

CENTRAL TEXAS FARM CREDIT, ACA

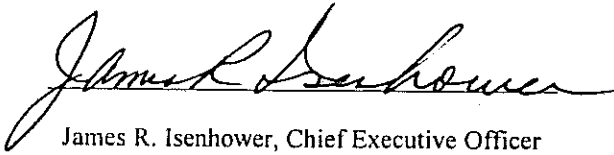
2009 Quarterly Report First Quarter



For the Quarter Ended March 31, 2009

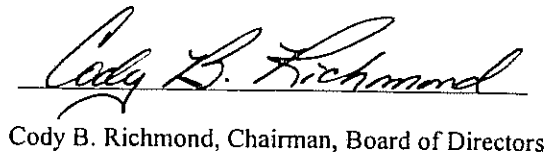
REPORT OF MANAGEMENT

The undersigned certify that we have reviewed this report, that it has been prepared in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate and complete to the best of his or her knowledge and belief.



James R. Isenhower, Chief Executive Officer

April 20, 2009



Cody B. Richmond, Chairman, Board of Directors

April 20, 2009



Alan E. Benedict, Controller/Treasurer

Alan E. Benedict, Controller/Treasurer

April 20, 2009

CENTRAL TEXAS FARM CREDIT, ACA MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the financial performance of the Central Texas Farm Credit, ACA (Agricultural Credit Association), referred to as the association, for the quarter and three months ended March 31, 2009. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2008 Annual Report of the Association.

The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries. The consolidated financial statements were prepared under the oversight of the association's audit committee.

Significant Events:

During the second quarter of 2008 all loans held by the association with one large borrower were deemed non-viable and were transferred to non-accrual. These loans were transferred to non-accrual on May 28, 2008, and amounted to \$3,673,011 in PCA loan balances and \$3,155,256 in FLCA loan balances for a total principal debt to the association of \$6,828,267. A charge-off of \$412,027 and an additional charge to the allowance for loan losses of \$573,000 was made related to the PCA portion of this debt. As of June 30, 2008, the PCA debt was \$3,323,217 and the FLCA debt remained at \$3,155,256 for a total principal of \$6,478,473.

Within the third quarter of 2008 all collateral related to these loans was acquired and liquidated by the association with all proceeds being applied against the debt. During the process of collateral acquisition and liquidation an additional charge-off of \$3,394 was made against the PCA loan for a total PCA loan charge-off of \$415,421. Upon disposition of the acquired collateral all the FLCA debt was recovered but a charge-off of \$338,149 was incurred related to the PCA collateral. Other legal and administrative expenses were also incurred related to the liquidation of the PCA debt which totaled \$89,786 at December 31, 2008 and \$90,018 at March 31, 2009. Additional expense and/or expense recovery may occur related to the PCA loans but significant activity is not anticipated.

During the fourth quarter of 2008 four district participation loans which the association participated in were deemed non-viable or as containing significant financial stress which resulted in these accounts being transferred to non-accrual. The accounts transferred to non-accrual in fourth quarter totaled \$8,257,898. A specific reserve was set-up and a charge-off taken in December for one account totaling the \$1,829,688. A specific reserve of \$64,148 was established for another account but no related charge-off was taken as of yearend. Outstanding balances on these four non-accrual participation accounts as of March 31, 2009, were a combined total of \$6,353,371. As of March 31, 2009 a specific reserve of \$55,000 was also established for another of these accounts. No additional adverse action occurred on two of these non-accrual accounts during the first quarter 2009.

In December 2008, the association received a direct loan patronage of \$1,042,006 from the bank, representing 30 basis points on the average daily balance of the association's direct loan with the bank. During 2008, the association received \$251,282 in interest credit patronage payments from the bank, based on the association's stock investment in the bank.

