

# ALABAMA FARM CREDIT, ACA

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## 2015 Quarterly Report First Quarter



**For the Quarter Ended March 31, 2015**

## REPORT OF MANAGEMENT

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



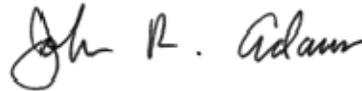
K. Ben Gore, Chief Executive Officer/President  
*May 8, 2015*



Loyd Rutherford, Chairman, Board of Directors  
*May 8, 2015*



Karri H. Sumrall, Chief Financial Officer/Ex. Vice President  
*May 8, 2015*



John R. Adams, CPA, Chairman, Audit Committee  
*May 8, 2015*

**ALABAMA FARM CREDIT, ACA  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

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

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

**Significant Events:**

In January 2015, the Association approved a resolution for a \$6,455,160 patronage distribution to its stockholders. The distribution was paid in March 2015. The Association was able to return these funds to its members due to strong earnings over the past three years.

**Loan Portfolio:**

The Association makes and services loans to farmers, ranchers, rural homeowners and certain farm-related businesses. The Association's loan volume consists of long-term farm mortgage loans, production and intermediate term loans, and farm-related business loans. These loans are available to eligible borrowers with competitive fixed, adjustable and indexed-based interest rates with loan maturities ranging up to 30 years. Loans services by the Association offer several installment payment cycles, the timing of which usually coincides with seasonal cash-flow capabilities of the borrower.

Total loans outstanding at March 31, 2015, including nonaccrual loans and sales contracts, were \$571,362,740 compared to \$560,348,482 at December 31, 2014, reflecting an increase of 2.0 percent.

	<b>March 31, 2015</b>	December 31, 2014
Acceptable	<b>97.0%</b>	97.2%
OAEM	<b>2.1%</b>	2.0%
Substandard/doubtful	<b>0.9%</b>	0.8%
	<b>100.0%</b>	100.0%

The Association's largest commodity concentration in its loan portfolio continues to be poultry, which is approximately 49.3 percent. The overall industry is presently stable to improving with markets both in the states and overseas showing signs of improvement. This improvement has resulted in normal egg and chick placements. Several integrators are offering new grower contracts in order to meet their market demands, with egg and chick placements in Alabama increasing weekly. Producers are recovering from dealing with higher prices for utilities, gas, electricity and water that put downward pressure on the growers' net income during the colder months in the first quarter. Most all of the integrators have plans in place to continue expanding their operations during 2015. One integrator, Mar-Jac, located in the northwest portion of the Association's territory, has approved plans to construct a new feed mill and proposed to add 100-125 new poultry houses in the area. This should have a positive impact on the Association's new loan volume as demand for loans from contract growers increases to meet this proposed expansion. Several integrators are offering new house construction incentives to encourage producers to expand their current operations or for new producers to establish new poultry farms. Layout times continue to have normal ranges and stocking densities have stabilized. Feed costs to the integrators should continue to improve based on projected futures for feed (lower costs for corn showing in the markets now). Poultry projections should remain relatively stable to improving throughout 2015. This is due primarily to improvement with export markets along with higher prices for pork and beef causing more global demand for less expensive poultry.

Overall land values have remained fairly stable and exhibited only slight declines in limited areas of the Association's territory, primarily recreational and cut-over tracts. The agricultural economy, in general for the area has remained stable to improving. The Association's territory has had an extremely large amount of moisture during the first quarter, which has resulted in delayed planting of field crops (i.e. corn, soybeans, cotton). This should improve over the next month or so, allowing planting to resume in time for crops to mature.

With a favorable lending package, we are prepared to experience steady growth in 2015. The probability of higher input costs, questions about future commodity supplies and prices, the implications of the new Farm Bill, uncertainties of the export markets and unfolding world events increase the level of financial risk in the farming sector and, likewise, the level of credit risk to those financial institutions providing credit to that sector. Given the conditions outlined herein, the quality of the loan portfolio is expected to remain constant throughout 2015.

### Risk Exposure:

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

	March 31, 2015		December 31, 2014	
	Amount	%	Amount	%
Nonaccrual	\$ 1,085,247	31.9%	\$ 2,691,423	51.9%
Formally restructured	996,921	29.2%	999,367	19.2%
Other property owned, net	1,327,411	38.9%	1,502,644	28.9%
Total	\$ 3,409,579	100.0%	\$ 5,193,434	100.0%

High-risk assets decreased by \$1,783,845 or 34.3 percent primarily due to the decrease in nonaccrual volume. Since December 31, 2014, the Association has moved one loan totaling \$167,152 to nonaccrual status due to delinquency and cash flow issues. The Association has moved eight loans totaling \$777,133 back to accrual status. Nonaccrual loans as a percentage of total loans outstanding were 0.2 percent at March 31, 2015, compared to 0.4 percent at December 31, 2014. During 2015, the Association acquired one property totaling \$667,000, disposed of two properties totaling \$782,483 and wrote down two properties by \$59,750 based on current appraisals. At March 31, 2015, the Association held four properties totaling \$1,327,411, which consisted of approximately 107 acres of land and an industrial ethanol facility. Management continues to be alert to portfolio trends and has attempted to identify and report problem loans as quickly as possible. Management strives to implement proactive steps and allocate resources to work with distressed borrowers to either work through temporary repayment problems or to orderly liquidate collateral to repay the loan when the borrower's operation is no longer viable.

