



United

FCS

A Financial Services Association

2010

Annual Report

United FCS, ACA

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United FCS, ACA

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The United FCS, ACA Annual Report is available on our website (www.unitedfcs.com) 75 days after the end of the calendar year and members are provided a copy of such report 90 days after the end of the year. Quarterly reports are available on our website (www.unitedfcs.com) and by request 40 days after the end of each calendar quarter.

AgriBank, FCB's financial condition and results of operations materially affect members' investment in United FCS, ACA. To request a free copy of the combined AgriBank, FCB and Affiliated Associations' financial reports contact us at P.O. Box 1560, Willmar, MN 56201-1560, (320) 235-1912 or contact AgriBank, FCB at 375 Jackson Street, St. Paul, MN 55101-1810, (651) 282-8800, or via electronic mail to agribankmn@agribank.com. The reports are also available through AgriBank, FCB's website at www.agribank.com.

To request a free copy of our annual or quarterly reports contact us as stated above.

MESSAGE FROM THE CHAIRPERSON OF THE BOARD AND CHIEF EXECUTIVE OFFICER



Greetings:

As a member-owned cooperative, United FCS takes great pride in sharing our 2010 results with you. The old saying goes, “The numbers speak for themselves,” and while we agree that the numbers accurately convey the positive results of 2010, we are also reminded of the human relationship side of this business. We recognize that what really distinguishes our financial services from other providers is a knowledgeable team of professionals dedicated to transforming those financial resources into lasting economic advantages for our members. The same is true for your Board of Directors. Governance of United FCS includes a keen awareness of the important role the Board plays in setting strategic direction, providing clear direction through policy all the while fulfilling a fiduciary responsibility for shareholders. At all levels with the organization, we are focused on understanding your financial services needs and on providing sound and constructive products and services.

Several Association highlights:

- Distributed \$6 million in **cash** patronage from 2010 operations. Since 2002, United FCS has **paid out** over \$50 million in cash patronage to members.
- Experienced continued growth in membership. Year-over-year, Association growth includes a 9 percent increase in voting shareholders, which totaled over 5,100 members at year-end.
- Staff took the initiative to contact customers throughout 2010 and encouraged members to take advantage of historically low rates for many of our fixed rate products. The result was 2,319 interest rate conversions that are estimated to save our customers over \$1.9 million in interest costs during the first 12 months following conversion.
- In 2010, staff hosted customer appreciation events that served nearly 3,000 meals to members and their families. We also completed over 3,200 lunches in the field deliveries to share the Association’s appreciation to those involved in agriculture.

As an independent, member-owned cooperative, United FCS is proud to be your local source for constructive financial services and exceptional customer service. We are also proud of our rich heritage that has roots dating back 95 years. As we look to the future, our primary emphasis continues to be transforming financial resources into lasting economic advantages for our members.

Thanks for your continued patronage!

Sincerely,

A handwritten signature in black ink that reads "Gregory Jans". The signature is written in a cursive, flowing style.

Greg Jans, Chairperson of the Board

A handwritten signature in black ink that reads "Marcus L. Knisely". The signature is written in a cursive, flowing style.

Marcus L. Knisely, Chief Executive Officer

March 11, 2011

CONSOLIDATED FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

United FCS, ACA

(Dollars in thousands)

	2010	2009	2008	2007	2006
Statement of Condition Data					
Loans	\$1,176,885	\$1,062,030	\$969,801	\$900,338	\$814,054
Allowance for loan losses	5,251	3,915	2,944	1,599	2,464
Net loans	1,171,634	1,058,115	966,857	898,739	811,590
Investment in AgriBank, FCB	36,651	33,215	30,257	25,729	25,605
Investment securities	1,447	7,868	13,105	--	--
Other property owned	2,931	172	100	280	81
Other assets	32,760	31,422	29,012	28,755	29,856
Total assets	\$1,245,423	\$1,130,792	\$1,039,331	\$953,503	\$867,132
Obligations with maturities of one year or less	\$1,059,876	\$964,070	\$882,159	\$800,394	\$717,508
Total liabilities	1,059,876	964,070	882,159	800,394	717,508
Protected members' equity	--	--	--	--	1
Capital stock and participation certificates	4,427	4,108	3,827	3,812	3,783
Allocated surplus	--	--	--	6,763	11,463
Unallocated surplus	181,120	162,614	153,345	142,534	134,377
Total members' equity	185,547	166,722	157,172	153,109	149,624
Total liabilities and members' equity	\$1,245,423	\$1,130,792	\$1,039,331	\$953,503	\$867,132
Statement of Income Data					
Net interest income	\$32,255	\$28,082	\$25,241	\$23,894	\$22,591
Provision for (reversal of) loan losses	1,226	4,802	1,341	(786)	230
Patronage income	7,593	5,301	3,880	2,868	2,564
Other expense, net	12,535	13,729	12,845	14,501	13,204
Provision for (reversal of) income taxes	1,583	785	(863)	190	937
Net income	\$24,504	\$14,067	\$15,798	\$12,857	\$10,784
Key Financial Ratios					
Return on average assets	2.2%	1.3%	1.6%	1.4%	1.3%
Return on average members' equity	14.0%	8.8%	10.2%	8.4%	7.3%
Net interest income as a percentage of average earning assets	3.0%	2.8%	2.8%	2.9%	3.0%
Members' equity as a percentage of assets	14.9%	14.7%	15.1%	16.1%	17.3%
Net chargeoffs as a percentage of average loans	--	0.4%	--	--	--
Allowance for loan losses as a percentage of loans	0.4%	0.4%	0.3%	0.2%	0.3%
Permanent capital ratio	11.6%	11.1%	11.8%	13.5%	14.8%
Total surplus ratio	11.3%	10.8%	11.4%	13.1%	14.4%
Core surplus ratio	11.3%	10.8%	11.4%	12.3%	13.4%
Other					
Loans serviced for AgriBank, FCB	\$661	\$1,425	\$1,869	\$2,803	\$3,841
Qualified patronage distribution payable to members	6,000	4,800	4,800	4,704	4,800
Surplus allocated under nonqualified patronage program	--	--	--	--	1,463
Redemption of surplus allocated under nonqualified patronage program	--	--	6,763	4,700	--

The qualified patronage distribution to members accrued for the year ended December 31, 2010 were distributed in cash during the first quarter of 2011. The qualified patronage distributions accrued for the years ended December 31, 2009, 2008, 2007, and 2006 were distributed in cash during the first quarter of each subsequent year. No other income was distributed to members in the form of dividends or stock during these time periods. Surplus was allocated to members under our nonqualified patronage program in 2006 as presented above and was fully redeemed in 2007 and 2008. No surplus was allocated to the nonqualified patronage program in 2010, 2009, 2008, or 2007.

MANAGEMENT'S DISCUSSION AND ANALYSIS

United FCS, ACA

The following commentary reviews the consolidated financial position and consolidated results of operations of United FCS, ACA and its subsidiaries and provides additional specific information. The accompanying consolidated financial statements and notes also contain important information about our financial position and results of operations.

Merger Activity

United FCS, ACA began operating solely through United FCS, FLCA and United FCS, PCA at the close of business on December 31, 2007, following the consolidation of Farm Credit Services of Minnesota Valley, FLCA, and Farm Credit Services of North Central Wisconsin, FLCA, as well as Farm Credit Services of Minnesota Valley, PCA, and Farm Credit Services of North Central Wisconsin, PCA.

Forward-Looking Information

This Annual Report includes 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 "anticipate", "believe", "could", "estimate", "may", "should", "will", "expect", or other variations on these terms are intended to identify such forward-looking statements. These statements are based on assumptions and analyses made in light of experience, 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,
- fluctuations in the agricultural, energy, financing, and leasing sectors,
- economic conditions and credit performance of our loan portfolio, portfolio growth and seasonal factors,
- changes in our estimates underlying the allowance for loan losses,
- periodically occurring weather-related conditions and plant and animal disease that impact agricultural productivity and income and consumer demand,
- changes in United States government support of the agricultural industry, and
- bio-terrorism and other terrorism.

Loan Portfolio

Loan volume totaled \$1.18 billion at December 31, 2010. The changes in loan volume for the last two years were as follows (in thousands):

Change in loan volume	2010 vs. 2009		2009 vs. 2008	
Accrual				
Mortgage	\$73,333	12.5%	\$51,500	9.6%
Commercial	48,976	10.7%	48,368	11.8%
Nonaccrual	(7,454)	(45.8%)	(7,639)	(31.9%)
Total loans	<u>\$114,855</u>	<u>10.8%</u>	<u>\$92,229</u>	<u>9.5%</u>

New loans to new members combined with additional loans and higher utilization of available loan commitments to existing members comprise a majority of the increase in loan volume, partially offset by the sale of a participation interest discussed below.

In May 2008, July 2009, and July 2010, we sold \$132.8 million, \$22.1 million, and \$38.8 million, respectively, of a participation interest in real estate loans to AgriBank. AgriBank has established a separate patronage pool for these assets. Any patronage declared on this pool is solely at the discretion of the AgriBank Board of Directors. AgriBank historically has paid patronage in an amount that approximates the net earnings of those loans. As required by our agreement with AgriBank, we purchased additional AgriBank common stock equal to 8% of the pool assets.

Portfolio Distribution

We are chartered to serve certain counties in Minnesota and Wisconsin. Approximately 40.0% of our total loan portfolio was in Renville, Redwood, and Kandiyohi counties in the state of Minnesota and Marathon, Wood, and Clark counties in the state of Wisconsin at December 31, 2010.

The association has a diverse agricultural loan portfolio, with the largest commodity sectors being cash grains at 29.5% and dairy at 15.4% of our total portfolio at December 31, 2010.

The commercial loan portfolio shows some seasonality. These loans are normally at their lowest levels during the winter months because of operating repayments following harvest. They then increase throughout the year as farmers borrow for operating and capital needs.

Agricultural and Economic Conditions

The United States Department of Agriculture (USDA) 2010 Farm Sector Income Forecast is \$16.8 billion above the 10-year average of \$64.8 billion and a 31% increase from 2009 levels. 2010 net cash receipts are expected to rise by 10.4% from 2009 levels. USDA is forecasting that farm expenses will rise 2% in 2010 after declining 4.1% in 2009 and be the 2nd highest level ever on a nominal basis. USDA is also projecting that net cash income will be at \$92.5 billion, which would be a nominal record and significantly above its 10-year average of \$71.8 billion.

Cash Grain - Corn/Soybeans: USDA's December Grain Supply and Demand report reflects a positive outlook for both corn and soybeans. USDA has projected ending U.S. corn supplies at 832 million bushels with an average price of \$4.80-\$5.60/bushel and the ending U.S. soybean supplies at 165 million bushels with an expected average price of \$10.70-\$12.20/bushel. Corn and soybean producers in our local service area produced above average yields based on USDA information and remain profitable.

Other Crops: Sugar beets, potatoes and cranberries are produced in our Local Service Area (LSA). Currently, U.S. sugar prices are at record levels due to decreased world sugar supplies. Area producers harvested a near record beet crop that coupled with strong sugar prices will generate profits. Potato production was down in Wisconsin and the U.S. in 2010 which has been supportive to prices. Demand for potatoes has increased 4% from 2009 which is also supportive to prices. Cranberry production was down from 2009 levels which has reduced supplies. Cranberry prices are down from recent years but are generally at levels that are at break-even for most producers.

Dairy: Dairy cash receipts are expected to increase 29.6% in 2010 due to higher exports of dairy products and fewer imports of dairy products. Exports are being helped by world economic growth, the lower U.S. dollar

and less world-wide competition. Monthly dairy exports are nearing the 2008 highs that the industry achieved. In addition to strong exports, during the last months of 2010, producers have begun to cull aggressively with over 240,000 dairy cows slaughtered in November which is up 15.5% from 2009 levels and the most for November since 1997.

Current milk futures show prices returning to levels below break-even for many of our local producers. The forecasted weakness in milk prices is primarily due to decreased fluid consumption in December, a large buildup in inventories of cheese, cow numbers that are still above year-ago levels, and increased production per cow. U.S. milk production in November was up 3.1% from November 2009 levels with production in Wisconsin up .5% and production in Minnesota down 1.5%.

Area dairy producers were generally able to harvest good alfalfa forage and corn silage crops this summer along with corn for grain which should help minimize feed purchases. Many dairy producers in our local service area have operated near break-even levels for 2010.

General Livestock: The revised December USDA Farm Sector Income forecast states "Cattle and calf cash receipts are expected to increase 13% in 2010 due to increased slaughter. Hog cash receipts are expected to increase 26% over 2009 due to stable pork demand and lower year-over-year pork production. Broiler cash receipts are expected to have increased almost 11% in 2010 over 2009 cash receipts due to an increase in prices and the gradual reopening of exports to Russia."

The USDA Cold Storage reports have generally shown that meat stocks continue to trend below year-ago levels and continue to support the current or higher levels for most livestock commodities with the exception being the broiler complex. The November 2010 Cold Storage report showed that frozen chicken stocks were up 16% from year-ago November levels while frozen pork supplies were down 3% from year ago November levels and frozen turkey supplies were down 28% from November levels.

The December USDA Hogs and Pigs report showed the current U.S. inventory of all hogs and pigs on December 1, 2010 down 1% from December 1, 2009. Breeding inventory and marketing hog inventory were both down 1% from last December levels as well. 2010 hog producers in the Association's portfolio have operated at profitable levels. Expectations are that hog slaughter will be 1-2% below 2010 levels the first quarter of 2011 and that the industry will be at breakeven or profitable for 2011.

Prices for turkey products have continued to steadily increase throughout 2010 due to historically low levels of product as a result of the supply cutbacks that the industry started in 2009. The turkey industry was able to operate at very strong profitability levels in 2010 after two years of limited returns. Current frozen stocks of turkeys are at record low levels for November. The outlook for 2011 will be positive but not likely to be as strong as 2010 levels due to higher feed costs in 2011.

The broiler industry has been dealing with both demand and production issues in the latter half of 2010. Poults hatched/month have been 2-9% higher than 2009 levels from April-November and year-to-date Ready-to-Cook production up 3.65% from 2009 levels through November. Exports are down 8.7% from 2009 levels through November due primarily to trade issues with Russia and China. The combination of increased production and fewer exports has resulted in more production going into frozen storage and lower broiler prices. Feed costs also started to increase substantially in the fourth quarter of 2010 and are projected to remain at high levels into the third quarter of 2011. The industry outlook is for losses in the last part of the fourth quarter of 2010 and into first quarter of 2011.

