



United

FCS

A Financial Services Association

2009

Annual Report

United FCS, ACA

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United FCS, ACA

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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. Quarterly reports are available 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.

MESSAGE FROM THE CHAIRPERSON OF THE BOARD AND CHIEF EXECUTIVE OFFICER

Greetings:

We are pleased to share the achievements of United FCS and the positive results from 2009 operations. We are also proud to share that United FCS continues to be very optimistic about the long-term economic prospects for agriculture and rural America. We have witnessed the severe extremes our shareholders have faced during the past 18 months. Use of the word “volatile” has become commonplace in our conversations and discussions during this current global economic slowdown. The speed and severity of change has kept everyone on high alert throughout 2009. As we prepare this annual update, we’re reminded of Charles Dicken’s famous passage from A Tale of Two Cities, “It was the best of times, it was the worst of times . . .” As a diverse financial services provider with a diverse shareholder base, we know many of you have experienced one and/or both ends of the “times” spectrum. Managing risk has never been more important. Even though most economists feel that the global economy may be approaching a more stable period, the lessons learned through this economic cycle will pay dividends long-term. While we always need to base our lending decisions and counsel on sound judgment/analysis, we also understand the importance of commitment in serving the financial needs of agriculture and rural America and to not be a “fair-weather” provider.

We believe that we have continued to demonstrate our commitment to agriculture and rural America by:

- Distributing \$4.8 million in **cash** patronage from 2009 operations. The Association has **paid out** over \$44 million in cash patronage distributions since the formation of United FCS in 2002.
- Reinvesting in our local service area by constructing two new branch offices to accommodate Association growth. The new Marshfield and Medford branch office facilities provide modern, efficient, and convenient environments for customers and staff. The local economy benefits through construction spending and resale of our former offices for local business expansion. Association growth has also resulted in the need for a larger facility in Willmar. Subsequent to year-end, United FCS acquired 6.4 acres and is currently reviewing options and timelines for building a new facility to serve as a branch office and to house corporate operations.
- Adding over \$10 million to Association risk funds (primarily unallocated surplus) in 2009 to ensure support of current and future generations of patrons.
- Serving nearly 3,000 meals at customer appreciation events and completing over 3,000 “lunch in the field deliveries” throughout 2009.
- Providing access to knowledgeable staff with multifaceted specialties and expertise . . . focused on your success.
- Continuing commitment to convenient delivery of products and services through branch offices, trade credit networks, on farm, and/or online.

We appreciate the confidence you have placed in United FCS. Providing the products, risk management tools, staff expertise, and service to enhance your success is our top priority. We pledge to manage and to guide your Association into the future with a balanced approach that maximizes shareholder value.

As many of you know, having dealt with recent adversity, risk management is about action and results--not just words. We trust that our actions and results demonstrate our long-term commitment.

Thanks for your continued patronage.

Sincerely,



Stan Claussen, Board Chair



Marcus L. Knisely, Chief Executive Officer

March 11, 2010

CONSOLIDATED FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

United FCS, ACA

(Dollars in thousands)

	2009	2008	2007	2006	2005
Statement of Condition Data					
Loans	\$1,062,030	\$969,801	\$900,338	\$814,054	\$722,965
Allowance for loan losses	3,915	2,944	1,599	2,464	2,218
Net loans	1,058,115	966,857	898,739	811,590	720,747
Investment in AgriBank, FCB	33,215	30,257	25,729	25,605	25,605
Investment securities	7,868	13,105	--	--	--
Other property owned	172	100	280	81	52
Other assets	31,422	29,012	28,755	29,856	27,952
Total assets	\$1,130,792	\$1,039,331	\$953,503	\$867,132	\$774,356
Obligations with maturities of one year or less	\$964,070	\$882,159	\$800,394	\$717,508	\$630,765
Total liabilities	964,070	882,159	800,394	717,508	630,765
Protected members' equity	--	--	--	1	1
Capital stock and participation certificates	4,108	3,827	3,812	3,783	3,794
Allocated surplus	--	--	6,763	11,463	10,000
Unallocated surplus	162,614	153,345	142,534	134,377	129,796
Total members' equity	166,722	157,172	153,109	149,624	143,591
Total liabilities and members' equity	\$1,130,792	\$1,039,331	\$953,503	\$867,132	\$774,356
Statement of Income Data					
Net interest income	\$28,082	\$25,241	\$23,894	\$22,591	\$21,130
Provision for (reversal of) loan losses	4,802	1,341	(786)	230	(152)
Compensation income	47	61	63	89	104
Patronage income	5,301	3,880	2,868	2,564	2,332
Other expense, net	13,776	12,906	14,564	13,293	11,582
Provision for (reversal of) income taxes	785	(863)	190	937	613
Net income	\$14,067	\$15,798	\$12,857	\$10,784	\$11,523
Key Financial Ratios					
Return on average assets	1.3%	1.6%	1.4%	1.3%	1.6%
Return on average members' equity	8.8%	10.2%	8.4%	7.3%	8.3%
Net interest income as a percentage of average earning assets	2.8%	2.8%	2.9%	3.0%	3.1%
Members' equity as a percentage of assets	14.7%	15.1%	16.1%	17.3%	18.5%
Net chargeoffs as a percentage of average loans	0.4%	--	--	--	0.1%
Allowance for loan losses as a percentage of loans	0.4%	0.3%	0.2%	0.3%	0.3%
Permanent capital ratio	11.1%	11.8%	13.5%	14.8%	16.0%
Total surplus ratio	10.8%	11.4%	13.1%	14.4%	15.6%
Core surplus ratio	10.8%	11.4%	12.3%	13.4%	14.1%
Other					
Loans serviced for AgriBank, FCB	\$1,425	\$1,869	\$2,803	\$3,841	\$4,898
Qualified patronage distributions payable to members	4,800	4,800	4,704	4,800	4,000
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, 2009 will be distributed in cash during the first quarter of 2010. The qualified patronage distributions accrued for the years ended December 31, 2008, 2007, 2006, and 2005 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 2009, 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 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

This Annual Report includes 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 "anticipate", "believe", "could", "estimate", "may", "should", "will", "expect", 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, energy, financing, and leasing sectors,
- economic conditions and credit performance of our loan portfolio, portfolio growth and seasonal factors,
- changes in our estimates underlying the allowance for loan losses,
- 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 \$1.06 billion at December 31, 2009. The changes in loan volume for the last two years were as follows (in thousands):

Change in loan volume	2009 vs. 2008		2008 vs. 2007	
Accrual				
Mortgage	\$51,500	9.6%	\$4,774	0.9%
Commercial	48,368	11.8%	44,787	12.3%
Nonaccrual	(7,639)	(31.9%)	19,902	496.4%
Total loans	\$92,229	9.5%	\$69,463	7.7%

New loans and higher utilization within existing loans has resulted in increased loan volume, partially offset by the sale of a participation interest discussed below.

In July 2009, we sold \$22.1 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 on these pools is solely at the discretion of the AgriBank Board of Directors. AgriBank historically has paid 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. In May 2008, we sold \$132.8 million of a participation interest in real estate loans to AgriBank under the same program. 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.

Portfolio Distribution

We are chartered to serve certain counties in Minnesota and Wisconsin. Approximately 42.2% of our total loan portfolio was in Renville, Redwood, and Kandiyohi counties in the state of Minnesota and Marathon, Wood, and Clark counties in the state of Wisconsin at December 31, 2009. By state, approximately 48.7% of our portfolio was in Minnesota, 33.6% was in Wisconsin, and 17.7% of our portfolio was in counties outside of our chartered territory that primarily consisted of participations at December 31, 2009.

The Association has a diverse agricultural loan portfolio, with the largest commodity sectors being cash grains at 28.0%, dairy at 17.1%, and other livestock at 9.4% of our total portfolio at December 31, 2009.

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 operating and capital needs.

Financial Market Volatility

The Farm Credit System continues to fulfill its mission and be a reliable source of debt capital for farmers, ranchers, and other rural businesses that we serve. In the second half of 2008, negative economic developments in the global financial markets created a high level of volatility among financial institutions in general. During 2009, the severe stress in the financial markets began to and has continued to stabilize. Throughout this period of financial market volatility, AgriBank, which provides us with our funding needs, has been able to access the debt capital markets across the yield curve. This has enabled us to continue receiving the funding to support our full array of loan products. We have responded to funding challenges with appropriate actions, including adjusting loan structures and payment terms, and in appropriate cases, increased pricing to customers.

