

# FEDERAL LAND BANK ASSOCIATION OF SOUTH ALABAMA, FLCA

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## 2009 Quarterly Report 1st Quarter



**For the Quarter Ended March 31, 2009**



Part of the Farm Credit System

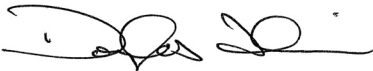
## REPORT OF MANAGEMENT

The financial statements of the Federal Land Bank Association of South Alabama, FLCA (Association) are prepared by management, who are responsible for the statements' integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The financial statements have been prepared in conformity with generally accepted accounting principles appropriate in the circumstances. Other financial information included in the quarterly report is consistent with that in the financial statements.

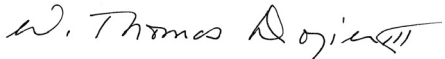
To meet its responsibility for reliable financial information, management depends on the Farm Credit Bank of Texas' (Bank) and the Association's accounting and internal control systems, which have been designed to provide reasonable, but not absolute, assurance that assets are safeguarded and transactions are properly authorized and recorded. The systems have been designed to recognize that the cost of controls must be related to the benefits derived. The annual financial statements are audited by PricewaterhouseCoopers LLP, independent accountants, who conduct a review of internal controls solely for the purpose of establishing a basis for reliance thereon in determining the nature, extent and timing of audit tests applied in the audit of the financial statements in accordance with generally accepted auditing standards. The Association is also examined by the Farm Credit Administration.

The audit committee of the board of directors has oversight responsibility for the Association's system of internal controls and financial reporting. The audit committee consults regularly with management and meets periodically with the independent auditors and the internal auditor to review the scope and results of their work. The independent auditors and internal auditor have direct access to the audit committee.

The undersigned certify that, to the best of our knowledge and belief, the financial statements and other financial information included in this quarterly report reliably present the financial condition of the Federal Land Bank Association of South Alabama, FLCA and the results of its operations for the periods shown.



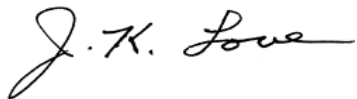
Douglas Thiessen  
President/Chief Executive Officer  
April 29, 2009



W. Thomas Dozier, III  
Chairman, Board of Directors  
April 29, 2009



M. Scott Sellers, CPA  
Sr.VP/Chief Financial Officer  
April 29, 2009



J.K. Love, CPA  
Chairman, Audit Committee  
April 29, 2009

## **FEDERAL LAND BANK ASSOCIATION OF SOUTH ALABAMA, FLCA MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following commentary reviews the financial performance of the Federal Land Bank Association of South Alabama, FLCA (Federal Land Credit Association), referred to as the Association, for the quarter ended March 31, 2009. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2008 Annual Report of the Association.

The financial statements were prepared under the oversight of the Association's audit committee.

### **Results of Operations:**

The Association had net income of \$1,663,154 for the three months ended March 31, 2009, as compared to net income of \$2,950,352 for the same period in 2008 reflecting an decrease of 43.6 percent. Net interest income was \$4,090,239 for the three months ended March 31, 2009, compared to \$3,994,004 for the same period in 2008. Interest income for the first three months of 2009 decreased by \$1,176,515 or 12.3 percent from the first three months of 2008, primarily due to declines in yields on earning assets, offset partially by an increase in average loan volume. Interest expense for the first three months of 2009 decreased by \$1,272,750, or 22.9 percent, from the same period of 2008 due to a decrease in interest rates, offset by an increase in average debt volume. Average loan volume for the first quarter of 2009 was \$599,138,149, compared to \$548,148,209 in the first quarter of 2008.

