

# **Ninth Farm Credit District Pension Plan**

**Financial Statements  
December 31, 2007 and 2006**

# LarsonAllen<sup>®</sup> LLP

CPAs, Consultants & Advisors  
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## INDEPENDENT AUDITORS' REPORT

Participants and Trust Committee  
Ninth Farm Credit District Pension Plan  
St. Paul, Minnesota

We have audited the accompanying statement of net assets available for benefits of the Ninth Farm Credit District Pension Plan as of December 31, 2007, 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. The financial statements of the Ninth Farm Credit District Pension Plan as of December 31, 2006 were audited by other auditors whose report dated August 20, 2007, expressed an unqualified opinion on those financial statements.

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.

As discussed in Note 7 to the financial statements, The Plan has restated its 2006 financial statements during the current year to reflect the improper exclusion of \$287,770 of short-term investments. The other auditors reported on the 2006 financial statements before the restatement.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2007, 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  
October 2, 2008



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**Ninth Farm Credit District Pension Plan**  
**Statement of Net Assets Available for Benefits**  
**December 31, 2007 and 2006**

	2007	2006 Restated
<b>Assets</b>		
Investments, at fair value except as noted		
Short-term investment funds and cash	300,036	1,723,997
Plan interest in Master Trust investments	126,649,530	-
Mutual funds	-	125,283,109
Common stocks	-	113,677
Total investments	<u>126,949,566</u>	<u>127,120,783</u>
Dividend, interest and other receivables	-	51,830
Total assets	<u>126,949,566</u>	<u>127,172,613</u>
<b>Liabilities</b>		
Administrative and other expenses payable	18,970	79,008
Investment purchases payable	-	206,653
Total liabilities	<u>18,970</u>	<u>285,661</u>
<b>Net assets available for benefits</b>	<u>\$ 126,930,596</u>	<u>\$ 126,886,952</u>

See accompanying notes to the financial statements.

**Ninth Farm Credit District Pension Plan**  
**Statement of Changes in Net Assets Available for Benefits**  
**Year Ended December 31, 2007 and 2006**

	2007	2006 Restated
<b>Net assets available for benefits, beginning of year</b>	\$ 126,886,952	\$ 115,986,391
<b>Net investment income</b>		
Master trust income	8,492,687	-
Net appreciation in fair value of investments	-	10,498,920
Interest and dividends	-	3,104,810
Less: Investment expenses	-	(432,409)
	<u>8,492,687</u>	<u>13,171,321</u>
<b>Contributions</b>		
Employer	<u>616,386</u>	<u>4,000,000</u>
<b>Deductions</b>		
Benefits paid to participants	(8,806,659)	(6,078,252)
Administrative and other expenses	(258,770)	(192,508)
	<u>(9,065,429)</u>	<u>(6,270,760)</u>
Net increase	43,644	6,900,561
<b>Net assets available for benefits, end of year</b>	<u>\$ 126,930,596</u>	<u>\$ 126,886,952</u>

See accompanying notes to the financial statements.

# **Ninth Farm Credit District Pension Plan**

## **Notes to Financial Statements**

### **December 31, 2007 and 2006**

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#### **1. Description of the Plan**

The following description of Ninth Farm Credit Services Retirement Plan (the "Plan") provides general information regarding the Plan. Refer to the Plan document for a complete description of plan provisions.

##### **Plan Provisions**

The Plan is a noncontributory defined benefit pension plan covering eligible employees of the former U.S. AgBank, FCB, AgVantis, Inc. and Associations in the former Ninth Farm Credit District (collectively, the "Employers"). Retirement benefits are paid from plan assets based upon a pre-defined formula which considers salary and credited service, subject to certain limitations. Several benefit payment options are available, as defined in the Plan document.

Effective July 1, 1998, the Plan was amended to include a cash balance benefit design. The design is referred to as the "Account Balance" provision. All employees hired after June 30, 1998 and all active participants with less than five years vesting service on June 30, 1998, will have their benefits determined under the "Account Balance" provisions of the Pension Plan only. Active participants with five or more years of vesting service on June 30, 1998, will receive the greater of the "Account Balance" versus the current final average pay design when the participant retires or terminates employment. This final average pay design is referred to as the "Traditional" provision of the Pension Plan. The initial balance for the "Account Balance" computed as of June 30, 1998 is the immediate lump sum value of the "Traditional" with a \$100 minimum value.

