



United

FCS

A Financial Services Association

2008

Annual Report

United FCS, ACA

TABLE OF CONTENTS

United FCS, ACA

Message from the Chairperson of the Board and Chief Executive Officer	1
Consolidated Five-Year Summary of Selected Financial Data	2
Management's Discussion and Analysis	3
Report of Management	10
Report of Audit Committee	11
Report of Independent Auditors	12
Consolidated Financial Statements	13
Notes to Consolidated Financial Statements	17
Disclosure Information Required by Regulations	26

The United FCS, ACA Annual Report is available on our website (www.unitedfcs.com) 75 days after the end of the calendar year and members are provided a copy of such report 90 days after the end of the year. The quarterly reports are available by request 40 days after the end of each calendar quarter.

AgriBank, FCB's financial condition and results of operations materially affect members' investment in United FCS, ACA. To request a free copy of the combined AgriBank, FCB and Affiliated Associations' financial reports contact us at P.O. Box 1560, Willmar, Minnesota 56201-1560, (320) 235-1912 or contact AgriBank, FCB at 375 Jackson Street, St. Paul, MN 55101-1810, (651) 282-8800, or via electronic mail to AGRIBANKMN@AGRIBANK.COM. The reports are also available through AgriBank, FCB's website at www.agribank.com.

To request a free copy of our annual or quarterly reports contact us as stated above. The annual report is available on our website 75 days after the end of the calendar year and members are provided a copy of such report 90 days after the end of the year. The quarterly reports are available 40 days after the end of each calendar quarter.

MESSAGE FROM THE CHAIRPERSON OF THE BOARD AND CHIEF EXECUTIVE OFFICER

Greetings:

As we reviewed topics to include in this year's Annual Report Message, all the usual items came to mind. Obviously, first on the list is a big thank you to customers, staff, and members of the Board of Directors for a very successful 2008. Secondly, is our pride in the ability to share that success with our customer members through our cash patronage program by declaring another \$4.8 million in distributions from 2008 operations. The Association is also pleased to note that we have paid out all remaining previously allocated non-qualified patronage to finalize the equity equalization program that we initiated in the fall of 2007. As important as strong earnings, sound capital position, growth, and asset quality are to a financial services Association (all of which are detailed out in the following pages), this year more than ever we feel it is important to discuss your Association's mission and vision.

Mission

Enhance member success
through solution-based
financial services.

Vision

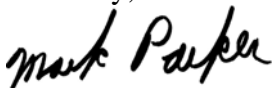
Play a lasting and meaningful role
in improving the well-being
of farmers, ranchers,
and the communities where
they reside.

This Association's past, present, and future is tied to your success. Your success as a member of this cooperative always has and always will be our highest priority. That should not imply that we can guarantee everyone's success; however, it assures the right focus and we believe helps ensure that this Association will avoid some of the pitfalls that other financial institutions have reported over the past 12 months. We have been serving agriculture and rural America for over 92 years, and we understand the cyclical nature of this business... and the importance of maintaining a positive long-term focus.

United FCS stands ready with the staff expertise, financial strength, and reliable financial tools to serve your needs today and, just as importantly, to be prepared to help you take advantage of future opportunities.

Thanks for your continued patronage.

Sincerely,



Mark Parker, Board Chair



Marcus L. Knisely, Chief Executive Officer

February 27, 2009

CONSOLIDATED FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

United FCS, ACA

(Dollars in thousands)

	2008	2007	2006	2005	2004
Statement of Condition Data					
Loans	\$969,801	\$900,338	\$814,054	\$722,965	\$668,041
Allowance for loan losses	2,944	1,599	2,464	2,218	1,654
Net loans	966,857	898,739	811,590	720,747	666,387
Investment in AgriBank, FCB	30,257	25,729	25,605	25,605	25,605
Investment securities	13,105	--	--	--	--
Other property owned	100	280	81	52	326
Other assets	29,012	28,755	29,856	27,952	25,397
Total assets	\$1,039,331	\$953,503	\$867,132	\$774,356	\$717,715
Obligations with maturities of one year or less	\$882,159	\$800,394	\$717,508	\$630,765	\$581,576
Total liabilities	882,159	800,394	717,508	630,765	581,576
Protected members' equity	--	--	1	1	1
Capital stock and participation certificates	3,827	3,812	3,783	3,794	3,865
Allocated surplus	--	6,763	11,463	10,000	--
Unallocated surplus	153,345	142,534	134,377	129,796	132,273
Total members' equity	157,172	153,109	149,624	143,591	136,139
Total liabilities and members' equity	\$1,039,331	\$953,503	\$867,132	\$774,356	\$717,715
Statement of Income Data					
Net interest income	\$25,241	\$23,894	\$22,591	\$21,130	\$19,802
Provision for (reversal of) loan losses	1,341	(786)	230	(152)	(13,747)
Compensation income	61	63	89	104	80
Patronage and dividend income	3,880	2,868	2,564	2,332	1,982
Other expense, net	12,906	14,564	13,293	11,582	9,874
(Reversal of) provision for income taxes	(863)	190	937	613	3,256
Net income	\$15,798	\$12,857	\$10,784	\$11,523	\$22,481
Key Financial Ratios					
Return on average assets	1.6%	1.4%	1.3%	1.6%	3.3%
Return on average members' equity	10.2%	8.4%	7.3%	8.3%	18.4%
Net interest income as a percentage of average earning assets	2.8%	2.9%	3.0%	3.1%	3.1%
Members' equity as a percentage of assets	15.1%	16.1%	17.3%	18.5%	19.0%
Net recoveries as a percentage of average loans	--	--	--	0.1%	--
Allowance for loan losses as a percentage of loans	0.3%	0.2%	0.3%	0.3%	0.2%
Permanent capital ratio	11.8%	13.5%	14.8%	16.0%	16.0%
Total surplus ratio	11.4%	13.1%	14.4%	15.6%	15.4%
Core surplus ratio	11.4%	12.3%	13.4%	14.1%	13.6%
Other					
Loans serviced for AgriBank, FCB	\$1,869	\$2,803	\$3,841	\$4,898	\$6,694
Qualified patronage distributions payable to members	4,800	4,704	4,800	4,000	4,200
Surplus allocated under nonqualified patronage program	--	--	1,463	10,000	--
Redemption of surplus allocated under nonqualified patronage program	6,763	4,700	--	--	--

The qualified patronage distribution to members accrued for the year ended December 31, 2008 will be distributed in cash during the first quarter of 2009. The qualified patronage distributions accrued for the years ended December 31, 2007, 2006, 2005, and 2004 were distributed in cash during the first quarter of each following year. No other income was distributed to members in the form of dividends, stock or allocated surplus during these time periods. Surplus was allocated to members under our nonqualified patronage program in 2006 and 2005 as presented above and was fully redeemed in 2007 and 2008. No surplus was allocated to the nonqualified patronage program in 2008 or 2007.

MANAGEMENT'S DISCUSSION AND ANALYSIS

United FCS, ACA

The following commentary reviews the consolidated financial position and consolidated results of operations of United FCS, ACA and its subsidiaries and provides additional specific information. The accompanying consolidated financial statements and notes also contain important information about our financial position and results of operations.

Merger Activity

United FCS, ACA was formed on July 1, 2002 following the shareholder-approved merger and consolidation with Farm Credit Services of North Central Wisconsin, ACA, Farm Credit Services of Minnesota Valley, PCA and Farm Credit Services of Minnesota Valley, FLCA. The 2002 merger resulted in enterprise diversification of the loan portfolio and geographic diversification as well as entity scale and increased capacity to serve customers.

United FCS, ACA began operating solely through United FCS, FLCA and United FCS, PCA at the close of business on December 31, 2007 following the consolidation of Farm Credit Services of Minnesota Valley, FLCA, and Farm Credit Services of North Central Wisconsin, FLCA, as well as Farm Credit Services of Minnesota Valley, PCA, and Farm Credit Services of North Central Wisconsin, PCA. This consolidation resulted in increased operational efficiencies.

Forward-Looking Information

Certain sections of this Annual Report contain forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties, and assumptions that are difficult to predict. Words such as "anticipates", "believes", "could", "estimates", "may", "should", "will", or other variations on these terms are intended to identify such forward-looking statements. These statements are based on assumptions and analyses made in light of experience, historical trends, current conditions, and expected future developments. However, actual results and developments may differ materially from our expectations and predictions due to a number of risks and uncertainties; many of which are beyond our control. These risks and uncertainties include, but are not limited to:

- political, legal, regulatory, and economic conditions and developments in the United States and abroad,
- fluctuations in the agricultural and general economies,
- periodically occurring weather-related conditions and plant and animal disease that impact agricultural productivity and income and consumer demand,
- changes in United States government support of the agricultural industry, and
- bio-terrorism and other terrorism.

Loan Portfolio

Loan volume totaled \$969.8 million at December 31, 2008. The changes in loan volume for the last two years were as follows (in thousands):

Change in	2008 vs. 2007		2007 vs. 2006	
loan volume				
Accrual				
Mortgage	\$4,774	0.9%	\$55,667	11.7%
Commercial	44,787	12.3%	31,386	9.4%
Nonaccrual	19,902	496.4%	(769)	(16.1%)
Total loans	\$69,463	7.7%	\$86,284	10.6%

In May of 2008, we sold \$132.8 million of a participation interest in real estate loans to AgriBank, FCB (AgriBank). AgriBank has established a separate patronage pool for these assets. Any patronage declared for the benefit of the Association on these pools is solely at the discretion of the AgriBank Board of Directors. AgriBank expects to pay patronage in an amount that approximates the net earnings of those loans. As required by our agreement with AgriBank, we purchased additional AgriBank common stock equal to 8% of the pool assets. The sale of these assets was designed to provide a mutual benefit of increasing AgriBank's net collateral ratio and improving our regulatory capital measures.

The increase in volume is the result of marketing efforts resulting in new direct loans in both the commercial and mortgage portfolios and increased emphasis on participation with other lenders in the agribusiness sector. The increase in the mortgage portfolio was partially offset by the participations sold to AgriBank. The increase in nonaccrual volume is due to loans transferring to nonaccrual during 2008.

Portfolio Distribution

We are chartered to operate in certain counties in Minnesota and Wisconsin. Approximately 29.6% of our total loan portfolio was in Renville, Redwood, and Kandiyohi counties in the state of Minnesota and Marathon and Clark counties in the state of Wisconsin at December 31, 2008. By state, approximately 48.8% of our portfolio was in Minnesota, 30.8% was in Wisconsin, and 20.4% of our portfolio was in states outside of our chartered territory that consisted of participations at December 31, 2008.

The Association has a diverse agricultural loan portfolio, with the largest commodity sectors being cash grains at 26.7%, dairy at 17.6%, and other livestock at 9.9% of our total portfolio at December 31, 2008.

The commercial loan portfolio shows some seasonality. These loans are normally at their lowest levels during the winter months because of annual operating repayments. The commercial portfolio tends to increase throughout the calendar year as farmers borrow for annual operating and capital needs.

Financial Market Volatility

The Farm Credit System (the System) continues to fulfill its mission and be a reliable source of debt capital for the farmers, ranchers and other rural businesses that we serve. However, during the second half of 2008, negative economic developments in the global financial markets created a high level of volatility and uncertainty among global financial institutions in general. This volatility has restricted the System's ability to issue debt at preferred maturities and structures that have traditionally been used to fund our loan portfolios. However, the System has been able to issue debt with a broad range of maturities allowing the AgriBank District to continue to offer our complete array of products. Responses by the Federal Government, including explicit actions to protect the housing Government Sponsored Entities (GSEs) and to capitalize and guarantee the liabilities of commercial banks, have had an unintended consequence of increasing our funding cost and reducing our ability to issue debt at preferred maturities and structures. During December 2008 and into January 2009, the spreads to Treasuries have narrowed significantly from levels seen during the fourth quarter but still remain "wide" of housing GSE and government guaranteed bank debt. Due to the System's sound financial condition, we expect the System to continue to be able to issue debt securities as necessary to meet our funding needs. However, spreads relative to treasuries and swap rates and the relative cost of such debt securities is expected to remain at higher levels than our historical experience.

Agricultural and Economic Conditions

The Food, Conservation, and Energy Act of 2008 (FCEA/farm bill) was enacted into law in the second half of 2008. FCEA includes significant

federal financial support for wheat, feed grains, cotton, rice, oilseeds, and dairy, largely continuing the same total level of financial support to agriculture, while changing the distribution and methods of allocating such support. FCEA also contains new, expanded assistance to certain specialty crops, and added price support and trade protection for domestically produced sugar. FCEA continues the direct payment, loan rate, and countercyclical payments (CCP) programs from previous farm support legislation, but the levels of support provided by each program have changed. Also, FCEA provides a new income support program called Average Crop Revenue Election (ACRE).

Strong agricultural economic conditions in 2008 were the result of record high prices for agricultural commodities and the continued positive impact of government programs. The USDA reported \$86.8 billion in net farm income in 2007 representing a significant increase over the reported \$59.0 billion in net farm income in 2006, and 42% higher than the 10-year average net income of \$61.1 billion. Increases in income were due to higher agricultural commodity prices, partially offset by increases in agricultural production costs, including fuel, land, fertilizer and pesticides. Net farm income is forecast to be \$86.9 billion (down from \$96.6 billion previously forecasted) in 2008 but virtually unchanged from 2007. Net cash income, a more critical statistic for lenders, is forecast to be \$90.7 billion in 2008, a \$3.3 billion (4%) increase over 2007 net cash income. Sales of 2007 crops in 2008 account for the larger increase in net cash income compared to the increase in net farm income.

