LONE STAR, ACA

2015
Quarterly Report
Second Quarter

LONE STAR
AG CREDIT

For the Quarter Ended June 30, 2015

REPORT OF MANAGEMENT

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

Troy Bussmeir, Chief Executive Officer

August 7, 2015

Tom Johnson, Chairman, Board of Directors

August 7, 2015

M'Lissa Kiel, Chief Financial Officer

August 7, 2015

Don Crawford, Chairman, Audit Committee

August 7, 2015

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 June 30, 2015. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2014, Annual Report to Stockholders.

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

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

Significant Events:

In December 2014, the board of Lone Star, ACA declared a 100 basis point (1.0 percent) cash patronage to be paid in April of 2015, based on 2014 earnings. The patronage was paid to eligible stockholders based on their average outstanding loan balance for the year ending December 31, 2014. The patronage amount paid was $12,105,352. The association's capital position remains strong and is above 20 percent for the period ending June 2015.

In October 2014, the board approved the distribution of $4,495,338 of equities allocated to the stockholders of the former Texas Land Bank, ACA to be paid in December 2014. This distribution was set forth in the merger disclosure document from the merger with Texas Land Bank, ACA.

Effective January 1, 2014, the association merged with Texas Land Bank, ACA through a business acquisition in accordance with authoritative accounting guidance. Texas Land Bank, ACA was previously headquartered in Waco, TX and served a territory covering 16 counties in Central Texas. The types of loans and commodities financed by Texas Land Bank, ACA were very similar to those of the association. The association's board of directors and management feel this acquisition has provided the association with an opportunity to strengthen capital position through higher earnings, increase its market share of agricultural financing and extend an overall improved quality of farm credit lending to its stockholders.

Since 1917, the association and its predecessors have provided 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 June 30, 2015, including nonaccrual loans and sales contracts, were $1,451,559,231 compared to $1,400,308,027 at December 31, 2014, reflecting an increase of 3.7 percent. Nonaccrual loans as a percentage of total loans outstanding were 0.5 percent at June 30, 2015, compared to 0.7 percent at December 31, 2014.

The association recorded $149,779 in recoveries and $0 in charge-offs for the quarter ended June 30, 2015, and $25,825 in recoveries and $90,230 in charge-offs for the same period in 2014. The association's allowance for loan losses was 0.4 percent and 0.4 percent of total loans outstanding as of June 30, 2015, and December 31, 2014, respectively.

Risk Exposure:

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

	June 30, 2015		December 31, 2014	
	Amount	**%**	Amount	%
Nonaccrual	**$ 7,215,424**	**94.7%**	$ 10,223,217	96.1%
Formally restructured	**205,757**	**2.7%**	208,621	2.0%
Other property owned, net	**196,886**	**2.6%**	201,363	1.9%
Total	**$ 7,618,067**	**100.0%**	$ 10,633,201	100.0%

Results of Operations:

The association had net income of $7,713,691 and $14,366,918 for the three and six months ended June 30, 2015, as compared to net income of $6,610,466 and $13,190,674 for the same periods in 2014, reflecting an increase of 16.7 and 8.9 percent respectively. Net interest income was $10,950,582 and $21,567,219 for the three and six months ended June 30, 2015, compared to $10,105,781 and $20,521,377 for the same period in 2014.

	Six months ended:			
	June 30, 2015		June 30, 2014	
	Average Balance	**Interest**	Average Balance	Interest
Loans	**$ 1,437,746,322**	**$ 32,616,461**	$ 1,355,686,553	$ 30,656,807
Total interest-earning assets	**1,437,746,322**	**32,616,461**	1,355,686,553	30,656,807
Interest-bearing liabilities	**1,126,897,913**	**11,049,242**	1,056,320,092	10,135,430
Impact of capital	**$ 310,848,409**		$ 299,366,461	
Net interest income		**$ 21,567,219**		$ 20,521,377

	2015 Average Yield	2014 Average Yield
Yield on loans	**4.57%**	4.56%
Total yield on interest-earning assets	**4.57%**	4.56%
Cost of interest-bearing liabilities	**1.98%**	1.93%
Interest rate spread	**2.60%**	2.63%
Net interest income as a percentage of average earning assets	**3.03%**	3.05%

