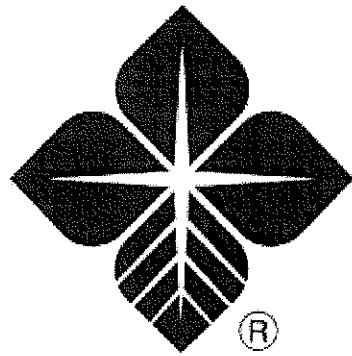


# **Farm Credit of Central Oklahoma, ACA**



**Quarterly Report  
September 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 free of charge by accessing AgBank's web site, [www.usagbank.com](http://www.usagbank.com), or may be obtained at no charge by contacting us at 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 nine months ended September 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 territory remained relatively stable through the first nine months of 2009 but have declined somewhat from the same period one year ago. To date, Oklahoma has avoided much of the severe economic decline that troubled other parts of the country but some economic erosion is becoming evident. General agriculture conditions in the area have remained relatively stable since year end. However, many local producers have experienced financial setbacks because of higher input cost coupled with a 2009 wheat crop that was well below normal due to dry conditions and late season freeze damage. Area beef producers encountered adequate production during 2009, but profitability was curtailed as a result of increased input costs and decreased beef prices.

#### **LOAN PORTFOLIO**

Loans outstanding at September 30, 2009 totaled \$96,606, an increase of \$3,502, or 3.76%, from loans of \$93,104 at December 31, 2008. The increase was primarily due to new mortgage loans originated during the period.

#### **RESULTS OF OPERATIONS**

Net interest income for the nine months ended September 30, 2009 was \$1,970, a decrease of \$6, or 0.30%, from the same period ended one year ago.

Net income for the nine months ended September 30, 2009 was \$586, a decrease of \$595, or 50.38%, 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 and decreased patronage distribution from U.S. AgBank, FCB.

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 September 30, 2009 was \$26,865, an increase from \$26,765 at December 31, 2008. This increase is due to net income, the amortization of pension gains included in the net periodic benefit cost and stock increases offset by borrower patronage distributions.

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*

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Ricky Carothers  
Chairman of the Board  
October 21, 2009

*Signature on File*

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Blake Byrd  
President and CEO  
October 21, 2009

*Signature on File*

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Linda Taggart  
Vice President and CFO  
October 21, 2009

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

	<b>September 30</b>	December 31
	<b>2009</b>	2008
	UNAUDITED	AUDITED
<b>ASSETS</b>		
Loans	\$ 96,606	\$ 93,104
Less allowance for loan losses	636	430
Net loans	95,970	92,674
Cash	960	136
Accrued interest receivable	2,003	1,668
Investment in U.S. AgBank, FCB	2,224	2,224
Premises and equipment, net	186	169
Prepaid benefit expense	212	230
Other assets	174	240
<b>Total assets</b>	<b>\$ 101,729</b>	<b>\$ 97,341</b>
<b>LIABILITIES</b>		
Note payable to U.S. AgBank, FCB	\$ 73,066	\$ 68,449
Advance conditional payments	86	182
Accrued interest payable	1,186	1,265
Accrued benefits liability	102	102
Other liabilities	424	578
<b>Total liabilities</b>	<b>74,864</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	26,308	26,218
Accumulated other comprehensive loss	(44)	(52)
<b>Total shareholders' equity</b>	<b>26,865</b>	<b>26,765</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 101,729</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 September 30		For the nine months ended September 30	
	2009	2008	2009	2008
<b>INTEREST INCOME</b>				
Loans	\$ 1,482	\$ 1,513	\$ 4,567	\$ 4,563
<b>Total interest income</b>	<b>1,482</b>	<b>1,513</b>	<b>4,567</b>	<b>4,563</b>
<b>INTEREST EXPENSE</b>				
Note payable to U.S. AgBank, FCB	873	883	2,596	2,583
Other	-	1	1	4
<b>Total interest expense</b>	<b>873</b>	<b>884</b>	<b>2,597</b>	<b>2,587</b>
Net interest income	609	629	1,970	1,976
Provision for loan losses/(Loan loss reversal)	-	(10)	206	(33)
Net interest income after provision for loan losses/(loan loss reversal)	609	639	1,764	2,009
<b>NONINTEREST INCOME</b>				
Financially related services income	1	1	1	2
Loan fees	(16)	7	9	35
Patronage distribution from U.S. AgBank, FCB	2	101	51	315
Other noninterest income	1	1	10	11
<b>Total noninterest income</b>	<b>(12)</b>	<b>110</b>	<b>71</b>	<b>363</b>
<b>NONINTEREST EXPENSE</b>				
Salaries and employee benefits	227	206	680	579
Occupancy and equipment	13	16	33	42
Purchased services from AgVantis, Inc.	51	44	152	132
Farm Credit Insurance Fund premium	40	33	120	96
Supervisory and examination costs	10	9	28	27
Other noninterest expense	70	95	236	315
<b>Total noninterest expense</b>	<b>411</b>	<b>403</b>	<b>1,249</b>	<b>1,191</b>
<b>Net income</b>	<b>\$ 186</b>	<b>\$ 346</b>	<b>\$ 586</b>	<b>\$ 1,181</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 pension accounting change			\$ 1		\$ 1
<b>Balance at January 1, 2008</b>	\$ 10	\$ 596	\$ 25,363	\$ 40	\$ 26,009
Comprehensive income					
Net income			1,181		
Change in retirement obligation				(9)	
Total comprehensive income					1,172
Stock issued	-	57			57
Stock retired	(4)	(57)			(61)
Patronage distributions: Cash			(465)		(465)
<b>Balance at September 30, 2008</b>	\$ 6	\$ 596	\$ 26,079	\$ 31	\$ 26,712
 <b>Balance at December 31, 2008</b>	 \$ 6	 \$ 593	 \$ 26,218	 \$ (52)	 \$ 26,765
Comprehensive income					
Net income			586		
Change in retirement obligation				8	
Total comprehensive income					594
Stock issued	-	45			45
Stock retired	-	(43)			(43)
Patronage distributions: Cash			(496)		(496)
<b>Balance at September 30, 2009</b>	\$ 6	\$ 595	\$ 26,308	\$ (44)	\$ 26,865

