Rural America's Customer-Owned Partner

Southwest Georgia Farm Credit

SOUTHWEST GEORGIA FARM CREDIT, ACA

2006 ANNUAL REPORT

Contents

Message from the President 2-3
Report of Management 4
Consolidated Five-Year Summary of Selected Financial Data 5
Management's Discussion & Analysis of Financial Condition & Results of Operations 6-14
Disclosure Required by FCA Regulations 15-18
Report of the Audit Committee 19
Report of Independent Auditors 20
Consolidated Financial Statements 21-24
Notes to the Consolidated Financial Statements 25-35

Management

Richard S. Monson........ President/Chief Executive Officer
Larry J. Malone. .... Chief Lending Officer
Belinda Robertson........ Chief Financial Officer

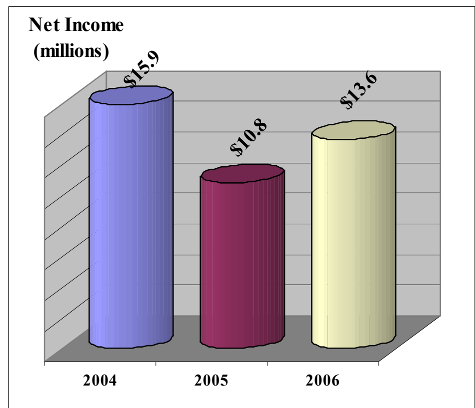
Board of Directors

Bobby J. Brooks........ Chairman
Charlie Burch .... Vice Chairman
T. E. Allen, III .... Director
Jeffrey A. Clark........ Director
Clifford Dollar, Jr. .... Director
Alton H. Fendley, Jr. .... Director
Robert L. Holden, Sr. .... Director
Robert B. Moss .... Director
T. E. Moye, Jr. .... Director
B. E. Powell........ Director

Message from the President

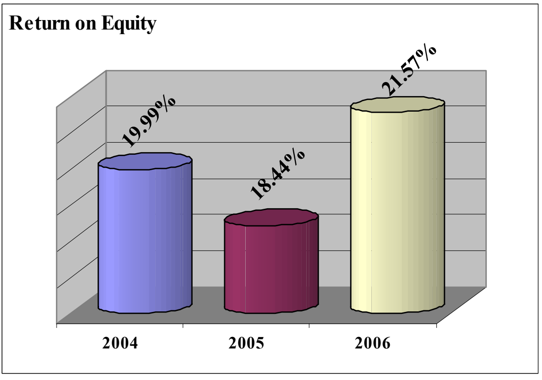
Though there is no such thing as a typical year, this year was a milestone in many respects. In terms of asset growth, credit quality and earnings, all of these measures were simultaneously in the upper limit of the very favorable category.

Our goal as a rural financial cooperative is to operate in a manner that provides a dependable source of financing which in turn provides exceptional value within the marketplace. It is likewise, our obligation, to seek ways to maximize the return to stockholders, while also ensuring a sound capital management program for asset growth and protection. This past year marks an unprecedented level of accomplishment in all of these areas for Southwest Georgia Farm Credit.



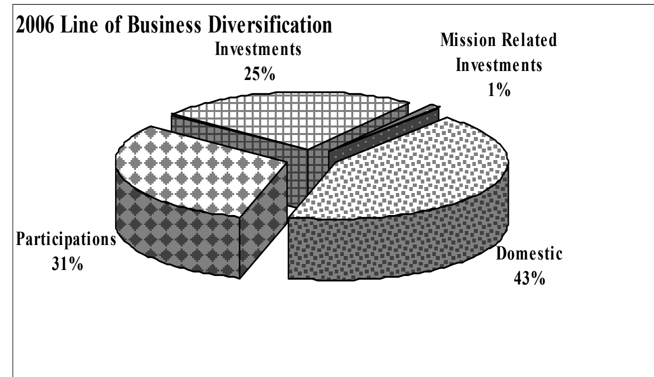
2006 Financial Performance

Financially we concluded the year with $13.6 million in net earnings, an increase of 25.5% over prior year. This favorable net income translates to a return on average equity (ROE) of 21.57%. *(2004 ROE excludes allowance reversal)*



Despite the rising interest rate environment, a strong demand for unimproved farm and timber real estate pushed domestic originations to record levels. Much of this demand reflected the strong movement in recreational and lifestyle consumers wanting their place in the "country." We have increasingly focused our marketing efforts behind capturing this market share with some success being observed. Without question, the non-traditional farmer will increasingly become a major market niche for the association.

The strength of any financial institution's balance sheet is tied to the quality and performance of its assets. Here too, the year ended on a very positive measure, with 99.83% of the loans classified as acceptable. In addition, delinquencies, non-performing loans and other property owned ended the year at negligible levels not witnessed in recent history. Much of this stellar performance can be attributed to a sound economy and low interest rate environment. However, looking forward, any major change to the economy or interest rates could have an influence on what have been historically high performance numbers.



Diversification and Investing Activities

Our Capital Markets division experienced tremendous growth in loan participations and investments. Not only do these lines of business help to diversify the portfolio, they are also a strong generator of consistent revenue. The growth opportunity in investments was used to leverage and diversify the balance sheet, thereby reducing risk and heightening the returns to the stockholder. Ultimately, the association by year end was managing rural financial assets in excess of $695 million, nearly

$100 million greater than prior year. Though this level of growth is not sustainable, it was sufficient to restructure the balance sheet and improve operating efficiency.

The participations purchased originate from a geographically diverse group of Farm Credit institutions and commercial banks. This line of business likewise provides much needed risk mitigation to the portfolio through diversification within different types of industries and commodities, as well as providing geographical diversification. The quality of the capital markets portfolio mirrored that of the domestic portfolio with minimal non-performing loans.

Growth in the investment portfolio reached $116 million this year. In addition to providing another revenue source, the investment portfolio provides interest rate risk and short-term funds management capabilities.

Capitalization and Risk Funds

Capital is crucial during periods of portfolio growth in order to continually meet regulatory levels and prudent business needs. Over the past five years the association's assets have grown at an exceptional rate. As such, this high level of growth is the source of an increasingly greater demand for capital. In order to mitigate the strain on regulatory capital ratio's the association sold $50 million of loan assets to the Capital Participation Pool with AgFirst during the month of September. This move has positively impacted the regulatory ratios.

Mission Related Performance

We are likewise, proud of our achievement of many mission related objectives. We met our specific goals related to the Young, Beginning and Small (YBS) farmer program with over one-half of all new domestic loans being originated for a YBS farmer. Our continued desire to ensure young and beginning farmers have access to capital within the agricultural sector will always be foremost on our minds.

Lastly, our greatest pride is in being able to help our member owners who partner their dreams and lifelong work with our organization, by providing patronage dividends for their commitment to the financial cooperative they own.

It takes a lot of dedication and forethought on the part of the board of directors and management to continually craft and implement a strategic plan that provides ample capital from which to grow and protect the business on a sustained basis. It also takes sound loan underwriting standards and an appropriate credit culture to ensure consistent loan repayment for liquidity in making new loans. We take pride in rising to meet these challenges.

We look forward to serving you in 2007 and will continue to strive to make you feel proud to be a member of a high performing cooperative for years to come. Please review our annual report as it will better reflect on our accomplishments and performance. We believe you will find the results quite favorable and welcome any questions you might have.

As always we thank you for your loyalty and hope that we have served you well.

Respectfully,

Richard S. Monson

Richard S. Monson
President

February 28, 2007

Report of Management

The accompanying consolidated financial statements and related financial information appearing throughout this annual report have been prepared by management of Southwest Georgia Farm Credit, ACA (Association) in accordance with generally accepted accounting principles appropriate in the circumstances. Amounts which must be based on estimates represent the best estimates and judgments of management. Management is responsible for the integrity, objectivity, consistency, and fair presentation of the consolidated financial statements and financial information contained in this report.

Management maintains and depends upon an internal accounting control system designed to provide reasonable assurance that transactions are properly authorized and recorded, that the financial records are reliable as the basis for the preparation of all financial statements, and that the assets of the Association are safeguarded. The design and implementation of all systems of internal control are based on judgments required to evaluate the costs of controls in relation to the expected benefits and to determine the appropriate balance between these costs and benefits. The Association maintains an internal audit program to monitor compliance with the systems of internal accounting control. Audits of the accounting records, accounting systems and internal controls are performed and internal audit reports, including appropriate recommendations for improvement, are submitted to the Board of Directors.

The consolidated financial statements have been examined by independent public auditors, whose report appears elsewhere in this annual report. The Association is also subject to examination by the Farm Credit Administration.

The consolidated financial statements, in the opinion of management, fairly present the financial condition of the Association. The undersigned certify that the 2006 Annual Report has been prepared in accordance with all applicable statutory or regulatory requirements and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.

The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors.

Bobby J. Brooks
Chairman of the Board

Richard S. Monson
Chief Executive Officer

Belinda Robertson
Chief Financial Officer

February 28, 2007

Consolidated Five - Year Summary of Selected Financial Data

(UNAUDITED)

(dollars in thousands)	2006	2005	December 31, 2004	2003	2002
Balance Sheet Data					
Cash	$ 2,885	$ 3,358	$ 2,514	$ 1,606	$ 3,008
Investment securities, held to maturity	32,006	—	—	—	—
Loans	477,408	455,324	401,497	328,715	302,314
Less: allowance for loan losses	427	844	843	7,587	7,601
Net loans	476,981	454,480	400,654	321,128	294,713
Investment in other Farm Credit institutions	13,473	5,503	4,726	4,212	4,822
Other property owned	7	7	—	—	—
Other assets	104,768	74,837	13,957	8,572	9,241
Total assets	$ 630,120	$ 538,185	$ 421,851	$ 335,518	$ 311,784
Notes payable to AgFirst Farm Credit Bank*	$ 547,249	$ 465,789	$ 355,722	$ 281,553	$ 255,286
Accrued interest payable and other liabilities with maturities of less than one year	16,374	10,909	8,160	7,859	11,200
Total liabilities	563,623	476,698	363,882	289,412	266,486
Protected borrower stock	402	481	568	707	912
Capital stock and participation certificates	1,141	1,125	1,140	1,139	1,204
Retained earnings					
Allocated	25,198	24,744	23,949	24,326	23,639
Unallocated	39,756	35,137	32,312	22,308	22,109
Accumulated other comprehensive income (loss)	—	—	—	(2,374)	(2,566)
Total members' equity	66,497	61,487	57,969	46,106	45,298
Total liabilities and members' equity	$ 630,120	$ 538,185	$ 421,851	$ 335,518	$ 311,784
Statement of Income Data					
Net interest income	$ 12,575	$ 11,442	$ 10,162	$ 9,415	$ 8,734
Provision for (reversal of allowance for) loan losses	(418)	1	(6,701)	—	—
Noninterest income (expense), net	607	(608)	(867)	(2,305)	(1,489)
Net income	$ 13,600	$ 10,833	$ 15,996	$ 7,110	$ 7,245
Key Financial Ratios					
Rate of return on average:					
Total assets	2.27%	2.38%	4.18%	2.22%	2.41%
Total members' equity	21.57%	18.44%	34.40%	15.76%	15.12%
Net interest income as a percentage of average earning assets	2.18%	2.61%	2.69%	2.99%	2.98%
Net chargeoffs (recoveries) to average loans	—	—	0.011%	0.004%	0.29%
Total members' equity to total assets	10.55%	11.42%	13.74%	13.74%	14.53%
Debt to members' equity (:1)	8.48	7.75	6.28	6.28	5.88
Allowance for loan losses to loans	0.09%	0.19%	0.21%	2.31%	2.51%
Permanent capital ratio	12.42%	13.04%	15.04%	14.70%	15.13%
Total surplus ratio	12.16%	12.77%	14.66%	14.30%	14.70%
Core surplus ratio	10.39%	10.54%	11.10%	10.30%	10.60%
Net Income Distribution					
Estimated patronage refunds:					
Cash	$ 3,978	$ 3,169	$ 2,459	$ 2,333	$ 3,177
Nonqualified allocated retained earnings	3,978	3,169	2,459	2,333	2,471
Nonqualified retained earnings	494	1,578	1,229	2,298	1,412

* *General financing agreement is renewable on three-year cycles. The next renewal date is December 31, 2007.*

Management's Discussion & Analysis of Financial Condition & Results of Operations

(dollars in thousands, except as noted)

GENERAL OVERVIEW

The following commentary summarizes the financial condition and results of operations of Southwest Georgia Farm Credit, ACA, (Association) for the year ended December 31, 2006 with comparisons to the years ended December 31, 2005 and December 31, 2004. This information should be read in conjunction with the Consolidated Financial Statements, Notes to the Consolidated Financial Statements and other sections in this Annual Report. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors. For a list of the Audit Committee members, refer to the "Report of the Audit Committee" reflected in this Annual Report. Information in any part of this Annual Report may be incorporated by reference in answer or partial answer to any other item of the Annual Report.

The Association is an institution of the Farm Credit System (System), which was created by Congress in 1916 and has served agricultural producers for almost 91 years. The System's mission is to maintain and improve the income and well-being of American farmers, ranchers, and producers or harvesters of aquatic products and farm-related businesses. The System is the largest agricultural lending organization in the United States. The System is regulated by the Farm Credit Administration, (FCA), which is an independent safety and soundness regulator.

The Association is a cooperative, which is owned by the members (also referred to throughout this Annual Report as stockholders or shareholders) served. The territory of the Association extends across a diverse agricultural region of Southwest Georgia. Refer to Note 1, "Organization and Operations," of the Notes to the Consolidated Financial Statements for counties in the Association's territory. The Association provides credit to farmers, ranchers, rural residents, and agribusinesses. Our success begins with our extensive agricultural experience and knowledge of the market.

The Association obtains funding from AgFirst Farm Credit Bank (AgFirst or Bank). The Association is materially affected and shareholder investment in the Association could be affected by the financial condition and results of operations of the Bank. Copies of the Bank's Annual and Quarterly Reports are on the AgFirst website, ***www.agfirst.com,*** or may be obtained at no charge by calling 1-800-845-1745, extension 316, or writing Wanda Martin, AgFirst Farm Credit Bank, P. O. Box 1499, Columbia, SC 29202.

Copies of the Association's Annual and Quarterly reports are also on the Association's website, www.swgafarmcredit.com, or may be obtained upon request free of charge by calling 1-800-844-2645, or writing Belinda Robertson, Southwest Georgia Farm Credit, ACA, P.O. Box 790, Bainbridge, Georgia 39818-0790. The Association prepares a quarterly report within 45 days after the end of each fiscal quarter, except that no report needs to be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Association.

CRITICAL ACCOUNTING POLICIES

The financial statements are reported in conformity with accounting principles generally accepted in the United States of America. Our significant accounting policies are critical to the understanding of our results of operations and financial position because some accounting policies require us to make complex or subjective judgments and estimates that may affect the value of certain assets or liabilities. We consider these policies critical because management must make judgments about matters that are inherently uncertain. For a complete discussion of significant accounting policies, see Note 2, "Summary of Significant Accounting Policies," of the Notes to the Consolidated Financial Statements. The following is a summary of certain critical policies.

- *Allowance for loan losses* — The allowance for loan losses is management's best estimate of the amount of probable losses existing in and inherent in our loan portfolio. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through allowance reversals and loan charge-offs. The allowance for loan losses is determined based on a periodic evaluation of the loan portfolio, which generally considers relevant historical charge-off experience adjusted for relevant factors. These factors include types of loans, credit quality, specific industry conditions, general economic and political conditions, and changes in the character, composition, and performance of the portfolio, among other factors.

  Significant individual loans are evaluated based on the borrower's overall financial condition, resources, and payment record, the prospects for support from any financially responsible guarantor, and, if appropriate, the estimated net realizable value of any collateral. The allowance for loan losses attributable to these loans is established by a process that estimates the probable loss inherent in the loans, taking into account various historical and projected factors, internal risk ratings, regulatory oversight, and geographic, industry and other factors.

  Changes in the factors considered by management in the evaluation of losses in the loan portfolios could result in a change in the allowance for loan losses and could have a direct impact on the provision for loan losses and the results of operations.

