

**Farm Credit Foundations  
Nonqualified Deferred Compensation Plan**

**Financial Statements  
December 31, 2008**



CPAs, Consultants & Advisors  
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## INDEPENDENT AUDITORS' REPORT

Farm Credit Foundations Trust Committee  
Farm Credit Foundations Nonqualified  
Deferred Compensation Plan  
St. Paul, Minnesota

We have audited the accompanying statement of net assets available for benefits of Farm Credit Foundations Nonqualified Deferred Compensation Plan as of December 31, 2008, and the related statement of changes in net assets available for benefits for the year 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 audit.

We conducted our audit 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. 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of Farm Credit Foundations Nonqualified Deferred Compensation Plan as of December 31, 2008, and the changes in its net assets available for benefits for the year then ended in conformity with accounting principles generally accepted in the United States of America.

  
LarsonAllen LLP

Minneapolis, Minnesota  
September 10, 2009



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**Farm Credit Foundations Nonqualified Deferred Compensation Plan**  
**Statement of Net Assets Available for Benefits**  
**December 31, 2008**

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	2008
<b>Assets</b>	
Cash	\$ 329
Investments at fair value	
Mutual funds	<u>9,302,942</u>
Receivables	
Participant contributions	67,841
Employer contributions	<u>132,842</u>
Total receivables	<u>200,683</u>
Total assets	<u>9,503,954</u>
<b>Liabilities</b>	
Pending investment trades	<u>(166,873)</u>
Net assets available for benefits	<u><u>\$ 9,337,081</u></u>

See accompanying notes to the financial statements.

**Farm Credit Foundations Nonqualified Deferred Compensation Plan**  
**Statement of Changes in Net Assets Available for Benefits**  
**Year Ended December 31, 2008**

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	2008
<b>Net assets available for benefits, beginning of year</b>	\$ 7,897,671
<b>Net investment loss</b>	
Net depreciation in fair value of investments	(2,125,783)
Interest and dividend income	210,789
Total net investment loss	<u>(1,914,994)</u>
<b>Contributions</b>	
Participant	2,607,938
Employer	1,155,687
	<u>3,763,625</u>
<b>Deductions</b>	
Benefits paid to participants	<u>(409,221)</u>
Net increase	<u>1,439,410</u>
<b>Net assets available for benefits, end of year</b>	<u>\$ 9,337,081</u>

See accompanying notes to the financial statements.

# Farm Credit Foundations Nonqualified Deferred Compensation Plan

## Notes to Financial Statements

### December 31, 2008

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#### 1. Description of the Plan

The following description of the Farm Credit Foundations Nonqualified Deferred Compensation Plan (the "Plan") provides general information regarding the Plan. Refer to the Plan document for a complete description of Plan provisions.

##### **General**

The Plan is sponsored and maintained by AgriBank, FCB, and its affiliated Associations and U.S. AgBank, FCB, and its affiliated Associations who have executed a Participation Agreement in the Plan ("Employers") for the benefit of their eligible employees. The Plan is intended to be an unfunded nonqualified deferred compensation plan for tax purposes and is not intended to meet the qualification requirements of Code § 401(a). The employers' assets have been "set-aside" in a rabbi trust for the Plan Participants' by the participating employers.

The Plan resulted from the merger of (a) the Ninth Farm Credit District Nonqualified Deferred Compensation Plan, (the "Ninth District NQDC Plan"), (b) the Farm Credit Consolidated Supplemental Retirement Savings Plan (the "Consolidated Plan"), and (c) the AgHeritage Farm Credit Services Deferred Compensation Plan, which merger took place effective January 1, 2007. Upon the merger of the three plans, the name was changed to the Farm Credit Foundations Nonqualified Deferred Compensation Plan. The Plan is considered an amendment and restatement of the three plans. The Plan was last amended effective June 1, 2009.

The Ninth District Plan was established on July 1, 1996, by the Farm Credit Bank of Wichita (which later changed its name to U.S. AgBank, FCB). The Ninth District Plan has been split, effective January 1, 2007, between this Plan and the Farm Credit Foundations Pre-409A Frozen Nonqualified Deferred Compensation Plan (the "Pre-409A Plan"). Amounts that were earned and vested under the Ninth District Plan prior to January 1, 2005, have been "grandfathered" under Code § 409A and are accounted for in the Pre-409A Plan. Amounts that were not earned and vested prior to January 1, 2005, have been transferred into Accounts in this Plan, effective January 1, 2007. The Consolidated Plan resulted from an earlier merger of (i) the AgAmerica District Supplemental Executive Retirement Plan, (ii) the AgAmerica District Benefit Restoration Plan, and (iii) The Eleventh Farm Credit District Supplemental Retirement Savings Plan, which merger took place effective January 1, 2003. The Consolidated Plan has been split, effective January 1, 2007, between this Plan and the Pre-409A Plan. Amounts that were earned and vested under the Consolidated Plan prior to January 1, 2005, have been "grandfathered" under Code § 409A and are accounted for in the Pre-409A Plan. Amounts that were not earned and vested prior to January 1, 2005, have been transferred into Accounts in this Plan, effective January 1, 2007. The AgHeritage Plan was established on January 1, 2005, by AgHeritage Farm Credit Services. All amounts in the AgHeritage Plan that were not distributed on or prior to December 31, 2006, have been transferred into Accounts in this Plan, effective January 1, 2007.

