

# **LEGACY AG CREDIT, ACA**

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## **2015 Quarterly Report First Quarter**



**For the Quarter Ended March 31, 2015**

## REPORT OF MANAGEMENT

The undersigned certify that we have reviewed this report, that it has been prepared in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate and complete to the best of our knowledge and belief.



Joseph Crouch, Chief Executive Officer  
May 4, 2015



Jerry Cordell, Chairman, Board of Directors  
May 4, 2015



Daryl D. Belt, Chief Financial Officer  
May 4, 2015



Wayne Bawcum, CPA, Chairman, Audit Committee  
May 4, 2015

## LEGACY AG CREDIT, ACA MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the financial performance of the Legacy Ag Credit, ACA (Agricultural Credit Association), referred to as the association, for the quarter ended March 31, 2015. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2014 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 January 2015, the Board of Directors approved a patronage payment related to 2014 earnings of \$1,600,000. The patronage was paid in March 2015.

### Loan Portfolio:

Total loans outstanding at March 31, 2015, including nonaccrual loans and sales contracts, were \$221,446,992 compared to \$228,889,211 at December 31, 2014, reflecting a decrease of 3.3 percent. A large relationship that paid off accounts for a majority of the decrease in loan volume during the first quarter 2015. Nonaccrual loans as a percentage of total loans outstanding were 1.0 percent at March 31, 2015, compared to 1.2 percent at December 31, 2014.

The association recorded \$7,070 in recoveries and \$1,375 in charge-offs for the quarter ended March 31, 2015, and \$3,400 in recoveries and \$0 in charge-offs for the same period in 2014. The association's allowance for loan losses was 1.2 percent and 1.3 percent of total loans outstanding as of March 31, 2015, and December 31, 2014, 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, 2015		December 31, 2014	
	Amount	%	Amount	%
Nonaccrual	\$ 2,235,114	35.5%	\$ 2,791,617	43.8%
Formally restructured	3,766,940	59.8%	3,289,626	51.6%
Other property owned, net	295,445	4.7%	295,631	4.6%
Total	\$ 6,297,499	100.0%	\$ 6,376,874	100.0%

### Results of Operations:

The association had net income of \$1,392,015 for the three months ended March 31, 2015, as compared to net income of \$1,183,330 for the same period in 2014, reflecting an increase of 17.6 percent. A reversal of provision / allowance for loan losses, related to the decline in loan volume during the first quarter of 2015, along with an increase in the recognition of foregone interest was responsible for a majority of the increase in net income for the first quarter 2015. Net interest income was \$2,111,734 for the three months ended March 31, 2015, compared to \$1,952,524 for the same period in 2014.

	<u>March 31, 2015</u>		<u>March 31, 2014</u>	
	Average Balance	Interest	Average Balance	Interest
Loans	\$ 224,182,375	\$ 3,062,668	\$ 216,799,841	\$ 2,856,309
Interest-bearing liabilities	173,492,520	950,934	170,226,152	903,785
Impact of capital	<u>\$ 50,689,855</u>		<u>\$ 46,573,689</u>	
Net interest income		<u>\$ 2,111,734</u>		<u>\$ 1,952,524</u>

	<u>2015 Average Yield</u>	<u>2014 Average Yield</u>
Yield on loans	5.54%	5.34%
Cost of interest-bearing liabilities	2.22%	2.15%
Interest rate spread	3.32%	3.19%
Net interest income as a percentage of average earning assets	3.82%	3.65%

	<u>March 31, 2015 vs. March 31, 2014</u>		
	<u>Increase (decrease) due to</u>		
	<u>Volume</u>	<u>Rate</u>	<u>Total</u>
Interest income - loans	\$ 97,263	\$ 109,096	\$ 206,359
Interest expense	17,342	29,807	47,149
Net interest income	<u>\$ 79,921</u>	<u>\$ 79,289</u>	<u>\$ 159,210</u>

Interest income for the three months ended March 31, 2015, increased by \$206,359, or 7.2 percent, from the same period of 2014, primarily due to increases in yields on earning assets and an increase in average loan volume. The majority of the rate increase in the first quarter of 2015 was caused by the recognition of foregone interest. Interest expense for the three months ended March 31, 2015, increased by \$47,149, or 5.2 percent, from the same period of 2014 due to an increase in interest rates as well as an increase in average debt volume. Average loan volume for the first quarter of 2015 was \$224,182,375, compared to \$216,799,841 in the first quarter of 2014. The average net interest rate spread on the loan portfolio for the first quarter of 2015 was 3.32 percent, compared to 3.19 percent in the first quarter of 2014.

The association's return on average assets for the three months ended March 31, 2015, was 2.48 percent compared to 2.18 percent for the same period in 2014. The association's return on average equity for the three months ended March 31, 2015, was 10.94 percent, compared to 10.01 percent for the same period in 2014.

#### **Liquidity and Funding Sources:**

The association secures the majority of its lendable funds from the Farm Credit Bank of Texas (the bank), which obtains its funds through the issuance of Systemwide obligations and with lendable equity. The following schedule summarizes the association's borrowings.