Impaired loans consist of all high-risk assets except other property owned. At March 31, 2015 and December 31, 2014, loans that were considered impaired were \$2,082,168 and \$3,690,790, respectively, representing 0.4 percent and 0.7 percent of loan volume, respectively. The Association recorded \$957 in recoveries and \$111,104 in charge-offs for the quarter ended March 31, 2015, and \$59,074 in charge-offs for the same period in 2014. The Association's allowance for loan losses was 0.6 percent and 0.7 percent of total loans outstanding as of March 31, 2015, and December 31, 2014, respectively.

The Association, in the normal course of business, has participation loans with other Farm Credit associations and Farm Credit Banks. The Association holds interests in loans with geographic or industry related risks that have warranted risk rating reclassifications to nonaccrual status. Performance of these loans remains uncertain even though management constantly monitors these accounts.

Counterparty risk is continually monitored by management of the Association. The Association's primary counterparty risk comes from the poultry integrators to which its borrowers are associated. Because the Association's portfolio has approximately a 49.6 percent concentration in poultry, it mitigates its inherent risks with poultry and the integrators by heavy utilization of government guarantees. Also, the Association's lending territory has multiple integrators which would minimize the risk of counterparty failure or lack of performance. Management analyzes the financial position and performance of these integrators by regularly gathering updated financials and other reports that are made available to the public.

As disclosed in the Association's 2014 Annual Report, it is management's assertion that the allowance coverage is adequate based on historical losses, portfolio stress testing, risk analysis, mitigation of losses due to having first lien real estate with minimal to no price appreciation and having approximately \$88.7 million or 15.5 percent of its portfolio government guaranteed at March 31, 2015. Management continuously monitors high-risk assets in an effort to reduce their impact on the Association and will continue to work with all of the Association's high-risk borrowers to receive full payment on the debt. Except for the relationship between installment due date and seasonal cash-flow capabilities of the borrower, the Association is not affected by any seasonal characteristics. The factors affecting the operations of the Association are the same factors that would affect any agricultural lender.

## Results of Operations:

The Association had net income of \$3,474,389 for the three months ended March 31, 2015, as compared to net income of \$3,112,462 for the same period in 2014, reflecting an increase of 11.6 percent. Net interest income was \$4,752,046 for the three months ended March 31, 2015, compared to \$4,284,398 for the same period in 2014, reflecting an increase of 10.9 percent. The primary reason for this increase is due to the increase in average balance of loans outstanding, offset by a small increase in the interest rate on the Association's note payable to the Bank.

	<b>Three months ended:</b>			
	<b>March 31, 2015</b>		<b>March 31, 2014</b>	
	<b>Average Balance</b>	<b>Interest</b>	<b>Average Balance</b>	<b>Interest</b>
Loans	\$ 567,709,192	\$ 7,082,797	\$ 492,978,903	\$ 6,238,918
Interest-bearing liabilities	482,710,684	2,330,751	415,144,323	1,954,520
Impact of capital	<u>\$ 84,998,508</u>		<u>\$ 77,834,580</u>	
Net interest income		<u>\$ 4,752,046</u>		<u>\$ 4,284,398</u>
	<b>2015</b>		<b>2014</b>	
	<b>Average Yield</b>		<b>Average Yield</b>	
Yield on loans/interest-earning assets	5.1%		5.1%	
Cost of interest-bearing liabilities	2.0%		1.9%	
Interest rate spread	3.1%		3.2%	
Net interest income as a percentage of average earning assets	3.4%		3.5%	

	<b>Three months ended:</b>		
	<b>March 31, 2015 vs. March 31, 2014</b>		
	<b>Increase (decrease) due to</b>		
	<b>Volume</b>	<b>Rate</b>	<b>Total</b>
Interest income - loans	\$ 945,748	\$ (101,869)	\$ 843,879
Interest expense	318,110	58,121	376,231
Net interest income	<u>\$ 627,638</u>	<u>\$ (159,990)</u>	<u>\$ 467,648</u>

Interest income for the three months ended March 31, 2015, increased by \$843,879, or 13.5 percent, from the same period of 2014, primarily due to an increase in average loan volume. Interest expense for the three months ended March 31, 2015, increased by \$376,231, or 19.3 percent, from the same period of 2014 due to an increase in average debt volume and an increase in interest rates. Average loan volume for the first quarter of 2015 was \$567,709,192, compared to \$492,978,903 in the first quarter of 2014. The average net interest rate spread on the loan portfolio for the first quarter of 2015 was 3.1 percent, compared to 3.2 percent in the first quarter of 2014.

Noninterest income for the three months ended March 31, 2015 decreased by \$33,927, or 6.0 percent, as compared to the same period in 2014. The decrease is primarily due to the Association recording a gain on other property owned during the same period in 2014 that did not occur in 2015. The decrease is offset by an increase in patronage income from the Farm Credit Bank of Texas and a gain on the sale of Association-owned equipment compared to the same period in 2014.

