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*Central Kentucky Agricultural Credit Association*

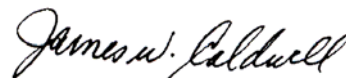
# **THIRD QUARTER 2009**

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## **CERTIFICATION**

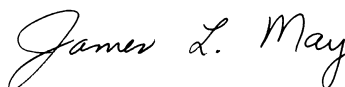
The undersigned certify that we have reviewed the September 30, 2009 quarterly report of Central Kentucky Agricultural Credit Association, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory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



James W. Caldwell  
Chief Executive Officer



Marcus G. Barnett  
Chief Financial Officer



James L. May  
Chairman of the Board

October 22, 2009

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*Central Kentucky Agricultural Credit Association*

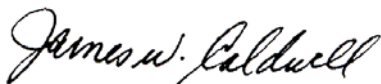
# Report on Internal Control Over Financial Reporting

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.

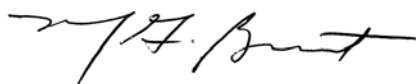
Internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Association, (2) provide reasonable assurance that transactions 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 September 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 September 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 September 30, 2009



James W. Caldwell  
Chief Executive Officer



Marcus G. Barnett  
Chief Financial Officer

October 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 Central Kentucky Agricultural Credit Association (the Association) for the period ended September 30, 2009. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated 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.

## **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 in our region. The predominate enterprises are beef and thoroughbred horses. Overall, the outlook for the beef cattle industry is guarded with concern over the impact of the economic downturn on consumer demand. The thoroughbred horse industry is also guarded due to negative effects from the downturn in the general economy. 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 employment in the area, significantly reduces the level of dependency on a given commodity.

The gross loan volume of the Association as of September 30, 2009 was \$247,034, an increase of \$21,435 as compared to \$225,599 at December 31, 2008. Net loans outstanding at September 30, 2009 were \$244,908 as compared to \$224,130 at December 31, 2008. Net loans accounted for 84.23 percent of total assets at September 30, 2009, as compared to 81.52 percent of total assets at December 31, 2008.

The increase in gross and net loan volume during the reporting period is primarily due to growth in real estate loans due to a reduction in agricultural lending activity among other lenders in the region.

There is an inherent risk in the extension of any type of credit. However, portfolio credit quality continues to be maintained at an acceptable level and credit administration remains satisfactory. Nonaccrual loans increased from \$1,491 at December 31, 2008, to \$3,151 at September 30, 2009. This

increase is primarily due to the transfer of two larger accounts to nonaccrual 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 \$2,126 allowance for loan losses at September 30, 2009 reflected a \$657 increase from December 31, 2008, and was considered by management to be adequate to cover possible losses.

## **RESULTS OF OPERATIONS**

### ***For the three months ended September 30, 2009***

Net income for the three months ended September 30, 2009 totaled \$849, as compared to \$602 for the same period in 2008. Net interest income increased \$330 for the three months ended September 30, 2009 as compared to the same period in 2008. The Association recorded a provision for loan losses of \$100 for the three months ended September 30, 2009, as compared to a provision for loan losses of \$150 for the same period in 2008.

At September 30, 2009, interest income on accruing loans decreased \$73 compared to September 30, 2008. The Association recorded nonaccrual income of \$114 for the three months ended September 30, 2009, as compared to \$0 for the same period in 2008. Interest income from tobacco successor-in-interest contract (SIIC) investments was \$384 for the three months ended September 30, 2009, as compared to \$434 for the same period in 2008. Interest expense decreased \$339 for the three months ended September 30, 2009 as compared to the comparable period of 2008. Movement in interest income and expense is primarily attributed to increases in loan volume and an early-year reduction in the Association's direct note from receipt of patronage from the AgFirst Farm Credit Bank (Bank). Noninterest income for the three months ended September 30, 2009 totaled \$585, as compared to \$561 for the same period of 2008, an increase of \$24. Increase within this category is primarily attributed to increased income from equity in earnings of the Bank

Noninterest expense for the three months ended September 30, 2009 increased \$155 compared to the same period of 2008. The increase is due primarily to an increase in retirement plan expense. The Association recorded no provision for income taxes for the three months ended September 30, 2009, and recorded no provision for income taxes for the same period in 2008.

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### **For the nine months ended September 30, 2009**

Net income for the nine months ended September 30, 2009 totaled \$1,723, as compared to \$2,042 for the same period in 2008. Net interest income increased \$646 for the nine months ended September 30, 2009 as compared to the same period in 2008. The Association recorded a provision for loan losses of \$700 for the nine months ended September 30, 2009, as compared to a provision for loan losses of \$150 for the same period in 2008.

