LONE STAR, ACA

2014
Quarterly Report
First Quarter

LONE STAR
AG CREDIT

For the Quarter Ended March 31, 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 his or her knowledge and belief.

Troy Bussmeir, Chief Executive Officer

May 10, 2014

Tom Johnson, Chairman, Board of Directors

May 10, 2014

M'Lissa Kiel, Chief Financial Officer

May 10, 2014

Don Crawford, Chairman, Audit Committee

May 10, 2014

LONE STAR, ACA
MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the financial performance of Lone Star, ACA (Agricultural Credit Association), referred to as the association, for the quarter ended March 31, 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:

Effective January 1, 2014, the association merged with Texas Land Bank, ACA. The merger was unanimously approved by stockholders of both associations and granted by the associations' regulator, the Farm Credit Administration. The merged entity is headquartered in Fort Worth, Texas. Management believes the merger of the two associations is a benefit to shareholders that will ultimately help the association better serve the agricultural market within its territory. The merger was accounted for using the acquisition method of accounting in which the Texas Land Bank, ACA, assets acquired and liabilities assumed by Lone Star, ACA are measured at fair value at the date of acquisition. For additional information related to the merger please see Note 1 – Organization and Significant Accounting Policies.

In December 2013, the pre-merged boards of Lone Star, ACA and Texas Land Bank, ACA, each declared a 100 basis point (1.0 percent) cash patronage to be paid in April of 2014, based on 2013 earnings. The patronage will be paid to eligible borrowers based on their average outstanding loan balance for the year ending December 31, 2013. This patronage amount is estimated to be $11,951,813. The association's capital position continued to improve and is above 20 percent for the period ending March 2014.

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 March 31, 2014, including nonaccrual loans and sales contracts, were $1,345,681,115 compared to $841,974,808 at December 31, 2013, reflecting an increase of 59.8 percent. Nonaccrual loans as a percentage of total loans outstanding were 1.0 percent at March 31, 2014, compared to 1.6 percent at December 31, 2013.

The significant change in loan volume from December 31, 2013 to March 31, 2014 is attributable to the acquisition of Texas Land Bank, ACA. At January 1, 2014, the effective date of the merger, gross loan assets with a fair value of $502,147,107 and a contractual amount of $508,020,985 were acquired from Texas Land Bank, ACA.

The association recorded $80,479 in recoveries and $56,818 in charge-offs for the quarter ended March 31, 2014, and $59,403 in recoveries and $92,161 in charge-offs for the same period in 2013. The association's allowance for loan losses was 0.5 percent and 0.8 percent of total loans outstanding as of March 31, 2014, and December 31, 2013, 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, 2014		December 31, 2013	
	Amount	**%**	Amount	%
Nonaccrual	**$ 13,598,773**	**88.7%**	$ 13,794,752	93.8%
90 days past due and still accruing interest	**-**	**0.0%**	-	0.0%
Formally restructured	**367,576**	**2.4%**	50,748	0.4%
Other property owned, net	**1,362,320**	**8.9%**	858,367	5.8%
Total	**$ 15,328,669**	**100.0%**	$ 14,703,867	100.0%

The $503,953 increase in other property owned between December 31, 2013 and March 31, 2014 is due to the acquisition of $851,382 of other property owned that was acquired in the merger with Texas Land Bank, ACA, offset by $347,430 of other property owned disposed of during the quarter.

Results of Operations:

The association had net income of $6,580,208 for the three months ended March 31, 2014, as compared to net income of $5,692,166 for the same period in 2013, reflecting an increase of 15.6 percent. Net interest income was $10,415,596 for the three months ended March 31, 2014, compared to $6,985,864 for the same period in 2013.

