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*Southwest Georgia Farm Credit, ACA*

# SECOND QUARTER 2009

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## CERTIFICATION

The undersigned certify that we have reviewed the June 30, 2009 quarterly report of Southwest Georgia 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.



Richard S. Monson  
President/CEO



Belinda Robertson  
Chief Financial Officer



Bobby J. Brooks  
Chairman of the Board

July 30, 2009

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*Southwest Georgia Farm Credit, 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.

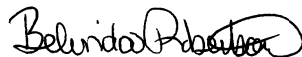
Internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Association, (2) provide reasonable assurance that transactions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



Richard S. Monson  
Chief Executive Officer



Belinda Robertson  
Chief Financial Officer

July 30, 2009







# Southwest Georgia Farm Credit, ACA

## Consolidated Balance Sheets

<i>(dollars in thousands)</i>	June 30, 2009 <i>(unaudited)</i>	December 31, 2008 <i>(audited)</i>
<b>Assets</b>		
Cash	\$ 154	\$ 2,971
Investment securities:		
Available for sale (amortized cost of \$29,855 and \$0 respectively) (Note 2)	29,855	—
Held to maturity (fair value of \$5,681 and \$39,536 respectively) (Note2)	6,396	39,707
Total investment securities	36,251	39,707
Loans	371,171	373,754
Less: allowance for loan losses	3,582	3,359
Net loans	367,589	370,395
Loans held for sale		
Other investments	57,751	69,317
Accrued interest receivable	4,188	6,132
Investment in other Farm Credit institutions	15,133	16,246
Premises and equipment, net	7,442	3,382
Other property owned	2,535	3,725
Due from AgFirst Farm Credit Bank	2,783	6,237
Other assets	991	4,344
Total assets	\$ 494,817	\$ 522,456
<b>Liabilities</b>		
Notes payable to AgFirst Farm Credit Bank (Note 5)	\$ 426,746	\$ 450,740
Accrued interest payable	1,273	1,663
Patronage refund payable	18	23
Other liabilities	3,242	6,649
Total liabilities	431,279	459,075
Commitments and contingencies		
<b>Members' Equity</b>		
Protected borrower equity	255	297
Capital stock and participation certificates	1,235	1,201
Retained earnings		
Allocated	23,993	23,993
Unallocated	38,056	37,890
Accumulated other comprehensive income (loss) (Note 2)	(1)	—
Total members' equity	63,538	63,381
Total liabilities and members' equity	\$ 494,817	\$ 522,456

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

# Southwest Georgia Farm Credit, ACA

## Consolidated Statements of Operations

*(unaudited)*

<i>(dollars in thousands)</i>	For the three months ended June 30,		For the six months ended June 30,	
	2009	2008	2009	2008
<b>Interest Income</b>				
Investment securities	\$ 213	\$ 213	\$ 397	\$ 602
Loans	4,714	6,505	9,591	13,930
Other	772	918	1,545	1,859
Total interest income	5,699	7,636	11,533	16,391
<b>Interest Expense</b>				
Notes payable to AgFirst Farm Credit Bank	3,912	5,652	7,996	11,695
Net interest income	1,787	1,984	3,537	4,696
Provision for (reversal of allowance for) loan losses	2,463	3,444	2,463	13,698
Net interest income after provision for (reversal of allowance for) loan losses	(676)	(1,460)	1,074	(9,002)
<b>Noninterest Income</b>				
Loan fees	243	302	562	803
Fees for financially related services	1	—	1	—
Equity in earnings of other Farm Credit institutions	1,404	1,895	2,790	3,782
Gains (losses) on other property owned, net	(2)	—	(295)	—
Gains (losses) on sale of rural home loans, net	—	(2)	—	(3)
Other noninterest income	3	9	317	51
Total noninterest income	1,649	2,204	3,375	4,633
<b>Noninterest Expense</b>				
Salaries and employee benefits	1,252	770	2,591	1,994
Occupancy and equipment	187	111	315	231
Insurance Fund premium	151	148	292	274
Other operating expenses	560	525	1,083	1,065
Total noninterest expense	2,150	1,554	4,281	3,564
Income (loss) before income taxes	(1,177)	(810)	168	(7,933)
Provision (benefit) for income taxes	2	—	2	69
Net income (loss)	\$ (1,179)	\$ (810)	\$ 166	\$ (8,002)

