

CENTRAL TEXAS FARM CREDIT, ACA

2015 Quarterly Report Second Quarter



For the Quarter Ended June 30, 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.



Boyd J. Chambers, Chief Executive Officer and President

July 28, 2015



Robby A. Halfmann, Chairman, Board of Directors

July 28, 2015



Keith Prater, Controller

July 28, 2015

CENTRAL TEXAS FARM CREDIT, ACA MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the financial performance of Central Texas Farm Credit, ACA (Agricultural Credit Association), referred to as the Association, for the quarter ended June 30, 2015. These comments should be read in conjunction with the accompanying financial statements and the 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:

2015

In March 2015, a patronage refund of \$5,200,000 was distributed to the Association's borrowers. The patronage refund was declared by the board of directors in December 2014, and the amount was based on the Association's 2014 operating results.

2014

In December 2014, the Association received a direct loan patronage of \$1,382,295 from the Farm Credit Bank of Texas (Bank) representing 43 basis points on the average daily balance of the Association's direct loan with the Bank. In addition, the Association received \$52,750 in patronage payments from the Bank representing 75 basis points on the average daily balance of Association loan volume in the Bank's participation pool program. The Association also received \$104,954 in patronage payments throughout the course of the year based on the Association's stock investment in the Bank.

Effective October 15, 2014, Michael Antle resigned from his position as controller of Central Texas Farm Credit, ACA. Controller duties were handled by existing Association staff until Keith Prater was hired as the new controller on January 20, 2015.

The chairman of the board and audit committee, Jerry Don Klose, did not run for re-election in April 2014 because he reached the mandatory retirement age of 70. Mr. Klose officially stepped down after the May 2014 board meeting once the election results were known, and his seat had been filled by Steven Lehrmann. At the June 2014 meeting, the board elected Robby A. Halfmann to serve as the board chairman, Kenneth D. Harvick to serve as vice-chairman, and Burl D. Lowery to serve as the audit committee chairman.

2013

In December 2013, the Association received a direct loan patronage of \$1,330,745 from the Bank, representing 44 basis points on the average daily balance of the Association's direct loan with the Bank. During 2013, the Association received \$109,486 in patronage payments from the Bank, based on the Association's stock investment in the Bank.

Effective March 31, 2013 Alan Benedict retired as controller and treasurer of Central Texas Farm Credit, ACA. Mike Antle was promoted to controller effective January 1, 2014.

The board adopted a resolution at its March meeting which amended the ACA bylaws to reduce the size of the board from eight directors (seven stockholder-elected and one director-elected) to six (five stockholder-elected and one director-elected) to be effective upon the close of the Association's Annual Stockholder's Meeting on April 23, 2013. In April 2013, upon the expiration of their terms, directors A. Wayland Shurley and Mickey D. Dillard did not run for re-election because they reached the mandatory retirement age of 70. These positions were eliminated to facilitate the board size reduction plan.

2012

In December 2012, the Association received a direct loan patronage of \$1,300,049 from the Bank, representing 43 basis points on the average daily balance of the Association's direct loan with the Bank. During 2012, the Association received \$126,190 in patronage payments from the Bank, based on the Association's stock investment in the Bank.

In April 2012, board chairman Brent Heinze decided not to seek re-election in an effort to assist the Association in reducing the number of directors on the board. In June 2012, the Association board of directors elected director Jerry Don Klose to succeed Brent Heinze as the board chairman.

In May 2012, the Association received a refund from the Farm Credit System Insurance Corporation (FCSIC) of prior year insurance premiums totaling \$338,305 which was taken into income for 2012.

In November 2012, outside director Glenn Miller resigned his director position and in December 2012, Burl D. Lowery was appointed by the board to fill the position effective January 1, 2013.

Problem Loans

2015

During the first quarter of 2015, a nonaccrual loan in the amount of \$85,486 was foreclosed on, and the collateral was then acquired by the Association.

During the second quarter of 2015, the property mentioned above was sold and a gain of \$4,109 was realized.

2014

During the first quarter of 2014, a recovery of \$8,210 was made on a loan that had been charged off in 2009.

During the second quarter of 2014, a participation loan formally restructured in 2009, and previously reported as a TDR, was paid in full.