Ethanol: The ethanol industry was able to operate at profitable levels in 2010 due to improved ethanol prices the second half of the year, strong distiller dried grains prices and moderate corn prices for the majority of the year. The strengthening of oil and gas prices over the second half of 2010 has allowed ethanol prices to increase to offset a majority of the corn price increase that occurred the last quarter of the year. During the last quarter of 2010, ethanol plants were able to operate at a profitable margin in excess

of \$.30/gallon on average prior to debt servicing. The 2011 first quarter eleven state 3 month profitability forecast before debt servicing based on futures prices for corn, natural gas, and crude oil for the fourth quarter is a positive \$.31/gallon.

The Renewable Fuel Standard required the production of 12 billion gallons of ethanol in 2010 and this increases to 12.6 billion gallons in 2011. U.S. ethanol production capacity is currently at 14 billion gallons increasing to 14.7 billion gallons in 2011.

Analysis of Risk

The following table summarizes risk assets (accruing volume includes accrued interest receivable) and delinquency information (in thousands):

As of December 31	2010	2009	2008
Loans:			
Accruing restructured	\$1,017	\$1,446	\$889
Past due 90 days or more still accruing	--	403	330
Nonaccrual	8,818	16,272	23,911
Total risk loans	9,835	18,121	25,130
Other property owned	2,931	172	100
Total risk assets	\$12,766	\$18,293	\$25,230
Risk loans			
as a percentage of total loans	0.8%	1.7%	2.6%
Total delinquencies			
as a percentage of total loans	0.4%	1.5%	1.2%

The decrease in nonaccrual loans was primarily attributable to pay down and upgrades in our ethanol and hog portfolios. In addition, a portion of the decrease relates to a \$2.8 million other property owned transaction that took place in December 2010. The nonaccrual account was transferred to other property owned.

Portfolio Credit Quality

The credit quality of our portfolio improved during 2010. Adversely classified assets decreased from 3.8% of the portfolio at December 31, 2009, to 2.0% of the portfolio at December 31, 2010. Adversely classified assets are assets identified as showing some credit weakness outside our credit standards. We have considered portfolio credit quality in assessing the reasonableness of our allowance for loan losses.

In certain circumstances, we use various government guarantee programs to reduce the risk of loss. At December 31, 2010, \$41.8 million of our loans were, to some level, guaranteed under these government programs.

Analysis of the Allowance for Loan Losses

The allowance for loan losses is an estimate of losses on loans in our portfolio as of the financial statement date. We determine the appropriate level of allowance for loan losses based on the periodic evaluation of factors such as:

- loan loss history,
- portfolio quality, and
- current economic and environmental conditions.

Comparative allowance coverage of various loan categories follows:

As of December 31	2010	2009	2008
Allowance as a percentage of:			
Loans	0.4%	0.4%	0.3%
Nonaccrual loans	59.5%	24.1%	12.3%
Total risk loans	53.4%	21.6%	11.7%
Net chargeoffs as a percentage			
of average loans	--	0.4%	--
Adverse assets to risk funds	17.3%	29.7%	26.7%

The percentage increase in the allowance as it compares to nonaccrual loans is primarily the result of the \$7.5 million reduction in nonaccrual loans from 2009. In our opinion, the allowance for loan losses was reasonable in relation to the possible losses in the loan portfolio at December 31, 2010.

Young, Beginning and Small Farmers and Ranchers

Vision Statement

Successful and vibrant young, beginning, and small (YBS) farmers in our LSA.

Mission Statement

Provide products, services, assistance and advice to young, beginning and small farmers that support their long-term success.

Purpose

This YBS Farmer Business Plan Summary affirms our commitment to serving this farmer segment.

Objective

To provide sound and constructive credit and a broad array of financial support services to YBS farmers. Emphasis will be placed on YBS farmers with high probability for long-term success in agriculture and for continuing and expanding business relationships. This plan will benefit our customers, United, agriculture, and the rural communities we serve.

Definitions

Young - If the age of any customer at the time the financial service was originated is equal to or less than 35 years, the financial service qualifies for Young farmer status.

Beginning - If the length of time in farming for any customer at the time the financial service was originated is equal to or less than 10 years, the financial service qualifies for Beginning farmer status.

Small - If the most recent earnings statement of any customer at the time the financial service was originated shows gross farm income less than \$250,000, the financial service qualifies for Small farmer status.

A Closer Look: YBS Farmer Marketplace Segments

As a customer-owned and governed financial services cooperative, we take our obligation to fulfill the responsibilities under the Farm Credit Act very seriously. The Farm Credit System was created to improve the income and well-being of rural America by furnishing sound, adequate and constructive credit and financial services. To accomplish that mission, it is imperative that we offer services to all eligible customers within our designated marketplace. The challenge that all FCS institutions face is finding the right balance of definition in determining what is sound, adequate and constructive.

We operate within a 'managed' credit philosophy culture which represents a balanced approach between solid capital, good earnings and moderate high quality growth. As such, we attempt to mitigate portfolio risk with conservative loan underwriting standards and the use of

risk management tools, i.e., Farm Service Agency (FSA) guarantees, etc. We also emphasize non-loan financial services such as farm accounting, tax preparation, life insurance, business and transitional consulting, crop insurance along with a wide array of educational opportunities.

As previously stated, it is our intent to serve all eligible segments within our marketplace. However, given the inherent internal philosophical conflicts on serving potentially higher risk segments (Young farmers) often lacking traditional agricultural experience (Beginning farmers), and the unknowns of a transitioning group (Small farmers), it is important to clearly state our service objectives for these segments:

- **Risk Appetite** - We have positioned our risk appetite to assume more underwriting risk on Young farmers. The approval decision will be based on the three subjective factors (sound, adequate and constructive), and will require the use of all available risk mitigators i.e., FSA Guarantees, etc. Beginning farmers and Small farmers will typically be expected to meet underwriting standards (not to exceed standard exception thresholds). It should be noted that we will consider a broader set of underwriting ratios when reviewing Small farmers, given the likely part-time/agriculture consumer nature of that type of operation.
- **Marketshare** - We anticipate serving a similar percent of the YBS farmer segments present in the marketplace as compared to our overall marketshare percent. Projections indicate an increasing overall marketshare over the 5-year planning horizon. While new delivery channels and focused emphasis on these targeted segments may result in higher marketshare, we don't anticipate the growth to exceed total marketshare growth.

YBS Farmer Demographics

Demographics information from the 2007 USDA National Agricultural Statistic Service, 2007 Census of Agricultural – Minnesota/Wisconsin County Data.

YBS Categories	LSA Information		United YBS Customers as a % of:				United Long-term YBS Customer Goals as a % of Total Customers
	Total Farmers in LSA Per YBS Category	As % of Total Farmers*	12/31/10 United YBS Customers	YBS Customers as % of Total Farmers in LSA*	YBS Customers as % of Total Farmers in LSA Per YBS Category	YBS Customers as % of Total United Customers**	
Young Farmers	1,724	8.21%	1,423	6.8%	82.5%	26.9%	30%
Beginning Farmers	4,428	21.09%	1,620	7.7%	36.6%	30.6%	30%
Small Farmers	17,503	83.36%	3,247	15.5%	18.6%	61.3%	70%

* LSA total farmer count is: 20,997

** United's total loan/lease customer count is: 5,295

Farmers can qualify in more than one category, thus could be counted more than once due to the YBS farmer definitions. The YBS farmer designation is established as of the date the loan is made or renewed.

YBS Farmer Goals

Loan/Lease Numbers:

United FCS, ACA					
YBS Loan/Lease Performance – Portfolio* as of 12/31/10					
	# Loans / Leases	% of Assn. Loans / Leases	Goals		
			2011	2012	2013
Young	2,495	21.9%	23%	24%	25%
Beginning	2,558	22.5%	23%	24%	25%
Small	5,301	46.6%	50%	50%	50%
*11,380 United loans/leases as of 12/31/10					

Members can have more than one loan/lease, thus could be counted more than once due to the YBS farmer definitions. The YBS farmer status is as of the date the loan/lease is made or renewed. The above calculations do not include participation loan data.

Financial Services

In addition to the 5,295 loan/lease customers, we also have approximately 2,100 customers who only purchase financial services products. Of the approximately 7,400 total customers, about 60% of them purchase one or more financial service products.

It is our three year goal (2011-2013) to maintain these high levels of utilization of financial services within the YBS farmer segment.

Marketplace Situation Analysis

We have met, and will continue to meet, the financial services needs of eligible customers within the marketplaces we serve. YBS farmers are a significant portion of our marketplace and as such, we have served, and will continue to serve, this segment within the overall scope of our business.

Coordination with Governmental Agencies, Outreach and Special Program Utilization/Promotion

We have utilized and continue to utilize risk management programs offered through federal and state agencies to assist in the financing of YBS farmers within our marketplace. We utilize FSA guarantee programs to help manage our overall portfolio risk associated with customers who do not meet all normal lending standards. In addition, within the Minnesota retail marketplace we utilize the Rural Finance Authority (RFA) and Ag Best Management (AgBMP) programs offered through the State of Minnesota to assist YBS farmer in establishing ownership of land and capital assets and improvements necessary to assist them in being successful in their farming careers.

The RFA's Mission Statement is "To implement and govern a statutory system of rural credits created to develop the state's agricultural resources; focusing on family farm productive resources while also supporting the agricultural processing and manufacturing industry." One of the main goals of RFA is to facilitate and provide loans to family farmers on favorable terms and conditions not otherwise available. RFA accomplishes their purpose by purchasing a portion of an agricultural real estate loan from participating lenders. The RFA and lender interest rates are then averaged to form a "blended" interest rate, making it more affordable to finance debt. Minnesota RFA programs primarily direct assistance toward YBS farmer producers. RFA program parameters include producer equity ceilings to insure that assistance is focused towards YBS farmer operators.

In past years, we have led the development, education and promotion of the Dairy Investment Tax Credit (within our Wisconsin marketplace) which became law and as a result more than \$120 million of new investment in the state's dairy industry has occurred. In 2007, grant money (\$50,000) was provided to the Wisconsin School for Beginning Dairy and Livestock Farmers, with funds supporting programming costs for start-up and transitioning farmers. Additionally, in 2007, a grant for

Dairy State Academy (\$25,000), which is a hands-on teaching school for farmers to gain additional experience and education in agriculture was also provided. Since 2008, we have co-sponsored a portion of the Wisconsin Farm Bureau Young Farmer Conference, with some 300 attendees. We were also instrumental in passage of the Minnesota Livestock Grant Program which supports livestock investment with an emphasis on Young and Beginning farmers.

	# of YBS Customers Utilizing as of 12/31/10	Goal for 2011	Goal for 2012	Goal for 2013
RFA Loan Program (MN)	18	20	20	20
FSA Guarantee	103	100	105	110
AgBMP (MN)	14	20	20	21
WHEDA Crop Loan (WI)	1	1	1	1

Note: higher land prices, current economic conditions and USDA Farm Program parameters create profitability and capital constraints for YBS farmers to utilize, and qualify for the above special programs.

Future Farmers of America (FFA) Involvement

We have been a long-time supporter of the FFA. Our support is both at the local high school or chapter level and at the State Foundation level.

We serve as a sponsor for multiple FFA events as well as providing financial support to the State FFA Conventions.

Through our twelve local offices, we actively support local FFA Chapters and local High School Agriculture programs. Our staff participates on advisory committees and our local FCS offices support local FFA chapters with various financial contributions.

University of Minnesota (U of M) Summit

We were a sponsor of the 2010 U of M Summit hosted by the University of Minnesota and Team Agriculture Education. The mission of this summit was 'to connect the growth opportunities in agriculture, food and natural resources.' This mission is reached by providing agricultural educators with additional information and tools to help students prepare for the workforce. Key topics for this year's summit were:

- Education is a solution to a healthy economy,
- Education is a crucial partner for the preparing the workforce,
- Education is key to creating positive consumer awareness, and
- Education has a positive impact on student learning.

Through these topics educators will gain knowledge they can utilize in preparing future agricultural leaders for the workforce.

Minnesota Agricultural and Leadership (MARL) Program

The MARL program, which is organized within the Southwest Minnesota State University Foundation, is a dynamic leadership development program for active and engaged adult agricultural and rural leaders in Minnesota. We support this program both financially and through employee involvement.

The MARL program uses intensive study, training and travel experiences to aid participants in strengthening their skills in communication, conflict management and agricultural understanding to ultimately build them up to be confident and effective leaders. This is done as part of accomplishing their mission to develop the skills of Minnesota agricultural and rural leaders so they may maximize their impact and effectiveness in local, state, national, and international arenas.

The impacts of the MARL program are ones that will be seen for many years. The intent is that upon completion of the program, participants will:

- lead more effective organizations,
- improve their rural communities,
- enhance agricultural and rural representation,

- improve the professionalism of agriculture and rural Minnesota,
- heighten the impact of their involvement in their communities,
- sharpen their promotional skills, and
- participate in the creation of better public policy for agriculture and rural Minnesota.

Cooperative Network

We are a strong supporter of the Cooperative Network, an association that provides government relations, education, marketing and technical services for cooperatives. Cooperative Network provides the means for cooperatives of all types to join together to strengthen their businesses, grow our economy and serve our communities. This organization actively supports efforts that will benefit YBS farmers.

The United States has approximately 48,000 cooperatives with 800 of them being in Wisconsin and 1,000 of them being in Minnesota.

Assistance Opportunities

We offer opportunities for assistance to YBS farmers. We assist Young farmers with FSA Guarantee loan fees. We allocate a pool of \$31,500 for this purpose, with a maximum of \$3,000 per customer. For customers who qualify as both Young and Beginning farmer status, we offer two other forms of assistance:

- all or part of origination fees may be waived, and
- a customer may be reimbursed for up to \$1,000 worth of Educational and Business Management Programs.

We support YBS Farmers through:

- modified core credit underwriting standards balanced with prudent credit risk management designed to assist the Young, Beginning segments of our portfolio,
- subsidized interest rate products for Young and Beginning farmers,
- communicated specialized program offerings via advertising and marketing efforts,
- our commitment that all market outreach programs offered are offered to all producers irrespective of their age, gross farm income or years farming,
- Continuing Education Scholarships, and
- sponsorship of grain marketing seminars, crop insurance meetings, and succession/retirement planning seminars and Young farmer conferences.

