

**AG NEW MEXICO, FARM CREDIT SERVICES,
ACA**

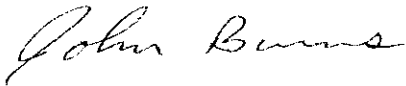
**2011
Quarterly Report
Third Quarter**



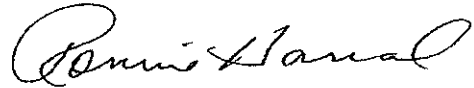
For the Quarter Ended September 30, 2011

REPORT OF MANAGEMENT

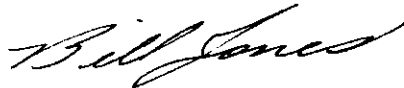
The undersigned certify that we have reviewed this report, that it has been prepared in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate and complete to the best of his or her knowledge and belief.



John Burns, Chief Executive Officer
November 9, 2011



Ronnie Harral, Chairman, Board of Directors
November 9, 2011



Bill Jones, Chief Financial Officer
November 9, 2011

**AG NEW MEXICO, FARM CREDIT SERVICES, ACA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following commentary reviews the financial performance of the Ag New Mexico, Farm Credit Services, ACA (Agricultural Credit Association), referred to as the association, for the quarter and nine months ended September 30, 2011. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2010 Annual Report to Stockholders.

The association is a member of the Farm Credit System (System), a nationwide network of cooperatively owned financial institutions established by and subject to the provisions of the Farm Credit Act of 1971, as amended, and the regulations of the Farm Credit Administration (FCA) promulgated there under.

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:

The geographical area served by the association has experienced severe drought conditions during the course of the year. Dryland production has been poor or nonexistent in many areas although many producers have crop insurance. Irrigated crops have required increased irrigation coupled with lower yields. The livestock industry has been adversely impacted with deteriorated grazing conditions with several producers having to cull herds. The increased milk prices have allowed dairies to perform reasonably well during 2011 even with the rising cost of inputs. The increased commodity prices have offset declining yields to some degree. Livestock and grain prices are at historic highs. Profits carried over from the prior year in addition to prices remaining fairly good have allowed producers to operate without tapping their full loan commitments.

Loan Portfolio:

Total loans outstanding at September 30, 2011, including nonaccrual loans and sales contracts, were \$159,901,823 compared to \$150,517,886 at December 31, 2010, reflecting an increase of 6.2 percent. Nonaccrual loans as a percentage of total loans outstanding were 7.8 percent at September 30, 2011, compared to 9.5 percent at December 31, 2010.

The association recorded \$684 in recoveries and \$0 in charge-offs for the quarter ending September 30, 2011, and \$684 in recoveries and \$145,138 in charge-offs for the same period in 2010. The association's allowance for loan losses was 1.5 percent and 1.7 percent of total loans outstanding as of September 30, 2011, and December 31, 2010, respectively.

The association's nonaccrual loan decreased from \$14,330,091 as of December 31, 2010 to \$12,505,630 as of September 30, 2011 due to loan servicing efforts on the part of the association's credit staff.

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.

	<u>September 30, 2011</u>		<u>December 31, 2010</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Nonaccrual	\$ 12,506,630	97.8%	\$ 14,330,091	99.7%
90 days past due and still accruing interest	-	0.0%	31,927	0.2%
Formally restructured	-	0.0%	-	0.0%
Other property owned, net	287,000	2.2%	7,000	0.1%
Total	<u>\$ 12,793,630</u>	<u>100.0%</u>	<u>\$ 14,369,018</u>	<u>100.0%</u>

Investments:

During the first quarter of 2010, the association exchanged \$26.4 million of mortgage loans that previously were covered under a long-term standby commitment to purchase agreement with Federal Agricultural Mortgage Corporation (Farmer Mac) for a Farmer Mac guaranteed agricultural mortgage-backed security. No gain or loss was recognized in the financial statements upon completion of the exchange transaction. The association continues to service the loans included in this transaction. These investments in guaranteed securities are included in this report's Consolidated Balance Sheet as investments – held-to-maturity.

Results of Operations:

The association had net income of \$614,607 and \$1,635,466 for the three and nine months ended September 30, 2011, as compared to net income of \$437,846 and a net loss of \$4,756,114 for the same periods in 2010 reflecting an increase of 40.4 percent and 134.3 percent respectively. Net interest income was \$1,164,912 and \$3,454,813 for the three and nine months ended September 30, 2011, compared to \$1,182,950 and \$3,710,022 for the same periods in 2010. Interest income for the first nine months of 2011 decreased by \$1,311,758, or 19.0 percent, from the same period of 2010, primarily due to a decrease in average loan volume. Interest expense for the months of 2011 decreased by \$1,056,549, or 33.2 percent, from the same period of 2010 due to a decrease in interest rates coupled with a decrease in average debt volume. Average loan volume for the third quarter of 2011 was \$152,634,544, compared to \$167,286,410 in the third quarter of 2010. The average spread on the loan portfolio for the third quarter of 2011 was 2.47 percent, compared to 2.18 percent in the third quarter of 2010. The average spread on investments in Farmer Mac Mortgage Backed Securities in addition to the loan portfolio was 2.48 percent

The association's return on average assets for the months ended September 30, 2011, was 1.21 percent compared to -2.88 percent for the same period in 2010. The association's return on average equity for the months ended September 30, 2011, was 7.96 percent, compared to -23.81 percent for the same period in 2010.

Liquidity and Funding Sources:

The association secures the majority of its lendable funds from the Farm Credit Bank of Texas (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.

