CENTRAL TEXAS FARM CREDIT, ACA

2014
Quarterly Report
Second Quarter

For the Quarter Ended June 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 his or her knowledge and belief.

Boyd J. Chambers

Boyd J. Chambers, Chief Executive Officer and President

July 22, 2014

Robby Halfmann, Chairman, Board of Directors

July 22, 2014

Michael Antle

Mike Antle, Controller

July 22, 2014

CENTRAL TEXAS FARM CREDIT, ACA
MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the financial performance of the Central Texas Farm Credit, ACA (Agricultural Credit Association), referred to as the Association, for the quarter ended June 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:

2014

The chairman of the board and audit committee, Jerry Don Klose, did not run for re-election in April 2014 because he reached the mandatory retirement age of 70. Mr. Klose officially stepped down after the May 2014 board meeting once the election results were known, and his seat had been filled by Steven R. Lehrmann. At the June 2014 meeting, the board elected Robby A. Halfmann to serve as the board chairman, Kenneth D. Harvick to serve as vice-chairman, and Burl D. Lowery to serve as the audit committee chairman.

2013

In December 2013, the Association received a direct loan patronage of $1,330,745 from the Farm Credit Bank of Texas (Bank), representing 44 basis points on the average daily balance of the Association's direct loan with the Bank. During 2013, the Association received $109,486 in patronage payments from the Bank, based on the Association's stock investment in the Bank.

Effective March 31, 2013 Alan Benedict retired as controller and treasurer of Central Texas Farm Credit, ACA. Mike Antle was promoted to controller effective January 1, 2014.

The board adopted a resolution at its March meeting which amended the ACA Bylaws to reduce the size of the board from 8 directors (7 stockholder-elected and 1 director-elected) to 6 (5 stockholder-elected and 1 director-elected) to be effective upon the close of the Association's Annual Stockholder's Meeting on April 23, 2013. In April 2013, upon the expiration of their terms, directors A. Wayland Shurley and Mickey C. Dillard did not run for re-election because they reached the mandatory retirement age of 70. These positions were eliminated to facilitate the board size reduction plan.

2012

In December 2012, the Association received a direct loan patronage of $1,300,049 from the Bank, representing 43 basis points on the average daily balance of the Association's direct loan with the Bank. During 2012, the Association received $126,190 in patronage payments from the Bank, based on the Association's stock investment in the Bank.

In April 2012, board chairman Brent Heinze decided not to seek re-election in an effort to assist the Association in reducing the number of directors on the board. In June 2012, the Association board of directors elected director Jerry Don Klose to succeed Brent Heinze as the board chairman.

In May 2012, the Association received a refund from the Farm Credit System Insurance Corporation (FCSIC) of prior year insurance premiums totaling $338,305 which was taken into income for 2012.

In November 2012, outside director Glenn Miller resigned his director position and in December 2012, Burl D. Lowery was appointed by the board to fill the position effective January 1, 2013.

2011

In December 2011, the Association received a direct loan patronage of $1,309,704 from the Bank, representing 42 basis points on the average daily balance of the Association's direct loan with the Bank. During 2011, the Association received $158,326 in patronage payments from the Bank, based on the Association's stock investment in the Bank.

During December 2011, Association director Cody Richmond resigned from his position, with the board formally accepting his resignation. Kenneth Harvick was appointed by the board as Mr. Richmond's replacement effective January 1, 2012. Mr. Harvick was appointed to serve only until the next election in April 2012. He was then elected to serve out the remainder of Mr. Richmond's term.

At the December 2011 board meeting, the board of directors agreed to amend the Bylaws to allow for the reduction of the board from 9 to 8 directors (7 stockholder-elected and 1 director-elected). Subsequent to year end, the board formally adopted this change to the Bylaws by resolution at the February 2012 board meeting.

2010

In December 2010, the Association received a direct loan patronage of $1,637,018 from the Bank, representing 50 basis points on the average daily balance of the Association's direct loan with the Bank. During 2010, the Association received $188,298 in patronage payments from the Bank, based on the Association's stock investment in the Bank.

In April 2010, the Association received a refund from the FCSIC of prior year insurance premiums totaling $410,939, which was taken into income for 2010.

During the third quarter of 2010, Association director Chris West paid his loans in full and thereby became ineligible to continue serving as a director. In addition, Association director Larry Damron resigned from his position, with the board formally accepting his resignation.