Noninterest income for the three months ended March 31, 2009 decreased by \$267,774, or 30.8 percent, over the same period of 2008. This is due primarily to lower patronage income from Farm Credit Bank of Texas (the Bank) in the first three months of 2009 as compared to the first three months of 2008. This decrease in patronage is due almost entirely to the fact that in 2009, the Association began accruing less Direct Note patronage from the Bank on a monthly basis than in 2008. Accordingly, three months of estimated Direct Note patronage, to be received at year end, have been accrued into income as of March 31, 2008, but at a lesser amount than in the prior year. Also contributing to the decrease in noninterest income is a decrease in loan fees caused by proportionately lower activity in loan closings in the first quarter of 2009 compared to the first quarter of 2008.

Noninterest expenses for the three months ended March 31, 2009 increased by \$191,800, or 9.9 percent, as compared to the same period in 2008. The increase is due primarily to an increase in salaries and employee benefits costs and Farm Credit System Insurance Corporation (FCSIC) premium expense. The increase in salaries and employee benefits is primarily due to an increase in contributions to the defined benefit retirement plan, as well as the addition of two employees. For more information on the defined benefit plan, refer to the 2008 Annual

Report and Note 5, “Employee Benefit Plans,” to the financial statements, included in this quarterly report. FCSIC premiums increased on the basis of the Association having higher loan volume in the first quarter of 2009 than the first quarter of 2008.

The Association recorded no recoveries and \$722,029 in charge-offs for the quarter ending March 31, 2009, and no recoveries and \$35,004 in charge-offs for the same period in 2008. The Association’s allowance for loan losses was 0.2 percent and 0.1 percent of total loans outstanding as of March 31, 2009, and 2008, respectively.

The Association’s return on average assets for the three months ended March 31, 2009, was 1.07 and 2.08 percent for the same period in 2008. The Association’s return on average equity for the three months ended March 31, 2009, was 6.46 and 12.24 percent for the same period in 2008.

**Loan Portfolio:**

The Association makes and services loans, secured by a first lien on real estate, to farmers, ranchers, rural homeowners and certain farm-related businesses. The majority of the loans serviced by the Association contain provisions for variable interest rates and are long-term. Loans serviced by the Association offer several installment payment cycles, the timing of which usually coincides with the seasonal cash-flow capabilities of the borrower.

Total loans outstanding at March 31, 2009, stated at recorded investment (principle less funds held), were \$606,256,673 compared to \$593,982,063 at December 31, 2008, reflecting an increase of 2.1 percent. The major commodities within the Association’s loan portfolio are timber, poultry, cattle, and field crops.

The following table reflects the credit quality of the Association’s loan volume as of:

	<b>March 31, 2009</b>	<b>December 31, 2008</b>
Acceptable	<b>95.0 %</b>	96.2 %
Special Mention	<b>2.4 %</b>	1.9 %
Substandard	<b>2.6 %</b>	1.9 %
Total	<b>100.0 %</b>	100.0 %

**Risk Exposure:**

High-risk assets include nonaccrual loans, loans that are past due 90 days or more and still accruing interest, formally restructured loans and other property owned. The following table illustrates the Association’s components and trends of high-risk assets.

	<b>March 31, 2009</b>		December 31, 2008	
	<b>Amount</b>	<b>%</b>	Amount	%
Nonaccrual	<b>\$ 3,128,732</b>	<b>74.7%</b>	\$ 4,231,385	91.5%
90 days past due and still accruing interest	<b>301,301</b>	<b>7.2%</b>	129,691	2.8%
Formally restructured	-	<b>0.0%</b>	-	0.0%
Other property owned, net	<b>758,682</b>	<b>18.1%</b>	262,784	5.7%
Total	<b>\$ 4,188,715</b>	<b>100.0%</b>	\$ 4,623,860	100.0%

At March 31, 2009 loans that were considered impaired were \$3,430,033, compared to \$4,361,076 at December 31, 2008. This represents 0.6 percent and 0.7 percent of loan volume, respectively. Impaired loans consist of all high-risk assets except other property owned, net.

