LONE STAR, ACA

2014
Quarterly Report
Third Quarter

For the Quarter Ended September 30, 2014

REPORT OF MANAGEMENT

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

Troy Bussmeir, Chief Executive Officer

November 7, 2014

Tom Johnson, Chairman, Board of Directors

November 7, 2014

M'Lissa Kiel, Chief Financial Officer

November 7, 2014

Don Crawford, Chairman, Audit Committee

November 7, 2014

The following commentary reviews the financial performance of the Lone Star, ACA (Agricultural Credit Association), referred to as the association, for the quarter ended September 30, 2014. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2013 Annual Report to Stockholders.

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

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

Significant Events:

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. Board and Management believe the merger of the two associations results in a benefit to shareholders through its ability to 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 was paid to eligible borrowers based on their average outstanding loan balance for the year ending December 31, 2013. The combined patronage amount paid was $11,951,813. The combined association's capital position has increased and is above 21 percent for the period ending September 2014.

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

Loan Portfolio:

Total loans outstanding at September 30, 2014, including nonaccrual loans and sales contracts, were $1,377,212,717 compared to $841,974,808 at December 31, 2013, reflecting an increase of 63.6 percent. Nonaccrual loans as a percentage of total loans outstanding were 0.8 percent at September 30, 2014, compared to 1.6 percent at December 31, 2013.

The association recorded $95,849 in recoveries and $3,255 in charge-offs for the quarter ended September 30, 2014, and $152,013 in recoveries and $293,005 in charge-offs for the same period in 2013. The association's allowance for loan losses was 0.4 percent and 0.8 percent of total loans outstanding as of September 30, 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.

	September 30, 2014		December 31, 2013	
	Amount	**%**	Amount	%
Nonaccrual	**$ 10,997,515**	**96.8%**	$ 13,794,752	93.8%
90 days past due and still accruing interest	**-**	**0.0%**	-	0.0%
Formally restructured	**212,108**	**1.9%**	50,748	0.4%
Other property owned, net	**146,586**	**1.3%**	858,367	5.8%
Total	**$ 11,356,209**	**100.0%**	$ 14,703,867	100.0%

Results of Operations:

The association had net income of $7,907,799 and $21,098,472 for the three and nine months ended September 30, 2014, as compared to net income of $5,418,003 and $14,665,177 for the same period in 2013, reflecting an increase of 46.0 and 43.9 percent, respectively. Net interest income was $10,200,129 and $30,721,506 for the three and nine months ended September 30, 2014, compared to $7,119,297 and $20,348,149 for the same period in 2013.

	Nine months ended:			
	September 30, 2014		September 30, 2013	
	Average Balance	**Interest**	Average Balance	Interest
Loans	**$ 1,356,703,053**	**$ 46,023,051**	$838,830,876	$ 28,863,791
Investments	**-**	**-**	-	-
Total interest-earning assets	**1,356,703,053**	**46,023,051**	838,830,876	28,863,791
Interest-bearing liabilities	**1,057,176,640**	**15,301,545**	649,793,768	8,515,642
Impact of capital	**$ 299,526,413**		$189,037,108	
Net interest income		**$ 30,721,506**		$ 20,348,149

	2014 Average Yield	2013 Average Yield
Yield on loans	**4.54%**	4.60%
Total yield on interest-earning assets	**4.54%**	4.60%
Cost of interest-bearing liabilities	**1.94%**	1.75%
Interest rate spread	**2.60%**	2.85%
Net interest income as a percentage of average earning assets	**3.03%**	3.24%

	Nine months ended: September 30, 2014 vs. September 30, 2013		
	Increase (decrease) due to		
	Volume	**Rate**	**Total**
Interest income - loans	**$ 17,819,577**	**$ (660,317)**	**$ 17,159,260**
Total interest income	**17,819,577**	**(660,317)**	**17,159,260**
Interest expense	**5,338,955**	**1,446,948**	**6,785,903**
Net interest income	**$ 12,480,623**	**$ (2,107,266)**	**$ 10,373,357**

