

# **Farm Credit of Central Oklahoma, ACA**



**Quarterly Report**  
**June 30, 2009**

The shareholders' investment in Farm Credit of Central Oklahoma, ACA is materially affected by the financial condition and results of operations of U.S. AgBank, FCB (AgBank). The 2008 U.S. AgBank Annual Report to Shareholders, the 2008 U.S. AgBank District Annual Report to Shareholders, the U.S. AgBank quarterly shareholders' reports and the U.S. AgBank District quarterly shareholders' reports are available on AgBank's web site, [www.usagbank.com](http://www.usagbank.com), or may be obtained at no charge by visiting or calling Farm Credit of Central Oklahoma, ACA, 509 West Georgia, P.O. Box 910, Anadarko, Oklahoma 73005, or by calling 405-247-2421 or 1-800-585-2421.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

(Dollars in Thousands, Except as Noted)  
(Unaudited)

The following commentary summarizes the principal aspects of the financial position and results of operations of Farm Credit of Central Oklahoma, ACA for the six months ended June 30, 2009, with comparisons to prior periods. You should read these comments with the accompanying financial statements and footnotes, along with other disclosures contained in this report and the 2008 Annual Report to Shareholders. The accompanying financial statements were prepared under the oversight of our Audit Committee.

General economic conditions in the area remained relatively stable during the first half of 2009 but did decline from one year ago. To date, Oklahoma avoided much of the severe economic decline that distressed other parts of the country but some economic erosion is now becoming evident. Overall agricultural conditions in the area are generally unchanged since year end. Wheat grain prices improved since year end, but the 2009 wheat harvest was well below average due to dry growing conditions and late season freeze damage. Beef prices declined somewhat compared to one year ago but have improved since year end and remain sufficient for productive operations.

### **LOAN PORTFOLIO**

Loans outstanding at June 30, 2009 totaled \$96,442, an increase of \$3,338, or 3.59%, from loans of \$93,104 at December 31, 2008. The increase was primarily due to new mortgage loans originated during the period and seasonal disbursements on commercial operating loans.

### **RESULTS OF OPERATIONS**

Net interest income for the six months ended June 30, 2009 was \$1,361, an increase of \$14, or 1.04%, from the same period ended one year ago. Interest income increased as a result of increased loan volume compared to the same period one year ago.

Net income for the six months ended June 30, 2009 was \$400, a decrease of \$435, or 52.10%, from the same period ended one year ago. This is primarily due to a provision for loan losses recognized in the 2<sup>nd</sup> quarter of 2009, decreased patronage distributions from U.S. AgBank, FCB and slight increases in noninterest expense.

During the first quarter of 2009, we were notified by AgBank that they have changed their patronage program whereby patronage will be paid annually, after the end of the year, to its members. Previously, AgBank paid patronage quarterly. As a result, our patronage earnings compared to the previous period will be reduced during 2009.

### **CAPITAL RESOURCES**

Our shareholders' equity at June 30, 2009 was \$26,676, a decrease from \$26,765 at December 31, 2008. This decrease is primarily due to borrower patronage distributions partially offset by net income.

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

Signature on File

---

Ricky Carothers  
Chairman of the Board  
July 15, 2009

Signature on File

---

Blake Byrd  
President and CEO  
July 15, 2009

Signature on File

---

Linda Taggart  
Vice President and CFO  
July 15, 2009

**FARM CREDIT OF CENTRAL OKLAHOMA, ACA**  
**CONSOLIDATED STATEMENT OF CONDITION**  
(Dollars in Thousands)

	June 30 2009	December 31 2008
	UNAUDITED	AUDITED
<b>ASSETS</b>		
Loans	\$ 96,442	\$ 93,104
Less allowance for loan losses	636	430
Net loans	95,806	92,674
Cash	406	136
Accrued interest receivable	1,852	1,668
Investment in U.S. AgBank, FCB	2,224	2,224
Premises and equipment, net	193	169
Prepaid benefit expense	234	230
Other assets	163	240
<b>Total assets</b>	<b>\$ 100,878</b>	<b>\$ 97,341</b>
<b>LIABILITIES</b>		
Note payable to U.S. AgBank, FCB	\$ 72,488	\$ 68,449
Advance conditional payments	180	182
Accrued interest payable	1,086	1,265
Accrued benefits liability	102	102
Other liabilities	346	578
<b>Total liabilities</b>	<b>74,202</b>	<b>70,576</b>
<b>Commitments and contingencies</b>		
<b>SHAREHOLDERS' EQUITY</b>		
Protected borrower stock	6	6
Capital stock	595	593
Unallocated retained earnings	26,122	26,218
Other comprehensive income/(loss)	(47)	(52)
<b>Total shareholders' equity</b>	<b>26,676</b>	<b>26,765</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 100,878</b>	<b>\$ 97,341</b>