	March 31, 2014		March 31, 2013	
	Average Balance	**Interest**	Average Balance	Interest
Loans	**$ 1,354,695,410**	**$ 15,298,088**	$ 833,153,823	$ 9,862,059
Total interest-earning assets	**1,354,695,410**	**15,298,088**	833,153,823	9,862,059
Interest-bearing liabilities	**1,054,496,738**	**4,882,492**	643,872,233	2,876,195
Impact of capital	**$ 300,198,672**		$ 189,281,590	
Net interest income		**$ 10,415,596**		$ 6,985,864

	2014 Average Yield	2013 Average Yield
Yield on loans	**4.58%**	4.80%
Total yield on interest-earning assets	**4.58%**	4.80%
Cost of interest-bearing liabilities	**1.88%**	1.81%
Interest rate spread	**2.70%**	2.99%
Net interest income as a percentage of average earning assets	**3.12%**	3.40%

Interest income for the three months ended March 31, 2014, increased by $5,436,029 or 55.1 percent, from the same period of 2013, primarily due to the merger with Texas Land Bank, ACA, which resulted in an increase in average loan volume. Interest expense for the three months ended March 31, 2014, increased by $2,006,297, or 69.8 percent from the same period of 2013 due to an increase in average interest-bearing liabilities resulting from the merger. Average loan volume for the first quarter of 2014 was $1,354,695,410, compared to $833,153,822 in the first quarter of 2013. The average net interest rate spread on the loan portfolio for the first quarter of 2014 was 2.70 percent, compared to 2.99 percent in the first quarter of 2013.

	March 31, 2014 vs. March 31, 2013		
	Increase (decrease) due to		
	Volume	Rate	Total
Interest income - loans	$ 6,173,538	$ (737,509)	$ 5,436,029
Interest income - investments	-	-	-
Total interest income	6,173,538	(737,509)	5,436,029
Interest expense	1,834,243	172,054	2,006,297
Net interest income	$ 4,339,295	$ (909,563)	$ 3,429,732

The association's return on average assets for the three months ended March 31, 2014, was 1.93 percent compared to 2.73 percent for the same period in 2013. The association's return on average equity for the three months ended March 31, 2014, was 8.59 percent, compared to 12.09 percent for the same period in 2013. The decrease in return on average assets and return on average equity is due primarily to one-time events that occurred during the first quarter of 2013, including interest earned on nonaccruals and a significant reversal of provisions for loan losses.

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, 2014	December 31, 2013
Note payable to the bank	$ 1,043,782,220	$ 642,361,465
Accrued interest on note payable	1,680,098	946,559
Total	$ 1,045,462,318	$ 643,308,024

The interest rate risk inherent in the association's loan portfolio is substantially mitigated through the funding relationship with the bank. The bank manages interest rate risk through its direct loan pricing and asset/liability management process.

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 $1,043,782,220 as of March 31, 2014, is recorded as a liability on the association's balance sheet. The note carried a weighted average interest rate of 1.81 percent at March 31, 2014. The indebtedness is collateralized by a pledge of substantially all of the association's assets to the bank and is governed by a general financing agreement. The increase in note payable to the bank and related accrued interest payable since December 31, 2013, correlates directly with the growth in association loan volume that resulted from the merger. The association's own funds, which represent the amount of the association's loan portfolio funded by the association's equity, was $302,416,714 at March 31, 2014. The maximum amount the association may borrow from the bank as of March 31, 2014, was $1,339,965,808 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 2014. As borrower payments are received, they are applied to the association's note payable to the bank.

The association will continue to fund its operations through direct 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.

Capital Resources:

The association's capital position increased by $112,217,524 at March 31, 2014, compared to December 31, 2013 primarily driven by the merger. The association's debt as a percentage of members' equity was 3.39:1 as of March 31, 2014, compared to 3.26:1 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 March 31, 2014, was 20.4 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, 2014, were 19.9 and 20.0 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 6 – Employee Benefit Plans.

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 Lone Star, 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 Lone Star, ACA, 1612 Summit Avenue, Suite 300, Fort Worth, Texas, 76102 or calling (817)332-6565. Copies of the association's quarterly stockholder reports can also be requested by e-mailing *selita.sprunger@lonestaragcredit.com.* The association makes its annual and quarterly stockholder reports available on its website at *www.lonestaragcredit.com*.

