



MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the consolidated financial position and consolidated results of operations of Badgerland Financial, ACA and its subsidiaries. This discussion should be read in conjunction with both the unaudited consolidated financial information and related notes included in this Quarterly Report as well as Management's Discussion and Analysis included in our 2011 Annual Report for the year ended December 31, 2011.

AgriBank, FCB's (AgriBank) financial condition and results of operations materially affect members' investment in Badgerland Financial, ACA. To request free copies of the AgriBank and combined AgriBank, FCB and Affiliated Associations' financial reports or additional copies of our report contact us at 315 Broadway, Post Office Box 69, Baraboo, Wisconsin 53913, (800) 356-2197, or e-mail Greg.Rufsvold@badgerlandfinancial.com. You may also contact AgriBank at 30 East 7th Street, Suite 1600, St. Paul, MN 55101, (651) 282-8800, or by e-mail at agribankmn@agribank.com. The AgriBank and combined AgriBank, FCB and Affiliated Associations' financial reports are also available through AgriBank's website at www.agribank.com.

Loan Portfolio

Loans totaled \$2.7 billion at June 30, 2012, a \$142.6 million increase from December 31, 2011.

Accrual commercial loan volume has decreased by \$25.2 million compared to December 31, 2011. This is primarily due to operating loan repayments resulting from strong profits in cash grain operations. Dairy producers are seeing tighter margins in 2012 which may slow down the repayment of operating and intermediate loans and result in more use of credit for capital purchases. The extreme heat and dry conditions that are currently being experienced have the potential to result in a significant negative impact on earnings for many producers, including dairy and grain, as well as other enterprises. This may result in a slowdown in the repayment of existing loans plus an increase in the demand for credit for both operating and capital needs.

Accrual mortgage loan volume has increased \$170.5 million compared to December 31, 2011. The increase is due to strong targeted marketing efforts in the second half of 2011 and the first half of 2012. New business promotions have been successful in bringing in new customers as well as new loan requests from existing borrowers. The real estate market has been strong in both 2011 and during 2012 which has increased the demand for real estate credit. Also, there has been positive growth in the capital markets portfolio since December 31, 2011.

Agricultural and Economic Conditions

Growing conditions during the second quarter allowed for early harvest of alfalfa crops with most producers having decent harvests of the first two crops. Grain crops were generally planted in a timely manner; however, the southern two thirds of our territory has been experiencing extremely dry conditions which is limiting regrowth of the third crop of alfalfa and placing considerable stress on all crops and pastures. In addition to the lack of moisture in this area, all parts of the territory have been experiencing very high temperatures with an extended period of mid-90s to low 100 degree temperatures. These factors will likely result in a significant impact on the quality and yields of all crops if growing conditions do not improve soon. In some areas, the damage is already severe and it may be too late for some crops to recover, even with significant rainfall. Concerns about the impact on yields due to the extreme weather conditions are driving up both cash grain prices and futures prices.

Most commodity prices remain relatively strong as of mid-July 2012. Milk prices had dropped significantly from the peak in August 2011, but have shown significant improvement over the past two months. Current cash prices for corn are approximately \$8.08/bu and soybeans are approximately \$16.80/bu. Futures prices have climbed significantly since March 31, 2012 with new crop corn at approximately \$7.88/bu and soybeans at approximately \$16.15/bu. The increases are being driven largely by the poor growing conditions and the resulting concerns about the impact on yields. Grain farmers in the lower two-thirds of the territory could be faced with strong commodity prices, but a significant reduction in grain available to sell. Most producers carry some type of crop insurance which will help to offset a portion of the potential losses that could be experienced.

The average class III milk price for the second quarter of 2012 was \$15.53/cwt compared to \$17.50/cwt for the same period last year. Calendar year 2011 averaged \$18.37/cwt. The first six months of 2012 have averaged \$15.90/cwt. The outlook for the second half of 2012 is much better with milk futures for July through December currently averaging \$18.22/cwt. All prices are before premiums. Milk price futures had dropped significantly early in the second quarter, but have since rebounded with some months during the second half of 2012 increasing over \$3/cwt from the 2012 lows. The improvement in milk prices comes at a good time as feed prices are likely to increase due to the expected reduction in yields resulting from the extreme growing conditions being experienced in much of our territory and other parts of the Midwest.

