	<u>10.58%</u>

Insurance Fund premiums decreased 72.68 percent for the twelve months ended December 31, 2010, compared to the same period of 2009. The decrease is a result of a decrease in premium rates on accruing volume.

Other operating expense increased 11.12 percent for the twelve months ended December 31, 2010, compared to the same period of 2009. This increase is primarily due to expenses related to the merger and legal fees paid as part of the foreclosure process on other property owned.

Income Taxes

The Association recorded a provision for income taxes of \$5 for the year ended December 31, 2010, as compared to a provision of \$36 for 2009 and \$54 for 2008. Refer to Note 2, "Summary of Significant Accounting Policies, Income Taxes," of the Notes to the Consolidated Financial Statements, for more information concerning Association income taxes.

Key Results of Operations Comparisons

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

Key Results of Operations Comparisons	For the 12 Months Ended		
	12/31/10	12/31/09	12/31/08
Return on average assets	(2.72)%	0.41%	0.50%
Return on average members' equity	(18.22)%	2.85%	3.51%
Net interest income as a percentage of average earning assets	2.03%	1.97%	2.27%
Net (charge-offs) recoveries to average loans	(1.664)%	(1.302)%	(0.169)%

LIQUIDITY AND FUNDING SOURCES*Liquidity and Funding*

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

and fixed rate components. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association.

Association capital levels effectively create a borrowing margin between the amount of loans outstanding and the amount of notes payable outstanding. This margin is commonly referred to as "Loanable Funds."

A trend of notes payable to AgFirst Farm Credit Bank is shown in the table below:

	For the Year Ended			Percentage	
	December 31,			Increase/(Decrease)	
	2010	2009	2008	2010/ 2009	2009/ 2008
<i>(dollars in thousands)</i>					
Notes payable to the Bank	\$366,559	\$411,638	\$421,771	(10.95)%	(2.40)%
Average volume of outstanding notes payable to the Bank	\$387,311	\$417,293	\$421,004	(7.18)%	(0.88)%

Refer to Note 8, "Notes Payable to AgFirst Farm Credit Bank," of the Notes to the Consolidated Financial Statements, for weighted average interest rates and maturities, and additional information concerning the Association's notes payable.

Liquidity management is the process whereby funds are made available to meet all financial commitments including the extension of credit, payment of operating expenses and payment of debt obligations. The Association receives access to funds through its borrowing relationship with the Bank and from income generated by operations. The liquidity policy of the Association is to manage cash balances to maximize debt reduction and to increase loan volume. As borrower payments are received, they are applied to the Association's note payable to the Bank. The Association has no other lines of credit from third party financial institutions as of December 31, 2010. The Association's participation in the Farmer Mac Long-term Standby Commitment program, investments, and other secondary market programs provide additional liquidity.

Funds Management

The Bank and the Association manage assets and liabilities to provide a broad range of loan products and funding options, which are designed to allow the Association to be competitive in all interest rate environments. The primary objective of the asset/liability management process is to provide stable and rising earnings, while maintaining adequate capital levels by managing exposure to credit and interest rate risks. Demand for loan types is a driving force in establishing a funds management strategy. The Association offers fixed, adjustable and variable rate loan products that are marginally priced according to financial market rates. Variable rate loans may be indexed to market indices such as the Prime Rate or the 90-day London Interbank Offered Rate (LIBOR). Adjustable rate mortgages are indexed to U.S. Treasury Rates. Fixed rate loans are priced based on the current cost of System debt of similar terms to maturity.

The majority of the interest rate risk in the Association's Consolidated Balance Sheets is transferred to the Bank through the notes payable structure. The Bank, in turn, actively utilizes funds

management techniques to identify, quantify and control risk associated with the loan portfolio.

Relationship with the Bank

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

The Bank's ability to access capital of the Association is discussed in Note 8 of the Notes to the Consolidated Financial Statements.

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

CAPITAL RESOURCES

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

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

Total members' equity at December 31, 2010, decreased 17.55 percent to \$59,028 from the December 31, 2009 total of \$71,594. The decrease from 2009 to 2010 was attributed to the significant negative net income in 2010, a result of provisions for loan loss.

At December 31, 2009, total members' equity increased to \$71,594 or 0.33 percent from the December 31, 2008 total of \$71,356. The increase is the result of net income being more than the total retirement of allocated retained earnings in 2009 and estimated cash patronage to be distributed in 2010.

Total capital stock and participation certificates were \$1,411 on December 31, 2010, compared to \$1,505 on December 31, 2009 and \$1,609 on December 31, 2008. The decrease was attributed to more capital stock and participation certificates being retired than issued.

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

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

	2010	2009	2008	Regulatory Minimum
Permanent capital ratio	12.67%	13.50%	13.59%	7.00%
Total surplus ratio	12.30%	13.16%	13.24%	7.00%
Core surplus ratio	11.72%	12.88%	12.24%	3.50%

In 2010, both the permanent capital dollars and the risk adjusted assets decreased. Permanent capital dollars decreased as a result of decreased earnings and risk adjusted assets decreased as a result of a shrinking loan portfolio. There are no trends, commitments, contingencies, or events that are likely to affect the Association's ability to meet regulatory minimum capital standards and capital adequacy requirements.

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

PATRONAGE PROGRAM

Prior to the beginning of any fiscal year, the Association's Board of Directors, by adoption of a resolution, may establish a Patronage Allocation Program to distribute its available consolidated net earnings. This resolution provides for the application of net earnings in the manner described in the Association's Bylaws. This includes the setting aside of funds to increase surplus to meet minimum capital adequacy standards established by FCA Regulations, to increase surplus to meet Association capital adequacy standards to a level necessary to support competitive pricing at targeted earnings levels, and for reasonable reserves for necessary purposes of the Association. Refer to Note 9, "Members' Equity," of the Notes to the Consolidated Financial Statements, for more information concerning the patronage distributions. The Association declared patronage distributions of \$0 in 2010, \$1,500 in 2009, and \$1,613 in 2008. Based on the Association's significant negative earnings no patronage was declared in 2010.

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

The Association's mission is to provide financial services to agriculture and the rural community, which includes providing credit to Young*, Beginning** and Small*** farmers. Because of the unique needs of these individuals, and their importance to the future growth of the Association, the Association has established annual marketing goals to increase our market share of loans to YBS farmers. Specific marketing plans have been developed to target these groups, and resources have been designated to help ensure YBS borrowers have access to a stable source of credit.

The following tables outline the loan volume and number of YBS loans in the loan portfolio for the Association. Note for the purposes of the tables, a loan could be classified in more than one category, depending upon the characteristics of the underlying borrower.

	As of December 31, 2010	
	Number of Loans	Amount of Loans
Young	128	\$20,457
Beginning	394	67,232
Small	859	102,911

	As of December 31, 2009	
	Number of Loans	Amount of Loans
Young	150	\$22,335
Beginning	449	75,538
Small	919	108,312

	As of December 31, 2008	
	Number of Loans	Amount of Loans
Young	168	\$24,066
Beginning	499	76,637
Small	1,053	125,237

The Association is committed to the future success of Young, Beginning and Small farmers. In addition to our marketing strategies, the Association continued to promote and operate a YBS program assisting Young, Beginning and Small farmers through marketing, outreach and financial support programs.

The YBS Committee, coordinates the Association's program, including setting YBS goals in the annual strategic plan, and reporting on those goals and achievements to the Board of Directors on a quarterly basis. Additional staff members in each of the Association's regions have been designated to be a part of the Association YBS Program, bringing additional knowledge about their respective communities.

We sponsor and participate in a variety of YBS related educational and support programs throughout our territory. YBS topics are included in all industry and tradeshow activities conducted by the Association. The team has a goal to expand our relationship with IFAS and the University of Florida by helping sponsor programs that reach YBS farmers in our area. The Association website, www.fcnf.com, includes an entire section of information and resources for YBS visitors.

The Association sponsors many activities involving youth groups, including 4-H and FFA organizations. The YBS Team is currently preparing "classroom" presentations for various FFA chapters in our territory. Annually we grant five \$1,000 scholarships to deserving young individuals pursuing college degrees in agriculture or agribusiness.

The Association also offers flexible financing options in-house for qualified YBS borrowers, primarily through the assistance of the FSA guarantee program.

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

REGULATORY MATTERS

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

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

Disclosure Required by Farm Credit Administration Regulations

Description of Business

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

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

Description of Property

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

<u>Location</u>	<u>Description</u>	<u>Form of Ownership</u>
12300 U. S. Highway 441 Alachua	Administrative	Owned
1606 Canyon Avenue Live Oak	Branch	Owned
5075 N.W. U.S. Highway 27 Ocala	Branch	Owned
309 North 2nd Street Palatka	Branch	Owned
511 South Main Street Trenton	Branch	Owned

Legal Proceedings

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

Description of Capital Structure

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

Description of Liabilities

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

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

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

Senior Officers

The following represents certain information regarding the senior officers of the Association:

<u>Senior Officer</u>	<u>Position</u>
J. Charles Thompson	<i>President and Chief Executive Officer</i> since January 1989
Bernie Krauth	<i>Vice President and Chief Lending Officer</i> since April 2004
Roger Scarborough	<i>Vice President and Chief Financial Officer</i> since November 1998
Bobby W. Carnley	<i>Vice President and Chief Relationship Manager</i> since March 2004
Julius Davenport	<i>Vice President and Director of Credit Administration</i> since April 2001
Jeffrey Spencer	<i>Vice President and Sr. Relationship Manager</i> since September 1997

The business experience for the past five years for senior officers is with the Farm Credit System.