During the third quarter of 2014, a recovery of \$25,052 was made on an operating loan that was charged off in 2013.

In 2010, the Association, through a purchased participation as a part of a lending group, acquired a small percentage ownership interest in an ethanol plant. In August 2014, the Association sold its equity interest in the ethanol plant. The total sales price of the Association's equity interest was \$1,400,400 and resulted in a gain on sale of \$877,350.

2013

During the second quarter of 2013 a participation loan that was deemed non-viable in 2012 was further evaluated resulting in the need for an additional \$180,000 to be added to the specific allowance. This resulted in a total specific allowance of \$1,157,000 at the end of the second quarter. In addition, this evaluation resulted in a charge-off of \$670,000. The resulting nonaccrual balance on this loan was \$2,441,721 at the end of the second quarter.

During the fourth quarter the previously mentioned participation loan was revalued as a result of the impending sale of the company's assets. Initially this caused a reduction in the specific allowance in the amount of \$195,425, bringing the overall specific allowance down to \$961,575. After the sale was completed the entire specific allowance of \$961,575 was charged off and a related nonaccrual premium, in the amount of \$3,655, was taken into income. The assets were then moved into acquired property in the amount of \$2,146,491. Soon after the acquired property was set up, the Association received two disbursements of proceeds from the sale in the amounts of \$1,941,809 and \$75,607. These reduced the acquired property balance relating to this loan. The ending overall acquired property balance for 2013 was \$652,125.

During the fourth quarter two operating loans were moved into nonaccrual status and \$179,624 was charged off, resulting in a remaining book balance of \$25,892 as of year-end.

2012

During the third quarter a participation loan that had previously been deemed non-viable in 2009 and then later that same year was returned to an accruing status, again encountered financial difficulty and was deemed non-viable. The \$3,111,721 loan was transferred to nonaccrual in late September with a \$920,000 specific allowance for loan loss being made. A reversal of \$7,552 in current year interest accruals was also taken at the time this loan was transferred to nonaccrual status. In late December 2012, upon further evaluation of this loan's financial condition, an addition of \$57,000 to the existing specific allowance was determined to be necessary, bringing the total specific allowance to \$977,000 as of 2012 year end.

Territory Conditions

The local economy in our chartered territory is relatively strong. Real estate prices are stable and the land sales have started to increase. The majority of the Association's new loans made during the past number of years have been to absentee landowners with diverse income sources looking for a place for a small agricultural operation or recreational use, and even those borrowers who are primarily agricultural producers typically have outside income from a spouse's employment, part-time jobs, investments, etc. The above is reflected in the Association's sound credit quality and small number of delinquencies.

During the second quarter of 2015, the Association's territory saw average to below average temperatures with rainfall well above average. Most of the territory is out of or nearly out of drought conditions. Many area lakes are either at capacity or much improved from just a few months ago. The rains did delay the wheat harvest in many areas causing some losses or decline in harvest quality. According to Texas Department of Agriculture, 70% of the state's wheat crop is harvested with 47% of it considered good to excellent. It is reported that 95 percent of the corn planted has emerged with 99 percent of Texas corn acreage planted. Cattle markets remain fairly steady at this time. Many of our borrowers are doing very well right now, but many are still cautious of a market correction.

Loan Portfolio:

Total loans outstanding at June 30, 2015, including nonaccrual loans, were \$434,549,663 compared to \$423,926,621 at December 31, 2014, reflecting an increase of 2.5 percent. Nonaccrual loans as a percentage of total loans outstanding were 0.07 percent at June 30, 2015, compared to 0.04 percent at December 31, 2014.

The Association recorded no recoveries or charge-offs for the quarter ended June 30, 2015, and no recoveries or charge-offs for the same period in 2014. The Association's allowance for loan losses was 0.1 percent and 0.1 percent of total loans outstanding as of June 30, 2015, and December 31, 2014, respectively.

Currently, the Association has \$307,393 in nonaccrual loans stemming from two loans. Both of these loans are included in the Association's core loan portfolio. There have been no material changes in the Association's core portfolio's borrower profile, geographic distribution, commodity concentration, or asset quality.

