

# THIRD QUARTER 2009

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## CERTIFICATION

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



Reginald T. Holt  
Chief Executive Officer



D. Scott Fontenot  
Chief Financial Officer



Lewis S. Stidham  
Chairman of the Audit committee

November 3, 2009

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*Farm Credit of Central 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



Reginald T. Holt  
Chief Executive Officer



D. Scott Fontenot  
Chief Financial Officer

November 3, 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 Central Florida, ACA, (Association) for the period ended September 30, 2009. These comments should be read in conjunction with the accompanying financial statements, notes to the financial statements and the 2008 Annual Report of the Association. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors.

## **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 horticulture, fruits/vegetables, citrus, and cattle. 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, reduces the level of dependency on a given commodity.

### ***September 30, 2009 compared to December 31, 2008***

Loan volume of the Association as of September 30, 2009, was \$351,205, a decrease of \$71,226 as compared to \$422,431 at December 31, 2008. Net loans outstanding at September 30, 2009, were \$342,810 as compared to \$417,188 at December 31, 2008. The Association has investment securities that are classified as held to maturity in the amount of \$50,256 at September 30, 2009, as compared to \$50,376 at December 31, 2008. Net loans and investment securities accounted for 93.44 percent of total assets at September 30, 2009, as compared to 94.09 percent of total assets at December 31, 2008.

The Association has been able to grow its total servicing portfolio to \$1,027,238 as compared to \$974,836 at December 31, 2008 by increased lending activity to existing corporate and commercial customers. The decrease in net loan volume is primarily due to seasonal lending and increased loan participation sold activity. The short-term portfolio, which is heavily influenced by operating loans, normally reaches a peak balance between September and December and declines between January and June as strawberry and other winter vegetable growers pay down their loans using proceeds from the sale of their crops. The result of this normal seasonal lending activity causes net loan volume to decrease on

revolving credit lines. Due to internal hold limits on individual credits and/or commodities and capital and growth management initiatives, more loan volume has been sold through loan participations to various AgFirst participation pools resulting in participation sold volume to be increased by \$49,896 from year-end.

### ***September 30, 2009 compared to September 30, 2008***

Loan volume of the Association as of September 30, 2009, was \$351,205, a decrease of \$30,817 as compared to \$382,022 at September 30, 2008. Net loans outstanding at September 30, 2009, were \$342,810 as compared to \$378,183 at September 30, 2008. The Association has investment securities that are classified as held to maturity in the amount of \$50,256 at September 30, 2009, as compared to \$44,603 at September 30, 2008. Net loans and investment securities accounted for 93.44 percent of total assets at September 30, 2009, as compared to 94.10 percent of total assets at September 30, 2008.

The Association has been able to grow its total servicing portfolio to \$1,027,238 as compared to \$957,363 at September 30, 2008 by increased lending activity to existing corporate and commercial customers. The decrease in net loan volume from period to period is primarily due to increased loan participation sold activity positively offset by increased lending activity to new and existing customers. Due to internal hold limits on individual credits and/or commodities and capital and growth management initiatives, more loan volume has been sold through loan participations to various AgFirst participation pools resulting in participation sold volume to be increased by \$67,315 from September 30, 2008.

## **ASSET QUALITY AND LOAN LOSS RESERVES**

There is an inherent risk in the extension of any type of credit. While credit administration remains satisfactory, portfolio credit quality has weakened as compared to prior periods, primarily in those loans secured by real estate and in the nursery industry. Acceptable and Other Assets Especially Mentioned (OAEM) credit quality as a percentage of total loan portfolio was 89.45% as of September 30, 2009 compared to 95.87% at December 31, 2008 and 96.43% at September 30, 2008. Nonaccrual loan volume was \$27,421 at September 30, 2009, compared to \$11,962 at December 31, 2008 and \$11,016 at September 30, 2008, an increase of \$15,459 and \$16,405, respectively. Majority of the increase is associated with residential lot loans, a large vegetable grower loan, several agricultural real estate loans, several loans in the nursery industry, and one participation purchased loan.

Association management maintains an allowance for loan losses in an amount considered sufficient to absorb possible losses in the loan portfolio based on current and expected future conditions. The allowance for loan losses at September 30, 2009, was \$8,395 compared to \$5,243 at December 31, 2008 and \$3,839 at September 30, 2008, and is considered by management to be adequate to cover expected losses. The allowance for loan loss is broken down between specific reserves assigned to an individual loan and general reserves which are available for the expected losses within the entire portfolio. The current allowance for loan loss at September 30, 2009 contains \$5,910 in specific reserves and \$2,485 in general reserves. The following outlines the allowance for loan loss activity as of September 30, 2009.