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

<u>Name of Individual or Number in Group</u>	<u>Year</u>	<u>Annual</u>				<u>Total</u>
		<u>Salary</u>	<u>Bonus</u>	<u>Perq./Comp.</u>	<u>Other*</u>	
J. Charles Thompson	2010	\$246,708	\$ 39,842	\$ -	\$ 17,323	\$ 303,873
J. Charles Thompson	2009	\$236,708	\$ -	\$ -	\$ 5,848	\$ 242,556
J. Charles Thompson	2008	\$206,046	\$ -	\$ -	\$ 5,104	\$ 211,150
5	2010	\$592,936	\$ -	\$ -	\$ -	\$ 592,936
5	2009	\$556,680	\$ -	\$ -	\$ -	\$ 556,680
5	2008	\$519,882	\$ -	\$ -	\$ -	\$ 519,882

* Amounts in the above table classified as Perquisites include travel incentives, group life insurance, automobile compensation, spousal travel, relocation and tuition reimbursement. . In December and prior to retirement the Board of Directors "gifted" a company owned vehicle to J. Charles Thompson, CEO. This transaction had a market value above \$5,000. The taxable income amounts have been included in the above compensation table. Amounts in the above table classified as other include amounts contributed by the Association on behalf of the senior officer to a defined contribution plan unless the plan is made available to all employees on the same basis. FCA regulations do not require disclosure of the amounts contributed to a 401K that is applicable to all employees. For the year ended December 31, 2010, our Association has no contributions of this type other than the 401K plan made available to all employees.

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

In addition to base salary, employees and senior officers can earn additional bonus compensation under an annual incentive plan which is tied to the overall business performance and the individual's performance appraisal rating. The incentive plan is based on a fiscal year and is designed to motivate employees to exceed performance targets established by the Board of Directors. Additionally, all employees are reimbursed for all direct travel expenses incurred when traveling on Association business. A copy of the travel policy is available to shareholders upon written request.

The Association has in place an incentive bonus plan that rewards employees for outstanding performance. All employees, but the President, Chief Lending Officer and Chief Financial Officer are covered by the plan.

The plan requires the Association exceed its business plan projected earnings and meet minimum performance levels in the areas of (1) Asset Growth, (2) Asset Quality, (3) Work Quality (Credit Administration), and (4) Efficiency, as measured by the relationship of operating expense to net interest income. These scores are calculated on an Association and loan officer basis. The plan is calculated on a calendar year and is paid after year-end results are tabulated.

The percentage award is a fraction of the amount by which earnings exceed the target and the number of points earned in all performance categories.

The Association also has a discretionary bonus award program which covers all employees. It is awarded on an individual basis, is based on measured contribution to the Association, and must be approved by the Board of Directors or the Board's Compensation Committee. Awards may be in the form of cash, gifts, or recognition.

Bonuses are shown in the year earned, which may be different than the year of payment.

Directors

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

DIRECTOR	ORIGINAL YEAR OF ELECTION OR APPOINTMENT	CURRENT TERM EXPIRATION	TOTAL COMP. PAID DURING 2010
Henry M. Frazee, <i>Chairman</i>	1976	2012	\$35,693
Ron St. John, <i>Vice Chairman</i>	1992	2013	\$15,673
T. Richard Barber	2005	2011	\$20,055
Shepherd C. Colledge, <i>Outside Director</i>	1990		\$38,530
Roger W. Davis	1998	2013	\$17,993
Joseph C. Joyce, <i>Outside Director</i>	2008		\$19,960
Douglas Moore	2001	2011	\$16,592
Lloyd Register	1997	2012	\$17,965
Stanford Robertson	2001	2012	\$10,364
Hansel C. Ross	1993	2011	\$11,398
Arthur Sandlin	1995	2013	\$22,158
			\$226,381

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

Directors

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

The aggregate amount of reimbursement for travel, subsistence and other related expenses for all directors as a group was \$39,917 for 2010, \$48,286 for 2009 and \$44,592 for 2008.

Subject to approval by the board, the Association may allow directors honoraria of \$400 for attendance at meetings, committee meetings, or special assignments. However, for committees meeting prior to or after a board meeting or another committee meeting, compensation will be paid at a rate of \$200. The board chairman and each regular member of the Executive Committee also receive during the first month of each quarter a \$1,000 retainer fee and all directors receive a \$500 quarterly retainer fee. Independent Directors receive an additional \$1,000 quarterly retainer fee in addition to other compensation they may receive. Total compensation paid to directors as a group was \$226,381.

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

Name of Director	Days Served		Committee Assignments	Comp. Paid for other Activities*
	Regular Board Meetings	Other Official Activities*		
Henry M. Frazee, <i>Chairman</i>	12	67	Audit, Compensation, Governance, Special Assets, Steering	\$ 23,400
Ron St. John, <i>Vice-Chairman</i>	12	23	Audit, Steering	8,600
T. Richard Barber, Jr.	12	33	Audit, Special Assets, Steering	11,600
Shepherd C. Colledge	12	65	Audit, Compensation, Executive, Governance, Steering	20,200
Roger W. Davis	12	29	Audit, Steering	9,800
Joseph C. Joyce	12	24	Audit, Steering	8,600
Douglas Moore	12	21	Compensation, Governance, Steering	7,200
Lloyd Register**	12	28	Compensation, Special Assets, Steering	9,800
Stanford Robertson	11	8	Compensation, Steering	2,800
Hansel Ross	12	11	Governance, Steering	3,600
Arthur Sandlin	12	32	Executive, Steering	10,000
				\$ 115,600

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

** Lloyd Register serves on the Horizons Committee as one of the association representatives and is a member of the District Advisory Committee which meets annually.

Directors are reimbursed on an actual cost basis for all expenses incurred in the performance of official duties. Such expenses may include transportation, lodging, meals, tips, tolls, parking

of cars, laundry, registration fees, and other expenses associated with travel on official business. A copy of the policy is available to shareholders of the Association upon request.

The following represents certain information, as required by Federal Regulation, regarding the directors of the Association:

Henry M. Frazee, Chairman, is a Real Estate sales consultant, and has been involved in timberland and real estate development and sales based in Alachua County. He serves as director on the West Putnam Lakes, Inc. and H & P Enterprise boards, both are land development firms. Mr. Frazee has served on the board since 1976 and his current term of office is 2009 – 2012. Mr. Frazee resigned from the Farm Credit of Florida, ACA board in February 2011 for personal reasons.

Ron St. John, Vice Chairman, is a dairy farmer based in Gilchrist County. He serves on the Southeast Milk Cooperative board and on the board of the Trenton Medical Center. Mr. St. John was elected to the board in 1992 and his term of office is 2010 – 2013. He currently serves on the Farm Credit of Florida, ACA board and is a member of the Compensation Committee.

T. Richard Barber, Jr. has been a peanut, melon, and cattle rancher in Marion County. He was elected to the board in 2005 and his current term of office is 2008 – 2011. Mr. Barber is currently serving on the board of Farm Credit of Florida, ACA and serves on the Audit Committee.

Shepherd E. Colledge, from Duval County, serves as Outside Director and is a real estate developer. He was appointed to the board in 1990 and his current term of service is 2008-2011. Mr. Colledge currently serves as Outside Director on the board of Farm Credit of Florida, ACA and is a member of the Compensation and Credit/Lending Committees.

Roger W. Davis is a tobacco farmer and cattle rancher based in Columbia County. He was elected to the board in 1998 and his term of office is 2010 – 2013. Mr. Davis is a member of the Farm Credit of Florida, ACA board of directors and serves on the Special Assets Committee.

Joseph C. Joyce, an Outside Director, is Associate Vice President for Ag and Natural Resources at the University of Florida. He serves on the board of the Florida Aquatic Plant Management Society Foundation; Citrus Research and Development Foundation; UF Leadership and Education Foundation; Treasure Coast Education Research and Development Authority; and SW Florida Research and Education Foundation. Mr. Joyce was appointed to the board in 2008 and his current term of service is 2010-2013. He is an Outside Director on the Farm Credit of Florida, ACA board and serves on the Governance Committee.

Douglas Moore is a dairy, forestry, and cattle farmer in Duval and Baker Counties. He serves on the boards of Northpoint Services, a construction company; T. M. Livestock, a real estate firm; and South Prong Hunt Club. Mr. Moore was elected to the board in 2001 and current term is 2008 – 2011. He currently serves on the board of Farm Credit of Florida, ACA.

Lloyd Register is a dairy, beef, hay, and timber farmer in Baker County. He serves on the board of the Baker County Farm Bureau Association and Farm Service Agency. Mr. Register

was elected to the board in 1997 and his term of office is 2009-2012. He also serves on the board of Farm Credit of Florida, ACA and is a member of the Special Assets Committee.

Stanford Robertson has been a potato farmer for the past five years in Flagler and Okeechobee Counties. He serves on the Flagler County Farm Bureau board. Mr. Robertson was elected in 2001 and his term of office is 2009-2012. He also serves on the Farm Credit of Florida, ACA board and is a member of the Special Assets Committee.

Hansel C. Ross has a peanut and tree farming operation in Suwannee County. He was elected to the board in 1993 and his term of office is 2008 – 2011. Mr. Ross resigned from the board on December 31, 2010.

Arthur Sandlin is a peanut farmer and cattle rancher in Levy County. He is currently a director on the board of Perkins State Bank. Mr. Sandlin was originally elected to the board in 1995 and his term of office is 2010 – 2013. He also serves on the Farm Credit of Florida, ACA board of directors and is a member of the Audit Committee.

Additional members of the new Farm Credit of Florida, ACA board of directors include:

Louis E. Larson, Jr. is a dairy farmer and rancher in Okeechobee County and owns Family Tree Enterprises, LLP. He serves as director on the boards of Larson Dairy, Inc., SunTrust of Mid-Florida, Dairy Feeds, Inc., Okeechobee Cattleman's Association, and Southeast Milk, Inc. Mr. Larson also serves as Vice President to the Florida Cattlemen's Association. He was originally appointed to the board in 1989 and his current term is 2010-2013. Mr. Larson is chairman of the new Farm Credit of Florida, ACA board and serves on the Compliance Committee.

