

# **LEGACY AG CREDIT, ACA**

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## **2016 Quarterly Report Second Quarter**



**For the Quarter Ended June 30, 2016**

## 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  
August 5, 2016



Terry Milligan, Chairman, Board of Directors  
August 5, 2016



Daryl D. Belt, Chief Financial Officer  
August 5, 2016



Wayne Bawcum, CPA, Chairman, Audit Committee  
August 5, 2016

## 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 June 30, 2016. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2015 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 2016, the Board of Directors approved a patronage payment related to 2015 earnings of \$2,249,884. The patronage was paid in March 2016.

### Loan Portfolio:

Total loans outstanding at June 30, 2016, including nonaccrual loans and sales contracts, were \$242,563,317 compared to \$231,971,684 at December 31, 2015, reflecting an increase of 4.6 percent. Nonaccrual loans as a percentage of total loans outstanding were 1.5 percent at June 30, 2016, compared to 2.1 percent at December 31, 2015.

The association recorded \$2,500 in recoveries and \$17,833 in charge-offs for the quarter ended June 30, 2016, and \$17,213 in recoveries and \$0 in charge-offs for the same period in 2015. The association's allowance for loan losses was 0.9 percent and 1.0 percent of total loans outstanding as of June 30, 2016, and December 31, 2015, 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.

	June 30, 2016		December 31, 2015	
	Amount	%	Amount	%
Nonaccrual	\$ 3,708,883	49.3%	\$ 4,834,434	57.1%
Formally restructured	3,593,910	47.7%	3,450,056	40.8%
Other property owned, net	221,724	3.0%	173,976	2.1%
Total	\$ 7,524,517	100.0%	\$ 8,458,466	100.0%

### Results of Operations:

The association had net income of \$790,494 and \$1,630,378 for the three and six months ended June 30, 2016, as compared to net income of \$1,179,231 and \$2,571,245 for the same period in 2015, reflecting a decrease of 33.0 and 36.6 percent. Net interest income was \$1,795,913 and 3,605,384 for the three and six months ended June 30, 2016, compared to \$1,848,616 and \$3,960,349 for the same period in 2015.

	Six months ended:			
	June 30, 2016		June 30, 2015	
	Average Balance	Interest	Average Balance	Interest
Loans	\$ 237,864,678	\$ 5,716,275	\$ 223,499,390	\$ 5,866,154
Interest-bearing liabilities	185,770,611	2,110,891	173,079,399	1,905,805
Impact of capital	<u>\$ 52,094,067</u>		<u>\$ 50,419,991</u>	
Net interest income		<u>\$ 3,605,384</u>		<u>\$ 3,960,349</u>

	2016	2015
	Average Yield	Average Yield
Yield on loans	4.83%	5.29%
Cost of interest-bearing liabilities	2.29%	2.22%
Interest rate spread	2.54%	3.07%
Net interest income as a percentage of average earning assets	3.05%	3.57%

	Six months ended:		
	June 30, 2016 vs. June 30, 2015		
	Increase (decrease) due to		
	Volume	Rate	Total
Interest income - loans	\$ 378,093	\$ (527,972)	\$ (149,879)
Interest expense	140,134	64,952	205,086
Net interest income	<u>\$ 237,959</u>	<u>\$ (592,924)</u>	<u>\$ (354,965)</u>

Interest income for the three and six months ended June 30, 2016, increased by \$69,879 and decreased by \$149,879, or 2.5 and 2.6 percent respectively, from the same period of 2015, primarily due to declines in yields on earning assets offset by an increase in average loan volume. Interest expense for the three and six months ended June 30, 2016, increased by \$122,582 and \$205,086, or 12.8 and 10.8 percent, from the same period of 2015 due to an increase in interest rates as well as an increase in average debt volume. Average loan volume for the second quarter of 2016 was \$241,181,863, compared to \$222,823,910 in the second quarter of 2015. The average net interest rate spread on the loan portfolio for the second quarter of 2016 was 2.51 percent, compared to 2.83 percent in the second quarter of 2015.