Warm days with cool nights were generally the rule as the association's first business quarter of 2009 came to a close. A few locales received good rain in late March while others only reported scattered thunder showers. Regardless of the amount of rain received, the high wind conditions quickly dried out soils. Very little field activity was seen in the region due to the dry conditions. Some farmers did get herbicide applications completed for weed control. Small grain crops (wheat and oats) did show some improvement with the precipitation that was received but little hope is held for a worthwhile yield. Rancher's forage crops broke winter dormancy, and pastures greened up considerably. Livestock (cattle, sheep, and goats) conditions improved somewhat but many ranchers continued the supplemental feeding of their animals. Many livestock tanks are very low or even dry in some places. Pecans tree orchards were beginning to bud out. Significant rain fall and moderating winds will be essential to the agricultural outlook for the producers in the association's territory in the coming months.

Loan Portfolio:

Total loans outstanding at March 31, 2009, including nonaccrual loans and sales contracts, were \$415,826,694 compared to \$411,702,117 at December 31, 2008, reflecting an increase of 1.0 percent. Nonaccrual loans as a percentage of total loans outstanding were 1.7 percent at March 31, 2009, compared to 1.8 percent at December 31, 2008.

The association recorded \$1 in recoveries and \$40,849 in charge-offs for the quarter ending March 31, 2009, and \$0 in recoveries and \$0 in charge-offs for the same period in 2008. The association's allowance for loan losses was 0.08 percent and 0.05 percent of total loans outstanding as of March 31, 2009, and December 31, 2008, respectively.

Overall there has not been a significant change in the association's loan volume or high risk assets during the first quarter of 2009.

Risk Exposure:

High-risk assets include nonaccrual loans, loans that are past due 90 days or more and still accruing interest, formally restructured loans and other property owned. The following table illustrates the association's components and trends of high-risk assets.

	March 31, 2009		December 31, 2008	
	Amount	%	Amount	%
Nonaccrual	\$ 7,212,562	100.0%	\$ 7,236,444	100.0%
90 days past due and still accruing interest	-	0.0%	-	0.0%
Formally restructured	-	0.0%	-	0.0%
Other property owned, net	-	0.0%	-	0.0%
Total	\$ 7,212,562	100.0%	\$ 7,236,444	100.0%

Results of Operations:

The association had net income of \$1,559,272 for the quarter/three months ended March 31, 2009, as compared to net income of \$1,893,721 for the same period in 2008 reflecting a decrease of 17.7 percent, respectively. Net interest income was \$2,720,202 for the quarter/three months ended March 31, 2009, compared to \$2,653,638 for the same period in 2008. Gross interest income for the first quarter/three months of 2009 decreased by \$1,212,184 or 18.5 percent from the same period of 2008, primarily due to declines in yields on earning assets and a small decline in average accrual loan volume. Interest expense for the first quarter/three months of 2009 decreased by \$1,278,748, or 32.8 percent, from the same period of 2008 due to a decrease in interest rates for funding debt and little growth in the average debt volume. Average loan volume for the first quarter of 2009 was \$422,776,836, compared to \$398,941,349 in the first quarter of 2008. The average spread on the loan portfolio for the first quarter 2009 was 2.10 percent, compared to 1.98 percent in the first quarter of 2008.

The association's return on average assets for the quarter/three months ended March 31, 2009, was 1.49 percent and 1.84 percent for the same period in 2008. The association's return on average equity for the quarter/three months ended March 31, 2009, was 9.21 percent and 11.18 percent for the same period in 2008.

Liquidity and Funding Sources:

The association secures the majority of its lendable funds from the Bank, which obtains its funds through the issuance of System-wide obligations and with lendable equity. The following schedule summarizes the association's borrowings.

	March 31,	December 31,
	2009	2008
Note payable to the Bank	\$ 353,188,080	\$ 348,241,892
Accrued interest on note payable	895,693	1,132,718
Total	\$ 354,083,773	\$ 349,374,610

The association's own funds were \$61,720,721, \$63,332,201 and \$60,419,968 at March 31, 2009, December 31, 2008, and March 31, 2008, respectively. As of March 31, 2009, the association's liquidity margin was 17.08 percent and the maximum amount of direct note borrowing available for the association, from the Bank, was \$414,827,464, as defined by the association's general financing agreement.