Additional Loan Information

Additional loan information is included in Notes 3, 12, 13 and 14.

Investment Securities

In addition to loans, we hold investment securities. Investments include our share of securities made up of investment notes in a trust of equipment loans. These were purchased through our participation in FCS Commercial Finance Group. Investment securities totaled \$1.4 million at December 31, 2010, \$7.9 million at December 31, 2009 and \$13.1 million at December 31, 2008.

The investment portfolio is evaluated for other-than-temporary impairment. To date, we have not had any impairment on our investment portfolio.

Additional Investment Securities Information

Additional investment securities information is included in Note 3.

Results of Operations

The following table illustrates profitability information (in thousands):

For the year ended December 31	2010	2009	2008
Net income	\$24,504	\$14,067	\$15,798
Return on average assets	2.2%	1.3%	1.6%
Return on average members' equity	14.0%	8.8%	10.2%

Changes in these ratios relate directly to:

- changes in income as discussed below,
- changes in assets discussed in the Loan Portfolio and Investment Securities sections, and
- changes in members' equity discussed in the Capital Adequacy section.

The following table summarizes the changes in components of net income (in thousands):

	2010 vs. 2009	2009 vs. 2008
Increase (decrease) in net income	\$4,173	\$2,841
Net interest income	3,576	(3,461)
Provision for loan losses	2,292	1,421
Patronage income	1,433	(232)
Other income, net	(239)	(652)
Operating expenses	(798)	(1,648)
Provision for income taxes	\$10,437	(\$1,731)
Total change in net income		

Net Interest Income

Net interest income was \$32.3 million for the year ended December 31, 2010. The following table quantifies changes in net interest income (in thousands):

	2010 vs. 2009	2009 vs. 2008
Changes in net interest income due to:		
Changes in volume	\$2,667	\$1,354
Changes in rates	1,770	1,137
Changes in nonaccrual income and other	(264)	350
Net change	\$4,173	\$2,841

Net interest income included income on nonaccrual loans that totaled \$324 thousand in 2010, \$425 thousand in 2009, and \$281 thousand in 2008. Nonaccrual income is recognized when:

- received in cash,
- collection of the recorded investment is fully expected, and
- prior chargeoffs have been recovered.

Net interest margin (net interest income divided by average earning assets) was 3.0% in 2010, 2.8% in 2009 and 2.8% in 2008.

Provision for Loan Losses

The increase in our allowance for loan losses reflects higher specific reserves on impaired assets based on our historical loss level chargeoff rates compared to the December 31, 2009 allowance.

Patronage Income

We received patronage income based on the average balance of our note payable to AgriBank. AgriBank's Board of Directors sets the patronage rate. We recorded patronage income of \$3.9 million in 2010, \$2.6 million in 2009, and \$2.2 million in 2008. Changes in our note payable to AgriBank and patronage rate changes caused the variances in the patronage income amounts. The patronage rates paid by AgriBank were 42 basis points in 2010, 30 basis points in 2009, and 27 basis points in 2008.

We also received patronage income related to our sale of a participation interest in certain real estate loans to AgriBank, as described in the Loan Portfolio section of this report. We received patronage income in an amount that approximated the net earnings of those loans. Net earnings represents the net interest income associated with these loans adjusted for certain fees and costs specific to the related loans as well as adjustments deemed appropriate by AgriBank related to the credit performance of the loans, as applicable. Similar to the patronage on our note payable described above, we also received patronage income based on the estimated note payable of the asset pool loans. Patronage declared on these pools is solely at the discretion of the AgriBank Board of Directors. We recorded asset pool patronage income of \$3.6 million in 2010, \$2.7 million in 2009, and \$1.6 million in 2008. Patronage income increased in 2010 due to higher patronage rates paid by AgriBank which were 42 basis points in 2010, 30 basis points in 2009, and 27 basis points in 2008. In addition, we received a \$130 thousand share of distribution from the Allocated Insurance Reserve Accounts (AIRA) related to the participations sold to AgriBank. These reserve accounts were established in previous years by the Farm Credit System Insurance Corporation when premiums collected increased the level of the Insurance Fund beyond the required 2% of insured debt.

We received another component of patronage, referred to as equalization income, from AgriBank. The quarterly average balance of any excess stock investment in AgriBank is used to determine this amount. Additionally, we earn equalization on any stock investment in AgriBank required to be held when our growth exceeds a targeted growth rate. The equalization rate is set by AgriBank's Board of Directors and is targeted at the average cost of funds for all affiliated associations as a group. As of May 31, 2008, we no longer had any excess stock in AgriBank, FCB. Equalization income totaled \$142 thousand for 2008.

We also receive patronage from CoBank, ACB. This patronage income totaled \$15 thousand in 2010, \$15 thousand in 2009 and \$10 thousand in 2008. We received half of this in cash and half in additional stock.

We also receive patronage from Farm Credit Services of America, ACA. This patronage income totaled \$2 thousand in 2010, \$8 thousand in 2009 and \$4 thousand in 2008.

Other Income, Net

The increase in other income, net is primarily due to our share of distributions from AIRA of \$1.1 million.

Operating Expenses

The following presents a comparison of operating expenses by major category and the operating rate (operating expenses as a percentage of average earning assets) for the past three years (in thousands):

For the year ended December 31	2010	2009	2008
Salaries and benefits	\$14,605	\$13,055	\$12,660
Purchased and vendor services	1,304	1,306	1,406
Communications	223	216	232
Occupancy and equipment	1,615	1,606	1,546
Advertising and promotion	698	689	837
Examination	392	402	390
Farm Credit System insurance	492	1,909	1,370
Other	2,002	1,909	1,999
Total	\$21,331	\$21,092	\$20,440
Operating rate	2.0%	2.1%	2.2%

Operating expense remained flat from the prior year amount. The increase in salaries and benefits expense was offset by a decrease in premiums paid to the Farm Credit System Insurance Corporation (FCSIC) insurance fund.

Provision for Income Taxes

We recorded tax expense of \$1.6 million for the year ended December 31, 2010, compared to \$785 thousand for 2009, and a reversal of \$863 thousand for the year ended December 31, 2008. The increase in tax expense is the result of an increase in taxable income. Patronage distributions to members reduced our tax liability in 2010, 2009, and 2008. See Note 9 for additional discussion.

Funding and Liquidity

We borrow from AgriBank under a note payable, in the form of a line of credit, as described in Note 7. During 2010, our average balance was \$937.8 million with an average interest rate of 1.9%. Our average balance during 2009 was \$873.8 million with an average interest rate of 2.2% and during 2008 our average balance was \$799.5 million with an average interest rate of 3.6%. Our other source of lendable funds is from unallocated surplus.

Our approach to sustaining sufficient liquidity to fund operations and meet current obligations is to maintain an adequate line of credit with AgriBank. At December 31, 2010, we had \$32.6 million available under our line of credit. We generally apply excess cash to this line of credit.

We offer variable, fixed, capped, indexed, and adjustable interest rate loan programs to our borrowers. We determine interest margins charged on each lending program based on:

- cost of funds,
- market conditions, and
- the need to generate sufficient earnings.

The repricing attributes of our line of credit generally correspond to the repricing attributes of our loan portfolio which significantly reduces our interest rate risk.

We have a financial relationship with Federal Agricultural Mortgage Corporation (Farmer Mac), an institution of the Farm Credit System, to provide a standby commitment program for the repayment of principal and interest on certain loans. In the event of default, subject to certain conditions, we have the right to sell the loans identified in the agreement to Farmer Mac. Credit guarantees remain in place until receipt of full payment. As of December 31, 2010, \$4.9 million of our loans were in this program.

Capital Adequacy

Total members' equity increased \$18.8 million during 2010 due to net income for the period and an increase in capital stock and participation certificates outstanding, partially offset by patronage distribution accruals.

Members' equity position information is as follows (in thousands):

As of December 31	2010	2009	2008
Members' equity	\$185,547	\$166,722	\$157,172
Surplus as a percentage of members' equity	97.6%	97.5%	97.6%
Surplus as a percentage of risk adjusted assets	14.4%	13.8%	14.4%
Permanent capital ratio	11.6%	11.1%	11.8%
Total surplus ratio	11.3%	10.8%	11.4%
Core surplus ratio	11.3%	10.8%	11.4%

Our capital plan is designed to maintain an adequate amount of surplus and allowance for loan losses which represents our reserve for adversity prior to impairment of stock. We manage our capital to allow us to meet member needs and protect member interests, both now and in the future.

At December 31, 2010, our permanent capital, total surplus, and core surplus ratios significantly exceeded the regulatory minimum requirements. See Note 8 for further discussions of these regulatory ratios.

In addition to these regulatory requirements, we establish an optimum target surplus as a percentage of risk adjusted assets ratio. This target supports a capital base adequate for future growth and investment in new products and services. The target is subject to revision as circumstances change. As of December 31, 2010, our optimum surplus as a percentage of risk adjusted assets ratio target was 14%, with an acceptable minimum range of 12-14%.

The changes in our capital ratios reflect changes in capital and assets. Refer to the Loan Portfolio and Investment Securities sections for further discussion of the changes in assets. Additional members' equity information is included in Note 8.

Initiatives

We are involved in a number of initiatives designed to improve our credit delivery, related services, and marketplace presence.

FCS Commercial Finance Group

We participate in the FCS Commercial Finance Group (CFG) alliance with certain other associations in Minnesota and North Dakota to meet the financial needs of agricultural producers and agribusiness operations. The CFG is directed by representatives from each participating association. The income, expense and loss sharing arrangements are based on each association's participation interest of the CFG volume. Each association determines its commitment for new volume opportunities based on its capacity and preferences. We had \$180.1 million of CFG volume at December 31, 2010, \$172.2 million at December 31, 2009, and \$186.3 million at December 31, 2008. We also had \$140.4 million of available commitment on CFG loans at December 31, 2010.

As the facilitating association for CFG, we are compensated to provide various support functions. This includes technology, human resources, accounting, payroll, reporting, and other finance functions. As the facilitating association, we also serve as the primary originating association for CFG participation purchases and sales.

ProPartners Financial

We participate in the ProPartners Financial (ProPartners) alliance with certain other associations in North Dakota, Minnesota, Wisconsin, and Michigan. ProPartners provides financing programs for clients of agribusiness companies. ProPartners is directed by representatives from the participating associations. The income, expense and loss sharing arrangements are based on each association's participation interest of ProPartners volume. Each association's allocation is established according to a prescribed formula. We had \$11.5 million of ProPartners volume at December 31, 2010, \$13.7 million at December 31, 2009, and \$14.0 million at December 31, 2008.

Trade Credit

We have entered into agreements with certain dealer networks to provide alternative service delivery channels to borrowers. These trade credit opportunities create more flexible and accessible financing options to borrowers through programs such as dealer point-of-purchase financing.

Farm Cash Management

We offer Farm Cash Management to our members. Farm Cash Management links members' revolving lines of credit with an AgriBank Investment Bond to optimize members' use of funds.

Investments for Rural America Pilot Program

We are participating in an Investments for Rural America pilot program authorized during 2006 by the Farm Credit Administration in order to meet the changing needs of agriculture and rural America by making investments that support farmers, ranchers, agribusinesses, and their rural communities and businesses. These investments will help to improve their well-being and prosperity by providing an adequate flow of capital into rural areas. We had \$40.6 million of volume under this pilot program outstanding at December 31, 2010, \$40.9 million at December 31, 2009, and \$24.0 million at December 31, 2008.

Leasing

We work with Farm Credit Leasing Services Corporation, a wholly-owned subsidiary of CoBank, ACB to originate leases.

Relationship with AgriBank

Borrowings

We borrow from AgriBank to fund our lending operations in accordance with the Farm Credit Act. Approval from AgriBank is required for us to borrow elsewhere. A General Financing Agreement, as discussed in Note 7, governs this lending relationship.

Cost of funds under the General Financing Agreement includes:

- a marginal cost of debt component,
- a spread component, which includes cost of servicing, cost of liquidity and bank profit, and
- a risk premium component, if applicable.

In the periods presented, we were not subject to the risk premium component. In 2010, an additional 2.1 basis points was added to the spread component related to the cost of AgriBank's liquidity plan. The marginal cost of debt approach simulates match funding the cost of underlying debt with substantially the same terms as the anticipated terms of our loans to borrowers. This methodology substantially protects us from interest rate risk.

Investment

We are required to invest in AgriBank capital stock as a condition of borrowing. This investment may be in the form of purchased stock or stock representing previously distributed AgriBank surplus. As of December 31, 2010, we were required to maintain a stock investment equal to 2.5% of the average quarterly balance of our note payable to AgriBank plus an additional 1% on growth that exceeded a targeted rate. AgriBank's current bylaws allow AgriBank to increase the required investment to 4%.

In addition, as described in the Loan Portfolio section of this report, in May 2008, July 2009, and July 2010 we sold \$132.8 million, \$22.1 million, and \$38.8 million, respectively, of a participation interest in real estate loans to AgriBank. As part of this transaction, we are required to hold AgriBank stock equal to 8% of the quarter-end balance of these loans. We met this requirement through the conversion of excess stock held and the purchase of additional stock.

At December 31, 2010, \$27.7 million of our investment in AgriBank consisted of stock representing distributed AgriBank surplus and \$9.0 million consisted of purchased investment. For the periods presented in this report, we have received no dividend income on this stock investment and we do not anticipate any in future years.

Patronage

We receive different types of discretionary patronage from AgriBank. AgriBank's Board of Directors sets the level of patronage for each of the following:

- patronage based on the average balance of our note payable with AgriBank,
- patronage based on the balance and net earnings of the pool of loans sold to AgriBank, and
- equalization income based on our preferred stock or growth required stock investment in AgriBank.

Beginning in 2009, patronage income on our note payable with AgriBank was received in the form of cash and AgriBank stock.

Purchased Services

We purchase various services from AgriBank including certain:

- information systems,
- financial services,
- accounting and reporting services,
- human resource services, and
- retail product processing and support.

The total cost of services we purchased from AgriBank was \$776 thousand in 2010, \$776 thousand in 2009, and \$811 thousand in 2008.

