

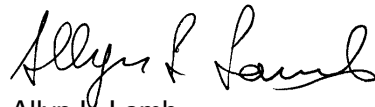
SECOND QUARTER 2009

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CERTIFICATION

The undersigned certify that we have reviewed the June 30, 2009 quarterly report of AgChoice Farm Credit, ACA, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.



Allyn L. Lamb
Chief Executive Officer



Darrell L. Curtis
Chief Operating Officer
& Chief Financial Officer



William K. Jackson
Chairman of the Board

July 22, 2009

Report on Internal Control Over Financial Reporting

The Association's principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining adequate internal control over financial reporting for the Association's Consolidated Financial Statements. For purposes of this report, "internal control over financial reporting" is defined as a process designed by, or under the supervision of the Association's principal executives and principal financial officers, or persons performing similar functions, and effected by its Board of Directors, management and other personnel. This process provides 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.

Internal control over financial reporting 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 June 30, 2009. 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 June 30, 2009, 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 June 30, 2009



Allyn L. Lamb
Chief Executive Officer



Darrell L. Curtis
Chief Financial Officer &
Chief Operating Officer

July 22, 2009

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

(dollars in thousands)

The following commentary reviews the financial condition and results of operations of AgChoice Farm Credit ACA, (Association) for the period ended June 30, 2009. These comments should be read in conjunction with the accompanying financial statements, notes to the financial statements, and the 2008 Annual Report of the Association. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors. Information in any part of this Quarterly Report may be incorporated by reference in answer or partial answer to any other item of the Quarterly Report.

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners and farm-related businesses for financing of short- and intermediate-term loans and long-term real estate mortgage loans. The Association's loan portfolio is diversified over a range of agricultural commodities, including dairy, livestock, poultry, and various crops, and also includes part-time farm and rural home loans. Farm size varies, and many of the borrowers in the region have diversified farming operations. This factor, along with the numerous opportunities for non-farm income in the area, impacts the level of dependency on a given commodity.

The gross loan volume of the Association as of June 30, 2009, was \$1,405,799, a decrease of \$24,383 as compared to \$1,430,182 at December 31, 2008. Net loans outstanding at June 30, 2009, were \$1,396,337 as compared to \$1,421,741 at December 31, 2008. Net loans accounted for 95.9 percent of total assets at June 30, 2009, as compared to 95.5 percent of total assets at December 31, 2008.

The 1.7 percent decrease in gross and 1.8 percent decrease in net loan volume during the reporting period is a result of principal payments and payoffs outpacing new loan volume.

There is an inherent risk in the extension of any type of credit. Portfolio credit quality continues to be maintained at an acceptable level, and credit administration remains satisfactory. Nonaccrual volume increased from \$36,451 at December 31, 2008, to \$39,612 at June 30, 2009. The Association continues efforts to work out of nonaccrual accounts or to assist such operations to return to accrual status.

Association management maintains an allowance for loan losses in an amount considered sufficient to absorb possible losses in the loan portfolio based on current and expected future conditions. The allowance for loan losses was \$9,462 and \$8,441 at June 30, 2009 and December 31, 2008, respectively, and was considered by management to be adequate to cover possible losses. As a further means to reduce credit risk, as of June 30, 2009, the Association had loans amounting to \$56,997 under a long-term standby commitment from Farmer Mac to purchase these loans in the event of loan defaults.

RESULTS OF OPERATIONS

For the three months ended June 30, 2009

Net income for the three months ended June 30, 2009, totaled \$7,065, as compared to \$5,978 for the same period in 2008. Net interest income improved by \$901 for the three months ended June 30, 2009, as compared to the second quarter in 2008.

At June 30, 2009, interest income on accruing loans decreased \$3,322 compared to a year ago. Nonaccrual interest income was \$165 for the three months ended June 30, 2009, as compared to \$66 for the same period in 2008. Interest expense decreased \$4,124 for the three months ended June 30, 2009, as compared to the comparable period of 2008. The decrease in interest income and interest expense is due to the decrease in rates seen in the market place.