	September 30, 2011	December 31, 2010
Note payable to the bank	\$ 160,630,247	\$ 156,152,850
Accrued interest on note payable	234,748	270,585
Total	<u>\$ 160,864,995</u>	<u>\$ 156,423,435</u>

The association's liquidity margin as of September 30, 2011 was 10.41 percent which is in compliance with the required minimum of 5 percent as specified by the general financing agreement.

Capital Resources:

The association's capital position increased by \$2,057,215 at September 30, 2011, compared to December 31, 2010. The association's debt as a percentage of members' equity was 5.70:1 as of September 30, 2011, compared to 5.96:1 as of December 31, 2010.

Under regulations governing minimum permanent capital adequacy and other capitalization issues, the association is required to maintain a minimum adjusted permanent capital of 7.0 percent of risk-adjusted assets as defined by the FCA. The association's permanent capital ratio at September 30, 2011, was 13.4 percent, which is in compliance with the FCA's minimum permanent capital standard. The association's core surplus ratio and total surplus ratio at September 30, 2011, were 13.2 and 13.2 percent, respectively, which is in compliance with the FCA's minimum surplus standard.

Significant Recent Accounting Pronouncements:

In June 2011, the Financial Accounting Standards Board (FASB) issued guidance entitled, "Comprehensive Income – Presentation of Comprehensive Income." This guidance is intended to increase the prominence of other comprehensive income in financial statements. The current option that permits the presentation of other comprehensive income in the statement of changes in equity has

been eliminated. The main provisions of the guidance provides that an entity that reports items of other comprehensive income has the option to present comprehensive income in either one or two consecutive financial statements:

- A single statement must present the components of net income and total net income, the components of other comprehensive income and total other comprehensive income, and a total for comprehensive income.
- In a two-statement approach, an entity must present the components of net income and total net income in the first statement. That statement must be immediately followed by a financial statement that presents the components of other comprehensive income, a total for other comprehensive income, and a total for comprehensive income.

This guidance is to be applied retrospectively and is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The adoption of this guidance will not impact financial condition or results of operations, but will result in changes to the presentation of comprehensive income.

In May 2011, the FASB issued guidance entitled, “Fair Value Measurement – Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs.” The amendments change the wording used to describe the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. The amendments include the following:

1. Application of the highest and best use and valuation premise is only relevant when measuring the fair value of nonfinancial assets (does not apply to financial assets and liabilities).
2. Aligning the fair value measurement of instruments classified within an entity’s shareholders’ equity with the guidance for liabilities. As a result, an entity should measure the fair value of its own equity instruments from the perspective of a market participant that holds the instruments as assets.
3. Clarifying that a reporting entity should disclose quantitative information about the unobservable inputs used in a fair value measurement that is categorized within Level 3 of the fair value hierarchy.
4. An exception to the requirement for measuring fair value when a reporting entity manages its financial instruments on the basis of its net exposure, rather than its gross exposure, to those risks.
5. Clarifying that the application of premiums and discounts in a fair value measurement is related to the unit of account for the asset or liability being measured at fair value. Premiums or discounts related to size as a characteristic of the entity’s holding (that is, a blockage factor) instead of as a characteristic of the asset or liability (for example, a control premium), are not permitted. A fair value measurement that is not a Level 1 measurement may include premiums or discounts other than blockage factors when market participants would incorporate the premium or discount into the measurement at the level of the unit of account specified in other guidance.
6. Expansion of the disclosures about fair value measurements. The most significant change will require entities, for their recurring Level 3 fair value measurements, to disclose quantitative information about unobservable inputs used, a description of the valuation processes used by the entity, and a qualitative discussion about the sensitivity of the measurements. New disclosures are required about the use of a nonfinancial asset measured or disclosed at fair value if its use differs from its highest and best use. In addition, entities must report the level in the fair value hierarchy of assets and liabilities not recorded at fair value but where fair value is disclosed.

The amendments are to be applied prospectively. The amendments are effective during interim and annual periods beginning after December 15, 2011. Early application is not permitted.

In January 2011, the FASB issued guidance entitled, “Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings.” This guidance temporarily delayed the effective date of the disclosures about troubled debt restructurings required by the guidance previously issued on “Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses.” The effective date of the new disclosures about troubled debt restructurings (TDR) coincides with the guidance for determining what constitutes a TDR as described below.

In April 2011, the FASB issued its guidance entitled, “A Creditor’s Determination of Whether a Restructuring is a Troubled Debt Restructuring,” which provides for clarification on whether a restructuring constitutes a TDR. In evaluating whether a restructuring is a TDR, a creditor must separately conclude that both of the following exists: (1) the restructuring constitutes a concession, and (2) the debtor is experiencing financial difficulties. For nonpublic entities, the guidance is effective for annual periods ending on or after December 15, 2012, including interim periods within those annual periods. The association is currently evaluating the impact of adoption of this Standard on the financial condition or results of operations. The adoption will result in additional disclosures.

In July 2010, the Financial Accounting Standards Board (FASB) issued guidance on “Disclosures about the Credit Quality of Financing Receivables and the Allowance for Loan Losses,” which is intended to provide additional information to assist financial statement users in assessing an entity’s credit risk exposures and evaluating the adequacy of the allowance for credit losses. Existing

disclosures are amended to include additional disclosures of financing receivables on a disaggregated basis (by portfolio segment and class of financing receivable) including among others, a roll forward schedule of the allowance for credit losses from the beginning of the reporting period to the end of the period on a portfolio segment basis, with the ending balance further disaggregated on the basis of the method of impairment (individually or collectively evaluated). The guidance also calls for new disclosures including but not limited to credit quality indicators at the end of the reporting period by class of financing receivables, the aging of past due financing receivables by class, the nature and extent of financing receivables modified as troubled debt restructurings by class and the effect on the allowance for credit losses. For public entities, the disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. The adoption of this Standard did not impact the association's financial condition or results of operations, but did result in significant additional disclosures.