Agricultural and Economic Conditions

The Food, Conservation, and Energy Act of 2008 (FCEA/farm bill) was enacted into law in June 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. Such support may be unable to cover operating losses due to the dramatic changes in commodity prices for inputs as well as outputs. Also, FCEA provides a new income support program called Average Crop Revenue Election (ACRE), which provides countercyclical support to farmers of many major commodities and it is based on average statewide farm income of recent years rather than more local average incomes. Enrollment in ACRE is low, however, so at an aggregate level ACRE is not a significant source of farm support. Instead, federal farm support revenue has shifted to subsidized crop insurance programs which, with revenue insurance products, now provide more federal support for farm operations than traditional farm support programs.

U.S. net farm income reached record levels in 2008, but the forecast for 2009 is significantly lower. Strong agricultural economic conditions in 2008 were the result of record high prices for agricultural commodities through the third quarter and the continued positive impact of government programs, but those conditions have changed in 2009. The United States Department of Agriculture ("USDA") now forecasts 2009 net farm income to be \$54.0 billion in 2009, down \$33.2 billion (38%) from 2008. This is \$9.2 billion below the average of \$63.2 billion earned in the last 10 years.

Cash Grain Farms of Corn/Soybeans: Although dramatically lower than 2008, the value of U.S. crop production for 2009 is projected to remain \$47.0 billion above the average value of crop production over the previous 10 years. Corn and soybean crops in our local service area produced above average yields, based on projected USDA surveys. It is expected that these sectors of our portfolio will continue to be profitable in 2010.

Dairy Farms: Dairy producers have experienced the lowest margins in over 30 years (at times) during 2009 due to milk prices dropping to government support levels coupled with historically high feed costs. Presently, for many operations, nearly 50 percent of milk revenue is going to cover feed cost, which is at all-time levels. USDA's forecast projects a \$12 billion year over year drop in the value of US dairy production. The outlook is for Class III milk prices to increase in 2010, eventually back to break-even levels or slightly above for most of 2010. Expectations for margins to start improving are based on a forecasted drop in cow numbers due to increased culling by U.S. dairy producers in response to the significant losses incurred during the first part of 2009 and increased demand for dairy products.

General Livestock: Our exposure to poultry and eggs, hogs and cattle on an individual commodity 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. The continuation of the economic slowdown that began in late 2008 continues to impact all of these segments due to weaker domestic and world demand for their products. This has forced these industries to try to rebalance supply with lower demand through production cutbacks. The results have been mixed to date.

During 2009, the hog sector has experienced significant losses (upwards to \$40/head) due to continued supply and demand imbalances caused by reduced demand due to worsening economic conditions and the general public's unfounded concerns associated with H1N1 influenza. The near-term outlook is for the hog industry to continue to operate at below break-even levels into the first two quarters of 2010.

The outlook for the poultry industry is improving, as some operations (primarily in the broiler segment) returned to profitability in third quarter 2009. This was due to the industry's significant cutback in production balancing supplies with demand, resulting in improved product prices coupled with decreased feed costs. The turkey industry supply and demand balance has been slower to correct than broilers.

Other crops: Sugar beets, potatoes, cranberries and all other fruits and vegetable crops make up less than five percent of our total portfolio on an individual commodity basis. However, on a combined basis these commodities play an important role in our local service area. In general, these commodities have experienced good production conditions, favorable pricing opportunities and remain profitable.

Ethanol: The ethanol industry outlook has improved, operating at a profit in the last quarter of 2009. However, a majority of plants operated at below break-even levels for 2009, primarily due to higher corn costs and lower ethanol values. With higher projected gas demand and resulting price increases forecasted for 2010, it is expected that ethanol prices will also increase into 2010. We expect that with these higher returns within the industry, 2010 will generally show the industry operating at a slight loss or break-even level.

Some agriculture and bio-fuel sectors will face challenges in to 2010 due to 2009 losses caused from weakening demand from the global economic slowdown, continued access to capital to finance losses, and higher 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	2009	2008	2007
Loans:			
Accruing restructured	\$1,446	\$889	\$5,584
Past due 90 days or more still accruing	403	330	44
Nonaccrual	16,272	23,911	4,009
Total risk loans	18,121	25,130	9,637
Other property owned	172	100	280
Total risk assets	\$18,293	\$25,230	\$9,917
Risk loans			
as a percentage of total loans	1.7%	2.6%	1.1%
Total delinquencies			
as a percentage of total loans	1.5%	1.2%	0.3%

Based on our analysis, all loans 90 days or more past due and still accruing interest were adequately secured and in the process of collection and, as such, were eligible to remain in accruing status.

The decrease in nonaccrual loans was primarily due to the transaction described below. The volume of nonaccrual loans remained at a manageable level at December 31, 2009, and represented 1.5% of our total portfolio. At December 31, 2009, 21.1% of our nonaccrual loans were current. Total risk loans as a percentage of total loans remains well within our established risk management guidelines.

In April 2009, a portion of our nonaccrual volume related to certain ethanol facilities was transferred into other property owned, representing our interest in certain ethanol loans. The acquired properties were held in limited liability companies formed by the lenders for that purpose. The total amount of our share of the acquired properties was \$6.5 million, of which substantially all was sold in 2009. We financed the sales of the acquired properties and all of the loans underlying the financed sales were classified as accrual at December 31, 2009.

Because of the financial stress in certain sectors of our portfolio, the credit quality of our portfolio declined during 2009. Adversely classified assets increased to 3.8% of the portfolio at December 31, 2009, from 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.

In certain circumstances, we use various government guarantee programs to reduce the risk of loss. At December 31, 2009, \$35.5 million of our loans were, to some level, guaranteed under these government programs.

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.

Comparative allowance coverage of various loan categories follows:

As of December 31	2009	2008	2007
Allowance as a percentage of:			
Loans	0.4%	0.3%	0.2%
Nonaccrual loans	24.1%	12.3%	39.9%
Total risk loans	21.6%	11.7%	16.6%
Net chargeoffs as a percentage of average loans	0.4%	--	--
Adverse assets to risk funds	29.7%	26.7%	10.1%

The increase in our allowance for loan losses reflects specific industry reserves particular to segments of our portfolio. At December 31, 2009, we had established reserves for systemic industry risk in the amount of \$2,787 thousand associated with portfolio segments of dairy, poultry, ethanol, and swine.

These incremental reserves were partially offset by decreases in the general allowance for the remainder of the portfolio. In our opinion, the allowance for loan losses was reasonable in relation to the probable losses in the loan portfolio at December 31, 2009.

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, assistance and advice to young, beginning and small farmers that support their long-term success.

Purpose

This Young, Beginning and Small Farmer Business Plan Summary affirms our commitment to serving this farmer segment.

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, United, 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 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, we take our 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.

We operate 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, and 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 the 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 2007 USDA National Agricultural Statistic Service, 2007 Census of Agricultural – Minnesota/Wisconsin County Data.

YBS Categories	LSA Information		United YBS Customers as a % of:				United Long-term YBS Customer Goals as a % of Total Customers
	Total Farmers in LSA Per YBS Category	As % of Total Farmers*	12/31/09 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**	
Young Farmers	1,724	8.21%	1,319	6.28%	76.51%	26.37%	30%
Beginning Farmers	4,428	21.09%	1,457	6.94%	32.90%	29.13%	30%
Small Farmers	17,503	83.36%	3,119	14.85%	17.82%	62.37%	70%

* LSA total farmer count is: 20,997

** United's total loan/lease customer count is: 5,001

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 12/31/09				
	# Loans / Leases	% of Assn. Loans / Leases	Goals		
			2010	2011	2012
Young	2,335	22.05%	23%	24%	25%
Beginning	2,278	21.51%	23%	24%	25%
Small	5,098	48.15%	50%	50%	50%
*10,588 United loans/leases as of 12/31/09					

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.

Financial Related Services

In addition to the 5,001 loan/lease customers, we also have approximately 1,300 customers who only purchase financial related services products. Of the approximately 6,300 total customers, about 60% of them purchase one or more financial related service products.

It is our three year goal (2010-2012) to maintain these high levels of utilization of financial related services within the YBS segment.

Marketplace Situation Analysis

We have met 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, we have served 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 utilized 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 all normal 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.