Capital Resources:

The association's capital position increased by \$1,533,920 at March 31, 2009, compared to December 31, 2008. The association's debt as a percentage of members' equity was 5.02:1 as of March 31, 2009, compared to 5.09:1 as of December 31, 2008.

Under regulations governing minimum permanent capital adequacy and other capitalization issues, the association is required to maintain a minimum adjusted permanent capital of seven percent of risk-adjusted assets as defined by the FCA. The association's permanent capital ratio at March 31, 2009, was 14.3 percent, which is in compliance with the FCA's minimum permanent capital standard. The association's core surplus ratio and total surplus ratio at March 31, 2009, were 13.8 percent and 13.8 percent, respectively, which is in compliance with the FCA's minimum surplus standard.

Relationship with the Farm Credit Bank of Texas:

The Association's financial condition may be impacted by factors that affect the Bank. The financial condition and results of operations of the Bank may materially affect the stockholder's investment in the Association. The Management's Discussion and Analysis and Notes to Financial Statements contained in the December 31, 2008 Annual Report of Central Texas Farm Credit, ACA more fully describe the Association's relationship with the Bank.

The Tenth Farm Credit District's (District) annual and quarterly stockholder reports are available free of charge, upon request. These reports can be obtained by writing to Farm Credit Bank of Texas, The Ag Agency, P.O. Box 202590, Austin, Texas 78720, or by calling (512) 483-9260. Copies of the District's quarterly and annual stockholder reports also can be requested by e-mail at fcb@farmcreditbank.com. The District makes its annual and quarterly stockholder reports available on its web site at www.farmcreditbank.com.

The association's quarterly stockholder reports are also available free of charge, upon request. These reports will be available approximately 40 days after quarter end and can be obtained from the association's website at www.centraltexasaca.com or by writing to CENTRAL TEXAS FARM CREDIT, ACA , P.O. Box 511, Coleman, Texas 76834, or calling (325) 625-2165. Copies of the association's quarterly stockholder reports can also be requested by e-mailing alan.benedict@farmcreditbank.com. The association also makes its annual stockholder reports available on its website at www.centraltexasaca.com 75 days after the fiscal year end. Copies of the association's annual stockholder report can also be requested at any Central Texas Farm Credit, ACA office 90 days after the fiscal year end. Hard copies of the published annual report are also mailed to all association stockholders by no later than 90 days after the fiscal year end.

CENTRAL TEXAS FARM CREDIT, ACA

CONSOLIDATED BALANCE SHEET

	March 31, 2009 (unaudited)	December 31, 2008
<u>ASSETS</u>		
Cash	\$ 330,967	\$ 736,155
Investments	-	-
Loans	415,826,694	411,702,117
Less: allowance for loan losses	328,300	194,148
Net loans	415,498,394	411,507,969
Accrued interest receivable	4,271,333	4,444,185
Investment in and receivable from the Bank:		
Capital stock	6,922,605	6,922,605
Other	-	-
Deferred taxes, net	-	-
Other property owned, net	-	-
Premises and equipment	684,512	680,357
Other assets	985,646	-
Total assets	<u>\$ 428,693,457</u>	<u>\$ 424,291,271</u>
<u>LIABILITIES</u>		
Note payable to the Bank	\$ 353,188,080	\$ 348,241,892
Advance conditional payments	-	-
Accrued interest payable	895,693	1,132,718
Drafts outstanding	1,074,449	941,387
Dividends Payable	-	-
Patronage distributions payable	909,768	2,500,000
Deferred taxes, net	-	-
Other liabilities	1,455,156	1,838,883
Total liabilities	<u>357,523,146</u>	<u>354,654,880</u>
<u>MEMBERS' EQUITY</u>		
Capital stock and participation certificates	2,256,510	2,274,820
Allocated retained earnings	-	-
Unallocated retained earnings	68,786,890	67,227,618
Accumulated other comprehensive income (loss)	126,911	133,953
Total members' equity	<u>71,170,311</u>	<u>69,636,391</u>
Total liabilities and members' equity	<u>\$ 428,693,457</u>	<u>\$ 424,291,271</u>