The association's return on average assets for the six months ended June 30, 2016, was 1.36 percent compared to 2.29 percent for the same period in 2015. The association's return on average equity for the six months ended June 30, 2016, was 6.09 percent, compared to 9.98 percent for the same period in 2015.

#### 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.

	June 30, 2016	December 31, 2015
Note payable to the bank	\$ 190,910,083	\$ 178,621,128
Accrued interest on note payable	359,264	343,575
Total	<u>\$ 191,269,347</u>	<u>\$ 178,964,703</u>

The association operates under a general financing agreement (GFA) with the bank. The current GFA is effective through September 30, 2018. The primary source of liquidity and funding for the association is a direct loan from the bank. The outstanding balance of \$190,910,083 as of June 30, 2016, is recorded as a liability on the association's balance sheet. The note carried a weighted average interest rate of 2.29 percent at June 30, 2016. 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 increase in note payable to the bank and related accrued

interest payable since December 31, 2015, is due to the association's increase 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 \$51,300,415 at June 30, 2016. The maximum amount the association may borrow from the bank as of June 30, 2016, was \$227,824,653 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 \$616,316 at June 30, 2016, compared to December 31, 2015. This decrease is due to the disbursement of \$2,249,884 of patronage offset by earnings thru June 30, 2016. The association's debt as a percentage of members' equity was 3.54:1 as of June 30, 2016, compared to 3.28:1 as of December 31, 2015.

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 June 30, 2016, was 22.0 percent, which is in compliance with the FCA's minimum permanent capital standard. The association's core surplus ratio and total surplus ratio at June 30, 2016, were 21.5 and 21.5 percent, respectively, which is in compliance with the FCA's minimum surplus standard.

#### **Regulatory Matters:**

On March 10, 2016, the Farm Credit Administration approved a final 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 final rule is effective on January 1, 2017. The association is currently evaluating the impact of the recently announced changes.

#### **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 2015 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 [fcf@farmcreditbank.com](mailto:fcf@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>June 30, 2016 (unaudited)</b>	<b>December 31, 2015</b>
<b><u>ASSETS</u></b>		
Cash	\$ 119,414	\$ 104,812
Loans	242,563,317	231,971,684
Less: allowance for loan losses	2,291,244	2,357,719
Net loans	<u>240,272,073</u>	<u>229,613,965</u>
Accrued interest receivable	1,371,786	1,107,074
Investment in and receivable from the Farm Credit Bank of Texas:		
Capital stock	3,486,430	3,486,430
Other	359,075	101,859
Other property owned, net	221,724	173,976
Premises and equipment, net	453,910	474,752
Other assets	375,365	151,782
Total assets	<u><u>\$ 246,659,777</u></u>	<u><u>\$ 235,214,650</u></u>
<b><u>LIABILITIES</u></b>		
Note payable to the Farm Credit Bank of Texas	\$ 190,910,083	\$ 178,621,128
Advance conditional payments	199	-
Accrued interest payable	359,562	343,575
Drafts outstanding	195,656	252,089
Other liabilities	845,636	1,032,901
Total liabilities	<u>192,311,136</u>	<u>180,249,693</u>
<b><u>MEMBERS' EQUITY</u></b>		
Capital stock and participation certificates	1,110,075	1,100,475
Unallocated retained earnings	53,151,616	53,771,122
Accumulated other comprehensive income (loss)	86,950	93,360
Total members' equity	<u>54,348,641</u>	<u>54,964,957</u>
Total liabilities and members' equity	<u><u>\$ 246,659,777</u></u>	<u><u>\$ 235,214,650</u></u>

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

LEGACY AG CREDIT, ACA

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited)