Over the past couple of years there has been some softening of values of recreational land. There is some evidence that the softening values plus an improving economy are starting to increase the interest in recreational parcels. The historically strong grain prices continue to result in strong demand for cropland and values continue to increase. Some improvement in the overall economy may provide opportunities for additional non-farm income; however, the improvement continues to be modest.

Portfolio Credit Quality

The credit quality of our portfolio has improved from December 31, 2011. Adversely classified loans have decreased to 2.9% of the portfolio at June 30, 2012, from 3.7% of the portfolio at December 31, 2011. Adversely classified loans are loans 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 some circumstances, we use various governmental guarantee programs to reduce the risk of loss. At June 30, 2012, \$87.8 million of our loans were, to some level, guaranteed under these governmental programs.

Risk Assets

The following table summarizes risk assets including accrued interest receivable and delinquency information (dollars in thousands):

As of:	June 30 2012	December 31 2011
Loans:		
Accruing restructured	\$5	\$ --
Accruing loans 90 days or more past due	1,242	514
Nonaccrual	17,845	20,556
Total risk loans	19,092	21,070
Other property owned	4,854	5,270
Total risk assets	\$23,946	\$26,340
Risk loans as a percentage of total loans	0.7%	0.8%
Total delinquencies as a percentage of total loans	1.0%	0.7%

Our risk assets have decreased from December 31, 2011 and remain at acceptable levels. Total risk loans as a percentage of total loans remains well within our established risk management guidelines.

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 due to loan payments during the six months ended June 30, 2012 and upgrades of certain loans to accrual status. Nonaccrual loans remained at an acceptable level at June 30, 2012 and represented 0.6% of our total portfolio. At June 30, 2012, 65.2% of our nonaccrual loans were current.

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, probability of default, estimated severity of loss given default, portfolio quality, and current economic and environmental conditions.

Comparative allowance coverage of various loan categories follows:

Allowance as a percentage of:	June 30 2012	December 31 2011
Loans	0.2%	0.3%
Nonaccrual loans	28.5%	32.2%
Total risk loans	26.6%	31.4%

Allowance for loan loss decreased due to overall credit quality improvements in our portfolio. In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at June 30, 2012.

Results of Operations

Net income for the six months ended June 30, 2012 totaled \$38.6 million compared to \$33.5 million for the same period in 2011. The following table illustrates profitability information:

As of June 30	2012	2011
Return on average assets	2.8%	2.4%
Return on average members' equity	13.6%	13.6%

The following table summarizes the changes in components of net income for the six months ended June 30, 2012 compared to the same period in 2011 (in thousands):

Increase (decrease) in net income	2012 vs 2011
Net interest income	(\$223)
Provision for loan losses	1,725
Patronage income	1,517
Other income	2,925
Operating expenses	(1,481)
Provision for income taxes	652
Total change in net income	<u>\$5,115</u>

Net interest income was \$42.4 million for the six months ended June 30, 2012. The following table quantifies changes in net interest income for the six months ended June 30, 2012 compared to the same period in 2011 (in thousands):

Change in net interest income	2012 vs 2011
Changes in volume	\$2
Changes in rates	(299)
Changes in nonaccrual income and other	74
Net change	<u>(\$223)</u>

The change in the provision for loan losses was related to overall credit quality improvements in our portfolio which resulted in a reversal of provision during the six months ended June 30, 2012.

The change in patronage income was related to increased patronage received from AgriBank due to a higher patronage rate compared to the prior year. Additionally, patronage income on our sale of a participation interest in certain real estate loans to AgriBank increased due to the share of distributions from Allocated Insurance Reserve Accounts (AIRA) totaling \$452 thousand related to the participations sold to AgriBank. These reserve accounts were established in previous years by the Farm Credit System Insurance Corporation when premiums collected increased the level of the Insurance Fund beyond the required 2% of insured debt. There was no distribution in 2011.