- *Valuation methodologies* — Management applies various valuation methodologies to assets and liabilities that often involve a significant degree of judgment, particularly when liquid markets do not exist for the particular items being valued. Quoted market prices are referred to when estimating fair values for certain assets for which an observable liquid market exists, such as most investment securities. Management utilizes significant estimates and assumptions to value items for which an observable liquid market does not exist. Examples of these items include impaired loans, pension and other postretirement benefit obligations, and certain other financial instruments. These valuations require the use of various assumptions, including, among others, discount rates, rates of return on assets, repayment rates, cash flows, default rates, costs of servicing and liquidation values. The use of

different assumptions could produce significantly different results, which could have material positive or negative effects on the Association's results of operations. For additional information, refer to the Recently Issued Accounting Pronouncements disclosed in this Annual Report.

- *Pensions* — The Bank and its related Associations participate in defined benefit retirement plans. These plans are noncontributory and benefits are based on salary and years of service. In addition, the Bank and its related Associations also participate in defined contribution retirement savings plans. Pension expense for all plans is recorded as part of salaries and employee benefits. Pension expense is determined by actuarial valuations based on certain assumptions, including expected long-term rate of return on plan assets and discount rate. The expected return on plan assets for the year is calculated based on the composition of assets at the beginning of the year and the expected long-term rate of return on that portfolio of assets. The discount rate is used to determine the present value of our future benefit obligations. We selected the discount rate by reference to Moody's Investors Service Aa long-term corporate bond index, actuarial analyses and industry norms. For additional information, refer to the Recently Issued Accounting Pronouncements disclosed in this Annual Report.

ECONOMIC CONDITIONS

During 2006, we continue to see improving economic conditions in southwest Georgia. Our area is attracting businesses because of the availability of relatively inexpensive real estate and the abundance of natural resources. Our annual report clearly emphasizes the leadership role the Association has taken in fostering economic growth and improving the quality of life in our area. We have been successful in supporting the economic growth of our area by providing funding for the development of agribusiness. We will continue our conservative strategy, keeping a relatively low risk, but changing asset mix, and developing fee based sources of income. We will also continue our efforts to expand our sources of revenue and grow without sacrificing long-term value. We believe these strategies will provide stable returns, while also providing the opportunity to prosper and create additional value.

There has been significant change in our market base over the past year, with the Association buying and selling loan participations as well as the Association's involvement in government guarantee programs. During 2006, the Association targeted certain segments of our business with hopes of increasing market share. Continued efforts are being made to expand services, increase public knowledge of our services and streamline our current delivery of products to enhance our existing portfolio.

MISSION-RELATED INVESTMENTS

During 2005, the FCA initiated a pilot investment program to stimulate economic growth and development in rural areas. The FCA outlined a program to allow System institutions to hold such investments, subject to approval by the FCA on a case-by-case basis. FCA has approved the Rural America Bonds pilot and the Tobacco Buyout Program under the mission-related investments umbrella, as described below.

Rural America Bonds

In October 2005, the FCA authorized AgFirst and the Associations to make investments in Rural America Bonds under a three-year pilot period. Rural America Bonds may include debt obligations issued by public and private enterprises, corporations, cooperatives, other financing institutions, or rural lenders where the proceeds would be used to support agriculture, agribusiness, rural housing, or economic development, infrastructure, or community development and revitalization projects in rural areas. Examples include investments that fund value-added food and fiber processors and marketers, agribusinesses, commercial enterprises that create and maintain employment opportunities in rural areas, community services, such as schools, hospitals, and government facilities, and other activities that sustain or revitalize rural communities and their economies. The objective of this pilot program is to help meet the growing and diverse financing needs of agricultural enterprises, agribusinesses, and rural communities by providing a flexible flow of money to rural areas through bond financing. These bonds may be classified as Loans or Investments on the Consolidated Balance Sheets depending on the nature of the investment. As of December 31, 2006, the Association had $6,447 in Rural America Bonds, and they are classified as Loans on the Consolidated Balance Sheets. The Association is actively planning to evaluate more opportunities in the future.

Tobacco Buyout Program

On October 22, 2004, Congress enacted the "Fair and Equitable Tobacco Reform Act of 2004" (Tobacco Act) as part of the "American Jobs Creation Act of 2004." The Tobacco Act repealed the Federal tobacco price support and quota programs, provided for payments to tobacco "quota owners" and producers for the elimination of the quota and included an assessment mechanism for tobacco manufacturers and importers to pay for the buyout. Tobacco quota holders and producers will receive equal annual payments under a contract with the Secretary of Agriculture. The Tobacco Act also includes a provision that allows the quota holders and producers to assign to a "financial institution" the right to receive the contract payments (Successor-in-Interest Contracts (SIIC)) so that they may obtain a lump sum or other payment. On April 4, 2005, the United States Department of Agriculture (USDA) issued a Final Rule implementing the "Tobacco Transition Payment Program" (Tobacco Buyout).

The FCA recognized that the Tobacco Buyout has significant implications for some System institutions and the tobacco quota holders and producers they serve. The FCA determined that System institutions are "financial institutions" within the meaning of the Tobacco Act and are therefore eligible to participate in the Tobacco Buyout. The goal of this program is to provide quota holders and producers with the option to immediately receive Tobacco Buyout contract payments and reinvest them in future business opportunities.

On December 31, 2006, the Association held $84,426 of SIIC. The SIIC are classified as Other Investments on the Consolidated Balance Sheets. In addition, the Association had loans outstanding collateralized by assignments of contract payments in the amount of $659 that are included in Loans on the Consolidated Balance Sheets.

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners, and farm-related businesses for financing of short and intermediate-term loans and long-term real estate mortgage loans through numerous product types.

The gross loan volume of the Association as of December 31, 2006, was $477,408, an increase of $22,084 or 4.85 percent as compared to $455,324 at December 31, 2005 and at December 31, 2005 an increase of $53,827 or 13.41 percent as compared to $401,497 at December 31, 2004. Net loans outstanding (gross loans net of the allowance for loan losses) on December 31, 2006, were $476,981 as compared to $454,480 at December 31, 2005 and $400,654 at December 31, 2004. Net loans accounted for 75.70 percent of total assets on December 31, 2006 as compared to 84.45 percent of total assets at December 31, 2005 and 94.98 percent of total assets at December 31, 2004.

The diversification of the Association loan volume by type for each of the past three years is shown below. See Note 5, "Loans and Allowance for Loan Losses," of the Notes to the Consolidated Financial Statements for the loans outstanding amounts.

Loan Type	12/31/06	12/31/05	12/31/04
Real estate mortgage	51.50%	53.79%	54.88%
Production and intermediate term	32.68	25.41	23.20
Agribusiness:			
Loans to cooperatives	.24	.47	–
Processing and marketing	3.85	3.93	4.21
Farm-related business	9.90	13.92	14.76
Communication	–	.07	.11
Energy	.19	.14	–
Rural residential real estate	1.64	2.27	2.84
Total	100.00%	100.00%	100.00%

* *Loan Types were reclassified for 2004 and 2005.*

The following table presents the contractual maturity distribution of loans at December 31, 2006:

Loan Type	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years	Total
	(dollars in thousands)			
Real estate mortgage	$ 16,323	$ 76,240	$ 153,293	$ 245,856
Production and intermediate term	71,060	66,384	18,558	156,002
Agribusiness:				
Loans to cooperatives	135	142	875	1,152
Processing and marketing	10,446	3,543	4,400	18,389
Farm-related business	9,233	5,396	32,626	47,255
Energy	897	–	0	897
Rural residential real estate	366	1,541	5,950	7,857
Total	$ 108,460	$ 153,246	$ 215,702	$ 477,408

While we make loans and provide financially related services to qualified borrowers in the agricultural and rural sectors and to certain related entities, our loan portfolio is diversified. The following tables reflect the commodities financed and the geographic locations served.

The geographic distribution of the loans by counties for the past three years is as follows:

Counties/Branch*	12/31/06	12/31/05	12/31/04
Baker	3.56%	3.81%	3.28%
Calhoun	.57	.62	.66
Chattahooche	.16	1.83	1.27
Clay	.64	.79	.98
Decatur*	20.14	19.73	22.17
Doughtery	3.69	5.43	3.25
Early*	2.46	3.15	2.51
Grady*	3.43	4.44	5.24
Lee	1.56	1.73	1.59
Marion	2.24	2.85	2.79
Miller	2.29	2.18	2.54
Mitchell*	8.16	7.77	9.43
Quitman	.00	.01	.14
Randolf	1.15	1.22	1.90
Schley	.39	.45	.48
Seminole*	1.79	2.46	2.33
Stewart	.78	.69	1.00
Sumter*	3.52	3.90	4.63
Terrell*	1.51	2.01	2.60
Thomas	5.89	5.58	5.73
Webster	.51	.59	.68
Other**	35.56	28.76	24.80
Total	100.00%	100.00%	100.00%

* *Branch Locations*

** *Note: The Other category above consists of loans originated and participated outside our territory.*

Commodity and industry categories are based upon the Standard Industrial Classification system published by the federal government. The system is used to assign commodity or industry categories based upon the largest agricultural commodity of the customer.

The major commodities in the Association loan portfolio are shown below. The predominant commodities are timber, landlords, poultry, cotton, and peanuts, which constitute over 68 percent of the entire portfolio.

Commodity Group	Percent of Portfolio 2006	2005	2004
Timber	30%	26%	22%
Landlords	15	14	0
Poultry	9	10	12
Cotton	8	8	9
Peanuts	6	7	6
Livestock	5	5	4
Fruit & Nut	3	3	4
Vegetables	3	2	3
Dairy	1	1	2
Horticulture	1	1	2
Row Crops	1	3	1
Rural Home	1	2	2
Other	17	18	33
Total	100%	100%	100%

* *Commodity Groups were reclassified for 2004 and 2005*

Repayment ability is closely related to the commodities produced by our borrowers, and increasingly, the off-farm income of borrowers. The Association's loan portfolio contains a concentration of timber, landlords, poultry, cotton and peanut producers. Although a large percentage of the loan portfolio is concentrated in these enterprises, many of these operations are diversified within their enterprise and/or with crop production that reduces overall risk exposure. Within the timber commodity group there are a significant number of less than full time timber producers. As such, the risk in this group is more diversified than appears from the nominal percentage. Strong real estate demand by non-traditional farmers has led to loan growth in the domestic business. Even though the concentration of large loans has increased over the past several years, the agricultural enterprise mix of these loans is diversified and similar to that of the overall portfolio. The risk in the portfolio associated with commodity concentration and large loans is reduced by the range of diversity of enterprises in the Association's territory.

The increase in gross loan volume for the twelve months ended December 31, 2006, is primarily attributed to increased demand for real estate loans and participations purchased. The Association has been fortunate in originating several large participation loans as well as attracting some large real estate loans in addition to normal business. The Association has also seen an increased interest in intermediate-term loans for equipment purchases.

For the past few years, the Association has experienced a shift in loan assets. The long-term volume trend has been upward while the short and intermediate-term loan volume trend is downward. The short-term portfolio, which is heavily influenced by operating-type loans, normally reaches a peak balance in August and rapidly declines in the fall months as commodities are marketed and proceeds are applied to repay operating loans.

During 2006, the Association increased activity in the buying and selling of loan participations within and outside of the System. This provides a means for the Association to spread credit concentration risk and realize non-patronage sourced interest and fee income, which will strengthen the capital position.

Loan Participations	2006	2005	2004
	(dollars in thousands)		
Participations Purchased – FCS Institutions	$ 101,303	$ 81,818	$ 78,944
Participations Purchased – Non-FCS Institutions	20,492	10,250	11,477
Participations Sold	(103,639)	(54,158)	(41,988)
Total	$ 18,156	$ 37,910	$ 48,433

The Association sells qualified long-term mortgage loans into the secondary market. For the period ended December 31, 2006, the Association originated loans for resale totaling $11,982, which were sold into the secondary market. The Association purchased portions of loans that are guaranteed by the United States Department of Agriculture. These loans are held for the purposes of reducing interest rate risk and managing surplus short-term funds as allowable under FCA regulations. At December 31, 2006, the balance of these loans (including the unamortized premium) was $31,364, compared to $41,871 at December 31, 2005 and $46,010 at December 31, 2004.

INVESTMENT SECURITIES

The Association purchased investments in loan pools of Small Business Administration (SBA) guaranteed loans. These investments carry the full faith and credit of the United States government. At December 31, 2006, the balance in these investments amounted to $32,006. It is the Association's objective that liquid, high-quality investments shall be utilized as an asset liability management strategy to manage and diversify its income sources.

RISK EXPOSURE

Credit risk arises from the potential inability of an obligor to meet its repayment obligation. As part of the process to evaluate the success of a loan, the Association continues to review the credit quality of the loan portfolio on an ongoing basis. With the approval of the Association Board of Directors, the Association establishes underwriting standards and lending policies that provide direction to loan officers. Underwriting standards include, among other things, an evaluation of:

- *Character* – borrower integrity and credit history
- *Capacity* – repayment capacity of the borrower based on cash flows from operations or other sources of income
- *Collateral* – protection for the lender in the event of default and a potential secondary source of repayment
- *Capital* – ability of the operation to survive unanticipated risks
- *Conditions* – intended use of the loan funds

The credit risk management process begins with an analysis of the borrower's credit history, repayment capacity, and financial position. Repayment capacity focuses on the borrower's ability to repay the loan based upon cash flows from operations or other sources of income, including non-farm income. Real estate loans must be collateralized by first liens on the real estate (collateral). As required by FCA regulations, each institution that makes loans on a collateralized basis must have collateral evaluation policies and procedures. Real estate mortgage loans may be made only in amounts up to 85 percent of the original appraised value of the property taken as collateral or up to 97 percent of the appraised value if guaranteed by a state, federal, or other governmental agency. The actual loan to appraised value when loans are made is generally lower than the statutory maximum percentage. Appraisals are required for loans of more than $250,000. In addition, each loan is assigned a credit risk weighting based upon the underwriting standards. This credit risk rating process incorporates objective and subjective criteria to identify inherent strengths, weaknesses, and risks in a particular relationship.

The Association's loan portfolio is divided into performing and high-risk categories. Specific personnel within the Association are responsible for servicing loans classified as high-risk. The high-risk assets, including accrued interest, are detailed below:

	12/31/06	12/31/05	12/31/04
	(dollars in thousands)		
High-risk Assets			
Nonaccrual loans	$ 102	$ 131	$ 153
Restructured loans	354	362	758
Accruing loans 90 days past due	126	–	–
Total high-risk loans	582	493	911
Other property owned	7	7	21
Total high-risk assets	$ 589	$ 500	$ 932
Ratios			
Nonaccrual loans to total loans	.02%	0.03%	0.04%
High-risk assets to total assets	.09%	0.09%	0.22%

Nonaccrual loans represent all loans where there is a reasonable doubt as to the collection of principal and/or future interest accruals, under the contractual terms of the loan. In substance, nonaccrual loans reflect loans where the accrual of interest has been suspended. Nonaccrual loans decreased $29, or 22.14 percent in 2006. This decrease resulted from payments and liquidations. All nonaccrual volume at December 31, 2006, 2005 and 2004, was current as to scheduled principal and interest payments, but did not meet all regulatory requirements to be transferred into accrual status.

Loan restructuring is available to financially distressed borrowers. Restructuring of loans occurs when the Association grants a concession to a borrower based on either a court order or good faith in a borrower's ability to return to financial viability. The concessions can be in the form of a modification of terms or rates, a compromise of amounts owed, or deed in lieu of foreclosure. Other receipts of assets and/or equity to pay the loan in full or in part are also considered restructured loans. The type of alternative financing structure chosen is based on minimizing the loss incurred by both the Association and the borrower.

Credit Quality

We review the credit quality of the loan portfolio on an ongoing basis as part of our risk management practices. Each loan is classified according to the Uniform Classification System, which is used by all Farm Credit System institutions. Below are the classification definitions.

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

The following table presents selected statistics related to the credit quality of loans including accrued interest at December 31.

Credit Quality	2006	2005	2004
Acceptable & OAEM	99.83%	99.42%	99.55%
Substandard	.17	.58	.45
Doubtful	–	–	–
Loss	–	–	–
Total	100.00%	100.00%	100.00%

Allowance for Loan Losses

During 2004, the Association completed its study to further refine the allowance for loan losses methodology, taking into account guidance issued by FCA, as well as the Securities and Exchange Commission (SEC) and Federal Financial Institutions Examination Council. As a result of this study and resulting refinements in methodology, during the fourth quarter of 2004, the Association recorded a reversal of the allowance for loan losses of $6,701.