	<u>March 31, 2015</u>	<u>December 31, 2014</u>
Note payable to the bank	\$ 171,435,712	\$ 177,687,550
Accrued interest on note payable	322,469	337,241
Total	<u>\$ 171,758,181</u>	<u>\$ 178,024,791</u>

The association operates under a general financing agreement (GFA) with the bank. The current GFA is effective through September 30, 2015. The primary source of liquidity and funding for the association is a direct loan from the bank. The outstanding balance of \$171,435,712 as of March 31, 2015, is recorded as a liability on the association's balance sheet. The note carried a weighted average interest rate of 2.22 percent at March 31, 2015. The indebtedness is collateralized by a pledge of substantially all of the association's assets to the bank and is governed by the general financing agreement. The decrease in note payable to the bank and related accrued

interest payable since December 31, 2014, is due to the association's decrease in loan volume. The association's own funds, which represent the amount of the association's loan portfolio funded by the association's equity, were \$49,942,954 at March 31, 2015. The maximum amount the association may borrow from the bank as of March 31, 2015, was \$207,464,218 as defined by the general financing agreement. The indebtedness continues in effect until the expiration date of the general financing agreement unless sooner terminated by the bank upon the occurrence of an event of default, or by the association, in the event of a breach of this agreement by the bank, upon giving the bank 30 calendar days' prior written notice, or in all other circumstances, upon giving the bank 120 days' prior written notice.

The liquidity policy of the Association is to manage cash balances, to maximize debt reduction and to increase accrual loan volume. This policy will continue to be pursued in the future. As borrower payments are received, they are applied to the association's note payable to the bank.

#### **Capital Resources:**

The association's capital position decreased by \$221,573 at March 31, 2015, compared to December 31, 2014. This decrease is due to the payment of \$1.6 million in cash patronage during the first quarter of 2015, which decreases capital, offset by net income generated during the first quarter of 2015. The association's debt as a percentage of members' equity was 3.34:1 as of March 31, 2015, compared to 3.45:1 as of December 31, 2014.

Under regulations governing minimum permanent capital adequacy and other capitalization issues, the association is required to maintain a minimum adjusted permanent capital of 7.0 percent of risk-adjusted assets as defined by the FCA. The association's permanent capital ratio at March 31, 2015, was 22.3 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, 2015, were 21.8 and 21.8 percent, respectively, which is in compliance with the FCA's minimum surplus standard.

#### **Regulatory Matters:**

On September 4, 2014, the Farm Credit Administration published a proposed rule to modify the regulatory capital requirements for System banks and associations. The stated objectives of the proposed rule are as follows:

- To modernize capital requirements while ensuring that the institutions continue to hold sufficient regulatory capital to fulfill their mission as a government-sponsored enterprise,
- To ensure that the System's capital requirements are comparable to the Basel III framework and the standardized approach that the federal banking regulatory agencies have adopted, but also to ensure that the rules recognize the cooperative structure and the organization of the System,
- To make System regulatory capital requirements more transparent and
- To meet the requirements of section 939A of the Dodd-Frank Act.

The public comment period ended on February 16, 2015.

#### **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 2014 Annual Report of Legacy Ag Credit, ACA more fully describe the association's relationship with the bank.

The Texas Farm Credit District's (district) annual and quarterly stockholder reports, as well as those of the bank, 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) 483-9204. Copies of the district's quarterly and annual stockholder reports also can be requested by e-mail at [fcdb@farmcreditbank.com](mailto:fcdb@farmcreditbank.com). The annual and quarterly stockholder reports for the bank and the district are also available on its website at [www.farmcreditbank.com](http://www.farmcreditbank.com).

The association's quarterly stockholder reports are also available free of charge, upon request. These reports can be obtained by writing to Legacy Ag Credit, ACA, 303 Connally St., Sulphur Springs, TX 75482 or calling (903)885-9566. The annual and quarterly stockholder reports for the association are also available on its website at [www.legacyaca.com](http://www.legacyaca.com). Copies of the association's quarterly stockholder reports can also be requested by e-mailing [sherry.jennings@legacyaca.com](mailto:sherry.jennings@legacyaca.com).

**LEGACY AG CREDIT, ACA**

**CONSOLIDATED BALANCE SHEET**

	<b>March 31, 2015 (unaudited)</b>	<b>December 31, 2014</b>
<b><u>ASSETS</u></b>		
Cash	\$ 97,512	\$ 96,944
Loans	221,446,992	228,889,211
Less: allowance for loan losses	2,740,430	3,026,371
Net loans	<u>218,706,562</u>	<u>225,862,840</u>
Accrued interest receivable	1,542,952	1,275,553
Investment in and receivable from the Farm Credit Bank of Texas:		
Capital stock	3,506,090	3,506,090
Other	57,509	170,855
Other property owned, net	295,445	295,631
Premises and equipment, net	551,259	576,391
Other assets	298,996	138,809
Total assets	<u><u>\$ 225,056,325</u></u>	<u><u>\$ 231,923,113</u></u>
<b><u>LIABILITIES</u></b>		
Note payable to the Farm Credit Bank of Texas	\$ 171,435,712	\$ 177,687,550
Accrued interest payable	322,469	337,241
Drafts outstanding	182,487	725,500
Other liabilities	1,246,916	1,082,508
Total liabilities	<u>173,187,584</u>	<u>179,832,799</u>
<b><u>MEMBERS' EQUITY</u></b>		
Capital stock and participation certificates	1,074,155	1,080,365
Unallocated retained earnings	50,648,964	50,856,949
Accumulated other comprehensive income (loss)	145,622	153,000
Total members' equity	<u>51,868,741</u>	<u>52,090,314</u>
Total liabilities and members' equity	<u><u>\$ 225,056,325</u></u>	<u><u>\$ 231,923,113</u></u>