<b>Allowance for Loan Losses Activity:</b>	<b>Q1 2009</b>	<b>Q2 2009</b>	<b>Q3 2009</b>	<b>YTD 2009</b>
	<i>(dollars in thousands)</i>			
Balance at beginning of period	\$ 5,243	\$ 6,538	\$ 7,448	
Charge-offs	(595)	(1,225)	(253)	(2,073)
Recoveries	-	-	-	-
Provisions/(Reversals)	1,890	2,135	1,200	5,225
Balance at end of period	<u>\$ 6,538</u>	<u>\$ 7,448</u>	<u>\$ 8,395</u>	

The increase in allowance for loan loss was a direct result of the increases in nonaccrual assets and the overall decline in credit quality of other performing assets. This increase in allowance was funded through an increase in the provision for loan losses, which was the primary cause for the significant decline in final net income.

## RESULTS OF OPERATIONS

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

Net income for the three months ended September 30, 2009, totaled \$538, as compared to \$1,394 for the same period in 2008. The decrease of \$856 for the period is associated directly with the declining credit quality of the Association and is reflected in the earnings through increased provisions for loan loss and the loss of patronage income in the Capitalized Participation Pool (CPP) with AgFirst.

Net interest income decreased \$58 for the three months ended September 30, 2009, as compared to the same period in 2008. The primary reason for the decrease is the increase in non-performing assets coupled with the reduced interest rate environment as compared to the same time last year. Net interest income for the three months ending September 30, 2009 are shown in the following table:

<b>Net Interest Income</b>	<b>For the three months ended September 30,</b>			
	<b>2009</b>	<b>2008</b>	<b>\$ change</b>	<b>% change</b>
Investment Interest Income	\$ 229	\$ 343	\$ (114)	(33.24%)
Loan Interest Income	4,386	6,265	(1,879)	(29.99%)
Total Interest Income	4,615	6,608	(1,993)	(30.16%)
Total Interest Expense	2,332	4,267	(1,935)	(45.35%)
Net Interest Income	<u>\$ 2,283</u>	<u>\$ 2,341</u>	<u>\$ (58)</u>	<u>(2.48%)</u>

Provisions for loan losses for the quarter totaled \$1,200, as compared to \$1,460 for the same period last year. The increase in provisions was necessary to fund the increase required in the Association's allowance for loan losses which is the result of increased non-performing assets and declining credit quality. Provisions for loan losses for the three months ending September 30, 2009 are shown in the following table:

<b>Provisions for Loan Losses</b>	<b>For the three months Ended September 30,</b>			
	<b>2009</b>	<b>2008</b>	<b>\$ change</b>	<b>% change</b>
Provisions	\$ 1,200	\$ 1,460	\$ (260)	(17.81%)
Reversals	-	-	-	-
Total Provisions/(Reversals)	<u>\$ 1,200</u>	<u>\$ 1,460</u>	<u>\$ (260)</u>	<u>(17.81%)</u>

Noninterest income for the three months ended September 30, 2009, totaled \$1,375, as compared to \$2,309 for the same period of 2008, a decrease of \$934. The decrease is primarily the result of the decrease in Equity in Earnings of other Farm Credit Institutions. The Association's patronage earnings from the CPP with AgFirst were zero due to the pool's increased loan provisions exceeding the actual pool income. Noninterest income for the three months ending September 30, 2009 are shown in the following table:

<b>Noninterest Income</b>	<b>For the three months Ended September 30,</b>			
	<b>2009</b>	<b>2008</b>	<b>\$ change</b>	<b>% change</b>
Loan fees	\$ 164	\$ 184	\$ (20)	(10.87%)
Fees for financially related services	119	164	(45)	(27.44%)
Equity in earnings from other Farm Credit Institutions	1,078	1,930	(852)	(44.15%)
Gains (losses) on other property owned, net	(52)	6	(58)	(967%)
Gains (losses) on sales of rural home loans, net	27	29	(2)	(6.9%)
Other noninterest income	39	(4)	43	1,075%
Total noninterest income	<u>\$ 1,375</u>	<u>\$ 2,309</u>	<u>\$ (934)</u>	<u>(40.45%)</u>