In January 2010, the FASB issued guidance on "Fair Value Measurements and Disclosures," which is to improve disclosures about fair value measurement by increasing transparency in financial reporting. The changes will provide a greater level of disaggregated information and more robust disclosures of valuation techniques and inputs to fair value measurement. The new disclosures and clarification of existing disclosures were effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The adoption of this Standard did not impact the association's financial condition or results of operations but did result in additional disclosures.

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, 2010 Annual Report of Ag New Mexico, Farm Credit Services, ACA more fully describe the association's relationship with the bank.

The Texas 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) 483-9204. 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 website at www.farmcreditbank.com.

The association's quarterly stockholder reports are also available free of charge, upon request. These reports can be obtained by writing to Ag New Mexico, Farm Credit Services, ACA, P.O. Box 1328, 233 Fairway Terrace North, Clovis, New Mexico 88102-1328 or calling (575) 762-3828. Copies of the association's quarterly stockholder reports can also be requested by e-mailing bill.jones@farmcreditbank.com. The association makes its annual and quarterly stockholder reports available on its website at www.agnewmexico.com.

AG NEW MEXICO, FARM CREDIT SERVICES, ACA

CONSOLIDATED BALANCE SHEET

	September 30, 2011 (unaudited)	December 31, 2010
<u>ASSETS</u>		
Cash	\$ 103,706	\$ 103,451
Investments	20,173,903	24,016,717
Loans	159,901,823	150,517,886
Less: allowance for loan losses	<u>2,363,884</u>	<u>2,522,097</u>
Net loans	157,537,939	147,995,789
Accrued interest receivable	2,050,736	2,643,064
Investment in and receivable from the bank:		
Capital stock	4,644,100	3,852,310
Other	668,565	731,971
Deferred taxes, net	2,128,031	1,673,714
Other property owned, net	287,000	7,000
Premises and equipment	3,306,044	2,759,459
Other assets	166,139	427,682
Total assets	<u><u>\$ 191,066,163</u></u>	<u><u>\$ 184,211,157</u></u>
<u>LIABILITIES</u>		
Note payable to the bank	\$ 160,630,247	\$ 156,152,850
Advance conditional payments	345,608	148,567
Accrued interest payable	234,726	270,585
Drafts outstanding	211,815	47,071
Patronage distributions payable	191	191
Other liabilities	<u>1,134,553</u>	<u>1,140,084</u>
Total liabilities	<u><u>162,557,140</u></u>	<u><u>157,759,348</u></u>
<u>MEMBERS' EQUITY</u>		
Capital stock and participation certificates	334,145	334,785
Unallocated retained earnings	28,335,649	26,259,108
Accumulated other comprehensive income (loss)	<u>(160,772)</u>	<u>(142,086)</u>
Total members' equity	28,509,022	26,451,807
Total liabilities and members' equity	<u><u>\$ 191,066,162</u></u>	<u><u>\$ 184,211,155</u></u>

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

Ag New Mexico FCS, ACA – Quarterly Report for the Quarter ended September 30, 2011

AG NEW MEXICO, FARM CREDIT SERVICES, ACA

CONSOLIDATED STATEMENT OF INCOME
(unaudited)

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
<u>INTEREST INCOME</u>				
Loans	\$ 1,633,747	\$ 1,750,383	\$ 4,868,547	\$ 6,241,577
Investments	223,761	303,734	716,374	655,102
Other	-	-	-	-
Total interest income	<u>1,857,508</u>	<u>2,054,117</u>	<u>5,584,921</u>	<u>6,896,679</u>
<u>INTEREST EXPENSE</u>				
Note payable to the bank	692,596	871,167	2,130,108	3,186,654
Advance conditional payments	-	-	-	3
Total interest expense	<u>692,596</u>	<u>871,167</u>	<u>2,130,108</u>	<u>3,186,657</u>
Net interest income	<u>1,164,912</u>	<u>1,182,950</u>	<u>3,454,813</u>	<u>3,710,022</u>
<u>PROVISION FOR LOAN LOSSES</u>				
	<u>(36,051)</u>	<u>-</u>	<u>(171,931)</u>	<u>(723,070)</u>
Net interest income after provision for loan losses	<u>1,200,963</u>	<u>1,182,950</u>	<u>3,626,744</u>	<u>4,433,092</u>
<u>NONINTEREST INCOME</u>				
Income from the bank:				
Patronage income	203,502	11,667	445,899	38,619
Loan fees	29,700	60,371	72,609	156,919
Refunds from Farm Credit System				
Insurance Corporation	-	-	-	-
Financially related services income	24,775	23,944	92,389	44,393
Gain (loss) on other property owned, net	-	113,218	876	(391,346)
Gain (loss) on sale of premises and equipment, net	-	-	2,000	(7,126,627)
Other noninterest income	6,016	13,500	29,588	596,851
Impairment losses on investments				
Total other-than-temporary impairment losses	-	-	-	-
Less: portion of loss recognized in other comprehensive income	-	-	-	-
Net impairment loss recognized in earnings	<u>257,977</u>	<u>209,200</u>	<u>613,773</u>	<u>(7,278,042)</u>
Total noninterest income	<u>263,993</u>	<u>222,700</u>	<u>643,361</u>	<u>(6,681,191)</u>
<u>NONINTEREST EXPENSES</u>				
Salaries and employee benefits	476,813	572,305	1,523,238	1,715,659
Directors' expense	30,982	31,406	127,622	149,029
Purchased services	22,589	15,670	71,853	106,724
Travel	63,672	42,635	169,684	128,187
Occupancy and equipment	62,943	136,174	231,901	378,224
Communications	5,617	6,687	17,400	21,215
Advertising	7,865	12,542	23,643	38,719
Public and member relations	36,033	27,738	53,434	39,174
Supervisory and exam expense	14,135	57,083	120,319	172,684
Insurance Fund premiums	23,570	23,020	71,642	86,699
Other noninterest expense	61,318	46,278	229,738	222,104
Total noninterest expenses	<u>805,537</u>	<u>971,538</u>	<u>2,640,474</u>	<u>3,058,418</u>
Income before income taxes	<u>659,419</u>	<u>434,112</u>	<u>1,629,631</u>	<u>(5,306,517)</u>
Provision for (benefit from) income taxes	<u>44,812</u>	<u>(3,734)</u>	<u>(5,835)</u>	<u>(550,403)</u>
Net income	<u>\$ 614,607</u>	<u>\$ 437,846</u>	<u>\$ 1,635,466</u>	<u>\$ (4,756,114)</u>