Affect on Members' Investment

Due to the nature of our financial relationship with AgriBank, the financial condition and results of operations of AgriBank materially affect our members' investment. To request a free copy of the AgriBank and the combined AgriBank, FCB and Affiliated Associations' financial reports contact us at P.O. Box 1560, Willmar, MN 56201-1560, (320) 235-1912 or contact AgriBank at 375 Jackson Street, St. Paul, MN 55101-1810, (651) 282-8800, or via electronic mail to agribankmn@agribank.com. The reports are also available through AgriBank's website at www.agribank.com.

Relationship with Other Farm Credit Institutions

Insight Technology Unit

We participate in the Insight Technology Unit with certain other AgriBank District associations to facilitate the development and maintenance of certain technology systems essential to providing credit to our borrowers. The Insight Technology Unit is governed by representatives of each participating association. The expenses are shared pro rata based on the number of loans and leases of each participant.

As the facilitating association for Insight, we provide, and are compensated for, various support functions. This includes human resources, accounting, payroll, reporting and other finance functions.

Investment in Other Farm Credit Institutions

We have a relationship with CoBank, ACB which involves purchasing or selling participation interests in loans. As part of this relationship, at December 31, 2010, our equity investment in CoBank, ACB was \$19 thousand. CoBank, ACB provides direct loan funds to associations in its chartered territory and also makes loans to cooperatives and other eligible borrowers.

We also have a relationship with Farm Credit Services of America, ACA which involves purchasing or selling participation interests in loans. As part of this relationship, we maintain a \$1 thousand equity investment in Farm Credit Services of America, ACA. Farm Credit Services of America, ACA is a Farm Credit System association which provides credit and credit-related services to its eligible members.

REPORT OF MANAGEMENT

United FCS, ACA



We prepare the consolidated financial statements of United FCS, ACA and are responsible for their 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. The consolidated financial statements, in our opinion, fairly present the financial condition of United FCS, ACA. Other financial information included in the annual report is consistent with that in the consolidated financial statements.

To meet our responsibility for reliable financial information, we depend on accounting and internal control systems designed to provide reasonable but not absolute assurance that assets are safeguarded and transactions are properly authorized and recorded. Costs must be reasonable in relation to the benefits derived when designing accounting and internal control systems. Financial operations audits are performed to monitor compliance. PricewaterhouseCoopers LLP, our independent auditors, audit the consolidated financial statements. They also conduct a review of internal controls to the extent necessary to comply with generally accepted auditing standards in the United States of America. The Farm Credit Administration also performs examinations for safety and soundness as well as compliance with applicable laws and regulations.

The Board of Directors has overall responsibility for our system of internal control and financial reporting. The Board of Directors and its Audit Committee consults regularly with us and meets periodically with the independent auditors and other auditors to review the scope and results of their work. The independent auditors have direct access to the Board of Directors, which is composed solely of directors who are not officers or employees of United FCS, ACA.

The undersigned certify we have reviewed United FCS, ACA's annual report and it has been prepared in accordance with all applicable statutory or regulatory requirements and the information contained herein is true, accurate, and complete to the best of our knowledge and belief.



Gregory Jans
Chairperson of the Board
United FCS, ACA



Marcus L. Knisely
Chief Executive Officer
United FCS, ACA



Robert M. Haines
Chief Financial Officer
United FCS, ACA

March 11, 2011

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

United FCS, ACA



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

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

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

A handwritten signature in black ink, appearing to read "Marcus L. Knisely". The signature is fluid and cursive, with a long, sweeping tail on the final letter.

Marcus L. Knisely
Chief Executive Officer
United FCS, ACA

A handwritten signature in black ink, appearing to read "Robert M. Haines". The signature is cursive and somewhat stylized, with a prominent initial "R" and a long, horizontal tail.

Robert M. Haines
Chief Financial Officer
United FCS, ACA

March 11, 2011

REPORT OF AUDIT COMMITTEE

United FCS, ACA



The consolidated financial statements were prepared under the oversight of the Audit Committee. The Audit Committee is composed of no less than three and no more than five of the members Board of Directors of United FCS, ACA (the Association). The Audit Committee oversees the scope of the Association's internal audit program, the approval and independence of PricewaterhouseCoopers LLP (PwC) as independent auditors, the adequacy of the Association's system of internal controls and procedures, and the adequacy of management's action with respect to recommendations arising from those auditing activities. The Audit Committee's responsibilities are described more fully in the Internal Control Policy and the Audit Committee Charter.

Management is responsible for internal controls and the preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. PwC is responsible for performing an independent audit of the consolidated financial statements in accordance with generally accepted auditing standards in the United States of America and to issue their report based on their audit. The Audit Committee's responsibilities include monitoring and overseeing these processes.

In this context, the Audit Committee reviewed and discussed the audited consolidated financial statements for the year ended December 31, 2010, with management. The Audit Committee also reviewed with PwC the matters required to be discussed by Statement on Auditing Standards No. 114, *The Auditor's Communication with Those Charged with Governance*, and both PwC and the internal auditors directly provided reports on significant matters to the Audit Committee.

The Audit Committee had discussions with and received written disclosures from PwC confirming its independence. The Audit Committee also reviewed the non-audit services provided by PwC, if any, and concluded these services were not incompatible with maintaining PwC's independence. The Audit Committee discussed with management and PwC such other matters and received such assurances from them as the Audit Committee deemed appropriate.

Based on the foregoing review and discussions, and relying thereon, the Audit Committee recommended that the Board of Directors include the audited consolidated financial statements in the Annual Report for the year ended December 31, 2010.

A handwritten signature in black ink that reads "Roger Mohr". The signature is written in a cursive, flowing style.

Roger Mohr
Chairperson of the Audit Committee
United FCS, ACA

Committee members:
Scott Gerbig
William Oemichen
Bradley Sunderland

March 11, 2011



Report of Independent Auditors

To the Board of Directors and Members of
United FCS, ACA

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

PricewaterhouseCoopers LLP

March 11, 2011

CONSOLIDATED STATEMENTS OF CONDITION

United FCS, ACA

(Dollars in thousands)

As of December 31	2010	2009	2008
ASSETS			
Loans	\$1,176,885	\$1,062,030	\$969,801
Allowance for loan losses	5,251	3,915	2,944
Net loans	1,171,634	1,058,115	966,857
Investment in AgriBank, FCB	36,651	33,215	30,257
Investment securities	1,447	7,868	13,105
Accrued interest receivable	9,631	9,573	9,213
Premises and equipment, net	8,964	8,179	6,479
Other property owned	2,931	172	100
Assets held for lease, net	4,504	6,459	7,429
Other assets	9,661	7,211	5,891
Total assets	\$1,245,423	\$1,130,792	\$1,039,331
LIABILITIES			
Note payable to AgriBank, FCB	\$1,041,992	\$946,460	\$862,494
Accrued interest payable	4,122	4,562	6,688
Net deferred income tax liability	1,412	2,226	2,118
Patronage distribution payable	6,000	4,800	4,800
Other liabilities	6,350	6,022	6,059
Total liabilities	1,059,876	964,070	882,159
Contingencies and commitments	--	--	--
MEMBERS' EQUITY			
Capital stock and participation certificates	4,427	4,108	3,827
Unallocated surplus	181,120	162,614	153,345
Total members' equity	185,547	166,722	157,172
Total liabilities and members' equity	\$1,245,423	\$1,130,792	\$1,039,331

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

CONSOLIDATED STATEMENTS OF INCOME

United FCS, ACA

(Dollars in thousands)

Year ended December 31	2010	2009	2008
Interest income	\$49,668	\$47,135	\$54,274
Interest expense	17,413	19,053	29,033
Net interest income	32,255	28,082	25,241
Provision for loan losses	1,226	4,802	1,341
Net interest income after provision for loan losses	31,029	23,280	23,900
Other income			
Patronage income	7,593	5,301	3,880
Financially related services income	4,849	4,917	5,772
Fee income	1,302	1,075	568
Allocated insurance reserve account distribution	1,143	--	--
Miscellaneous income, net	1,502	1,371	1,255
Total other income	16,389	12,664	11,475
Operating expense			
Salaries and employee benefits	14,605	13,055	12,660
Other operating expense	6,726	8,037	7,780
Total operating expense	21,331	21,092	20,440
Income before income taxes	26,087	14,852	14,935
Provision for (reversal of) income taxes	1,583	785	(863)
Net income	\$24,504	\$14,067	\$15,798

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

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

United FCS, ACA

(Dollars in thousands)

	Capital Stock and Participation Certificates	Allocated Surplus	Unallocated Surplus	Total Members' Equity
Balance at December 31, 2007	\$3,812	\$6,763	\$142,534	\$153,109
Net income	--	--	15,798	15,798
Unallocated surplus designated for patronage distributions	--	--	(4,987)	(4,987)
Redemption of prior year allocated patronage	--	(6,763)	--	(6,763)
Capital stock/participation certificates issued	528	--	--	528
Capital stock/participation certificates retired	(513)	--	--	(513)
Balance at December 31, 2008	3,827	--	153,345	157,172
Net income	--	--	14,067	14,067
Unallocated surplus designated for patronage distributions	--	--	(4,798)	(4,798)
Capital stock/participation certificates issued	593	--	--	593
Capital stock/participation certificates retired	(312)	--	--	(312)
Balance at December 31, 2009	4,108	--	162,614	166,722
Net income	--	--	24,504	24,504
Unallocated surplus designated for patronage distributions	--	--	(5,998)	(5,998)
Capital stock/participation certificates issued	659	--	--	659
Capital stock/participation certificates retired	(340)	--	--	(340)
Balance at December 31, 2010	\$4,427	\$ --	\$181,120	\$185,547

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

United FCS, ACA
(Dollars in thousands)

Year ended December 31	2010	2009	2008
Cash flows from operating activities			
Net income	\$24,504	\$14,067	\$15,798
Adjustments to reconcile net income to cash flows from operating activities:			
Depreciation on premises and equipment	829	874	786
Depreciation on assets held for lease	1,293	1,519	1,184
Provision for loan losses	1,226	4,802	1,341
Stock patronage received from AgriBank, FCB	(1,427)	(647)	--
(Increase) decrease in accrued interest receivable	(435)	(477)	2,772
Increase in other assets	(2,450)	(1,320)	(700)
Decrease in accrued interest payable	(440)	(2,126)	(2,904)
(Decrease) increase in other liabilities	(486)	24	583
Gain on sale of other property owned	(85)	(34)	--
Write down of other property owned	--	--	180
(Gain) loss on sale of premises and equipment	(78)	8	57
Gain on disposal of assets held for lease	(4)	--	(100)
Total adjustments	(2,057)	2,623	3,199
Net cash provided by operating activities	22,447	16,690	18,997
Cash flows from investing activities			
Increase in loans, net	(117,603)	(95,631)	(69,126)
Purchases of investment in AgriBank, FCB, net	(2,009)	(2,311)	(4,528)
Decrease (increase) in investment securities, net	6,421	5,237	(13,105)
Sales (purchases) of assets held for lease, net	666	(549)	(2,518)
Proceeds from sales of other property owned, net	1,028	81	--
Purchases of premises and equipment, net	(1,536)	(2,582)	(1,824)
Net cash used in investing activities	(113,033)	(95,755)	(91,101)
Cash flows from financing activities			
Increase in note payable to AgriBank, FCB, net	95,532	83,966	83,990
Patronage distributions	(4,798)	(4,798)	(11,654)
Capital stock and participation certificates retired, net	(148)	(103)	(232)
Net cash provided by financing activities	90,586	79,065	72,104
Net change in cash	--	--	--
Cash at beginning of year	--	--	--
Cash at end of year	\$ --	\$ --	\$ --
Supplemental schedule of non-cash activities			
Stock financed by loan activities	\$642	\$578	\$514
Stock applied against loan principal	175	194	267
Interest transferred to loans	377	117	86
Loans transferred to other property owned	3,702	6,535	--
Patronage distributions payable to members	6,000	4,800	4,800
Financed sales of other property owned	--	6,463	--
Deferred gain related to financed sales of other property owned	--	47	--
Supplemental information			
Interest paid	\$17,853	\$21,179	\$31,937
Taxes paid (refunded)	2,712	596	(1,031)

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

United FCS, ACA

NOTE 1: ORGANIZATION AND OPERATIONS

Farm Credit System and District

Farm Credit System Lending Institutions: The Farm Credit System is a nationwide system of cooperatively owned banks and associations established by Congress to meet the credit needs of American agriculture. At December 31, 2010, the Farm Credit System consisted of four Farm Credit Banks, one Agricultural Credit Bank, and 86 associations. AgriBank and its affiliated associations are collectively referred to as the District. At December 31, 2010, the District consisted of 17 Agricultural Credit Associations (ACA) that each have wholly-owned Federal Land Credit Association (FLCA) and Production Credit Association (PCA) subsidiaries. FLCAs are authorized to originate long-term real estate mortgage loans. PCAs are authorized to originate short-term and intermediate-term loans. ACAs are authorized to originate long-term real estate mortgage loans and short-term and intermediate-term loans either directly or through their subsidiaries. Associations are also authorized to provide lease financing options for agricultural purposes. AgriBank provides funding to all associations chartered within the District.

Associations are authorized to provide, either directly, or in participation with other lenders, credit and related services to eligible borrowers. Eligible borrowers may include farmers, ranchers, producers or harvesters of aquatic products, rural residents and farm-related service businesses. In addition, associations can participate with other lenders in loans to similar entities. Similar entities are parties that are not eligible for a loan from a Farm Credit System lending institution, but have operations that are functionally similar to the activities of eligible borrowers. Associations are also authorized to purchase and hold certain types of investments.

Farm Credit System Regulator: The Farm Credit Administration (FCA) is authorized by Congress to regulate the Farm Credit System banks and associations. We are examined by the FCA and certain association actions are subject to the prior approval of the FCA and/or AgriBank.

Farm Credit Insurance Fund: The Farm Credit Act established the Farm Credit System Insurance Corporation (Insurance Corporation) to administer the Farm Credit Insurance Fund (Insurance Fund). The Insurance Fund is used:

- to insure the timely payment of principal and interest on Farm Credit Systemwide debt obligations,
- to insure the retirement of protected borrower capital at par or stated value, and
- for other specified purposes.