Sherwood J. Johnson is a citrus grower in the Indian River area and owns Hilliard Groves, Inc. He currently serves as a director on the boards of Delta Farms Water Control District, University of Florida Share Council, and Treasure Coast Agriculture Research Foundation. Mr. Johnson also serves on the AgFirst Farm Credit Bank Nominating Committee. He was appointed to the board in 1982 and his term of office expires in 2012. He is Vice Chairman of Farm Credit of Florida, ACA and serves on the Compliance, Governance and Credit/Lending Committees.

James M. Alderman is a vegetable grower in Palm Beach County and grows citrus in Martin County. He is President of J. Alderman Farms, Alderman Farms Sales Corporation, B & A Tomato Corporation, West Boynton Farms and Marald Citrus. Mr. Alderman also serves as a member of Florida Panther Conservation, LLC; Alderman Cattle Company, LLC; and Rim Canal, LLC; Rocker Highway, LLC; and Gropper Ridge, LLC; all real estate ventures. Mr. Alderman is a board member on the Lake Worth Drainage District. He was elected to the board in 2009 for a three year term. He also serves on the board of Farm Credit of Florida, ACA and is a member of the Governance Committee.

John L. Alger is a vegetable grower and nurseryman in Miami-Dade County. He is President of Alger Farms, Inc. and Alger Seed & Ag Products, LLC. He also serves as Vice President of S. M. Jones and Company, a produce sales company in Belle

Glade and is a member of the Executive Advisory Board of First National Bank of South Florida. Mr. Alger is also Vice President and PAC Chairperson of Dade County Farm Bureau; a director on the board of Florida Fruit and Vegetable Association; and alternate director on Miami Dade Avocado Committee. Mr. Alger was elected to the board in 2007 and his current term expires in 2011. He currently serves as director on the Farm Credit of Florida, ACA board and is a member of the Special Assets Committee.

Howard P. "Rowdy" Bateman manages a 3,700 acre citrus and cattle operation for Bright Hour Ranch in Desoto County. He has interests in a family cattle operation, as well as his own personal cattle operation. Mr. Bateman currently serves on the Peace River Valley Citrus Growers Association Board. He was elected to the board in 2004 and his term of office is 2010 – 2013. He is a current director on the board of Farm Credit of Florida, ACA and serves on the Compensation Committee.

Robert J. Callaway serves as an Outside Director for the Association. He is a co-founder of Callaway and Price, Inc., a real estate appraisal and consulting firm. Mr. Callaway serves on the boards of Callaway Realty, Inc., the West Palm Beach Fishing Club & Foundation and Law Enforcement Assistance Foundation, a fund raising organization. He was appointed to the board in 1990 and his current term expires in 2012. Mr. Callaway currently serves as Outside Director on the Farm Credit of Florida, ACA board and is a member of the Credit/Lending Committee.

Jack C. Coker is a beef cattle rancher and real estate developer in Okeechobee County. He currently serves as President and Director of B and J Investments, Inc.; J & M Investments, Inc.; and Coker Cattle Corporation. Mr. Coker was elected to the board in 1982 and his current term expires in 2011. He is a director on the board of Farm Credit of Florida, ACA and serves on the Governance Committee.

Walter S. Farr is a retired Certified Public Accountant from Wauchula who has interests in citrus and beef cattle. He serves as a Trustee and Officer of the Matred Carlton Olliff Foundation, a charitable organization. Mr. Farr also serves on the AgFirst Farm Credit Bank Nominating Committee. He was elected to the board in 1991 and his current term is 2010-2013. Mr. Farr is also a director on the Farm Credit of Florida, ACA board and serves on the Audit Committee.

John Roy Gough is an agri-chemical salesman with Crop Production Services. He is also involved in citrus and cattle ranching operations in Hardee County. Mr. Gough was elected to the board in 1992 and his current term expires in 2012. He also serves on the board of Farm Credit of Florida, ACA.

William E. Hopkins is a sugar cane and vegetable grower in Western Palm Beach County, employed by Hundley Farms, Inc. He serves as director on the boards of Hundley Farms, Inc.; Frontier Produce; Double H Farms; Pioneer Growers; Leadership Palm Beach County; Florida Fruit and Vegetable Association; and Law Enforcement Assistance Foundation, a fund raising organization. Mr. Hopkins also serves as Vice President of Florida Vegetable Exchange and as an advisor on the boards of PNC Bank and Wedgeworth Leadership Program. He was appointed to the board in 2009 and elected to a three year term in 2010. Mr. Hopkins also serves on the Farm Credit

of Florida, ACA board and is a member of the Audit Committee.

Charles F. Martin is a nurseryman in Miami-Dade County. He serves as secretary/treasurer of Harold B. Martin, Inc. and Team Martin, Inc. Mr. Martin was elected to the board in 1987 and his current term is 2010-2013. He also serves as director on the Farm Credit of Florida, ACA board and is a member of the Compensation Committee.

Martin J. "Marty" McKenna is self-employed through McKenna & Associates Citrus, Inc., a privately owned citrus and harvesting operation business. He also serves on Florida Citrus Mutual, a statewide citrus growers' organization and the Florida Citrus Research & Development foundations, which is involved in citrus research. Mr. McKenna was elected to the board in 2009 for a three year term that expires in 2012. He also serves on the Farm Credit of Florida, ACA board and is a member of the Credit/Lending Committee.

Jerry M. Newlin is Vice President of Orange-Co, LP responsible for the daily operations and management of the citrus and nursery operations. He serves as a member of Florida Citrus Production Managers Association and is a Board member of Florida Citrus Production Research Advisory Council. Mr. Newlin is the President of the Joshua Water Control District and the East Charlotte Drainage District. He was appointed to the board in 2007 and his current term is 2008-2011. Mr. Newlin serves on the Farm Credit of Florida, ACA board and is a member of the Special Assets Committee.

Robert G. Sexton is from Vero Beach, Florida. He is President of Oslo Citrus Growers Association and co-owner of Lost Legend, LLC, and owner of Orchid Island Juice Company. He serves as a director for AgFirst Farm Credit Bank; Oslo Citrus Growers Association; Lost Legend, LLC; Florida Citrus Packers; Indian River Citrus League; Highland Exchange Service Co-op, a packinghouse supply cooperative; McArthur Management Company, a management company for a large dairy, cattle and citrus agribusiness; Sexton Grove Holdings, a family citrus company; Sexton Properties, Oslo Packing Company, Patio Restaurant and Sexton, Inc., family commercial real estate companies; and Dancing Pigs, LLC, which owns Red, Hot and Blue BBQ restaurants. In addition, he is a member of the Indian River Farm Bureau. Mr. Sexton was appointed to the board in 1995 and his current term of office expires in 2011. He is a member of the Farm Credit of Florida, ACA board and serves on the Compensation and Special Assets Committees.

Lisa Sherman serves as Outside Director for the Association. She is a Certified Public Accountant with Williams & Sherman, CPA in Lake Placid. Ms. Sherman serves on the board of directors of Lake Childs Citrus, Inc. and Black Bear Citrus, LLC with operations based in Highlands County. She was appointed to the board in 2008 and her current term of office expires in 2011. Ms. Sherman also serves on the board of Farm Credit of Florida, ACA and is a member of the Credit/Lending Committee.

John F. Smoak, Jr. a citrus grower and cattle rancher in Highlands and Hardee Counties. He is self-employed through Smoak Groves, Inc., a family owned agri-business corporation. Mr. Smoak serves as a director for Lake Placid Citrus Cooperative. He was elected to the board in 1981 and his

current term of office is 2009-2012. Mr. Smoak also serves on the Farm Credit of Florida, ACA board.

Andrea Thurn serves as an Outside Director for the Association. She is a Certified Public Accountant and a Partner/Owner in Morgan, Jacoby, Thurn, Boyle and Associates, P.A. in Vero Beach. Ms. Thurn has many years of experience with financial institutions, cooperatives and agri-businesses. She serves as Secretary/Treasurer of Vero Chemical Distributors, a janitorial paper and chemical supplier. Ms. Thurn was appointed to the board in 2007 and her current term of office is 2010 – 2013. She also serves on the Farm Credit of Florida, ACA board and is a member of the Audit Committee.

E.E. “Bucky” Waldron serves as an Outside Director for the Association. He is an attorney with a private civil practice in Arcadia. Mr. Waldron was elected to the board in 1991 and his term of office is 2010-2013. He is a member of the Farm Credit of Florida, ACA board and serves on the Special Assets Committee.

J. Mark Wheeler, Vice Chairman, is Chief Financial Officer of Wheeler Farms, Inc., a citrus operation based in Highlands County. He serves on the boards of AgFirst Farm Credit Bank, Florida Citrus Mutual, an industry trade association; Hardee Livestock Market (HLM), a wholly-owned subsidiary of Wheeler Farms, Inc., a cattle auction company; and Wheeler Brothers, Inc., a family-held citrus contract harvesting corporation. Mr. Wheeler is president of Boston Mining Company, a citrus, real estate and cash investment organization. He was elected to the board in 1999 and his current term of service is 2008-2011. He is a director of Farm Credit of Florida, ACA and currently serves on the Audit Committee.

Transactions with Senior Officers and Directors

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

Involvement in Certain Legal Proceedings

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

Relationship with Independent Auditor

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

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

<i>(dollars in thousands)</i>	2010
Independent Auditor	
PricewaterhouseCoopers LLP	
Audit services	\$ 58
Nonaudit services	—
Total	<u>\$ 58</u>

Audit fees were for the annual audit of the Consolidated Financial Statements.