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

Ag New Mexico FCS, ACA – Quarterly Report for the Quarter ended September 30, 2011

AG NEW MEXICO, FARM CREDIT SERVICES, ACA

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

(unaudited)

	<u>Capital Stock/ Participation Certificates</u>	<u>Additional Paid-in-Capital</u>	<u>Retained Earnings</u>		<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total Members' Equity</u>
			<u>Allocated</u>	<u>Unallocated</u>		
Balance at December 31, 2009	\$ 358,075	\$ -	\$ -	\$ 29,636,676	\$ 114,208	\$ 30,108,959
Comprehensive income						
Net income	-	-	-	(4,756,114)	-	(4,756,114)
Change in postretirement benefit plans	-	-	-	-	(28,404)	(28,404)
Total comprehensive income	-	-	-	(4,756,114)	(28,404)	(4,784,518)
Capital stock/participation certificates and allocated retained earnings issued	25,200	-	-	-	-	25,200
Capital stock/participation certificates and allocated retained earnings retired	(44,555)	-	-	-	-	(44,555)
Cash	-	-	-	-	-	-
Capital stock/participation certificates and allocated retained earnings	-	-	-	-	-	-
Balance at September 30, 2010	\$ 338,720	\$ -	\$ -	\$ 24,880,562	\$ 85,804	\$ 25,305,086
Balance at December 31, 2010	\$ 334,785	\$ -	\$ -	\$ 26,700,182	\$ (142,086)	\$ 26,892,881
Comprehensive income						
Net income	-	-	-	1,635,467	-	1,635,467
Change in postretirement benefit plans	-	-	-	-	(18,686)	(18,686)
Total comprehensive income	-	-	-	1,635,467	(18,686)	1,616,781
Capital stock/participation certificates and allocated retained earnings issued	10,010	-	-	-	-	10,010
Capital stock/participation certificates and allocated retained earnings retired	(10,650)	-	-	-	-	(10,650)
Balance at September 30, 2011	\$ 334,145	\$ -	\$ -	\$ 28,335,649	\$ (160,772)	\$ 28,509,022

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

AG NEW MEXICO, FARM CREDIT SERVICES, ACA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

The Ag New Mexico, Farm Credit Services, 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 all counties of the state of New Mexico, with the exception of San Juan County and that portion of Rio Arriba County lying west of the Continental Divide. The association is authorized to operate in Cochran County, 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.

The significant accounting policies followed and the financial condition and results of operations of the association as of and for the year ended December 31, 2010 are contained in the 2010 Annual Report to Stockholders. These unaudited third quarter 2011 financial statements should be read in conjunction with the 2010 Annual Report to Stockholders.

In June 2011, the Financial Accounting Standards Board (FASB) issued guidance entitled, "Comprehensive Income – Presentation of Comprehensive Income." This guidance is intended to increase the prominence of other comprehensive income in financial statements. The current option that permits the presentation of other comprehensive income in the statement of changes in equity has been eliminated. The main provisions of the guidance provides that an entity that reports items of other comprehensive income has the option to present comprehensive income in either one or two consecutive financial statements:

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This guidance is to be applied retrospectively and is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The adoption of this guidance will not impact financial condition or results of operations, but will result in changes to the presentation of comprehensive income.

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1. Application of the highest and best use and valuation premise is only relevant when measuring the fair value of nonfinancial assets (does not apply to financial assets and liabilities).
2. Aligning the fair value measurement of instruments classified within an entity's shareholders' equity with the guidance for liabilities. As a result, an entity should measure the fair value of its own equity instruments from the perspective of a market participant that holds the instruments as assets.
3. Clarifying that a reporting entity should disclose quantitative information about the unobservable inputs used in a fair value measurement that is categorized within Level 3 of the fair value hierarchy.
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In January 2011, the FASB issued guidance entitled, "Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings." This guidance temporarily delayed the effective date of the disclosures about troubled debt restructurings required by the guidance previously issued on "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses." The effective date of the new disclosures about troubled debt restructurings (TDR) coincides with the guidance for determining what constitutes a TDR as described below.

In April 2011, the FASB issued its guidance entitled, "A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring," which provides for clarification on whether a restructuring constitutes a TDR. In evaluating whether a restructuring is a TDR, a creditor must separately conclude that both of the following exists: (1) the restructuring constitutes a concession, and (2) the debtor is experiencing financial difficulties. For nonpublic entities, the guidance is effective for annual periods ending on or after December 15, 2012, including interim periods within those annual periods. The association is currently evaluating the impact of adoption of this Standard on the financial condition or results of operations. The adoption will result in additional disclosures.

