CENTRAL TEXAS FARM CREDIT, ACA

2014
Quarterly Report
Third Quarter

For the Quarter Ended September 30, 2014

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

October 28, 2014

Robby A. Halfmann, Chairman, Board of Directors

October 28, 2014

Zach May, Chief Operating Officer

October 28, 2014

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

The following commentary reviews the financial performance of the Central Texas Farm Credit, ACA (Agricultural Credit Association), referred to as the Association, for the quarter ended September 30, 2014. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2013 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:

2014

Effective October 15, 2014, Michael Antle resigned from his position as the controller of Central Texas Farm Credit, ACA. Controller duties will be handled by existing association staff until Mr. Antle's replacement is hired.

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 R. 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 Farm Credit Bank of Texas (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 8 directors (7 stockholder-elected and 1 director-elected) to 6 (5 stockholder-elected and 1 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 C. 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.

2011

In December 2011, the Association received a direct loan patronage of $1,309,704 from the Bank, representing 42 basis points on the average daily balance of the Association's direct loan with the Bank. During 2011, the Association received $158,326 in patronage payments from the Bank, based on the Association's stock investment in the Bank.

During December 2011, Association director Cody Richmond resigned from his position, with the board formally accepting his resignation. Kenneth Harvick was appointed by the board as Mr. Richmond's replacement effective January 1, 2012. Mr. Harvick was appointed to serve only until the next election in April 2012. He was then elected to serve out the remainder of Mr. Richmond's term.

At the December 2011 board meeting, the board of directors agreed to amend the Bylaws to allow for the reduction of the board from 9 to 8 directors (7 stockholder-elected and 1 director-elected). Subsequent to year end, the board formally adopted this change to the Bylaws by resolution at the February 2012 board meeting.

2010

In December 2010, the Association received a direct loan patronage of $1,637,018 from the Bank, representing 50 basis points on the average daily balance of the Association's direct loan with the Bank. During 2010, the Association received $188,298 in patronage payments from the Bank, based on the Association's stock investment in the Bank.

In April 2010, the Association received a refund from the FCSIC of prior year insurance premiums totaling $410,939, which was taken into income for 2010.

During the third quarter of 2010, Association director Chris West paid his loans in full and thereby became ineligible to continue serving as a director. In addition, Association director Larry Damron resigned from his position, with the board formally accepting his resignation.

In December 2010, the board of directors agreed to amend the Bylaws to allow for the reduction of the board from 11 to 9 directors (8 stockholder-elected and 1 director-elected). Subsequent to year end, the board formally adopted this change to the Bylaws by resolution at the January 2011 board meeting.

Mr. James R. Isenhower retired as CEO of Central Texas Farm Credit, ACA effective December 31, 2010. Mr. Boyd J. Chambers became the new CEO effective January 1, 2011.

Problem Loans

2014

During the first quarter of 2014, a recovery of $8,210 was made on a loan that had been charged off in 2009. At this time, we do not anticipate any further recoveries related to this loan.

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

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 $877,351. The Association expects to incur attorney's fees associated with this transaction; however, an estimate of those fees is not yet known.

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 non-accrual 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 non-accrual 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, a borrower had two operating loans go into non-accrual of which $179,624 was charged off leaving a remaining balance of $25,892 as of year-end. As of year-end the Association had a non-accrual balance of $155,885.

<u>2012</u>

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 has been deemed non-viable. The $3,111,721 loan was transferred to non-accrual 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 non-accrual status. In late December, 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 year-end.

<u>2010</u>

During the second quarter another District participation loan which the Association participated in was deemed non-viable or as containing significant financial stress resulted in this loan being transferred to a non-accrual status. The peak balance of this non-accrual loan was $4,637,524. Current year (2010) interest income of $114,408 was reversed on this loan at the time of transfer to non-accrual. In the third quarter of 2011 of this loan was collected in full.

<u>2009</u>

In the second quarter, two participation loans were deemed non-viable and placed in a non-accrual status for a combined total of $5,842,305. Current year (2009) interest reversed for these loans totaled $43,211. Specific reserves were established on both of these loans totaling $2,441,569. Upon resolution of these two accounts in the second and third quarters of 2010, a charge-off amount of $964,889 was recognized and $1,476,680 of previous reserves was returned to income. One of these accounts resulted in $523,049 of acquired property and a restructured loan that was returned to accrual status.