Increased risk in the portfolio relating to growth in nonaccrual accounts and operating pressure in certain commodities, resulted in an \$829 provision for loan losses in the second quarter of 2009.

Noninterest income for the three months ended June 30, 2009, totaled \$4,768, as compared to \$4,438 for the same period of 2008, an increase of \$330. Equity in earnings of other Farm Credit institutions increased \$570 as a result of higher borrowing from AgFirst Farm Credit Bank (the Bank) to support the Association's loan growth, and earnings from loans sold to the Bank.

Noninterest expense for the three months ended June 30, 2009, increased \$685 or 13.9 percent, compared to the same period of 2008. This increase is due to several items including a \$568 increase in pension expense, and a \$244 increase in salaries resulting from additional staff hired in 2008 and annual

compensation adjustments. Insurance fund premiums increased \$105 compared to the same period in 2008 as the Food, Conservation, and Energy Act of 2008 increased the top allowable premium assessment of the Farm Credit System Insurance Corporation.

The provision for income taxes was \$68 for the second quarter of 2009 as compared to a \$22 provision in the same period last year.

For the six months ended June 30, 2009

Net income for the six months ended June 30, 2009, totaled \$10,381, as compared to \$12,847 for the same period in 2008. Net interest income increased \$1,193 for the six months ended June 30, 2009, as compared to the same period one year ago.

At June 30, 2009, interest income on accruing loans decreased \$7,174 compared to a year ago. Nonaccrual interest income was \$320 for the six months ended June 30, 2009, as compared to \$83 for the same period in 2008. Interest expense decreased \$8,130 for the six months ended June 30, 2009, as compared to the comparable period of 2008. The decrease in interest income and interest expense is due to the decrease in rates seen in the market place this year.

A large charge-off on a single loan, and increased risk in the portfolio relating to growth in nonaccrual accounts and operating pressure in certain commodities resulted in a \$4,195 provision for loan losses in the first six months of 2009, compared to a provision for loan losses of \$1,420 for the first six months of 2008.

Noninterest income for the six months ended June 30, 2009, totaled \$9,344, as compared to \$8,311 for the same period of 2008, an increase of \$1,033. Equity in earnings of AgFirst Farm Credit Bank (the Bank) increased \$1,206 as a result of higher borrowing from the Bank to support the Association's loan growth and earnings from loans sold to the Bank.

Noninterest expense for the six months ended June 30, 2009, increased \$1,875, or 19.5 percent, compared to the same period of 2008. This increase is due to several items including a \$1,136 increase in pension expense, and a \$494 increase in salaries resulting from additional staff hired in 2008 and annual compensation adjustments. Insurance fund premiums increased \$232 compared to the same period in 2008 as the Food, Conservation, and Energy Act of 2008 increased the top allowable premium assessment of the Farm Credit System Insurance Corporation.

The provision for income taxes was \$88 for the six months ended June 30, 2009 as compared to \$46 in the same period last year.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with the Bank through a General Financing Agreement. The General Financing Agreement utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The Bank advances funds to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sections. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. The total notes payable to the Bank at June 30, 2009, was \$1,228,870 as compared to \$1,264,013 at December 31, 2008. The decrease in notes payable is mainly due to the decrease in gross loan volume since the end of 2008 and the receipt of the 2008 Equity in earnings of other Farm Credit institutions.

CAPITAL RESOURCES

Total members' equity at June 30, 2009, increased to \$209,446 from the December 31, 2008, total of \$202,071. The increase is primarily attributed to year-to-date 2009 earnings reduced by the accrual for 2009 cash patronage and \$500 in additional 2008 cash patronage.

Total capital stock and participation certificates were \$11,772 on June 30, 2009, compared to \$11,810 on December 31, 2008.

Farm Credit Administration (FCA) regulations require all Farm Credit institutions to maintain minimum permanent capital, total surplus and core surplus ratios. These ratios are calculated by dividing the Association's permanent capital, total surplus and core surplus, as defined in FCA regulations, by a risk-adjusted asset base. As of June 30, 2009, the Association's permanent capital and total surplus ratios were 11.81 percent and 10.98 percent, respectively, and the core surplus ratio was 9.54 percent. All three ratios were well above the minimum regulatory requirements of 7.00 percent for the permanent capital and total surplus ratios and 3.50 percent for the core surplus ratio.