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

CENTRAL TEXAS FARM CREDIT, ACA

CONSOLIDATED STATEMENT OF INCOME
(unaudited)

	<u>Quarter Ended</u> <u>March 31,</u>		<u>Three Months Ended</u> <u>March 31,</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
<u>INTEREST INCOME</u>				
Loans	\$ 5,338,526	\$ 6,557,301	\$ 5,338,526	\$ 6,557,301
Investments	-	-	-	-
Other	-	(6,591)	-	(6,591)
Total interest income	<u>5,338,526</u>	<u>6,550,710</u>	<u>5,338,526</u>	<u>6,550,710</u>
<u>INTEREST EXPENSE</u>				
Note payable to the Bank	2,618,323	3,897,066	2,618,323	3,897,066
Advance conditional payments	1	6	1	6
Total interest expense	<u>2,618,324</u>	<u>3,897,072</u>	<u>2,618,324</u>	<u>3,897,072</u>
Net interest income	<u>2,720,202</u>	<u>2,653,638</u>	<u>2,720,202</u>	<u>2,653,638</u>
<u>PROVISION FOR LOSSES</u>				
Provision (negative provision) for loan losses	103,051	-	103,051	-
Provision for acquired property losses	-	-	-	-
Net interest income after provision for loan losses	<u>2,617,151</u>	<u>2,653,638</u>	<u>2,617,151</u>	<u>2,653,638</u>
<u>NONINTEREST INCOME</u>				
Income from the bank:				
Patronage income	51,443	71,754	51,443	71,754
Loan fees	171,147	263,716	171,147	263,716
Financially related services income	3,397	3,802	3,397	3,802
Gain (loss) on other property owned, net	(232)	-	(232)	-
Gain (loss) on sale of premises and equipment, net	-	-	-	-
Other noninterest income	24,870	20,383	24,870	20,383
Total noninterest income	<u>250,625</u>	<u>359,655</u>	<u>250,625</u>	<u>359,655</u>
<u>NONINTEREST EXPENSES</u>				
Salaries and employee benefits	788,782	619,194	788,782	619,194
Directors' expense	32,513	25,729	32,513	25,729
Purchased services	123,474	114,626	123,474	114,626
Travel	28,268	36,664	28,268	36,664
Occupancy and equipment	34,961	37,307	34,961	37,307
Communications	8,061	9,589	8,061	9,589
Advertising	35,241	33,042	35,241	33,042
Public and member relations	12,999	15,973	12,999	15,973
Supervisory and exam expense	-	33,638	-	33,638
Insurance Fund premiums	168,458	149,144	168,458	149,144
FAC expense	-	-	-	-
Merger-implementation and restructuring costs	-	-	-	-
Other noninterest expense	75,747	44,666	75,747	44,666
Total noninterest expenses	<u>1,308,504</u>	<u>1,119,572</u>	<u>1,308,504</u>	<u>1,119,572</u>
Income before income taxes	<u>1,559,272</u>	<u>1,893,721</u>	<u>1,559,272</u>	<u>1,893,721</u>
Provision for (benefit from) income taxes	-	-	-	-
Net income	<u>\$ 1,559,272</u>	<u>\$ 1,893,721</u>	<u>\$ 1,559,272</u>	<u>\$ 1,893,721</u>

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

CENTRAL TEXAS FARM CREDIT, ACA

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY
(unaudited)