As of January 1, 2007, the Ninth Farm Credit District Pension Plan is closed to new participants. No contribution credits will be allocated to any participant's account for any quarter of the calendar year beginning after September 30, 2007. However, eligible participants' with accounts in the traditional pension plan who are involuntarily terminated, not for cause, or due to the death of an eligible participant will be allowed to accrue with contribution credits.

Effective January 1, 2007, the allocation of interest credits decreased to 1.25% (5% annualized, compounded quarterly) of a participant's account balance on the first day of the calendar quarter. All "account balance only" participants of the Plan transitioned to a new defined contribution plan effective October 1, 2007. Those participants who were active employees and who were accruing benefits under the "Account Balance" provisions of the Ninth District Plan (but not under the "traditional pension" provisions or the "best of either" provisions) as of September 30, 2007, were moved from the Plan into the Ninth Farm Credit District Spinoff Pension Plan (the "Spinoff Plan"), a feature of the Plan. Additionally, participants in the Plan who were entitled to a vested accrued benefit under the "account balance" provisions as of September 30, 2007, were moved into the Spinoff Plan feature. The Spinoff Plan feature was formally terminated, also on September 30, 2007. Following termination, the assets of the Spinoff Plan feature were distributed to the Participants in accordance with the provisions of the Spinoff Plan feature. All other participants in the remaining Plan continue to participate in the Plan, as of the effective date of the Spinoff Plan feature, in accordance with the terms and conditions of the Plan.

##### **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 49 participating employers across 26 states with over 6500 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 employers. The Trust Committee is responsible for fiduciary and plan administrative functions.

# **Ninth Farm Credit District Pension Plan**

## **Notes to Financial Statements**

### **December 31, 2007 and 2006**

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#### **Funding Policy**

The Employers contribute amounts necessary on an actuarial basis to provide the Plan with sufficient assets to meet the benefits to be paid to participants. The plan's funding policy is to contribute amounts which represent normal cost, plus amortization of the unfunded accrued liability over 7 years, plus interest, subject to the full funding limitation or other IRS limitations for each plan.

#### **Regulatory Compliance**

The Department of Labor has determined the Plan to be a governmental plan; therefore, the Plan is not subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended ("ERISA").

#### **Plan Administration**

The Plan provides that an employee of a participating employer who has adopted the Plan, and who has satisfied the Plan's eligibility requirements, will have rights to benefits under the Plan. The Farm Credit Foundation's Trust Committee 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 invested in the master trust. The trustee supervises and administers all investments and related activities, including such functions as purchases, sales, reinvestment and collection of investment income. Certain income and expense items of the investments in the master trust are recorded at the master trust level. These include investment expenses, interest income and dividends. Wells Fargo is the custodian for the Plan assets.

#### **Plan Termination**

In the event of Plan termination, the present value of benefits due to participants would be distributed to participants. Plan assets in excess of obligations would be returned to the Employers. Obligations and liabilities in excess of assets would be the responsibility of the Employers.

As the Plan is not subject to ERISA, the Plan's benefits are not insured by the Pension Benefit Guaranty Corporation. Accordingly, the amount of accumulated benefits that participants would receive in the event of the Plan's termination is contingent on the sufficiency of the Plan's net assets to provide benefits at that time.

#### **Reclassification**

Certain amounts in the 2006 financial statements have been reclassified to conform with the 2007 presentation. These reclassifications do not affect net assets available for benefits as previously reported.

## **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

# **Ninth Farm Credit District Pension Plan**

## **Notes to Financial Statements**

### **December 31, 2007 and 2006**

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actuarial present value of accumulated plan benefits at the date of the financial statements. Actual results could differ from those estimates.

#### **Investment Valuation and Income Recognition**

Investments are stated at fair market value as determined by the custodian, generally by reference to quoted prices in an active market. Master trust interests are valued at the accumulation unit value, which is calculated based on the fair market value of the underlying investments and other net assets of the master trust.

Purchases and sales of investments are recorded on a trade date basis. Interest income is accrued based on the terms of the underlying investment.

#### **Benefits and Expenses**

Benefit payments to participants are recorded upon distribution. All benefit payments and administrative expenses are paid from Plan assets. Administrative and other expenses of the Plan consist of legal, actuarial and auditing fees. Certain benefit payment provisions were amended effective July 1, 2007.