Previously, the Association's allowance for loan losses methodology had been based upon criteria developed in the late 1980s and reflected the credit losses experienced in the mid-to-late 1980s, which was a period of unusually adverse economic conditions in American agriculture. Given the long cyclical nature of the agricultural economy, loss factors utilized to determine the allowance for loan losses subsequent to 1989 continued to reflect, to some extent, the loss history of the mid-to-late 1980s, which resulted in conservative estimates of the allowance for loan losses. The Association's allowance for loan losses methodology utilized throughout the period was in accordance with generally accepted accounting principles and was consistently applied.

While conservative in estimating the allowance for loan losses, the methodology used resulted in annual provisions for loan losses over the periods that reflected changes in credit quality and loss experience. Accordingly, the reserves provided in the mid-to-late 1980s had, in effect, remained part of the allowance for loan losses. The Association's allowance for loan loss methodology has consistently adhered to proper accounting policies, under the regulatory supervision of the FCA in its role as a "safety and soundness" regulator. It was the FCA's view that the allowance for loan losses should include, among others, an assessment of probable losses, historical loss experience and economic conditions.

In April 2004, the FCA issued an Informational Memorandum to System institutions regarding the criteria and methodologies that would be used in evaluating the adequacy of a System institution's allowance for loan losses. The FCA endorsed the direction provided by other bank regulators and the SEC and indicated that the conceptual framework addressed in their guidelines would be included as part of their examination process.

The refinement in methodology resulted in a calculated allowance for loan losses that was significantly less than the previously recorded balance due to revised loss factors that are more indicative of actual loss experience in recent years and current borrower analysis. The factors considered in determining the revised level of allowance for loan losses are generally based on recent historical charge-off experience adjusted for relevant environmental factors. The Association considers the following when adjusting the historical charge-off experience:

- changes in credit risk classifications,
- changes in collateral values,
- changes in risk concentrations,
- changes in weather related conditions and
- changes in economic conditions.

While the reversal had a significant impact on 2004 results of operations and the previously recorded allowance for loan losses, the refinement in methodology is not expected to have a significant impact on comparative results of operations in future periods. Additionally, the refinement in methodology did not have a significant impact on the level of risk bearing capacity of the Association, generally referred to as "risk funds" (capital plus the allowance for loan losses), which totaled $66,924 at December 31, 2006 (14.02 percent of Association loans), as compared with $62,331 at December 31, 2005 (13.69 percent of Association loans) and $58,812 at December 31, 2004 (14.65 percent of Association loans).

The allowance for loan losses at each period end is considered by Association management to be adequate to absorb probable losses existing in and inherent to its loan portfolio. The allowance for loan losses was $427 at December 31, 2006, as compared with $844 and $843 at December 31, 2005 and 2004, respectively.

Net loan recoveries (charge-offs) of $1, and ($43) were recorded in 2006, and 2004, respectively. Net loan recoveries (charge-offs) as a percentage of average loans remained at low levels for all three years.

The following table presents the activity in the allowance for loan losses for the most recent three years:

Allowance for Loan Losses Activity:	2006	2005	2004
	(dollars in thousands)		
Balance at beginning of year	$ 844	$ 843	$ 7,587
Charge-offs:			
Real estate mortgage	$ (1)	$ (5)	$ (66)
Total charge-offs	(1)	(5)	(66)
Recoveries:			
Real estate mortgage	$ 2	$ 5	$ 23
Total recoveries	2	5	23
Net (charge-offs) recoveries	1	–	(43)
Provision for (reversal of allowance for) loan losses	$ (418)	$ 1	$ –
Nonrecurring allowance for loan losses reversal*		–	(6,701)
	(418)	1	(6701)
Balance at end of year	$ 427	$ 844	$ 843
Ratio of net charge-offs during the period to average loans outstanding during the period	–%	–%	(.011%)

* *Represents the amount of allowance reversal due to the refinement in methodology.*

The allowance for loan losses by loan type for the most recent three years is as follows:

Allowance for Loan Losses by Type	December 31, 2006	2005	2004
	(dollars in thousands)		
Real estate mortgage	$ 221	$ 456	$ 455
Production and intermediate term	140	217	216
Agribusiness	58	150	150
Communication	–	1	1
Energy	1	1	1
Rural residential real estate	7	19	19
Total loans	$ 427	$ 844	$ 843

The allowance for loan losses as a percentage of loans outstanding and as a percentage of certain other credit quality indicators is shown below:

Allowance for Loan Losses as a Percentage of:	December 31, 2006	2005	2004
Total loans	.09%	.19%	.21%
Nonperforming loans	73.37%	171.20%	92.54%
Nonaccrual loans	418.63%	644.27%	550.98%

The financial positions of our borrowers have generally strengthened during the past decade as farmers' net cash income has been at a favorable level due, in part, to direct federal government payments and steady increases in land values over the period. With borrowers' strengthened financial positions and the continued emphasis on sound underwriting standards, the credit quality of our loan portfolio has remained healthy. Please refer to Note 5, "Loans and Allowance for Loan Losses," of the Notes to the Consolidated Financial Statements, for further information concerning the allowance for loan losses.

EMPLOYEE RETIREMENT PLANS

For the years ended December 31, 2006, 2005, and 2004 the Association contributed $0, $554, and $2,357 respectively, to the District-wide defined benefit retirement plan. The funding brought the retirement plan's assets to an amount exceeding the accumulated benefit obligation as of the Plan's measurement date, eliminating the minimum pension liability and the charge to accumulated other comprehensive income. For additional information, see Note 12, "Employee Benefit Plans," and refer to the Recently Issued Accounting Pronouncements disclosed in the Notes to the Consolidated Financial Statements.

RESULTS OF OPERATIONS

Net income for the year ended December 31, 2006, totaled $13,600, an increase of $2,767 or 25.53 percent, as compared to $10,833 for the same period of 2005 and for 2005 a decrease of $5,163 or 32.28 percent, as compared to $15,996 for the same period of 2004. Interest income for the year ended December 31, 2006, was $42,838, an increase of $13,749 or 47.26 percent as compared to $29,089 for the same period of 2005. Interest income increased by $7,795 for the period ended December 31, 2005, compared to December 31, 2004. Major components of the change in net income for the past two years are outlined in the following table.

Change in Net Income:	2006-2005	2005-2004
	(dollars in thousands)	
Net income (prior year)	$ 10,833	$ 15,996
Increase (decrease) in net income due to:		
Interest income	13,749	7,795
Interest expense	(12,616)	(6,515)
Net interest income	1,133	1,280
Provision for loan losses	419	(6,702)
Noninterest income	1,907	669
Noninterest expense	(714)	(402)
Provision for income taxes	22	(8)
Total changes in income	2,767	(5,163)
Net income	$ 13,600	$ 10,833

Net Interest Income

Net interest income increased by $1,133 or 9.90 percent in 2006 compared to 2005 and increased by $1,280, or 12.60 percent compared to 2004. Interest income on nonaccrual loans for 2006 totaled $0, a decrease of $1, compared to $1 for 2005 and a decrease of $14 compared to $15 for 2004. The Association's net interest income as a percentage of average earning assets was 2.18 percent on December 31, 2006, compared to 2.61 percent on December 31, 2005 and 2.69 percent on December 31, 2004. The sources of change in net interest income are summarized, as follows:

Change in Net Interest Income:

	Volume*	Rate	Nonaccrual Income	Total
12/31/06 - 12/31/05				
Interest income	$ 9,208	$ 4,541	$ –	$13,749
Interest expense	6,254	6,362	–	12,616
Change in net interest income	$ 2,954	$ (1,821)	$ –	$ 1,133
12/31/05 - 12/31/04				
Interest income	$ 4,378	$ 3,431	$ (14)	$ 7,795
Interest expense	2,184	4,331	–	6,515
Change in net interest income	$ 2,194	$ (900)	$ (14)	$ 1,280

* *Volume variances can be the result of increased/decreased loan volume or from changes in the percentage composition of assets and liabilities between periods.*

Please refer to the Consolidated Five-Year Summary of Selected Financial Data in this Annual Report to review key financial ratios pertaining to earnings and net interest income.

Noninterest Income

Noninterest incomes for each of the three years ended December 31 are shown in the following table:

Noninterest Income	For the Year Ended December 31, 2006	2005	2004	Percentage Increase/(Decrease) 2006/2005	2005/2004
	(dollars in thousands)				
Loan fees	$ 1,734	$ 950	$ 1,122	82.53%	(15.33)%
Fees for financially related services	12	11	16	9.09	(31.25)
Patronage refund from other Farm Credit Institutions	5,780	4,622	3,840	25.05	20.36
Gains (losses) on sale of rural home loans	96	129	92	(25.58)	40.22
Gains (losses) from sale of premises & equipment, net	1	(1)	(1)	(200.00)	–
Other noninterest income	89	94	67	(5.32)	40.30
Total noninterest income	$ 7,712	$ 5,805	$ 5,136	32.85%	13.03%

Regarding patronage refunds received from other Farm Credit Institutions, the Association received $4,465 in a patronage refund and $774 in a special distribution from the Bank for the year ended December 31, 2006, compared to $2,932 and $1,271 for 2005, and $2,484 and $1,173 for 2004. The patronage refund was 25% greater than prior year due to growth in both loan and investment assets and the corresponding increase in the direct note payable to AgFirst. Loan fees were up significantly this year primarily from a large letter of credit fee of over $300 thousand. This fee was the result of arranging and syndicating a letter of credit for a senior secured credit facility for an ethanol facility project.

Noninterest Expense

Noninterest expense for each of the three years ended December 31 is shown in the following table:

Noninterest Expense	For the Year Ended December 31, 2006	2005	2004	Percentage Increase/(Decrease) 2006/ 2005	2005/ 2004
	(dollars in thousands)				
Salaries and employee benefits	$ 4,059	$ 4,002	$ 3,756	1.42%	6.55%
Occupancy and equipment expense	467	489	450	(4.50)	8.67
Insurance Fund premium	620	181	157	242.54	15.29
Other operating expense	1,960	1,720	1,627	13.95	5.72
Total noninterest expense	$ 7,106	$ 6,392	$ 5,990	11.17%	6.71%

Noninterest expense increased $714 or 11.17 percent for December 31, 2006, as compared to the same period of 2005 and increased $402 or 6.71 percent compared to December 31, 2004. The increase in Insurance Fund premium of $439 or 242.54% is due to increase in premium in 2006 to 15 basis points compared to 5 basis points in 2005, along with increased loan volume.

The Association recorded a benefit for income taxes of $1 for the year ended December 31, 2006, as compared to a provision of $21 for 2005 and a provision of $13 for 2004.

Key Results of Operations Comparisons

Key results of operations comparisons for each of the twelve months ended December 31 are shown in the following table:

Key Results of Operations Comparisons	For the 12 Months Ended 12/31/06	For the 12 Months Ended 12/31/05	For the 12 Months Ended 12/31/04
Return on average assets	2.27%	2.38%	4.18%
Return on average members' equity	21.57%	18.44%	34.40%
Net interest income as a percentage of average earning assets	2.18%	2.61%	2.69%
Net charge-offs (recoveries) to average loans	–%	–%	0.011%

A key factor in the growth of net income for future years will be continued improvement in net interest and noninterest income. Our goal is to generate earnings sufficient to fund operations, adequately capitalize the Association, and achieve an adequate rate of return for our members. To meet this goal, the agricultural economy must continue the improvement shown in recent years and the Association must meet certain objectives. These objectives are to attract and maintain high quality loan volume priced at competitive rates and to manage credit risk in our entire portfolio, while efficiently meeting the credit needs of our members.

LIQUIDITY AND FUNDING SOURCES

Liquidity

Liquidity management is the process whereby funds are made available to meet all financial commitments including the extension of credit, payment of operating expenses and payment of debt obligations. The Association receives access to funds through its borrowing relationship with the Bank and from income generated by operations. The Association's participation in the Farmer Mac, investments, and other secondary market programs provides additional liquidity. Sufficient liquid funds have been available to meet all financial obligations.

Funding Sources

The principal source of funds for the Association is the borrowing relationship established with the Bank through a General Financing Agreement (GFA). The GFA utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The Bank advances the funds to the Association, creating notes payable to the Bank. The notes payable are segmented into variable rate and fixed rate components. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association.

Total notes payable to the Bank at December 31, 2006, was $547,249 as compared to $465,789 at December 31, 2005 and $355,722 at December 31, 2004. The increase of 17.49 percent compared to December 31, 2005 and the increase of 30.94 percent compared to December 31, 2004, is primarily attributable to increases in loan volume and investments for 2006 and 2005, and increases in loan volume for 2004. The average volume of outstanding notes payable to the Bank was $529,395 and $390,867 for the years ended December 31, 2006 and 2005, respectively. Refer to Note 9, "Notes Payable to AgFirst Farm Credit Bank," of the Notes to the Consolidated Financial Statements, for additional information concerning the Association's debt.

The Association had no lines of credit from third party financial institutions as of December 31, 2006.

Funds Management

The Bank and the Association manage assets and liabilities to provide a broad range of loan products and funding options, which are designed to allow the Association to be competitive in all interest rate environments. The primary objective of the asset/liability management process is to provide stable and rising earnings, while maintaining adequate capital levels by managing exposure to credit and interest rate risks.

Demand for loan types is a driving force in establishing a funds management strategy. The Association offers fixed, adjustable and variable rate loan products that are marginally priced according to financial market rates. Variable rate loans may be indexed to either the Prime Rate or the 90-day London Interbank Offered Rate (LIBOR). Adjustable rate mortgages are indexed to U.S. Treasury Rates. Fixed rate loans are priced based on the current cost of System debt of similar terms to maturity.

The majority of the interest rate risk in the Association's Consolidated Balance Sheets is transferred to the Bank through the notes payable structure. The Bank, in turn, actively utilizes funds management techniques to identify, quantify and control risk associated with the loan portfolio.

CAPITAL RESOURCES

Total members' equity at December 31, 2006 increased 8.15 percent to $66,497 from the December 31, 2005 total of $61,487 and increased 6.07 percent from the December 31, 2004 total of $57,969. The increase was primarily attributed to net income partially offset by patronage and the retirement of equities for those years.

Total capital stock and participation certificates were $1,543 on December 31, 2006, compared to $1,606 on December 31, 2005 and $1,708 on December 31, 2004. The decrease was attributed to the retirement of protected stock and participation certificates on

loans liquidated in the normal course of business, new loans being capitalized at lower regulatory levels and at risk capital stock and participation certificates retired.

The Association Board of Directors establishes, adopts, and maintains a formal written capital adequacy plan. There were no material changes to the capital plan for 2006 that would affect minimum stock purchases or would have an effect on the Association's ability to retire stock and distribute earnings.

The Association's capital ratios as of December 31 and the FCA minimum requirements follow:

	2006	2005	2004	Regulatory Minimum
Permanent Capital	12.42%	13.04%	15.04%	7.00%
Total Surplus	12.16%	12.77%	14.66%	7.00%
Core Surplus	10.39%	10.54%	11.10%	3.50%

At December 31, 2006, the Association's permanent capital ratio, (average at-risk capital divided by average risk adjusted assets), calculated in accordance with FCA regulations, exceeded the regulatory minimum of 7.00 percent. The decrease in the Association's permanent capital, total surplus, and core surplus for December 31, 2006 and December 31, 2005 was attributed to the continued growth in earning assets.

See Note 10, "Members' Equity," of the Notes to the Consolidated Financial Statements, for further information concerning capital resources.

PATRONAGE PROGRAM

Prior to the beginning of any fiscal year, the Association's Board of Directors, by adoption of a resolution, may establish a Patronage Allocation Program to distribute its available consolidated net earnings. This resolution provides for the application of net earnings in the manner described in the Association's Bylaws. This includes the setting aside of funds to increase surplus to meet minimum capital adequacy standards established by FCA Regulations, to increase surplus to meet Association capital adequacy standards to a level necessary to support competitive pricing at targeted earnings levels, and for reasonable reserves for necessary purposes of the Association. After excluding net earnings attributable to (a) the portion of loans participated to another institution, and (b) participation loans purchased, remaining consolidated net earnings are eligible for allocation to borrowers. Refer to Note 10, "Members' Equity," of the Notes to the Consolidated Financial Statements, for more information concerning the patronage distributions. The Association declared patronage distributions of $8,450 in 2006, $7,916 in 2005, and $6,147 in 2004.