Noninterest expenses for the three ended March 31, 2015 increased by \$249,182, or 14.9 percent, respectively, as compared to the same period in 2014. The increase was due primarily to increases in salaries and employee benefits, Insurance Fund premiums, advertising, public and member relations, purchase services and a recorded loss on the sale of other property owned. The increase in salaries and employee benefits was due to the Association accruing the incentive bonus quarterly in 2015 as compared to the same period in 2014. The increase in Insurance Fund premiums was due to a rate increase by Farm Credit System Insurance Corporation while the increase in advertising, public and member relations was due to timing of purchases as compared to the same

period in 2014. The increase in purchased services was due to the legal expenses and contract labor for the three months ended March 31, 2015 that were not incurred for the same period in 2014. Additionally, the Association recorded a loss on the sale of other property owned as compared to a gain in the same period of 2014 as described above.

The Association's annualized return on average assets for the three months ended March 31, 2015, was 2.4 percent compared to 2.5 percent for the same period in 2014. The Association's annualized return on average equity for the three months ended March 31, 2015, was 15.4 percent, compared to 14.3 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 System-wide obligations and with lendable equity. The following schedule summarizes the Association's borrowings.

	<b>March 31, 2015</b>	December 31, 2014
Note payable to the bank	<b>\$ 489,165,121</b>	\$ 474,969,129
Accrued interest on note payable	<b>808,914</b>	791,299
Total	<b><u>\$ 489,974,035</u></b>	<b><u>\$ 475,760,428</u></b>

The Association operates under a general financing agreement (GFA) with the bank. The current GFA is effective through September 30, 2015 and is expected to be renewed at that time. The primary source of liquidity and funding for the Association is a direct loan from the bank. The outstanding balance of \$489,165,121 as of March 31, 2015, is recorded as a liability on the Association's balance sheet. The note carried a weighted average interest rate of 1.9 percent at March 31, 2015. The indebtedness is collateralized by a pledge of substantially all of the Association's assets to the Bank and is governed by the general financing agreement. The increase in note payable to the Bank and related accrued interest payable since December 31, 2014, is due to the Association's increase loan portfolio growth. The Association's own funds, which represent the amount of the Association's loan portfolio funded by the Association's equity, were \$84,620,042 at March 31, 2015. The maximum amount the Association may borrow from the Bank as of March 31, 2015, was \$574,095,969 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. As of March 31, 2014, the Association was not subject to remedies associated with covenants in the general financing agreement.

#### **Capital Resources:**

The Association's capital position increased by \$3,528,362 at March 31, 2015, compared to December 31, 2014. The Association's debt as a percentage of members' equity was 5.3:1 as of March 31, 2015, compared to 5.4:1 as of December 31, 2014.

Under regulations governing minimum permanent capital adequacy and other capitalization issues, the Association is required to maintain a minimum adjusted permanent capital of 7.0 percent of risk-adjusted assets as defined by the FCA. The Association's permanent capital ratio at March 31, 2015, was 16.4 percent, which is in compliance with the FCA's minimum permanent capital standard. The Association's core surplus ratio and total surplus ratio at March 31, 2015, were 15.9 and 15.9 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 a potential disclosure for this recent accounting pronouncement.

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

#### **Regulatory Matters:**

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

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

The public comment period ended on February 16, 2015.

#### **Relationship With the Farm Credit Bank of Texas:**

The Association’s financial condition may be impacted by factors that affect the bank. The financial condition and results of operations of the Bank may materially affect the stockholder’s investment in the Association. The Management’s Discussion and Analysis and Notes to Financial Statements contained in the 2014 Annual Report of Alabama Farm Credit, ACA more fully describe the Association’s relationship with the bank.

The Texas Farm Credit District’s (district) annual and quarterly stockholder reports, as well as those of the bank, are available free of charge, upon request. These reports can be obtained by writing to Farm Credit Bank of Texas, The Ag Agency, P.O. Box 202590, Austin, Texas 78720, or by calling (512) 483-9204. Copies of the district’s quarterly and annual stockholder reports also can be requested by e-mail at [fcb@farmcreditbank.com](mailto: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](http://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 Alabama Farm Credit, ACA, P.O. Box 639, Cullman, Alabama 35056 or calling (256) 737-7128. Copies of the Association’s quarterly stockholder reports can also be requested by emailing [karri.sumrall@alabamafarmcredit.com](mailto:karri.sumrall@alabamafarmcredit.com) or can be obtained on its website at [www.alabamafarmcredit.com](http://www.alabamafarmcredit.com) 40 days after quarter end. The Association’s annual stockholder report is available on its website at [www.alabamafarmcredit.com](http://www.alabamafarmcredit.com) 75 days after the fiscal year end. Copies of the Association’s annual stockholder report can also be requested 90 days after the fiscal year end.