Noninterest expense for the three months ended September 30, 2009, increased \$124 compared to the same period of 2008. The primary reasons for the increase were increases in salary and employee benefits expenses and Insurance Fund premiums. The salary and employee benefits expense contains expenses for retirement that accounted for \$278 of the total increase in noninterest expense which is due to actuary market adjustments. The increase in Insurance Fund premiums is a result of increase premium costs and increased volumes in both performing and non-performing assets. Noninterest expense for the three months ending September 30, 2009 are shown in the following table:

Noninterest Expense	For the three months ended September 30,			
	2009	2008	\$ change	% change
Salary and employee benefits	\$ 1,249	\$ 1,081	\$ 168	15.54%
Occupancy and equipment	179	176	3	1.70%
Insurance Fund Premium	146	119	27	22.69%
Other operating expenses	246	420	(74)	(17.62%)
Total noninterest expense	<u>\$ 1,920</u>	<u>\$ 1,796</u>	<u>\$ 124</u>	<u>6.90%</u>

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

Net income for the nine months ended September 30, 2009, totaled \$878, as compared to \$6,160 for the same period in 2008. The decrease of \$5,282 for the period is associated directly with the declining credit quality of the Association and is reflected in the earnings through increased provisions for loan loss and the loss of patronage income in the Capitalized Participation Pool (CPP) with AgFirst.

Net interest income decreased \$330 for the nine months ended September 30, 2009, as compared to the same period in 2008. The primary reason for the decrease is the increase in non-performing assets coupled with the reduced interest rate environment as compared to the same time last year offset by the increased volume in investment securities. Net interest income for the nine months ending September 30, 2009 are shown in the following table:

Net Interest Income	For the nine months Ended September 30,			
	2009	2008	\$ change	% change
Investment Interest Income	\$ 720	\$ 1,011	\$ (291)	(28.78%)
Loan Interest Income	15,045	19,717	(4,672)	(23.70%)
Total Interest Income	15,765	20,728	(4,963)	(23.94%)
Total Interest Expense	8,486	13,119	(4,633)	(35.52%)
Net Interest Income	<u>\$ 7,279</u>	<u>\$ 7,609</u>	<u>\$ (330)</u>	<u>(4.34%)</u>

The effects of changes in average volume and interest rates on net interest income over the past nine months are presented in the following table:

#### Change in Net Interest Income:

	Volume	Rate	Non-		Total
			accrual	Amortization	
<i>(dollars in thousands)</i>					
Change in NII	\$ 262	\$ (135)	\$ (363)	\$(94)	\$(330)

Provisions for loan losses for the year totaled \$5,225, as compared to \$2,520 for the same period last year. The increase in provisions was necessary to fund the increase required in the Association's allowance for loan losses which is the result of increased non-performing assets and declining credit quality. Provisions for loan losses for the nine months ending September 30, 2009 are shown in the following table:

Provisions for Loan Losses	For the nine months Ended September 30,			
	2009	2008	\$ change	% change
Provisions	\$ 5,225	2,520	\$ 2,705	107.34%
Reversals	-	-	-	-0%
Total Provisions/(Reversals)	<u>\$ 5,225</u>	<u>\$ 2,520</u>	<u>\$ 2,705</u>	<u>107.34%</u>

Noninterest income for the nine months ended September 30, 2009, totaled \$4,799, as compared to \$6,629 for the same period of 2008, a decrease of \$1,830. The decrease is primarily the result of the decrease in Equity in Earnings of other Farm Credit Institutions. The Association's patronage earnings from the CPP with AgFirst were zero due to the pool's increased loan provisions exceeding the actual pool income. Noninterest income for the nine months ending September 30, 2009 are shown in the following table:

Noninterest Income	For the nine months Ended September 30,			
	2009	2008	\$ change	% change
Loan fees	\$ 769	\$ 914	\$ (145)	(15.86%)
Fees for financially related services	453	435	18	4.14%
Equity in earnings from other Farm Credit Institutions	3,326	5,077	(1,751)	(34.49%)
Gains (losses) on other property owned, net	(53)	(72)	19	26.39%
Gains (losses) on sales of rural home loans, net	170	153	17	11.11%
Other noninterest income	134	122	12	9.84%
Total noninterest income	<u>\$ 4,799</u>	<u>\$ 6,629</u>	<u>\$ (1,830)</u>	<u>(27.61%)</u>

