

2010 ANNUAL REPORT



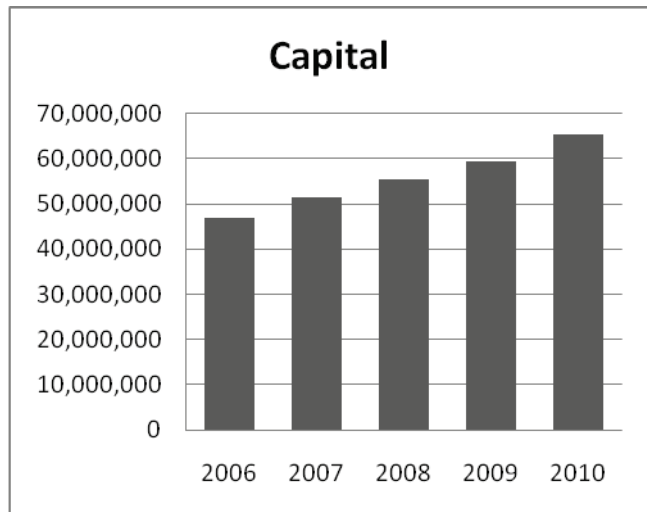
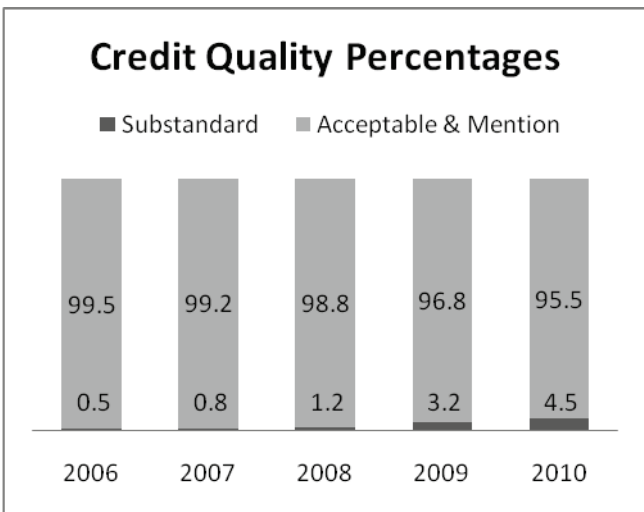
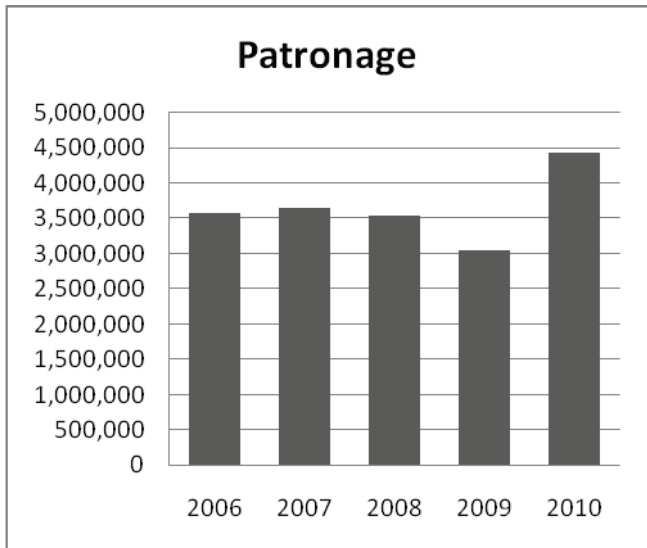
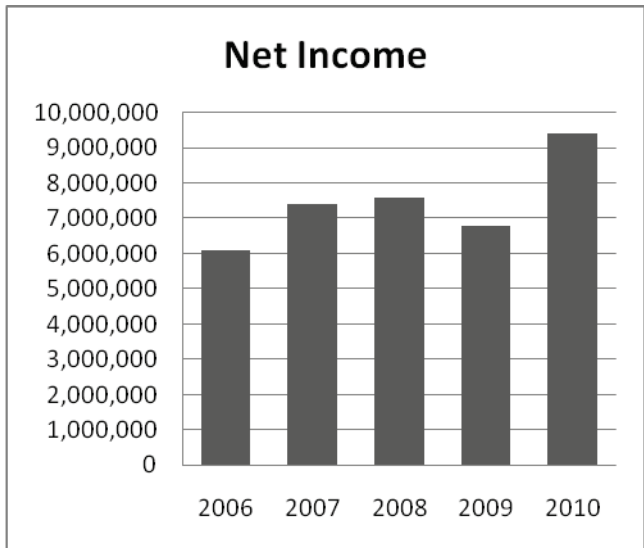
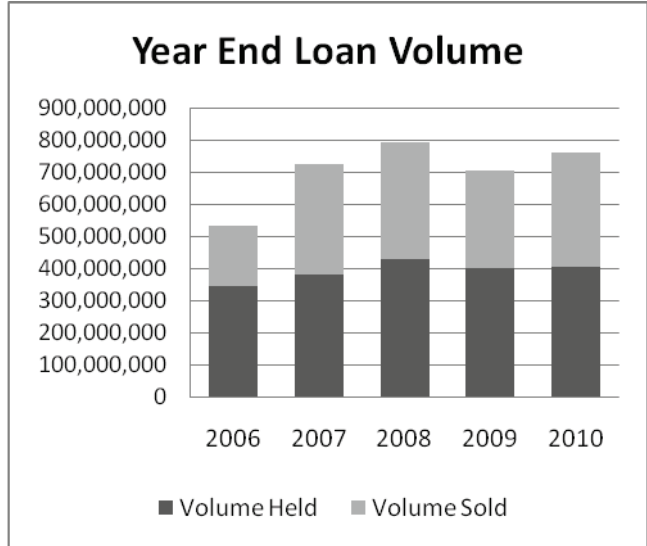
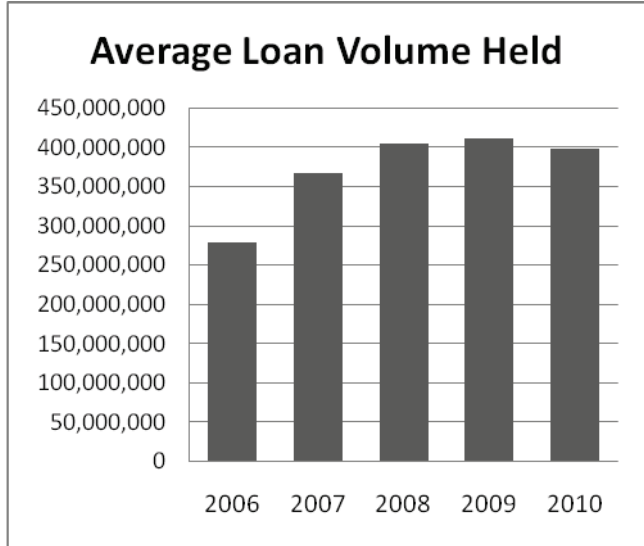
WORK IT. GROW IT. OWN IT.

**GREAT  
PLAINS**   
AG CREDIT

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## Financial Highlights



## REPORT OF MANAGEMENT

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

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

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

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



Tim McDonald, Chief Executive Officer  
*February 24, 2011*



Dennis Anthony, Chairman, Board of Directors  
*February 24, 2011*



Brandon Blaut, Chief Financial Officer  
*February 24, 2011*

## REPORT OF AUDIT COMMITTEE

The Audit Committee (committee) is composed of three independent board members elected by the board of directors of Great Plains Ag Credit, ACA. In 2010, nine committee meetings were held. The committee oversees the scope of Great Plains Ag Credit, ACA's testing of the system of internal controls and procedures, and the adequacy of management's action with respect to recommendations arising from those auditing activities. The committee's approved responsibilities are described more fully in the Audit Committee Charter, which is available on request or on the association's Web site. The committee approved the appointment of Simonton & Kutac, LLP for 2010.

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

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

The committee discussed with Simonton & Kutac, LLP its independence from Great Plains Ag Credit, ACA. The committee also reviewed the non-audit services provided by Simonton & Kutac, LLP and concluded that these services were not incompatible with maintaining the independent accountant's independence. The committee has discussed with management and Simonton & Kutac, LLP such other matters and received such assurances from them as the committee deemed appropriate.

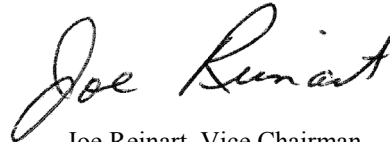
The committee also engaged Credit Risk Management, LLC to conduct an external review of the loan portfolio based on criteria established by the committee. In addition, the committee engaged Lam Vinson & Company, LLP to perform agreed upon procedures to test key controls for operating effectiveness. The committee established the independence of both firms and each reported their findings directly to the audit committee.

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

### Audit Committee Members



Terry Sherrill, Chairman  
February 22, 2011



Joe Reinart, Vice Chairman  
February 22, 2011



Danny Detten, Member  
February 22, 2011

## DESCRIPTION OF BUSINESS

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

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

## DESCRIPTION OF PROPERTY

The association serves its 20-county territory through its main administrative and lending office at 5701 I-40 West, Amarillo, Texas. Additionally, there are four branch lending offices and one related services office located throughout the territory. The association owns the office buildings in Amarillo, Dimmitt, Dumas and Friona, free of debt. The association leases the office buildings in Plainview and Muleshoe. The construction of the Dumas branch office was completed during 2007, and the association currently owns land in Plainview for the construction of a new branch office which is anticipated to be completed during 2011.

## LEGAL PROCEEDINGS

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

## DESCRIPTION OF CAPITAL STRUCTURE

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

## DESCRIPTION OF LIABILITIES

The description of contingent liabilities required to be disclosed in this section is incorporated herein by reference from Notes 2 and 11 to the consolidated financial statements, "Summary of Significant Accounting Policies" and "Commitments and Contingencies," respectively, included in this annual report.

## RELATIONSHIP WITH THE FARM CREDIT BANK OF TEXAS

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

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

The association's quarterly stockholder reports are also available free of charge, upon request. These reports will be available approximately 40 days after quarter end and can be obtained by writing to Great Plains Ag Credit, P.O. Box 50060 Amarillo, TX 79159-0060 or calling (806) 376-4669. Copies of the association's quarterly stockholder reports can also be requested by e-mailing [Carolyn.Brand@gpactx.com](mailto:Carolyn.Brand@gpactx.com). The association's annual stockholder report is available on its website at [www.gpactx.com](http://www.gpactx.com) 75 days after the fiscal year end. Copies of the association's annual stockholder report can also be requested 90 days after the fiscal year end.

**GREAT PLAINS AG CREDIT, ACA**

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

	2010	2009	2008	2007	2006
<b>Balance Sheet Data</b>					
<u>Assets</u>					
Cash	\$ 26	\$ 38	\$ 421	\$ 99	\$ 7,841
Investments	7,404	-	-	-	-
Loans	404,272	399,125	430,050	381,673	344,430
Less: allowance for loan losses	1,189	1,353	705	332	404
Net loans	403,083	397,772	429,345	381,341	344,026
Investment in and receivable from the bank	11,867	12,889	13,684	10,559	5,060
Other property owned, net	-	-	-	-	-
Other assets	8,599	8,496	10,848	12,012	11,905
Total assets	<u>\$ 430,979</u>	<u>\$ 419,195</u>	<u>\$ 454,298</u>	<u>\$ 404,011</u>	<u>\$ 368,832</u>
<u>Liabilities</u>					
Obligations with maturities of one year or less	\$ 13,123	\$ 12,836	\$ 397,098	\$ 27,665	\$ 20,631
Obligations with maturities greater than one year	352,587	346,879	1,701	324,831	301,438
Total liabilities	<u>365,710</u>	<u>359,715</u>	<u>398,799</u>	<u>352,496</u>	<u>322,069</u>
<u>Members' Equity</u>					
Capital stock and participation certificates	986	970	980	940	974
Allocated retained earnings	11,099	10,090	9,770	9,794	9,281
Unallocated retained earnings	53,027	48,053	44,305	40,269	36,508
Accumulated other comprehensive income (loss)	157	367	444	512	-
Total members' equity	65,269	59,480	55,499	51,515	46,763
Total liabilities and members' equity	<u>\$ 430,979</u>	<u>\$ 419,195</u>	<u>\$ 454,298</u>	<u>\$ 404,011</u>	<u>\$ 368,832</u>
<b>Statement of Income Data</b>					
Net interest income	\$ 11,324	\$ 10,466	\$ 9,817	\$ 10,324	\$ 8,857
(Provision for loan losses) or loan loss reversal	(15)	(647)	(368)	100	56
Income from the bank	3,479	3,215	3,718	2,576	1,223
Other noninterest income	2,253	1,080	917	746	520
Noninterest expense	(7,142)	(7,238)	(6,286)	(5,949)	(4,833)
Benefit from (provision for) income taxes	(501)	(86)	(215)	(392)	264
Extraordinary items	-	-	-	-	-
Net income (loss)	<u>\$ 9,398</u>	<u>\$ 6,790</u>	<u>\$ 7,583</u>	<u>\$ 7,405</u>	<u>\$ 6,087</u>
<b>Key Financial Ratios for the Year</b>					
Return on average assets	2.26%	1.58%	1.79%	1.92%	2.05%
Return on average members' equity	14.97%	11.78%	14.07%	14.96%	13.68%
Net interest income as a percentage of average earning assets	2.89%	2.54%	2.43%	2.81%	3.18%
Net charge-offs (recoveries) as a percentage of average loans	0.00%	0.00%	0.00%	-0.01%	0.01%

**GREAT PLAINS AG CREDIT, ACA**

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

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
<b><u>Key Financial Ratios at Year End</u></b>					
Members' equity as a percentage of total assets	<b>15.14%</b>	14.19%	12.22%	12.75%	12.68%
Debt as a percentage of members' equity	<b>560.31%</b>	604.77%	718.58%	684.27%	688.72%
Allowance for credit losses as a percentage of loans	<b>0.34%</b>	0.34%	0.16%	0.09%	0.12%
Permanent capital ratio	<b>14.66%</b>	13.74%	11.59%	12.13%	11.67%
Core surplus ratio	<b>11.67%</b>	11.02%	9.29%	9.66%	11.13%
Total surplus ratio	<b>13.27%</b>	13.48%	11.36%	11.87%	11.40%
<b><u>Net Income Distribution</u></b>					
Patronage distribution declared	<b>\$ 4,424</b>	\$ 3,042	\$ 3,538	\$ 3,644	\$ 3,567
Prior years' cash payments:					
Prior years' cash payment	<b>2,089</b>	2,365	2,233	1,147	732
Allocated surplus retirement	<b>652</b>	633	1,194	820	855

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

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

### **Forward-Looking Information:**

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

- political, legal, regulatory and economic conditions and developments in the United States and abroad;
- economic fluctuations in the agricultural, rural utility, international and farm-related business sectors;
- weather-related, disease-related, and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income;
- changes in United States government support of the agricultural industry; and
- actions taken by the Federal Reserve System in implementing monetary policy.