We played a leadership role in the development, education and promotion of the Dairy Investment Tax Credit (within our Wisconsin marketplace) which became law and as a result more than \$500 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 for Dairy State Academy (\$25,000), which is a hands-on teaching school for farmers to gain additional experience and education in agriculture was also provided. We also co-sponsor the Wisconsin Farm Bureau Young Farmer Conference, with some 300 attendees. We were 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 12/31/09	Goal for 2010	Goal for 2011	Goal for 2012
RFA Loan Program (MN)	19	27	27	28
FSA Guarantee	95	100	105	110
AgBMP (MN)	18	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.

FFA Involvement

We have been a long-time supporter of the FFA in MN and WI. The support is both at the local high school or chapter level and at the State Foundation level.

We serve as a sponsor for multiple FFA events as well as providing financial support to the State FFA Conventions.

We, through our twelve local offices, actively support local FFA Chapters and community High School Ag programs. Our staff participates on advisory committees and our local offices support local FFA chapters with various financial contributions.

Assistance Opportunities

We offer opportunities for assistance to YBS farmers. We assist Young farmers with FSA Guarantee loan fees. We allocate a pool of \$31,500 for this purpose, with a maximum of \$3,000 per customer. For customers who qualify as both Young and Beginning farmer status, we offer two other forms of assistance:

- all or part of loan origination fees may be waived, and
- a customer may be reimbursed for up to \$1,000 worth of Educational & Business Management Programs/Practices.

We support YBS Farmers through:

- modified core credit underwriting standards balanced with prudent credit risk management designed to assist the Young and Beginning segments of our portfolio,
- subsidized interest rate products for Young and Beginning farmers,
- our commitment that all market outreach programs/channels are offered to all producers irrespective of their age, gross farm income or years farming,
- Continuing Education Scholarships, and
- sponsorship of 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, 13 and 14.

Investments

In addition to loans, we hold investments. Investments represent our share of securities made up of investment notes in a trust of equipment loans. These were purchased through our participation in FCS Commercial Finance Group. Investments totaled \$7.9 million at December 31, 2009 and \$13.1 million at December 31, 2008.

The investment portfolio is evaluated for other-than-temporary impairment. To date, we have not had to recognize any impairment on our investment portfolio.

Results of Operations

The following table illustrates profitability information (in thousands):

For the year ended December 31	2009	2008	2007
Net income	\$14,067	\$15,798	\$12,857
Return on average assets	1.3%	1.6%	1.4%
Return on average members' equity	8.8%	10.2%	8.4%

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):

	2009 vs. 2008	2008 vs. 2007
Increase (decrease) in net income		
Net interest income	\$2,841	\$1,347
Provision for (reversal of) loan losses	(3,461)	(2,127)
Patronage income	1,421	1,012
Financially related services and miscellaneous income, net	(232)	1,819
Operating expenses	(652)	(163)
Provision for (reversal of) income taxes	(1,648)	1,053
Total change in net income	(\$1,731)	\$2,941

Net Interest Income

Net interest income was \$28.1 million for the year ended December 31, 2009. The following table quantifies changes in net interest income (in thousands):

	2009 vs. 2008	2008 vs. 2007
Changes in net interest income due to:		
Changes in volume	\$1,354	\$1,245
Changes in rates	1,137	(15)
Changes in nonaccrual income and other	350	117
Net change	\$2,841	\$1,347

Net interest income included income on nonaccrual loans that totaled \$425 thousand in 2009, \$281 thousand in 2008, and \$98 thousand in 2007. 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 2009, 2.8% in 2008, and 2.9% in 2007.

Provision for Loan Losses

The variance in the provision for loan losses, comparing 2009 to 2008, is due to increased risk in the portfolio, as discussed in the Analysis of the Allowance for Loan Losses above, combined with the level of loan chargeoffs recorded in 2009.

Patronage Income

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 \$2.6 million in 2009, \$2.2 million in 2008, and \$2.5 million in 2007. Changes in our note payable to AgriBank and patronage rate changes caused the variances in the patronage income amounts. The patronage rates paid by AgriBank were 30 basis points in 2009, 27 basis points in 2008, and 34 basis points in 2007.

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. We received patronage income in an amount that approximates the net earnings of those loans. Net earnings represents the net interest income associated with these loans adjusted for certain fees and costs specific to the related loans as well as adjustments deemed appropriate by AgriBank related to the credit performance of the loans, as applicable. Similar to the patronage on our note payable described above, we also received patronage income based on the estimated note payable of the asset pool loans. Patronage declared on these pools is solely at the discretion of the AgriBank Board of Directors. We recorded asset pool patronage income of \$2.7 million in 2009 and \$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. The equalization rate is set by AgriBank's Board of Directors and is targeted at the average cost of funds for all affiliated associations as a group. As of May 31, 2008, we no longer had any excess stock in AgriBank, FCB. Equalization income totaled \$142 thousand for 2008 and \$409 thousand for 2007.

We also receive patronage from CoBank, ACB. This patronage income totaled \$15 thousand in 2009, \$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 \$8 thousand in 2009, \$4 thousand in 2008 and \$3 thousand in 2007.

Financially Related Services and Miscellaneous Income, Net

The decline in financially related services and miscellaneous income, net is primarily due to a decrease in multi-peril insurance commission income that resulted from lower crop insurance premiums caused by reduced coverage levels from lower commodity prices, partially offset by an increase in loan fee income.

We originated rural home loans for resale in the secondary market. We sold loans through the secondary market totaling \$293 thousand in 2009, \$17.7 million in 2008, and \$22.8 million in 2007. The fee income from this activity

totalled \$1 thousand in 2009, \$182 thousand in 2008, and \$205 thousand in 2007.

Operating Expense

The following presents a comparison of operating expense 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	2009	2008	2007
Salaries and benefits	\$13,055	\$12,660	\$12,565
Purchased and vendor services	1,306	1,406	2,012
Communications	216	232	251
Occupancy and equipment	1,606	1,546	1,345
Advertising and promotion	689	837	763
Examination	402	390	343
Farm Credit System insurance	1,909	1,370	1,212
Other	1,909	1,999	1,786
Total	\$21,092	\$20,440	\$20,277
Operating rate	2.1%	2.2%	2.4%

The operating expense increases were primarily related to Farm Credit System insurance. Our operating rate improved in 2009 compared to 2008 recognizing that our expenses increased at a slower rate than our growth in average loan volume. Additional insurance expense information is included in Note 1.

Provision for (Reversal of) Income Taxes

We recorded tax expense of \$785 thousand for the year ended December 31, 2009, a reversal of \$863 thousand for the year ended December 31, 2008, and expense of \$190 thousand for 2007. Patronage distributions to members, including the redemption of certain prior year nonqualified patronage distributions, reduced our tax liability in 2009, 2008, and 2007. The changes in provision for income taxes are primarily related to variances in the deductible patronage, including the redemption of nonqualified patronage distributions in 2008 and 2007.

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 2009, our average balance was \$873.8 million with an average interest rate of 2.2%. Our average balance during 2008 was \$799.5 million with an average interest rate of 3.6% and during 2007 our average balance was \$721.1 million with an average interest rate of 5.2%. 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, 2009, we had \$99.6 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 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 interest rate risk.

Capital Adequacy

Total members' equity increased \$9.6 million during 2009 due to net income for the period plus an increase in capital stock and participation certificates outstanding, partially offset by patronage distribution accruals.

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

As of December 31	2009	2008	2007
Members' equity	\$166,722	\$157,172	\$153,109
Surplus as a percentage of members' equity	97.5%	97.6%	97.5%
Surplus as a percentage of risk adjusted assets	13.8%	14.4%	15.6%
Permanent capital ratio	11.1%	11.8%	13.5%
Total surplus ratio	10.8%	11.4%	13.1%
Core surplus ratio	10.8%	11.4%	12.3%

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, 2009, 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 target surplus as a percentage of risk adjusted assets ratio. This target supports 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, 2009, our optimum surplus as a percentage of risk adjusted assets ratio target was 14%, with an acceptable minimum range of 12-14%.

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 \$172.2 million of CFG volume at December 31, 2009, \$186.3 million at December 31, 2008, and \$107.6 million at December 31, 2007. We also had \$117.7 million of available commitment on CFG loans at December 31, 2009.

