

AG NEW MEXICO, FARM CREDIT SERVICES, ACA

**2015
Quarterly Report
First Quarter**



For the Quarter Ended March 31, 2015

REPORT OF MANAGEMENT

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



Frank Shelton, Chief Executive Officer
May 8, 2015



Mark McCollum, Chairman, Board of Directors
May 8, 2015



Ginger Garrett, Chief Financial Officer

May 8, 2015

AG NEW MEXICO, FARM CREDIT SERVICES, ACA MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the financial performance of Ag New Mexico, Farm Credit Services, ACA (Agricultural Credit Association), referred to as the Association, for the quarter ended March 31, 2015. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2014 Annual Report to Stockholders.

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

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

Significant Events:

For the three months ending March 31, 2015, the Association continues its efforts to strengthen the financial position of the Association as well as manage the credit risk within the loan portfolio. Net interest income increased from \$1,154,678 to \$1,165,744 for the three months ending March 31, 2014 and 2015, respectively. Net interest income after provision for loan losses decreased from \$1,136,464 to \$1,110,501 during the same period. The decrease is attributed to an increase in provision for loan losses from \$18,214 to \$55,243 for the three months ending March 31, 2014 and 2015, respectively. Total noninterest expenses increased \$874,750 to \$1,021,347 during the same period. Net income decreased from \$429,565 to \$363,286 during the same period.

The Association acquired property in 2012 as a result of a loan settlement agreement. An appraisal was contracted during the second quarter of 2012 which established an appraised value of \$820,000 for the acquired property. The net realizable value of the property was determined to be \$675,600 after netting estimated selling expenses against the appraised value. The carrying value of the property was \$3,106,950 based upon previous appraisals. The appraisal done the second quarter of 2012 resulted in setting up a provision for loss on the other property owned and allowance for loss on other property owned of \$2,431,350 in the second quarter of 2012. An additional provision for loss of \$153,600 was recorded in the third quarter of 2013 based on net realizable value of the updated appraisal.

Farmers and ranchers in New Mexico have seen material relief from extended drought conditions over the past 10 months. Near normal winter precipitation has aided ground water recharge and reservoir levels, but the state remains classified as a drought area. Several good winter snow packs will be necessary to fill reservoirs. Livestock producers continue to enjoy record prices from calf crop sales. Statewide herd restocking continues at a conservative pace due to the high cost of replacement cattle and guarded optimism about continued drought alleviation. 2014 was an exceptional year for dairymen due to significant milk price strength and lower feed costs. Profitability declined slightly in late 2014 and year to date 2015, however, milk futures prices suggest modest recovery in prices through the balance of 2015. Farmers across the state received generally good prices and yields on crops in 2014, though grain prices are down markedly from 2013. The latter has benefited dairymen by offsetting lower milk prices of late. All producers continue to benefit from the dramatic drop in energy prices, which are projected to last at least through 2016. As of March 31, 2015, our customer base appears to be financially sound and credit risk remains at its lowest level in the past 10 years. Distressed borrowers and delinquency rates are at normal levels and continue to decline.

The Association strives to timely identify trends in risk factors in the loan portfolio and to take prompt action to address those risks. The Association underwent two separate evaluations conducted in 2014 which concluded that the Association is adequately assigning correct risk ratings to loans in the Association's portfolio. Those evaluations included an examination by the Association's regulator and a review by an independent firm specializing in providing credit review services for associations and other financial institutions.

Over a period of years, the Farm Credit Bank of Texas (FCBT or Bank) performed the following services for the benefit of Ag New Mexico Farm Credit Services, ACA (Association) which constituted a transfer of capital under the Farm Credit Administration (FCA) regulation 615.5171 (a)(1).

First, during the period from December of 2012 through the first two months of 2014, the Bank assigned a Bank employee to act as an Accounting Function Advisor to the Association's accounting staff to assist them with accounting issues, at the request of the Association. The Accounting Function Advisor services provided to the Association constituted a preferential transfer of capital. The assignment resulted from the Association experiencing considerable turnover in senior management, lending and operations staff between January 2010 and November 2012. During the period from December of 2012 through the first two months of 2014, the cost to the Bank for the Accounting Function Advisor and other accounting services devoted to the Association was approximately \$112,414. Of this amount, \$5,965 related to the year 2012, \$86,324 related to the year 2013 and \$20,125 related to the year 2014. In

the third quarter of 2011 and the second half of 2012, Bank accounting staff also performed services for Ag New Mexico Farm Credit Services, ACA relating to the accounting treatment of the Association's deferred tax asset representing approximately \$44,740 of cost to the Bank, of which \$20,879 was incurred in 2011 and \$23,861 was incurred in 2012. The Association employed a chief financial officer in March 2014, and is no longer utilizing the Bank's accounting services to the same degree as it did in the period from December 2012 through February 2014. The Bank's present and future accounting services to the Association do not and are not anticipated to involve a preferential transfer of capital.