In July 2010, the FASB issued guidance on "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Loan Losses," which is intended to provide additional information to assist financial statement users in assessing an entity's credit risk exposures and evaluating the adequacy of the allowance for credit losses. Existing disclosures are amended to include additional disclosures of financing receivables on a disaggregated basis (by portfolio segment and class of financing receivable) including among others, a roll forward schedule of the allowance for credit losses from the beginning of the reporting period to the end of the period on a portfolio segment basis, with the ending balance further disaggregated on the basis of the method of impairment (individually or collectively evaluated). The guidance also calls for new disclosures including but not limited to credit quality indicators at the end of the reporting period by class of financing receivables, the aging of past due financing receivables by class, the nature and extent of financing receivables modified as troubled debt restructurings by class and the effect on the allowance for credit losses. For public entities, the disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. The adoption of this Standard did not impact the association's financial condition or results of operations, but did result in additional disclosures.

In January 2010, the FASB issued guidance on "Fair Value Measurements and Disclosures," which is to improve disclosures about fair value measurement by increasing transparency in financial reporting. The changes will provide a greater level of disaggregated information and more robust disclosures of valuation techniques and inputs to fair value measurement. The new disclosures and clarification of existing disclosures were effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The adoption of this Standard did not impact the association's financial condition and results of operations but did result in additional disclosures.

The accompanying consolidated 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, 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 ended September 30, 2011, are not necessarily indicative of the results to be expected for the year ended December 31, 2011. Certain amounts in the prior period's financial statements have been reclassified to conform to current financial statement presentation.

NOTE 2 — INVESTMENTS:

Effective March, 2010, \$26.4 million of agricultural mortgage loans previously covered under a long-term standby commitment to purchase agreement with the Federal Agricultural Mortgage Corporation (Farmer Mac) were securitized. No gain or loss was recognized in the financial statements upon completion of the securitization. Terms of the agreement call for a guarantee fee of 20-50 basis points to be paid to Farmer Mac, and for the association to receive a 30-basis-point fee for servicing the underlying loans.

The following is a summary of Farmer Mac agricultural mortgage-backed securities:

	September 30, 2011				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Agricultural mortgage-backed securities	\$ 20,173,903	\$ -	\$ (373,741)	\$ 19,800,162	4.40 %

	December 31, 2010				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Agricultural mortgage-backed securities	\$ 24,016,717	\$ -	\$ (434,242)	\$ 23,582,475	4.59 %

The following table is a summary of the contractual maturity, fair value, amortized cost and weighted average yield of Farmer Mac investments held-to-maturity at September 30, 2011:

	Due in 1 Year or Less		Due After 1 Year Through 5 Years		Due After 5 Years Through 10 Years		Due After 10 Years	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Agricultural mortgage-backed securities	\$ -	- %	\$ 19,800,162	4.40 %	\$ -	- %	\$ -	- %
Total fair value	-	- %	19,800,162	4.40 %	-	- %	-	- %
Total amortized cost	\$ -	- %	\$ 20,173,903	4.40 %	\$ -	- %	\$ -	- %

The association evaluates investment securities for other-than-temporary impairment on a quarterly basis. Impairment is considered to be other than temporary if an entity (i) intends to sell the security, (ii) is more likely than not to be required to sell the security before recovering its cost, or (iii) does not expect to recover the security's entire amortized cost basis (even if the entity does not intend to sell).

If the association intends to sell the security or it is more likely than not that it would be required to sell the security, the impairment loss equals the full difference between amortized cost and fair value of the security. When the association does not intend to sell securities in an unrealized loss position, other-than-temporary impairment is considered using various factors, including the length of time and the extent to which the fair value is less than cost, adverse conditions specifically related to the industry, geographic area and the condition of the underlying collateral, payment structure of the security, ratings by rating agencies, the creditworthiness of bond insurers and volatility of the fair value changes. The association uses estimated cash flows over the remaining lives of the underlying collateral to assess whether credit losses exist. In estimating cash flows, it considers factors such as expectations of relevant market and economic data, including underlying loan level data for mortgage-backed and asset-backed securities and credit enhancements.

NOTE 3 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

A summary of loans follows:

Loan Type	September 30, 2011	December 31, 2010
	Amount	Amount
Production agriculture:		
Real estate mortgage	\$ 70,559,353	\$ 69,699,557
Production and intermediate term	60,282,350	51,833,947
Agribusiness:		
Loans to cooperatives	1,417,036	697,190
Processing and marketing	12,970,454	13,818,279
Farm-related business	5,291,013	10,390,968
Communication	1,717,530	1,924,231
Energy	4,367,679	881,127
Water and waste disposal	1,924,051	-
Rural residential real estate	1,372,357	1,272,587
International	-	-
Lease receivables	-	-
Total	\$ 159,901,823	\$ 150,517,886

The association purchases or sells participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration regulations. The following table presents information regarding the balances of participations purchased and sold at September 30, 2011:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
	Real estate mortgage	\$ 9,973,310	\$ 31,573,138	\$ -	\$ -	\$ 9,973,310
Production and intermediate term	\$ 5,990,244	\$ 23,722,770	-	\$ 1,037,130	\$ 5,990,244	\$ 24,759,901
Agribusiness	\$ 13,011,558	\$ 4,039,991	-	\$ -	\$ 13,011,558	\$ 4,039,991
Communication	\$ 1,717,530	\$ -	-	\$ -	\$ 1,717,530	\$ -
Energy	\$ 4,367,679	\$ -	-	\$ -	\$ 4,367,679	\$ -
Water and waste disposal	\$ 1,924,051	\$ -	-	\$ -	\$ 1,924,051	\$ -
Rural residential real estate	\$ -	\$ -	-	\$ -	\$ -	\$ -
International	\$ -	\$ -	-	\$ -	\$ -	\$ -
Lease receivables	\$ -	\$ -	-	\$ -	\$ -	\$ -
Total	\$ 36,984,371	\$ 59,335,899	\$ -	\$ 1,037,130	\$ 36,984,371	\$ 60,373,029

