

THIRD QUARTER 2009

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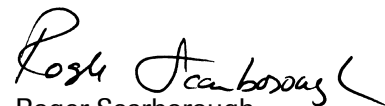
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CERTIFICATION

The undersigned certify that we have reviewed the September 30, 2009 quarterly report of Farm Credit of North Florida, 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.



J. Charles Thompson
Chief Executive Officer



Roger Scarborough
Chief Financial Officer



Henry M. Frazee
Chairman of the Board

October 29, 2009

Farm Credit of North Florida, ACA

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



J. Charles Thompson
Chief Executive Officer



Roger Scarborough
Chief Financial Officer

October 29, 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 *Farm Credit of North Florida, ACA* (Association) for the period ending 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, including forestry, livestock, equine, horticulture/nurseries, dairy, potatoes, and poultry. 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, helps to reduce the level of dependency on a given commodity.

The gross loan volume of the Association decreased \$14,199 since December 31, 2008. The decrease is primarily the result of reduced originated volume offset by less participations sold. Furthermore, gross loan volume has decreased \$19,154, nearly 3.98 percent from September 30, 2008 to September 30, 2009, again a result of reduced originated volume offset by a decrease in participations sold.

Nonaccrual loans increased 47.91 percent from \$11,862 at December 31, 2008, to \$23,109 at September 30, 2009. This increase is primarily the result of loan transfers to nonaccrual status in excess of liquidations, normal payments and upgrading to performing status. Nonaccrual loans have increased 205.03 percent from September 30, 2008 to September 30, 2009.

There is an inherent risk in the extension of any type of credit and accordingly, the Association maintains an allowance for loan losses consistent with the risk measured in the portfolio. As a result of significant transfers to nonaccrual in the third quarter, general allowance reserves were reduced due to specific reserves being allocated for specific loans. Therefore, management decided to provision \$300 for loan losses in the third quarter to replenish the general reserves. The resulting

allowance for loan losses was \$5,853 at September 30, 2009 compared to \$6,877 at December 31, 2008 and \$4,481 at September 30, 2008.

Net loans accounted for 93.05 percent of total assets at September 30, 2009, as compared to 93.00 and 92.37 percent of total assets at September 30, 2008 and December 31, 2008, respectively.

RESULTS OF OPERATIONS

For the three months ending September 30, 2009

Net income for the three months ending September 30, 2009, totaled \$890 as compared to \$1,523 for the same period in 2008; this is a decrease of \$633.

Major changes in the components of net income compared to the same period last year are identified as follows:

Net interest income decreased \$380 primarily due to the lower interest rate environment causing less earnings from the Association's equity and the loss of incremental earnings on a decreasing loan portfolio.

Provisions for loan losses increased \$46, because the Association determined it was necessary to make a provision for loan loss in the third quarter.

Noninterest income increased \$56, a result of less losses incurred on other property owned.

Noninterest expense increased \$285, primarily as a result of increased pension expense.

The majority of the decrease in other operating expense compared to the same period in 2008 is due a reduction in data processing, training and travel expenses.

For the nine months ending September 30, 2009

Net income for the nine months ending September 30, 2009, totaled \$2,233 as compared to \$4,044 for the same period in 2008; this is a decrease of \$1,811.

Major changes in the components of net income compared to the same period last year are identified as follows:

Net interest income decreased \$1,712 primarily due to the lower interest rate environment causing less earnings from the

Association's equity and a reduction in interest income resulting from an increase in nonaccrual loans.

Noninterest income decreased \$611, this is due to a significant decrease in lending activity resulting in less fee income coupled with increased losses on other property owned.

Noninterest expense increased \$824, primarily due to an increase in pension expense, and an increase in insurance fund premiums of \$102.

The majority of the decrease in other operating expense is due to a reduction in advertising, training and public relations expenses.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with AgFirst Farm Credit Bank (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 \$409,653 as compared to \$421,771 and at December 31, 2008, a decrease of \$12,118. The decrease is primarily attributed to decreased loan activity combined with repayments made by the Association from funds generated by collections from borrowers during the nine-month period.

The total notes payable to the Bank decreased \$13,792 at September 30, 2009, as compared to September 30, 2008. This decrease is primarily the result of decreased loan activity combined with repayments made by the Association from funds generated by collections from borrowers.

CAPITAL RESOURCES

Total members' equity at September 30, 2009, increased to \$72,311 from the December 31, 2008, total of \$71,356. The increase is primarily attributed to net income being more than the revolvment of allocated retained earnings. Total members' equity decreased \$1,401 at September 30, 2009, as compared to September 30, 2008. The decrease is primarily due to net income between these dates being less than a combination of the revolvment of allocated surplus and the cash portion of the patronage distribution.

The combined protected borrower capital, unprotected stock and participation certificates were \$1,545 on September 30,

2009, compared to \$1,680 on December 31, 2008. This decrease is attributed to more protected borrower equity and capital stock being retired than capital stock issued during the period.