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, 2015		December 31, 2014	
	Amount	%	Amount	%
Nonaccrual	\$ 307,393	70.4%	\$ 184,904	58.9%
Other property owned, net	129,075	29.6%	129,075	41.1%
Total	\$ 436,468	100.0%	\$ 313,979	100.0%

Results of Operations:

The Association had net income of \$2,248,976 and \$4,521,524 for the three and six months ended June 30, 2015, as compared to net income of \$2,440,964 and \$4,766,367 for the same period in 2014, reflecting a decrease of 7.9 and 5.1 percent, respectively. Net interest income was \$3,309,740 and \$6,595,200 for the three and six months ended June 30, 2015, compared to \$3,239,222 and \$6,431,946 for the same period in 2014.

	Six months ended:			
	June 30, 2015		June 30, 2014	
	Average Balance	Interest	Average Balance	Interest
Loans	\$ 421,041,287	\$ 9,460,523	\$ 407,632,500	\$ 9,232,249
Interest-bearing liabilities	327,126,233	2,865,323	318,759,706	2,800,303
Impact of capital	<u>\$ 93,915,054</u>		<u>\$ 88,872,794</u>	
Net interest income		<u>\$ 6,595,200</u>		<u>\$ 6,431,946</u>
	2015		2014	
	Average Yield		Average Yield	
Yield on loans	4.53%		4.57%	
Cost of interest-bearing liabilities	1.77%		1.77%	
Interest rate spread	2.76%		2.80%	
Net interest income as a percentage of average earning assets	3.16%		3.18%	

	Six months ended: June 30, 2015 vs. June 30, 2014		
	Increase (decrease) due to		
	Volume	Rate	Total
Interest income	\$ 303,690	\$ (75,416)	\$ 228,274
Interest expense	73,501	(8,481)	65,020
Net interest income	<u>\$ 230,189</u>	<u>\$ (66,935)</u>	<u>\$ 163,254</u>

Interest income for the three and six months ended June 30, 2015, increased by \$124,524 and \$228,274, or 2.7 and 2.5 percent, respectively, from the same period of 2014, primarily due to an increase in average loan volume, slightly offset by a decline in yields on earning assets. Interest expense for the three and six months ended June 30, 2015, increased by \$54,006 and \$65,020, or 3.8 and 2.3 percent, respectively, from the same period of 2014 due to an increase in average debt volume, slightly offset by a decrease in interest rates. Average loan volume for the second quarter of 2015 was \$425,098,931, compared to \$409,945,256 in the second quarter of 2014. The average net interest rate spread on the loan portfolio for the second quarter of 2015 was 2.73 percent, compared to 2.79 percent in the second quarter of 2014.

The Association's return on average assets for the six months ended June 30, 2015, was 2.11 percent compared to 2.41 percent for the same period in 2014. The Association's return on average equity for the six months ended June 30, 2015, was 9.19 percent, compared to 10.16 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 (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, 2015	December 31, 2014
Note payable to the Bank	\$ 341,404,838	\$ 328,825,631
Accrued interest on note payable	496,106	488,969
Total	<u>\$ 341,900,944</u>	<u>\$ 329,314,600</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 \$341,404,838 as of June 30, 2015, is recorded as a liability on the Association's consolidated balance sheet. The note carried a weighted average interest rate of 1.77 percent at June 30, 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 increase in note

payable to the Bank and related accrued interest payable since December 31, 2014, is due to increased funding needs as evidenced by the increase in total assets from 2014 to 2015. The Association's own funds, which represent the amount of the Association's loan portfolio funded by the Association's equity, were \$92,182,248 at June 30, 2015. The maximum amount the Association may borrow from the Bank as of June 30, 2015, was \$438,320,225 as defined by the general financing agreement. The indebtedness continues in effect until the expiration date of the general financing agreement, which is September 30, 2015, 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 during all of 2015 and into the future. As borrower payments are received, they are applied to the Association's note payable to the Bank.

The Association will continue to fund its operations through direct borrowing from the Bank, capital surplus from prior years and borrower stock. It is management's opinion that funds available to the Association are sufficient to fund its operations for the coming year and foreseeable future.

Capital Resources:

The Association's capital position increased by \$4,555,105 at June 30, 2015, compared to December 31, 2014. The Association's debt as a percentage of members' equity was 3.40:1 as of June 30, 2015, compared to 3.49:1 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 June 30, 2015, was 20.9 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, 2015, were 20.4 and 20.4 percent, respectively, which is in compliance with the FCA's minimum surplus standard.

