

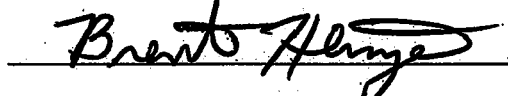
REPORT OF MANAGEMENT

The undersigned certify that we have reviewed this report, that it has been 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 and belief.



Boyd J. Chambers, Chief Executive Officer

October 25, 2011



Brent M. Heinze, Chairman, Board of Directors

October 25, 2011



Alan E. Benedict, Controller/Treasurer

October 25, 2011

CENTRAL TEXAS FARM CREDIT, ACA MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the financial performance of the Central Texas Farm Credit, ACA (Agricultural Credit Association), referred to as the association, for the quarter and nine months ended September 30, 2011. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2010 Annual Report to Stockholders.

The association is a member of the Farm Credit System (System), a nationwide network of cooperatively owned financial institutions established by and subject to the provisions of the Farm Credit Act of 1971, as amended, and the regulations of the Farm Credit Administration (FCA) promulgated thereunder.

The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries. The consolidated financial statements were prepared under the oversight of the association's audit committee.

Significant Events:

Prior Year - 2010

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

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

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

In December, 2010, the Board of Directors agreed to amend the Bylaws to allow for the reduction of the Board from 11 to 9 Directors (8 Stockholder-elected and 1 Director-elected). Subsequent to yearend, the Board formally adopted this change to the Bylaws by resolution at the January, 2011 Board Meeting.

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

Problem Loans

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

Within the third quarter of 2008 all collateral related to these loans was acquired and liquidated by the association with all proceeds being applied against the debt. During the process of collateral acquisition and liquidation an additional charge-off of \$3,394 was made against the PCA loan for a total PCA loan charge-off of \$415,421. Upon disposition of the acquired collateral all the FLCA debt was recovered but a charge-off of \$338,149 was incurred related to the PCA collateral. Other legal and administrative expenses were also incurred related to the liquidation of the PCA debt which totaled \$89,786 at December 31, 2008 and \$92,910 at December 31, 2009. Further expenditures related to this account did not occur during the first quarter of 2010 but an additional \$59 in expense was incurred during the second quarter, bringing the cumulative expense to \$92,969 at December 31, 2010. No expenses have been incurred related to this account thus far in 2011. Additional expense and/or expense recovery may occur related to the PCA loans but significant activity is not anticipated.

During the fourth quarter of 2008 four district participation loans which the association participated in were deemed non-viable or as containing significant financial stress which resulted in these accounts being transferred to non-accrual in the fourth quarter of 2008 totaling \$8,257,898. A specific reserve was set-up and a charge-off taken in December 2008 for one account totaling \$1,829,688. A specific reserve of \$64,148 was established for another account but no related charge-off was taken as of year-end 2008. In the fourth quarter of 2009, however, this account was fully charged-off with a charge of \$64,910. On March 11, 2011, a \$51,304 recovery of expenses was obtained on the larger of these two fully charged-off accounts. Adjustments to this first quarter recovery of

expenses, has been reduced by \$ 4,865 due to ongoing legal expenses resulting in a remaining amount recovered of \$46,439 as of September 30, 2011.

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

During the second quarter of 2009 two additional participation loans were deemed non-viable and moved to non-accrual. The first of these two loans was transferred in May of 2009 and totaled \$2,118,363 at the time of transfer with a \$25,026 reversal of current year (2009) interest income accruals being made. A specific allowance of \$985,039 was set-up for this account with no charge-off being taken. The second loan was transferred effective June 30, 2009, and totaled \$3,723,942 at the time of transfer with an \$18,185 reversal of current year (2009) interest income accruals being made. A specific allowance of \$1,456,530 was set-up for this account with no charge-off being taken as of the second quarter. During the fourth quarter of 2009 the account originally transferred at \$2,118,363 remained in a non-accrual status with no further adverse action taken on the account and the year-end outstanding balance being \$2,052,571. As of June 30, 2010, the balance of this account stood at \$2,027,987 with the related specific allowance remaining at \$985,039. As of September 29, 2010, the account was liquidated with a charge-off of \$964,889 against the \$985,039 allowance, with the excess allowance being brought back into income. The liquidation also resulted in the association's portion of an acquired property valued at \$1,050,248 being recorded as of September 29, 2010. Due to the receipt or recovery of \$523,049 in additional collateral during November 2010 and a \$64,231 liquidation of a portion of the original acquired property, the value of the acquired property relating to this loan was \$1,506,440 at March 31, 2011. As of June 30, 2011, \$951,416 of the acquired property value was re-classified to a formally restructured loan, returning the acquired property value to the original \$523,049. At September 30, 2011 the acquired property value remained at \$523,049 and the formally restructured loan had a balance of \$892,777. The account originally transferred at \$3,723,942 was upgraded back to accrual status during the fourth quarter of 2009 and the \$1,456,530 specific allowance was brought back into income.

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

Also, due to a contractual obligation to make additional disbursements on one of these accounts, a \$1,031,766 specific reserve for undisbursed commitment was established as of March 30, 2010, with additional reserves of \$325,806 being added as of September 21, 2010, for a total of \$1,357,572 at September 30, 2010. The funded principal balance on this account was fully charged-off on September 21, 2010, using the related allowance of \$372,678 plus an additional charge-off of \$12,630. On February 28, 2011, a \$11,667 recovery was obtained on this fully charged-off account. The other of these two non-accrual accounts has remained in non-accrual status with a \$750,000 specific allowance. The balance of this non-accrual account was \$1,120,023 at June 30, 2011. On September 22, 2011 this account was collected in full with \$424,897 of the \$750,000 allowance being returned to income.