YOUNG, BEGINNING AND SMALL (YBS) FARMERS AND RANCHERS PROGRAM

The Association's mission is to provide financial services to agriculture and the rural community, which includes providing credit to young*, beginning** and small*** farmers. Because of the unique needs of these individuals, and their importance to the future growth of the Association, the Association has established annual marketing goals to increase our market share of loans to YBS farmers. Specific marketing plans have been developed to target these groups, and resources have been designated to help ensure YBS borrowers have access to a stable source of credit.

The following table outlines the loan volume and number of YBS loans in the loan portfolio for the Association.

	As of December 31, 2006	
	Number of Loans	Amount of Loans
Young	217	$ 38,111
Beginning	526	116,640
Small	1,013	141,359

Note: For purposes of the above table, a loan could be classified in more than one category, depending upon the characteristics of the underlying borrower.

The 2002 USDA (2002 is the latest USDA Ag census data available; next census will be available in 2008.) Ag census data has been used as a benchmark to measure penetration of the Association's marketing efforts. The census data indicated that within the Association's chartered territory (counties) there were 4,585 reported farmers of which by definition 173 or 3.77 percent were Young, 1,356 or 29.57 percent were Beginning, and 4,057 or 88.48 percent were Small. Comparatively, as of December 31, 2006, the demographics of the Association's agricultural portfolio contained 1,167 farmers, of which by definition 131 or 11.22 percent were Young, 360 or 30.85 percent were Beginning and 676 or 57.93 percent were Small.

In addition to our marketing strategies, in 2006 the Association coordinates its YBS farmer mission accomplishment through selected tactical programs.

- ❖ Effectively utilize focused sales management techniques and incentive compensation to expand competitive presence within the YBS farmer mission segment.
- ❖ Build awareness and retention through targeted and consistent advertising, promotion and specifically designed public relations campaigns related to YBS farmers.
- ❖ Effectively coordinate with the USDA Farm Service Agency to fully utilize the loan guarantee program to ensure safe and sound lending practices when appropriate.
- ❖ Expand efforts within the community for outreach programs designed to promote the association's services and commitment to agriculture for YBS farmers.

2006 Activities

- ❖ Extensively supported 4-H youth, FFA youth, and young farmer organizations through sponsorships and donations and presentations both on a local and statewide basis.
- ❖ Continued heavy emphasis on Farm Credit awareness and "top of mind" through newspaper and magazine advertisements and Spotlight Page in Wiregrass Land and Living publication directly pertaining to YBS farmers.
- ❖ Expand communications for YBS Education Reimbursement Plan to assist YBS members in obtaining approved continuing education hours and/or software programs relevant to improving their operation.

A very successful component of the overall program to ensure the extension of credit to YBS farmers was the Sales Incentive Program. This program specifically allocated incentive compensation for new loans identified and originated as YBS.

In addition, the Association coordinated closely with the Farm Service Agency to utilize the loan guarantee program as an approved Farm Service Agency Preferred Lender. Utilization of loan guarantee programs with qualifying YBS borrowers, assisted in the accomplishment of the Association's mission.

In fulfilling the Corporate Mission as well as the Public Mission and Obligation Statement, the Association ensured that credit and services were offered to all eligible borrowers, including YBS farmers and ranchers, in a safe and sound manner and within the Association's risk-bearing capacity.

The Association is committed to the future success of young, beginning and small farmers.

* Young farmers are defined as those farmers, ranchers, producers or harvesters of aquatic products who are age 35 or younger as of the date the loan is originally made.

** Beginning farmers are defined as those farmers, ranchers, producers or harvesters of aquatic products who have 10 years or less farming or ranching experience as of the date the loan is originally made.

*** Small farmers are defined as those farmers, ranchers, producers or harvesters of aquatic products who normally generate less than $250 in annual gross sales of agricultural or aquatic products at the date the loan is originally made.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Accounting for Uncertainty in Income Taxes

In June 2006, the Financial Accounting Standards Board (FASB) released Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" (FIN 48). This interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes." FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 is effective for fiscal years beginning after December 15, 2006. Adoption of FIN 48 is not expected to have a material impact on the Association's Consolidated Balance Sheet or Consolidated Statement of Income.

Accounting for Defined Benefit Pension and Other Postretirement Plans

On September 29, 2006, the FASB issued Statement of Financial Accounting Standards No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" (FAS 158). FAS 158 requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and recognize through comprehensive income changes in that funded status in the year in which the changes occur. FAS 158 also provides guidance relating to the discount rate, which may require the Bank and related associations to adjust their basis for selecting the discount rate for their pension and non-pension postretirement benefit plans. The Bank and related associations will be required to implement FAS 158 for the year ended December 31, 2007. In addition, FAS 158 requires that the funded status of a plan be measured as of the date of the year-end financial statements. Currently, the Bank and related associations use a measurement date of September 30th. The requirement to measure the funded status as of the fiscal year-end is effective for fiscal years ending after December 15, 2008. The Bank and related associations are currently evaluating the impact of implementing FAS 158.

FORWARD LOOKING INFORMATION

Certain information included in this discussion constitutes forward-looking statements and information that are based upon management's belief as well as certain assumptions made by and information currently available to management. When used in this discussion, the words "anticipate," "project," "expect," "believe," and similar expressions are intended to identify forward-looking statements. Although management of the Association believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations and projections will prove to have been correct. Such forward-looking statements are subject to certain risks, uncertainties and assumptions. Should one or more of these risks materialize, or should such underlying assumptions prove to be incorrect, actual results may vary materially from those anticipated, projected, or expected. Among key factors that may have a direct bearing on the Association's operating results are fluctuations in the economy, the relative strengths and weaknesses in the agricultural credit sectors and in the real estate market, the actions taken by the Federal Reserve for the purpose of managing the economy, and the continued growth of the agricultural market consistent with recent historical experience.

Disclosure Required by Farm Credit Administration Regulations

Description of Business

Descriptions of the territory served, persons eligible to borrow, types of lending activities engaged in, financial services offered and related Farm Credit organizations are incorporated herein by reference to Note 1 to the consolidated financial statements, "Organization and Operations," included in this annual report to shareholders.

The description of significant developments that had or could have a material impact on earnings or interest rates to borrowers, acquisitions or dispositions of material assets, material changes in the manner of conducting the business, seasonal characteristics, and concentrations of assets, if any, is incorporated in "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in this annual report to shareholders.

Description of Property

The following table sets forth certain information regarding the properties of the reporting entity, all of which are located in Georgia:

Location	Description	Form of Ownership
117 S. Donalson Street Bainbridge	Administrative	Owned
411 W. Broughton St. Bainbridge	Administrative Annex	Owned
33 Liberty Street Blakely	Branch	Owned
40 E. Broad Street Camilla	Branch	Owned
937 Forrester Drive S.E. Dawson	Branch	Owned
504 W. Shotwell Street Bainbridge	Branch	Owned
1037 E. Forsyth Street Americus	Branch	Owned
1230 38th Blvd. NW Cairo	Branch	Owned
408 W. 3rd St. Donalsonville	Branch	Owned
111 6th Avenue Buena Vista	Outpost	Leased*
1277 Highway 82 West, Suite 220 Leesburg	Outpost	Leased**
503 North Broad Street Thomasville	Outpost	Leased***

* *The Buena Vista outpost is leased by the Association on a year-by-year basis. Lease payments are $150 per month.*

** *The Leesburg outpost is leased by the Association on a year-by-year basis. Lease payments are $350 per month.*

*** *The Thomasville outpost is leased by the Association on a year-by-year lease basis. Lease payments are $1,200 per month.*

NOTE The Leesburg and Thomasville outpost offices are primarily used for the Association's Secondary Mortgage Market Unit.

Legal Proceedings

Information, if any, to be disclosed in this section is incorporated herein by reference to Note 15 to the consolidated financial statements, "Commitments and Contingencies," included in this annual report to shareholders.

Description of Capital Structure

Information to be disclosed in this section is incorporated herein by reference to Note 10 to the consolidated financial statements, "Members' Equity," included in this annual report to shareholders.

Description of Liabilities

The description of liabilities, contingent liabilities and intrasystem financial assistance rights and obligations to be disclosed in this section is incorporated herein by reference to Notes 2, 9, 13 and 15 to the consolidated financial statements included in this annual report to shareholders.

Management's Discussion and Analysis of Financial Condition and Results of Operations

"Management's Discussion and Analysis of Financial Condition and Results of Operations," which appears in this annual report to shareholders and is to be disclosed in this section, is incorporated herein by reference.

Senior Officers

The following represents certain information regarding the senior officers of the Association:

Senior Officer	Position
Richard S. Monson	President/Chief Executive Officer
Larry J. Malone	Chief Lending Officer
Belinda Robertson	Chief Financial Officer

Richard S. Monson, President/Chief Executive Officer: The business experience for the past five years for Richard S. Monson is with the Farm Credit System. Mr. Monson has been with the Farm Credit System since September 1986.

Larry J. Malone, Chief Lending Officer: The business experience for the past five years for Larry J. Malone is with the Farm Credit System. Mr. Malone has been with the Farm Credit System since October 1978.

Belinda Robertson, Chief Financial Officer: Ms. Robertson, who has been with the Farm Credit System since June of 2006, was a Business Office Director with Bryant & Stratton College, Virginia Beach, Virginia. Ms. Robertson was previously employed with the Farm Credit System for 7 ½ years for Farm Credit of Northwest Florida, ACA.

The total amount of compensation earned by the CEO and the highest paid officers as a group during the years ended December 31, 2006, 2005 and 2004, is as follows:

Name of Individual or Number in Group	Year	Annual Salary	Bonus	Deferred/- Perquisites	Other	Total
Richard S. Monson	2006*	$193,482	$ 74,199	$ 2,928	–	$270,609
Richard S. Monson	2005	$176,971	$ 60,170	–	–	$237,141
Richard S. Monson	2004	$169,231	$ 49,200	–	–	$218,431
6	2006*	$478,896	$330,001	$ 1,972	–	$810,869
5	2005	$477,392	$196,303	–	–	$673,695
5	2004	$440,668	$187,658	–	–	$628,326

* *Beginning with year-end 2006, CEO compensation must be disclosed as a separate line item and is not included in the aggregate amount. The CEO salary is included in the aggregate amount for 2004 and 2005 as well as listed as a separate line item . The aggregate amounts shown above include the top highest paid officers and/or senior officers as a group.*

Regulatory reporting changes have affected the content of the compensation reported for 2006 and those changes may not be reflected in the 2004 and 2005 amounts.

In addition to a base salary, certain employees may earn additional compensation under employee performance sharing and incentive plans. Employee profit sharing and incentives are shown in the year earned, which may be different than the year paid. Profits distributed under the Employee Profit Sharing Plan and Sales Performance Incentive Plan are paid in the first quarter of the year following the fiscal year in which they are earned. The Association's compensation plans are designed to motivate employees and to help the Association meet and exceed its organizational objectives and financial goals.

Annually, the board of directors reviews the compensation plans for approval and funding. A committee with board representation administers the profit sharing and incentive plans.

The Association's Employee Profit Sharing Plan is based on rewarding from profits generated achieving or exceeding a net income goal as set by management and approved by the Board.

Full-time employees with six-months or more tenure are eligible to participate. Employees with six-months but less than one year of service participate on a prorated basis and employees who are on any extended period of paid or unpaid leave of absence will be evaluated for prorated payment on a case-by-case basis.

Annual salary plus overtime will be considered for employee performance sharing calculation of non-exempt employees that have met employment eligibility requirements and all individual performance standards are considered satisfactory. The maximum payout will not exceed three percent of net income.

The Board of Directors approved this Employee Profit Sharing Plan March 3, 2006, effective January 1, 2006.

The Association's Discretionary Plan is based on individual performance and is capped at five percent of annual base salary. Incentives earned under this plan will be paid the first pay period following approval. Discretionary incentives may be recommended at any time by any member of the management team, including supervisors of one or more employees, on the behalf of any employee who has demonstrated meritorious performance. The plan operates on a calendar year basis and includes all supervised employees.

The board approved the Discretionary Plan on December 21, 2005, effective as of January 1, 2006.

The Associations Sales Performance incentive plan is designed to focus on sales and marketing and recognizes each relationship manager on his or her individual sales goals as set by management. The goals set by management are designed to appropriately emphasize and recognize both quality and growth of the Association's portfolio. There are three major goals and five other categories recognized by this plan. The three major goals are: (1) new loan volume, (2) new loan and existing portfolio Risk Adjusted Return on Capital (RAROC), and (3) Young, Beginning, Small, Minority Farmers (YBSM) new loans closed. The five other categories are: (4) Credit Quality/Administration, (5) Participation Loan Origination, (6) Leases, (7) Charge-Offs and (8) SMMU Referrals. Each goal is assigned a separate rate of compensation and is aggregated for a total payment. However no award will be paid unless the new loan sales volume minimum requirement is exceeded as set by management. The minimum requirement is less than the actual new loan sales volume goal. Additionally, payments from the Employee Profit Sharing Plan will not be paid to the officer until he/she meets or exceeds their new loan volume goal set by management.

Incentive payments for YBSM loans and Leases will be made on the calendar quarters commencing on the quarter ending immediately after the relationship manager has booked 2/3 of the new loan volume goal as set forth by management.

Incentive payments for loans originated and participated with AgFirst or through the Consortium will be paid upon the closing of the loan and the payment of the fee to the Association.

Employees that score unsatisfactory on their performance evaluation or are on probation may not be eligible to participate. Incentive payments are paid in the first quarter of the year following the fiscal year in which they are earned.

The board approved the Sales Performance incentive plan December 21, 2005, effective as of January 1, 2006.

The Association's Country Home Mortgage incentive plan is designed to reward employees for referrals of prospects to the Country Mortgage Unit. Each employee who obtains three referrals that close, will be paid an incentive with the second payroll following quarter-end.

The board approved the Country Home Mortgage incentive plan December 21, 2005, effective January 1, 2006.

The Rural America Bond Program Sales Incentive Plan is designed to reward the Sales Account Officer for assisting the Capital Markets Sector in the identification of Rural America Bond Investment opportunities. If the contact provided by the Sales Account Officer leads to bond arrangement and investment that qualifies under the ACA Rural America Bond Program Policy and the association realizes a profit from arranging and placing a bond the Account Officer will be paid 25% of the arrangement fee realized by the association.

The board approved the Rural America Bond Sales Incentive Program January 19, 2006, effective January 19, 2006.

Disclosure of information on the total compensation paid during 2006 to any senior officer, or to any other individual included in the total, is available to shareholders upon request.

Directors

Directors and senior officers are reimbursed on an actual cost basis for all reasonable and necessary expenses incurred in the performance of official duties. Such expenses may include transportation, lodging, meals, tips, tolls, parking of cars, laundry, registration fees, and other expenses associated with travel on official business. A copy of the policy is available to shareholders of the Association upon request.

The aggregate amount of reimbursement for travel, subsistence and other related expenses for all directors as a group was $64,032 for 2006, $61,635 for 2005, and $49,678 for 2004.

Subject to approval by the board, the Association may allow directors honoraria of $400 for attendance at meetings, committee meetings, or special assignments and $100 honoraria for participation in teleconference calls. In addition, directors on the Executive Committee (Chairman and Vice Chairman) receive a quarterly fee up to $150 for incidental services. Expenses incurred in connection with the attendance of the spouse of a director at a compensable function may be reimbursable upon a determination by the board chairman that the attendance of the spouse was or will be beneficial to the purpose of the meeting, and such reimbursement will not be reported as compensation. Total compensation paid to directors, as a group was $136,800.

The following represents certain information regarding the directors of the Association, including their principal occupation and employment for the past five years:

Bobby J. Brooks, Chairman, is a peanut and cotton farmer. He is presently serving a three-year term, which will expire in 2009. During 2006 he served 12 days at Association board meetings and 27 days in other official activities and was paid $15,100. Mr. Brooks also serves on the boards of Clay Co. Inc., a peanut buying point; Edison Gin Company, a cotton gin; and Clay County Farm Bureau Board, an insurance and farm related services provider.

Charlie Burch, Vice Chairman, is a farmer. He is presently serving a three-year term, which will expire in 2008. During 2006, he served 12 days at Association board meetings and 26 days in other official activities and was paid $14,700.