	Six months ended: June 30, 2015 vs. June 30, 2014		
	Increase (decrease) due to		
	Volume	**Rate**	**Total**
Interest income - loans	**$ 1,855,666**	**$ 103,988**	**$ 1,959,654**
Total interest income	**1,855,666**	**103,988**	**1,959,654**
Interest expense	**677,193**	**236,619**	**913,812**
Net interest income	**$ 1,178,473**	**$ (132,631)**	**$ 1,045,842**

Interest income for the three and six months ended June 30, 2015, increased by $1,382,242 and $1,959,654, or 9.1 and 6.4 percent, respectively, from the same period of 2014, primarily due to an increase in average loan volume. Interest expense for the three and six months ended June 30, 2015, increased by $537,441 and $913,812, or 10.5 and 9.0 percent, respectively, from the same period of 2014 due to an increase in average interest-bearing liabilities. Average loan volume for the second quarter of 2015 was $1,450,727,450, compared to $1,356,666,804 in the second quarter of 2014. The average net interest rate spread on the loan portfolio for the second quarter of 2015 was 2.60 percent, compared to 2.56 percent in the second quarter of 2014.

The association’s return on average assets for the six months ended June 30, 2015, was 1.97 percent compared to 1.92 percent for the same period in 2014. The association’s return on average equity for the six months ended June 30, 2015, was 8.95 percent, compared to 8.48 percent for the same period in 2014.

Liquidity and Funding Sources:

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

	June 30, 2015	December 31, 2014
Note payable to the bank	**$ 1,143,097,265**	$ 1,087,039,175
Accrued interest on note payable	**1,840,180**	1,766,688
Total	**$ 1,144,937,445**	$ 1,088,805,863

The association operates under a general financing agreement (GFA) with the bank. The current GFA is effective through September 30, 2015, and a three year renewal is currently under consideration. The primary source of liquidity and funding for the association is a direct loan from the bank. The outstanding balance of $1,143,097,265 as of June 30, 2015, is recorded as a liability on the association's balance sheet. The note carried a weighted average interest rate of 1.92 percent at June 30, 2015. The indebtedness is collateralized by a pledge of substantially all of the association's assets to the bank and is governed by the general financing agreement. The increase in note payable to the bank and related accrued interest payable since December 31, 2014, correlates directly with the growth in association loan volume, increased demand for real estate transactions, growth in Capital Markets participation portfolio and overall increased efforts by credit staff on growth of accrual loan volume. The association's own funds, which represent the amount of the association's loan portfolio funded by the association's equity, were $308,725,738 at June 30, 2015. The maximum amount the association may borrow from the bank as of June 30, 2015, was $1,450,917,352 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 2015. 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 $14,356,662 at June 30, 2015, compared to December 31, 2014. The association's debt as a percentage of members' equity was 3.49:1 as of June 30, 2015, compared to 3.52:1 as of December 31, 2014.

Under regulations governing minimum permanent capital adequacy and other capitalization issues, the association is required to maintain a minimum adjusted permanent capital of 7.0 percent of risk-adjusted assets as defined by the FCA. The association's permanent capital ratio at June 30, 2015, was 20.4 percent, which is in compliance with the FCA's minimum permanent capital standard. The association's core surplus ratio and total surplus ratio at June 30, 2015, were 19.9 and 19.9 percent, respectively, which is in compliance with the FCA's minimum surplus standard.

Significant Recent Accounting Pronouncements:

In August 2014, the Financial Accounting Standards Board (FASB) issued guidance entitled "Presentation of Financial Statements - Going Concern." The guidance governs management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. This guidance requires management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year after the date the financial statements are issued or within one year after the financial statements are available to be issued, when applicable. Substantial doubt exists if it is probable that the entity will be unable to meet its obligations for the assessed period. This guidance becomes effective for interim and annual periods ending after December 15, 2016, and early application is permitted. Management will be required to make its initial assessment as of December 31, 2016. The association is currently evaluating any potential disclosures for this recent accounting pronouncement and believes there are not any at this time to be disclosed.