During the third quarter, three additional participation loans totaling $5,739,970, were moved to a non-accrual status. Specific reserves originally established for these three loans totaled $1,097,884 and current year (2009) interest income reversals totaled $39,728. One account was resolved by being sold in the fourth quarter but required a charge-off of $794,733. All funds related to this sale were collected in full during the first quarter of 2010. The second account of these three accounts was resolved in the third quarter of 2010, resulting in a charge-off of $385,308. A subsequent recovery of $11,667 was realized on this account in the first quarter of 2011. The last of these three accounts was resolved in the third quarter of 2011 with $325,103 of the debt being charged-off and $424,897 of the related $750,000 specific reserve being returned to income.

In the fourth quarter, another District participation loan was deemed as a troubled debt and was promptly sold during the quarter. The sale related to this account resulted in an $11,643 charge-off and a $1,909 reversal of current year (2009) interest accruals. All funds related to this sale were fully collected in the first quarter of 2010.

Quarter-end Weather and Crop Conditions

The U.S. economy seems to be gaining steam again as real GDP grew by 4.6% in second quarter 2014. This growth is surprising considering the decrease in Real GDP in first quarter 2014. Most of the growth came from increases in exports of industrial supplies and nonfarm inventory investment by motor vehicle dealers. Both business investment and consumer spending were up as well. Estimates for third quarter 2014 are not as good as the second quarter but are still positive with most coming in around 2.0% growth. We still do not expect the Federal Reserve to raise short-term interest rates until late 2015 at the earliest.

The U.S. agricultural trade surplus estimate for the third quarter of 2014 has risen to $43.0 billion. This is the highest the trade surplus has ever been, but forecasts for 2015 show the U.S. losing ground by the third quarter of 2015 with only a $27.5 billion surplus. Exports of oilseeds, grain, and feed are all expected to decrease while imports of horticultural products, sugar and livestock are expected to increase. We will continue to lose our trade advantage if prices stay low.

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. As a result, the Association has a diversified portfolio that is not heavily dependent on agricultural income. 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 third quarter of 2014, the Association's territory saw cooler temperatures than typical. Soil moisture has improved with many areas reporting rain. Cotton crop looks good so far, and harvest season should start in November. Wheat is being planted in some areas and the crop outlook is positive as soil moisture is adequate. The hay crop has been good this year because of good soil moisture during the growing season. Cattle producers have been able to decrease supplemental feeding because of improved grazing, and the cattle market is still holding steady around historic highs. Many of our borrowers are currently doing very well, but margins are thinning, which could indicate that a correction could be coming. Stock tank water levels held steady in most of the territory due to some recent rains and milder temperatures than usual for this time of year, but additional precipitation is still needed throughout the Association's territory.

Summation

For over 97 years, the Association has continued to provide its members with quality financial services. The board of directors and management remain committed to maintaining the financial integrity of the Association while offering competitive loan products that meet the financial needs of agricultural producers.

Loan Portfolio:

Total loans outstanding at September 30, 2014, including nonaccrual loans, were $418,230,431 compared to $403,911,853 at December 31, 2013, reflecting an increase of 3.5 percent. Nonaccrual loans as a percentage of total loans outstanding were 0.02 percent at September 30, 2014, compared to 0.04 percent at December 31, 2013.

The Association recorded $25,052 in recoveries and no charge-offs for the quarter ended September 30, 2014, and no recoveries or charge-offs for the same period in 2013. The Association's allowance for loan losses was 0.1 percent and 0.2 percent of total loans outstanding as of September 30, 2014, and December 31, 2013, respectively.

Currently, the Association's has $100,158 in nonaccrual loans stemming from two loans. 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.

	September 30, 2014		December 31, 2013	
	Amount	**%**	Amount	%
Nonaccrual	**$ 100,158**	**43.7%**	$ 155,885	10.7%
Formally restructured	**-**	**0.0%**	646,649	44.5%
Other property owned, net	**129,075**	**56.3%**	652,125	44.8%
Total	**$ 229,233**	**100.0%**	$ 1,454,659	100.0%

Results of Operations:

The Association had net income of $3,349,920 and $8,116,287 for the three and nine months ended September 30, 2014, as compared to net income of $2,450,808 and $7,151,103 for the same period in 2013, reflecting an increase of 36.7 and 13.5 percent, respectively. Net interest income was $3,231,951 and $9,663,897 for the three and nine months ended September 30, 2014, compared to $3,054,513 and $9,180,343 for the same period in 2013.