Note: Shareholder investment in the Association could be affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst's annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745 ext. 378, or writing Stephen Gilbert, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit bank can also be obtained at their website, www.agfirst.com. Copies of the Association's annual and quarterly reports are also available upon request free of charge by calling 1-800-349-3568 or writing AgChoice Farm Credit, ACA, 900 Bent Creek Blvd., Mechanicsburg, PA, 17050, or accessing the website www.agchoice.com. The Association prepares a quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

AgChoice Farm Credit, ACA

Consolidated Balance Sheets

<i>(dollars in thousands)</i>	June 30, 2009	December 31, 2008
	<i>(unaudited)</i>	<i>(audited)</i>
Assets		
Cash	\$ 79	\$ 79
Loans	1,405,799	1,430,182
Less: allowance for loan losses	9,462	8,441
Net loans	1,396,337	1,421,741
Accrued interest receivable	7,322	6,991
Investment in other Farm Credit institutions	34,360	35,350
Premises and equipment, net	4,148	4,255
Other property owned	348	509
Due from AgFirst Farm Credit Bank	—	13,046
Other assets	12,828	6,868
Total assets	\$ 1,455,422	\$ 1,488,839
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 1,228,870	\$ 1,264,013
Accrued interest payable	3,141	4,136
Patronage refund payable	2,660	4,718
Other liabilities	11,305	13,901
Total liabilities	1,245,976	1,286,768
Commitments and contingencies (Note 3)		
Members' Equity		
Capital stock and participation certificates	11,772	11,810
Surplus		
Allocated	99,769	98,215
Unallocated	97,895	92,035
Accumulated other comprehensive income (loss)	10	11
Total members' equity	209,446	202,071
Total liabilities and members' equity	\$ 1,455,422	\$ 1,488,839

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

AgChoice Farm Credit, ACA

Consolidated Statements of Income

(unaudited)

<i>(dollars in thousands)</i>	For the three months ended June 30,		For the six months ended June 30,	
	2009	2008	2009	2008
Interest Income				
Loans	\$ 18,575	\$ 21,798	\$ 37,660	\$ 44,597
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	9,776	13,900	20,858	28,988
Net interest income	8,799	7,898	16,802	15,609
Provision for (reversal of allowance for) loan losses	829	1,416	4,195	1,420
Net interest income after provision for (reversal of allowance for) loan losses	7,970	6,482	12,607	14,189
Noninterest Income				
Loan fees	747	869	1,468	1,708
Fees for financially related services	232	219	410	348
Equity in earnings of other Farm Credit institutions	3,657	3,087	7,206	6,000
Gains (losses) on other property owned, net	(6)	88	(19)	80
Gains (losses) on sale of rural home loans, net	36	(8)	54	8
Other noninterest income	102	183	225	167
Total noninterest income	4,768	4,438	9,344	8,311
Noninterest Expense				
Salaries and employee benefits	3,525	2,659	7,209	5,380
Occupancy and equipment	275	303	566	566
Insurance Fund premium	597	492	1,191	959
Other operating expenses	1,208	1,466	2,516	2,702
Total noninterest expense	5,605	4,920	11,482	9,607
Income before income taxes	7,133	6,000	10,469	12,893
Provision (benefit) for income taxes	68	22	88	46
Net income	\$ 7,065	\$ 5,978	\$ 10,381	\$ 12,847