Second, the Bank entered into an agreement with Ag New Mexico Farm Credit Services, ACA in 2005 whereby FCBT agreed to hire up to two commercial lending calling officers to market loans and related services to high quality prospects in the state of New Mexico, and the Association in turn agreed to participate to FCBT any interest in such loans that the Association made but elected not to retain. Under this agreement, the calling officer would be a Bank employee who would have no loan approval authority, but who would be authorized only to market and structure loans for presentation to the Association for approval. Ag New Mexico Farm Credit Services, ACA would make the credit decision whether or not to make the loans as well as service them. The agreement was deemed to constitute a preferential transfer of capital. Since the calling officer program was first implemented in late 2005, the FCBT's total cost of providing the calling officer has totaled \$2,029,156 over an eight year period. For the years 2012, 2013 and 2014, the costs amounted to \$224,865, \$232,377 and \$341,862, respectively. FCBT terminated that arrangement with Ag New Mexico as of September 30, 2014 and entered into a new arrangement. After September 30, 2014, the individual who performed the calling officer services as a Bank employee became an employee of Ag New Mexico Farm Credit Services, ACA. FCBT has agreed with the Association that the Bank will reimburse the Association for the calling officer's salary and benefits up to a maximum of \$150,000.00 per year plus the allocable cost of benefits under the Association's benefits programs up to a maximum of \$50,000.00 per year for a period of up to two years after the individual becomes an Association employee. This could amount to a total additional cost of approximately \$400,000.00.

Loan Portfolio:

Total loans outstanding at March 31, 2015, including nonaccrual loans and sales contracts, were \$166,248,719 compared to \$174,461,327 at March 31, 2014, reflecting a decrease of 4.7 percent. Nonaccrual loans as a percentage of total loans outstanding were 1.3 percent at March 31, 2015, compared to 0.7 percent at March 31, 2014.

The Association recorded no recoveries or charge-offs for the quarter ended March 31, 2015, and 2014. The Association's allowance for loan losses was 0.6 percent and 0.5 percent of total loans outstanding as of March 31, 2015, and March 31, 2014, respectively.

Risk Exposure:

High-risk assets include nonaccrual loans, loans that are past due 90 days or more and still accruing interest, formally restructured loans and other property owned. The following table illustrates the Association's components and trends of high-risk assets.

	March 31, 2015		December 31, 2014	
	Amount	%	Amount	%
Nonaccrual	\$ 2,130,403	55.8%	\$ 2,169,420	56.2%
90 days past due and still accruing interest	-	0.0%	-	0.0%
Formally restructured	1,043,986	27.3%	1,046,665	27.1%
Other property owned, net	646,080	16.9%	646,080	16.7%
Total	\$ 3,820,469	100.0%	\$ 3,862,165	100.0%

Results of Operations:

The Association had net income of \$363,286 for the three months ended March 31, 2015, as compared to net income of \$429,565 for the same period in 2014, reflecting a decrease of 15.4 percent. Net interest income was \$1,165,744 for the three months ended March 31, 2015, compared to \$1,154,678 for the same period in 2014.

	March 31, 2015		March 31, 2014	
	Average Balance	Interest	Average Balance	Interest
Loans	\$ 166,463,219	\$ 1,713,513	\$ 164,776,791	\$ 1,604,944
Investments	-	-	9,169,480	104,286
Total interest-earning assets	166,463,219	1,713,513	173,946,271	1,709,230
Interest-bearing liabilities	141,350,057	547,769	150,516,531	554,552
Impact of capital	\$ 25,113,162		\$ 23,429,740	
Net interest income		\$ 1,165,744		\$ 1,154,678

	2015	2014
	Average Yield	Average Yield
Yield on loans	4.17%	3.95%
Yield on investments	0.00%	4.61%
Total yield on interest-earning assets	4.17%	3.99%
Cost of interest-bearing liabilities	1.57%	1.49%
Interest rate spread	2.60%	2.49%
Net interest income as a percentage of average earning assets	2.84%	2.69%

	March 31, 2015 vs. March 31, 2014		
	Increase (decrease) due to		
	Volume	Rate	Total
Interest income - loans	\$ 16,426	\$ 92,143	\$ 108,569
Interest income - investments	(104,285)	(1)	(104,286)
Total interest income	(87,859)	92,142	4,283
Interest expense	(33,772)	26,989	(6,783)
Net interest income	\$ (54,086)	\$ 65,152	\$ 11,066

Interest income for the three months ended March 31, 2015, decreased by \$4,283, or 0.3 percent, from the same period of 2014, primarily due to a decrease in average interest earning assets offset by an increase in yields on loans and an increase in average loan volume. Interest expense for the three months ended March 31, 2015, decreased by \$6,783, or 1.2 percent, from the same period of 2014 due to a decrease in average debt volume. Average loan volume for the first quarter of 2015 was \$166,463,219, compared to \$164,776,791 in the first quarter of 2014. The average net interest rate spread on the loan portfolio for the first quarter of 2015 was 2.60 percent, compared to 2.49 percent in the first quarter of 2014.