The primary purpose of this Plan is to restore benefits under the Farm Credit Foundations Defined Contribution / 401(k) Plan (the "401(k) Plan") that are limited by Code §§ 401, 402, and 415 and by the exclusion of contributions to deferred compensation plans from the definition of "Compensation" in the 401(k) Plan. To accomplish this purpose, the Plan provides the following: (i) the definition of "Compensation" in this Plan includes amounts that are excluded from the definition of "Compensation" in the 401(k) Plan; (ii) eligible Employees may make simultaneous, overlapping, or consecutive deferrals of Base Salary, Bonuses, and/or LTIP Payments into this Plan and into the 401(k) Plan; and (iii) Participating Employers that have not opted out of offering the Plan to their Employees are required to restore in this Plan any Participating Employer Matching Contributions and Nonelective Contributions made in the 401(k) Plan on behalf of eligible Employees that are limited by Code §§ 401 and 415. An additional purpose of this Plan is to allow Participating Employers that have not opted-out of offering the Plan to their Employees to provide discretionary contributions of deferred compensation to eligible Employees.

# Farm Credit Foundations Nonqualified Deferred Compensation Plan

## Notes to Financial Statements

### December 31, 2008

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#### Plan Governance

The Farm Credit Foundations Plan Sponsor and Trust Committees provide consideration and oversight of the benefit plans offered by participating employers of the AgriBank District, U.S. AgBank District, and Northwest, FCS as defined by the Farm Credit Foundations Administrative Agreement. There are 48 participating employers across 26 states with over 7500 active employees. The governance committees are either elected or appointed representatives (senior leadership and/or Board of Director members) from the participating organizations. The Plan Sponsor Committee is responsible for decisions regarding benefits at the direction of the participating employer. The Trust Committee is responsible for fiduciary and plan administrative functions.

#### Plan Eligibility

Employees must satisfy at least one of the following eligibility criteria: (1) The employee's base salary as of November 1, 2008, must be at least \$161,000; or (2) The employee's job title as of November 1, 2008, must be CEO or President; or (3) The employee must have made elective pre-tax deferrals during 2006 under either of the predecessor nonqualified deferred compensation plans: the Farm Credit Consolidated Supplemental Retirement Savings Plan or the Ninth Farm Credit District Nonqualified Deferred Compensation Plan.

Effective June 1, 2009, an employee will become eligible if the sum of the employee's base salary as of November 1 prior to the year of eligibility is determined, and the employee's variable pay for the year that is two years prior to the year for which eligibility is being determined exceeds the total compensation threshold.

#### Contributions

The provisions of the Plan are summarized below:

- (A) **Base Salary Deferral Amount.** A Base Salary Deferral Amount must be elected as a whole percentage of Base Salary, which percentage may not exceed sixty percent (60%) and may not be less than five percent (5%). An Employee may elect the specific pay period of the Plan Year in which to begin deferrals; provided, however, if such an election is not made, the election shall apply to all Base Salary earned during that Plan Year.
- (B) **Bonus Deferral Amount.** A Bonus Deferral Amount must be elected as a whole percentage of Bonuses, which percentage may not exceed one hundred percent (100%) and may not be less than ten percent (10%).
- (C) **LTIP Payment Deferral Amount.** An LTIP Payment Deferral Amount must be elected as a whole percentage of LTIP Payments, which percentage may not exceed one-hundred percent (100%) and may not be less than ten percent (10%).
- (D) **Restored Employer Contribution.** If Matching Contributions or Nonelective Contributions made by a Participating Employer on behalf of an Employee into the 401(k) Plan for a Plan Year (except for a Plan Year for which such Participating Employer has Opted-Out) are limited due to Code §§ 401 or 415, such Participating Employer shall contribute to the Employee's Account an amount equal to the Restored Employer Contribution calculated as follows:

**Calculation of Restored Employer Contribution.** The Restored Employer Contribution for a Plan Year is calculated as follows: (A) The amount of Participating Employer Matching Contributions and Nonelective Contributions that would have been made on behalf of the Employee into the 401(k) Plan for the Plan Year, without regard to Code §§ 401 and 415; less (B) The amount of Participating Employer Matching Contributions and Nonelective Contributions actually made on behalf of the Employee into the 401(k) Plan for the Plan Year. For purposes of determining the amount in Subsection (A), (a) after-tax contributions made on behalf of the

# Farm Credit Foundations Nonqualified Deferred Compensation Plan

## Notes to Financial Statements

### December 31, 2008

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Employee into the 401(k) and Elective Deferral Amounts credited to the Employee's Account in this Plan shall be treated as eligible for matching under the 401(k) Plan and (b) the 401(k) Plan's limitations on the amount of Matching Contributions shall not be disregarded.