Nonperforming assets (including related accrued interest) and related credit quality statistics are as follows:

	<u>September 30, 2011</u>	<u>December 31, 2010</u>
Nonaccrual loans:		
Real estate mortgage	\$ 7,017,539	\$ 7,409,348
Production and intermediate term	5,489,091	6,920,743
Agribusiness	-	-
Communication	-	-
Rural residential real estate	-	-
Energy and water/waste disposal	-	-
Lease receivables	-	-
Total nonaccrual loans	<u>\$ 12,506,630</u>	<u>\$ 14,330,091</u>
Accruing restructured loans:		
Real estate mortgage	-	-
Production and intermediate term	-	-
Agribusiness	-	-
Total accruing restructured loans	<u>\$ -</u>	<u>\$ -</u>
Accruing loans 90 days or more past due:		
Real estate mortgage	-	-
Production and intermediate term	-	-
Agribusiness	-	-
Rural residential real estate	-	-
Communication	-	-
Lease receivables	-	-
Total accruing loans 90 days or more	<u>\$ -</u>	<u>\$ -</u>
Total nonperforming loans	<u>\$ 12,506,630</u>	<u>\$ 14,330,091</u>
Other property owned	287,000	7,000.00
Total nonperforming assets	<u>\$ 12,793,630</u>	<u>\$ 14,337,091</u>

One credit quality indicator utilized by the association is the Farm Credit Administration Uniform Loan Classification System that categorizes loans into five categories. The categories are defined as follows:

- Acceptable – assets are expected to be fully collectible and represent the highest quality,
- Other assets especially mentioned (OAEM) – assets are currently collectible but exhibit some potential weakness,
- Substandard – assets exhibit some serious weakness in repayment capacity, equity and/or collateral pledged on the loan,
- Doubtful – assets exhibit similar weaknesses to substandard assets; however, doubtful assets have additional weaknesses in existing factors, conditions and values that make collection in full highly questionable, and
- Loss – assets are considered uncollectible.

The following table shows loans and related accrued interest as a percentage of total loans and related accrued interest receivable by loan type as of:

	<u>September 30, 2011</u>	<u>December 31, 2010</u>
Real estate mortgage		
Acceptable	84.5 %	83.3 %
OAEM	2.2	6.7
Substandard/doubtful	13.3	10.0
	<u>100.0</u>	<u>100.0</u>
Production and intermediate term		
Acceptable	80.0	70.6
OAEM	7.5	15.5
Substandard/doubtful	12.5	13.9
	<u>100.0</u>	<u>100.0</u>
Agribusiness		
Acceptable	93.9	76.5
OAEM	6.1	23.5
Substandard/doubtful	-	-
	<u>100.0</u>	<u>100.0</u>
Energy and water/waste disposal		
Acceptable	100.0	100.0
OAEM	-	-
Substandard/doubtful	-	-
	<u>100.0</u>	<u>100.0</u>
Communication		
Acceptable	100.0	100.0
OAEM	-	-
Substandard/doubtful	-	-
	<u>100.0</u>	<u>100.0</u>
Rural residential real estate		
Acceptable	100.0	100.0
OAEM	-	-
Substandard/doubtful	-	-
	<u>100.0</u>	<u>100.0</u>
International		
Acceptable	-	-
OAEM	-	-
Substandard/doubtful	-	-
	<u>-</u>	<u>-</u>
Lease receivables		
Acceptable	-	-
OAEM	-	-
Substandard/doubtful	-	-
	<u>-</u>	<u>-</u>
Total Loans		
Acceptable	84.7	78.3
OAEM	4.6	12.3
Substandard/doubtful	10.7	9.4
	<u>100.0 %</u>	<u>100.0 %</u>

The following table provides an age analysis of past due loans (including accrued interest) as of September 30, 2011:

	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment >90 Days and Accruing
Real estate mortgage	\$ 658,315	\$ 5,665,020	\$ 6,323,335	\$ 54,636,460	60,959,795	\$ -
Production and intermediate term	-	5,486,610	5,486,610	65,868,727	71,355,337	-
Loans to cooperatives	-	-	-	1,418,107	1,418,107	-
Processing and marketing	-	-	-	13,023,063	13,023,063	-
Farm-related business	-	-	-	5,372,211	5,372,211	-
Communication	-	-	-	1,717,854	1,717,854	-
Energy and water/waste disposal	-	-	-	6,317,453	6,317,453	-
Rural residential real estate	-	-	-	1,378,038	1,378,038	-
International	-	-	-	-	-	-
Lease receivables	-	-	-	-	-	-
Total	\$ 658,315	\$ 11,151,630	\$ 11,809,945	\$ 149,731,913	\$ 161,541,858	\$ -

Note: The recorded investment in the receivable is the face amount increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, or acquisition costs and may also reflect a previous direct write-down of the investment.