### **Significant Events:**

In December 2010, the association received a direct loan patronage of \$1,695,374 from the bank, representing 50 basis points on the average daily balance of the association's direct loan with the bank. During 2010, the association received \$122,832 in patronage payments from the bank, based on the association's stock investment in the bank. Also, the association received a capital markets patronage of \$1,783,645 from the bank, representing 65 basis points on the association's average balance of participations in accrual status in the bank's patronage pool program.

During 2010, the association entered into an agreement to purchase certain tangible and intangible assets of a sole proprietorship crop insurance business operating in the Texas Panhandle.

During 2010, the association received a payment totaling \$387,915 which represented distributions from the Farm Credit System Insurance Corporation of excess reserves above the mandated Secure Base Amount. In addition, monies were also received which represented distributions from the Farm Credit System Insurance Corporation to retire FAC stock totaling \$302,486. These amounts were recorded in other noninterest income.

During 2009 the association modified its intended timeframe to retire allocated equities to reflect a period of no more than 20 years. This 10-year increase in the targeted revolvment period had the impact of reducing allocated equity retirements from previous years thereby maintaining a greater level of association capital.

The association is party to a Long-Term Standby Purchase Commitment with the Farm Credit Bank of Texas which has been entered into with a corresponding Long-Term Standby Purchase Commitment between the bank and the Federal Agricultural Mortgage Corporation (Farmer Mac). The quality of the loan guarantee provided under this agreement, which the association utilizes to manage certain credit risk as well as regulatory capital requirements, could be significantly impacted by the financial results of the association's counterparties. Additional details relating to loan amounts guaranteed and fees paid under this arrangement are provided in Note 4 to the consolidated financial statements, "Loans and Allowance for Loan Losses," included in this annual report.

At the association's annual meeting on March 31, 2006, stockholders approved bylaw revisions authorizing patronage distributions to patrons (defined as members, and other customers, borrowers and financial institutions with which the association, PCA and

FLCA conduct business, and as identified by the board in the obligating resolution). This revision further enhances the association's ability to share participation loans with other financial institutions.

### **Economic Outlook:**

Generally speaking, 2010 was a profitable year for GPAC producers. Commodity markets were on the rise, similar to what we saw in 2008, and farming production costs remained relatively in check. Profitability from cattle was good and dairies enjoyed a year of improvement, although both were tempered somewhat by high feed cost. The U.S. economy seems to be stabilizing; however, Washington, D.C. and the global economy are anything but stable. As we look forward to 2011 there is reason for optimism; however, there are plenty of risks to manage.

With the ever growing national debt, our leadership in Washington will invariably look at cuts to agricultural programs. Crop insurance and direct payments have been on the chopping block, yet these risk management/safety net programs are critical to the success and sustainability of production agriculture. The apparent reality is that managers must become more efficient and maintain strong equity positions, relying less on government support. The current administration has also given the Environmental Protection Agency more latitude in placing restrictions that will complicate and increase the cost of compliance for cattle, dairy and farm agriculture.

Agricultural real estate values historically rise and fall with the ag economy, and this may be even more dramatic today than ever before. It has become prevalent for investor groups to pool large amounts of capital seeking higher rates of return than they can find in other markets; farm land has become an investment of great interest to these groups. With the cheap U.S. dollar and strong demand for food and fiber outside the U.S. we are benefiting from a robust export market. Corn supplies are short due to dual needs of feed and the demand for ethanol production. Add to that the failed wheat & cotton crops abroad, all leading to rapidly increasing commodity markets across the entire spectrum. As a result we estimate ag land values are up 40 percent over levels observed just a few years ago. An additional factor to be considered relative to irrigated farmland values and irrigated production in our territory is water rationing. Irrigation water districts are common and have been around for years. With the increased prevalence of double-cropping, aquifer draw-down rates are being closely monitored, and in some areas water use for irrigation is being restricted.

Prospects for 2011 farm profitability appear favorable today. Cotton, corn and wheat markets are at high levels giving producers excellent pricing opportunities. While some production input costs have risen, other costs remain reasonable. Natural gas is commonly used as a fuel source for irrigation engines and is also used in the manufacturing of fertilizers and many of the chemicals used by farmers. Natural gas has remained in the \$4-\$6/mcf range well below the \$13/mcf peak experienced back in 2008.

Beef cattle, the largest commodity served by Great Plains, continues to experience a declining herd. According to the latest estimates, the total U.S. cattle inventory decreased 1.3 million head in 2010 and totaled 92.6 million, levels not seen since the early 1950s. Beef cow slaughter is up due to drought and demand for lean ground beef which has driven cull cow prices to record high levels. This reduction in numbers has been supportive to cattle markets in general, driving the price for calves, feeders and fats to extremely high levels. While the cow-calf operator and to a lesser degree stocker operators have enjoyed strong margins, assuming adequate pasture, the situation is more difficult for the cattle feeder who has to pay high prices for feeder cattle and corn. We will likely see pressure on cattle feeding margins in 2011. The dairy industry has stabilized during 2010 and with the improvement we are seeing in milk and cheese prices late in the year, 2011 has the potential to be a good year for the business. Once again, however, high feed costs will be the challenge.

In general, loans in the portfolio are less leveraged today which translates to lower interest rate sensitivity. We have been living in an extremely low interest rate environment for an extended period of time. While we are not expecting rapidly increasing short-term rates during 2011, some movement is possible and longer term rates have started to trend higher. Most will agree, interest rates will move higher eventually and that is one additional cost that must be managed by everyone.

### **Loan Portfolio:**

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

The composition of the association's portfolio primarily consists of agricultural production and real estate loans focused in its 20-county chartered territory which results in concentrations in the areas of beef cattle, crop production and dairy. The profile of borrowers within the portfolio has evolved along with the agriculture industry reflecting a more sophisticated customer base adept at managing the complexities of agribusiness operations. Asset quality within the portfolio continued to be impacted by industry economics within the dairy segment as well as certain exposures to a small number of large credits with exposures in beef cattle and real estate. Additional detail regarding the association's loan portfolio including principal less funds held of \$404,272,031, \$399,124,691 and \$430,049,819 as of December 31, 2010, 2009 and 2008, respectively, is described more fully in detailed tables in Note 4 to the consolidated financial statements, "Loans and Allowance for Loan Losses," included in this annual report.

#### Purchase and Sales of Loans:

During 2010, 2009 and 2008, the association participated in loans with other lenders. As of December 31, 2010, 2009 and 2008, these purchased participations totaled \$42,407,002, \$31,930,076 and \$45,316,709, or 10.5 percent, 8.0 percent and 10.5 percent of loans, respectively. Included in these amounts are participations purchased from entities outside the district of \$2,842,745, \$2,876,603 and \$11,816,614, or 0.7 percent, 0.7 percent and 2.7 percent of loans, respectively. The association has also sold participations of \$358,759,149, \$305,496,423 and \$362,481,695 as of December 31, 2010, 2009 and 2008, respectively.

During 2010, the association exchanged loans totaling \$7,635,135 for Federal Agricultural Mortgage Corporation (Farmer Mac) guaranteed mortgage-backed securities (AMBS). The loans were previously covered under the Long-Term Standby Commitment to Purchase Agreements with Farmer Mac. No gain or loss was recognized in the financial statements upon completion of the exchange transactions. These AMBS are included in the association's Consolidated Balance Sheet as held-to-maturity investments at an amortized cost balance of \$7,403,693 at December 31, 2010. The association continues to service the loans included in those transactions.

#### Risk Exposure:

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

	2010		2009		2008	
	Amount	%	Amount	%	Amount	%
Nonaccrual	<b>19,720,290</b>	<b>100.0%</b>	13,222,531	100.0%	4,781,535	100.0%
90 days past due and still accruing interest	-	<b>0.0%</b>	-	0.0%	-	0.0%
Formally restructured	-	<b>0.0%</b>	-	0.0%	-	0.0%
Other property owned, net	-	<b>0.0%</b>	-	0.0%	-	0.0%
Total	<b>\$ 19,720,290</b>	<b>100.0%</b>	<b>\$ 13,222,531</b>	<b>100.0%</b>	<b>\$ 4,781,535</b>	<b>100.0%</b>

At December 31, 2010, 2009 and 2008, loans that were considered impaired were \$19,720,290, \$13,222,531 and \$4,781,535, representing 4.9 percent, 3.3 percent and 1.1 percent of loan volume, respectively. Impaired loans consist of all high-risk assets except other property owned, net. The \$6,497,759 increase in nonaccrual loans noted for the period ended December 31, 2010 reflects the deterioration of a large exposure to a single credit relationship paired with continued collection efforts relating to a large relationship that entered bankruptcy during 2009. The association maintains credit enhancements in the form of Farmer Mac Long-Term Standby agreements on a portion of these assets totaling \$7,991,989. Furthermore, both relationships are well secured, and the association anticipates full collection.

Impaired assets at December 31, 2009 increased \$8,440,996 from December 31, 2008 and consist of a single, large relationship that entered bankruptcy. The large exposure to this relationship is reflective of credit enhancements in the form of Farmer Mac Long-Term Standby agreements purchased by the association to mitigate a portion of the credit risk.

The short-term portion of the association's loan portfolio is seasonal in nature. Crop loans increase from the soil preparation through the harvest phases then significantly decline as crops are sold.

The association regularly employs practices such as obtaining credit guarantees and engaging in loan participations to mitigate and diversify credit risk, to help manage commodity exposure, and to service the credit needs of certain borrowers.

#### Allowance for Credit Losses:

The allowance for credit losses, which consists of the allowance for loan losses and the reserve for unfunded credit commitments, is management's estimate of probable credit losses inherent in the loan portfolio at the balance sheet date. These accounts are reflected on the association's balance sheet with the allowance for loan losses included as a contra asset, and the reserve for unfunded commitments consolidated within other liabilities. The following table provides relevant information regarding the allowance for credit losses as of, or for the year ended, December 31:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Allowance for loan losses	\$ 1,188,958	\$ 1,352,719	\$ 705,469
Reserve for unfunded credit commitments	\$ 178,628	\$ -	\$ -
Allowance for credit losses	<u>\$ 1,367,586</u>	<u>\$ 1,352,719</u>	<u>\$ 705,469</u>
Allowance for credit losses to total loans	<b>0.34%</b>	0.34%	0.16%
Allowance for loan losses to total loans	<b>0.29%</b>	0.34%	0.16%
Allowance for loan losses to nonaccrual loans	<b>6.0%</b>	10.2%	14.8%
Allowance for loan losses to impaired loans	<b>6.0%</b>	10.2%	14.8%
Net charge-offs to average loans	<b>0.0%</b>	0.0%	0.0%

The allowance for credit losses is maintained based upon estimates that consider the general financial strength of the agricultural economy, loan portfolio composition, credit administration and the portfolio's prior loan loss experience. The association's process for determining the appropriate level of the allowance for credit losses is designed to account for credit deterioration as it occurs. Accordingly the methodology is based upon internal loan level credit quality ratings and grade specific loss factors. Additionally, the association accounts for certain nonperforming loans through an individual impairment analysis utilizing the fair value of the loans underlying collateral. Despite an increasing trend in high risk assets, the association has recorded no specific reserves on impaired assets over the periods ended December 31, 2010, 2009, or 2008. The current level of the allowance account maintained by the association is further supported by the association's continued focus on sound underwriting, loan structure and servicing. This includes the incorporation of loan agreements, borrowing bases, and guarantees to help mitigate credit risk. Based upon ongoing risk assessment and the allowance for credit losses procedures outlined above, the allowance for credit losses of \$1,367,586, \$1,352,719 and \$705,469 at December 31, 2010, 2009 and 2008, respectively, is considered adequate by management to compensate for inherent losses in the loan portfolio at such dates.

#### Results of Operations:

The association's net income for the year ended December 31, 2010, was \$9,398,043 as compared to \$6,790,365 for the year ended December 31, 2009, reflecting an increase of \$2,607,678, or 38.4 percent. The association's net income for the year ended December 31, 2008 was \$7,583,023. Net income decreased \$792,658, or 10.5 percent, in 2009 versus 2008.