	Capital Stock/ Participation Certificates	Retained Earnings		Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
		Allocated	Unallocated		
Balance at December 31, 2007	\$ 2,248,420	\$ -	\$ 64,277,633	\$ 267,227	\$ 66,793,280
Adjustment to beginning balance due to FAS No. 158 accounting change	-	-	-	-	-
Balance at January 1, 2008	2,248,420	-	64,277,633	267,227	66,793,280
Comprehensive income					
Net income	-	-	1,893,721	-	1,893,721
Change in unrealized gains (losses) on + investment securities	-	-	-	-	-
Amortization of costs included in periodic retirement benefit costs	-	-	(13,980)	(6,933)	(20,913)
Total comprehensive income	-	-	1,879,741	(6,933)	1,872,808
Capital stock/participation certificates issued	81,245	-	-	-	81,245
Capital stock/participation certificates and allocated retained earnings retired	(64,120)	-	-	-	(64,120)
Stock equalization	-	-	-	-	-
Dividends declared	-	-	-	-	-
Patronage refunds:					
Cash	-	-	-	-	-
Capital stock/participation certificates and allocated retained earnings	-	-	-	-	-
Balance at March 31, 2008	<u>\$ 2,265,545</u>	<u>\$ -</u>	<u>\$ 66,157,374</u>	<u>\$ 260,294</u>	<u>\$ 68,683,213</u>
Balance at December 31, 2008	\$ 2,274,820	\$ -	\$ 67,227,618	\$ 133,953	\$ 69,636,391
Comprehensive income					
Net income	-	-	1,559,272	-	1,559,272
Change in unrealized gains (losses) on investment securities	-	-	-	-	-
Amortization of costs included in periodic retirement benefit costs	-	-	-	(7,042)	(7,042)
Total comprehensive income	-	-	1,559,272	(7,042)	1,552,230
Capital stock/participation certificates issued	50,030	-	-	-	50,030
Capital stock/participation certificates and allocated retained earnings retired	(68,340)	-	-	-	(68,340)
Stock equalization	-	-	-	-	-
Dividends declared	-	-	-	-	-
Patronage refunds:					
Cash	-	-	-	-	-
Capital stock/participation certificates and allocated retained earnings	-	-	-	-	-
Balance at March 31, 2009	<u>\$ 2,256,510</u>	<u>\$ -</u>	<u>\$ 68,786,890</u>	<u>\$ 126,911</u>	<u>\$ 71,170,311</u>

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

CENTRAL TEXAS FARM CREDIT, ACA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

The Central Texas Farm Credit, ACA (Agricultural Credit Association), referred to as the association, is a member-owned cooperative that provides credit and credit-related services to or for the benefit of eligible borrowers/stockholders for qualified agricultural purposes. The association serves the counties of Baylor, Brown, Callahan, Coke, Coleman, Comanche, Concho, Haskell, Irion, Jones, Knox, McCulloch, Menard, Mills, Reagan, Runnels, San Saba, Sterling and Tom Green in the state of Texas. The association is a lending institution of the Farm Credit System (the System), which was established by Acts of Congress to meet the needs of American agriculture.

Effective January 1, 2009, the association adopted 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. The impact of adoption did result in some additional fair value explanation and disclosure in the association's notes to the financial statements but as the association was not holding any assets or liabilities as of March 31, 2009 or December 31, 2008, that were required to be reported at fair value in accordance with SFAS No. 157, commentary was limited and there was no impact to the association's financial condition or results of operations.

During the second quarter of 2008 all loans held by the association with one large borrower were deemed non-viable and were transferred to non-accrual. These loans were transferred to non-accrual on May 28, 2008, and amounted to \$3,673,011 in PCA loan balances and \$3,155,256 in FLCA loan balances for a total principal debt to the association of \$6,828,267. A charge-off of \$412,027 and an additional charge to the allowance for loan losses of \$573,000 was made related to the PCA portion of this debt. As of June 30, 2008, the PCA debt was \$3,323,217 and the FLCA debt remained at \$3,155,256 for a total principal of \$6,478,473.

