Farm Credit of Central Florida, ACA

2007 Annual Report

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Richard W. Joyner .... President
Robert W. Teston .... Executive Vice President
Gregory D. Ellis .... Senior Vice President & Treasurer
Reginald T. Holt .... Senior Vice President
Wayne R. Montgomery .... Senior Vice President

Board of Directors

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David J. Stanford .... Vice Chairman
W. T. Bice, Sr. .... Director
C. Dennis Carlton, Sr. .... Director
W. Rex Clonts, Jr. .... Director
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John S. Langford .... Director
Robert R. Roberson .... Director
Lewis S. Stidham .... Director
Ronald R. Wetherington .... Director

Message from the President & Chief Executive Officer

I am pleased to present the following Annual Report to the members and other interested parties of Farm Credit of Central Florida.

As you will see as you review the report, the Association continues to be in a very strong financial position. Earnings are at record levels, credit quality continues to be very strong, and the Association is well capitalized. The Cooperative Advantage continues to be alive and well and returns to the “owners” of the Association will continue to reduce their cost of capital.

It is always a great feeling to share the successes of the Association. But, to be prudent managers of your Association and to safeguard the safety and soundness for present and future members, we must always look into the future as far as we can and be prepared for any changes we see or potential challenges that may arise.

It is evident the economic picture, whether local, industry, state, national, or global, has some uncertainty. Your Association is not impacted directly by the sub-prime debacle, but there are indirect effects as it impacts the general economy. Energy costs affect every aspect of our members’ businesses both directly and indirectly. Evasive pest and disease is always a concern for our commodity groups. While real estate prices have been good for many of our members, they make it very difficult for young or beginning operators to get a start. With an election year upon us, there are a lot of questions about tax policy, agriculture policy, foreign policy, and numerous other issues that impact our businesses and personal lives. We are also very aware of the issue of water, whether it is drought or policy, water is important to the future of agriculture. We must encourage policymakers to be innovative in the use and distribution of water in a manner that is equitable to all users.

I am very confident your Association is positioned to deal with the challenges of the future. The diversity, expertise, and experience of your Board of Directors provide valuable insight into the directing and policymaking of the institution to insure your cooperative remains strong and viable. You can be assured the Board is focused on your interests and understands your challenges. The Association has a very diverse portfolio and our geographic service area offers a lot of diversity. These are all positive factors in spreading the risk of single events having major impacts on the Association.

You have a very capable staff that works hard to follow the direction of the board and exceed the expectations of the members. As a financial institution, our primary commodity is money, but money is a commodity and can be obtained from other sources. It is the dedication of the board and staff to provide you with necessary products, exceptional service and favorable returns that set us apart from other lenders and meets our Mission of being the “Lender of Choice to the Agricultural and Rural Communities of Central Florida.”

It is obvious 2008 will hold some challenges and changes. I have enjoyed a rewarding 35-year career with Farm Credit and have elected to retire effective April 1, 2008. In addition, Robert W. Teston, the Chief Operating Officer of the Association has elected to retire effective March 1, 2008 with over 33 years of outstanding service to the Association. It is only natural that questions would arise when the top two executives of an organization retire so close together. However, I want to assure you I have worked with the Board of Directors and a viable succession plan is in place. The Board has elected Reginald Holt as the next President/CEO. Mr. Holt will celebrate his 26th year with the Farm Credit System this March and has been with Farm Credit of Central Florida for 16 years. He is advancing from the position of Director of AgriBusiness Lending and Senior Vice President to his new role. In addition, the Association has hired Craig Register in the position of Chief Lending Officer. Mr. Register worked with the Association from January of 1986 until November of 2003 before accepting a position with the AgFirst Farm Credit Bank in Columbia, South Carolina, as Director of Credit Administration. Mr. Register's experience will prove valuable to the Association as he returns as a part of the Management Team. Greg Ellis will continue as the Association's Chief Financial Officer with 22 years of service. I am confident the leadership of the Association is in good hands. I thank you all for the support you have given me. I truly believe the Farm Credit System is a great organization and provides the citizens of the United States a very valuable service by helping to keep American Agriculture strong and viable. Your Association and its staff will rank with the best of them and I will be forever grateful for being allowed to be a part of it.

Your support and patronage is important to the success of your cooperative. If you have a need we can provide, please give us an opportunity. Don't forget to tell your friends and neighbors about your cooperative, Farm Credit of Central Florida.

Richard W. Joyner

Richard W. Joyner
President & Chief Executive Officer

February 28, 2008

Report of Management

The accompanying consolidated financial statements and related financial information appearing throughout this annual report have been prepared by management of Farm Credit of Central Florida, 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 2007 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.

Al Bellotto
Chairman of the Board

Richard W. Joyner
Chief Executive Officer

Gregory D. Ellis
Chief Financial Officer

February 28, 2008

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 Farm Credit of Central Florida, ACA, (Association) for the year ended December 31, 2007 with comparisons to the years ended December 31, 2006 and December 31, 2005. 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 over 90 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 central Florida. 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 378, or writing Stephen Gilbert, AgFirst Farm Credit Bank, P. O. Box 1499, Columbia, SC 29202.

Copies of the Association's Annual and Quarterly reports are also available upon request free of charge on the Association's website, ***www.FarmCreditCFL.com***, or by calling 1-800-533-2773 or writing Greg Ellis, Chief Financial Officer, Farm Credit of Central Florida, ACA, Post Office Box 8009, Lakeland, FL 33802-8009. The Association prepares an electronic version of the Annual Report, which is available on the website, within 75 days after the end of the fiscal year and distributes the Annual Reports to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly report within 40 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.

FORWARD LOOKING INFORMATION

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

- political, legal, regulatory and economic conditions and developments in the United States and abroad;
- economic fluctuations in the agricultural, rural utility, international, and farm-related business sectors;
- weather-related, disease, and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income;
- changes in United States government support of the agricultural industry; and
- actions taken by the Federal Reserve System in implementing monetary policy.

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.
- *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 for the defined benefit retirement plans 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. The discount rate was selected by reference to Hewitt Associates' (a global human resources provider) corporate bond index, actuarial analyses and industry norms.

Regional Economics

Growth in Florida's economy has continued to ease over the past several months amid an increasing severe housing correction. Over the course of the past year and a half, payroll growth has fallen in line with the nation after consistently outperforming since the 1990-1991 recession. As a result of the slowing job growth, Florida's unemployment rate has begun to rise, sitting now at 3.5%, through still lower than the rest of the nation. The non-farm economy in the region served by the Association continues to outperform the national economy despite some slowdown due to the housing problems and stress in financial sectors. Throughout 2006 and 2007, the Florida economy continued to grow but at a much slower pace than over the last five years. Both the state and regional economic activity has being driven by real estate, new home construction, tourism, expansion in government services, growth in business services and healthcare. Construction activity significantly slowed in single and multi-family housing but commercial activity has remained steady. Cargo volumes continue to grow rapidly at state ports driven by stronger imports of both agricultural and non-farm goods, particularly gasoline.

In the housing area, single family permits declined in 2007 from 146,000 in 2006 to 93,000. Single family permits are projected to increase in 2008 to 121,000 as builders work off the existing inventory of new homes. The House Price index is forecast to decline in 2007 to 482 from 484 in 2006. The index is based upon a beginning index of 100 based upon 1980 prices. Actual population net migration declined to 223 in 2006 indicating that population growth is slowing due to economic factors. Net migration is expected to increase into 2008. The value of land for future development continued to rise in the period but saw significant moderation at the end of 2007 and values are expected to decline in the short run. Skyrocketing insurance premiums and real estate taxes impact the cost of living, particularly to new residents. These issues will continue to add an economic hurdle to the state's economy over the next several years despite political efforts to slow the increases.

Higher gasoline and jet fuel prices continue to push up travel costs. Despite seeing a slowdown in U.S. tourists, Florida's tourism industry continues to report strong growth particularly from international travelers. The weakness of the U.S. Dollar to foreign currencies has fueled travel, particularly from European areas. Hotel occupancy rates remain solid and appear to be very stable at current high levels. Major attractions in the Orlando area continue to report satisfactory attendance numbers.

Agriculture, agribusiness, and food processing and manufacturing are still a significant economic driver to the local and state economy. These business segments provided significant jobs and revenues to the state and local economies.

The agricultural industry in the Central Florida region produces a wide variety of farm commodities with horticulture, citrus, and fruit and vegetables the largest market segments. None of the commodities produced in the region are included in any USDA government support programs and not materially impacted by U.S. farm bill legislation. While the overall agricultural economy in the region has been good, there are several significant factors that continue to affect the area. These factors include the introduction of pest and plant diseases, weather-related risks, water-use regulations, environmental rules and regulations, and competition for agricultural lands. All Florida producers, particularly fruit and vegetable producers are concerned about foreign trade issues, primarily the Free Trade of the America's Agreement (FTAA) and World Trade Organization initiatives. State agencies continue to pursue the purchase of significant parcels of agricultural property for water resource protection and environmental protection purposes. Florida rural property owners are now facing new challenges as special interest groups and government officials attempt to limit their future land use through growth management regulations.