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

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

During the second quarter of 2010 another district participation loan which the association participated in was deemed non-viable or as containing significant financial stress which resulted in this account being transferred to non-accrual. The account totaled \$4,573,087 at transfer and \$4,637,524 at June 30, 2010. A \$114,408 reversal of current year (2010) interest accruals was made at the transfer to non-accrual and a specific allowance for loan loss was not deemed necessary at that time. As of June 30, 2011, the balance of this participation loan remained at \$4,637,524. This balance was collected in full as of September 23, 2011.

Quarter End Weather and Crop Conditions

The association's territory had continued warm days and extremely dry conditions as of the end of the third quarter. Nighttime temperatures were beginning to cool, and a few areas in the region reported scattered showers. Wildfire danger remained extremely high in most counties within the association's territory. Soil-moisture levels were very low; however wheat planting was under way in many locations. Some producers were planning to plant some form of cool-season forage (wheat, rye, oats) in hopes it will rain soon. The region saw no improvement of rangeland and pasture conditions, with all water sources continuing to decline. Livestock (cattle, sheep, goats) producers continued to reduce animal numbers as they struggled to find hay and cheaper feed for their animals. Some producers were downsizing livestock herds to conserve feed and water resources with some farmers and ranchers deciding to sell out their operations. Moderate temperatures and considerable increase in precipitation levels will be needed to improve the farming and ranching conditions for the association's membership.

Summation

For over 94 years, the association has continued to provide its members with quality financial services. The board of directors and management remain committed to maintaining the financial integrity of the association while offering competitive loan products that meet the financial needs of agricultural producers.

Loan Portfolio:

Total loans outstanding at September 30, 2011, including nonaccrual loans and sales contracts, were \$373,913,512 compared to \$390,781,482 at December 31, 2010, reflecting an decrease of 4.3 percent. Non-accrual loans as a percentage of total loans outstanding were 0.4 percent at September 30, 2011, compared to 1.9 percent at December 31, 2010.

The association had no recoveries and \$334,230 in charge-offs for the quarter ending September 30, 2011. There were no recoveries and \$1,350,198 in charge-offs for the same period in 2010. The association's allowance for loan losses was 0.2 percent and 0.4 percent of total loans outstanding as of September 30, 2011, and December 31, 2010, respectively.

As of September 30, 2011 the adversity in asset quality stemming from non-accrual credit in the association's participation loan portfolio which was purchased through the Capital Markets Department of the Farm Credit Bank of Texas had been eliminated. Collections on two non-accrual participation accounts of \$5,366,998 and a charge-off of \$321,467 to one of these accounts brought the participation portfolio to a full accrual status. Currently the association has \$1,423,025 in non-accrual accounts stemming from six loans within the association's core loan portfolio. There have been no material changes in the association's core portfolio's borrower profile, geographic distribution, commodity concentration, or asset quality.

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. The following table illustrates the association's components and trends of high-risk assets.

	September 30, 2011		December 31, 2010	
	Amount	%	Amount	%
Nonaccrual	\$ 1,423,025	73.1%	\$ 7,288,155	82.9%
90 days past due and still accruing interest	-	0.0%	-	0.0%
Formally restructured	-	0.0%	-	0.0%
Other property owned, net	523,049	26.9%	1,509,066	17.1%
Total	<u>\$ 1,946,074</u>	<u>100.0%</u>	<u>\$ 8,797,221</u>	<u>100.0%</u>

Results of Operations:

The association had net income of \$6,810,669 for the nine months ended September 30, 2011, as compared to net income of \$4,528,155 for the same period in 2010 reflecting an increase of 70.2 percent. Net interest income was \$3,258,739 for the nine months ended September 30, 2011, compared to \$2,728,321 for the same period in 2010. Gross interest income for the nine months of 2011 increased by \$95,972, or 0.6 percent, from the same period of 2010, primarily due to increases in yields on earning assets. Interest expense for the nine months of 2011 decreased by \$741,419, or 11.1 percent, from the same period of 2010 due to a decrease in average debt volume. Average loan volume for the third quarter of 2011 was \$385,516,670, compared to \$388,752,267 in the third quarter of 2010. The average spread on the loan portfolio for the third quarter of 2011 was 2.89 percent, compared to 2.31 percent in the third quarter of 2010.

The association's return on average assets for the nine months ended September 30, 2011, was 2.29 percent compared to 1.49 percent for the same period in 2010. The association's return on average equity for the nine months ended September 30, 2011, was 11.70 percent, compared to 8.17 percent for the same period in 2010.

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 association secures the majority of its lendable funds from the Farm Credit Bank of Texas (the bank), which obtains its funds through the issuance of system-wide obligations and with lendable equity. The following schedule summarizes the association's borrowings.

	September 30, 2011	December 31, 2010
Note payable to the bank	\$ 300,866,761	\$ 314,107,511
Accrued interest on note payable	608,741	699,547
Total	\$ 301,475,502	\$ 314,807,058

The association's own funds were \$73,071,354, \$77,663,225 and \$68,193,961, at September 30, 2011, December 31, 2010 and September 30, 2010, respectively. As of September 30, 2011, the association's liquidity margin was 24.88 percent and the maximum amount of direct note borrowing available for the association, from the bank, was \$376,808,130, as defined by the association's general financing agreement.

The liquidity policy of the association is to manage cash balances to maximize debt reduction, and to increase accrual loan volume. This policy will continue to be pursued during all of 2011 and into the future. 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 increased by \$6,746,082 at September 30, 2011, compared to December 31, 2010. The association's debt as a percentage of members' equity was 3.63:1 as of September 30, 2011, compared to 4.24:1 as of December 31, 2010 due to year to date earnings.

Under regulations governing minimum permanent capital adequacy and other capitalization issues, the association is required to maintain a minimum adjusted permanent capital of 7.0 percent of risk-adjusted assets as defined by the FCA. The association's permanent capital ratio at September 30, 2011, was 18.8 percent, which is in compliance with the FCA's minimum permanent capital standard. The association's core surplus ratio and total surplus ratio at September 30, 2011, were 18.3 and 18.3 percent, respectively, which is in compliance with the FCA's minimum surplus standard.