Significant Recent Accounting Pronouncements:

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. The Association is currently evaluating a potential disclosure for this recent accounting pronouncement.

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 April 2015, this guidance was deferred by one year and results in the new revenue standard becoming effective for interim and annual reporting periods ending after December 15, 2017. 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.

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 initial public comment period ended on February 16, 2015. However, the FCA agreed to reopen the comment period from June 26 to July 10, 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 Central Texas Farm 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. The annual and quarterly stockholder reports for the Bank and the District are also available on its website at 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 Central Texas Farm Credit, ACA, P.O. Box 511, Coleman, Texas 76834, or calling (325) 625-2165. Copies of the Association's quarterly stockholder reports can also be requested by e-mailing Keith.Prater@farmcreditbank.com.

CENTRAL TEXAS FARM CREDIT, ACA

CONSOLIDATED BALANCE SHEET

	June 30, 2015 (unaudited)	December 31, 2014
<u>ASSETS</u>		
Cash	\$ 598,875	\$ 981,544
Loans	434,549,663	423,926,621
Less: allowance for loan losses	528,963	572,782
Net loans	<u>434,020,700</u>	<u>423,353,839</u>
Accrued interest receivable	3,781,095	3,543,382
Investment in and receivable from the Farm Credit Bank of Texas:		
Capital stock	6,411,675	6,411,675
Other	-	52,750
Other property owned, net	129,075	129,075
Premises and equipment, net	1,266,807	935,682
Other assets	919,025	209,207
Total assets	<u><u>\$ 447,127,252</u></u>	<u><u>\$ 435,617,154</u></u>
<u>LIABILITIES</u>		
Note payable to the Farm Credit Bank of Texas	\$ 341,404,838	\$ 328,825,631
Accrued interest payable	496,106	488,969
Drafts outstanding	752,928	838,910
Dividends payable	-	5,200,000
Other liabilities	2,940,183	3,285,552
Total liabilities	<u><u>345,594,055</u></u>	<u><u>338,639,062</u></u>
<u>MEMBERS' EQUITY</u>		
Capital stock and participation certificates	2,173,390	2,149,055
Unallocated retained earnings	99,772,275	95,250,739
Accumulated other comprehensive loss	(412,468)	(421,702)
Total members' equity	<u>101,533,197</u>	<u>96,978,092</u>
Total liabilities and members' equity	<u><u>\$ 447,127,252</u></u>	<u><u>\$ 435,617,154</u></u>

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

CENTRAL TEXAS FARM CREDIT, ACA

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

	Quarter Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
<u>INTEREST INCOME</u>				
Loans	\$ 4,778,358	\$ 4,653,834	\$ 9,460,523	\$ 9,232,249
<u>INTEREST EXPENSE</u>				
Note payable to the Farm Credit Bank of Texas	1,468,618	1,414,612	2,865,323	2,800,303
Net interest income	3,309,740	3,239,222	6,595,200	6,431,946
<u>PROVISION FOR LOAN LOSSES (LOAN LOSS REVERSAL)</u>				
	37,905	(40,206)	(45,241)	(56,214)
Net interest income after provision for loan losses (loan loss reversal)	3,271,835	3,279,428	6,640,441	6,488,160
<u>NONINTEREST INCOME</u>				
Income from the Farm Credit Bank of Texas:				
Patronage income	277,332	267,942	546,313	530,520
Loan fees	4,541	16,040	28,086	46,606
Financially related services income	1,823	1,958	4,726	4,794
Gain on other property owned, net	4,109	-	4,109	-
Other noninterest income	21,462	20,645	21,462	20,645
Total noninterest income	309,267	306,585	604,696	602,565
<u>NONINTEREST EXPENSES</u>				
Salaries and employee benefits	859,450	682,445	1,705,712	1,377,763
Directors' expense	36,487	24,404	67,314	54,264
Purchased services	27,344	41,878	85,710	88,913
Travel	46,887	39,375	82,219	82,559
Occupancy and equipment	52,179	41,675	120,379	98,579
Communications	28,850	33,499	56,570	54,452
Advertising	56,976	55,132	139,457	125,243
Public and member relations	36,418	55,468	88,460	90,700
Supervisory and exam expense	29,657	35,018	68,317	70,035
Insurance Fund premiums	97,654	89,075	194,263	176,655
Other noninterest expense	60,224	47,080	115,212	105,195
Total noninterest expenses	1,332,126	1,145,049	2,723,613	2,324,358
NET INCOME	2,248,976	2,440,964	4,521,524	4,766,367
Other comprehensive income:				
Change in postretirement benefit plans	4,617	(4,742)	9,234	(9,485)
COMPREHENSIVE INCOME	\$ 2,253,593	\$ 2,436,222	\$ 4,530,758	\$ 4,756,882

