ALABAMA FARM CREDIT, ACA

2014
Quarterly Report
Third Quarter

For the Quarter Ended September 30, 2014

REPORT OF MANAGEMENT

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

K. Ben Gore, Chief Executive Officer/President
November 7, 2014

Loyd Rutherford, Chairman, Board of Directors
November 7, 2014

Karri H. Sumrall, Chief Financial Officer/Ex. Vice President
November 7, 2014

John R. Adams, CPA, Chairman, Audit Committee
November 7, 2014

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 September 30, 2014. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2013 Annual Report to Stockholders.

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

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

Significant Events:

In January 2014, the Association approved a resolution for a $6,275,367 patronage distribution to its stockholders. The distribution was paid in March 2014. The Association was able to return these funds to its members due to strong earnings over the past three years.

Loan Portfolio:

Total loans outstanding at September 30, 2014, including nonaccrual loans, were $538,521,927 compared to $487,032,576 at December 31, 2013, reflecting an increase of 10.6 percent. Nonaccrual loans as a percentage of total loans outstanding were 0.8 percent at September 30, 2014, compared to 0.4 percent at December 31, 2013.

	June 30, 2014	December 31, 2013
Acceptable	**96.2%**	97.3%
OAEM	**2.0%**	1.5%
Substandard/doubtful	**1.8%**	1.2%
	100.0%	100.0%

The Association's largest commodity concentration in its loan portfolio continues to be poultry, which is approximately 49.6 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 and second quarters. Most all of the integrators have plans in place to continue expanding their operations during 2014 and 2015. 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 for 2014 and 2015 remain relatively stable to improving in the coming year. 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 some areas of the Association's territory (recreational and cut-over tracts) based on the current economic climate. The agricultural economy, in general for the area has remained stable to improving. Extremely favorable weather conditions and acceptable commodity prices have had a positive effect on the farm economy during the third quarter of 2014.

With a favorable lending package, we are prepared to experience steady growth in the years ahead. 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 or slightly improve throughout 2014.

Risk Exposure:

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

	September 30, 2014			December 31, 2013		
	Amount		**%**	Amount		%
Nonaccrual	**$**	**4,115,957**	**53.8%**	$	1,901,977	27.9%
90 days past due and still accruing interest		**514,863**	**6.7%**		-	0.0%
Formally restructured		**1,005,853**	**13.2%**		1,913,965	28.1%
Other property owned, net		**2,014,721**	**26.3%**		2,998,355	44.0%
Total	**$**	**7,651,394**	**100.0%**	$	6,814,297	100.0%

High-risk assets increased by $837,097 or 12.3 percent primarily due to the increase in nonaccrual volume. Since December 31, 2013, the Association has moved 21 loans totaling $4,678,867 to nonaccrual status due to delinquency and cashflow issues. Nonaccrual loans as a percentage of total loans outstanding were 0.8 percent at September 30, 2014, compared to 0.4 percent at December 31, 2013. During 2014, the Association acquired eight properties totaling $1,744,174 and disposed of 12 properties totaling $2,180,374. At September 30, 2014, the Association held seven properties totaling $2,014,721, net of an allowance of $104,433, which consisted of approximately 1,876 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.

The Association recorded no recoveries and $306,176 in charge-offs for the quarter ended September 30, 2014, and no recoveries and $606,425 in charge-offs for the same period in 2013. The Association's allowance for loan losses was 0.7 percent and 0.6 percent of total loans outstanding as of September 30, 2014, and December 31, 2013, 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 2013 Annual Report, it is managements 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 $92.2 million or 17.1 percent of its portfolio government guaranteed at September 30, 2014. 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 $2,855,459 and $9,151,838 for the three and nine months ended September 30, 2014, as compared to net income of $1,943,038 and $7,519,314 for the same period in 2013, reflecting an increase of 47.0 and 21.7 percent, respectively. Net interest income was $4,384,604 and $12,954,728 for the three and nine months ended September 30, 2014, compared to $4,072,589 and $12,003,331 for the same period in 2013.