Interest income for the three and nine months ended September 30, 2014, increased by $5,431,816 and $17,159,260, or 54.7 and 59.5 percent, respectively, 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 and nine months ended September 30, 2014, increased by $2,350,984 and $6,785,903, or 83.5 and 79.7 percent, respectively, from the same period of 2013 due to an increase in average interest-bearing liabilities resulting from the merger. Average loan volume for the third quarter of 2014 was $1,358,702,906, compared to $841,381,816 in the third quarter of 2013. The average net interest rate spread on the loan portfolio for the third quarter of 2014 was 2.55 percent, compared to 2.97 percent in the third quarter of 2013.

The association's return on average assets for the nine months ended September 30, 2014, was 2.03 percent compared to 2.30 percent for the same period in 2013. The association's return on average equity for the nine months ended September 30, 2014, was 8.90 percent, compared to 10.04 percent for the same period in 2013. The decrease in return on average assets and return on average equity is primarily due to one-time income events that occurred during the nine months ended September 30, 2013, including interest on nonaccruals.

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.

	September 30, 2014	December 31, 2013
Note payable to the bank	**$ 1,073,733,558**	$ 642,361,465
Accrued interest on note payable	**1,651,275**	946,559
Total	**$ 1,075,384,833**	$ 643,308,024

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 $1,073,733,558 as of September 30, 2014, is recorded as a liability on the association's balance sheet. The note carried a weighted average interest rate of 1.82 percent at September 30, 2014. The indebtedness is collateralized by a pledge of substantially all of the association's assets to the bank and is governed by the general financing agreement. The increase in note payable to the bank 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, were $303,603,048 at September 30, 2014. The maximum amount the association may borrow from the bank as of September 30, 2014, was $1,374,949,968 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 $126,487,232 at September 30, 2014, compared to December 31, 2013. The association's debt as a percentage of members' equity was 3.30:1 as of September 30, 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 September 30, 2014, was 21.2 percent, which is in compliance with the FCA's minimum permanent capital standard. The association's core surplus ratio and total surplus ratio at September 30, 2014, were 20.7 and 20.7 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.

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. At this time the association has no contracts with customers that would need to be reported.

Regulatory Matters:

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

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

The public comment period ended on October 23, 2014.

On May 8, 2014, the Farm Credit Administration approved a proposed rule to modify the regulatory capital requirements for System banks and associations. The stated objectives of the proposed rule are as follows:

- To modernize capital requirements while ensuring that institutions continue to hold sufficient regulatory capital to fulfill their mission as a government-sponsored enterprise,
- To ensure that the System's capital requirements are comparable to the Basel III framework and the standardized approach that the federal banking regulatory agencies have adopted, but also to ensure that the rules recognize the cooperative structure and the organization of the System,
- To make System regulatory capital requirements more transparent, and
- To meet the requirements of section 939A of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

The public comment period ends on January 2, 2015.

Relationship With the Farm Credit Bank of Texas:

The association's financial condition may be impacted by factors that affect the bank. The financial condition and results of operations of the bank may materially affect the stockholder's investment in the association. The Management's Discussion and Analysis and Notes to Financial Statements contained in the 2013 Annual Report of 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 *nick.acosta@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