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

Southwest Georgia Farm Credit, ACA  
**Consolidated Statements of Changes in  
Members' Equity**

*(unaudited)*

*(dollars in thousands)*

	Protected Borrower Capital	Capital Stock and Participation Certificates	Retained Earnings		Accumulated Other Comprehensive Income	Total Members' Equity
			Allocated	Unallocated		
Balance at December 31, 2007	\$ 353	\$ 1,170	\$ 27,115	\$ 44,309	\$ —	\$ 72,947
Net income (loss)				(8,002)		(8,002)
Protected borrower equity retired	(38)					(38)
Capital stock/participation certificates issued/(retired), net		9				9
Retained earnings retired			(2,583)			(2,583)
Patronage distribution adjustment			(476)	(17)		(493)
Balance at June 30, 2008	\$ 315	\$ 1,179	\$ 24,056	\$ 36,290	\$ —	\$ 61,840
Balance at December 31, 2008	\$ 297	\$ 1,201	\$ 23,993	\$ 37,890	\$ —	\$ 63,381
Comprehensive income						
Net income				166		166
Unrealized gains (losses) on investments available for sale, net of reclassification adjustments (Note 2)					(1)	(1)
Total comprehensive income						165
Protected borrower equity retired	(42)					(42)
Capital stock/participation certificates issued/(retired), net		34				34
Balance at June 30, 2009	\$ 255	\$ 1,235	\$ 23,993	\$ 38,056	\$ (1)	\$ 63,538

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

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*Southwest Georgia 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 Southwest Georgia 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 6), 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. 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly" (FSP 157-4). FSP 157-4 emphasizes that even if there has been a significant decrease in the volume and level of activity for the asset or liability and regardless of the valuation technique and inputs used, the objective for the fair value measurement is unchanged from what it would be if markets were operating at normal activity levels or transactions were orderly; that is, to determine the current exit price. It sets forth additional factors that should be considered to determine whether there has been a significant decrease in volume and level of activity when compared with normal market activity. The reporting entity shall evaluate the significance and relevance of the factors to determine whether, based on the weight of evidence, there has been a significant decrease in activity and volume. FSP 157-4 indicates that if an entity determines that either the volume or level of activity for an asset or liability has significantly decreased (from normal conditions for that asset or liability) or price quotations or observable inputs are not associated with orderly transactions, increased analysis and management judgment will be required to estimate fair value. It is further noted that a fair value measurement should include a risk adjustment to reflect the amount market participants would demand because of the risk (uncertainty) in the cash flows.

FSP 157-4 also requires a reporting entity to make additional disclosures in interim and annual periods. It is effective for interim periods ending after June 15, 2009 (see Note 2 and Note 6). Revisions resulting from a change in valuation techniques or their application are accounted for as a change in accounting estimate.

In April 2009, the FASB issued FSP No. 115-2, "Recognition and Presentation of Other-Than-Temporary Impairments" (FSP 115-2), which amends the other-than-temporary impairment guidance for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt securities in the financial statements. It does not change existing recognition and measurement guidance related to other-than-temporary impairments of equity securities.

FSP 115-2 changes existing impairment guidance under FASB Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities (FAS 115) by eliminating the "ability and intent to hold" provision. In

addition, impairment is now considered to be other than temporary if an entity 1) intends to sell the security, 2) more likely than not will be required to sell the security before recovering its cost, or 3) does not expect to recover the security's entire amortized cost basis (even if the entity does not intend to sell). The "probability" standard relating to the collectability of cash flows is also eliminated, and impairment is now considered to be other-than-temporary if the present value of cash flows expected to be collected from the debt security is less than the amortized cost basis of the security (any such shortfall is referred to in FSP 115-2 as a "credit loss"). If an entity intends to sell an impaired debt security or more likely than not will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the impairment is other-than-temporary and should be recognized currently in earnings in an amount equal to the entire difference between fair value and amortized cost. If a credit loss exists, but an entity does not intend to sell the impaired debt security and is not more likely than not to be required to sell before recovery, the impairment is other-than-temporary and should be separated into 1) the estimated amount relating to credit loss, and 2) the amount relating to all other factors. Only the estimated credit loss amount is recognized currently in earnings, with the remainder of the loss amount recognized in other comprehensive income. For held-to-maturity securities, the portion of the other-than-temporary impairment not related to a credit loss will be recognized in a new category of other comprehensive income and amortized over the remaining life of the debt security as an increase in the security's carrying amount. Disclosure requirements for impaired debt and equity securities are expanded and will now be required quarterly (see Note 2), as well as annually.