The Association's return on average assets for the three months ended March 31, 2015, was 0.83 percent compared to 0.95 percent for the same period in 2014. The Association's return on average equity for the three months ended March 31, 2015, was 4.42 percent, compared to 5.39 percent for the same period in 2014.

Liquidity and Funding Sources:

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

	March 31, 2015	December 31, 2014
Note payable to the bank	\$ 138,955,252	\$ 149,130,598
Accrued interest on note payable	186,640	193,891
Total	\$ 139,141,892	\$ 149,324,489

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 \$138,955,252 as of March 31, 2015, is recorded as a liability on the Association's balance sheet. The note carried a weighted average interest rate of 1.57 percent at March 31, 2015. The indebtedness is collateralized by a pledge of substantially all of the Association's assets to the Bank and is governed by the general financing agreement. The decrease in note payable to the Bank and related accrued interest payable since December 31, 2014, is due to the Association's decrease in assets. The Association's own funds, which represent the amount of the Association's loan portfolio funded by the Association's equity, were \$26,111,360 at March 31, 2015. The maximum amount the Association may borrow from the Bank as of March 31, 2015, was \$164,686,002 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.

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Capital Resources:

The Association's capital position increased by \$381,595 at March 31, 2015, compared to December 31, 2014. The Association's debt as a percentage of members' equity was 4.25:1 as of March 31, 2015, compared to 4.57:1 as of December 31, 2014.

Under regulations governing minimum permanent capital adequacy and other capitalization issues, the Association is required to maintain a minimum adjusted permanent capital of 7.0 percent of risk-adjusted assets as defined by the FCA. The Association's permanent capital ratio at March 31, 2015, was 16.7 percent, which is in compliance with the FCA's minimum permanent capital standard. The Association's core surplus ratio and total surplus ratio at March 31, 2015, were 16.5 and 16.5 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. 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:

The Association and its regulator, Farm Credit Administration (FCA), entered into a Supervisory Agreement effective March 20, 2012, that placed additional reporting requirements on the Association and required the board to take certain other actions. The Supervisory Agreement supersedes the Supervisory Agreement with the FCA dated January 20, 2010, and the FCA Supervisory Letters dated June 25, 2009, November 13, 2009, and December 13, 2011. The Supervisory Agreement requires the board take certain corrective and precautionary measures with respect to some of the Association's practices. These practices include board governance and operation, director fiduciary duties, nominating committee procedures, board policies, board business planning, the CEO position and human capital development, policies and procedures regarding loan participations, management reporting, disclosure obligations and establishment of a compliance committee. In addition, the Supervisory Agreement prohibits the Association from distributing patronage or dividends from past, present or future earnings without prior FCA consent. The conditions and events that led to the Supervisory Agreement include portfolio credit quality deterioration, weaknesses in board governance, loan portfolio management, participations purchased and weakness with respect to certain internal controls. In response to the Supervisory Agreement, the board adopted a multistep detailed Plan of Action designed to address the requirements mandated in the Supervisory Agreement. In addition to taking actions to address the additional reporting requirements, the board has:

- Engaged an outside consultant to advise the board in regards to fulfilling its fiduciary duties and improving board operations and governance;
- Revised its committee structure by adding governance and risk management committees;
- Revised its nominating committee by adding a third meeting at least 180 days prior to the election;
- Prepared a board and individual board member training plan designed to strengthen the board's expertise and improve the governance of the Association;
- Hired a new chief executive officer in October 2012 to replace the previous CEO, who retired;
- Hired a new chief credit officer in June 2013;

- Hired a chief financial officer in March 2014;
- Established a Compliance Committee to monitor management's progress in implementing the corrective actions of items identified in the Supervisory Agreement as well as any corrective action plans arising from other audits performed for the Association;
- Engaged an independent CPA firm to assist in developing and implementing an overall comprehensive audit plan and internal operational audits; this firm will also assist with evaluating risk assessments and developing a three year audit plan to drive internal audits for 2015 thru 2017;
- Engaged an outside consultant to review and assist with review of the Association's existing policies and procedures and updates thereto.

Various communications from the FCA related to their ongoing oversight and evaluation of the Association indicate board and management have generally made a good-faith effort to develop corrective action plans to meet the requirements of the Supervisory Agreement. Although the Association has made progress, FCA communications noted weaknesses that still require additional actions. In addition to the ongoing corrective actions noted above, other actions being taken are as follows.

