

## Message from the President

Dear First South Stockholder:

First South Farm Credit wants to take this opportunity to share another successful year with you, our loyal stockholder.

In 2008 the First South Board of Directors approved paying the 14<sup>th</sup> consecutive patronage payment proving that the First South Patronage Program works, and you and your family are the beneficiaries of this Farm Credit cooperative.

Since 1995 First South has returned over \$160 million in patronage distributions to its borrowers.

First South Farm Credit is the premier long-term lender for agriculture in Alabama, Louisiana and Mississippi. First South's objective is to develop a long-term relationship that provides stability through a steady supply of full-service credit to the agricultural community.

As you receive your patronage check, remember, our success is because of your long-term loyalty as a First South borrower. On behalf of the First South Board, management and employees, we thank you and look forward to being your long-term financial partner.

Sincerely,



Stephen L. Rochelle  
President and Chief Executive Officer  
First South Farm Credit

## Branch Office Locations

### North Alabama Division **256-737-1311**

Albertville	256-878-8308	Moulton	256-974-1124
Athens	256-232-5710	Muscle Shoals	256-381-0721
Cullman	256-734-0133	Northport	205-339-4577
Demopolis	334-289-3280	Oxford	256-831-6778

### South Alabama Division **334-265-9788**

Andalusia	334-222-3123	Luverne	334-335-6531
Bay Minette	251-580-8678	Montgomery	334-265-8535
Enterprise	334-347-1738	Ozark	334-774-2666

### Louisiana Division **337-948-3003**

Alexandria	318-448-0841	New Roads	225-638-6408
Amite	985-748-8655	Opelousas	337-948-3062
Crowley	337-783-3954	Tallulah	318-574-0822
Jennings	337-824-2661	Thibodeaux	985-446-9450
Lake Providence	318-559-2626	Winnsboro	318-435-5089
Marksville	318-253-7829	Zachary	225-658-0597
New Iberia	337-364-0217		

### Mississippi Division **601-898-8595**

Aberdeen	662-369-4752	Ridgeland	601-898-8540
Calhoun City	662-628-5441	Laurel	601-428-5464
Charleston	662-647-3401	Leland	662-686-2606
Clarksdale	662-624-5486	McComb	601-250-0062
Cleveland	662-843-4456	Newton	601-683-2752
Greenwood	662-453-1392	Oxford	662-234-5015
Hattiesburg	601-545-7020	Tupelo	662-842-2454
Indianola	662-887-1664		

### Administrative Office **601-977-8381**

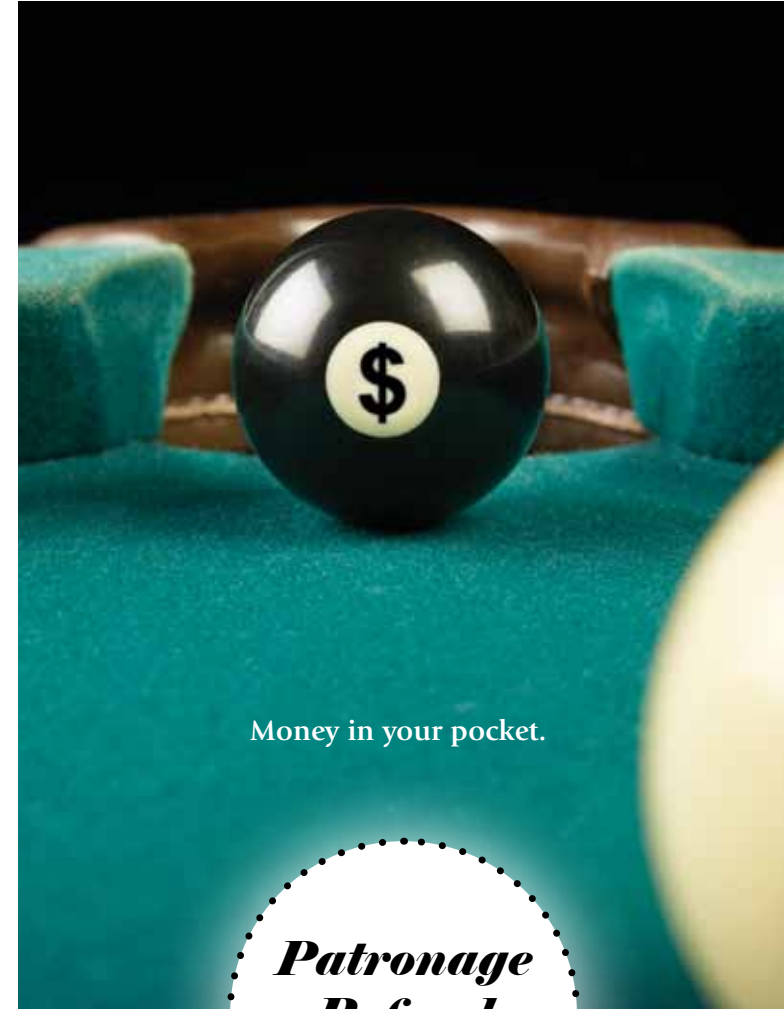
Ridgeland, MS



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## What are the benefits of being a Farm Credit member?

One of the most important benefits of being a Farm Credit member-borrower is that you stand to share in the association's profits.

Most businesses return their profits to their investors, not their customers. However, your Farm Credit association returns its profits to its customers, or the people who use its services. That's the cooperative way of doing business.

At the end of each fiscal year, your Farm Credit association determines its total income and expenses. Income remaining after all expenses are deducted (net income) can then be distributed in accordance with the bylaws.