In May 2014, the FASB issued guidance entitled, "Revenue from Contracts with Customers." The guidance governs revenue recognition from contracts with customers and requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Financial instruments and other contractual rights within the scope of other guidance issued by the FASB are excluded from the scope of this new revenue recognition guidance. In this regard, a majority of our contracts would be excluded from the scope of this new guidance. In April 2015, this guidance was deferred by one year and results in the new revenue standard becoming effective for interim and annual reporting periods ending after December 15, 2017. The association is in the process of reviewing contracts to determine the effect, if any, on the association's financial condition or its results of operations.

Regulatory Matters:

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

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

The initial public comment period ended on February 16, 2015. However, the FCA agreed to reopen the comment period from June 26 to July 10, 2015.

Relationship With the Farm Credit Bank of Texas:

The association's financial condition may be impacted by factors that affect the bank. The financial condition and results of operations of the bank may materially affect the stockholder's investment in the association. The Management's Discussion and Analysis and Notes to Financial Statements contained in the 2014 Annual Report of 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

	June 30, 2015 (unaudited)	December 31, 2014
ASSETS		
Cash	$ 128,169	$ 72,550
Loans	1,451,559,231	1,400,308,027
Less: allowance for loan losses	(5,465,967)	(5,683,210)
Net loans	1,446,093,264	1,394,624,817
Accrued interest receivable	9,565,029	7,228,983
Investment in and receivable from the Farm Credit Bank of Texas:		
Capital stock	21,608,055	21,608,055
Other	3,161,590	1,697,818
Other property owned, net	196,886	201,363
Premises and equipment, net	3,175,233	3,287,896
Other assets	1,093,723	864,995
Total assets	$ 1,485,021,949	$ 1,429,586,477
LIABILITIES		
Note payable to the Farm Credit Bank of Texas	$ 1,143,097,265	$ 1,087,039,175
Accrued interest payable	1,840,180	1,766,688
Drafts outstanding	780,730	345,770
Dividends payable	-	12,105,352
Other liabilities	8,324,626	11,707,006
Total liabilities	1,154,042,801	1,112,963,991
MEMBERS' EQUITY		
Capital stock and participation certificates	6,337,580	6,366,550
Additional paid-in capital	91,343,553	91,343,553
Allocated retained earnings	7,115,406	7,115,406
Unallocated retained earnings	227,499,552	213,132,634
Accumulated other comprehensive income (loss)	(1,316,943)	(1,335,657)
Total members' equity	330,979,148	316,622,486
Total liabilities and members' equity	$ 1,485,021,949	$ 1,429,586,477