Consolidated Financial Statements

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

Copies of the Association’s Annual and Quarterly reports are available upon request free of charge by calling 1-800-462-4156 or writing Linda Rusciano at Farm Credit of Florida, P. O. Box 213069 West Palm Beach, FL 33421 or accessing the web site, www.farmcreditfl.com. The Association prepares an electronic version of the Annual Report which is available on the Association’s web site within 75 days after the end of the fiscal year and distributes the Annual Reports to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

Borrower Information Regulations

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

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

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

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

Shareholder Investment

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

Report of the Audit Committee

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

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

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

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

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



Andrea Thurn
Chairman of the Audit Committee

Members of Audit Committee

Richard T. Barber
Walter Farr
William E. Hopkins
Arthur Sandlin
J. Mark Wheeler

March 14, 2011

Report of Independent Auditors



Report of Independent Auditors

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

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

PricewaterhouseCoopers LLP

March 14, 2011

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

Consolidated Balance Sheets

<i>(dollars in thousands)</i>	December 31, 2010	December 31, 2009	December 31, 2008
Assets			
Cash	\$ 13	\$ 68	\$ 59
Loans	404,425	454,713	475,687
Less: allowance for loan losses	11,614	3,562	6,877
Net loans	392,811	451,151	468,810
Other investments	10,211	12,320	12,650
Accrued interest receivable	1,871	2,474	3,293
Investments in other Farm Credit institutions	9,486	9,863	9,804
Premises and equipment, net	2,575	2,649	2,855
Other property owned	6,310	5,009	2,487
Due from AgFirst Farm Credit Bank	4,038	4,264	3,688
Other assets	3,887	3,671	3,867
Total assets	\$ 431,202	\$ 491,469	\$ 507,513
Liabilities			
Notes payable to AgFirst Farm Credit Bank	\$ 366,559	\$ 411,638	\$ 421,771
Accrued interest payable	823	1,041	1,387
Patronage refund payable	40	617	929
Advanced conditional payments	407	2,580	8,074
Other liabilities	4,345	3,999	3,996
Total liabilities	372,174	419,875	436,157
Commitments and contingencies			
Members' Equity			
Protected borrower stock	40	55	71
Capital stock and participation certificates	1,411	1,505	1,609
Retained earnings			
Allocated	40,872	40,782	40,688
Unallocated	16,705	29,252	28,988
Total members' equity	59,028	71,594	71,356
Total liabilities and members' equity	\$ 431,202	\$ 491,469	\$ 507,513

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

Consolidated Statements of Operations

<i>(dollars in thousands)</i>	For the year ended December 31,		
	2010	2009	2008
Interest Income			
Loans	\$ 18,840	\$ 22,294	\$ 30,438
Other investments	492	579	674
Total interest income	19,332	22,873	31,112
Interest Expense			
Notes payable to AgFirst Farm Credit Bank	11,159	13,708	19,758
Other	2	11	313
Total interest expense	11,161	13,719	20,071
Net interest income	8,171	9,154	11,041
Provision for loan losses	15,217	2,810	5,542
Net interest income (loss) after provision for loan losses	(7,046)	6,344	5,499
Noninterest Income			
Loan fees	294	321	1,108
Fees for financially related services	9	12	20
Patronage refund from other Farm Credit institutions	4,450	4,399	3,959
Gains (losses) on other property owned, net	(2,566)	(361)	(96)
Gains (losses) on sales of rural home loans, net	108	112	75
Gains (losses) on sales of premises and equipment, net	5	(2)	(11)
Insurance Fund refund	514	—	—
Other noninterest income	268	165	116
Total noninterest income	3,082	4,646	5,171
Noninterest Expense			
Salaries and employee benefits	5,729	5,658	4,685
Occupancy and equipment	641	655	707
Insurance Fund premiums	224	820	699
Other operating expenses	1,979	1,781	1,970
Total noninterest expense	8,573	8,914	8,061
Income (loss) before income taxes	(12,537)	2,076	2,609
Provision for income taxes	5	36	54
Net income (loss)	\$ (12,542)	\$ 2,040	\$ 2,555

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

Consolidated Statements of Changes in Members' Equity

<i>(dollars in thousands)</i>	Protected Borrower Stock	Capital Stock and Participation Certificates	Retained Earnings		Total Members' Equity
			Allocated	Unallocated	
Balance at December 31, 2007	\$ 96	\$ 1,713	\$ 42,708	\$ 28,002	\$ 72,519
Net income				2,555	2,555
Protected borrower stock retired	(25)				(25)
Capital stock/participation certificates issued/(retired), net		(104)			(104)
Patronage distribution					
Cash				(880)	(880)
Nonqualified allocated retained earnings			733	(733)	—
Retained earnings retired			(2,455)		(2,455)
Patronage distribution adjustment			(298)	44	(254)
<hr/>					
Balance at December 31, 2008	71	1,609	40,688	28,988	71,356
Net income				2,040	2,040
Protected borrower stock retired	(16)				(16)
Capital stock/participation certificates issued/(retired), net		(104)			(104)
Patronage distribution					
Cash				(540)	(540)
Nonqualified allocated retained earnings			960	(960)	—
Retained earnings retired			(1,138)		(1,138)
Patronage distribution adjustment			272	(276)	(4)
<hr/>					
Balance at December 31, 2009	55	1,505	40,782	29,252	71,594
Net income (loss)				(12,542)	(12,542)
Protected borrower stock retired	(15)				(15)
Capital stock/participation certificates issued/(retired), net		(94)			(94)
Patronage distribution adjustment			90	(5)	85
<hr/>					
Balance at December 31, 2010	\$ 40	\$ 1,411	\$ 40,872	\$ 16,705	\$ 59,028

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

Consolidated Statements of Cash Flows

<i>(dollars in thousands)</i>	For the year ended December 31,		
	2010	2009	2008
Cash flows from operating activities:			
Net income	\$ (12,542)	\$ 2,040	\$ 2,555
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation on premises and equipment	339	360	397
Amortization (accretion) of net deferred loan origination costs (fees)	(137)	(104)	—
Premium amortization (discount accretion) on investments	(492)	(579)	(674)
Provision for (reversal of allowance for) loan losses	15,217	2,810	5,542
(Gains) losses on other property owned, net	2,566	361	96
(Gains) losses on sales of premises and equipment, net	(5)	2	11
Changes in operating assets and liabilities:			
(Increase) decrease in accrued interest receivable	603	819	874
(Increase) decrease in due from AgFirst Farm Credit Bank	226	(576)	363
(Increase) decrease in other assets	(216)	196	(168)
Increase (decrease) in accrued interest payable	(218)	(346)	(604)
Increase (decrease) in other liabilities	346	3	(2,018)
Total adjustments	18,229	2,946	3,819
Net cash provided by (used in) operating activities	5,687	4,986	6,374
Cash flows from investing activities:			
Net (increase) decrease in loans	38,260	11,150	(8,905)
(Increase) decrease in investment in other Farm Credit institutions	377	(59)	(63)
Purchases of other investments	(118)	(1,484)	(142)
Proceeds from payments received on other investments	2,719	2,393	2,365
Purchases of premises and equipment	(265)	(156)	(288)
Proceeds from sales of premises and equipment	5	—	9
Proceeds from sales of other property owned	1,133	920	10
Net cash provided by (used in) investing activities	42,111	12,764	(7,014)
Cash flows from financing activities:			
Advances on (repayment of) notes payable to AgFirst Farm Credit Bank, net	(45,079)	(10,133)	13,158
Net increase (decrease) in advanced conditional payments	(2,173)	(5,494)	(6,370)
Protected borrower stock retired	(15)	(16)	(25)
Capital stock and participation certificates issued/(retired), net	(94)	(104)	(104)
Patronage refunds and dividends paid	(492)	(856)	(3,518)
Retained earnings retired	—	(1,138)	(2,455)
Net cash provided by (used in) financing activities	(47,853)	(17,741)	686
Net increase (decrease) in cash	(55)	9	46
Cash, beginning of period	68	59	13
Cash, end of period	\$ 13	\$ 68	\$ 59
Supplemental schedule of non-cash activities:			
Financed sales of other property owned	\$ 170	\$ 1,154	\$ 704
Loans transferred to other property owned	5,170	4,957	3,297
Cash dividends or patronage distributions declared or payable	—	540	880
Supplemental information:			
Interest paid	11,379	14,065	20,675
Taxes (refunded) paid, net	215	31	42

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

Notes to the Consolidated Financial Statements

(dollars in thousands, except as noted)

Note 1 — Organization and Operations

A. **Organization:** Farm Credit of North Florida, ACA (the Association) is a member-owned cooperative which provides credit and credit-related services to or for the benefit of eligible borrowers/shareholders for qualified purposes in the counties of Alachua, Baker, Bradford, Clay, Columbia, Dixie, Duval, Flagler, Gilchrist, Hamilton, Lafayette, Levy, Marion, Nassau, Putnam, St. Johns, Suwannee and Union in the state of Florida.

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

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

ACA parent-companies provide financing and related services through its FLCA and PCA subsidiaries. The FLCA makes collateralized long-term agricultural real estate and rural home mortgage loans. The PCA makes short- and intermediate-term loans for agricultural production or operating purposes.

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

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

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

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

The Association may sell to any System borrowing member, on an optional basis, credit or term life insurance appropriate to protect the loan commitment in the event of death of the debtor(s).

Note 2 — Summary of Significant Accounting Policies

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

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

A. **Cash:** Cash, as included in the statements of cash flows, represents cash on hand and on deposit at banks.

B. **Loans and Allowance for Loan Losses:** Long-term real estate mortgage loans generally have original maturities ranging from 5 to 40 years. Substantially all short- and intermediate-term loans for agricultural production or

operating purposes have maturities of 10 years or less. Loans are carried at their principal amount outstanding adjusted for charge-offs and deferred loan fees or costs.

Effective January 1, 2009, the Association began deferring loan origination fees and direct loan origination costs in accordance with Financial Accounting Standards Board (FASB) guidance on accounting for nonrefundable fees and other costs. Loan origination fees and direct loan origination costs are deferred as part of the carrying amount of the loan and the net fee or cost is amortized over the life of the related loans as an adjustment to interest income using the effective interest method. For 2010 the Association deferred loan origination fees of \$594 and salary and employee benefits expense of \$338. Accretion of net fees for 2010 was \$137 for a net income statement impact in 2010 of \$(119).