LONE STAR, ACA

CONSOLIDATED BALANCE SHEET

	March 31, 2014 (unaudited)	December 31, 2013
ASSETS		
Cash	$ 326,983	$ 27,797
Loans	1,345,681,115	841,974,808
Less: allowance for loan losses	(6,752,106)	(6,879,823)
Net loans	1,338,929,009	835,094,985
Accrued interest receivable	8,012,842	4,568,095
Investment in and receivable from the Farm Credit Bank of Texas:		
Capital stock	21,401,990	13,436,625
Other	2,792,683	1,398,828
Other property owned, net	1,362,320	858,367
Premises and equipment	3,093,238	1,475,029
Other assets	1,666,510	640,534
Total assets	$ 1,377,585,575	$ 857,500,260
LIABILITIES		
Note payable to the Farm Credit Bank of Texas	$ 1,043,782,220	$ 642,361,465
Accrued interest payable	1,680,098	946,559
Drafts outstanding	112,129	638,403
Dividends payable	11,951,813	7,400,000
Other liabilities	6,335,049	4,647,091
Total liabilities	1,063,861,309	655,993,518
MEMBERS' EQUITY		
Capital stock and participation certificates	6,490,495	3,716,310
Additional paid-in capital	91,343,553	-
Allocated retained earnings	11,610,745	-
Unallocated retained earnings	204,735,303	198,155,096
Accumulated other comprehensive income (loss)	(455,830)	(364,664)
Total members' equity	313,724,266	201,506,742
Total liabilities and members' equity	$ 1,377,585,575	$ 857,500,260

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

LONE STAR, ACA

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

	Quarter Ended March 31, 2014	Quarter Ended March 31, 2013
INTEREST INCOME		
Loans	**$ 15,298,088**	$ 9,862,059
Total interest income	**15,298,088**	9,862,059
INTEREST EXPENSE		
Note payable to the Farm Credit Bank of Texas	**4,882,487**	2,876,186
Advance conditional payments	**5**	9
Total interest expense	**4,882,492**	2,876,195
Net interest income	**10,415,596**	6,985,864
PROVISION FOR LOAN LOSSES	**(151,378)**	(943,123)
Net interest income after provision for loan losses	**10,566,974**	7,928,987
NONINTEREST INCOME		
Income from the Farm Credit Bank of Texas:		
Patronage income	**1,038,906**	485,221
Loan fees	**308,064**	124,814
Financially related services income	**25,072**	2,206
Gain (loss) on other property owned, net	**(9,332)**	127,346
Other noninterest income	**88,099**	98,638
Total noninterest income	**1,450,809**	838,225
NONINTEREST EXPENSES		
Salaries and employee benefits	**3,266,248**	1,763,239
Directors' expense	**193,311**	112,909
Purchased services	**344,644**	290,025
Travel	**153,040**	141,873
Occupancy and equipment	**312,905**	159,653
Communications	**68,510**	41,505
Advertising	**231,158**	73,630
Public and member relations	**191,997**	97,831
Supervisory and exam expense	**110,141**	74,524
Insurance Fund premiums	**446,922**	264,984
Other noninterest expense	**132,585**	42,788
Total noninterest expenses	**5,451,461**	3,062,961
Income before income taxes	**6,566,322**	5,704,251
Provision for (benefit from) income taxes	**(13,886)**	12,085
NET INCOME	**6,580,208**	5,692,166
Other comprehensive income:		
Change in postretirement benefit plans	**(91,166)**	(217,747)
Other comprehensive income, net of tax	**(91,166)**	(217,747)
COMPREHENSIVE INCOME	**$ 6,489,042**	$ 5,474,419

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

LONE STAR, ACA

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

(unaudited)

	Capital Stock/ Participation Certificates	Additional Paid-in-Capital	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2012	$ 3,772,180	$ -	$ -	$ 185,512,981	$ (870,990)	$ 188,414,171
Comprehensive income	-	-	-	5,692,166	(217,747)	5,474,419
Capital stock/participation certificates and allocated retained earnings issued	107,025	-	-	-	-	107,025
Capital stock/participation certificates and allocated retained earnings retired	(144,980)	-	-	-	-	(144,980)
Balance at March 31, 2013	$ 3,734,225	$ -	$ -	$ 191,205,147	$ (1,088,737)	$ 193,850,635
Balance at December 31, 2013	$ 3,716,310	$ -	$ -	$ 198,155,095	$ (364,664)	$ 201,506,741
Comprehensive income	-	-	-	6,580,208	(91,166)	6,489,042
Capital stock/participation certificates and allocated retained earnings issued	2,969,380	-	-	-	-	2,969,380
Capital stock/participation certificates and allocated retained earnings retired	(195,195)	-	-	-	-	(195,195)
Equity issued or recharacterized upon merger	-	91,343,553	-	-	-	91,343,553
Patronage refunds:						
Capital stock/participation certificates and allocated retained earnings	-	-	11,610,745	-	-	11,610,745
Balance at March 31, 2014	**$ 6,490,495**	**$ 91,343,553**	**$ 11,610,745**	**$ 204,735,303**	**$ (455,830)**	**$ 313,724,266**