#### **Income Tax Status**

The Internal Revenue Service ("IRS") has issued a favorable determination letter regarding the Plan's current nontaxable status. The Plan received its latest determination letter in March 2007. The Plan has been amended since the latest determination letter. Plan management is of the opinion that the Plan continues to comply with the applicable sections of the Internal Revenue Code, and that the related trust, which forms a part of the Plan, is exempt from income tax. Accordingly, no provision has been made for federal or state income taxes. Plan management intends to apply for a new determination letter with the IRS in 2008.

### **3. Investments**

#### **Interest in Master Trust**

During 2007, a significant portion of the Plan's investments are in a master trust which holds the investment assets of the Plan, The Eleventh Farm Credit District Employees' Retirement Plan and The Seventh Farm Credit District Retirement Plan, The Northwest Farm Credit Services Retirement Plan and the Farm Credit Foundations Defined Contribution/401(k) Plan. Each plan's share of the master trust is determined by the use of accumulation units, with each unit representing an undivided interest in the master trust. The plans are credited with units purchased and charged with units to be paid or forfeited at the monthly accumulation unit value. Net assets, net investment income, gains and losses and administrative expenses are allocated to the participating plans based upon the weighted average units held during the period. The Plan's interest in the master trust was approximately 6% at December 31, 2007. The Plan was not invested in the master trust during 2006.

**Ninth Farm Credit District Pension Plan**  
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The following table presents the fair values of investments for the master trust as of December 31, 2007:

	<u>2007</u>
Mutual funds	\$ 1,467,175,486
Common stock	280,447,843
Pooled separate account	189,293,116
Investment insurance contracts	88,928,694
Limited partnership	74,204,482
Money market	18,955,474
Interest-bearing cash	7,301,517
Collective trust fund	1,029,136
Certificate of deposit	192,122
Government securities	25,795
Participant loans	13,252,130
Securities lending cash collateral	126,600,316
Total investments held by master trust	<u>2,267,406,111</u>
Due to brokers for securities lending	(127,639,126)
Net investments held by master trust	<u>\$ 2,139,766,985</u>

Investment income during 2007 for the master trust is as follows:

	<u>2007</u>
Net appreciation in fair value of investments:	
Mutual funds	\$ 82,100,172
Common stocks	6,284,941
Pooled separate account	5,797,217
Investment insurance contracts	3,291,243
Total net appreciation	<u>97,473,573</u>
Interest and dividends	24,782,817
Less: investment management expenses	859,030
	<u>\$ 121,397,360</u>

**Securities Lending**

The Master Trust has a securities lending program with Wells Fargo Bank, N.A. The Master Trust requires collateral with a market value of at least 102% of the market value of the loaned securities at the time a loan is transacted. Collateral is provided by the borrower and may be held, invested, or reinvested in certain types of securities.

The fair market value of the securities loaned to Wells Fargo Bank, N.A. was \$127,639,126 at December 31, 2007. The fair value of the collateral accepted by the Master Trust was \$126,600,316 at December 31, 2007. No collateral had been sold or repledged at December 31, 2007.

**Significant Investments**

The following table identifies the individual investments that represent 5 percent or more of the Plan's net assets as of December 31, 2006:

Description	Fair Market Value	Percent of	
		Total Plan Assets	Net Assets Available for Benefits
PIMCO FDS FAC Invt Mgmt Ser	\$ 37,340,705	29.4%	29.4%
State Street Global Advisor Index Plus	21,634,972	17.0%	17.1%
SPDR Trust S&P Ser	29,192,249	23.0%	23.0%

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**Appreciation of Investments**

During 2006, the Plan's investments consisted of mutual funds and common stock. The net appreciation in fair value of investments includes the realized gains and losses on investments that were sold during the year and the increase or decrease in unrealized appreciation or depreciation on investments held at year-end. As of December 31, 2006, the mutual funds depreciated by \$4,417,934 and the common stock appreciated by \$14,916,854.

**4. Accumulated Plan Benefits**

Accumulated plan benefits are those future periodic payments, including lump-sum distributions, which are attributable under the Plan's provisions to the service employees have rendered. Accumulated plan benefits include benefits expected to be paid to (a) retired or terminated employees or their beneficiaries, (b) beneficiaries of employees who have died, and (c) present employees or their beneficiaries.