- Continued adherence to the board member training plan designed to strengthen the board's expertise and improve the governance of the Association and compliance with the FCA's regulations;
- Establishment of an employee online training program in the fourth quarter of 2014 with a required curriculum of courses dealing with compliance, regulatory and legal issues consistent with each employee's department;
- Continuing to review and evaluate the business plan of the Association. This review will be ongoing to provide information on variances from the business plan. This information will be utilized to align the Association to the business plan performance goals;
- Development of an internal corrective action plan to address various remaining weaknesses and monitor the status of this plan monthly;
- Continued review by the board of participations purchased, and the incorporation into the Association's audit plan of an annual independent review of participations purchased;
- Continuing to review the FCA's regulations with respect to disclosure obligations to ensure compliance;
- Continue the development of the internal audit process through utilization of an independent internal auditor; and
- Increase documentation of board and committee involvement to provide added detail related to general oversight of the Association.

Ag New Mexico scheduled and began five internal audits for the 2014 year which included standards of conduct, Young, Beginning and Small (YBS) program, physical security, capital management (including capital planning) and compensation, with completion of the internal audits expected by May 31, 2015.

The board will continue engaging a consultant to provide the board advice with respect to understanding and fulfilling its fiduciary responsibilities and to perform other advisory functions as specified in the Supervisory Agreement. The board and senior management are committed to continuing the administration of the Association in a safe and sound manner, compliant with all regulations of the FCA, and remain dedicated to meeting their obligation in complying with the Supervisory Agreement.

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

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

- To make System regulatory capital requirements more transparent and
- To meet the requirements of section 939A of the Dodd-Frank Act.

The public comment period ended on February 16, 2015.

Relationship With the Farm Credit Bank of Texas:

The Association's financial condition may be impacted by factors that affect the Bank. The financial condition and results of operations of the Bank may materially affect the stockholder's investment in the Association. The Management's Discussion and Analysis and Notes to Financial Statements contained in the 2014 Annual Report of Ag New Mexico, Farm Credit Services, 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 can also 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 Ag New Mexico, Farm Credit Services, ACA, P.O. Box 1328, 233 Fairway Terrace North, Clovis, New Mexico 88102-1328 or by calling (575) 762-3828. The annual and quarterly stockholder reports for the Association are also available on its website at www.agnewmexico.com. Copies of the Association's quarterly stockholder reports can also be requested by e-mailing ginger.garrett@farmcreditbank.com.

AG NEW MEXICO, FARM CREDIT SERVICES, ACA

CONSOLIDATED BALANCE SHEET

	March 31, 2015 (unaudited)	December 31, 2014
<u>ASSETS</u>		
Cash	\$ 157,871	\$ 104,320
Loans	166,248,719	174,461,327
Less: allowance for loan losses	946,561	891,318
Net loans	<u>165,302,158</u>	<u>173,570,009</u>
Accrued interest receivable	1,523,413	1,739,390
Investment in and receivable from the Farm Credit Bank of Texas:		
Capital stock	4,084,740	4,084,740
Other	376,180	365,210
Deferred taxes, net	571,276	637,113
Other property owned, net	646,080	646,080
Premises and equipment, net	3,099,769	3,095,151
Other assets	308,614	343,876
Total assets	<u><u>\$ 176,070,101</u></u>	<u><u>\$ 184,585,889</u></u>
<u>LIABILITIES</u>		
Note payable to the Farm Credit Bank of Texas	\$ 138,955,252	\$ 149,130,598
Advance conditional payments	1,444,539	-
Accrued interest payable	186,662	193,891
Drafts outstanding	51,477	57,782
Dividends payable	350,049	350,049
Other liabilities	1,574,557	1,724,500
Total liabilities	<u><u>142,562,536</u></u>	<u><u>151,456,820</u></u>
<u>MEMBERS' EQUITY</u>		
Capital stock and participation certificates	334,880	328,290
Unallocated retained earnings	33,542,450	33,179,163
Accumulated other comprehensive income (loss)	(369,765)	(378,384)
Total members' equity	<u><u>33,507,565</u></u>	<u><u>33,129,069</u></u>
Total liabilities and members' equity	<u><u>\$ 176,070,101</u></u>	<u><u>\$ 184,585,889</u></u>

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

AG NEW MEXICO, FARM CREDIT SERVICES, ACA

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited)

	Quarter Ended	
	March 31,	
	2015	2014
<u>INTEREST INCOME</u>		
Loans	\$ 1,713,513	\$ 1,604,944
Investments	-	104,286
Total interest income	1,713,513	1,709,230
<u>INTEREST EXPENSE</u>		
Note payable to the Farm Credit Bank of Texas	547,769	554,552
Total interest expense	547,769	554,552
Net interest income	1,165,744	1,154,678
<u>PROVISION FOR LOAN LOSSES</u>		
	55,243	18,214
Net interest income after provision for loan losses	1,110,501	1,136,464
<u>NONINTEREST INCOME</u>		
Income from the Farm Credit Bank of Texas:		
Patronage income	298,088	192,986
Loan fees	28,040	(2,803)
Financially related services income	444	907
Gain (loss) on other property owned, net	484	(1,626)
Other noninterest income	12,900	38,096
Total noninterest income	339,956	227,560
<u>NONINTEREST EXPENSES</u>		
Salaries and employee benefits	645,856	503,093
Directors' expense	40,155	46,374
Purchased services	43,353	33,010
Travel	44,184	32,776
Occupancy and equipment	72,352	62,840
Communications	6,793	7,436
Advertising	7,377	5,784
Public and member relations	16,957	19,430
Supervisory and exam expense	38,278	39,786
Insurance Fund premiums	41,055	40,873
Other noninterest expense	64,987	83,348
Total noninterest expenses	1,021,347	874,750
Income before income taxes	429,110	489,274
Provision for (benefit from) income taxes	65,824	59,709
NET INCOME	363,286	429,565
Other comprehensive income (loss):		
Change in postretirement benefit plans	8,619	(53,552)
Income tax expense related to items of other comprehensive income	-	-
Other comprehensive income (loss), net of tax	8,619	(53,552)
COMPREHENSIVE INCOME	\$ 371,905	\$ 376,013