Noninterest expense for the nine months ended September 30, 2009, increased \$417 compared to the same period of 2008. The primary reasons for the increase were increases in salary and employee benefits expenses and Insurance Fund premiums. The salary and employee benefits expense contains expenses for retirement that accounted for \$828 of the total increase in noninterest expense which is due to actuary market adjustments. The increase in Insurance Fund premiums is a result of increase premium costs and increased volumes in both performing and non-performing assets. Noninterest expense for the nine months ending September 30, 2009 are shown in the following table:

Noninterest Expense	For the nine months Ended			
	September 30,			
	2009	2008	\$ change	% change
Salary and employee benefits	\$ 3,822	\$ 3,421	\$ 401	11.72%
Occupancy and equipment	531	517	14	2.71%
Insurance Fund Premium	484	397	87	21.91%
Other operating expenses	1,138	1,223	(85)	(6.95%)
Total noninterest expense	\$ 5,975	\$ 5,558	\$ 417	7.50%

## FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with the Bank through a General Financing Agreement. The General Financing Agreement utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The funds are advanced by the Bank to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sections. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. The total notes payable to the Bank at September 30, 2009, was \$337,968 as compared to \$412,134 at December 31, 2008 and \$364,730 at September 30, 2009. The decreases are attributable to paydowns on loans received during the normal course of business being greater than borrowings to fund new loan advances as well as the increased activity on participation sold loans.

## CAPITAL RESOURCES

Total members' equity at September 30, 2009, increased to \$76,537 from the December 31, 2008, total of \$76,339 and decreased from the September 30, 2008 total of \$78,035. The decrease is primarily attributed to the decrease in surplus resulting from the lower net income along with a small decrease in capital stock and participation certificates.

Total capital stock and participation certificates were \$1,266 on September 30, 2009, compared to \$1,298 on December 31, 2008 and \$1,296 on September 30, 2008. This decrease is attributed to the retirement of stock and participation certificates on loans liquidated in the normal course of business.

Farm Credit Administration 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 15.88 percent and 11.18 percent, respectively, and the permanent capital ratio was 16.62 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](http://www.agfirst.com). Copies of the Association's annual and quarterly reports are also available upon request free of charge by calling 1-800-533-2773, or writing D. Scott Fontenot, CFO, Farm Credit of Central Florida, ACA, P. O. Box 8009, Lakeland, FL 33802, or accessing the website, [www.farmcreditfl.com](http://www.farmcreditfl.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 Central Florida, ACA

## Consolidated Balance Sheets

<i>(dollars in thousands)</i>	<b>September 30,</b>		<b>December 31,</b>
	<b>2009</b>	<b>2008</b>	<b>2008</b>
	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(audited)</i>
<b>Assets</b>			
Cash	\$ 59	\$ 12	\$ 36
Investment securities:			
Held to maturity (fair value of \$50,615 \$44,678 and \$50,540 respectively)	50,256	44,603	50,376
Total investment securities	50,256	44,603	50,376
Loans	351,205	382,022	422,431
Less: allowance for loan losses	8,395	3,839	5,243
Net loans	342,810	378,183	417,188
Accrued interest receivable	1,874	2,616	2,624
Investment in other Farm Credit institutions	16,414	13,975	14,043
Premises and equipment, net	1,034	1,059	1,032
Other property owned	991	674	504
Due from AgFirst Farm Credit Bank	3,085	4,888	6,017
Other assets	4,120	3,279	5,128
Total assets	\$ 420,643	\$ 449,289	\$ 496,948
<b>Liabilities</b>			
Notes payable to AgFirst Farm Credit Bank	\$ 337,968	\$ 364,730	\$ 412,134
Accrued interest payable	767	1,419	1,253
Patronage refund payable	27	39	2,648
Other liabilities	5,344	5,066	4,574
Total liabilities	344,106	371,254	420,609
Commitments and contingencies			
<b>Members' Equity</b>			
Protected borrower equity	33	39	39
Capital stock and participation certificates	1,233	1,257	1,259
Retained earnings			
Allocated	33,183	31,170	34,758
Unallocated	42,058	45,662	40,252
Accumulated other comprehensive income (loss)	30	(93)	31
Total members' equity	76,537	78,035	76,339
Total liabilities and members' equity	\$ 420,643	\$ 449,289	\$ 496,948

