

CFA

**THE COOPERATIVE FINANCE
ASSOCIATION, INC.**

Financial Statements

Years Ended August 31, 2009 and 2008



Mayer Hoffman McCann P.C.

An Independent CPA Firm

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Independent Auditors' Report

To the Board of Directors

THE COOPERATIVE FINANCE ASSOCIATION, INC.

We have audited the accompanying balance sheets of The Cooperative Finance Association, Inc. (CFA) as of August 31, 2009 and 2008 and the related statements of operations, capital shares and equities, and cash flows for the years then ended. These financial statements are the responsibility of CFA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Cooperative Finance Association, Inc. as of August 31, 2009 and 2008, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Mayer Hoffman McCann P.C.

Leawood, Kansas

October 26, 2009

Management's Report

Dear Stockholders:

The financial statements of The Cooperative Finance Association, Inc. (CFA) are prepared by management which is responsible for their integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The financial statements have been prepared in conformity with generally accepted accounting principles appropriate in the circumstances. The financial statements, in the opinion of management, fairly present the financial condition and operating results of the company.

To meet its responsibility for reliable financial information, management depends on the company's accounting and internal control systems which have been designed to provide reasonable, but not absolute, assurance that assets are safeguarded and transactions are properly authorized and recorded. The systems have been designed to recognize that the cost must be related to the benefits derived. The financial statements are audited by the independent accounting firm of Mayer Hoffman McCann P.C. They have obtained a sufficient understanding of the internal control structure to plan the audit and determine the nature, timing and extent of tests to be performed in accordance with generally accepted auditing standards. CFA is also examined by its source of funding.

The Board of Directors has overall responsibility for the company's system of internal control and financial reporting. The Board consults regularly with management and meets periodically with the independent accountants to review the scope and results of their work.



Barry Jensen
Chairman of the Board



Dean L. Searcy
President and CEO

THE COOPERATIVE FINANCE ASSOCIATION, INC.

Balance Sheets August 31, 2009 and 2008

Assets	2009	2008
Loans (notes 2, 5, and 6)	\$ 215,195,930	262,520,839
Less allowance for loan losses (note 3)	2,609,232	2,279,938
Net loans	212,586,698	260,240,901
Cash	734,080	288,625
Accrued interest receivable (note 5)	3,249,401	4,136,619
Investments in cooperatives (note 4)	9,157,631	10,138,696
Other assets, net of accumulated depreciation and amortization of \$711,748 in 2009 and \$561,012 in 2008	669,019	821,157
	\$ 226,396,829	275,625,998
Liabilities, Capital Shares, and Equities		
Liabilities:		
Credit facility (note 6)	\$ 172,600,000	222,300,000
Commercial paper	1,000,000	—
Patronage refunds payable (note 9)	2,318,885	3,224,308
Accrued interest payable	221,595	672,179
Other liabilities (note 10)	1,841,102	2,019,630
Total liabilities	177,981,582	228,216,117
Commitments and contingent liabilities (note 8)		
Capital shares and equities (note 9):		
Preferred stock, \$10 par value. Authorized 1,000,000 shares; issued none	—	—
Common stock, \$1 par value. Authorized 15,000,000 shares; issued none	—	—
Class A common stock, \$2,000 par value. Authorized 2,000 shares; issued and outstanding 162 and 161 shares at August 31, 2009 and 2008, respectively	324,000	322,000
Class B common stock, \$100 par value. Authorized 1,000,000 shares; issued and outstanding 397,317 and 378,350 shares at August 31, 2009 and 2008, respectively	39,731,700	37,835,000
Capital credits	182,158	243,779
Patronage refunds for reinvestment	1,591,207	2,133,844
Paid-in capital	647,984	647,984
Earned surplus	5,938,198	6,227,274
Total capital shares and equities	48,415,247	47,409,881
	\$ 226,396,829	275,625,998

See accompanying notes to financial statements.

THE COOPERATIVE FINANCE ASSOCIATION, INC.