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

AG NEW MEXICO, FARM CREDIT SERVICES, 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	\$ 301,170	\$ 31,906,873	\$ (140,688)	\$ 32,067,355
Comprehensive income	-	429,565	(53,552)	376,014
Capital stock/participation certificates and allocated retained earnings issued	12,115	-	-	12,115
Capital stock/participation certificates and allocated retained earnings retired	(11,770)	-	-	(11,770)
Patronage refunds:				
Cash	-	(12,944)	-	(12,944)
Balance at March 31, 2014	<u><u>\$ 301,515</u></u>	<u><u>\$ 32,323,494</u></u>	<u><u>\$ (194,240)</u></u>	<u><u>\$ 32,430,770</u></u>
Balance at December 31, 2014	\$ 328,290	\$ 33,179,163	\$ (378,384)	\$ 33,129,069
Comprehensive income	-	363,286	8,819	418,754
Capital stock/participation certificates and allocated retained earnings issued	18,335	-	-	18,335
Capital stock/participation certificates and allocated retained earnings retired	(11,745)	-	-	(11,745)
Patronage refunds:				
Cash	-	(43,749)	-	(43,749)
Balance at March 31, 2015	<u><u>\$ 334,880</u></u>	<u><u>\$ 33,498,700</u></u>	<u><u>\$ (369,565)</u></u>	<u><u>\$ 33,510,664</u></u>

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AG NEW MEXICO, FARM CREDIT SERVICES, ACA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

Ag New Mexico, Farm Credit Services, 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 all counties of New Mexico, with the exception of San Juan County and that portion of Rio Arriba County lying west of the Continental Divide; and in the state of Texas, Cochran County. In addition the Association and Farm Credit Services of New Mexico, ACA have entered into an agreement that allows the Association to make mortgage loans in New Mexico, on a statewide basis, without obtaining territorial approval. 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, 2014, as contained in the 2014 Annual Report to Stockholders.

In the opinion of management, the accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with generally accepted accounting principles (GAAP), except for the inclusion of a statement of cash flows. GAAP require a business enterprise that provides a set of financial statements reporting both financial position and results of operations to also provide a statement of cash flows for each period for which results of operations are provided. In regulations issued by FCA, associations have the option to exclude statements of cash flows in interim financial statements. Therefore, the Association has elected not to include a statement of cash flows in these consolidated financial statements. These interim financial statements should be read in conjunction with the audited financial statements as of and for the year ended 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. The guidance becomes effective for the first interim reporting period within the annual reporting periods after December 15, 2016. The Association is in the process of reviewing contracts to determine the effect, if any, on the Association’s financial condition or its results of operations.

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

NOTE 2 — INVESTMENTS:

Effective March, 2010, approximately \$26.4 million of agricultural mortgage loans previously covered under a Long-Term Standby Commitment to Purchase agreement with the Federal Agricultural Mortgage Corporation (Farmer Mac) were securitized. No gain or loss was recognized in the financial statements upon completion of the securitization. Terms of the agreement call for a guarantee fee of 20-50 basis points to be paid to Farmer Mac, and for the Association to receive a 30-basis-point fee for servicing the underlying loans.

Effective April 1, 2014, The Farm Credit Bank of Texas (the Bank) purchased Ag New Mexico's securitized Farmer Mac Agricultural Mortgage Backed Securities (AMBS) Investments. The purchase of \$9,051,849 included outstanding principal and accrued interest as of that date. There was no gain or loss recognized by the Association on this transaction. The Association will continue to service the underlying loans that were included in this security. Also, for 2014 there was no effect to Ag New Mexico's income based on this transaction as the Bank was able to pay the Association a patronage equivalent to the net interest that it would have earned on the AMBS investment. The amount of patronage received in 2014 was \$133,703. However, for future years, the Bank's payment of patronage is at the discretion of the Bank's board of directors.