The region served by the association was spared any natural disaster in both 2006 and 2007. There were no impacts by hurricanes and the region has enjoyed generally favorable weather conditions. The region continues to experience significantly below average rainfall and water authorities are continuing to tighten restrictions.

The citrus industry is experiencing reduced volume overall which has boosted citrus prices to higher than normal levels. Despite improved profits, citrus growers face an uncertain future as reports of canker infestation and citrus greening disease continue to increase, both of which have been confirmed in the Central Florida region. Canker and greening control practices add to costs. Strawberry growers experienced good growing conditions and favorable operating results over the past two seasons. Cow-calf operators have enjoyed good prices and returns over the past two years. Floriculture (nursery) growers reported good financial results in 2006 and 2007 but expect to see lower demand and pressure on margins in 2008. The slowdown in the national economy and problems related to the severe drought in the southeastern U.S. will impact all sectors of the nursery industry. Association management continually reviews its loan portfolio and has continued to report very satisfactory credit quality and loan repayment performance through out 2007. Management does note some increase in delinquency rates in the last two quarters of 2007. At year end 2007, loans rated acceptable were greater than 97% and the rolling 12 month average delinquency rate was 0.50%.

There has been little change in the Association's market region over the past year. The Association's Agribusiness Lending Group continues to serve and target large, high-quality farm and agribusiness customers. The group continues to report good growth in 2006 and 2007. The Consumer and Small Business Lending Group has maintained a consistent market presence in consumer and middle market lending and is also reporting growth. The Association continues to increase its marketing efforts and activity in the life-style farm and rural residential market segments. The Association also continues to serve young, beginning and small farm customers in this lending group. Positive results have been achieved over the last two years due to streamlining of the credit delivery processes on small agricultural loans. These efforts are intended to improve customer response times and reduce costs associated with serving the consumer and small farm market segment.

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 diversification of the Association loan volume by type for each of the past three years is shown below.

Loan Type	December 31, 2007		2006		2005	
	(dollars in thousands)					
Real estate mortgage	$ 191,299	51.75%	$ 189,594	54.28%	$ 245,656	61.36%
Production and Intermediate term	128,366	34.73	103,307	29.59	104,904	26.20
Loans to cooperatives	2,482	.67	1,879	.54	2,520	.63
Processing and marketing	9,885	2.67	20,200	5.79	15,913	3.97
Farm related business	3,335	.90	2,998	.86	4,417	1.10
Communication	–	–	975	.28	985	.25
Energy	3,586	.97	3,827	1.10	4,132	1.03
Rural residential real estate	30,710	8.31	26,392	7.56	21,872	5.46
Total	$ 369,663	100.00%	$ 349,172	100.00%	$ 400,399	100.00%

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

Branch	December 31, 2007	2006	2005
Apopka	10.89%	12.17%	14.66%
Plant City	6.97	6.73	8.37
Brooksville	5.46	5.81	5.72
Lake Wales	5.07	5.22	4.64
Lakeland	4.14	3.92	4.15
Agribusiness Lending Group	65.98	64.84	62.03
Residential Lending Group	–	.07	.12
Special Assets	1.49	1.24	.31
	100.00%	100.00%	100.00%

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 horticulture (predominately nurseries), fruits & vegetables, citrus, and livestock, which constitute over 78 percent of the entire portfolio.

Commodity Group	December 31, 2007		2006		2005	
	(dollars in thousands)					
Horticulture	$ 114,249	30.90%	$ 110,791	31.73%	$ 91,572	22.87%
Fruits & Vegetables	68,134	18.43	68,089	19.50	98,298	24.55
Citrus	54,254	14.68	47,068	13.48	89,129	22.26
Livestock	53,671	14.52	51,643	14.79	60,380	15.08
Rural Home	22,440	6.07	20,357	5.83	13,533	3.38
Dairy	4,847	1.31	3,038	.87	5,846	1.46
Other	52,068	14.09	48,186	13.80	41,641	10.40
Total	$ 369,663	100.00%	$ 349,172	100.00%	$ 400,399	100.00%

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 fruit & vegetable producers, nursery operations, and citrus growers. 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. 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, 2007, is primarily attributed to increased demand for loans from within the Association's chartered territory. The Association has been fortunate to regain several large, former accounts and has attracted some large real estate loans in addition to normal business.

Recently, 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 cyclical in nature and heavily influenced by operating-type loans, normally reaches a minimum balance in August or September and rapidly increases in the fall months as strawberry and other winter vegetable growers increase their borrowings to prepare for the next crop season. The Association has grown the long-term portfolio through increased mortgage lending on real estate and facilities used for agriculture production.

During 2007, the Association increased activity in the buying and selling of loan participations within the System. This provides a means for the Association to spread credit concentration risk and realize non-patronage sourced interest and fee income, which is intended to strengthen our capital position.

Loan Participations:	2007	December 31, 2006	2005
		(dollars in thousands)	
Participations Purchased – FCS Institutions	$ 32,470	$ 34,929	$ 24,090
Participations Sold	(281,704)	(239,249)	(113,406)
Total	$(249,234)	$(204,320)	$ (89,316)

The Association did not have any loans sold with recourse, retained subordinated participation interests in loans sold, or interests in pools of subordinated participation interests for the year ended December 31, 2007.

The Association sells qualified long-term mortgage loans into the secondary market. For the years ended December 31, 2007, 2006, and 2005, the Association originated loans for resale totaling $14,089, $4,754, and $1,290, respectively, which were sold into the secondary market.

INVESTMENT SECURITIES

As permitted under FCA regulations, the Association is authorized to hold eligible investments for the purposes of reducing interest rate risk and managing surplus short-term funds. The Bank is responsible for approving the investment policies of the Association. The Bank annually reviews the investment portfolio of every Association that it funds. The Association's investments consist of pools of Small Business Administration (SBA) guaranteed loans. These investments carry the full faith and credit of the United States government. The balance of these SBA investments amounted to $30,247 at December 31, 2007, $38,704 at December 31, 2006, and $34,682 at December 31, 2005.

CREDIT RISK MANAGEMENT

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 rating 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.

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	2007	2006	2005
Acceptable & OAEM	98.67%	98.87%	98.56%
Substandard	1.33%	1.13%	1.44%
Doubtful	–%	–%	–%
Loss	–%	–%	–%
Total	100.00%	100.00%	100.00%

Nonperforming Assets

The Association's loan portfolio is divided into performing and high-risk categories. A Special Assets Management Department is responsible for servicing loans classified as high-risk. The high-risk assets, including accrued interest, are detailed below:

High-risk Assets	2007	December 31, 2006	2005
		(dollars in thousands)	
Nonaccrual loans	$ 4,810	$ 3,519	$ 250
Restructured loans	172	199	523
Accruing loans 90 days past due	–	–	–
Total high-risk loans	4,982	3,718	773
Other property owned	1,061	–	–
Total high-risk assets	$ 6,043	$ 3,718	$ 773
Ratios			
Nonaccrual loans to total loans	1.30%	1.01%	.06%
High-risk assets to total assets	1.41%	.89%	.17%

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 increased $1,291 or 36.69 percent in 2007. This increase resulted primarily from the transfer of 10 real estate loans due to the weakness associated with the individual borrower's repayment capacity. Of the $4,810 in nonaccrual volume at December 31, 2007, $454 or 9.44%, compared to 1.28% and 99.25% at December 31, 2006 and 2005, respectively, was current as to scheduled principal and interest payments, but did not meet all regulatory requirements to be transferred into accrual status. The 2007 Other property owned balance consists of 2 real estate parcels, one obtained through foreclosure action and one received through a deed-in-lieu of foreclosure.

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.

Allowance for Loan Losses

The allowance for loan losses at each period end was considered by Association management to be adequate to absorb probable losses existing in and inherent to its loan portfolio.

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

Allowance for Loan Losses Activity:	**Year Ended December 31, 2007**	**2006**	**2005**
	(dollars in thousands)		
Balance at beginning of year	$ 1,639	$ 2,133	$ 1,954
Charge-offs:			
Real estate mortgage	–	(3)	–
Production and intermediate-term	(73)	(6)	(3)
Total charge-offs	(73)	(9)	(3)
Recoveries:			
Production and intermediate-term	15	18	114
Agribusiness	12	109	–
Total recoveries	27	127	114
Net (charge-offs) recoveries	(46)	118	111
Provision for (reversal of allowance for) loan losses	(120)	(612)	68
Balance at end of year	$ 1,473	$ 1,639	$ 2,133
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	(0.01)%	0.03%	0.03%

The net loan charge-offs were primarily associated with the write-off of three small, student project loans and the write-down to the net realizable value upon acquisition and transfer on one large real estate loan to other property owned.