T. E. Allen, III is a peanut and cotton farmer. He is presently serving a three-year term, which will expire in 2009. During 2006, he served 11 days at Association board meetings and 35 days in other official activities and was paid $16,000. Mr. Allen also serves on the boards of the Quality Gin, a cotton gin, on the board of People's Warehouse, a warehouse facility and on the board of First United Ethanol, LLC a facility that produces and sells ethanol.

Jeffrey A. Clark is a Professor of Finance at Florida State University. He was appointed as an Association outside director. He is serving a three-year term, which will expire in 2008. During 2006, Mr. Clark served 11 days at Association board meetings and 27 days in other official activities and was paid $13,800.

Clifford Dollar, Jr. is a peanut, cotton and cattle farmer. He is presently serving a three-year term, which will expire in 2009. During 2006, he served 12 days at Association board meetings and 27 days in other official activities and was paid $13,800. Mr. Dollar also serves as the president of the board of Sowega Cotton, Inc., a cotton gin.

Alton H. Fendley, Jr. is a peanut and cotton farmer. He is presently serving a three-year term, which will expire in 2008. During 2006, he served 12 days at Association board meetings and 24 days in other official activities and was paid $12,400. Mr. Fendley also serves on the Clay County Farm Bureau Board, an insurance and farm related services provider and on the board of Southern States of Cuthbert, a farm supply provider.

Robert L. Holden, Sr. is a dairy, poultry and row crop farmer. He is presently serving a three-year term, which will expire in 2007. During 2006, he served 12 days at Association board meetings and 24 days in other official activities and was paid $12,500. Mr. Holden also serves on the boards of the Grady County Farm Bureau, an insurance and farm related services provider; on the AgFirst Farm Credit Bank, an association owned district agriculture cooperative discount and member services bank; on the board of the Georgia Milk Producers Association, an organization for promoting milk and other interest of Georgia Dairymen, on the board of the American Dairy Association of Georgia, an organization for promoting milk and educating consumers and on the board of First United Ethanol, LLC a facility that produces and sells ethanol.

Robert B. Moss was reappointed as an Association outside director. He is presently serving a three-year term, which will expire in 2007. During 2006, Mr. Moss served 12 days at Association board meetings and 23 days in other official activities and was paid $12,000. Mr. Moss is a retired Superintendent of the University of Georgia College of Agricultural and Environmental Sciences, Southwest Georgia Branch Experiment Station, Plains, Georgia. Mr. Moss served as a part-time coordinator of the Georgia Branch Experiment Station for five years. Currently Mr. Moss is a part-time farm management consultant. Mr. Moss is a member of the Plains Lions Club, a civic organization.

T. E. Moye, Jr. is a cotton, peanut and cattle farmer. He is presently serving a three-year term, which will expire in 2007. During 2006, Mr. Moye served 12 days at Association board meetings and 30 days in other official activities and was paid $14,600. Mr. Moye serves as President of the board of the Baker County Farm Bureau, an insurance and farm related services provider. He also serves as Chairman of the Baker County Board of Commissioners, a county government.

B. E. Powell is a farmer. He is presently serving a three-year term, which will expire in 2007. During 2006, he served 12 days at Association board meetings and 22 days in other official activities and was paid $11,900. Mr. Powell also serves on the Marion County Hospital Authority Board, a healthcare provider.

Transactions with Senior Officers and Directors

The reporting entity's policies on loans to and transactions with its officers and directors, to be disclosed in this section are incorporated herein by reference to Note 14 to the consolidated financial statements, "Related Party Transactions," included in this annual report to shareholders.

Involvement in Certain Legal Proceedings

There were no matters which came to the attention of management or the board of directors regarding involvement of current directors or senior officers in specified legal proceedings which should be disclosed in this section.

Relationship with Independent Public Accountants

There were no material disagreements with our independent public accountants on any matter of accounting principles or financial statement disclosure during this period.

Consolidated Financial Statements

The consolidated financial statements, together with the report thereon of PricewaterhouseCoopers LLP dated February 28, 2007 and the report of management, which appear in this annual report to shareholders, are incorporated herein by reference.

Copies of the Association's quarterly reports are available upon request free of charge by calling 1-229-246-8032 or 1-800-844-2615, or writing Southwest Georgia Farm Credit, ACA, P. O. Box 790, Bainbridge, Georgia 39818-0790, Attention: Chief Financial Officer, or accessing the website, ***www.swgafarmcredit.com***. The Association prepares a quarterly report within 45 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

Should you have questions concerning the financial reports or any other information contained within this annual report please contact the Stockholder Relations Department by calling 1-800-844-2615, extension 113.

Borrower Information Regulations

Since 1972, Farm Credit Administration (FCA) regulations have required that borrower information be held in strict confidence by Farm Credit System (FCS) institutions, their directors, officers and employees. These regulations provide Farm Credit institutions clear guidelines for protecting their borrowers' nonpublic personal information.

On November 10, 1999, the FCA Board adopted a policy that requires FCS institutions to formally inform new borrowers at loan closing of the FCA regulations on releasing borrower information and to address this information in the annual report to shareholders. The implementation of these measures ensures that new and existing borrowers are aware of the privacy protections afforded them through FCA regulations and Farm Credit System institution efforts.

Shareholder Investment

Shareholder investment in the Association could be affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of the District annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 316, or writing Wanda Martin, AgFirst Farm Credit Bank, P. O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained by going to AgFirst's website at ***www.agfirst.com***.

Report of the Audit Committee

The Audit Committee of the Board of Directors (the Committee) is comprised of the directors named below. None of the directors who serve on the Committee is an employee of Southwest Georgia Farm Credit, ACA (the Association) and in the opinion of the Board of Directors, each is free of any relationship with the Association or management that would interferer with the director's independent judgment on the committee.

The Committee has adopted a written charter that has been approved by the Board of Directors. The Committee has reviewed and discussed the Association's audited financial statements with management, which has primary responsibility for the financial statements.

PricewaterhouseCoopers LLP (PwC), the Association's independent auditor for 2006, is responsible for expressing an opinion on the conformity of the Association's audited financial statements with accounting principles generally accepted in the United States of America. The Committee has discussed with PwC the matters that are required to be discussed by Statement on Auditing Standards No. 61 (*Communication with Audit Committees*). PwC has provided to the Committee the written disclosures and the letter required by Independence Standards Board Standard No. 1 (*Independence Discussions with Audit Committees*), and the Committee has discussed with PwC that firm's independence.

The Committee has also concluded the PwC's provision of non-audit services, if any, to the Association is compatible with PwC's independence.

Based on the considerations referred to above, the Committee recommended to the Board of Directors that the audited financial statements be included in the Association's Annual Report for 2006. The foregoing report is provided by the following independent directors, who constitute the Committee:

Robert B. Moss
Chairman of the Audit Committee

Members of the Audit Committee

Jeffrey A. Clark
Alton H. Fendley
Billy E. Powell

Report of Independent Auditors

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
10 Tenth Street, Suite 1400
Atlanta, GA 30309
Telephone (678) 419 1000

Report of Independent Auditors

To the Board of Directors and Members
of Southwest Georgia Farm Credit, ACA

In our opinion, the accompanying consolidated balance sheets 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 Southwest Georgia Farm Credit, ACA (the Association) and its subsidiaries at December 31, 2006, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

February 28, 2007

Consolidated Balance Sheets

(dollars in thousands)	December 31, 2006	December 31, 2005	December 31, 2004
Assets			
Cash	$ 2,885	$ 3,358	$ 2,514
Investment securities, held to maturity	32,006	—	—
Loans	477,408	455,324	401,497
Less: allowance for loan losses	427	844	843
Net loans	476,981	454,480	400,654
Other investments, held to maturity	84,426	58,851	—
Accrued interest receivable	10,167	7,176	5,794
Investment in other Farm Credit institutions	13,473	5,503	4,726
Premises and equipment, net	1,313	1,048	1,100
Other property owned	7	7	—
Prepaid retirement expense	2,891	3,279	3,116
Due from AgFirst Farm Credit Bank	5,239	4,203	3,657
Other assets	732	280	290
Total assets	$ 630,120	$ 538,185	$ 421,851
Liabilities			
Notes payable to AgFirst Farm Credit Bank	$ 547,249	$ 465,789	$ 355,722
Accrued interest payable	2,733	1,981	1,112
Patronage refund payable	4,009	3,182	2,483
Other liabilities	9,632	5,746	4,565
Total liabilities	563,623	476,698	363,882
Commitments and contingencies			
Members' Equity			
Protected borrower stock	402	481	568
Capital stock and participation certificates	1,141	1,125	1,140
Retained earnings			
Allocated	25,198	24,744	23,949
Unallocated	39,756	35,137	32,312
Total members' equity	66,497	61,487	57,969
Total liabilities and members' equity	$ 630,120	$ 538,185	$ 421,851

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

Consolidated Statements of Income

(dollars in thousands)	For the year ended December 31, 2006	2005	2004
Interest Income			
Loans	$ 36,954	$ 28,593	$ 21,294
Investment securities	1,378	—	—
Other	4,506	496	—
Total interest income	42,838	29,089	21,294
Interest Expense			
Notes payable to AgFirst Farm Credit Bank	30,263	17,647	11,132
Net interest income	12,575	11,442	10,162
Provision for (reversal of allowance for) loan losses	(418)	1	(6,701)
Net interest income after provision for (reversal of allowance for) loan losses	12,993	11,441	16,863
Noninterest Income			
Loan fees	1,734	950	1,122
Fees for financially related services	12	11	16
Patronage refund from other Farm Credit institutions	5,780	4,622	3,840
Gains (losses) on other property owned, net	1	(1)	(1)
Other noninterest income	185	223	159
Total noninterest income	7,712	5,805	5,136
Noninterest Expense			
Salaries and employee benefits	4,059	4,002	3,756
Occupancy and equipment	467	489	450
Insurance Fund premiums	620	181	157
Other operating expenses	1,960	1,720	1,627
Total noninterest expense	7,106	6,392	5,990
Income before income taxes	13,599	10,854	16,009
Provision (benefit) for income taxes	(1)	21	13
Net income	$ 13,600	$ 10,833	$ 15,996

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

Consolidated Statements of Changes in Members' Equity

(dollars in thousands)	Protected Borrower Stock	Capital Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income	Total Members' Equity
Balance at December 31, 2003	$ 707	$ 1,139	$ 24,326	$ 22,308	$ (2,374)	$ 46,106
Comprehensive income						
Net income				15,996		15,996
Minimum pension liability adjustment					2,374	2,374
Total comprehensive income						18,370
Protected borrower stock retired	(139)					(139)
Capital stock/participation certificates issued		127				127
Capital stock/participation certificates retired		(126)				(126)
Patronage distribution						
Cash				(2,459)		(2,459)
Nonqualified allocated retained earnings			2,459	(2,459)		—
Nonqualified retained earnings			1,229	(1,229)		—
Retained earnings retired			(3,780)			(3,780)
Distribution adjustment			(285)	155		(130)
Balance at December 31, 2004	568	1,140	23,949	32,312	—	57,969
Net income				10,833		10,833
Protected borrower stock retired						
Capital stock/participation certificates issued	(87)					(87)
Capital stock/participation certificates retired		121				121
Stock dividends declared/paid		(136)				(136)
Cash				(3,169)		(3,169)
Nonqualified allocated retained earnings			3,169	(3,169)		—
Nonqualified retained earnings			1,578	(1,578)		—
Retained earnings retired			(3,786)			(3,786)
Distribution adjustment			(166)	(92)		(258)
Balance at December 31, 2005	481	1,125	24,744	35,137	—	61,487
Net income				13,600		13,600
Protected borrower stock retired	(79)					(79)
Capital stock/participation certificates issued		143				143
Capital stock/participation certificates retired		(127)				(127)
Patronage distribution						
Cash				(3,978)		(3,978)
Nonqualified allocated retained earnings			3,978	(3,978)		—
Nonqualified retained earnings			494	(494)		—
Retained earnings retired			(4,100)			(4,100)
Distribution adjustment			82	(531)		(449)
Balance at December 31, 2006	$ 402	$ 1,141	$ 25,198	$ 39,756	$ —	$ 66,497

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

Consolidated Statements of Cash Flows

(dollars in thousands)	For the year ended December 31, 2006	2005	2004
Cash flows from operating activities:			
Net income	$ 13,600	$ 10,833	$ 15,996
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation on premises and equipment	137	157	158
Amortization of discount on other investments	(4,506)	(496)	—
Provision for (reversal of allowance for) loan losses	(418)	1	(6,701)
(Gains) losses on other property owned, net	(1)	1	1
Changes in operating assets and liabilities:			
(Increase) decrease in accrued interest receivable	(2,991)	(1,382)	(839)
(Increase) decrease in prepaid retirement expense	388	(163)	(3,116)
(Increase) decrease in due from AgFirst Farm Credit Bank	(1,036)	(546)	(1,338)
(Increase) decrease in other assets	(452)	10	(144)
Increase (decrease) in accrued interest payable	752	869	318
Increase (decrease) in minimum pension liability	—	—	(1,178)
Increase (decrease) in other liabilities	3,886	1,181	3,413
Total adjustments	(4,241)	(368)	(9,426)
Net cash provided by (used in) operating activities	9,359	10,465	6,570
Cash flows from investing activities:			
Purchases of investment securities, held to maturity	(35,090)	—	—
Proceeds from maturities of or principal payments received on investment securities, held to maturity	3,084	—	—
Net (increase) decrease in loans	(22,083)	(53,827)	(72,878)
(Increase) decrease in investment in other Farm Credit institutions	(7,970)	(777)	(514)
Purchases of other investments	(31,622)	(58,355)	—
Proceeds from payments received on other investments	10,553	—	—
Purchases of premises and equipment	(402)	(105)	(106)
Proceeds from sales of other property owned	1	(8)	52
Net cash provided by (used in) investing activities	(83,529)	(113,072)	(73,446)
Cash flows from financing activities:			
Advances on (repayment of) notes payable to AgFirst Farm Credit Bank, net	81,460	110,067	74,169
Protected borrower stock retired	(79)	(87)	(139)
Capital stock and participation certificates issued	143	121	127
Capital stock and participation certificates retired	(127)	(136)	(126)
Patronage refunds paid	(3,600)	(2,728)	(2,467)
Retained earnings retired	(4,100)	(3,786)	(3,780)
Net cash provided by (used in) financing activities	73,697	103,451	67,784
Net increase (decrease) in cash	(473)	844	908
Cash, beginning of period	3,358	2,514	1,606
Cash, end of period	$ 2,885	$ 3,358	$ 2,514
Supplemental schedule of non-cash activities:			
Loans transferred to other property owned	$ —	—	53
Cash dividends or patronage distributions declared or payable	3,978	3,169	2,459
Decrease (increase) in accumulated other comprehensive income related to minimum pension liability	—	—	2,374
Supplemental information:			
Interest paid	$ 29,511	$ 16,778	$ 10,814
Taxes paid, net	7	4	—

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

Notes to the Consolidated Financial Statements

(dollars in thousands, except as noted)

Note 1 — Organization and Operations

A. **Organization:** Southwest Georgia Farm Credit, ACA (the Association or ACA) is a member-owned cooperative which provides credit and credit-related services to or for the benefit of eligible borrowers/stockholders for qualified purposes in the counties of Baker, Calhoun, Chattahoochee, Clay, Decatur, Dougherty, Early, Grady, Lee, Marion, Miller, Mitchell, Quitman, Randolph, Schley, Seminole, Stewart, Sumter, Terrell, Thomas, and Webster in the state of Georgia.

The Association is a lending institution of the Farm Credit System (System), a nationwide system of cooperatively owned banks and associations, which was established by Acts of Congress to meet the credit needs of American agriculture and is subject to the provisions of the Farm Credit Act of 1971, as amended (Farm Credit Act). The most recent significant amendment to the Farm Credit Act was the Agricultural Credit Act of 1987. At December 31, 2006, the System was comprised of four Farm Credit Banks, one Agricultural Credit Bank and ninety-six Associations.

AgFirst Farm Credit Bank (Bank) and its related Associations are collectively referred to as the "District." The Bank provides funding to all associations within the District and is responsible for supervising certain activities of the Association, as well as the other Associations operating within the District. The District consists of the Bank and twenty-three Agricultural Credit Associations (ACAs), all of which have reorganized as ACA parent-companies, which have two wholly owned subsidiaries, a Federal Land Credit Association (FLCA) and a Production Credit Association (PCA). FLCAs are tax-exempt while ACAs and PCAs are taxable.