	Nine months ended:			
	September 30, 2014		September 30, 2013	
	Average Balance	**Interest**	Average Balance	Interest
Loans	**$ 409,040,782**	**$ 13,896,396**	$ 384,685,851	$ 13,319,251
Interest-bearing liabilities	**319,766,150**	**4,232,499**	299,504,117	4,138,908
Impact of capital	**$ 89,274,632**		$ 85,181,734	
Net interest income		**$ 9,663,897**		$ 9,180,343

	2014 Average Yield	2013 Average Yield
Yield on loans	**4.54%**	4.63%
Cost of interest-bearing liabilities	**1.77%**	1.85%
Interest rate spread	**2.77%**	2.78%
Net interest income as a percentage of average earning assets	**3.16%**	3.19%

	Nine months ended: September 30, 2014 vs. September 30, 2013		
	Increase (decrease) due to		
	Volume	**Rate**	**Total**
Interest income	**$ 843,262**	**$ (266,117)**	**$ 577,145**
Interest expense	**280,002**	**(186,411)**	**93,591**
Net interest income	**$ 563,260**	**$ (79,706)**	**$ 483,554**

Interest income for the three and nine months ended September 30, 2014, increased by $229,784 and $577,145, or 5.2 and 4.3 percent, respectively, from the same period of 2013, primarily due to an increase in average loan volume offset by declines in yields on earning assets. Interest expense for the three and nine months ended September 30, 2014, increased by $52,346 and $93,591, or 3.8 and 2.3 percent, respectively, from the same period of 2013 due to an increase in average debt volume offset by a decrease in interest rates. Average loan volume for the third quarter of 2014 was $411,811,461, compared to $387,137,116 in the third quarter of 2013. The average net interest rate spread on the loan portfolio for the third quarter of 2014 was 2.73 percent, compared to 2.73 percent in the third quarter of 2013.

The Association's return on average assets for the nine months ended September 30, 2014, was 2.58 percent compared to 2.42 percent for the same period in 2013. The Association's return on average equity for the nine months ended September 30, 2014, was 11.31 percent, compared to 10.55 percent for the same period in 2013.

Because the Association depends on the Farm Credit Bank of Texas (Bank) for funding, any significant positive or negative factors affecting the operations of the Bank would have a similar effect on the operations of the Association.

Liquidity and Funding Sources:

The Association secures the majority of its lendable funds from the Bank, which obtains its funds through the issuance of Systemwide obligations and with lendable equity. The following schedule summarizes the Association's borrowings.

		September 30, 2014		December 31, 2013
Note payable to the Bank	**$**	**326,078,219**	$	314,071,861
Accrued interest on note payable		**466,701**		477,809
Total	**$**	**326,544,920**	$	314,549,670

The primary source of liquidity and funding for the Association is a direct loan from the Bank. The outstanding balance of $326,078,219 as of September 30, 2014, is recorded as a liability on the Association's consolidated balance sheet. The note carried a weighted average interest rate of 1.55 percent at September 30, 2014. 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 since December 31, 2013, is due to increased funding needs as evidenced by the increase in total assets from 2013 to 2014. The Association's own funds, which represent the amount of the Association's loan portfolio funded by the Association's equity, were $91,597,510 at September 30, 2014. The maximum amount the Association may borrow from the Bank as of September 30, 2014, was $422,455,585 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 the remainder of 2014 and into the future. As borrower payments are receive, they are applied to the Association's note payable to the Bank.

The Association will continue to fund its operations through direct borrowings 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 $8,099,775 at September 30, 2014, compared to December 31, 2013. The Association's debt as a percentage of members' equity was 3.28:1 as of September 30, 2014, compared to 3.49:1 as of December 31, 2013.

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 September 30, 2014, was 21.0 percent, which is in compliance with the FCA's minimum permanent capital standard. The Association's core surplus ratio and total surplus ratio at September 30, 2014, were 20.6 and 20.6 percent, respectively, which is in compliance with the FCA's minimum surplus standard.