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

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

Lone Star, 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 Bell, Borden, Bosque, Bowie, Burnet, Camp, Cass, Cooke, Coryell, Dallas, Delta, Denton, Eastland, Ellis, Erath, Falls, Fannin, Fisher, Freestone, Grayson, Hamilton, Hill, Hood, Johnson, Kent, Lamar, Lampasas, Limestone, McLennan, Milam, Mitchell, Morris, Navarro, Nolan, Palo Pinto, Parker, Red River, Scurry, Shackelford, Somerville, Stephens, Tarrant, Taylor, Throckmorton, Titus, Williamson, Wise and Young in the state of Texas.

Effective January 1, 2014, the association merged with Texas Land Bank, ACA. The primary reason for the merger was based on a determination that the combined organization would be financially and operationally stronger than either association on a stand-alone basis. The merger was accounted for under the acquisition method of accounting.

Since the association operates for the mutual benefit of its customer-owners and other customers and not for the benefit of any other equity investors, capital stock provides no significant interest in corporate earnings or growth. Specifically, due to restrictions in applicable regulations and their bylaws, the associations can issue stock only at its par value of $5 per share, the stock is not tradable, and the stock can be retired only for the lesser of par value or book value. In these and other respects, the shares of stock in one association that were converted to shares of another association had identical rights and attributes. For this reason, the conversion of stock pursuant to the merger occurred at a one-for-one exchange ratio. Management believes that because the stock in each association is fixed in value, the stock issued pursuant to the merger provides no basis for estimating the fair value of the consideration transferred pursuant to the merger. In the absence of a purchase price determination, the acquiring association identified and estimated the acquisition date fair value of the net assets of the acquired association instead of the acquisition date fair value of the equity interests transferred as consideration. The fair value of the assets acquired, including specific intangible assets and liabilities assumed, were measured based on various estimates using assumptions that management believes are reasonable utilizing information currently available. This evaluation produced a fair value of identifiable assets acquired and liabilities assumed that was substantially equal to the fair value of the member interests transferred in the merger. The excess value received, by the acquiring association from the acquired association, over the par value of capital stock and participation certificates issued in the merger is considered to be additional paid-in capital.

The following table summarizes the preliminary fair values of the identifiable assets acquired and liabilities Lone Star, ACA assumed from Texas Land Bank, ACA as of January 1, 2014:

	Fair Value	Contractual Amount	Contractual Amounts not Expected to be Collected
Loans	$ 502,147,107	$ 508,020,985	$ 830,550
Total assets	515,436,175	-	-
Notes payable	400,926,240	405,616,084	-
Total liabilities	409,424,535	-	-
Net assets acquired	105,711,640	-	-

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, 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 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 6 – Employee Benefit Plans).

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, 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 (principal only) follows:

Loan Type	March 31, 2014 Amount	December 31, 2013 Amount
Production agriculture:		
Real estate mortgage	**$ 1,089,055,946**	$ 655,294,730
Production and intermediate term	**83,640,510**	66,322,143
Agribusiness:		
Loans to cooperatives	**6,800,734**	-
Processing and marketing	**73,322,119**	56,675,360
Farm-related business	**10,247,921**	3,854,580
Communication	**7,888,910**	2,152,156
Energy	**51,584,599**	43,829,876
Water and waste water	**1,406,474**	1,152,930
Rural residential real estate	**21,733,902**	12,693,033
Total	**$ 1,345,681,115**	$ 841,974,808

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, 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	$ 26,785,147	$ 28,608,003	$ -	$ -	$ 26,785,147	$ 28,608,003
Production and intermediate term	29,462,280	2,321,848	-	-	29,462,280	2,321,848
Agribusiness	81,258,948	197,622	-	-	81,258,948	197,622
Communication	7,888,910	-	-	-	7,888,910	-
Energy	51,584,599	-	-	-	51,584,599	-
Water and waste water	1,406,474	-	-	-	1,406,474	-
Total	$ 198,386,358	$ 31,127,473	$ -	$ -	$ 198,386,358	$ 31,127,473

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 $7,066,540 and $3,401,159 at March 31, 2014, and December 31, 2013, respectively.