	Quarter Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
<b><u>INTEREST INCOME</u></b>				
Loans	\$ 2,873,365	\$ 2,803,486	\$ 5,716,275	\$ 5,866,154
<b><u>INTEREST EXPENSE</u></b>				
Note payable to the Farm Credit Bank of Texas	1,077,452	954,868	2,110,891	1,905,803
Advance conditional payments	-	2	-	2
Total interest expense	1,077,452	954,870	2,110,891	1,905,805
Net interest income	1,795,913	1,848,616	3,605,384	3,960,349
<b><u>PROVISION FOR LOAN LOSSES</u></b>				
	(13,246)	(379,698)	(55,596)	(671,334)
Net interest income after provision for loan losses	1,809,159	2,228,314	3,660,980	4,631,683
<b><u>NONINTEREST INCOME</u></b>				
Income from the Farm Credit Bank of Texas:				
Patronage income	149,604	148,769	299,132	297,062
Loan fees	62,594	21,479	97,009	43,728
Financially related services income	233	276	332	415
Gain (loss) on sale of other property owned, net	50,975	-	50,975	-
Other noninterest income	600	-	22,917	23,051
Total noninterest income	264,006	170,524	470,365	364,256
<b><u>NONINTEREST EXPENSES</u></b>				
Salaries and employee benefits	785,226	730,042	1,478,740	1,492,352
Directors' expense	80,668	73,958	176,325	131,903
Purchased services	80,929	77,680	166,537	136,013
Travel	56,288	72,231	93,536	128,694
Occupancy and equipment	55,961	57,165	113,106	112,927
Communications	30,560	28,065	56,939	49,783
Advertising	26,410	32,153	50,223	45,801
Public and member relations	29,510	43,418	55,624	73,688
Supervisory and exam expense	21,491	15,762	42,982	36,307
Insurance Fund premiums	63,909	48,406	125,197	99,485
Loss on other property owned	7,517	2,072	28,995	4,470
Other noninterest expense	44,202	38,655	112,763	113,271
Total noninterest expenses	1,282,671	1,219,607	2,500,967	2,424,694
<b>NET INCOME</b>	<b>790,494</b>	<b>1,179,231</b>	<b>1,630,378</b>	<b>2,571,245</b>
Other comprehensive income:				
Change in postretirement benefit plans	(3,205)	(7,377)	(6,410)	(14,755)
<b>COMPREHENSIVE INCOME</b>	<b>\$ 787,289</b>	<b>\$ 1,171,854</b>	<b>\$ 1,623,968</b>	<b>\$ 2,556,490</b>

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, 2014	\$ 1,080,365	\$ 50,856,949	\$ 153,000	\$ 52,090,314
Comprehensive income	-	2,571,245	(14,755)	2,556,490
Capital stock/participation certificates and allocated retained earnings issued	69,015	-	-	69,015
Capital stock/participation certificates and allocated retained earnings retired	(61,045)	-	-	(61,045)
Patronage paid	-	(1,600,000)	-	(1,600,000)
Balance at June 30, 2015	<u>\$ 1,088,335</u>	<u>\$ 51,828,194</u>	<u>\$ 138,245</u>	<u>\$ 53,054,774</u>
Balance at December 31, 2015	\$ 1,100,475	\$ 53,771,122	\$ 93,360	\$ 54,964,957
Comprehensive income	-	1,630,378	(6,410)	1,623,968
Capital stock/participation certificates and allocated retained earnings issued	73,000	-	-	73,000
Capital stock/participation certificates and allocated retained earnings retired	(63,400)	-	-	(63,400)
Patronage paid	-	(2,249,884)	-	(2,249,884)
<b>Balance at June 30, 2016</b>	<b><u>\$ 1,110,075</u></b>	<b><u>\$ 53,151,616</u></b>	<b><u>\$ 86,950</u></b>	<b><u>\$ 54,348,641</u></b>

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 December 31, 2015, as contained in the 2015 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 December 31, 2015, as contained in the 2015 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, 2016. Descriptions of the significant accounting policies are included in the 2015 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 June 2016, the Financial Accounting Standards Board (FASB) issued guidance entitled “Measurement of Credit Losses on Financial Instruments.” The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses. For public business entities that are not U.S. Securities and Exchange Commission filers this guidance becomes effective for interim and annual periods beginning after December 15, 2020, with early application permitted. The Association is currently evaluating the impact of adoption on its financial condition and results of operations.