Significant Recent Accounting Pronouncements:

In February 2013, the FASB issued guidance, "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income." The guidance requires entities to present either parenthetically on the face of the financial statements or in the notes to the financial statements, significant amounts reclassified from each component of accumulated other comprehensive income and the income statement line items affected by the reclassification. The guidance is effective for public entities for annual periods beginning after December 15, 2012 and for nonpublic entities for annual periods beginning after December 15, 2013. The Association has adopted this guidance, which did not impact the financial condition or results of operations, but resulted in additional disclosures which are included in Note 3 – Capital.

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

Regulatory Matters:

On June 12, 2014, the Farm Credit Administration approved a proposed rule to revise the requirements governing the eligibility of investments for System banks and associations. The stated objectives of the proposed rule are as follows:

- To strengthen the safety and soundness of System banks and associations,
- To ensure that System banks hold sufficient liquidity to continue operations and pay maturing obligations in the event of market disruption,
- To enhance the ability of the System banks to supply credit to agricultural and aquatic producers,
- To comply with the requirements of section 939A of the Dodd-Frank Wall Street Reform and Consumer Protection Act,
- To modernize the investment eligibility criteria for System banks, and
- To revise the investment regulation for System associations to improve their investment management practices so they are more resilient to risk.

The public comment period ended on October 23, 2014.

On May 8, 2014, the Farm Credit Administration approved 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 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 Wall Street Reform and Consumer Protection Act.

The public comment period ends on January 2, 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 2013 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 *fcb@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. The annual and quarterly stockholder reports for the Association are also available on its website at *www.centraltexasaca.com*. Copies of the Association's quarterly stockholder reports can also be requested by e-mailing *zach.may@farmcreditbank.com.*

CENTRAL TEXAS FARM CREDIT, ACA

CONSOLIDATED BALANCE SHEET

	September 30, 2014 (unaudited)	December 31, 2013
ASSETS		
Cash	**$ 342,656**	$ 533,981
Loans	**418,230,431**	403,911,853
Less: allowance for loan losses	**612,153**	655,898
Net loans	**417,618,278**	403,255,955
Accrued interest receivable	**4,121,559**	3,406,655
Investment in and receivable from the Farm Credit Bank of Texas:		
Capital stock	**6,029,085**	6,029,085
Other	**719,472**	-
Other property owned, net	**129,075**	652,125
Premises and equipment, net	**711,618**	676,885
Other assets	**312,995**	166,221
Total assets	**$ 429,984,738**	$ 414,720,907
LIABILITIES		
Note payable to the Farm Credit Bank of Texas	**$ 326,078,219**	$ 314,071,861
Accrued interest payable	**466,701**	477,809
Drafts outstanding	**816,786**	887,996
Dividends payable	**-**	4,800,000
Other liabilities	**2,211,387**	2,171,371
Total liabilities	**329,573,093**	322,409,037
MEMBERS' EQUITY		
Capital stock and participation certificates	**2,149,815**	2,152,100
Unallocated retained earnings	**98,218,611**	90,102,324
Accumulated other comprehensive income	**43,219**	57,446
Total members' equity	**100,411,645**	92,311,870
Total liabilities and members' equity	**$ 429,984,738**	$ 414,720,907