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

When loans are in nonaccrual status, the interest portion of payments received in cash is recognized as interest income if collection of the recorded investment in the loan is fully expected and the loan does not have a remaining unrecovered prior charge-off associated with it. Otherwise, loan payments are applied against the recorded investment in the loan. Nonaccrual loans may be returned to accrual status when principal and interest are current, prior charge-offs have been recovered, the ability of the borrower to fulfill the contractual repayment terms is fully expected and the loan is not classified "doubtful" or "loss."

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

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

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

The Association uses a two-dimensional loan rating model based on an internally generated combined system risk rating guidance that incorporates a 14-point risk-rating scale to identify and track the probability of borrower default and a separate scale addressing loss given default over a period of time. Probability of default is the probability that a borrower will experience a default within 12 months from the date of the determination of the risk rating. A default is considered to have occurred if the lender believes the borrower will not be

able to pay its obligation in full or the borrower is past due more than 90 days. The loss given default is management's estimate as to the anticipated economic loss on a specific loan assuming default has occurred or is expected to occur within the next 12 months.

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

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

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

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

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

A specific allowance may be established for impaired loans under FASB guidance on accounting by creditors for impairment of a loan. Impairment of these loans is measured based on the present value of expected future cash flows

discounted at the loan's effective interest rate or, as practically expedient, at the loan's observable market price or fair value of the collateral if the loan is collateral dependent.

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

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

C. **Other Investments:** Other investments include Tobacco Buyout Successor-in-Interest Contracts (SIIC), which qualify as mission related investments under FCA regulations. Under the SIIC, the tobacco quota holders and producers may sell their rights to receive SIIC contract payments to a third party. The successor purchases the entire contract and all related rights and obligations associated with the contract. These investments in SIIC are purchased at a discount. Contract payments are made by the United States Department of Agriculture (USDA) in equal annual payments. Interest income is recognized from the accretion of discounts using the effective interest method.

D. **Investment in AgFirst Farm Credit Bank and Other Farm Credit Institutions:** The Association is required to maintain ownership in the Bank in the form of Class B and Class C stock. Accounting for this investment is on the cost plus allocated equities basis. Patronage refunds from the Bank are accrued as earned. The receivable for such patronage refunds is classified as due from AgFirst Farm Credit Bank.

E. **Other Property Owned:** Other property owned, consisting of real and personal property acquired through a collection action, is recorded upon acquisition at fair value less estimated selling costs. Revised estimates to the fair value less cost to sell are reported as adjustments to the carrying amount of the asset, provided that such adjusted value is not in excess of the carrying amount at acquisition. Income, expenses, and carrying value adjustments related to other property owned are included in gains (losses) on other property owned, net.

F. **Premises and Equipment:** Premises and equipment are carried at cost less accumulated depreciation. Land is carried at cost. Depreciation is provided on the straight-line method over the estimated useful lives of the assets. The estimated useful lives of buildings and improvements primarily range from 10 to 40 years, with the majority in the range of 15 to 40 years. The estimated useful lives of furniture and equipment primarily range from three to 10 years, with the majority in the range of five to 10 years. Gains and losses on dispositions

are reflected in current earnings. Maintenance and repairs are charged to expense and improvements are capitalized.

G. **Advanced Conditional Payments:** The Association is authorized under the Farm Credit Act to accept advance payments from borrowers. To the extent the borrower's access to such advance payments is restricted, the advanced conditional payments are netted against the borrower's related loan balance. Amounts in excess of the related loan balance and amounts to which the borrower has unrestricted access are presented as interest-bearing liabilities in the accompanying Consolidated Balance Sheets. Advanced conditional payments are not insured. Interest is generally paid by the Association on such accounts.

H. **Employee Benefit Plans:** Substantially all employees of the Association may participate in either the AgFirst Farm Credit Final Average Pay Retirement Plan or the AgFirst Farm Credit Cash Balance Plan (collectively referred to as the "Plans"), which are defined benefit plans and considered multi-employer plans. These two Plans are noncontributory and include eligible District employees. The "Projected Unit Credit" actuarial method is used for financial reporting purposes. The actuarially-determined costs of these Plans are allocated to each participating entity, including the Association, by multiplying the Plans' net pension expense by each institution's eligible service cost and accumulated benefit obligation as a percentage of the total eligible service cost and total accumulated benefit obligation for all Plans' participants.

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

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

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

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

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

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

J. Patronage Refund from AgFirst and Other Financial Institutions: The Association records patronage refunds from the Bank and certain District Associations on an accrual basis.

K. Fair Value Measurement: Effective January 1, 2008, the Association adopted FASB guidance on fair value measurements. This guidance defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability. This guidance also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. It describes three levels of inputs that may be used to measure fair value as discussed in Note 14.

L. Recently Issued Accounting Pronouncements: The Financial Accounting Standards Board (FASB) issued guidance "Accounting for Transfers of Financial Assets," which amended previous guidance by improving the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement, if any, in transferred financial assets.

This guidance was effective January 1, 2010. This guidance must be applied to transfers occurring on or after the effective date. Additionally, the concept of a qualifying special purpose entity is no longer relevant for accounting purposes. Therefore, formerly qualifying special-purpose entities (as

defined under previous accounting guidance) should be evaluated for consolidation by reporting entities on and after the effective date in accordance with the applicable consolidation guidance. If the evaluation on the effective date results in consolidation, the reporting entity should apply the transition guidance that requires consolidation. The Association evaluated the impact of adoption on its loan participation agreements to ensure that loan participations would meet the requirements for sales treatment. The impact of adoption on January 1, 2010 was immaterial to the Association's financial condition and results of operations.

In June 2009, the FASB also issued guidance to improve financial reporting for those enterprises involved with variable interest entities, which amends previous guidance by requiring an enterprise to perform an analysis to determine whether the enterprise's variable interest or interests give it a controlling financial interest in a variable interest entity. Additionally, an enterprise is required to assess whether it has an implicit financial responsibility to ensure that a variable interest entity operates as designed when determining whether it has the power to direct the activities of the variable interest entity that most significantly impact the entity's economic performance. This guidance was effective January 1, 2010. The Association does not have any variable interest or controlling interest in a variable entity. Therefore, there was no impact of adoption of the guidance for the Association.

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

In July 2010, the FASB issued guidance on "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses." This guidance provides additional information to assist financial statement users in assessing an entity's credit risk exposures and evaluating the adequacy of its allowance for credit losses. Existing disclosures were amended to include additional disclosures of financing receivables on both a portfolio segment and class of financing receivable basis. This includes a rollforward schedule of the allowance for credit losses from the beginning of the reporting period to the end of the period on a portfolio segment basis, with the ending balance further disclosed on the basis of the method of impairment (individually or collectively evaluated). The guidance also calls for new disclosures including but not limited to credit quality indicators at the end of the reporting period by class

of financing receivables, the aging of past due financing receivables, nature and extent of financing receivables modified as troubled debt restructurings by class and the effect on the allowance for credit losses. For public entities, the disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity

that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. The adoption of this guidance should have no impact on the Association's financial condition or results of operations, but it will result in additional disclosures.

Note 3 — Loans and Allowance for Loan Losses

A summary of loans follows:

<i>(dollars in thousands)</i>	December 31,		
	2010	2009	2008
Real estate mortgage	\$ 268,771	\$ 311,266	\$ 327,088
Production and intermediate-term Agribusiness	103,414	103,375	98,721
Loans to cooperatives	161	2,950	—
Processing and marketing	8,741	6,509	10,895
Farm-related business	14,572	20,991	26,816
Total agribusiness	23,474	30,450	37,711
Communication	704	—	—
Energy	—	—	599
Rural residential real estate	8,062	9,622	11,568
Total Loans	\$ 404,425	\$ 454,713	\$ 475,687

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

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

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

<i>(dollars in thousands)</i>	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	\$ 420	\$ 77,224	\$ 1,985	\$ —	\$ —	\$ 3,316	\$ 2,405	\$ 80,540
Production and intermediate term Agribusiness	17,745	45,904	—	—	—	—	17,745	45,094
Loans to cooperatives	163	—	—	—	—	—	163	—
Processing and marketing	5,317	26,230	—	—	—	—	5,317	26,230
Farm-related business	170	7,750	—	—	—	—	170	7,750
Total agribusiness	5,650	33,980	—	—	—	—	5,650	33,980
Communication	709	—	—	—	—	—	709	—
Total	\$ 24,524	\$ 157,108	\$ 1,985	\$ —	\$ —	\$ 3,316	\$ 26,509	\$ 160,424

A significant source of liquidity for the Association is the repayments and maturities of loans. The following table presents the contractual maturity distribution of loans by loan type at December 31, 2010 and indicates that approximately 28.94 percent of loans had maturities of one year or less:

<i>(dollars in thousands)</i>	Due less than 1 year	Due 1 Through 5 years	Due after 5 years	Total
Real estate mortgage	\$ 46,963	\$ 108,945	\$ 112,863	\$ 268,771
Production and intermediate term	51,359	37,791	14,264	103,414
Agribusiness				
Loans to cooperatives	161	-	-	161
Processing and marketing	6,217	794	1,730	8,741
Farm-related business	10,269	3,397	906	14,572
Total agribusiness	16,647	4,191	2,636	23,474
Communication	698	6	-	704
Rural residential real estate	1,388	965	5,709	8,062
Total Loans	<u>\$ 117,055</u>	<u>151,898</u>	<u>\$ 135,472</u>	<u>\$ 404,425</u>