In February 2016, the Financial Accounting Standards Board (FASB) issued guidance entitled “Leases.” The guidance requires the recognition by lessees of lease assets and lease liabilities on the balance sheet for the rights and obligations created by those leases. Leases with lease terms of more than 12 months are impacted by this guidance. This guidance becomes effective for interim and annual periods beginning after December 15, 2018, with early application permitted. The Association is currently evaluating the impact of adoption on its financial condition and results of operations.

In January 2016, the FASB issued guidance entitled “Recognition and Measurement of Financial Assets and Liabilities.” This guidance affects, among other things, the presentation and disclosure requirements for financial instruments. For public entities, the guidance eliminates the requirement to disclose the methods and significant assumptions used to estimate the fair value of financial instruments carried at amortized cost. This guidance becomes effective for interim and annual periods beginning after December 15, 2017. The adoption of this guidance is not expected to impact the Association’s financial condition or its results of operations.

In August 2014, the 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. In August 2015, the FASB issued an update that defers this guidance by one year, which results in the new revenue standard becoming effective for interim and annual reporting periods beginning after December 15, 2017. The Association is in the process of reviewing contracts to determine the effect, if any, on their financial condition or 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 June 30, 2016, are not necessarily indicative of the results to be expected for the year ended December 31, 2016. 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	June 30, 2016 Amount	December 31, 2015 Amount
Production agriculture:		
Real estate mortgage	\$ 190,381,550	\$ 186,778,168
Production and intermediate term	10,450,543	10,701,356
Agribusiness:		
Loans to cooperatives	2,206,511	384,688
Processing and marketing	20,784,102	16,037,266
Farm-related business	1,224,454	1,504,760
Rural infrastructure:		
Communication	2,861,008	2,071,279
Energy	6,975,662	7,150,076
Water and waste water	1,993,125	1,992,703
Rural residential real estate	5,686,362	5,351,388
Total	\$ 242,563,317	\$ 231,971,684

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 June 30, 2016:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
	Real estate mortgage	\$ 1,659,827	\$ 1,047,101	\$ -	\$ -	\$ 1,659,827
Production and intermediate term	2,856,420	-	-	-	2,856,420	-
Agribusiness	24,215,067	-	-	-	24,215,067	-
Communication	2,861,008	-	-	-	2,861,008	-
Energy	6,916,338	-	-	-	6,916,338	-
Water and waste water	1,993,125	-	-	-	1,993,125	-
Total	\$ 40,501,785	\$ 1,047,101	\$ -	\$ -	\$ 40,501,785	\$ 1,047,101

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

	<b>June 30, 2016</b>	December 31, 2015
<b>Nonaccrual loans:</b>		
Real estate mortgage	\$ 3,634,791	\$ 4,751,398
Production and intermediate term	74,092	65,142
Rural residential real estate	-	17,894
Total nonaccrual loans	<u>3,708,883</u>	<u>4,834,434</u>
	-	-
<b>Accruing restructured loans:</b>		
Real estate mortgage	<u>3,593,910</u>	<u>3,450,056</u>
Total accruing restructured loans	<u>3,593,910</u>	<u>3,450,056</u>
Total nonperforming loans	<b>7,302,793</b>	8,284,490
Other property owned	<u>221,724</u>	<u>173,976</u>
Total nonperforming assets	<u><u>\$ 7,524,517</u></u>	<u><u>\$ 8,458,466</u></u>