As the facilitating association for CFG, we are compensated to provide various support functions. This includes technology, human resources, accounting, payroll, reporting, and other finance functions. As the facilitating association, we also serve as the primary originating association for CFG participation purchases and sales.

ProPartners Financial

We participate in ProPartners Financial (ProPartners) with other associations in North Dakota, Minnesota, Illinois, Wisconsin, and Michigan. ProPartners provides financing programs for clients of agribusiness companies. ProPartners 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 volume. Each association's allocation is established according to a prescribed formula. We had \$13.7 million of ProPartners volume at December 31, 2009, \$14.0 million at December 31, 2008, and \$11.2 million at December 31, 2007.

Trade Credit

We have entered into agreements with certain dealer and input provider 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 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 the Investments 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 and businesses. These investments will help to increase their well-being and prosperity by providing an adequate flow of capital into rural areas. We had \$40.9 million of volume under this pilot program outstanding at December 31, 2009, \$24.0 million at December 31, 2008, and \$7.1 million at December 31, 2007.

Relationship with AgriBank

Borrowings

We borrow from AgriBank to fund our lending operations in accordance with the Farm Credit Act. 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 spread component, which includes cost of servicing, bank profit, and Funding Corporation debt issuance costs, and
- a risk premium component, if applicable.

In the periods presented, we were not subject to the risk premium component. Effective in 2010, an additional 2.8 basis points has been added to the spread component related to the cost of AgriBank's new liquidity plan. 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, 2009, we were required to maintain a common stock investment equal to 2.5% of the average quarterly balance of our note payable to AgriBank plus an additional 1% on growth that exceeded a targeted rate. We have not exceeded this targeted growth rate and have not been assessed this 1% additional investment. AgriBank's current bylaws allow AgriBank to increase the required investment to 4%.

In addition, as described in the Loan Portfolio section of this report, in July 2009 we sold \$22.1 million and in May 2008, we sold \$132.8 million of participation interests in real estate loans to AgriBank. As part of these transactions, 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, 2009, \$26.2 million of our investment in AgriBank consisted of stock representing distributed AgriBank surplus and \$7.0 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 different types of discretionary patronage from AgriBank. AgriBank's Board of Directors sets the level of patronage for each of the following:

- patronage based on the average balance of our note payable with AgriBank,
- patronage based on the balance and net earnings of the pool of loans sold to AgriBank, and
- equalization income based on our preferred stock or growth required stock investment in AgriBank.

As of May 31, 2008, we no longer had any excess common stock in AgriBank.

Beginning in 2009, patronage income on our note payable with AgriBank was received in the form of cash and AgriBank stock.

Purchased Services

We purchase various services from AgriBank including certain:

- information systems,
- financial services,
- accounting and reporting services,
- retail product processing and support, and
- human resource support services.

The total cost of services we purchased from AgriBank was \$776 thousand in 2009, \$811 thousand in 2008, and \$748 thousand in 2007.

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 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.

Relationship with Other Farm Credit Institutions

Insight Technology Unit

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

As the facilitating association for Insight, we provide, and are compensated for, various support functions. This includes human resources, accounting, payroll, reporting and other finance functions.

Investment in 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, 2009, our required equity investment in CoBank, ACB was \$13 thousand. CoBank, ACB provides wholesale loan funds to associations located in its chartered territory and also makes direct loans to cooperatives and other eligible borrowers.

We also have a relationship with Farm Credit Services of America, ACA, another association in the AgriBank District, 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 (the Association) 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 the Association. 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 the Association.

The undersigned certify we have reviewed the Association'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.



Stan Claussen
Chairperson of the Board
United FCS, ACA



Marcus L. Knisely
Chief Executive Officer
United FCS, ACA



Ronald J. Fake
Chief Financial Officer
United FCS, ACA

March 11, 2010

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

United FCS, ACA



The United FCS, ACA (the Association) principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining adequate internal control over financial reporting for the Association's consolidated financial statements. For purposes of this report, "internal control over financial reporting" is defined as a process designed by, or under the supervision of the Association's principal executives and principal financial officers, or persons performing similar functions, and effected by its boards of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting information and the preparation of the consolidated financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America and includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Association, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial information in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Association, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Association's assets that could have a material effect on its consolidated financial statements.

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of December 31, 2009. In making the assessment, management used the framework in Internal Control — Integrated Framework, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Association concluded that as of December 31, 2009, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association determined that there were no material weaknesses in the internal control over financial reporting as of December 31, 2009.



Marcus L. Knisely
Chief Executive Officer
United FCS, ACA



Ronald J. Fake
Chief Financial Officer
United FCS, ACA

March 11, 2010

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 of the members Board of Directors of United FCS, ACA (the Association). 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, 2009, 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, 2009.



Roger Mohr
Chairperson of the Audit Committee
United FCS, ACA

William Oemichen
Gary Ruegsegger
Bradley Sunderland

March 11, 2010

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, 2009, 2008 and 2007, 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

March 11, 2010

CONSOLIDATED STATEMENT OF CONDITION

United FCS, ACA

(Dollars in thousands)

As of December 31	2009	2008	2007
ASSETS			
Loans	\$1,062,030	\$969,801	\$900,338
Allowance for loan losses	3,915	2,944	1,599
Net loans	1,058,115	966,857	898,739
Investment in AgriBank, FCB	33,215	30,257	25,729
Investment securities	7,868	13,105	--
Accrued interest receivable	9,573	9,213	12,071
Premises and equipment, net	8,179	6,479	5,498
Other property owned	172	100	280
Assets held for lease, net	6,459	7,429	5,995
Other assets	7,211	5,891	5,191
Total assets	\$1,130,792	\$1,039,331	\$953,503
LIABILITIES			
Note payable to AgriBank, FCB	\$946,460	\$862,494	\$778,504
Accrued interest payable	4,562	6,688	9,592
Patronage distribution payable	4,800	4,800	4,704
Net deferred income tax liability	2,226	2,118	1,480
Other liabilities	6,022	6,059	6,114
Total liabilities	964,070	882,159	800,394
Contingencies			
MEMBERS' EQUITY			
Capital stock and participation certificates	4,108	3,827	3,812
Allocated surplus	--	--	6,763
Unallocated surplus	162,614	153,345	142,534
Total members' equity	166,722	157,172	153,109
Total liabilities and members' equity	\$1,130,792	\$1,039,331	\$953,503

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	2009	2008	2007
Interest income	\$47,135	\$54,274	\$61,416
Interest expense	19,053	29,033	37,522
Net interest income	28,082	25,241	23,894
Provision for (reversal of) loan losses	4,802	1,341	(786)
Net interest income after provision for (reversal of) loan losses	23,280	23,900	24,680
Other income			
Patronage income	5,301	3,880	2,868
Financially related services and miscellaneous income, net	7,363	7,595	5,776
Total other income	12,664	11,475	8,644
Operating expense			
Salaries and employee benefits	13,055	12,660	12,565
Other operating expense	8,037	7,780	7,712
Total operating expense	21,092	20,440	20,277
Income before income taxes	14,852	14,935	13,047
Provision for (reversal of) income taxes	785	(863)	190
Net income	\$14,067	\$15,798	\$12,857

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, 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	--	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
Net income	--	--	--	14,067	14,067
Unallocated surplus designated for patronage distribution	--	--	--	(4,798)	(4,798)
Capital stock/participation certificates issued	--	593	--	--	593
Capital stock/participation certificates retired	--	(312)	--	--	(312)
Balance at December 31, 2009	\$ --	\$4,108	\$ --	\$162,614	\$166,722