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

LONE STAR, ACA

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

	Quarter Ended June 30,		Six Months Ended June 30,	
	2015	2014	**2015**	2014
INTEREST INCOME				
Loans	**$ 16,592,473**	$ 15,210,231	**$ 32,616,461**	$ 30,656,807
Total interest income	**16,592,473**	15,210,231	**32,616,461**	30,656,807
INTEREST EXPENSE				
Note payable to the Farm Credit Bank of Texas	**5,641,889**	5,104,447	**11,049,240**	10,135,422
Advance conditional payments	**2**	3	**2**	8
Total interest expense	**5,641,891**	5,104,450	**11,049,242**	10,135,430
Net interest income	**10,950,582**	10,105,781	**21,567,219**	20,521,377
PROVISION FOR LOAN LOSSES	**(373,698)**	(386,403)	(369,155)	(537,781)
Net interest income after provision for loan losses	**11,324,280**	10,492,184	**21,936,374**	21,059,158
NONINTEREST INCOME				
Income from the Farm Credit Bank of Texas:				
Patronage income	**1,336,216**	1,037,174	**2,643,527**	2,076,080
Loan fees	**3,533**	(241,198)	**26,413**	66,866
Financially related services income	**2,523**	2,939	**6,265**	28,011
Gain (loss) on other property owned, net	**46,645**	(10,560)	**72,215**	(19,892)
Gain (loss) on sale of premises and equipment, net	**12,252**	-	**7,159**	-
Other noninterest income	**46,309**	25,500	**180,098**	113,599
Total noninterest income	**1,447,478**	813,855	**2,935,677**	2,264,664
NONINTEREST EXPENSES				
Salaries and employee benefits	**3,186,119**	2,760,279	**6,560,460**	6,026,527
Directors' expense	**166,905**	163,500	**312,834**	356,811
Purchased services	**180,162**	157,355	**410,269**	501,999
Travel	**181,147**	258,468	**333,406**	411,508
Occupancy and equipment	**260,667**	256,313	**553,832**	569,218
Communications	**91,580**	83,611	**168,767**	152,121
Advertising	**189,539**	198,711	**452,577**	429,869
Public and member relations	**198,991**	197,450	**406,051**	389,447
Supervisory and exam expense	**79,447**	110,410	**183,011**	220,551
Insurance Fund premiums	**367,561**	320,154	**867,764**	767,076
Provisions for acquired property losses	**13,818**	-	**13,818**	-
Other noninterest expense	**166,468**	208,016	**266,681**	340,601
Total noninterest expenses	**5,082,404**	4,714,267	**10,529,470**	10,165,728
Income before income taxes	**7,689,354**	6,591,772	**14,342,581**	13,158,094
Provision for (benefit from) income taxes	**(24,337)**	(18,694)	**(24,337)**	(32,580)
NET INCOME	**7,713,691**	6,610,466	**14,366,918**	13,190,674
Other comprehensive income:				
Change in postretirement benefit plans	**9,357**	(91,166)	**18,714**	(182,332)
Other comprehensive income, net of tax	**9,357**	(91,166)	**18,714**	(182,332)
COMPREHENSIVE INCOME	**$ 7,723,048**	$ 6,519,300	**$ 14,385,632**	$ 13,008,342

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, 2013	$ 3,716,310	$ -	$ -	$ 198,155,096	$ (364,664)	$ 201,506,742
Comprehensive income	-	-	-	13,190,674	(182,332)	13,008,342
Capital stock/participation certificates and allocated retained earnings issued	3,126,355	-	-	-	-	3,126,355
Capital stock/participation certificates and allocated retained earnings retired	(401,930)	-	-	-	-	(401,930)
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 June 30, 2014	$ 6,440,735	$ 91,343,553	$ 11,610,745	$ 211,345,770	$ (546,996)	$ 320,193,807
Balance at December 31, 2014	$ 6,366,550	$ 91,343,553	$ 7,115,406	$ 213,132,634	$ (1,335,657)	$ 316,622,486
Comprehensive income	-	-	-	14,366,918	18,714	14,385,632
Capital stock/participation certificates and allocated retained earnings issued	387,865	-	-	-	-	387,865
Capital stock/participation certificates and allocated retained earnings retired	(416,835)	-	-	-	-	(416,835)
Balance at June 30, 2015	**$ 6,337,580**	**$ 91,343,553**	**$ 7,115,406**	**$ 227,499,552**	**$ (1,316,943)**	**$ 330,979,148**

The accompanying notes are an integral part of these combined 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, 2014, as contained in the 2014 Annual Report to Stockholders.

In the opinion of management, the accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with generally accepted accounting principles (GAAP), except for the inclusion of a statement of cash flows. GAAP require a business enterprise that provides a set of financial statements reporting both financial position and results of operations to also provide a statement of cash flows for each period for which results of operations are provided. In regulations issued by FCA, associations have the option to exclude statements of cash flows in interim financial statements. Therefore, the association has elected not to include a statement of cash flows in these consolidated financial statements. These interim financial statements should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2014, as contained in the 2014 Annual Report to Stockholders. The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year ending December 31, 2015. Descriptions of the significant accounting policies are included in the 2014 Annual Report to Stockholders. In the opinion of management, these policies and the presentation of the interim financial condition and results of operations conform with GAAP and prevailing practices within the banking industry.

