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**TAX ASSESSOR**

**MADISON COUNTY**

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August 9, 2013

Southern AG Credit  
402 W Parkway Place  
Ridgeland, MS 39157  
Attn: Mr. Phillip Morgan, CPA  
Vice President/Chief Financial Officer

Dear Mr. Morgan,

Our office has once again reviewed the protest and formal appeal submitted by Southern AG Credit and we do not agree that the Personal Property is exempt from taxation. We find that the examples used in the protest pertain to actual Federal agencies.

The 1975 Supreme Court Case U.S. vs. State Tax Commission of Mississippi, 421 U.S. 599 (1975) refers to sales or use tax on liquor sales.

The Southern AGCredit Stockholders Report for the Quarter Ended March 31, 2013 lists on page 3 under Significant events: "In December 2012, the Association's board of directors declared a cash patronage in the amount of \$6,861,055 which was paid to the Association Stockholders in February 2013". Entities of the Federal Government do not have stockholders – nor do they pay dividends.

In a letter printed in the Association Supplement – Winter 2012, Mr. Hayman, C.E.O. states in paragraph 5 "explains how your Farm Credit lender is locally owned and operated; how you get to vote for the board members" ... "Most important, explain how Southern AG credit provides value for membership by returning earnings to customers when it does well. As a matter of fact, since 1995, we have declared more than \$60 million in patronage refunds to our Customer-Owners"


In the same letter it is stated that Southern AGCredit is a member of the Farm Credit System, which according to the Investopedia website the definition of 'Farm Credit System-FCS' "was originally funded by the federal government to ensure American agriculture had a dependable source of credit. It is now self-funding and owned by its member-borrowers"

Southern AGCredit pays real property tax as per 12 USCS-2098. It is our view that intent was to include personal and real as property tax.

Finally, we find that Federal Land Bank Associations are not listed as exempt properties under MS. Code 27-31-1.

While we appreciate the service provided by SouthernAG Credit to our citizens in Mississippi and Madison County- this office cannot support the request for tax exemption on personal property.

Sincerely,



Gerald R. Barber  
Madison County Tax Assessor

Cc. Arthur Johnston, Madison County Chancery Clerk



# SOUTHERN AGCREDIT

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Member of the Farm Credit System

## Spread the Co-op Word



If you grew up in the country, you've probably been aware of co-ops since you were a youngster. In many rural communities, we buy our farm and garden inputs from a farm supply cooperative, receive our power from an electric co-op, and sell our cotton or grain to a cooperative.

There is a simple reason that cooperatives are prevalent in rural America: Farmers, ranchers and small-town residents figured out a long time ago that they were more likely to achieve their economic goals by working together through cooperation than by relying on a large corporation headquartered in a far-off place that didn't have their best interests at heart.

That's essentially why Southern AgCredit was started in 1917, and why the Farm Credit System, of which we're a member, remains the largest source of rural financing in the nation.

Still, not everybody is familiar with the benefits of doing business with a cooperative. And that's where you can help.

Tell your friends and relatives about the cooperative business model. Explain how your Farm Credit lender is locally owned and operated, how you get to vote for the board members, and how the cooperative's employees are experts in rural financing. Most important, explain how Southern AgCredit provides value for membership by returning earnings to customers when it does well. As a matter of fact, since 1995, we have declared more than \$60 million in patronage refunds to our customer-owners!

You'll be doing your friends a favor, and helping yourself too. The more creditworthy customers we have, the better Southern AgCredit will perform, and the greater our return to you will be.

This is the International Year of Cooperatives. Let's celebrate the positive impact that co-ops have on our lives.

Joe Hayman  
Chief Executive Officer

(800) 449-5742

www.SouthernAgCredit.com

**SOUTHERN AGCREDIT, ACA  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following commentary reviews the financial performance of the Southern AgCredit, ACA (Agricultural Credit Association), referred to as the Association, for the quarter ended March 31, 2013. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2012 Annual Report to Stockholders.

The Association is a member of the Farm Credit System (System), a nationwide network of cooperatively owned financial institutions established by and subject to the provisions of the Farm Credit Act of 1971, as amended, and the regulations of the Farm Credit Administration (FCA) promulgated thereunder.

The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries. The consolidated financial statements were prepared under the oversight of the Association's audit committee.

**Significant Events:**

In December 2012, the Association's board of directors declared a cash patronage in the amount of \$6,861,055 which was paid to the Association Stockholders in February 2013.

The Association continues to provide its members with quality financial services. The board of directors and management remain committed to maintaining the financial integrity of the Association while offering competitive loan products that meet the financial needs of agricultural producers.

**Loan Portfolio:**

Total loans outstanding at March 31, 2013, including nonaccrual loans and sales contracts, were \$714,313,052 compared to \$712,644,617 at December 31, 2012, reflecting an increase of 0.2 percent. Nonaccrual loans as a percentage of total loans outstanding were 0.3 percent at March 31, 2013, compared to 0.8 percent at December 31, 2012.