	September 30, 2014 (unaudited)	December 31, 2013
ASSETS		
Cash	$ **103,921**	$ 27,797
Loans	**1,377,212,717**	841,974,808
Less: allowance for loan losses	**(5,304,886)**	(6,879,823)
Net loans	**1,371,907,831**	835,094,985
Accrued interest receivable	**9,296,539**	4,568,095
Investment in and receivable from the Farm Credit Bank of Texas:		
Capital stock	**21,401,990**	13,436,625
Other	**4,268,314**	1,398,828
Other property owned, net	**146,586**	858,367
Premises and equipment, net	**3,283,550**	1,475,029
Other assets	**1,061,365**	640,534
Total assets	$ **1,411,470,096**	$ 857,500,260
LIABILITIES		
Note payable to the Farm Credit Bank of Texas	$ **1,073,733,558**	$ 642,361,465
Accrued interest payable	**1,651,275**	946,559
Drafts outstanding	**110,907**	638,403
Dividends payable	**-**	7,400,000
Other liabilities	**7,980,382**	4,647,091
Total liabilities	**1,083,476,122**	655,993,518
MEMBERS' EQUITY		
Capital stock and participation certificates	**6,424,270**	3,716,310
Additional paid-in capital	**91,343,553**	-
Allocated retained earnings	**11,610,745**	-
Unallocated retained earnings	**219,253,568**	198,155,096
Accumulated other comprehensive income (loss)	**(638,162)**	(364,664)
Total members' equity	**327,993,974**	201,506,742
Total liabilities and members' equity	$ **1,411,470,096**	$ 857,500,260

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

LONE STAR, ACA

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

	Quarter Ended September 30, 2014	Quarter Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
INTEREST INCOME				
Loans	**$ 15,366,244**	$ 9,934,428	**$ 46,023,051**	$ 28,863,791
Total interest income	**15,366,244**	9,934,428	**46,023,051**	28,863,791
INTEREST EXPENSE				
Note payable to the Farm Credit Bank of Texas	**5,166,114**	2,815,094	**15,301,536**	8,515,570
Advance conditional payments	**1**	37	**9**	72
Total interest expense	**5,166,115**	2,815,131	**15,301,545**	8,515,642
Net interest income	**10,200,129**	7,119,297	**30,721,506**	20,348,149
PROVISION FOR LOAN LOSSES	**(930,160)**	(886,131)	**(1,467,941)**	(1,484,158)
Net interest income after provision for loan losses	**11,130,289**	8,005,428	**32,189,447**	21,832,307
NONINTEREST INCOME				
Income from the Farm Credit Bank of Texas:				
Patronage income	**1,030,246**	467,029	**3,106,326**	1,427,049
Loan fees	**52,470**	61,929	**119,337**	238,838
Financially related services income	**2,645**	1,501	**30,655**	5,749
Gain (loss) on other property owned, net	**642,061**	(39,907)	**622,169**	199,821
Other noninterest income	**74,535**	879	**188,134**	107,409
Total noninterest income	**1,801,957**	491,431	**4,066,621**	1,978,866
NONINTEREST EXPENSES				
Salaries and employee benefits	**3,176,161**	1,725,043	**9,202,689**	5,164,898
Directors' expense	**94,113**	70,409	**450,924**	303,499
Purchased services	**181,998**	290,912	**683,998**	806,242
Travel	**244,040**	224,105	**655,548**	581,919
Occupancy and equipment	**266,320**	179,478	**835,538**	509,835
Communications	**75,959**	42,168	**228,080**	125,108
Advertising	**196,641**	92,707	**626,509**	228,349
Public and member relations	**214,791**	142,389	**604,238**	390,207
Supervisory and exam expense	**103,564**	67,800	**324,115**	216,848
Insurance Fund premiums	**301,507**	159,871	**1,068,583**	588,180
Provisions for acquired property losses	**36,381**	42,218	**36,381**	45,408
Other noninterest expense	**132,972**	48,650	**473,573**	168,401
Total noninterest expenses	**5,024,447**	3,085,750	**15,190,176**	9,128,894
Income before income taxes	**7,907,799**	5,411,109	**21,065,892**	14,682,279
Provision for (benefit from) income taxes	**-**	(6,894)	**(32,580)**	17,102
NET INCOME	**7,907,799**	5,418,003	**21,098,472**	14,665,177
Other comprehensive income:				
Change in postretirement benefit plans	**(91,166)**	(217,747)	**(273,498)**	(653,240)
Other comprehensive income, net of tax	**(91,166)**	(217,747)	**(273,498)**	(653,240)
COMPREHENSIVE INCOME	**$ 7,816,633**	$ 5,200,256	**$ 20,824,974**	$ 14,011,937