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

CENTRAL TEXAS FARM 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	\$ 2,152,100	\$ 90,102,324	\$ 57,446	\$ 92,311,870
Comprehensive income	-	4,766,367	(9,485)	4,756,882
Capital stock/participation certificates and allocated retained earnings issued	148,925	-	-	148,925
Capital stock/participation certificates and allocated retained earnings retired	(162,110)	-	-	(162,110)
Balance at June 30, 2014	<u><u>\$ 2,138,915</u></u>	<u><u>\$ 94,868,691</u></u>	<u><u>\$ 47,961</u></u>	<u><u>\$ 97,055,567</u></u>
Balance at December 31, 2014	\$ 2,149,055	\$ 95,250,739	\$ (421,702)	\$ 96,978,092
Comprehensive income	-	4,521,524	9,234	4,530,758
Capital stock/participation certificates and allocated retained earnings issued	158,940	-	-	158,940
Capital stock/participation certificates and allocated retained earnings retired	(134,605)	-	-	(134,605)
Patronage refunds:				
Cash	-	12	-	12
Balance at June 30, 2015	<u><u>\$ 2,173,390</u></u>	<u><u>\$ 99,772,275</u></u>	<u><u>\$ (412,468)</u></u>	<u><u>\$ 101,533,197</u></u>

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

CENTRAL TEXAS FARM CREDIT, ACA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

The Central Texas Farm 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 Baylor, Brown, Callahan, Coke, Coleman, Comanche, Concho, Haskell, Irion, Jones, Knox, McCulloch, Menard, Mills, Reagan, Runnels, San Saba, Sterling, and Tom Green. The Association is a lending institution of the Farm Credit System (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, 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 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, 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. The Association is currently evaluating a potential disclosure for this recent accounting pronouncement.

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 April 2015, this guidance was deferred by one year and results in the new revenue standard becoming effective for interim and annual reporting periods ending after December 15, 2017. 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 June 30, 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	June 30,	December 31,
	2015	2014
	Amount	Amount
Production agriculture:		
Real estate mortgage	\$ 313,448,490	\$ 303,024,892
Production and intermediate term	46,007,814	49,091,029
Agribusiness:		
Processing and marketing	34,009,237	31,643,304
Farm-related business	12,465,920	12,311,306
Energy	14,561,638	14,545,081
Communication	10,822,604	10,050,458
Rural residential real estate	1,851,353	1,799,245
Water and waste water	1,382,607	1,461,306
Total	<u>\$ 434,549,663</u>	<u>\$ 423,926,621</u>

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, 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	\$ 10,366,874	\$ 9,024,791	\$ -	\$ -	\$ 10,366,874
Production and intermediate term	6,358,559	3,596,705	-	-	6,358,559	3,596,705
Agribusiness	32,411,279	-	-	-	32,411,279	-
Communication	10,790,425	-	-	-	10,790,425	-
Energy	14,561,638	-	-	-	14,561,638	-
Water and waste water	1,382,607	-	-	-	1,382,607	-
Total	<u>\$ 75,871,382</u>	<u>\$ 12,621,496</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 75,871,382</u>	<u>\$ 12,621,496</u>

The Association is authorized under the Farm Credit Act to accept “advance conditional payments” (ACPs) from borrowers. To the extent the borrower’s access to such ACPs is restricted and the legal right of setoff exists, the ACPs are netted against the borrower’s related loan balance. Unrestricted advance conditional payments are included in other liabilities. ACPs are not insured, and interest is generally paid by the Association on such balances. There were no ACPs at June 30, 2015, and December 31, 2014, respectively.