The actuarial present value of accumulated plan benefits is determined by the Plan's actuary by applying actuarial assumptions to adjust the accumulated plan benefits to reflect the time value of money and the probability of payment between the valuation date and the expected date of payment. The significant assumptions used in the valuations as of January 1, 2008, and 2007, are detailed in the following table:

Mortality	RP-2000 Combined Healthy Table
Interest rate	8.0 percent per annum
Compensation increases	5.0 percent per annum
Lump sum interest rate	8.0 percent or 9 percent per annum if not retirement eligible

The foregoing actuarial 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 accumulated plan benefits.

The actuarial present value of accumulated plan benefits at December 31, 2007, 2006, and 2005, is summarized as follows:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Actuarial present value of accumulated plan benefits			
Vested benefits			
Participants and beneficiaries currently receiving payments	\$ 31,664,243	\$ 30,904,093	\$ 43,003,548
Other participants	53,366,341	48,361,611	32,850,745
Total vested benefits	<u>85,030,584</u>	<u>79,265,704</u>	<u>75,854,293</u>
Nonvested benefits	<u>12,453,972</u>	<u>12,074,342</u>	<u>11,309,107</u>
Actuarial present value of accumulated plan benefits	<u>\$ 97,484,556</u>	<u>\$ 91,340,046</u>	<u>\$ 87,163,400</u>

Vested benefits reflect benefits based on current credited service. Nonvested benefits reflect benefits based on credited service not yet earned and future events.

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The change in actuarial present value of accumulated plan benefits for the years ended December 31, 2007, 2006, and 2005, is summarized as follows:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Actuarial present value of accumulated plan benefits, beginning of year	\$ 91,340,046	\$ 87,163,400	\$ 77,921,427
Increase (decrease) during the year attributable to:			
Benefits accumulated and experience changes	6,606,240	5,822,890	6,352,862
Interest	7,307,204	6,973,072	6,233,714
Plan amendments	171,604	(2,541,064)	106,806
Changes in actuarial assumptions	866,121	-	1,595,560
Benefits paid	<u>(8,806,659)</u>	<u>(6,078,252)</u>	<u>(5,046,969)</u>
Net increase	<u>6,144,510</u>	<u>4,176,646</u>	<u>9,241,973</u>
Actuarial present value of accumulated plan benefits, end of year	<u>\$ 97,484,556</u>	<u>\$ 91,340,046</u>	<u>\$ 87,163,400</u>

The Plan was amended to increase the IRS 415 limitation on benefits, resulting in an increase in accumulated plan benefits of \$171,604 in 2007.

In 2006, the Plan was amended to increase the IRS 401(a)(17) and 415 limitations on benefits and also offered cash-outs to terminated vested participants. These amendments resulted in a net decrease in accumulated plan benefits of \$2,541,064.

In 2007, the assumed withdrawal rates were updated to better reflect actual experience and future expectations. Also, all current and future terminated vested participants are assumed to commence benefits at age 60 rather than age 65. These changes in actuarial assumptions resulted in an increase in accumulated plan benefits of \$866,121.

**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 the amounts reported in the statement of net assets available for benefits.

Plan contributions and the actuarial present value of accumulated plan benefits are calculated based on certain assumptions pertaining to interest rates, inflation rates, long-term return on investments and mortality, all of which are subject to change. Due to uncertainties inherent in the estimation process, it is at least reasonably possible that changes in these estimates in the near term would be material to the financial statements.

**6. Related Party**

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

**7. Subsequent Event**

During 2007, those participants who were entitled to benefits only under the Account Balance Provisions of the Plan were spun off into a separate pension plan, the Spinoff Plan which was then terminated. Assets in both the Plan and the Spinoff Plan were held in the same trust. The Spinoff Plan provisions allowed for the distribution of accrued benefits for these participants to be rolled over to the Farm Credit Foundations Defined Contribution / 401(k) Plan or to a qualified retirement plan or individual retirement account of the participant's choice. As of April 30, 2008, all accrued benefits were distributed out of the Spinoff Plan.

**Ninth Farm Credit District Pension Plan**  
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**8. Restatement**

The accompanying statement of net assets available for benefits as of December 31, 2006, and the accompanying statement of changes in net assets available for benefits for the year ended December 31, 2006, have been restated to include \$287,770 of short-term investments which had been incorrectly excluded as a Plan asset. Net appreciation in fair value of investments has been increased in total by \$287,770 for the effect of the restatement.