The accompanying notes are an integral part of these consolidated 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	-	-	-	14,665,177	(653,240)	14,011,937
Capital stock/participation certificates and allocated retained earnings issued	387,940	-	-	-	-	387,940
Capital stock/participation certificates and allocated retained earnings retired	(417,775)	-	-	-	-	(417,775)
Balance at September 30, 2013	$ 3,742,345	$ -	$ -	$ 200,178,158	$ (1,524,230)	$ 202,396,273
Balance at December 31, 2013	$ 3,716,310	$ -	$ -	$ 198,155,096	$ (364,664)	$ 201,506,742
Comprehensive income	-	-	-	21,098,472	(273,498)	20,824,974
Capital stock/participation certificates and allocated retained earnings issued	3,318,630	-	-	-	-	3,318,630
Capital stock/participation certificates and allocated retained earnings retired	(610,670)	-	-	-	-	(610,670)
Equity issued or recharacterized upon merger	-	91,343,553	-	-	-	91,343,553
Patronage refunds:						
Cash	-	-	-	-	-	-
Capital stock/participation certificates and allocated retained earnings from merger	-	-	11,610,745	-	-	11,610,745
Balance at September 30, 2014	**$ 6,424,270**	**$ 91,343,553**	**$ 11,610,745**	**$ 219,253,568**	**$ (638,162)**	**$ 327,993,974**

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

LONE STAR, ACA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

The 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 accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. (GAAP) for interim financial information. Accordingly, they do not include all of the disclosures required by GAAP for annual financial statements and should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2013, as contained in the 2013 Annual Report to Stockholders.

In the opinion of management, the accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with 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 Financial Accounting Standards Board (FASB) issued guidance, "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income." The guidance requires entities to present either parenthetically on the face of the financial statements or in the notes to the financial statements, significant amounts reclassified from each component of accumulated other comprehensive income and the income statement line items affected by the reclassification. The guidance is effective for public entities for annual periods beginning after December 15, 2012, and for nonpublic entities for annual periods beginning after

December 15, 2013. The adoption of this guidance did not impact the financial condition or results of operations, but resulted in additional disclosures (See Note 6 – Employee Benefit Plans).

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

The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries. The preparation of these consolidated financial statements requires the use of management’s estimates. The results for the quarter ended September 30, 2014, are not necessarily indicative of the results to be expected for the year ended December 31, 2014. Certain amounts in the prior period’s financial statements have been reclassified to conform to current financial statement presentation.

NOTE 2 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

A summary of loans follows:

Loan Type	**September 30, 2014 Amount**	December 31, 2013 Amount
Production agriculture:		
Real estate mortgage	**$ 1,106,764,830**	$ 655,294,730
Production and intermediate term	**100,937,621**	66,322,143
Agribusiness:		
Loans to cooperatives	**6,523,941**	-
Processing and marketing	**69,727,418**	56,675,360
Farm-related business	**14,582,968**	3,854,580
Communication	**4,995,311**	2,152,156
Energy	**50,728,044**	43,829,876
Water and waste water	**1,674,600**	1,152,930
Rural residential real estate	**21,277,984**	12,693,033
Total	**$ 1,377,212,717**	$ 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 September 30, 2014:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 25,624,441	$ 29,524,821	$ -	$ -	$ 25,624,441	$ 29,524,821
Production and intermediate term	35,928,709	3,594,159	-	-	35,928,709	3,594,159
Agribusiness	82,631,383	-	-	-	82,631,383	-
Communication	4,995,311	-	-	-	4,995,311	-
Energy	50,728,044	-	-	-	50,728,044	-
Water and waste water	1,674,600	-	-	-	1,674,600	-
Total	$ 201,582,488	$ 33,118,980	$ -	$ -	$ 201,582,488	$ 33,118,980

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 $10,155,108 and $3,401,159 at September 30, 2014, and December 31, 2013, respectively.