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

	June 30, 2015	December 31, 2014
Nonaccrual loans:		
Real estate mortgage	\$ 307,393	\$ 169,714
Production and intermediate term	-	15,190
Total nonaccrual loans	<u>307,393</u>	<u>184,904</u>
Total nonperforming loans	307,393	184,904
Other property owned	129,075	129,075
Total nonperforming assets	<u>\$ 436,468</u>	<u>\$ 313,979</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 classified under the Uniform Loan Classification System as a percentage of total loans and related accrued interest receivable by loan type as of:

	June 30, 2015	December 31, 2014
Real estate mortgage		
Acceptable	99.1 %	98.8 %
OAEM	0.8	1.1
Substandard/doubtful	0.1	0.1
	100.0	100.0
Production and intermediate term		
Acceptable	98.5	98.7
OAEM	1.5	1.3
Substandard/doubtful	-	-
	100.0	100.0
Agribusiness		
Acceptable	100.0	100.0
OAEM	-	-
Substandard/doubtful	-	-
	100.0	100.0
Energy		
Acceptable	100.0	100.0
OAEM	-	-
Substandard/doubtful	-	-
	100.0	100.0
Communication		
Acceptable	100.0	100.0
OAEM	-	-
Substandard/doubtful	-	-
	100.0	100.0
Rural residential real estate		
Acceptable	100.0	100.0
OAEM	-	-
Substandard/doubtful	-	-
	100.0	100.0
Water and waste water		
Acceptable	100.0	100.0
OAEM	-	-
Substandard/doubtful	-	-
	100.0	100.0
Total loans		
Acceptable	99.1	98.9
OAEM	0.8	1.0
Substandard/doubtful	0.1	0.1
	100.0 %	100.0 %

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

June 30, 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	\$ 142,672	\$ -	\$ 142,672	\$ 316,584,087	\$ 316,726,759	\$ -
Production and intermediate term	79,061	-	79,061	46,338,323	46,417,384	-
Processing and marketing	-	-	-	34,046,647	34,046,647	-
Farm-related business	-	-	-	12,472,679	12,472,679	-
Communication	-	-	-	10,832,985	10,832,985	-
Energy	-	-	-	14,574,647	14,574,647	-
Water and waste water	-	-	-	1,382,748	1,382,748	-
Rural residential real estate	-	-	-	1,876,909	1,876,909	-
Total	\$ 221,733	\$ -	\$ 221,733	\$ 438,109,025	\$ 438,330,758	\$ -
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	\$ 537,477	\$ 119,156	\$ 656,633	\$ 305,449,313	\$ 306,105,946	\$ -
Production and intermediate term	-	-	-	49,461,627	49,461,627	-
Processing and marketing	-	-	-	31,686,842	31,686,842	-
Farm-related business	-	-	-	12,317,985	12,317,985	-
Communication	-	-	-	10,063,276	10,063,276	-
Energy	-	-	-	14,560,030	14,560,030	-
Water and waste water	-	-	-	1,461,444	1,461,444	-
Rural residential real estate	-	-	-	1,812,853	1,812,853	-
Total	\$ 537,477	\$ 119,156	\$ 656,633	\$ 426,813,370	\$ 427,470,003	\$ -

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, 2015 and December 31, 2014, the Association has no troubled debt restructured loans. 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).

The predominant form of concession granted for troubled debt restructuring is an extension of the term. Other types of modifications include 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.

Additional impaired loan information is as follows:

	June 30, 2015			December 31, 2014		
	Recorded Investment	Unpaid Principal Balance ^a	Related Allowance	Recorded Investment	Unpaid Principal Balance ^a	Related Allowance
Impaired loans with a related allowance for credit losses:						
Real estate mortgage	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Production and intermediate term	-	-	-	-	-	-
Total	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	\$ 307,393	\$ 307,393	\$ -	\$ 169,714	\$ 169,714	\$ -
Production and intermediate term	-	-	-	15,190	15,190	-
Total	\$ 307,393	\$ 307,393	\$ -	\$ 184,904	\$ 184,904	\$ -
Total impaired loans:						
Real estate mortgage	\$ 307,393	\$ 307,393	\$ -	\$ 169,714	\$ 169,714	\$ -
Production and intermediate term	-	-	-	15,190	15,190	-
Total	\$ 307,393	\$ 307,393	\$ -	\$ 184,904	\$ 184,904	\$ -

^a Unpaid principal balance represents the recorded principal balance of the loan.