Significant Recent Accounting Pronouncements:

A summary of pertinent accounting and reporting guidance provided by the Financial Accounting Standards Board (FASB) is provided in Note 1 to financial statements contained in this quarterly report to stockholders.

Relationship with the Farm Credit Bank of Texas:

The association's financial condition may be impacted by factors that affect the bank. The financial condition and results of operations of the bank may materially affect the stockholder's investment in the association. The Management's Discussion and Analysis and Notes to Financial Statements contained in the December 31, 2010 Annual Report of Central Texas Farm Credit, ACA more fully describe the association's relationship with the bank.

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

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

CENTRAL TEXAS FARM CREDIT, ACA

CONSOLIDATED BALANCE SHEET

	September 30, 2011 (unaudited)	December 31, 2010
<u>ASSETS</u>		
Cash	\$ 1,543,859	\$ 766,289
Investments	-	-
Loans	373,913,512	390,781,482
Less: allowance for loan losses	922,249	1,621,793
Net loans	<u>372,991,263</u>	<u>389,159,689</u>
Accrued interest receivable	4,696,562	3,861,139
Investment in and receivable from the bank:		
Capital stock	6,596,195	6,596,195
Other	-	-
Deferred taxes, net	-	-
Other property owned, net	523,049	1,509,066
Premises and equipment	605,363	663,800
Other assets	372,759	179,156
Total assets	<u><u>\$ 387,329,050</u></u>	<u><u>\$ 402,735,334</u></u>
<u>LIABILITIES</u>		
Note payable to the bank	\$ 300,866,761	\$ 314,107,511
Advance conditional payments	-	-
Accrued interest payable	608,741	699,547
Drafts outstanding	370,955	6,165,115
Dividends payable	-	3,200,000
Patronage distributions payable	-	-
Deferred taxes, net	-	-
Other liabilities	1,873,285	1,699,935
Total liabilities	<u><u>303,719,742</u></u>	<u><u>325,872,108</u></u>
<u>MEMBERS' EQUITY</u>		
Capital stock and participation certificates	2,210,655	2,254,885
Additional paid-in capital	-	-
Allocated retained earnings	-	-
Unallocated retained earnings	81,476,544	74,665,875
Accumulated other comprehensive income (loss)	(77,891)	(57,534)
Total members' equity	<u><u>83,609,308</u></u>	<u><u>76,863,226</u></u>
Total liabilities and members' equity	<u><u>\$ 387,329,050</u></u>	<u><u>\$ 402,735,334</u></u>

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

CENTRAL TEXAS FARM CREDIT, ACA
CONSOLIDATED STATEMENT OF INCOME
(unaudited)

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
<u>INTEREST INCOME</u>				
Loans	\$ 5,189,493	\$ 4,879,390	\$ 15,035,968	\$ 14,939,996
Investments	-	-	-	-
Other	-	-	-	-
Total interest income	<u>5,189,493</u>	<u>4,879,390</u>	<u>15,035,968</u>	<u>14,939,996</u>
<u>INTEREST EXPENSE</u>				
Note payable to the bank	1,930,754	2,151,069	5,941,482	6,682,901
Advance conditional payments	-	-	-	-
Total interest expense	<u>1,930,754</u>	<u>2,151,069</u>	<u>5,941,482</u>	<u>6,682,901</u>
Net interest income	<u>3,258,739</u>	<u>2,728,321</u>	<u>9,094,486</u>	<u>8,257,095</u>
<u>PROVISION FOR LOAN LOSSES</u>	<u>(222,454)</u>	<u>427,074</u>	<u>(238,702)</u>	<u>1,541,741</u>
Net interest income after provision for loan losses	<u>3,481,193</u>	<u>2,301,247</u>	<u>9,333,188</u>	<u>6,715,354</u>
<u>NONINTEREST INCOME</u>				
Income from the bank:				
Patronage income	39,925	46,733	121,419	142,455
Loan fees	217,031	316,571	381,332	603,989
Refunds from Farm Credit System				
Insurance Corporation	-	-	-	-
Financially related services income	2,906	4,171	8,889	10,019
Gain (loss) on other property owned, net	-	(10,141)	390	4,600
Gain (loss) on sale of premises and equipment, net	-	-	19,541	1,315
Other noninterest income	(1,574)	19	71,163	428,393
Impairment losses on investments				
Total other-than-temporary impairment losses	-	-	-	-
Less: portion of loss recognized in other comprehensive income	-	-	-	-
Net impairment loss recognized in earnings	<u>259,862</u>	<u>357,334</u>	<u>531,571</u>	<u>762,378</u>
Total noninterest income	<u>258,288</u>	<u>357,353</u>	<u>602,734</u>	<u>1,190,771</u>
<u>NONINTEREST EXPENSES</u>				
Salaries and employee benefits	741,825	735,308	2,098,714	2,214,979
Directors' expense	30,698	24,965	85,841	86,202
Purchased services	31,116	93,777	173,289	360,025
Travel	27,618	39,088	108,757	124,453
Occupancy and equipment	39,569	37,428	121,512	115,416
Communications	6,704	8,194	22,239	26,217
Advertising	20,052	20,995	96,014	77,647
Public and member relations	9,025	6,948	51,793	46,346
Supervisory and exam expense	40,315	41,556	123,426	121,947
Insurance Fund premiums	46,166	40,422	140,354	124,133
Merger-implementation and restructuring costs	-	-	-	-
Other noninterest expense	24,750	19,646	88,314	80,605
Total noninterest expenses	<u>1,017,838</u>	<u>1,068,327</u>	<u>3,110,253</u>	<u>3,377,970</u>
Income before income taxes	<u>2,721,643</u>	<u>1,590,273</u>	<u>6,825,669</u>	<u>4,528,155</u>
Provision for (benefit from) income taxes	<u>15,000</u>	<u>-</u>	<u>15,000</u>	<u>-</u>
Net income	<u>\$ 2,706,643</u>	<u>\$ 1,590,273</u>	<u>\$ 6,810,669</u>	<u>\$ 4,528,155</u>