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, 2007**	**2006**	**2005**
	(dollars in thousands)		
Real estate mortgage	$ 763	$ 891	$ 1,308
Production and intermediate-term	512	485	559
Agribusiness	62	117	122
Communication	–	5	5
Energy	14	18	22
Rural residential real estate	122	123	117
Total Allowance for loan losses	$ 1,473	$ 1,639	$ 2,133

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, 2007**	**2006**	**2005**
Total loans	.40%	.47%	.53%
Nonperforming loans	29.57%	44.08%	275.94%
Nonaccrual loans	30.62%	46.58%	854.16%

The financial positions of our borrowers have generally strengthened during the past decade as farmers' net cash income has been at a favorable level 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 4, "Loans and Allowance for Loan Losses," of the Notes to the Consolidated Financial Statements, for further information concerning the allowance for loan losses.

RESULTS OF OPERATIONS

Net Interest Income

Net interest income was $10,536, $11,871 and $10,614 in 2007, 2006 and 2005, respectively. Net interest income is the difference between interest income and interest expense. Net interest income is the principal source of earnings for the Association and is impacted by volume, yields on assets and cost of debt. The effects of changes in average volume and interest rates on net interest income over the past three years are presented in the following table:

Change in Net Interest Income:

	Volume*	**Rate**	**Nonaccrual Income**	**Total**
	(dollars in thousands)			
12/31/07 - 12/31/06				
Interest income	$ (3,046)	$ 752	$ 6	$ (2,288)
Interest expense	(1,803)	850	–	(953)
Change in net interest income	$ (1,243)	$ (98)	$ 6	$ (1,335)
12/31/06 - 12/31/05				
Interest income	$ 3,424	$ 4,174	$ 1	$ 7,599
Interest expense	2,489	3,853	–	6,342
Change in net interest income	$ 935	$ 321	$ 1	$ 1,257

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

Noninterest Income

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

Noninterest Income	For the Year Ended December 31, 2007	2006	2005	Percentage Increase/(Decrease) 2007/ 2006	2006/ 2005
	(dollars in thousands)				
Loan fees	$ 900	$ 1,050	$ 885	(14.29)%	18.64%
Fees for financially related services	376	9	7	4,077.78	28.57
Patronage refund from other Farm Credit Institutions	7,533	4,646	3,808	62.14	22.01
Gains (losses) on other property owned, net	(1)	–	–	(100.00)	–
Gains (losses) on sales of premises and equipment, net	–	38	553	(100.00)	(93.13)
Other noninterest income	222	53	123	318.87	(56.91)
Total noninterest income	$ 9,030	$ 5,796	$ 5,376	55.80%	7.81%

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, 2007	2006	2005	Percentage Increase/(Decrease) 2007/ 2006	2006/ 2005
	(dollars in thousands)				
Salaries and employee benefits	$ 4,582	$ 4,170	$ 4,061	9.88%	2.68%
Occupancy and equipment expense	692	675	695	2.52	(2.88)
Insurance Fund premiums	522	572	177	(8.74)	233.16
Other operating expenses	1,500	1,385	1,216	8.30	13.90
Total noninterest expense	$ 7,296	$ 6,802	$ 6,149	7.26%	10.62%

Noninterest expense increased $494 or 7.26 percent for December 31, 2007, as compared to the same period of 2006 and increased $1,147 or 18.65 percent compared to December 31, 2005. Salaries and employee benefits increased in 2007, as compared with 2006, primarily due to increased costs associated with employee benefit plans, merit and incentive compensation, and employee staffing levels. Also contributing to the increase in noninterest expense were increases in occupancy and equipment expense and other operating expenses.

Income Taxes

The Association did not record a provision or benefit for income taxes for the year ended December 31, 2007, as compared to a provision of $13 for 2006 and a provision of $56 for 2005.

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 12/31/07	12/31/06	12/31/05
Return on average assets	3.04%	2.63%	2.56%
Return on average members' equity	16.97%	16.71%	14.73%
Net interest income as a percentage of average earning assets	2.78%	2.84%	2.89%
Net charge-offs (recoveries) to average loans	0.01%	(0.03)%	(0.03)%

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 and Funding

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 (or direct loans) to the Bank. The Bank manages interest rate risk through direct loan pricing and asset/liability management. 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. Association capital levels effectively create a borrowing margin between the amount of loans outstanding and the amount of notes payable outstanding. This margin is commonly referred to as "Loanable Funds."

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 liquidity policy of the Association is to manage cash balances to maximize debt reduction and to increase loan volume. As borrower payments are received, they are applied to the Association's note payable to the Bank. The Association's investments and other secondary market programs provide additional liquidity. Sufficient liquid funds have been available to meet all financial obligations. There are no known trends likely to result in a liquidity deficiency for the Association.

Total notes payable to the Bank at December 31, 2007, was $343,677 as compared to $334,575 at December 31, 2006 and $374,294 at December 31, 2005. The increase of 2.72 percent compared to December 31, 2006 and the decrease of 10.61 percent compared to December 31, 2005, was attributable to increased borrowings to fund new loan advances and to the application of proceeds from increased loan participations sold, respectively. The average volume of outstanding notes payable to the Bank was $327,375, $358,411, and $305,849 for the years ended December 31, 2007, 2006, and 2005, respectively. Refer to Note 7, "Notes Payable to AgFirst Farm Credit Bank," of the Notes to the Consolidated Financial Statements, for weighted average interest rates and maturities, and additional information concerning the Association's notes payable.

The Association had no lines of credit from third party financial institutions as of December 31, 2007.

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 market indices such as 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

Capital serves to support asset growth and provide protection against unexpected credit and interest rate risk and operating losses. Capital is also needed for future growth and investment in new products and services.

The Association Board of Directors establishes, adopts, and maintains a formal written capital adequacy plan to ensure that adequate capital is maintained for continued financial viability, to provide for growth necessary to meet the needs of members/borrowers, and to ensure that all stockholders are treated equitably. There were no material changes to the capital plan for 2007 that would affect minimum stock purchases or would have an effect on the Association's ability to retire stock and distribute earnings.

Total members' equity at December 31, 2007, increased 6.73 percent to $73,753 from the December 31, 2006, total of $69,100. At December 31, 2006, total members' equity increased 3.98 percent from the December 31, 2005 total of $66,457. The increase was primarily attributed to the increase in net income and capital stock and participation certificates being partially offset by cash patronage and the revolvement of allocated equities.

Total capital stock and participation certificates were $1,331 on December 31, 2007, compared to $1,306 on December 31, 2006 and $1,315 on December 31, 2005. The 2007 increase from 2006 was attributed to capital stock purchases being greater than the reduction of protected borrower stock and participation certificates on loans liquidated in the normal course of business. The 2006 decrease from 2005 was attributed to the retirement of protected borrower stock and participation certificates on loans liquidated in the normal course of business and the retirement of excess stock through revolvement.

FCA sets minimum regulatory capital requirements for System banks and associations. Capital adequacy is evaluated using a number of regulatory ratios. According to the FCA regulations, each institution's permanent capital ratio is calculated by dividing permanent capital by a risk-adjusted asset base. Risk adjusted assets mean the total dollar amount of the institution's assets adjusted by an appropriate credit conversion factor as defined by regulation. For all periods represented, the Association exceeded minimum regulatory standards for all the ratios.

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

	2007	2006	2005	Regulatory Minimum
Permanent capital ratio	15.49%	16.55%	15.36%	7.00%
Total surplus ratio	14.49%	15.88%	15.06%	7.00%
Core surplus ratio	11.67%	13.46%	12.70%	3.50%

The decrease in the Association's permanent capital, total surplus, and core surplus for December 31, 2007 from December 31, 2006 was attributed to the increase in risk-adjusted assets (primarily loans originated). The increase in 2006 from 2005 was attributed to the decrease in risk-adjusted assets (loans) from increased sales of loan participations. There are no trends, commitments, contingencies, or events that are likely to affect the Association's ability to meet regulatory minimum capital standards and capital adequacy requirements.

See Note 8, "Members' Equity," of 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, (b) participation loans purchased, and (c) other non-patronage sourced activities, the remaining consolidated net earnings are eligible for allocation to borrowers. Refer to Note 8, "Members' Equity," of the Notes to the Consolidated Financial Statements, for more information concerning the patronage distributions. The Association declared patronage distributions of $11,664 in 2007, $10,154 in 2006, and $8,024 in 2005.

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. As a result, the 2007 goals established were met.

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

	As of December 31, 2007	
	Number of Loans	Amount of Loans
Young	179	$ 12,928
Beginning	493	76,291
Small	805	83,377

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 14,630 reported farmers of which by definition 574 or 3.92 percent were Young, 4,660 or 31.85 percent were Beginning, and 13,759 or 94.05 percent were Small. Comparatively, as of December 31, 2007, the demographics of the Association's agricultural portfolio contained 1,384 farmers, of which by definition 179 or 12.93 percent were Young, 493 or 35.62 percent were Beginning and 805 or 58.16 percent were Small.

The Association Board of Directors has adopted a Young, Beginning, and Small Farmer Plan with specific goals for the number of loans and new volume closed for 2008 and two succeeding years. The association will continue to review the demographics of its territory during 2008 utilizing 2002 Ag census data.

The following strategies and outreach programs have been conducted which assists and supports the Association's efforts to meet its objectives and goals for financing to the young, beginning, and small farmers.