Within the third quarter of 2008 all collateral related to these loans was acquired and liquidated by the association with all proceeds being applied against the debt. During the process of collateral acquisition and liquidation an additional charge-off of \$3,394 was made against the PCA loan for a total PCA loan charge-off of \$415,421. Upon disposition of the acquired collateral all the FLCA debt was recovered but a charge-off of \$338,149 was incurred related to the PCA collateral. Other legal and administrative expenses were also incurred related to the liquidation of the PCA debt which totaled \$89,786 at December 31, 2008 and \$90,018 at March 31, 2009. Additional expense and/or expense recovery may occur related to the PCA loans but significant activity is not anticipated.

During the fourth quarter of 2008 four district participation loans which the association participated in were deemed non-viable or as containing significant financial stress which resulted in these accounts being transferred to non-accrual. The accounts transferred to non-accrual in fourth quarter totaled \$8,257,898. A specific reserve was set-up and a charge-off taken in December for one account totaling the \$1,829,688. A specific reserve of \$64,148 was established for another account but no related charge-off was taken as of yearend. Outstanding balances on these four non-accrual participation accounts as of March 31, 2009, were a combined total of \$6,353,371. As of March 31, 2009 a specific reserve of \$55,000 was also established for another of these accounts. No additional adverse action occurred on two of these non-accrual accounts during the first quarter 2009.

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, except for the inclusion of a statement of cash flows. Generally accepted accounting principles require a business enterprise that provides a set of financial statements reporting both financial position and results of operations to also provide a statement of cash flows for each period for which results of operations are provided. In regulations issued by FCA, associations have the option to exclude statements of cash flows in interim financial statements. Therefore, the association has elected not to include a statement of cash flows in these consolidated financial statements.

The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries. The preparation of these consolidated financial statements requires the use of management's estimates. The results for the quarter/three months ended March 31, 2009, are not necessarily indicative of the results to be expected for the year ended December 31, 2009. Certain amounts in the prior period's financial statements have been reclassified to conform to current financial statement presentation.

NOTE 2 — ALLOWANCE FOR LOAN LOSSES:

The allowance for loan losses is maintained at a level considered adequate by management to provide for estimated losses inherent in the loan portfolio. The allowance is based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including economic conditions, loan portfolio composition and prior loan loss experience. An analysis of the allowance for loan losses follows:

	March 31, 2009	March 31, 2008
Balance at beginning of quarter	\$ 194,148	\$ 103,613
Provision for loan losses	175,000	-
Charge-offs	(40,849)	-
Recoveries	1	-
Balance at end of quarter	<u>\$ 328,300</u>	<u>\$ 103,613</u>

The following table presents information concerning impaired loans:

	March 31, 2009	March 31, 2008
Impaired loans with related allowance	\$ 1,830,989	\$ -
Impaired loans with no related allowance	5,381,573	1,126,603
Total impaired loans	<u>\$ 7,212,562</u>	<u>\$ 1,126,603</u>
Allowance on impaired loans	\$ 119,148	\$ -
Average impaired loans	\$ 7,553,999	\$ 1,162,755
Interest income on impaired loans for the quarter	\$ 17,553	\$ 8,658

NOTE 3 — CAPITAL:

The association's board of directors has established a Capital Adequacy Plan (Plan) that includes the capital targets that are necessary to achieve the institution's capital adequacy goals as well as the minimum permanent capital standards. The Plan monitors projected dividends, equity retirements and other actions that may decrease the association's permanent capital. In addition to factors that must be considered in meeting the minimum standards, the board of directors also monitors the following factors: capability of management; quality of operating policies, procedures, and internal controls; quality and quantity of earnings; asset quality and the adequacy of the allowance for losses to absorb potential loss within the loan and lease portfolios; sufficiency of liquid funds; needs of an institution's customer base; and any other risk-oriented activities, such as funding and interest rate risk, potential obligations under joint and several liability, contingent and off-balance-sheet liabilities or other conditions warranting additional capital. At least quarterly, management reviews the association's goals and objectives with the board.