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 September 30,		Nine Months Ended September 30,	
	2014	2013	**2014**	2013
INTEREST INCOME				
Loans	**$ 4,664,147**	$ 4,434,363	**$ 13,896,396**	$ 13,319,251
INTEREST EXPENSE				
Note payable to the Farm Credit Bank of Texas	**1,432,196**	1,379,850	**4,232,499**	4,138,908
Net interest income	**3,231,951**	3,054,513	**9,663,897**	9,180,343
PROVISION FOR LOAN LOSSES (LOAN LOSS REVERSAL)	**(29,256)**	(622)	**(85,469)**	64,352
Net interest income after provision for loan losses (loan loss reversal)	**3,261,207**	3,055,135	**9,749,366**	9,115,991
NONINTEREST INCOME				
Income from the Farm Credit Bank of Texas:				
Patronage income	**267,819**	254,282	**798,339**	756,448
Loan fees	**21,588**	53,260	**68,194**	170,481
Financially related services income	**1,567**	1,942	**6,362**	6,728
Gain on other property owned, net	**877,351**	-	**877,351**	-
Other noninterest income	**1**	9	**20,646**	25,505
Total noninterest income	**1,168,326**	309,493	**1,770,892**	959,162
NONINTEREST EXPENSES				
Salaries and employee benefits	**655,570**	590,001	**2,033,333**	1,890,118
Directors' expense	**22,255**	27,705	**76,519**	85,512
Purchased services	**27,782**	12,833	**116,695**	69,059
Travel	**37,157**	25,521	**119,716**	84,848
Occupancy and equipment	**45,135**	48,897	**143,713**	143,978
Communications	**26,991**	16,656	**81,443**	49,176
Advertising	**63,212**	33,299	**188,455**	98,174
Public and member relations	**24,197**	32,343	**114,897**	87,997
Supervisory and exam expense	**38,660**	35,017	**108,695**	108,198
Insurance Fund premiums	**89,524**	70,623	**266,180**	210,954
Loss on sale of premises and equipment, net	**-**	-	**211**	-
Other noninterest expense	**49,130**	20,925	**154,114**	96,036
Total noninterest expenses	**1,079,613**	913,820	**3,403,971**	2,924,050
NET INCOME	**3,349,920**	2,450,808	**8,116,287**	7,151,103
Other comprehensive income:				
Change in postretirement benefit plans	**43,219**	1,788	**(14,227)**	5,364
COMPREHENSIVE INCOME	**$ 3,393,139**	$ 2,452,596	**$ 8,102,060**	$ 7,156,467

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)

	Capital Stock/ Participation Certificates	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2012	$ 2,120,295	$ 85,182,394	$ (286,751)	$ 87,015,938
Comprehensive income	-	7,151,103	5,364	7,156,467
Capital stock/participation certificates and allocated retained earnings issued	227,950	-	-	227,950
Capital stock/participation certificates and allocated retained earnings retired	(204,265)	-	-	(204,265)
Balance at September 30, 2013	$ 2,143,980	$ 92,333,497	$ (281,387)	$ 94,196,090
Balance at December 31, 2013	$ 2,152,100	$ 90,102,324	$ 57,446	$ 92,311,870
Comprehensive income	-	8,116,287	(14,227)	8,102,060
Capital stock/participation certificates and allocated retained earnings issued	227,980	-	-	227,980
Capital stock/participation certificates and allocated retained earnings retired	(230,265)	-	-	(230,265)
Balance at September 30, 2014	**$ 2,149,815**	**$ 98,218,611**	**$ 43,219**	**$ 100,411,645**

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

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 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, 2013, as contained in the 2013 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, 2013, as contained in the 2013 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, 2014. Descriptions of the significant accounting policies are included in the 2013 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 February 2013, the Financial Accounting Standards Board (FASB) issued guidance, "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income." The guidance requires entities to present either parenthetically on the face of the financial statements or in the notes to the financial statements, significant amounts reclassified from each component of accumulated other comprehensive income and the income statement line items affected by the reclassification. The guidance is effective for public entities for annual periods beginning after December 15, 2012, and for nonpublic entities for annual periods beginning after December 15, 2013. The adoption of this guidance did not impact the financial condition or results of operations, but resulted in additional disclosures (see Note 3 – Capital).

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

The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries. The preparation of these consolidated financial statements requires the use of management's estimates. The results for the quarter ended September 30, 2014, are not necessarily indicative of the results to be expected for the year ended December 31, 2014. 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	**September 30, 2014 Amount**	December 31, 2013 Amount
Production agriculture:		
Real estate mortgage	**$ 303,831,851**	$ 298,023,812
Production and intermediate term	**39,897,764**	39,933,199
Agribusiness:		
Processing and marketing	**33,327,613**	33,429,752
Farm-related business	**13,261,643**	6,285,991
Energy	**14,763,620**	14,353,951
Communication	**10,042,838**	9,052,980
Water and waste water	**1,560,275**	714,228
Rural residential real estate	**1,544,827**	2,117,940
Total	**$ 418,230,431**	$ 403,911,853

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 September 30, 2014:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 11,019,851	$ 9,519,735	$ -	$ -	$ 11,019,851	$ 9,519,735
Production and intermediate term	5,905,812	-	-	-	5,905,812	-
Agribusiness	31,686,361	-	-	-	31,686,361	-
Communication	9,996,302	-	-	-	9,996,302	-
Energy	14,763,620	-	-	-	14,763,620	-
Water and waste water	1,560,275	-	-	-	1,560,275	-
Total	$ 74,932,221	$ 9,519,735	$ -	$ -	$ 74,932,221	$ 9,519,735

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. Balances of ACPs were $2,769,513 and $2,633,857 at September 30, 2014, and December 31, 2013, respectively.