The ACA parent company holds a charter for the two wholly-owned subsidiaries. The FLCA makes secured collateralized long-term agricultural real estate and rural home mortgage loans. The PCA is authorized to make short- and intermediate-term loans for agricultural production or operating purposes; however, the Association is operating its short- and intermediate-term business through the ACA instead of the PCA.

The Farm Credit Administration (FCA) is delegated authority by Congress to regulate the System banks and associations. The FCA examines the activities of the associations and certain actions by the associations are subject to the prior approval of the FCA and the supervising Bank.

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 required to be used (1) to ensure the timely payment of principal and interest on Systemwide debt obligations (Insured debt), (2) to ensure the retirement of protected borrower capital at par or stated value, and (3) for other specified purposes. The Insurance Fund is also available for discretionary uses by the Insurance Corporation to provide assistance to certain troubled System institutions and to cover the operating expenses of the Insurance Corporation. Each System bank is required to pay premiums, which may be passed on to the Association, into the Insurance Fund, based on its annual average loan principal outstanding until the monies in the Insurance Fund reach the "secure base amount." The secure base amount is defined in the Farm Credit Act as 2.0 percent of the aggregate insured obligations (Systemwide debt obligations) or such other percentage of the aggregate obligations as the Insurance Corporation in its sole discretion determines to be actuarially sound. When the amount in the Insurance Fund exceeds the secure base amount, the Insurance Corporation is required to reduce premiums, but it still must ensure that reduced premiums are sufficient to maintain the level of the Insurance Fund at the secure base amount.

B. **Operations:** The Farm Credit Act sets forth the types of authorized lending activity, persons eligible to borrow, and financial services which can be offered by the Association. The Association is authorized to provide, either directly or in participation with other lenders, credit, credit commitments and related services to eligible borrowers. Eligible borrowers include farmers, ranchers, producers or harvesters of aquatic products, rural residents, and farm-related businesses.

The Association may sell to any System borrowing member, on an optional basis, credit or term life insurance appropriate to protect the loan commitment in the event of death of the debtor(s). The sale of other insurance necessary to protect a member's farm or aquatic unit is permitted, but limited to hail and multi-peril crop insurance, and insurance necessary to protect the facilities and equipment of aquatic borrowers.

The AgFirst Annual Report to Shareholders, the AgFirst District Annual Report to Shareholders, and the AgFirst District's quarterly reports are available on its web site, *www.agfirst.com*. Upon request, shareholders of the Association will be provided with copies of these reports at no charge by calling 1-800-845-1745, Ext. 316. The Association's financial condition may be impacted by factors that affect the Bank. The Bank's Annual Report discusses the material aspects of the District's financial condition, changes in financial condition, and results of operations. In addition, the District's Annual Report identifies favorable and unfavorable trends, significant events, uncertainties and the impact of activities of the Insurance Corporation.

The lending and financial services offered by the Bank are described in Note 1 of the AgFirst Annual Report to Shareholders.

Note 2 — Summary of Significant Accounting Policies

The accounting and reporting policies of the Association conform with accounting principles generally accepted in the United States of America (GAAP) and prevailing practices within the banking industry. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Significant estimates are discussed in

these footnotes, as applicable. Actual results may differ from these estimates.

Certain amounts in prior years' financial statements have been reclassified to conform to current consolidated financial statement presentation. Such reclassifications had no effect on net income or total members' equity of prior years. The consolidated financial statements include the accounts of the FLCA and the PCA. All significant inter-company transactions have been eliminated in consolidation.

A. **Cash:** Cash, as included in the statements of cash flows, represents cash on hand and on deposit at banks.

B. **Investment Securities:** The Association, as permitted under the FCA regulations, holds investments to mange and diversify its income sources. The Association's investments are classified as held to maturity and accordingly have been reported at amortized cost. Premiums and discounts are amortized or accreted ratably over the term of the respective security. In addition, the Association may also hold additional investments in accordance with mission-related investment programs, approved by the FCA.

   The Association reviews all investments that are in a loss position in order to determine whether the unrealized loss, which is considered an impairment, is temporary or permanent. In the event of permanent impairment, the cost basis of the investment would be written down to its fair value, and the realized loss would be included in current earnings.

C. **Loans and Allowance for Loan Losses:** Long-term real estate mortgage loans generally have original maturities ranging from 5 to 30 years. Substantially all short- and intermediate-term loans for agricultural production or operating purposes have maturities of 10 years or less. Loans are carried at their principal amount outstanding less unearned income. Interest on loans is accrued and credited to interest income based upon the daily principal amount outstanding.

   Loans are generally placed in nonaccrual status when principal or interest is delinquent for 90 days (unless adequately collateralized and in the process of collection) or circumstances indicate that collection of principal and/or interest is in doubt. When a loan is placed in nonaccrual status, accrued interest deemed uncollectible is reversed (if accrued in the current year) or charged against the allowance for loan losses (if accrued in the prior year).

   When loans are in nonaccrual status, the interest portion of payments received in cash is recognized as interest income if collection of the recorded investment in the loan is fully expected and the loan does not have a remaining unrecovered prior charge-off associated with it. Otherwise, loan payments are applied against the recorded investment in the loan. Nonaccrual loans may be returned to accrual status when principal and interest are current, prior charge-offs have been recovered, the ability of the borrower to fulfill the contractual repayment terms is fully expected and the loan is not classified "doubtful" or "loss."

   Loans are charged-off, wholly or partially, as appropriate, at the time they are determined to be uncollectible.

   In cases where a borrower experiences financial difficulties and the Association makes certain monetary concessions to the borrower through modifications to the contractual terms of the loan, the loan is classified as a restructured loan. If the borrower's ability to meet the revised payment schedule is uncertain, the loan is classified as a nonaccrual loan.

   The allowance for loan losses is a valuation account used to reasonably estimate loan and lease losses existing as of the financial statement date. Determining the appropriate allowance for loan losses balance involves significant judgment about when a loss has been incurred and the amount of that loss.

   The allowance is based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including economic conditions, loan portfolio composition and prior loan loss experience. It is based on estimates, appraisals and evaluations of loans which, by their nature, contain elements of uncertainty and imprecision. The possibility exists that changes in the economy and its impact on borrower repayment capacity will cause these estimates, appraisals and evaluations to change.

   The level of allowance for loan losses is generally based on recent charge-off experience adjusted for relevant environmental factors. The Association considers the following factors when adjusting the historical charge-offs experience:

   - Changes in credit risk classifications,
   - Changes in collateral values,
   - Changes in risk concentrations,
   - Changes in weather related conditions, and
   - Changes in economic conditions.

   Impaired loans are loans for which it is probable that not all principal and interest will be collected according to the contractual terms of the loan. Impaired loans include nonaccrual loans, restructured loans, and loans past due 90 days or more and still accruing interest. A loan is considered contractually past due when any principal repayment or interest payment required by the loan instrument is not received on or before the due date. A loan shall remain contractually past due until it is formally restructured or until the entire amount past due, including principal, accrued interest, and penalty interest incurred as the result of past due status, is collected or otherwise discharged in full.

   A specific allowance may be established for impaired loans under Statement of Financial Accounting Standards No. 114. Impairment of these loans is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as practically expedient, at the loan's observable market price or fair value of the collateral if the loan is collateral dependent. See Note 3 for a discussion on the refinement of the allowance for loan losses methodology.

   The allowance for loan losses is maintained at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio. The allowance is increased through provisions for loan losses and loan recoveries and is decreased through allowance reversals and loan charge-offs.

D. **Other Investments:** Other investments include Tobacco Buyout Successor-in-Interest Contracts (SIIC), which qualify as mission related investments under FCA regulations. Under the SIIC, the tobacco quota holders and producers may sell their rights to receive SIIC contract payments to a third party. The successor purchases the entire contract and all related rights and obligations associated with the contract. These investments in SIIC are purchased at a discount. Contract payments are made by the United States Department of Agriculture (USDA) in equal annual payments. Interest income is recognized from the accretion of discounts using the effective interest method.

E. **Investment in AgFirst Farm Credit Bank and Other Farm Credit Institutions:** The Association is required to maintain ownership in the Bank in the form of Class B and Class C stock. Accounting for this investment is on the cost plus allocated equities basis. Patronage refunds from the Bank are accrued as earned. The receivable for such patronage refunds is classified as Due from AgFirst Farm Credit Bank.

F. **Other Property Owned:** Other property owned, consisting of real and personal property acquired through a collection action, is recorded upon acquisition at fair value less estimated selling costs. Revised estimates to the fair value less cost to sell are reported as adjustments to the carrying amount of the asset, provided that such adjusted value is not in excess of the carrying amount at acquisition. Income and expenses from operations and carrying value adjustments are included in gains (losses) on other property owned, net.

G. **Premises and Equipment:** Premises and equipment are carried at cost less accumulated depreciation. Land is carried at cost. Depreciation is provided on the straight-line method over the estimated useful lives of the assets. Gains and losses on dispositions are reflected in current operations. Maintenance and repairs are charged to operating expense and improvements are capitalized.

H. **Advanced Conditional Payments:** The Association is authorized under the Farm Credit Act to accept advance payments from borrowers. To the extent the borrower's access to such advance payments is restricted, the advanced conditional payments are netted against the borrower's related loan balance. Amounts in excess of the related loan balance and amounts to which the borrower has unrestricted access are presented as interest-bearing liabilities in the accompanying consolidated balance sheets. Advanced conditional payments are not insured. Interest is generally paid by the Association on such accounts.

I. **Employee Benefit Plans:** Substantially all employees of the Association may participate in the retirement plan (Plan) of the AgFirst District, which is a defined benefit plan. The District utilizes the "Projected Unit Credit" actuarial method for financial reporting purposes and for funding purposes. As a result of the funded status at the Plan's measurement date (September 30) of the underlying Plan, the Association may record a minimum liability, an intangible asset relating to unrecognized prior service cost and other comprehensive income (loss). The adjustment to other comprehensive income (loss) would be net of deferred taxes, if significant. For participants hired before January 1, 2003, benefits are determined based on a final average pay formula. For those participants hired on or after January 1, 2003, benefits are determined using a cash balance formula.

Substantially all employees of the Association may also be eligible to participate in the District's thrift plan (Thrift Plan), which qualifies as a 401(k) plan as defined by the Internal Revenue Code. For employees hired on or prior to December 31, 2002, the Association contributes $.50 for each $1.00 of the maximum employee contribution of 6 percent of total compensation. For employees hired on or after January 1, 2003, the Association contributes $1.00 for each $1.00 of the maximum employee contribution of 6 percent of total compensation. Employee deferrals are not to exceed the maximum deferral as adjusted by the Internal Revenue Service. Thrift Plan costs are expensed as funded.

Effective January 1, 2006 the Districtwide 401(k) Plan known as the AgFirst Farm Credit Employee Thrift Plan merged with the Farm Credit Bank of Texas Thrift Plus Plan. The new plan is known as the AgFirst/FCBT 401(k) Employee Benefit Plan.

The Association may provide certain health care and life insurance benefits to eligible retired employees. Substantially all employees may become eligible for these benefits if they reach early retirement age while working for the Association.

J. **Income Taxes:** The Association is generally subject to Federal and certain other income taxes. As previously described, the ACA holding company has two wholly-owned subsidiaries, a PCA and a FLCA. The FLCA subsidiary is exempt from federal and state income taxes as provided in the Farm Credit Act. The ACA holding company and the PCA subsidiary are subject to federal, state and certain other income taxes.

The Association is eligible to operate as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, the Association can exclude from taxable income amounts distributed as qualified patronage refunds in the form of cash, stock or allocated surplus. Provisions for income taxes are made only on those taxable earnings that will not be distributed as qualified patronage refunds. The Association distributes patronage on the basis of book income.

The Association accounts for income taxes under the asset and liability method, recognizing deferred tax assets and liabilities for the expected future tax consequences of the temporary differences between the carrying amounts and tax bases of assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be realized or settled.

K. **Patronage Refund from AgFirst and Other Financial Institutions:** The Association records patronage refunds from the Bank and certain District Associations on an accrual basis.

L. **Recently Issued Accounting Pronouncements:** In June 2006, the Financial Accounting Standards Board (FASB) released Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 is effective for fiscal years beginning after December 15, 2006. Adoption of FIN 48 is not expected to have a material impact on the Association's Consolidated Balance Sheet or Consolidated Statement of Income.

On September 30, 2006, the FASB issued Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* (FAS 158). FAS 158 requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and recognize through comprehensive income changes in that funded status in the year in which the changes occur. The Bank and its related Associations will be required to implement FAS 158 for the year ended December 31, 2007. In addition, FAS 158 requires that the funded status of a plan be measured as of the date of the year-end financial statements. Currently, the Bank and its related Associations use a measurement date of September 30th. The requirement to measure the funded status as of the fiscal year-end is effective for fiscal years ending after December 15, 2008. The Bank and its related Associations are currently evaluating the impact of implementing FAS 158

Note 3 — Refinement of the Allowance for Loan Losses Methodology

During 2004, the Association conducted a study to further refine its allowance for loan losses methodology taking into account recently issued guidance by FCA, as well as the Securities and Exchange Commission (SEC) and Federal Financial Institutions Examination Council guidelines.

Previously, the Association's allowance for loan losses methodology had been based upon criteria developed in the late 1980s and reflected the credit losses experienced in the mid-to-late 1980s, which was a period of unusually adverse economic conditions in American agriculture. Given the long cyclical nature of the agricultural economy, loss factors utilized to determine the allowance for loan losses subsequent to 1989 continued to reflect, to some extent, the loss history of the mid-to-late 1980s, which resulted in conservative estimates of the allowance for loan losses. The Association's allowance for loan losses methodology utilized throughout the period was in accordance with generally accepted accounting principles and was consistently applied.

While conservative in estimating the allowance for loan losses, the methodology used resulted in annual provisions for loan losses over the periods that reflected changes in credit quality and loss experience. Accordingly, the reserves provided in the mid-to-late 1980s have, in effect, remained part of the allowance for loan losses. The Association's allowance for loan losses methodology has consistently adhered to proper accounting policies, under the regulatory supervision of FCA in its role as a "safety and soundness" regulator. It was FCA's view that the allowance for loan losses should include among others, an assessment of probable losses, historical loss experience and economic conditions.

In April 2004, FCA issued an "Informational Memorandum" to System institutions regarding the criteria and methodologies that would be used in evaluating the adequacy of a System institution's allowance for loan losses. FCA endorsed the direction provided by other bank regulators and the SEC and indicated the conceptual framework addressed in their guidance would be included as part of their examination process.

During the fourth quarter of 2004, the Association completed its study and refined its methodology to be in compliance with the guidance discussed in the previous paragraph. The refinement in methodology resulted in a calculated allowance for loan losses that was significantly less than the previously recorded balance due to revised loss factors that are more indicative of actual loss experience in recent years and current borrower analysis.

While the $6,701 reversal had a significant impact on 2004 results of operations and the previously recorded allowance for loan losses, the refinement in methodology did not have a significant impact on 2006 comparative results of operations and is not expected to have a significant impact in future periods. Additionally, the refinement in methodology did not have a significant impact on the level of the risk bearing capacity of the Association, generally referred to as "risk funds" (capital plus the allowance for loan losses), which totaled $66,924 at December 31, 2006 (14.02 percent of Association loans), as compared with $62,330 at December 31, 2005 (13.69 percent of Association loans), and $58,812 at December 31, 2004 (14.65 percent of Association loans).

Note 4 — Investment Securities

A summary of the amortized cost and fair value of investment securities held to maturity at December 31, 2006 follows:

	December 31, 2006				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Asset backed securities	$ 32,006	$ 1	$ 204	$ 31,803	8.51%

The Association's investments consist primarily of asset-backed securities (ABSs). These ABSs are rated AAA, as they are guaranteed by the full faith and credit of the United States government. All unrealized losses referenced above are related to changes in interest rates and are not credit related.