	Nine months ended: September 30, 2014				September 30, 2013			
	Average Balance		Interest		Average Balance		Interest	
Loans	$	**512,598,820**	$	**19,238,861**	$	456,234,887	$	17,611,263
Investments		**-**		**-**		-		-
Total interest-earning assets		**512,598,820**		**19,238,861**		456,234,887		17,611,263
Interest-bearing liabilities		**435,101,241**		**6,284,133**		383,618,088		5,607,932
Impact of capital	$	**77,497,579**			$	72,616,799		
Net interest income			$	**12,954,728**			$	12,003,331

	2014 Average Yield	2013 Average Yield
Yield on loans	**5.0%**	5.2%
Total yield on interest-earning assets	**5.0%**	5.2%
Cost of interest-bearing liabilities	**1.9%**	2.0%
Interest rate spread	**3.1%**	3.2%
Net interest income as a percentage of average earning assets	**3.4%**	3.5%

	Nine months ended: September 30, 2014 vs. September 30, 2013 — Increase (decrease) due to		
	Volume	Rate	Total
Interest income - loans	**$ 2,175,730**	**$ (548,132)**	**$ 1,627,598**
Interest expense	**752,611**	**(76,410)**	**676,201**
Net interest income	**$ 1,423,119**	**$ (471,722)**	**$ 951,397**

Interest income for the three and nine months ended September 30, 2014, increased by $662,924 and $1,627,598 , or 11.1 and 9.2 percent, respectively, from the same period of 2013, primarily due to an increase in average loan volume, offset by a slight decrease in average yields. Interest expense for the three and nine months ended September 30, 2014, increased by $350,909 and $676,201, or 18.7 and 12.1 percent, respectively, from the same period of 2013 due to an increase in average debt volume, offset by a slight decrease in interest rates. Average loan volume for the third quarter of 2014 was $531,538,979, compared to $466,021,169 in the third quarter of 2013. The average net interest rate spread on the loan portfolio for the third quarter of 2014 was 3.0 percent, compared to 3.1 percent in the third quarter of 2013.

Noninterest income for the three and nine months ended September 30, 2014 increased by $1,110,776 and $923,857, or 490.3 and 78.4 percent, respectively, as compared to the same period in 2013. The increase is primarily due to the Association recording a gain on other property owned compared to a loss recorded during the same period in 2013; and a gain on the sale of Association-owned equipment. Additionally there was an increase in patronage income from the Farm Credit Bank of Texas from an increase in loan volume over the same period in 2013.

Noninterest expenses for the three and nine months ended September 30, 2014 decreased by $143,524 and $353,128, or 8.9 and 7.2 percent, respectively, as compared to the same periods in 2013. The decrease was due primarily to decreases in salaries and employee benefits, travel and purchased services. The decrease in salaries and employee benefits was due to the Association having fewer employees, along with salary adjustments for 2014 compared to the same period in 2013 and the calculated estimated time to originate loans, percent of loans closed and number of employees involved in the loan origination process. The decrease in travel was due to the timing of travel required for the nine months ended September 30, 2014 as compared to the same period in 2013. The decrease in purchased services is due to professional services rendered in 2013 that were not incurred during 2014. The decrease in noninterest expense is offset by an increase in Farm Credit System Insurance Corporation (FCSIC) Insurance Fund premiums, and occupancy and equipment. FCSIC increased its premium rate in January 2014 from the 2013 rate of ten percent to twelve percent. The increase in occupancy and equipment is the result of budgeted repairs and equipment purchases for 2014 that were not incurred during the same period in 2013.

The Association's annualized return on average assets for the nine months ended September 30, 2014, was 2.30 percent compared to 2.11 percent for the same period in 2013. The Association's annualized return on average equity for the nine months ended September 30, 2014, was 13.67 percent, compared to 11.55 percent for the same period in 2013.

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.

	September 30, 2014	December 31, 2013
Note payable to the bank	**$ 459,549,293**	$ 409,070,529
Accrued interest on note payable	**740,717**	663,450
Total	**$ 460,290,010**	$ 409,733,979

The Association operates under a general financing agreement (GFA) with the bank. The current GFA is effective through September 30, 2015. The primary source of liquidity and funding for the Association is a direct loan from the bank. The outstanding balance of $459,549,293 as of September 30, 2014, is recorded as a liability on the Association's balance sheet. The note carried a weighted average interest rate of 1.85 percent at September 30, 2014. The indebtedness is collateralized by a pledge of substantially all of the Association's assets to the bank and is governed by the general financing agreement. The increase in note payable to the bank and related accrued interest payable since December 31, 2013, is due to the Association's 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 $76,725,136 at September 30, 2014. The maximum amount the Association may borrow from the bank as of September 30, 2014, was $540,343,890 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.

Capital Resources:

The Association's capital position increased by $9,264,781 at September 30, 2014, compared to December 31, 2013. The Association's debt as a percentage of members' equity was 4.94:1 as of September 30, 2014, compared to 4.96:1 as of December 31, 2013.