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

	2010	2009	2008		2010	2009	2008
Real estate mortgage:				Total agribusiness			
Acceptable	68.89%	78.19%	90.67%	Acceptable	77.36%	97.30%	96.59%
OAEM	5.67	8.13	4.34	OAEM	15.27	0.35	0.29
Substandard/doubtful/loss	25.44	13.68	4.99	Substandard/doubtful/loss	7.37	2.35	3.12
	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>
Production and intermediate-term:				Energy and water/waste disposal:			
Acceptable	71.34%	78.46%	94.35%	Acceptable	-%	-%	100.00%
OAEM	3.96	8.20	4.11	OAEM	-	-	-
Substandard/doubtful/loss	24.70	13.34	1.54	Substandard/doubtful/loss	-	-	-
	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>		<u>-%</u>	<u>-%</u>	<u>100.00%</u>
Agribusiness:				Communication:			
Loans to cooperatives:				Acceptable	100.00%	-%	-%
Acceptable	100.00%	100.00%	-%	OAEM	-	-	-
OAEM	-	-	-	Substandard/doubtful/loss	-	-	-
Substandard/doubtful/loss	-	-	-		<u>100.00%</u>	<u>-%</u>	<u>-%</u>
	<u>100.00%</u>	<u>100.00%</u>	<u>-%</u>				
Processing and marketing				Rural residential real estate:			
Acceptable	60.19%	100.00%	100.00%	Acceptable	80.62%	82.59%	99.24%
OAEM	39.81	-	-	OAEM	0.76	1.66	0.76
Substandard/doubtful/loss	-	-	-	Substandard/doubtful/loss	18.62	15.75	-
	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>
Farm-related business				Total Loans:			
Acceptable	87.42%	96.09%	95.20%	Acceptable	70.29%	79.67%	92.12%
OAEM	0.70	0.51	0.41	OAEM	5.68	7.49	3.88
Substandard/doubtful/loss	11.88	3.40	4.39	Substandard/doubtful/loss	24.03	12.84	4.00
	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

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

<i>(dollars in thousands)</i>	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	\$ 5,416	\$ 25,538	\$ 30,954	\$ 238,970	\$ 269,924	\$ -
Production and intermediate-term Agribusiness	2,092	5,163	7,255	96,786	104,041	-
Loans to cooperatives	-	-	-	162	162	-
Processing and marketing	-	-	-	8,772	8,772	-
Farm-related business	-	1,347	1,347	13,262	14,609	-
Total agribusiness	-	1,347	1,347	22,196	23,543	-
Communication	-	-	-	704	704	-
Rural residential real estate	43	1,395	1,438	6,646	8,084	-
Total	\$ 7,551	\$ 33,443	\$ 40,994	\$ 365,302	\$ 406,296	\$ -

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

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

<i>(dollars in thousands)</i>	December 31,		
	2010	2009	2008
Nonaccrual loans:			
Real estate mortgage	\$ 45,506	\$ 14,852	\$ 11,545
Production and intermediate-term Agribusiness	15,597	8,978	317
Farm-related business	1,735	715	-
Total agribusiness	1,735	715	-
Rural residential real estate	1,395	1,466	-
Total nonaccrual loans	\$ 64,233	\$ 26,011	\$ 11,862
Accruing restructured loans:			
Total accruing restructured loans	\$ -	\$ -	\$ -
Accruing loans 90 days or more past due:			
Real estate mortgage	\$ -	\$ -	\$ 363
Total accruing loans 90 days or more past due	\$ -	\$ -	\$ 363
Accruing loans less than 90 days past due:			
Real estate mortgage	\$ -	\$ 10,119	\$ -
Total accruing loans less than 90 days past due	\$ -	\$ 10,119	\$ -
Total nonperforming loans	\$ 64,233	\$ 36,130	\$ 12,225
Other property owned	6,310	5,009	2,487
Total nonperforming assets	\$ 70,543	\$ 41,139	\$ 14,712
Nonaccrual loans as a percentage of total loans	15.88%	5.72%	2.49%
Nonperforming assets as a percentage of total loans and other property owned	17.17%	8.95%	3.08%
Nonperforming assets as a percentage of capital	119.51%	57.46%	20.62%

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

<i>(dollars in thousands)</i>	December 31,		
	2010	2009	2008
Impaired nonaccrual loans:			
Current as to principal and interest	\$ 28,355	\$ 10,645	\$ 411
Past due	35,878	15,366	11,451
Total impaired nonaccrual loans	64,233	26,011	11,862
Impaired accrual loans:			
Restructured	-	-	-
90 days or more past due	-	-	363
Less than 90 days past due	-	10,119	-
Total impaired accrual loans	-	10,119	363
Total impaired loans	\$ 64,233	\$ 36,130	\$ 12,225

Additional impaired loan information is as follows:

<i>(dollars in thousands)</i>	December 31, 2010			Year Ended December 31, 2010	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	\$ 11,737	\$ 13,439	\$ 2,165	\$ 6,920	\$ 131
Production and intermediate-term	4,586	7,621	2,288	2,704	52
Rural residential real estate	29	27	16	17	–
Total	\$ 16,352	\$ 21,087	\$ 4,469	\$ 9,641	\$ 183
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	\$ 33,769	\$ 37,265	\$ –	\$ 19,912	\$ 378
Production and intermediate-term	11,011	11,872	–	6,492	122
Agribusiness					
Farm-related business	1,735	2,664	–	1,023	19
Total agribusiness	1,735	2,664	–	1,023	19
Rural residential real estate	1,366	2,207	–	806	16
Total	\$ 47,881	\$ 54,008	\$ –	\$ 28,233	\$ 535
Total impaired loans:					
Real estate mortgage	\$ 45,506	\$ 50,704	\$ 2,165	\$ 26,832	\$ 509
Production and intermediate-term	15,597	19,493	2,288	9,196	174
Agribusiness					
Farm-related business	1,735	2,664	–	1,023	19
Total agribusiness	1,735	2,664	–	1,023	19
Rural residential real estate	1,395	2,234	16	823	16
Total	\$ 64,233	\$ 75,095	\$ 4,469	\$ 37,874	\$ 718

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

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

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

<i>(dollars in thousands)</i>	Year Ended December 31,		
	2010	2009	2008
Interest income which would have been recognized under the original loan terms	\$ 1,930	\$ 722	\$ 342
Less: interest income recognized	343	50	133
Foregone interest income	\$ 1,587	\$ 672	\$ 209

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

<i>(dollars in thousands)</i>	Real Estate Mortgage	Production and Intermediate-term	Agribusiness	Communication	Rural Residential Real Estate	Total
Allowance for credit losses:						
Balance at December 31, 2009	\$ 2,354	\$ 1,074	\$ 96	\$ —	\$ 38	\$ 3,562
Charge-offs	(4,227)	(3,156)	(421)	—	(12)	(7,816)
Recoveries	636	12	—	—	3	651
Provision for loan losses	8,143	6,416	588	6	64	15,217
Balance at December 31, 2010	\$ 6,906	\$ 4,346	\$ 263	\$ 6	\$ 93	\$ 11,614
2010 allowance ending balance:						
Individually evaluated for impairment	\$ 2,165	\$ 2,288	\$ —	\$ —	\$ 16	\$ 4,469
Collectively evaluated for impairment	\$ 4,741	\$ 2,058	\$ 263	\$ 6	\$ 77	\$ 7,145
Recorded investment in loans outstanding:						
Ending Balance at December 31, 2010	\$ 269,924	\$ 104,041	\$ 23,543	\$ 704	\$ 8,084	\$ 406,296
2010 recorded investment ending balance:						
Loans individually evaluated for impairment	\$ 45,506	\$ 15,597	\$ 1,735	\$ —	\$ 1,395	\$ 64,233
Loans collectively evaluated for impairment	\$ 224,418	\$ 88,444	\$ 21,808	\$ 704	\$ 6,689	\$ 342,063

To mitigate risk of loan losses, District Associations have entered into Long-Term Standby Commitments to Purchase agreements with the Federal Agricultural Mortgage Corporation (Farmer Mac) through an arrangement with the Association. The agreements, which are effectively credit guarantees that will remain in place until the loans are paid in full, give the Associations the right to sell the loans identified in the agreements to the Association, which can, in turn, sell them to Farmer Mac in the event of default (typically four months past due), subject to certain conditions. The balance of loans under Long-Term Standby Commitments to Purchase held by the Associations was \$20,767, \$23,874, and \$27,203 at December 31, 2010, 2009, and 2008, respectively. Fees paid to Farmer Mac for such commitments are paid by the Associations and totaled \$99, \$112, and \$124 for 2010, 2009, and 2008, respectively. These amounts are classified as noninterest expense.

Note 4 — Other Investments

On October 22, 2004, Congress enacted the “Fair and Equitable Tobacco Reform Act of 2004” (Tobacco Act) as part of the “American Jobs Creation Act of 2004.” The Tobacco Act repealed the Federal tobacco price support and quota programs, provides for payments to tobacco “quota owners” and producers for the elimination of the quota, and provides an assessment mechanism for tobacco manufacturers and importers to pay for the buyout. Tobacco quota holders and producers will receive 10 equal annual payments under a contract with the Secretary of Agriculture. The Tobacco Act also includes a provision that allows the quota holders and producers to assign to a “financial institution” the right to receive the contract payments so that they may obtain a lump sum or other payment. On April 4, 2005, the USDA issued a Final Rule implementing the “Tobacco Transition Payment Program” (Tobacco Buyout).

The FCA determined that System institutions are “financial institutions” within the meaning of the Tobacco Act and are, therefore, eligible to participate in the Tobacco Buyout. The FCA recognized that the Tobacco Buyout has significant implications for some System institutions and the tobacco quota holders and producers they serve. The FCA’s goal is to provide System institution borrowers with the option to immediately receive Tobacco Buyout contract payments and reinvest them in future business opportunities.

For the years ended December 31, 2010, 2009 and 2008, the Association held Tobacco Buyout SIIC of \$10,211, \$12,320 and \$12,650, respectively, net of discount.