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

	March 31, 2014	December 31, 2013
Nonaccrual loans:		
Real estate mortgage	**$ 12,620,344**	$12,347,950
Production and intermediate term	**629,493**	705,454
Agribusiness	**68,625**	504,913
Rural residential real estate	**280,311**	236,435
Total nonaccrual loans	**13,598,773**	13,794,752
Accruing restructured loans:		
Real estate mortgage	**353,407**	35,233
Production and intermediate term	**14,169**	15,515
Total accruing restructured loans	**367,576**	50,748
Total nonperforming loans	**13,966,349**	13,845,500
Other property owned	**1,362,320**	858,367
Total nonperforming assets	**$ 15,328,669**	$14,703,867

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, 2014	December 31, 2013
Real estate mortgage		
Acceptable	**94%**	92%
OAEM	**3%**	4%
Substandard/doubtful	**3%**	4%
	100%	100%
Production and intermediate term		
Acceptable	**98%**	98%
OAEM	**1%**	1%
Substandard/doubtful	**1%**	1%
	100%	100%
Agribusiness		
Acceptable	**99%**	98%
OAEM	**1%**	1%
Substandard/doubtful	**0%**	1%
	100%	100%
Energy and water/waste water		
Acceptable	**98%**	100%
OAEM	**0%**	0%
Substandard/doubtful	**2%**	0%
	100%	100%
Communication		
Acceptable	**84%**	40%
OAEM	**0%**	0%
Substandard/doubtful	**16%**	60%
	100%	100%
Rural residential real estate		
Acceptable	**92%**	88%
OAEM	**2%**	3%
Substandard/doubtful	**6%**	9%
	100%	100%
Total loans		
Acceptable	**96%**	94%
OAEM	**2%**	3%
Substandard/doubtful	**2%**	3%
	100%	100%

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

March 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**
Real estate mortgage	**$ 1,405,085**	**$ 1,644,333**	**$ 3,049,418**	**$ 1,093,145,650**	**$ 1,096,195,068**
Production and intermediate term	**1,518**	**491,411**	**492,929**	**83,622,124**	**84,115,053**
Loans to cooperatives	**-**	**-**	**-**	**6,811,795**	**6,811,795**
Processing and marketing	**-**	**-**	**-**	**73,415,361**	**73,415,361**
Farm-related business	**-**	**68,625**	**68,625**	**10,227,496**	**10,296,121**
Communication	**-**	**-**	**-**	**7,896,860**	**7,896,860**
Energy	**-**	**-**	**-**	**51,741,945**	**51,741,945**
Water and waste water	**-**	**-**	**-**	**1,409,044**	**1,409,044**
Rural residential real estate	**855,583**	**52,000**	**907,583**	**20,905,127**	**21,812,710**
Total	**$ 2,262,186**	**$ 2,256,369**	**$ 4,518,555**	**$ 1,349,175,402**	**$ 1,353,693,957**

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
Real estate mortgage	$ 916,069	$ 1,468,088	$ 2,384,157	$ 657,015,427	$ 659,399,584
Production and intermediate term	-	514,591	514,591	66,062,819	66,577,410
Loans to cooperatives	-	-	-	1,646	1,646
Processing and marketing	-	427,288	427,288	56,268,897	56,696,185
Farm-related business	-	77,625	77,625	3,785,265	3,862,890
Communication	-	-	-	2,152,190	2,152,190
Energy	-	-	-	43,968,613	43,968,613
Water and waste water	-	-	-	1,153,831	1,153,831
Rural residential real estate	868,313	-	868,313	11,862,241	12,730,554
Total	$ 1,784,382	$ 2,487,592	$ 4,271,974	$ 842,270,929	$ 846,542,903

Troubled Debt Restructuring: 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, 2014, the total recorded investment of troubled debt restructured loans was $8,220,358, including $7,852,782 classified as nonaccrual and $367,576 classified as accrual, with specific allowance for loan losses of $2,089,061. The specific allowance is determined quarterly through a net realizable value analysis for each individual loan asset. As of March 31, 2014, commitments to lend funds to borrowers whose loan terms have been modified in a troubled debt restructuring were $0 at period end and $0 at December 31, 2013.