Net interest income for 2010, 2009 and 2008 was \$11,323,960, \$10,465,514 and \$9,817,397, reflecting increases of \$858,446, or 8.2 percent, for 2010 versus 2009 and \$648,117, or 6.6 percent, for 2009 versus 2008. Net interest income is the principal source of earnings for the association and is impacted by volume, yields on assets and cost of debt. The effects of changes in average volume and interest rates on net interest income over the past three years are presented in the following tables:

	2010		2009		2008	
	Average Balance	Interest	Average Balance	Interest	Average Balance	Interest
Loans	\$ 392,411,685	\$ 18,242,724	\$ 411,423,069	\$ 18,845,513	\$ 404,438,287	\$ 22,990,819
Investments	5,116,691	289,268	-	-	-	-
Total interest-earning assets	397,528,376	18,531,992	411,423,069	18,845,513	404,438,287	22,990,819
Interest-bearing liabilities	346,881,553	7,208,032	366,542,523	8,379,999	364,663,264	13,173,422
Impact of capital	\$ 50,646,823		\$ 44,880,546		\$ 39,775,023	
Net interest income		\$ 11,323,960		\$ 10,465,514		\$ 9,817,397

	Average Yield	Average Yield	Average Yield
Yield on loans	4.65%	4.58%	5.68%
Yield on investments	5.65%		
Total yield on interest-earning assets	4.66%	4.58%	5.68%
Cost of interest-bearing liabilities	2.08%	2.29%	3.61%
Interest rate spread	2.58%	2.29%	2.07%
Interest rate margin	2.89%	2.54%	2.43%

	2010 vs. 2009			2009 vs. 2008		
	Increase (decrease) due to			Increase (decrease) due to		
	Volume	Rate	Total	Volume	Rate	Total
Interest income - loans	\$ (870,835)	\$ 268,046	\$ (602,789)	\$ 397,057	\$ (4,542,363)	\$ (4,145,306)
Interest income - investments	-	289,268	289,268	-	-	-
Total interest income	(870,835)	557,314	(313,521)	397,057	(4,542,363)	(4,145,306)
Interest expense	(449,489)	(722,478)	(1,171,967)	67,888	(4,861,311)	(4,793,423)
Net interest income	\$ (421,346)	\$ 1,279,792	\$ 858,446	\$ 329,169	\$ 318,948	\$ 648,117

Interest income decreased by \$313,521, or 1.7 percent, compared to 2009, as the impact of an 8-basis-point improvement relating to the yield on loans and investments was more than offset by a 3.4 percent decline in average volume. Interest expense for 2010 decreased by \$1,171,967, or 14.0 percent, compared to 2009 being positively impacted by both lower average interest bearing liabilities and lower funding costs. The association has benefitted from interest rate spread increases of 29 basis points noted in 2010 as compared to 2009 and 22 basis points in 2009 as compared to 2008 which corresponds to a favorable funding environment combined with a focus on risk-based pricing within the association's loan portfolio.

The association's interest margin increased 35 basis points during the 2010 operating year which compares to an 11-basis-point increase in 2009. In addition to spread, margin is affected by interest rates' impact on the level of association capital funding the loan portfolio. Margin was positively impacted during 2010 by a combination of a marginally higher yielding portfolio paired with higher capital levels. This is contrasted by results realized during the 2009 and 2008 periods which reflect the negative impact on margin of falling rates.

Loan products are available to eligible borrowers with competitive, differentially priced, variable or fixed rates which are uniformly determined by loan quality, loan size, reporting frequency and quality, frequency of interest payments, and servicing criteria. While the majority of loans contain provisions for variable interest rates, the fixed rate loan program is also available for all qualifying loans.

Variable rate loans may be priced, or indexed, based upon prime or LIBOR plus association spreads.

Fixed-rate terms on PCA loans range up to 10 years for most loan purposes, but may qualify for up to 15 years on certain facility-type loans. Fixed rate terms to 20 years are available on qualifying FLCA loans.

The association's spread is based on criteria as defined in the Interest Rate Policy and Procedures. An association Asset/Liability Committee reviews loan spreads and net interest margin regularly to assess interest rate margins and profitability, and is able to adjust as necessary. All loans are match funded in amount and maturity with the Farm Credit Bank of Texas, and rates are determined in accordance with pricing offered by the bank.

Noninterest income for 2010 totaled \$5,732,559, an increase of \$1,437,286, or 33.5 percent, compared to 2009. This increase primarily reflects the receipt of monies from the Farm Credit System Insurance Corporation relating to excess reserves in the insurance fund and the retirement of FAC stock which totaled \$690,401, the receipt of a 50-basis-point direct note patronage from the Farm Credit Bank of Texas which compared favorably to 40 basis points received in 2009, and expanded related services operations. Authoritative accounting guidance requiring the capitalization and amortization of loan origination fees and costs was implemented during 2010 for loans closed in 2010, which resulted in the capitalization of \$145,478 in origination fees that will be amortized over the life of the loans as an adjustment to yield in net interest income. Noninterest income for 2009 totaled \$4,295,273, a decline of \$340,409, or 7.3 percent, compared to 2008. This decrease primarily reflects a \$963,462 decline in sold note patronage income due to a lower volume of participation loans in accrual status sold to the bank. Partially offsetting this decline was increased direct note patronage as well as year-over-year improvements in related service and loan fee income.

The provision for credit losses reflects changes needed in the allowance accounts necessary to absorb probable losses within the association's loan portfolio. The provision for credit losses in 2010 decreased \$631,967 to \$14,720 compared to \$646,687 in 2009 and increased \$278,323 in 2009 compared to \$368,364 in 2008. Variances noted in the funding of the allowance accounts through charges to provisions over the respective 2010, 2009 and 2008 reporting periods reflect changes in loan volume, loan quality and management estimates of loss. There were no charge-offs or specific reserves which impacting the provision in the reported time periods.

Operating expenses consist primarily of salaries, employee benefits and purchased services. Expenses for purchased services may include administrative services, marketing, information systems, and accounting and loan processing, among others. Association operating expenses totaled \$7,142,355, a decrease of \$95,254, or 1.3 percent compared to 2009. This decline primarily reflects reduced pension and FCSIC costs which were offset by increased salary expense. The reduction of \$518,126 in FCSIC premiums paid to the insurance fund reflects a decrease in premium rates from 20 basis points in 2009 to 5 basis points in 2010, while the \$334,706 decline noted in employee benefits includes a \$421,707 decrease in pension costs over the comparable periods. The 21.6 percent increase in salary expense, totaling \$609,640, reflects a combination of higher incentive payments tied to certain association performance levels, retiree costs and additional staffing levels. This increase to salaries was partially offset by the implementation of authoritative accounting guidance requiring the capitalization and amortization of loan origination fees and costs during 2010 for loans closed in 2010. This resulted in the capitalization of \$113,985 in salaries expense and \$27,486 in benefits costs tied to the origination of loans. Association operating expenses for the 2009 and 2008 periods totaled \$7,237,609 and \$6,286,462 respectively. The year-over-year increase of \$951,147, or 15.1 percent, is primarily reflective of a 19.2 percent increase in FCSIC costs and a 173.1 percent increase in pension expense during 2009.

For the year ended December 31, 2010, the association's return on average assets was 2.3 percent, as compared to 1.6 percent and 1.8 percent for the years ended December 31, 2009 and 2008, respectively. For the year ended December 31, 2010, the association's return on average members' equity was 15.0 percent, as compared to 11.8 percent and 14.1 percent for the years ended December 31, 2009 and 2008, respectively.

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

### **Liquidity and Funding Sources:**

The interest rate risk inherent in the association's loan portfolio is substantially mitigated through the funding relationship with the bank. The bank manages interest rate risk through its direct loan pricing and asset/liability management process; however, a portion of the association's own funds, which represents the amount of the association's loan portfolio funded by the association's equity, is impacted by rate movements.

The primary source of liquidity and funding for the association is a direct loan from the bank. The outstanding balance of \$350,486,462, \$345,064,757 and \$378,372,214 as of December 31, 2010, 2009 and 2008, respectively, is recorded as a liability on the association's balance sheet. The note carried a weighted average interest rate of 1.89 percent, 2.26 percent and 2.99 percent at December 31, 2010, 2009 and 2008, respectively. The indebtedness is collateralized by a pledge of substantially all of the association's assets to the bank and is governed by a financing agreement. The increase in note payable to the bank since December 31, 2009, is due to growth in the association's loan portfolio and investments which outpaced growth in own funds. The association's own funds, which represent the amount of the association's loan portfolio funded by the association's equity, were \$53,512,227, \$45,672,525 and \$39,775,023 at December 31, 2010, 2009 and 2008, respectively. The maximum amount the association may borrow from the bank as of December 31, 2010, was \$403,891,023 as defined by the general financing agreement.

Advance Conditional Payment Funds Held accounts totaled \$7,517,294, \$8,397,549 and \$12,163,643 at December 31, 2010, 2009 and 2008, respectively. The decrease noted over the last three years is reflective of a lower interest rate environment and a policy

change implemented by the bank effective November 1, 2008 which significantly reduced the credit the association received on those funds. This credit was reduced from the weighted average transfer rate of the association's direct note to the Farm Credit 30-day discount note rate. The effect to association customers as of the implementation date was a reduction in their rate from 1.15 percent to 0.30 percent which continued to decline in step with short-term interest rates totaling 0.25 percent, 0.10 percent and 0.20 percent as of December 31, 2008, 2009 and 2010, respectively. The effect to the association was a reduction in earnings due to a forfeiture of a spread that had previously been earned on the accounts.

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

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

### **Capital Resources:**

The association's capital position remains strong, with total members' equity of \$65,269,140, \$59,479,942 and \$55,498,458 at December 31, 2010, 2009 and 2008, respectively. Under regulations governing minimum permanent capital adequacy and other capitalization issues, the association is required to maintain a minimum adjusted permanent capital of 7.0 percent of risk-adjusted assets as defined by the FCA. The permanent capital ratio measures available at-risk capital relative to risk-adjusted assets and off-balance-sheet contingencies. The ratio is an indicator of the institution's financial capacity to absorb potential losses beyond that provided in the allowance for loss accounts. The association's permanent capital ratio at December 31, 2010, 2009 and 2008 was 14.7 percent, 13.7 percent and 11.6 percent, respectively. The core surplus ratio measures available core surplus capital relative to risk-adjusted assets and off-balance-sheet contingencies. The ratio is an indicator of the quality of capital that exists to maintain stable earnings and financial strength. The association's core surplus ratio at December 31, 2010, 2009 and 2008 was 11.7 percent, 11.0 percent and 9.3 percent, respectively, which is in compliance with the FCA's minimum ratio requirement of 3.5 percent. The total surplus ratio measures available surplus capital relative to risk-adjusted assets and off-balance-sheet contingencies. The ratio is an indicator of the reserves existing to protect borrowers' investments in the association. The association's total surplus ratio at December 31, 2010, 2009 and 2008 was 13.3 percent, 13.5 percent and 11.4 percent, respectively, which is in compliance with the FCA's minimum ratio requirement of 7.0 percent. The increase noted in the permanent capital ratio and the core surplus ratio over the period ended December 31, 2010 as compared to December 31, 2009 reflects growth in the association's capital base. The decline in the total surplus ratio over the similar period reflects a change in the ratio's components which occurred during 2010 and had the effect of excluding a portion of the association's allocated surplus from the capital component of the ratio.

In 2010, 2009 and 2008, the association declared patronage distributions of \$4,424,122, \$3,041,663 and \$3,538,330, respectively. Cash payments from the prior year's earnings were made of \$2,088,056, \$2,365,074 and \$2,233,462; and payments to retire prior years' allocated surplus were \$652,183, \$633,416 and \$1,193,561 for the years 2010, 2009 and 2008. See Note 7 to the consolidated financial statements, "Members' Equity," included in this annual report, for further information.

### **Relationship With the Bank:**

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

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

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

The bank provides computer systems to support the critical operations of all district associations. In addition, each association has operating systems and facility-based systems that are not supported by the bank. As disclosed in Note 10 to the consolidated financial statements, "Related Party Transactions," included in this annual report, the bank provides many services that the association can utilize, such as administrative, marketing, information systems and accounting services. Additionally, the bank allocates district expenses to the associations, such as the Farm Credit System Insurance Corporation insurance premiums.

## Summary:

Over the past 77 years, regardless of the state of the agricultural economy, your association's board of directors and management, as well as the board of directors and management of the bank, have been committed to offering their borrowers a ready source of financing at a competitive price. Your continued support will be critical to the success of this association.

## DIRECTORS AND SENIOR OFFICERS

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

<u>NAME</u>	<u>POSITION</u>	<u>DATE ELECTED/ EMPLOYED</u>	<u>TERM EXPIRES</u>
Dennis Anthony	Chairman	1993	2011
Joe Reinart	Vice Chairman	2006	2013
Danny Detten	Director	1999	2011
Trent Finck	Director	2006	2012
Bryan Reinart	Director	2007	2013
Dan McWhorter	Director	2009	2012
Terry Sherrill	Director-elected	2004	2013
Tim McDonald	President/CEO	1989	
Brandon Blaut	SVP/CFO	2006	
Doug Reinart	SVP/CCO	1989	
Eddie York	SVP/CLO/Branch Manager	1991	
Larry Hammit	SVP Operations	1976	
Debra Wilfong	VP/Treasurer/Asst. CFO/Asst. Sec.	1981	

**Dennis Anthony**, chairman, age 58, was elected to the board in 1993 and serves on the Executive Committee. A graduate of Texas Tech University, he has been farming and a stockholder since 1975. He grows dryland milo and wheat, and some irrigated cotton in Parmer and Deaf Smith counties with his operation concentrated mostly toward livestock, including cattle feeding. He is also a stockholder in PACO Feedyard, Friona, Texas. Mr. Anthony is on the Human Resource Committee for GPAC. His term will expire in 2011.