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

**FARM CREDIT OF CENTRAL OKLAHOMA, ACA**  
**CONSOLIDATED STATEMENT OF INCOME**  
(Dollars in Thousands)

UNAUDITED	For the three months ended June 30		For the six months ended June 30	
	2009	2008	2009	2008
<b>INTEREST INCOME</b>				
Loans	\$ 1,588	\$ 1,525	\$ 3,085	\$ 3,050
<b>Total interest income</b>	<b>1,588</b>	<b>1,525</b>	<b>3,085</b>	<b>3,050</b>
<b>INTEREST EXPENSE</b>				
Note payable to U.S. AgBank, FCB	850	864	1,723	1,700
Other	-	1	1	3
<b>Total interest expense</b>	<b>850</b>	<b>865</b>	<b>1,724</b>	<b>1,703</b>
Net interest income	738	660	1,361	1,347
Provision for loan losses/(Loan loss reversal)	223	3	206	(23)
Net interest income after provision for loan losses/(loan loss reversal)	515	657	1,155	1,370
<b>NONINTEREST INCOME</b>				
Financially related services income	-	-	1	1
Loan fees	20	12	25	28
Patronage distribution from U.S. AgBank, FCB	2	109	49	215
Other noninterest income	1	1	9	9
<b>Total noninterest income</b>	<b>23</b>	<b>122</b>	<b>84</b>	<b>253</b>
<b>NONINTEREST EXPENSE</b>				
Salaries and employee benefits	217	193	453	373
Occupancy and equipment	10	13	21	26
Purchased services from AgVantis, Inc.	51	44	101	88
Farm Credit Insurance Fund premium	39	32	80	63
Supervisory and examination costs	9	9	19	18
Other noninterest expense	80	113	165	220
<b>Total noninterest expense</b>	<b>406</b>	<b>404</b>	<b>839</b>	<b>788</b>
<b>Net income</b>	<b>\$ 132</b>	<b>\$ 375</b>	<b>\$ 400</b>	<b>\$ 835</b>

FARM CREDIT OF CENTRAL OKLAHOMA, ACA  
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY  
(Dollars in Thousands)

UNAUDITED

	Protected Stock	Capital Stock	Unallocated Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total Shareholders' Equity
<b>Balance at December 31, 2007</b>	\$ 10	\$ 596	\$ 25,362	\$ 40	\$ 26,008
Adjustment to beginning balance due to SFAS No. 158 accounting change			1		1
<b>Balance at January 1, 2008</b>	\$ 10	\$ 596	\$ 25,363	\$ 40	\$ 26,009
Comprehensive income					
Net income			835		
Change in retirement obligation				(7)	
Total comprehensive income					828
Stock issued	-	39			39
Stock retired	(2)	(32)			(34)
Patronage distributions: Cash			(465)		(465)
<b>Balance at June 30, 2008</b>	\$ 8	\$ 603	\$ 25,733	\$ 33	\$ 26,377
<b>Balance at December 31, 2008</b>	\$ 6	\$ 593	\$ 26,218	\$ (52)	\$ 26,765
Comprehensive income					
Net income			400		
Change in retirement obligation				5	
Total comprehensive income					405
Stock issued	-	33			33
Stock retired	-	(31)			(31)
Patronage distributions: Cash			(496)		(496)
<b>Balance at June 30, 2009</b>	\$ 6	\$ 595	\$ 26,122	\$ (47)	\$ 26,676