NOTE 4 — INCOME TAXES:

Central Texas Farm Credit, ACA and its PCA subsidiary are subject to federal and certain other income taxes. The associations are eligible to operate as cooperatives that qualify for tax treatment under Subchapter T of the Internal Revenue code. Under specified conditions, the associations can exclude from taxable income amounts distributed as qualified patronage refunds in the form of cash, stock or allocated surplus. Provisions for income taxes are made only on those earnings that will not be distributed as qualified patronage refunds. In the first quarter of 2009, the association provided a patronage distribution of \$2,500,000 to its eligible stockholders. Deferred taxes are recorded at the tax effect of all temporary differences based on the assumption that such temporary differences are retained by the institution and will therefore impact future tax payments. A valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (over 50 percent probability), based on management's estimate, that they will not be realized. The association's valuation allowance was (\$398,496) as of the quarter/three months ending March 31, 2009, for no available tax benefit as of that point in time.

The subsidiary, Central Texas Land Bank, FLCA, is exempt from federal and other income taxes as provided in the Farm Credit Act of 1971.

In June 2006, the Financial Accounting Standards Board (FASB) released Interpretation No. 48, "Accounting for Uncertainty in Income Taxes." This interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial

statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes." This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Interest and penalties recognized are classified in the financial statements as a component of income taxes. This interpretation is effective for fiscal years beginning after December 15, 2006. The impact of applying the interpretation is not expected to have a material impact on the association's financial condition or results of operations.

Effective January 1, 2007, the association adopted *FIN 48: Accounting for Uncertainty in Income Taxes*. Adoption of the accounting interpretation resulted in no material adjustments to the association's financial statements at that time and no material impact is anticipated due to this accounting interpretation in future periods. Management believes the tax positions taken by the association will be sustained upon examination, including resolution of any related appeals or litigation processes, based upon the technical merits of the positions. In its evaluation process, management has presumed that the tax positions will be examined by the appropriate taxing authority that has full knowledge of all relevant information.

NOTE 5 — FAIR VALUE MEASUREMENTS:

SFAS No. 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. See Note 2 to the 2008 Annual Report to Stockholders for a more complete description.

Valuation Techniques

As more fully discussed in Note 2 to the 2008 Annual Report to Stockholders, SFAS No. 157 establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following represent a brief summary of the valuation techniques used for the Bank and its related associations' assets and liabilities. For a more complete description, see the Notes to the Tenth Farm Credit District's 2008 Annual Report.

Investment Securities

Where quoted prices are available in an active market, available-for-sale securities are classified as Level 1. If quoted prices are not available in an active market, the fair value of securities is estimated using quoted prices for similar securities received from pricing services, pricing models that utilize observable inputs or discounted cash flows. Generally, these securities are classified as Level 2. This would include certain mortgage-backed securities. Where there is limited activity or less transparency around inputs to the valuation, the securities are classified as Level 3. Securities classified within Level 3 include asset-backed securities and certain mortgage-backed securities, including those issued by Farmer Mac.

Assets Held in Non-Qualified Benefits Trusts

Assets held in trust funds related to deferred compensation and supplemental retirement plans are classified within Level 1. The trust funds include investments that are actively traded and have quoted net asset values that are observable in the marketplace.

Loans

For certain loans evaluated for impairment under SFAS No. 114, the fair value is based upon the underlying collateral since the loans were collateral dependent loans for which real estate is the collateral. These loans are generally classified as Level 3.

Other Property Owned

Other property owned is generally classified as Level 3. The fair value is based upon the collateral less estimated costs to sell.

The association did not hold any assets or liabilities as of March 31, 2009 or December 31, 2008, that were required to be reported at fair value in accordance with SFAS No. 157 and there was no impact to the association's financial condition or results of operations.