**ALABAMA FARM CREDIT, ACA**  
**CONSOLIDATED BALANCE SHEET**

	<b>March 31, 2015 (unaudited)</b>	<b>December 31, 2014</b>
<b><u>ASSETS</u></b>		
Cash	\$ 41,655	\$ 85,367
Loans	571,362,740	560,348,482
Less: allowance for loan losses	3,547,384	3,775,210
Net loans	<u>567,815,356</u>	<u>556,573,272</u>
Accrued interest receivable	6,782,672	5,597,281
Investment in and receivable from the Farm Credit Bank of Texas:		
Capital stock	8,772,450	8,772,450
Other	836,745	209,493
Other property owned, net	1,327,411	1,502,644
Premises and equipment, net	3,519,761	3,622,066
Other assets	1,033,486	516,011
Total assets	<u><u>\$ 590,129,536</u></u>	<u><u>\$ 576,878,584</u></u>
<b><u>LIABILITIES</u></b>		
Note payable to the Farm Credit Bank of Texas	\$ 489,165,121	\$ 474,969,129
Accrued interest payable	808,914	791,299
Drafts outstanding	1,587,838	1,192,048
Patronage distributions payable	349	6,455,390
Other liabilities	5,115,335	3,547,101
Total liabilities	<u><u>496,677,557</u></u>	<u><u>486,954,967</u></u>
<b><u>MEMBERS' EQUITY</u></b>		
Capital stock and participation certificates	2,313,985	2,263,390
Unallocated retained earnings	91,673,897	88,199,508
Accumulated other comprehensive loss	(535,903)	(539,281)
Total members' equity	<u><u>93,451,979</u></u>	<u><u>89,923,617</u></u>
Total liabilities and members' equity	<u><u>\$ 590,129,536</u></u>	<u><u>\$ 576,878,584</u></u>

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

**ALABAMA FARM CREDIT, ACA**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(unaudited)

	Quarter Ended March 31,	
	2015	2014
<b><u>INTEREST INCOME</u></b>		
Loans	\$ 7,082,797	\$ 6,238,918
<b><u>INTEREST EXPENSE</u></b>		
Note payable to the Farm Credit Bank of Texas	2,330,751	1,954,520
Net interest income	4,752,046	4,284,398
<b><u>(REVERSAL OF) PROVISION FOR LOAN LOSSES</u></b>	<b><u>(119,893)</u></b>	<b><u>57,495</u></b>
Net interest income after (reversal of) provision for loan losses	<b><u>4,871,939</u></b>	<b><u>4,226,903</u></b>
<b><u>NONINTEREST INCOME</u></b>		
Income from the Farm Credit Bank of Texas:		
Patronage income	397,331	341,904
Loan fees	34,734	35,709
Financially related services income	4,875	5,469
Gain on other property owned, net	-	129,252
Gain on sale of premises and equipment, net	28,549	-
Other noninterest income	63,818	50,900
Total noninterest income	<b><u>529,307</u></b>	<b><u>563,234</u></b>
<b><u>NONINTEREST EXPENSES</u></b>		
Salaries and employee benefits	1,140,143	1,022,338
Directors' expense	69,620	57,977
Purchased services	119,377	105,631
Travel	68,027	58,280
Occupancy and equipment	89,164	90,992
Communications	29,666	29,605
Advertising	53,655	40,278
Public and member relations	62,894	45,182
Supervisory and exam expense	39,783	34,553
Insurance Fund premiums	126,936	93,759
Business insurance	66,038	63,831
Loss on other property owned, net	23,733	-
Other noninterest expense	37,821	35,249
Total noninterest expenses	<b><u>1,926,857</u></b>	<b><u>1,677,675</u></b>
<b><u>NET INCOME</u></b>	<b><u>3,474,389</u></b>	<b><u>3,112,462</u></b>
Other comprehensive income (loss):		
Change in postretirement benefit plans	3,378	(8,307)
Other comprehensive income (loss), net of tax	3,378	(8,307)
<b><u>COMPREHENSIVE INCOME</u></b>	<b><u>\$ 3,477,767</u></b>	<b><u>\$ 3,104,155</u></b>

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

**ALABAMA FARM CREDIT, ACA**

**CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY**  
(unaudited)

	<b>Capital Stock/ Participation Certificates</b>	<b>Retained Earnings Unallocated</b>	<b>Accumulated Other Comprehensive Income (Loss)</b>	<b>Total Members' Equity</b>
Balance at December 31, 2013	\$ 2,088,100	\$ 82,579,500	\$ (89,281)	\$ 84,578,319
Comprehensive income	-	3,112,463	(8,307)	3,104,156
Capital stock/participation certificates issued	78,455	-	-	78,455
Capital stock/participation certificates retired	(38,965)	-	-	(38,965)
<b>Balance at March 31, 2014</b>	<b><u>\$ 2,127,590</u></b>	<b><u>\$ 85,691,963</u></b>	<b><u>\$ (97,588)</u></b>	<b><u>\$ 87,721,965</u></b>
Balance at December 31, 2014	\$ 2,263,390	\$ 88,199,508	\$ (539,281)	\$ 89,923,617
Comprehensive income	-	3,474,389	3,378	3,477,767
Capital stock/participation certificates issued	98,660	-	-	98,660
Capital stock/participation certificates retired	(48,065)	-	-	(48,065)
<b>Balance at March 31, 2015</b>	<b><u>\$ 2,313,985</u></b>	<b><u>\$ 91,673,897</u></b>	<b><u>\$ (535,903)</u></b>	<b><u>\$ 93,451,979</u></b>