At the discretion of the Insurance Corporation, the Insurance Fund is also available to provide assistance to certain troubled Farm Credit System institutions and for the operating expenses of the Insurance Corporation. Each Farm Credit System bank has been required to pay premiums into the Insurance Fund until the assets in the Insurance Fund equal 2% of the aggregated insured obligations adjusted to reflect the reduced risk on loans or investments guaranteed by federal or state governments. This percentage of aggregate obligations can be changed by the Insurance Corporation, at its sole discretion, to a percentage it determines to be actuarially sound.

Effective July 1, 2008, the basis for assessing premiums was changed from loans to debt outstanding. Adjustments to debt outstanding made for nonaccrual loans and impaired investment securities are assessed a surcharge while guaranteed loans and investment securities are deductions

from the premium base. AgriBank, in turn, assesses the associations' premiums each year based on these same factors. Prior to July 1, 2008, the premiums were based on annual average loan principal outstanding and AgriBank assessed the associations' annual premiums based on the average principal outstanding of accrual and nonaccrual loans of the associations.

Association

United FCS, ACA and its subsidiaries, United FCS, FLCA and United FCS, PCA are lending institutions of the Farm Credit System. We are a member-owned cooperative providing credit and credit-related services to, or for the benefit of, eligible members for qualified agricultural purposes in the counties of Chippewa, Kandiyohi, Lac qui Parle, Lincoln, Lyon, Meeker, Redwood, Renville, Swift and Yellow Medicine in the state of Minnesota and the counties of Clark, Forest, Langlade, Lincoln, Marathon, Oneida, Portage, Price, Taylor, Vilas, Waushara and Wood in the state of Wisconsin.

We borrow from AgriBank and provide financing and related services to our members. Our ACA holds all the stock of the FLCA and PCA subsidiaries. The FLCA makes secured long-term agricultural real estate and rural home mortgage loans and provides lease financing options. The FLCA also services certain long-term real estate loans owned by AgriBank. The PCA makes short-term and intermediate-term loans, holds certain types of investments, and provides lease financing options for agricultural production or operating purposes.

We offer various risk management services, including credit life, term life, credit disability, crop hail, and multi-peril crop insurance for borrowers and those eligible to borrow. We also offer farm records, fee appraisals, income tax planning and preparation services, retirement and succession planning, and producer education services to our members.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Principles and Reporting Policies

Our accounting and reporting policies conform to accounting principles generally accepted in the United States of America (GAAP) and the prevailing practices within the financial services industry. Preparing financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Principles of Consolidation

The consolidated financial statements present the consolidated financial results of United FCS, ACA (the parent) and United FCS, FLCA and United FCS, PCA (the subsidiaries). All material intercompany transactions and balances have been eliminated in consolidation.

Significant Accounting Policies

Loans: Mortgage loan terms range from 5 to 40 years at origination. Almost all commercial loans are made for agricultural production or operating purposes with original loan terms of 10 years or less.

Loans are carried at their principal amount outstanding. Loan interest is accrued and credited to interest income based upon the daily principal amount outstanding. Material fees, net of related costs, are deferred and recognized over the life of the loan as an adjustment to net interest income. Other loan fees are netted with the related origination costs and included as an adjustment to net interest income. The net amount of these fees and expenses is not material to the consolidated financial statements taken as a whole.

We place loans in nonaccrual status when:

- principal or interest is delinquent for 90 days or more (unless the loan is well secured and in the process of collection) or
- circumstances indicate that full collection is not expected.

When a loan is placed in nonaccrual status, we reverse accrued interest to the extent principal plus accrued interest before the transfer exceeds the net realizable value of the collateral. Any unpaid interest accrued in a prior year is capitalized to the recorded investment of the loan. Any cash received on nonaccrual loans is applied to reduce the recorded investment in the loan, except in those cases where the collection of the recorded investment is fully expected and the loan does not have any unrecovered prior chargeoffs. Nonaccrual loans may be returned to accrual status when:

- principal and interest are current,
- prior chargeoffs have been recovered,
- the ability of the borrower to fulfill the contractual repayment terms is fully expected, and
- the loan is not classified as doubtful or loss.

Loans are classified as restructured when the terms of a distressed loan have been modified in a way that a concession has been granted in order to make it probable that the operations of the distressed borrower will become viable. Formally restructured loans are returned to performing status when the loan has a similar interest rate as that charged for loans of comparable risk and it otherwise meets the criteria of performing loans. Interest income on formally restructured loans is recognized in accordance with the loan's classification as accrual or nonaccrual.

Investment Securities: We are authorized to purchase and hold certain types of investments. As we have the positive intent and ability to hold these investments to maturity, they have been classified as held-to-maturity and are carried at cost adjusted for the amortization of premiums and accretion of discounts. If an investment is determined to be other-than-temporarily impaired, the carrying value of the security is written down to fair value. The impairment loss is separated into credit related and non-credit related components. The credit related component is taken through earnings in the period of impairment. The non-credit related component is recognized in other comprehensive income and amortized over the remaining life of the security as an increase in the security's carrying amount.

Allowance for Loan Losses: The allowance for loan losses is an estimate of losses on loans in our portfolio as of the financial statement date. We determine the appropriate level of allowance for loan losses based on periodic evaluation of factors such as:

- loan loss history,
- portfolio quality and concentration, and
- current economic and environmental conditions.

Loans in our portfolio that are considered impaired are analyzed individually to establish a specific allowance for impaired loans. A loan is impaired when it is probable that all amounts due under the contractual terms of the loan agreement will not be collected. We generally measure impairment based on the net realizable value of the collateral. All risk loans are considered to be impaired loans. Risk loans include:

- nonaccrual loans,

- formally restructured loans, and
- loans that are 90 days or more past due and still accruing.

We record a specific allowance to reduce the carrying amount of the risk loan to the lower of book value or the net realizable value of collateral. When we deem a loan to be uncollectible, we charge the loan principal and prior year(s) accrued interest against the allowance for loan losses. Subsequent recoveries, if any, are added to the allowance for loan losses.

An allowance is recorded for probable and estimable credit losses as of the financial statement date for loans that are not individually assessed as impaired.

Changes in the allowance for loan losses consist of provision activity, recorded as "Provision for loan losses" on the Consolidated Statements of Income, and chargeoffs and recoveries.

Investment in AgriBank: Accounting for our stock investment in AgriBank is on a cost plus allocated equities basis.

Premises and Equipment: The carrying amount of premises and equipment is at cost, less accumulated depreciation. Calculation of depreciation is generally on the straight-line method over the estimated useful lives of the assets. Gains or losses on disposition are included in current operating results. Maintenance and repairs are included in operating expense and improvements are capitalized.

Other Property Owned: Other property owned, 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 property owned" on the Consolidated Statements of Condition. 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. Revised estimates to the fair value less cost to sell are reported as adjustments to the carrying amount of the asset, provided that such adjusted value is not in excess of the carrying amount at acquisition. Related income and expenses from operations and carrying value adjustments are included in "Miscellaneous income, net" on the Consolidated Statements of Income.

Leases: We have finance and operating leases. Under finance leases, unearned income from lease contracts represents the excess of gross lease receivables plus residual receivables over the cost of leased equipment. We amortize net unearned finance income to earnings on the interest method. The carrying amount of finance leases is included in "Loans" on the Consolidated Statements of Condition and represents lease rent receivables net of the unearned income plus the residual receivable. We recognize operating lease revenue evenly over the term of the lease. We charge depreciation and other expenses against revenue as incurred. The carrying amount of operating leases is included in "Assets held for lease, net" on the Consolidated Statements of Condition and represents the asset cost net of accumulated depreciation.

Post-Employment Benefit Plans: The AgriBank Farm Credit District has three post-employment benefit plans.

The defined contribution plan allows eligible employees to save for their retirement either pre-tax/post-tax or both with an employer match on a percentage of the employee's contributions. All employees hired after December 31, 2006, only participate in the defined contribution plan. We provide benefits under this plan in the form of a fixed percentage of salary contribution in addition to the employer match. Employer contributions are expensed when incurred.

Certain employees also participate in the defined benefit retirement plan of the AgriBank Farm Credit District. The plan is comprised of two benefit formulas. Employees hired prior to October 1, 2001, were on the final average pay formula. These employees were given a one-time option to convert to the cash balance formula or to remain on a final average pay formula. Between October 1, 2001, and December 31, 2006, all new

benefits-eligible employees participated in the cash balance formula. Effective January 1, 2007, the defined benefit retirement plan was closed to new employees. The District plan utilizes the "Projected Unit Credit" actuarial method for financial reporting purposes and the "Entry Age Normal Cost" method for funding purposes.

We also provide certain health insurance benefits to eligible retired employees according to the terms of those benefit plans. Prior to December 1, 2008, retirees were also provided with a life insurance benefit. The anticipated cost of these benefits is accrued during the employees' active service period.

Income Taxes: The ACA and PCA accrue federal and certain state income taxes. Deferred tax assets and liabilities are recognized for future tax consequences of temporary differences between the carrying amounts and tax basis of assets and liabilities. Deferred tax assets are recorded if the deferred tax asset is more likely than not to be realized. If the realization test cannot be met, the deferred tax asset is reduced by a valuation allowance. The expected future tax consequences of uncertain income tax positions are accrued.

The FLCA is exempt from federal and other taxes to the extent provided in the Farm Credit Act.

Patronage Program: We accrue patronage distributions according to a prescribed formula approved by the Board of Directors. We pay out the accrued patronage during the first quarter after each subsequent year.

Statements of Cash Flows: For purposes of reporting cash flow, cash includes cash on hand.

Fair Value Measurement: The Financial Accounting Standards Board (FASB) guidance on "Fair Value Measurements" 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 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:

- quoted prices for similar assets or liabilities in active markets;
- 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;
- inputs that are observable such as interest rates and yield curves, prepayment speeds, credit risks and default rates and
- inputs derived principally from or corroborated by observable market data by correlation or other means.

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. 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.

Recently Issued or Adopted Accounting Pronouncements

Effective January 1, 2010, we adopted FASB guidance on "Fair Value Measurements and Disclosures," which is intended to improve disclosures about fair value measurements by increasing transparency in financial reporting. The guidance provides for a greater level of disaggregated information for assets and liabilities measured on a recurring basis and more robust disclosures of valuation techniques and inputs to fair value

measurements. The adoption of this guidance had no impact on our financial condition and results of operations.

In June 2009, the FASB issued guidance on "Accounting for Transfers of Financial Assets," which amended previous guidance by providing clarification of the requirements for isolation and limitations on portions of financial assets that are eligible for sale accounting. The guidance also required additional disclosure about transfers of financial assets and a transferor's continued involvement with transferred assets. This guidance was effective as of January 1, 2010, and applied to transfers which occurred on or after the effective date. Adoption of this guidance did not have a material impact on our financial condition and results of operations.

In July 2010, the FASB issued guidance on "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses." This guidance is intended to provide additional information to assist financial statement users in assessing an entity's credit risk exposures and evaluating the adequacy of its allowance for credit losses. Existing disclosures are amended to include additional disclosures of financing receivables on a disaggregated basis and also calls for new disclosures. For non-public entities, the disclosures are effective for interim and annual reporting periods ending on or after December 15, 2011. The adoption of this guidance will have no impact on our financial condition or results of operations, but it will result in additional disclosures.

NOTE 3: LOANS AND INVESTMENT SECURITIES

Loans consisted of the following (in thousands):

As of December 31, 2010	Amount	Percentage
Long-term agricultural mortgage	\$576,650	25.8%
Production	374,671	16.8%
Intermediate-term	202,427	9.1%
Processing and marketing	24,143	1.1%
Farm-related business	10,342	0.5%
Rural home	7,094	0.3%
Finance leases	8,135	0.4%
Participations purchased	989,168	44.3%
Other	40,537	1.7%
Subtotal	2,233,167	100.0%
Participations sold	(1,056,282)	
Total loans	\$1,176,885	

As of December 31, 2009	Amount	Percentage
Long-term agricultural mortgage	\$506,477	23.9%
Production	411,611	19.4%
Intermediate-term	173,647	8.2%
Processing and marketing	21,730	1.0%
Farm-related business	40,828	1.9%
Rural home	7,460	0.4%
Finance leases	10,434	0.5%
Participations purchased	931,218	43.9%
Other	16,606	0.8%
Subtotal	2,120,011	100.0%
Participations sold	(1,057,981)	
Total loans	\$1,062,030	

As of December 31, 2008	Amount	Percentage
Long-term agricultural mortgage	\$473,078	23.1%
Production	395,723	19.3%
Intermediate-term	145,006	7.1%
Processing and marketing	11,535	0.5%
Farm-related business	23,978	1.2%
Rural home	5,826	0.3%
Finance leases	12,376	0.6%
Participations purchased	967,771	47.2%
Other	14,749	0.7%
Subtotal	2,050,042	100.0%
Participations sold	(1,080,241)	
Total loans	\$969,801	

Participations

We may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume, and comply with Farm Credit Administration Regulations or General Financing Agreement limitations. The following table presents information regarding participations purchased and/or sold (in thousands):

As of December 31, 2010	Participations	
	Purchased	Sold
Participations purchased from/sold to:		
AgriBank, FCB	\$ --	\$194,825
Other Farm Credit System institutions	819,204	853,537
Non-Farm Credit System institutions	169,964	7,920
Total participations purchased/sold	\$989,168	\$1,056,282

The AgriBank participation volume is largely due to participation interests in real estate loans. The other participation volume is largely due to participations on loans to agribusinesses.

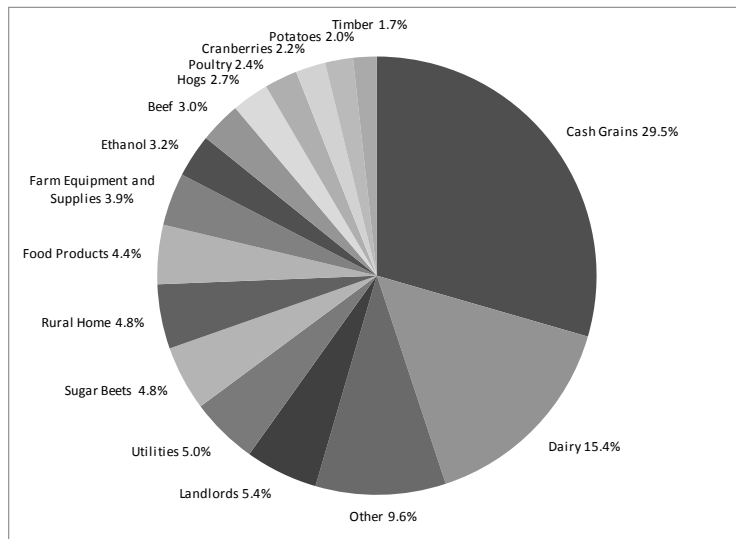
Included in the AgriBank activity above, we sold \$38.8 million, \$22.1 million, and \$132.8 million of a participation interest in real estate loans to AgriBank in 2010, 2009, and 2008, respectively. At December 31, 2010, the balance remaining in these participation interests totaled \$152.8 million. We received \$3.6 million, \$2.7 million, and \$1.6 million of asset pool patronage in 2010, 2009, and 2008, respectively.