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

**LEGACY AG CREDIT, ACA**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(unaudited)

	<b>Quarter Ended</b>	
	<b>March 31,</b>	
	<b>2015</b>	<b>2014</b>
<b><u>INTEREST INCOME</u></b>		
Loans	\$ 3,062,668	\$ 2,856,309
<b><u>INTEREST EXPENSE</u></b>		
Note payable to the Farm Credit Bank of Texas	950,934	903,767
Advance conditional payments	-	18
Total interest expense	<u>950,934</u>	<u>903,785</u>
Net interest income	2,111,734	1,952,524
<b><u>PROVISION FOR LOAN LOSSES</u></b>		
	<u>(291,636)</u>	<u>(39,446)</u>
Net interest income after provision for loan losses	<u>2,403,370</u>	<u>1,991,970</u>
<b><u>NONINTEREST INCOME</u></b>		
Income from the Farm Credit Bank of Texas:		
Patronage income	148,293	157,985
Loan fees	22,249	37,324
Financially related services income	139	76
Other noninterest income	23,050	20,847
Total noninterest income	<u>193,731</u>	<u>216,232</u>
<b><u>NONINTEREST EXPENSES</u></b>		
Salaries and employee benefits	762,310	617,052
Directors' expense	57,945	52,092
Purchased services	58,333	82,052
Travel	56,463	51,699
Occupancy and equipment	55,762	44,703
Communications	21,718	13,280
Advertising	13,648	11,454
Public and member relations	30,270	21,029
Supervisory and exam expense	20,545	22,849
Insurance Fund premiums	51,078	45,852
Loss on other property owned, net	2,398	-
Other noninterest expense	74,616	62,810
Total noninterest expenses	<u>1,205,086</u>	<u>1,024,872</u>
<b>NET INCOME</b>	<u>1,392,015</u>	<u>1,183,330</u>
Other comprehensive income:		
Change in postretirement benefit plans	<u>(7,378)</u>	<u>(10,498)</u>
<b>COMPREHENSIVE INCOME</b>	<u>\$ 1,384,637</u>	<u>\$ 1,172,832</u>

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

LEGACY AG CREDIT, ACA

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY  
(unaudited)

	<u>Capital Stock/ Participation Certificates</u>	<u>Retained Earnings Unallocated</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total Members' Equity</u>
Balance at December 31, 2013	\$ 1,021,690	\$ 46,935,078	\$ 237,475	\$ 48,194,243
Comprehensive income	-	1,183,330	(10,498)	1,172,832
Capital stock/participation certificates and allocated retained earnings issued	33,330	-	-	33,330
Capital stock/participation certificates and allocated retained earnings retired	(26,840)	-	-	(26,840)
Patronage paid	-	(1,250,000)	-	(1,250,000)
Balance at March 31, 2014	<u>\$ 1,028,180</u>	<u>\$ 46,868,408</u>	<u>\$ 226,977</u>	<u>\$ 48,123,565</u>
Balance at December 31, 2014	\$ 1,080,365	\$ 50,856,949	\$ 153,000	\$ 52,090,314
Comprehensive income	-	1,392,015	(7,378)	1,384,637
Capital stock/participation certificates and allocated retained earnings issued	32,320	-	-	32,320
Capital stock/participation certificates and allocated retained earnings retired	(38,530)	-	-	(38,530)
Patronage paid	-	(1,600,000)	-	(1,600,000)
<b>Balance at March 31, 2015</b>	<u><b>\$ 1,074,155</b></u>	<u><b>\$ 50,648,964</b></u>	<u><b>\$ 145,622</b></u>	<u><b>\$ 51,868,741</b></u>

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



**LEGACY AG CREDIT, ACA**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(UNAUDITED)

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

The Legacy Ag Credit, ACA (Agricultural 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 Franklin, Gregg, Harrison, Hopkins, Kaufman, Marion, Rains, Upshur, Van Zandt and Wood in the state of Texas. 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.

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. (GAAP) for interim financial information. Accordingly, they do not include all of the disclosures required by GAAP for annual financial statements and should be read in conjunction with the audited financial statements as of and for the year ended March 31, 2014, as contained in the 2014 Annual Report to Stockholders.