- Support of 4-H, FFA, and young farmer organizations through sponsorships and donations.
- Sponsor seminars on farm transition planning and financial management.
- Youth livestock financing program for Youth Steer and Swine Shows. Available territory wide.
- Financial Training in cooperation with Florida Southern College, Citrus and Horticulture Dept.
- Employees serve as judges for youth livestock project record books.
- Sponsor participants and participate in Florida Council of Coops, Young Cooperator Conference.
- Sponsor Florida Nursery Growers Young Professional Award.

In addition, the association's lending personnel actively participate in various commodity trade group conferences and continuing education programs.

Association lenders have established performance goals to provide informational and financial training to agricultural youth groups and industry trade associations.

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.

REGULATORY MATTERS

Proposed Federal Legislation

The current farm bill expired on September 30, 2007. In July 2007, the House of Representatives passed its version of a new farm bill, the Farm, Nutrition, and Bioenergy Act of 2007. Under the farm bill as passed by the House of Representatives, the Congressional Budget Office estimated that payments to farmers under the commodity programs, i.e., direct and countercycle payments and loan deficiency payments, would be reduced by an estimated $825 million in total over the next 10 years, as compared with a current services baseline of approximately $75 billion for commodities. However, the specific provisions of the farm bill may increase payments for certain commodities or increase them in certain years and reduce them in others. This farm bill would also revise certain income payment limitations.

The farm bill as passed by the House of Representatives also contains provisions that would expand certain authorities of the Farm Credit System Insurance Corporation. The proposed changes generally would authorize the Insurance Corporation to collect higher levels of premiums and expand the base upon which premiums are charged. Premiums of up to 20 basis points could be charged against insured debt adjusted for government-guaranteed loans and up to an additional 10 basis points could be charged for any loan volume that is nonaccrual or investments that are other-than-temporarily impaired. Currently, premiums of up to 15 basis points may be charged on accruing loans and up to 25 basis points for nonaccrual loans.

The Senate Agriculture, Nutrition and Forestry Committee has submitted to the full Senate its version of the farm bill, the Food and Energy Security Act of 2007. As reported, the bill proposes adjustments to current farm policy while maintaining the basic safety net structure of current law. The bill, when combined with tax provisions previously reported by the Senate Finance Committee, would provide for a permanent disaster fund and provide new incentives for farmers to engage in soil conservation activities. Before these changes are enacted into law, the Senate must adopt the bill and conference their actions with the bill earlier approved by the House. It is premature to predict the final outcome of this process. The proposed Senate farm bill contains the same expanded authorities with respect to the Insurance Corporation as noted above.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In July 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, *"Accounting for Uncertainty in Income Taxes — an Interpretation of FASB Statement No. 109"* (FIN 48 or Interpretation) that was effective for fiscal years beginning after December 15, 2006. FIN 48 clarifies how an enterprise should recognize, measure, present and disclose in its financial statements uncertain tax positions that the enterprise has taken or expects to take on a tax return. Under the Interpretation, the financial statements reflect expected future tax consequences of income tax positions presuming the relevant taxing authority's full knowledge of the position and all relevant facts, but without considering time values. FIN 48 is applicable to all uncertain positions for taxes accounted for under FASB Statement No. 109. The Association adopted FIN 48 on January 1, 2007 and determined that interest and penalties would be classified as a component of income taxes.

The total amount of uncertain positions for income taxes at January 1, 2007 was $0 and no cumulative adjustment to beginning members' equity was required. At January 1, 2007, the total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate was $0 and the total amount of interest and penalties as of January 1, 2007 was $0. The Association's uncertain tax positions that may reverse within the next 12 months was $0. The tax years that remain open for federal and major state income tax jurisdictions are 2004 and forward.

On September 29, 2006, the FASB issued Statement of Financial Accounting Standards No. 158, *"Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans."* The Standard 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 changes in that funded status in the year in which the changes occur through other comprehensive income. The Standard further requires the determination of the fair value of plan assets at year-end and recognition of actuarial gains and losses, prior service costs or credits, and transition assets and obligations as a component of other comprehensive income. In addition, this Standard requires that the funded status of a plan be measured as of the date of the year-end financial statements. Currently, the District uses 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 Association has various defined benefit pension and other postretirement benefit plans. These plans are classified as either single employer plans or multi-employer plans. For single employer defined benefit Association plans, adoption of FAS 158 impacted the Association's Consolidated Financial Statements. For multi-employer Association plans in which the Association participates, adoption of FAS 158 and corresponding impact was recorded at a District level and is not reflected directly in the Association's Consolidated Financial Statements. See Note 11, Employee Benefit Plans, of the Consolidated Financial Statements, for further information regarding the impact of the adoption of FAS 158 on the current period for the Association's supplemental retirement plan.

In September 2006, the FASB also issued Statement of Financial Accounting Standards No. 157, *"Fair Value Measurements."* This Statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. As a result, there is now a common definition of fair value to be used throughout generally accepted accounting principles. The FASB believes that the new standard will make the measurement of fair value more consistent and comparable and improve disclosures about those measures. This Statement clarifies that the term fair value is intended to mean a market-based measure, not an entity-specific measure. In measuring fair value for a financial statement item, the Statement sets forth a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The highest priority is given to quoted prices in active markets and the lowest priority to unobservable inputs. Additional disclosure requirements will be required for the lowest priority level. The Statement became effective as of January 1, 2008, and will be applied to our consolidated financial statements on a prospective basis.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159,*" Fair Value Option for Financial Assets and Financial Liabilities."* The Standard permits entities to choose on an instrument-by-instrument basis, at specified election dates, to measure financial assets and liabilities and certain other items at fair value (the "fair value option"). Unrealized gains and losses on items for which the fair value option has been elected must be reported in earnings at each subsequent reporting date. Upfront costs and fees related to items for which the fair value option is elected shall be recognized in earnings as incurred and not deferred. This Standard became effective as of January 1, 2008. The Association has not made any elections under the fair value option, thus there will be no impact of the initial adoption of the Standard. However, the Association may elect to apply the fair value option to financial instruments acquired in future periods.

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 of 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.

Description of Property

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

Location	Description	Form of Ownership
115 S. Missouri Ave.* Lakeland	Administrative/ Branch	Leased
507 E. Third Street Apopka	Branch	Owned
36 W. Polk Avenue Lake Wales	Branch	Owned
2301 Thonotosassa Road Plant City	Branch	Owned
31081 Cortez Blvd.** Brooksville	Branch	Leased

* *The Administrative / branch office located at 115 S. Missouri Ave. is leased through December 31, 2016 with a 4-year option to renew.*

** *The branch office located at 31081 Cortez Blvd. is leased through November 30, 2009 with a 3-year option to renew.*

Legal Proceedings

Information, if any, to be disclosed in this section is incorporated herein by reference to Note 14 of the Consolidated Financial Statements, *"Commitments and Contingencies,"* included in this Annual Report.

Description of Capital Structure

Information to be disclosed in this section is incorporated herein by reference to Note 9 of the Consolidated Financial Statements, *"Members' Equity,"* included in this Annual Report.

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, 8, 12 and 14 of the Consolidated Financial Statements included in this Annual Report.

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 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 and their business experience for the past five years:

Senior Officer	Position
Richard W. Joyner	*President and Chief Executive Officer* since 1997.
Robert W. Teston	*Executive Vice President and Chief Operating and Lending Officer* since 1992.
Gregory D. Ellis	*Senior Vice President and Corporate Treasurer / CFO* since 1993.
Reginald T. Holt	*Senior Vice President* since April 1997.
Wayne R. Montgomery	*Senior Vice President* since April 2005 and previously served as Vice President and Special Assets Officer since 1993.

The total amount of compensation earned by the CEO and the highest paid officers as a group during the years ended December 31, 2007, 2006 and 2005, is as follows:

Name of Individual or Number in Group	Year	Annual Salary	Annual Bonus	Deferred Comp.	Perq./ Other*	Total
Richard W. Joyner	2007	$325,012	–	–	$7,830	$332,842
Richard W. Joyner	2006	$242,010	–	–	$5,764	$247,774
Richard W. Joyner	2005	$210,008	–	–	–	$210,008
5	2007	$601,523	$162,963	–	$5,290	$769,776
5	2006	$538,354	$131,092	–	$5,235	$674,681
5	2005	$518,644	$104,400	–	–	$623,044

* *Amounts in the above table classified as Perquisites include travel incentives, group life insurance, automobile compensation, purchased automobile, spousal travel, relocation and tuition reimbursement.*

Disclosure of information on the total compensation paid during 2007 to any senior officer, or to any other individual included in the total, is available to shareholders upon request.

In addition to base salary, all Association employees (except the CEO and Chief ACA Reviewer) may earn additional compensation under a corporate bonus plan. The Association bonus plan is designed to motivate employees to exceed business plan goals established by the Board of Directors during the fiscal year. Level 1 of the Association plan covers all non-exempt employees (for wage and salary administration purposes) and is based on increasing budgeted final net income. Payments under Level 1 are calculated at year-end with eligible employees receiving up to 5 percent of their annual salary in cash.