Portfolio Concentrations

We have concentrations with individual borrowers, within various agricultural commodities and within our chartered territory.

At December 31, 2010, volume plus commitments to our ten largest borrowers totaled an amount equal to 62.7% of members' equity.

Our agricultural commodity concentrations at December 31, 2010, were as follows:



The commodity concentrations have not changed materially from prior years.

We are chartered to operate in certain counties in Minnesota and Wisconsin. Approximately 40.0% of our total loan portfolio was in Renville, Redwood, and Kandiyohi counties in the state of Minnesota and Marathon, Wood, and Clark counties in the state of Wisconsin at December 31, 2010.

While these concentrations represent our maximum potential credit risk as it relates to recorded loan principal, a substantial portion of our lending activities is collateralized. This reduces our exposure to credit loss associated with our lending activities. We consider credit risk exposure in establishing the allowance for loan losses.

Risk Loans

A loan is considered a risk loan if it is probable that we will be unable to collect all principal and interest according to the loan agreement. The following table presents risk loan information (in thousands). Accruing volume includes accrued interest receivable.

As of December 31	2010	2009	2008
Nonaccrual loans:			
Current as to principal and interest	\$4,441	\$3,437	\$16,147
Past due	4,377	12,835	7,764
Total nonaccrual loans	8,818	16,272	23,911
Accruing restructured loans	1,017	1,446	889
Loans past due 90 days or more still accruing	--	403	330
Total risk loans	\$9,835	\$18,121	\$25,130
Volume with specific reserves	\$3,217	\$2,886	\$16,014
Volume without specific reserves	6,618	15,235	9,116
Total risk loans	\$9,835	\$18,121	\$25,130
Total specific reserves	\$907	\$736	\$1,856
For the year ended December 31	2010	2009	2008
Income on accrual risk loans	\$69	\$82	\$153
Income on nonaccrual loans	324	425	281
Total income on risk loans	\$393	\$507	\$434
Average recorded investment	\$14,301	\$21,941	\$14,907

We did not have any material commitments to lend additional money to borrowers whose loans were at risk at December 31, 2010.

To mitigate credit risk, we have entered into a Standby Commitment to Purchase Agreement with the Federal Agricultural Mortgage Corporation (Farmer Mac). In the event of default, subject to certain conditions, we have the right to sell the loans identified in the agreement to Farmer Mac. Credit guarantees remain in place until receipt of full payment. The balance of loans under this agreement was \$4.9 million at December 31, 2010, \$5.5 million at December 31, 2009, and \$6.0 million at December 31, 2008. Fees paid to Farmer Mac for these commitments totaled \$28 thousand in 2010, \$28 thousand in 2009, and \$34 thousand in 2008. These amounts are included in "Operating expense" on the Consolidated Statements of Income. As of December 31, 2010, no sales of loans to Farmer Mac have been made under this agreement.

Investment Securities

We held investment securities of \$1.4 million at December 31, 2010, \$7.9 million at December 31, 2009, and \$13.1 million at December 31, 2008, consisting of investment notes in a trust of equipment loans. The following table presents the amortized cost, unrealized gains and losses, and fair value of the investment securities (in thousands):

As of December 31	2010	2009	2008
Amortized cost	\$1,447	\$7,868	\$13,105
Unrealized gains	157	92	--
Unrealized losses	(142)	(1)	(1,289)
Fair value	\$1,462	\$7,959	\$11,816
Weighted average yield	3.4%	3.9%	4.3%

Investment income is recorded in "Interest income" on the Consolidated Statements of Income and totaled \$141 thousand in 2010, \$442 thousand in 2009, and \$329 thousand in 2008.

NOTE 4: ALLOWANCE FOR LOAN LOSSES

A summary of the changes in the allowance for loan losses follows (in thousands):

For the year ended December 31	2010	2009	2008
Balance at beginning of year	\$3,915	\$2,944	\$1,599
Provision for loan losses	1,226	4,802	1,341
Loan recoveries	249	5	13
Loan chargeoffs	(139)	(3,836)	(9)
Balance at end of year	\$5,251	\$3,915	\$2,944

The increase in our allowance for loan losses reflects higher specific reserves on impaired assets based on our historical loss level chargeoff rates compared to the December 31, 2009 allowance. The higher specific allowances are partially offset by a reduction in the general industry reserves particular to segments of our portfolio. At December 31, 2010, we had established \$1.1 million of reserves for systemic industry risk related to the dairy, poultry, ethanol, and broilers portfolios compared to \$2.8 million at December 31, 2009.

NOTE 5: INVESTMENT IN AGRIBANK

At December 31, 2010, we were required by AgriBank to maintain an investment in common stock equal to 2.5% of the average quarterly balance of our note payable to AgriBank plus an additional 1% on growth that exceeded a targeted rate. We have not exceeded this targeted growth rate and have not been assessed this 1% additional investment.

At December 31, 2010, we were also required by AgriBank to maintain an investment equal to 8% of the quarter end balance of the participation interest in real estate loans sold to AgriBank under the asset pool program.

The balance of our investment in AgriBank, all required stock, was \$36.7 million at December 31, 2010, \$33.2 million at December 31, 2009, and \$30.3 million at December 31, 2008.

NOTE 6: PREMISES, EQUIPMENT AND ASSETS HELD FOR LEASE

Premises and equipment consisted of the following (in thousands):

As of December 31	2010	2009	2008
Land, buildings and improvements	\$9,674	\$8,605	\$6,409
Furniture and equipment	5,605	5,404	5,313
Subtotal	15,279	14,009	11,722
Less: accumulated depreciation	(6,315)	(5,830)	(5,243)
Total	\$8,964	\$8,179	\$6,479

We also hold property for the purpose of agricultural leasing, primarily farm equipment and livestock facilities. Net operating lease income totaled \$375 thousand in 2010, \$340 thousand in 2009, and \$532 thousand in 2008. Net operating lease assets totaled \$4.5 million at December 31, 2010, \$6.5 million at December 31, 2009, and \$7.4 million at December 31, 2008.

NOTE 7: NOTE PAYABLE TO AGRIBANK

Our note payable to AgriBank represents borrowings, in the form of a line of credit, to fund our loan portfolio. The line of credit is governed by a General Financing Agreement and our assets serve as collateral. The total line of credit was \$1.08 billion and the outstanding principal under the line of credit was \$1.04 billion as of December 31, 2010. The interest rate is adjusted monthly and was 1.7% at December 31, 2010. During 2010, our average balance was \$937.8 million with an average interest rate of 1.9%. Our average balance during 2009 was \$873.8 million with an average interest

rate of 2.2% and during 2008 our average balance was \$799.6 million with an average interest rate of 3.6%. Our promissory note was renewed in February 2011 for \$1.15 billion with a maturity date of October 31, 2011. The note will be renegotiated at that time.

The General Financing Agreement provides for limitations on our ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At December 31, 2010, and throughout the year, we were within the specified limitations and in compliance with all debt covenants.

NOTE 8: MEMBERS' EQUITY

Capitalization Requirements

In accordance with the Farm Credit Act, each borrower is required to invest in us as a condition of obtaining a loan. As authorized by the Agricultural Credit Act and our capital bylaws, the Board of Directors has adopted a capital plan that establishes a stock purchase requirement for obtaining a loan of 2% of the customer's total loan(s) or one thousand dollars, whichever is less. The purchase of one participation certificate is required of all customers to whom a lease is issued and of all non-stockholder customers who purchase financial services. The Board of Directors may increase the amount of required investment to the extent authorized in the capital bylaws. The borrower acquires ownership of the capital stock at the time the loan or lease is made. The aggregate par value of the stock is added to the principal amount of the related obligation. We retain a first lien on the stock or participation certificates owned by customers.

Protection Mechanisms

Under the Farm Credit Act, certain borrower equity is protected. We are required to retire protected borrower equity at par or stated value regardless of its book value. Protected borrower equity includes capital stock and participation certificates that were outstanding as of January 6, 1988, or were issued prior to October 6, 1988 as a requirement for obtaining a loan. If an association were to be unable to retire protected borrower equity at par value or stated value, the Farm Credit Insurance Fund would provide the amounts needed to retire this equity.

Regulatory Capitalization Requirements

Under capital adequacy regulations, we are required to maintain a permanent capital ratio of at least 7%, a total surplus ratio of at least 7%, and a core surplus ratio of at least 3.5%. The calculation of these ratios in accordance with Farm Credit Administration Regulations is discussed as follows:

- The permanent capital ratio is average at-risk capital divided by average risk-adjusted assets. At December 31, 2010, our ratio was 11.6%.
- The total surplus ratio is average unallocated surplus less any deductions made in the computation of permanent capital divided by average risk-adjusted assets. At December 31, 2010, our ratio was 11.3%.
- The core surplus ratio is average unallocated surplus less any deductions made in the computation of total surplus and less any excess stock investment in AgriBank divided by average risk-adjusted assets. At December 31, 2010, our ratio was 11.3%.

We have an agreement with AgriBank which defines how our investment in AgriBank is allocated in calculating regulatory capital ratios. According to the agreement, we include in our ratios all of our investment in AgriBank that is in excess of the required amount. At December 31, 2010, December 31, 2009, and December 31, 2008, we no longer had any excess stock.

These changes did not have a material impact on our regulatory capital ratios.

Description of Equities

The following table presents information regarding classes and number of shares of stock and participation certificates outstanding as of December 31, 2010. All shares and participation certificates were \$5.00 par value.

As of December 31, 2010	Shares Outstanding
Class A common stock (protected)	2
Class B common stock (at-risk)	854,739
Class E participation certificates (at-risk)	30,743
Class F participation certificates (protected)	35

Under our bylaws, we are also authorized to issue Class C and Class D common stock. Each of these classes of stock is at-risk and nonvoting with a \$5.00 par value per share. Currently, no stock of these classes has been issued.

Only holders of Class B common stock have voting rights. Our bylaws do not prohibit us from paying dividends on any classes of stock. However, no dividends have been declared during the last three years.

Our bylaws generally permit stock and participation certificates to be retired at the discretion of the Board of Directors and in accordance with our capitalization plans, provided prescribed capital standards have been met. At December 31, 2010, we exceeded the prescribed standards. We do not anticipate any significant changes in capital that would affect the normal retirement of stock.

In the event of our liquidation or dissolution, according to our bylaws, any remaining assets after payment or retirement of all liabilities shall be distributed pro rata to all holders of stock.

In the event of impairment, losses will be absorbed by concurrent impairment of all classes of stock; however, protected stock will be retired at par value regardless of impairment.

All classes of stock, except Class A and Class F, are transferable to other customers who are eligible to hold such class as long as we meet the regulatory minimum capital requirements.

Patronage Distributions

We accrued patronage distributions of \$6.0 million at December 31, 2010, \$4.8 million at December 31, 2009, and \$4.8 million at December 31, 2008. The patronage distributions were paid in cash during the first quarter of each subsequent year. The Board of Directors may authorize a distribution of earnings provided we meet all statutory and regulatory requirements.

We allocated surplus of \$11.5 million in prior years under our nonqualified patronage program. We redeemed \$4.7 million in 2007 and \$6.8 million in 2010, 2009 and 2008.

The Farm Credit Administration Regulations prohibit patronage distributions to the extent they would reduce our permanent capital ratio below the minimum permanent capital adequacy standards. We do not foresee any events that would result in this prohibition in 2011.

NOTE 9: INCOME TAXES**Provision for (Reversal of) Income Taxes**

Our provision for (reversal of) income taxes follows (in thousands):

For the year ended December 31	2010	2009	2008
Current:			
Federal	\$2,228	\$631	(\$1,261)
State	169	46	3
Reversal of tax loss contingency	--	--	(243)
Total current	2,397	677	(1,501)
Deferred:			
Federal	(811)	740	279
State	(3)	(632)	359
Total deferred	(814)	108	638
Provision for (reversal of) income taxes	\$1,583	\$785	(\$863)
Effective tax rate	6.1%	5.3%	(5.8%)

The following table quantifies the differences between the provision for (reversal of) income taxes and income taxes at the statutory rates (in thousands):

For the year ended December 31	2010	2009	2008
Federal tax at statutory rate	\$8,870	\$5,050	\$5,078
State tax, net	80	98	61
Patronage distributions	(2,040)	(629)	(1,915)
Effect of non-taxable entity	(5,326)	(3,419)	(3,826)
Loss contingency reversal	--	--	(243)
Other	(1)	(315)	(18)
Provision for (reversal of) income taxes	\$1,583	\$785	(\$863)

We recorded tax expense of \$1.6 million for the year ended December 31, 2010, \$785 thousand for the year ended December 31, 2009, and a reversal of \$863 thousand for the year ended December 31, 2008. Patronage distributions to members, including the redemption of certain prior year nonqualified patronage distributions, reduced our tax liability in 2010, 2009, and 2008. The changes in provision for income taxes are primarily related to variances in the deductible patronage, including the redemption of nonqualified patronage distributions in 2008.

Tax Related Matters

In 2004, we established a \$243 thousand loss contingency in the form of a tax reserve related to certain income accrued by United FCS, FLCA in connection with settlements with the State of Wisconsin. During 2008, this reserve was reversed due to the expiration of the taxing authority's statute of limitations.