**Joe Reinart**, vice chairman, has served on the board since 2006 and currently serves on its Executive Committee. Joe has been farming since 1973 in the Sherman/Dallam county area; focusing on irrigated corn, wheat and cotton in addition to stocker cattle. Joe is 55 years old and has been a stockholder of GPAC since 1975. He also serves as chairman of the Sunray Co-op Board. Joe is the vice chairman of the Audit Committee and serves on the Marketing Committee. His term will expire in 2013.

**Danny Detten**, member of the Audit Committee and the Credit Review Committee, was elected to the board in 1999. He lives near Panhandle and farms, pastures and feeds cattle in Carson, Potter, and Hutchinson counties, and raises irrigated and dryland wheat, feed grains, corn and cotton in partnership with his son. Danny, age 66, has been a stockholder since 1980 and is a lifetime farmer and stockman. His term expires in 2011.

**Trent Finck** was elected to the board in May of 2006 and serves as chairman of the Human Resource Committee. He is also an alternate member on the Credit Review Committee. At age 50 he has been a farmer and rancher since his graduation in 1982 with a degree in ag economics from Texas Tech University. Trent has been a stockholder since 1983. His Swisher & Briscoe county operation includes a partnership with his father in which they jointly and individually operate a stocker cattle and cow-calf operation as well as irrigated and dryland wheat and milo, and irrigated cotton. His term expires in 2012.

**Bryan Reinart**, age 53, was elected to the board in 2007 and serves as vice chairman of the Human Resources Committee. Bryan is a lifelong farmer and resides in Dimmitt, Castro County, Texas. His operation consists of irrigated cotton, wheat, milo and corn, in addition to dryland cotton, wheat, milo and pasture. He also serves on the boards of the Hereford Grain Coop and Castro County Farm Bureau. Bryan became a Great Plains stockholder in 1980. His term will expire in 2013.

**Dan McWhorter** was elected to the board in June of 2009. A resident of Canyon, Dan is president and owner/operator of Mc-6 Cattle Feeders near Hereford, Texas. His operation includes farmland in Deaf Smith County that grows feed for the yard, corn silage and wheat, and acreage in Uvalde, Texas, that yields corn, wheat, cotton and vegetables. He also runs cattle on ranchland in Nebraska. Dan is 63 years old and has been a member at Great Plains since 2005. He is a member of the Human Resource Committee. His term expires in 2012.

**Terry Sherrill** serves as chairman of the GPAC Audit Committee and was elected by the board of directors in January of 2004. He is 54 years old, a certified public accountant and has owned and operated a public accounting firm in Gruver since 1999. Prior to that time, he was the chief financial officer for two large agribusinesses in the Panhandle and was also employed by the accounting firm, Arthur Young and Company. He is an accounting graduate of West Texas State University. His term will expire in 2013.

**Tim McDonald**, president and chief executive officer, age 43. Tim was appointed chief executive officer in 2006 having served in the capacity of regional credit officer for Great Plains and more recently as CCO beginning in 1999. He was employed by the Amarillo PCA for 12 years and served as the Amarillo association's executive vice president from 1994 until October 1999. His prior service with the association was as loan officer in the Dumas office until 1992 and then transferred to the Amarillo office as loan officer and internal credit review coordinator. He completed his degree from West Texas State University.

**Brandon Blaut**, senior vice president, chief financial officer, age 34. Mr. Blaut joined the central office staff in June of 2006. He holds a B.B.A. degree in finance from West Texas A&M University, and earned the Chartered Financial Analyst designation. Mr. Blaut had five years of experience in commercial lending prior to joining the association.

**Doug Reinart**, senior vice president, chief credit officer, age 52. He is a 21-year employee and supervises credit. He began his financial career as a loan officer trainee at the Central Texas PCA in 1985 and served as Central's vice president/branch manager from 1986-89. Prior to that, he farmed and was employed by an agribusiness company in the Hereford, Texas, area. Mr. Reinart is a cum laude graduate of West Texas State University.

**Eddie York**, senior vice president, chief loan officer, and Amarillo office branch manager, age 46. He is a 20-year employee and served as vice president from 1998 through 2004. Mr. York was previously employed by the Clinton Production Credit association in Oklahoma. He graduated from Southwestern Oklahoma State University with a master's degree in business.

**Larry Hammit**, senior vice president of operations, and corporate secretary, age 59. He was employed by the Plainview PCA for 23 years, serving as associate vice president and loan officer in the Plainview and Silverton branch offices from 1976 until 1986, when he was promoted to senior vice president and corporate secretary in the central office. In 1992 he became executive vice president and CFO in the Plainview central office. He received a B.B.A. degree from Baylor University. Mr. Hammit has elected to retire effective December 31, 2010.

**Debra Wilfong**, vice president, treasurer, assistant chief financial officer and assistant corporate secretary, age 47. She has been an employee for 29 years serving as branch office assistant, accounting department assistant and assistant treasurer. Ms. Wilfong was promoted to treasurer in 1999 and to vice president/treasurer in 2002. While employed by the association, Ms. Wilfong received a B.B.A. degree in finance from West Texas State University.

### COMPENSATION OF DIRECTORS

Directors were compensated for their service to the association in the form of an honorarium at the rate of \$550 per day for director meetings and committee meetings, and they were reimbursed for certain expenses incurred while representing the association in an official capacity. The director-elected director was additionally compensated for his Audit Committee-related service to the association in the form of an honorarium at the rate of \$1,625 per quarter. Mileage for attending official meetings during 2010 was paid at the IRS-approved rate of 50 cents per mile. A copy of the travel policy is available to stockholders of the association upon request.

<u>Director</u>	<u>Number of Days Served, Board Meetings</u>	<u>Number of Days Served, Other Official Activities</u>	<u>Total Compensation in 2010</u>
Dennis Anthony	13	18.5	\$ 17,350
Danny Detten	12	7.5	9,375
Trent Finck	13	13.5	14,325
Joe Reinart	13	18	15,975
Bryan Reinart	13	7.5	9,925
Terry Sherrill	12	12	18,350
Dan McWhorter	12	7.5	8,550
			<u>\$ 93,850</u>

The aggregate compensation paid to directors in 2010, 2009 and 2008 was \$93,850, \$86,500, and, \$89,175 respectively. Additional detail regarding director compensation paid for committee service (which is included in the table above) is as follows:

<u>Director</u>	<u>Audit</u>	<u>Human Resources</u>	<u>Executive</u>	<u>Marketing</u>
Dennis Anthony	\$ -	\$ 825	\$ 25	\$ -
Danny Detten	825	-	-	-
Trent Finck	-	825	-	-
Joe Reinart	1,100	-	825	550
Bryan Reinart	-	825	-	-
Terry Sherrill	1,100	-	-	-
Dan McWhorter	-	550	550	-
	<u>\$ 3,025</u>	<u>\$ 3,025</u>	<u>\$ 2,200</u>	<u>\$ 550</u>

The aggregate amount of reimbursement for travel, subsistence and other related expenses paid to directors and on their behalf was \$43,205, \$40,440 and \$40,479 in 2010, 2009 and 2008, respectively.

## COMPENSATION OF SENIOR OFFICERS

### Compensation Discussion and Analysis - Overview

The objective of the association's salary administration program is to attract, retain and motivate staff in a fair and uniform manner so the association may accomplish its mission and achieve its strategic goals. The program ensures fair and equitable compensation opportunities for those who hold positions of comparable responsibility and it meets legal requirements in all compensation practices. Objective methods are used to measure the relative value of jobs and salary grades and ranges are used that will position the association to be competitive in the marketplace. The Human Resources Committee of the board of directors and management utilize the services of the Human Resources Compensation Team at the Farm Credit Bank of Texas to compile "Compensation Market Data" annually that is used by the board and management in establishing salary and incentive levels. Data sources used include the Federal Reserve Bank of Dallas 11<sup>th</sup> District survey, Texas Community Bank survey (Independent Bankers Association of Texas), Watson Wyatt Financial Institution surveys, Mercer Financial Services Commercial Lending survey and CompData surveys. The Compensation Market Data reveals salary and incentive levels for similar sized institutions operating in our geographic area.

Eligible employees may be furnished a company-owned automobile for use in accordance with the association's vehicle policy. Employees who used their personal automobile for business purposes were reimbursed during 2010 at the IRS-approved rate.

Eligible, full-time association employees participated in an incentive plan in accordance with the 2010 Employee Incentive Plan Policy. The incentive program is contingent upon minimum association performance for 2010 based on criteria such as ROA and asset quality. In addition to paying patronage to the stockholders, the association must also exceed the minimum capital adequacy ratio, comply with all terms of the general financing agreement with the bank and receive acceptable internal and external audits. Available gross incentive amounts are determined based on ROA and pretax earnings adjusted for extraordinary and nonrecurring income or expenses. Individual incentive amounts for various job positions are based on factors such as office earnings, credit quality and administration, loan growth and fee income generation with emphasis on the employee's year-end performance evaluation. Payment in full was made to employees prior to year-end 2010. There were no material amendments to the plan during the last fiscal year.

Additionally, employees involved with the sale, collection and administration of MPCI, Crop Hail and Credit Life Insurance, who did not have any delegated lending authority, were eligible to participate in the Insurance Incentive Plan according to the 2010 Insurance Incentive Plan Policy. Available gross incentive amounts were computed based on total sales commissions received during 2010. Incentives were determined by branch based upon duties within each branch office with no incentive amount exceeding the 5 percent salary cap imposed by FCA Regulations, for any employee who is subject to the FCA salary cap. Payment in full was made to employees prior to year-end 2010.

Neither the CEO nor any other senior officer received noncash compensation exceeding \$5,000 in 2010.

The board of directors and senior officers, including the CEO, are reimbursed for reasonable travel, subsistence and other related expenses while conducting association business. A copy of the association's travel policy is available to shareholders upon request but in general allows reimbursement for the following: Travel includes airplanes, buses, taxicabs, rental vehicles and personal vehicle use. Subsistence includes lodging, meals and incidentals which may include communication, valet and laundry and

entertainment. All claims for reimbursement must be submitted on approved forms and approved by the CEO. Expenses reimbursed to the CEO are submitted to an executive committee member of the board of directors for approval.

### Chief Executive Officer (CEO) Compensation

The CEO's salary is set by the board using the Compensation Market Data as a guideline to arrive at a fair and competitive salary. Annual incentive amounts awarded to the CEO are determined at the sole discretion of the board of directors using the Compensation Market Data as a guideline. Factors considered by the board in determining final incentive amounts for the CEO include personal performance evaluation, association performance related to the business plan, profitability, return on assets, credit quality, credit administration, capital adequacy, ability to pay patronage to members and overall management exhibited by the CEO. The association offers a nonqualified supplemental 401(k) plan to all employees who qualify. Through the plan the association may offer restored employer contributions, discretionary contributions or an eligible employee may make elective deferrals. In 2010, the association did not make any restored employer contributions or discretionary contribution to the CEO. The CEO did elect to defer a small percentage of his 2010 salary and incentive. The CEO is not working under a written employment agreement.

Name of Individual	Year	Salary	Bonus	Change in Pension Value & nonqualified		Total
				deferred compensation	Other*	
Tim McDonald, CEO	2010	\$ 180,507	\$ 42,750	\$ 70,573	\$ 24,866	\$ 318,696
Tim McDonald, CEO	2009	180,507	23,750	62,664	23,618	290,539
Tim McDonald, CEO	2008	180,507	28,500	59,268	22,483	290,758

\*Amounts in the "Other" column include contributions to 401(k), automobile benefits, life insurance and medical/dental premiums paid by the association.

### Pension Benefits Table for the CEO

The following table presents the total annual benefit provided from the defined benefit pension plan applicable to the CEO for the year ended December 31, 2010:

Name	Plan Name	Number of Years Credited Credited Service	Present Value of Accumulated Benefit	Payments During 2010
Tim McDonald	Farm Credit Bank of Texas Pension Plan	22.213	\$ 203,024	\$ -

### Assumptions Used to Determine the Present Value of Accumulated Benefits

- The present value of accumulated benefits is based on immediate retirement; otherwise, present value is based on a benefit payable at age 65.
- The following FAS87 assumptions as of 12/31/2010 respectively, were used to determine the above present values:
  - Discount rate of 5.50 percent
  - Payment shown in the normal form (Qualified Joint and 50 percent Survivor Annuity assuming a spouse two years younger)
  - Mortality based on the RP2000 combined healthy table with mortality improvements projected to 2021.
- No termination, withdrawal or disability is assumed before retirement age.

### Pension Benefits Table Narrative Disclosure for the CEO

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

percent joint and survivor annuity. If any of those assumptions are incorrect, the benefit is recalculated to be the actuarial equivalent benefit.

### Compensation of Other Senior Officers

Senior officer salaries are set by the CEO working in conjunction with the Human Resources Committee and utilizing Compensation Market Data. Annual incentive amounts awarded to senior officers are determined by the CEO working in conjunction with the Human Resources Committee and utilizing Compensation Market Data as a guideline. Factors considered in determining final incentive amounts for the senior officers varies according to their job but generally include personal performance evaluation, overall performance of their department, association financial performance, profitability, credit quality, credit administration, loan growth, fee income generation and the ability to pay patronage to members. The association offers a nonqualified supplemental 401(k) plan to all employees who qualify. Through the plan the association may offer restored employer contributions, discretionary contributions, or an eligible employee may make elective deferrals. In 2010, the association did not make any restored employer contributions or discretionary contribution to any senior officer, and no senior officer elected to defer any of his/her salary or incentive. No senior officer is working under a written employment agreement.