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 total surplus ratio and core surplus ratio were 13.20 percent and 11.37 percent, respectively, and the permanent capital ratio was 13.54 percent. 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.

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 1-800-342-3795, writing Roger Scarborough, CFO, Farm Credit of North Florida, ACA, 12300 NW US HWY 441, Alachua, FL 32615, or accessing the website, www.fcnf.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.

Farm Credit of North Florida, ACA

Consolidated Balance Sheets

<i>(dollars in thousands)</i>	September 30,		December 31,
	2009	2008	2008
	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(audited)</i>
Assets			
Cash	\$ 13	\$ 14	\$ 59
Loans	461,488	480,642	475,687
Less: allowance for loan losses	5,853	4,481	6,877
Net loans	455,635	476,161	468,810
Other investments	10,859	12,481	12,650
Accrued interest receivable	3,048	4,110	3,293
Investment in other Farm Credit institutions	9,666	9,533	9,804
Premises and equipment, net	2,749	2,951	2,855
Other property owned	1,995	704	2,487
Due from AgFirst Farm Credit Bank	2,829	2,753	3,688
Other assets	2,867	3,281	3,867
Total assets	<u>\$ 489,661</u>	<u>\$ 511,988</u>	<u>\$ 507,513</u>
Liabilities			
Notes payable to AgFirst Farm Credit Bank	\$ 409,653	\$ 423,445	\$ 421,771
Accrued interest payable	1,075	1,567	1,387
Patronage refund payable	77	50	929
Advanced conditional payments	2,860	9,615	8,074
Other liabilities	3,685	3,599	3,996
Total liabilities	<u>417,350</u>	<u>438,276</u>	<u>436,157</u>
Commitments and contingencies			
Members' Equity			
Protected borrower equity	55	71	71
Capital stock and participation certificates	1,490	1,596	1,609
Retained earnings			
Allocated	39,822	39,955	40,688
Unallocated	30,944	32,090	28,988
Total members' equity	<u>72,311</u>	<u>73,712</u>	<u>71,356</u>
Total liabilities and members' equity	<u>\$ 489,661</u>	<u>\$ 511,988</u>	<u>\$ 507,513</u>

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

Farm Credit of North Florida, ACA

Consolidated Statements of Income

(unaudited)

<i>(dollars in thousands)</i>	For the three months ended September 30,		For the nine months ended September 30,	
	2009	2008	2009	2008
Interest Income				
Loans	\$ 5,470	\$ 7,349	\$ 17,044	\$ 23,595
Other	143	169	425	505
Total interest income	5,613	7,518	17,469	24,100
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	3,319	4,787	10,575	15,236
Other	1	58	10	268
Total interest expense	3,320	4,845	10,585	15,504
Net interest income	2,293	2,673	6,884	8,596
Provision for (reversal of allowance for) loan losses	300	254	1,210	2,504
Net interest income after provision for (reversal of allowance for) loan losses	1,993	2,419	5,674	6,092
Noninterest Income				
Loan fees	234	179	702	959
Equity in earnings of other Farm Credit institutions	940	990	2,899	3,032
Gains (losses) on other property owned, net	(77)	(114)	(385)	(118)
Gains (losses) on sale of rural home loans, net	37	17	76	73
Other noninterest income	16	22	153	110
Total noninterest income	1,150	1,094	3,445	4,056
Noninterest Expense				
Salaries and employee benefits	1,466	1,152	4,468	3,507
Occupancy and equipment	142	161	442	480
Insurance Fund premium	206	157	615	513
Other operating expenses	439	498	1,361	1,562
Total noninterest expense	2,253	1,968	6,886	6,062
Income before income taxes	890	1,545	2,233	4,086
Provision (benefit) for income taxes	—	22	—	42
Net income	\$ 890	\$ 1,523	\$ 2,233	\$ 4,044

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

Farm Credit of North Florida, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

<i>(dollars in thousands)</i>	Protected Borrower Capital	Capital Stock and Participation Certificates	Retained Earnings		Total Members' Equity
			Allocated	Unallocated	
Balance at December 31, 2007	\$ 96	\$ 1,713	\$ 42,708	\$ 28,002	\$ 72,519
Net income				4,044	4,044
Protected borrower equity retired	(25)				(25)
Capital stock/participation certificates issued/(retired), net		(117)			(117)
Retained earnings retired			(2,455)		(2,455)
Patronage distribution adjustment			(298)	44	(254)
Balance at September 30, 2008	<u>\$ 71</u>	<u>\$ 1,596</u>	<u>\$ 39,955</u>	<u>\$ 32,090</u>	<u>\$ 73,712</u>
Balance at December 31, 2008	\$ 71	\$ 1,609	\$ 40,688	\$ 28,988	\$ 71,356
Net income				2,233	2,233
Protected borrower equity retired	(16)				(16)
Capital stock/participation certificates issued/(retired), net		(119)			(119)
Retained earnings retired			(1,138)		(1,138)
Patronage distribution adjustment			272	(277)	(5)
Balance at September 30, 2009	<u>\$ 55</u>	<u>\$ 1,490</u>	<u>\$ 39,822</u>	<u>\$ 30,944</u>	<u>\$ 72,311</u>

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

Farm Credit of North Florida, 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 Farm Credit of North Florida, 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 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 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 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 6).

