

**NINTH FARM CREDIT DISTRICT FLEXIBLE WELFARE  
BENEFITS PLAN**

**FINANCIAL STATEMENTS – MODIFIED CASH BASIS**

Years Ended December 31, 2006 and 2005



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## **INDEPENDENT AUDITORS' REPORT**

To the Trust Committee of the

### **NINTH FARM CREDIT DISTRICT FLEXIBLE WELFARE BENEFITS PLAN**

We have audited the accompanying statements of net assets available for benefits – modified cash basis of the Ninth Farm Credit District Flexible Welfare Benefits Plan (the "Plan") as of December 31, 2006 and 2005, and the related statements of changes in net assets available for benefits – modified cash basis for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 1, these financial statements were prepared on a modified cash basis of accounting, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial status of the Plan as of December 31, 2006 and 2005, and the changes in its financial status for the years then ended on the modified cash basis of accounting, as described in Note 1 of the Notes to Financial Statements.

*Mayer Hoffman McCann P.C.*

Wichita, Kansas  
August 20, 2007

**NINTH FARM CREDIT DISTRICT FLEXIBLE WELFARE BENEFITS PLAN**

**STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS –  
MODIFIED CASH BASIS**

December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
<b><u>ASSETS</u></b>		
Investments, at fair value	\$ 943,440	\$ 655,895
Prepaid expenses	<u>-</u>	<u>655</u>
 NET ASSETS AVAILABLE FOR BENEFITS	 <u>\$ 943,440</u>	 <u>\$ 656,550</u>

See Notes to Financial Statements

**NINTH FARM CREDIT DISTRICT FLEXIBLE WELFARE BENEFITS PLAN**  
**STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS –**  
**MODIFIED CASH BASIS**

Years Ended December 31, 2006 and 2005

	<b>2006</b>	<b>2005</b>
<b>ADDITIONS (REDUCTIONS)</b>		
Additions (reductions) to net assets attributed to:		
Net depreciation in fair value of investments	\$ (1,116)	\$ (10,777)
Interest	14,068	9,080
Dividends	14,272	19,249
	<u>27,224</u>	<u>17,552</u>
Contributions:		
Employer	7,521,268	6,217,573
Participants	1,343,636	1,468,235
	<u>8,864,904</u>	<u>7,685,808</u>
<b>TOTAL ADDITIONS</b>	<u>8,892,128</u>	<u>7,703,360</u>
<b>DEDUCTIONS</b>		
Deductions from net assets attributed to:		
Medical and dental claims	6,312,923	6,025,139
Insurance premiums	1,398,236	1,500,214
Death benefit claims	30,000	25,000
Administrative expenses	864,079	858,149
	<u>8,605,238</u>	<u>8,408,502</u>
<b>TOTAL DEDUCTIONS</b>	<u>8,605,238</u>	<u>8,408,502</u>
<b>NET INCREASE (DECREASE)</b>	<u>286,890</u>	<u>(705,142)</u>
<b>NET ASSETS AVAILABLE FOR BENEFITS</b>		
Beginning of year	<u>656,550</u>	<u>1,361,692</u>
End of year	<u>\$ 943,440</u>	<u>\$ 656,550</u>

See Notes to Financial Statements

# NINTH FARM CREDIT DISTRICT FLEXIBLE WELFARE BENEFITS PLAN

## NOTES TO FINANCIAL STATEMENTS

### (1) Description of plan

The following description of the Ninth Farm Credit District Flexible Welfare Benefits Plan (the "Plan") provides only general information. Participants should refer to the Plan agreement for a more complete description of the Plan's provisions.

**General** – The Plan was created for the purpose of providing eligible employees and retirees of the former Ninth Farm Credit District, as well as their dependents or designated beneficiaries with medical, dental and other health benefits. All full-time and part-time employees who meet the eligibility requirements may participate in the Plan beginning on the first day of the month following one full month of employment.

**Contributions** – Employer and participant contributions are made in amounts necessary to provide the benefits expected to be payable under the Plan and any premiums necessary to fund such benefits. Such contributions are actuarially determined and are paid at such times and in such amounts as are reasonably necessary to fund the liabilities of the Plan.