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

	September 30, 2014	December 31, 2013
Nonaccrual loans:		
Real estate mortgage	**$ 10,050,472**	$12,347,950
Production and intermediate term	**703,033**	705,454
Agribusiness	**31,637**	504,913
Rural residential real estate	**212,373**	236,435
Total nonaccrual loans	**10,997,515**	13,794,752
Accruing restructured loans:		
Real estate mortgage	**200,665**	35,233
Production and intermediate term	**11,443**	15,515
Total accruing restructured loans	**212,108**	50,748
Total nonperforming loans	**11,209,623**	13,845,500
Other property owned	**146,586**	858,367
Total nonperforming assets	**$ 11,356,209**	$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:

	September 30, 2014	December 31, 2013
Real estate mortgage		
Acceptable	**96%**	92%
OAEM	**2%**	4%
Substandard/doubtful	**2%**	4%
	100%	100%
Production and intermediate term		
Acceptable	**99%**	98%
OAEM	**0%**	1%
Substandard/doubtful	**1%**	1%
	100%	100%
Agribusiness		
Acceptable	**100%**	98%
OAEM	**0%**	1%
Substandard/doubtful	**0%**	1%
	100%	100%
Energy and water/waste water		
Acceptable	**98%**	100%
OAEM	**2%**	0%
Substandard/doubtful	**0%**	0%
	100%	100%
Communication		
Acceptable	**76%**	40%
OAEM	**0%**	0%
Substandard/doubtful	**24%**	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:

September 30, 2014	**30-89 Days Past Due**	**90 Days or More Past Due**	**Total Past Due**	**Not Past Due or Less Than 30 Days Past Due**	**Total Loans**
Real estate mortgage	**$ 2,339,961**	**$ 1,480,199**	**$ 3,820,160**	**$ 1,112,090,872**	**$ 1,115,911,032**
Production and intermediate term	**254,173**	**489,185**	**743,358**	**99,949,877**	**100,693,235**
Loans to cooperatives	**-**	**-**	**-**	**6,534,938**	**6,534,938**
Processing and marketing	**-**	**-**	**-**	**69,833,290**	**69,833,290**
Farm-related business	**-**	**31,637**	**31,637**	**14,596,501**	**14,628,138**
Communication	**-**	**-**	**-**	**4,995,757**	**4,995,757**
Energy	**-**	**-**	**-**	**50,882,139**	**50,882,139**
Water and waste water	**-**	**-**	**-**	**1,675,288**	**1,675,288**
Rural residential real estate	**69,085**	**-**	**69,085**	**21,286,354**	**21,355,439**
Total	**$ 2,663,219**	**$ 2,001,021**	**$ 4,664,240**	**$ 1,381,845,016**	**$ 1,386,509,256**

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 September 30, 2014, the total recorded investment of troubled debt restructured loans was $5,835,582, including $5,623,474 classified as nonaccrual and $212,108 classified as accrual, with specific allowance for loan losses of $1,321,506. The specific allowance is determined quarterly through a net realizable value analysis for each individual loan asset. As of September 30, 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.

The following tables present additional information regarding troubled debt restructurings, which includes both accrual and nonaccrual loans with troubled debt restructuring designation, that occurred during the nine months ended September 30, 2014. The premodification outstanding recorded investment represents the recorded investment of the loans as of the quarter end prior to the restructuring. The postmodification outstanding recorded investment represents the recorded investment of the loans as of the quarter end the restructuring occurred. Loans formally restructured prior to January 1, 2014, were $8,108,070.