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	2009	2008	2007
Cash flows from operating activities			
Net income	\$14,067	\$15,798	\$12,857
Adjustments to reconcile net income to cash flows from operating activities:			
Depreciation on premises and equipment	874	786	735
Depreciation on assets held for lease	1,519	1,184	1,500
Provision for (reversal of) loan losses	4,802	1,341	(786)
Stock patronage received from AgriBank, FCB	(647)	--	--
(Increase) decrease in accrued interest receivable	(477)	2,772	(370)
(Increase) decrease in other assets	(1,320)	(700)	218
(Decrease) increase in accrued interest payable	(2,126)	(2,904)	740
Increase in other liabilities	24	583	317
Gain on sale of other property owned	(34)	--	(3)
Write down of other property owned	--	180	--
Loss (gain) on sale of premises and equipment	8	57	(118)
Gain on sale of assets held for lease	--	(100)	(65)
Total adjustments	2,623	3,199	2,168
Net cash provided by operating activities	16,690	18,997	15,025
Cash flows from investing activities			
Increase in loans, net	(95,631)	(69,126)	(86,242)
Increase in investment in AgriBank, FCB, net	(2,311)	(4,528)	(124)
Decrease (increase) in investment securities, net	5,237	(13,105)	--
Decrease in other property owned, net	81	--	175
Purchases of assets held for lease, net	(549)	(2,518)	(203)
Purchases of premises and equipment, net	(2,582)	(1,824)	(878)
Net cash used in investing activities	(95,755)	(91,101)	(87,272)
Cash flows from financing activities			
Increase in note payable to AgriBank, FCB, net	83,966	83,990	81,925
Patronage distributions	(4,798)	(11,654)	(9,496)
Capital stock and participation certificates retired, net	(103)	(232)	(182)
Net cash provided by financing activities	79,065	72,104	72,247
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	\$578	\$514	\$431
Stock applied against loan principal	194	267	221
Interest transferred to loans	117	86	282
Loans transferred to other property owned	6,535	--	371
Patronage distributions payable to members	4,800	4,800	4,704
Financed sales of other property owned	6,463	--	--
Deferred gain related to financed sales of other property owned	47	--	--
Supplemental information			
Interest paid	\$21,179	\$31,937	\$36,782
Taxes paid (refunded), net	596	(1,031)	1,122

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, 2009, the Farm Credit System consisted of four Farm Credit Banks, one Agricultural Credit Bank, and 89 associations. AgriBank and its affiliated associations are collectively referred to as the District. At December 31, 2009, 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 (FCA) is authorized by Congress to regulate the Farm Credit System banks and associations. We are examined by FCA and certain association actions are subject to the prior approval of FCA and/or AgriBank.

Farm Credit Insurance Fund: The Farm Credit Act established the Farm Credit System Insurance Corporation (Insurance Corporation) to administer the Farm Credit Insurance Fund (Insurance Fund). The 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 Insurance Corporation, the Insurance Fund is also available to provide assistance to certain troubled Farm Credit System institutions and for the operating expenses of the Insurance Corporation. Each Farm Credit System bank has been required to pay premiums into the Insurance Fund until the assets in the Insurance Fund equal 2% of the aggregated insured obligations adjusted to reflect the reduced risk on loans or investments guaranteed by federal or state governments. This percentage of aggregate obligations can be changed by the Insurance Corporation, at its sole discretion, to a percentage it determines to be actuarially sound.

Effective July 1, 2008, 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. AgriBank, in turn, assesses the associations' premiums each year based on these same factors. Prior to July 1, 2008, the premiums were based on annual average loan principal outstanding and 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. 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, holds certain types of investments, and provides lease financing options for agricultural production or operating purposes.

We offer various risk management services, including credit life, term life, credit disability, livestock risk protection, 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

Accounting Principles and Reporting Policies

Our accounting and reporting policies conform to accounting principles generally accepted in the United States of America (GAAP) and the prevailing practices within the financial services industry. Preparing financial statements in conformity with GAAP 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.

Principles of Consolidation

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.

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. 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 and included as an adjustment to yield. 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.

Investment Securities: 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 adjusted for the amortization of premiums and accretion of discounts. If an investment is determined to be other-than-temporarily impaired, the impairment loss is taken through earnings in the period of impairment and the amortized cost of the investment is reduced by the amount of impairment.

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 concentration, and
- current economic and environmental conditions.

Loans in our portfolio that are considered impaired are analyzed individually 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 generally 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 we deem a loan to be uncollectible, 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.

An allowance is recorded for probable and estimable credit losses as of the financial statement date for loans that are not individually assessed as impaired.

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 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: 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.

Certain employees participate in the defined benefit retirement plan of the Seventh Farm Credit District. The plan is comprised of two benefit formulas. Effective October 1, 2001, 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.

We also provide certain health insurance benefits to eligible retired employees according to the terms of the benefit plan. Prior to December 1, 2008, retirees were also provided with a life insurance benefit. The anticipated cost of these benefits is accrued during the employee's active service period.

Income Taxes: The ACA and PCA accrue federal and certain state income taxes. The ACA and PCA are exempt from Minnesota state 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. 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.

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 of each subsequent year.

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

Fair Value Measurement: The Financial Accounting Standards Board (FASB) guidance on "Fair Value Measurements" describes three levels of inputs that may be used to measure fair value.

Level 1 — Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 — Observable inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly. Level 2 inputs include the following:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in markets that are not active so that they are traded less frequently than exchange-traded instruments, the prices are not current or principal market information is not released publicly;
- inputs that are observable such as interest rates and yield curves, prepayment speeds, credit risks and default rates and
- inputs derived principally from or corroborated by observable market data by correlation or other means.

Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. These unobservable inputs reflect the reporting entity's own assumptions about assumptions that market participants would use in pricing the asset or liability. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Recently Issued or Adopted Accounting Pronouncements

Effective January 1, 2009, we adopted accounting guidance for fair value measurements of nonfinancial assets and nonfinancial liabilities. The impact of adoption resulted in additional fair value disclosures, but did not have an impact on our financial condition or results of operations.

In April 2009, the FASB issued new guidance on investment fair value measurements and impairments. The new guidance was effective for interim periods ending after June 15, 2009, with early application permitted for periods ending after March 15, 2009. We adopted the guidance during the second quarter of 2009. The impact of adoption resulted in additional investment disclosures, but did not have an impact on our financial condition or results of operations.

In May 2009, the FASB issued guidance, "Subsequent Events", which sets forth general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Under this Standard, subsequent events that arise from conditions that existed at the date of the balance sheet are recognized in the financial statements, while subsequent events

that arise from conditions that did not exist as of the balance sheet date are not recognized in the financial statements. The guidance, which includes a required disclosure of the date through which an entity has evaluated subsequent events, was effective for interim or annual periods ending after June 15, 2009.

In June 2009, the FASB issued new guidance, "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles." This Codification became the source of authoritative U.S. generally accepted accounting principles recognized by the FASB. This guidance was effective for financial statements issued for interim and annual periods ending after September 15, 2009. This guidance impacted how we refer to guidance in our disclosures but did not have an impact on our financial condition or results of operations.

In December 2008, the FASB issued new guidance that expands the disclosures required in an employer's financial statements about pension and other postretirement benefits plan assets. The disclosures include more details about the categories of plan assets and information regarding fair value measurements. The guidance was effective for fiscal years ending after December 15, 2009. The impact of adoption resulted in additional District level benefit plan disclosures, but did not have an impact on our financial condition or results of operations.

In June 2009, the FASB issued guidance on "Accounting for Transfers of Financial Assets," which amends previous guidance by providing clarification of the requirements for isolation and limitations on portions of financial assets that are eligible for sale accounting. The guidance also requires additional disclosure about transfers of financial assets and a transferor's continuing involvement with transferred assets. This guidance is effective as of January 1, 2010. This guidance must be applied to transfers occurring on or after the effective date. Adoption of this guidance is not expected to 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, 2009	Amount	Percentage
Long-term agricultural mortgage	\$506,477	23.9%
Production	411,611	19.4%
Intermediate term	173,647	8.2%
Finance leases	10,434	0.5%
Rural home	7,460	0.4%
Processing and marketing	21,730	1.0%
Participations purchased	931,218	43.9%
Mission related investments	40,828	1.9%
Other	16,606	0.8%
Subtotal	2,120,011	100.0%
Participations sold	(1,057,981)	
Total loans	\$1,062,030	

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	0.5%
Participations purchased	967,771	47.2%
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	

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, 2009	Participations	
	Purchased	Sold
Participations purchased from/sold to:		
AgriBank, FCB	\$ --	\$187,408
Other Farm Credit System institutions	794,016	863,981
Non-Farm Credit System institutions	137,202	6,592
Total participations purchased/sold	\$931,218	\$1,057,981

The AgriBank participation volume is largely due to participation interests in real estate loans. The other participation volume is largely due to participations on loans to agribusinesses.