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>June 30, 2016</b>	December 31, 2015
Real estate mortgage		
Acceptable	<b>88.7</b> %	87.8 %
OAEM	<b>8.4</b>	8.6
Substandard/doubtful	<b>2.9</b>	3.6
	<b>100.0</b>	100.0
Production and intermediate term		
Acceptable	<b>85.3</b>	85.8
OAEM	-	0.2
Substandard/doubtful	<b>14.7</b>	14.0
	<b>100.0</b>	100.0
Loans to cooperatives		
Acceptable	<b>100.0</b>	100.0
OAEM	-	-
Substandard/doubtful	-	-
	<b>100.0</b>	100.0
Processing and marketing		
Acceptable	<b>100.0</b>	100.0
OAEM	-	-
Substandard/doubtful	-	-
	<b>100.0</b>	100.0
Farm-related business		
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
Energy		
Acceptable	<b>79.1</b>	100.0
OAEM	<b>20.9</b>	-
Substandard/doubtful	-	-
	<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
Rural residential real estate		
Acceptable	<b>99.3</b>	99.2
OAEM	<b>0.7</b>	0.5
Substandard/doubtful	-	0.3
	<b>100.0</b>	100.0
Total loans		
Acceptable	<b>89.9</b>	89.5
OAEM	<b>7.2</b>	7.0
Substandard/doubtful	<b>2.9</b>	3.5
	<b>100.0</b> %	100.0 %

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

June 30, 2016	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	\$ 390,557	\$ 2,453,986	\$ 2,844,543	\$ 188,738,336	\$ 191,582,879	\$ -
Production and intermediate term	378,349	-	378,349	10,166,680	10,545,029	-
Loans to cooperatives	-	-	-	2,206,750	2,206,750	-
Processing and marketing	-	-	-	20,803,817	20,803,817	-
Farm-related business	-	-	-	1,225,484	1,225,484	-
Communication	-	-	-	2,861,410	2,861,410	-
Energy	-	-	-	6,987,038	6,987,038	-
Water and waste water	-	-	-	2,023,347	2,023,347	-
Rural residential real estate	-	-	-	5,699,349	5,699,349	-
Total	<u>\$ 768,906</u>	<u>\$ 2,453,986</u>	<u>\$ 3,222,892</u>	<u>\$ 240,712,211</u>	<u>\$ 243,935,103</u>	<u>\$ -</u>

December 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	\$ 1,385,684	\$ 2,841,983	\$ 4,227,667	\$ 183,480,032	\$ 187,707,699	\$ -
Production and intermediate term	-	-	-	10,796,190	10,796,190	-
Loans to cooperatives	-	-	-	384,856	384,856	-
Processing and marketing	-	-	-	16,059,345	16,059,345	-
Farm-related business	-	-	-	1,506,047	1,506,047	-
Communication	-	-	-	2,071,430	2,071,430	-
Energy	-	-	-	7,161,633	7,161,633	-
Water and waste water	-	-	-	2,022,925	2,022,925	-
Rural residential real estate	-	-	-	5,368,633	5,368,633	-
Total	<u>\$ 1,385,684</u>	<u>\$ 2,841,983</u>	<u>\$ 4,227,667</u>	<u>\$ 228,851,091</u>	<u>\$ 233,078,758</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 June 30, 2016, the total recorded investment of troubled debt restructured loans was \$3,860,441, including \$266,531 classified as nonaccrual and \$3,593,910 classified as accrual, with specific allowance for loan losses of \$658,070. The specific allowance is determined quarterly through a net realizable value analysis for each individual loan asset. As of June 30, 2016, there were no commitments to lend funds to borrowers whose loan terms have been modified in a troubled debt restructuring.

There were no troubled debt restructurings during the six months ended June 30, 2016. 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 six months ended June 30, 2015. 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, 2016, were \$3,860,441.

For the Three Months Ended June 30, 2015	Premodification Outstanding Recorded Investment	Postmodification Outstanding Recorded Investment
Troubled debt restructurings:		
Real estate mortgage	\$ 158,042	\$ 158,042
Total	<u>\$ 158,042</u>	<u>\$ 158,042</u>
For the Six Months Ended June 30, 2015	Premodification Outstanding Recorded Investment	Postmodification Outstanding Recorded Investment
Troubled debt restructurings:		
Real estate mortgage	\$ 406,452	\$ 408,894
Total	<u>\$ 406,452</u>	<u>\$ 408,894</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 June 30, 2016.