The following table summarizes the compensation paid to the five highest paid senior officers of the association during 2010, 2009, and 2008. Amounts reflected in the table are presented in the year the compensation was earned.

Name of Group	Year	Salary	Bonus	Change in Pension Value & nonqualified deferred compensation	Other*	Total
Aggregate No. of Senior Officers Excluding CEO						
(5)	2010	\$ 558,133	\$ 105,501	\$ 108,670	\$ 94,466	\$ 866,770
(5)	2009	539,451	69,367	97,859	96,032	802,709
(5)	2008	506,605	123,997	91,608	88,456	810,666

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

\*Amounts in the "Other" column include contributions to 401(k), defined contribution plans, automobile benefits, life insurance and medical/dental premiums paid by the association.

Total compensation earned by the five most highly paid officers (excluding the CEO) of the association, including incentives, was \$878,808, \$817,977 and \$849,170 in 2010, 2009 and 2008, respectively. Incentives earned by such officers for 2010, 2009 and 2008 were \$120,956 \$78,644 and \$158,167, respectively.

### TRANSACTIONS WITH DIRECTORS AND SENIOR OFFICERS

The association's policies on loans to and transactions with its officers and directors, required to be disclosed in this section, are incorporated herein by reference from Note 10 to the consolidated financial statements, "Related Party Transactions," included in this annual report.

### DIRECTORS' AND SENIOR OFFICERS' INVOLVEMENT IN CERTAIN LEGAL PROCEEDINGS

The association has no directors or senior officers with any involvement in certain legal proceedings as described in FCA Regulation 620.5(k).

## RELATIONSHIP WITH INDEPENDENT AUDITOR

The total fees, by the category of services provided, paid during the reporting period to qualified public accountants were as follows. All financial audit, tax, and SOX 404 testing services were approved by the association's audit committee.

### **Simonton & Kutac, LLP**

Financial Audit	\$53,164.18
Tax	\$14,262.50
Other	\$2,310.00

### **Lam Vinson & Company, LLP**

SOX 404 Testing	\$12,650.46
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## FINANCIAL STATEMENTS

The financial statements, together with the report thereon of Simonton & Kutac, LLP dated February 22, 2011, and the report of management in this annual report to stockholders, are incorporated herein by reference.

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

The association is active in providing credit and other services to YBS operators throughout its 20-county territory, and its objective is to increase, in a sound and constructive way, services and penetration to this segment of producers by five percent of number and volume of loans. YBS operators are defined as farmers, ranchers or producers or harvesters of aquatic products of which a "young" borrower is one that is 35 years or younger, a "beginning" borrower is one that has 10 years or less experience, and a "small" borrower is one who normally generates less than \$250,000 in annual gross sales of agricultural or aquatic products.

At the 2010 year end, 16.44 percent of all association loans (by number) were to "young" operators, 23.18 percent were to "beginning" borrowers and 30.10 percent were to "small" operators. At the 2010 year end, 18.9 percent of total association loan commitments were to "young" borrowers, 38.8 percent to "beginning" borrowers and 9 percent to "small" borrowers. On a combined basis, 44.6 percent of all loans were to "young," "beginning" or "small" borrowers.

Utilizing USDA-NASS 2007 Ag Census Data and Farm Credit Bank of Texas Data Warehouse information as of June 30, 2010, the Farm Credit Bank of Texas has produced a report summarizing YBS demographic and penetration data for the association in its territory. Out of the 9,604 farmers within our 20-county territory, 500 (5.2 percent) are under age 35; 2,340 (24.4 percent) have been farming less than 10 years and 7,340 (76.4 percent) have gross sales of less than \$250,000 annually. Within the same twenty county territory, the association has 594 customers, 94 (15.8 percent) of which are under age 35, 132 (22.2 percent) have been farming less than 10 years and 215 (36.2 percent) have gross sales of less than \$250,000 annually.

Loan programs and procedures in place include the reduction of certain minimum lending (underwriting) standards for an applicant to qualify for a "young," "beginning" or "small" loan; utilization of governmental and Farmer Mac guarantees and loan programs; utilization of individual guarantees; and coordination with other lenders. In assessing operating plans of YBS operators and potential operators, association loan officers provide financial education and counseling inclusive of risk management practices. The association participates in outreach, educational and sponsorship programs to potentially attract new YBS borrowers and for the benefit of existing borrowers. They include contributions and participation in extension service education-oriented programs and organizations, and various youth group sponsorships.

**GREAT PLAINS AG CREDIT, ACA**  
**CONSOLIDATED BALANCE SHEETS**

	December 31,		
	2010	2009	2008
<b>ASSETS</b>			
Cash	\$ 26,499	\$ 38,155	\$ 420,696
Investments	7,403,693	-	-
Loans	404,272,031	399,124,691	430,049,819
Less allowance for loan losses	<u>(1,188,958)</u>	<u>(1,352,719)</u>	<u>(705,469)</u>
Net loans	403,083,073	397,771,972	429,344,350
Accrued interest receivable	4,493,742	5,218,573	7,454,921
Investment in the Bank	6,777,870	7,211,120	6,873,505
Receivables from the Bank	5,089,514	5,677,646	6,810,555
Premises and equipment, net	2,286,799	1,936,938	2,061,491
Deferred tax asset	806,051	927,630	794,181
Other assets	<u>1,012,185</u>	<u>412,647</u>	<u>538,252</u>
Total Assets	<u>\$ 430,979,426</u>	<u>\$ 419,194,681</u>	<u>\$ 454,297,951</u>
<b>LIABILITIES &amp; MEMBERS' EQUITY</b>			
Note payable to the Bank	\$ 350,486,462	\$ 345,064,757	\$ 378,372,214
Accrued interest payable	595,330	659,243	1,001,609
Advanced conditional payments	7,517,294	8,397,549	12,163,643
Accrued postretirement benefit liability	2,100,269	1,813,535	1,700,557
Patronage refund payable	2,763,106	2,088,164	2,365,128
Other liabilities	<u>2,247,825</u>	<u>1,691,491</u>	<u>3,196,342</u>
Total Liabilities	<u>365,710,286</u>	<u>359,714,739</u>	<u>398,799,493</u>
Capital stock and participation certificates	985,565	970,315	980,270
Allocated retained earnings	11,098,871	10,089,937	9,769,759
Unallocated retained earnings	53,027,144	48,053,222	44,304,520
Accumulated other comprehensive income	<u>157,560</u>	<u>366,468</u>	<u>443,909</u>
Total Members' Equity	<u>65,269,140</u>	<u>59,479,942</u>	<u>55,498,458</u>
Total Liabilities and Members' Equity	<u>\$ 430,979,426</u>	<u>\$ 419,194,681</u>	<u>\$ 454,297,951</u>

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

**GREAT PLAINS AG CREDIT, ACA**

**CONSOLIDATED STATEMENTS OF INCOME**

	For the Years Ended December 31,		
	2010	2009	2008
<b>INTEREST INCOME</b>			
Interest income - loans	\$ 18,242,724	\$ 18,845,513	\$ 22,989,815
Interest income - investments	289,268	-	-
Interest income - note receivable	-	-	1,004
Interest expense - note payable to Bank	(7,184,715)	(8,353,269)	(12,652,701)
Interest expense - other	(9,840)	-	-
Interest expense - advance conditional payments	(13,477)	(26,730)	(520,721)
Net Interest Income	11,323,960	10,465,514	9,817,397
<b>PROVISION FOR LOSSES</b>			
Provision for credit losses	(14,720)	(646,687)	(368,364)
Net Interest Income after Provision for Credit Losses	11,309,240	9,818,827	9,449,033
<b>NONINTEREST INCOME</b>			
Patronage income	3,678,437	3,233,733	3,810,694
Fees for financially related services	844,574	394,907	299,908
Other	1,209,548	666,633	525,080
Total Noninterest Income	5,732,559	4,295,273	4,635,682
<b>NONINTEREST EXPENSE</b>			
Salaries	3,433,023	2,823,383	2,744,524
Directors	137,459	127,952	129,654
Employee benefits	1,418,713	1,753,419	1,068,479
Purchased services	260,917	204,027	178,185
Travel	266,593	218,933	247,075
Cost of space occupied	195,838	175,964	159,474
Office	173,671	152,891	150,546
Data processing	240,930	270,448	236,155
Advertising	139,048	93,115	131,906
FCSIC insurance premiums	173,694	691,820	580,301
Farmer Mac Fees	251,935	318,020	290,434
Public and member relations	148,252	115,303	118,998
Federally regulated examination fees	146,882	142,526	133,855
Other	155,400	149,808	116,876
Total Noninterest Expenses	7,142,355	7,237,609	6,286,462
Income Before Income Taxes	9,899,444	6,876,491	7,798,253
Provision for income taxes	501,401	86,126	215,230
Net Income	\$ 9,398,043	\$ 6,790,365	\$ 7,583,023

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

**GREAT PLAINS AG CREDIT, ACA**

**CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY**

	Capital Stock /	<u>Retained Earnings</u>		Accumulated	Total
	Participation	Allocated	Unallocated	Other	
	Certificates			Comprehensive	
				(Loss)	
Balance at December 31, 2007	\$ 939,570	\$ 9,793,599	\$ 40,269,086	\$ 512,049	\$ 51,514,304
Adjustment to beginning balance due to the pension accounting change	-	-	(9,261)	-	(9,261)
Balance at January 1, 2008	939,570	9,793,599	40,259,825	512,049	51,505,043
Comprehensive income					
Net income	-	-	7,583,023	-	7,583,023
Change in postretirement benefit plans	-	-	-	(68,140)	(68,140)
Total comprehensive income	-	-	7,583,023	(68,140)	7,514,883
Capital stock and participation certificates issued	209,390	-	-	-	209,390
Capital stock and participation certificates retired	(168,690)	-	-	-	(168,690)
Patronage refunds:					
Allocated retained earnings	-	1,173,344	(1,173,344)	-	-
Paid/declared payable	-	(1,197,184)	(2,364,984)	-	(3,562,168)
Balance at December 31, 2008	980,270	9,769,759	44,304,520	443,909	55,498,458
Comprehensive income					
Net income	-	-	6,790,365	-	6,790,365
Change in postretirement benefit plans	-	-	-	(77,441)	(77,441)
Total comprehensive income	-	-	6,790,365	(77,441)	6,712,924
Capital stock and participation certificates issued	156,855	-	-	-	156,855
Capital stock and participation certificates retired	(166,810)	-	-	-	(166,810)
Patronage refunds:					
Allocated retained earnings	-	953,683	(953,683)	-	-
Paid/declared payable	-	(633,505)	(2,087,980)	-	(2,721,485)
Balance at December 31, 2009	970,315	10,089,937	48,053,222	366,468	59,479,942

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

**GREAT PLAINS AG CREDIT, ACA**

**CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY (continued)**

	Capital Stock / Participation Certificates	<u>Retained Earnings</u>		Accumulated Other Comprehensive (Loss)	Total
		Allocated	Unallocated		
Comprehensive income					
Net income	-	-	9,398,043	-	9,398,043
Change in postretirement benefit plans	-	-	-	(208,908)	(208,908)
Total comprehensive income	-	-	9,398,043	(208,908)	9,189,135
Capital stock and participation certificates issued	158,385	-	-	-	158,385
Capital stock and participation certificates retired	(143,135)	-	-	-	(143,135)
Patronage refunds:					
Allocated retained earnings	-	1,661,192	(1,661,192)	-	-
Paid/declared payable	-	(652,258)	(2,762,929)	-	(3,415,187)
Balance at December 31, 2010	<u>\$ 985,565</u>	<u>\$ 11,098,871</u>	<u>\$ 53,027,144</u>	<u>\$ 157,560</u>	<u>\$ 65,269,140</u>

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

**GREAT PLAINS AG CREDIT, ACA**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	For the Years Ended December 31,		
	2010	2009	2008
<b>Cash Flows from Operating Activities</b>			
Net income	\$ 9,398,043	\$ 6,790,365	\$ 7,583,023
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	183,182	184,168	182,912
Provision for credit losses	14,720	646,687	368,364
(Gain) on disposal of assets	(85,030)	(8,951)	(30,216)
Deferred income taxes	195,670	(100,285)	(122,798)
(Increase) decrease in operating assets:			
Accrued interest receivable	724,831	2,236,348	1,495,999
Other assets	(11,406)	1,258,514	(2,665,381)
Increase (decrease) in operating liabilities:			
Accrued interest payable	(63,913)	(342,366)	(439,347)
Other liabilities	381,442	(1,502,478)	(73,829)
Net cash provided (used) by operating activities	10,737,539	9,162,002	6,298,727
<b>Cash Flows from Investing Activities</b>			
(Increase) decrease in loans, net	(12,782,505)	30,925,128	(48,377,052)
(Increase) decrease in investments	231,472	-	-
Recoveries on loans previously charged-off	147	563	4,978
(Increase) decrease in investment in the bank	433,250	(337,615)	(649,280)
Purchases of property and equipment	(536,979)	(59,664)	(177,401)
Proceeds from sales of property and equipment	88,966	9,000	32,780
Net cash provided (used) by investing activities	(12,565,649)	30,537,412	(49,165,975)

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

**GREAT PLAINS AG CREDIT, ACA**

**CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)**

	For the Years Ended December 31,		
	2010	2009	2008
<b>Cash Flows from Financing Activities</b>			
Net draws on (repayment of) note payable to the Bank	5,421,705	(33,307,457)	55,138,100
Issuance of capital stock and participation certificates	158,385	156,855	209,390
Retirement of capital stock and participation certificates	(143,135)	(166,810)	(168,690)
Net increase (decrease) in advanced conditional payments	(880,255)	(3,766,094)	(8,558,839)
Patronage distributions paid	<u>(2,740,246)</u>	<u>(2,998,449)</u>	<u>(3,430,680)</u>
Net cash provided (used) by financing activities	<u>1,816,454</u>	<u>(40,081,955)</u>	<u>43,189,281</u>
Net increase (decrease) in cash and cash equivalents	(11,656)	(382,541)	322,033
Cash and cash equivalents, beginning of year	<u>38,155</u>	<u>420,696</u>	<u>98,663</u>
Cash and cash equivalents, end of year	<u>\$ 26,499</u>	<u>\$ 38,155</u>	<u>\$ 420,696</u>
<b>Supplemental Schedule of Non-Cash Investing and Financing Transactions:</b>			
Patronage distributions declared payable	\$ 2,762,929	\$ 2,087,980	\$ 2,364,984
Loans exchanged for mortgage-backed securities	7,635,165	-	-
<b>Supplemental Cash Information:</b>			
Cash paid during the year for:			
Interest	\$ 7,271,945	\$ 8,722,365	\$ 13,612,769
Income taxes	331,000	130,000	580,000

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

## GREAT PLAINS AG CREDIT, ACA

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010, 2009 and 2008

#### NOTE 1 - ORGANIZATION AND OPERATIONS

**Organization** --- Great Plains Ag Credit, ACA and its wholly-owned subsidiaries, Great Plains Ag Credit, FLCA and Great Plains Ag Credit, PCA (collectively called "the association") is a member-owned cooperative which provides credit and credit-related services to, or for the benefit of, eligible borrowers/stockholders for qualified agricultural purposes in the west twenty counties in the Panhandle and South Plains of the state of Texas.