For the Three Months Ended September 30, 2014	Premodification Outstanding Recorded Investment	Postmodification Outstanding Recorded Investment
Troubled debt restructurings:		
Real estate mortgage	$ 164,433	$ 164,350
Total	$ 164,433	$ 164,350

For the Nine Months Ended September 30, 2014	Premodification Outstanding Recorded Investment	Postmodification Outstanding Recorded Investment
Troubled debt restructurings:		
Real estate mortgage	$ 164,433	$ 164,350
Total	$ 164,433	$ 164,350

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 September 30, 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 September 30, 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.

The following table provides information on outstanding loans restructured in troubled debt restructurings at period end. These loans are included as impaired loans in the impaired loan table at:

	Loans Modified as TDRs		TDRs in Nonaccrual Status*	
	September 30, 2014	December 31, 2013	September 30, 2014	December 31, 2013
Real estate mortgage	$ 200,665	$ 35,233	$ 5,623,474	$ 7,934,371
Production and intermediate term	11,443	15,515	-	122,951
Total	$ 212,108	$ 50,748	$ 5,623,474	$ 8,057,322

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

Additional impaired loan information is as follows:

	September 30, 2014			December 31, 2013		
	Recorded Investment	**Unpaid Principal Balance[a]**	**Related Allowance**	Recorded Investment	Unpaid Principal Balance[a]	Related Allowance
Impaired loans with a related allowance for credit losses:						
Real estate mortgage	**$ 6,343,352**	**$ 6,468,630**	**$ 1,378,166**	$ 8,424,743	$ 8,469,894	$ 2,058,679
Production and intermediate term	**217,598**	**664,160**	**219,170**	149,029	149,029	62,910
Processing and marketing	**-**	**-**	**-**	208,470	460,570	139,257
Farm-related business	**-**	**-**	**-**	77,625	77,625	18,086
Energy and water/waste water	**-**	**-**	**-**	-	-	-
Rural residential real estate	**-**	**-**	**-**	-	-	-
Total	**$ 6,560,950**	**$ 7,132,790**	**$ 1,597,336**	$ 8,859,867	$ 9,157,118	$ 2,278,932
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	**$ 3,907,786**	**$ 3,990,080**	**$ -**	$ 3,958,441	$ 4,026,499	$ -
Production and intermediate term	**496,877**	**553,582**	**-**	571,940	1,029,052	-
Processing and marketing	**-**	**-**	**-**	218,818	218,818	-
Farm-related business	**31,637**	**31,637**	**-**	-	-	-
Energy and water/waste water	**-**	**1,706,960**	**-**	-	-	-
Rural residential real estate	**212,373**	**215,821**	**-**	236,434	236,435	-
Total	**$ 4,648,673**	**$ 6,498,080**	**$ -**	$ 4,985,633	$ 5,510,804	$ -
Total impaired loans:						
Real estate mortgage	**$ 10,251,138**	**$ 10,458,710**	**$ 1,378,166**	$ 12,383,184	$ 12,496,393	$ 2,058,679
Production and intermediate term	**714,475**	**1,217,742**	**219,170**	720,969	1,178,081	62,910
Processing and marketing	**-**	**-**	**-**	427,288	679,388	139,257
Farm-related business	**31,637**	**31,637**	**-**	77,625	77,625	18,086
Energy and water/waste water	**-**	**1,706,960**	**-**	-	-	-
Rural residential real estate	**212,373**	**215,821**	**-**	236,434	236,435	-
Total	**$ 11,209,623**	**$ 13,630,870**	**$ 1,597,336**	$ 13,845,500	$ 14,667,922	$ 2,278,932