In December 2010, the board of directors agreed to amend the Bylaws to allow for the reduction of the board from 11 to 9 directors (8 stockholder-elected and 1 director-elected). Subsequent to year end, the board formally adopted this change to the Bylaws by resolution at the January 2011 board meeting.

Mr. James R. Isenhower retired as CEO of Central Texas Farm Credit, ACA effective December 31, 2010. Mr. Boyd J. Chambers became the new CEO effective January 1, 2011.

Problem Loans

2014

During the first quarter of 2014, a recovery of $8,210 was made on a loan that had been charged off in 2009. At this time, we do not anticipate any further recoveries related to this loan.

During the second quarter of 2014, a participation loan formally restructured in 2009, and previously reported as a TDR, was paid in full.

2013

During the second quarter of 2013, a participation loan that was deemed non-viable in 2012 was further evaluated resulting in the need for an additional $180,000 to be added to the specific allowance. This resulted in a total specific allowance of $1,157,000 at the end of the second quarter. In addition, this evaluation resulted in a charge-off of $670,000. The resulting non-accrual balance on this loan was $2,441,721 at the end of the second quarter.

During the fourth quarter, the previously mentioned participation loan was revalued as a result of the impending sale of the company's assets. Initially this caused a reduction in the specific allowance in the amount of $195,425, bringing the overall specific allowance down to $961,575. After the sale was completed the entire specific allowance of $961,575 was charged-off and a related non-accrual premium, in the amount of $3,655, was taken into income. The assets were then moved into acquired property in the amount of $2,146,491. Soon after the acquired property was set-up, the Association received two disbursements of proceeds from the sale in the amounts of $1,941,809 and $75,607. These reduced the acquired property balance relating to this loan. The ending overall acquired property balance for 2013 was $652,125.

During the fourth quarter, a borrower had two operating loans go into non-accrual of which $179,624 was charged off leaving a remaining balance of $25,892 as of year-end. As of year-end the Association had a non-accrual balance of $155,885.

2012

During the third quarter a participation loan that had previously been deemed non-viable in 2009 and then later that same year was returned to an accruing status, again encountered financial difficulty and has been deemed non-viable. The $3,111,721 loan was transferred to non-accrual in late September with a $920,000 specific allowance for loan loss being made. A reversal of $7,552 in current year interest accruals was also taken at the time this loan was transferred to non-accrual status. In late December, upon further evaluation of this loan's financial condition, an addition of $57,000 to the existing specific allowance was determined to be necessary, bringing the total specific allowance to $977,000 as of year-end.

2010

During the second quarter another District participation loan which the Association participated in was deemed non-viable or as containing significant financial stress resulted in this loan being transferred to a non-accrual status. The peak balance of this non-accrual loan was $4,637,524. Current year (2010) interest income of $114,408 was reversed on this loan at the time of transfer to non-accrual. In the third quarter of 2011 of this loan was collected in full.

2009

In the second quarter, two participation loans were deemed non-viable and placed in a non-accrual status for a combined total of $5,842,305. Current year (2009) interest reversed for these loans totaled $43,211. Specific reserves were established on both of these loans totaling $2,441,569. Upon resolution of these two accounts in the second and third quarters of 2010, a charge-off amount of $964,889 was recognized and $1,476,680 of previous reserves was returned to income. One of these accounts resulted in $523,049 of acquired property and a restructured loan that was returned to accrual status. Both the acquired property and restructured loan remain on the Association's books. The other loan was returned to an accrual status as well and remains on the Association's books.

During the third quarter, three additional participation loans totaling $5,739,970, were moved to a non-accrual status. Specific reserves originally established for these three loans totaled $1,097,884 and current year (2009) interest income reversals totaled $39,728. One account was resolved by being sold in the fourth quarter but required a charge-off of $794,733. All funds related to this sale were collected in full during the first quarter of 2010. The second account of these three accounts was resolved in the third quarter of 2010, resulting in a charge-off of $385,308. A subsequent recovery of $11,667 was realized on this account in the first quarter of 2011. The last of these three accounts was resolved in the third quarter of 2011 with $325,103 of the debt being charged-off and $424,897 of the related $750,000 specific reserve being returned to income.

In the fourth quarter, another District participation loan was deemed as a troubled debt and was promptly sold during the quarter. The sale related to this account resulted in an $11,643 charge-off and a $1,909 reversal of current year (2009) interest accruals. All funds related to this sale were fully collected in the first quarter of 2010.