Cash Grain Farms of Corn/Soybeans: Producers generally harvested average to above average corn and soybean crops in 2008. Producers were generally able to capitalize on the high corn and soybean prices in the first half of 2008 when marketing their 2007 crops which will likely cause many producers to have record high cash receipts in 2008. However, costs of production which increased 15%-25% in 2008 (due to higher costs of fertilizer, chemicals, fuel, land costs, and seed) will offset some of these increased receipts. It is projected that input costs will climb to 77% of gross income in 2008. The slowing economy in 2009 will likely cause a reduction in demand for corn and soybeans. This with normal crop production in 2009, will likely lead to higher carry over-supplies of both corn and soybeans which could cause prices to fall. A potential positive for 2009 is the likely decrease in operating costs due primarily to the dramatic decrease in oil and a lesser extent, other commodity prices that have occurred in the second half of 2008.

Dairy Farms: Milk prices were significantly higher than the five-year average during the first three quarters of 2008 and generally matched the rise in feed costs that reached record highs in the second and third quarters of 2008. This rise in feed costs was due to a variety of factors such as crop concerns, commodity speculation and increased demand due to export growth and ethanol demand. However, in the fourth quarter, milk and dairy product prices started to decline significantly due to increased milk production and softening demand from the economic uncertainty. Milk production in the U.S in November 2008 rose 1.1% from the previous month with the rate of growth in U.S. dairy supply slowing from higher rates earlier in 2008. Expectations are for the U.S. dairy herd to contract during the December 2008-March 2009 timeframe due to the losses the industry is experiencing coupled with another CWT buyout program. This should start to decrease milk supplies in the second half of 2009 and allow for milk prices to return to at least break-even levels for producers in second half of 2009.

General Livestock: The Association exposure of poultry and eggs, hogs and cattle on an individual basis represent less than 5% of our total portfolio. However, on a combined basis, the general livestock sector is a material segment of our portfolio. While prices paid for these commodities increased in 2008, they did not keep up with pace of input cost increases, notably feed costs which have led to these industries posting losses in 2008. The outlook for 2009 is for more losses due to supply and demand imbalances.

Ethanol: The ethanol industry generated positive returns the first six months of 2008 but is continuing to experience financial stress due to high corn prices coupled with low ethanol prices. The ethanol market has softened due to the dramatic decrease in oil prices in the second half of 2008, along with a weakening in gasoline demand due to the economic recession. Projected ethanol industry returns for 2009 are forecast to be at breakeven to loss depending on the amount of debt servicing an ethanol

plant has. Reduced consumption of gasoline will also likely continue in 2009 due to economic concerns. All of these industries and producers will continue to face challenges in 2009 from weakening demand from the world-wide economic slowdown, continued access to capital to finance losses and high input costs compared to historical averages.

Analysis of Risk

The following table summarizes risk assets (accruing volume includes accrued interest receivable) and delinquency information (in thousands):

As of December 31	2008	2007	2006
Loans:			
Accruing restructured	\$889	\$5,584	\$6,608
Past due 90 days or more still accruing	330	44	--
Nonaccrual	23,911	4,009	4,778
Total risk loans	25,130	9,637	11,386
Other property owned	100	280	81
Total risk assets	\$25,230	\$9,917	\$11,467
Risk loans			
as a percentage of total loans	2.6%	1.1%	1.4%
Total delinquencies			
as a percentage of total loans	1.2%	0.3%	0.4%

Because of the financial stress in certain sectors of the Association's portfolio, the credit quality declined during 2008. Adversely classified assets increased from 1.5% of the portfolio at December 31, 2007, to 3.5% of the portfolio at December 31, 2008. Adversely classified assets are assets we have identified as showing some credit weakness outside our credit standards. We have considered portfolio credit quality in assessing the reasonableness of our allowance for loan losses.

The volume of nonaccrual loans increased during 2008 but remained at a manageable level at December 31, 2008, and represented 2.4% of our total portfolio. Nonaccrual volume increased as a result of nonperformance of assets in this category. At December 31, 2008, 67.5% of our nonaccrual loans were current.

In certain circumstances, we use various government guarantee programs to reduce the risk of loss. At December 31, 2008, \$35.3 million of our loans were, to some level, guaranteed under these government programs.

Based on our analysis, loans 90 days or more past due and still accruing interest were adequately secured and in the process of collection.

Analysis of the Allowance for Loan Losses

The allowance for loan losses is an estimate of losses on loans in our portfolio as of the financial statement date. We determine the appropriate level of allowance for loan losses based on the periodic evaluation of factors such as:

- loan loss history,
- portfolio quality, and
- current economic and environmental conditions.

The allowance for loan losses was increased to \$2.9 million at December 31, 2008 as compared to \$1.6 million at December 31, 2007, and \$2.5 million at December 31, 2006. This increase resulted from the increase adverse assets at December 31, 2008, which was a result of the current economic and environmental conditions in certain sectors of the Association's portfolio.

Comparative allowance coverage of various loan categories follows:

As of December 31	2008	2007	2006
Allowance as a percentage of:			
Loans	0.3%	0.2%	0.3%
Nonaccrual loans	12.3%	39.9%	51.6%
Total risk loans	11.7%	16.6%	21.6%
Net recoveries as a percentage of average loans	--	--	--
Adverse assets to risk funds	26.7%	10.1%	9.8%

In our opinion, the allowance for loan losses was reasonable in relation to the probable losses in the loan portfolio at December 31, 2008. The decreases in our allowance for loan losses related ratios and the increase in the adverse assets to risk funds ratio is due to the increase in adverse assets during 2008.

Young, Beginning and Small Farmers and Ranchers

Vision Statement

Successful and vibrant young, beginning, and small farmers in our local service area (LSA).

Mission Statement

Provide products, services and advice to young, beginning, and small farmers that supports their long-term success.

Purpose

This Young, Beginning and Small Farmer Business Plan Summary affirms our commitment to servicing this segment of our portfolio.

Objective

To provide sound and constructive credit and a broad array of financial support services to young, beginning, and small farmers. Emphasis will be placed on young, beginning, and small farmers with high probability for long-term success in agriculture and for continuing and expanding business relationships. This plan will benefit our customers, the Association, agriculture, and the rural communities we serve.

Definitions

Young - If the age of any customer at the time the financial service was originated is equal to or less than 35 years, the financial service qualifies for Young farmer status.

Beginning - If the length of time in farming for any customer at the time the financial service was originated is equal to or less than 10 years, the financial service qualifies for Beginning farmer status.

Small - If the most recent earnings statement of any customer at the time the financial service was originated shows gross farm income (GFI) less than \$250,000, the financial service qualifies for Small farmer status.

A Closer Look: Young, Beginning and Small Marketplace Segments

As a customer-owned and governed financial services cooperative, United takes its obligation to fulfill the responsibilities under the Farm Credit Act very seriously. The Farm Credit System was created to improve the income and well being of rural America by furnishing sound, adequate and constructive credit and financial services. To accomplish that mission, it is imperative that we offer services to all eligible customers within our designated marketplace. The challenge that all FCS institutions face is finding the right balance of definition in determining what is sound, adequate and constructive.

United operates within a 'managed' credit philosophy culture which represents a balanced approach between solid capital, good earnings and moderate high quality growth. As such, we attempt to mitigate portfolio risk with conservative loan underwriting standards and the use of

risk management tools, i.e., FSA Guarantees, etc. We also emphasize non-loan financial services such as farm accounting, tax preparation, life insurance, business and transitional consulting, crop insurance along with a wide array of educational opportunities.

As previously stated, it is the intent of this cooperative to serve all eligible segments within our marketplace. However, given the inherent internal philosophical conflicts on serving potentially higher risk segments (young farmers) often lacking traditional agricultural experience (beginning farmers), and the unknowns of a transitioning group (small farmers), it is important to clearly state our service objectives for these segments:

- **Risk Appetite** - We have positioned our risk appetite to assume more underwriting risk on young farmers. The approval decision will be based on the three subjective factors (sound, adequate and constructive), and will require the use of all available risk mitigators i.e., FSA Guarantees, etc. Beginning farmers and small farmers will typically be expected to meet underwriting standards (not to exceed standard exception thresholds). It should be noted that we will consider a broader set of underwriting ratios when reviewing small farmers, given the likely part-time/agri-consumer nature of that type of operation.
- **Marketshare** - We anticipate serving a similar percent of the young farmer, beginning farmer and small farmer segments present in the marketplace as compared to our overall marketshare percent. Projections indicate an increasing overall marketshare over a 5-year planning horizon. While new delivery channels and focused emphasis on these targeted segments may result in higher marketshare, we don't anticipate the growth to exceed total marketshare growth.

YBSF Demographics

Demographics information from the 2002 USDA National Agricultural Statistic Service, 2002 Census of Agricultural – Minnesota/Wisconsin County Data.

YBS Categories	Total Farmers in LSA Per YBS Category	As % of Total Farmers*	12/31/08 United YBS Customers	YBS Customers as % of Total Farmers in LSA*	YBS Customers as % of Total Farmers in LSA Per YBS Category	YBS Customers as % of Total United Customers**	United Long-term YBS Customer Goals as a % of Total Customers
Young Farmers	1,822	8.51%	1,255	5.86%	68.88%	26.47%	30%
Beginning Farmers	4,716	22.04%	1,362	6.36%	28.88%	28.72%	30%
Small Farmers	18,865	88.15%	3,042	14.21%	16.13%	64.15%	70%

* LSA total farmer count is: 21,402

** United's total loan/lease customer count is: 4,743

Farmers can qualify in more than one category, thus could be counted more than once due to the YBS definitions. The YBS designation is established as of the date the loan is made or renewed.

YBSF Goals

Loan/Lease Numbers:

	United FCS, ACA				
	YBS Loan/Lease Performance – Portfolio* as of 12/31/08				
	# Loans / Leases	% of Assn. Loans / Leases	Goals		
			2009	2010	2011
Young	2,228	23%	24%	25%	25%
Beginning	2,140	22%	24%	24%	25%
Small	4,970	51%	55%	54%	55%
*9,802 total United loans/leases as of 12/31/08					

Members can have more than one loan/lease, thus could be counted more than once due to the YBS definitions. The YBS status is as of the date the loan/lease is made or renewed. The above calculations do not include participation loan data.

Financially Related Services

In addition to the 4,743 loan/lease customers, United also has approximately 1,300 customers who only purchase financial related service products. Of the approximately 6,000 total customers, about 60% of them purchase one or more financial related service products. It is our three year goal (2009-2011) to maintain these high levels of utilization of financial related services within the YBS segment.

Marketplace Situation Analysis

We have, and will continue to, meet the financial services needs of eligible customers within the marketplaces we serve. Young, Beginning, and Small farmers are a significant portion of our marketplace and as such, United has, and will continue to, serve this segment within the overall scope of our business.

Coordination with Governmental Agencies, Outreach and Special Program Utilization/Promotion

We have and continue to utilize risk management programs offered through federal and state agencies to assist in the financing of young, beginning, and small farmers within our marketplace. We utilize FSA guarantee programs to help manage our overall portfolio risk associated with customers who do not meet lending standards. In addition, within the Minnesota retail marketplace we utilize the Rural Finance Authority (RFA) and Ag Best Management (AgBMP) programs offered through the state of Minnesota to assist Young, Beginning, and Small farmers in establishing ownership of land and capital assets/improvements necessary to assist them in being successful in their farming careers. In past years, we have led the development, education and promotion of the Dairy Investment Tax Credit (within our Wisconsin marketplace) which became law and as a result more than \$120 million of new investment in the State's dairy industry has occurred. In 2007, grant money (\$50,000) was provided to the Wisconsin School for Beginning Dairy and Livestock Farmers, with funds supporting programming costs for start-up and transitioning farmers. Additionally, in 2007, a grant was awarded to Dairy State Academy (\$25,000), which is planning a hands-on teaching school for farmers to gain additional experience and education in agriculture. During 2008, United also co-sponsored a portion of the Wisconsin Farm Bureau Young Farmer Conference, with some 300 attendees. The Association was also instrumental in passage of the Minnesota Livestock Grant Program which supports livestock investment with an emphasis on young and beginning farmers.

	# of YBS Customers Utilizing as of 12/31/08	Goal for 2009	Goal for 2010	Goal for 2011
RFA Loan Program (MN)	19	27	27	28
FSA Guarantee	96	100	105	110
AgBMP (MN)	21	20	20	21

Note: Higher land prices, current economic conditions and USDA Farm Program parameters create profitability and capital constraints for YBS farmers to utilize, and qualify for the above special programs.

United has:

- Designated pool of funds to assist YBS farmers with:
 - FSA guarantee loan fees (\$31,500 pool – max. of \$3,000 per customer).
- Modified core credit underwriting parameters balanced with prudent credit risk management designed to assist the young, beginning segments of our portfolio.
- Subsidized interest rate products for Young and Beginning farmers.
- Communicated specialized program offerings via advertising and marketing efforts.
- Committed that all market outreach programs offered are offered to all producers irrespective of their age, GFI or years farming.

- Continuing education scholarships
- Sponsored grain marketing seminars, crop insurance meetings, and succession/retirement planning seminars and young farmer conferences.

Additional Loan Information

Additional loan information is included in Notes 3, 12 and 13.

Investments

In addition to loans, we hold investments. Investments represent our share of investment notes in a trust of equipment loans. These were purchased through our participation in CFG. Investments totaled \$13.1 million at December 31, 2008.