At September 30, 2009, interest income on accruing loans decreased \$24 compared to September 30, 2008. The Association recorded nonaccrual income of \$120 for the nine months ended September 30, 2009, as compared to \$1 for the same period in 2008. Interest income from tobacco successor-in-interest contract (SIIC) investments were \$1,135 for the nine months ended September 30, 2009, as compared to \$1,301 for the same period in 2008. Interest expense decreased \$717 for the nine months ended September 30, 2009 as compared to the comparable period of 2008. Movement in interest income and expense is primarily attributed to increases in loan volume and an early-year reduction in the Association's direct note from receipt of Bank patronage. Noninterest income for the nine months ended September 30, 2009 totaled \$1,763, as compared to \$1,725 for the same period of 2008, an increase of \$38. Increase within this category is primarily attributed to increased income from equity in earnings of the Bank.

Noninterest expense for the nine months ended September 30, 2009 increased \$451 compared to the same period of 2008. The increase is due primarily to an increase in retirement plan expense. The Association recorded no provision for income taxes for the nine months ended September 30, 2009, and recorded no provision for income taxes for the same period in 2008.

The financial results of this interim report are not necessarily indicative of the results expected for the 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 funds are advanced by the Bank 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 September 30, 2009 was \$251,381 as compared to \$236,494 at December 31, 2008. The

increase during the period is primarily attributed to increases in loan volume.

### **CAPITAL RESOURCES**

Total members' equity at September 30, 2009 increased to \$36,399 from the December 31, 2008 total of \$34,501. The increase is primarily attributed to the Association's increase in retained earnings as a result of income recorded for the nine months ended September 30, 2009. Total capital stock and participation certificates were \$6,628 on September 30, 2009, compared to \$6,453 on December 31, 2008. This increase is attributed to member purchases of equities in relation to increases in loan volume.

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 September 30, 2009, the Association's permanent capital ratio was 11.83 percent and the total surplus ratio and core surplus ratio were 10.69 percent and 10.04 percent, respectively. All three ratios were well above the minimum regulatory ratios of 7.00 percent for permanent capital and total surplus ratios and 3.50 percent for the core surplus ratio.

### **RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS**

Please refer to Note 1, "*Organization, Significant Accounting Policies, and Recently Issued Accounting Pronouncements*", in the Notes to the Financial Statements, and the 2008 Annual Report to Shareholders for recently issued accounting pronouncements.

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**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 by 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](http://www.agfirst.com). Copies of the Association's annual and quarterly reports are also available upon request free of charge by calling 1-859-253-3249, or writing Marcus Barnett, Chief Financial Officer, Central Kentucky Agricultural Credit Association, P.O. Box 1290, Lexington, KY 40588-1290, or accessing the website [www.agcreditonline.com](http://www.agcreditonline.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.

# Central Kentucky Agricultural Credit Association

## Consolidated Balance Sheets

<i>(dollars in thousands)</i>	<b>September 30, 2009</b> <i>(unaudited)</i>	<b>December 31, 2008</b> <i>(audited)</i>
<b>Assets</b>		
Cash	\$ 362	\$ 699
Loans	247,034	225,599
Less: allowance for loan losses	2,126	1,469
Net loans	244,908	224,130
Other investments	28,705	32,291
Accrued interest receivable	3,388	3,539
Investment in other Farm Credit institutions	7,559	7,559
Premises and equipment, net	3,562	3,628
Other property owned	102	168
Due from AgFirst Farm Credit Bank	1,479	1,810
Other assets	683	1,123
Total assets	<u>\$ 290,748</u>	<u>\$ 274,947</u>
<b>Liabilities</b>		
Notes payable to AgFirst Farm Credit Bank	\$ 251,381	\$ 236,494
Accrued interest payable	814	917
Patronage refund payable	50	715
Other liabilities	2,104	2,320
Total liabilities	<u>254,349</u>	<u>240,446</u>
Commitments and contingencies		
<b>Members' Equity</b>		
Capital stock and participation certificates	6,628	6,453
Retained earnings		
Allocated	11,914	11,975
Unallocated	17,857	16,073
Total members' equity	<u>36,399</u>	<u>34,501</u>
Total liabilities and members' equity	<u>\$ 290,748</u>	<u>\$ 274,947</u>