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

CENTRAL TEXAS FARM CREDIT, ACA

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY
(unaudited)

	Capital Stock/ Participation Certificates	Additional Paid-in-Capital	Retained Earnings		Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
			Allocated	Unallocated		
Balance at December 31, 2009	\$ 2,273,210	\$ -	\$ -	\$ 69,507,469	\$ 118,169	\$ 71,898,848
Comprehensive income						
Net income	-	-	-	4,528,155	-	4,528,155
Change in unrealized gains (losses) on investment securities	-	-	-	-	-	-
Noncredit portion of other-than- temporarily impaired investments	-	-	-	-	-	-
Change in postretirement benefit plans	-	-	-	-	(21,128)	(21,128)
Total comprehensive income	-	-	-	4,528,155	(21,128)	4,507,027
Capital stock/participation certificates and allocated retained earnings issued	201,105	-	-	-	-	201,105
Capital stock/participation certificates and allocated retained earnings retired	(214,875)	-	-	-	-	(214,875)
Stock equalization	-	-	-	-	-	-
Dividends declared	-	-	-	-	-	-
Equity issued or re-characterized upon merger	-	-	-	-	-	-
Equity retired or re-characterized upon merger	-	-	-	-	-	-
Patronage refunds:						
Cash	-	-	-	-	-	-
Capital stock/participation certificates and allocated retained earnings	-	-	-	-	-	-
Balance at September 30, 2010	<u>\$ 2,259,440</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 74,035,624</u>	<u>\$ 97,041</u>	<u>\$ 76,392,105</u>
Balance at December 31, 2010	\$ 2,254,885	\$ -	\$ -	\$ 74,665,875	\$ (57,534)	\$ 76,863,226
Comprehensive income						
Net income	-	-	-	6,810,669	-	6,810,669
Change in unrealized gains (losses) on available-for-sale investment securities	-	-	-	-	-	-
Noncredit portion of other-than- temporarily impaired investments	-	-	-	-	-	-
Change in postretirement benefit plans	-	-	-	-	(20,357)	(20,357)
Total comprehensive income	-	-	-	6,810,669	(20,357)	6,790,312
Capital stock/participation certificates and allocated retained earnings issued	174,260	-	-	-	-	174,260
Capital stock/participation certificates and allocated retained earnings retired	(218,490)	-	-	-	-	(218,490)
Stock equalization	-	-	-	-	-	-
Dividends declared	-	-	-	-	-	-
Equity issued or recharacterized upon merger	-	-	-	-	-	-
Equity retired or recharacterized upon merger	-	-	-	-	-	-
Patronage refunds:						
Cash	-	-	-	-	-	-
Capital stock/participation certificates and allocated retained earnings	-	-	-	-	-	-
Balance at September 30, 2011	<u>\$ 2,210,655</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 81,476,544</u>	<u>\$ (77,891)</u>	<u>\$ 83,609,308</u>

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

CENTRAL TEXAS FARM CREDIT, ACA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

The Central Texas Farm Credit, ACA (Agricultural Credit Association), referred to as the association, is a member-owned cooperative that provides credit and credit-related services to or for the benefit of eligible borrowers/stockholders for qualified agricultural purposes. The association serves the counties of Baylor, Brown, Callahan, Coke, Coleman, Comanche, Concho, Haskell, Irion, Jones, Knox, McCulloch, Menard, Mills, Reagan, Runnels, San Saba, Sterling and Tom Green in the state of Texas. The association is a lending institution of the Farm Credit System (the system), which was established by Acts of Congress to meet the needs of American agriculture.

The significant accounting policies followed and the financial condition and results of operations of the association as of and for the year ended December 31, 2010 are contained in the 2010 Annual Report to Stockholders. These unaudited third quarter 2011 financial statements should be read in conjunction with the 2010 Annual Report to Stockholders.

In June 2011, the Financial Accounting Standards Board (FASB) issued guidance entitled, "Comprehensive Income – Presentation of Comprehensive Income." This guidance is intended to increase the prominence of other comprehensive income in financial statements. The current option that permits the presentation of other comprehensive income in the statement of changes in equity has been eliminated. The main provisions of the guidance provides that an entity that reports items of other comprehensive income has the option to present comprehensive income in either one or two consecutive financial statements:

- A single statement must present the components of net income and total net income, the components of other comprehensive income and total other comprehensive income, and a total for comprehensive income.
- In a two-statement approach, an entity must present the components of net income and total net income in the first statement. That statement must be immediately followed by a financial statement that presents the components of other comprehensive income, a total for other comprehensive income, and a total for comprehensive income.

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

In May 2011, the FASB issued guidance entitled, "Fair Value Measurement – Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs." The amendments change the wording used to describe the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. The amendments include the following:

1. Application of the highest and best use and valuation premise is only relevant when measuring the fair value of nonfinancial assets (does not apply to financial assets and liabilities).
2. Aligning the fair value measurement of instruments classified within an entity's shareholders' equity with the guidance for liabilities. As a result, an entity should measure the fair value of its own equity instruments from the perspective of a market participant that holds the instruments as assets.
3. Clarifying that a reporting entity should disclose quantitative information about the unobservable inputs used in a fair value measurement that is categorized within Level 3 of the fair value hierarchy.
4. An exception to the requirement for measuring fair value when a reporting entity manages its financial instruments on the basis of its net exposure, rather than its gross exposure, to those risks.
5. Clarifying that the application of premiums and discounts in a fair value measurement is related to the unit of account for the asset or liability being measured at fair value. Premiums or discounts related to size as a characteristic of the entity's holding (that is, a blockage factor) instead of as a characteristic of the asset or liability (for example, a control premium), are not permitted. A fair value measurement that is not a Level 1 measurement may include premiums or discounts other than blockage factors when market participants would incorporate the premium or discount into the measurement at the level of the unit of account specified in other guidance.
6. Expansion of the disclosures about fair value measurements. The most significant change will require entities, for their recurring Level 3 fair value measurements, to disclose quantitative information about unobservable inputs used, a

description of the valuation processes used by the entity, and a qualitative discussion about the sensitivity of the measurements. New disclosures are required about the use of a nonfinancial asset measured or disclosed at fair value if its use differs from its highest and best use. In addition, entities must report the level in the fair value hierarchy of assets and liabilities not recorded at fair value but where fair value is disclosed.