Results of Operations

The following table illustrates profitability information (in thousands):

For the year ended December 31	2008	2007	2006
Net income	\$15,798	\$12,857	\$10,784
Return on average assets	1.6%	1.4%	1.3%
Return on average members' equity	10.2%	8.4%	7.3%

Changes in these ratios relate directly to:

- changes in income as discussed below,
- changes in assets discussed in the Loan Portfolio Section, and
- changes in members' equity discussed in the Capital Adequacy Section.

The following table summarizes the changes in components of net income (in thousands):

	2008 vs. 2007	2007 vs. 2006
Increase (decrease) in net income	\$2,941	\$2,073
Net interest income	\$1,347	\$1,303
Provision for loan losses	(2,127)	1,016
Patronage income	1,012	304
Financially related services and miscellaneous income, net	1,819	1,733
Operating expenses	(163)	(3,030)
Provision for income taxes	1,053	747
Total change in net income	\$2,941	\$2,073

Net Interest Income

Net interest income was \$25.2 million for the year ended December 31, 2008. The following table quantifies changes in net interest income (in thousands):

	2008 vs. 2007	2007 vs. 2006
Changes in net interest income due to:	\$1,245	\$2,117
Changes in volume	\$1,245	\$2,117
Changes in rates	(15)	(815)
Changes in nonaccrual income and other	117	1
Net change	\$1,347	\$1,303

Net interest income included income on nonaccrual loans that totaled \$281 thousand in 2008, \$98 thousand in 2007, and \$159 thousand in 2006. Nonaccrual income is recognized when:

- received in cash,
- collection of the recorded investment is fully expected, and
- prior chargeoffs have been recovered.

Net interest margin (net interest income divided by average earning assets) was 2.8% in 2008, 2.9% in 2007, and 3.0% in 2006.

Provision for Loan Losses

The variance in the provision for loan losses in 2008 compared to 2007 is due to our increase in adverse credit volume. The increase in adverse volume was due to economic and environmental conditions in certain sectors of the Association's loan portfolio. The variance in the provision for loan losses in 2007 compared to 2006 was due to improved credit quality and a declining historical charge off trend.

Patronage Income

We receive three different types of discretionary patronage from AgriBank. AgriBank's Board of Directors sets the level of patronage for each of the following:

- patronage on our note payable with AgriBank,
- patronage based on the net earnings of the pool of loans sold to AgriBank in May of 2008, and
- equalization income based on our preferred stock investment in AgriBank.

We received patronage income based on the average balance of our note payable to AgriBank. AgriBank's Board of Directors sets the patronage rate. We recorded patronage income of \$2.2 million in 2008, \$2.5 million in 2007, and \$2.1 million in 2006. Changes in our note payable to AgriBank and changes in the patronage rate caused the variances in the patronage income amounts. The patronage rates paid by AgriBank were 27 basis points in 2008, 34 basis points in 2007, and 32 basis points in 2006.

We also received patronage income related to our sale of a participation interest in certain real estate loans to AgriBank, as described in the Loan Portfolio Section of this report. As part of that agreement, we received patronage income in an amount that approximates the net earnings of those loans. Similar to the patronage on our note payable described above, we also received 27 basis points on the estimated note payable of the asset pool loans. Net earnings represents the net interest income associated with these loans adjusted for certain fees/costs specific to the related loans as well as adjustments deemed appropriate by AgriBank related to the credit performance of the loans, as applicable. We recorded asset pool patronage income of \$1.6 million in 2008.

We received another component of patronage, referred to as equalization income, from AgriBank. The quarterly average balance of any excess stock investment in AgriBank is used to determine this amount. AgriBank's Board of Directors sets the equalization rate. The targeted rate equals the average cost of funds for all affiliated associations as a group. Equalization income totaled \$142 thousand for 2008, \$409 thousand for 2007 and \$494 thousand for 2006. As of May 31, 2008, we no longer had any excess stock in AgriBank, FCB.

We also receive patronage from CoBank, ACB. This patronage income totaled \$10 thousand in 2008 and \$4 thousand in 2007. We received half of this in cash and half in additional stock.

We also receive patronage from Farm Credit Services of America, ACA. This patronage income totaled \$4 thousand in 2008 and \$3 thousand in 2007.

Financially Related Services and Miscellaneous Income, Net

Financially related services and miscellaneous income, net is primarily made up of insurance income. The increase in financially related services and miscellaneous income, net is primarily due to an increase in multi-peril insurance premium revenue which is a result of insuring higher values of commodities. This resulted in higher levels of commission for the Association.

We originated rural home loans for resale in the secondary market. We sold loans through the secondary market totaling \$17.7 million in 2008, \$22.8 million in 2007, and \$19.8 million in 2006. The fee income from this activity totaled \$182 thousand in 2008, \$205 thousand in 2007, and \$169 thousand in 2006.

Operating Expenses

The following presents a comparison of operating expenses by major category and the operating rate (operating expenses as a percentage of average earning assets) for the past three years (in thousands):

For the year ended December 31	2008	2007	2006
Salaries and benefits	\$12,660	\$12,565	\$10,442
Purchased and vendor services	1,406	2,012	1,556
Communications	232	251	257
Occupancy and equipment	1,546	1,345	1,299
Advertising and promotion	837	763	716
Examination	390	343	319
Farm Credit System insurance	1,370	1,212	1,094
Other	1,999	1,786	1,564
Total	\$20,440	\$20,277	\$17,247
Operating rate	2.2%	2.4%	2.3%

The Association operating rate improved in 2008 compared with 2007 and 2006 resulting from net operating expenses increasing at a slower rate than the growth in average loan volume.

(Reversal of) provision for Income Taxes

We recorded tax expense reversal of \$863 thousand for the year ended December 31, 2008, compared to expenses of \$190 thousand for 2007, and \$937 thousand for 2006. Patronage distributions to members, including the redemption of certain prior year nonqualified patronage distributions, reduced our tax liability in 2008, 2007, and 2006. The change in provision for income taxes is related to a decrease in the income of the taxable entities, an increase in deductible patronage, including the redemption of nonqualified patronage distributions, and the reversal of a tax contingency. See Note 9 for additional discussion.

Funding and Liquidity

We borrow from AgriBank under a note payable, in the form of a line of credit, as described in Note 7. During 2008, our average balance was \$799.5 million with an average interest rate of 3.6%. Our average balance during 2007 was \$721.1 million with an average interest rate of 5.2% and during 2006 our average balance was \$642.6 million with an average interest rate of 4.9%. Our other source of lendable funds is from unallocated surplus.

Our approach to sustaining sufficient liquidity to fund operations and meet current obligations is to maintain an adequate line of credit with AgriBank. At December 31, 2008, we had \$130.9 million available under our line of credit. We generally apply excess cash to this line of credit.

We offer variable, fixed, capped, indexed, and adjustable interest rate loan and variable, fixed, and adjustable lease programs to our borrowers. We determine interest margins charged on each lending program based on:

- cost of funds,
- market conditions, and
- the need to generate sufficient earnings.

The repricing attributes of our line of credit generally correspond to the repricing attributes of our loan portfolio which significantly reduces our market interest rate risk.

Capital Adequacy

Total members' equity increased \$4.1 million during 2008 due to net income for the period partially offset by patronage distribution accruals.

Members' equity position information is as follows (in thousands):

As of December 31	2008	2007	2006
Members' equity	\$157,172	\$153,109	\$149,624
Surplus as a percentage of members' equity	97.6%	97.5%	97.5%
Surplus as a percentage of risk adjusted assets	14.4%	15.6%	16.7%
Permanent capital ratio	11.8%	13.5%	14.8%
Total surplus ratio	11.4%	13.1%	14.4%
Core surplus ratio	11.4%	12.3%	13.4%

Our capital plan is designed to maintain an adequate amount of surplus and allowance for loan losses which represents our reserve for adversity prior to impairment of stock. We manage our capital to allow us to meet member needs and protect member interests, both now and in the future.

At December 31, 2008, our permanent capital, total surplus, and core surplus ratios significantly exceeded the regulatory minimum requirements. See Note 8 for further discussions of these regulatory ratios.

In addition to these regulatory requirements, we establish an optimum surplus to risk adjusted assets ratio. This target allows us to maintain a capital base adequate for future growth and investment in new products and services. The target is subject to revision as circumstances change. As of December 31, 2008, our optimum surplus to risk adjusted assets ratio was 14%.

The changes in our capital ratios reflect changes in capital and assets. Refer to the Loan Portfolio Section for further discussion of the changes in assets. Additional members' equity information is included in Note 8.

Initiatives

We are involved in a number of initiatives designed to improve our credit delivery, related services, and marketplace presence.

FCS Commercial Finance Group

We participate in the FCS Commercial Finance Group (CFG) alliance with other associations in Minnesota and North Dakota to meet the financial needs of agricultural producers and agribusiness operations. The CFG is governed by representatives from each participating association. The income, expense and loss sharing arrangements are based on each association's participation interest of the CFG volume. Each association determines its commitment for new volume opportunities based on its capacity and preferences. We had \$174.8 million of CFG volume at December 31, 2008, \$109.4 million at December 31, 2007, and \$87.2

million at December 31, 2006. We also had \$107.9 million of available commitment on CFG loans at December 31, 2008.

As the facilitating association for CFG, the Association is compensated to provide various support functions. This includes technology, human resources, accounting, payroll, reporting, and other finance functions.

ProPartners Financial

We participate in ProPartners Financial with other associations in North Dakota, Minnesota, Illinois, Wisconsin, and Michigan. ProPartners Financial provides financing programs for clients of agribusiness companies. ProPartners Financial is directed by representatives from the participating associations. The income, expense and loss sharing arrangements are based on each association's participation interest of ProPartners Financial volume. Each association's allocation is established according to a prescribed formula based on risk funds of the associations. We had \$14.0 million of ProPartners Financial volume at December 31, 2008, \$11.2 million at December 31, 2007, and \$8.5 million at December 31, 2006.

Trade Credit

We have entered into agreements with certain dealer networks to provide alternative service delivery channels to borrowers. These trade credit opportunities create more flexible and accessible financing options to borrowers through programs such as dealer point-of-purchase financing.

Farm Cash Management

We offer Farm Cash Management to our members. Farm Cash Management links members' revolving lines of credit with an AgriBank Investment Bond to optimize members' use of funds.

Mission Related Investments

We are participating in an Investment in Rural America pilot program authorized during 2006 by the Farm Credit Administration in order to meet the changing needs of agriculture and rural America by making investments that support farmers, ranchers, agribusinesses, and their rural communities. We had \$24.0 million of volume under this pilot program outstanding at December 31, 2008, \$7.1 million of volume outstanding at December 31, 2007, and \$2.2 million of volume outstanding at December 31, 2006.

In addition to the pilot program, beginning in 2008, we purchased shares of investment notes in a trust of equipment loans. These investments totaled \$13.1 million at December 31, 2008.

Relationship with AgriBank

Borrowings

We borrow from AgriBank to fund our lending operations in accordance with the Farm Credit Act of 1971, as amended. Approval from AgriBank is required for us to borrow elsewhere. A General Financing Agreement, as discussed in Note 7, governs this lending relationship. Cost of funds under the General Financing Agreement includes:

- a marginal cost of debt component,
- a cost of servicing component,
- a bank spread component, and
- a risk premium component, if applicable.

In the periods presented, we were not subject to the risk premium component. The marginal cost of debt approach simulates match funding the cost of underlying debt with substantially the same terms as the anticipated terms of our loans to borrowers. This methodology substantially protects us from interest rate risk.

Investment

We are required to invest in AgriBank capital stock as a condition of borrowing. This investment may be in the form of purchased stock or stock representing previously distributed AgriBank surplus. As of December 31, 2008, we were required to maintain a common stock investment equal to 2.5% of the average quarterly balance of our note payable to AgriBank. AgriBank's current bylaws allow AgriBank to increase the required investment to 4.0%. Effective in 2009, our required investment will include an additional 1% on average growth if we exceed a targeted rate. The Association does not anticipate exceeding the target rate. In addition, as described in the Loan Portfolio Section of this report, on May 27, 2008, we sold \$132.8 million of a participation interest in real estate loans to AgriBank. As part of this transaction, we are required to hold AgriBank common stock equal to 8% of the quarter-end balance of these loans. We met this requirement through the conversion of excess stock held and the purchase of additional stock.

At December 31, 2008, \$25.6 million of our investment in AgriBank consisted of stock representing distributed AgriBank surplus and \$4.7 million consisted of purchased investment. For the periods presented in this report, we have received no dividend income on this stock investment and we do not anticipate any in future years.

Patronage

We receive patronage income based on the annual average daily balance of our note payable to AgriBank, patronage income in an amount that approximates the net earnings of the asset pool loans, patronage income based on the estimated note payable of the asset pool loans, and equalization income based on the quarterly average daily balance of our excess stock investment in AgriBank. AgriBank's Board of Directors sets the patronage rates. As of May 31, 2008, we no longer had any excess common stock in AgriBank.

Purchased Services

We purchase various services from AgriBank including:

- certain information systems,
- certain financial services,
- certain accounting and reporting services, and
- selected retail product processing and support.

The total cost of services we purchased from AgriBank was \$0.8 million in 2008, \$0.7 million in 2007, and \$1.0 million in 2006.

Affect on Members' Investment

Due to the nature of our financial relationship with AgriBank, the financial condition and results of operations of AgriBank materially affect our members' investment. To request a free copy of the combined AgriBank, FCB and Affiliated Associations' financial reports contact us at P.O. Box 1560, Willmar, Minnesota 56201-1560, (320) 235-1912 or contact AgriBank at 375 Jackson Street, St. Paul, MN 55101-1810, (651) 282-8800, or via electronic mail to AGRIBANKMN@agribank.com. The reports are also available through AgriBank's website at www.agribank.com.