Level 2 of the Association plan covers all exempt employees (except the CEO, other Senior Officers, the Chief ACA Reviewer, Residential Lending Group employees, and employees identified as "lenders") and is based on increasing loan volume and fee income. This portion of the plan is divided into three categories; percent increase (over budget) in Average Gross Accruing Volume outstanding (33.33 percent), percent increase (over budget) in Dollar Volume of New Loans Closed (33.33 percent), and percent increase (over budget) in Final Net Income (33.33 percent). Payments at this level are calculated at year-end based on the weighted average performance in each category, paid 100 percent in cash. The maximum award at this level shall not exceed 12 percent of their annual salary and requires a certain minimum individual employee evaluation score.

Level 3 of the Association plan covers all employees identified as "lenders" and is based upon their personal performance relative to their individual standards of performance. Award percentage points are earned for Marketing and Business Development and deductions for Asset Quality and Delinquencies. Payments at this level are calculated at year-end based on the weighted average performance in each category and also requires a certain minimum individual employee evaluation score. The maximum award at this level shall not exceed 50% of their annual salary with amounts up 25% paid in cash and amounts greater than 25% deferred for 5 years.

Level 4 of the Association plan covers all employees in the Residential Lending Group. Underwriters and Sales Coordinators earn awards based upon their personal performance relative to their individual standards of performance. Processors and Closers earn a set dollar amount on each loan originated. Payments are made quarterly and require a certain minimum individual employee evaluation score.

Level 5 of the Association plan covers the senior officers listed above with the exception of the CEO. The Association must meet certain objectives for Shareholder Value (measured by the Return on Equity ratio; weighted 20 percent), Safety & Soundness (measured by FCA "CAMELS" rating and CIPA Score; weighted 20 percent), Growth, (measured by increase in Gross Volume, and New Loans Closed; weighted 20 percent), Credit Quality (measured by Acceptable & OAEM volume, Nonaccrual loan volume, Other Property Owned, and Delinquencies; weighted 20 percent), and Operating Efficiency (measured by the ratio of Operating Expenses to Final Net Interest Income, Noninterest Income to Operating Expenses ratio and the Return on Assets ratio; weighted 20 percent). Payments at this level are calculated at year-end based on the weighted average performance in each category, paid 75 percent in cash and 25 percent deferred for 5 years. The maximum award at this level shall not exceed 25 percent of their annual salary and requires a certain minimum individual employee evaluation score.

An overall plan restriction limits the total of all payments to a maximum of 25 percent of the total gain over budget. Payment of the Corporate Bonus is in the first quarter of 2008. Bonuses are shown in the year earned, which may be different than the year of payment.

The Association also sponsors a non-qualified defined benefit supplemental executive retirement plan for the Association CEO. The purpose of the non-qualified plan is to provide benefits that supplement the qualified defined benefit plan in which the Association's employees participate. For the CEO, compensation in excess of the 401(a)(17) limit and benefits in excess of the 415(b) limit in the qualified defined benefit plan will be made up through the non-qualified plan. As a non-qualified plan, assets have been allocated and separately invested for this plan, but are not isolated from the general creditors of the Association.

Additionally, all employees are reimbursed for all direct travel expenses incurred when traveling on Association business. A copy of the travel policy is available to shareholders upon written request.

Directors

The following chart details the year the director began serving on the board, the current term of expiration, current committee assignments and total cash compensation paid:

DIRECTOR	ORIGINAL YEAR OF ELECTION OR APPOINTMENT	CURRENT TERM EXPIRATION	TOTAL COMP. PAID DURING 2007
Al Bellotto, ***Chairman***	1991	2009	$ 36,500
David J. Stanford, ***Vice-Chairman***	1992	2008	34,900
W.T. Bice, Sr.	1991	2008	11,000
C. Dennis Carlton, Sr.	2004	2010	13,100
W. Rex Clonts, Jr.	1997	2009	12,600
Homer E. Hunnicutt, Jr.	1991	2010	17,000
John S. Langford	2005	2009	15,400
Robert R. Roberson	1997	2010	15,700
Lewis S. Stidham, *Outside Director*	1995	2010	16,400
Ronald R. Wetherington	1993	2008	15,700
			$ 188,300

The following represents certain information regarding the directors of the Association, including their principal occupation and employment for the past five years. Unless specifically listed, the principal occupation of the board member for the past five years has been as a self-employed farmer.

Al Bellotto, Chairman, is a cattleman and citrus grower and serves on the boards of the Florida Cattlemen's Association and the Polk County Cattlemen's Association (Beef Promotion). His principal occupation and employment for the past 5 years was with Al Bellotto, Inc.

David J. Stanford, ***Vice-Chairman,*** is a citrus grower and now retired citrus processor and serves on the board of South Lake Apopka Citrus Growers Association (citrus cooperative).

W. T. Bice, Sr. is a citrus grower and serves on the board and as President of Star Lake, Inc. (investments). His principal occupation and employment for the past 5 years was with W.T. Bice Groves.

C. Dennis Carlton, Sr. is a cattleman, citrus grower and real estate developer and serves on the boards of Valrico State Bank (Valrico, FL), Hillsborough County Farm Bureau, and the Soil and Water Conservation Council.

W. Rex Clonts, Jr. is a citrus grower and serves on the board of Florida Citrus Mutual and the Florida Fruit and Vegetable Association. His principal occupation and employment for the past 5 years was with Clonts Farms, Inc.

Homer E. Hunnicutt, Jr. is a cattle producer and serves on the boards of Hillandale Farms, Inc., Columbia Grain & Ingredients, Inc., SunTrust Bank – Nature Coast, and the Hernando County Farm Bureau. His principal occupation and employment for the past 5 years was with Finest Farms.

John S. Langford is a citrus grower, commercial caretaker, citrus harvester and real estate agent and serves on the boards of Community Southern Bank (Lakeland, FL), the Polk County Farm Bureau, and as a commissioner on the Polk County Planning Commission. His principal occupation and employment for the past 5 years was with John Langford, Inc.

Robert R. Roberson is a nurseryman and serves on the boards of Bank First (Apopka, FL) and the Orange County Farm Bureau. His principal occupation and employment for the past 5 years was with Foliage Factory Too, Inc. Mr. Roberson also owns Less Energy Systems LLC in Apopka, FL and has an active real estate license with Lou Haubner Realty.

Lewis S. Stidham is a former commercial banker from Citrus & Chemical Bank. His principal occupation and employment for the past 5 years was with Citrus & Chemical Bank (now retired) and self-employment.

Ronald R. Wetherington is a strawberry and citrus grower and serves on the boards of the Hillsborough County Farm Bureau, Florida Farm Bureau Insurance Company, Florida Farm Bureau Federation, Florida FFA Foundation, and Hillsborough County Law Enforcement Association.

Subject to approval by the board, the Association may allow directors an annual retainer of $3,000 to be paid monthly and honoraria of $400 for attendance at meetings and committee meetings, $300 for special assignments, $200 for telephone conference calls and $200 for travel days that include an overnight stay. Total compensation paid to directors as a group was $188,300 for 2007. No director received more than $5,000 in non-cash compensation during the year.

The following chart details the number of meetings, other activities and additional compensation paid for other activities (if applicable) for each director:

	Days Served			
Name of Director	**Regular Board Meetings**	**Other Official Activities***	**Committee Assignments**	**Comp. Paid for Other Activities***
Al Bellotto, ***Chairman***	12	75	Executive, Compensation, Legislative	$ 31,700
David J. Stanford, ***Vice-Chairman***	11	76	Executive, Compensation, Risk Management	30,500
W.T. Bice, Sr.	11	10	Compensation	6,600
C. Dennis Carlton, Sr.	11	17	Risk Management, Legislative	8,700
W. Rex Clonts, Jr.	8	21	Audit, Legislative	9,400
Homer E. Hunnicutt, Jr.	12	28	Audit, Risk Management	12,200
John S. Langford	12	22	Audit, Risk Management	10,600
Robert R. Roberson	11	27	Audit, Legislative	11,300
Lewis S. Stidham	12	26	Audit, Risk Management	11,600
Ronald R. Wetherington	12	25	Audit, Legislative	10,900
				$ 143,500

* *Includes board committee meetings and other board activities other than regular board meetings.*

Directors are reimbursed on an actual cost basis for all 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 $55,655 for 2007, $39,064 for 2006, and $32,667 for 2005.

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 13 of the Consolidated Financial Statements, *"Related Party Transactions,"* included in this Annual Report. There have been no transactions between the Association and senior officers or directors which require reporting per FCA regulations.

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. No directors or senior officers have been involved in any legal proceedings during the last five years which require reporting per FCA regulations.

Relationship with Independent Auditor

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

Aggregate fees for services rendered by its independent auditor for the year ended December 31, 2007 were as follows:

	2007
Independent Auditor	
PricewaterhouseCoopers LLP	
Audit services	$ 63,340

PricewaterhouseCoopers audit fees were for the annual audit of and for rendering an opinion on the Association's consolidated financial statements.

All nonaudit service fees incurred by the Association were approved by the Audit Committee.