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 2016 or 2015 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*	
	June 30, 2016	December 31, 2015	June 30, 2016	December 31, 2015
Real estate mortgage	\$ 3,809,658	\$ 3,932,537	\$ 215,748	\$ 482,482
Production and intermediate term	50,783	57,094	50,783	57,094
Total	<u>\$ 3,860,441</u>	<u>\$ 3,989,631</u>	<u>\$ 266,531</u>	<u>\$ 539,576</u>

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

Additional impaired loan information is as follows:

	June 30, 2016			December 31, 2015		
	Recorded	Unpaid	Related	Recorded	Unpaid	Related
	Investment	Principal Balance <sup>a</sup>	Allowance	Investment	Principal Balance <sup>a</sup>	Allowance
Impaired loans with a related allowance for credit losses:						
Real estate mortgage	\$ 2,593,796	\$ 2,611,262	\$ 645,313	\$ 3,188,130	\$ 3,240,641	\$ 696,122
Production and intermediate term	68,166	74,640	22,724	57,093	64,327	6,273
Total	<u>\$ 2,661,962</u>	<u>\$ 2,685,902</u>	<u>\$ 668,037</u>	<u>\$ 3,245,223</u>	<u>\$ 3,304,968</u>	<u>\$ 702,395</u>
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	\$ 4,634,905	\$ 4,651,242	\$ -	\$ 5,013,324	\$ 5,039,562	\$ -
Production and intermediate term	5,926	2,439,880	-	8,049	2,446,676	-
Rural residential real estate	-	-	-	17,894	17,956	-
Total	<u>\$ 4,640,831</u>	<u>\$ 7,091,122</u>	<u>\$ -</u>	<u>\$ 5,039,267</u>	<u>\$ 7,504,194</u>	<u>\$ -</u>
Total impaired loans:						
Real estate mortgage	\$ 7,228,701	\$ 7,262,504	\$ 645,313	\$ 8,201,454	\$ 8,280,203	\$ 696,122
Production and intermediate term	74,092	2,514,520	22,724	65,142	2,511,003	6,273
Rural residential real estate	-	-	-	17,894	17,956	-
Total	<u>\$ 7,302,793</u>	<u>\$ 9,777,024</u>	<u>\$ 668,037</u>	<u>\$ 8,284,490</u>	<u>\$10,809,162</u>	<u>\$ 702,395</u>