The amendments are to be applied prospectively. The amendments are effective during interim and annual periods beginning after December 15, 2011. Early application is not permitted.

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

In April 2011, the FASB issued its guidance entitled, "A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring," which provides for clarification on whether a restructuring constitutes a TDR. In evaluating whether a restructuring is a TDR, a creditor must separately conclude that both of the following exists: (1) the restructuring constitutes a concession, and (2) the debtor is experiencing financial difficulties. For nonpublic entities, the guidance is effective for annual periods ending on or after December 15, 2012, including interim periods within those annual periods. The association is currently evaluating the impact of adoption of this Standard on the financial condition or results of operations. The adoption will result in additional disclosures.

In July 2010, the FASB issued guidance on "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Loan 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 roll-forward 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 by class, the nature and extent of financing receivables modified as troubled debt restructurings by class and the effect on the allowance for credit losses. For public entities, the disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. The adoption of this Standard did not impact the association's financial condition or results of operations, but did result in additional disclosures.

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, sales, issuances and settlements in the roll-forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The adoption of this Standard did not impact the association's financial condition and results of operations but did result in additional disclosures.

The accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform to generally accepted accounting principles, except for the inclusion of a statement of cash flows. Generally accepted accounting principles require a business enterprise that provides a set of financial statements reporting both financial position and results of operations to also provide a statement of cash flows for each period for which results of operations are provided. In regulations issued by FCA, associations have the option to exclude statements of cash flows in interim financial statements. Therefore, the association has elected not to include a statement of cash flows in these consolidated financial statements.

The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries. The preparation of these consolidated financial statements requires the use of management's estimates. The results for the quarter ended September 30, 2011, are not necessarily indicative of the results to be expected for the year ended December 31, 2011. Certain amounts in the prior period's financial statements have been reclassified to conform to current financial statement presentation.

NOTE 2 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

A summary of loans follows:

Loan Type	September 30,	December 31,
	2011	2010
	Amount	Amount
Production agriculture:		
Real estate mortgage	\$ 287,810,322	\$ 290,500,857
Production and intermediate term	30,298,594	35,921,267
Agribusiness:		
Loans to cooperatives	93,663	348,595
Processing and marketing	30,087,076	32,043,483
Farm-related business	4,359,520	9,238,511
Communication	9,861,605	11,205,791
Energy	9,223,080	9,120,885
Water and waste disposal	239,628	246,000
Rural residential real estate	1,940,024	2,156,093
International	-	-
Lease receivables	-	-
Total	<u>\$ 373,913,512</u>	<u>\$ 390,781,482</u>

The association purchases or sells 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 the balances of participations purchased and sold at September 30, 2011:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	\$ 15,567,285	\$ 347,204	\$ -	\$ -	\$ 15,567,285	\$ 347,204
Production and intermediate term	9,540,620	-	-	-	9,540,620	-
Agribusiness	21,802,786	-	-	-	21,802,786	-
Communication	9,777,216	-	-	-	9,777,216	-
Energy	9,223,080	-	-	-	9,223,080	-
Water and waste disposal	-	-	-	-	-	-
Rural residential real estate	-	-	-	-	-	-
International	-	-	-	-	-	-
Lease receivables	-	-	-	-	-	-
Total	<u>\$ 65,910,987</u>	<u>\$ 347,204</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 65,910,987</u>	<u>\$ 347,204</u>

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

	<u>September 30, 2011</u>	<u>December 31, 2010</u>
Nonaccrual loans:		
Real estate mortgage	\$ 1,423,025	\$ 1,398,645
Production and intermediate term	-	-
Agribusiness	-	5,890,110
Communication	-	-
Rural residential real estate	-	-
Energy and water/waste disposal	-	-
Lease receivables	-	-
Total nonaccrual loans	<u>1,423,025</u>	<u>7,288,755</u>
Accruing restructured loans:		
Real estate mortgage	892,926	-
Production and intermediate term	-	-
Agribusiness	-	-
Total accruing restructured loans	<u>892,926</u>	<u>-</u>
Accruing loans 90 days or more past due:		
Real estate mortgage	-	-
Production and intermediate term	-	-
Agribusiness	-	-
Rural residential real estate	-	-
Communication	-	-
Lease receivables	-	-
Total accruing loans 90 days or more	<u>-</u>	<u>-</u>
Total nonperforming loans	<u>2,315,951</u>	<u>7,288,755</u>
Other property owned	523,049	1,509,066
Total nonperforming assets	<u>\$ 2,839,000</u>	<u>\$ 8,797,821</u>

One credit quality indicator utilized by the association is the Farm Credit Administration Uniform Loan Classification System that categorizes loans into five categories. The categories are defined as follows:

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

The following table shows loans and related accrued interest as a percentage of total loans and related accrued interest receivable by loan type as of:

	September 30, 2011	December 31, 2010
Real estate mortgage		
Acceptable	98.1 %	98.4 %
OAEM	0.9	0.9
Substandard/doubtful	1.0	0.7
	<u>100.0</u>	<u>100.0</u>
Production and intermediate term		
Acceptable	92.9	95.8
OAEM	6.3	3.4
Substandard/doubtful	0.8	0.8
	<u>100.0</u>	<u>100.0</u>
Agribusiness		
Acceptable	81.1	63.7
OAEM	9.4	13.8
Substandard/doubtful	9.5	22.4
	<u>100.0</u>	<u>99.9</u>
Energy and water/waste disposal		
Acceptable	81.5	100.0
OAEM	18.5	-
Substandard/doubtful	-	-
	<u>100.0</u>	<u>100.0</u>
Communication		
Acceptable	100.0	100.0
OAEM	-	-
Substandard/doubtful	-	-
	<u>100.0</u>	<u>100.0</u>
Rural residential real estate		
Acceptable	100.0	100.0
OAEM	-	-
Substandard/doubtful	-	-
	<u>100.0</u>	<u>100.0</u>
International		
Acceptable	-	-
OAEM	-	-
Substandard/doubtful	-	-
	<u>-</u>	<u>-</u>
Lease receivables		
Acceptable	-	-
OAEM	-	-
Substandard/doubtful	-	-
	<u>-</u>	<u>-</u>
Total Loans		
Acceptable	95.8	94.6
OAEM	2.5	2.4
Substandard/doubtful	1.7	3.0
	<u>100.0 %</u>	<u>100.0 %</u>

The following table provides an age analysis of past due loans (including accrued interest) as of September 30, 2011:

	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment >90 Days and Accruing
Real estate mortgage	\$94,545	\$29,438	\$ 123,983	\$ 291,953,064	\$ 292,077,047	\$ -
Production and intermediate term	-	1,575	1,575	30,565,719	30,567,294	-
Loans to cooperatives	-	-	-	93,767	93,767	-
Processing and marketing	-	-	-	30,167,550	30,167,550	-
Farm-related business	-	-	-	4,359,976	4,359,976	-
Communication	-	-	-	9,896,685	9,896,685	-
Energy and water/waste disposal	-	-	-	9,475,382	9,475,382	-
Rural residential real estate	-	-	-	1,972,373	1,972,373	-
International	-	-	-	-	-	-
Lease receivables	-	-	-	-	-	-
Total	\$94,545	\$31,013	\$ 125,558	\$ 378,484,516	\$ 378,610,074	\$ -

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

Additional impaired loan information is as follows:

	At September 30, 2011			For the Three Months Ended September 30, 2011		For the Nine Months Ended September 30, 2011	
	Recorded	Unpaid	Related	Average	Interest	Average	Interest
	Investment	Principal Balance ^a	Allowance	Impaired Loans	Income Recognized	Impaired Loans	Income Recognized
Impaired loans with a related allowance for credit losses:							
Real estate mortgage	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Production and intermediate term	-	-	-	-	-	-	-
Loans to cooperatives	-	-	-	-	-	-	-
Processing and marketing	-	325,103	325,103	970,052	-	1,106,897	-
Farm-related business	-	-	-	-	-	-	-
Communication	-	-	-	-	-	-	-
Energy and water/waste disposal	-	-	-	-	-	-	-
Rural residential real estate	-	-	-	-	-	-	-
International	-	-	-	-	-	-	-
Lease receivables	-	-	-	-	-	-	-
Total	\$ -	\$ 325,103	\$325,103	\$ 970,052	\$ -	\$1,106,897	\$ -
Impaired loans with no related allowance for credit losses:							
Real estate mortgage	\$1,421,450	\$1,421,500	\$ -	\$ 1,401,610	\$ 15,492	\$1,423,563	\$ 36,575
Production and intermediate term	1,575	10,702	-	614	190	207	651
Loans to cooperatives	-	-	-	-	-	-	-
Processing and marketing	-	-	-	-	-	-	-
Farm-related business	-	-	-	-	-	-	-
Communication	-	-	-	-	-	-	-
Energy and water/waste disposal	-	1,747,284	-	-	-	-	-
Rural residential real estate	-	-	-	-	-	-	-
International	-	-	-	-	-	-	-
Lease receivables	-	-	-	-	-	-	-
Total	\$1,423,025	\$3,179,486	\$ -	\$ 1,402,224	\$ 15,682	\$1,423,770	\$ 37,226
Total impaired loans:							
Real estate mortgage	\$1,421,450	\$1,421,500	\$ -	\$ 1,401,610	\$ 15,492	\$1,423,563	\$ 36,575
Production and intermediate term	1,575	10,702	-	614	190	207	651
Loans to cooperatives	-	-	-	-	-	-	-
Processing and marketing	-	325,103	325,103	970,052	-	1,106,897	-
Farm-related business	-	-	-	-	-	-	-
Communication	-	-	-	-	-	-	-
Energy and water/waste disposal	-	1,747,284	-	-	-	-	-
Rural residential real estate	-	-	-	-	-	-	-
International	-	-	-	-	-	-	-
Lease receivables	-	-	-	-	-	-	-
Total	\$1,423,025	\$3,504,589	\$325,103	\$ 2,372,276	\$ 15,682	\$2,530,667	\$ 37,226

	At December 31, 2010			For the Year Ended December 31, 2010	
	Recorded Investment	Unpaid Principal Balance ^a	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	\$ -	\$ -	\$ -	\$ -	\$ -
Production and intermediate term	-	-	-	-	-
Loans to cooperatives	-	-	-	-	-
Processing and marketing	1,252,586	1,252,586	750,000	1,381,062	-
Farm-related business	-	-	-	-	-
Communication	-	-	-	-	-
Energy and water/waste disposal	-	-	-	-	-
Rural residential real estate	-	-	-	-	-
International	-	-	-	-	-
Lease receivables	-	-	-	-	-
Total	\$ 1,252,586	\$ 1,252,586	\$ 750,000	\$ 1,381,062	\$ -
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	\$ 1,398,045	\$ 1,398,045	\$ -	\$ 1,261,482	\$ 39,922
Production and intermediate term	-	-	-	-	-
Loans to cooperatives	-	-	-	-	-
Processing and marketing	-	-	-	-	-
Farm-related business	4,637,524	4,637,524	-	2,553,815	114,407
Communication	-	-	-	-	-
Energy and water/waste disposal	-	-	-	-	-
Rural residential real estate	-	-	-	-	-
International	-	-	-	-	-
Lease receivables	-	-	-	-	-
Total	\$ 6,035,569	\$ 6,035,569	\$ -	\$ 3,815,297	\$ 154,329
Total impaired loans:					
Real estate mortgage	\$ 1,398,045	\$ 1,398,045	\$ -	\$ 1,261,482	\$ 39,922
Production and intermediate term	-	-	-	-	-
Loans to cooperatives	-	-	-	-	-
Processing and marketing	1,252,586	1,252,586	750,000	1,381,062	-
Farm-related business	4,637,524	4,637,524	-	2,553,815	114,407
Communication	-	-	-	-	-
Energy and water/waste disposal	-	-	-	-	-
Rural residential real estate	-	-	-	-	-
International	-	-	-	-	-
Lease receivables	-	-	-	-	-
Total	\$ 7,288,155	\$ 7,288,155	\$ 750,000	\$ 5,196,359	\$ 154,329