Consolidated Financial Statements

The consolidated financial statements, together with the report thereon of PricewaterhouseCoopers LLP dated February 28, 2008 and the report of management, which appear in this Annual Report are incorporated herein by reference.

Copies of the Association's Annual and Quarterly reports are available upon request free of charge by calling 1-800-533-2773 or writing Gregory D. Ellis, Chief Financial Officer, Farm Credit of Central Florida, ACA, P.O. Box 8009, Lakeland, FL 33802 or accessing the web site, ***www.farmcreditcfl.com***. The Association prepares an electronic version of the Annual Report which is available on the Association's web site within 75 days after the end of the fiscal year and distributes the Annual Reports to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly report within 40 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.

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. 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.

Credit and Services to Young, Beginning, and Small Farmers and Ranchers and Producers or Harvesters of Aquatic Products

Information to be disclosed in this section is incorporated herein by reference to the similarly named section in the Management's Discussion and Analysis of Financial Condition and Results of Operations section included in this annual report to the shareholders.

Shareholder Investment

Shareholder investment in the Association could be affected by the financial condition and results of operations of AgFirst Farm Credit Bank (Bank or AgFirst). Copies of the Bank's Annual and Quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 378, or writing Stephen Gilbert, 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 web site at ***www.agfirst.com***. The Bank prepares an electronic version of the Annual Report, which is available on the website, within 75 days after the end of the fiscal year and distributes the Annual Reports to shareholders within 90 days after the end of the fiscal year. The Bank prepares an electronic version of the Quarterly report within 40 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 Bank.

Report of the Audit Committee

The Audit Committee of the Board of Directors (Committee) is comprised of the directors named below. None of the directors who serve on the Committee is an employee of Farm Credit of Central Florida, ACA (Association) and in the opinion of the Board of Directors, each is free of any relationship with the Association or management that would interfere 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 2007, 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. 114 *(The Auditor's Communication With Those Charged With Governance)*. 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 that 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 2007. The foregoing report is provided by the following independent directors, who constitute the Committee:

Lewis S. Stidham
Chairman of the Audit Committee

Members of Audit Committee

W. Rex Clonts, Jr.
Homer E. Hunnicutt, Jr.
John S. Langford
Robert R. Roberson
Ronald R. Wetherington

February 28, 2008

Report of Independent Auditors

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 Farm Credit of Central Florida, 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 Farm Credit of Central Florida, ACA (the Association) and its subsidiaries at December 31, 2007, 2006 and 2005, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

February 28, 2008

Notes to the Consolidated Financial Statements

(dollars in thousands, except as noted)

Note 1 — Organization and Operations

A. **Organization:** Farm Credit of Central Florida, 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/shareholders for qualified purposes in the counties of Brevard, Citrus, Hernando, Hillsborough, Lake, Orange, Osceola, Pasco, Pinellas, Polk, Seminole, Sumter, and Volusia in the state of Florida.

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, 2007, the System was comprised of four Farm Credit Banks, one Agricultural Credit Bank and ninety-four Associations.

AgFirst Farm Credit Bank (Bank) and its related Associations are collectively referred to as the "District." The Bank provides funding to 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 are structured 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.

Effective January 1, 2005, pursuant to a plan of restructuring approved by the Farm Credit Administration (FCA) and Association shareholders, the Association reorganized its existing organizational structure. Prior to the restructuring, the ACA was subject to federal and state income tax. Pursuant to this restructuring, a FLCA and a PCA were formed as wholly owned subsidiaries of the Association. The formation of these subsidiaries enables the Association to take advantage of the tax-exempt status of net income from long-term mortgage operations of the FLCA. This restructuring was accounted for as a reorganization of entities under common control similar to a pooling of interests.

ACA parent-companies provide financing and related services through its FLCA and PCA subsidiaries. The FLCA makes collateralized long-term agricultural real estate and rural home mortgage loans. The PCA makes 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.

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 the current year's 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 for purposes of maintaining a liquidity reserve, managing short-term surplus funds and managing interest rate risk. The Association's investments are classified as held-to-maturity and accordingly have been reported at amortized cost. Purchased premiums and discounts are amortized or accreted ratably over the term of the respective security.

   The Association may also hold additional investments in accordance with mission-related investment and other investment programs, approved by the Farm Credit Administration. These programs allow the Association to make investments that further the System's mission to serve rural America. Mortgage-backed securities issued by Farmer Mac are considered other investments. Mission-related investments for which the Association has the intent and ability to hold to maturity are classified as held-to-maturity and carried at cost, adjusted for the amortization of premiums and accretion of discounts. Farmer Mac investments are classified either as held-to-maturity or available-for-sale depending on the institution's ability and intent to hold the investment to maturity.

   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 40 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.

   Loan origination fees and direct loan origination costs are deferred as part of the carrying amount of the loan and the net fee or cost is amortized over the life of the related loan as an adjustment to interest income using the effective interest method.

   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.

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. **Gains/(Losses) on Loans Held for Sale:** Certain rural home loans originated by the Association are sold on a servicing released basis primarily to the Bank or into the secondary market to unrelated third parties. Gains or losses on sales of these mortgage loans are recognized based on the difference between the selling price and the carrying value of the related mortgage loans sold.

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, expenses, and carrying value adjustments related to other property owned 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 earnings. Maintenance and repairs are charged to 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 AgFirst Farm Credit Retirement Plan (Plan), which is a defined benefit plan and is considered a multi-employer plan. The Plan is noncontributory and includes eligible District employees. The "Projected Unit Credit" actuarial method is used for financial reporting purposes. 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. The cost of the Plan is allocated based on a percentage of each institution's salary expense to the total salary expense for all Plan participants. Additional financial information for the Plan may be found in Note 11, Employee Benefit Plans, and in the Notes to the Combined Financial Statements of AgFirst Farm Credit Bank and District Associations' 2007 Annual Report.

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 (other postretirement benefits) through a District multi-employer plan. Substantially all employees may become eligible for these benefits if they reach early retirement age while working for the Association. Additional financial information for the plan may be found in Note 11, Employee Benefit Plans, and in the Notes to the Combined Financial Statements of AgFirst Farm Credit Bank and District Associations' 2007 Annual Report.

The Association also sponsors single employer supplemental retirement and deferred compensation plans for certain key employees. The plans are nonqualified; therefore, the associated liabilities are included in the Association's consolidated balance sheets in other liabilities. See Note 11, Employee Benefit Plans, for the impact of the adoption of SFAS No. 158, "*Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*", on the current period for the defined benefit supplemental retirement plan.

J. **Income Taxes:** Effective January 1, 2005, the Association formed a tax exempt subsidiary as described in Note 1. 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.

The Association records a valuation allowance at the balance sheet dates against that portion of the Association's deferred tax assets that, based on management's best estimates of future events and circumstances, more likely than not (a likelihood of more than 50 percent) will not be realized. The consideration of valuation allowances involves various estimates and assumptions as to future taxable earnings, including the effects of our expected patronage program, which reduces taxable earnings.

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) issued Interpretation No. 48, *"Accounting for Uncertainty in Income Taxes — an Interpretation of FASB Statement No. 109"* (FIN 48 or Interpretation) that was effective for fiscal years beginning after December 15, 2006. FIN 48 clarifies how an enterprise should recognize, measure, present and disclose in its financial statements uncertain tax positions that the enterprise has taken or expects to take on a tax return. Under the Interpretation, the financial statements reflect expected future tax consequences of income tax positions presuming the relevant taxing authority's full knowledge of the position and all relevant facts, but without considering time values. FIN 48 is applicable to all uncertain positions for taxes accounted for under FASB Statement No. 109. The Association adopted FIN 48 on January 1, 2007 and determined that interest and penalties would be classified as a component of income taxes.

There were no uncertain positions for income taxes at January 1, 2007 identified as a result of the adoption and therefore no cumulative adjustment to beginning members' equity was required. The tax years that remain open for federal and major state income tax jurisdictions are 2004 and forward.

On September 29, 2006, the FASB issued Statement of Financial Accounting Standards No. 158, *"Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans."* The Standard 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 changes in that funded status in the year in which the changes occur through other comprehensive income. The Standard further requires the determination of the fair value of plan assets at year-end and recognition of actuarial gains and losses, prior service costs or credits, and transition assets and obligations as a component of other comprehensive income. In addition, this Standard requires that the funded status of a plan be measured as of the date of the year-end financial statements. Currently, the District uses 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 Association has various defined benefit pension and other postretirement benefit plans. These plans are classified as either single employer plans or multi-employer plans. For single employer defined benefit Association plans, adoption of FAS 158 impacted the Association's Consolidated Financial Statements. For multi-employer Association plans in which the Association participates, adoption of FAS 158 and corresponding impact was recorded at a District level and is not reflected directly in the Association's Consolidated Financial Statements. See Note 11, Employee Benefit Plans, of the Consolidated Financial Statements, for further information regarding the impact of the adoption of FAS 158 on the current period for the Association's supplemental retirement plan.