In the opinion of management, the accompanying consolidated 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 (GAAP), except for the inclusion of a statement of cash flows. GAAP 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. 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 consolidated financial statements. These interim financial statements should be read in conjunction with the audited financial statements as of and for the year ended March 31, 2014, as contained in the 2014 Annual Report to Stockholders. The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year ending December 31, 2015. Descriptions of the significant accounting policies are included in the 2014 Annual Report to Stockholders. In the opinion of management, these policies and the presentation of the interim financial condition and results of operations conform with GAAP and prevailing practices within the banking industry.

In August 2014, the Financial Accounting Standards Board (FASB) issued guidance entitled “Presentation of Financial Statements—Going Concern.” The guidance governs management’s responsibility to evaluate whether there is substantial doubt about an entity’s ability to continue as a going concern and to provide related footnote disclosures. This guidance requires management to perform interim and annual assessments of an entity’s ability to continue as a going concern within one year after the date the financial statements are issued or within one year after the financial statements are available to be issued, when applicable. Substantial doubt exists if it is probable that the entity will be unable to meet its obligations for the assessed period. This guidance becomes effective for interim and annual periods ending after December 15, 2016, and early application is permitted. Management will be required to make its initial assessment as of December 31, 2016.

In May 2014, the FASB issued guidance entitled, “Revenue from Contracts with Customers.” The guidance governs revenue recognition from contracts with customers and requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Financial instruments and other contractual rights within the scope of other guidance issued by the FASB are excluded from the scope of this new revenue recognition guidance. In this regard, a majority of our contracts would be excluded from the scope of this new guidance. The guidance becomes effective for the first interim reporting period within the annual reporting periods after December 15, 2016. The association is in the process of reviewing contracts to determine the effect, if any, on the association’s financial condition or its results of operations.

The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries. The preparation of these consolidated financial statements requires the use of management’s estimates. The results for the quarter ended March 31, 2015, are not necessarily indicative of the results to be expected for the year ended December 31, 2015. Certain amounts in the prior period’s financial statements have been reclassified to conform to current financial statement presentation.

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

A summary of loans follows:

Loan Type	March 31, 2015 Amount	December 31, 2014 Amount
Production agriculture:		
Real estate mortgage	\$ 183,073,605	\$ 193,114,291
Production and intermediate term	11,693,301	10,016,152
Agribusiness:		
Loans to cooperatives	203,499	-
Processing and marketing	8,307,758	7,971,551
Farm-related business	999,178	999,124
Communication	2,236,051	1,250,361
Energy	7,159,484	7,875,308
Water and waste water	1,992,065	1,991,857
Rural residential real estate	5,782,051	5,670,567
Total	\$ 221,446,992	\$ 228,889,211

The association purchases or sells participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration regulations. The following table presents information regarding the balances of participations purchased and sold at March 31, 2015:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
	Real estate mortgage	\$ 1,718,335	\$ 1,126,006	\$ -	\$ -	\$ 1,718,335
Production and intermediate term	3,211,417	-	-	-	3,211,417	-
Agribusiness	9,510,435	-	-	-	9,510,435	-
Communication	2,236,052	-	-	-	2,236,052	-
Energy	7,098,408	-	-	-	7,098,408	-
Water and waste water	1,992,065	-	-	-	1,992,065	-
Total	\$ 25,766,712	\$ 1,126,006	\$ -	\$ -	\$ 25,766,712	\$ 1,126,006

Nonperforming assets (including related accrued interest) and related credit quality statistics are as follows:

	March 31, 2015	December 31, 2014
<b>Nonaccrual loans:</b>		
Real estate mortgage	\$ 2,128,466	\$ 2,650,134
Production and intermediate term	86,663	120,867
Rural residential real estate	19,985	20,616
Total nonaccrual loans	2,235,114	2,791,617
<b>Accruing restructured loans:</b>		
Real estate mortgage	3,766,940	3,289,626
Total accruing restructured loans	3,766,940	3,289,626
Total nonperforming loans	6,002,054	6,081,243
Other property owned	295,445	295,631
Total nonperforming assets	\$ 6,297,499	\$ 6,376,874

One credit quality indicator utilized by the association is the Farm Credit Administration Uniform Loan Classification System that categorizes loans into five categories. The categories are defined as follows:

- Acceptable – assets are expected to be fully collectible and represent the highest quality;
- Other assets especially mentioned (OAEM) – assets are currently collectible but exhibit some potential weakness;
- Substandard – assets exhibit some serious weakness in repayment capacity, equity and/or collateral pledged on the loan;
- Doubtful – assets exhibit similar weaknesses to substandard assets; however, doubtful assets have additional weaknesses in existing factors, conditions and values that make collection in full highly questionable; and
- Loss – assets are considered uncollectible.