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

**ALABAMA FARM CREDIT, ACA**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(UNAUDITED)

**NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:**

The Alabama Farm Credit, ACA (Agricultural Credit Association), referred to as the Association, is a member-owned cooperative that provides credit and credit-related services to or for the benefit of eligible borrowers/stockholders for qualified agricultural purposes. The Association serves the counties of Blount, Calhoun, Cherokee, Clay, Cleburne, Colbert, Cullman, DeKalb, Etowah, Fayette, Franklin, Jackson, Jefferson, Lamar, Lauderdale, Lawrence, Limestone, Madison, Marion, Marshall, Morgan, Randolph, Shelby, St. Clair, Talladega, Walker and Winston in the state of Alabama. The Association is a lending institution of the Farm Credit System (the System), which was established by Acts of Congress to meet the needs of American agriculture.

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. (GAAP) for interim financial information. Accordingly, they do not include all of the disclosures required by GAAP for annual financial statements and should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2014, as contained in the 2014 Annual Report to Stockholders.

In the opinion of management, the accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform to 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 to GAAP and prevailing practices within the banking industry.

In August 2014, the Financial Accounting Standards Board (FASB) issued guidance entitled “Presentation of Financial Statements—Going Concern.” The guidance governs management’s responsibility to evaluate whether there is substantial doubt about an entity’s ability to continue as a going concern and to provide related footnote disclosures. This guidance requires management to perform interim and annual assessments of an entity’s ability to continue as a going concern within one year after the date the financial statements are issued or within one year after the financial statements are available to be issued, when applicable. Substantial doubt exists if it is probable that the entity will be unable to meet its obligations for the assessed period. This guidance becomes effective for interim and annual periods ending after December 15, 2016, and early application is permitted. Management will be required to make its initial assessment as of December 31, 2016. The Association is currently evaluating a potential disclosure for this recent accounting pronouncement.

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

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

## NOTE 2 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

A summary of loans follows:

Loan Type	March 31, 2015 Amount	December 31, 2014 Amount
Production agriculture:		
Real estate mortgage	\$ 520,427,915	\$ 510,376,979
Production and intermediate term	32,055,917	32,612,212
Agribusiness:		
Processing and marketing	7,543,513	6,340,714
Farm-related business	278,628	292,201
Communication	346,041	345,991
Energy	683,416	844,168
Water and waste water	231,289	235,480
Rural residential real estate	9,796,021	9,300,737
Total	\$ 571,362,740	\$ 560,348,482

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

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
	Real estate mortgage	\$ 758,838	\$ -	\$ -	\$ -	\$ 758,838
Production and intermediate term	2,252,205	-	-	-	2,252,205	-
Agribusiness	7,543,513	-	-	-	7,543,513	-
Communication	346,041	-	-	-	346,041	-
Energy	683,416	-	-	-	683,416	-
Water and waste water	231,289	-	-	-	231,289	-
Total	\$ 11,815,302	\$ -	\$ -	\$ -	\$ 11,815,302	\$ -

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 \$27,296,459 and \$24,474,430 at March 31, 2015, and December 31, 2014, respectively. All balances of ACPs were considered restricted, therefore netted against loan balances, at March 31, 2015 and December 31, 2014.

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

	March 31, 2015	December 31, 2014
<b>Nonaccrual loans:</b>		
Real estate mortgage	\$ 1,085,247	\$ 2,679,530
Production and intermediate term	-	11,893
Total nonaccrual loans	1,085,247	2,691,423
<b>Accruing restructured loans:</b>		
Real estate mortgage	996,921	999,367
Total accruing restructured loans	996,921	999,367
Total nonperforming loans	2,082,168	3,690,790
Other property owned	1,327,411	1,502,644
Total nonperforming assets	\$ 3,409,579	\$ 5,193,434

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:

	<b>March 31, 2015</b>	December 31, 2014
Real estate mortgage		
Acceptable	96.9 %	97.1 %
OAEM	2.2	2.0
Substandard/doubtful	0.9	0.9
	<b>100.0</b>	100.0
Production and intermediate term		
Acceptable	97.4	97.7
OAEM	2.2	2.1
Substandard/doubtful	0.4	0.2
	<b>100.0</b>	100.0
Agribusiness		
Acceptable	100.0	-
OAEM	-	-
Substandard/doubtful	-	-
	<b>100.0</b>	-
Energy and water/waste water		
Acceptable	100.0	100.0
OAEM	-	-
Substandard/doubtful	-	-
	<b>100.0</b>	100.0
Communication		
Acceptable	100.0	100.0
OAEM	-	-
Substandard/doubtful	-	-
	<b>100.0</b>	100.0
Rural residential real estate		
Acceptable	99.9	100.0
OAEM	0.1	-
Substandard/doubtful	-	-
	<b>100.0</b>	100.0
Total loans		
Acceptable	97.0	97.2
OAEM	2.1	2.0
Substandard/doubtful	0.9	0.8
	<b>100.0 %</b>	100.0 %