Deferred Income Taxes

Deferred tax assets and liabilities are composed of the following (in thousands):

As of December 31	2010	2009	2008
Allowance for loan losses	\$1,006	\$437	\$697
Postretirement benefit accrual	206	195	191
Deferred fee income, net	198	--	--
Leasing related, net	(1,693)	(2,115)	(2,060)
State tax net operating loss carryforwards	--	371	--
Accrued patronage income not received	(387)	(220)	(94)
Accrued pension asset	(781)	(800)	(798)
Depreciation	(110)	(143)	(143)
Other assets	149	134	89
Other liabilities	--	(85)	--
Net deferred tax liabilities	(\$1,412)	(\$2,226)	(\$2,118)
Gross deferred tax assets	\$1,560	\$1,137	\$977
Gross deferred tax liabilities	(\$2,972)	(\$3,363)	(\$3,095)

A valuation reserve for the deferred tax assets was not necessary at December 31, 2010, December 31, 2009, or December 31, 2008.

We have not provided deferred income taxes on approximately \$23.5 million of patronage allocations received from AgriBank prior to 1993. Such allocations, distributed in the form of stock, are subject to tax only upon conversion to cash. Our intent is to permanently maintain this investment in AgriBank. With respect to AgriBank stock distributed in 2002, the Board of Directors has passed a resolution that, should this stock ever be converted to cash, creating a tax liability, an equal amount will be distributed to patrons at that time under our patronage program. Additionally, we have not provided deferred income taxes on accumulated FLCA earnings of \$104.3 million as it is our intent to permanently maintain this equity in the FLCA or to distribute the earnings to members in a manner that results in no additional tax liability to us.

At December 31, 2010, we had no uncertain income tax positions.

NOTE 10: EMPLOYEE BENEFIT PLANS**Pension and Post-Employment Benefit Plans**

Complete financial information for the pension and post-employment benefit plans may be found in the AgriBank, FCB and Affiliated Associations 2010 Annual Report.

As disclosed in the AgriBank, FCB and Affiliated Associations 2010 Annual Report, the defined benefit plans reflect an unfunded liability totaling \$276.5 million at December 31, 2010. Our individual association increases our prepaid pension asset when contributions are made and reduces our prepaid pension asset as annual expense is recorded. At December 31, 2010, to reflect the \$276.5 million unfunded liability on the District balance sheet, the District reversed the prepaid pension assets and recorded the unfunded position as a liability with an offsetting charge to accumulated other comprehensive income (AOCI). The \$276.5 million unfunded liability represents potential future contributions that may need to be made by the participating employers. The \$355.8 million recorded in AOCI represents future expense that may need to be recognized by the participating employers. The amount ultimately to be contributed and the amount ultimately recognized as expense and the timing of those contributions and expenses, are subject to many variables including performance of plan assets and levels of interest rates. These variables could result in actual contributions and expenses being greater than or less than the amounts reflected in the District financial statements. Based on the District's methodology for allocating expenses and contributions at

December 31, 2010, our share of the \$355.8 million potential future expense would be approximately \$14.2 million and our share of the \$276.5 million potential future cash contributions would be \$12.4 million. Please refer to the AgriBank, FCB and Affiliated Associations 2010 Annual Report for detailed disclosures under the FASB guidance on "Compensation – Retirement Benefits".

Pension: Certain employees participate in a District-wide multi-employer defined benefit retirement plan (the Plan). The Plan is noncontributory and covers eligible District employees. Benefits are based on salary and years of service. The assets, liabilities and costs of the plan are not segregated by participating entities. Costs are determined for each individual employer based on costs directly related to their current employees as well as an allocation of the remaining costs based proportionately on the estimated projected liability of the employer under the plan. We recognize our proportional share of expense and contribute a proportional share of funding. As a participant in the Plan, we contributed \$1.2 million for 2010, \$0.9 million for 2009, and \$1.1 million for 2008. Plan expenses included in "Salaries and employee benefits" expense in the Consolidated Statements of Income were \$1.6 million for 2010, \$1.0 million for 2009, and \$786 thousand for 2008.

Life Insurance and Retiree Medical Plans: District employers also provide certain health and life insurance benefits to eligible retired employees according to the terms of the benefit plan. Prior to December 1, 2008, retirees were also provided with a life insurance benefit. The anticipated costs of these benefits are accrued during the period of the employee's active status. Postretirement benefits (primarily health care benefits and life insurance) included in "Salaries and employee benefits" expense in the Consolidated Statements of Income were \$97 thousand for 2010, \$92 thousand for 2009, and \$67 thousand for 2008.

Nonqualified Retirement Plan: We participate in a District-wide nonqualified defined benefit Pension Restoration Plan. This plan provides retirement benefits above the Internal Revenue Code compensation limit to certain highly compensated eligible employees. Benefits payable under this plan are offset by the benefits payable from the Pension Plan. Pension Restoration plan expenses included in "Salaries and employee benefits" expense in the Consolidated Statements of Income were \$9 thousand for 2010, \$77 thousand for 2009, and \$86 thousand for 2008.

Retirement Savings Plans

We also participate in a retirement savings plan. For employees hired before January 1, 2007, employee contributions are matched dollar for dollar up to 2% and 50 cents on the dollar on the next 4% on both pre-tax and post-tax contributions. The maximum employer match is 4%. For employees hired after December 31, 2006, we contribute 3% of the employee's compensation and will match employee contributions dollar for dollar up to a maximum of 6% on both pre-tax and post-tax contributions. The maximum employer contribution is 9%. Employer contributions under the plan were \$554 thousand in 2010, \$474 thousand in 2009, and \$436 thousand in 2008.

NOTE 11: RELATED PARTY TRANSACTIONS

In the ordinary course of business, we may enter into loan transactions with our officers, directors, their immediate family members, and other organizations with which such persons may be associated. Such transactions are subject to special approval requirements contained in Farm Credit Administration Regulations and are made on the same terms, including interest rates, amortization schedules, and collateral, as those prevailing at the time for comparable transactions with other persons. In our opinion, none of these loans outstanding at December 31, 2010, involved more than a normal risk of collectability.

The following table represents information on loans and leases to related parties as determined at each year end (in thousands):

	2010	2009	2008
As of December 31:			
Total related party loans and leases	\$17,113	\$21,661	\$15,243
For the year ended December 31:			
Advances to related parties	\$6,180	\$16,085	\$12,520
Repayments by related parties	7,808	12,796	13,579

The composition of related parties can be different each year end due primarily to changes in the makeup of the Board of Directors. Advances and repayments to related parties at the end of each year are included in the preceding chart.

We purchase various services from AgriBank including certain information systems, financial services, accounting and reporting services, human resource services, and retail product processing and support services. The total cost of services we purchased from AgriBank was \$776 thousand in 2010, \$776 thousand in 2009, and \$811 thousand in 2008.

NOTE 12: CONTINGENCIES AND COMMITMENTS

In the normal course of business, we have various contingent liabilities and commitments outstanding which may not be reflected in the accompanying consolidated financial statements. We do not anticipate any material losses because of these contingencies or commitments.

From time to time, we may be named as a defendant in certain lawsuits or legal actions in the normal course of business. At the date of these consolidated financial statements, we were not aware of any such actions that would have a material impact on our financial condition. However, such actions could arise in the future.

We have commitments to extend credit and letters of credit to satisfy the financing needs of our borrowers. These financial instruments involve, to varying degrees, elements of credit risk not 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 loan contract. Standby letters of credit are agreements to pay a beneficiary if there is a default on a contractual arrangement. At December 31, 2010, we had commitments to extend credit and unexercised commitments related to standby letters of credit of \$321.2 million. Additionally, we had \$19.9 million of issued standby letters of credit as of December 31, 2010.

Commitments to extend credit and letters of credit generally have fixed expiration dates or other termination clauses and we may require payment of a fee. If commitments and letters of credit remain unfulfilled or have not expired, they may have credit risk not recognized in the financial statements. Many of the commitments to extend credit and letters of credit will expire without being fully drawn upon. Therefore, the total commitments do not necessarily represent future cash requirements. Certain letters of credit may have recourse provisions that would enable us to recover from third parties amounts paid under guarantees, thereby limiting our maximum potential exposure. The credit risk involved in issuing these financial instruments is essentially the same as that involved in extending loans to borrowers and we apply the same credit policies.

NOTE 13: FAIR VALUE MEASUREMENTS

The FASB guidance on "Fair Value Measurements and Disclosures" defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability. The guidance also establishes a fair value hierarchy,

with three levels of inputs that may be used to measure fair value. See Note 2 for a more complete description of the three input levels.

We do not have any assets or liabilities measured at fair value on a recurring basis at December 31, 2010, December 31, 2009 or December 31, 2008. We may be required, from time to time, to measure certain assets at fair value on a non-recurring basis. Information on assets measured at fair value on a non-recurring basis is as follows (in thousands):

As of December 31, 2010	Fair Value Measurement Using			Total Fair Value	Total (Losses) Gains
	Level 1	Level 2	Level 3		
Loans	\$ --	\$1,640	\$785	\$2,425	(\$171)
Other property owned	--	--	3,048	3,048	85

As of December 31, 2009	Fair Value Measurement Using			Total Fair Value	Total Gains
	Level 1	Level 2	Level 3		
Loans	\$ --	\$369	\$1,958	\$2,327	\$1,120
Other property owned	--	--	179	179	34

As of December 31, 2008	Fair Value Measurement Using			Total Fair Value	Total Losses
	Level 1	Level 2	Level 3		
Loans	\$ --	\$14	\$14,145	\$14,159	(\$1,398)
Other property owned	--	--	104	104	(180)

Valuation Techniques

Loans: Represents the carrying amount and related write-downs of loans which were evaluated for individual impairment based on the appraised value of the underlying collateral. The fair value measurement would fall under level 2 of the hierarchy if the process uses independent appraisals and other market-based information. The fair value measurement would fall under level 3 of the hierarchy if the process requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral, and other matters. When the value of the collateral, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established.

Other Property Owned: Represents the fair value and related losses of foreclosed assets that were measured at fair value based on the collateral value. Costs to sell represent transaction costs and are not included as a component of the asset's fair value.

NOTE 14: FAIR VALUE OF FINANCIAL INSTRUMENTS

Quoted market prices are generally not available for our financial instruments. Accordingly, we base fair values on:

- judgments regarding future expected losses,
- current economic conditions,
- risk characteristics of various financial instruments,
- credit risk, and
- other factors.

These estimates involve uncertainties and matters of judgment and cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Estimating the fair value of our investment in AgriBank is not practical because the stock is not traded. As discussed in Note 2 and Note 5, the investment is a requirement of borrowing from AgriBank.

A description of the methods and assumptions used to estimate the fair value of each class of our financial instruments, for which it is practical to estimate that value, follows:

Loans: The estimate of the fair value of loan assets is determined by discounting the expected future cash flows using current interest rates.

Current interest rates are estimated based on similar loans made or loans repriced to borrowers with similar credit risk. This methodology is used because no active market exists for the vast majority of these loans. Since the discount rates are based upon internal pricing mechanisms and other estimates, we cannot determine whether the fair values presented would equal the exit price negotiated in an actual sale. Furthermore, certain statutory or regulatory factors not considered in the valuation, such as the unique statutory rights of Farm Credit System borrowers, could render our portfolio unmarketable outside the Farm Credit System.

We segregate the loan portfolio into pools of loans with homogenous characteristics for purposes of determining fair value of accruing loans. Expected future cash flows and interest rates reflecting appropriate credit risk are separately determined for each individual pool.

Fair value of nonaccrual loans, current as to principal and interest, are discounted with appropriately higher rates, reflecting the uncertainty of continued cash flows. We assume that for noncurrent nonaccrual loans, collection will result only from the sale of the underlying collateral. Fair value is estimated to equal the total net realizable value of the underlying collateral, discounted at an interest rate that appropriately reflects the uncertainty of the expected future cash flows over the average disposal period. We use the legal obligation if the net realizable value of the collateral exceeds the legal obligation for a particular loan.

Investment Securities: If an active market exists, the fair value is based on currently quoted market prices. For those securities for which an active market does not exist, we estimate the fair value of these investments by discounting the expected future cash flows using current interest rates.

Note Payable to AgriBank: Estimating the fair value of the note payable to AgriBank is determined by segregating the note into pricing pools according to the types and terms of the underlying loans funded. We discount the estimated cash flows from these pools using the current rate charged by AgriBank for additional borrowings with similar characteristics.

Commitments to extend credit and letters of credit: Estimating the fair value of commitments and letters of credit is determined by the inherent credit loss in such instruments.

The estimated fair value of our financial instruments is as follows (in thousands):

As of December 31, 2010	Carrying	
	Amount	Fair Value
Financial assets:		
Loans, net	\$1,171,634	\$1,185,119
Investment securities	1,447	1,462
Financial liabilities:		
Note payable to AgriBank, FCB	\$1,041,992	\$1,049,640
Unrecognized financial instruments:		
Commitments to extend credit and letters of credit		(\$419)

As of December 31, 2009	Carrying	
	Amount	Fair Value
Financial assets:		
Loans, net	\$1,058,115	\$1,073,565
Investment securities	7,868	7,959
Financial liabilities:		
Note payable to AgriBank, FCB	\$946,460	\$956,960
Unrecognized financial instruments:		
Commitments to extend credit and letters of credit		(\$383)

As of December 31, 2008	Carrying Amount	Fair Value
Financial assets:		
Loans, net	\$966,857	\$981,302
Investment securities	13,105	11,816
Financial liabilities:		
Note payable to AgriBank, FCB	\$862,494	\$875,543
Unrecognized financial instruments:		
Commitments to extend credit and letters of credit		(\$396)

NOTE 15: QUARTERLY FINANCIAL INFORMATION (Unaudited)

Quarterly consolidated results of operations for the years ended December 31, 2010, December 31, 2009, and December 31, 2008, follow (in thousands):

2010	First	Second	Third	Fourth	Total
Net interest income	\$7,789	\$8,230	\$7,698	\$8,538	\$32,255
Provision for loan losses	--	645	262	319	1,226
Patronage income	1,374	1,147	1,441	3,631	7,593
Other expense, net	2,762	3,879	2,609	3,285	12,535
Provision for (reversal of) income taxes	844	552	(468)	655	1,583
Net income	\$5,557	\$4,301	\$6,736	\$7,910	\$24,504
2009	First	Second	Third	Fourth	Total
Net interest income	\$6,761	\$6,725	\$6,865	\$7,731	\$28,082
Provision for loan losses	4,096	3	701	2	4,802
Patronage income	1,051	1,010	1,120	2,120	5,301
Other expense, net	3,231	4,077	3,210	3,211	13,729
(Reversal of) provision for income taxes	(433)	604	197	417	785
Net income	\$918	\$3,051	\$3,877	\$6,221	\$14,067
2008	First	Second	Third	Fourth	Total
Net interest income	\$6,484	\$6,373	\$5,967	\$6,417	\$25,241
Provision for (reversal of) loan losses	2	(438)	5	1,772	1,341
Patronage income	619	877	1,183	1,201	3,880
Other expense, net	3,558	4,261	2,436	2,590	12,845
Provision for (reversal of) income taxes	205	410	(1,191)	(287)	(863)
Net income	\$3,338	\$3,017	\$5,900	\$3,543	\$15,798

NOTE 16: SUBSEQUENT EVENTS

We have evaluated subsequent events through March 11, 2011, which is the date the financial statements were available to be issued. There have been no material subsequent events that would require recognition in our 2010 Consolidated Financial Statements or disclosure in the Notes to those financial statements.