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

AgChoice Farm Credit, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

	Capital Stock and Participation Certificates	Surplus		Accumulated Other Comprehensive Income	Total Members' Equity
		Allocated	Unallocated		
<i>(dollars in thousands)</i>					
Balance at December 31, 2007	\$ 12,004	\$ 92,116	\$ 84,126	\$ 14	\$ 188,260
Comprehensive income					
Net income			12,847		12,847
Employee benefit plans adjustments			(4)	—	(4)
Total comprehensive income					12,843
Capital stock/participation certificates issued/(retired), net	(197)				(197)
Dividends declared/paid	72		(72)		
Patronage distribution					
Cash			(3,440)		(3,440)
Surplus retired		(47)			(47)
Patronage distribution adjustment		(388)	106		(282)
Balance at June 30, 2008	\$ 11,879	\$ 91,681	\$ 93,563	\$ 14	\$ 197,137
Balance at December 31, 2008	\$ 11,810	\$ 98,215	\$ 92,035	\$ 11	\$ 202,071
Comprehensive income					
Net income			10,381		10,381
Employee benefit plans adjustments				(1)	(1)
Total comprehensive income					10,380
Capital stock/participation certificates issued/(retired), net	(61)				(61)
Dividends declared/paid	23		(23)		—
Patronage distribution					
Cash			(2,395)		(2,395)
Surplus retired		(36)			(36)
Patronage distribution adjustment		1,590	(2,103)		(513)
Balance at June 30, 2009	\$ 11,772	\$ 99,769	\$ 97,895	\$ 10	\$ 209,446

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

AgChoice Farm Credit, ACA

Notes to the Consolidated Financial Statements

(dollars in thousands, except as noted)
(unaudited)

NOTE 1 – ORGANIZATION, SIGNIFICANT ACCOUNTING POLICIES, AND RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

The accompanying financial statements include the accounts of AgChoice Farm Credit, ACA (the Association). A description of the organization and operations of the Association, the significant accounting policies followed, and the financial condition and results of operations as of and for the year ended December 31, 2008, are contained in the 2008 Annual Report to Shareholders. These unaudited second quarter 2009 consolidated financial statements should be read in conjunction with the 2008 Annual Report to Shareholders.

The accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with generally accepted accounting principles (GAAP) and prevailing practices within the banking industry. The results for the six months ended June 30, 2009, are not necessarily indicative of the results to be expected for the year ending December 31, 2009.

Certain amounts in the prior period's consolidated financial statements may have been reclassified to conform to the current period's consolidated financial statement presentation. Such reclassifications had no effect on the prior period net income or total capital as previously reported.

The Association maintains an allowance for loan losses in accordance with GAAP. The loan portfolio is reviewed quarterly to determine the adequacy of the allowance for losses. As of June 30, 2009 the allowance for losses is adequate in management's opinion to provide for possible losses on existing loans.

In addition to the recently issued accounting pronouncements discussed in the 2008 Annual Report to Shareholders, effective January 1, 2009, the Association adopted Financial Accounting Standards Board (FASB) Statement of Position (FSP) No. 157-2, "Effective Date of FASB Statement No. 157." This FSP delayed the effective date of Statement No. 157 for nonfinancial assets and nonfinancial liabilities until fiscal years beginning after November 15, 2008. The impact of adoption requires additional fair value disclosures (see Note 5), primarily regarding other property owned, but does not have an impact on the Association's financial condition or results of operations.

In April 2009, the FASB issued FSP No. 107-1 and Accounting Principles Board (APB) No. 28-1, "Interim Disclosures about Fair Value of Financial Instruments." This FSP requires disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. The FSP is effective for interim periods ending after June 15, 2009 (see Note 6).

In May 2009, the FASB issued SFAS No. 165, "Subsequent Events," which sets forth general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Recognized subsequent events should be recognized in the financial statements since the conditions existed at the date of the balance sheet. Nonrecognized subsequent events are not recognized in the financial statements since the conditions arose after the balance sheet date but before the financial statements are issued or are available to be issued. This Standard, which includes a required disclosure of the date through which an entity has evaluated subsequent events, is effective for interim or annual periods ending after June 15, 2009 (see Note 7).