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

	September 30, 2014	December 31, 2013
Nonaccrual loans:		
Real estate mortgage	**$ 84,968**	$ 98,419
Production and intermediate term	**15,190**	57,466
Total nonaccrual loans	**100,158**	155,885
Accruing restructured loans:		
Real estate mortgage	**-**	646,649
Total accruing restructured loans	**-**	646,649
Total nonperforming loans	**100,158**	802,534
Other property owned	**129,075**	652,125
Total nonperforming assets	**$ 229,233**	$ 1,454,659

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:

	September 30, 2014	December 31, 2013
Real estate mortgage		
Acceptable	**98.7** %	98.4 %
OAEM	**1.3**	1.3
Substandard/doubtful	**-**	0.3
	100.0	100.0
Production and intermediate term		
Acceptable	**100.0**	99.9
OAEM	**-**	-
Substandard/doubtful	**-**	0.1
	100.0	100.0
Agribusiness		
Acceptable	**100.0**	100.0
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.0	100.0
Energy		
Acceptable	**90.4**	90.0
OAEM	**9.6**	-
Substandard/doubtful	**-**	10.0
	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	**98.7**	98.5
OAEM	**1.3**	0.9
Substandard/doubtful	**-**	0.6
	100.0 %	100.0 %

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

September 30, 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	**$ 666,395**	**$ 34,410**	**$ 700,805**	**$ 306,698,848**	**$ 307,399,653**	**$ -**
Production and intermediate term	**-**	**-**	**-**	**40,317,424**	**40,317,424**	**-**
Processing and marketing	**-**	**-**	**-**	**33,404,701**	**33,404,701**	**-**
Farm-related business	**-**	**-**	**-**	**13,268,098**	**13,268,098**	**-**
Communication	**-**	**-**	**-**	**10,054,537**	**10,054,537**	**-**
Energy	**-**	**-**	**-**	**14,774,083**	**14,774,083**	**-**
Water and waste water	**-**	**-**	**-**	**1,560,418**	**1,560,418**	**-**
Rural residential real estate	**-**	**-**	**-**	**1,573,076**	**1,573,076**	**-**
Total	**$ 666,395**	**$ 34,410**	**$ 700,805**	**$ 421,651,185**	**$ 422,351,990**	**$ -**

December 31, 2013	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	$ 29,397	$ 98,419	$ 127,816	$ 300,832,491	$ 300,960,307	$ -
Production and intermediate term	-	26,948	26,948	40,294,008	40,320,956	-
Processing and marketing	-	-	-	33,475,174	33,475,174	-
Farm-related business	-	-	-	6,291,738	6,291,738	-
Communication	-	-	-	9,067,361	9,067,361	-
Energy	-	-	-	14,355,396	14,355,396	-
Water and waste water	-	-	-	714,585	714,585	-
Rural residential real estate	-	-	-	2,132,991	2,132,991	-
Total	$ 29,397	$ 125,367	$ 154,764	$ 407,163,744	$ 407,318,508	$ -

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 September 30, 2014, the Association had no troubled debt restructured loans. In restructuring 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 includes 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.

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*	
	September 30, 2014	December 31, 2013	**September 30, 2014**	December 31, 2013
Real estate mortgage	**$ -**	$ 646,649	**$ -**	$ -
Total	**$ -**	$ 646,649	**$ -**	$ -

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

Additional impaired loan information is as follows:

	September 30, 2014			December 31, 2013		
	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	**$ 84,968**	**$ 84,968**	**$ -**	$ 745,068	$ 741,531	$ -
Production and intermediate term	**15,190**	**15,190**	**-**	57,466	237,090	-
Total	**$ 100,158**	**$ 100,158**	**$ -**	$ 802,534	$ 978,621	$ -
Total impaired loans:						
Real estate mortgage	**$ 84,967**	**$ 84,967**	**$ -**	$ 745,068	$ 741,531	$ -
Production and intermediate term	**15,190**	**15,190**	**-**	57,466	237,090	-
Total	**$ 100,157**	**$ 100,157**	**$ -**	$ 802,534	$ 978,621	$ -

[a] Unpaid principal balance represents the recorded principal balance of the loan.