To request a free copy of AgriBank's annual or quarterly reports contact us as stated above. The annual report is available on AgriBank's website 75 days after the end of the calendar year and members are provided a copy of such report 90 days after the end of the year. The quarterly reports are available 40 days after the end of each calendar quarter.

Relationship with Other Farm Credit Institutions

We have a relationship with CoBank, ACB which involves purchasing or selling participation interests in loans. As part of this relationship, at December 31, 2008, our required equity investment in CoBank, ACB was \$3 thousand. CoBank, ACB provides direct loan funds to associations in its chartered territory and also makes loans to cooperatives and other eligible borrowers.

We participate in the Insight Technology Unit with other AgriBank District associations to facilitate the development and maintenance of certain technology systems essential to providing credit to our borrowers. The Insight Technology Unit is governed by representatives of each participating association. The expenses are shared prorata based on the number of loans and leases of each participant.

As the facilitating association for Insight, the Association is compensated to provide various support functions. This includes technology, human resources, accounting, payroll, reporting and other finance functions.

We also have a relationship with Farm Credit Services of America, ACA which involves purchasing or selling participation interests in loans. As part of this relationship, we maintain a \$1 thousand equity investment in Farm Credit Services of America, ACA.

REPORT OF MANAGEMENT

United FCS, ACA



We prepare the consolidated financial statements of United FCS, ACA and are responsible for their integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. The consolidated financial statements, in our opinion, fairly present the financial condition of United FCS, ACA. Other financial information included in the annual report is consistent with that in the consolidated financial statements.

To meet our responsibility for reliable financial information, we depend on accounting and internal control systems designed to provide reasonable but not absolute assurance that assets are safeguarded and transactions are properly authorized and recorded. Costs must be reasonable in relation to the benefits derived when designing accounting and internal control systems. Financial operations audits are performed to monitor compliance. PricewaterhouseCoopers LLP, our independent auditors, audit the consolidated financial statements. They also conduct a review of internal controls to the extent necessary to comply with generally accepted auditing standards in the United States of America. The Farm Credit Administration also performs examinations for safety and soundness as well as compliance with applicable laws and regulations.

The Board of Directors has overall responsibility for our system of internal control and financial reporting. The Board of Directors and its Audit Committee consults regularly with us and meets periodically with the independent auditors and other auditors to review the scope and results of their work. The independent auditors have direct access to the Board of Directors, which is composed solely of directors who are not officers or employees of United FCS, ACA.

The undersigned certify we have reviewed United FCS, ACA's annual report and it 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 our knowledge and belief.



Mark Parker,
Board Chair
United FCS, ACA



Marcus Knisely,
Chief Executive Officer
United FCS, ACA



Ronald J. Fake
Chief Financial Officer
United FCS, ACA

February 27, 2009

REPORT OF AUDIT COMMITTEE

United FCS, ACA



The consolidated financial statements were prepared under the oversight of the Audit Committee. The Audit Committee is composed of no less than three and no more than five members of the Board of Directors of United FCS, ACA. The Audit Committee oversees the scope of the Association's internal audit program, the approval and independence of PricewaterhouseCoopers LLP (PwC) as our independent auditors, the adequacy of the Association's system of internal controls and procedures, and the adequacy of management's action with respect to recommendations arising from those auditing activities. The Audit Committee's responsibilities are described more fully in the Internal Control Policy and the Audit Committee Charter.

Management is responsible for internal controls and the preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. PwC is responsible for performing an independent audit of the consolidated financial statements in accordance with generally accepted auditing standards in the United States of America and to issue their report based on their audit. The Audit Committee's responsibilities include monitoring and overseeing these processes.

In this context, the Audit Committee reviewed and discussed the audited consolidated financial statements for the year ended December 31, 2008, with management. The Audit Committee also reviewed with PwC the matters required to be discussed by Statement on Auditing Standards No. 114, *The Auditor's Communication with Those Charged with Governance*, and both PwC and the internal auditors directly provided reports on significant matters to the Audit Committee.

The Audit Committee had discussions with and received written disclosures from PwC confirming its independence. The Audit Committee also reviewed the non-audit services provided by PwC, if any, and concluded these services were not incompatible with maintaining PwC's independence. The Audit Committee discussed with management and PwC such other matters and received such assurances from them as the Audit Committee deemed appropriate.

Based on the foregoing review and discussions, and relying thereon, the Audit Committee recommended that the Board of Directors include the audited consolidated financial statements in the Annual Report for the year ended December 31, 2008.



Roger Mohr
Chairperson of the Audit Committee
United FCS, ACA

Gary Ruegsegger
Bradley Sunderland
Larry Swain

February 27, 2009

PricewaterhouseCoopers LLP

225 South Sixth Street
Suite 1400
Minneapolis MN 55402
Telephone (612) 596 6000
www.pwc.com

Report of Independent Auditors

To the Board of Directors and Members of
United FCS, ACA

In our opinion, the accompanying consolidated statement of condition and the related consolidated statements of income, of changes in members' equity and of cash flows present fairly, in all material respects, the financial position of United FCS, ACA (the Association) and its subsidiaries at December 31, 2008, 2007 and 2006, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

February 27, 2009

CONSOLIDATED STATEMENT OF CONDITION

United FCS, ACA

(Dollars in thousands)

As of December 31	2008	2007	2006
ASSETS			
Loans	\$969,801	\$900,338	\$814,054
Allowance for loan losses	2,944	1,599	2,464
Net loans	966,857	898,739	811,590
Investment in AgriBank, FCB	30,257	25,729	25,605
Investment securities	13,105	--	--
Accrued interest receivable	9,213	12,071	11,983
Premises and equipment, net	6,479	5,498	5,237
Other property owned	100	280	81
Assets held for lease, net	7,429	5,995	7,227
Other assets	5,891	5,191	5,409
Total assets	\$1,039,331	\$953,503	\$867,132
LIABILITIES			
Note payable to AgriBank, FCB	\$862,494	\$778,504	\$696,579
Accrued interest payable	6,688	9,592	8,852
Patronage distribution payable	4,800	4,704	4,800
Net deferred income tax liability	2,118	1,480	1,626
Other liabilities	6,059	6,114	5,651
Total liabilities	882,159	800,394	717,508
Contingencies			
MEMBERS' EQUITY			
Protected members' equity	--	--	1
Capital stock and participation certificates	3,827	3,812	3,783
Allocated surplus	--	6,763	11,463
Unallocated surplus	153,345	142,534	134,377
Total members' equity	157,172	153,109	149,624
Total liabilities and members' equity	\$1,039,331	\$953,503	\$867,132

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

CONSOLIDATED STATEMENT OF INCOME

United FCS, ACA

(Dollars in thousands)

Year ended December 31	2008	2007	2006
Interest income	\$54,274	\$61,416	\$54,555
Interest expense	29,033	37,522	31,964
Net interest income	25,241	23,894	22,591
Provision for (reversal of) loan losses	1,341	(786)	230
Net interest income after provision for (reversal of) loan losses	23,900	24,680	22,361
Other income			
Patronage income	3,880	2,868	2,564
Financially related services and miscellaneous income, net	7,595	5,776	4,043
Total other income	11,475	8,644	6,607
Operating expense			
Salaries and employee benefits	12,660	12,565	10,442
Other operating expense	7,780	7,712	6,805
Total operating expense	20,440	20,277	17,247
Income before income taxes	14,935	13,047	11,721
(Reversal of) provision for income taxes	(863)	190	937
Net income	\$15,798	\$12,857	\$10,784

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

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

United FCS, ACA

(Dollars in thousands)

	Protected Members' Equity	Capital Stock and Participation Certificates	Allocated Surplus	Unallocated Surplus	Total Members' Equity
Balance at December 31, 2005	\$1	\$3,794	\$10,000	\$129,796	\$143,591
Net income	--	--	--	10,784	10,784
Unallocated surplus designated for patronage distribution	--	--	--	(4,740)	(4,740)
Surplus designated for nonqualified patronage distribution	--	--	1,463	(1,463)	--
Capital stock/participation certificates issued	--	416	--	--	416
Capital stock/participation certificates retired	--	(427)	--	--	(427)
Balance at December 31, 2006	1	3,783	11,463	134,377	149,624
Net income	--	--	--	12,857	12,857
Unallocated surplus designated for patronage distribution	--	--	--	(4,700)	(4,700)
Redemption of prior year allocated patronage	--	--	(4,700)	--	(4,700)
Capital stock/participation certificates issued	--	440	--	--	440
Capital stock/participation certificates retired	(1)	(411)	--	--	(412)
Balance at December 31, 2007	0	3,812	6,763	142,534	153,109
Net income	--	--	--	15,798	15,798
Unallocated surplus designated for patronage distribution	--	--	--	(4,987)	(4,987)
Redemption of prior year allocated patronage	--	--	(6,763)	--	(6,763)
Capital stock/participation certificates issued	--	528	--	--	528
Capital stock/participation certificates retired	--	(513)	--	--	(513)
Balance at December 31, 2008	\$ --	\$3,827	\$ --	\$153,345	\$157,172

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

CONSOLIDATED STATEMENT OF CASH FLOWS

United FCS, ACA

(Dollars in thousands)

Year ended December 31	2008	2007	2006
Cash flows from operating activities			
Net income	\$15,798	\$12,857	\$10,784
Adjustments to reconcile net income to cash flows from operating activities:			
Depreciation on premises and equipment	786	735	666
Depreciation on assets held for lease	1,184	1,500	1,449
Provision for (reversal of) loan losses	1,341	(786)	230
Decrease (increase) in accrued interest receivable	2,772	(370)	(3,613)
(Increase) decrease in other assets	(700)	218	889
(Decrease) increase in accrued interest payable	(2,904)	740	2,515
Increase in other liabilities	583	317	381
Gain on sale of other property owned	-	(3)	(30)
Write down of other property owned	180	-	-
Loss (gain) on sale of premises and equipment	57	(118)	(79)
Gain on disposal of assets held for lease	(100)	(65)	(18)
Total adjustments	3,199	2,168	2,390
Net cash provided by operating activities	18,997	15,025	13,174
Cash flows from investing activities			
Increase in loans, net	(69,126)	(86,242)	(90,792)
Increase in investment in AgriBank, FCB, net	(4,528)	(124)	--
Purchases of investment securities	(13,105)	--	--
Sales of other property owned, net	-	175	82
Purchases of assets held for lease, net	(2,518)	(203)	(521)
Purchases of premises and equipment, net	(1,824)	(878)	(841)
Net cash used in investing activities	(91,101)	(87,272)	(92,072)
Cash flows from financing activities			
Increase in note payable to AgriBank, FCB, net	83,990	81,925	83,047
Patronage distributions	(11,654)	(9,496)	(3,940)
Capital stock and participation certificates retired, net	(232)	(182)	(209)
Net cash provided by financing activities	72,104	72,247	78,898
Net change in cash	--	--	--
Cash at beginning of year	--	--	--
Cash at end of year	\$ --	\$ --	\$ --
Supplemental schedule of non-cash activities			
Stock financed by loan activities	\$514	\$431	\$415
Stock applied against loan principal	267	221	217
Interest transferred to loans	86	282	164
Loans transferred to other property owned	-	371	81
Patronage distributions payable to members	4,800	4,704	4,800
Supplemental information			
Interest paid	\$31,937	\$36,782	\$29,449
Taxes (refunded) paid	(1,031)	1,122	1,562

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

United FCS, ACA

NOTE 1: ORGANIZATION AND OPERATIONS

Farm Credit System and District

Farm Credit System Lending Institutions: The Farm Credit System is a nationwide system of cooperatively owned banks and associations established by Congress to meet the credit needs of American agriculture. At December 31, 2008, the Farm Credit System consisted of four Farm Credit Banks, one Agricultural Credit Bank, and ninety associations. AgriBank and its affiliated associations are collectively referred to as the District. At December 31, 2008, the District consisted of seventeen Agricultural Credit Associations that each have wholly-owned Federal Land Credit Association and Production Credit Association subsidiaries. Federal Land Credit Associations are authorized to originate long-term real estate mortgage loans. Production Credit Associations are authorized to originate short-term and intermediate-term loans. Agricultural Credit Associations are authorized to originate long-term real estate mortgage loans and short-term and intermediate-term loans either directly or through their subsidiaries. Associations are also authorized to provide lease financing options for agricultural purposes. AgriBank provides funding to all associations chartered within the District.

Associations are authorized to provide, either directly, or in participation with other lenders, credit and related services to eligible borrowers. Eligible borrowers may include farmers, ranchers, producers or harvesters of aquatic products, rural residents and farm-related service businesses. In addition, associations can participate with other lenders in loans to similar entities. Similar entities are parties that are not eligible for a loan from a Farm Credit System lending institution, but have operations that are functionally similar to the activities of eligible borrowers. Associations are also authorized to purchase and hold certain types of investments.

Farm Credit System Regulator: The Farm Credit Administration is authorized by Congress to regulate the Farm Credit System banks and associations. We are examined by the Farm Credit Administration and certain association actions are subject to the prior approval of the Farm Credit Administration and/or AgriBank.

Farm Credit Insurance Fund: The Farm Credit Act of 1971, as amended, established the Farm Credit System Insurance Corporation to administer the Farm Credit Insurance Fund. The Farm Credit Insurance Fund is used:

- to insure the timely payment of principal and interest on Farm Credit Systemwide debt obligations,
- to insure the retirement of protected borrower capital at par or stated value, and
- for other specified purposes.