NOTE 2 – ALLOWANCE FOR LOAN LOSSES AND IMPAIRED LOANS

An analysis of the allowance for loan losses follows:

	For the six months ended June 30,	
	2009	2008
Balance at beginning of period	\$ 8,441	\$ 4,300
Provision for (reversal of) loan losses	4,195	1,420
Charge-offs	(3,470)	(46)
Recoveries	296	62
Balance at end of period	<u>\$ 9,462</u>	<u>\$ 5,736</u>

The following table presents information concerning impaired loans as of June 30,

	2009	2008
Impaired loans with related allowance	\$ 10,922	\$ 115
Impaired loans with no related allowance	32,187	8,600
Total impaired loans	<u>\$ 43,109</u>	<u>\$ 8,715</u>
Allowance on impaired loans	<u>\$ 2,202</u>	<u>\$ 34</u>

The following table summarizes impaired loan information for the six months ended June 30,

	<u>2009</u>	<u>2008</u>
Average impaired loans	\$ 38,457	\$ 6,677
Interest income recognized on impaired loans	429	158

NOTE 3 – COMMITMENTS AND CONTINGENT LIABILITIES

Actions are pending against the Association in which money damages are sought. However, on the basis of information now at hand, management and legal counsel are of the opinion that the ultimate liability, if any, resulting therefrom, would not be material in relation to the overall financial position of the Association.

NOTE 4 – EMPLOYEE BENEFIT PLANS

The following is a table of retirement and other postretirement benefit expenses for the Association:

	<u>For the six months ended June 30,</u>	
	<u>2009</u>	<u>2008</u>
Pension	\$ 1,452	\$ 316
401(k)	196	176
Other postretirement benefits	264	243
Total	<u>\$ 1,912</u>	<u>\$ 735</u>

The following is a table of retirement and other postretirement benefit contributions for the Association:

	<u>Actual YTD Through 6/30/09</u>	<u>Projected Contributions For Remainder of 2009</u>	<u>Projected Total Contributions 2009</u>
Pension	\$ 10	\$ 9	\$ 19
Other postretirement benefits	165	206	371
Total	<u>\$ 175</u>	<u>\$ 215</u>	<u>\$ 390</u>

Actuarial calculations as of the last plan measurement date (December 31, 2008) projected contributions of \$19 to the pension plan for 2009. However, market conditions could impact discount rates and return on plan assets which could make additional contributions necessary before the next plan measurement date of December 31, 2009.

Further details regarding employee benefit plans are contained in the 2008 Annual Report to Shareholders.

NOTE 5 – FAIR VALUE MEASUREMENT

Effective January 1, 2008, the Association adopted Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" (SFAS No. 157). This Statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements for certain assets and liabilities measured at fair value on a recurring and non-recurring basis. These assets and liabilities primarily consist of assets held in trust funds, standby letters of credit, impaired loans, and other property owned.

SFAS No. 157 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.

SFAS No. 157 establishes a fair value hierarchy for disclosure of fair value measurements to maximize the use of observable inputs, that is, inputs that reflect the assumptions market participants would use in pricing an asset or liability based on market data obtained from sources independent of the reporting entity. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

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

Level 1

Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets. The Association's Level 1 assets at June 30, 2009 consist of assets held in trust funds related to deferred compensation and supplemental retirement plans. The trust funds include investments in securities that are actively traded and have quoted net asset value prices that are directly observable in the marketplace.

Level 2

Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets; quoted prices in markets that are not active; and inputs that are observable, or can be corroborated, for substantially the full term of the asset or liability. The Association has no Level 2 assets and liabilities measured at fair value on a recurring basis at June 30, 2009.

Level 3

Level 3 inputs to the valuation methodology are unobservable and supported by little or no market activity. Valuation is

determined using pricing models, discounted cash flow methodologies, or similar techniques, and could include significant management judgment or estimation. Level 3 assets and liabilities also could include instruments whose price has been adjusted based on dealer quoted pricing that is different than the third-party valuation or internal model pricing.