In August 2014, the Financial Accounting Standards Board (FASB) issued guidance entitled “Presentation of Financial Statements - Going Concern.” The guidance governs management’s responsibility to evaluate whether there is substantial doubt about an entity’s ability to continue as a going concern and to provide related footnote disclosures. This guidance requires management to perform interim and annual assessments of an entity’s ability to continue as a going concern within one year after the date the financial statements are issued or within one year after the financial statements are available to be issued, when applicable. Substantial doubt exists if it is probable that the entity will be unable to meet its obligations for the assessed period. This guidance becomes effective for interim and annual periods ending after December 15, 2016, and early application is permitted. Management will be required to make its initial assessment as of December 31, 2016. The association is currently evaluating any potential disclosures for this recent accounting pronouncement and believes there are not any at this time to be disclosed.

In May 2014, the FASB issued guidance entitled, “Revenue from Contracts with Customers.” The guidance governs revenue recognition from contracts with customers and requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Financial instruments and other contractual rights within the scope of other guidance issued by the FASB are excluded from the scope of this new revenue recognition guidance. In this regard, a majority of our contracts would be excluded from the scope of this new guidance. In April 2015, this guidance was deferred by one year and results in the new revenue standard becoming effective for interim and annual reporting periods ending after December 15, 2017. The association is in the process of reviewing contracts to determine the effect, if any, on the association’s financial condition or its results of operations and believes there are not any at this time to be disclosed.

The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries. The preparation of these consolidated financial statements requires the use of management’s estimates. The results for the quarter ended June 30, 2015, are not necessarily indicative of the results to be expected for the year ended December 31, 2015. Certain amounts in the prior period’s financial statements may have been reclassified to conform to current financial statement presentation.

NOTE 2 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

A summary of loans follows:

Loan Type	**June 30, 2015 Amount**	December 31, 2014 Amount
Production agriculture:		
Real estate mortgage	**$ 1,163,098,953**	$1,126,484,993
Production and intermediate term	**116,449,648**	114,955,076
Agribusiness:		
Loans to cooperatives	**2,750,869**	1,388,174
Processing and marketing	**71,453,874**	60,054,115
Farm-related business	**14,751,953**	14,501,674
Communication	**5,457,959**	4,972,189
Energy	**56,672,663**	55,828,771
Water and waste water	**1,286,874**	1,586,580
Rural residential real estate	**19,636,438**	20,536,455
Total	**$ 1,451,559,231**	$1,400,308,027

The association purchases or sells participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration regulations. The following table presents information regarding the balances of participations purchased and sold at June 30, 2015:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 28,947,426	$ 23,817,268	$ -	$ -	$ 28,947,426	$ 23,817,268
Production and intermediate term	44,953,787	-	-	-	44,953,787	-
Agribusiness	80,230,410	-	-	-	80,230,410	-
Communication	5,457,958	-	-	-	5,457,958	-
Energy	56,672,663	-	-	-	56,672,663	-
Water and waste water	1,286,874	-	-	-	1,286,874	-
Total	$ 217,549,118	$ 23,817,268	$ -	$ -	$ 217,549,118	$ 23,817,268

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 $17,028,791 and $10,625,606 at June 30, 2015, and December 31, 2014, respectively.

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

	June 30, 2015	December 31, 2014
Nonaccrual loans:		
Real estate mortgage	**$ 6,965,421**	$ 9,498,629
Production and intermediate term	**89,832**	498,067
Agribusiness	**5,397**	20,957
Rural residential real estate	**154,774**	205,564
Total nonaccrual loans	**7,215,424**	10,223,217
Accruing restructured loans:		
Real estate mortgage	**198,429**	198,562
Production and intermediate term	**7,328**	10,059
Total accruing restructured loans	**205,757**	208,621
Total nonperforming loans	**7,421,181**	10,431,838
Other property owned	**196,886**	201,363
Total nonperforming assets	**$ 7,618,067**	$10,633,201

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

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

The following table shows loans and related accrued interest classified under the Uniform Loan Classification System as a percentage of total loans and related accrued interest receivable by loan type as of:

	June 30, 2015	December 31, 2014
Real estate mortgage		
Acceptable	**97%**	96%
OAEM	**1%**	2%
Substandard/doubtful	**2%**	2%
	100%	100%
Production and intermediate term		
Acceptable	**100%**	99%
OAEM	**0%**	1%
Substandard/doubtful	**0%**	0%
	100%	100%
Agribusiness		
Acceptable	**100%**	100%
OAEM	**0%**	0%
Substandard/doubtful	**0%**	0%
	100%	100%
Energy and water/waste water		
Acceptable	**100%**	100%
OAEM	**0%**	0%
Substandard/doubtful	**0%**	0%
	100%	100%
Communication		
Acceptable	**80%**	76%
OAEM	**0%**	0%
Substandard/doubtful	**20%**	24%
	100%	100%
Rural residential real estate		
Acceptable	**93%**	93%
OAEM	**1%**	1%
Substandard/doubtful	**6%**	6%
	100%	100%
Total loans		
Acceptable	**97%**	96%
OAEM	**1%**	2%
Substandard/doubtful	**2%**	2%
	100%	100%

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

June 30, 2015	**30-89 Days Past Due**	**90 Days or More Past Due**	**Total Past Due**	**Not Past Due or Less Than 30 Days Past Due**	**Total Loans**
Real estate mortgage	**$ 435,267**	**$ 502,070**	**$ 937,337**	**$ 1,170,806,296**	**$ 1,171,743,633**
Production and intermediate term	**26,772**	**67,040**	**93,812**	**116,975,191**	**117,069,003**
Loans to cooperatives	**-**	**-**	**-**	**2,759,891**	**2,759,891**
Processing and marketing	**-**	**-**	**-**	**71,481,698**	**71,481,698**
Farm-related business	**-**	**5,397**	**5,397**	**14,780,328**	**14,785,725**
Communication	**-**	**-**	**-**	**5,458,830**	**5,458,830**
Energy	**-**	**-**	**-**	**56,840,051**	**56,840,051**
Water and waste water	**-**	**-**	**-**	**1,287,520**	**1,287,520**
Rural residential real estate	**144,452**	**-**	**144,452**	**19,553,457**	**19,697,909**
Total	**$ 606,491**	**$ 574,507**	**$ 1,180,998**	**$ 1,459,943,262**	**$ 1,461,124,260**

December 31, 2014	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	$ 674,941	$ 1,240,304	$ 1,915,245	$ 1,131,103,650	$ 1,133,018,895
Production and intermediate term	29,848	466,399	496,247	114,853,903	115,350,150
Loans to cooperatives	-	-	-	1,393,775	1,393,775
Processing and marketing	-	-	-	60,091,347	60,091,347
Farm-related business	-	20,957	20,957	14,505,189	14,526,146
Communication	-	-	-	4,973,124	4,973,124
Energy	-	-	-	56,004,154	56,004,154
Water and waste water	-	-	-	1,587,476	1,587,476
Rural residential real estate	103,686	-	103,686	20,488,257	20,591,943
Total	$ 808,475	$ 1,727,660	$ 2,536,135	$ 1,405,000,875	$ 1,407,537,010

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 June 30, 2015, the total recorded investment of troubled debt restructured loans was $4,711,714, including $4,505,597 classified as nonaccrual and $205,757 classified as accrual, with specific allowance for loan losses of $933,893. The specific allowance is determined quarterly through a net realizable value analysis for each individual loan asset. As of June 30, 2015, 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, 2014.

There were no loans with troubled debt restructuring designation that occurred during the three and six months ended June 30, 2015 and 2014.

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 ending June 30, 2015.

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 June 30, 2015, 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:

	Loans Modified as TDRs		TDRs in Nonaccrual Status*	
	June 30, 2015	December 31, 2014	June 30, 2015	December 31, 2014
Real estate mortgage	$ 198,429	$ 198,562	$ 4,505,597	$ 5,241,978
Production and intermediate term	7,328	10,059	-	-
Total	$ 205,757	$ 208,621	$ 4,505,597	$ 5,241,978

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

Additional impaired loan information is as follows:

	June 30, 2015			December 31, 2014		
	Recorded Investment	**Unpaid Principal Balance[a]**	**Related Allowance**	Recorded Investment	Unpaid Principal Balance[a]	Related Allowance
Impaired loans with a related allowance for credit losses:						
Real estate mortgage	**$ 4,758,134**	**$ 4,844,059**	**$ 994,525**	$ 5,881,649	$ 5,995,724	$ 1,257,660
Production and intermediate term	**34,953**	**34,954**	**18,401**	62,705	456,768	53,655
Farm-related business	**-**	**-**	**-**	-	-	-
Energy and water/waste water	**-**	**-**	**-**	-	-	-
Rural residential real estate	**-**	**-**	**-**	-	-	-
Total	**$ 4,793,087**	**$ 4,879,013**	**$ 1,012,926**	$ 5,944,354	$ 6,452,492	$ 1,311,315
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	**$ 2,405,717**	**$ 2,429,954**	**$ -**	$ 3,815,542	$ 3,900,613	$ -
Production and intermediate term	**62,206**	**483,965**	**-**	445,421	500,619	-
Farm-related business	**5,397**	**5,397**	**-**	20,957	20,957	-
Energy and water/waste water	**-**	**1,706,959**	**-**	-	-	-
Rural residential real estate	**154,774**	**154,968**	**-**	205,564	205,758	-
Total	**$ 2,628,094**	**$ 4,781,243**	**$ -**	$ 4,487,484	$ 4,627,947	$ -
Total impaired loans:						
Real estate mortgage	**$ 7,163,851**	**$ 7,274,013**	**$ 994,525**	$ 9,697,191	$ 9,896,337	$ 1,257,660
Production and intermediate term	**97,159**	**518,919**	**18,401**	508,126	957,387	53,655
Farm-related business	**5,397**	**5,397**	**-**	20,957	20,957	-
Energy and water/waste water	**-**	**1,706,959**	**-**	-	-	-
Rural residential real estate	**154,774**	**154,968**	**-**	205,564	205,758	-
Total	**$ 7,421,181**	**$ 9,660,256**	**$ 1,012,926**	$ 10,431,838	$ 11,080,439	$ 1,311,315

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

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 March 31, 2015	$ 4,897,261	$ 261,187	$ 183,721	$ 99,341	$ 116,070	$ 147,401	$ 5,704,981
Charge-offs	-	-	-	-	-	-	-
Recoveries	-	8,074	138,227	-	-	3,478	149,779
Provision for loan losses	(213,911)	(5,610)	(120,814)	(3,085)	(11,780)	(18,498)	(373,698)
Other	(3,516)	(3,745)	(8,944)	(750)	1,860	-	(15,095)
Balance at June 30, 2015	$ 4,679,834	$ 259,906	$ 192,190	$ 95,506	$ 106,150	$ 132,381	$ 5,465,967
Balance at December 31, 2014	$ 5,026,771	$ 218,384	$ 164,934	$ 26,522	$ 96,650	$ 149,949	$ 5,683,210
Charge-offs	(171,007)	-	-	-	-	-	(171,007)
Recoveries	66,085	28,960	199,840	-	-	3,478	298,363
Provision for loan losses	(238,598)	(5,180)	(180,091)	69,734	6,025	(21,046)	(369,156)
Other	(3,417)	17,742	7,507	(750)	3,475	-	24,557
Balance at June 30, 2015	$ 4,679,834	$ 259,906	$ 192,190	$ 95,506	$ 106,150	$ 132,381	$ 5,465,967
Ending Balance:							
Individually evaluated for impairment	$ 981,773	$ -	$ -	$ -	$ -	$ -	$ 981,773
Collectively evaluated for impairment	3,685,310	241,504	192,190	95,506	106,150	132,381	4,453,041
Loans acquired with deteriorated credit quality	12,751	18,402	-	-	-	-	31,153
Balance at June 30, 2015	$ 4,679,834	$ 259,906	$ 192,190	$ 95,506	$ 106,150	$ 132,381	$ 5,465,967

	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 June 30, 2015	$ 1,171,743,634	$ 117,069,002	$89,027,315	$ 5,458,830	$ 58,127,570	$ 19,697,909	$ 1,461,124,260
Individually evaluated for impairment	$ 6,389,502	$ 59,864	$ 5,397	$ -	$ -	$ 154,774	$ 6,609,537
Collectively evaluated for impairment	$ 1,164,580,632	$ 116,971,867	$89,021,918	$ 5,458,830	$ 58,127,570	$ 19,543,135	$ 1,453,703,952
Loans acquired with deteriorated credit quality	$ 773,500	$ 37,271	$ -	$ -	$ -	$ -	$ 810,771