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

	For the Three Months Ended				For the Six Months Ended			
	June 30, 2016		June 30, 2015		June 30, 2016		June 30, 2015	
	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:								
Real estate mortgage	\$ 2,569,015	\$ 46,892	\$ 2,759,498	\$ 66,382	\$ 2,577,061	\$ 83,334	\$ 2,761,694	\$ 99,336
Production and intermediate term	69,467	-	67,748	-	62,245	-	70,068	-
Total	<u>\$ 2,638,482</u>	<u>\$ 46,892</u>	<u>\$ 2,827,246</u>	<u>\$ 66,382</u>	<u>\$ 2,639,306</u>	<u>\$ 83,334</u>	<u>\$ 2,831,762</u>	<u>\$ 99,336</u>
Impaired loans with no related allowance for credit losses:								
Real estate mortgage	\$ 4,730,147	\$ 24,475	\$ 3,835,990	\$ 52,187	\$ 4,784,598	\$ 45,490	\$ 3,452,529	\$ 147,242
Production and intermediate term	6,659	-	15,222	-	7,061	-	28,119	-
Rural residential real estate	-	-	19,448	-	-	-	19,841	-
Total	<u>\$ 4,736,806</u>	<u>\$ 24,475</u>	<u>\$ 3,870,660</u>	<u>\$ 52,187</u>	<u>\$ 4,791,659</u>	<u>\$ 45,490</u>	<u>\$ 3,500,489</u>	<u>\$ 147,242</u>
Total impaired loans:								
Real estate mortgage	\$ 7,299,162	\$ 71,367	\$ 6,595,488	\$ 118,569	\$ 7,361,659	\$ 128,824	\$ 6,214,223	\$ 246,578
Production and intermediate term	76,126	-	82,970	-	69,306	-	98,187	-
Rural residential real estate	-	-	19,448	-	-	-	19,841	-
Total	<u>\$ 7,375,288</u>	<u>\$ 71,367</u>	<u>\$ 6,697,906</u>	<u>\$ 118,569</u>	<u>\$ 7,430,965</u>	<u>\$ 128,824</u>	<u>\$ 6,332,251</u>	<u>\$ 246,578</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	Water/ waste water	Rural Residential Real Estate	Total
<b>Allowance for Credit Losses:</b>								
Balance at								
March 31, 2016	\$ 2,036,189	\$ 180,084	\$ 29,098	\$ 1,847	\$ 52,351	\$ 15,020	\$ 5,234	\$ 2,319,823
Charge-offs	(17,833)	-	-	-	-	-	-	(17,833)
Recoveries	-	2,500	-	-	-	-	-	2,500
Provision for loan losses	(47,292)	(4,712)	4,973	1,112	32,826	(3)	(150)	(13,246)
Balance at								
June 30, 2016	\$ 1,971,064	\$ 177,872	\$ 34,071	\$ 2,959	\$ 85,177	\$ 15,017	\$ 5,084	\$ 2,291,244
Balance at								
December 31, 2015	\$ 2,103,738	\$ 158,147	\$ 20,786	\$ 1,960	\$ 53,291	\$ 15,020	\$ 4,777	\$ 2,357,719
Charge-offs	(17,833)	-	-	-	-	-	-	(17,833)
Recoveries	2,254	4,700	-	-	-	-	-	6,954
Provision for loan losses	(117,095)	15,025	13,285	999	31,886	(3)	307	(55,596)
Balance at								
June 30, 2016	\$ 1,971,064	\$ 177,872	\$ 34,071	\$ 2,959	\$ 85,177	\$ 15,017	\$ 5,084	\$ 2,291,244
Ending Balance:								
Individually evaluated for impairment	\$ 645,313	\$ 22,724	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 668,037
Collectively evaluated for impairment	1,325,751	155,148	34,071	2,959	85,177	15,017	5,084	1,623,207
Balance at								
June 30, 2016	\$ 1,971,064	\$ 177,872	\$ 34,071	\$ 2,959	\$ 85,177	\$ 15,017	\$ 5,084	\$ 2,291,244
Balance at								
March 31, 2015	\$ 2,504,507	\$ 188,833	\$ 11,646	\$ 1,797	\$ 18,036	\$ 11,320	\$ 4,292	\$ 2,740,431
Charge-offs	-	-	-	-	-	-	-	-
Recoveries	13,928	3,285	-	-	-	-	-	17,213
Provision for loan losses	(346,602)	(33,874)	636	(91)	46	-	185	(379,700)
Balance at June 30, 2015	\$ 2,171,833	\$ 158,244	\$ 12,282	\$ 1,706	\$ 18,082	\$ 11,320	\$ 4,477	\$ 2,377,944
Balance at								
December 31, 2014	\$ 2,776,745	\$ 201,056	\$ 11,399	\$ 1,330	\$ 20,953	\$ 11,314	\$ 3,574	\$ 3,026,371
Charge-offs	(1,375)	-	-	-	-	-	-	(1,375)
Recoveries	18,297	5,985	-	-	-	-	-	24,282
Provision for loan losses	(621,834)	(48,797)	883	376	(2,871)	6	903	(671,334)
Balance at								
June 30, 2015	\$ 2,171,833	\$ 158,244	\$ 12,282	\$ 1,706	\$ 18,082	\$ 11,320	\$ 4,477	\$ 2,377,944
Ending Balance:								
Individually evaluated for impairment	\$ 698,236	\$ 11,307	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 709,543
Collectively evaluated for impairment	1,473,597	146,937	12,282	1,706	18,082	11,320	4,477	1,668,401
Balance at								
June 30, 2015	\$ 2,171,833	\$ 158,244	\$ 12,282	\$ 1,706	\$ 18,082	\$ 11,320	\$ 4,477	\$ 2,377,944