The Association originated a loan to one borrower through the Capital Markets of the South (CMS) and participated the loan to 13 other Farm Credit associations, with the Association serving as the lead lender. The original funded balance of the loan was \$68,500,000, and the Association retained 5.56 percent of the loan. In 2007, the loan was deemed to be nonaccrual due to its significant under collateralized position and a credit default. Accordingly, the Association began pursuing collection efforts, including liquidating part of the loan's collateral, which was applied to the outstanding balance for all participants. In addition, by the end of 2007 the Association, along with the four other CMS member associations, repurchased, on a pro-rata basis, the portions of the loan held by all other non-CMS participants. As part of loan repurchase transactions noted above, the Association received a general release from the non-CMS participants for claims related to the loan, and agreed to indemnify the non-CMS participants from any liability arising from legal proceedings related to the loan.

In 2008 collection efforts continued, resulting in legal judgments against the borrowers, allowing the Association to foreclose on portions of the real estate collateral, with sales proceeds being applied against the outstanding balance of the loan. The Association is still in process of foreclosing on the remaining portions of the real estate collateral. In addition, the borrowers have surrendered various other real and personal properties, all of which is to be liquidated and applied against the loan balance. All sales of remaining real estate collateral and other properties are expected to be completed in the first half of 2009.

During 2007, charge-offs of \$30,245,000 were recognized; the Association's portion of the 2007 charge-offs was \$4,812,212. No further charge-offs or allowance reserves were required to be recognized in 2008 or year to date 2009. As of March 31, 2009, the Association's portion of the loan's remaining book balance and allowance reserves were \$406,867 and \$279,022, respectively. For more information on impaired loans and the allowance for loan losses, see Note 2 to the financial statements, "Allowance for Loan Losses," included in this quarterly report.

## Liquidity and Funding Sources:

The Association secures the majority of its lendable funds from the Bank, which obtains its funds through the issuance of Systemwide obligations and with lendable equity. The following schedule summarizes the Association's borrowings.

	<b>March 31, 2009</b>	December 31, 2008
Note payable to the Bank	<b>\$ 518,258,491</b>	\$ 506,309,605
Accrued interest on note payable	<b>1,427,580</b>	1,687,429
Total	<b><u>\$ 519,686,071</u></b>	<b><u>\$ 507,997,034</u></b>

## Capital Resources:

The Association's capital position decreased by \$1,831,021 at March 31, 2009, compared to December 31, 2008. The Association's debt as a ratio to members' equity was 5.20:1 as of March 31, 2009, compared to 4.99:1 as of December 31, 2008.

In February 2009, the board declared a \$3,500,000 cash patronage to be paid to stockholders from the Association's 2008 earnings. The patronage distribution was completed in April 2009.

Under regulations governing minimum permanent capital adequacy and other capitalization issues, the Association is required to maintain a minimum adjusted permanent capital of seven percent of risk-adjusted assets as defined by the FCA. The Association's permanent capital ratio at March 31, 2009, was 15.4 percent, which is in compliance with the FCA's minimum permanent capital standard. The Association's core surplus ratio and total surplus ratio at March 31, 2009, were 14.8 and 14.8 percent, respectively, which is in compliance with the FCA's minimum surplus standard.

## Legal Proceedings:

In relation to the loan described in the "Risk Exposure" section of Management's Discussion and Analysis, above, the Association is involved in one lawsuit as of the date of this report. The overall character of the lawsuit is for damages incurred by the Association as a result of alleged wrongful acts of the borrower and other third-party defendants. The Association brought this civil lawsuit in the US Federal District Court in Texas, the borrower's domicile state, and the trial was held in early February 2009. On March 19, 2009, the court rendered judgment in favor of the Association against all parties, jointly and severally, on all counts for \$41,549,236 in actual damages. Because the Association was granted a judgment for violation of the RICO statute, it is expected that the court will treble the judgment to \$124,647,710. One defendant has appealed the judgment. The Association intends to pursue the assets of all liable parties in satisfaction of the judgment.