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

<u>March 31, 2015</u>	<u>30-89 Days Past Due</u>	<u>90 Days or More Past Due</u>	<u>Total Past Due</u>	<u>Not Past Due or Less Than 30 Days Past Due</u>	<u>Total Loans</u>	<u>Recorded Investment &gt;90 Days and Accruing</u>
Real estate mortgage	\$ 620,289	\$ 588,087	\$ 1,208,376	\$ 525,448,713	\$ 526,657,089	\$ -
Production and intermediate term	-	-	-	32,573,024	32,573,024	-
Processing and marketing	-	-	-	7,549,193	7,549,193	-
Farm-related business	-	-	-	282,370	282,370	-
Communication	-	-	-	346,151	346,151	-
Energy	-	-	-	683,878	683,878	-
Water and waste water	-	-	-	231,433	231,433	-
Rural residential real estate	-	-	-	9,822,274	9,822,274	-
<b>Total</b>	<b>\$ 620,289</b>	<b>\$ 588,087</b>	<b>\$ 1,208,376</b>	<b>\$ 576,937,036</b>	<b>\$ 578,145,412</b>	<b>\$ -</b>

<u>December 31, 2014</u>	<u>30-89 Days Past Due</u>	<u>90 Days or More Past Due</u>	<u>Total Past Due</u>	<u>Not Past Due or Less Than 30 Days Past Due</u>	<u>Total Loans</u>	<u>Recorded Investment &gt;90 Days and Accruing</u>
Real estate mortgage	\$ 1,121,862	\$ 1,403,797	\$ 2,525,659	\$ 512,971,465	\$ 515,497,124	\$ -
Production and intermediate term	-	-	-	33,058,562	33,058,562	-
Processing and marketing	-	-	-	6,345,370	6,345,370	-
Farm-related business	-	-	-	293,096	293,096	-
Communication	-	-	-	346,101	346,101	-
Energy	-	-	-	844,240	844,240	-
Water and waste water	-	-	-	235,505	235,505	-
Rural residential real estate	-	-	-	9,325,765	9,325,765	-
<b>Total</b>	<b>\$ 1,121,862</b>	<b>\$ 1,403,797</b>	<b>\$ 2,525,659</b>	<b>\$ 563,420,104</b>	<b>\$ 565,945,763</b>	<b>\$ -</b>

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

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

As of March 31, 2015, the total recorded investment of troubled debt restructured loans was \$996,921, which were all classified as accrual and none classified as nonaccrual. There were no troubled debt restricted loans that held a specific allowance for loan losses as of March 31, 2015. There were no commitments to lend funds to borrowers whose loan terms have been modified in a troubled debt restructuring for the periods ended March 31, 2015 and December 31, 2014.

There were no troubled debt restructurings during the three months ended March 31, 2015. Loans formally restructured prior to January 1, 2015, were \$996,921.

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 charge-offs recorded at the modification date the quarter ending March 31, 2015.

The predominant form of concession granted for troubled debt restructuring includes the extension of terms due to cash flow constrictions preventing the borrower to fund the original payment due. At times, these terms might be offset with incremental payments, collateral or new borrower guarantees, in which case we assess all of the modified terms to determine if the overall modification qualifies as a troubled debt restructuring.

The Association did not have any loans that met the accounting criteria as a troubled debt restructuring and that occurred within the previous 12 months and for which there was a subsequent 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*	
	March 31, 2015	December 31, 2014	March 31, 2015	December 31, 2014
Real estate mortgage	\$ 996,921	\$ 999,367	\$ -	\$ -

Additional impaired loan information is as follows:

	March 31, 2015			December 31, 2014		
	Recorded Investment	Unpaid Principal Balance <sup>a</sup>	Related Allowance	Recorded Investment	Unpaid Principal Balance <sup>a</sup>	Related Allowance
Impaired loans with a related allowance for credit losses:						
Real estate mortgage	\$ 588,087	\$ 588,087	\$ 54,590	\$ 883,559	\$ 883,559	\$ 135,310
Total	\$ 588,087	\$ 588,087	\$ 54,590	\$ 883,559	\$ 883,559	\$ 135,310
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	\$ 1,494,083	\$ 1,924,827	\$ -	\$ 2,795,337	\$ 3,229,382	\$ -
Production and intermediate term	-	13,096	-	11,894	11,894	-
Total	\$ 1,494,083	\$ 1,937,923	\$ -	\$ 2,807,231	\$ 3,241,276	\$ -
Total impaired loans:						
Real estate mortgage	\$ 2,082,170	\$ 2,512,914	\$ 54,590	\$ 3,678,896	\$ 4,112,941	\$ 135,310
Production and intermediate term	-	13,096	-	11,894	11,894	-
Total	\$ 2,082,170	\$ 2,526,010	\$ 54,590	\$ 3,690,790	\$ 4,124,835	\$ 135,310

<sup>a</sup> Unpaid principal balance represents the recorded legal principal balance of the loan.