NOTE 3 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

A summary of loans follows:

Loan Type	March 31, 2015 Amount	December 31, 2014 Amount
Production agriculture:		
Real estate mortgage	\$ 65,649,708	\$ 69,658,785
Production and intermediate term	45,349,125	50,050,975
Agribusiness:		
Loans to cooperatives	1,525,258	1,288,764
Processing and marketing	26,936,921	25,350,014
Farm-related business	7,819,604	7,373,164
Communication	2,907,428	3,014,297
Energy	10,621,403	12,828,919
Water and waste water	2,315,868	2,321,528
Rural residential real estate	3,123,404	2,574,881
Total	\$ 166,248,719	\$ 174,461,327

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

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
	Real estate mortgage	\$ 8,829,476	\$ 21,120,712	\$ -	\$ -	\$ 8,829,476
Production and intermediate term	6,963,360	14,283,417	-	-	6,963,360	14,283,417
Agribusiness	24,924,766	11,210,408	-	-	24,924,766	11,210,408
Communication	2,907,428	-	-	-	2,907,428	-
Energy	10,621,403	-	-	-	10,621,403	-
Water and waste water	2,315,868	-	-	-	2,315,868	-
Total	\$ 56,562,301	\$ 46,614,537	\$ -	\$ -	\$ 56,562,301	\$ 46,614,537

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 not paid by the Association on such balances. Balances of ACPs were \$2,069,663 and \$584,593 at March 31, 2015, and December 31, 2014, respectively.

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

	<u>March 31, 2015</u>	<u>December 31, 2014</u>
Nonaccrual loans:		
Real estate mortgage	\$ 2,043,167	\$ 2,083,600
Rural residential real estate	87,020	85,820
Total nonaccrual loans	2,130,187	2,169,420
Accruing restructured loans:		
Real estate mortgage	601,570	603,071
Production and intermediate term	442,416	443,594
Total accruing restructured loans	1,043,986	1,046,665
Accruing loans 90 days or more past due:		
Total accruing loans 90 days or more past due	-	-
Total nonperforming loans	3,174,173	3,216,085
Other property owned	646,080	646,080
Total nonperforming assets	<u>\$ 3,820,253</u>	<u>\$ 3,862,165</u>

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

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

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

	March 31, 2015	December 31, 2014
Real estate mortgage		
Acceptable	94.5 %	94.6 %
OAEM	0.9	1.1
Substandard/doubtful	4.6	4.3
	100.0	100.0
Production and intermediate term		
Acceptable	91.3	92.8
OAEM	3.9	1.7
Substandard/doubtful	4.8	5.5
	100.0	100.0
Agribusiness		
Acceptable	98.8	-
OAEM	1.2	-
Substandard/doubtful	-	-
	100.0	-
Energy and water/waste water		
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	97.2	96.7
OAEM	-	-
Substandard/doubtful	2.8	3.3
	100.0	100.0
Total loans		
Acceptable	95.1	94.6
OAEM	1.7	1.2
Substandard/doubtful	3.2	4.2
	100.0 %	100.0 %

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

March 31, 2015	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment >90 Days and Accruing
Real estate mortgage	\$ -	\$ 1,039,681	\$ 1,039,681	\$ 65,383,197	\$ 66,422,878	\$ -
Production and intermediate term	51	-	51	45,797,904	45,797,955	-
Loans to cooperatives	-	-	-	1,530,555	1,530,555	-
Processing and marketing	-	-	-	27,073,660	27,073,660	-
Farm-related business	-	-	-	7,896,366	7,896,366	-
Communication	-	-	-	2,907,670	2,907,670	-
Energy	-	-	-	10,688,100	10,688,100	-
Water and waste water	-	-	-	2,326,292	2,326,292	-
Rural residential real estate	-	87,020	87,020	3,041,636	3,128,656	-
Total	\$ 51	\$ 1,126,701	\$ 1,126,752	\$ 166,645,380	\$ 167,772,132	\$ -

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	\$ 34,568	\$ 924,685	\$ 959,253	\$ 69,512,588	\$ 70,471,841	\$ -
Production and intermediate term	-	99	99	50,650,834	50,650,933	-
Loans to cooperatives	-	-	-	1,294,067	1,294,067	-
Processing and marketing	-	-	-	25,446,383	25,446,383	-
Farm-related business	-	-	-	7,469,687	7,469,687	-
Communication	-	-	-	3,014,549	3,014,549	-
Energy	-	-	-	12,924,336	12,924,336	-
Water and waste water	-	-	-	2,349,340	2,349,340	-
Rural residential real estate	-	85,820	85,820	2,493,761	2,579,581	-
Total	\$ 34,568	\$ 1,010,604	\$ 1,045,172	\$ 175,155,545	\$ 176,200,717	\$ -

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

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

As of March 31, 2015, the total recorded investment of troubled debt restructured loans was \$1,043,986, classified as accrual, with no specific allowance for loan losses. As of March 31, 2015, there were no commitments to lend funds to borrowers whose loan terms have been modified in 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*	
	March 31, 2015	December 31, 2014	March 31, 2015	December 31, 2014
Real estate mortgage	\$ 601,570	\$ 603,071	\$ -	\$ -
Production and intermediate term	442,416	443,594	-	-
Total	\$ 1,043,986	\$ 1,046,665	\$ -	\$ -