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

# Central Kentucky Agricultural Credit Association

## Consolidated Statements of Income

*(unaudited)*

<i>(dollars in thousands)</i>	<b>For the three months ended September 30,</b>		<b>For the nine months ended September 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
<b>Interest Income</b>				
Loans	\$ 3,693	\$ 3,652	\$ 10,570	\$ 10,475
Other	384	434	1,135	1,301
Total interest income	4,077	4,086	11,705	11,776
<b>Interest Expense</b>				
Notes payable to AgFirst Farm Credit Bank	2,495	2,834	7,381	8,098
Net interest income	1,582	1,252	4,324	3,678
Provision for (reversal of allowance for) loan losses	100	150	700	150
Net interest income after provision for (reversal of allowance for) loan losses	1,482	1,102	3,624	3,528
<b>Noninterest Income</b>				
Loan fees	68	80	247	383
Equity in earnings of other Farm Credit institutions	513	475	1,474	1,318
Gains (losses) on other property owned, net	(2)	2	(2)	(2)
Gains (losses) on sale of rural home loans, net	4	—	20	—
Other noninterest income	2	4	24	26
Total noninterest income	585	561	1,763	1,725
<b>Noninterest Expense</b>				
Salaries and employee benefits	812	695	2,483	2,130
Occupancy and equipment	82	92	270	263
Insurance Fund premium	102	69	285	207
Other operating expenses	222	207	626	613
Total noninterest expense	1,218	1,063	3,664	3,213
Income before income taxes	849	600	1,723	2,040
Provision (benefit) for income taxes	—	(2)	—	(2)
Net income	\$ 849	\$ 602	\$ 1,723	\$ 2,042

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

Central Kentucky Agricultural Credit Association  
**Consolidated Statements of Changes in  
Members' Equity**

*(unaudited)*

<i>(dollars in thousands)</i>	<b>Capital Stock and Participation Certificates</b>	<b>Retained Earnings</b>		<b>Total Members' Equity</b>
		<b>Allocated</b>	<b>Unallocated</b>	
Balance at December 31, 2007	\$ 6,699	\$ 10,879	\$ 15,950	\$ 33,528
Net income			2,042	2,042
Capital stock/participation certificates issued/(retired), net	189			189
Retained earnings retired		(1)		(1)
Patronage distribution adjustment		(17)	23	6
Balance at September 30, 2008	<u>\$ 6,888</u>	<u>\$ 10,861</u>	<u>\$ 18,015</u>	<u>\$ 35,764</u>
Balance at December 31, 2008	\$ 6,453	\$ 11,975	\$ 16,073	\$ 34,501
Net income			1,723	1,723
Capital stock/participation certificates issued/(retired), net	175			175
Retained earnings retired		(17)		(17)
Patronage distribution adjustment		(44)	61	17
Balance at September 30, 2009	<u>\$ 6,628</u>	<u>\$ 11,914</u>	<u>\$ 17,857</u>	<u>\$ 36,399</u>

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

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*Central Kentucky Agricultural Credit Association*

# 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 Central Kentucky Agricultural Credit Association (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 third 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 nine months ended September 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 September 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 accounting guidance for fair value measurements of nonfinancial assets and nonfinancial liabilities. The impact of adoption resulted in additional fair value disclosures (see Note 4), 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 Financial Accounting Standards Board (FASB) issued guidance, "Interim Disclosures about Fair Value of Financial Instruments." This guidance requires disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. The Association adopted this guidance effective June 30, 2009 (see Note 5).

In May 2009, the FASB issued guidance, "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. There are two types of subsequent events: the first type consists of events or transactions that provide additional evidence about conditions that existed at the balance sheet date (recognized subsequent events) and the second type consists of events that provide evidence about conditions that did not exist at the balance sheet date but arose after that date (nonrecognized subsequent events). Recognized subsequent events should be included in the financial statements since the conditions existed at the date of the balance sheet. Nonrecognized subsequent events are not included 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 guidance, which includes a required disclosure of the date through which an entity has evaluated subsequent events, was adopted by the Association effective June 30, 2009 (see Note 6).

In June 2009, the FASB issued guidance, "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles." This Codification will become the source of authoritative U.S. generally accepted accounting principles recognized by the FASB. This guidance was adopted by the Association effective July 1, 2009 and had no impact on the Association's financial condition or results of operations.

**NOTE 2 – ALLOWANCE FOR LOAN LOSSES AND IMPAIRED LOANS**

An analysis of the allowance for loan losses follows:

	<b>For the nine months ended September 30,</b>	
	<b>2009</b>	<b>2008</b>
Balance at beginning of period	\$ 1,469	\$ 1,191
Provision for (reversal of) loan losses	700	150
Charge-offs	(45)	(32)
Recoveries	2	1
Balance at end of period	<u>\$ 2,126</u>	<u>\$ 1,310</u>

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

	<b>2009</b>	<b>2008</b>
Impaired loans with related allowance	\$ 1,837	\$ 256
Impaired loans with no related allowance	1,314	1,455
Total impaired loans	<u>3,151</u>	<u>1,711</u>
Allowance on impaired loans	<u>\$ 772</u>	<u>\$ 159</u>