Quarter-end Weather and Crop Conditions

The U.S. economy is showing signs of life, with improvements in retail, manufacturing and the housing sector. Despite this, gross domestic product (GDP) growth for first quarter in 2014 has been downgraded to -0.1%, which is the first negative forecast since 2011. A brighter outlook exists for the second quarter, with forecasted growth of 3.5% related to improvements in inventory accumulation and new construction. We still do not expect the Fed to raise short-term interest rates until late 2015 at the earliest.

The second quarter saw the forecast for the U.S. agricultural trade surplus up to its second highest ever, at $39 billion. The forecast for grain, feed, and row crops were all also up from the previous quarter and similar increases are forecast for beef and dairy exports.

The local economy in our chartered territory is relatively strong. Real estate prices are stable and the land sales have started to increase. The majority of the Association's new loans made during the past number of years have been to absentee landowners with diverse income sources looking for a place for a small agricultural operation or recreational use. As a result, the Association has a diversified portfolio that is not heavily dependent on agricultural income. Even those borrowers who are primarily agricultural producers typically have outside income from a spouse's employment, part-time jobs, investments, etc. The above is reflected in the Association's sound credit quality and small number of delinquencies.

During the second quarter of 2014, the Association's territory saw cooler, more humid temperatures than typical. Soil moisture was good with many areas reporting rain. Cotton planting was finishing up, with irrigated fields in good condition. At this time, only a few dry land acres of cotton had been planted. The wheat harvest was winding down, with mostly below-normal yields reported. Rangeland and pasture were improving, with hay grazer, grain sorghum, and coastal Bermuda grass progressing well. Because of improved grazing, cattle producers were able to decrease supplemental feeding. The cattle market is up and many of our borrowers are doing very well right now, but record high places could indicate that a correction could be coming. Stock tank water levels and water tables improved throughout the region, but additional precipitation is still needed throughout the Association's territory.

Summation

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

Loan Portfolio:

Total loans outstanding at June 30, 2014, including nonaccrual loans, were $410,877,725 compared to $403,911,853 at December 31, 2013, reflecting an increase of 1.7 percent. Nonaccrual loans as a percentage of total loans outstanding were 0.04 percent at June 30, 2014, compared to 0.04 percent at December 31, 2013.

The Association recorded no recoveries or charge-offs for the quarter ended June 30, 2014, and no recoveries and $670,000 in charge-offs for the same period in 2013. The Association's allowance for loan losses was 0.2 percent and 0.2 percent of total loans outstanding as of June 30, 2014, and December 31, 2013, respectively.

Currently, the Association has $183,679 in nonaccrual loans stemming from six loans. These loans are included in the Association's core loan portfolio. There have been no material changes in the Association's core portfolio's borrower profile, geographic distribution, commodity concentration, or asset quality.

Risk Exposure:

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

	June 30, 2014		December 31, 2013	
	Amount	**%**	Amount	%
Nonaccrual	**$ 183,679**	**22.0%**	$ 155,885	10.7%
Formally restructured	**-**	**0.0%**	646,649	44.5%
Other property owned, net	**652,125**	**78.0%**	652,125	44.8%
Total	**$ 835,804**	**100.0%**	$ 1,454,659	100.0%

Results of Operations:

The Association had net income of $2,440,964 and $4,766,367 for the three and six months ended June 30, 2014, as compared to net income of $2,303,555 and $4,700,295 for the same period in 2013, reflecting increases of 6.0 and 1.4 percent, respectively. Net interest income was $3,239,222 and $6,431,946 for the three and six months ended June 30, 2014, compared to $3,061,359 and $6,125,831 for the same period in 2013.

	June 30, 2014		June 30, 2013	
	Average Balance	**Interest**	Average Balance	Interest
Loans	**$ 407,632,500**	**$ 9,232,249**	$ 383,439,905	$ 8,884,888
Interest-bearing liabilities	**318,759,706**	**2,800,303**	298,394,232	2,759,057
Impact of capital	**$ 88,872,794**		$ 85,045,673	
Net interest income		**$ 6,431,946**		$ 6,125,831

	2014 Average Yield	2013 Average Yield
Yield on loans	**4.57%**	4.67%
Cost of interest-bearing liabilities	**1.77%**	1.86%
Interest rate spread	**2.80%**	2.81%
Net interest income as a percentage of average earning assets	**3.18%**	3.22%