- (E) **Discretionary Amounts.** Each Plan Year, a Participating Employer that has not Opted Out for such Plan Year may, in its sole discretion, contribute Discretionary Amounts to the Account of one or more Participants employed by such Participating Employer. The Discretionary Amount, if any that is contributed to a Participant's Account shall be determined by such Participating Employer in its sole discretion.

Effective June 1, 2009, the Plan was amended to allow eligible employees to defer on additional compensation, as defined in the Plan.

#### **Investment Direction**

Participants in the Plan may direct employee and employer contributions in 1 percent increments to any of the Plan's investment options. The Plan's investments in each fund/option are maintained under the direction of the participants.

#### **Participant Accounts**

Each participant's account is credited with the participant's contribution, related employer contributions, and Plan allocations of earnings or losses. Allocations are based on participant earnings or account balances, as defined. The benefit to which a participant is entitled is the vested portion of the participant's account. Participant accounts are valued on a daily basis.

#### **Vesting**

The vesting provisions of the Plan are as follows:

Any Participant will become vested in Restored Employer Contributions that are credited to his/her Account (including any earnings thereon) based on the Participant's Years of Service, according to the following vesting schedule:

<b>Years of Service</b>	<b>Vesting %</b>
0	0%
1	25%
2	50%
3	75%
4 +	100%

An employee of a Ninth District participating employer hired before January 1, 2007, is 100% vested at all times in his/her account balance attributable to Restored Employer Contributions. A Participant shall have a 100% vested interest at all times in his/her Account balance that is attributable to elective deferral amounts, Discretionary Amounts, AgHeritage Accounts, and Ninth District Accounts, including any earnings thereon. Vesting shall cease upon the Participant's Separation from Service.

#### **Payment of Benefits**

**Election as to Form of Distribution.** Each Participant may make an election as to the form of distribution that shall apply to all distributions from the Participant's Account.

# Farm Credit Foundations Nonqualified Deferred Compensation Plan

## Notes to Financial Statements

### December 31, 2008

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**Time of distribution.** Time of distribution for the balance of a Participant's Account shall be any day during the month of January that is in the Plan Year immediately following the Plan Year in which the Participant's Separation from Service occurs. The actual date of payment (or payments, in the case of annual installment payments) may be later than such month if there are administrative delays in calculating the benefit or for other delays permitted by Code § 409A and the IRS and Treasury guidance issued thereunder.

**Form of Distribution.** Except as otherwise provided in this Article, the balance of a Participant's Account shall only be distributed in one of the following alternate forms of distribution:

(A) **Lump Sum Payment.** A lump sum payment; or  
(B) **Installment Payments.** Installment payments over a two (2) to ten (10) year installment period, subject to the following:

(1) One installment payment shall be made during each month of January in the installment period elected by the Participant, beginning with the month of January immediately following the Participant's Separation from Service; and (2) The amount of each installment payment shall be calculated as of the December 31<sup>st</sup> immediately preceding the month of January in which the installment payment is payable by dividing the balance of the Participant's Account by the number of remaining installment payments to be made (including the installment payment that is being calculated).

Effective January 1, 2008, the Plan was amended for mandatory acceleration of installment payments, distribution of smaller account balances and transition relief under Code §§ 409A.

**Default Form of Distribution.** If a Participant fails to make a valid election, the default form of distribution of the Participant's benefit under this Plan (including earnings attributable thereto) shall be as if the Participant elected installment payments over a three (3) year installment period.

#### **Regulatory Compliance**

This merged, amended, and restated Plan has been drafted to comply with the provisions of Code § 409A and the IRS and Treasury guidance issued thereunder. The amendments were made within the transition period provided by IRS Notice 2005-1, as extended by IRS Notice 2006-79. Under the provisions of the Farm Credit Act of 1971, AgriBank, FCB, and US AgBank, FCB, are defined and declared to be an "instrumentality of the United States." For this reason, the Plan is intended to be a "governmental plan" as that term is defined in Code § 414(d). For the same reason, the Plan is also intended to be a "governmental plan" as that term is defined in ERISA § 3(32). As such, the Plan is not subject to the provisions of Title I of ERISA.