^a Unpaid principal balance represents the recorded principal balance of the loan.

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

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy and Water/Waste Disposal	Rural Residential Real Estate	International	Lease Receivable	Total
Allowance for Credit Losses:									
Balance at									
December 31, 2010	\$ 158,055	\$ 199,059	\$ 1,261,759	\$ -	\$ 808	\$ 2,112	\$ -	\$ -	\$ 1,621,793
Charge-offs	-	(9,127)	(325,103)	-	-	-	-	-	(334,230)
Recoveries	-	-	-	-	-	-	-	-	-
Provision for loan losses	99,906	17,367	(559,603)	23,577	54,102	(663)	-	-	(365,314)
Adjustment due to merger	-	-	-	-	-	-	-	-	-
Other	28	30,187	86,255	925	9,217	-	-	-	126,612
Balance at									
September 30, 2011	<u>\$ 257,989</u>	<u>\$ 237,486</u>	<u>\$ 463,308</u>	<u>\$ 24,502</u>	<u>\$ 64,127</u>	<u>\$ 1,449</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,048,861</u>
Ending Balance:									
individually evaluated for impairment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Ending Balance: collectively evaluated for impairment	<u>\$ 257,989</u>	<u>\$ 237,486</u>	<u>\$ 463,308</u>	<u>\$ 24,502</u>	<u>\$ 64,127</u>	<u>\$ 1,449</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,048,861</u>
Ending Balance: loans acquired with deteriorated credit quality	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Recorded Investments in Loans Outstanding:									
Ending Balance at									
September 30, 2011	<u>\$ 292,077,047</u>	<u>\$ 30,567,294</u>	<u>\$ 34,621,293</u>	<u>\$ 9,896,685</u>	<u>\$ 9,475,382</u>	<u>\$ 1,972,373</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 378,610,074</u>
Ending Balance for loans individually evaluated for impairment	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Ending Balance for loans collectively evaluated for impairment	<u>\$ 292,077,047</u>	<u>\$ 30,567,294</u>	<u>\$ 34,621,293</u>	<u>\$ 9,896,685</u>	<u>\$ 9,475,382</u>	<u>\$ 1,972,373</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 378,610,074</u>
Ending Balance for loans acquired with deteriorated credit quality	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

NOTE 3 — CAPITAL:

The association's board of directors has established a Capital Adequacy Plan (Plan) that includes the capital targets that are necessary to achieve the institution's capital adequacy goals as well as the minimum permanent capital standards. The Plan monitors projected dividends, equity retirements and other actions that may decrease the association's permanent capital. In addition to factors that must be considered in meeting the minimum standards, the board of directors also monitors the following factors: capability of management; quality of operating policies, procedures, and internal controls; quality and quantity of earnings; asset quality and the adequacy of the allowance for losses to absorb potential loss within the loan and lease portfolios; sufficiency of liquid funds; needs of an institution's customer base; and any other risk-oriented activities, such as funding and interest rate risk, potential obligations under joint and several liability, contingent and off-balance-sheet liabilities or other conditions warranting additional capital. At least quarterly, management reviews the association's goals and objectives with the board.

NOTE 4 — INCOME TAXES:

Central Texas Farm Credit, ACA and its PCA subsidiary are subject to federal and certain other income taxes. The associations are eligible to operate as cooperatives that qualify for tax treatment under subchapter T of the Internal Revenue code. Under specified conditions, the associations can exclude from taxable income amounts distributed as qualified patronage refunds in the form of cash, stock or allocated surplus. Provisions for income taxes are made only on those earnings that will not be distributed as qualified patronage refunds. In the first quarter of 2011, the association provided a patronage distribution of \$3,200,000 to its eligible stockholders. Deferred taxes are recorded at 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 association's valuation allowance was -\$594,690 as of the quarter September 30, 2011, for no available tax benefit as of that point in time.

The subsidiary, Central Texas Land Bank, FLCA, is exempt from federal and other income taxes as provided in the Farm Credit Act of 1971.

In June 2006, the Financial Accounting Standards Board (FASB) released Interpretation No. 48, "Accounting for Uncertainty in Income Taxes." This interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes." This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Interest and penalties recognized are classified in the financial statements as a component of income taxes. This interpretation is effective for fiscal years beginning after December 15, 2006. The impact of applying the interpretation is not expected to have a material impact on the association's financial condition or results of operations.

Effective January 1, 2007, the association adopted *FIN 48: Accounting for Uncertainty in Income Taxes*. Adoption of the accounting interpretation resulted in no material adjustments to the association's financial statements at that time and no material impact is anticipated due to this accounting interpretation in future periods. Management believes the tax positions taken by the association will be sustained upon examination, including resolution of any related appeals or litigation processes, based upon the technical merits of the positions. In its evaluation process, management has presumed that the tax positions will be examined by the appropriate taxing authority that has full knowledge of all relevant information.