This FSP is effective for interim and annual periods ending after June 15, 2009. For securities held at the beginning of the interim period of adoption for which an other-than-temporary impairment was previously recognized, if an entity does not intend to sell and it is not more likely than not that it will be required to sell before recovery of its amortized cost basis, the entity shall recognize the cumulative effect of initially applying this FSP adjustment to the opening balance of retained earnings with a corresponding adjustment to accumulated other comprehensive income. There was no initial adjustment to apply this FSP for the Association since no other-than-temporary impairment was previously recognized by the Association.

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 7).

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 8).

## Note 2 – Investment Securities

As permitted under the FCA regulations, the Association holds investments for purposes of maintaining a liquidity reserve, managing short-term surplus funds and managing interest rate risk. During the second quarter of 2009, the Association reclassified its asset backed securities portfolio from Held to Maturity (HTM) to Available for Sale (AFS) as the AFS classification more accurately reflects management's intent regarding the Association's asset backed securities portfolio. Thus, in accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," available-for-sale investments are reported at fair value with changes in the fair value excluded from earnings and reported in a separate component of Members' Equity called Other Comprehensive Income. Upon sale of an investment, the realized gain or loss is included in current earnings.

A summary of the amortized cost and fair value of investment securities available-for-sale at June 30, 2009 follows:

	June 30, 2009				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Asset backed securities	\$ 29,856	\$ 100	\$ (101)	\$ 29,855	1.27%

A summary of the amortized cost and fair value of investment securities held-to-maturity at June 30, 2009 follows:

	June 30, 2009				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Other	\$ 6,396	\$ 63	\$ (778)	\$ 5,681	6.71 %

The Association's investments consist primarily of asset-backed securities (ABSs). These ABSs are rated AAA, as they are guaranteed by the full faith and credit of the United States government. All unrealized losses referenced above are primarily due to reduced liquidity in the securities markets stemming from general adversity in the financial markets and are not credit related.

The following table shows the fair value and gross unrealized losses for investments in a loss position by the length of time the securities have been in a continuous unrealized loss position at June 30, 2009. The continuous loss position is based on the date the impairment occurred. The Association performs periodic credit reviews, including other-than-temporary impairment analysis, on its investment securities portfolio. The objective is to quantify any future possible loss of principal or interest due on each security identified for additional analysis. Based on the results of all analyses, the Association has not recognized any other-than-temporary impairment in connection with these investments. The unrealized losses on these investments resulted primarily from reduced liquidity in the securities markets stemming from general adversity in the financial markets and are not credit related. The Association has the ability and intent to hold these investments until a recovery of unrealized losses occurs, which may be at maturity, and at this time expects to collect the full principal amount and interest due on these securities. All securities continue to perform. Substantially all of these investments were in U. S. government securities and the Association expects that these securities would not be settled at a price less than their amortized cost.

	June 30, 2009			
	Less than 12 Months		Greater than 12 Months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Asset-backed securities	\$ 29,855	\$ (101)	\$ -	\$ -
Other	5,681	(778)	-	-
Total	\$ 35,536	\$ (879)	\$ -	\$ -

A summary of the expected maturity, amortized cost and estimated fair value of investment securities at June 30, 2009 follows:

#### Available-for-Sale:

	June 30, 2009		
	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	\$ 452	\$ 457	1.86%
After one year through five years	28,282	28,267	1.22
After five years through ten years	1,122	1,131	2.34
After ten years	-	-	-
Total	\$ 29,856	\$ 29,855	1.27%

#### Held-to-Maturity:

	June 30, 2009		
	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	\$ -	\$ -	-%
After one year through five years	-	-	-
After five years through ten years	-	-	-
After ten years	6,396	5,681	6.71
Total	\$ 6,396	\$ 5,681	6.71%

### NOTE 3 – 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	\$ 3,359	\$ 520
Provision for (reversal of) loan losses	2,463	13,698
Charge-offs	(2,261)	(9,933)
Recoveries	21	1
Balance at end of period	\$ 3,582	\$ 4,286

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

	2009	2008
Impaired loans with related allowance	\$ 12,542	\$ 2,541
Impaired loans with no related allowance	19,212	16,502
Total impaired loans	\$ 31,754	\$ 19,043
Allowance on impaired loans	\$ 2,932	\$ 2,292