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

Additional impaired loan information is as follows:

	March 31, 2015			December 31, 2014		
	Recorded Investment	Unpaid Principal Balance ^a	Related Allowance	Recorded Investment	Unpaid Principal Balance ^a	Related Allowance
Impaired loans with a related allowance for credit losses:						
Real estate mortgage	\$ 1,039,681	\$ 1,316,277	\$ 487,476	\$ 924,685	\$ 1,201,281	\$ 376,990
Rural residential real estate	87,020	95,702	13,500	85,820	94,502	13,500
Total	\$ 1,126,701	\$ 1,411,979	\$ 500,976	\$ 1,010,505	\$ 1,295,783	\$ 390,490
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	\$ 1,605,056	\$ 1,672,091	\$ -	\$ 1,761,986	\$ 1,829,878	\$ -
Production and intermediate term	442,416	442,416	-	443,594	1,297,680	-
Total	\$ 2,047,472	\$ 2,114,507	\$ -	\$ 2,205,580	\$ 3,127,558	\$ -
Total impaired loans:						
Real estate mortgage	\$ 2,644,737	\$ 2,988,368	\$ 487,476	\$ 2,686,671	\$ 3,031,159	\$ 376,990
Production and intermediate term	442,416	442,416	-	443,594	1,297,680	-
Rural residential real estate	87,020	95,702	13,500	85,820	94,502	13,500
Total	\$ 3,174,173	\$ 3,526,486	\$ 500,976	\$ 3,216,085	\$ 4,423,341	\$ 390,490

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

	For the Quarter Ended March 31, 2015		For the Quarter Ended March 31, 2014	
	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:				
Real estate mortgage	\$ 967,607	\$ -	\$ 830,908	\$ -
Rural residential real estate	86,554	-	-	-
Total	\$ 1,054,161	\$ -	\$ 830,908	\$ -
Impaired loans with no related allowance for credit losses:				
Real estate mortgage	\$ 1,661,074	\$ 21,609	\$ 2,749,221	\$ -
Production and intermediate term	442,416	24,032	598,539	-
Total	\$ 2,103,490	\$ 45,641	\$ 3,347,760	\$ -
Total impaired loans:				
Real estate mortgage	\$ 2,628,681	\$ 21,609	\$ 3,580,129	\$ -
Production and intermediate term	442,416	24,032	598,539	-
Rural residential real estate	86,554	-	-	-
Total	\$ 3,157,651	\$ 45,641	\$ 4,178,668	\$ -

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 and Water/Waste Water	Rural Residential Real Estate	Total
Allowance for Credit Losses:							
Balance at							
December 31, 2014	\$ 513,674	\$ 242,173	\$ 97,659	\$ 4,390	\$ 31,297	\$ 2,125	\$ 891,318
Charge-offs	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-
Provision for loan losses	55,243	-	-	-	-	-	55,243
Balance at							
March 31, 2015	\$ 568,917	\$ 242,173	\$ 97,659	\$ 4,390	\$ 31,297	\$ 2,125	\$ 946,561
Ending Balance:							
Individually evaluated for impairment	\$ 500,976	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 500,976
Collectively evaluated for impairment	67,941	242,173	97,659	4,390	31,297	2,125	445,585
Balance at							
March 31, 2015	\$ 568,917	\$ 242,173	\$ 97,659	\$ 4,390	\$ 31,297	\$ 2,125	\$ 946,561
Balance at							
December 31, 2013	\$ 554,834	\$ 254,449	\$ 67,375	\$ 5,652	\$ 32,956	\$ 512	\$ 915,778
Charge-offs	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-
Provision for loan losses	(5,438)	18,689	1,968	232	2,769	(6)	18,214
Balance at							
March 31, 2014	\$ 549,396	\$ 273,138	\$ 69,343	\$ 5,884	\$ 35,725	\$ 506	\$ 933,992
Ending Balance:							
Individually evaluated for impairment	\$ 376,990	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 376,990
Collectively evaluated for impairment	172,406	273,138	69,343	5,884	35,725	506	557,002
Balance at							
March 31, 2014	\$ 549,396	\$ 273,138	\$ 69,343	\$ 5,884	\$ 35,725	\$ 506	\$ 933,992
Recorded Investments in Loans Outstanding:							
Ending Balance at							
March 31, 2015	\$ 66,688,128	\$ 45,797,954	\$ 36,500,581	\$ 2,907,670	\$ 13,014,391	\$ 3,128,656	\$ 168,037,380
Individually evaluated for impairment	\$ 1,126,702	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,126,702
Collectively evaluated for impairment	\$ 65,561,426	\$ 45,797,954	\$ 36,500,581	\$ 2,907,670	\$ 13,014,391	\$ 3,128,656	\$ 166,910,678
Loans acquired with deteriorated credit quality	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Ending Balance at							
March 31, 2014	\$ 68,970,604	\$ 44,954,816	\$ 30,338,631	\$ 3,240,312	\$ 15,904,836	\$ 952,010	\$ 164,361,209
Individually evaluated for impairment	\$ 3,580,130	\$ 598,540	\$ -	\$ -	\$ -	\$ -	\$ 4,178,670
Collectively evaluated for impairment	\$ 65,390,474	\$ 44,356,276	\$ 30,338,631	\$ 3,240,312	\$ 15,904,836	\$ 952,010	\$ 160,182,539
Loans acquired with deteriorated credit quality	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