Additional impaired loan information is as follows:

	At September 30, 2011			For the Three Months Ended September 30, 2011		For the Nine Months Ended September 30, 2011	
	Recorded Investment	Unpaid Principal Balance ^a	Related Allowance	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:							
Real estate mortgage	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Production and intermediate term	5,018,025	7,362,547	1,844,989	5,000,444	-	5,167,109.00	-
Loans to cooperatives	-	-	-	-	-	-	-
Processing and marketing	-	-	-	-	-	-	-
Farm-related business	-	-	-	-	-	-	-
Communication	-	-	-	-	-	-	-
Energy and water/waste disposal	-	-	-	-	-	-	-
Rural residential real estate	-	-	-	-	-	-	-
International	-	-	-	-	-	-	-
Lease receivables	-	-	-	-	-	-	-
Total	\$ 5,018,025	\$ 7,362,547	\$ 1,844,989	\$ 5,000,444	\$ -	\$ 5,167,109	\$ -
Impaired loans with no related allowance for credit losses:							
Real estate mortgage	\$ 5,489,090	\$ 6,702,349	\$ -	\$ 5,480,245	\$ -	\$ 5,870,946	\$ 91,220
Production and intermediate term	1,999,514	2,136,061	-	2,010,058	-	2,033,195	27,038
Loans to cooperatives	-	-	-	-	-	-	-
Processing and marketing	-	-	-	-	-	-	-
Farm-related business	1	2,097	-	1	-	1	-
Communication	-	-	-	-	-	-	-
Energy and water/waste disposal	-	-	-	-	-	-	-
Rural residential real estate	-	-	-	-	-	-	-
International	-	-	-	-	-	-	-
Lease receivables	-	-	-	-	-	-	-
Total	\$ 7,488,605	\$ 8,840,507	\$ -	\$ 7,490,304	\$ -	\$ 7,904,142	\$ 118,258
Total impaired loans:							
Real estate mortgage	\$ 5,489,090	\$ 6,702,349	\$ -	\$ 5,480,245	\$ -	\$ 5,870,946	\$ 91,220
Production and intermediate term	\$ 7,017,539	\$ 9,498,608	\$ 1,844,989	\$ 7,010,502	\$ -	\$ 7,200,304	\$ 27,038
Loans to cooperatives	-	-	-	-	-	-	-
Processing and marketing	-	-	-	-	-	-	-
Farm-related business	\$ 1	\$ 2,097	\$ -	\$ 1	\$ -	\$ 1	\$ -
Communication	-	-	-	-	-	-	-
Energy and water/waste disposal	-	-	-	-	-	-	-
Rural residential real estate	-	-	-	-	-	-	-
International	-	-	-	-	-	-	-
Lease receivables	-	-	-	-	-	-	-
Total	\$ 12,506,630	\$ 16,203,054	\$ 1,844,989	\$ 12,490,748	\$ -	\$ 13,071,251	\$ 118,258

	At December 31, 2010			For the Year Ended December 31, 2010	
	Recorded Investment	Unpaid Principal Balance ^a	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	\$ -	\$ -	\$ -	\$ -	\$ -
Production and intermediate term	5,236,934	5,591,553	1,792,855	5,205,560.00	-
Loans to cooperatives	-	-	-	-	-
Processing and marketing	-	-	-	-	-
Farm-related business	-	-	-	-	-
Communication	-	-	-	-	-
Energy and water/waste disposal	-	-	-	-	-
Rural residential real estate	-	-	-	-	-
International	-	-	-	-	-
Lease receivables	-	-	-	-	-
Total	\$ 5,236,934	\$ 5,591,553	\$ 1,792,855	\$ 5,205,560	\$ -
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	\$ 6,920,742	\$ 6,921,143	\$ -	\$ 4,164,295	\$ 37,060
Production and intermediate term	2,204,342	2,172,414	-	876,672	18,949
Loans to cooperatives	-	-	-	-	-
Processing and marketing	-	-	-	-	-
Farm-related business	1	1	-	1	-
Communication	-	-	-	-	-
Energy and water/waste disposal	-	-	-	-	-
Rural residential real estate	-	-	-	-	-
International	-	-	-	-	-
Lease receivables	-	-	-	-	-
Total	\$ 9,125,085	\$ 9,093,558	\$ -	\$ 5,040,968	\$ 56,009
Total impaired loans:					
Real estate mortgage	\$ 6,920,742	\$ 6,921,143	\$ -	\$ 4,164,295	\$ 37,060
Production and intermediate term	\$ 7,441,276	\$ 7,763,967	\$ 1,792,855	\$ 6,082,232	\$ 18,949
Loans to cooperatives	-	-	-	-	-
Processing and marketing	-	-	-	-	-
Farm-related business	\$ 1	\$ 1	\$ -	\$ 1	\$ -
Communication	-	-	-	-	-
Energy and water/waste disposal	-	-	-	-	-
Rural residential real estate	-	-	-	-	-
International	-	-	-	-	-
Lease receivables	-	-	-	-	-
Total	\$ 14,362,019	\$ 14,685,111	\$ 1,792,855	\$ 10,246,528	\$ 56,009

^a Unpaid principal balance represents the recorded principal balance of the loan.

A summary of changes in the allowance for loan losses and period end recorded investment in loans is as follows:

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy and Water/Waste Disposal	Rural Residential Real Estate	International	Lease Receivable	Total
Allowance for Credit Losses:									
Balance at									
December 31, 2010	\$ 313,427	\$ 2,190,392	\$ 17,571	\$ -	\$ -	\$ 707	\$ -	\$ -	\$ 2,522,097
Charge-offs	-	-	-	-	-	-	-	-	-
Recoveries	-	2,051	-	-	11,667	-	-	-	13,718
Provision for loan losses	(94,522)	(77,409)	-	-	-	-	-	-	(171,931)
Adjustment due to merger	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-
Balance at									
September 30, 2011	\$ 218,905	\$ 2,115,034	\$ 17,571	\$ -	\$ 11,667	\$ 707	\$ -	\$ -	\$ 2,363,884
Ending Balance:									
individually evaluated for impairment	\$ -	\$ 1,844,989	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,844,989
Ending Balance:									
collectively evaluated for impairment	\$ 218,905	\$ 270,045	\$ 17,571	\$ -	\$ 11,667	\$ 707	\$ -	\$ -	\$ 518,895
Ending Balance: loans acquired with deteriorated credit quality									
	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Recorded Investments in Loans Outstanding:									
Ending Balance at									
September 30, 2011	\$ 71,355,337	\$ 60,959,795	\$ 19,813,381	\$ 1,717,854	\$ 6,305,945	\$ 1,378,038	\$ -	\$ -	\$ 161,530,350
Ending Balance for loans individually evaluated for impairment									
	\$ -	\$ 5,236,934	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,236,934
Ending Balance for loans collectively evaluated for impairment									
	\$ 71,355,337	\$ 55,722,861	\$ 19,813,381	\$ 1,717,854	\$ 6,305,945	\$ 1,378,038	\$ -	\$ -	\$ 156,293,416
Ending Balance for loans acquired with deteriorated credit quality									
	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