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

	2009	2008
Average impaired loans	\$ 32,202	\$ 15,010
Interest income recognized on impaired loans	370	224

### NOTE 4 – EMPLOYEE BENEFIT PLANS

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

	For the six months ended June 30,	
	2009	2008
Pension	\$ 460	\$ 119
401(k)	64	65
Other postretirement benefits	60	60
Total	\$ 584	\$ 244

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

	Actual YTD Through 6/30/09	Projected Contributions For Remainder of 2009	Projected Total Contributions 2009
Pension	\$ -	\$ -	\$ -
Other postretirement benefits	37	48	85
Total	\$ 37	\$ 48	\$ 85

Actuarial calculations as of the last plan measurement date (December 31, 2008) projected no contributions 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 – 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. At December 31, 2008, the Association was operating under a special credit arrangement in connection with the Bank's waiver of a pre-existing default of its liquidity covenant. Effective December 31, 2008, the GFA for all Associations was amended to measure liquidity under its Borrowing Base Formula. The Association failed to meet the revised liquidity requirement as well as the earnings covenant at December 31, 2008. The defaults allow 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 covenants, the Bank approved a temporary waiver of the defaults and allowed the Association to continue operating under a special credit arrangement pursuant to the GFA. The Association has continued to perform under the GFA, notwithstanding its covenant defaults.

#### **NOTE 6 – 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 investments available for sale, 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 has no Level 1 assets or liabilities at June 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 Level 2 assets and no Level 2 liabilities measured at fair value on a recurring basis at June 30, 2009. Level 2 assets include available-for-sale investment securities that are traded in active, non-exchange markets. These securities are U.S. agency debt securities, all of which have unadjusted values from third-party or internal pricing models. The fair value of substantially all of the Association's available-for-sale investment securities is determined from third-party valuation services that estimate current market prices. Inputs and assumptions related to third-party market valuation services are typically observable in the marketplace. Such services incorporate prepayment assumptions and underlying asset-backed collateral information to generate cash flows that are discounted using appropriate benchmark interest rate curves and volatilities. Third-party valuations also incorporate information regarding broker/dealer quotes, available trade information, historical cash flows, credit ratings, and other market information. Such valuations represent an estimated exit price, or price to be received by a seller in active markets to sell the investment securities to a willing participant.

##### **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 instrument 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 principal 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			Total Fair Value
	Level 1	Level 2	Level 3	
<b>Assets:</b>				
Investments available-for-sale	\$ —	\$ 29,855	\$ —	\$ 29,855
Total Assets	\$ —	\$ 29,855	\$ —	\$ 29,855
<b>Liabilities:</b>				
Standby letters of credit	\$ —	\$ —	\$ 36	\$ 36
Total Liabilities	\$ —	\$ —	\$ 36	\$ 36

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	\$ 40
<b>Total gains or (losses) realized/unrealized:</b>	
Included in earnings	—
Included in other comprehensive loss	—
Purchases, sales, issuances and settlements, net	(4)
Transfers in and/or out of level 3	—
Balance at June 30, 2009	\$ 36

#### 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	
<b>Assets:</b>					
Impaired loans	\$ —	\$ —	\$ 9,610	\$ 9,610	\$ (2,588)
Other property owned	\$ —	\$ —	\$ 2,535	\$ 2,535	\$ (293)

#### NOTE 7 — 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
<b>Financial assets:</b>		
Cash	\$ 154	\$ 154
Loans, net of allowance	\$ 367,589	\$ 375,054
Investment securities	\$ 36,251	\$ 35,536
Tobacco Buyout SIIC	\$ 57,751	\$ 60,302
<b>Financial liabilities:</b>		
Notes payable to AgFirst Farm Credit Bank	\$ 426,746	\$ 435,410

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 Securities:** Fair value is based upon quoted market price.

D. **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 3.18 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.

In addition, the Association has an investment of \$1,124 related to other Farm Credit institutions.

E. **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.

F. **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.

G. **Tobacco Buyout SIIC:** Fair value is determined by discounting the expected future cash flows using current interest rates for similar assets.

#### NOTE 8 – SUBSEQUENT EVENTS

The Association has evaluated subsequent events through July 30, 2009, which is the date the financial statements were available to be issued.