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

Farm Credit of Central Florida, ACA  
**Consolidated Statements of Income**

*(unaudited)*

<i>(dollars in thousands)</i>	<b>For the three months ended September 30,</b>		<b>For the nine months ended September 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
<b>Interest Income</b>				
Investment securities	\$ 229	\$ 343	\$ 720	\$ 1,011
Loans	4,386	6,265	15,045	19,717
Total interest income	4,615	6,608	15,765	20,728
<b>Interest Expense</b>				
Notes payable to AgFirst Farm Credit Bank	2,332	4,267	8,486	13,119
Total interest expense	2,332	4,267	8,486	13,119
Net interest income	2,283	2,341	7,279	7,609
Provision for (reversal of allowance for) loan losses	1,200	1,460	5,225	2,520
Net interest income after provision for (reversal of allowance for) loan losses	1,083	881	2,054	5,089
<b>Noninterest Income</b>				
Loan fees	164	184	769	914
Fees for financially related services	119	164	453	435
Equity in earnings of other Farm Credit institutions	1,078	1,930	3,326	5,077
Gains (losses) on other property owned, net	(52)	6	(53)	(72)
Gains (losses) on sale of rural home loans, net	27	29	170	153
Other noninterest income	39	(4)	134	122
Total noninterest income	1,375	2,309	4,799	6,629
<b>Noninterest Expense</b>				
Salaries and employee benefits	1,249	1,081	3,822	3,421
Occupancy and equipment	179	176	531	517
Insurance Fund premium	146	119	484	397
Other operating expenses	346	420	1,138	1,223
Total noninterest expense	1,920	1,796	5,975	5,558
Income before income taxes	538	1,394	878	6,160
Provision (benefit) for income taxes	—	—	—	—
Net income	\$ 538	\$ 1,394	\$ 878	\$ 6,160

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

Farm Credit of Central Florida, 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	\$ 64	\$ 1,267	\$ 33,511	\$ 39,214	\$ (303)	\$ 73,753
Comprehensive income						
Net income				6,160		6,160
Employee benefit plans adjustments				(25)	210	185
Total comprehensive income						6,345
Protected borrower equity retired	(25)					(25)
Capital stock/participation certificates issued/(retired), net		(10)				(10)
Retained earnings retired			(2,178)			(2,178)
Patronage distribution adjustment			(163)	313		150
Balance at September 30, 2008	\$ 39	\$ 1,257	\$ 31,170	\$ 45,662	\$ (93)	\$ 78,035
Balance at December 31, 2008	\$ 39	\$ 1,259	\$ 34,758	\$ 40,252	\$ 31	\$ 76,339
Comprehensive income						
Net income				878		878
Employee benefit plans adjustments					(1)	(1)
Total comprehensive income						877
Protected borrower equity retired	(6)					(6)
Capital stock/participation certificates issued/(retired), net		(26)				(26)
Retained earnings retired			(1,142)			(1,142)
Patronage distribution adjustment			(433)	928		495
Balance at September 30, 2009	\$ 33	\$ 1,233	\$ 33,183	\$ 42,058	\$ 30	\$ 76,537

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

## 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 Central 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, "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". The guidance 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. The guidance 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.

This guidance also requires a reporting entity to make additional disclosures in interim and annual periods. Revisions resulting from a change in valuation techniques or their application are accounted for as a change in accounting estimate. The Association adopted this guidance effective June 30, 2009 (see Note 2 and Note 5).

In April 2009, the FASB issued guidance, "Recognition and Presentation of Other-Than-Temporary Impairments", 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.

This guidance changes existing impairment guidance related to accounting for certain investments in debt and equity securities 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 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.

The Association adopted this guidance effective June 30, 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 guidance as an 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 guidance for the Association since no other-than-temporary impairment was previously recognized by the Association.

In April 2009, the 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 operations.

## NOTE 2 — INVESTMENT SECURITIES

A summary of the amortized cost and fair value of investment securities held-to-maturity at September 30, 2009 and December 31, 2008 follows:

	September 30, 2009				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Asset backed securities	\$ 50,256	\$ 456	\$ (97)	\$ 50,615	1.86 %

  

	December 31, 2008				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Asset backed securities	\$ 50,376	\$ 315	\$ (151)	\$ 50,540	3.64 %

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

	September 30, 2009		
	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	\$ 12	\$ 12	7.03%
After one year through five years	1,784	1,800	1.58
After five years through ten years	20,948	21,129	1.77
After ten years	27,512	27,674	1.93
Total	\$ 50,256	\$ 50,615	1.86%

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. Unrealized losses at September 30, 2009 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 September 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. 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, especially after considering credit enhancements. 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.