The Plan has a "flexible benefit" approach allowing each participant to choose how employer contributions made on their behalf will be spent. Options available through the Plan include medical, dental, long-term disability, accidental death and dismemberment, cancer, personal recovery plan, group universal life, dependent life, vision, flexible spending accounts for medical and dependent care expenses and health savings accounts. Participant contributions toward these benefits are deducted from salary on a pre-tax basis with the exception of group universal life, dependent life and long-term disability coverages. The Plan also provides medical benefits for retired and terminated employees who meet the eligibility requirements as set forth in the Plan document.

**Administration** – The Plan is administered by U.S. AgBank, FCB and the Ninth Farm Credit District Trust Committee serves as Trustee. A third-party administrator is used to process claims and make claim payments on behalf of the Plan.

Certain administrative expenses of the Plan are paid with Plan assets. These expenses include primarily claims processing, actuary fees and legal fees. Staff costs directly related to administering the plan are paid by the Trust.

**Basis of accounting** – The accounting records of the Plan are maintained on the modified cash basis with the adjustment, if any, of investments from cost to aggregate fair value. Consequently, certain revenues are recognized when received rather than when earned and certain expenses are recognized when paid rather than when the obligation is incurred. Accordingly, the accompanying financial statements are not intended to present financial position and results of operations in conformity with U.S. generally accepted accounting principles.

### (2) Summary of significant accounting policies

**Use of Estimates** – The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires the Sponsors to make estimates and assumptions that affect certain reported amounts of assets and liabilities and changes therein, and disclosures of contingent assets and liabilities. Accordingly, actual results may differ from those estimates.

**NINTH FARM CREDIT DISTRICT FLEXIBLE WELFARE BENEFITS PLAN**

**NOTES TO FINANCIAL STATEMENTS**

**(2) Summary of significant accounting policies (continued)**

**Investment valuation and income recognition** - The Plan's investments are stated at fair value. Quoted market prices are used to value investments. Therefore, the statement of changes in net assets available for benefits includes both realized and unrealized gains and losses. Purchases and sales of securities are recorded on a trade-date basis. Interest and dividends are recorded when received.

**(3) Related party transactions**

Certain Plan investments are shares of mutual funds managed by State Street Bank and Trust Company (State Street). State Street is the trustee as defined by the Plan and, therefore, these transactions qualify as related party transactions. Fees paid by the Plan for the investment management services amounted to \$8,873 and \$8,154 for the years ended December 31, 2006 and 2005, respectively.

**(4) Investments**

The Plan's investments consist of mutual funds and money market funds. The following presents the fair value of investments for the years ended 2006 and 2005:

	<u>December 31, 2006</u>	
	<u>Net Increase (Decrease) During Year</u>	<u>Fair Value at end of Year</u>
Fair value as determined by quoted market price:		
Mutual fund		
PIMCO Low Duration Equity Fund	\$ (1,116) *	\$ 552,977
Cash equivalents		
** State Street Prime Cash Management Fund	153,922 *	<u>390,463</u>
Total investments at fair value		<u><u>\$ 943,440</u></u>

**NINTH FARM CREDIT DISTRICT FLEXIBLE WELFARE BENEFITS PLAN**

**NOTES TO FINANCIAL STATEMENTS**

**(4) Investments (continued)**

	<u>December 31, 2005</u>	
	<u>Net Increase (Decrease) During Year</u>	<u>Fair Value at end of Year</u>
Fair value as determined by quoted market price:		
Mutual fund		
PIMCO Low Duration Equity Fund	\$ (10,777) *	\$ 419,354
Cash equivalents		
** State Street Prime Cash Management Fund	(192,398) *	<u>236,541</u>
Total investments at fair value		<u>\$ 655,895</u>

\* - Represents Investments that exceeded 5% of net assets available for benefits.

\*\* - Represents a related party.