In September 2006, the FASB also issued Statement of Financial Accounting Standards No. 157, *"Fair Value Measurements."* This Statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. As a result, there is now a common definition of fair value to be used throughout generally accepted accounting principles. The FASB believes that the new standard will make the measurement of fair value more consistent and comparable and improve disclosures about those measures. This Statement clarifies that the term fair value is intended to mean a market-based measure, not an entity-specific measure. In measuring fair value for a financial statement item, the Statement sets forth a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The highest priority is given to quoted prices in active markets and the lowest priority to unobservable inputs. Additional disclosure requirements will be required for the lowest priority level. The Statement became effective as of January 1, 2008, and will be applied to the Association's Consolidated Financial Statements on a prospective basis.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, "*Fair Value Option for Financial Assets and Financial Liabilities.*" The Standard permits entities to choose on an instrument-by-instrument basis, at specified election dates, to measure financial assets and liabilities and certain other items at fair value (the "fair value option"). Unrealized gains and losses on items for which the fair value option has been elected must be reported in earnings at each subsequent reporting date. Upfront costs and fees related to items for which the fair value option is elected shall be recognized in earnings as incurred and not deferred. This Standard became effective as of January 1, 2008. The Association has not made any elections under the fair value option, thus there will be no impact of the initial adoption of the Standard. However, the Association may elect to apply the fair value option to financial instruments acquired in future periods.

Note 3 — Investment Securities

A summary of the amortized cost and fair value of investment securities held-to-maturity at December 31, 2007, 2006 and 2005 follows:

	December 31, 2007				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Asset backed securities	$ 30,247	$ 177	$ (276)	$ 30,148	5.30%

	December 31, 2006				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Asset backed securities	$ 38,704	$ 167	$ (484)	$ 38,387	8.51%

	December 31, 2005				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Asset backed securities	$ 34,682	$ 160	$ (834)	$ 34,008	7.00%

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, 2007. 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. 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	$ 38	$ (1)	$ 11,534	$ (276)

A summary of the expected maturity, amortized cost and estimated fair value of investment securities at December 31, 2007, follows:

	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	$ 16	$ 16	6.70%
After one year through five years	2,316	2,311	5.36
After five years through ten years	12,190	12,182	5.71
After ten years	15,725	15,639	4.85
Total	$ 30,247	$ 30,148	5.30%

Note 4 — Loans and Allowance for Loan Losses

A summary of loans follows:

	December 31, 2007	2006	2005
Real estate mortgage	$ 191,299	$ 189,594	$ 245,656
Production and intermediate term	128,366	103,307	104,904
Loans to cooperatives	2,482	1,879	2,520
Processing and marketing	9,885	20,200	15,913
Farm related business	3,335	2,998	4,417
Communication	–	975	985
Energy	3,586	3,827	4,132
Rural residential real estate	30,710	26,392	21,872
Total loans	$ 369,663	$ 349,172	$ 400,399

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, 2007, 2006 and 2005 consisted of the following commodity types:

Commodity Type	December 31, 2007	2006	2005
Horticulture	30.90%	31.73%	22.87%
Fruits and Vegetables	18.43	19.50	24.55
Citrus	14.68	13.48	22.26
Livestock	14.52	14.79	15.08
Rural Home	6.07	5.83	3.38
Dairy	1.31	.87	1.46
Other	14.09	13.80	10.40
Total	100.00%	100.00%	100.00%

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, 2007	2006	2005
Nonaccrual loans:			
Current as to principal and interest	$ 454	$ 45	$ 248
Past due	4,356	3,474	2
Total nonaccrual loans	4,810	3,519	250
Impaired accrual loans:			
Restructured accrual loans	172	199	523
Accrual loans 90 days or more past due	–	–	–
Total impaired accrual loans	172	199	523
Total impaired loans	$ 4,982	$ 3,718	$ 773

There were no material commitments to lend additional funds to debtors whose loans were classified as impaired at December 31, 2007.

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, 2007	2006	2005
Interest income recognized on nonaccrual loans	$ 34	$ 28	$ 27
Interest income on impaired accrual loans	3	1	4
Interest income recognized on impaired loans	$ 37	$ 29	$ 31

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

	2007	2006	2005
Impaired loans with related allowance	$ 903	$ 856	$ 30
Impaired loans with no related allowance	4,079	2,862	743
Total impaired loans	$ 4,982	$ 3,718	$ 773
Allowance on impaired loans	$ 139	$ 105	$ 30

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

	2007	2006	2005
Average impaired loans	$ 4,251	$ 2,852	$ 298

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,		
	2007	2006	2005
Interest income which would have been recognized under the original loan terms	$ 341	$ 265	$ 32
Less: interest income recognized	34	28	27
Foregone interest income	$ 307	$ 237	$ 5

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

	Year Ended December 31,		
	2007	2006	2005
Balance at beginning of year	$ 1,639	$ 2,133	$ 1,954
Charge-offs:			
Production and intermediate term	(73)	(3)	(3)
Agribusiness	–	(6)	–
Total charge-offs	(73)	(9)	(3)
Recoveries:			
Production and intermediate term	15	18	114
Agribusiness	12	109	–
Total recoveries	27	127	114
Net (charge-offs) recoveries	(46)	118	111
Provision for (reversal of allowance for) loan losses	(120)	(612)	68
Balance at end of year	$ 1,473	$ 1,639	$ 2,133
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	(0.01)%	0.03%	0.03%

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

	December 31, 2007		December 31, 2006		December 31, 2005	
	Amount	%	Amount	%	Amount	%
Real estate mortgage	$ 763	51%	$ 891	54%	$ 1,308	61%
Production and intermediate term	512	35	485	30	559	26
Agribusiness	62	5	117	7	122	6
Communication	–	–	5	–	5	–
Energy	14	1	18	1	22	2
Rural residential real estate	122	8	123	8	117	5
Total	$ 1,473	100%	$ 1,639	100%	$ 2,133	100%

Note 5 — 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 6 — Premises and Equipment

Premises and equipment consisted of the following:

	December 31,		
	2007	2006	2005
Land	$ 224	$ 224	$ 224
Buildings and improvements	842	831	814
Furniture and equipment	1,263	1,261	1,218
	2,329	2,316	2,256
Less: accumulated depreciation	1,330	1,177	1,149
Total	$ 999	$ 1,139	$ 1,107

The Association is obligated under various noncancellable operating leases for offices. At December 31, 2007, future minimum lease payments for all noncancellable operating leases are as follows:

2007	$ 333
2008	341
2009	328
2010	338
2011	348
Subsequent years	1,499
Total minimum lease payments	$ 3,187

Note 7 — Other Property Owned

Net gains (losses) on other property owned consists of the following:

	December 31,		
	2007	2006	2005
Gains (losses) on sale, net	$ –	$ –	$ –
Carrying value adjustments	–	–	–
Operating expense (income), net	1	–	–
Gains (losses) on other property owned, net	$ (1)	$ –	$ –

Note 8 — 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 5.81 percent for LIBOR-based loans, 5.74 percent for Prime-based loans, and the weighted average remaining maturities were 4.0 years and 3.8 years, respectively, at December 31, 2007. The weighted average interest rate on the fixed rate and adjustable rate mortgage (ARM) loans which are match funded by the Bank was 5.97 percent and the weighted average remaining maturity was 9.3 years at December 31, 2007. The weighted average interest rate on all interest-bearing notes payable was 5.89 percent and the weighted average remaining maturity was 7.1 years at December 31, 2007.

Variable rate and fixed rate notes payable represent approximately 27.78 percent and 72.22 percent, respectively, of total notes payable at December 31, 2007.

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, 2007, the Association's notes payable were within the specified limitations.

Note 9 — 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 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, 2007 were 15.49 percent, 14.49 percent and 11.67 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, 2007:

		Shares Outstanding	
Class	**Protected**	**Number**	**Aggregate Par Value**
B Common/Nonvoting	Yes	11,428	$ 57
C Common/Voting	No	208,234	1,041
B Participation Certificates/Nonvoting	Yes	1,355	7
C Participation Certificates/Nonvoting	No	45,180	226
Total Capital Stock and Participation Certificates		266,197	$ 1,331

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.

At December 31, 2007, allocated members' equity consisted of $14,581 of qualified and $18,930 of nonqualified allocated surplus distributions. Nonqualified distributions are tax deductible only when redeemed.

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 and 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.

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.

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:

a) ***First***, Assistance Preferred Stock issued and outstanding (if any);

b) ***Second***, allocated surplus evidenced by nonqualified written notices of allocation, in its entirety, with application to most recent allocation first and then in reverse order until all such allocated surplus has been exhausted;

c) ***Third***, allocated surplus evidenced by qualified written notices of allocation, in its entirety, with application to most recent allocation first and then in reverse order until all such allocated surplus has been exhausted;

d) ***Fourth***, Class A Common and Class B Common Stock, Class C Common Stock, Class E Common Stock, Class C Participation Certificates and Class B Participation Certificates issued and outstanding, pro rata until such stock is fully impaired;

e) ***Fifth***, Class A Preferred and Class D Preferred Stock issued and outstanding, if any.