	For the Three Months Ended				For the Six Months Ended			
	June 30, 2015		June 30, 2014		June 30, 2015		June 30, 2014	
	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	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Production and intermediate term	-	-	-	-	-	-	-	-
Total	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Impaired loans with no related allowance for credit losses:								
Real estate mortgage	\$ 217,557	\$ 1,716	\$ 110,748	\$ 1,027	\$ 126,290	\$ 1,340	\$ 100,506	\$ 1,866
Production and intermediate term	-	-	45,251	646	-	-	51,325	646
Total	\$ 217,557	\$ 1,716	\$ 155,999	\$ 1,673	\$ 126,290	\$ 1,340	\$ 151,831	\$ 2,512
Total impaired loans:								
Real estate mortgage	\$ 217,557	\$ 1,716	\$ 110,748	\$ 1,027	\$ 126,290	\$ 1,340	\$ 100,506	\$ 1,866
Production and intermediate term	-	-	45,251	646	-	-	51,325	646
Total	\$ 217,557	\$ 1,716	\$ 155,999	\$ 1,673	\$ 126,290	\$ 1,340	\$ 151,831	\$ 2,512

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 and Waste Water	Rural Residential Real Estate	Total
Allowance for Credit Losses:								
Balance at March 31, 2015	\$ 158,983	\$ 151,469	\$ 98,516	\$ 21,504	\$ 40,942	\$ 1,572	\$ 1,206	\$ 474,192
Charge-offs	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-
Provision for loan losses	17,365	11,775	5,705	(461)	(199)	3,617	103	37,905
Other	-	15,671	2,540	31	13	(1,389)	-	16,866
Balance at June 30, 2015	\$ 176,348	\$ 178,915	\$ 106,761	\$ 21,074	\$ 40,756	\$ 3,800	\$ 1,309	\$ 528,963
Balance at December 31, 2014	\$ 197,179	\$ 220,963	\$ 96,213	\$ 21,612	\$ 33,922	\$ 1,575	\$ 1,318	\$ 572,782
Charge-offs	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-
Provision for loan losses	(20,831)	(37,493)	2,402	(1,193)	8,275	3,608	(9)	(45,241)
Other	-	(4,555)	8,146	655	(1,441)	(1,383)	-	1,422
Balance at June 30, 2015	\$ 176,348	\$ 178,915	\$ 106,761	\$ 21,074	\$ 40,756	\$ 3,800	\$ 1,309	\$ 528,963
Ending Balance:								
Individually evaluated for impairment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Collectively evaluated for impairment	176,348	178,915	106,761	21,074	40,756	3,800	1,309	528,963
Balance at June 30, 2015	\$ 176,348	\$ 178,915	\$ 106,761	\$ 21,074	\$ 40,756	\$ 3,800	\$ 1,309	\$ 528,963
Balance at March 31, 2014	\$ 225,777	\$ 179,766	\$ 73,522	\$ 19,320	\$ 148,287	\$ 1,782	\$ 1,280	\$ 649,734
Charge-offs	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-
Provision for loan losses	(16,694)	(22,849)	2,071	(423)	(2,052)	(12)	(247)	(40,206)
Other	2	(88)	9,711	40	92	(34)	8	9,731
Balance at June 30, 2014	\$ 209,085	\$ 156,829	\$ 85,304	\$ 18,937	\$ 146,327	\$ 1,736	\$ 1,041	\$ 619,259
Balance at December 31, 2013	\$ 222,030	\$ 199,044	\$ 62,622	\$ 19,080	\$ 150,940	\$ 771	\$ 1,411	\$ 655,898
Charge-offs	-	-	-	-	-	-	-	-
Recoveries	8,210	-	-	-	-	-	-	8,210
Provision for loan losses	(21,162)	(43,396)	12,486	(769)	(4,009)	1,046	(410)	(56,214)
Other	7	1,181	10,196	626	(604)	(81)	40	11,365
Balance at June 30, 2014	\$ 209,085	\$ 156,829	\$ 85,304	\$ 18,937	\$ 146,327	\$ 1,736	\$ 1,041	\$ 619,259
Ending Balance:								
Individually evaluated for impairment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Collectively evaluated for impairment	209,085	156,829	85,304	18,937	146,327	1,736	1,041	619,259
Balance at June 30, 2014	\$ 209,085	\$ 156,829	\$ 85,304	\$ 18,937	\$ 146,327	\$ 1,736	\$ 1,041	\$ 619,259
Recorded Investments in Loans Outstanding:								
Ending Balance at								
June 30, 2015	\$ 316,726,759	\$ 46,417,384	\$ 46,519,326	\$ 10,832,985	\$ 14,574,647	\$ 1,382,748	\$ 1,876,909	\$ 438,330,758
Individually evaluated for impairment	\$ 307,393	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 307,393
Collectively evaluated for impairment	\$ 316,419,366	\$ 46,417,384	\$ 46,519,326	\$ 10,832,985	\$ 14,574,647	\$ 1,382,748	\$ 1,876,909	\$ 438,023,365
Ending Balance at								
June 30, 2014	\$ 305,879,589	\$ 36,442,940	\$ 44,157,160	\$ 9,814,872	\$ 15,027,080	\$ 1,600,164	\$ 1,596,541	\$ 414,518,346
Individually evaluated for impairment	\$ 141,541	\$ 42,138	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 183,679
Collectively evaluated for impairment	\$ 305,738,048	\$ 36,400,802	\$ 44,157,160	\$ 9,814,872	\$ 15,027,080	\$ 1,600,164	\$ 1,596,541	\$ 414,334,667