The following table summarizes impaired loan information for the nine months ended September 30,

	<b>2009</b>	<b>2008</b>
Average impaired loans	\$ 2,794	\$ 1,042
Interest income recognized on impaired loans	138	17

**NOTE 3 – EMPLOYEE BENEFIT PLANS**

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

	<b>For the nine months ended September 30,</b>	
	<b>2009</b>	<b>2008</b>
Pension	\$ 468	\$ 121
401(k)	90	89
Other postretirement benefits	84	83
Total	<u>\$ 642</u>	<u>\$ 293</u>

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

	<b>Actual YTD Through 9/30/09</b>	<b>Projected Contributions For Remainder of 2009</b>	<b>Projected Total Contributions 2009</b>
Pension	\$ -	\$ 616	\$ 616
Other postretirement benefits	27	14	41
Total	<u>\$ 27</u>	<u>\$ 630</u>	<u>\$ 657</u>

As of September 30, 2009, no contributions have been made to the pension plan for 2009. Actuarial calculations as of the last plan measurement date (December 31, 2008) projected contributions of \$2,036 to the pension plan for 2009. However, a new funding policy adopted during 2009 by the plan's Sponsor Committee resulted in a revised \$616 projected total contribution for 2009 as shown in the table above. 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 4 – FAIR VALUE MEASUREMENT**

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

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

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

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

#### Level 1

Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets. The Association has no Level 1 assets or liabilities measured at fair value on a recurring basis at September 30, 2009.

#### Level 2

Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets; quoted prices in markets that are not active; and inputs that are observable, or can be corroborated, for substantially the full term of the asset or liability. The Association has no Level 2 assets or liabilities measured at fair value on a recurring basis at September 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 September 30, 2009 include impaired loans which represent the fair value of certain loans that were evaluated for impairment under FASB guidance. The fair value was based upon the underlying collateral since these were collateral-dependent loans. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters. As a result, these fair value measurements fall within Level 3 of the hierarchy. When the value of the collateral, less estimated costs to sell, is less than the principle balance of the loan, a specific reserve is established. Other property owned is classified as a level 3 asset at September 30, 2009. The fair value for other property owned is based upon the collateral less estimated costs to sell. Level 3 liabilities at September 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 September 30, 2009 for each of the fair value hierarchy levels:

September 30, 2009				
	Level 1	Level 2	Level 3	Total Fair Value
<b>Liabilities:</b>				
Standby letters of credit	\$ -	\$ -	\$ 23	\$ 23
<b>Total Liabilities</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 23</b>	<b>\$ 23</b>

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	\$ 20
<b>Total gains or (losses) realized/unrealized:</b>	
Included in earnings	-
Included in other comprehensive loss	-
Purchases, sales, issuances and settlements, net	3
Transfers in and/or out of level 3	-
Balance at September 30, 2009	\$ 23

### 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 September 30, 2009 for each of the fair value hierarchy values are summarized below:

September 30, 2009					
	Level 1	Level 2	Level 3	Total Fair Value	YTD Total Gains (Losses)
<b>Assets:</b>					
Impaired loans	\$ -	\$ -	\$ 1,065	\$ 1,065	\$ (640)
Other property owned	\$ -	\$ -	\$ 109	\$ 109	\$ (2)

### NOTE 5 — DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents the carrying amounts and fair values of the Association's financial instruments at September 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:

	<b>September 30, 2009</b>	
	<b>Carrying Amount</b>	<b>Estimated Fair Value</b>
<b>Financial assets:</b>		
Cash	\$ 362	\$ 362
Loans, net of allowance	\$ 244,908	\$ 250,636
Tobacco Buyout SIIC	\$ 28,705	\$ 30,862
<b>Financial liabilities:</b>		
Notes payable to AgFirst Farm Credit Bank	\$ 251,381	\$ 257,541

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 and Other Farm Credit Institutions:** Estimating the fair value of the Association's investment in the Bank and Other Farm Credit Institutions is not practicable because the stock is not traded. 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 0.94 percent of the issued stock of the Bank as of September 30, 2009 net of any reciprocal investment. As of that date, the Bank's assets totaled \$30.08 billion and shareholders' equity totaled \$1.60 billion. The Bank's earnings were \$194.0 million during the first nine 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. **Tobacco Buyout SIIC:** Fair value is determined by discounting the expected future cash flows using current interest rates for similar assets.

#### NOTE 6 – SUBSEQUENT EVENTS

The Association has evaluated subsequent events and has determined there are none requiring disclosure through November 3, 2009, which is the date the financial statements were available to be issued.