At the discretion of the Farm Credit System Insurance Corporation, the Farm Credit Insurance Fund is also available to provide assistance to certain troubled Farm Credit System institutions and for the operating expenses of the Farm Credit System Insurance Corporation. Each Farm Credit System bank has been required to pay premiums into the Farm Credit Insurance Fund until the assets in the Farm Credit Insurance Fund equal 2% of Systemwide debt obligations. This percentage of aggregate obligations can be changed as the Farm Credit System Insurance Corporation, in its sole discretion, determines to be actuarially sound. Prior to July 1, 2008, the premiums were based on each bank's annual average loan principal outstanding. Insurance rates were 15 basis points on accrual loans and 25 basis points on nonaccrual loans through June 30, 2008. Effective July 1, the basis for assessing premiums was changed from loans to debt outstanding. Adjustments to debt outstanding are made for nonaccrual loans and impaired investments which are assessed a surcharge and guaranteed loans which are deductions to the premium base. The premium rate on this base, originally 15 basis points, increased

to 18 basis points effective October 1, 2008. AgriBank, in turn, assesses the associations premiums each year based on these same factors. Previously, AgriBank assessed the associations annual premiums based on the average principal outstanding of accrual and nonaccrual loans of the associations.

Association

United FCS, ACA and its subsidiaries, United FCS, FLCA and United FCS, PCA are lending institutions of the Farm Credit System. We are a member-owned cooperative providing credit and credit-related services to, or for the benefit of, eligible members for qualified agricultural purposes in the counties of Chippewa, Kandiyohi, Lac qui Parle, Lincoln, Lyon, Meeker, Redwood, Renville, Swift and Yellow Medicine in the state of Minnesota and the counties of Clark, Forest, Langlade, Lincoln, Marathon, Oneida, Portage, Price, Taylor, Vilas, Waushara and Wood in the state of Wisconsin.

We borrow from AgriBank and provide financing and related services to our members. Our ACA holds all the stock of the FLCA and PCA subsidiaries and provides lease financing options for agricultural production or operating purposes. The FLCA makes secured long-term agricultural real estate and rural home mortgage loans and provides lease financing options. The FLCA also services certain long-term real estate loans owned by AgriBank. The PCA makes short-term and intermediate-term loans and provides lease financing options for agricultural production or operating purposes.

We offer various risk management services, including credit life, term life, credit disability, crop hail, and multi-peril crop insurance for borrowers and those eligible to borrow. We also offer farm records, fee appraisals, income tax planning and preparation services, retirement and succession planning, and producer education services to our members.

Merger Activity

Effective at the close of business on December 31, 2007, we consolidated our subsidiaries. Farm Credit Services of North Central Wisconsin, FLCA merged into Farm Credit Services of Minnesota Valley, FLCA and Farm Credit Services of North Central Wisconsin, PCA merged into Farm Credit Services of Minnesota Valley, PCA. The names of the continuing subsidiaries are United FCS, FLCA and United FCS, PCA.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Our accounting and reporting policies conform to accounting principles generally accepted in the United States of America and the prevailing practices within the financial services industry. Preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The consolidated financial statements present the consolidated financial results of United FCS, ACA (the parent) and United FCS, FLCA and United FCS, PCA (the subsidiaries). All material intercompany transactions and balances have been eliminated in consolidation. The following are our significant accounting policies:

Loans: Mortgage loan terms range from 5 to 40 years at origination. Almost all commercial loans are made for agricultural production or operating purposes with original loan terms of 10 years or less.

Loans are carried at their principal amount outstanding. Loan interest is accrued and credited to interest income based upon the daily principal amount outstanding. We currently account for loan origination fees in accordance with Statement of Financial Accounting Standards No. 91, *Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases*, which establishes the accounting for nonrefundable fees and costs associated with lending, commitment to lend, or purchasing a loan or group of loans. Material fees, net of related costs, are deferred and recognized over the life of the loan as an adjustment to the yield. Other loan fees are recorded as an offset to the related origination costs. The net amount of these fees and expenses is not material to the consolidated financial statements taken as a whole.

We place loans in nonaccrual status when:

- principal or interest is delinquent for 90 days or more (unless the loan is well secured and in the process of collection) or
- circumstances indicate that full collection is not expected.

When a loan is placed in nonaccrual status, we reverse accrued interest to the extent principal plus accrued interest before the transfer exceeds the net realizable value of the collateral. Any unpaid interest accrued in a prior year is capitalized to the recorded investment of the loan. Any cash received on nonaccrual loans is applied to reduce the recorded investment in the loan, except in those cases where the collection of the recorded investment is fully expected and the loan does not have any unrecovered prior chargeoffs. Nonaccrual loans may be returned to accrual status when:

- principal and interest are current,
- prior chargeoffs have been recovered,
- the ability of the borrower to fulfill the contractual repayment terms is fully expected, and
- the loan is not classified as doubtful or loss.

Investments: We are authorized to purchase and hold certain types of investments. As we have the positive intent and ability to hold these investments to maturity, they have been classified as held-to-maturity and are carried at cost.

Allowance for Loan Losses: The allowance for loan losses is an estimate of losses on loans in our portfolio as of the financial statement date. We determine the appropriate level of allowance for loan losses based on periodic evaluation of factors such as:

- loan loss history,
- portfolio quality, and
- current economic and environmental conditions.

Loans in our portfolio that are considered impaired are analyzed individually under Statement of Financial Accounting Standard No. 114, *Accounting by Creditors for Impairment of a Loan*, to establish a specific allowance for impaired loans. A loan is impaired when it is probable that all amounts due under the contractual terms of the loan agreement will not be collected. We measure impairment based on the net realizable value of the collateral. All risk loans are considered to be impaired loans. Risk loans include:

- nonaccrual loans,
- formally restructured loans, and
- loans that are 90 days or more past due and still accruing.

We record a specific allowance to reduce the carrying amount of the risk loan to the lower of book value or the net realizable value of collateral. When collection is unlikely, we charge the loan principal and prior year(s) accrued interest against the allowance for loan losses. Subsequent recoveries, if any, are added to the allowance for loan losses.

We apply Statement of Financial Accounting Standard No. 5, *Accounting for Contingencies*, to loans that are not individually assessed as impaired.

An allowance is recorded for probable and estimable credit losses as of the financial statement date.

Changes in the allowance for loan losses consist of provision activity, recorded as "Provision for (reversal of) loan losses" on the Consolidated Statement of Income, and chargeoffs and recoveries.

Investment in AgriBank: Accounting for our investment in AgriBank is on a cost plus allocated equities basis. The investment in AgriBank is in the form of Class P common stock.

Premises and Equipment: The carrying amount of premises and equipment is at cost, less accumulated depreciation. Calculation of depreciation is generally on the straight-line method over the estimated useful lives of the assets. Gains or losses on disposition are included in current operating results. Maintenance and repairs are included in operating expense and improvements are capitalized.

Other Property Owned: We record other property owned, which consists of real and personal property acquired through foreclosure or deed in lieu of foreclosure, at the lower of the carrying amount or the fair value less estimated selling costs. Income and expense from operations and carrying value adjustments are included in "Financially related services and miscellaneous income, net" on the Consolidated Statement of Income.

Leases: We have finance and operating leases. Under finance leases, unearned income from lease contracts represents the excess of gross lease receivables plus residual receivables over the cost of leased equipment. We amortize net unearned finance income to earnings on the interest method. The carrying amount of finance leases is included in "Loans" on the Consolidated Statement of Condition and represents lease rent receivables net of the unearned income plus the residual receivable. We recognize operating lease revenue evenly over the term of the lease. We charge depreciation and other expenses against revenue as incurred. The carrying amount of operating leases is included in "Assets held for lease, net" on the Consolidated Statement of Condition and represents the asset cost net of accumulated depreciation.

Employee Benefit Plans: Our employees may be eligible to participate in the defined benefit retirement plan of the Seventh Farm Credit District. The plan is comprised of two benefit formulas. From October 1, 2001 to December 31, 2006, all new benefits-eligible employees participate in the cash balance formula. Employees hired prior to October 1, 2001, were on the final average pay formula. These employees were given a one-time option to convert to the cash balance formula or to remain on a final average pay formula. The District plan utilizes the "Projected Unit Credit" actuarial method for financial reporting purposes and the "Entry Age Normal Cost" method for funding purposes. Effective January 1, 2007, the defined benefit retirement plan was closed to new employees. Employees hired after December 31, 2006, only participate in the defined contribution plan.

The defined contribution plan allows eligible employees to save for their retirement either pre-tax/post-tax or both with an employer match on a percentage of the employee's contributions. For employees hired after December 31, 2006, the defined contribution plan is the only retirement plan available, and we provide benefits under this plan in the form of a fixed percentage of salary contribution in addition to the employer match. Employer contributions are expensed when incurred.

We also provide certain health and life insurance benefits to eligible retired employees according to the terms of those benefit plans. The anticipated cost of these benefits is accrued during the employees' active service period.

Income Taxes: The ACA and PCA accrue federal and certain state income taxes. Deferred tax assets and liabilities are recognized for future tax consequences of temporary differences between the carrying amounts and tax basis of assets and liabilities. Deferred tax assets are recorded if the deferred tax asset is more likely than not to be realized. If the realization test cannot be met, the deferred tax asset is reduced by a valuation allowance. We have adopted Financial Accounting Standards Board

Interpretation No. 48 – *Accounting for Uncertainty in Income Taxes*. Under the interpretation, the expected future tax consequences of uncertain income tax positions are accrued.

The FLCA is exempt from federal and other taxes to the extent provided in the Farm Credit Act of 1971, as amended.

Patronage Program: We accrue patronage distributions according to a prescribed formula approved by the Board of Directors. We pay the accrued patronage during the first quarter after each subsequent year.

Statement of Cash Flows: For purposes of reporting cash flow, cash includes cash on hand.

Fair Value Measurement: Effective January 1, 2008, we adopted SFAS No. 157, "Fair Value Measurements." This Statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. It also clarifies that the term fair value is intended to mean a market-based measure, not an entity-specific measure. It describes three levels of inputs that may be used to measure fair value.

Where quoted prices are available in an active market, investment securities would be classified as Level 1. If quoted prices are not available in an active market, the fair value of securities is estimated using pricing models that utilize observable inputs, quoted prices for similar securities received from pricing services or discounted cash flows. Generally, these securities would be classified as Level 2. Where there is limited activity or less transparency around inputs to the valuation, the securities are classified as Level 3. The fair value disclosures have been expanded in accordance with SFAS No. 157, as disclosed in Note 13.

Recent Accounting Developments: In March 2008, the Financial Accounting Standards Board issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities*, which amends and expands the disclosure requirements for derivative instruments and for hedging activities previously required by SFAS No. 133. It states that an entity with derivative instruments shall disclose information to enable users of the financial statements to understand:

- a. How and why an entity uses derivative instruments
- b. How derivative instruments and related hedged items are accounted for under this Statement and related interpretations
- c. How derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows.

This Standard is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The impact of adoption will not have a material impact on our financial statements.

NOTE 3: LOANS AND INVESTMENT SECURITIES

Loans consisted of the following (in thousands):

As of December 31, 2008	Amount	Percentage
Long-term agricultural mortgage	\$473,078	23.1%
Production	395,723	19.3%
Intermediate term	145,006	7.1%
Finance leases	12,376	0.6%
Rural home	5,826	0.3%
Processing and marketing	11,535	0.6%
Participations purchased	967,771	47.4%
Mission related investments	23,978	1.2%
Other	14,749	0.7%
Subtotal	2,050,042	100.0%
Participations sold	(1,080,241)	
Total loans	\$969,801	

As of December 31, 2007	Amount	Percentage
Long-term agricultural mortgage	\$412,275	26.6%
Production	316,522	20.4%
Intermediate term	134,802	8.7%
Finance leases	9,814	0.6%
Rural home	5,684	0.4%
Processing and marketing	11,639	0.8%
Participations purchased	641,344	41.4%
Mission related investments	7,114	0.5%
Other	9,587	0.6%
Subtotal	1,548,781	100.0%
Participations sold	(648,443)	
Total loans	\$900,338	

As of December 31, 2006	Amount	Percentage
Long-term agricultural mortgage	\$384,062	29.8%
Production	334,722	25.9%
Intermediate term	132,182	10.2%
Finance leases	7,352	0.6%
Rural home	6,864	0.5%
Processing and marketing	5,051	0.4%
Participations purchased	414,071	32.0%
Mission related investments	2,178	0.2%
Other	5,782	0.4%
Subtotal	1,292,264	100.0%
Participations sold	(478,210)	
Total loans	\$814,054	

Participations

We may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume, and comply with Farm Credit Administration Regulations or General Financing Agreement limitations. The following table presents information regarding participations purchased and/or sold (in thousands):

As of December 31, 2008	Participations	
	Purchased	Sold
Participations purchased from/sold to:		
AgriBank, FCB	\$ --	\$190,508
Other Farm Credit System institutions	825,295	882,944
Non-Farm Credit System institutions	142,476	6,789
Total participations purchased/sold	\$967,771	\$1,080,241

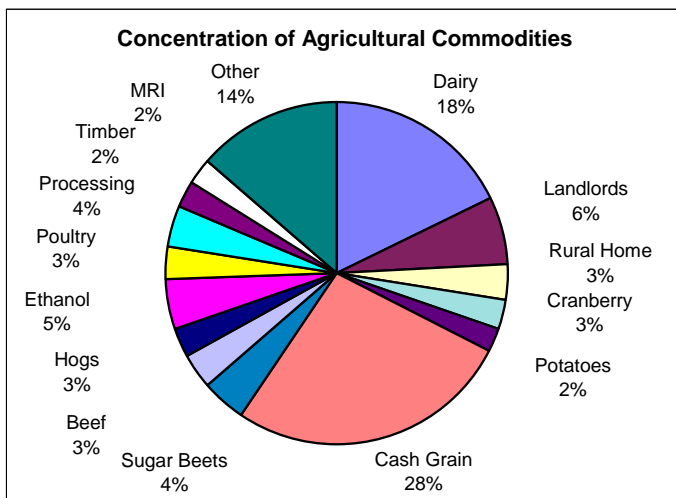
The participation volume is largely due to participations on loans to agribusinesses as well as due to our role as the facilitating association in the FCS Commercial Finance Group alliance.