DISCLOSURE INFORMATION REQUIRED BY REGULATIONS

United FCS, ACA

(Unaudited)

DESCRIPTION OF BUSINESS

General information regarding the business is discussed in Note 1 of this annual report.

The description of significant business developments, if any, is discussed in the "Management's Discussion and Analysis" portion of this annual report.

DESCRIPTION OF PROPERTY

The following table sets forth certain information regarding our properties:

Location	Description	Usage
Antigo, WI	Owned	Branch
Madison, MN	Owned	Branch
Marshall, MN	Owned	Branch
Marshfield, WI	Owned	Branch
Marshfield, WI	Owned	Held for resale
Medford, WI	Owned	Branch
Medford, WI	Owned	Held for resale
Olivia, MN	Owned	Branch
Redwood Falls, MN	Owned	Branch
Stevens Point, WI	Owned	Branch
Thorp, WI	Owned	Branch
Wausau, WI	Owned	Branch
Willmar, MN	Owned	Headquarters/Branch
Litchfield, MN	Leased	Branch
St. Louis Park, MN	Leased	Branch

A new Willmar Headquarters/Branch office is under construction with completion planned for August 2011. The current office will be sold.

LEGAL PROCEEDINGS

Information regarding legal proceedings is discussed in Note 12 of this annual report. We were not subject to any enforcement actions at December 31, 2010.

DESCRIPTION OF CAPITAL STRUCTURE

Information regarding our capital structure is discussed in Note 8 of this annual report.

DESCRIPTION OF LIABILITIES

Information regarding liabilities is discussed in Note 7 and Note 12 of this annual report.

SELECTED FINANCIAL DATA

The "Consolidated Five-Year Summary of Selected Financial Data" is presented at the beginning of this annual report.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Information regarding any material aspects of our financial condition, changes in financial condition, and results of operations are discussed in the "Management's Discussion and Analysis" portion of this annual report.

BOARD OF DIRECTORS

Information regarding directors who served as of December 31, 2010, including business experience in the last five years and any other business interest where a director serves on the board of directors or as a senior officer follows:

Stan Claussen, Director, is a self-employed grain farmer. Stan has served as a director since 1995. He is also serves as treasurer on the Bushmill Ethanol Board, on the Board of Fairland Management Company (a farm management services provider), as chair of the AgriBank District Farm Credit Council, and on the Benson School Board. His current term on the board began in 2007 and expires in 2011.

Scott Gerbig, Director and Audit Committee member, is a self-employed dairy farmer. Scott began as a director in 2008. His current term on the board began in 2009 and expires in 2013.

Gregory Jans, Director (Board Chair), is a self-employed dairy farmer. Greg has served as a director since 1994. He also serves as a director on Minnesota Milk Producers and the American Farmers for the Advancement and Conservation of Technology (AFACT) and serves on the Meeker County Planning and Zoning Commission. His current term on the board began in 2010 and expires in 2014.

James Jarvis, Director (Board Vice-Chair), is a self-employed grain and timber farmer. James has served as a director since 2008. His first and current term on the board began in 2008 and expires in 2011.

Roger Mohr, Appointed Director and Audit Committee Chair, Board designated Financial Expert, is a retired college professor formerly teaching accounting at Southwest Minnesota State University in Marshall, MN. Roger was appointed as a director in 1991. His current term on the board began in 2007 and expires in 2011.

William Oemichen, Appointed Director and Audit Committee member, Board designated Financial Expert, is President and CEO of the Cooperative Network. He is Board Treasurer of Energy Center of Wisconsin, Board Vice-Chair and Treasurer of Monroe Hospital and Clinics, Board Vice-Chair of Wisconsin College Savings Program Board, outside Board of Director for FCCServices, Inc., Advisor for Peak Ridge Capital Agricultural Fund, Nominations Committee Chair for Group Health Cooperative, and Chair for University of Wisconsin - Madison College of Agricultural and Life Sciences Board of Visitors. Serves on the Federal Consumer Operated and Oriented Plans – Health Advisory Board to U.S. Department of Health and Human Services. His first and current term on the board began in 2009 and expires in 2013.

Mark Parker, Director and Compensation Committee member, is a self-employed grain farmer. Mark has served as a director since 1987. His current term on the board began in 2008 and expires in 2012.

Donn Peterson, Director and Compensation Committee member, is a self-employed grain and livestock farmer. Donn has served as a director since 1996. His current term on the board began in 2007 and expires in 2011.

Richard Pooley, Appointed Director and Compensation Committee member, retired Vice President of Dunwoody College of Technology, a private, non-profit technical college located in Minneapolis, MN. Richard was appointed as a director in 1992. His current term on the board began in 2008 and expires in 2012.

Richard Price, Director, is a self-employed dairy farmer. His first and current term on the board began in 2008 and expires in 2012.

Bradley Sunderland, Director and Audit Committee member, is a self-employed grain and livestock farmer. Bradley has served as a director since 1993. He also serves as a director on the Farmers Cooperative Elevator of Hanley Falls. His current term on the board began in 2008 and expires in 2012.

Jeffrey Thompson, Director, is a self-employed grain farmer. Jeffrey has served as a director since 1996. His current term on the board began in 2009 and expires in 2013.

Mary Kay Van Der Geest, Director and chair of the Compensation Committee, is a self-employed dairy farmer. Mary Kay has served as a director since 2008. Her current term on the board began in 2010 and expires in 2014.

Pursuant to our bylaws, directors are paid a reasonable amount for attendance at board meetings, committee meetings or other official activities. Directors are also reimbursed for reasonable expenses incurred in connection with such meetings or special activities. For 2010, the Board of Directors had adopted a rate of \$350 per full day meeting and a monthly retainer of \$200-300 depending on committee assignment and board leadership position. Effective January 1, 2011, the Board of Directors adopted a change to the monthly retainer of \$400-750 depending on committee assignment and board leadership responsibilities.

Information regarding compensation for each director who served during 2010 follows:

	Number of Days Served		Compensation paid for service on a board committee	Name of Committee	Total Compensation Paid in 2010
	Board Meetings	Other Official Activities			
Bradley Sunderland	16.4	9.9	\$1,435	Audit	\$12,205
Dennis Oeltjenbruns*	9.6	6.5			7,235
Donn Peterson	15.4	7.5	350	Compensation	10,415
Gary Ruegsegger*	5.6	2.6	105	Audit	5,120
Gregory Jans	16.9	27.5			18,040
James Jarvis	16.4	14.5			13,215
Jeffrey Thompson	13.9	6.5			9,540
Mark Parker	16.4	20.0	350	Compensation	15,140
Mary Kay Van Der Geest	16.1	7.5	350	Compensation	10,660
Richard Pooley	15.4	11.4	350	Compensation	11,675
Richard Price	16.4	13.0			12,690
Roger Mohr	15.4	11.9	1,435	Audit	12,805
Scott Gerbig	16.4	7.0	525	Audit	10,640
Stan Claussen	16.9	27.6			19,075
William Oemichen	14.1	23.4	1,435	Audit	16,125
Total	221.3	196.8	\$6,335		\$184,580

*Term expired in 2010

SENIOR OFFICERS

The senior officers (and the date each began his/her current position) include:

Marcus L. Knisely, Chief Executive Officer (since 1998)
 Robert Haines, Chief Financial Officer (since July 2010)
 Leland G. Fredman, Senior Vice President (since 2009)
 Roger Koster, Chief Information Officer (since 1997)
 Jay A. Nickel, Senior Vice President (since 2007)
 Jeffrey A. Schmidt, Chief Credit Officer (since 2000)

Prior to accepting his current position, Mr. Haines was Vice President of Finance and Operations at Ridgewater College, Willmar, Minnesota from 2007 until July 2010. His prior position was Director of Business and Finance, Willmar Public Schools from 2001 until 2007.

Prior to accepting his current position, Mr. Fredman was Regional Vice President with United FCS, ACA, a position he held since December of 2000.

Prior to accepting his current position, Mr. Nickel was Vice President and Chief Credit Officer for United FCS, ACA, a position he held since 1993.

There were no other business interests where a senior officer served as a director or senior officer.

A summary of compensation earned by senior officers/highly compensated individuals follows (in thousands):

Name of Individual	Year	Salary	Bonus	Deferred/		Total
				Perquisites	Other	
Marcus L. Knisely, CEO	2010	\$280	\$173	\$25	\$ --	\$478
	2009	270	130	36	--	436
	2008	250	150	1	--	401
Aggregate Number of Senior Officers/Highly Compensated Individuals, excluding CEO						
Five	2010	\$561	\$208	\$5	\$ --	\$774
Six	2009	670	203	5	--	878
Seven	2008	749	301	6	--	1,056

Senior officer incentives (bonus above) are based on performance criteria approved by the Compensation Committee of the Board and the Board of Directors. The criteria includes a balanced set of performance targets in the areas of high quality growth, credit quality/credit administration, capital management, marketplace performance, association earnings objectives and employee performance. Performance based compensation is paid no later than February 28 of year following the plan year, once actual year end results are known.

Members may request information on the compensation paid during 2010 to the individuals listed in the preceding table.

TRANSACTIONS WITH SENIOR OFFICERS AND DIRECTORS

Information regarding related party transactions is discussed in Note 11 of this annual report.

TRAVEL, SUBSISTENCE AND OTHER RELATED EXPENSES

Directors and senior officers are reimbursed for reasonable travel, subsistence and other related expenses associated with business functions. A copy of our policy for reimbursing these costs is available by contacting us at P.O. Box 1560, Willmar, MN 56201-1560, (320) 235-1912.

The total directors' travel, subsistence and other related expenses were \$26 thousand in 2010, \$30 thousand in 2009, and \$26 thousand in 2008.

INVOLVEMENT IN CERTAIN LEGAL PROCEEDINGS

No events occurred during the past five years that are material to evaluating the ability or integrity of any person who served as a director or senior officer on January 1, 2011, or at any time during 2010.

MEMBER PRIVACY

Farm Credit Administration Regulations protect members' nonpublic personal financial information. Our directors and employees are restricted from disclosing information about our association or our members not normally contained in published reports or press releases.

RELATIONSHIP WITH QUALIFIED PUBLIC ACCOUNTANT

There were no changes in independent auditors since the last annual report to members and we are in agreement with the opinion expressed by the independent auditors. The total fees paid during 2010 were \$30 thousand. The fees paid were for audit services.

FINANCIAL STATEMENTS

The "Report of Management", "Report on Internal Control Over Financial Reporting", "Report of Audit Committee", "Report of Independent Auditors", "Consolidated Financial Statements" and "Notes to Consolidated Financial Statements" are presented prior to this portion of the annual report.

CREDIT AND SERVICES TO YOUNG, BEGINNING, AND SMALL FARMERS AND RANCHERS

Information regarding credit and services to Young, Beginning, and Small farmers and ranchers and producers or harvesters of aquatic products is discussed in the "Management's Discussion and Analysis" portion of this annual report.

EQUAL EMPLOYMENT OPPORTUNITIES

We are an equal opportunity employer. It is our policy to provide equal employment opportunity to all persons regardless of race, national origin, religion, age, sex, disability, marital status, veteran status, public assistance status, or any other condition or status covered by law. We comply with all state and local equal employment opportunity regulations. We conduct all personnel decisions and processes relating to our employees and job applicants in an environment free of discrimination and harassment.

United FCS, ACA
Funds Held Program

The Association offers a Funds Held Program ("Funds Held") that provides for customers to make advance payments on designated real estate and intermediate term loans. The following terms and conditions apply to all Funds Held unless the loan agreement, or related documents, between the Associations and customer provide for other limitations.

Payment Application

Loan payments received by the Association before the loan has been billed will normally be placed into Funds Held and applied against the next installment due. Loan payments received after the loan has been billed will be directly applied to the installment due on the loan and related charges, if any. Funds received in excess of the billed amount will be placed into Funds Held unless the customer has specified the funds to be applied as a special prepayment of principal.

When a loan installment becomes due, moneys in Funds Held for the loan will be automatically applied toward the installment on the due date. Any accrued interest on Funds Held will be applied first. If the balance in Funds Held does not fully satisfy the entire installment, the customer must pay the difference by the installment due date.

Account Maximum

The amount in Funds Held may not exceed the unpaid principal balance of the loan.

Interest Rate

Interest will accrue on Funds Held at a simple rate of interest that may be changed by the Associations from time to time. The interest rate may never exceed the interest rate charged on the related loan. Interest rates are currently reported on customer's year-end loan statements.

Withdrawals

Money in Funds Held may be withdrawn at any time, unless restrictions are designated in the loan agreement or other loan documents.

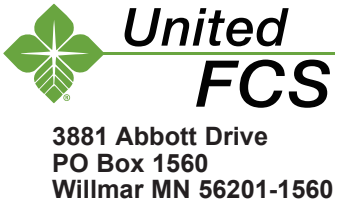
Association Options

In the event of default on any loan, or if Funds Held exceeds the maximum limit as established above, or if the Association discontinues their Funds Held program, the Association may apply funds in the account to the unpaid loan balance and other amounts due, and shall return any excess funds to the customer.

Uninsured Account

Funds Held is not a depository account and is not insured. In the event of the lender's liquidation, all borrowers having funds in these uninsured accounts shall be notified in accordance with FCA Regulation 627.2735. The notice shall advise that the funds ceased earning interest when receivership was instituted and all funds will be applied against the outstanding indebtedness of any loans of such borrower unless, within 15 days of notice, the borrower directs the receiver to otherwise apply such funds in the manner provided in existing loan documents.

Questions: Please direct any questions regarding Funds Held to your local FCS representative.



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