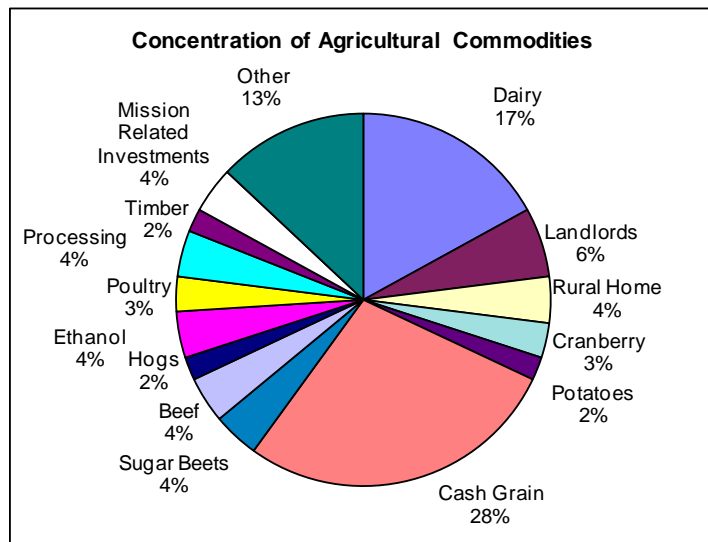
Included in the AgriBank activity above, we sold \$22.1 million of a participation interest in real estate loans to AgriBank in 2009 and \$132.8 million in 2008. At December 31, 2009, the balance remaining in these participation interests totaled \$131.0 million. We received \$2.7 million of asset pool patronage in 2009 and \$1.6 million in 2008 related to these participations.

Portfolio Concentrations

We have concentrations with individual borrowers, within various agricultural commodities and within our chartered territory.

At December 31, 2009, volume plus commitments to our ten largest borrowers totaled an amount equal to 65% of members' equity.

Our agricultural commodity concentrations at December 31, 2009, 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 42.2% of our total loan portfolio was in Renville, Redwood, and Kandiyohi counties in the state of Minnesota and Marathon, Wood, and Clark counties in the state of Wisconsin at December 31, 2009. By state, approximately 48.7% of our portfolio was in Minnesota, 33.6% was in Wisconsin, and 17.7% of was in counties outside of our chartered territory that primarily consisted of participations at December 31, 2009.

While these various portfolio 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 information (in thousands). Accruing volume includes accrued interest receivable.

As of December 31	2009	2008	2007
Nonaccrual loans:			
Current as to principal and interest	\$3,437	\$16,147	\$2,049
Past due	12,835	7,764	1,960
Total nonaccrual loans	16,272	23,911	4,009
Accruing restructured loans	1,446	889	5,584
Loans past due 90 days or more still accruing	403	330	44
Total risk loans	\$18,121	\$25,130	\$9,637
Volume with specific reserves	\$2,886	\$16,014	\$1,730
Volume without specific reserves	15,235	9,116	7,907
Total risk loans	\$18,121	\$25,130	\$9,637
Total specific reserves	\$736	\$1,856	\$458
For the year ended December 31	2009	2008	2007
Income on accrual risk loans	\$82	\$153	\$452
Income on nonaccrual loans	425	281	98
Total income on risk loans	\$507	\$434	\$550
Average recorded investment	\$21,941	\$14,907	\$10,223

We did not have any material commitments to lend additional money to borrowers whose loans were at risk at December 31, 2009.

All loans 90 days or more past due and still accruing interest were adequately secured and in the process of collection and, as such, were eligible to remain in accruing status.

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 \$5.5 million at December 31, 2009, \$6.0 million at December 31, 2008, and \$6.5 million at December 31 2007. Fees paid to Farmer Mac for these commitments totaled \$28 thousand in 2009, \$34 thousand in 2008, and \$36 thousand in 2007. These amounts are included in "Operating expense" on the Consolidated Statement of Income. As of December 31, 2009, no sales of loans to Farmer Mac have been made under this agreement.

Investment Securities

Beginning in 2008, we have held investment securities consisting of investment notes in a trust of equipment loans. The following table presents the book value, unrealized gains/losses, fair value and the weighted average yield of the investment securities (in thousands).

As of December 31	2009	2008
Book value	\$7,868	\$13,105
Gross unrealized gains	92	--
Gross unrealized losses	(1)	(1,289)
Estimated fair value	\$7,959	\$11,816
Weighted Average Yield	3.9%	4.3%

Income on these investment securities is recorded in interest income and totaled \$442 thousand in 2009 and \$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	2009	2008	2007
Balance at beginning of year	\$2,944	\$1,599	\$2,464
Provision for (reversal of) loan losses	4,802	1,341	(786)
Loan recoveries	5	13	27
Loan chargeoffs	(3,836)	(9)	(106)
Balance at end of year	\$3,915	\$2,944	\$1,599

The increase in allowance for loan losses is primarily related to continuing financial stress in the animal protein (hogs, poultry, and dairy) and ethanol sectors, resulting in a slight overall deterioration in credit quality.

NOTE 5: INVESTMENT IN AGRIBANK

At December 31, 2009, we were required by AgriBank to maintain an investment in common stock equal to 2.5% of the average quarterly balance of our note payable to AgriBank plus an additional 1% on growth that exceeded a targeted rate. We have not exceeded this targeted growth rate and have not been assessed this 1% additional investment.

At December 31, 2009, we were also required by AgriBank to maintain an investment in common stock equal to 8% of the quarter-end balance of the participation interest in real estate loans sold to AgriBank under the asset pool program, as discussed in Note 3. Primarily due to this additional investment requirement, all remaining AgriBank preferred stock was converted to AgriBank common stock during 2008.

The following summarizes investment balances (in thousands):

	2009	2008	2007
As of December 31:			
Common stock	\$33,215	\$30,257	\$18,827
Preferred stock	--	--	6,902
Total investment	\$33,215	\$30,257	\$25,729

NOTE 6: PREMISES AND EQUIPMENT AND ASSETS HELD FOR LEASE, NET

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

As of December 31	2009	2008	2007
Land, buildings and improvements	\$8,605	\$6,409	\$6,153
Furniture and equipment	5,404	5,313	4,980
Subtotal	14,009	11,722	11,133
Less: accumulated depreciation	(5,830)	(5,243)	(5,635)
Total	\$8,179	\$6,479	\$5,498

We also hold property for the purpose of agricultural leasing, primarily farm equipment and livestock facilities. Net operating lease income totaled \$340 thousand in 2009, \$532 thousand in 2008, and \$655 thousand in 2007. Net operating lease assets totaled \$6.5 million at December 31, 2009, \$7.4 million at December 31, 2008, and \$6.0 million at December 31, 2007.

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 \$1.05 billion and the outstanding principal under the line of credit was \$946.5 million as of December 31, 2009. The interest rate is adjusted monthly and was 2.0% at December 31, 2009. During 2009, our average balance was \$873.8 million with an average interest rate of 2.2%. Our average balance during 2008 was \$799.6 million with an average interest rate of 3.6% and during 2007 our average balance was \$721.1 million with an average interest rate of 4.9%. The maturity date is October 31, 2010, 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. At December 31, 2009, and throughout the year, we were within the specified limitations and in compliance with all covenants.

NOTE 8: MEMBERS' EQUITY

Capitalization Requirements

In accordance with the Farm Credit Act, each borrower is required to invest in us as a condition of obtaining a loan. As authorized by the Agricultural Credit Act 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 or lease is made. 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, 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 as follows:

- The permanent capital ratio is average at-risk capital divided by average risk-adjusted assets. At December 31, 2009, our ratio was 11.1%.
- 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, 2009, our ratio was 10.8%.
- 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, 2009, our ratio was 10.8%.

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, 2009, and December 31, 2008, we no longer had any preferred stock. At December 31, 2007, we included 26.8% of our investment in AgriBank in 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, 2009. All shares and participation certificates were \$5.00 par value.

As of December 31, 2009	Shares Outstanding
Class B common stock (at-risk)	791,726
Class E participation certificates (at-risk)	29,817
Class A common stock (protected)	2
Class F participation certificates (protected)	51

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, 2009, 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, 2009, \$4.8 million at December 31, 2008, and \$4.7 million at December 31, 2007. The patronage distributions were paid in cash during the first quarter of each subsequent year. The Board of Directors may authorize a distribution of earnings 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 2009, 2008 or 2007.

The Farm Credit Administration Regulations prohibit 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 2010.