There were no loans with troubled debt restructuring designation that occurred during the three months ended March 31, 2014. All troubled debt restructurings in the loan portfolio were restructured prior to January 1, 2013.

In restructurings where principal is forgiven, the amount of the forgiveness is immediately charged off. In restructurings where accrued interest is forgiven, the interest is reversed (if current year interest) or charged off (if prior year interest). There were no restructurings where principal was forgiven that required a charge off, at the modification date, for the quarter ended March 31, 2014.

The predominate form of concession granted for troubled debt restructuring includes a delay in the repayment of principal. At times these terms might be offset with incremental payments, collateral or new borrower guarantees, in which case the association assesses all of the modified terms to determine if the overall modification qualifies as a troubled debt restructuring.

At March 31, 2014, the association had no loans that met the accounting criteria as a troubled debt restructuring and that occurred within the previous 12 months of that year and for which there was a payment default during the period. A payment default is defined as a payment that is 30 days past due after the date the loan was restructured.

Additional impaired loan information (including accrued interest) is as follows:

	March 31, 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	$ 8,255,721	$ 8,428,577	$ 2,193,065	$ 8,424,743	$ 8,469,894	$ 2,058,679
Production and intermediate term	99,248	99,248	82,232	149,029	149,029	62,910
Processing and marketing	-	268,291	20,000	208,470	460,570	139,257
Farm-related business	68,625	68,625	6,325	77,625	77,625	18,086
Energy and water/waste water	-	-	-	-	-	-
Rural residential real estate	52,000	52,000	4,002	-	-	-
Total	$ 8,475,594	$ 8,916,741	$ 2,305,624	$ 8,859,867	$ 9,157,118	$ 2,278,932
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	$ 4,718,030	$ 4,807,875	$ -	$ 3,958,441	$ 4,026,499	$ -
Production and intermediate term	544,414	1,000,235	-	571,940	1,029,052	-
Processing and marketing	-	-	-	218,818	218,818	-
Farm-related business	-	-	-	-	-	-
Energy and water/waste water	-	1,706,960	-	-	-	-
Rural residential real estate	228,311	228,311	-	236,434	236,435	-
Total	$ 5,490,755	$ 7,743,381	$ -	$ 4,985,633	$ 5,510,804	$ -
Total impaired loans:						
Real estate mortgage	$ 12,973,751	$ 13,236,452	$ 2,193,065	$ 12,383,184	$ 12,496,393	$ 2,058,679
Production and intermediate term	643,662	1,099,483	82,232	720,969	1,178,081	62,910
Processing and marketing	-	268,291	20,000	427,288	679,388	139,257
Farm-related business	68,625	68,625	6,325	77,625	77,625	18,086
Energy and water/waste water	-	1,706,960	-	-	-	-
Rural residential real estate	280,311	280,311	4,002	236,434	236,435	-
Total	$ 13,966,349	$ 16,660,122	$ 2,305,624	$ 13,845,500	$ 14,667,922	$ 2,278,932

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

	For the Quarter & Year Ended March 31, 2014		For the Quarter & Year Ended March 31, 2013	
	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:				
Real estate mortgage	$ 8,673,180	$ 14,139	$ 12,258,724	$ -
Production and intermediate term	131,414	170	2,455,232	-
Processing and marketing	193,391	-	-	-
Farm-related business	73,525	-	-	-
Communication	-	-	1,665,379	-
Rural residential real estate	12,284	657	46,318	-
Total	$ 9,083,794	$ 14,966	$ 16,425,653	$ -
Impaired loans with no related allowance for credit losses:				
Real estate mortgage	$ 4,587,105	$ 7,857	$ 4,605,927	$ 351
Production and intermediate term	553,418	145	791,916	1,664
Processing and marketing	215,795	-	538,580	-
Farm-related business	-	1,530	-	2,193
Communication	-	-	-	-
Rural residential real estate	231,785	-	302,074	341
Total	$ 5,588,103	$ 9,532	$ 6,238,497	$ 4,549
Total impaired loans:				
Real estate mortgage	$ 13,260,285	$ 21,996	$ 16,864,651	$ 351
Production and intermediate term	684,832	315	3,247,148	1,664
Processing and marketing	409,186	-	538,580	-
Farm-related business	73,525	1,530	-	2,193
Communication	-	-	1,665,379	-
Rural residential real estate	244,069	657	348,392	341
Total	$ 14,671,897	$ 24,498	$ 22,664,150	$ 4,549