	<b>September 30, 2009</b>			
	<b>Less than 12 Months</b>		<b>Greater than 12 Months</b>	
	<b>Fair Value</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>	<b>Unrealized Losses</b>
Asset-backed securities	\$ 308	\$ -	\$ 3,601	\$ (97)

### NOTE 3 – ALLOWANCE FOR LOAN LOSSES AND IMPAIRED LOANS

An analysis of the allowance for loan losses follows:

	<b>For the nine months ended September 30,</b>	
	<b>2009</b>	<b>2008</b>
Balance at beginning of period	\$ 5,243	\$ 1,473
Provision for (reversal of) loan losses	5,225	2,520
Charge-offs	(2,073)	(204)
Recoveries	-	50
Balance at end of period	<u>\$ 8,395</u>	<u>\$ 3,839</u>

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

	<b>2009</b>	<b>2008</b>
Impaired loans with related allowance	\$19,088	\$ 7,326
Impaired loans with no related allowance	8,333	3,833
Total impaired loans	<u>27,421</u>	<u>11,159</u>
Allowance on impaired loans	<u>\$ 5,910</u>	<u>\$ 2,133</u>

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

	<b>2009</b>	<b>2008</b>
Average impaired loans	\$ 18,341	\$ 6,908
Interest income recognized on impaired loans	80	16

### NOTE 4 – EMPLOYEE BENEFIT PLANS

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

	<b>For the nine months ended September 30,</b>	
	<b>2009</b>	<b>2008</b>
Pension	\$ 1,060	\$ 446
401(k)	102	102
Other postretirement benefits	133	126
Total	<u>\$ 1,295</u>	<u>\$ 674</u>

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

	<b>Actual YTD Through 9/30/09</b>	<b>Projected Contributions For Remainder of 2009</b>	<b>Projected Total Contributions 2009</b>
Pension	\$ 16	\$ 6	\$ 22
Other postretirement benefits	99	17	116
Total	<u>\$ 115</u>	<u>\$ 23</u>	<u>\$ 138</u>

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 5 – FAIR VALUE MEASUREMENT**

Effective January 1, 2008, the Association adopted FASB guidance on, fair value measurements". This guidance defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements for certain assets and liabilities measured at fair value on a recurring and non-recurring basis. These assets and liabilities primarily consist of assets held in trust funds, 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's Level 1 assets at September 30, 2009 consist of assets held in trust funds related to a supplemental retirement plan. The trust funds include investments in securities that are actively traded and have quoted net asset value prices that are directly observable in the marketplace.

### **Level 2**

Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets; quoted prices in markets that are not active; and inputs that are observable, or can be corroborated, for substantially the full term of the asset or liability. The Association has no Level 2 assets 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			
	Level 1	Level 2	Level 3	Total Fair Value
<b>Assets:</b>				
Assets held in trust funds	\$ 156	\$ -	\$ -	\$ 156
Total Assets	\$ 156	\$ -	\$ -	\$ 156
<b>Liabilities:</b>				
Standby letters of credit	\$ -	\$ -	\$ 119	\$ 119
Total Liabilities	\$ -	\$ -	\$ 119	\$ 119

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	\$ 110
<b>Total gains or (losses) realized/unrealized:</b>	
Included in earnings	-
Included in other comprehensive loss	-
Purchases, sales, issuances and settlements, net	9
Transfers in and/or out of level 3	-
Balance at September 30, 2009	\$ 119

### 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	
<b>Assets:</b>					
Impaired loans	\$ -	\$ -	\$ 13,178	\$ 13,178	\$ (4,806)
Other property owned	\$ -	\$ -	\$ 581	\$ 581	\$ (50)

### 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
<b>Financial assets:</b>		
Cash	\$ 59	\$ 59
Loans, net of allowance	\$ 342,810	\$ 348,420
Investment securities	\$ 50,256	\$ 50,615
Assets held in trust funds	\$ 156	\$ 156
<b>Financial liabilities:</b>		
Notes payable to AgFirst Farm Credit Bank	\$ 337,968	\$ 342,012

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.

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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 4.22 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 \$274 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. **Assets Held in Trust Funds:** See Note 5 for discussion of estimation of fair value for this instrument.

#### **NOTE 7 – SUBSEQUENT EVENTS**

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