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:

June 30, 2015	**Before Tax**	**Deferred Tax**	**Net of Tax**
Nonpension postretirement benefits	**$ 18,714**	**$ -**	**$ 18,714**
Total	**$ 18,714**	**$ -**	**$ 18,714**

June 30, 2014	Before Tax	Deferred Tax	Net of Tax
Nonpension postretirement benefits	$ (182,332)	$ -	$ (182,332)
Total	$ (182,332)	$ -	$ (182,332)

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 six months ended June 30, 2015:

	2015	2014
Accumulated other comprehensive income (loss) at January 1	**$ (1,335,657)**	$ (364,664)
Amortization of prior service (credit) costs included in salaries and employee benefits	**80,150**	141,019
Amortization of actuarial (gain) loss included in salaries and employee benefits	**(61,436)**	(323,351)
Other comprehensive income (loss), net of tax	**18,714**	(182,332)
Accumulated other comprehensive income at June 30	**$ (1,316,943)**	$ (546,996)

NOTE 4 — INCOME TAXES:

Lone Star, ACA conducts its business activities through two wholly-owned subsidiaries. Long-term mortgage lending activities are conducted through a wholly-owned FLCA subsidiary which is exempt from federal and state income tax. Short- and intermediate-term lending activities are conducted through a wholly-owned PCA subsidiary. The PCA subsidiary and the ACA holding company are subject to income tax. Lone Star, ACA operates as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, Lone Star, ACA can exclude from taxable income amounts distributed as qualified patronage dividends in the form of cash, stock or allocated retained earnings. Provisions for income taxes are made only on those taxable earnings that will not be distributed as qualified patronage dividends. Deferred taxes are recorded at the tax effect of all temporary differences based on the assumption that such temporary differences are retained by the institution and will therefore impact future tax payments. A valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (more than 50 percent probability), based on management's estimate, that they will not be realized.

NOTE 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 2014 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 June 30, 2015 and December 31, 2014 only include nonqualified benefit trusts. This Level 1 asset was $93,215 and $188,971 at June 30, 2015 and December 31, 2014, respectively.

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

June 30, 2015	**Fair Value Measurement Using**			**Total Fair**
	Level 1	**Level 2**	**Level 3**	**Value**
Assets:				
Loans*	**$ -**	**$ -**	**$ 3,780,161**	**$ 3,780,161**
Other property owned	**-**	**-**	**196,886**	**196,886**

December 31, 2014	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Loans*	$ -	$ -	$ 4,633,039	$ 4,633,039
Other property owned	-	-	201,363	201,363

*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 2014 Annual Report to Stockholders, authoritative guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following represent a brief summary of the valuation techniques used for the association’s assets and liabilities. For a more complete description, see Notes to the 2014 Annual Report to Stockholders.

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 six months ended June 30:

	Other Benefits	
	2015	2014
Service cost	**$ 39,100**	$ 32,356
Interest cost	**99,499**	61,639
Amortization of prior service (credits) costs	**(60,868)**	(60,868)
Amortization of net actuarial (gain) loss	**21,095**	52,032
Net periodic benefit cost	**$ 98,826**	$ 85,159

The association's liability for the unfunded accumulated obligation for these benefits at June 30, 2015, was $4,139,389 and is included in "Other Liabilities" in the balance sheet.

The structure of the district's defined benefit pension plan is characterized as multiemployer since the assets, liabilities and cost of the plan are not segregated or separately accounted for by participating employers (bank and associations). The association recognizes its amortized annual contributions to the plan as an expense. The association previously disclosed in its financial statements for the year ended December 31, 2014, that it expected to contribute $170,138 to the district's defined benefit pension plan in 2015. As of June 30, 2015, $85,069 of contributions have been made. The association presently anticipates contributing an additional $85,069 to fund the defined benefit pension plan in 2015 for a total of $170,138.

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 August 7, 2015, which is the date the financial statements were issued. There are no other significant events requiring disclosure as of August 7, 2015.