Included in the AgriBank activity above, we sold \$132.8 million of a participation interest in real estate loans to AgriBank and received \$1.6 million of asset pool patronage in 2008 related to this participation.

Portfolio Concentrations

We have concentrations with individual borrowers, within various agricultural commodities and within our chartered territory. At December 31, 2008, volume plus commitments to our ten largest borrowers totaled an amount equal to 70% of members' equity.

Our agricultural commodity concentrations at December 31, 2008, were as follows:



The commodity concentrations have not changed materially from prior years.

We are chartered to operate in certain counties in Minnesota and Wisconsin. Approximately 29.6% of our total loan portfolio was in Renville, Redwood, and Kandiyohi counties in the state of Minnesota and Marathon and Clark counties in the state of Wisconsin at December 31, 2008. By state, approximately 49% of our portfolio was in Minnesota, 31% was in

Wisconsin, and 20% of our portfolio was in states outside of our chartered territory that consisted of participations at December 31, 2008.

While these concentrations represent our maximum potential credit risk as it relates to recorded loan principal, a substantial portion of our lending activities is collateralized. This reduces our exposure to credit loss associated with our lending activities. We consider credit risk exposure in establishing the allowance for loan losses.

Risk Loans

A loan is considered a risk loan if it is probable that we will be unable to collect all principal and interest according to the loan agreement. The following table presents risk loan (accruing volume includes accrued interest receivable) information (in thousands):

As of December 31	2008	2007	2006
Nonaccrual loans:			
Current as to principal and interest	\$16,147	\$2,049	\$2,663
Past due	7,764	1,960	2,115
Total nonaccrual loans	23,911	4,009	4,778
Accruing restructured loans	889	5,584	6,608
Loans past due 90 days or more still accruing	330	44	--
Total risk loans	\$25,130	\$9,637	\$11,386
Volume with specific reserves	\$16,014	\$1,730	\$1,174
Volume without specific reserves	9,116	7,907	10,212
Total risk loans	\$25,130	\$9,637	\$11,386
Total specific reserves	\$1,856	\$458	\$568
For the year ended December 31	2008	2007	2006
Income on accrual risk loans	\$153	\$452	\$470
Income on nonaccrual loans	281	98	159
Total income on risk loans	\$434	\$550	\$629
Average recorded investment	\$14,907	\$10,223	\$11,160

We did not have any material commitments to lend additional money to borrowers whose loans were at risk at December 31, 2008.

Loans 90 days or more past due and still accruing interest were adequately secured and in the process of collection.

To mitigate credit risk, we have entered into a Standby Commitment to Purchase Agreement with the Federal Agricultural Mortgage Corporation (Farmer Mac). In the event of default, subject to certain conditions, we have the right to sell the loans identified in the agreement to Farmer Mac. Credit guarantees remain in place until receipt of full payment. The balance of loans under this agreement was \$6.0 million at December 31, 2008, \$6.5 million at December 31, 2007, and \$7.2 million at December 31 2006. Fees paid to Farmer Mac for these commitments totaled \$34 thousand in 2008, \$36 thousand in 2007, and \$39 thousand in 2006. These amounts are included in "Operating expense" on the Consolidated Statement of Income. As of December 31, 2008, no sales of loans to Farmer Mac have been made under this agreement.

Investment Securities

Beginning in 2008, we purchased shares of investment notes in a trust of equipment loans. Investments totaled \$13.1 million at December 31, 2008. The following table presents the book value, unrealized gain/loss and fair value of the investment securities (in thousands).

As of December 31	2008
Book value	\$13,105
Gross unrealized gains	-
Gross unrealized losses	(1,289)
Estimated fair value	\$11,816
Weighted Average Yield	4.3%

Income is recorded in interest income and totaled \$329 thousand in 2008.

NOTE 4: ALLOWANCE FOR LOAN LOSSES

A summary of the changes in the allowance for loan losses follows (in thousands):

For the year ended December 31	2008	2007	2006
Balance at beginning of year	\$1,599	\$2,464	\$2,218
Provision for (reversal of) loan losses	1,341	(786)	230
Loan recoveries	13	27	33
Loan chargeoffs	(9)	(106)	(17)
Balance at end of year	\$2,944	\$1,599	\$2,464

The increase in our allowance for loan losses is due to the increase in our provision for loan losses which reflects an increase in our nonaccrual volume and an overall deterioration of credit quality.

NOTE 5: INVESTMENT IN AGRIBANK

At December 31, 2008, we were required by AgriBank to maintain an investment equal to 2.5% of the quarter-end balance of our note payable to AgriBank. Effective in 2009, our required investment will include an additional 1% on average growth if we exceed a targeted rate.

At December 31, 2008, we were required by AgriBank to maintain an investment equal to 8% of the quarter-end balance of the participation interest in real estate loans sold to AgriBank during 2008.

The following summarizes investment balances (in thousands):

	2008	2007	2006
As of December 31:			
Common stock	\$30,257	\$18,827	\$16,975
Preferred stock	--	6,902	8,630
Total investment	\$30,257	\$25,729	\$25,605

NOTE 6: PREMISES, EQUIPMENT AND ASSETS HELD FOR LEASE

Premises and equipment consisted of the following (in thousands):

As of December 31	2008	2007	2006
Land, buildings and improvements	\$6,409	\$6,153	\$5,749
Furniture and equipment	5,313	4,980	4,816
Subtotal	11,722	11,133	10,565
Less: accumulated depreciation	(5,243)	(5,635)	(5,328)
Total	\$6,479	\$5,498	\$5,237

We also hold property for the purpose of leasing, primarily composed of farm equipment and livestock facilities. Net operating lease income totaled \$532 thousand in 2008, \$655 thousand in 2007 and \$626 thousand in 2006. Net operating lease assets totaled \$7.4 million at December 31, 2008, \$6.0 million at December 31, 2007 and \$7.2 million at December 31, 2006.

NOTE 7: NOTE PAYABLE TO AGRIBANK

Our note payable to AgriBank represents borrowings, in the form of a line of credit, to fund our loan portfolio. The line of credit is governed by a General Financing Agreement and our assets serve as collateral. The total line of credit was \$1.0 billion as of December 31, 2008. The interest rate is adjusted monthly and was 2.8% at December 31, 2008. During 2008, our average balance was \$799.6 million with an average interest rate of 3.6%. Our average balance during 2007 was \$721.1 million with an average interest rate of 4.9% and during 2006 our average balance was \$646.6 million with an average interest rate of 4.9%. The maturity date is October 31, 2009, for our note payable, at which time the note will be renegotiated.

The General Financing Agreement provides for limitations on our ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. We cannot exceed these limitations without approval from AgriBank. At December 31, 2008, and throughout the year, we were within the specified limitations and in compliance with all debt covenants.

NOTE 8: MEMBERS' EQUITY

Capitalization Requirements

In accordance with the Farm Credit Act of 1971, as amended, each borrower is required to invest in us as a condition of obtaining a loan. As authorized by the Agricultural Credit Act of 1987 and our capital bylaws, the Board of Directors has adopted a capital plan that establishes a stock purchase requirement for obtaining a loan of 2% of the customer's total loan(s) or one thousand dollars, whichever is less. The purchase of one participation certificate is required of all customers to whom a lease is issued and of all non-stockholder customers who purchase financial services. The Board of Directors may increase the amount of required investment to the extent authorized in the capital bylaws. The borrower acquires ownership of the capital stock at the time the loan/lease is made, but usually does not make a cash investment. The aggregate par value of the stock is added to the principal amount of the related obligation. We retain a first lien on the stock or participation certificates owned by customers.

Protection Mechanisms

Under the Farm Credit Act of 1971, as amended, certain borrower equity is protected. We are required to retire protected borrower equity at par or stated value regardless of its book value. Protected borrower equity includes capital stock and participation certificates that were outstanding as of January 6, 1988, or were issued prior to October 6, 1988 as a requirement for obtaining a loan. If an association was unable to retire

protected borrower equity at par value or stated value, the Farm Credit Insurance Fund would provide the amounts needed to retire this equity.

Regulatory Capitalization Requirements

Under capital adequacy regulations, we are required to maintain a permanent capital ratio of at least 7%, a total surplus ratio of at least 7%, and a core surplus ratio of at least 3.5%. The calculation of these ratios in accordance with Farm Credit Administration Regulations is discussed below:

- The permanent capital ratio is average at-risk capital divided by average risk-adjusted assets. At December 31, 2008, our ratio was 11.8%.
- The total surplus ratio is average unallocated surplus less any deductions made in the computation of permanent capital divided by average risk-adjusted assets. At December 31, 2008, our ratio was 11.4%.
- The core surplus ratio is average unallocated surplus less any deductions made in the computation of total surplus and less any preferred stock investment in AgriBank divided by average risk-adjusted assets. At December 31, 2008, our ratio was 11.4%.

We have an agreement with AgriBank which defines how our investment in AgriBank is allocated in calculating regulatory capital ratios. According to the agreement, we include in our ratios all preferred stock which is the amount of our investment in AgriBank that is in excess of the required amount. At December 31, 2008, we no longer had any preferred stock. At December 31, 2007, we included 26.8%, and at December 31, 2006, we included 33.7% of our investment in AgriBank as capital. These changes did not have a material impact on our regulatory capital ratios.

Description of Equities

The following table presents information regarding classes and number of shares of stock and participation certificates outstanding as of December 31, 2008. All shares and participation certificates were \$5.00 par value.

	Shares Outstanding
As of December 31, 2008	
Class B common stock (at-risk)	735,296
Class E participation certificates (at-risk)	30,068
Class A common stock (protected)	2
Class F participation certificates (protected)	59

Under our bylaws, we are also authorized to issue Class C and Class D stock. This stock is at-risk and nonvoting with a \$5.00 par value per share. Currently, no stock of these classes has been issued.

Only holders of Class B stock have voting rights. Our bylaws do not prohibit us from paying dividends on any classes of stock. However, no dividends have been declared during the last three years.

Our bylaws generally permit stock and participation certificates to be retired at the discretion of the Board of Directors and in accordance with our capitalization plans, provided prescribed capital standards have been met. At December 31, 2008, we exceeded the prescribed standards. We do not anticipate any significant changes in capital that would affect the normal retirement of stock.

In accordance with our bylaws, in the event of our liquidation or dissolution, any assets remaining after payment or retirement of all liabilities shall be distributed pro rata to all holders of stock.

In the event of impairment, losses will be absorbed by concurrent impairment of all classes of stock; however, protected stock will be retired at par value regardless of impairment.

All classes of stock, except Class A and Class F, are transferable to other customers who are eligible to hold such class as long as we meet the regulatory minimum capital requirements.

Patronage Distributions

We accrued patronage distributions of \$4.8 million at December 31, 2008, \$4.7 million at December 31, 2007, and \$4.8 million at December 31, 2006. The patronage distributions were made in cash during the first quarter of each subsequent year. The Board of Directors authorizes a distribution of earnings in excess of board-specified levels provided we meet all statutory and regulatory requirements.

We allocated surplus of \$11.5 million in prior years under our nonqualified patronage program. We redeemed \$4.7 million in 2007 and \$6.8 million in 2008. No surplus was allocated to the nonqualified patronage program in 2008 or 2007.

The Farm Credit Administration Regulations prohibits patronage distributions to the extent they would reduce our permanent capital ratio below the minimum permanent capital adequacy standards. We do not foresee any events that would result in this prohibition in 2009.

NOTE 9: INCOME TAXES

(Reversal of) provision for Income Taxes

Our (reversal of) provision for income taxes follows (in thousands):

For the year ended December 31	2008	2007	2006
Current:			
Federal	(\$1,261)	\$424	\$1,243
State	3	(88)	153
Reversal of tax loss contingency	(243)	--	--
Total current	(1,501)	336	1,396
Deferred:			
Federal	279	(177)	(432)
State	359	31	(27)
Total deferred	638	(146)	(459)
(Reversal of) provision for income taxes	(\$863)	\$190	\$937
Effective tax rate	(5.8%)	1.5%	8.0%

The following table quantifies the differences between the provision for income taxes and income taxes at the statutory rates (in thousands):

For the year ended December 31	2008	2007	2006
Federal tax at statutory rate	\$5,078	\$4,436	\$3,985
Effect of non-taxable entity	(3,826)	(2,676)	(2,455)
Patronage distributions	(1,915)	(1,540)	(745)
State tax, net	61	(38)	83
Loss contingency reversal	(243)	--	(23)
Other	(18)	8	92
(Reversal of) provision for income taxes	(\$863)	\$190	\$937

We recorded tax expense reversal of \$863 thousand for the year ended December 31, 2008, compared to expenses of \$190 thousand for 2007, and \$937 thousand for 2006. Patronage distributions to members, including the redemption of certain prior year nonqualified patronage distributions, reduced our tax liability in 2008, 2007, and 2006. The significant change in provision for income taxes in 2008 is related to a decrease in the income of the taxable entities caused by an increase in deductible patronage, including the redemption of nonqualified patronage distributions, and the reversal of a tax contingency.