The change in other income was primarily due to our share of distributions from AIRA of \$2.7 million.

The change in operating expenses was primarily related to increases in salaries and benefits resulting from normal annual merit increases as well as hiring of new staff positions. Additionally, the association has experienced normal increases in the cost of various vendored services.

The change in provision for income taxes was primarily related to lower income in our taxable entity primarily attributable to decreased net interest income in the commercial loan portfolio.

Changes in our return on average assets and return on average members' equity are directly related to the changes in income discussed in this section, changes in assets discussed in the Loan Portfolio section, and changes in capital discussed in the Funding, Liquidity, and Capital section.

Funding, Liquidity, and Capital

We borrow from AgriBank in the form of a line of credit. The repricing attributes of our line of credit generally correspond to the repricing attributes of our loan portfolio which significantly reduces our market interest rate risk.

Total members' equity increased \$35.0 million from December 31, 2011 primarily due to net income for the period and an increase in capital stock and participation certificates partially offset by patronage distribution accruals.

Farm Credit Administration regulations require us 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%. Refer to Note 7 in our 2011 Annual Report for a more complete description of these ratios. As of June 30, 2012, the ratios were as follows:

- The permanent capital ratio was 15.6%.
- The total surplus ratio was 15.3%.
- The core surplus ratio was 15.3%.

The capital adequacy ratios are directly impacted by the changes in capital as more fully explained in this section and the changes in assets as discussed in the Loan Portfolio section.

Certification

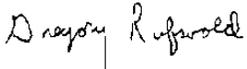
The undersigned certify they have reviewed Badgerland Financial, ACA's June 30, 2012, Quarterly Report. It has been prepared under the oversight of the audit committee and in accordance with all applicable statutory or regulatory requirements. The information contained herein is true, accurate, and complete to the best of our knowledge and belief.



Mike Winker
Chairperson of the Board
Badgerland Financial, ACA



Diane M. Cole
Chief Executive Officer
Badgerland Financial, ACA



Gregory S. Rufsvold
Chief Financial Officer
Badgerland Financial, ACA

August 2, 2012

CONSOLIDATED STATEMENTS OF CONDITION

Badgerland Financial, ACA

(Dollars in thousands)

(Unaudited)

	June 30 2012	December 31 2011
ASSETS		
Loans	\$2,743,458	\$2,600,884
Allowance for loan losses	5,081	6,621
Net loans	2,738,377	2,594,263
Investment in AgriBank, FCB	83,249	83,317
Accrued interest receivable	16,304	14,256
Premises and equipment, net	9,781	8,586
Other property owned	4,854	5,270
Other assets	23,124	28,154
Total assets	\$2,875,689	\$2,733,846
LIABILITIES		
Note payable to AgriBank, FCB	\$2,259,121	\$2,144,163
Accrued interest payable	7,639	8,160
Net deferred income tax liability	2,312	2,477
Patronage distribution payable	3,749	9,000
Other liabilities	19,476	21,614
Total liabilities	2,292,297	2,185,414
Contingencies and commitments	--	--
MEMBERS' EQUITY		
Capital stock and participation certificates	7,674	7,548
Unallocated surplus	575,718	540,884
Total members' equity	583,392	548,432
Total liabilities and members' equity	\$2,875,689	\$2,733,846

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

CONSOLIDATED STATEMENTS OF INCOME

Badgerland Financial, ACA

(Dollars in thousands)

(Unaudited)

Period ended June 30	Three Months Ended		Six Months Ended	
	2012	2011	2012	2011
Interest income	\$28,640	\$29,776	\$57,951	\$59,648
Interest expense	7,639	8,490	15,551	17,025
Net interest income	21,001	21,286	42,400	42,623
(Reversal of) provision for loan losses	(41)	(217)	(1,625)	100
Net interest income after (reversal of) provision for loan losses	21,042	21,503	44,025	42,523
Other income				
Patronage income	4,579	3,758	8,828	7,311
Financially related services income	1,486	1,429	4,091	3,769
Fee income	562	657	1,233	1,347
Allocated insurance reserve account distribution	2,746	--	2,746	--
Miscellaneous income, net	31	18	190	219
Total other income	9,404	5,862	17,088	12,646
Operating expenses				
Salaries and employee benefits	6,987	5,912	13,376	11,946
Other operating	3,969	3,832	7,797	7,746
Total operating expenses	10,956	9,744	21,173	19,692
Income before income taxes	19,490	17,621	39,940	35,477
Provision for income taxes	531	696	1,368	2,020
Net income	\$18,959	\$16,925	\$38,572	\$33,457