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy	Water/ waste water	Rural Residential Real Estate	Total
<b>Recorded Investments</b>								
<b>in Loans Outstanding:</b>								
Ending Balance at								
June 30, 2016	\$ 191,582,879	\$ 10,545,029	\$24,236,051	\$ 2,861,410	\$ 6,987,038	\$ 2,023,347	\$ 5,699,349	\$ 243,935,103
Individually evaluated for impairment	\$ 7,228,701	\$ 74,092	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,302,793
Collectively evaluated for impairment	\$ 184,354,178	\$ 10,470,937	\$24,236,051	\$ 2,861,410	\$ 6,987,038	\$ 2,023,347	\$ 5,699,349	\$ 236,632,310
Ending Balance at								
June 30, 2015	\$ 184,385,649	\$ 11,209,595	\$ 9,467,448	\$ 2,181,280	\$ 7,485,746	\$ 2,022,499	\$ 5,852,466	\$ 222,604,683
Individually evaluated for impairment	\$ 8,014,872	\$ 79,801	\$ -	\$ -	\$ -	\$ -	\$ 19,155	\$ 8,113,828
Collectively evaluated for impairment	\$ 176,370,777	\$ 11,129,794	\$ 9,467,448	\$ 2,181,280	\$ 7,485,746	\$ 2,022,499	\$ 5,833,311	\$ 214,490,855

### 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:

	Before Tax	Deferred Tax	Net of Tax
<b>June 30, 2016</b>			
Nonpension postretirement benefits	\$ 86,950	\$ -	\$ 86,950
<b>June 30, 2015</b>			
Nonpension postretirement benefits	\$ 138,245	\$ -	\$ 138,245

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 six months ended June 30:

	2016	2015
Accumulated other comprehensive income (loss) at January 1	\$ 93,360	\$ 153,000
Amortization of prior service (credit) costs included in salaries and employee benefits	(4,098)	(4,107)
Amortization of actuarial (gain) loss included in salaries and employee benefits	(2,312)	(10,648)
Other comprehensive income (loss), net of tax	(6,410)	(14,755)
Accumulated other comprehensive income at June 30	\$ 86,950	\$ 138,245

## 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 2015 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>June 30, 2016</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*	\$ -	\$ -	\$ 2,156,458	\$ 2,156,458	\$ -
Other property owned	-	-	264,600	264,600	-
<u>December 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*	\$ -	\$ -	\$ 2,707,733	\$ 2,707,733	\$ -
Other property owned	-	-	190,400	190,400	-

\*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.

## Information About Other Financial Instrument Fair Value Measurements

	<u>Valuation Technique(s)</u>	<u>Input</u>
Cash	Actual balance	Carrying value
Loans	Discounted cash flow	Prepayment rate Probability of default Loss severity
Note payable to 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 2015 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 2015 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 six months ended June 30:

	Other Benefits	
	2016	2015
Service cost	\$ 3,335	\$ 2,424
Interest cost	5,242	4,413
Amortization of prior service (credits) costs	(4,099)	(4,107)
Amortization of net actuarial (gain) loss	(2,312)	(10,648)
Net periodic benefit cost	<u>\$ 2,166</u>	<u>\$ (7,918)</u>

The association's liability for the unfunded accumulated obligation for these benefits at June 30, 2016, was \$230,855 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, 2015, that it expected to contribute \$0 to the district's defined benefit pension plan in 2016. As of June 30, 2016, \$0 of 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 August 5, 2016, which is the date the financial statements were issued. There are no other significant events requiring disclosure as of this date, other than the item discussed below.

During July 2016, it was determined that loans to one borrower in the amount of \$1,940,394 had become doubtful as to full collectability of principal and interest. These loans were transferred into nonaccrual status.