NOTE 4 — CAPITAL:

The Association's board of directors has established a Capital Adequacy Plan (Plan) that includes the capital targets that are necessary to achieve the institution's capital adequacy goals as well as the minimum permanent capital standards. The Plan monitors projected dividends, equity retirements and other actions that may decrease the Association's permanent capital. In addition to factors that must be considered in meeting the minimum standards, the board of directors also monitors the following factors: capability of management; quality of operating policies, procedures and internal controls; quality and quantity of earnings; asset quality and the adequacy of the allowance for losses to absorb potential loss within the loan and lease portfolios; sufficiency of liquid funds; needs of an institution's customer base; and any other risk-oriented activities, such as funding and interest rate risk, potential obligations under joint and several liability, contingent and off-balance-sheet liabilities or other conditions warranting additional capital. At least quarterly, management reviews the Association's goals and objectives with the board.

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

March 31, 2015	Before Tax	Deferred Tax	Net of Tax
Nonpension postretirement benefits	369,765	-	369,765
Total	369,765	-	369,765

March 31, 2014	Before Tax	Deferred Tax	Net of Tax
Nonpension postretirement benefits	\$ 246,451	52,211	194,240
Total	\$ 246,451	52,211	194,240

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

	2015	2014
Accumulated other comprehensive income (loss) at January 1	\$ (378,384)	\$ (140,688)
Amortization of prior service (credit) costs included in salaries and employee benefits	(3,889)	(6,313)
Amortization of actuarial (gain) loss included in salaries and employee benefits	12,508	4,971
Income tax expense related to items of other comprehensive income	-	(52,211)
Other comprehensive income (loss), net of tax	8,619	(53,553)
Accumulated other comprehensive income at March 31	\$ (369,765)	\$ (194,241)

NOTE 5 — INCOME TAXES:

Ag New Mexico, Farm Credit Services, 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. Ag New Mexico, Farm Credit Services, ACA operates as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, Ag New Mexico, Farm Credit Services, ACA can exclude from taxable income amounts distributed as qualified patronage dividends in the form of cash, stock or allocated retained earnings. Provisions for income taxes are made only on those taxable earnings that will not be distributed as qualified patronage dividends. Deferred taxes are recorded at the tax effect of all temporary differences based on the assumption that such temporary differences are retained by the institution and will therefore impact future tax payments. A valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (more than 50 percent probability), based on management's estimate, that they will not be realized.

NOTE 6 — FAIR VALUE MEASUREMENTS:

FASB guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. See Note 14 to the 2014 Annual Report to Stockholders for a more complete description.

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

<u>March 31, 2015</u>	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Assets:				
Loans*	\$ -	\$ -	\$ 1,629,427	\$ 1,629,427
Other property owned	-	-	717,867	717,867
<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*	\$ -	\$ -	\$ 2,838,775	\$ 2,838,775
Other property owned	-	-	717,867	717,867

*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.

Valuation Techniques

As more fully discussed in Note 14 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.

NOTE 7 — EMPLOYEE BENEFIT PLANS:

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

	Other Benefits	
	2015	2014
Service cost	\$ 5,014	\$ 5,147
Interest cost	14,046	12,670
Expected return on plan assets	-	-
Amortization of prior service (credits) costs	(3,889)	(6,313)
Amortization of net actuarial (gain) loss	12,508	4,971
Net periodic benefit cost	<u>\$ 27,679</u>	<u>\$ 16,475</u>

The Association's liability for the unfunded accumulated obligation for these benefits at March 31, 2015, was \$1,255,816 and is included in "Other Liabilities" in the balance sheet.

The structure of the district's defined benefit pension plan is characterized as multiemployer since the assets, liabilities and cost of the plan are not segregated or separately accounted for by participating employers (Bank and associations). The Association recognizes its amortized annual contributions to the plan as an expense. The Association previously disclosed in its financial statements for the year ended December 31, 2014, that it expected to contribute \$47,895 to the district's defined benefit pension plan in 2015. As of March 31, 2015, the full annual contribution has been made. The Association presently does not anticipate any further contributions to fund the defined benefit pension plan in 2015.

NOTE 8 — 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 9 — SUBSEQUENT EVENTS:

The Association has evaluated subsequent events through May 8, 2015, which is the date the financial statements were issued. There are no other significant events requiring disclosure as of May 8, 2015.