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

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

Badgerland Financial, ACA

(Dollars in thousands)

(Unaudited)

	Capital Stock and Participation Certificates	Unallocated Surplus	Total Members' Equity
Balance at December 31, 2010	\$7,362	\$469,995	\$477,357
Net income	--	33,457	33,457
Unallocated surplus designated for patronage distributions	--	(3,344)	(3,344)
Capital stock/participation certificates issued	346	--	346
Capital stock/participation certificates retired	(288)	--	(288)
Balance at June 30, 2011	\$7,420	\$500,108	\$507,528
Balance at December 31, 2011	\$7,548	\$540,884	\$548,432
Net income	--	38,572	38,572
Unallocated surplus designated for patronage distributions	--	(3,738)	(3,738)
Capital stock/participation certificates issued	464	--	464
Capital stock/participation certificates retired	(338)	--	(338)
Balance at June 30, 2012	\$7,674	\$575,718	\$583,392

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: Organization and Significant Accounting Policies

The accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim consolidated financial condition and consolidated results of operations. While our accounting policies conform to accounting principles generally accepted in the United States of America (U.S. GAAP) and the prevailing practices within the financial services industry, this interim Quarterly Report is prepared based upon statutory and regulatory requirements and, accordingly, does not include all disclosures required by U.S. GAAP. The results of the six months ended June 30, 2012 are not necessarily indicative of the results to be expected for the year ended December 31, 2012. The interim financial statements and the related notes in this Quarterly Report should be read in conjunction with the consolidated financial statements and related notes included in our 2011 Annual Report for the year ended December 31, 2011.

The consolidated financial statements present the consolidated financial results of Badgerland Financial, ACA (the parent) and Badgerland Financial, FLCA and Badgerland Financial, PCA (the subsidiaries). All material intercompany transactions and balances have been eliminated in consolidation.

Recently Issued or Adopted Accounting Pronouncements

In September 2011, the Financial Accounting Standards Board (FASB) issued guidance entitled, "Compensation – Retirement Benefits – Multiemployer Plans." The guidance is intended to provide more information about an employer's financial obligations to multiemployer pension and post-employment benefit plans which should help financial statement users better understand the financial health of significant plans in which the employer participates. For non-public entities, the disclosures are effective for annual reporting periods ending on or after December 15, 2012. The adoption of this guidance will have no impact on our consolidated financial condition or consolidated results of operations, but will result in additional disclosures.

In June 2011, the FASB issued guidance entitled, "Presentation of Comprehensive Income." The guidance eliminates the current option to report other comprehensive income and its components in the statement of changes in equity. An entity can elect to present items of net income and other comprehensive income in one continuous statement — referred to as the Statement of Comprehensive Income — or in two separate, but consecutive, statements. Each component of net income and each component of other comprehensive income, together with totals for comprehensive income and its two parts — net income and other comprehensive income, would need to be displayed under either alternative. The statement(s) would need to be presented with equal prominence as the other primary financial statements. The guidance is intended to improve the comparability, consistency, and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. For non-public entities, the guidance is effective for fiscal years ending after December 15, 2012, and interim and annual periods thereafter. The adoption of the guidance will have no impact on our consolidated financial condition or consolidated results of operations, but will result in changes to our financial statement presentation.