#### **Plan Administration**

The Plan provides that an employee of a participating employer that has adopted the Plan who has satisfied the Plan's eligibility requirements will have rights to benefits under the plan. AgriBank, FCB serves as Plan Administrator under the Plan. The Trust Committee has primary responsibility for administration and interpretation of the Plan and investment of the Plan assets.

The Farm Credit Foundation's Trust Committee is the trustee for the Plan assets. The trustee supervises and administers all investments and related activities, including such functions as purchases, sales, reinvestment and collection of investment income. Wells Fargo is the custodian for the Plan assets.

New York Life Trust Company is the third-party administrator for the Plan.

# Farm Credit Foundations Nonqualified Deferred Compensation Plan

## Notes to Financial Statements

### December 31, 2008

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#### **Plan Termination**

The Plan Sponsor Committee may amend or terminate this Plan at any time in accordance with the Administrative Agreement. No amendment or termination shall be made except as permitted by Code § 409A and the IRS and Treasury guidance issued thereunder. Any approved change will be added to the Plan in writing and communicated to Participants at such time and in such manner as the Plan Administrator deems necessary.

## **2. Summary of Significant Accounting Policies**

A description of the Plan's significant accounting policies follows:

#### **Basis of Accounting**

The accompanying financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Accordingly, income is recorded in the year earned and expenses are recorded in the year incurred.

#### **Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and changes therein, disclosures of contingent assets and liabilities, and the actuarial present value of accumulated plan benefits at the date of the financial statements. Actual results could differ from those estimates.

#### **Fair Value of Financial Instruments**

On January 1, 2008, the Plan adopted Statement of Financial Accounting Standard No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 applies to reported balances that are required or permitted to be measured at fair value under an existing accounting pronouncement. SFAS 157 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. SFAS 157 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The fair value hierarchy consists of three levels of inputs that may be used to measure fair value as follows:

*Level 1* – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Plan has the ability to access.

*Level 2* – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

*Level 3* – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

# Farm Credit Foundations Nonqualified Deferred Compensation Plan

## Notes to Financial Statements

### December 31, 2008

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#### Investment Valuation and Income Recognition

The Plan's investments are valued at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Plan's investments are valued at fair value according to SFAS 157. The fair value of the mutual funds are determined by reference to the fund's underlying assets, which are principally marketable equity and fixed income securities.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Purchases and sales of investments are recorded on a trade date basis. Interest income is accrued based on the terms of the underlying investment. Net appreciation (depreciation) includes the Plan's gains and losses on investments bought and sold as well as held during the year.

#### Benefits and Expenses

Benefit payments to participants are recorded when distributed. Administrative and other expenses of the Plan are paid by the participating Employers.

### 3. Income Tax Status

The Trust qualifies as an irrevocable grantor trust under the guidelines of the Internal Revenue Code. Earnings of the Trust are allocated to participating employers. The participating employers are considered non-taxable entities. Contributions by participating employers to the Trust on behalf of the participants are not taxable to participants until the participant or beneficiary receives payment.

### 4. Investments

#### Significant Investments

The following table identifies the individual investments that represent 5 percent or more of the Plan's net assets at December 31, 2008:

Description	Fair Market Value
PIMCO Total Return Fund	\$ 3,211,999
Dodge and Cox Stock Fund	2,085,599
Wells Fargo SMID	1,952,664
Vanguard Primecap Fund	756,693
Dodge and Cox Balanced Fund	730,630

#### Depreciation of Investments

The net depreciation in fair value of investments includes the realized gains and losses on the investment that were sold during the year and the increase or decrease in unrealized appreciation or depreciation on investments held at year-end. During 2008, the Plan's investments in mutual funds depreciated in value by \$2,125,783.

**Farm Credit Foundations Nonqualified Deferred Compensation Plan**  
**Notes to Financial Statements**  
**December 31, 2008**

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**5. Risks and Uncertainties**

The Plan provides for investment in a variety of investment funds. In general, investments are exposed to various risks, such as interest rate, credit and overall market volatility risk. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of the investments will occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the statement of net assets available for benefits. Subsequent to December 31, 2008, there continues to be market volatility in the fair value of investments due to changes in market conditions and other factors.

**6. Related Party**

AgriBank, FCB, paid expenses on behalf of the Plan and was reimbursed by the Plan for those expenses.

**7. Fair Value**

The Plan uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. For additional information on how the Plan measures fair value, refer to Note 2. The following table presents the fair value hierarchy for the balances of the assets and liabilities of the Plan measured at fair value on a recurring basis as of December 31, 2008.

	<u>Investment Assets at Fair Value as of December 31, 2008</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
Mutual Funds	<u>\$ 9,302,942</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,302,942</u>
	<u>Investment Liabilities at Fair Value as of December 31, 2008</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Liabilities:				
Pending investment trades	<u>\$ 127,418</u>	<u>\$ 39,455</u>	<u>\$ -</u>	<u>\$ 166,873</u>