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 7).

In June 2009, the FASB issued guidance, "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles." This Codification became 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 operation.

NOTE 2 – ALLOWANCE FOR LOAN LOSSES AND IMPAIRED LOANS

An analysis of the allowance for loan losses follows:

	For the nine months ended September 30,	
	2009	2008
Balance at beginning of period	\$ 6,877	\$ 2,146
Provision for (reversal of) loan losses	1,210	2,504
Charge-offs	(2,238)	(172)
Recoveries	4	3
Balance at end of period	<u>\$ 5,853</u>	<u>\$ 4,481</u>

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

	<u>2009</u>	<u>2008</u>
Impaired loans with related allowance	\$14,266	\$ 5,955
Impaired loans with no related allowance	18,843	2,058
Total impaired loans	<u>33,109</u>	<u>8,013</u>
Allowance on impaired loans	<u>\$ 3,968</u>	<u>\$ 1,957</u>

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

	<u>2009</u>	<u>2008</u>
Average impaired loans	\$ 15,322	\$ 5,342
Interest income recognized on impaired loans	36	179

NOTE 3 – EMPLOYEE BENEFIT PLANS

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

	<u>For the nine months ended September 30,</u>	
	<u>2009</u>	<u>2008</u>
Pension	\$ 1,007	\$ 209
401(k)	96	88
Other postretirement benefits	125	116
Total	<u>\$ 1,228</u>	<u>\$ 413</u>

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

	<u>Actual YTD Through 9/30/09</u>	<u>Projected Contributions For Remainder of 2009</u>	<u>Projected Total Contributions 2009</u>
Other postretirement benefits	\$ 72	\$ 46	\$ 118

As of September 30, 2009, no contributions have been made for 2009 by the Association to the qualified District pension plan in which the Association participates. Actuarial calculations as of the last plan measurement date (December 31, 2008) projected total contributions of \$52.0 million to the qualified District pension plan for all participating institutions for 2009. The funding policy for this plan is to fund the accumulated benefit obligation (ABO) service cost plus the seven year amortization of the unfunded ABO using the discount rate determined as of December 31st of the preceding year. This aggregate contribution will be allocated to the participating District institutions, including the Association, based upon each institution's pro rata share of ABO service cost. 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 – NOTES PAYABLE TO AGFIRST FARM CREDIT BANK

The Association's indebtedness to the Bank represents borrowings by the Association primarily to fund its loan portfolio. This indebtedness is collateralized by a pledge of substantially all of the Association's assets and the terms of the revolving line of credit are governed by the General Financing Agreement (GFA). The GFA defines Association performance criteria for borrowing from the Bank, which in 2008 included liquidity, earnings and solvency covenants. The Association failed to meet its earning covenant at December 31, 2008. The default allows the Bank to accelerate repayment of all indebtedness. In early 2009, following review of a plan submitted by the Association to achieve compliance with the covenant during 2009, the Bank approved a waiver of the default. The Association has continued to perform its obligations under the GFA, notwithstanding its covenant default.

NOTE 5 – FAIR VALUE MEASUREMENT

Effective January 1, 2008, the Association adopted FASB guidance, 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 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 principal 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			Total Fair Value
	Level 1	Level 2	Level 3	
Liabilities:				
Standby letters of credit	\$ 25	\$ -	\$ -	\$ 25
Total Liabilities	\$ 25	\$ -	\$ -	\$ 25

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	\$ 25
Total gains or (losses) realized/unrealized:	
Included in earnings	-
Included in other comprehensive loss	-
Purchases, sales, issuances and settlements, net	-
Transfers in and/or out of level 3	-
Balance at September 30, 2009	\$ 25

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				YTD Total Gains (Losses)
	Level 1	Level 2	Level 3	Total Fair Value	
Assets:					
Impaired loans	\$ -	\$ -	\$ 10,174	\$ 10,174	\$ (2,804)
Other property owned	\$ -	\$ -	\$ 2,189	\$ 2,189	\$ (262)

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 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:

	September 30, 2009	
	Carrying Amount	Estimated Fair Value
Financial assets:		
Cash	\$ 13	\$ 13
Loans, net of allowance	\$ 455,635	\$ 460,958
Tobacco Buyout SIIC	\$ 10,859	\$ 11,649
Financial liabilities:		
Notes payable to AgFirst Farm Credit Bank	\$ 409,653	\$ 415,363

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 Association and is carried at cost plus allocated equities in the accompanying Consolidated Balance Sheets. The Association owns 1.90 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.

In addition, the Association has an investment of \$2,426 related to other Farm Credit institutions.

- 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 7 – 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.