	For the Three Months Ended				For the Nine Months Ended			
	September 30, 2014		September 30, 2013		**September 30, 2014**		September 30, 2013	
	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	**-**	**-**	2,441,721	-	**-**	**-**	2,868,754	-
Total	**$ -**	**$ -**	$ 2,441,721	$ -	**$ -**	**$ -**	$ 2,868,754	$ -
Impaired loans with no related allowance for credit losses:								
Real estate mortgage	**$ 85,644**	**$ -**	$ 1,803,690	$ 10,663	**$ 87,366**	**$ 1,389**	$ 1,829,437	$ 40,682
Production and intermediate term	**15,190**	**-**	-	-	**21,281**	**646**	-	-
Total	**$ 100,834**	**$ -**	$ 1,803,690	$ 10,663	**$ 108,647**	**$ 2,035**	$ 1,829,437	$ 40,682
Total impaired loans:								
Real estate mortgage	**$ 85,644**	**$ -**	$ 1,803,690	$ 10,663	**$ 87,366**	**$ 1,389**	$ 1,829,437	$ 40,682
Production and intermediate term	**15,190**	**-**	2,441,721	-	**21,281**	**646**	2,868,754	-
Total	**$ 100,834**	**$ -**	$ 4,245,411	$ 10,663	**$ 108,647**	**$ 2,035**	$ 4,698,191	$ 40,682

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 June 30, 2014	$ 209,085	$ 156,829	$ 85,304	$ 18,937	$ 146,327	$ 1,736	$ 1,041	$ 619,259
Charge-offs	-	-	-	-	-	-	-	-
Recoveries	-	25,052	-	-	-	-	-	25,052
Provision for loan losses	(7,959)	(5,731)	605	352	(16,511)	(11)	(1)	(29,256)
Other	196	(5,649)	(173)	(24)	2,766	(18)	-	(2,902)
Balance at September 30, 2014	$ 201,322	$ 170,501	$ 85,736	$ 19,265	$ 132,582	$ 1,707	$ 1,040	$ 612,153
Balance at December 31, 2013	$ 222,030	$ 199,046	$ 62,621	$ 19,079	$ 150,940	$ 771	$ 1,411	$ 655,898
Charge-offs	-	-	-	-	-	-	-	-
Recoveries	8,210	25,052	-	-	-	-	-	33,262
Provision for loan losses	(29,120)	(49,127)	13,091	(417)	(20,520)	1,035	(411)	(85,469)
Other	202	(4,470)	10,024	603	2,162	(99)	40	8,462
Balance at September 30, 2014	$ 201,322	$ 170,501	$ 85,736	$ 19,265	$ 132,582	$ 1,707	$ 1,040	$ 612,153
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	201,322	170,501	85,736	19,265	132,582	1,707	1,040	612,153
Balance at September 30, 2014	$ 201,322	$ 170,501	$ 85,736	$ 19,265	$ 132,582	$ 1,707	$ 1,040	$ 612,153
Balance at June 30, 2013	$ 200,668	$ 265,418	$ 561,115	$ 20,615	$ 165,970	$ -	$ 1,490	$ 1,215,276
Charge-offs	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-
Provision for loan losses	14,892	(24,323)	11,827	(1,346)	(1,697)	-	25	(622)
Other	(2,378)	(11,207)	(8,174)	(903)	968	-	76	(21,618)
Balance at September 30, 2013	$ 213,182	$ 229,888	$ 564,768	$ 18,366	$ 165,241	$ -	$ 1,591	$ 1,193,036
Balance at December 31, 2012	$ 207,832	$ 298,485	$ 1,051,482	$ 22,265	$ 166,741	$ -	$ 1,225	$ 1,748,030
Charge-offs	-	-	(670,000)	-	-	-	-	(670,000)
Recoveries	-	-	-	-	-	-	-	-
Provision for loan losses	7,682	(60,171)	127,471	(2,214)	(8,841)	-	425	64,352
Other	(2,332)	(8,426)	55,815	(1,685)	7,341	-	(59)	50,654
Balance at September 30, 2013	$ 213,182	$ 229,888	$ 564,768	$ 18,366	$ 165,241	$ -	$ 1,591	$ 1,193,036
Individually evaluated for impairment	$ -	$ -	$ 487,000	$ -	$ -	$ -	$ -	$ 487,000
Collectively evaluated for impairment	213,182	229,888	77,768	18,366	165,241	-	1,591	706,036
Balance at September 30, 2013	$ 213,182	$ 229,888	$ 564,768	$ 18,366	$ 165,241	$ -	$ 1,591	$ 1,193,036