Under regulations governing minimum permanent capital adequacy and other capitalization issues, the Association is required to maintain a minimum adjusted permanent capital of 7.0 percent of risk-adjusted assets as defined by the FCA. The Association's permanent capital ratio at September 30, 2014, was 17.7 percent, which is in compliance with the FCA's minimum permanent capital standard. The Association's core surplus ratio and total surplus ratio at September 30, 2014, were 17.2 and 17.2 percent, respectively, which is in compliance with the FCA's minimum surplus standard.

Significant Recent Accounting Pronouncements:

In February 2013, the FASB issued guidance, "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income." The guidance requires entities to present either parenthetically on the face of the financial statements or in the notes to the financial statements, significant amounts reclassified from each component of accumulated other comprehensive income and the income statement line items affected by the reclassification. The guidance is effective for public entities for annual periods beginning after December 15, 2012 and for nonpublic entities for annual periods beginning after December 15, 2013. The Association has adopted this guidance, which did not impact the financial condition or results of operations, but resulted in additional disclosures which are included in Note 3 – Capital.

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

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

The public comment period ended on October 23, 2014.

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

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

The public comment period ends on January 2, 2015.

Relationship With the Farm Credit Bank of Texas:

The Association's financial condition may be impacted by factors that affect the bank. The financial condition and results of operations of the bank may materially affect the stockholder's investment in the Association. The Management's Discussion and Analysis and Notes to Financial Statements contained in the 2013 Annual Report of 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*. 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 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* or can be obtained on its website at *www.alabamafarmcredit.com* 40 days after quarter end. The Association's annual stockholder report is available on its website at *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

	September 30, 2014 (unaudited)	December 31, 2013
ASSETS		
Cash	**$ 78,452**	$ 17,899
Loans	**538,521,927**	487,032,576
Less: allowance for loan losses	**3,711,500**	2,697,084
Net loans	**534,810,427**	484,335,492
Accrued interest receivable	**6,950,559**	4,762,024
Investment in and receivable from the Farm Credit Bank of Texas:		
Capital stock	**7,734,035**	7,734,035
Other	**1,507,851**	436,848
Other property owned, net	**2,014,721**	2,998,355
Premises and equipment, net	**3,518,618**	3,549,737
Other assets	**631,479**	442,622
Total assets	**$ 557,246,142**	$ 504,277,012
LIABILITIES		
Note payable to the Farm Credit Bank of Texas	**$ 459,549,293**	$ 409,070,529
Accrued interest payable	**740,717**	663,450
Drafts outstanding	**895,953**	798,535
Patronage payable	**230**	6,275,551
Other liabilities	**2,216,848**	2,890,627
Total liabilities	**463,403,041**	419,698,692
MEMBERS' EQUITY		
Capital stock and participation certificates	**2,225,965**	2,088,100
Unallocated retained earnings	**91,731,339**	82,579,501
Accumulated other comprehensive loss	**(114,203)**	(89,281)
Total members' equity	**93,843,101**	84,578,320
Total liabilities and members' equity	**$ 557,246,142**	$ 504,277,012