The association is a lending institution of the Farm Credit System (System), a nationwide system of cooperatively owned banks and associations that was established by Acts of Congress to meet the credit needs of American agriculture and is subject to the provisions of the Farm Credit Act of 1971, as amended (Act). At December 31, 2010, the System consisted of four Farm Credit Banks and their affiliated associations, one Agricultural Credit Bank and its affiliated associations, the Federal Farm Credit Banks Funding Corporation (Funding Corporation) and various service and other organizations.

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

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

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

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

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

**Operations** --- The Act sets forth the types of authorized lending activity, persons eligible to borrow, and financial services which can be offered by the association. The association is authorized to provide, either directly or in participation with other lenders, credit, credit commitments and related services to eligible borrowers. Eligible borrowers include farmers, ranchers, producers or harvesters of aquatic products, rural residents and farm-related businesses. The association makes and services short- and intermediate-term loans for agricultural production or operating purposes, and secured long-term real estate mortgage loans, with funding from the bank.

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

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

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

## **NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting and reporting policies of the association conform with accounting principles generally accepted in the United States of America (GAAP) and prevailing practices within the banking industry. The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Significant estimates are discussed in these footnotes, as applicable. Actual results could differ from those estimates. Certain amounts in prior years' consolidated financial statements have been reclassified to conform to current financial statement presentation. The consolidated financial statements include the accounts of Great Plains Ag Credit, FLCA and Great Plains Ag Credit, PCA. All significant intercompany transactions have been eliminated in consolidation.

**Recently Issued or Adopted Accounting Pronouncements** --- In July 2010, the Financial Accounting Standards Board (FASB) issued guidance on "Disclosures about the Credit Quality of Financing Receivable and the Allowance for Credit Losses," which is intended to provide additional information to assist financial statement users in assessing an entity's credit risk exposures and evaluating the adequacy of the allowance for credit losses. Existing disclosures are amended to include additional disclosures of financing receivables on a disaggregated basis (by portfolio segment and class of financing receivable) including, among others, a rollforward schedule of the allowance for credit losses from the beginning of the reporting period to the end of the period on a portfolio segment basis, with the ending balance further disaggregated on the basis of the method of impairment (individually or collectively evaluated).

The guidance also calls for new disclosures including but not limited to credit quality indicators at the end of the reporting period by class of financing receivables, the aging of past due financing receivables, nature and extent of financing receivables modified as troubled debt restructurings by class and the effect on the allowance for credit losses. For nonpublic entities, the disclosures are effective for annual reporting periods ending on or after December 15, 2011. The adoption of this Standard will not have an impact on the association's financial condition or results of operations, but will result in additional disclosures for annual reporting periods ending after December 15, 2011.

In January 2010, the FASB issued guidance on "Fair Value Measurements and Disclosures," which is to improve disclosures about fair value measurement by increasing transparency in financial reporting. The changes will provide a greater level of disaggregated information and more robust disclosures of valuation techniques and inputs to fair value measurement. The new disclosures and clarification of existing disclosures were effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sale, issuances and settlements in the rollforward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years.

In June 2009, the FASB issued guidance on "Accounting for Transfers of Financial Assets, " which amends previous guidance by improving the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement, if any, in transferred financial assets.

This guidance was effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. Earlier application was prohibited. This statement must be applied to transfers occurring on or after the effective date. Additionally, on and after the effective date, the concept of a qualifying special purpose entity is no longer relevant for accounting purposes. Therefore, formerly qualifying special-purpose entities (as defined under previous accounting standards) should be evaluated for consolidation by reporting entities on and after the effective date, in accordance with the applicable consolidation guidance. If the evaluation on the effective date results in consolidation, the reporting entity should apply the transition guidance provided in the pronouncement that requires consolidation. System institutions reviewed their loan participation agreements to ensure that participations would meet the requirements for sales treatment and not be required to be consolidated. The impact of adoption on January 1, 2010, was immaterial to the association's financial condition and results of operations.

In June 2009, the FASB also issued guidance to improve financial reporting for those enterprises involved with variable interest entities, which amends previous guidance by requiring an enterprise to perform an analysis to determine whether the enterprise's variable interest or interests give it a controlling financial interest in a variable interest entity. Additionally, an enterprise is required to assess whether it has an implicit financial responsibility to ensure that a variable interest entity operates as designed when determining whether it has the power to direct the activities of the variable interest entity that most significantly impact the entity's economic performance.

This guidance was effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. Earlier application was prohibited. System institutions reviewed transactions that are included in the scope of this guidance and determined that the impact of adoptions on January 1, 2010, was immaterial to the association's financial condition and results of operations.

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

**Investment Securities** --- The association's investments include mortgage-backed securities issued by Farmer Mac for which the association has the intent and ability to hold to maturity and which are consequently classified as held-to-maturity. Held-to-maturity investments are carried at cost, adjusted for the amortization of premiums and accretion of discounts. Changes in the fair value of these investments are not recorded unless the investment is deemed to be other-than-temporarily impaired. Impairment is considered to be other-than-temporary if the present value of cash flows expected to be collected from the debt security is less than the amortized cost basis of the security (any such shortfall is referred to as a "credit loss").

If an entity intends to sell an impaired debt security or is more likely than not to be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the impairment is other-than-temporary and should be recognized currently in earnings in an amount equal to the entire difference between fair value and amortized cost. If a credit loss exists, but an entity does not intend to sell the impaired debt security and is not more likely than not to be required to sell before recovery, the impairment is other-than-temporary and should be separated into (a) the estimated amount relating to credit loss, and (b) the amount relating to all other factors. Only the estimated credit loss amount is recognized currently in earnings.

**Loans and Allowance for Loan Losses** --- Long-term real estate mortgage loans generally have original maturities ranging from five to 20 years. Substantially all short- and intermediate-term loans for agricultural production or operating purposes have maturities of 10 years or less.

Loans are carried at their principal amount outstanding adjusted for charge-offs and deferred loan fees or costs. Authoritative accounting guidance requires loan origination fees and direct loan origination costs, if material, to be capitalized and the net fee or cost to be amortized over the life of the related loan as an adjustment to yield. The association elected to implement this guidance in 2010 for loans closed in 2010, resulting in the capitalization of \$145,478 in origination fees and \$141,471 in origination costs, primarily salaries and benefits related to the origination of loans. The resulting adjustment to reported interest income from loans in 2010 was a decrease of \$489.

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

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

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

Payments received on nonaccrual loans are generally applied to the recorded investment in the loan asset. If collection of the recorded investment in the loan is fully expected and the loan does not have a remaining unrecovered prior charge-off associated with it, the interest portion of payments is recognized as current interest income. Nonaccrual loans may be transferred to accrual status when principal and interest are current, prior charge-offs have been recovered, the ability of the borrower to fulfill the contractual repayment terms is fully expected and the loan is not classified "doubtful" or "loss". If previously unrecognized interest income exists upon transfer of a nonaccrual loan to accrual status, interest income will be recognized as cash payments are received.

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

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

The bank and related associations use a two-dimensional loan rating model based on an internally generated combined system risk rating guidance that incorporates a 14-point risk-rating scale to identify and track the probability of borrower default and a separate scale addressing loss given default over a period of time. Probability of default is the probability that a borrower will experience a default within 12 months from the date of the determination of the risk rating. A default is considered to have occurred if the lender believes the borrower will not be able to pay its obligation in full or the borrower is past due more 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 (OAEM) and grows significantly as a loan moves to a substandard (viable) level. A substandard (non-viable) rating indicates that the probability of default is almost certain.

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

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

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

**Other Property Owned, Net ---** Other property owned, net, consisting of real and personal property acquired through foreclosure or deed in lieu of foreclosure is recorded at fair value less estimated selling costs upon acquisition and is included in other assets in the consolidated balance sheet. Any initial reduction in the carrying amount of a loan to the fair value of the collateral received is charged to the allowance for loan losses. On at least an annual basis, revised estimates to the fair value less costs to sell are reported as adjustments to the carrying amount of the asset, provided that such adjusted value is not in excess of the carrying amount at acquisition. Income and expenses from operations and carrying value adjustments are included in net gains (losses) on other property owned in the consolidated statement of income.

**Premises and Equipment ---** Premises and equipment are carried at cost less accumulated depreciation. Land is carried at cost. Depreciation is provided on the straight-line method using estimated useful lives of the assets. Gains and losses on dispositions are reflected in current operations. Maintenance and repairs are charged to operating expense and improvements are capitalized.

**Advance Conditional Payments** --- The association is authorized under the Act to accept advance payments from borrowers. To the extent the borrower's access to such funds is restricted, the advanced conditional payments are netted against the borrower's related loan balance. Amounts in excess of the related loan balance and amounts to which the borrower has unrestricted access are presented as liabilities in the accompanying consolidated balance sheet. Advanced conditional payments are not insured. Interest is generally paid by the association on such accounts at rates established by the Asset Liability Committee under authority delegated by the Board of Directors.

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

Participants in the DC Plan generally include employees who elected to transfer from the DB Plan prior to January 1, 1996, and employees hired on or after January 1, 1996. Participants in the DC Plan direct the placement of their employers' contributions, 5 percent of eligible compensation, for the year ended December 31, 2010, made on their behalf into various investment alternatives.

The structure of the district's DB Plan is characterized as multi-employer, since neither the assets, liabilities nor costs of the plan are segregated or separately accounted for by the associations. No portion of any surplus assets is available to the associations, nor are the associations required to pay for plan liabilities upon withdrawal from the plans. As a result, the associations recognize as pension cost the required contribution to the plans for the year. Contributions due and unpaid are recognized as a liability. The association recognized pension costs for the DC Plan of \$103,763, \$88,789 and \$86,587 for the years ended December 31, 2010, 2009 and 2008, respectively. For the DB Plan, the association recognized pension costs of \$600,566, \$1,022,273 and \$374,386 for the years ended December 31, 2010, 2009 and 2008, respectively.

The association also participates in the Farm Credit Benefits Alliance 401(k) plan which requires the associations to match 100 percent of employee contributions up to 3 percent of eligible earnings and to match 50 percent of employee contributions for the next 2 percent of employee contributions, up to a maximum employer contribution of 4 percent of eligible earnings. Association 401(k) plan costs are expensed as incurred. The association's contributions to the 401(k) plan were \$120,079, \$105,495 and \$103,466 for the years ended December 31, 2010, 2009 and 2008, respectively.

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

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

The association is eligible to operate as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, the association can exclude from taxable income amounts distributed as qualified patronage refunds in the form of cash, stock or allocated retained earnings. Provisions for income taxes are made only on those earnings that will not be distributed as qualified patronage refunds. The association distributes patronage on the basis of patronage sourced earnings. Deferred taxes are recorded on the tax effect of all temporary differences based on the assumption that such temporary differences are retained by the institution and will therefore impact future tax payments.

A valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (over 50 percent probability), based on management's estimate, that they will not be realized. The consideration of valuation allowances involves various estimates and assumptions as to future taxable earnings, including the effects of the expected patronage program, which reduces taxable earnings.

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

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

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

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

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

The association has no assets or liabilities that are required to be reported on the balance sheet at fair value.

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

### NOTE 3 - INVESTMENTS

Effective April 1, 2010, \$7,635,135 of agricultural mortgage loans previously covered under a Long-Term Standby Commitment to Purchase agreement with the Federal Agricultural Mortgage Corporation (Farmer Mac) were securitized. No gain or loss was recognized in the financial statements upon completion of the securitization. Terms of the agreement call for a guarantee fee of 20-50 basis points to be paid to Farmer Mac, and for the association to receive a 30-basis-point fee for servicing the underlying loans.