The Association recorded \$628 in recoveries and \$11,738 in charge-offs for the quarter ended March 31, 2013, and \$103,068 in recoveries and \$6,929 in charge-offs for the same period in 2012. The Association's allowance for loan losses was 0.4 percent and 0.3 percent of total loans outstanding as of March 31, 2013, and December 31, 2012, respectively.

**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.

	March 31, 2013		December 31, 2012	
	Amount	%	Amount	%
Nonaccrual	\$ 5,813,192	24.5%	\$ 5,847,547	24.5%
Formally restructured	940,085	4.0%	943,288	3.9%
Other property owned, net	16,969,643	71.5%	17,115,843	71.6%
Total	<u>\$ 23,722,920</u>	<u>100.0%</u>	<u>\$ 23,906,678</u>	<u>100.0%</u>

There were no loans past due 90 days or more and accruing interest.

The balance of nonaccrual volume as of March 31, 2013 is primarily related to two loans within the capital markets portfolio. One participation loan for the purpose of ethanol production recognized as nonperforming and moved to nonaccrual in the fourth quarter of 2012 has a remaining balance of \$1,438,062 and a specific reserve of \$452,990. A second loan to a nursery recognized as nonperforming and moved to nonaccrual in the third quarter of 2010 has a remaining balance of \$1,031,381 and a 100 percent loan loss reserve. The Association has one loan to an ethanol facility formally restructured through bankruptcy and reinstated to performing status in the second quarter of 2011.

The balance of other property owned as of March 31, 2013 is primarily related to the foreclosure of a large complex of loans to several borrowers in 2010 and 2011. These loans were originated in 2006 and recognized as nonperforming and moved to nonaccrual in the first quarter of 2008. Upon completion of the foreclosure, the Association recognized an increase in other property owned related to the value of the acquired collateral from these loans of \$10,008,396, and \$8,563,039, as received in years 2010 and 2011, respectively. Subsequent decreases in value include property liquidations and market value adjustments.

**NOTE 4 — 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 potential loss within the loan and lease portfolios; 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.

**NOTE 5 — INCOME TAXES:**

Southern AgCredit, ACA and its subsidiary are subject to federal and certain other income taxes. The Associations are eligible to operate as cooperatives that qualify for tax treatment under Subchapter T of the Internal Revenue code. Under specified conditions, the Associations can exclude from taxable income amounts distributed as qualified patronage refunds in the form of cash, stock or allocated surplus. Provisions for income taxes are made only on those earnings that will not be distributed as qualified patronage refunds. During the three months ended March 31, 2013, the Association did participate in a patronage program. Deferred taxes are recorded at the tax effect of all temporary differences based on the assumption that such temporary differences are retained by the institution and will therefore impact future tax payments. A valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (more than 50 percent probability), based on management's estimate, that they will not be realized. For the three months ended March 31, 2013, and 2012, net loss for tax purposes prior to the utilization of a tax benefit carry-forward was (\$20,600) and (\$71,684), respectively.

The subsidiary, Southern AgCredit, FLCA, is exempt from federal and other income taxes as provided in the Farm Credit Act of 1971.

**NOTE 6 — FAIR VALUE MEASUREMENTS:**

FASB guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. See Note 2 to the 2012 Annual Report to Stockholders for a more complete description.

Assets and liabilities measured at fair value on a recurring basis are summarized below:

<u>March 31, 2013</u>	<u>Fair Value Measurement Using</u>		
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets:			
Assets held in nonqualified benefit trusts	<u>\$ 108,634</u>	<u>\$ -</u>	<u>\$ -</u>
<u>December 31, 2012</u>	<u>Fair Value Measurement Using</u>		
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets:			
Assets held in nonqualified benefit trusts	<u>\$ 91,639</u>	<u>\$ -</u>	<u>\$ -</u>

## MISSISSIPPI CODE OF 1972

*As Amended*

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### SEC. 27-31-1. Exempt property.

The following shall be exempt from taxation:

(a) All cemeteries used exclusively for burial purposes.

(b) All property, real or personal, belonging to the State of Mississippi or any of its political subdivisions, except property of a municipality not being used for a proper municipal purpose and located outside the county or counties in which such municipality is located. A proper municipal purpose within the meaning of this section shall be any authorized governmental or corporate function of a municipality.

(c) All property, real or personal, owned by units of the Mississippi National Guard, or title to which is vested in trustees for the benefit of any unit of the Mississippi National Guard; provided such property is used exclusively for such unit, or for public purposes, and not for profit.