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

ALABAMA FARM CREDIT, ACA

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2014	2013	**2014**	2013
INTEREST INCOME				
Loans	**$ 6,616,163**	$ 5,953,239	**$ 19,238,861**	$ 17,611,263
INTEREST EXPENSE				
Note payable to the Farm Credit Bank of Texas	**2,231,559**	1,880,650	**6,284,133**	5,607,932
Net interest income	**4,384,604**	4,072,589	**12,954,728**	12,003,331
PROVISION FOR LOAN LOSSES	**1,396,709**	742,815	1,379,667	783,809
Net interest income after provision for loan losses	**2,987,895**	3,329,774	**11,575,061**	11,219,522
NONINTEREST INCOME				
Income from the Farm Credit Bank of Texas:				
Patronage income	**371,207**	325,283	**1,072,076**	954,495
Loan fees	**40,774**	37,073	**126,817**	138,900
Financially related services income	**7,162**	6,123	**18,436**	17,506
Gain (loss) on other property owned, net	**853,547**	(141,854)	**769,442**	(4,408)
Gain (loss) on sale of premises and equipment, net	**64,628**	(83)	**64,624**	9,413
Other noninterest income	**-**	-	**50,900**	62,532
Total noninterest income	**1,337,318**	226,542	**2,102,295**	1,178,438
NONINTEREST EXPENSES				
Salaries and employee benefits	**781,227**	956,965	**2,545,342**	2,912,728
Directors' expense	**50,533**	46,689	**163,373**	157,971
Purchased services	**41,233**	72,269	**196,066**	268,928
Travel	**148,282**	155,773	**290,262**	334,449
Occupancy and equipment	**93,892**	82,628	**270,259**	251,613
Communications	**30,580**	29,877	**86,255**	88,400
Advertising	**52,636**	40,006	**174,182**	172,418
Public and member relations	**86,717**	68,149	**178,995**	154,969
Supervisory and exam expense	**39,783**	34,553	**108,891**	102,150
Insurance Fund premiums	**104,975**	74,748	**297,992**	218,838
Business insurance	**3,875**	3,170	**79,808**	75,176
Other noninterest expense	**36,021**	48,451	**134,093**	141,006
Total noninterest expenses	**1,469,754**	1,613,278	**4,525,518**	4,878,646
NET INCOME	**2,855,459**	1,943,038	**9,151,838**	7,519,314
Other comprehensive income:				
Change in postretirement benefit plans	**(8,307)**	(1,668)	**(24,922)**	(5,003)
COMPREHENSIVE INCOME	**$ 2,847,152**	$ 1,941,370	**$ 9,126,916**	$ 7,514,311

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

ALABAMA FARM CREDIT, ACA

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY
(unaudited)

	Capital Stock/ Participation Certificates	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2012	$ 2,670,725	$ 78,066,477	$ (355,772)	$ 80,381,430
Comprehensive income	-	7,519,314	(5,003)	7,514,311
Capital stock/participation certificates issued	410,820	-	-	410,820
Capital stock/participation certificates retired	(259,955)	-	-	(259,955)
Stock equalization	(782,125)	-	-	(782,125)
Balance at September 30, 2013	$ 2,039,465	$ 85,585,791	$ (360,775)	$ 87,264,481
Balance at December 31, 2013	$ 2,088,100	$ 82,579,501	$ (89,281)	$ 84,578,320
Comprehensive income	-	9,151,838	(24,922)	9,126,916
Capital stock/participation certificates issued	266,915	-	-	266,915
Capital stock/participation certificates retired	(129,050)	-	-	(129,050)
Balance at September 30, 2014	**$ 2,225,965**	**$ 91,731,339**	**$ (114,203)**	**$ 93,843,101**

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, 2013, as contained in the 2013 Annual Report to Stockholders.

In the opinion of management, the accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform 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, 2013, as contained in the 2013 Annual Report to Stockholders. The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year ending December 31, 2014. Descriptions of the significant accounting policies are included in the 2013 Annual Report to Stockholders. In the opinion of management, these policies and the presentation of the interim financial condition and results of operations conform to GAAP and prevailing practices within the banking industry.

In February 2013, the Financial Accounting Standards Board (FASB) issued guidance, "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income." The guidance requires entities to present either parenthetically on the face of the financial statements or in the notes to the financial statements, significant amounts reclassified from each component of accumulated other comprehensive income and the income statement line items affected by the reclassification. The guidance is effective for public entities for annual periods beginning after December 15, 2012, and for nonpublic entities for annual periods beginning after December 15, 2013. The adoption of this guidance did not impact the financial condition or results of operations, but resulted in additional disclosures (see Note 3 – Capital).

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

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

NOTE 2 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

A summary of loans follows:

Loan Type	**September 30, 2014 Amount**	December 31, 2013 Amount
Production agriculture:		
Real estate mortgage	**$ 492,232,843**	$ 451,232,815
Production and intermediate term	**28,642,424**	21,692,856
Agribusiness:		
Processing and marketing	**6,687,374**	5,896,475
Farm-related business	**290,263**	303,038
Communication	**345,941**	-
Energy	**783,068**	-
Water and waste water	**283,761**	357,114
Rural residential real estate	**9,256,253**	7,550,278
Total	**$ 538,521,927**	$ 487,032,576

The Association purchases or sells participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration regulations. The following table presents information regarding the balances of participations purchased and sold at September 30, 2014:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 918,783	$ -	$ -	$ -	$ 918,783	$ -
Production and intermediate term	3,174,184	-	-	-	3,174,184	-
Agribusiness	6,687,374	-	-	-	6,687,374	-
Communication	345,941	-	-	-	345,941	-
Energy	783,068	-	-	-	783,068	-
Water and waste water	283,760	-	-	-	283,760	-
Total	$ 12,193,111	$ -	$ -	$ -	$ 12,193,111	$ -

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 $32,417,593 and $16,119,612 at September 30, 2014, and December 31, 2013, respectively.