In May 2011, FASB issued guidance entitled, "Fair Value Measurement – Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (IFRS)." The guidance results in a consistent definition of fair value and common requirements for measurement of and disclosure about fair value between U.S. GAAP and IFRS as more fully outlined in the 2011 Annual Report. The amendments are to be applied prospectively. For non-public entities, the amendments are effective for annual periods beginning after December 15, 2011. The adoption of this guidance will have no impact on our consolidated financial condition or consolidated results of operations, but will result in additional disclosures.

In April 2011, the FASB issued guidance entitled, "A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring." The guidance provides additional clarification to creditors for evaluating whether a modification or restructuring of a receivable is a troubled debt restructuring. The guidance is effective for non-public entities for annual periods ending on or after December 15, 2012, including interim periods within those annual periods. The adoption of this guidance did not have a significant impact on our consolidated financial statements.

NOTE 2: Loans and Allowance for Loan Losses

Loans consisted of the following (dollars in thousands):

As of:	June 30, 2012		December 31, 2011	
	Amount	%	Amount	%
Real estate mortgage	\$1,532,475	55.9%	\$1,410,135	54.2%
Production and intermediate term	825,366	30.1%	846,997	32.6%
Agribusiness	248,940	9.1%	234,227	9.0%
Rural residential real estate	15,943	0.6%	16,508	0.6%
Other	120,734	4.3%	93,017	3.6%
Total	\$2,743,458	100.0%	\$2,600,884	100.0%

Delinquency

The following table provides an aging analysis of past due loans by loan type and accrued interest receivable (in thousands):

	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less than 30 Days Past Due	Total Loans	90 Days or More Past Due and Accruing
As of June 30, 2012						
Real estate mortgage	\$9,212	\$940	\$10,152	\$1,531,451	\$1,541,603	\$32
Production and intermediate term	11,700	1,995	13,695	817,805	831,500	1,210
Agribusiness	2,300	188	2,488	247,098	249,586	--
Rural residential real estate	657	--	657	15,329	15,986	--
Other	487	1,343	1,830	119,257	121,087	--
Total	\$24,356	\$4,466	\$28,822	\$2,730,940	\$2,759,762	\$1,242
As of December 31, 2011						
Real estate mortgage	\$3,904	\$5,336	\$9,240	\$1,408,040	\$1,417,280	\$ --
Production and intermediate term	4,992	2,381	7,373	845,994	853,367	514
Agribusiness	202	49	251	234,292	234,543	--
Rural residential real estate	388	--	388	16,162	16,550	--
Other	508	1,368	1,876	91,524	93,400	--
Total	\$9,994	\$9,134	\$19,128	\$2,596,012	\$2,615,140	\$514

Risk Loans

The following table presents information concerning risk loans (in thousands):

As of:	June 30 2012	December 31 2011
Volume with specific reserves	\$4,823	\$5,493
Volume without specific reserves	14,269	15,577
Total risk loans	\$19,092	\$21,070
Total specific reserves	\$2,569	\$3,618
Six months ended June 30		
	2012	2011
Income on accrual risk loans	\$22	\$21
Income on nonaccrual loans	222	148
Total income on risk loans	\$244	\$169
Average risk loans	\$18,729	\$34,436

The decrease in risk loans was primarily due to loan repayments and upgrades of certain loans to accrual status.

Troubled Debt Restructurings

A restructuring of a loan constitutes a troubled debt restructuring, also known as formally restructured, if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. Concessions vary by program and borrower. Concessions may include interest rate reductions, term extensions, payment deferrals, or the acceptance of additional collateral in lieu of payments. In limited circumstances, principal may be forgiven. When a restructured loan constitutes a troubled debt restructuring, these loans are included within our risk loans. All risk loans are analyzed within our allowance for loan losses. We record specific allowance to reduce the carrying amount of the formally restructured loan to the lower of book value or net realizable value of collateral.

The following table presents information regarding troubled debt restructurings that occurred during the six months ended June 30, 2012 (in thousands):

	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment
Real estate mortgage	\$205	\$205
Production and intermediate term	448	429
Total	\$653	\$634

Pre-modification represents the recorded investment just prior to restructuring and post-modification represents the recorded investment immediately following the restructuring. The recorded investment is the face amount of the receivable increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, and acquisition costs and may also reflect a previous direct write-down of the investment.