The following table shows loans and related accrued interest as a percentage of total loans and related accrued interest receivable by loan type as of:

	<b>March 31, 2015</b>	December 31, 2014
Real estate mortgage		
Acceptable	<b>85.8</b> %	83.2 %
OAEM	<b>10.1</b>	12.6
Substandard/doubtful	<b>4.1</b>	4.2
	<b>100.0</b>	100.0
Production and intermediate term		
Acceptable	<b>86.0</b>	83.1
OAEM	<b>0.2</b>	0.3
Substandard/doubtful	<b>13.8</b>	16.6
	<b>100.0</b>	100.0
Agribusiness		
Acceptable	<b>100.0</b>	100.0
OAEM	-	-
Substandard/doubtful	-	-
	<b>100.0</b>	100.0
Energy		
Acceptable	<b>100.0</b>	100.0
OAEM	-	-
Substandard/doubtful	-	-
	<b>100.0</b>	100.0
Communication		
Acceptable	<b>100.0</b>	100.0
OAEM	-	-
Substandard/doubtful	-	-
	<b>100.0</b>	100.0
Rural residential real estate		
Acceptable	<b>99.1</b>	99.0
OAEM	<b>0.6</b>	0.6
Substandard/doubtful	<b>0.3</b>	0.4
	<b>100.0</b>	100.0
Water/waste water		
Acceptable	<b>100.0</b>	100.0
OAEM	-	-
Substandard/doubtful	-	-
	<b>100.0</b>	100.0
Total loans		
Acceptable	<b>87.5</b>	85.1
OAEM	<b>8.4</b>	10.6
Substandard/doubtful	<b>4.1</b>	4.3
	<b>100.0</b> %	100.0 %

The following tables provide an age analysis of past due loans (including accrued interest) as of:

March 31, 2015	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment >90 Days and Accruing
Real estate mortgage	\$ 1,199,484	\$ 166,908	\$ 1,366,392	\$ 183,085,321	\$ 184,451,713	\$ -
Production and intermediate term	5,941	12,299	18,240	11,767,354	11,785,594	-
Loans to cooperatives	-	-	-	203,601	203,601	-
Processing and marketing	-	-	-	8,312,662	8,312,662	-
Farm-related business	-	-	-	999,503	999,503	-
Communication	-	-	-	2,236,206	2,236,206	-
Energy	-	-	-	7,192,857	7,192,857	-
Water and waste water	-	-	-	2,002,288	2,002,288	-
Rural residential real estate	-	-	-	5,805,520	5,805,520	-
Total	<u>\$ 1,205,425</u>	<u>\$ 179,207</u>	<u>\$ 1,384,632</u>	<u>\$ 221,605,312</u>	<u>\$ 222,989,944</u>	<u>\$ -</u>
December 31, 2014	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment >90 Days and Accruing
Real estate mortgage	\$ 1,833,508	\$ -	\$ 1,833,508	\$ 192,387,629	\$ 194,221,137	\$ -
Production and intermediate term	37,499	-	37,499	10,029,649	10,067,148	-
Processing and marketing	-	-	-	7,977,546	7,977,546	-
Farm-related business	-	-	-	999,482	999,482	-
Communication	-	-	-	1,250,464	1,250,464	-
Energy	-	-	-	7,939,269	7,939,269	-
Water and waste water	-	-	-	2,019,635	2,019,635	-
Rural residential real estate	-	-	-	5,690,083	5,690,083	-
Total	<u>\$ 1,871,007</u>	<u>\$ -</u>	<u>\$ 1,871,007</u>	<u>\$ 228,293,757</u>	<u>\$ 230,164,764</u>	<u>\$ -</u>

Note: The recorded investment in the receivable is the face amount increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges or acquisition costs, and may also reflect a previous direct write-down of the investment.

A restructuring of a debt constitutes a troubled debt restructuring if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. Troubled debt restructurings are undertaken in order to improve the likelihood of recovery on the loan and may include, but are not limited to, forgiveness of principal or interest, interest rate reductions that are lower than the current market rate for new debt with similar risk, or significant term or payment extensions.

As of March 31, 2015, the total recorded investment of troubled debt restructured loans was \$4,211,684, including \$444,744 classified as nonaccrual and \$3,766,940 classified as accrual, with specific allowance for loan losses of \$719,326. The specific allowance is determined quarterly through a net realizable value analysis for each individual loan asset. As of March 31, 2015 and December 31, 2014, there were no commitments to lend funds to borrowers whose loan terms have been modified in a troubled debt restructuring.

The following tables present additional information regarding troubled debt restructurings, which includes both accrual and nonaccrual loans with troubled debt restructuring designation, that occurred during the three months ended March 31, 2015. There were no troubled debt restructurings during the three months ended March 31, 2014. The premodification outstanding recorded investment represents the recorded investment of the loans as of the quarter end prior to the restructuring. The postmodification outstanding recorded investment represents the recorded investment of the loans as of the quarter end the restructuring occurred. Loans formally restructured prior to January 1, 2015, were \$3,765,765.

For the Three Months Ended March 31, 2015	Premodification Outstanding Recorded Investment	Postmodification Outstanding Recorded Investment
Troubled debt restructurings:		
Real estate mortgage	\$ 441,418	\$ 445,919
Total	<u>\$ 441,418</u>	<u>\$ 445,919</u>

In restructurings where principal is forgiven, the amount of the forgiveness is immediately charged off. In restructurings where accrued interest is forgiven, the interest is reversed (if current year interest) or charged off (if prior year interest). There were no charge-offs recorded at the modification date for the quarter ending March 31, 2015.