A summary of changes in the allowance for loan losses and period end recorded investment and accrued interest 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, 2013	$ 6,234,650	$ 134,781	$ 299,381	$ (36,789)	$ 186,123	$ 61,677	$ 6,879,823
Charge-offs	(40,310)	(205)	(16,191)	-	(112)	-	(56,818)
Recoveries	783	39,050	32,436	-	8,210	-	80,479
Provision for loan losses	(64,481)	(42,447)	(40,778)	59,985	(68,468)	4,811	(151,378)
Balance at March 31, 2014	$ 6,130,642	$ 131,179	$ 274,848	$ 23,196	$ 125,753	$ 66,488	$ 6,752,106
Ending Balance:							
Individually evaluated for impairment	$ 2,207,753	$ 12,373	$ 145,583	$ -	$ -	$ 4,002	$ 2,369,711
Collectively evaluated for impairment	3,922,889	118,806	129,265	23,196	125,753	62,486	4,382,395
Balance at March 31, 2014	$ 6,130,642	$ 131,179	$ 274,848	$ 23,196	$ 125,753	$ 66,488	$ 6,752,106

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy and Water/Waste Water	Rural Residential Real Estate	Total
Recorded Investments in Loans Outstanding:							
Ending Balance at March 31, 2014	$1,096,195,067	$ 84,115,053	$90,523,277	$ 7,896,860	$ 53,150,990	$ 21,812,710	$1,353,693,957
Individually evaluated for impairment	$ 12,973,751	$ 643,662	$ 68,625	$ -	$ -	$ 280,311	$ 13,966,349
Collectively evaluated for impairment	$1,083,221,316	$ 83,471,391	$90,454,652	$ 7,896,860	$ 53,150,990	$ 21,532,399	$1,339,727,608

NOTE 3 — CAPITAL:

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

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

March 31, 2014	**Before Tax**	**Deferred Tax**	**Net of Tax**
Nonpension postretirement benefits	**$ (91,166)**	**$ -**	**$ (91,166)**
Total	**$ (91,166)**	**$ -**	**$ (91,166)**

March 31, 2013	Before Tax	Deferred Tax	Net of Tax
Nonpension postretirement benefits	$ (217,747)	$ -	$ (217,747)
Total	$ (217,747)	$ -	$ (217,747)

The association's accumulated other comprehensive income (loss) relates entirely to its nonpension other postretirement benefits. The following table summarizes the changes in accumulated other comprehensive income (loss) for:

	2014	2013
Accumulated other comprehensive income (loss) at January 1	**$ (364,664)**	$ (870,990)
Amortization of prior service (credit) costs included in salaries and employee benefits	**70,509**	100,943
Amortization of actuarial (gain) loss included in salaries and employee benefits	**(161,675)**	(318,690)
Other comprehensive income (loss), net of tax	**(91,166)**	(217,747)
Accumulated other comprehensive income at March 31	**$ (455,830)**	$ (1,088,737)

NOTE 4 — INCOME TAXES:

Lone Star, ACA and its subsidiary are subject to federal and certain other income taxes. The associations are eligible to operate as cooperatives that qualify for tax treatment under Subchapter T of the Internal Revenue code. Under specified conditions, the associations can exclude from taxable income amounts distributed as qualified patronage refunds in the form of cash, stock or allocated surplus. Provisions for income taxes are made only on those earnings that will not be distributed as qualified patronage refunds. During the three months ended March 31, 2014, the association did not participate in a patronage program that resulted in an impact to income taxes. 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. For the three months ended March 31, 2014, and 2013, net income for tax purposes the association carries a deferred tax asset of $13,923,394 and $11,984,539, respectively, with full valuation recorded against the asset each year.