NOTE 9: INCOME TAXES**Provision for (Reversal of) Income Taxes**

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

For the year ended December 31	2009	2008	2007
Current:			
Federal	\$631	(\$1,261)	\$424
State	46	3	(88)
Reversal of tax loss contingency	--	(243)	--
Total current	677	(1,501)	336
Deferred:			
Federal	740	279	(177)
State	(632)	359	31
Total deferred	108	638	(146)
Provision for (reversal of) income taxes	\$785	(\$863)	\$190
Effective tax rate	5.3%	(5.8%)	1.5%

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	2009	2008	2007
Federal tax at statutory rate	\$5,050	\$5,078	\$4,436
Effect of non-taxable entity	(3,419)	(3,826)	(2,676)
Patronage distributions	(629)	(1,915)	(1,540)
State tax, net	98	61	(38)
Loss contingency reversal	--	(243)	--
Other	(315)	(18)	8
Provision for (reversal of) income taxes	\$785	(\$863)	\$190

We recorded tax expense of \$785 thousand for the year ended December 31, 2009, a reversal of \$863 thousand for the year ended December 31, 2008, and expense of \$190 thousand for 2007. Patronage distributions to members, including the redemption of certain prior year nonqualified patronage distributions, reduced our tax liability in 2009, 2008, and 2007. The changes in provision for income taxes are primarily related to variances in the deductible patronage, including the redemption of nonqualified patronage distributions in 2008 and 2007.

Tax Related Matters

In 2004, we established a \$243 loss contingency in the form of a tax reserve related to certain income accrued by United FCS, FLCA in connection with settlements with the State of Wisconsin. During 2008, this reserve was reversed due to the expiration of the taxing authority's statute of limitations. At December 31, 2009, we had no uncertain income tax positions.

Deferred Income Taxes

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

As of December 31	2009	2008	2007
Allowance for loan losses	\$437	\$697	\$358
Postretirement benefits accrual	195	191	186
Leasing related	(2,115)	(2,060)	(1,097)
State tax net operating loss carryforwards	371	--	--
Accrued pension asset	(800)	(798)	(626)
Accrued patronage income not received	(220)	(94)	(198)
Depreciation	(143)	(143)	(157)
Other assets	134	89	54
Other liabilities	(85)	--	--
Net deferred tax liabilities	(\$2,226)	(\$2,118)	(\$1,480)
Gross deferred tax assets	\$1,137	\$977	\$598
Gross deferred tax liabilities	(\$3,363)	(\$3,095)	(\$2,078)

A valuation reserve for the deferred tax assets was not necessary at December 31, 2009, December 31, 2008, or December 31, 2007.

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 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 our patronage program. Additionally, we have not provided deferred income taxes on accumulated FLCA earnings of \$92.3 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**Pension and Post Retirement Benefit Plans**

Complete financial information for the pension and post retirement benefit plans may be found in the AgriBank, FCB and Affiliated Associations 2009 Annual Report.

In December 2007, the District adopted the FASB guidance on "Compensation – Retirement Benefits", which required the recognition of the overfunded or underfunded status of pension and other postretirement benefit plans on the balance sheet. The FASB guidance on "Compensation – Retirement Benefits" also requires that employers measure the benefit obligation and plan assets as of fiscal year end starting in 2008. The Standard allows for the use of the measurements determined for the prior year end.

As disclosed in the District Annual Report, the defined benefit plans reflect an unfunded position totaling \$239.8 million at December 31, 2009. Our individual association increases our prepaid pension asset when contributions are made and reduces our prepaid pension asset as annual expense is recorded. At December 31, 2009, to reflect the \$239.8 million unfunded liability on the District balance sheet, the District reversed the prepaid pension assets and recorded the unfunded position as a liability with an offsetting charge to accumulated other comprehensive income (AOCI). The \$239.8 million unfunded liability represents potential future contributions that may need to be made by the participating employers. The \$332.0 million recorded in AOCI represents potential future expense that may need to be recognized by the participating employers. The amount ultimately to be contributed and recognized as expense, and the timing of those contributions and

expenses, are subject to many variables including performance of plan assets and levels of interest rates. These variables could result in actual contributions and expenses being greater than or less than the amounts reflected in the District financial statements. Based on the District's methodology for allocating expenses and contributions at December 31, 2009, our share of the \$332.0 million potential future expense would be approximately \$12.6 million and our share of the \$239.8 million potential future cash contributions would be \$11.0 million. Please refer to the AgriBank, FCB and Affiliated Associations 2009 Annual Report for detailed disclosures under the FASB guidance on "Compensation – Retirement Benefits".

Pension: Certain employees 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 \$0.9 million for 2009, \$1.1 million for 2008 and \$491 thousand for 2007. Plan expenses included in "Salaries and employee benefits" in the Consolidated Statement of Income were \$1.0 million for 2009, \$786 thousand for 2008 and \$938 thousand for 2007.

Life Insurance and Retiree Medical Plans: District employers also provide certain health insurance benefits to eligible retired employees according to the terms of the benefit plan. Prior to December 1, 2008, retirees were also provided with a life insurance benefit. 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 \$92 thousand for 2009, \$67 thousand for 2008 and \$64 thousand for 2007.

Nonqualified Retirement Plan: Beginning in 2008, we participate in a District-wide non-qualified defined benefit Pension Restoration Plan. This plan provides retirement benefits above the Internal Revenue Code compensation limit to certain highly compensated eligible employees. Benefits payable under this plan are offset by the benefits payable from the Pension Plan. Pension Restoration plan expenses included in salaries and employee benefits were \$77 thousand for 2009 and \$86 thousand for 2008.

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 under the plan were \$474 thousand in 2009, \$436 thousand in 2008, and \$362 thousand in 2007.

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, 2009, involved more than a normal risk of collectability.

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

	2009	2008	2007
As of December 31:			
Total related party loans and leases	\$21,661	\$15,243	\$11,781
For the year ended December 31:			
Advances to related parties	\$16,085	\$12,520	\$8,317
Repayments by related parties	12,796	13,579	11,967

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 AgriBank loans in our territory. Loan volume serviced was \$1.4 million at December 31, 2009, \$1.9 million at December 31, 2008 and \$2.8 million at December 31, 2007. Under this program, we received servicing income from AgriBank of \$47 thousand in 2009, \$61 thousand in 2008 and \$63 thousand in 2007.

We purchase various services from AgriBank including certain information systems, certain financial services, certain accounting and reporting services, selected retail product processing and support services, and certain human resource support services. The total cost of services we purchased from AgriBank was \$776 thousand in 2009, \$811 thousand in 2008, and \$748 thousand in 2007.

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, 2009, we had commitments to extend credit and unexercised commitments related to standby letters of credit of \$298.0 million. Additionally, we had \$14.9 million of issued standby letters of credit as of December 31, 2009.

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 MEASUREMENTS

The FASB guidance on “Fair Value Measurements and Disclosures” defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability. The guidance also establishes a fair value hierarchy, with three levels of inputs that may be used to measure fair value. See Note 2 for a more complete description of the three input levels.

Non-Recurring Basis

We do not have any assets or liabilities measured at fair value on a recurring basis. We may be required, from time to time, to measure certain assets at fair value on a non-recurring basis. Information on assets measured at fair value on a non-recurring basis is as follows (in thousands):

	Fair Value Measurement Using			Total Fair Value	Total Gains (Losses)
	Level 1	Level 2	Level 3		
As of December 31, 2009					
Loans	\$ --	\$369	\$1,958	\$2,327	\$1,120
Other Property Owned	--	--	179	179	34
As of December 31, 2008					
Loans	\$ --	\$14	\$14,145	\$14,159	(\$1,398)
Other Property Owned	--	--	104	104	(180)

Valuation Techniques

Loans: Represents the carrying amount and related write-downs of loans which were evaluated for individual impairment based on the appraised value of the underlying collateral. The fair value measurement would fall under level 2 of the hierarchy if the process uses independent appraisals and other market-based information. The fair value measurement would fall under level 3 of the hierarchy if the process requires significant input based on management’s knowledge of and judgment about current market conditions, specific issues relating to the collateral, and other matters. When the value of the collateral, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established.

Other Property Owned: Represents the fair value and related losses of foreclosed assets that were measured at fair value based on the collateral value. Costs to sell represent transaction costs and are not included as a component of the asset’s fair value.

NOTE 14: 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: If an active market exists, the fair value is based on currently quoted market prices. For those securities for which an active market does not exist, we estimate the fair value of these investments by discounting the expected future cash flows using current interest rates.