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

	September 30, 2014	December 31, 2013
Nonaccrual loans:		
Real estate mortgage	**$ 4,072,375**	$ 1,901,977
Production and intermediate term	**43,582**	-
Total nonaccrual loans	**4,115,957**	1,901,977
Accruing restructured loans:		
Real estate mortgage	**1,005,853**	1,913,965
Total accruing restructured loans	**1,005,853**	1,913,965
Accruing loans 90 days or more past due:		
Real estate mortgage	**514,863**	-
Total accruing loans 90 days or more past due	**514,863**	-
Total nonperforming loans	**5,636,673**	3,815,942
Other property owned	**2,014,721**	2,998,355
Total nonperforming assets	**$ 7,651,394**	$ 6,814,297

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

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

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

	September 30, 2014	December 31, 2013
Real estate mortgage		
Acceptable	**96.1** %	97.1 %
OAEM	**2.0**	1.6
Substandard/doubtful	**1.9**	1.3
	100.0	100.0
Production and intermediate term		
Acceptable	**96.9**	99.1
OAEM	**2.5**	0.9
Substandard/doubtful	**0.6**	-
	100.0	100.0
Agribusiness		
Acceptable	**100.0**	100.0
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.0	100.0
Energy and water/waste water		
Acceptable	**100.0**	100.0
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.0	100.0
Communication		
Acceptable	**100.0**	-
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.0	-
Rural residential real estate		
Acceptable	**100.0**	100.0
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.0	100.0
Total loans		
Acceptable	**96.2**	97.3
OAEM	**2.0**	1.5
Substandard/doubtful	**1.8**	1.2
	100.0 %	100.0 %

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

September 30, 2014	**30-89 Days Past Due**	**90 Days or More Past Due**	**Total Past Due**	**Not Past Due or Less Than 30 Days Past Due**	**Total Loans**	**Recorded Investment >90 Days and Accruing**
Real estate mortgage	**$ 2,617,670**	**$ 1,474,149**	**$ 4,091,819**	**$ 494,566,578**	**$ 498,658,397**	**$ 514,863**
Production and intermediate term	**73,162**	**-**	**73,162**	**29,056,539**	**29,129,701**	**-**
Processing and marketing	**-**	**-**	**-**	**6,694,233**	**6,694,233**	**-**
Farm-related business	**-**	**-**	**-**	**293,678**	**293,678**	**-**
Communication	**-**	**-**	**-**	**345,968**	**345,968**	**-**
Energy	**-**	**-**	**-**	**783,094**	**783,094**	**-**
Water and waste water	**-**	**-**	**-**	**283,787**	**283,787**	**-**
Rural residential real estate	**-**	**-**	**-**	**9,283,628**	**9,283,628**	**-**
Total	**$ 2,690,832**	**$ 1,474,149**	**$ 4,164,981**	**$ 541,307,505**	**$ 545,472,486**	**$ 514,863**

December 31, 2013	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment >90 Days and Accruin
Real estate mortgage	$ 1,825,079	$ 1,154,779	$ 2,979,858	$ 452,690,747	$ 455,670,605	$ -
Production and intermediate term	-	-	-	21,996,111	21,996,111	-
Processing and marketing	-	-	-	5,899,977	5,899,977	-
Farm-related business	-	-	-	303,038	303,038	-
Water and waste water	-	-	-	357,292	357,292	-
Rural residential real estate	-	-	-	7,567,577	7,567,577	-
Total	$ 1,825,079	$ 1,154,779	$ 2,979,858	$ 488,814,742	$ 491,794,600	$ -

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 September 30, 2014, the total recorded investment of troubled debt restructured loans was $1,005,853, 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 September 30, 2014. There were no commitments to lend funds to borrowers whose loan terms have been modified in a troubled debt restructuring for the periods ended September 30, 2014 and December 31, 2013.

There were no troubled debt restructurings during the three months or for the nine months ended September 30, 2014. Loans formally restructured prior to January 1, 2014, were $1,005,853.

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 for the quarter ending September 30, 2014.

The predominant form of concession granted for troubled debt restructuring included 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 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 past due after the date the loan was restructured.