Two other court actions had previously existed on this loan. The first was in Texas state court and was brought in order to obtain access to collateral for this loan. This suit was successful and has now been dismissed. The second court action was in Kentucky state court where the Association's suit on the debt was pending, as the loan's primary real estate collateral is located in Kentucky. In mid-September 2008, the Kentucky Court granted summary judgment in favor of the Association for the debt plus interest, costs and fees. This step allowed the Association to have a foreclosure sale of its real estate collateral located in Bell/Harlan counties, which sale was conducted on October 10, 2008, resulting in a purchase by a third party of such collateral for \$7,001,000. That sale was consummated by the middle of November 2008 and the Association received \$6,971,336. In February 2009, the Association received approval to foreclose the lien of its mortgage on real estate collateral held in Muhlenberg County and intends to foreclose such lien in the second quarter of 2009. The Association has been and will remain vigorous in pursuit of collection of the loan balances outstanding and other potential sources of recovery. All counterclaims asserted by the borrower and others against the Association have been dismissed in all legal proceedings.

#### **Relationship with the Farm Credit Bank of Texas:**

The Association's financial condition may be impacted by factors that affect the Bank. The financial condition and results of operations of the Bank may materially affect the stockholder's investment in the Association. The Management's Discussion and Analysis and Notes to Financial Statements contained in the December 31, 2008 Annual Report of Federal Land Bank of South Alabama, FLCA more fully describe the Association's relationship with the Bank.

The Tenth Farm Credit District's (District) annual and quarterly stockholder reports are available free of charge, upon request. These reports can be obtained by writing to Farm Credit Bank of Texas, The Ag Agency, P.O. Box 202590, Austin, Texas 78720, or by calling (512) 483-9260. Copies of the District's quarterly and annual stockholder reports also can be requested by e-mail at [fcb@farmcreditbank.com](mailto:fcb@farmcreditbank.com). The District makes its annual and quarterly stockholder reports available on its web site at [www.farmcreditbank.com](http://www.farmcreditbank.com).

The Association's annual and quarterly stockholder reports are also available free of charge, upon request. These reports can be obtained by writing to Federal Land Bank Association of South Alabama, FLCA, P.O. Box 241687, Montgomery, Alabama, 36124-1687, or by calling (334) 270-8687. Copies of the reports can also be requested by e-mailing [awolf@farmcreditbank.com](mailto:awolf@farmcreditbank.com). The Association's quarterly stockholder reports are available on its website at [www.alabamalandloan.com](http://www.alabamalandloan.com) approximately 40 days after each quarter end, and the annual stockholder report is available on its website 75 days after the fiscal year end. Copies of the annual stockholder report can also be requested 90 days after fiscal year end.

**FEDERAL LAND BANK ASSOCIATION OF SOUTH ALABAMA,FLCA**

**BALANCE SHEET**

	<b>March 31, 2009 (unaudited)</b>	December 31, 2008
<b><u>ASSETS</u></b>		
Cash	\$ 405,515	\$ 2,115,315
Loans	<b>606,256,673</b>	593,982,063
Less: allowance for loan losses	<b>1,072,417</b>	959,718
Net loans	<b>605,184,256</b>	593,022,345
Accrued interest receivable	<b>7,655,639</b>	8,069,442
Investment in and receivable from the Bank:		
Capital stock	<b>9,567,900</b>	9,567,900
Accrued patronage receivable	<b>127,500</b>	365,891
Other property owned, net	<b>758,682</b>	262,784
Premises and equipment	<b>1,808,224</b>	1,794,341
Other assets	<b>1,024,407</b>	205,034
Total assets	<b><u>\$ 626,532,123</u></b>	<b><u>\$ 615,403,052</u></b>
<b><u>LIABILITIES</u></b>		
Note payable to the Bank	\$ 518,258,491	\$ 506,309,605
Accrued interest payable	<b>1,427,580</b>	1,687,429
Drafts outstanding	<b>445,537</b>	1,172,178
Patronage distributions payable	<b>3,500,056</b>	-
Other liabilities	<b>1,919,580</b>	3,421,940
Total liabilities	<b><u>525,551,244</u></b>	<b><u>512,591,152</u></b>
<b><u>MEMBERS' EQUITY</u></b>		
Capital stock and participation certificates	<b>3,509,760</b>	3,494,180
Unallocated retained earnings	<b>97,296,821</b>	99,133,667
Accumulated other comprehensive income	<b>174,298</b>	184,053
Total members' equity	<b><u>100,980,879</u></b>	<b><u>102,811,900</u></b>
Total liabilities and members' equity	<b><u>\$ 626,532,123</u></b>	<b><u>\$ 615,403,052</u></b>