(d) All property, real or personal, belonging to any religious society, or ecclesiastical body, or any congregation thereof, or to any charitable society, or to any historical or patriotic association or society, or to any garden or pilgrimage club or association and used exclusively for such society or association and not for profit; not exceeding, however, the amount of land which such association or society may own as provided in Section 79-11-33. All property, real or personal, belonging to any rural waterworks system or rural sewage disposal system incorporated under the provisions of Section 79-11-1. All property, real or personal, belonging to any college or institution for the education of youths, used directly and exclusively for such purposes, provided that no such college or institution for the education of youths shall have exempt from taxation more than six hundred forty (640) acres of land; provided, however, this exemption shall not apply to commercial schools and colleges or trade institutions or schools where the profits of same inure to individuals, associations or corporations. All property, real or personal, belonging to an individual, institution or corporation and used for the operation of a grammar school, junior high school, high school or military school. All property, real or personal, owned and occupied by a fraternal and benevolent organization, when used by such organization, and from which no rentals or other profits accrue to the organization, but any part rented or from which revenue is received shall be taxed.

(e) All property, real or personal, held and occupied by trustees of public schools, and school lands of the respective townships for the use of public schools, and all property kept in storage for the convenience and benefit of the State of Mississippi in warehouses owned or leased by the State of Mississippi, wherein said property is to be sold by the Alcoholic Beverage Control Division of the State Tax Commission of the State of Mississippi.

(f) All property, real or personal, whether belonging to religious or charitable or benevolent organizations, which is used for hospital purposes, and nurses' homes where a part thereof, and which maintain one or more charity wards that are for charity patients, and where all the income from said hospitals and nurses' homes is used entirely for the purposes thereof and no part of the same for profit.

(g) The wearing apparel of every person; and also jewelry and watches kept by the owner for personal use to the extent of One Hundred Dollars (\$100.00) in value for each owner.

(h) Provisions on hand for family consumption.

(i) All farm products grown in this state for a period of two (2) years after they are harvested, when in the possession of or the title to which is in the producer, except the tax of one-fifth of one percent ( $1/5$  of 1%) per pound on lint cotton now levied by the Board of Commissioners of the Mississippi Levee District; and lint cotton for five (5) years, and cottonseed, soybeans, oats, rice and wheat for one (1) year regardless of ownership.

(j) All guns and pistols kept by the owner for private use.

(k) All poultry in the hands of the producer.

(l) Household furniture, including all articles kept in the home by the owner for his own personal or family use; but this shall not apply to hotels, rooming houses or rented or leased apartments.

(m) All cattle and oxen.

(n) All sheep, goats and hogs.

(o) All horses, mules and asses.

(p) Farming tools, implements and machinery, when used exclusively in the cultivation or harvesting of crops or timber.

(q) All property of agricultural and mechanical associations and fairs used for promoting their objects, and where no part of the proceeds is used for profit.

(r) The libraries of all persons.

(s) All pictures and works of art, not kept for or offered for sale as merchandise.

(t) The tools of any mechanic necessary for carrying on his trade.

(u) All state, county, municipal, levee, drainage and all school bonds or other governmental obligations, and all bonds and/or evidences of debts issued by any church or church organization in this state, and all notes and evidences of indebtedness which bear a rate of interest not greater than the maximum rate per annum applicable under the law; and all money loaned at a rate of interest not exceeding the maximum rate per annum applicable under the law; and all stock in or bonds of foreign corporations or associations shall be exempt from all ad valorem taxes.

(v) All lands and other property situated or located between the Mississippi River and the levee shall be exempt from the payment of any and all road taxes levied or assessed under any road laws of this state.

(w) Any and all money on deposit in either national banks, state banks or trust companies, on open account, savings account or time deposit.

(x) All wagons, carts, drays, carriages and other horse drawn vehicles, kept for the use of the owner.

(y) (1) Boats, seines and fishing equipment used in fishing and shrimping operations and in the taking or catching of oysters.

(2) All towboats, tugboats and barges documented under the laws of the United States, except watercraft of every kind and character used in connection with gaming operations.

(z) All materials used in the construction and/or conversion of vessels in this state; vessels while under construction and/or conversion; vessels while in the possession of the manufacturer, builder or converter, for a period of twelve (12) months after completion of construction and/or conversion, and as used herein the term "vessel" shall include ships, offshore drilling equipment, dry docks, boats and barges, except watercraft of every kind and character used in connection with gaming operations.

(aa) Sixty-six and two-thirds percent (66-2/3%) of nuclear fuel and reprocessed, recycled or residual nuclear fuel by-products, fissionable or otherwise, used or to be used in generation of electricity by persons defined as public utilities in Section 77-3-3.

(bb) All growing nursery stock.

(cc) A semitrailer used in interstate commerce.