NOTE 4 — 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 5 — INCOME TAXES:

Ag New Mexico, Farm Credit Services, ACA and its 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. During the nine months ended September 30, 2011, the association did not participate in a patronage program. 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 (more than 50 percent probability), based on management's estimate, that they will not be realized. For the nine months ended September 30, 2011, and 2010 net income / (loss) for tax purposes amounted to \$12,041 and (\$1,625,814) respectively. The loss for the first nine months of 2010 was due to the discount taken on the sale of assets for the PCA subsidiary. The deferred tax asset was increased \$5,835 for the current year due to permanent and temporary timing differences between book and taxable income which are factors in calculating the tax liability for the year as stated above.

The subsidiary, Ag New Mexico Farm Credit Services, FLCA, is exempt from federal and other income taxes as provided in the Farm Credit Act of 1971.

NOTE 6 — FAIR VALUE MEASUREMENTS:

FASB guidance 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 2010 Annual Report to Stockholders for a more complete description.

Assets and liabilities measured at fair value on a non-recurring basis for each of the fair value hierarchy values are summarized below:

<u>September 30, 2011</u>	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>	<u>Total Gains (Losses)</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>		
Assets:					
Loans *	\$ -	\$ -	\$ 3,527,654	\$ 3,527,654	\$ (1,844,989)
Other property owned	-	-	287,000	287,000	-
<u>December 31, 2010</u>	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>	<u>Total Gains (Losses)</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>		
Assets:					
Loans *	\$ -	\$ -	\$ 3,796,059	\$ 3,796,059	\$ (1,792,855)
Other property owned	-	-	7,000	7,000	-

*Represents the fair value of certain loans that were evaluated for impairment under authoritative guidance, "Accounting by Creditors for Impairment of a Loan." The fair value was based upon the underlying collateral since these were collateral-dependent loans for which real estate is the collateral.

Valuation Techniques

As more fully discussed in Note 2 to the 2010 Annual Report to Stockholders, 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 represent a brief summary of the valuation techniques used for the associations' assets and liabilities. For a more complete description, see Notes to the 2010 Annual Report to Stockholders.

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.

Loans

For certain loans evaluated for impairment under authoritative 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.

Other Property Owned

Other property owned is generally classified as Level 3. The fair value is based upon the collateral value, which is generally determined using appraisals or other indications based on comparable sales of similar properties. Costs to sell represent transaction costs and are not included as a component of the asset's fair value.

NOTE 7 — EMPLOYEE BENEFIT PLANS:

The following table summarizes the components of net periodic benefit costs of non-pension other postretirement employee benefits for the months ended September 30,:

	Other Benefits	
	2011	2010
Service cost	\$ 21,996	\$ 19,169
Interest cost	36,674	27,554
Expected return on plan assets	-	-
Amortization of prior service costs	(49,475)	(49,995)
Amortizations of net (gain) loss	23,483	10,283
Net periodic benefit cost	<u>\$ 32,678</u>	<u>\$ 7,011</u>

The structure of the district's defined benefit pension plan is characterized as multi-employer since the assets, liabilities and cost of the plan are not segregated or separately accounted for by participating employers (bank and associations). The association recognizes its amortized annual contributions to the plan as an expense. The association previously disclosed in its financial statements for the year ended December 31, 2010, that it expected to contribute \$295,931 to the district's defined benefit pension plan in 2011. As of September 30, 2011, \$221,948 of contributions has been made. The association presently anticipates contributing an additional \$73,983 to fund the defined benefit pension plan in 2011 for a total of \$295,931.

NOTE 8 — COMMITMENTS AND CONTINGENT LIABILITIES:

The association is involved in various legal proceedings in the normal course of business. There are two pending case of litigation which are counterclaims against the association. The association's legal counsel estimates that damages could amount to approximately \$1 million should the parties filing lawsuits against the association prevail. The association's attorneys estimate the probability of the lawsuits being resolved against the association range from remote to less than likely. Accordingly, no liabilities relating to the pending litigation have been recorded by the association. In the opinion of legal counsel and management, there are no other legal proceedings at this time that are likely to materially affect the association.

NOTE 9 --- REGULATORY ENFORCEMENT MATTERS:

The association operates under a supervisory agreement with the Farm Credit Administration. The requirements of the supervisory agreement includes contracting for an independent financial and strategic study, perform a review of the association's governance and management systems, take action to reduce the level of loan and acquired property risk, address identified allowance for loan loss related weaknesses, monthly reporting of liquidity and earnings, and implementation of measures to improve earnings and increase capital. The association is in material compliance with the requirements as originally stipulated.

The association is in compliance with all covenants of the General Financing Agreement with the funding bank.

NOTE 10 --- SUBSEQUENT EVENTS:

The association has evaluated subsequent events through November 9, 2011 which is the date the financial statements were issued.