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, 2009	Carrying Value	Estimated Fair Value
Financial assets:		
Loans, net	\$1,058,115	\$1,073,565
Investment securities	7,868	7,959
Financial liabilities:		
Note payable to AgriBank, FCB	\$946,460	\$956,960
Unrecognized financial instruments:		
Commitments to extend credit and letters of credit		(\$383)
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)

NOTE 15: QUARTERLY FINANCIAL INFORMATION (Unaudited)

Quarterly consolidated results of operations for the years ended December 31, 2009, December 31, 2008 and December 31, 2007, follow (in thousands):

2009	First	Second	Third	Fourth	Total
Net interest income	\$6,761	\$6,725	\$6,865	\$7,731	\$28,082
Provision for (reversal of) loan losses	4,096	3	701	2	4,802
Patronage income	1,051	1,010	1,120	2,120	5,301
Other expense, net	3,231	4,077	3,210	3,211	13,729
Provision for (reversal of) income taxes	(433)	604	197	417	785
Net income	\$918	\$3,051	\$3,877	\$6,221	\$14,067
2008	First	Second	Third	Fourth	Total
Net interest income	\$6,484	\$6,373	\$5,967	\$6,417	\$25,241
Provision for (reversal of) 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
Provision for (reversal of) 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

NOTE 16: SUBSEQUENT EVENTS

We have evaluated subsequent events through March 11, 2010, which is the date the financial statements were issued, and no such events occurred.

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
Marshfield, WI	Owned	Held for resale
Medford, WI **	Owned	Branch
Medford, WI	Owned	Held for resale
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
St. Louis Park, MN	Leased	Branch

** New offices completed in 2009

LEGAL PROCEEDINGS

Information regarding legal proceedings is discussed in Note 12 of this annual report. We were not subject to any enforcement actions at December 31, 2009.

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, 2009 (and any committee assignments subsequent to year end), 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 (Board Chair), is a self-employed grain farmer. Stan has served as a director since 1995. He is also serves as treasurer on the Bushmill Ethanol Board, on the Board of Fairland Management Company (a farm management services provider), and on the Benson School Board. His current term on the board began in 2007 and expires in 2011.

Scott Gerbig, Director, is a self-employed dairy farmer. Scott began as a director in 2008. His current term on the board began in 2009 and expires in 2013.

Gregory Jans, Director (Board Vice Chair), is a self-employed grain and livestock farmer. Greg has served as a director since 1994. He also serves as a director on Minnesota Milk Producers and the American Farmers for the Advancement and Conservation of Technology (AFACT). His current term on the board began in 2006 and expires in 2010.

James Jarvis, Director, is a self-employed grain, dairy and timber farmer. His first and current term on the board began in 2008 and 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 current term on the board began in 2007 and 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, the Icehog Partnerships Board of Directors which is a hog finishing business, and is Treasurer on the Clifton Township Board. His current term on the board began in 2006 and expires in 2010.

William Oemichen, Appointed Director and audit committee member, is President and CEO of the Cooperative Network. He is Board Treasurer of Energy Center of Wisconsin, Board Vice-Chair and Treasurer of Monroe Hospital and Clinics, Board Vice-Chair of Wisconsin College Savings Program Board, outside Board of Director for FCCServices, Inc., Advisor for Peak Ridge Capital Agricultural Fund, Nominations Committee Chair for Group Health Cooperative, and incoming Chair for University of Wisconsin - Madison College of Agricultural and Life Sciences Board of Visitors. His first and current term on the board began in 2009 and expires in 2013.

Mark Parker, Director and compensation committee member, is a self-employed grain farmer. Mark has served as a director since 1987. His current term on the board began in 2008 and expires in 2012.

Donn Peterson, Director and compensation committee member, is a self-employed grain and livestock farmer. Donn has served as a director since 1996. His current term on the board began in 2007 and expires in 2011.

Richard Pooley, Appointed Director and compensation committee member, 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 current term on the board began in 2008 and expires in 2012.

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

Gary Ruegsegger, Director and audit committee member, is a self-employed dairy farmer. His first and current term on the board began in 2008 and expires in 2010.

Bradley Sunderland, Director and audit committee member, 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 current term on the board began in 2008 and expires in 2012.

Jeffrey Thompson, Director, is a self-employed grain farmer. Jeffrey has served as a director since 1996. His current term on the board began in 2009 and expires in 2013.

Mary Kay Van Der Geest, Director and chair of the compensation committee, is a self-employed dairy farmer. Her first and current term on the board began in 2008 and 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 \$200-300 depending on committee assignment and board leadership position.

Information regarding compensation for each director who served during 2009 follows:

	Number of Days Served		Compensation paid for service on		Total Compensation Paid in 2009
	Board Meetings	Other Official Activities	a board committee	Name of Committee	
Stanley Claussen	16.6	15.0			\$13,460
Scott Gerbig	15.6	4.0			9,260
Jim Huisman *	12.0	4.0			7,200
Gregory Jans	16.1	5.0			9,785
James Jarvis	16.6	15.0			13,460
Roger Mohr	16.1	8.9	\$2,600	Audit	12,350
Dennis Oeltjenbruns	14.6	1.0			7,860
William Oemichen **	4.1	4.3			2,340
Mark Parker	16.6	14.0			14,310
Don Peterson	12.6	1.0			7,160
Richard Pooley	14.6	8.3			10,415
Richard Price	16.6	10.5			11,885
Gary Ruegsegger	12.6	10.8	1,475	Audit	11,190
JoAnn Smith *	14.0	8.0			9,500
Bradley Sunderland	16.1	11.3	2,000	Audit	12,590
Larry Swain *	12.5	6.5	1,275	Audit	8,650
Jeffrey Thompson	16.6	5.0			9,960
Mary Kay Van Der Geest	16.6	5.5			10,135
Total	260.5	138.1	\$7,350		\$181,510

* Term expired in 2009

** Appointed to Board 2009

Meetings of the compensation committee occur in conjunction with the regular Board meetings. Therefore, no additional compensation has been paid to the members of the compensation committee for service on that committee.

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, and when they started in their current or similar position, include:

Marcus L. Knisely, Chief Executive Officer (since 1998)
 Ronald J. Fake, Chief Financial Officer (since 1987)
 Leland G. Fredman, Senior Vice President (since January 2009)
 Roger Koster, Chief Information Officer (since 1997)
 Jay A. Nickel, Senior Vice President (since 2007)
 Jeffrey A. Schmidt, Chief Credit Officer (since 2000)

Prior to accepting his current position, Mr. Nickel was Vice President and Chief Credit Officer for United FCS, ACA, a position he held since 1993.

Prior to accepting his current position, Mr. Fredman was Regional Vice President with United FCS, ACA, a position he held since December of 2000.

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 2009 follows (in thousands):

Name of Individual	Year	Salary	Bonus	Deferred/		Total
				Perquisites	Other	
Marcus L. Knisely	2009	\$270	\$162	\$4	\$ --	\$436
Marcus L. Knisely	2008	250	150	1	--	401
Marcus L. Knisely	2007	206	145	2	--	353
Aggregate Number of Highest Paid Employees including senior officers (does not include CEO):						
Six	2009	\$670	\$203	\$5	\$ --	\$878
Seven	2008	749	301	6	--	1,056
Seven	2007	672	219	14	542	1,447

Senior officer incentives (Bonus above) are 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 no later than February 28 of year following the plan year, once actual year end results are known.

Members may request information on the compensation paid during 2009 to the individuals listed in the preceding table.

The 2007 amount in other includes various 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 \$110 thousand in 2009, \$137 thousand in 2008, and \$135 thousand in 2007.

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, 2010 or at any time during 2009.

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 2009 were \$30 thousand. The fees paid were for audit services.

FINANCIAL STATEMENTS

The "Report of Management", "Report on Internal Control Over Financial Reporting", "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.

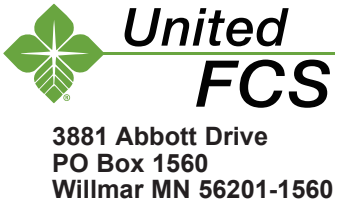
Association Options

In the event of default on any loan, or if Funds Held exceeds the maximum limit as established above, or if the Association discontinues their Funds Held program, the Association 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.



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