Statements of Operations Years ended August 31, 2009 and 2008

	2009	2008
Interest income (note 5)	\$ 10,570,764	17,356,612
Interest expense (note 6)	4,147,011	10,276,621
Net interest income	6,423,753	7,079,991
Provision for loan losses (note 3)	450,000	390,000
Net interest income after provision for loan losses	5,973,753	6,689,991
Noninterest income	381,738	277,757
Noninterest expense:		
Employee	2,723,408	2,476,477
Customer relations	126,497	129,165
Professional	244,135	384,777
Administrative and other	373,358	347,105
Depreciation and amortization	179,562	203,013
Total noninterest expense	3,646,960	3,540,537
Income before patronage refunds and income tax expense	2,708,531	3,427,211
Patronage refunds (note 4)	927,485	1,410,462
Income tax expense (note 7)	(15,000)	(25,000)
Net income	\$ 3,621,016	4,812,673
Distribution of net income:		
Patronage refunds (note 9)	\$ 3,910,092	5,358,153
Earned surplus (deficit)	(289,076)	(545,480)
	\$ 3,621,016	4,812,673

See accompanying notes to financial statements.

THE COOPERATIVE FINANCE ASSOCIATION, INC.

Statements of Capital Shares and Equities

Years ended August 31, 2009 and 2008

	Class A common stock	Class B common stock	Capital credits	Patronage refunds for reinvestment	Paid-in capital	Earned surplus	Total capital shares and equities
Balance at August 31, 2007	\$ 330,000	35,840,900	243,634	1,966,244	647,984	6,772,754	45,801,516
Appropriation of net income	—	—	—	—	—	(545,480)	(545,480)
Patronage refunds allocated	—	1,966,244	—	3,391,909	—	—	5,358,153
Patronage refunds payable in cash	—	—	—	(3,224,308)	—	—	(3,224,308)
Equity exchange (note 9)	(28,000)	28,800	(800)	—	—	—	—
Issuance of equities	20,000	—	—	—	—	—	20,000
Capital credit reclassification	—	(944)	945	(1)	—	—	—
Balance at August 31, 2008	322,000	37,835,000	243,779	2,133,844	647,984	6,227,274	47,409,881
Appropriation of net income	—	—	—	—	—	(289,076)	(289,076)
Patronage refunds allocated	—	2,133,844	—	1,776,248	—	—	3,910,092
Patronage refunds payable in cash	—	—	—	(2,318,885)	—	—	(2,318,885)
Retirement of equities	(2,000)	(252,600)	(54,165)	—	—	—	(308,765)
Equity exchange (note 9)	(6,000)	13,400	(7,400)	—	—	—	—
Issuance of equities	10,000	2,000	—	—	—	—	12,000
Capital credit reclassification	—	56	(56)	—	—	—	—
Balance at August 31, 2009	\$ <u>324,000</u>	<u>39,731,700</u>	<u>182,158</u>	<u>1,591,207</u>	<u>647,984</u>	<u>5,938,198</u>	<u>48,415,247</u>

See accompanying notes to financial statements.

THE COOPERATIVE FINANCE ASSOCIATION, INC.

Statements of Cash Flows

Years ended August 31, 2009 and 2008

	2009	2008
Cash flows from operating activities:		
Net income	\$ 3,621,016	4,812,673
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	179,562	203,013
Provision for loan losses	450,000	390,000
Patronage refunds received in equities	(283,227)	(249,365)
Changes in other assets and liabilities:		
Accrued interest receivable and other assets	969,370	622,202
Accrued interest payable and other liabilities	(629,112)	349,640
Net cash provided by operating activities	4,307,609	6,128,163
Cash flows from investing activities:		
Decrease (Increase) in net loans	47,204,203	(30,811,979)
Proceeds from liquidation of investments	1,264,292	—
Purchase of software and equipment	(109,576)	(48,136)
Net cash used in investing activities	48,358,919	(30,860,115)
Cash flows from financing activities:		
Proceeds from credit facility	144,700,000	203,900,000
Repayments of credit facility	(194,400,000)	(176,100,000)
Net increase (decrease) in commercial paper	1,000,000	(750,000)
Payments of patronage refunds	(3,224,308)	(2,976,050)
Repurchase and retirement of equities	(308,765)	—
Issuance of Class A and B common stock	12,000	20,000
Net cash provided by financing activities	(52,221,073)	24,093,950
Net increase (decrease) in cash	445,455	(638,002)
Cash at beginning of year	288,625	926,627
Cash at end of year	\$ 734,080	288,625
Cash paid for interest and income taxes:		
Interest	\$ 3,670,110	10,742,258
Income taxes (refunds), net	3,443	(1,586)

See accompanying notes to financial statements.