(dd) All property, real or personal, used exclusively for the housing of and provision of services to elderly persons, disabled persons, mentally impaired persons or as a nursing home, which is owned, operated and managed by a not-for-profit corporation, qualified under Section 501(c)(3) of the Internal Revenue Code, whose membership or governing body is appointed or confirmed by a religious society or ecclesiastical body or any congregation thereof.

(ee) All vessels while in the hands of bona fide dealers as merchandise and which are not being operated upon the waters of this state shall be exempt from ad valorem taxes. As used in this paragraph, the terms "vessel" and "waters of this state" shall have the meaning ascribed to such terms in Section 59-21-3.

(ff) All property, real or personal, owned by a nonprofit organization that: (i) is qualified as tax exempt under Section 501(c)(4) of the Internal Revenue Code of 1986, as amended; (ii) assists in the implementation of the national contingency plan or area contingency plan, and which is created in response to the requirements of Title IV, Subtitle B of the Oil Pollution Act of 1990, Public Law 101-380; (iii) engages primarily in programs to contain, clean up and otherwise mitigate spills of oil or other substances occurring in the United States coastal or tidal waters; and (iv) is used for the purposes of the organization.

(gg) If a municipality changes its boundaries so as to include within the boundaries of such municipality the project site of any project as defined in Section 57-75-5(f)(iv)1, all real and personal property located on the project site within the boundaries of such municipality that is owned by a business enterprise operating such project, shall be exempt from ad valorem taxation for a period of time not to exceed thirty (30) years upon receiving approval for such exemption by the Mississippi Major Economic Impact Authority. The provisions of this subsection shall not be construed to authorize a breach of any agreement entered into pursuant to Section 21-1-59.

(hh) All leases, lease contracts or lease agreements (including, but not limited to, subleases, sublease contracts and sublease agreements), and leaseholds or leasehold interests (including, but not limited to, subleaseholds and subleasehold interests), of or with respect to any and all property (real,



personal or mixed) constituting all or any part of a facility for the manufacture, production, generation, transmission and/or distribution of electricity, and any real property related thereto, shall be exempt from ad valorem taxation during the period as the United States is both the title owner of the property and a sublessee of or with respect to the property; however, the exemption authorized by this paragraph (hh) shall not apply to any entity to whom the United States sub-subleases its interest in the property nor to any entity to whom the United States assigns its sublease interest in the property. As used in this paragraph, the term "United States" includes an agency or instrumentality of the United States of America. This paragraph (hh) shall apply to all assessments for ad valorem taxation for the 2003 calendar year and each calendar year thereafter.

(ii) All property, real, personal or mixed, including fixtures and leaseholds, used by Mississippi nonprofit entities qualified, on or before January 1, 2005, under Section 501(c)(3) of the Internal Revenue Code to provide support and operate technology incubators for research and development start-up companies, telecommunication start-up companies and/or other technology start-up companies, utilizing technology spun-off from research and development activities of the public colleges and universities of this state, State of Mississippi governmental research or development activities resulting therefrom located within the State of Mississippi.

(jj) All property, real, personal or mixed, including fixtures and leaseholds, of start-up companies (as described in paragraph (ii) of this section) for the period of time, not to exceed five (5) years, that the start-up company remains a tenant of a technology incubator (as described in paragraph (ii) of this section).

**SOURCES:** Codes, Hutchinson's 1848, ch. 8, art. 2 (1); 1857, ch. 3, art. 11; 1871, Sec. 1662; 1880, Sec. 468; 1892, Sec. 3744; 1906, Sec. 4251; Hemingway's 1917, Sec. 6878; 1930, Sec. 3108; 1942, Sec. 9697; Laws, 1928, ch. 185; 1932, chs. 137, 289; 1934, ch. 157; 1935, ch. 23; 1938, ch. 128; 1946, ch. 234, Sec. 1; 1952, ch. 424; 1954, ch. 384; 1958, ch. 564; 1960, chs. 464, 465; 1966, ch. 639, Sec. 1; 1968, ch. 582, Sec. 1; 1971, ch. 412, Sec. 1; 1972, ch. 448, Sec. 1; 1978, ch. 410, Sec. 4; 1980, ch. 479; 1984, ch. 456, Sec. 1; 1986, ch. 403, Sec. 1; 1988, ch. 506, Sec. 2; 1990, ch. 463, Sec. 1; 1992, ch. 418, Sec. 1; 1993, ch. 604, Sec. 1, eff from and after October 1, 1993. Amended by Laws 1999, Ch. 450, Sec. 1, SB3105, eff. from and after passage (approved March 19, 1999); Laws, 2000, 3rd Ex Sess, ch. 1, Sec. 23, HB1; Laws, 2003, ch. 476, § 1, SB 2922; Laws, 2004, ch. 494, § 1, SB 3177, eff from and after Jan. 1, 2004.

**PREVIOUS VERSIONS:** Pre-2004

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Chapter Index | Table of Contents