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy	Water/Waste Water	Rural Residential Real Estate	Total
Recorded Investments in Loans Outstanding:								
Ending Balance at September 30, 2014	$ 307,399,653	$ 40,317,424	$ 46,672,799	$ 10,054,537	$ 14,774,083	$ 1,560,418	$ 1,573,076	$ 422,351,990
Individually evaluated for impairment	$ 84,968	$ 15,190	$ -	$ -	$ -	$ -	$ -	$ 100,158
Collectively evaluated for impairment	$ 307,314,685	$ 40,302,234	$ 46,672,799	$ 10,054,537	$ 14,774,083	$ 1,560,418	$ 1,573,076	$ 422,251,832
Ending Balance at September 30, 2013	$ 291,670,882	$ 36,633,516	$ 42,365,586	$ 8,335,715	$ 14,305,866	$ -	$ 2,263,396	$ 395,574,961
Individually evaluated for impairment	$ 1,082,930	$ -	$ 2,441,721	$ -	$ -	$ -	$ -	$ 3,524,651
Collectively evaluated for impairment	$ 290,587,952	$ 36,633,516	$ 39,923,865	$ 8,335,715	$ 14,305,866	$ -	$ 2,263,396	$ 392,050,310

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, is as follows:

September 30, 2014	**Net of Tax**
Nonpension postretirement benefits	**$ 43,219**
Total	**$ 43,219**

September 30, 2013	Net of Tax
Nonpension postretirement benefits	$ (281,387)
Total	$ (281,387)

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 nine months ended September 30:

	2014	2013
Accumulated other comprehensive income (loss) at January 1	**$ 57,446**	$ (286,751)
Amortization of prior service (credit) costs included in salaries and employee benefits	**(14,227)**	(14,227)
Amortization of actuarial (gain) loss included in salaries and employee benefits	**-**	19,591
Other comprehensive income (loss), net of tax	**(14,227)**	5,364
Accumulated other comprehensive income at September 30	**$ 43,219**	$ (281,387)

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 deferred tax asset was $1,082,265 as of quarter ended September 30, 2014, which includes a 100% valuation allowance.

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 2013 Annual Report to Stockholders for a more complete description.

There were no transfers to or from Level 1, Level 2, or Level 3 for the nine months ended September 30, 2014 or for the year ended December 31, 2013.

The Association had no assets or liabilities measures at fair value on a recurring basis at September 30, 2014 or December 31, 2013.

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

September 30, 2014	**Fair Value Measurement Using**			**Total Fair**	**Total Gains**
	Level 1	**Level 2**	**Level 3**	**Value**	**(Losses)**
Assets:					
Loans*	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Other property owned	**-**	**-**	**129,075**	**129,075**	**-**

December 31, 2013	Fair Value Measurement Using			Total Fair	Total Gains
	Level 1	Level 2	Level 3	Value	(Losses)
Assets:					
Loans*	$ -	$ -	$ -	$ -	$ -
Other property owned	-	-	652,125	652,125	-

*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 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 13 to the 2013 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 2013 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 nine months ended September 30:

	Other Benefits	
	2014	2013
Service cost	**$ 33,262**	$ 40,286
Interest cost	**55,268**	54,640
Amortization of prior service (credits) costs	**(14,227)**	(14,227)
Amortization of net actuarial (gain) loss	**-**	19,591
Net periodic benefit cost	**$ 74,303**	$ 100,290

The Association's liability for the unfunded accumulated obligation for these benefits at September 30, 2014, was $1,493,898 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 September 30, 2014, $380,025 of contributions have been made. The Association presently anticipates contributing an additional $126,675 to fund the defined benefit pension plan in 2014 for a total of $506,700.

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 October 28, 2014, which is the date the financial statements were issued. There are no other significant events requiring disclosure as of October 28, 2014.