The accompanying notes are an integral part of these financial statements

**FEDERAL LAND BANK ASSOCIATION OF SOUTH ALABAMA,FLCA**

**STATEMENT OF INCOME**

(unaudited)

	<b>Quarter Ended</b>	
	<b>March 31,</b>	
	<b>2009</b>	<b>2008</b>
<b><u>INTEREST INCOME</u></b>		
Loans	\$ 8,372,786	\$ 9,549,301
<b><u>INTEREST EXPENSE</u></b>		
Note payable to the Bank	4,282,547	5,555,297
Net interest income	<u>4,090,239</u>	<u>3,994,004</u>
<b><u>PROVISION FOR LOSSES</u></b>		
Provision for loan losses	834,728	(41,728)
Provision for acquired property losses	<u>67,878</u>	<u>20,475</u>
Net interest income after provision for loan losses	<u>3,187,633</u>	<u>4,015,257</u>
<b><u>NONINTEREST INCOME</u></b>		
Patronage income from the Bank	205,974	450,639
Loan fees	347,943	367,395
Financially related services income	1,707	1,502
Other noninterest income	47,369	51,231
Total noninterest income	<u>602,993</u>	<u>870,767</u>
<b><u>NONINTEREST EXPENSES</u></b>		
Salaries and employee benefits	1,301,856	1,071,014
Directors' expense	92,541	61,169
Purchased services	538,470	790,894
Travel	56,580	66,214
Occupancy and equipment	78,014	60,252
Communications	26,193	22,878
Advertising	18,187	28,574
Public and member relations	36,588	31,203
Supervisory and exam expense	55,569	54,386
FCSIC premium expense	281,859	237,194
Loss on other property owned, net	12,162	-
Gain (loss) on sale of premises and equipment, net	369	(1,488)
Other noninterest expense	15,618	21,318
CMS expense reimbursement	<u>(386,534)</u>	<u>(507,936)</u>
Total noninterest expenses	<u>2,127,472</u>	<u>1,935,672</u>
Net income	<u>\$ 1,663,154</u>	<u>\$ 2,950,352</u>

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

FEDERAL LAND BANK ASSOCIATION OF SOUTH ALABAMA,FLCA

STATEMENT OF CHANGES IN MEMBERS' EQUITY

(unaudited)

	<u>Capital Stock/ Participation Certificates</u>	<u>Unallocated Retained Earnings</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total Members' Equity</u>
Balance at December 31, 2007	\$ 3,326,230	\$ 91,538,558	\$ 282,547	\$ 95,147,335
Adjustment to beginning balance due to FAS No. 158 accounting change	-	(18,492)	-	(18,492)
Balance at January 1, 2008	3,326,230	91,520,066	282,547	95,128,843
Comprehensive income				
Net income	-	2,950,352	-	2,950,352
Amortization of costs included in periodic retirement benefit costs	-	-	(9,762)	(9,762)
Total comprehensive income	-	2,950,352	(9,762)	2,940,590
Capital stock/participation certificates issued	166,340	-	-	166,340
Capital stock/participation certificates retired	(122,360)	-	-	(122,360)
Stock equalization	-	-	-	-
Patronage refunds:				
Cash	-	(3,200,000)	-	(3,200,000)
Balance at March 31, 2008	<u>\$ 3,370,210</u>	<u>\$ 91,270,418</u>	<u>\$ 272,785</u>	<u>\$ 94,913,413</u>
Balance at December 31, 2008	\$ 3,494,180	\$ 99,133,667	\$ 184,053	\$ 102,811,900
Comprehensive income				
Net income	-	1,663,154	-	1,663,154
Amortization of costs included in periodic retirement benefit costs	-	-	(9,755)	(9,755)
Total comprehensive income	-	1,663,154	(9,755)	1,653,399
Capital stock/participation certificates issued	122,340	-	-	122,340
Capital stock/participation certificates retired	(106,760)	-	-	(106,760)
Patronage refunds:				
Cash	-	(3,500,000)	-	(3,500,000)
<b>Balance at March 31, 2009</b>	<u><b>\$ 3,509,760</b></u>	<u><b>\$ 97,296,821</b></u>	<u><b>\$ 174,298</b></u>	<u><b>\$ 100,980,879</b></u>