Tax Related Matters

In June 2006, the Financial Accounting Standards Board released Interpretation No. 48 – *Accounting for Uncertainty in Income Taxes*. This Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition of an uncertain tax position taken or expected to be taken in a tax return. Upon adoption of this Interpretation during the first quarter of 2008, we had no uncertain income tax positions for which a contingency reserve had not already been established in our financial statements. Prior to adoption of this Interpretation, we had recognized a \$243 thousand contingency in the form of tax reserves related to certain income accrued by United FCS, FLCA in connection with settlements with the State of Wisconsin. During the third quarter of 2008, this reserve was reversed due to the expiration of the taxing authority's statute of limitations. At December 31, 2008, we had no remaining uncertain income tax positions recognized.

Similar to above, in 2002, we established a loss contingency in the form of a tax reserve related to certain income accrued by United FCS, FLCA in connection with settlements with the IRS and the State of Wisconsin. Due to the passing of the statute of limitations on assessing taxes, that contingency expired and was reversed during 2006. The reversals, in the amount of \$23 thousand, are included in the "Provision for income taxes" in the Consolidated Statement of Income.

Deferred Income Taxes

Deferred tax assets and liabilities are composed of the following (in thousands):

As of December 31	2008	2007	2006
Allowance for loan losses	\$697	\$358	\$615
Postretirement benefits accrual	191	186	181
Leasing related	(2,060)	(1,097)	(1,312)
Accrued pension asset	(798)	(626)	(798)
Accrued patronage income not received	(94)	(198)	(186)
Depreciation	(143)	(157)	(176)
Other assets	89	54	50
Net deferred tax liabilities	<u>(\$2,118)</u>	<u>(\$1,480)</u>	<u>(\$1,626)</u>
Gross deferred tax assets	<u>\$977</u>	<u>\$598</u>	<u>\$839</u>
Gross deferred tax liabilities	<u>(\$3,095)</u>	<u>(\$2,078)</u>	<u>(\$2,465)</u>

A valuation reserve for the deferred tax assets was not necessary at December 31, 2008, December 31, 2007, or December 31, 2006.

We have not provided deferred income taxes on approximately \$23.5 million of patronage allocations received from AgriBank prior to 1993. Such allocations, distributed in the form of stock, are subject to tax only upon conversion to cash. Our intent is to permanently maintain this investment in AgriBank. With respect to the AgriBank stock distributed in 2002, the Board of Directors has passed a resolution that, should this stock ever be converted to cash, creating a tax liability, an equal amount will be distributed to patrons at that time under the Association's patronage program. Additionally, we have not provided deferred income taxes on accumulated FLCA earnings of \$88.2 million as it is our intent to

permanently maintain this equity in the FLCA or to distribute the earnings to members in a manner that results in no additional tax liability to us.

NOTE 10: EMPLOYEE BENEFIT PLANS

Our employees may be eligible to participate in a District-wide multi-employer defined benefit retirement plan (the Plan). The Plan is noncontributory and covers eligible District employees. Benefits are based on salary and years of service. The assets, liabilities and costs of the plan are not segregated by participating entities. Costs are determined for each individual employer based on costs directly related to their current employees as well as an allocation of the remaining costs based proportionately on the estimated projected liability of the employer under the plan. We recognize our proportional share of expense and contribute a proportional share of funding. As a participant in the Plan, we contributed \$1.1 million for 2008 and \$491 thousand for 2007. We did not make a contribution in 2006. Plan expenses included in salaries and employee benefits expense in the Consolidated Statement of Income were \$786 thousand for 2008, \$938 thousand for 2007 and \$947 thousand for 2006. Additional financial information for the Plan may be found in the AgriBank, FCB and Affiliated Associations 2008 Annual Report.

The funded status of the plans will be recorded at the District level only. Please refer to the AgriBank, FCB and Affiliated Associations 2008 Annual Report for detailed disclosures under Statement of Financial Accounting Standard No. 158 – *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*.

In December 2007, the District adopted SFAS No. 158, which required the recognition of the overfunded or underfunded status of pension and other postretirement benefit plans on the balance sheet. SFAS No. 158 also requires that employers measure the benefit obligation and plan assets as of fiscal year end in 2008. The Standard allows for the use of the measurements determined for the prior year-end.

Under this approach, pension and postretirement benefit income measured for the three-month period October 1, 2007 to December 31, 2007 (determined using the September 30, 2007 measurement date) was credited to beginning 2008 unallocated surplus. As a result, the District decreased unallocated surplus by \$5.0 million and increased the pension and other postretirement benefits liabilities by \$5.0 million.

Life Insurance and Retiree Medical Plans

District employers also provide certain health and life insurance benefits to eligible retired employees according to the terms of those benefit plans. The anticipated costs of these benefits are accrued during the period of the employee's active status. Postretirement benefits (primarily health care benefits and life insurance) included in salaries and employee benefits expense were \$67 thousand for 2008, \$64 thousand for 2007 and \$24 thousand for 2006. Additional financial information for this plan may be found in the AgriBank, FCB and Affiliated Associations 2008 Annual Report.

Retirement Savings Plan

We also participate in a retirement savings plan. For employees hired before January 1, 2007, employee contributions are matched dollar for dollar up to 2% and 50 cents on the dollar on the next 4% on both pre-tax and post-tax contributions. The maximum employer match is 4%. For employees hired after December 31, 2006, we contribute 3% of the employee's compensation and will match employee contributions dollar for dollar up to a maximum of 6% on both pre-tax and post-tax contributions. The maximum employer contribution is 9%. Employer contributions and recorded expense to this plan were \$436 thousand in 2008, \$362 thousand in 2007, and \$308 thousand in 2006.

NOTE 11: RELATED PARTY TRANSACTIONS

In the ordinary course of business, we may enter into loan transactions with our officers, directors, their immediate family members, and other organizations with which such persons may be associated. Such transactions are subject to special approval requirements contained in Farm Credit Administration Regulations and are made on the same terms, including interest rates, amortization schedules, and collateral, as those prevailing at the time for comparable transactions with other persons. In our opinion, none of these loans outstanding at December 31, 2008, involved more than a normal risk of collectibility.

The following table represents information on loans and leases to related parties as determined at each year end (in thousands):

	2008	2007	2006
As of December 31:			
Total related party loans and leases	\$15,243	\$11,781	\$10,094
For the year ended December 31:			
Advances to related parties	\$12,520	\$8,317	\$5,946
Repayments by related parties	13,579	11,967	10,250

The composition of related parties can be different each year end due primarily to changes in the makeup of the Board of Directors. Advances and repayments to related parties at the end of each year are included in the preceding chart.

We receive compensation from AgriBank for servicing selected wholly-owned AgriBank loans in our territory. Loan volume serviced was \$1.9 million at December 31, 2008, \$2.8 million at December 31, 2007 and \$3.8 million at December 31, 2006. Under this program, we received servicing income of \$61 thousand in 2008, \$63 thousand in 2007 and \$89 thousand in 2006 from AgriBank.

We purchase various services from AgriBank including certain information systems, certain financial services, certain accounting and reporting services, and selected retail product processing and support services. The total cost of services we purchased from AgriBank was \$811 thousand in 2008, \$748 thousand in 2007, and \$1.0 million in 2006.

NOTE 12: CONTINGENCIES AND COMMITMENTS

In the normal course of business, we have various contingent liabilities and commitments outstanding which may not be reflected in the accompanying consolidated financial statements. We do not anticipate any material losses because of these contingencies or commitments.

From time to time, we may be named as a defendant in certain lawsuits or legal actions in the normal course of business. At the date of these consolidated financial statements, we were not aware of any such actions that would have a material impact on our financial condition. However, such actions could arise in the future.

We have commitments to extend credit and letters of credit to satisfy the financing needs of our borrowers. These financial instruments involve, to varying degrees, elements of credit risk not recognized in the financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the loan contract. Standby letters of credit are agreements to pay a beneficiary if there is a default on a contractual arrangement. At December 31, 2008, we had commitments to extend credit and unexercised commitments related to standby letters of credit of \$305.8 million. Additionally, we had \$15.4 million of issued standby letters of credit as of December 31, 2008.

Commitments to extend credit and letters of credit generally have fixed expiration dates or other termination clauses and we may require payment

of a fee. If commitments and letters of credit remain unfulfilled or have not expired, they may have credit risk not recognized in the financial statements. Many of the commitments to extend credit and letters of credit will expire without being fully drawn upon. Therefore, the total commitments do not necessarily represent future cash requirements. Certain letters of credit may have recourse provisions that would enable us to recover from third parties amounts paid under guarantees, thereby limiting our maximum potential exposure. The credit risk involved in issuing these financial instruments is essentially the same as that involved in extending loans to borrowers and we apply the same credit policies.

NOTE 13: FAIR VALUE OF FINANCIAL INSTRUMENTS

Quoted market prices are generally not available for our financial instruments. Accordingly, we base fair values on:

- judgments regarding future expected losses,
- current economic conditions,
- risk characteristics of various financial instruments,
- credit risk, and
- other factors.

These estimates involve uncertainties and matters of judgment and cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Estimating the fair value of our investment in AgriBank is not practical because the stock is not traded. As discussed in Note 2 and Note 5, the investment is a requirement of borrowing from AgriBank.

A description of the methods and assumptions used to estimate the fair value of each class of our financial instruments, for which it is practical to estimate that value, follows:

Loans: The estimate of the fair value of loan assets is determined by discounting the expected future cash flows using current interest rates. Current interest rates are estimated based on similar loans made or loans repriced to borrowers with similar credit risk. This methodology is used because no active market exists for the vast majority of these loans. Since the discount rates are based upon internal pricing mechanisms and other estimates, we cannot determine whether the fair values presented would equal the exit price negotiated in an actual sale. Furthermore, certain statutory or regulatory factors not considered in the valuation, such as the unique statutory rights of Farm Credit System borrowers, could render our portfolio unmarketable outside the Farm Credit System.

We segregate the loan portfolio into pools of loans with homogenous characteristics for purposes of determining fair value of accruing loans. Expected future cash flows and interest rates reflecting appropriate credit risk are separately determined for each individual pool.

Fair value of nonaccrual loans, current as to principal and interest, are discounted with appropriately higher rates, reflecting the uncertainty of continued cash flows. We assume that for noncurrent nonaccrual loans, collection will result only from the sale of the underlying collateral. Fair value is estimated to equal the total net realizable value of the underlying collateral, discounted at an interest rate that appropriately reflects the uncertainty of the expected future cash flows over the average disposal period. We use the legal obligation if the net realizable value of the collateral exceeds the legal obligation for a particular loan.

Investment Securities: Because no active market exists for the vast majority of these investments, we estimate the fair value of these investments by discounting the expected future cash flows using current interest rates based upon internal pricing mechanisms and other estimates.

Note Payable to AgriBank: Estimating the fair value of the note payable to AgriBank is determined by segregating the note into pricing pools according to the types and terms of the underlying loans funded. We discount the estimated cash flows from these pools using the current rate charged by AgriBank for additional borrowings with similar characteristics.

Commitments to extend credit and letters of credit: Estimating the fair value of commitments and letters of credit is determined by the inherent credit loss in such instruments.

The estimated fair value of our financial instruments is as follows (in thousands):

As of December 31, 2008	Carrying Value	Estimated Fair Value
Financial assets:		
Loans, net	\$966,857	\$981,302
Investment securities	13,105	11,816
Financial liabilities:		
Note payable to AgriBank, FCB	\$862,494	\$875,543
Unrecognized financial instruments:		
Commitments to extend credit and letters of credit		(\$396)
As of December 31, 2007	Carrying Value	Estimated Fair Value
Financial assets:		
Loans, net	\$898,739	\$904,558
Financial liabilities:		
Note payable to AgriBank, FCB	\$778,504	\$782,462
Unrecognized financial instruments:		
Commitments to extend credit and letters of credit		(\$307)
As of December 31, 2006	Carrying Value	Estimated Fair Value
Financial assets:		
Loans, net	\$811,590	\$812,113
Financial liabilities:		
Note payable to AgriBank, FCB	\$696,579	\$695,144
Unrecognized financial instruments:		
Commitments to extend credit and letters of credit		(\$281)

SFAS No. 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. See Note 2 for additional information.

Assets measured at fair value on a non-recurring basis at December 31, 2008 for each of the fair value hierarchy levels are summarized below:

	Fair Value Measurement Using			Total Fair Value	Total Losses
	Level 1	Level 2	Level 3		
Loans*	\$ --	\$14	\$14,145	\$14,159	\$1,822

* Represents the fair value of certain loans that were evaluated for impairment under SFAS No. 114. The fair value was based upon the underlying real estate collateral. The fair value measurement process uses independent appraisals and other market-based information. As a result, these fair value measurements fall within Level 2 of the hierarchy. However, 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 14: QUARTERLY FINANCIAL INFORMATION (Unaudited)

Quarterly consolidated results of operations for the years ended December 31, 2008, December 31, 2007 and December 31, 2006, follow (in thousands):

2008	First	Second	Third	Fourth	Total
Net interest income	\$6,484	\$6,373	\$5,967	\$6,417	\$25,241
(Reversal of) provision for loan losses	2	(\$438)	\$5	1,772	1,341
Patronage income	619	\$877	\$1,183	1,201	3,880
Other expense, net	3,558	\$4,261	\$2,436	2,590	12,845
Provision for (reversal of) income taxes	205	410	(1,191)	(287)	(863)
Net income	\$3,338	\$3,017	\$5,900	\$3,543	\$15,798
2007	First	Second	Third	Fourth	Total
Net interest income	\$6,025	\$5,961	\$6,065	\$5,843	\$23,894
(Reversal of) provision for loan losses	(209)	(529)	193	(241)	(786)
Patronage income	585	585	589	1,109	2,868
Other expense, net	3,700	3,948	2,856	3,997	14,501
Provision for (reversal of) income taxes	283	309	274	(676)	190
Net income	\$2,836	\$2,818	\$3,331	\$3,872	\$12,857
2006	First	Second	Third	Fourth	Total
Net interest income	\$5,479	\$5,551	\$5,682	\$5,879	\$22,591
Provision for loan losses	25	1	1	203	230
Patronage income	510	527	535	992	2,564
Other expense, net	3,013	3,483	3,033	3,675	13,204
Provision for income taxes	239	232	322	144	937
Net income	\$2,712	\$2,362	\$2,861	\$2,849	\$10,784

DISCLOSURE INFORMATION REQUIRED BY REGULATIONS

United FCS, ACA
(Unaudited)

DESCRIPTION OF BUSINESS

General information regarding the business is discussed in Note 1 of this annual report.