The following is a summary of Farmer Mac agricultural mortgage-backed securities as of December 31:

	<u>2010</u>
Amortized Cost	\$ 7,403,693
Gross Unrealized Gains	3,739
Gross Unrealized Losses	-
Fair Value	7,407,432
Weighted Average Yield	5.56%

### NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES

A summary of loans as of December 31 follows:

<u>Loan Type</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Production and intermediate term	\$ 193,422,892	\$ 184,726,526	\$ 214,797,872
Real estate mortgage	181,769,172	176,474,846	174,401,896
Agribusiness:			
Processing and marketing	15,516,988	9,164,693	10,746,994
Farm related business	9,740,720	16,374,024	16,753,977

Loans to cooperatives	2,786,780	10,007,293	11,308,993
Rural residential real estate	1,035,479	1,001,912	543,617
Energy	-	1,375,397	1,496,470
Total	<u>\$ 404,272,031</u>	<u>\$ 399,124,691</u>	<u>\$ 430,049,819</u>

The association may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration regulations. The following table presents information regarding participations purchased and sold during 2010:

	Participations	
	Purchased	Sold
Production & intermediate term	\$ 8,521,819	\$ 279,854,904
Real Estate Mortgage	17,372,598	72,837,956
Agribusiness	16,512,585	6,066,289
Total	<u>\$ 42,407,002</u>	<u>\$ 358,759,149</u>

Geographic Distribution:

County	2010	2009	2008
Armstrong	0.4%	0.2%	0.2%
Bailey	1.1%	0.5%	0.4%
Briscoe	0.2%	0.2%	0.2%
Carson	0.6%	0.8%	0.8%
Castro	7.9%	9.0%	9.2%
Dallam	11.0%	12.5%	12.4%
Deaf Smith	6.9%	9.0%	10.1%
Floyd	1.4%	1.2%	1.3%
Hale	4.4%	4.5%	4.1%
Hansford	5.2%	3.9%	3.4%
Hartley	2.5%	1.9%	2.2%
Hutchinson	1.1%	1.0%	1.0%
Lamb	3.3%	2.6%	2.5%
Moore	8.3%	8.6%	7.6%
Oldham	0.6%	1.2%	1.3%
Parmer	8.6%	8.5%	7.9%
Potter	3.0%	3.0%	2.4%
Randall	4.8%	3.1%	3.4%
Sherman	4.6%	4.3%	3.2%
Swisher	1.2%	1.1%	1.5%
Other Counties	10.7%	8.6%	7.3%
Other States	12.2%	14.3%	17.6%
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

The association's concentration of credit risk in various agricultural commodities is shown in the following table. While the amounts represent the association's maximum potential credit risk as it relates to recorded loan principal, a substantial portion of the association's lending activities is collateralized and the association's exposure to credit loss associated with lending activities is reduced accordingly. An estimate of the association's credit risk exposure is considered in the allowance for loan losses.

<u>Commodity</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Livestock, except dairy & poultry	\$ 148,446,076	\$ 141,277,510	\$ 158,279,731
General farms, primarily crops	71,354,543	72,080,778	69,014,887
Dairy farms	57,646,055	64,967,154	63,538,602
Cash grains	50,171,576	34,157,333	33,826,391
General farms, primarily livestock	22,393,381	24,899,643	26,375,132
Field crops, except cash grains	11,463,815	8,906,728	9,697,588
Meat products	8,216,798	2,766,256	4,833,159
Farm product warehousing & storage	6,767,799	4,188,262	5,343,857
Crop services	6,544,665	6,513,210	14,340,727
Timber tracts	6,332,042	6,419,542	6,489,542
Lessors of real property	4,205,271	6,391,176	7,602,807
Grain mill products	-	14,119,413	18,167,248
All other commodities	<u>10,730,010</u>	<u>12,437,686</u>	<u>12,540,148</u>
Total	<u>\$ 404,272,031</u>	<u>\$ 399,124,691</u>	<u>\$ 430,049,819</u>

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

To mitigate the risk of loan losses, the association has obtained loan guarantees in the form of standby commitments to purchase qualifying loans from the Federal Agricultural Mortgage Corporation through an arrangement with the bank. The agreements, which will remain in place until the loans are paid in full, give the association the right to sell the loans identified in the agreements to Farmer Mac in the event of defaults (typically four months past due), subject to certain conditions. At December 31, 2010, 2009 and 2008, loans totaling \$32,371,220, \$56,397,875 and \$64,921,687, respectively, were guaranteed by these commitments. Fees paid for these guarantees totaled \$251,935, \$318,020 and \$290,434 in 2010, 2009 and 2008, respectively, and are reported in noninterest expense.

#### Asset Quality:

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

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Acceptable	87.8%	87.9%	97.0%
Special mention	7.7%	8.9%	1.8%
Substandard	4.5%	3.2%	1.2%
Doubtful	0.0%	0.0%	0.0%

Loss	0.0%	0.0%	0.0%
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

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

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Nonaccrual loans:			
Current as to principal and interest	\$ -	\$ 5,178,787	\$ 4,758,316
Past due	<u>19,720,290</u>	<u>8,043,744</u>	<u>23,219</u>
Total nonaccrual loans	<u>19,720,290</u>	<u>13,222,531</u>	<u>4,781,535</u>
Accrual loans:			
90 days or more past due	-	-	-
Formally restructured	<u>-</u>	<u>-</u>	<u>-</u>
Total impaired accrual loans	<u>-</u>	<u>-</u>	<u>-</u>
Total impaired loans	<u>\$ 19,720,290</u>	<u>\$ 13,222,531</u>	<u>\$ 4,781,535</u>

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

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

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Interest income recognized on nonaccrual loans	\$ 389,437	\$ 503,494	\$ 213,555
Interest income recognized on impaired accrual loans	<u>-</u>	<u>-</u>	<u>-</u>
Interest income recognized on impaired loans	<u>\$ 389,437</u>	<u>\$ 503,494</u>	<u>\$ 213,555</u>

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

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Balance at beginning of year	\$ 1,352,719	\$ 705,469	\$ 332,127
Provision (reversal) for loan losses	(163,907)	646,687	368,364
Loans charged off	-	-	-
Recoveries	<u>146</u>	<u>563</u>	<u>4,978</u>
Balance at end of year	<u>\$ 1,188,958</u>	<u>\$ 1,352,719</u>	<u>\$ 705,469</u>

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

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Impaired loans with specific allowance	\$ -	\$ -	\$ -
Impaired loans with no specific allowance	<u>19,720,290</u>	<u>13,222,531</u>	<u>4,781,535</u>
Total impaired loans	<u>\$ 19,720,290</u>	<u>\$ 13,222,531</u>	<u>\$ 4,781,535</u>
Specific allowance on impaired loans	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

	2010	2009	2008
Average impaired loans	<u>\$ 13,063,828</u>	<u>\$ 11,098,517</u>	<u>\$ 700,451</u>

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

	2010	2009	2008
Interest income which would have been			
recognized under the original terms	\$ 826,741	\$ 420,253	\$ 253,035
Plus/(less): interest income reversed (recognized)	-	-	(183,923)
Foregone interest income	<u>\$ 826,741</u>	<u>\$ 420,253</u>	<u>\$ 69,112</u>

#### **NOTE 5 - PREMISES AND EQUIPMENT**

Premises and equipment consisted of the following at December 31:

	2010	2009	2008
Land	\$ 392,582	\$ 398,918	\$ 398,918
Building and improvements	1,912,176	1,611,856	1,609,856
Vehicles, furniture and equipment	<u>1,006,858</u>	<u>934,243</u>	<u>902,217</u>
	3,311,616	2,945,017	2,910,991
Less: accumulated depreciation	<u>(1,024,817)</u>	<u>(1,008,079)</u>	<u>(849,500)</u>
Total	<u>\$ 2,286,799</u>	<u>\$ 1,936,938</u>	<u>\$ 2,061,491</u>

#### **NOTE 6 - NOTE PAYABLE TO THE BANK**

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

The total amount and the weighted average interest rate of the association's direct loan from the bank at December 31, 2010, 2009 and 2008 was \$350,486,462 at 1.89%, \$345,064,757 at 2.26%, \$378,372,214 at 2.99%, respectively.

Under the Act, the association is obligated to borrow only from the bank unless the bank approves borrowing from other funding sources. The bank and FCA regulations have established limitations on the association's ability to borrow funds based on specific factors or formulas relating primarily to credit quality and financial condition. At December 31, 2010, 2009 and 2008, the association's note payable was within the specified limitations. The maximum amount the association may borrow from the bank as of December 31, 2010 was \$403,891,023 as defined by the general financing agreement.

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

## **NOTE 7 - MEMBERS' EQUITY**

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

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

In accordance with the Act and association's capitalization bylaws, each borrower is required to invest in the association as a condition of borrowing. The investment in Class B capital stock (for agricultural loans) or participation certificates (for rural home and farm related business loans) is equal to 2 percent of the loan amount, up to a maximum of \$1,000. The borrower acquires ownership of the capital stock or participation certificates at the time the loan is made, usually by adding the aggregate par value of the capital stock or participation certificates to the principal amount of the related loan obligation. The capital stock or participation certificates are subject to a first lien by the association. Retirement of such equities will generally be at the lower of par or book value, and repayment of a loan does not automatically result in retirement of the corresponding capital stock or participation certificates.

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

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

Within two years of repayment of a loan, the association capital bylaws require the conversion of any borrower's outstanding Class B capital stock to Class A capital stock. Class A stock has no voting rights except in a case where a new issuance of preferred stock has been submitted to stockholders affected by the preference. Redemption of all stock and participation certificates is made solely at the discretion of the association's board of directors.

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

Dividends and patronage distributions may be paid on the qualifying capital stock and participation certificates of the association as the board of directors may determine by resolution subject to capitalization requirements as defined by the FCA. Amounts not distributed as patronage are retained as unallocated retained earnings. In 2010, 2009 and 2008, the association declared patronage distributions of \$4,424,122, \$3,041,663 and \$3,538,330, respectively. Cash payments from the prior years' earnings were made of \$2,088,056, \$2,365,074 and \$2,233,462; and additional payments to retire prior years' allocated surplus were made of \$652,183, \$633,416 and \$1,193,561, respectively.

The FCA's capital adequacy regulations require the association to achieve permanent capital and total surplus of at least 7.0 percent and core surplus of at least 3.5 percent of risk-adjusted assets and off-balance-sheet commitments. Failure to meet the ratio requirements can initiate certain mandatory and possibly additional discretionary actions by the FCA that, if undertaken, could have a direct material effect on the association's financial statements. The association is prohibited from reducing permanent capital by retiring stock or making certain other distributions to stockholders unless prescribed capital standards are met. The association's permanent capital ratio, core surplus ratio and total surplus ratio at December 31, 2010 were 14.7 percent, 11.7 percent and 13.3 percent, respectively.

As part of the association's financial planning process, the association maintains a written capital adequacy plan. In conjunction with this plan, the association's board and management is charged with managing the association's capital position to provide for long-term profitability and concurrence with regulatory requirements. The association's capital planning process incorporates a number of financial performance objectives, and takes into consideration factors such as fluctuations in the rate environment, capital calls by the bank on the association, sharing of bank equities and fluctuations in volume growth. For 2010, the association established its permanent capital ratio objective of from 11 to 13 percent.

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

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

	Number of Shares		
	2010	2009	2008
B common stock/voting	192,283	189,081	189,688
A common stock/nonvoting	224	24	491
Participation certificates/nonvoting	4,606	4,958	5,875
	<u>197,113</u>	<u>194,063</u>	<u>196,054</u>

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

	2010	2009	2008
Nonpension post-retirement benefits	<u>\$ 157,560</u>	<u>\$ 366,468</u>	<u>\$ 443,909</u>

#### NOTE 8 - INCOME TAXES

The provision for (benefit from) income taxes follows for the years ended December 31:

	2010	2009	2008
Current	<u>\$ 305,731</u>	<u>\$ 186,411</u>	<u>\$ 338,028</u>

Deferred	195,670	(100,285)	(122,798)
Total provision for (benefit from) income taxes	<u>\$ 501,401</u>	<u>\$ 86,126</u>	<u>\$ 215,230</u>

The provision for (benefit from) 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 for the years ended December 31:

	2010	2009	2008
Federal tax at statutory rate	\$ 3,365,811	\$ 2,338,007	\$ 2,651,406
Effect of non-taxable FLCA subsidiary	(1,442,680)	(1,250,274)	(1,230,743)
Patronage distributions	(1,504,201)	(1,034,165)	(1,203,032)
Other	82,471	32,558	(2,401)
Provision for income taxes	<u>\$ 501,401</u>	<u>\$ 86,126</u>	<u>\$ 215,230</u>

Deferred tax assets and liabilities in accordance with accounting guidance, "Accounting for Income Taxes," are comprised of the following at December 31:

	2010	2009	2008
<u>Deferred Tax Assets</u>			
Allowance for credit losses	\$ 207,332	\$ 332,337	\$ 194,143
Postretirement benefits, other	582,612	544,293	549,038
Enhanced retirement program	48,790	51,000	51,000
Gross deferred tax assets	838,734	927,630	794,181
Deferred tax valuation allowance	-	-	-
Deferred tax assets, net	<u>838,734</u>	<u>927,630</u>	<u>794,181</u>
<u>Deferred Tax Liabilities</u>			
Capitalization of net loan origination expenses	(32,683)	-	-
Deferred tax liabilities	(32,683)	-	-
Net deferred tax asset	<u>\$ 806,051</u>	<u>\$ 927,630</u>	<u>\$ 794,181</u>

The ACA is required to maintain an investment in the bank of 2 percent of the average direct note. This investment can be held by both the PCA and FLCA. A deferred tax liability is established for the PCA for any excess investment in the bank over that allocated to the 2 percent investment requirement.

## NOTE 9 - EMPLOYEE BENEFIT PLANS

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

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

In September 2006, the FASB issued guidance, which required the recognition of the overfunded or underfunded status of pension and other postretirement benefit plans on the balance sheet. The balance sheet recognition provisions of this guidance were adopted at December 31, 2007. The guidance also requires that employers measure the benefit obligation and plan assets as of the fiscal year end for fiscal years ending after December 15, 2008. In fiscal 2007 and earlier, the System used a September 30 measurement date for pension and other postretirement benefit plans. The guidance provided two approaches for an employer to transition to a fiscal year-end measurement date. The System has applied the second approach, which allows for the use of the measurements determined for the prior year end.