The accompanying notes are an integral part of these financial statements

**FEDERAL LAND BANK ASSOCIATION OF SOUTH ALABAMA, FLCA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
(UNAUDITED)

**NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:**

The Federal Land Bank Association of South Alabama, FLCA (Federal Land Credit Association), referred to as the Association, is a member-owned cooperative that provides credit and credit-related services to or for the benefit of eligible borrowers/stockholders for qualified agricultural purposes. The Association serves the counties of Autauga, Baldwin, Barbour, Bibb, Bullock, Butler, Chambers, Chilton, Choctaw, Clarke, Coffee, Conecuh, Coosa, Covington, Crenshaw, Dale, Dallas, Elmore, Escambia, Geneva, Greene, Hale, Henry, Houston, Lee, Lowndes, Macon, Marengo, Mobile, Monroe, Montgomery, Perry, Pickens, Pike, Russell, Sumter, Tallapoosa, Tuscaloosa, Washington and Wilcox in the state of Alabama. The Association is a lending institution of the Farm Credit System (the System), which was established by Acts of Congress to meet the needs of American agriculture.

A description of the Association's significant accounting policies and the financial condition and results of operations as of December 31, 2008 are contained in the 2008 Annual Report to the stockholders. These unaudited first quarter 2009 financial statements should be read in conjunction with the 2008 Annual Report to the stockholders.

The accompanying financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with generally accepted accounting principles, except for the inclusion of a statement of cash flows. Generally accepted accounting principles require a business enterprise that provides a set of financial statements reporting both financial position and results of operations to also provide a statement of cash flows for each period for which results of operations are provided. However, in regulations issued by FCA, associations have the option to exclude statements of cash flows in interim financial statements. Therefore, the Association has elected not to include a statement of cash flows in these financial statements.

The preparation of these financial statements requires the use of management's estimates. The results for the quarter ended March 31, 2009 are not necessarily indicative of the results to be expected for the year ended December 31, 2009. Certain amounts in the prior period's financial statements have been reclassified to conform to current financial statement presentation.

**NOTE 2 — ALLOWANCE FOR LOAN LOSSES:**

The allowance for loan losses is maintained at a level considered adequate by management to provide for estimated losses inherent in the loan portfolio. 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. An analysis of the allowance for loan losses follows:

	<b>March 31, 2009</b>	March 31, 2008
Balance at beginning of quarter	<b>\$ 959,718</b>	\$ 552,564
Provision for loan losses	<b>834,728</b>	(41,728)
Charge-offs	<b>(722,029)</b>	(35,004)
Recoveries	-	-
Balance at end of quarter	<b><u>\$ 1,072,417</u></b>	<b><u>\$ 475,832</u></b>

The following table presents information concerning impaired loans:

	<b>March 31, 2009</b>	March 31, 2008
Impaired loans with related allowance	<b>\$ 1,481,690</b>	\$ 2,126,508
Impaired loans with no related allowance	<b>1,948,343</b>	799,026
Total impaired loans	<b><u>\$ 3,430,033</u></b>	<b><u>\$ 2,925,534</u></b>
Allowance on impaired loans	<b>\$ 336,251</b>	\$ 290,376
Average impaired loans	<b>\$ 4,313,872</b>	\$ 2,784,360
Interest income on impaired loans for the quarter	<b>\$ 22,109</b>	\$ -