The subsidiary, Lone Star, 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 2 to the 2013 Annual Report to Stockholders for a more complete description.

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

Information about Other Financial Instrument Fair Value Measurements:

	Valuation Technique(s)	Input
Cash	Carrying value	Par/principal and appropriate interest yield
Loans	Discounted cash flow	Prepayment forecasts Probability of default Loss severity
Other interest bearing liabilities	Carrying value	Par/principal and appropriate interest yield

Assets and liabilities measured at fair value on a recurring basis at March 31, 2014 and December 31, 2013 only include nonqualified benefit trusts. This Level 1 asset was $186,096 and $62,244 at March 31, 2014 and December 31, 2013, respectively.

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

March 31, 2014	**Fair Value Measurement Using**			**Total Fair**
	Level 1	**Level 2**	**Level 3**	**Value**
Assets:				
Loans*	**$ -**	**$ -**	**$ 6,169,970**	**$ 6,169,970**
Other property owned	**-**	**-**	**1,362,320**	**1,362,320**

December 31, 2013	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Loans*	$ -	$ -	$ 6,580,306	$ 6,580,306
Other property owned	-	-	858,367	858,367

*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 2 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.

Investment Securities

Where quoted prices are available in an active market, available-for-sale securities would be classified as Level 1. If quoted prices are not available in an active market, the fair value of securities is estimated using pricing models that utilize observable inputs, quoted prices for similar securities received from pricing services or discounted cash flows. Generally, these securities would be classified as Level 2. This would include certain mortgage-backed and asset-backed securities. Where there is limited activity or less transparency around inputs to the valuation, the securities are classified as Level 3. Securities classified within Level 3 include asset-based securities and certain mortgage-backed securities, including private label-FHA/VA securities and those issued by Farmer Mac.

Assets Held in Nonqualified Benefits Trusts

Assets held in trust funds related to deferred compensation and supplemental retirement plans are classified within Level 1. The trust funds include investments that are actively traded and have quoted net asset values that are observable in the marketplace.

Standby Letters of Credit

The fair value of letters of credit approximate the fees currently charged for similar agreements or the estimated cost to terminate or otherwise settle similar obligations.

Loans

For certain loans evaluated for impairment under impairment guidance, the fair value is based upon the underlying collateral since the loans are collateral-dependent loans for which real estate is the collateral. 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, these fair value measurements fall within Level 3 of the 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.

Other Property Owned

Other property owned is generally classified as Level 3. The process for measuring the fair value of other property owned involves the use of appraisals or 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 6 — EMPLOYEE BENEFIT PLANS:

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

	Other Benefits	
	2014	2013
Service cost	**$ 16,178**	$ 20,857
Interest cost	**30,819**	29,782
Amortization of prior service (credits) costs	**(30,434)**	(34,921)
Amortization of net actuarial (gain) loss	**26,016**	15,639
Net periodic benefit cost	**$ 42,579**	$ 31,357

The association's liability for the unfunded accumulated obligation for these benefits at March 31, 2014, was $3,996,347 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, 2013, that it expected to contribute $86,856 to the district's defined benefit pension plan in 2014. As of March 31, 2014, $21,714 of contributions have been made. The association presently anticipates contributing an additional $65,142 to fund the defined benefit pension plan in 2014 for a total of $86,856.

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:

	2014	2013
Accumulated other comprehensive income (loss) at January 1	**$ (364,664)**	$ (870,990)
Amortization of prior service (credit) costs included in salaries and employee benefits	**70,509**	100,943
Amortization of actuarial (gain) loss included in salaries and employee benefits	**(161,675)**	(318,690)
Other comprehensive income (loss), net of tax	**(91,166)**	(217,747)
Accumulated other comprehensive income at March 31	**$ (455,830)**	$ (1,088,737)

NOTE 7 — COMMITMENTS AND CONTINGENT LIABILITIES:

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

NOTE 8 — SUBSEQUENT EVENTS:

The association has evaluated subsequent events through May 6, 2014, which is the date the financial statements were issued. There are no other significant events requiring disclosure as of May 6, 2014.