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

	For the Three Months Ended				For the Nine Months Ended			
	September 30, 2014		September 30, 2013		**September 30, 2014**		September 30, 2013	
	Average Impaired Loans	**Interest Income Recognized**	Average Impaired Loans	Interest Income Recognized	**Average Impaired Loans**	**Interest Income Recognized**	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:								
Real estate mortgage	**$ 7,779,150**	**$ 1,235**	$ 9,801,956	$ -	**$ 7,104,340**	**$ 9,086**	$ 10,939,860	$ 2,679
Production and intermediate term	**169,941**	**1,470**	1,267,655	111	**139,314**	**32,339**	1,852,011	-
Processing and marketing	**64,464**	**-**	106,288	4,148	**-**	**-**	35,429	-
Farm-related business	**43,900**	**-**	-	-	**-**	**-**	-	-
Communication	**-**	**-**	1,331,308	-	**-**	**-**	1,477,229	53,760
Rural residential real estate	**4,095**	**-**	-	-	**-**	**-**	30,292	-
Total	**$ 8,061,550**	**$ 2,705**	$ 12,507,207	$ 4,259	**$ 7,243,654**	**$ 41,425**	$ 14,334,821	$ 56,439
Impaired loans with no related allowance for credit losses:								
Real estate mortgage	**$ 4,438,297**	**$ 3,468**	$ 3,240,679	$ 817	**$ 4,058,040**	**$ 12,697**	$ 3,873,092	$ 3,018
Production and intermediate term	**527,974**	**8,223**	655,888	174	**519,303**	**8,357**	744,525	553
Processing and marketing	**71,932**	**-**	207,460	-	**-**	**-**	421,077	-
Farm-related business	**11,852**	**2,355**	-	2,094	**55,613**	**6,197**	-	6,793
Communication	**-**	**-**	-	-	**-**	**-**	194,340	-
Rural residential real estate	**224,110**	**17**	327,846	875	**224,055**	**(3)**	307,902	1,387
Total	**$ 5,274,165**	**$ 14,063**	$ 4,431,873	$ 3,960	**$ 4,857,011**	**$ 27,248**	$ 5,540,936	$ 11,751
Total impaired loans:								
Real estate mortgage	**$ 12,217,447**	**$ 4,703**	$ 13,042,635	$ 817	**$ 11,162,380**	**$ 21,783**	$ 14,812,952	$ 5,697
Production and intermediate term	**697,915**	**9,693**	1,923,543	285	**658,617**	**40,696**	2,596,536	553
Processing and marketing	**136,396**	**-**	313,748	4,148	**-**	**-**	456,506	-
Farm-related business	**55,752**	**2,355**	-	2,094	**55,613**	**6,197**	-	6,793
Communication	**-**	**-**	1,331,308	-	**-**	**-**	1,671,569	53,760
Rural residential real estate	**228,205**	**17**	327,846	875	**224,055**	**(3)**	338,194	1,387
Total	**$ 13,335,715**	**$ 16,768**	$ 16,939,080	$ 8,219	**$ 12,100,665**	**$ 68,673**	$ 19,875,757	$ 68,190

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 June 30, 2014	$ 5,786,986	$ 145,477	$ 115,345	$ 22,726	$ 105,102	$ 125,663	$ 6,301,299
Charge-offs	-	-	-	-	-	(3,255)	(3,255)
Recoveries	930	11,081	83,838	-	-	-	95,849
Provision for loan losses	(1,459,725)	498,503	(23,671)	161	45,480	9,092	(930,160)
Other	(3,263)	(52,159)	(53,338)	(1,321)	(48,766)	-	(158,847)
Balance at September 30, 2014	$ 4,324,928	$ 602,902	$ 122,174	$ 21,566	$ 101,816	$ 131,500	$ 5,304,886
Balance at December 31, 2013	$ 6,234,650	$ 134,781	$ 299,381	$ (36,789)	$ 186,123	$ 61,677	$ 6,879,823
Charge-offs	(66,649)	(52,318)	(24,196)	-	(112)	(7,028)	(150,303)
Recoveries	3,282	52,725	137,938	-	8,209	-	202,154
Provision for loan losses	(1,843,092)	519,873	(237,611)	59,676	(43,638)	76,851	(1,467,941)
Adjustment due to merger	-	-	-	-	-	-	-
Other	(3,263)	(52,159)	(53,338)	(1,321)	(48,766)	-	(158,847)
Balance at September 30, 2014	$ 4,324,928	$ 602,902	$ 122,174	$ 21,566	$ 101,816	$ 131,500	$ 5,304,886
Ending Balance:							
Individually evaluated for impairment	$ 1,378,167	$ 219,170	$ -	$ -	$ -	$ -	$ 1,597,337
Collectively evaluated for impairment	2,946,761	383,732	122,174	21,566	101,816	131,500	3,707,549
Balance at September 30, 2014	$ 4,324,928	$ 602,902	$ 122,174	$ 21,566	$ 101,816	$ 131,500	$ 5,304,886