### **NOTE 3 — CAPITAL:**

The Association's board of directors has established a Capital Adequacy Plan (Plan) that includes the capital targets that are necessary to achieve the institution's capital adequacy goals as well as the minimum permanent capital standards. The Plan monitors projected dividends, equity retirements and other actions that may decrease the Association's permanent capital. In addition to factors that must be considered in meeting the minimum standards, the board of directors also monitors the following factors: capability of management; quality of operating policies, procedures, and internal controls; quality and quantity of earnings; asset quality and the adequacy of the allowance for losses to absorb losses inherent within the loan portfolio; sufficiency of liquid funds; needs of an institution's customer base; and any other risk-oriented activities, such as funding and interest rate risk, potential obligations under joint and several liability, contingent and off-balance-sheet liabilities or other conditions warranting additional capital. At least quarterly, management reviews the Association's goals and objectives with the board.

In February 2009, the board declared a \$3,500,000 cash patronage to be paid to stockholders from the Association's 2008 earnings. The patronage distribution was completed in April 2009.

#### NOTE 4 — CAPITAL MARKETS:

Until the second quarter of 2007, the Association participated in the Capital Markets of the South (CMS), a joint venture created in 2003 for the purpose of expanding the participants' lending opportunities. The CMS group was comprised of the Association, the Federal Land Bank Association of North Alabama, FLCA, the Land Bank of North Mississippi, FLCA, Southern AgCredit, ACA (formerly Land Bank South, FLCA), and the Louisiana Federal Land Bank Association, FLCA. During the second quarter of 2007, the CMS members decided to discontinue the joint venture. The Association will continue to service the existing CMS loan portfolio, with revenue and expenses continuing to be shared accordingly as noted below, until such time as all of the loans are fully matured or paid off.

Pursuant to the terms of the alliance, each of the five CMS participating associations generally share equally in the costs of operating the venture. All CMS noninterest expenses are recorded gross on the Association's books and then reimbursed 80% by the other four associations. The total amount of reimbursements is included on the statement of income in the line item entitled "CMS expense reimbursements." The Association's pro-rata share of income from CMS operations are recorded in the statement of income in their respective line items.

#### NOTE 5 — EMPLOYEE BENEFIT PLANS:

The following table summarizes the components of net periodic benefit costs for the three months ended March 31, :

	Other Benefits	
	2009	2008
Service cost	\$ 12,156	\$ 10,768
Interest cost	19,601	17,486
Expected return on plan assets	-	-
Amortization of prior service costs	(9,755)	(9,914)
Amortizations of net (gain) loss	-	152
Net periodic benefit cost	\$ 22,002	\$ 18,492

In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 158 "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" (SFAS 158), which required the recognition of the overfunded or underfunded status of pension and other postretirement benefit plans on the balance sheet. The balance sheet recognition provisions of SFAS 158 were adopted at December 31, 2007. SFAS 158 also requires that employers measure the benefit obligation and plan assets as of the fiscal year end for fiscal years ending after December 15, 2008. In fiscal 2007 and earlier, we used a September 30 measurement date for pension and other postretirement benefit plans. The Standard provides two approaches

for an employer to transition to a fiscal year end measurement date. The Association has applied the second approach, which allows for the use of the measurements determined for the prior year end.

Under this alternative, postretirement benefit income measured for the three-month period October 1, 2007 to December 31, 2007 (determined using the September 2007 measurement date) was recorded as an adjustment to beginning 2008 retained earnings. As result, the Association decreased retained earnings by \$18,492 and increased the postretirement benefit liability by \$18,492.

The Association previously disclosed in its Annual Report to the stockholders for the year ended December 31, 2008, that it expected to contribute \$27,959 to its defined pension plan in 2009. As of March 31, 2009, \$5,380 of contributions have been made. The Association's liability for the plan's unfunded accumulated benefit obligation at March 31, 2009 was \$1,282,255 and is included in "Other liabilities" in the balance sheet.



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