	For the Quarter & Year Ended March 31, 2015		For the Quarter & Year Ended March 31, 2014	
	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:				
Real estate mortgage	\$ 509,222	\$ -	\$ 1,103,708	\$ -
Production and intermediate term	6,584	-	-	-
Processing and marketing	-	-	391,380	-
Farm-related business	-	-	5,239	-
Total	\$ 515,806	\$ -	\$ 1,500,327	\$ -
Impaired loans with no related allowance for credit losses:				
Real estate mortgage	\$ 2,874,689	\$ 18,818	\$ 3,771,513	\$ -
Production and intermediate term	5,031	-	-	-
Processing and marketing	-	-	406,404	-
Farm-related business	-	-	2,448	-
Total	\$ 2,879,720	\$ 18,818	\$ 4,180,365	\$ -
Total impaired loans:				
Real estate mortgage	\$ 3,383,911	\$ 18,818	\$ 4,875,221	\$ -
Production and intermediate term	11,615	-	-	-
Processing and marketing	-	-	797,784	-
Farm-related business	-	-	7,687	-
Total	\$ 3,395,526	\$ 18,818	\$ 5,680,692	\$ -

A summary of changes in the allowance for loan losses and period end recorded investment in loans is as follows:

	<u>Real Estate Mortgage</u>	<u>Production and Intermediate Term</u>	<u>Agribusiness</u>	<u>Communications</u>	<u>Energy and Water/Waste Water</u>	<u>Rural Residential Real Estate</u>	<u>Total</u>
<b>Allowance for Credit Losses:</b>							
Balance at							
December 31, 2014	\$ 3,729,445	\$ 30,325	\$ 8,499	\$ 83	\$ 772	\$ 6,086	\$ 3,775,210
Charge-offs	(111,104)	-	-	-	-	-	(111,104)
Recoveries	957	-	-	-	-	-	957
Provision for loan losses	(121,200)	1,294	(167)	-	(9)	189	(119,893)
Adjustment due to merger	-	-	-	-	-	-	-
Other	(154)	1,566	996	-	(194)	-	2,214
Balance at							
March 31, 2015	\$ 3,497,944	\$ 33,185	\$ 9,328	\$ 83	\$ 569	\$ 6,275	\$ 3,547,384
Ending Balance:							
Individually evaluated for impairment	\$ 54,590	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 54,590
Collectively evaluated for impairment	3,443,354	33,185	9,328	83	569	6,275	3,492,794
Balance at							
March 31, 2015	\$ 3,497,944	\$ 33,185	\$ 9,328	\$ 83	\$ 569	\$ 6,275	\$ 3,547,384
Balance at							
December 31, 2013	\$ 2,657,650	\$ 19,224	\$ 12,497	\$ -	\$ 650	\$ 7,063	\$ 2,697,084
Charge-offs	(59,074)	-	-	-	-	-	(59,074)
Provision for loan losses	(39,830)	(18,069)	(1,848)	174	116,440	628	57,495
Balance at							
March 31, 2014	\$ 2,558,746	\$ 1,155	\$ 10,649	\$ 174	\$ 117,090	\$ 7,691	\$ 2,695,505
Ending Balance:							
Individually evaluated for impairment	\$ 245,140	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 245,140
Collectively evaluated for impairment	2,313,606	1,155	10,649	174	117,090	7,691	2,450,365
Balance at							
March 31, 2014	\$ 2,558,746	\$ 1,155	\$ 10,649	\$ 174	\$ 117,090	\$ 7,691	\$ 2,695,505
	<u>Real Estate Mortgage</u>	<u>Production and Intermediate Term</u>	<u>Agribusiness</u>	<u>Communications</u>	<u>Energy and Water/Waste Water</u>	<u>Rural Residential Real Estate</u>	<u>Total</u>
<b>Recorded Investments in Loans Outstanding:</b>							
Ending Balance at							
March 31, 2015	\$ 526,657,089	\$ 32,573,025	\$ 7,831,562	\$ 346,151	\$ 915,311	\$ 9,822,274	\$ 578,145,412
Individually evaluated for impairment	\$ 2,082,170	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,082,170
Collectively evaluated for impairment	\$ 524,574,919	\$ 32,573,025	\$ 7,831,562	\$ 346,151	\$ 915,311	\$ 9,822,274	\$ 576,063,242
Ending Balance at							
March 31, 2014	\$ 487,622,410	\$ 1,914,425	\$ 7,384,812	\$ 1,469,066	\$ 1,038,903	\$ 8,220,646	\$ 507,650,262
Individually evaluated for impairment	\$ 3,062,016	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,062,016
Collectively evaluated for impairment	\$ 484,560,394	\$ 1,914,425	\$ 7,384,812	\$ 1,469,066	\$ 1,038,903	\$ 8,220,646	\$ 504,588,246

### 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 patronage payments, 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 loss, which is reported net of taxes, is as follows:

<b>Accumulated Other Comp Loss</b>			
<b>March 31, 2015</b>	<b>Before Tax</b>	<b>Deferred Tax</b>	<b>Net of Tax</b>
<b>Nonpension postretirement benefits</b>	<b>\$ (535,903)</b>	<b>\$ -</b>	<b>\$ (535,903)</b>
<b>Total</b>	<b>\$ (535,903)</b>	<b>\$ -</b>	<b>\$ (535,903)</b>
<b>March 31, 2014</b>	<b>Before Tax</b>	<b>Deferred Tax</b>	<b>Net of Tax</b>
Nonpension postretirement benefits	\$ (97,588)	\$ -	\$ (97,588)
Total	\$ (97,588)	\$ -	\$ (97,588)

In January 2015, the Association approved a resolution for a \$6,455,160 patronage distribution to its stockholders. The distribution was paid in March 2015. The Association was able to return these funds to its members due to strong earnings during 2014.