Our production and intermediate term loans had \$228 thousand of troubled debt restructurings that occurred within the previous 12 months for which there was a subsequent payment default during the six months ended June 30, 2012. No other troubled debt restructurings that occurred within the previous 12 months had a subsequent payment default during the six months ended June 30, 2012.

Troubled debt restructurings outstanding at June 30, 2012 totaled \$893 thousand, of which \$888 thousand were in nonaccrual status. We have no additional commitments to lend to borrowers whose loans have been modified in a troubled debt restructuring at June 30, 2012.

Allowance for Loan Losses

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

Six months ended June 30	2012	2011
Balance at beginning of year	\$6,621	\$13,081
(Reversal of) provision for loan losses	(1,625)	100
Loan recoveries	230	5
Loan charge-offs	(145)	(1,053)
Balance at end of period	\$5,081	\$12,133

The decrease in allowance for loan losses is related to improved collateralization within the portfolio and a decrease in industry specific general allowances as a result of improvements in the economic outlook in the dairy and biofuels segments of our portfolio during 2011. Additionally, improvement in the overall credit quality of our portfolio resulted in a \$1.6 million reversal of provision during the six months ended June 30, 2012.

Equity Investment

In addition to loans, we hold an equity investment. This investment represents our stake in a venture capital equity fund focused on the needs of rural start-up companies. Our commitment to this venture capital equity investment is over a period of ten years. Our investment totaled \$2.6 million at June 30, 2012 and \$1.9 million at December 31, 2011. The investment is included in "Other assets" on the Consolidated Statements of Condition.

NOTE 3: Contingencies and Commitments

In the normal course of business, we have various contingent liabilities and commitments outstanding, primarily commitments to extend credit, 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.

NOTE 4: Fair Value Measurements

The FASB guidance on "Fair Value Measurement" defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The guidance also establishes a fair value hierarchy, with three levels of inputs that may be used to measure fair value. Refer to Notes 2 and 12 in our 2011 Annual Report for a more complete description.

We did not have any assets or liabilities measured at fair value on a recurring basis at June 30, 2012 or December 31, 2011. We may be required, from time to time, to measure certain assets at fair value on a non-recurring basis. Information about assets measured at fair value on a non-recurring basis was as follows (in thousands):

	Fair Value Measurement Using			Total Fair Value	Total Gains (Losses)
	Level 1	Level 2	Level 3		
June 30, 2012					
Loans	\$ --	\$1,302	\$1,065	\$2,367	\$1,049
Other property owned	--	--	5,048	5,048	(16)
December 31, 2011					
Loans	\$ --	\$1,015	\$953	\$1,968	\$2,030
Other property owned	--	--	5,481	5,481	(26)

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. 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. Costs to sell represent transaction costs and are not included as a component of the asset's fair value.

Other Property Owned: Represents the fair value and related losses of foreclosed assets that were measured at fair value based on the collateral value, which is generally determined using appraisals or other indications based on sales of similar properties. Costs to sell represent transaction costs and are not included as a component of the asset's fair value.

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.

NOTE 5: Subsequent Events

We currently have an alliance with eight other Farm Credit association partners to provide producer financing for agribusiness companies under the trade name, ProPartners Financial (ProPartners). In May 2012, ProPartners announced Northwest Farm Credit Services (Northwest FCS) will join this alliance effective September 1, 2012. ProPartners is directed by representatives from participating associations. The income, expense, and loss sharing arrangements are based on each association's participation interest in ProPartners' volume. Each association's allocation is established according to a prescribed formula which includes risk funds of the associations. The addition of Northwest FCS will allow us to increase our financial

strength, processing capacity, technology, expertise and geographic diversity to support our clients' growth. While our proportionate ownership share will decline, the total volume will increase and, as a result, is not expected to have a material impact on our financial statements.

We have evaluated subsequent events through August 2, 2012, which is the date the consolidated financial statements were available to be issued. There have been no material subsequent events that would require recognition in our Quarterly Report or disclosure in the Notes to Consolidated Financial Statements.