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 nine months ended September 30	
	2009	2008
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 586	\$ 1,181
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:		
Depreciation	25	29
Provision for loan losses/(Loan loss reversal)	206	(33)
Change in assets and liabilities:		
Increase in accrued interest receivable	(335)	(289)
Decrease in prepaid benefit expense	18	36
Decrease in other assets	66	65
Decrease in accrued interest payable	(79)	(17)
Decrease in accrued benefits liability	-	(11)
Decrease in other liabilities	(146)	(264)
Total adjustments	(245)	(484)
Net cash provided by operating activities	341	697
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Increase in loans, net	(3,502)	(8,451)
Expenditures for premises and equipment, net	(42)	(6)
Net cash used in investing activities	(3,544)	(8,457)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net draw on note payable to U.S. AgBank, FCB	4,617	7,871
Decrease in advance conditional payments	(96)	(116)
Protected borrower stock retired	-	(4)
Capital stock retired	(43)	(57)
Capital stock issued	45	57
Cash patronage distributions paid	(496)	(465)
Net cash provided by financing activities	4,027	7,286
Net increase/(decrease) in cash	824	(474)
Cash at beginning of year	136	766
Cash at end of period	\$ 960	\$ 292
<b>SUPPLEMENTAL INFORMATION:</b>		
Cash paid during the year for:		
Interest	\$ 2,676	\$ 2,604
<b>SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:</b>		
Change in accumulated comprehensive income/loss	\$ 8	\$ (9)

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 third quarter 2009 financial statements should be read in conjunction with the 2008 Annual Report to Shareholders.

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 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 guidance, which includes a required disclosure of the date through which an entity has evaluated subsequent events, was 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 with generally accepted accounting principles 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 ended December 31, 2009.

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

A summary of the allowance for loan losses follows.

	September 30, 2009	September 30 2008
Balance at beginning of year	\$ 430	\$ 297
Provision for loan losses/(Loan loss reversal)	206	(33)
Balance at end of period	\$ 636	\$ 264

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.

	September 30, 2009	September 30, 2008
Impaired loans with related allowance	\$ 837	\$ -
Impaired loans with no related allowance	112	883
Total impaired loans	\$ 949	\$ 883
Allowance on impaired loans	\$ 404	\$ -

The average recorded investment in impaired loans including accrued interest during the nine months ended September 30, 2009 was \$1,414 and \$504 for the same period in 2008. The Association recognized interest income on impaired loans of \$116 for the nine months ended September 30, 2009 and \$40 for the same period in 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

Authoritative 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. 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	\$ 102	\$ -	\$ -	\$ 102
<b>Total assets</b>	<b>\$ 102</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 102</b>

The Association had no liabilities measured at fair value on a recurring basis at September 30, 2009.

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:

	Fair Value Measurement Using			Total Fair Value	Total Gains/(Losses)
	Level 1	Level 2	Level 3		
<b>Assets:</b>					
Loans	\$ -	\$ -	\$ 433	\$ 433	\$ 404

The Association had no liabilities measured at fair value on a non-recurring basis at September 30 2009.

### Valuation Techniques

As more fully discussed in Note 2 to the 2008 Annual Report to Shareholders, authoritative guidance 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 FASB guidance, the fair value is based upon the underlying collateral since the loans were collateral dependent loans for which real estate is the collateral. 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 real estate, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established.

**NOTE 5 - SUBSEQUENT EVENTS**

The Association has evaluated subsequent events through November 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
Carol Jones	Office Assistant