NOTE 5 — FAIR VALUE MEASUREMENTS:

FASB guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. See Note 11 to the 2010 Annual Report to Stockholders for a more complete description.

Assets and liabilities measured at fair value on a non-recurring basis for each of the fair value hierarchy values are summarized below:

<u>September 30, 2011</u>	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>	<u>Total Gains (Losses)</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>		
Assets:					
Loans *	\$ -	\$ -	\$ -	\$ -	-
Other property owned	-	-	523,049	523,049	-
<u>December 31, 2010</u>					
	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>	<u>Total Gains (Losses)</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>		
Assets:					
Loans *	\$ -	\$ -	\$ 502,585	\$ 502,585	-
Other property owned	-	-	1,509,066	1,509,066	-

*Represents the fair value of certain loans that were evaluated for impairment under authoritative guidance, "Accounting by Creditors for Impairment of a Loan." The fair value was based upon the underlying collateral since these were collateral-dependent loans for which real estate is the collateral.

Valuation Techniques

As more fully discussed in Note 11 to the 2010 Annual Report to Stockholders, authoritative guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following represent a brief summary of the valuation techniques used for the associations' assets and liabilities. For a more complete description, see Notes to the 2010 Annual Report to Stockholders.

Investment Securities

Where quoted prices are available in an active market, available-for-sale securities are classified as Level 1. If quoted prices are not available in an active market, the fair value of securities is estimated using quoted prices for similar securities received from pricing services, pricing models that utilize observable inputs or discounted cash flows. Generally, these securities are classified as Level 2. This would include certain mortgage-backed securities. Where there is limited activity or less transparency around inputs to the valuation, the securities are classified as Level 3. Securities classified within Level 3 include asset-backed securities and certain mortgage-backed securities, including those issued by Farmer Mac.

Assets Held in Nonqualified Benefits Trusts

Assets held in trust funds related to deferred compensation and supplemental retirement plans are classified within Level 1. The trust funds include investments that are actively traded and have quoted net asset values that are observable in the marketplace.

Loans

For certain loans evaluated for impairment under authoritative guidance, the fair value is based upon the underlying collateral since the loans were collateral-dependent loans for which real estate is the collateral. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters. As a result, these fair value measurements fall within Level 3 of the hierarchy. When the value of the real estate, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established.

Other Property Owned

Other property owned is generally classified as Level 3. The fair value is based upon the collateral value, which is generally determined using appraisals or other indications based on comparable sales of similar properties. Costs to sell represent transaction costs and are not included as a component of the asset's fair value.

NOTE 6 — EMPLOYEE BENEFITS PLANS:

The following table summarizes the components of net periodic benefit costs of non-pension other postretirement employee benefits for the nine months ended September 30, 2011 and September 30, 2010:

	Other Benefits	
	2011	2010
Service cost	\$ 34,650	\$ 29,306
Interest cost	54,217	47,331
Expected return on plan assets	-	-
Amortization of prior service costs	(20,357)	(21,127)
Amortizations of net (gain) loss	-	-
Net periodic benefit cost	<u>\$ 68,510</u>	<u>\$ 55,510</u>

In September 2006 the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 158 "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" (SFAS 158), 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 SFAS 158 were adopted at December 31, 2007. SFAS 158 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, we used a September 30 measurement date for pension and other postretirement benefit plans. The Standard provides two approaches for an employer to transition to a fiscal year end measurement date. We have applied the second approach, which allows for the use of the measurements determined for the prior year-end.

Under this alternative, 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 (Accumulated Other Comprehensive Income) by \$6,933 and increased the postretirement benefit cost asset/liability by an offsetting \$6,933. Additionally, the association recorded a charge to retained earnings (Accumulated Other Comprehensive Income) related to postretirement benefits in the amount of \$13,980 as a result of its change in the measurement date for other postretirement benefits from September 30 to December 31, 2007, in accordance with Statement of Financial Accounting Standards No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans".

During 2011 the association anticipates making decreases in retained earnings (Accumulated Other Comprehensive Income – Unrecognized Prior Service Cost) totaling \$27,142 with matching increases to the postretirement benefit cost asset/liability account. As of September 30, 2011, the association had decreased retained earnings and posted offsetting increases to the postretirement benefit cost asset/liability account by \$20,357.

The association has accrued \$74,894 to fund its employee's net periodic postretirement benefit costs asset/liability account thus far in 2011 and plans on accruing \$ 24,965 in the last three months of 2011, for a total of \$99,859 for the year.

The association previously disclosed in its financial statements for the year ended December 31, 2010, that it expected to utilize \$30,502 of its post retirement benefit cost asset/liability account in 2011. As of September 30, 2011, \$17,336 of the post retirement benefit costs asset/liability account has been used to cover related expenses by the association.

The association previously disclosed in its financial statements for the year ended December 31, 2010, that it expected to contribute \$770,007 to its defined pension plan in 2010. As of September 30, 2011, \$577,505 of contributions had been made. The association presently anticipates contributing an additional \$192,502 to fund its defined pension plan in 2010 for the expected total of \$770,007.

Employees of the association participate in either a defined benefit pension plan (DB Plan) or the defined contribution pension-plan (DC Plan) and are eligible to participate in the District Thrift-Plus Plan (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 non-contributory 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. Contributions or association expense accruals related to the DB plan for 2010 as mentioned above are scheduled to total \$770,007 by December 31, 2011.

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

The structure of the District's retirement plans is characterized as multi-employer, since none of the assets, liabilities or costs of any plan are segregated or separately accounted for by the District's participating 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 each quarter and throughout the year. Contributions due and unpaid are recognized as a liability. As of September 30, 2011, the current year cost for the DB and DC Plans were \$577,505 and \$29,892 respectively.

NOTE 7 — COMMITMENTS AND CONTINGENT LIABILITIES:

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

NOTE 8 — SUBSEQUENT EVENTS:

The association has evaluated subsequent events through October 25, 2011, which is the date the financial statements were issued.