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

	Loans Modified as TDRs		TDRs in Nonaccrual Status*	
	September 30, 2014	December 31, 2013	September 30, 2014	December 31, 2013
Real estate mortgage	$ 1,005,853	$ 1,913,965	$ -	$ -

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

Additional impaired loan information is as follows:

	September 30, 2014			December 31, 2013		
	Recorded Investment	**Unpaid Principal Balance[a]**	**Related Allowance**	Recorded Investment	Unpaid Principal Balance[a]	Related Allowance
Impaired loans with a related allowance for credit losses:						
Real estate mortgage	**$ 959,286**	**$ 1,406,583**	**$ 277,436**	$ 291,177	**$ 305,972**	**$ 221,730**
Production and intermediate term	**31,524**	**31,524**	**30,904**	-	**-**	**-**
Total	**$ 990,810**	**$ 1,438,107**	**$ 308,340**	$ 291,177	**$ 305,972**	**$ 221,730**
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	**$ 4,633,805**	**$ 5,058,589**	**$ -**	$ 3,524,765	**$ 3,956,831**	**$ -**
Production and intermediate term	**12,058**	**12,058**	**-**	-	**-**	**-**
Farm-related business	**-**	**13,096**	**-**	-	**-**	**-**
Total	**$ 4,645,863**	**$ 5,083,743**	**$ -**	$ 3,524,765	**$ 3,956,831**	**$ -**
Total impaired loans:						
Real estate mortgage	**$ 5,593,091**	**$ 6,465,172**	**$ 277,436**	$ 3,815,942	**$ 4,262,803**	**$ 221,730**
Production and intermediate term	**43,582**	**43,582**	**30,904**	-	**-**	**-**
Farm-related business	**-**	**13,096**	**-**	-	**-**	**-**
Total	**$ 5,636,673**	**$ 6,521,850**	**$ 308,340**	$ 3,815,942	**$ 4,262,803**	**$ 221,730**

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

	For the Three Months Ended			
	September 30, 2014		September 30, 2013	
	Average Impaired Loans	**Interest Income Recognized**	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:				
Real estate mortgage	**$ 587,698**	**$ -**	$ 1,351,370	$ -
Production and intermediate term	**16,974**	**-**	452,396	-
Total	**$ 604,672**	**$ -**	$ 1,803,766	$ -
Impaired loans with no related allowance for credit losses:				
Real estate mortgage	**$ 4,425,371**	**$ 33,321**	$ 3,961,086	$ 40,057
Production and intermediate term	**14,099**	**-**	677,339	-
Farm-related business	**-**	**-**	12,242	-
Total	**$ 4,439,470**	**$ 33,321**	$ 4,650,667	$ 40,057
Total impaired loans:				
Real estate mortgage	**$ 5,013,069**	**$ 33,321**	$ 5,312,456	$ 40,057
Production and intermediate term	**31,073**	**-**	1,129,735	-
Farm-related business	**-**	**-**	12,242	-
Total	**$ 5,044,142**	**$ 33,321**	$ 6,454,433	$ 40,057

	For the Nine Months Ended			
	September 30, 2014		September 30, 2013	
	Average Impaired Loans	**Interest Income Recognized**	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:				
Real estate mortgage	**$ 369,702**	**$ -**	$ 1,521,634	$ -
Production and intermediate term	**8,230**	**-**	679,405	-
Farm-related business	**-**	**-**	9,822	-
Total	**$ 377,932**	**$ -**	$ 2,210,861	$ -
Impaired loans with no related allowance for credit losses:				
Real estate mortgage	**$ 3,493,566**	**$ 122,758**	$ 4,344,850	$ 124,442
Production and intermediate term	**6,289**	**-**	677,339	-
Farm-related business	**-**	**-**	3,061	-
Rural residential real estate	**-**	**-**	4,355	-
Total	**$ 3,499,855**	**$ 122,758**	$ 5,029,605	$ 124,442
Total impaired loans:				
Real estate mortgage	**$ 3,863,268**	**$ 122,758**	$ 5,866,484	$ 124,442
Production and intermediate term	**14,519**	**-**	1,356,744	-
Farm-related business	**-**	**-**	12,883	-
Rural residential real estate	**-**	**-**	4,355	-
Total	**$ 3,877,787**	**$ 122,758**	$ 7,240,466	$ 124,442