**(5) Benefit obligations**

The amount reported as the postretirement benefit obligation represents the actuarial present value of those estimated future benefits that are attributed by the terms of the Plan to employees' service rendered to the date of the financial statements, reduced by the actuarial present value of contributions expected to be received in the future from current Plan participants. Postretirement benefits include future benefits expected to be paid to or for (a) currently retired or terminated employees and their beneficiaries and dependents and (b) active employees and their beneficiaries and dependents after retirement from service with participating employers. The postretirement benefit obligation represents the amount that is to be funded by contributions from the Plan's participating employers and from existing Plan assets. Prior to an active employee's full eligibility date, the postretirement benefit obligation is the portion of the expected postretirement benefit obligation that is attributed to that employee's service rendered to the valuation date.

The actuarial present value of the expected postretirement benefit obligation is determined by an actuary and is the amount that results from applying actuarial assumptions to historical claims-cost data to estimate future annual incurred claims costs per participant and to adjust such estimates for the time value of money (through discounts for interest) and the probability of payment (by means of decrements such as those for death, disability, withdrawal or retirement) between the valuation date and the expected date of payment.

**NINTH FARM CREDIT DISTRICT FLEXIBLE WELFARE BENEFITS PLAN**

**NOTES TO FINANCIAL STATEMENTS**

**(5) Benefit obligations - continued**

For measurement purposes, a 7.5% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2006; the rate was assumed to decrease gradually to 5.5% for 2008 and to remain at that level thereafter. These assumptions are consistent with those used to measure the benefit obligation at December 31, 2005.

The following are other significant assumptions used in the valuations as of December 31, 2006 and 2005:

	<b>December 31,</b>	
	<b>2006</b>	<b>2005</b>
Weighted-average discount rate	5.25%	6.00%
Average retirement age	15% at age 55 5% at ages 56-61 20% at age 62 10% at ages 63-64 100% by age 65	5% at ages 55-61 20% at age 62 10% at ages 63-64 100% by age 65
Mortality	RP2000 Combined Healthy Participant	RP2000 Combined Healthy Participant

The foregoing assumptions are based on the presumption that the Plan will continue. Were the Plan to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of the postretirement benefit obligation.

The Plan's benefit obligations for the years ended 2006 and 2005 include the following:

	<b>December 31,</b>	
	<b>2006</b>	<b>2005</b>
Health claims payable and estimated incurred but not reported as claims	\$ 533,166	\$ 275,032
Postretirement benefit obligations, net of amounts currently payable		
Current retirees	5,877,810	6,165,065
Active plan participants	4,611,026	5,022,487
	<u>10,488,836</u>	<u>11,187,552</u>
Total benefit obligation	<u>\$ 11,022,002</u>	<u>\$ 11,462,584</u>

The changes in the Plan's benefit obligations for the years ended 2006 and 2005 are detailed below:

**NINTH FARM CREDIT DISTRICT FLEXIBLE WELFARE BENEFITS PLAN**

**NOTES TO FINANCIAL STATEMENTS**

**(5) Benefit obligations - continued**

	<u>December 31,</u>	
	<u>2006</u>	<u>2005</u>
Health claims payable and estimated incurred but not reported as claims		
Balance at beginning of year	\$ 275,032	\$ 323,323
Claims reported and approved for payment, including benefits reclassified from benefit obligations	6,447,349	5,927,736
Claims paid	<u>(6,189,215)</u>	<u>(5,976,027)</u>
Balance at end of year	<u>533,166</u>	<u>275,032</u>
Postretirement benefit obligations, net of amounts currently payable		
Balance at beginning of year	11,187,552	9,985,394
Increase (decrease) in postretirement benefits attributable to:		
Benefits earned	273,360	250,305
Benefits reclassified to amounts currently payable	(564,153)	(495,867)
Interest	575,534	590,124
Plan amendment	(289,990)	-
Special termination benefits	-	13,864
Changes in actuarial assumptions and other actuarial gains and losses	<u>(693,467)</u>	<u>843,732</u>
Balance at end of year	<u>10,488,836</u>	<u>11,187,552</u>
Plan's total benefit obligations at end of year	<u>\$ 11,022,002</u>	<u>\$ 11,462,584</u>

The Plan's excess of benefit obligations over net assets at December 31, 2006 and 2005 relates primarily to the postretirement benefit obligation. It is expected that the excess obligations will be funded through employer contributions.