### NOTE 4 — INCOME TAXES:

Alabama Farm Credit, ACA conducts its business activities through two wholly-owned subsidiaries. Long-term mortgage lending activities are conducted through a wholly-owned FLCA subsidiary which is exempt from federal and state income tax. Short- and intermediate-term lending activities are conducted through a wholly-owned PCA subsidiary. The PCA subsidiary and the ACA holding company are subject to income tax. Alabama Farm Credit, ACA operates as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, Alabama Farm Credit, ACA can exclude from taxable income amounts distributed as qualified patronage dividends in the form of cash, stock or allocated retained earnings. Provisions for income taxes are made only on those taxable earnings that will not be distributed as qualified patronage dividends. Deferred taxes are recorded at the tax effect of all temporary differences based on the assumption that such temporary differences are retained by the institution and will therefore impact future tax payments. A valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (more than 50 percent probability), based on management's estimate, that they will not be realized. The Association had no taxable income for the three months ended March 31, 2015 and 2014.

### 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 14 to the 2014 Annual Report to Stockholders for a more complete description.

Assets and liabilities measured at fair value on a recurring basis are summarized below:

<u>March 31, 2015</u>	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Assets:				
Assets held in nonqualified benefit trusts	\$ 8,096	-	-	\$ 8,096
Total assets	\$ 8,096	-	-	\$ 8,096

<u>December 31, 2014</u>	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Assets:				
Assets held in nonqualified benefit trusts	\$ 5,281	-	-	\$ 5,281
Total assets	\$ 5,281	-	-	\$ 5,281

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

<u>March 31, 2015</u>	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>	<u>Total Gains (Losses)</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>		
Assets:					
Loans*	\$ -	\$ -	\$ 1,030,660	\$ 1,030,660	\$ -
Other property owned	-	-	1,345,761	1,345,761	(23,733)

<u>December 31, 2014</u>	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>	<u>Total Gains (Losses)</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>		
Assets:					
Loans*	\$ -	\$ -	\$ 748,249	\$ 748,249	\$ -
Other property owned	-	-	1,562,694	1,562,694	696,812

\*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.

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

#### Information About Other Financial Instrument Fair Value Measurements

	<b>Valuation Technique(s)</b>	<b>Input</b>
Cash	Carrying value	Actual balance

#### Valuation Techniques

As more fully discussed in Note 14 to the 2014 Annual Report to Stockholders, authoritative guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following represent a brief summary of the valuation techniques used for the Association's assets and liabilities. For a more complete description, see Notes to the 2014 Annual Report to Stockholders.

### *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.

### *Loans Evaluated for Impairment*

For certain loans evaluated for impairment under FASB impairment guidance, the fair value is based upon the underlying real estate collateral since the loans were collateral-dependent. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters. As a result, a majority of these loans have fair value measurements that fall within Level 3 of the fair value hierarchy. When the value of the real estate, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established. The fair value of these loans would fall under Level 2 of the hierarchy if the process uses independent appraisals and other market-based information.

### *Other Property Owned*

Other property owned is generally classified as Level 3 of the fair value hierarchy. The process for measuring the fair value of the other property owned involves the use of independent appraisals and other market-based information. Costs to sell represent transaction costs and are not included as a component of the asset's fair value. As a result, these fair value measurements fall within Level 3 of the hierarchy.

### *Cash*

For cash, the carrying amount is a reasonable estimate of fair value.

## **NOTE 6 — EMPLOYEE BENEFIT PLANS:**

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

	Other Benefits	
	2015	2014
Service cost	\$ 10,435	\$ 7,930
Interest cost	22,640	19,634
Amortization of prior service credits	(7,461)	(10,093)
Amortization of net actuarial loss	10,840	1,786
Net periodic benefit cost	<u>\$ 36,454</u>	<u>\$ 19,257</u>

The Association previously disclosed in its financial statements for the year ended December 31, 2014, that it expected to contribute \$54,558 to the district's nonpension other post-retirement benefit in 2015. As of March 31, 2015, \$11,993 of contributions have been made. The Association presently anticipates contributing an additional \$40,919 to fund the district's nonpension other post-retirement benefit pension plan in 2015 for a total of \$52,912. The Association's liability for the unfunded accumulated obligation for these benefits at March 31, 2015, was \$2,031,359 and is included in "Other Liabilities" in the balance sheet.

The Association also participates in the district's defined benefit pension plan which is characterized as multiemployer since the assets, liabilities, and cost of the plan are not segregated or separately accounted for by participating employers (the Bank and associations). The Association recognizes its amortized annual contributions to the plan as an expense. In January 2015, the Association recorded its total defined benefit pension plan contribution amount of \$503,767 to a prepaid account and has recognized \$125,942 of expense through March 31, 2015.

## **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 9 — SUBSEQUENT EVENTS:**

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