The following table shows the fair value and gross unrealized losses for investments in a loss position by the length of time the securities have been in a continuous unrealized loss position at December 31, 2006. The continuous loss position is based on the date the impairment occurred. The unrealized losses on these investments resulted from interest rate volatility and are not credit related. The Association expects to recover substantially all of our cost in these investments. Substantially all of these investments were in U. S. government securities and we expect that these securities would not be settled at a price less than their amortized cost. Because the decline in market value was caused by interest rate increases and not credit quality, and because the Association has the ability and intent to hold these investments to maturity, the Association has not recognized any other-than-temporary impairment in connection with these investments.

	Less than 12 Months		Greater than 12 Months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Asset-backed securities	$ 31,606	$ 204	$ –	$ –

A summary of the expected maturity, amortized cost and estimated fair value of investment securities at December 31, 2006, follows:

	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	$ –	$ –	–%
After one year through five years	–	–	–
After five years through ten years	10,801	10,668	9.09
After ten years	21,205	21,135	8.22
Total	$ 32,006	$ 31,803	8.51%

Note 5 — Loans and Allowance for Loan Losses

A summary of loans follows:

	December 31,		
	2006	2005	2004
Real estate mortgage	$ 245,856	$ 244,941	$ 220,348
Production and intermediate term	156,002	115,676	93,165
Agribusiness:			
Loans to cooperatives	1,152	2,124	–
Processing and marketing	18,389	17,907	16,887
Farm related business	47,255	63,374	59,274
Communication	–	334	432
Energy	897	626	–
Rural residential real estate	7,857	10,342	11,391
Total loans	$ 477,408	$ 455,324	$ 401,497

* *Loans have been reclassified for 2004 and 2005.*

The Association's concentration of credit risk in various agricultural commodities is shown in the following table. While the amounts represent the Association's maximum potential credit risk as it relates to recorded loan principal, a substantial portion of the Association's lending activities is collateralized and the Association's exposure to credit loss associated with lending activities is reduced accordingly. An estimate of the Association's credit risk exposure is considered in the determination of the allowance for loan losses.

Total loans at December 31, 2006, 2005 and 2004 consisted of the following commodity types:

	December 31,		
Commodity Type	**2006**	**2005**	**2004**
Timber	30%	26%	22%
Landlords	15	14	–
Poultry	9	10	12
Cotton	8	8	9
Peanuts	6	7	6
Livestock	5	5	4
Fruit and Nut	3	3	4
Vegetables	3	2	3
Dairy	1	1	2
Horticulture	1	1	2
Row Crops	1	3	1
Rural Home	1	2	2
Other	17	18	33
Total	100%	100%	100%

* *Commodity Types were reclassified for 2004 and 2005.*

The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but typically includes farmland and income-producing property, such as crops and livestock, as well as receivables. Long-term real estate loans are collateralized by the first liens on the underlying real property. Federal regulations state that long-term real estate loans are not to exceed 85 percent (97 percent if guaranteed by a government agency) of the property's appraised value. However, a decline in a property's market value subsequent to loan origination or advances, or other actions necessary to protect the financial interest of the Association in the collateral, may result in the loan to value ratios in excess of the regulatory maximum.

Impaired loans are loans for which it is probable that not all principal and interest will be collected according to the contractual terms.

The following table presents information relating to impaired loans.

	December 31,		
	2006	**2005**	**2004**
Nonaccrual loans:			
Current as to principal and interest	$ 102	$ 131	$ 153
Past due	–	–	–
Total nonaccrual loans	102	131	153
Impaired accrual loans:			
Restructured accrual loans	354	362	758
Accrual loans 90 days or more past due	126	–	–
Total impaired accrual loans	480	362	758
Total impaired loans	$ 582	$ 493	$ 911

There were no material commitments to lend additional funds to debtors whose loans were classified as impaired at December 31, 2006.

Interest income is recognized and cash payments are applied on nonaccrual impaired loans as described in Note 2. The following table presents interest income recognized on impaired loans.

	Year Ended December 31,		
	2006	**2005**	**2004**
Interest income recognized on nonaccrual loans	$ –	$ 1	$ 15
Interest income on impaired accrual loans	31	119	78
Interest income recognized on impaired loans	$ 31	$ 120	$ 93

The following table presents information concerning impaired loans as of December 31,

	2006	**2005**	**2004**
Impaired loans with related allowance	$ –	$ –	$ 1
Impaired loans with no related allowance	582	493	910
Total impaired loans	$ 582	$ 493	$ 911
Allowance on impaired loans	$ –	$ –	$ –

The following table summarizes impaired loan information for the year ended December 31,

	2006	**2005**	**2004**
Average impaired loans	$ 447	$ 604	$ 1,427

The following table summarizes interest income on nonaccrual and accruing restructured loans that would have been recognized under the original terms of the loans:

	Year Ended December 31,		
	2006	**2005**	**2004**
Interest income which would have been recognized under the original loan terms	$ 20	$ 21	$ 36
Less: interest income recognized	–	1	15
Foregone interest income	$ 20	$ 20	$ 21

The changes in the allowance for loan losses are as follows:

	Year Ended December 31,		
	2006	**2005**	**2004**
Balance at beginning of year	$ 844	$ 843	$ 7,587
Charge-offs:			
Real estate mortgage	$ (1)	$ (5)	$ (66)
Total charge-offs	(1)	(5)	(66)
Recoveries:			
Real estate mortgage	$ 2	$ 5	$ 23
Total recoveries	2	5	23
Net (charge-offs) recoveries	1	–	(43)
Provision for (reversal of allowance for) loan losses	$ (418)	$ 1	$ –
Nonrecurring Allowance for loan losses reversal	–	–	(6,701)
	(418)	1	(6,701)
Balance at end of year	$ 427	$ 844	$ 843
Ratio of net charge-offs during the period to average loans outstanding during the period	–%	–%	(0.011)%

As previously discussed in Note 3, the nonrecurring allowance for loan losses reversal resulted from the refinement of the Association's allowance for loan losses methodology.

In addition, the following is a breakdown of the allowance for loan losses for the end of the last three fiscal years:

	December 31, 2006		December 31, 2005	
	Amount	%	Amount	%
Real estate mortgage	$ 221	51.7%	$ 456	54.0%
Production and intermediate term	140	32.8	217	25.7
Agribusiness	58	13.6	150	17.8
Communication	–	–	1	0.1
Energy	1	0.2	1	0.1
Rural residential real estate	7	1.7	19	2.3
Total	$ 427	100.0%	$ 844	100.0%

	December 31, 2004	
	Amount	%
Real estate mortgage	$ 456	54.0%
Production and intermediate term	216	25.7
Agribusiness	150	17.8
Communication	1	0.1
Energy	1	0.1
Rural residential real estate	19	2.3
Total	$ 843	100.0%

Note 6 — Other Investments

On October 22, 2004, Congress enacted the "Fair and Equitable Tobacco Reform Act of 2004" (Tobacco Act) as part of the "American Jobs Creation Act of 2004." The Tobacco Act repealed the Federal tobacco price support and quota programs, provides for payments to tobacco "quota owners" and producers for the elimination of the quota, and provides an assessment mechanism for tobacco manufacturers and importers to pay for the buyout. Tobacco quota holders and producers will receive 10 equal annual payments under a contract with the Secretary of Agriculture. The Tobacco Act also includes a provision that allows the quota holders and producers to assign to a "financial institution" the right to receive the contract payments so that they may obtain a lump sum or other payment. On April 4, 2005, the USDA issued a Final Rule implementing the "Tobacco Transition Payment Program" (Tobacco Buyout).

The FCA determined that System institutions are "financial institutions" within the meaning of the Tobacco Act and are, therefore, eligible to participate in the Tobacco Buyout. The FCA recognized that the Tobacco Buyout has significant implications for some System institutions and the tobacco quota holders and producers they serve. The FCA's goal is to provide System institution borrowers with the option to immediately receive Tobacco Buyout contract payments and reinvest them in future business opportunities.

For the years ended December 31, 2006 and 2005, the Association held Tobacco Buyout SIIC of $84,426 and $58,851, respectively, net of discount.

Note 7 — Investment in AgFirst Farm Credit Bank

The Association is required to maintain ownership in the Bank of Class B and Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements.

Note 8 — Premises and Equipment

Premises and equipment consisted of the following:

	December 31,		
	2006	2005	2004
Land	$ 746	$ 372	$ 373
Buildings and improvements	1,556	1,556	1,552
Furniture and equipment	785	824	780
	3,087	2,752	2,705
Less: accumulated depreciation	1,774	1,704	1,605
Total	$ 1,313	$ 1,048	$ 1,100

Note 9 — Notes Payable to AgFirst Farm Credit Bank

The Association's indebtedness to the Bank represents borrowings by the Association to fund its loan portfolio. This indebtedness is collateralized by a pledge of substantially all of the Association's assets and the terms of the revolving lines of credit are governed by a general financing agreement. Interest rates on both variable and fixed rate notes payable are generally established loan-by-loan based on the Bank's marginal cost of funds, capital position, operating costs and return objectives. The interest rate is periodically adjusted by the Bank based upon agreement between the Bank and Association. The weighted average interest rates on the variable rate notes were 6.25 percent for LIBOR-based loans and 6.47 percent for Prime-based loans, and the weighted average remaining maturities were 3.8 years and 7.3 years, respectively, at December 31, 2006. The weighted average interest rate on the fixed rate and adjustable rate mortgage (ARM) notes payable which are match funded by the Bank was 5.58 percent and the weighted average remaining maturity was 6.6 years at December 31, 2006. The weighted average interest rate on all interest-bearing notes payable was 6.00 percent and the weighted average remaining maturity was 6.3 years at December 31, 2006.

Variable rate and fixed rate notes payable represent approximately 36.80 percent and 63.20 percent, respectively, of total notes payable at December 31, 2006.

Under the Farm Credit Act, the Association is obligated to borrow only from the Bank, unless the Bank approves borrowing from other funding sources. The Bank, consistent with FCA regulations, has established limitations on the Association's ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At December 31, 2006, the Association's notes payable were within the specified limitations.

Note 10 — Members' Equity

A description of the Association's capitalization requirements, protection mechanisms, regulatory capitalization requirements and restrictions, and equities are provided below.

A. **Protected Borrower Equity**

Protection of certain borrower equity is provided under the Farm Credit Act which requires the Association, when retiring protected borrower equity, to retire such equity at par or stated value regardless of its book value. Protected borrower equity includes capital stock, participation certificates and allocated equities which were outstanding as of January 6, 1988, or were issued or allocated prior to October 6, 1988. If an Association is unable to retire protected borrower equity at par value or stated value, amounts required to retire this equity would be obtained from the Insurance Fund.

B. **Capital Stock and Participation Certificates**

In accordance with the Farm Credit Act and the Association's capitalization bylaws, each borrower is required to invest in Class C stock for agricultural loans, or participation certificates in the case of rural home and farm related business loans, as a condition of borrowing. The initial borrower investment, through either purchase or transfer, must be in an amount equal to the lesser of $1 thousand or two percent of the amount of the loan. The Board of Directors may increase the amount of investment if necessary to meet the Association's capital needs. Loans designated for sale or sold into the Secondary Market on or after April 16, 1996 will have no voting stock or participation certificate purchase requirement if sold within 180 days following the date of designation.

The borrower acquires ownership of the capital stock or participation certificates at the time the loan is made, but usually does not make a cash investment. The aggregate par value is generally added to the principal amount of the related loan obligation. The Association retains a first lien on the stock or participation certificates owned by borrowers. Retirement of such equities will generally be at the lower of par or book value, and repayment of a loan does not automatically result in retirement of the corresponding stock or participation certificates.

C. **Regulatory Capitalization Requirements and Restrictions**

FCA's capital adequacy regulations require the Association to achieve permanent capital of seven percent of risk-adjusted assets and off-balance-sheet commitments. Failure to meet the seven percent capital requirement can initiate certain mandatory and possibly additional discretionary actions by FCA that, if undertaken, could have a direct material effect on the Association's consolidated financial statements. The Association is prohibited from reducing permanent capital by retiring stock or making certain other distributions to shareholders unless prescribed capital standards are met. FCA regulations also require that additional minimum standards for capital be achieved. These standards require all System institutions to achieve and maintain ratios as defined by FCA regulations. These required ratios are total surplus as a percentage of risk-adjusted assets of seven percent and of core surplus as a percentage of risk-adjusted assets of three and one-half percent. The Association's permanent capital, total surplus and core surplus ratios at December 31, 2006 were 12.42 percent, 12.16 percent and 10.39 percent, respectively.

An FCA regulation empowers it to direct a transfer of funds or equities by one or more System institutions to another System institution under specified circumstances. The Association has not been called upon to initiate any transfers and is not aware of any proposed action under this regulation.

D. **Description of Equities**

The Association is authorized to issue or have outstanding Classes A and D Preferred Stock, Classes A, B and C Common Stock, Classes B and C Participation Certificates and such other classes of equity as may be provided for in amendments to the bylaws in such amounts as may be necessary to conduct the Association's business. All stock and participation certificates have a par or face value of five dollars ($5.00) per share.

The Association had the following shares outstanding at December 31, 2006:

		Shares Outstanding	
Class	**Protected**	**Number**	**Aggregate Par Value**
A Common/Nonvoting	Yes	76	$ –
B Common/Nonvoting	Yes	78,093	391
C Common/Voting	No	205,884	1,029
B Participation Certificates/Nonvoting	Yes	2,190	11
C Participation Certificates/Nonvoting	Yes	22,357	112
Total Capital Stock and Participation Certificates		308,600	$ 1,543

Protected common stock and participation certificates are retired at par or face value in the normal course of business. At-risk common stock and participation certificates are retired at the sole discretion of the Board at book value not to exceed par or face amounts, provided the minimum capital adequacy standards established by the Board are met.

Retained Earnings

The Association maintains an unallocated retained earnings account and an allocated retained earnings account. The minimum aggregate amount of these two accounts is determined by the Board. At the end of any fiscal year, if the retained earnings accounts otherwise would be less than the minimum amount determined by the Board as necessary to maintain adequate capital reserves to meet the commitments of the Association, the Association shall apply earnings for the year to the unallocated retained earnings account in such amounts as may be determined necessary by the Board. Unallocated retained earnings are maintained for each borrower to permit liquidation on a patronage basis.

The Association maintains an allocated retained earnings account consisting of earnings held and allocated to borrowers on a patronage basis. In the event of a net loss for any fiscal year, such allocated retained earnings account will be subject to full impairment in the order specified in the bylaws beginning with the most recent allocation.

The Association has a first lien and security interest on all retained earnings account allocations owned by any borrowers, and all distributions thereof, as additional collateral for their indebtedness to the Association. When the debt of a borrower is in default or is in the process of final liquidation by payment or otherwise, the Association, upon approval of the Board, may order any and all retained earnings account allocations owned by such borrower to be applied on the indebtedness.

Allocated equities shall be retired solely at the discretion of the Board; provided, however, that minimum capital standards established by the FCA and the Board are met. Nonqualified retained surplus is considered to be permanently invested in the Association and as such, there is no plan to revolve or retire this surplus. All nonqualified distributions are tax deductible only when redeemed.

At December 31, 2006, allocated members' equity consisted of $18,009 of nonqualified allocated surplus and $7,189 of nonqualified retained surplus.

Patronage Distributions

Prior to the beginning of any fiscal year, the Board, by adoption of a resolution, may obligate the Association to distribute to borrowers on a patronage basis all or any portion of available net earnings for such fiscal year or for that and subsequent fiscal years. Patronage distributions are based on the proportion of the borrower's interest to the amount of interest earned by the Association on its total loans unless another proportionate patronage basis is approved by the Board.

If the Association meets its capital adequacy standards after making the patronage distributions, the patronage distributions may be in cash, authorized stock of the Association, allocations of earnings retained in an allocated members' equity account, or any one or more of such forms of distribution. Patronage distributions of the Association's earnings may be paid on either a qualified or nonqualified basis, or a combination of both, as determined by the Board. A minimum of 20 percent of the total qualified patronage distribution to any borrower for any fiscal year shall always be paid in cash. Amounts not distributed are retained as unallocated members' equity.

Dividends

The Association may declare noncumulative dividends on its capital stock and participation certificates provided the dividend rate does not exceed 20 percent of the par value of the respective capital stock and participation certificates. Such dividends may be paid solely on Classes A or D Preferred Stock, or on all classes of stock and participation certificates.

The rate of dividends paid on Class A Preferred Stock for any fiscal year may not be less than the rate of dividends paid on Classes A, B or C Common Stock or participation certificates for such year. The rate of dividends on Classes A, B and C Common Stock and participation certificates shall be at the same rate per share.