The weighted-average health care cost-trend rate assumption has a significant effect on the amounts reported in the accompanying financial statements. If the assumed rates increased or decreased by one percentage point in each year, it would increase or decrease the obligation as of December 31, 2006 and 2005, by:

**NINTH FARM CREDIT DISTRICT FLEXIBLE WELFARE BENEFITS PLAN**

**NOTES TO FINANCIAL STATEMENTS**

**(5) Benefit obligations - continued**

	<u>December 31, 2006</u>	
	<u>1% Increase</u>	<u>1% Decrease</u>
Effect on total service cost and interest cost	\$ <u>72,955</u>	\$ <u>(62,911)</u>
Effect of postretirement benefit obligation	\$ <u>596,297</u>	\$ <u>(519,102)</u>
	<u>December 31, 2005</u>	
	<u>1% Increase</u>	<u>1% Decrease</u>
Effect on total service cost and interest cost	\$ <u>7,173</u>	\$ <u>(8,188)</u>
Effect of postretirement benefit obligation	\$ <u>64,905</u>	\$ <u>(73,892)</u>

**(6) Subsequent event**

On August 6, 2006, the Trustees of the Plan, voted to consolidate the employee benefit plans of the Company with AgriBank, FCB and its affiliated Associations. Effective January 1, 2007, U.S. AgBank, FCB and its affiliated Associations, AgriBank, FCB and its affiliated Associations, and certain other Farm Credit System employers will enter into the Farm Credit System Administrative Agreement Regarding Employee Benefit Plans in order to provide a common set of employee benefit plans to their employees and their eligible dependents. As a result, the Company's employee benefit plans (or a portion thereof) will be amended, and/or restated or terminated.

Effective January 1, 2007, AgriBank, FCB and U.S. AgBank, FCB, as employer, will establish the Farm Credit Foundations Welfare Benefit Trust with the Farm Credit Foundations Trust Committee as Trustee.

All welfare benefit plans of the Plan will be terminated as of December 31, 2006. The Ninth Farm Credit District Employee Welfare Benefit Trust will remain open to pay claims incurred during 2006 but not paid until 2007 and will not be terminated until all 2006 claims have been paid. On December 31, 2007, the Ninth Farm Credit District Employee Welfare Benefit Trust will determine if all outstanding 2006 claims have been paid and if the trust can therefore be terminated. After all claims have been paid, any remaining balance in the Ninth Farm Credit District Employee Welfare Benefit Trust will be transferred to the Farm Credit Foundations Welfare Benefit Trust, which was created as a pre-paid credit. Pre-paid credits will be used to reduce 2008 employer premiums and will be allocated to each employer based their respective 2006 welfare benefit trust contributions compared to the total of all 2006 employer welfare benefit trust contributions. After the remaining balance in the Ninth Farm Credit District Employee Welfare Benefit Trust has been transferred to the Farm Credit Foundations Welfare Benefit Trust, the Ninth Farm Credit District Employee Welfare Benefit Trust will be terminated.

# NINTH FARM CREDIT DISTRICT FLEXIBLE WELFARE BENEFITS PLAN

## NOTES TO FINANCIAL STATEMENTS

### (7) Tax status

The trust established under the Plan to hold the Plan's assets is qualified pursuant to Section 501(c)(9) of the Internal Revenue Code and, accordingly, the trust's net investment income is exempt from income taxes. Although the Plan has been amended, the Plan administrator and the Plan's tax counsel believe that the Plan is designed and is currently being operated in compliance with the applicable requirements of the IRC. The Plan is also exempt from the requirements of the Employee Retirement Income Security Act of 1974 (ERISA).

### (8) Risks and uncertainties

The Plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of net assets available for benefits.

The actuarial present value of benefit obligations is reported based on certain assumptions pertaining to interest rates, health care inflation rates, and employee demographics, all of which are subject to change. Due to uncertainties inherent in the estimations and assumptions process, it is at least reasonably possible that changes in these estimates and assumptions in the near term would be material to the financial statements.