Note 5 — Investment in AgFirst Farm Credit Bank

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

Note 6 — Premises and Equipment

Premises and equipment consists of the following:

	December 31,		
	2010	2009	2008
Land	\$ 424	\$ 415	\$ 416
Buildings and improvements	2,501	2,442	2,437
Furniture and equipment	2,048	1,984	1,864
	<u>4,973</u>	<u>4,841</u>	<u>4,717</u>
Less: accumulated depreciation	2,398	2,192	1,862
Total	<u>\$ 2,575</u>	<u>\$ 2,649</u>	<u>\$ 2,855</u>

Note 7 — Other Property Owned

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

	December 31,		
	2010	2009	2008
Gains (losses) on sale, net	\$ (210)	\$ (179)	\$ (96)
Carrying value unrealized gains (losses)	(2,199)	(53)	-
Operating income (expense), net	<u>(157)</u>	<u>(129)</u>	<u>-</u>
Gains (losses) on other property owned, net	<u>\$ (2,566)</u>	<u>\$ (361)</u>	<u>\$ (96)</u>

Note 8 — Notes Payable to AgFirst Farm Credit Bank

The Association's indebtedness to the Bank represents borrowings by the Association primarily to fund its loan portfolio. This indebtedness is collateralized by a pledge of substantially all of the Association's assets and the terms of the revolving line of credit are governed by the General Financing Agreement (GFA). The GFA defines Association performance criteria for borrowing from the Bank, which includes borrowing base margin, earnings and capital covenants. The Association failed to meet its borrowing base margin and earnings covenants at December 31, 2010. The defaults allow the Bank, in conjunction with the FCA, to accelerate repayment of all indebtedness. No waiver by the Bank of the defaults was necessary as the Association merged with and into another association effective January 1, 2011 (see Note 17 below for further information regarding the merger).

Interest rates on both variable and fixed rate notes payable are generally established loan-by-loan based on the Bank's marginal cost of funds, capital position, operating costs and return objectives. The interest rate is periodically adjusted by the Bank based upon agreement between the Bank and the Association. The weighted average interest rates on the variable rate notes were 1.57 percent for LIBOR-based loans, 1.95 percent for Prime-based loans, and the weighted average remaining maturities were 2.9 years and 6.0 years, respectively, at December 31, 2010. The weighted average interest rate on the fixed rate and adjustable rate mortgage (ARM) notes payable which are match funded by the Bank was 4.11 percent and the weighted average remaining maturity was 8.8 years at December 31, 2010. The weighted average interest rate on all interest-bearing notes payable was 2.61 percent and the weighted average remaining maturity was 5.8 years at December 31, 2010.

Variable rate and fixed rate notes payable represent approximately 56.26 percent and 43.74 percent, respectively, of total notes payable at December 31, 2010.

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

Note 9 — Members' Equity

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

A. Protected Borrower Stock

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

B. Capital Stock and Participation Certificates

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

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

C. Regulatory Capitalization Requirements and Restrictions

The FCA’s capital adequacy regulations require the Association to achieve permanent capital of 7.00 percent of risk adjusted assets and off-balance-sheet commitments. Failure to meet the 7.00 percent capital requirement can initiate certain mandatory and possibly additional discretionary actions by 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 shareholders unless prescribed capital standards are met. The FCA regulations also require that additional minimum standards for capital be achieved. These standards require all System institutions to achieve and maintain ratios as defined by FCA regulations. These required ratios are total surplus as a percentage of risk adjusted assets of 7.00 percent and of core surplus as a percentage of risk adjusted assets of 3.50 percent. The Association’s permanent capital, total surplus and core surplus ratios at December 31, 2010 were 12.67 percent, 12.30 percent and 11.72 percent, respectively.

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

D. Description of Equities

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

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

Class	Protected	Shares Outstanding	
		Number	Aggregate Par Value
B Common/Nonvoting	Yes	7,287	\$ 37
C Common/Voting	No	258,435	1,293
B Participation Certificates/Nonvoting	Yes	680	3
C Participation Certificates/Nonvoting	No	23,610	118
Total Capital Stock and Participation Certificates		290,012	\$ 1,451

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

Retained Earnings

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

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

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

Allocated equities shall be retired solely at the discretion of the Board, provided that minimum capital standards established by the FCA and the Board are met. Nonqualified retained surplus is considered to be permanently invested in the Association and as such, there is no plan to revolve or retire this surplus. All nonqualified distributions are tax deductible only when redeemed.

At December 31, 2010, allocated members’ equity consisted of \$4,654 of qualified surplus, \$32,536 of nonqualified surplus and \$3,682 of nonqualified retained surplus.

Dividends

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

The rate of dividends on Classes A, B or C Common Stock and participation certificates shall be at the same rate per share.

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

Patronage Distributions

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

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

Transfer

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

Impairment

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

1. Allocated surplus evidenced by nonqualified written notices of allocation, in its entirety, with application to most recent allocation first and then in reverse order until all such allocated surplus has been exhausted
2. Allocated surplus evidenced by qualified written notices of allocation, in its entirety, with application to most recent allocation first and then in reverse order until all such allocated surplus has been exhausted
3. Classes A, B and C Common Stock and Classes B and C Participation Certificates
4. Class D Preferred Stock

Liquidation

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

1. Holders of Class D Preferred Stock
2. Holders of Classes A, B and C Common Stock and Classes B and C Participation Certificates

3. Holders of allocated surplus evidenced by qualified written notices of allocation, in the order of year of issuance and pro rata by year of issuance, until the total amount of such allocated surplus has been distributed
4. Holders of allocated surplus evidenced by nonqualified written notices of allocation, in the order of year of issuance and pro rata by year of issuance, until the total amount of such allocated surplus has been distributed
5. All unallocated surplus accrued after April 4, 1995 shall be distributed to patrons (i.e., those who receive patronage distributions pursuant to section 860) of the Association from the period beginning April 4, 1995 through the date of liquidation on a patronage basis
6. Any remaining assets of the Association after such distribution shall be distributed ratably to the holders of all classes of stock and participation certificates

Note 10 — Income Taxes

The provision (benefit) for income taxes follows:

	Year Ended December 31,		
	2010	2009	2008
Current:			
Federal	\$ 12	\$ 19	\$ 54
State	(7)	17	—
	<u>5</u>	<u>36</u>	<u>54</u>
Deferred:			
Federal	—	—	—
State	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>
Total provision (benefit) for income taxes	<u>\$ 5</u>	<u>\$ 36</u>	<u>\$ 54</u>

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

	December 31,		
	2010	2009	2008
Federal tax at statutory rate	\$ (4,263)	\$ 706	\$ 887
State tax, net	(5)	11	—
Patronage distributions	—	(184)	(370)
Tax-exempt FLCA losses (earnings)	3,422	(609)	(575)
Change in valuation allowance	831	155	(176)
Other	20	(43)	288
Provision (benefit) for income taxes	<u>\$ 5</u>	<u>\$ 36</u>	<u>\$ 54</u>

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

	December 31,		
	2010	2009	2008
Deferred income tax assets:			
Allowance for loan losses	\$ 1,295	\$ 576	\$ 570
Net operating loss – carryforward	111	121	–
Nonaccrual loan interest	181	66	19
Depreciation	–	–	–
Gross deferred tax assets	1,587	763	589
Less: valuation allowance	(1,575)	(744)	(589)
Gross deferred tax assets, net of valuation allowance	12	19	–
Deferred income tax liabilities:			
Other (FAS 91-Loan Fees)	(12)	(19)	–
Gross deferred tax liability	(12)	(19)	–
Net deferred tax asset (liability)	\$ –	\$ –	\$ –

At December 31, 2010, deferred income taxes have not been provided by the Association on approximately \$2.2 million of patronage refunds received from the Bank prior to January 1, 1993. Such refunds, distributed in the form of stock, are subject to tax only upon conversion to cash. The tax liability related to future conversions is not expected to be material.

The Association recorded a valuation allowance of \$1,575, \$744 and \$589 during 2010, 2009 and 2008, respectively. The Association will continue to evaluate the realizability of these deferred tax assets and adjust the valuation allowance accordingly.

There were no uncertain tax positions identified related to the current year and the Association has no unrecognized tax benefits at December 31, 2010 for which liabilities have been established. The Association recognizes interest and penalties, if any, related to unrecognized tax benefits as a component of income tax expense. The tax years that remain open for federal and major state income tax jurisdictions are 2007 and forward.

Note 11 — Employee Benefit Plans

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

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

and interest credits as allocated to an employee’s theoretical account balance. As a participant in these District defined benefit plans, the Association funded \$1,289 for 2010, \$1,277 for 2009, and \$645 for 2008, through its note payable to the Bank. Plan expenses included in salaries and employee benefits were \$1,313 for 2010, \$1,343 for 2009, and \$279 for 2008. Additional financial information for the Plan may be found in the Notes to the Combined Financial Statements of AgFirst Farm Credit Bank and District Associations’ 2010 Annual Report.

The District sponsors a plan providing certain benefits (primarily health care) to its retirees. Certain Association charges related to this plan are an allocation of District charges based on the Association’s proportional share of the plan liability. This plan is unfunded with expenses paid as incurred. Postretirement benefits other than pensions (primarily health care benefits) included in salaries and employee benefits were \$178 for 2010, \$166 for 2009 and \$155 for 2008. Additional financial information for the Plan may be found in the Notes to the Combined Financial Statements of AgFirst Farm Credit Bank and District Associations’ 2010 Annual Report.

The Association participates in a defined contribution Districtwide 401(k) plan, which qualifies as a 401(k) plan as defined by the Internal Revenue Code. For employees hired on or prior to December 31, 2002, the Association will contribute \$.50 for each \$1.00 of the maximum employee contribution of 6 percent of total compensation. For employees hired on or after January 1, 2003, the Association will contribute \$1.00 for each \$1.00 of the maximum employee contribution of 6 percent of total compensation. Employee deferrals are not to exceed the maximum deferral as adjusted by the Internal Revenue Service. Employer contributions to this plan were \$126, \$127 and \$118 for the years ended December 31, 2010, 2009 and 2008, respectively.