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:

a) ***First***, to the holders of Class A Preferred and Class D Preferred Stock until an amount equal to the aggregate par value of all shares of said stock then issued and outstanding has been distributed to such holders;

b) ***Second***, to the holders of Class A Common, Class B Common, Class C Common Stock, Class E Common Stock, and Class B Participation Certificates and Class C Participation Certificates, pro rata in proportion to the number of shares or units of each such class of stock or participation certificate then issued and outstanding, until an amount equal to the aggregate par value or face amount of all such shares or units has been distributed to such holders;

c) ***Third***, to the holders of allocated surplus evidenced by qualified written notices of allocation, in the order of year of issuance and pro rata by year of issuance, until the total amount of such allocated surplus has been distributed;

d) ***Fourth***, to the holders of allocated surplus evidenced by nonqualified written notices of allocation, in the order of year of issuance and pro rata by year of issuance, until the total amount of such allocated surplus has been distributed;

e) ***Fifth***, in so far as practicable, all unallocated surplus issued after April 15, 1999, shall be distributed to Patrons of the Association from the period beginning April 15, 1999, through the date of liquidation, on a patronage basis; and

f) ***Sixth***, any remaining assets of the Association after such distributions 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.

All distributions to the holders of any class of stock and/or participation certificate holders shall be made pro rata 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) (OCI) in its consolidated statements of changes in members' equity. The Association recognized OCI of $303 in 2007 adopting FAS 158 (see Note 11, Employee Benefit Plans, for further information).

Note 10 — Income Taxes

The provision (benefit) for income taxes follows:

	Year Ended December 31, 2007	2006	2005
Current:			
Federal	$ –	$ –	$ 24
State	–	–	4
	–	–	28
Deferred:			
Federal	–	12	24
State	–	1	4
	–	13	28
Total provision (benefit) for income taxes	$ –	$ 13	$ 56

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, 2007	2006	2005
Federal tax at statutory rate	$ 4,213	$ 3,902	$ 3,323
State tax, net	–	1	5
Effect of non-taxable FLCA subsidiary	(3,948)	(3,127)	(2,521)
Patronage distributions	(1,586)	(1,228)	(707)
Change in valuation allowance	2,672	530	24
Other	(1,351)	(65)	(68)
Provision (benefit) for income taxes	$ –	$ 13	$ 56

Deferred tax assets and liabilities result from the following at:

	December 31, 2007	2006	2005
Deferred income tax assets:			
Allowance for loan losses	$ 220	$ 274	$ 261
Net operating loss – carryforward	3,055	334	–
Annual leave	–	–	49
Nonaccrual loan interest	11	6	–
Pensions and other postretirement benefits	–	–	309
Deferred incentive	–	–	16
Other	–	–	11
Gross deferred tax assets	3,286	614	646
Less: valuation allowance	(3,226)	(554)	(24)
Gross deferred tax assets, net of valuation allowance	60	60	622
Deferred income tax liabilities:			
Loan origination fees	(60)	(60)	(60)
Pensions and other postretirement benefits	–	–	(548)
Gross deferred tax liability	(60)	(60)	(608)
Net deferred tax asset (liability)	$ –	$ –	$ 14

At December 31, 2007, deferred income taxes have not been provided by the Association on approximately $1.2 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.

The Association recorded a valuation allowance of $3,226, $554 and $24 during 2007, 2006 and 2005, respectively. The Association will continue to evaluate the realizability of these deferred tax assets and adjust the valuation allowance accordingly.

The Association adopted the provisions of the Financial Accounting Standards Board Interpretation No. 48, “Accounting for Uncertainty in Income Taxes,” on January 1, 2007. As a result of the adoption, there were no uncertain positions for income taxes identified and therefore the Association recognized no change in the liability for unrecognized tax benefits and no reduction to the January 1, 2007 balance of retained earnings. The Association recognizes interest and penalties related to unrecognized tax benefits as a component of income tax expense. There were no uncertain tax positions identified related to the current year. The tax years that remain open for federal and major state income tax jurisdictions are 2004 and forward.

Note 11 — 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. As a participant in the District's defined benefit plan, the Association funded $0 for 2007, $1 for 2006, and $733 for 2005, through its note payable to the Bank. Plan expenses included in salaries and employee benefits were $462 for 2007, $527 for 2006, and $527 for 2005.

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. Postretirement benefits other than pensions (primarily health care benefits) included in salaries and employee benefits were $162 for 2007, $173 for 2006 and $333 for 2005.

Under SFAS 158, accounting for the impact of the adoption of the standard follows the plan sponsor, which is at the District entity level for the Districtwide benefit plans in which the Association participates. Therefore, there is no impact to the Association's financial statements for the adoption of SFAS 158 for the two defined benefit plans discussed above.

Additional financial information for the District sponsored plans may be found in Notes to the Combined Financial Statements of AgFirst Farm Credit Bank and District Associations' 2007 Annual Report.

During 2007, the Association adopted a supplemental defined benefit executive plan for its retiring CEO. The supplemental defined benefit executive plan is unfunded and had a projected benefit obligation of $303 and a net under-funded status of $303 at December 31, 2007. The weighted average assumption used to determine the projected benefit obligation included a discount rate of 6.40 percent. Pursuant to SFAS 158, the Association recorded a charge to Other Comprehensive Income and an addition to Other liabilities of $303.

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. Employer contributions to this plan were $189, $175, and $136 for the years ended December 31, 2007, 2006 and 2005, respectively.

Note 12 — 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 Administrative Board cancelled the Financial Assistance Corporation's charter as of December 31, 2006.

Note 13 — 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, 2007 amounted to $6,995. During 2007, $337 of new loans were made and repayments totaled $2,018. In the opinion of management, none of these loans outstanding at December 31, 2007 involved more than a normal risk of collectibility.

Note 14 — 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, 2007, $75,433 of commitments to extend credit and $0 of 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. At December 31, 2007, the Association had outstanding $6,749 of standby letters of credit, with expiration dates ranging from January 5, 2008 to June 5, 2011. The maximum potential amount of future payments the Association may be required to make under these existing guarantees is $6,749.

A guarantor is required to recognize at the inception of a guarantee, a liability for the fair value of the guarantee commitment. The Association has determined the fair value of the guarantee commitment based upon the fees to be earned over the life of the guarantee. The fair value is updated periodically to reflect changes in individual guarantee amounts and the remaining life to maturity of the individual guarantees in the Association's inventory. At December 31, 2007, the Association's inventory of standby letters of credit had a fair value of $143.

Note 15 — 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, 2007, 2006 and 2005. 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, 2007		December 31, 2006	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Cash	$ 72	$ 72	$ 63	$ 63
Loans	$ 369,663	$ 374,806	$ 349,172	$ 352,510
Allowance for loan losses	1,473	–	1,639	–
Loans, net	$ 368,190	$ 374,806	$ 347,533	$ 352,510
Investment securities	$ 30,247	$ 30,148	$ 38,704	$ 38,387
Financial liabilities:				
Notes payable to AgFirst Farm Credit Bank	$ 343,677	$ 346,600	$ 334,575	$ 333,609

	December 31, 2005	
	Carrying Amount	Estimated Fair Value
Financial assets:		
Cash	$ 799	$ 799
Loans	$ 400,399	$ 399,614
Allowance for loan losses	2,133	–
Loans, net	$ 398,266	$ 399,614
Investment securities	$ 34,682	$ 34,008
Financial liabilities:		
Notes payable to AgFirst Farm Credit Bank	$ 374,294	$ 369,964

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 market 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 stock is not traded. As described in Note 5, 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 4.80 percent of the issued stock of the Bank as of December 31, 2007 net of any reciprocal investment. As of that date, the Bank's assets totaled $26.9 billion and shareholders' equity totaled $1,457 million. The Bank's earnings were $192 million during 2007.

   In addition, the Association has an investment of $276 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.

Note 16 — Quarterly Financial Information (Unaudited)

Quarterly results of operations for the years ended December 31, 2007, 2006 and 2005 follow:

	2007				
	First	**Second**	**Third**	**Fourth**	**Total**
Net interest income	$ 2,666	$ 2,534	$ 2,691	$ 2,645	$ 10,536
Provision for (reversal of allowance for) loan losses	–	(100)	(150)	130	(120)
Noninterest income (expense), net	179	282	143	1,130	1,734
Net income (loss)	$ 2,845	$ 2,916	$ 2,984	$ 3,645	$ 12,390

	2006				
	First	**Second**	**Third**	**Fourth**	**Total**
Net interest income	$ 2,857	$ 3,044	$ 3,088	$ 2,882	$ 11,871
Provision for (reversal of allowance for) loan losses	–	–	(112)	(500)	(612)
Noninterest income (expense), net	(592)	(558)	(377)	508	(1,019)
Net income (loss)	$ 2,265	$ 2,486	$ 2,823	$ 3,890	$ 11,464

	2005				
	First	**Second**	**Third**	**Fourth**	**Total**
Net interest income	$ 2,468	$ 2,598	$ 2,687	$ 2,861	$ 10,614
Provision for (reversal of allowance for) loan losses	–	–	68	–	68
Noninterest income (expense), net	(557)	(600)	(90)	418	(829)
Net income (loss)	$ 1,911	$ 1,998	$ 2,529	$ 3,279	$ 9,717