Dividends may not be declared if, after recording the liability, the Association would not meet its capital adequacy standards. No dividends were declared by the Association for any of the periods included in these consolidated financial statements.

Transfer

Classes A and D Preferred, Classes A, B and C Common Stocks, and Classes B and C Participation Certificates may be transferred to persons or entities eligible to purchase or hold such equities.

Impairment

Any net losses recorded by the Association shall first be applied against unallocated members' equity. To the extent that such losses would exceed unallocated members' equity, such losses would be applied consistent with the Association's bylaws and distributed pro rata to each share and/or unit outstanding in the class, in the following order:

1. Assistance preferred Stock
2. Allocated Retained Earnings in its entirety
3. Class C Common Stock and Class C Participation Certificates
4. Classes A and B Common Stock and Class B Participation Certificates
5. Classes A and D Preferred Stock

Liquidation

In the event of liquidation or dissolution of the Association, any assets of the Association remaining after payment or retirement of all liabilities should be distributed to the holders of the outstanding stock and participation certificates in the following order:

1. Classes A and D Preferred Stock
2. Classes A and B Common Stock and Class B Participation Certificates
3. Class C Common Stock and Class C Participation Certificates
4. Allocated surplus evidenced by qualified written notices of allocation on the basis of oldest allocations first
5. Allocated surplus evidenced by nonqualified notices of allocation on the basis of oldest allocations first
6. All Unallocated Retained Earnings issued after January 1, 1995 shall be distributed to the holders of Class C Stock and Class C Participation Certificates from January 1, 1995 through the date of liquidation on a patronage basis; and
7. Any remaining assets of the Association after such distribution shall be distributed ratably to the holders of all classes of stock and participation certificates in proportion to the number of shares or units of such class of stock or participation certificates held by such holders.

E. **Other Comprehensive Income (Loss)**

The Association reports other comprehensive income (loss) in its Statement of Changes in Members' Equity. During 2004, the District Associations funded the pension plans sufficiently to eliminate the pension-related charge to other comprehensive income (loss) at December 31, 2004. See Note 12 for further information.

Note 11 — Income Taxes

The provision (benefit) for income taxes follows:

	Year Ended December 31,		
	2006	**2005**	**2004**
Current:			
Federal	$ (4)	$ 9	$ 7
State	(1)	3	1
	(5)	12	8
Deferred:			
Federal	3	8	4
State	1	1	1
	4	9	5
Total provision (benefit) for income taxes	$ (1)	$ 21	$ 13

The provision (benefit) for income tax differs from the amount of income tax determined by applying the applicable U.S. statutory federal income tax rate to pretax income as follows:

	December 31,		
	2006	**2005**	**2004**
Federal tax at statutory rate	$ 4,624	$ 3,691	$ 5,443
State tax, net	–	2	1
Patronage distributions	(3,371)	(1,077)	(601)
Tax-exempt FLCA earnings	(1,352)	(2,562)	(3,921)
Reversal of allowance for loan losses	–	–	(895)
Other	98	(33)	(14)
Provision (benefit) for income taxes	$ (1)	$ 21	$ 13

Deferred tax assets and liabilities result from the following at:

	December 31, 2006	2005	2004
Deferred income tax assets:			
Allowance for loan losses	$ 44	$ 159	$ –
Annual leave	–	54	4
Nonaccrual loan interest	–	8	–
Postretirement benefits other than pensions	220	295	7
Depreciation	26	57	1
Other	–	2	–
Gross deferred tax assets	290	575	12
Deferred income tax liabilities:			
Future Bank equity redemption	–	–	(12)
Loan fees	(6)	(8)	–
Pensions	(304)	(583)	(7)
Gross deferred tax liability	(310)	(591)	(19)
Net deferred tax asset (liability)	$ (20)	$ (16)	$ (7)

At December 31, 2006, deferred income taxes have not been provided by the Association on approximately $2.0 million of patronage refunds received from the Bank prior to January 1, 1993. Such refunds, distributed in the form of stock, are subject to tax only upon conversion to cash. The tax liability related to future conversions is not expected to be material.

Note 12 — Employee Benefit Plans

The employees of the Association may participate in a Districtwide defined benefit retirement plan. This plan is noncontributory and covers substantially all Association employees. Benefits are based on salary and years of service. The assets, liabilities and costs of the plan are not segregated by participating entities but are allocated among the participating entities. Pension costs are allocated by multiplying the District's net pension expense times the Association's salary expense as a percentage of the District's salary expense.

The Association participates in a Districtwide Thrift Plan. For employees hired on or prior to December 31, 2002, the Association will contribute $.50 for each $1.00 of the maximum employee contribution of 6 percent of total compensation. For employees hired on or after January 1, 2003, the Association will contribute $1.00 for each $1.00 of the maximum employee contribution of 6 percent of total compensation. Employee deferrals are not to exceed the maximum deferral as adjusted by the Internal Revenue Service.

The District sponsors a plan providing certain benefits (primarily health care) to its retirees. Certain Association charges related to this plan are an allocation of District charges based on the Association's proportional share of the plan liability.

On December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (Medicare Act) was signed into law. This act introduces a prescription drug benefit under Medicare (Medicare Part D) as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. In May 2004, the FASB issued FASB Staff Position (FSP) 106-2, Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003" (the Act). This Staff Position provides guidance on the accounting for the effects of the Act for employers that sponsor postretirement health care plans that provide prescription drug benefits. The District sponsored plan adopted FSP 106-2 effective July 1, 2004 (measured as of March 31, 2004). The benefit obligation valuation as of December 31, 2004 reflects the impact of the Medicare Act.

In determining the benefit obligation as of December 31, 2004, the expected per capita claims cost were estimated to be reduced by 12 percent beginning in 2006, for Medicare-eligible participants receiving actuarially equivalent drug benefits, due to a government reimbursement of a portion of prescription drug benefits. The District reduced its accumulated postretirement benefit obligation (APBO) for the subsidy related to benefits attributed to past service. The effect of the subsidy on the measurement of net periodic postretirement cost for 2005 was a reduction of 2005 expense. The effect included lower amortization of actuarial losses, lower service costs and lower interest costs on the APBO.

The Retiree and Disabled Medical Plan was amended effective January 1, 2006 to change the medical and prescription drug coverage for Medicare-eligible retirees and/or eligible spouses 65 years and older. Beginning in 2006, the AgFirst/FCBT Retiree and Disabled Medical Plan will provide medical and prescription drug coverage to Medicare-eligible retirees and/or eligible spouses 65 years and older through fully-insured AARP endorsed Medicare Supplement policies and subsidized basic Medicare D coverage through a selected Prescription Drug Plan. Dental coverage was not changed. Certain other retirees who are grandfathered under insured arrangements were not impacted by the change. The benefit obligation valuation as of December 31, 2005 reflects the impact of this plan amendment.

In determining the benefit obligation as of December 31, 2005, there was no impact due to government reimbursement of prescription drug benefits. After the plan amendment, the plan no longer provides prescription drug benefits directly for retirees and/or eligible spouses 65 years and older. Instead, the District subsidizes the cost of coverage obtained under the Medicare D program through the selected Prescription Drug Provider.

For further information on postretirement costs, see "Postretirement Benefits" section in the Notes to the AgFirst Farm Credit District Consolidated Financial Statements.

The following is a table of retirement and postretirement benefits expenses:

	2006	2005	2004
Pension	$ 388	$ 391	$ 438
Thrift/deferred compensation	88	62	67
Other postretirement benefits	123	220	299
Total	$ 599	$ 673	$ 804

For the years ended December 31, 2006, 2005 and 2004, the Association had contributed $0, $554 and $2,357, respectively, to the Districtwide defined benefit retirement plan, which was sufficient to meet its accumulated benefit obligation. For 2004, the contributions eliminated the minimum pension liability and the pension-related charge to accumulated other comprehensive income (OCI) in shareholders' equity. As a result of the fundings and the reclassification of the OCI, the Association ended 2006, 2005 and 2004 with $2,891, $3,279 and $3,116, respectively, in prepaid retirement expense in other assets on the consolidated balance sheets.

Note 13 — Intra-System Financial Assistance

The Farm Credit Act provided for capital assistance to System institutions experiencing severe financial stress through the issuance, prior to October 1, 1992, by the Financial Assistance Corporation of U.S. Treasury-guaranteed 15-year bonds, of which $1.261 billion in principal amount was originally issued. The last remaining Financial Assistance Corporation bonds matured and were repaid on June 10, 2005.

Pursuant to the Farm Credit Act, the U.S. Treasury paid $440 million, on behalf of the System, in interest costs on $844 million of the Financial Assistance Corporation bonds issued for purposes other than funding Capital Preservation Agreement accruals. The Banks had irrevocably set aside funds, including interest earned, that totaled the $440 million needed to repay the interest advanced by the U.S. Treasury. On June 10, 2005, the Banks repaid the U.S. Treasury the interest advanced. The Farm Credit Act provided that the Financial Assistance Corporation would continue in existence no longer than two years following the maturity of the debt in June 2005. The Financial Assistance Corporation was dissolved effective as of December 31, 2006.

Note 14 — Related Party Transactions

In the ordinary course of business, the Association enters into loan transactions with officers and directors of the Association, their immediate families and other organizations with which such persons may be associated. Such loans are subject to special approval requirements contained in the FCA regulations and are made on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated borrowers.

Total loans to such persons at December 31, 2006 amounted to $7,879. During 2006, $4,351 of new loans were made and repayments totaled $3,877. In the opinion of management, none of these loans outstanding at December 31, 2006 involved more than a normal risk of collectibility.

Note 15 — Commitments and Contingencies

The Association has various commitments outstanding and contingent liabilities.

The Association may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of its borrowers and to manage their exposure to interest-rate risk. These financial instruments include commitments to extend credit and/or commercial letters of credit. The instruments involve, to varying degrees, elements of credit risk in excess of the amount 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 contract. Commercial letters of credit are agreements to pay a beneficiary under conditions specified in the letter of credit. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. At December 31, 2006, $81,561 of commitments to extend credit were outstanding. No commercial letters of credit were outstanding.

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their amounts are not reflected on the consolidated balance sheets until funded or drawn upon. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers and management applies the same credit policies to these commitments. Upon fully funding a commitment, the credit risk amounts are equal to the contract amounts, assuming that borrowers fail completely to meet their obligations and the collateral or other security is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower.

The Association also participates in standby letters of credit to satisfy the financing needs of its borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. Outstanding standby letters of credit have expiration dates ranging from February 1, 2007 to December 31, 2011. The maximum potential amount of future payments the Association is required to make under the guarantees is $9,862.

During 2006, the Association agreed to become one of several investors in a USDA-approved Rural Business Investment Company (RBIC) whose mission is to promote economic development and job creation in rural areas. The total commitment to purchase equities was $572 of which $29 have been purchased as of December 31, 2006 and are included in the Other Assets in the Consolidated Balance Sheets. There is a remaining outstanding commitment of $543 to make additional purchases.

Note 16 — Disclosures About Fair Value of Financial Instruments

The following table presents the carrying amounts and fair values of the Association's financial instruments at December 31, 2006, 2005 and 2004. The fair value of a financial instrument is generally defined as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Quoted market prices are generally not available for certain System financial instruments, as described below. Accordingly fair values are based on judgments regarding anticipated cash flows, future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates involve uncertainties and matters of judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The estimated fair values of the Association's financial instruments are as follows:

	December 31, 2006		December 31, 2005	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Cash	$ 2,885	$ 2,885	$ 3,358	$ 3,358
Loans	$ 477,408	$ 484,526	$ 455,324	$ 457,404
Allowance for loan losses	427	–	844	–
Loans, net	$ 476,981	$ 484,526	$ 454,480	$ 457,404
Investment securities	$ 32,006	$ 31,803	$ –	$ –
Tobacco Buyout SIIC	$ 84,426	$ 82,612	$ 58,851	$ 57,760
Financial liabilities:				
Notes payable to AgFirst Farm Credit Bank	$ 547,249	$ 549,214	$ 465,789	$ 463,162

	December 31, 2004	
	Carrying Amount	Estimated Fair Value
Financial assets:		
Cash	$ 2,514	$ 2,514
Loans	$ 401,497	$ 405,487
Allowance for loan losses	843	–
Loans, net	$ 400,654	$ 405,487
Investment securities	$ –	$ –
Tobacco Buyout SIIC	$ –	$ –
Financial liabilities:		
Notes payable to AgFirst Farm Credit Bank	$ 355,722	$ 355,090

A description of the methods and assumptions used to estimate the fair value of each class of the Association's financial instruments for which it is practicable to estimate that value follows:

A. **Cash:** The carrying value is a reasonable estimate of fair value.

B. **Loans:** Because no active market exists for the Association's loans, fair value is estimated by discounting the expected future cash flows using the Association's current interest rates at which similar loans would be made to borrowers with similar credit risk. As the discount rates are based on the Bank's loan rates, as well as management estimates, management has no basis to determine whether the fair values presented would be indicative of the value negotiated in an actual sale.

   For purposes of determining fair value of accruing loans, the loan portfolio is segregated into pools of loans with homogeneous characteristics based upon repricing and credit risk. Expected future cash flows and interest rates reflecting appropriate credit risk are separately determined for each individual pool.

   Fair value of loans in a nonaccrual status is estimated to be the carrying amount less specific reserves.

   The carrying value of accrued interest approximates its fair value.

C. **Investment Securities:** Fair value is based upon quoted broker price.

D. **Investment in AgFirst Farm Credit Bank and Other Farm Credit Institutions:** Estimating the fair value of the Association's investment in the Bank and Other Farm Credit Institutions is not practicable because the stocks are not traded. As described in Note 7, the net investment is a requirement of borrowing from the Bank and is carried at cost plus allocated equities in the accompanying Consolidated Balance Sheets. The Association owns 4.94 percent of the issued stock of the Bank as of December 31, 2006. As of that date, the Bank's assets totaled $24.4 billion and shareholders' equity totaled $1,181 million. The Bank's earnings were $190 million during 2006.

   In addition, the Association has an investment of $767 related to other Farm Credit institutions.

E. **Notes Payable to AgFirst Farm Credit Bank:** The notes payable are segregated into pricing pools according to the types and terms of the loans (or other assets) which they fund. Fair value of the notes payable is estimated by discounting the anticipated cash flows of each pricing pool using the current rate that would be charged for additional borrowings. For purposes of this estimate it is assumed the cash flow on the notes is equal to the principal payments on the Association's loan receivables plus accrued interest on the notes payable. This assumption implies that earnings on the Association's interest margin are used to fund operating expenses and capital expenditures.

F. **Commitments to Extend Credit and Standby Letters of Credit:** The estimated market value of off-balance-sheet commitments is minimal since the committed rate approximates current rates offered for commitments with similar rate and maturity characteristics and since the related credit risk is not significant.

G. **Tobacco Buyout SIIC:** Fair value is determined by discounting the expected future cash flows using current interest rates for similar assets.

Note 17 — Quarterly Financial Information (Unaudited)

Quarterly results of operations for the years ended December 31, 2006, 2005 and 2004 follow:

	2006				
	First	Second	Third	Fourth	Total
Net interest income	$ 3,037	$ 3,227	$ 3,373	$ 2,938	$ 12,575
Provision for (reversal of allowance for) loan losses	–	–	–	(418)	(418)
Noninterest income (expense), net	(377)	(151)	(171)	1,306	607
Net income	$ 2,660	$ 3,076	$ 3,202	$ 4,662	$ 13,600

	2005				
	First	Second	Third	Fourth	Total
Net interest income	$ 2,584	$ 2,797	$ 2,981	$ 3,080	$ 11,442
Provision for (reversal of allowance for) loan losses	1	–	–	–	1
Noninterest income (expense), net	(414)	(404)	(339)	549	(608)
Net income	$ 2,169	$ 2,393	$ 2,642	$ 3,629	$ 10,833

	2004				
	First	Second	Third	Fourth	Total
Net interest income	$ 2,326	$ 2,463	$ 2,689	$ 2,684	$ 10,162
Provision for (reversal of allowance for) loan losses	–	–	–	(6,701)	(6,701)
Noninterest income (expense), net	(398)	(539)	(256)	326	(867)
Net income	$ 1,928	$ 1,924	$ 2,433	$ 9,711	$ 15,996