Your association's board of directors can elect to:

- retain all of the net income to strengthen the association's capital position or
- distribute some or all of the association's net income to borrowers by declaring a dividend on stock or declaring a patronage refund.

## What is a Patronage Refund?

A patronage refund:

- is a way of distributing the association's net income to member-borrowers. A borrower's refund is based on his business activity with the association.
- may be paid in cash, allocated surplus, stock or any combination of these items.

## How do patronage refunds benefit Farm Credit borrowers?

Patronage refunds benefit borrowers by reducing their cost of borrowing. Farm Credit charges competitive rates on its loans—rates comparable to those charged by other lenders for similar loans.

However, a major difference between Farm Credit and other lenders is that Farm Credit returns its profits to its borrowers. When you receive a patronage refund from your Farm Credit association, your effective cost of borrowing is reduced.

One of the basic cooperative principles is that members derive benefits based on their use of the cooperative's services. Therefore, the more business you do with Farm Credit, the larger your potential patronage refund.

## How do patronage refunds benefit your Farm Credit association?

Patronage refunds can help your association reduce its tax expense and maintain a strong capital position. This helps the entire membership because an association with a strong capital position is better able to offer competitive interest rates, ensure a constant supply of credit and provide for the retirement of member equity held in the form of allocated surplus.

Unlike other corporations, where profits are taxed twice—when earned by the corporation and when distributed to owners as dividends—a cooperative's profits are taxed only once when they're distributed as a patronage refund.

Your cooperative is allowed a tax deduction for the amount of net income that it distributes in the form of a qualified patronage refund. Therefore, to effectively manage the association's tax expense and maintain a strong capital position, your association's board may elect to distribute taxable earnings to members as a qualified patronage refund. A qualified patronage refund is one in which at least 20 percent is paid in cash and the remainder in stock or Qualified Allocated Surplus.

## What is Allocated Surplus?

Members, through their boards, usually elect to leave a portion of the patronage refund in the cooperative to help keep its operations on a sound financial basis.

The retained portion of each member's patronage refund is recorded on the books of the association, or allocated to each member's equity account. This retained patronage refund is called Allocated Surplus. Allocated Surplus can be either Qualified or Nonqualified.

## How is my patronage refund issued?

The cash portion of your patronage refund may be issued to you by check or recorded on the association's books in a special account.

When any portion of a patronage refund is paid in cash, your board of directors may elect to set a minimum check amount as a means of controlling expenses. Cash distributions below the minimum check amount are recorded in a special account called Patronage Payable.

Members may request a check for monies in their Patronage Payable accounts, request that these amounts be applied to their loans, or leave these distributions "on account" with their association.

Patronage refunds issued in the form of allocated surplus can only be retired, or paid to members, upon approval of the board. Under the bylaws, the association cannot honor requests from members to retire individual allocated surplus accounts.

Each time a patronage distribution is issued, your Farm Credit association will notify eligible members of their patronage refunds. The notification will include a breakdown of the amount paid in cash (by check or Patronage Payable entry) and the amount paid in allocated surplus or stock.

## Will I receive a tax notification regarding my patronage refund?

Yes. Each January, your Farm Credit association will send you an IRS Form 1099. This form will show the total of all taxable patronage refunds issued to you during the previous year. If a portion of a patronage refund was paid in Qualified Allocated Surplus, the 1099 will include the cash and Qualified Allocated Surplus portion of the patronage refund.

## Patronage Refund Terms

The following is a description of the terms that appear on the apron of your patronage refund check or notice.

**The first line provides details of the components of your patronage refund for this period.**

<b>Amount Paid in Cash</b>	The portion of your patronage refund that was paid in cash.
<b>Amount Distributed as Qualified Allocated Surplus</b>	The portion of your qualified patronage refund that was distributed in Qualified Allocated Surplus. This amount has been placed in a surplus account in your name.
<b>Total Qualified Patronage Refund</b>	The sum of <b>Amount Paid in Cash</b> and <b>Amount Distributed as Qualified Allocated Surplus</b> . This is the total amount of your qualified patronage refund for this period.

**The second line shows how your check amount was calculated. If you received a notice instead of a check, this line shows how your new Patronage Payable Account Balance was calculated.**

<b>Amount Paid in Cash</b>	The portion of your patronage refund that was paid in cash.
<b>Previous Patronage Payable Account Balance</b>	The cash portion of previous patronage distributions not issued to you by check. Also includes the amount of uncashed checks from previous distributions.
<b>Withheld For Taxes</b>	If your account is coded non-exempt for tax purposes, a portion of the patronage refund has been withheld for taxes. The amount withheld for taxes is deducted from the cash portion of your current distribution.
<b>Check Amount Or</b>	<b>Amount Paid in Cash</b> plus <b>Previous Patronage Payable Account Balance</b> minus <b>Withheld for Taxes</b> . If this total is greater than the minimum check amount, a check is enclosed.
<b>New Patronage Payable Amount</b>	<b>Amount Paid in Cash</b> plus <b>Previous Patronage Payable Account Balance</b> minus <b>Withheld for Taxes</b> . This amount was not distributed to you by check because it is below the minimum check amount. If you would like to have this amount applied to your loan or paid to you by check, please contact your local office.
<b>Nonqualified Allocated Surplus</b>	Details about these accounts are included on your check or notice. For more information about these accounts or about patronage refunds, please contact your branch office.
<b>Nonqualified Retained Surplus</b>	

*This brochure is provided to familiarize you with patronage refunds and the benefits of belonging to your Farm Credit cooperative. All matters pertaining to patronage refunds and association equities are determined by your association's bylaws. Please refer to these bylaws and to your tax advisor for additional information.*