The predominant form of concession granted for troubled debt restructuring includes principal and interest reductions. Other types of modifications include extension of the term, principal or accrued interest reductions, interest rate decreases and delayed payments, among others. At times, these terms might be offset with incremental payments, collateral or new borrower guarantees, in which case we assess all of the modified terms to determine if the overall modification qualifies as a troubled debt restructuring.

There were no loans in 2015 or 2014 that met the accounting criteria as a troubled debt restructuring and that occurred within the previous 12 months and for which there was a subsequent payment default during the period. A payment default is defined as a payment that is 30 days past due after the date the loan was restructured.

The following table provides information on outstanding loans restructured in troubled debt restructurings at period end. These loans are included as impaired loans in the impaired loan table at:

	Loans Modified as TDRs		TDRs in Nonaccrual Status*	
	March 31, 2015	December 31, 2014	March 31, 2015	December 31, 2014
Real estate mortgage	\$ 4,141,582	\$ 3,674,258	\$ 374,642	\$ 384,632
Production and intermediate term	70,102	74,645	70,102	74,645
Total	<u>\$ 4,211,684</u>	<u>\$ 3,748,903</u>	<u>\$ 444,744</u>	<u>\$ 459,277</u>

\*represents the portion of loans modified as TDRs that are in nonaccrual status

Additional impaired loan information is as follows:

	March 31, 2015			December 31, 2014		
	Recorded Investment	Unpaid Principal Balance <sup>a</sup>	Related Allowance	Recorded Investment	Unpaid Principal Balance <sup>a</sup>	Related Allowance
Impaired loans with a related allowance for credit losses:						
Real estate mortgage	\$ 2,795,305	\$ 2,811,816	\$ 721,616	\$ 2,808,638	\$ 2,857,814	\$ 693,114
Production and intermediate term	70,102	78,457	29,710	104,306	112,729	52,816
Total	<u>\$ 2,865,407</u>	<u>\$ 2,890,273</u>	<u>\$ 751,326</u>	<u>\$ 2,912,944</u>	<u>\$ 2,970,543</u>	<u>\$ 745,930</u>
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	\$ 3,100,101	\$ 3,132,481	\$ -	\$ 3,131,122	\$ 3,165,359	\$ -
Production and intermediate term	16,561	2,463,819	-	16,561	2,758,068	-
Rural residential real estate	19,985	20,047	-	20,616	20,678	-
Total	<u>\$ 3,136,647</u>	<u>\$ 5,616,347</u>	<u>\$ -</u>	<u>\$ 3,168,299</u>	<u>\$ 5,944,105</u>	<u>\$ -</u>
Total impaired loans:						
Real estate mortgage	\$ 5,895,406	\$ 5,944,297	\$ 721,616	\$ 5,939,760	\$ 6,023,173	\$ 693,114
Production and intermediate term	86,663	2,542,276	29,710	120,867	2,870,797	52,816
Rural residential real estate	19,985	20,047	-	20,616	20,678	-
Total	<u>\$ 6,002,054</u>	<u>\$ 8,506,620</u>	<u>\$ 751,326</u>	<u>\$ 6,081,243</u>	<u>\$ 8,914,648</u>	<u>\$ 745,930</u>

<sup>a</sup> Unpaid principal balance represents the recorded principal balance of the loan.

	For the Quarter & Year Ended March 31, 2015		For the Quarter & Year Ended March 31, 2014	
	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:				
Real estate mortgage	\$ 2,763,915	\$ 32,954	\$ 3,416,190	\$ 32,852
Production and intermediate term	72,415	-	120,469	-
Total	<u>\$ 2,836,330</u>	<u>\$ 32,954</u>	<u>\$ 3,536,659</u>	<u>\$ 32,852</u>
Impaired loans with no related allowance for credit losses:				
Real estate mortgage	\$ 3,111,657	\$ 95,055	\$ 3,610,600	\$ 15,438
Production and intermediate term	41,160	-	13,446	-
Rural residential real estate	20,237	-	22,741	-
Total	<u>\$ 3,173,054</u>	<u>\$ 95,055</u>	<u>\$ 3,646,787</u>	<u>\$ 15,438</u>
Total impaired loans:				
Real estate mortgage	\$ 5,875,572	\$ 128,009	\$ 7,026,790	\$ 48,290
Production and intermediate term	113,575	-	133,915	-
Rural residential real estate	20,237	-	22,741	-
Total	<u>\$ 6,009,384</u>	<u>\$ 128,009</u>	<u>\$ 7,183,446</u>	<u>\$ 48,290</u>

A summary of changes in the allowance for loan losses and period end recorded investment in loans is as follows:

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy	Rural Residential Real Estate	Water/Waste Water	Total
<b>Allowance for Credit Losses:</b>								
Balance at								
December 31, 2014	\$ 2,776,744	\$ 201,056	\$ 11,399	\$ 1,330	\$ 20,953	\$ 3,574	\$ 11,314	\$ 3,026,370
Charge-offs	(1,375)	-	-	-	-	-	-	(1,375)
Recoveries	4,370	2,700	-	-	-	-	-	7,070
Provision for loan losses	(275,232)	(14,923)	247	467	(2,917)	717	6	(291,635)
Balance at								
March 31, 2015	\$ 2,504,507	\$ 188,833	\$ 11,646	\$ 1,797	\$ 18,036	\$ 4,291	\$ 11,320	\$ 2,740,430
Ending Balance:								
Individually evaluated for impairment	\$ 721,616	\$ 29,710	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 751,326
Collectively evaluated for impairment	1,782,891	159,123	11,646	1,797	18,036	4,291	11,320	1,989,104
Balance at								
March 31, 2015	\$ 2,504,507	\$ 188,833	\$ 11,646	\$ 1,797	\$ 18,036	\$ 4,291	\$ 11,320	\$ 2,740,430
Balance at								
December 31, 2013	\$ 2,995,027	\$ 252,804	\$ 6,279	\$ 3,064	\$ 25,845	\$ 6,185	\$ 10,319	\$ 3,299,523
Charge-offs	-	-	-	-	-	-	-	-
Recoveries	-	3,400	-	-	-	-	-	3,400
Provision for loan losses	(14,312)	(25,407)	518	(104)	(326)	40	145	(39,446)
Balance at								
March 31, 2014	\$ 2,980,715	\$ 230,797	\$ 6,797	\$ 2,960	\$ 25,519	\$ 6,225	\$ 10,464	\$ 3,263,477
Ending Balance:								
Individually evaluated for impairment	\$ 823,808	\$ 61,678	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 885,486
Collectively evaluated for impairment	2,156,907	169,119	6,797	2,960	25,519	6,225	10,464	2,377,991
Balance at								
March 31, 2014	\$ 2,980,715	\$ 230,797	\$ 6,797	\$ 2,960	\$ 25,519	\$ 6,225	\$ 10,464	\$ 3,263,477
<b>Recorded Investments in Loans Outstanding:</b>								
Ending Balance at								
March 31, 2015	\$ 184,451,713	\$ 11,785,594	\$ 9,515,766	\$ 2,236,206	\$ 7,192,857	\$ 5,805,520	\$ 2,002,288	\$ 222,989,944
Individually evaluated for impairment	\$ 5,895,406	\$ 86,663	\$ -	\$ -	\$ -	\$ 19,985	\$ -	\$ 6,002,054
Collectively evaluated for impairment	\$ 178,556,307	\$ 11,698,931	\$ 9,515,766	\$ 2,236,206	\$ 7,192,857	\$ 5,785,535	\$ 2,002,288	\$ 216,987,890
Ending Balance at								
March 31, 2014	\$ 188,402,710	\$ 9,049,584	\$ 5,604,852	\$ 1,383,642	\$ 8,077,851	\$ 4,815,797	\$ 1,848,925	\$ 219,183,361
Individually evaluated for impairment	\$ 6,780,505	\$ 132,235	\$ -	\$ -	\$ -	\$ 22,507	\$ -	\$ 6,935,247
Collectively evaluated for impairment	\$ 181,622,205	\$ 8,917,349	\$ 5,604,852	\$ 1,383,642	\$ 8,077,851	\$ 4,793,290	\$ 1,848,925	\$ 212,248,114

### 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 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.

An additional component of equity is accumulated other comprehensive income, which is reported net of taxes, is as follows:

<b>March 31, 2015</b>	<b>Before Tax</b>	<b>Deferred Tax</b>	<b>Net of Tax</b>
<b>Nonpension postretirement benefits</b>	<b>\$ 145,622</b>	<b>\$ -</b>	<b>\$ 145,622</b>
<b>March 31, 2014</b>	<b>Before Tax</b>	<b>Deferred Tax</b>	<b>Net of Tax</b>
Nonpension postretirement benefits	\$ 226,977	\$ -	\$ 226,977

The association's accumulated other comprehensive income (loss) relates entirely to its nonpension other postretirement benefits. Amortization of prior service (credits) cost and of actuarial (gain) loss are reflected in "Salaries and employee benefits" in the Consolidated Statement of Comprehensive Income. The following table summarizes the changes in accumulated other comprehensive income (loss) for the three months ended March 31:

	<b>2015</b>	<b>2014</b>
Accumulated other comprehensive income (loss) at January 1	<b>\$ 153,000</b>	\$ 237,475
Amortization of prior service (credit) costs included in salaries and employee benefits	<b>(2,054)</b>	(2,137)
Amortization of actuarial (gain) loss included in salaries and employee benefits	<b>(5,324)</b>	(8,361)
Other comprehensive income (loss), net of tax	<b>(7,378)</b>	(10,498)
Accumulated other comprehensive income at March 31	<b>\$ 145,622</b>	<b>\$ 226,977</b>

### NOTE 4 — INCOME TAXES:

Legacy Ag Credit, ACA conducts its business activities through two wholly-owned subsidiaries. Long-term mortgage lending activities are conducted through a wholly-owned FLCA subsidiary which is exempt from federal and state income tax. Short- and intermediate-term lending activities are conducted through a wholly-owned PCA subsidiary. The PCA subsidiary and the ACA holding company are subject to income tax. Legacy Ag Credit, ACA operates as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, Legacy Ag Credit, ACA can exclude from taxable income amounts distributed as qualified patronage dividends in the form of cash, stock or allocated retained earnings. Provisions for income taxes are made only on those taxable earnings that will not be distributed as qualified patronage dividends. 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.