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

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy and Water/Waste Water	Rural Residential Real Estate	Total
Allowance for Credit Losses:							
Balance at June 30, 2014	$ 2,578,725	$ 24,393	$ 10,317	$ 87	$ 2,091	$ 5,354	$ 2,620,967
Charge-offs	(302,388)	(3,788)	-	-	-	-	(306,176)
Provision for loan losses	1,356,500	39,925	(486)	(4)	(5)	779	1,396,709
Balance at September 30, 2014	$ 3,632,837	$ 60,530	$ 9,831	$ 83	$ 2,086	$ 6,133	$ 3,711,500
Balance at December 31, 2013	$ 2,657,650	$ 19,224	$ 12,497	$ -	$ 650	$ 7,063	$ 2,697,084
Charge-offs	(361,463)	(3,788)	-	-	-	-	(365,251)
Provision for loan losses	1,336,650	45,094	(2,666)	83	1,436	(930)	1,379,667
Balance at September 30, 2014	$ 3,632,837	$ 60,530	$ 9,831	$ 83	$ 2,086	$ 6,133	$ 3,711,500
Individually evaluated for impairment	$ 285,660	$ 31,524	$ -	$ -	$ -	$ -	$ 317,184
Collectively evaluated for impairment	3,347,177	29,006	9,831	83	2,086	6,133	3,394,316
Balance at September 30, 2014	$ 3,632,837	$ 60,530	$ 9,831	$ 83	$ 2,086	$ 6,133	$ 3,711,500
Balance at June 30, 2013	$ 2,681,042	$ 32,390	$ 245,821	$ -	$ -	$ 8,337	$ 2,967,590
Charge-offs	(593,328)	-	(13,096)	-	-	-	(606,424)
Provision for loan losses	746,974	(6,435)	2,741	-	-	(466)	742,814
Balance at September 30, 2013	$ 2,834,688	$ 25,955	$ 235,466	$ -	$ -	$ 7,871	$ 3,103,980
Balance at December 31, 2012	$ 2,830,928	$ 22,138	$ 467,703	$ -	$ -	$ 5,395	$ 3,326,164
Charge-offs	(677,004)	-	(321,423)	-	-	(7,566)	(1,005,993)
Provision for loan losses	680,764	3,817	89,186	-	-	10,042	783,809
Balance at September 30, 2013	$ 2,834,688	$ 25,955	$ 235,466	$ -	$ -	$ 7,871	$ 3,103,980

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy and Water/Waste Water	Rural Residential Real Estate	Total
Recorded Investments in Loans Outstanding:							
Ending Balance at September 30, 2014	$ 498,658,397	$ 29,129,701	$ 6,987,911	$ 345,968	$ 1,066,881	$ 9,283,628	$545,472,486
Individually evaluated for impairment	$ 5,593,090	$ 43,582	$ -	$ -	$ -	$ -	$ 5,636,672
Collectively evaluated for impairment	$ 493,065,307	$ 29,086,119	$ 6,987,911	$ 345,968	$ 1,066,881	$ 9,283,628	$539,835,814
Ending Balance at September 30, 2013	$ 441,950,805	$ 19,744,868	$ 7,620,285	$ -	$ -	$ 6,920,553	$476,236,511
Individually evaluated for impairment	$ 4,606,481	$ -	$ 1,129,735	$ -	$ -	$ -	$ 5,736,216
Collectively evaluated for impairment	$ 437,344,324	$ 19,744,868	$ 6,490,550	$ -	$ -	$ 6,920,553	$470,500,295

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 (loss), which is reported net of taxes, is as follows:

September 30, 2014	**Before Tax**	**Deferred Tax**	**Net of Tax**
Nonpension postretirement benefits	**$ (114,203)**	**$ -**	**$ (114,203)**
Total	**$ (114,203)**	**$ -**	**$ (114,203)**

September 30, 2013	Before Tax	Deferred Tax	Net of Tax
Nonpension postretirement benefits	$ (360,775)	$ -	$ (360,775)
Total	$ (360,775)	$ -	$ (360,775)

In January 2014, the Association approved a resolution for a $6,275,367 patronage distribution to its stockholders. The distribution was paid in March 2014. The Association was able to return these funds to its members due to strong earnings during 2013.

NOTE 4 — CAPITAL MARKETS:

Until the second quarter of 2007, the Association participated in the Capital Markets of the South (CMS), a joint venture created in 2003 for the purpose of expanding the participants' lending opportunities. The CMS group was comprised of the Association, Alabama Ag Credit, ACA, Mississippi Land Bank, ACA, Southern Ag Credit, ACA and Louisiana Land Bank, ACA. During the second quarter of 2007, the CMS members decided to discontinue and dissolve the joint venture. The associations will continue to service the existing CMS loan portfolio, with revenue and expenses continuing to be shared accordingly as noted below, until such time as all of the loans are fully matured or paid off.