Level 3 assets at June 30, 2009 include impaired loans which represent the fair value of certain loans that were evaluated for impairment under SFAS No. 114. The fair value was based upon the underlying collateral since these were collateral-dependent loans. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters. As a result, these fair value measurements fall within Level 3 of the hierarchy. When the value of the collateral, less estimated costs to sell, is less than the principle balance of the loan, a specific reserve is established. Other property owned is classified as a level 3 asset at June 30, 2009. The fair value for other property owned is based upon the collateral less estimated costs to sell. Level 3 liabilities at June 30, 2009 include standby letters of credit whose market value is internally calculated based on information that is not observable either directly or indirectly in the marketplace.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following table presents the assets and liabilities that are measured at fair value on a recurring basis at June 30, 2009 for each of the fair value hierarchy levels:

	June 30, 2009			
	Level 1	Level 2	Level 3	Total Fair Value
Assets:				
Assets held in trust funds	\$ 353	\$ -	\$ -	\$ 353
Total Assets	\$ 353	\$ -	\$ -	\$ 353
Liabilities:				
Standby letters of credit	\$ -	\$ -	\$ 474	\$ 474
Total Liabilities	\$ -	\$ -	\$ 474	\$ 474

The following table presents the changes in Level 3 assets and liabilities measured at fair value on a recurring basis:

	Standby Letters Of Credit
Balance at January 1, 2009	\$ 509
Total gains or (losses) realized/unrealized:	
Included in earnings	-
Included in other comprehensive loss	-
Purchases, sales, issuances and settlements, net	(35)
Transfers in and/or out of level 3	-
Balance at June 30, 2009	\$ 474

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

Assets and liabilities measured at fair value on a non-recurring basis at June 30, 2009 for each of the fair value hierarchy values are summarized below:

	June 30, 2009				YTD Total Gains (Losses)
	Level 1	Level 2	Level 3	Total Fair Value	
Assets:					
Impaired loans	\$ -	\$ -	\$ 8,720	\$ 8,720	\$ (3,233)
Other property owned	\$ -	\$ -	\$ 295	\$ 295	\$ (3)

NOTE 6 — DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents the carrying amounts and fair values of the Association's financial instruments at June 30, 2009.

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

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

	June 30, 2009	
	Carrying Amount	Estimated Fair Value
Financial assets:		
Cash	\$ 79	\$ 79
Loans, net of allowance	\$ 1,396,337	\$ 1,410,908
Assets held in trust funds	\$ 353	\$ 353
Financial liabilities:		
Notes payable to AgFirst Farm Credit Bank	\$ 1,228,870	\$ 1,238,761

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

- A. **Cash:** The carrying value is a reasonable estimate of fair value.
- B. **Loans:** Because no active market exists for the Association's loans, fair value is estimated by discounting the expected future cash flows using the Association's

current interest rates at which similar loans would be made to borrowers with similar credit risk. As the discount rates are based on the Bank's loan rates, as well as management estimates, management has no basis to determine whether the fair values presented would be indicative of the value negotiated in an actual sale.

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

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

The carrying value of accrued interest approximates its fair value.

- C. **Investment in AgFirst Farm Credit Bank:** Estimating the fair value of the Association's investment in the Bank is not practicable because the stock is not traded. The net investment is a requirement of borrowing from the Bank and is carried at cost plus allocated equities in the accompanying Consolidated Balance Sheets. The Association owns 7.81 percent of the issued stock of the Bank as of June 30, 2009 net of any reciprocal investment. As of that date, the Bank's assets totaled \$30.0 billion and shareholders' equity totaled \$1.5 billion. The Bank's earnings were \$116 million during the first six months of 2009.
- D. **Notes Payable to AgFirst Farm Credit Bank:** The notes payable are segregated into pricing pools according to the types and terms of the loans (or other assets) which they fund. Fair value of the notes payable is estimated by discounting the anticipated cash flows of each pricing pool using the current rate that would be charged for additional borrowings. For purposes of this estimate it is assumed the cash flow on the notes is equal to the principal payments on the Association's loan receivables plus accrued interest on the notes payable. This assumption implies that earnings on the Association's interest margin are used to fund operating expenses and capital expenditures.
- E. **Commitments to Extend Credit:** The estimated market value of off-balance-sheet commitments is minimal since the committed rate approximates current rates offered for commitments with similar rate and maturity characteristics and since the related credit risk is not significant.
- F. **Assets Held in Trust Funds:** See Note 5 for discussion of estimation of fair value for this instrument.

NOTE 7 – SUBSEQUENT EVENTS

The Association has evaluated subsequent events through July 22, 2009, which is the date the financial statements were available to be issued.