NOTE 6 — EMPLOYEE BENEFIT PLANS:

The following table summarizes the components of net periodic benefit costs for the three months ended March 31, 2009 and March 31, 2008 :

	Other Benefits	
	2009	2008
Service cost	\$ 9,002	\$ 7,932
Interest cost	15,393	12,981
Expected return on plan assets	-	-
Amortization of prior service costs	(7,042)	(7,182)
Amortizations of net (gain) loss	-	249
Net periodic benefit cost	<u>\$ 17,353</u>	<u>\$ 13,980</u>

In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 158 "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" (SFAS 158), which required the recognition of the overfunded or underfunded status of pension and other postretirement benefit plans on the balance sheet. The balance sheet recognition provisions of SFAS 158 were adopted at December 31, 2007. SFAS 158 also requires that employers measure the benefit obligation and plan assets as of the fiscal year end for fiscal years ending after December 15, 2008. In fiscal 2007 and earlier, we used a September 30 measurement date for pension and other postretirement benefit plans. The Standard provides two approaches for an employer to transition to a fiscal year end measurement date. We have applied the second approach, which allows for the use of the measurements determined for the prior year end.

Under this alternative, postretirement benefit income measured for the three-month period October 1, 2007 to December 31, 2007 (determined using the September 2007 measurement date) was recorded as an adjustment to beginning 2008 retained earnings. As result, the association decreased retained earnings (Accumulated Other Comprehensive Income) by \$6,933 and increased the postretirement benefit cost asset/liability by an offsetting \$6,933. Additionally, the association recorded a charge to retained earnings (Accumulated Other Comprehensive Income) related to postretirement benefits in the amount of \$13,980 as a result of its change in the measurement date for other postretirement benefits from September 30 to December 31, 2007, in accordance with Statement of Financial Accounting Standards No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans".

During 2009 the association anticipates making decreases in retained earnings (Accumulated Other Comprehensive Income – Unrecognized Prior Service Cost) totaling \$28,170 with matching increases to the postretirement benefit cost asset/liability account. As of March 31, 2009, the Association had decreased retained earnings and posted offsetting increases to the postretirement benefit cost asset/liability account of \$7,042.

The association has accrued \$18,253 to fund its employee's net periodic postretirement benefit costs asset/liability account thus far in 2009 and plans on accruing a like amount in each fiscal quarter of 2009 or a total of \$73,009 for the year.

The association previously disclosed in its financial statements for the year ended December 31, 2008, that it expected to utilize \$29,578 of its post retirement benefit cost asset/liability account in 2009. As of March 31, 2009, \$5,739 of the post retirement benefit costs asset/liability account has been used to cover related expenses by the association.

Employees of the association participate in either a defined benefit pension plan (DB Plan) or the defined contribution pension plan (DC Plan) and are eligible to participate in the District Thrift Plus Plan (401(k) plan). The DB Plan is closed to new participants. Participants generally include employees hired prior to January 1, 1996. The DB Plan is non-contributory and provides benefits based on salary and years of service. The "Projected Unit Credit" actuarial method is used for financial reporting and funding purposes for the DB Plan. Contributions or association expense accruals related to the DB plan for 2009 are scheduled to total \$1,134,593 by December 31, 2009.

Participants in the DC Plan generally include employees who elected to transfer from the DB Plan prior to January 1, 1996, and employees hired on or after January 1, 1996. Participants in the DC plan direct the placement of their employers' contributions, 5.0 percent of eligible compensation, made on their behalf into various investment alternatives.

The structure of the District's retirement plans is characterized as multi-employer, since none of the assets, liabilities or costs of any plan are segregated or separately accounted for by the District's participating associations. No portion of any surplus assets is available to the associations, nor are the associations required to pay for plan liabilities upon withdrawal from the plans. As a result, the associations recognize as pension cost the required contribution to the plans each quarter and throughout the year. Contributions due and unpaid are recognized as a liability. The current year cost for the DB and DC plans as of March 31, 2009 were \$283,648 and \$6,755, respectively.