Pursuant to the terms of the alliance, each of the five CMS participating associations generally shares equally in the costs of operating the venture. The Association's pro-rata share of income from CMS operations is recorded in the statement of income in their respective line items. The Association's pro-rata share of expenses from CMS operations is recorded in the statement of income in the line item "Purchased services."

As of September 30, 2014, and December 31, 2013, the Association had CMS related loan volume outstanding in the amount of $160,000. The Association had no unfunded commitments on CMS loans as of September 30, 2014, and for the year ended December 31, 2013.

NOTE 5 — 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. During the nine months ended September 30, 2014, the Association did participate in a patronage program. Deferred taxes are recorded at the tax effect of all temporary differences based on the assumption that such temporary differences are retained by the institution and will therefore impact future tax payments. A valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (more than 50 percent probability), based on management's estimate, that they will not be realized. The Association had no taxable income for the nine months ended September 30, 2014, and 2013.

NOTE 6 — FAIR VALUE MEASUREMENTS:

FASB guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. See Note 14 to the 2013 Annual Report to Stockholders for a more complete description.

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

September 30, 2014	**Fair Value Measurement Using**			**Total Fair Value**
	Level 1	**Level 2**	**Level 3**	
Assets:				
Assets held in nonqualified benefit trusts	**$ 3,767**	**$ -**	**$ -**	**$ 3,767**
Total assets	**3,767**	**-**	**-**	**3,767**

December 31, 2013	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Assets held in nonqualified benefit trusts	$ -	$ -	$ -	$ -
Total assets	-	-	-	-

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

September 30, 2014	**Fair Value Measurement Using**			**Total Fair Value**	**Total Gains (Losses)**
	Level 1	**Level 2**	**Level 3**		
Assets:					
Loans*	**$ -**	**$ -**	**$ 4,313,636**	**$ 4,313,636**	**$ (365,251)**
Other property owned	**-**	**-**	**2,111,511**	**2,111,511**	**769,442**

December 31, 2013	Fair Value Measurement Using			Total Fair Value	Total Gains (Losses)
	Level 1	Level 2	Level 3		
Assets:					
Loans*	$ -	$ -	$ 1,680,247	$ 1,680,247	$ (508,211)
Other property owned	-	-	2,998,355	2,998,355	66,389

*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

	Valuation Technique(s)	**Input**
Cash	Carrying value	Actual balance

Valuation Techniques

As more fully discussed in Note 14 to the 2013 Annual Report to Stockholders, authoritative guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following represent a brief summary of the valuation techniques used for the Association's assets and liabilities. For a more complete description, see Notes to the 2013 Annual Report to Stockholders.

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.

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 7 — EMPLOYEE BENEFIT PLANS:

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

	Other Benefits	
	2014	2013
Service cost	**$ 7,930**	$ 9,198
Interest cost	**19,634**	18,861
Amortization of prior service (credits)	**(10,093)**	(10,093)
Amortization of net actuarial loss	**1,786**	8,425
Net periodic benefit cost	**$ 19,257**	$ 26,391

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

	Other Benefits	
	2014	2013
Service cost	**$ 23,789**	$ 27,593
Interest cost	**58,903**	56,582
Amortization of prior service (credits)	**(30,279)**	(30,279)
Amortization of net actuarial loss	**5,357**	25,276
Net periodic benefit cost	**$ 57,770**	$ 79,172

The Association previously disclosed in its financial statements for the year ended December 31, 2013, that it expected to contribute $57,786 to the district's nonpension other post-retirement benefit in 2014. As of September 30, 2014, $35,491 of contributions have been made. The Association presently anticipates contributing an additional $14,447 to fund the district's nonpension other post-retirement benefit pension plan in 2014 for a total of $49,938.

The Association's liability for the unfunded accumulated obligation for these benefits at September 30, 2014, was $1,581,183 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 2014 the Association recorded its total defined benefit pension plan contribution amount of $626,946 to a prepaid account and has recognized $470,210 of expense through September 30, 2014.

NOTE 8 — COMMITMENTS AND CONTINGENT LIABILITIES:

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

NOTE 9 — SUBSEQUENT EVENTS:

The Association has evaluated subsequent events through November 7, 2014, which is the date the financial statements were issued. There are no other significant events requiring disclosure as of November 7, 2014.