Note 12 — Related Party Transactions

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

Total loans to such persons at December 31, 2010 amounted to \$53,229. During 2010, \$39,811 of new loans were made and repayments totaled \$36,801. In the opinion of management, none of these loans outstanding at December 31, 2010 involved more than a normal risk of collectibility.

Note 13 — Commitments and Contingencies

The Association has various commitments outstanding and contingent liabilities.

The Association may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of its borrowers and to manage their exposure to interest-rate risk. These financial instruments include commitments to extend credit and/or commercial letters of credit. The instruments involve, to

varying degrees, elements of credit risk in excess of the amount recognized in the financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commercial letters of credit are agreements to pay a beneficiary under conditions specified in the letter of credit. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. At December 31, 2010, \$52,628 of commitments to extend credit and \$52 of commercial letters of credit were outstanding.

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

The Association also participates in standby letters of credit to satisfy the financing needs of its borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. At December 31, 2010, the Association had outstanding \$581 of standby letters of credit, with expiration dates ranging from January 4, 2011 to March 31, 2012. The maximum potential amount of future payments the Association may be required to make under these existing guarantees is \$581.

A guarantor is required to recognize at the inception of a guarantee, a liability for the fair value of the guarantee commitment. The Association has determined the fair value of the guarantee commitment based upon the fees to be earned over the life of the guarantee. The fair value is updated periodically to reflect changes in individual guarantee amounts and the remaining life to maturity of the individual guarantees in the Association's inventory. At December 31, 2010, the Association's inventory of standby letters of credit had a fair value of \$5 and was included in other liabilities.

Note 14 — Fair Value Measurement

As described in Note 2, effective January 1, 2008, the Association adopted FASB guidance on fair value measurements. This guidance defines fair value, establishes a framework for measuring fair value and expands the Association's fair value disclosures for certain assets and liabilities measured at fair value on a recurring and non-recurring basis. These assets and liabilities consist primarily of standby letters of credit, impaired loans and other property owned.

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

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

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

Level 1

Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets. The Association has no Level 1 assets or liabilities measured at fair value on a recurring basis at December 31, 2010.

Level 2

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

Level 3

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

Level 3 assets at December 31, 2010 include impaired loans which represent the fair value of certain loans that were evaluated for impairment under FASB guidance. The fair value was based upon the underlying collateral since these were collateral-dependent loans. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters. As a result, these fair value measurements fall within Level 3 of the hierarchy. When the value of the collateral, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established. Other property owned is classified as a Level 3 asset at December 31, 2010. The fair value for other property owned is based upon the collateral value. Costs to sell represent transaction costs and are not included as a component of the fair value of other property owned. Level 3 liabilities at December 31, 2010 include standby letters of credit whose market value is internally calculated based on information that is not observable either directly or indirectly in the marketplace.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

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

	December 31, 2010			Total Fair Value
	Level 1	Level 2	Level 3	
Liabilities:				
Standby letters of credit	\$ -	\$ -	\$ 5	\$ 5
Total Liabilities	\$ -	\$ -	\$ 5	\$ 5

	December 31, 2009			Total Fair Value
	Level 1	Level 2	Level 3	
Liabilities:				
Standby letters of credit	\$ -	\$ -	\$ 22	\$ 22
Total Liabilities	\$ -	\$ -	\$ 22	\$ 22

	December 31, 2008			Total Fair Value
	Level 1	Level 2	Level 3	
Liabilities:				
Standby letters of credit	\$ -	\$ -	\$ 25	\$ 25
Total Liabilities	\$ -	\$ -	\$ 25	\$ 25

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

	Standby Letters Of Credit
Balance at January 1, 2010	\$ 22
Total gains or (losses) realized/unrealized:	
Included in earnings	-
Included in other comprehensive loss	-
Purchases, sales, issuances and settlements, net	(17)
Transfers in and/or out of level 3	-
Balance at December 31, 2010	\$ 5

	Standby Letters Of Credit
Balance at January 1, 2009	\$ 25
Total gains or (losses) realized/unrealized:	
Included in earnings	-
Included in other comprehensive loss	-
Purchases, sales, issuances and settlements, net	(3)
Transfers in and/or out of level 3	-
Balance at December 31, 2009	\$ 22

	Standby Letters Of Credit
Balance at January 1, 2008	\$ 40
Total gains or (losses) realized/unrealized:	
Included in earnings	-
Included in other comprehensive loss	-
Purchases, sales, issuances and settlements, net	(15)
Transfers in and/or out of level 3	-
Balance at December 31, 2008	\$ 25

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

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

December 31, 2010					
	Level 1	Level 2	Level 3	Total Fair Value	YTD Total Gains (Losses)
Assets:					
Impaired loans	\$ -	\$ -	\$ 11,883	\$ 11,883	\$ (9,615)
Other property owned	\$ -	\$ -	\$ 6,889	\$ 6,889	\$ (2,409)
December 31, 2009					
	Level 1	Level 2	Level 3	Total Fair Value	YTD Total Gains (Losses)
Assets:					
Impaired loans	\$ -	\$ -	\$ 16,628	\$ 16,628	\$ (4,795)
Other property owned	\$ -	\$ -	\$ 5,403	\$ 5,403	\$ (232)
December 31, 2008					
	Level 1	Level 2	Level 3	Total Fair Value	YTD Total Gains (Losses)
Assets:					
Impaired loans	\$ -	\$ -	\$ 7,195	\$ 7,195	\$ (3,758)

Note 15 — Disclosures About Fair Value Of Financial Instruments

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

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

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

	December 31, 2010		December 31, 2009	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Cash	\$ 13	\$ 13	\$ 68	\$ 68
Loans, net of allowance	\$ 394,682	\$ 387,431	\$ 453,625	\$ 455,728
Tobacco Buyout SHC	\$ 10,211	\$ 10,639	\$ 12,320	\$ 13,074
Financial liabilities:				
Notes payable to AgFirst Farm Credit Bank	\$ 367,382	\$ 369,696	\$ 412,679	\$ 416,707
December 31, 2008				
	Carrying Amount	Estimated Fair Value		
Financial assets:				
Cash	\$ 59	\$ 59		
Loans, net of allowance	\$ 472,103	\$ 474,871		
Tobacco Buyout SHC	\$ 12,650	\$ 13,216		
Financial liabilities:				
Notes payable to AgFirst Farm Credit Bank	\$ 423,158	\$ 428,170		

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

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

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

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

The carrying value of accrued interest approximates its fair value.

- C. **Investment in AgFirst Farm Credit Bank and Other Farm Credit Institutions:** Estimating the fair value of the Association's investment in the Bank and Other Farm Credit Institutions is not practicable because the stock is not traded. As described in Note 5, the net investment is a requirement of borrowing from the Bank and is carried at cost plus allocated equities in the accompanying Consolidated Balance Sheets. The Association owns 1.93 percent of the issued stock of the

Bank as of December 31, 2010 net of any reciprocal investment. As of that date, the Bank's assets totaled \$30.8 billion and shareholders' equity totaled \$1.9 billion. The Bank's earnings were \$417 million during 2010.

In addition, the Association has an investment of \$2,455 related to other Farm Credit institutions.

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

Note 16 — Quarterly Financial Information (Unaudited)

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

	2010				
	First	Second	Third	Fourth	Total
Net interest income	\$ 2,266	\$ 2,111	\$ 2,100	\$ 1,694	\$ 8,171
Provision for (reversal of allowance for) loan losses	460	3,545	6,287	4,925	15,217
Noninterest income (expense), net	(949)	(849)	(2,665)	(1,033)	(5,496)
Net income (loss)	\$ 857	\$ (2,283)	\$ (6,852)	\$ (4,264)	\$ (12,542)

	2009				
	First	Second	Third	Fourth	Total
Net interest income	\$ 2,332	\$ 2,259	\$ 2,293	\$ 2,270	\$ 9,154
Provision for (reversal of allowance for) loan losses	910	-	300	1,600	2,810
Noninterest income (expense), net	(1,216)	(1,122)	(1,103)	(863)	(4,304)
Net income (loss)	\$ 206	\$ 1,137	\$ 890	\$ (193)	\$ 2,040

	2008				
	First	Second	Third	Fourth	Total
Net interest income	\$ 3,125	\$ 2,798	\$ 2,673	\$ 2,445	\$ 11,041
Provision for (reversal of allowance for) loan losses	800	1,450	254	3,038	5,542
Noninterest income (expense), net	(487)	(665)	(896)	(896)	(2,944)
Net income (loss)	\$ 1,838	\$ 683	\$ 1,523	\$ (1,489)	\$ 2,555

Note 17 – Merger Activity

Effective January 1, 2011, Farm Credit of North Florida, ACA, and Farm Credit of Southwest Florida, ACA, merged with and into Farm Credit of South Florida, ACA, after the FCA granted final approval of the merger on December 20, 2010. Farm Credit of South Florida then changed its name to Farm Credit of Florida, ACA. The merger was accounted for under the acquisition method of accounting guidance.

Prior to the merger, those Associations entered into an agreement with the Bank under which the Bank would provide limited financial assistance to the merged Association in the event of substantial further deterioration in the combined high risk asset portfolio of the merged Association. This agreement relates only to a finite pool of high risk assets of the merged Association existing at the merger date, which had a net total of approximately \$250 million. Through this agreement, the merged Association will absorb substantial losses on these high risk assets in advance of the Bank providing financial assistance. This financial "safety net" from the Bank does not include losses that are sustained outside of the high risk asset pool. The agreement provides protection to the Bank, such as limitation on the Association's ability to make patronage distributions and certain other restrictions which are imposed if the merged Association's capital levels fail to meet minimum established levels. Assistance under the agreement, if any, is not expected to have a material impact on the financial condition of the Bank or District.

Note 18 – Subsequent Events

The Association has evaluated subsequent events and has determined that, except as described in Note 8 and Note 17, there are none requiring disclosure through March 14, 2011, which is the date the financial statements were issued.