Under this alternative, pension and postretirement benefit income measured for the three-month period October 1, 2007 to December 31, 2007 (determined using the September 2007 measurement date) was recorded as an adjustment to beginning 2008 retained earnings. As a result, the association decreased retained earnings \$9,261, net of taxes and increased the pension and other postretirement benefit liabilities by \$14,032.

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

	2010	2009	2008
<b>Change in Accumulated Postretirement Benefit Obligations -</b>			
Accumulated postretirement benefit obligation, beginning of year	\$ 1,813,535	\$ 1,700,557	\$ 1,611,288
Service cost	46,984	49,537	54,283
Interest cost	107,546	105,009	127,996
Plan participants' contributions	6,797	10,250	19,761
Plan amendments	-	-	-
Special termination benefits	-	-	-
Actuarial loss (gain)	193,760	21,353	(20,656)
Benefits paid	<u>(68,353)</u>	<u>(73,171)</u>	<u>(92,115)</u>
Accrued postretirement benefit obligation, end of year	\$ 2,100,269	\$ 1,813,535	\$ 1,700,557
<b>Change in Plan Assets -</b>			
Plan assets at fair value, beginning of year	\$ -	\$ -	\$ -
Actual return on plan assets	-	-	-
Company contributions	61,556	62,921	72,354
Plan participants' contributions	6,797	10,250	19,761
Benefits paid	<u>(68,353)</u>	<u>(73,171)</u>	<u>(92,115)</u>
Plan assets at fair value, end of year	\$ -	\$ -	\$ -
Funded status of plan	\$ (2,100,269)	\$ (1,813,535)	\$ (1,700,557)
<b>Amounts Recognized in the Balance Sheet -</b>			
Accrued postretirement benefit obligation	<u>\$ (2,100,269)</u>	<u>\$ (1,813,535)</u>	<u>\$ (1,700,557)</u>
Total	\$ (2,100,269)	\$ (1,813,535)	\$ (1,700,557)
<b>Amounts Recognized in Accumulated Other Comprehensive Income -</b>			
Net actuarial loss (gain)	\$ 246,569	\$ 52,809	\$ 31,456
Prior service cost (credit)	(448,829)	(538,068)	(627,307)

Net transition obligation (asset)	-	-	-
Total	\$ (202,260)	\$ (485,259)	\$ (595,851)

**Weighted-Average Assumptions Used  
to Determine Obligations at Year-end -**

Measurement date	12/31/2010	12/31/2009	12/31/2008
Discount rate	5.70%	6.05%	6.30%
Medical cost trend rate assumed for next year	7.5%/6.5%	8.0%/7.0%	8.5%/6.5%
Drug cost trend rate assumed for next year	10.00%	10.50%	12.00%
Ultimate health care cost trend rate	5.00%	5.00%	5.00%
Year that the rate reached the ultimate trend rate	2017	2017	2015

**Total Cost -**

Service cost	\$ 46,984	\$ 49,537	\$ 43,426
Interest cost	107,546	105,009	102,397
Expected return on plan assets	-	-	-
Amortization of:			
Unrecognized net transition obligation (asset)	-	-	-
Unrecognized prior service cost	(89,239)	(89,239)	(90,551)
Unrecognized net loss (gain)	-	-	856
Net postretirement benefit cost	\$ 65,291	\$ 65,307	\$ 56,128

**Other Changes Recognized in  
Other Comprehensive Income -**

Net actuarial loss (gain)	\$ 193,760	\$ 21,353	\$ (21,726)
Amortization of prior service cost	89,239	89,239	113,189
Total recognized in other comprehensive income	\$ 282,999	\$ 110,592	\$ 91,463

**AOCI Amounts Expected to be Amortized  
into Expense in 2011 -**

Unrecognized net transition obligation (asset)	\$ -	N/A	N/A
Unrecognized prior service cost	(86,801)	N/A	N/A
Unrecognized net loss (gain)	3,601	N/A	N/A
Total	\$ (83,200)	N/A	N/A

**Weighted-Average Assumptions Used  
to Determine Net Postretirement Benefit Cost -**

Measurement date	12/31/2009	12/31/2008	9/30/2007
Discount rate	6.05%	6.30%	6.50%
Medical cost trend rate assumed for next year	8.00%/7.00%	8.50%/6.50%	9.00%/6.75%
Drug cost trend rate assumed for next year	10.50%	11.00%	13.00%
Ultimate health care cost trend rate	5.00%	5.00%	4.75%
Year that the rate reached the ultimate trend rate	2017	2015	2016

**Expected Future Cash Flows -**

Expected benefit payments (net of employee contributions) -

Fiscal 2011	\$ 74,489
Fiscal 2012	83,425
Fiscal 2013	95,997

Fiscal 2014		105,223
Fiscal 2015		112,693
Fiscal 2016 - 2020		650,854
Expected contributions -		
Fiscal 2011	\$	74,489

#### **NOTE 10 - RELATED PARTY TRANSACTIONS**

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

Total loans to such persons amounted to \$9,268,674, \$15,543,017 and \$12,833,991 at December 31, 2010, 2009 and 2008, respectively. During 2010, \$52,256,245 of advances were made and repayments totaled \$58,530,588. In the opinion of management, no such loans outstanding at December 31, 2010, 2009 and 2008 involved more than a normal risk of collectability.

Expenses included in purchased services may include purchased services such as administrative services, marketing, information systems, accounting services and allocations of expenses incurred by the bank passed through to the associations such as FCSIC expenses. The bank charges the individual associations directly for these services based on each association's proportionate usage. These expenses totaled \$462,029, \$1,011,186 and \$819,182 for 2010, 2009 and 2008, respectively.

The association accrued patronage payments from related parties totaling \$3,678,437, \$3,233,733 and \$3,810,694 during 2010, 2009 and 2008, respectively.

#### **NOTE 11 - COMMITMENTS AND CONTINGENCIES**

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

The association may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of its borrowers in the form of commitments to extend credit and commercial letters of credit. These financial instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commercial letters of credit are agreements to pay a beneficiary under conditions specified in the letter of credit. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. At December 31, 2010, \$187,351,194 of commitments and \$5,522,022 of letters of credit were outstanding.

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

**NOTE 12 - DISCLOSURE ABOUT THE FAIR VALUE OF FINANCIAL INSTRUMENTS**

The following table presents the carrying amounts and estimated fair values of the association's financial instruments at December 31, 2010, 2009 and 2008. Quoted market prices are generally not available for certain System financial instruments, as described below. Accordingly, fair values are based on judgments regarding anticipated cash flows, future expected loss experience, discount rates, current economic conditions, risk characteristics of various financial instruments and other factors. These estimates involve uncertainties and matters of judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The estimated fair values of the Association's financial instruments as of December 31 follows:

	<u>Carrying Value</u>	<u>Fair Value</u>
<u>2010</u>		
Financial assets:		
Cash	\$ 26,499	\$ 26,499
Loans, net	403,083,073	399,891,971
Investment securities	7,403,693	7,407,432
Financial liabilities:		
Note payable to the bank	350,486,462	347,439,668
<u>2009</u>		
Financial assets:		
Cash	38,155	38,155
Loans, net	397,771,972	393,451,423
Investment securities	-	-
Financial liabilities:		
Note payable to the bank	345,064,757	340,898,977
<u>2008</u>		
Financial assets:		
Cash	420,696	420,696
Loans, net	429,344,350	430,768,040
Investment securities	-	-
Financial liabilities:		
Note payable to the bank	378,372,214	379,726,937

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

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

**Investment Securities** --- This includes certain mortgage-backed securities as more fully disclosed in Note 3. If quoted prices are not available in an active market, the fair value of securities is estimated using pricing models that utilize observable inputs, quoted prices for similar securities received from pricing services or discounted cash flows.

**Loans, net** --- Because no active market exists for the association's loans, fair value is estimated by discounting the expected future cash flows using the association's current interest rates at which similar loans would be made to borrowers with similar credit risk. Since the discount rates are based on the association's loan rates as well as on management estimates, management has no basis to determine whether the fair values presented would be indicative of the value negotiated in an actual sale.

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

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

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

**Investment in the Bank** --- Estimating the fair value of the association's investment in the bank is not practicable because the stock is not traded. As described in Note 2 - Summary of Significant Accounting Policies, the investment is a requirement of borrowing from the bank and is carried at cost plus allocated equities in the accompanying consolidated balance sheet. The association owns 2.95 percent of the issued common stock of the bank as of December 31, 2010. As of that date, the bank's assets totaled \$14.1 billion and members' equity totaled \$1.151 billion. The bank's earnings were \$168.5 million during 2010.

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

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

### **NOTE 13 - SUBSEQUENT EVENTS**

The association has evaluated subsequent events through February 22, 2011, which is the date the financial statements were available to be issued.

**NOTE 14 - QUARTERLY FINANCIAL INFORMATION (UNAUDITED)**

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

	2010				
	First	Second	Third	Fourth	Total
Net interest income	\$ 2,528	\$ 2,667	\$ 3,120	\$ 3,009	\$ 11,324
(Provision for) reversal of loan losses	144	(11)	(163)	15	(15)
Noninterest income (expense)	<u>(776)</u>	<u>344</u>	<u>(213)</u>	<u>(1,266)</u>	<u>(1,911)</u>
Net income	<u>\$ 1,896</u>	<u>\$ 3,000</u>	<u>\$ 2,744</u>	<u>\$ 1,758</u>	<u>\$ 9,398</u>
	2009				
	First	Second	Third	Fourth	Total
Net interest income	\$ 2,301	\$ 2,506	\$ 2,693	\$ 2,966	\$ 10,466
(Provision for) reversal of loan losses	(145)	287	(292)	(497)	(647)
Noninterest income (expense)	<u>(629)</u>	<u>(625)</u>	<u>(736)</u>	<u>(1,039)</u>	<u>(3,029)</u>
Net income	<u>\$ 1,527</u>	<u>\$ 2,168</u>	<u>\$ 1,665</u>	<u>\$ 1,430</u>	<u>\$ 6,790</u>
	2008				
	First	Second	Third	Fourth	Total
Net interest income	\$ 2,342	\$ 2,359	\$ 2,602	\$ 2,514	\$ 9,817
(Provision for) reversal of loan losses	(263)	257	1	(363)	(368)
Noninterest income (expense)	<u>(726)</u>	<u>(182)</u>	<u>(767)</u>	<u>(191)</u>	<u>(1,866)</u>
Net income	<u>\$ 1,353</u>	<u>\$ 2,434</u>	<u>\$ 1,836</u>	<u>\$ 1,960</u>	<u>\$ 7,583</u>

# SIMONTON & KUTAC, L.L.P.

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## Independent Auditors' Report

To the Board of Directors and Stockholders of  
Great Plains Ag Credit, ACA

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

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

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

*Simonton & Kutac, LLP*

February 22, 2011

## Directors and Employees

<b>Board of Directors</b>		<b>Amarillo Branch Office</b>	
Dennis Anthony, Chairman		Eddie York, SVP/ CLO/Branch Mgr.	
Joe Reinart, Vice Chairman		Jo Deckard, VP/Commercial Lending	
Terry Sherrill, Outside Director		Heath Wilson, VP/Comm. Lending/Asst. Branch Mgr.	
Danny Detten		Casey Cook, VP/ Lending	
Trent Finck		Brad Thacker, Assistant VP	
Bryan Reinart		Geary Mortimer, Assistant VP	
Dan McWhorter		Kasi Janssen, Sr. Loan Administrator/Wachovia	
		Sabra Snyder, Loan Administrator	
		Jill Graves, Customer Service Representative	
<b>Amarillo Central Office</b>			
Tim McDonald, President/CEO			
Doug Reinart, SVP/CCO		<b>Dimmitt Branch Office</b>	
Brandon Blaut CFA, SVP/CFO		Mark Kleman, VP/Branch Manager	
Larry Hammit, SVP Operations/Secretary		Gerrod Salyer, Assistant VP	
Debra Wilfong, VP/Treasurer/Asst CFO/Asst. Sec.		Kay Conyers, Loan Administrator	
Rebecca Huey, Credit Operations Manager			
Carol Brand, Executive Assistant			
Ramona Seago, Assistant Treasurer		<b>Friona Branch Office</b>	
Missy Howell, Business Analyst		Robert Jones, VP/Branch Manager	
Chancy Edwards, Accountant		Tommy St. Clair, Assistant VP	
Misty Caperton, Sr. Credit Analyst		Tamara Garcia, Loan Administrator	
Jason Stroud, Credit Analyst		Mary Ford, Administrative Assistant	
Erin Morgan, Credit and Oversight Manager			
<b>Dumas Branch Office</b>		<b>Plainview Branch Office</b>	
Johnny Schmucker, VP/Branch Manager		Cliff Daniel, VP/Branch Manager	
LaKrisha Williamson, Sr. Administrative Assistant		Harriett Burleson, Assistant VP	
Marsha Hise, Administrative Assistant		Tammy Fields, Loan Administrator	
Kay Hale, Administrative Assistant		Geraldene Mitchell, Administrative Assistant	
		Daleyn Schwartz, Administrative Assistant	
<b>Related Services</b>			
Rachel Myers, Insurance Specialist			
Don Dixon, Insurance Specialist			
Ronnie Holt, Insurance Specialist			
Dustin Cleavinger, Insurance Specialist			
Kim Birkenfeld, Insurance Office Administrator			

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