The description of significant business developments, if any, is discussed in the "Management's Discussion and Analysis" portion of this annual report.

DESCRIPTION OF PROPERTY

The following table sets forth certain information regarding our properties:

Location	Description	Usage
Antigo, WI	Owned	Branch
Madison, MN	Owned	Branch
Marshall, MN	Owned	Branch
Marshfield, WI	Owned	Branch
Medford, WI	Owned	Branch
Olivia, MN	Owned	Branch
Redwood Falls, MN	Owned	Branch
Stevens Point, WI	Owned	Branch
Thorp, WI	Owned	Branch
Wausau, WI	Owned	Branch
Willmar, MN	Owned	Headquarters/Branch
Litchfield, MN	Leased	Branch

LEGAL PROCEEDINGS

We were not subject to any enforcement actions at December 31, 2008.

DESCRIPTION OF CAPITAL STRUCTURE

Information regarding our capital structure is discussed in Note 8 of this annual report.

DESCRIPTION OF LIABILITIES

Information regarding liabilities is discussed in Note 7 and Note 12 of this annual report.

SELECTED FINANCIAL DATA

The "Consolidated Five-Year Summary of Selected Financial Data" is presented at the beginning of this annual report.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Information regarding any material aspects of our financial condition, changes in financial condition, and results of operations are discussed in the "Management's Discussion and Analysis" portion of this annual report.

BOARD OF DIRECTORS

Information regarding directors who served as of December 31, 2008, including business experience in the last five years and any other business interest where a director serves on the board of directors or as a senior officer follows:

Stan Claussen, Director, is a self-employed corn and soybean farmer. Stan has served as a director since 1995. He is also serves as treasurer on

the Bushmill Ethanol Board and serves on the Benson School Board. His term on the board expires in 2011.

Scott Gerbig, Director, is a self-employed dairy farmer. Scott began as a director in 2008. His term on the board expires in 2009.

Jim Huisman, Director, is a self-employed grain farmer. Jim has served as a director since 1997. His term on the board expires in 2009.

Gregory Jans, Director, is a self-employed dairy farmer. Greg has served as a director since 1994. He also serves as a director on the Minnesota Milk Producers and is on the American Farmers for the Advancement and Conservation of Technology (AFACT) leadership team. His term on the board expires in 2010.

James Jarvis, Director, is a self-employed grain, livestock and timber farmer. James began as a director in 2008. His term on the board expires in 2011.

Roger Mohr, Appointed Director and Audit Committee Chair, is a retired college professor formerly teaching accounting at Southwest Minnesota State University in Marshall, MN. Roger was appointed as a director in 1991. His term on the board expires in 2011.

Dennis Oeltjenbruns, Director, is a self-employed grain and livestock farmer and a Monsanto seed dealer. Dennis has served as a director since 2003. He also serves on the Polar Pork Board of Directors which is involved in hog production, and is Treasurer on the Clifton Township Board. His term on the board expires in 2010.

Mark Parker, Chair, is a self-employed grain and livestock farmer. Mark has served as a director since 1987. His term on the board expires in 2012.

Donn Peterson, Director, is a self-employed grain and livestock farmer. Donn has served as a director since 1996. His term on the board expires in 2011.

Richard Pooley, Appointed Director, retired Vice President of Dunwoody College of Technology, a private, non-profit technical college located in Minneapolis, MN. Richard was appointed as a director in 1992. His term on the board expires in 2012.

Richard Price, Director, is a self-employed dairy farmer. Richard began as a director in 2008. His term on the board expires in 2012.

Gary Ruegsegger, Vice Chair, is a self-employed dairy farmer. Gary began as a director in 2008. His term on the board expires in 2010.

JoAnn Smith, Director, is a self-employed dairy farmer. JoAnn began as a director in 2008. She also serves as director of the Taylor Electric Cooperative and the Medford Cooperative. Her term on the board expires in 2009.

Bradley Sunderland, Director, is a self-employed grain and livestock farmer. Bradley has served as a director since 1993. He also serves as a director on the Farmers Cooperative Elevator of Hanley Falls. His term on the board expires in 2012.

Dr. Larry Swain, Appointed Director, Larry is a Professor of Entrepreneurship at South Dakota State University in Brookings, South Dakota. Larry was appointed as a director in 1993. He serves on the Board of Directors of the Human Development Institute, Inc. in River Falls, WI, a non-profit educational organization and as an Executive Director for Habitat

for Humanity in Brookings, South Dakota. His term on the board expires in 2009.

Jeffrey Thompson, Director, is a self-employed grain farmer. Jeffrey has served as a director since 1996. His term on the board expires in 2009.

Mary Kay Van Der Geest, Director, is a self-employed dairy farmer. Mary Kay began as a director in 2008. Her term on the board expires in 2010.

Pursuant to our bylaws, directors are paid a reasonable amount for attendance at board meetings, committee meetings or other official activities. Directors are also reimbursed for reasonable expenses incurred in connection with such meetings or special activities. The Board of Directors has adopted a rate of \$350 per full day meeting and a monthly retainer of \$150-200 depending on committee assignment and board leadership position.

Information regarding compensation for each director who served during 2008 follows:

	Number of Days Served		Compensation paid for service on		Name of Committee	Total Compensation Paid in 2008
	Board Meetings	Other Official Activities	a board committee			
Dennis Amundson*	0.5					\$275
Stan Claussen	14.3	15.0				11,300
Scott Gerbig	15.3	10.5				9,725
Jerold Harris*	7.0	12.0				37,500
Jim Huisman	14.3	7.5				8,725
Greg Jans	15.1	11.5				10,205
James Jarvis	14.3	26.5				14,975
Gregory Knorr*	4.5	3.5				3,750
Roger Mohr	14.3	14.0	1,500	Audit		11,750
Dennis Oeltjenbruns	15.8	7.0				8,975
Mark Parker	15.8	7.0				9,775
Don Peterson	14.3	6.5				8,325
Richard Price***	4.3	1.0				2,300
Dick Pooley	15.8	9.0				9,625
Gary Ruegsegger	10.8	11.0	525	Audit		8,925
Marvin Scholze*	9.5	9.5				7,100
JoAnn Smith	15.3	12.5				10,525
Brad Sunderland	15.3	15.5	1,500	Audit		11,775
Larry Swain	15.3	15.0	1,500	Audit		11,650
Jeffrey Thompson	10.3	7.5				7,325
Mary Kay Van Der Geest	15.3	9.5				9,475
Wayland Zaske**	8.5	6.5				5,800
Total	265.9	218.0	\$5,025			\$219,780

* Term expired in 2008

**Voluntary resigned in 2008 to accommodate Board downsizing initiative

*** Elected to Board 2008

The board has a plan in place for an orderly reduction to downsize the board to ten elected directors and a minimum of three appointed directors following the 2010 annual meeting.

SENIOR OFFICERS

The senior officers include:

Marcus L. Knisely, Chief Executive Officer
 Ronald J. Fake, Chief Financial Officer
 Roger Koster, Chief Information Officer
 Jay A. Nickel, Senior Vice President
 Jeffrey A. Schmidt, Chief Credit Officer

All of the senior officers have held their current positions for the past five years. There were no other business interests where a senior officer served as a director or senior officer.

The aggregate amount of compensation paid, and the components of compensation paid, to those whose total annual compensation is among the five highest paid by the association including the senior officers previously noted during 2008 follows (in thousands):

Name of Individual	Year	Salary	Bonus	Deferred/		Total
				Perquisites	Other	
Marcus L. Knisely	2008	\$250	\$150	\$1	\$ --	\$401
Marcus L. Knisely	2007	206	145	2	--	353
Marcus L. Knisely	2006	174	105	1	--	280
Aggregate Number of Highest Paid Employees including senior officers (does not include CEO):						
Seven	2008	\$749	\$301	\$6	\$ --	\$1,056
Seven	2007	672	219	14	542	1,447
Seven	2006	762	278	13	--	1,053

Senior officer incentives are paid annually based on performance criteria approved by the compensation committee of the Board and the Board of Directors. The criteria includes a balanced set of performance targets in the areas of high quality growth, credit quality/credit administration, capital management, marketplace performance, association earnings objectives and employee performance. Performance based compensation is paid in full no later than February 28 of the following year once actual year-end results are known.

Members may request information on the compensation paid during 2008 to the individuals listed in the preceding table.

The 2007 amount in other includes various cash payments, in-kind values, pension and other benefit enhancements for former senior officers.

TRANSACTIONS WITH SENIOR OFFICERS AND DIRECTORS

Information regarding related party transactions is discussed in Note 11 of this annual report.

TRAVEL, SUBSISTENCE AND OTHER RELATED EXPENSES

Directors and senior officers are reimbursed for reasonable travel, subsistence and other related expenses associated with business functions. A copy of our policy for reimbursing these costs is available by contacting us at P.O. Box 1560, Willmar, Minnesota 56201-1560, (320) 235-1912.

The total directors' travel, subsistence and other related expenses were \$137 thousand in 2008, \$135 thousand in 2007, and \$122 thousand in 2006.

INVOLVEMENT IN CERTAIN LEGAL PROCEEDINGS

No events occurred during the past five years that are material to evaluating the ability or integrity of any person who served as a director or senior officer on January 1, 2009 or at any time during 2008.

MEMBER PRIVACY

Farm Credit Administration Regulations protect members' nonpublic personal financial information. Our directors and employees are restricted from disclosing information about our association or our members not normally contained in published reports or press releases.

RELATIONSHIP WITH QUALIFIED PUBLIC ACCOUNTANT

There were no changes in independent auditors since the last annual report to members and we are in agreement with the opinion expressed by the independent auditors. The total fees paid during 2008 were \$28 thousand. The fees paid were for audit services.

FINANCIAL STATEMENTS

The "Report of Management", "Report of Audit Committee", "Report of Independent Auditors," "Consolidated Financial Statements", and "Notes to Consolidated Financial Statements" are presented prior to this portion of the annual report.

CREDIT AND SERVICES TO YOUNG, BEGINNING, AND SMALL FARMERS AND RANCHERS

Information regarding credit and services to young, beginning, and small farmers and ranchers and producers or harvesters of aquatic products is discussed in the "Management's Discussion and Analysis" portion of this annual report.

EQUAL EMPLOYMENT OPPORTUNITY

We are an equal opportunity employer. It is our policy to provide equal employment opportunity to all persons regardless of race, national origin, religion, age, sex, disability, marital status, veteran status, public assistance status, or any other condition or status covered by law. We comply with all state and local equal employment opportunity regulations. We conduct all personnel decisions and processes relating to our employees and job applicants in an environment free of discrimination and harassment.

United FCS, ACA

Funds Held Program

The Association offers a Funds Held Program ("Funds Held") that provides for customers to make advance payments on designated real estate and intermediate term loans. The following terms and conditions apply to all Funds Held unless the loan agreement, or related documents, between the Associations and customer provide for other limitations.

Payment Application

Loan payments received by the Association before the loan has been billed will normally be placed into Funds Held and applied against the next installment due. Loan payments received after the loan has been billed will be directly applied to the installment due on the loan and related charges, if any. Funds received in excess of the billed amount will be placed into Funds Held unless the customer has specified the funds to be applied as a special prepayment of principal.

When a loan installment becomes due, moneys in Funds Held for the loan will be automatically applied toward the installment on the due date. Any accrued interest on Funds Held will be applied first. If the balance in Funds Held does not fully satisfy the entire installment, the customer must pay the difference by the installment due date.

Account Maximum

The amount in Funds Held may not exceed the unpaid principal balance of the loan.

Interest Rate

Interest will accrue on Funds Held at a simple rate of interest that may be changed by the Associations from time to time. The interest rate

may never exceed the interest rate charged on the related loan. Interest rates are currently reported on customer's year-end loan statements.

Withdrawals

Money in Funds Held may be withdrawn at any time, unless restrictions are designated in the loan agreement or other loan documents.

Association Options

In the event of default on any loan, or if Funds Held exceeds the maximum limit as established above, or if the Associations discontinue their Funds Held program, the Associations may apply funds in the account to the unpaid loan balance and other amounts due, and shall return any excess funds to the customer.

Uninsured Account

Funds Held is not a depository account and is not insured. In the event of the lender's liquidation, all borrowers having funds in these uninsured accounts shall be notified in accordance with FCA Regulation 627.2735. The notice shall advise that the funds ceased earning interest when receivership was instituted and all funds will be applied against the outstanding indebtedness of any loans of such borrower unless, within 15 days of notice, the borrower directs the receiver to otherwise apply such funds in the manner provided in existing loan documents.

Questions: Please direct any questions regarding Funds Held to your local FCS representative.



3881 Abbott Drive
PO Box 1560
Willmar MN 56201-1560

PRESORTED
STANDARD
U.S. POSTAGE
PAID
WILLMAR MN
PERMIT #667