	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 September 30, 2014	$ 1,115,911,031	$ 100,693,236	$90,996,367	$ 4,995,757	$ 52,557,426	$ 21,355,439	$ 1,386,509,256
Individually evaluated for impairment	$ 10,251,138	$ 714,475	$ 31,637	$ -	$ -	$ 212,373	$ 11,209,623
Collectively evaluated for impairment	$ 1,105,659,893	$ 99,978,761	$90,964,730	$ 4,995,757	$ 52,557,426	$ 21,143,066	$ 1,375,299,633

NOTE 3 — CAPITAL:

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

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

September 30, 2014	**Before Tax**	**Deferred Tax**	**Net of Tax**
Nonpension postretirement benefits	**$ (273,498)**	**$ -**	**$ (273,498)**
Total	**$ (273,498)**	**$ -**	**$ (273,498)**

September 30, 2013	Before Tax	Deferred Tax	Net of Tax
Nonpension postretirement benefits	$ (653,240)	$ -	$ (653,240)
Total	$ (653,240)	$ -	$ (653,240)

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 the nine months ended September 30:

	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	**211,528**	302,832
Amortization of actuarial (gain) loss included in salaries and employee benefits	**(485,026)**	(956,072)
Other comprehensive income (loss), net of tax	**(273,498)**	(653,240)
Accumulated other comprehensive income at September 30	**$ (638,162)**	$ (1,524,230)

NOTE 4 — INCOME TAXES:

Lone Star, ACA and its subsidiary PCA 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 nine months ended September 30, 2014, the association did not participate in a patronage program. 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 nine months ended September 30, 2014, and 2013, net income for tax purposes the association carries a deferred tax asset of $14,195,362 and $13,272,248, 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 September 30, 2014 and December 31, 2013 only include nonqualified benefit trusts. This Level 1 asset was $187,549 and $62,244 at June 30, 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:

September 30, 2014	**Fair Value Measurement Using**			**Total Fair**
	Level 1	**Level 2**	**Level 3**	**Value**
Assets:				
Loans*	**$ -**	**$ -**	**$ 4,963,614**	**$ 4,963,614**
Other property owned	**-**	**-**	**146,586**	**146,586**

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.

The fair value of commitments is estimated using the fees currently charged for similar agreements, taking into account the remaining terms of the agreements and the creditworthiness of the counterparties. For fixed-rate loan commitments, estimated fair value also considers the difference between current levels of interest rates and the committed rates.

NOTE 6 — EMPLOYEE BENEFIT PLANS:

The following table summarizes the components of net periodic benefit costs of nonpension other postretirement employee benefits for the nine months ended September 30:

	Other Benefits	
	2014	2013
Service cost	**$ 48,533**	$ 62,571
Interest cost	**92,458**	89,346
Amortization of prior service (credits) costs	**(91,302)**	(104,763)
Amortization of net actuarial (gain) loss	**78,049**	46,917
Net periodic benefit cost	**$ 127,738**	$ 94,071

The association's liability for the unfunded accumulated obligation for these benefits at September 30, 2014, was $4,256,963 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 September 30, 2014, $65,142 of contributions have been made. The association presently anticipates contributing an additional $21,714 to fund the defined benefit pension plan in 2014 for a total of $86,856.

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 November 7, 2014, which is the date the financial statements were issued. There are no other significant events requiring disclosure as of November 7, 2014.