### NOTE 5 — 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 13 to the 2014 Annual Report to Stockholders for a more complete description.



Assets and liabilities measured at fair value on a nonrecurring basis for each of the fair value hierarchy values are summarized below:

<u>March 31, 2015</u>	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>	<u>Total Gains (Losses)</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>		
Assets:					
Loans*	\$ -	\$ -	\$ 2,265,839	\$ 2,265,839	\$ -
Other property owned	-	-	316,765	316,765	-
<u>December 31, 2014</u>	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>	<u>Total Gains (Losses)</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>		
Assets:					
Loans*	\$ -	\$ -	\$ 2,167,014	\$ 2,167,014	\$ -
Other property owned	-	-	316,695	316,695	-

\*Represents the fair value of certain loans that were evaluated for impairment under authoritative guidance “Accounting by Creditors for Impairment of a Loan.” The fair value was based upon the underlying collateral since these were collateral-dependent loans for which real estate is the collateral.

With regard to nonrecurring measurements for impaired loans and other property owned, it is not practicable to provide specific information on inputs, as each collateral property is unique. System institutions utilize appraisals to value these loans and other property owned and take into account unobservable inputs, such as income and expense, comparable sales, replacement cost and comparability adjustments.

#### Information About Other Financial Instrument Fair Value Measurements

	<b>Valuation Technique(s)</b>	<b>Input</b>
Cash	Carrying value	Actual balance
Loans	Discounted cash flow	Prepayment rates Probability of default Loss severity
Note payable to the Farm Credit Bank of Texas	Discounted cash flow	Benchmark yield curve Derived yield spread Own credit risk

#### Valuation Techniques

As more fully discussed in Note 13 to the 2014 Annual Report to Stockholders, authoritative guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following represent a brief summary of the valuation techniques used for the association’s assets and liabilities. For a more complete description, see Notes to the 2014 Annual Report to Stockholders.

#### *Loans Evaluated for Impairment*

For certain loans evaluated for impairment under FASB impairment guidance, the fair value is based upon the underlying real estate collateral since the loans were collateral-dependent. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management’s knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters. As a result, a majority of these loans have fair value measurements that fall within Level 3 of the fair value hierarchy. When the value of the real estate, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established. The fair value of these loans would fall under Level 2 of the hierarchy if the process uses independent appraisals and other market-based information.

### *Other Property Owned*

Other property owned is generally classified as Level 3 of the fair value hierarchy. The process for measuring the fair value of the other property owned involves the use of independent appraisals and other market-based information. Costs to sell represent transaction costs and are not included as a component of the asset's fair value. As a result, these fair value measurements fall within Level 3 of the hierarchy.

### *Cash*

For cash, the carrying amount is a reasonable estimate of fair value.

### *Note payable to the Farm Credit Bank of Texas*

The note payable to the bank is not regularly traded; thus, quoted market prices are not available. Fair value of this instrument is discounted based on the association's and bank's loan rates as well as on management estimates. For the purposes of this estimate it is assumed that the cash flow on the note is equal to the principal payments on the association's loan receivables plus accrued interest on the note payable. This assumption implies that earnings on the association's interest margin are used to fund operating expenses and capital expenditures. Management has no basis to determine whether the fair values would be indicative of the value negotiated in an actual sale.

### **NOTE 6 — EMPLOYEE BENEFIT PLANS:**

The following table summarizes the components of net periodic benefit costs of nonpension other postretirement employee benefits for the three months ended March 31:

	Other Benefits	
	2015	2014
Service cost	\$ 1,212	\$ 996
Interest cost	2,207	1,988
Amortization of prior service (credits) costs	(2,054)	(2,137)
Amortization of net actuarial (gain) loss	(5,324)	(8,361)
Net periodic benefit cost	<u>\$ (3,959)</u>	<u>\$ (7,514)</u>

The association's liability for the unfunded accumulated obligation for these benefits at March 31, 2015, was \$199,598 and is included in "Other Liabilities" in the balance sheet.

The structure of the district's defined benefit pension plan is characterized as multiemployer since the assets, liabilities and cost of the plan are not segregated or separately accounted for by participating employers (bank and associations). The association recognizes its amortized annual contributions to the plan as an expense. The association previously disclosed in its financial statements for the year ended December 31, 2014, that it expected to contribute \$0 to the district's defined benefit pension plan in 2015. As of March 31, 2015, \$0 contributions have been made.

### **NOTE 7 — COMMITMENTS AND CONTINGENT LIABILITIES:**

The association is involved in various legal proceedings in the normal course of business. In the opinion of legal counsel and management, there are no legal proceedings at this time that are likely to materially affect the association.

### **NOTE 8 — SUBSEQUENT EVENTS:**

The association has evaluated subsequent events through May 4, 2015, which is the date the financial statements were issued. There are no other significant events requiring disclosure as of this date.