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

**FARM CREDIT OF CENTRAL OKLAHOMA, ACA**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
(Dollars in Thousands)

UNAUDITED

	For the six months ended June 30	
	2009	2008
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 400	\$ 835
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:		
Depreciation	18	19
Provision for loan losses/(Loan loss reversal)	206	(23)
Change in assets and liabilities:		
Increase in accrued interest receivable	(184)	(175)
(Increase)/Decrease in prepaid benefit expense	(4)	16
Decrease/(Increase) in other assets	77	(40)
(Decrease)/Increase in accrued interest payable	(179)	9
Increase in accrued benefits liability	5	4
Decrease in other liabilities	(232)	(151)
Total adjustments	(293)	(341)
Net cash provided by operating activities	107	494
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Increase in loans, net	(3,338)	(6,688)
Expenditures for premises and equipment, net	(42)	(6)
Net cash used in investing activities	(3,380)	(6,694)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net draw on note payable to U.S. AgBank, FCB	4,039	6,534
Decrease in advance conditional payments	(2)	(232)
Protected borrower stock retired	-	(2)
Capital stock retired	(31)	(32)
Capital stock issued	33	39
Cash patronage distributions paid	(496)	(465)
Net cash provided by financing activities	3,543	5,842
Net increase/(decrease) in cash	270	(358)
Cash at beginning of year	136	766
Cash at end of period	\$ 406	\$ 408
<b>SUPPLEMENTAL INFORMATION:</b>		
Cash paid during the year for:		
Interest	\$ 1,903	\$ 1,694
<b>SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:</b>		
Change in accumulated comprehensive income/loss	\$ 5	\$ (7)

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

## NOTES TO FINANCIAL STATEMENTS

(Dollars in Thousands, Except as Noted)  
(Unaudited)

### NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

A description of the organization and operations of Farm Credit of Central Oklahoma, ACA (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 financial statements should be read in conjunction with the 2008 Annual Report to Shareholders.

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.

The accompanying financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations, and conform to generally accepted accounting principles 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 ended December 31, 2009.

### NOTE 2 - LOANS AND ALLOWANCE FOR LOAN LOSSES

A summary of the allowance for loan losses follows.

	June 30, 2009	June 30, 2008
Balance at beginning of year	\$ 430	\$ 297
Provision for loan losses	206	(23)
Balance at end of period	\$ 636	\$ 274

Impaired loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms. The following presents information relating to impaired loans including accrued interest.

	June 30, 2009	June 30, 2008
Impaired loans with related allowance	\$ 849	\$ -
Impaired loans with no related allowance	113	879
Total impaired loans	\$ 962	\$ 879
Allowance on impaired loans	\$ 416	\$ -

The average recorded investment in impaired loans including accrued interest during the six months ended June 30, 2009 was \$1,483 and \$312 for the six months ended June 30, 2008. The Association

recognized interest income on impaired loans of \$115 for the six months ended June 30, 2009 and \$28 for the six months ended June 30, 2008.

### NOTE 3 - CAPITAL

In January 2009, a borrower cash patronage in the amount of \$496 was declared for FLCA real estate mortgage loan customers. The patronage resolution stated that the patronage will be paid prior to March 31, 2009.

### NOTE 4 - 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 an orderly transaction between market participants in the principal or most advantageous market for the asset or liability. See Note 2 to the 2008 Annual Report to Shareholders for a more complete description.

Assets and liabilities measured at fair value on a recurring basis are summarized below:

	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
<b>Assets:</b>				
Assets held in nonqualified benefits trusts	\$ 89	\$ -	\$ -	\$ 89
Total assets	\$ -	\$ -	\$ -	\$ 89

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:

	Fair Value Measurement Using			Total Fair Value	Total (Losses)
	Level 1	Level 2	Level 3		
<b>Assets:</b>					
Loans	\$ -	\$ -	\$ 433	\$ 433	\$ 213

The Association had no liabilities measured at fair value at June 30, 2009.

#### Valuation Techniques

As more fully discussed in Note 2 to the 2008 Annual Report to Shareholders, 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 presents a brief summary of the valuation techniques used for the Association's assets and liabilities.

#### *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.

### NOTE 5 - SUBSEQUENT EVENTS

The Association has evaluated subsequent events through August 3, 2009, which is the date the financial statements were issued.

## **FARM CREDIT OF CENTRAL OKLAHOMA, ACA**

### **BOARD OF DIRECTORS**

Rick Carothers, Chairman	Indiahoma
Alan Schenk, Vice Chairman	Chickasha
Larry Bridwell	Blanchard
Sam Mitchell	Fletcher
Bobby Tarp	Lexington

### **OFFICERS AND EMPLOYEES**

Blake Byrd	President
Michael Prochaska	Vice President – Credit
Linda Taggart	Vice President - Finance
Arnold H. Johnson	Vice President
Russell B. Strecker	Vice President
Justin Rogers	Loan Officer
Recia Orme	Accountant
Sandy Jones	Loan Closer
Myrna Shook	Loan Accountant
Sarah Reynolds	Office Assistant