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 portfolio; 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, as follows:

June 30, 2015	Net of Tax
Nonpension postretirement benefits	\$ (412,468)
Total	\$ (412,468)
June 30, 2014	Net of Tax
Nonpension postretirement benefits	\$ 47,961
Total	\$ 47,961

The Association's accumulated other comprehensive income (loss) relates entirely to its nonpension other postretirement benefits. Amortization of prior service credits and of actuarial 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, 2015:

	<u>2015</u>	<u>2014</u>
Accumulated other comprehensive income (loss) at January 1	\$ (421,702)	\$ 57,446
Amortization of prior service credits included		
in salaries and employee benefits	(9,018)	(9,485)
Amortization of actuarial loss included		
in salaries and employee benefits	18,252	-
Other comprehensive income (loss), net of tax	<u>9,234</u>	<u>(9,485)</u>
Accumulated other comprehensive income at June 30	<u>\$ (412,468)</u>	<u>\$ 47,961</u>

NOTE 4 — INCOME TAXES:

Central Texas Farm 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. Central Texas Farm Credit, ACA operates as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, Central Texas Farm 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. The Association's valuation allowance was \$1,111,170 as of the quarter ended June 30, 2015, for no available tax benefit as of that point in time.

The subsidiary, Central Texas Federal Land Bank, FLCA, is exempt from federal and other income taxes as provided in the Farm Credit Act of 1971.

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>June 30, 2015</u>	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Assets:				
Loans*	\$ -	\$ -	\$ -	\$ -
Other property owned	-	-	129,075	129,075
<u>December 31, 2014</u>	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Assets:				
Loans*	\$ -	\$ -	\$ -	\$ -
Other property owned	-	-	129,075	129,075

*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 Recurring and Nonrecurring Level 3 Fair Value Measurements

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.

Valuation Techniques

As more fully discussed in Note 2 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 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	
	2015	2014
Service cost	\$ 30,035	\$ 22,174
Interest cost	44,505	36,846
Expected return on plan assets	-	-
Amortization of net actuarial loss	18,252	-
Amortization of prior service credits	(9,018)	(9,485)
Net periodic benefit cost	<u>\$ 83,774</u>	<u>\$ 49,535</u>

The Association's liability for the unfunded accumulated obligation for these benefits at June 30, 2015, was \$2,028,148 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. As of June 30, 2015, \$109,468 of contributions have been made. The Association presently anticipates contributing an additional \$109,468 to fund the defined benefit pension plan in 2015 for a total of \$218,936.

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 July 28, 2015, which is the date the financial statements were issued. There are no other significant events requiring disclosure as of July 28, 2015.