	June 30, 2014 vs. June 30, 2013		
	Increase (decrease) due to		
	Volume	**Rate**	**Total**
Interest income - loans	**$ 560,578**	**$ (213,217)**	**$ 347,361**
Interest expense	**188,307**	**(147,061)**	**41,246**
Net interest income	**$ 372,271**	**$ (66,156)**	**$ 306,115**

Interest income for the three and six months ended June 30, 2014, increased by $209,967 and $347,361, or 4.7 and 3.9 percent, respectively, from the same period of 2013, primarily due to increases in average loan volume slightly offset by a decrease in yields on earning assets. Interest expense for the three and six months ended June 30, 2014, increased by $32,104 and $41,246, or 2.3 and 1.5 percent, respectively, from the same period of 2013 due to an increase in average debt volume offset by a decrease in interest rates. Average loan volume for the second quarter of 2014 was $409,945,256, compared to $385,381,736 in the second quarter of 2013. The average net interest rate spread on the loan portfolio for the second quarter of 2014 was 2.79 percent, compared to 2.78 percent in the second quarter of 2013.

The Association's return on average assets for the six months ended June 30, 2014, was 2.29 percent compared to 2.41 percent for the same period in 2013. The Association's return on average equity for the six months ended June 30, 2014, was 10.16 percent, compared to 10.60 percent for the same period in 2013.

Liquidity and Funding Sources:

The Association secures the majority of its lendable funds from the Bank, which obtains its funds through the issuance of Systemwide obligations and with lendable equity. The following schedule summarizes the Association's borrowings.

	June 30, 2014	December 31, 2013
Note payable to the Bank	**$ 321,381,887**	$ 314,071,861
Accrued interest on note payable	**468,572**	477,809
Total	**$ 321,850,459**	$ 314,549,670

The primary source of liquidity and funding for the Association is a direct loan from the Bank. The outstanding balance of $321,381,887 as of June 30, 2014, is recorded as a liability on the Association's consolidated balance sheet. The note carried a weighted average interest rate of 1.75 percent at June 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 increased funding needs as evidenced by the increase in total assets from 2013 to 2014. The Association's own funds, which represent the amount of the Association's loan portfolio funded by the Association's equity, were $88,492,753 at June 30, 2014. The maximum amount the Association may borrow from the Bank as of June 30, 2014, was $413,712,294 as defined by the general financing agreement. The indebtedness continues in effect until the expiration date of the general financing agreement, which is September 30, 2015, unless sooner terminated by the Bank upon the occurrence of an event of default, or by the Association, in the event of a breach of this agreement by the Bank, upon giving the Bank 30 calendar days' prior written notice, or in all other circumstances, upon giving the Bank 120 days' prior written notice.

The liquidity policy of the Association is to manage cash balances to maximize debt reduction, and to increase accrual loan volume. This policy will continue to be pursued during all of 2014 and into the future. As borrower payments are received, they are applied to the Association's note payable to the Bank.

The Association will continue to fund its operations through direct borrowing from the Bank, capital surplus from prior years and borrower stock. It is management's opinion that funds available to the Association are sufficient to fund its operations for the coming year and foreseeable future.

Capital Resources:

The Association's capital position increased by $4,743,697 at June 30, 2014, compared to December 31, 2013. The Association's debt as a percentage of members' equity was 3.35:1 as of June 30, 2014, compared to 3.49:1 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 June 30, 2014, was 20.5 percent, which is in compliance with the FCA's minimum permanent capital standard. The Association’s core surplus ratio and total surplus ratio at June 30, 2014, were 20.0 and 20.0 percent, respectively, which is in compliance with the FCA’s minimum surplus standard.

Significant Recent Accounting Pronouncements:

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

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 Central Texas 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 Central Texas Farm Credit, ACA, P.O. Box 511, Coleman, Texas 76834 or calling (325) 625-2165. The annual and quarterly stockholder reports for the Association are also available on its website at *www.centraltexasaca.com*. Copies of the Association’s quarterly stockholder reports can also be requested by e-mailing *mike.antle@farmcreditbank.com*. The Association also makes its annual stockholder reports available on its website at *www.centraltexasaca.com* 75 days after the fiscal year-end. Copies of the Association’s annual stockholder report can also be requested at any Central Texas Farm Credit, ACA office 90 days after the fiscal year-end. Hard copies of the published annual report are also mailed to all Association stockholders no later than 90 days after the fiscal year-end.

CENTRAL TEXAS FARM CREDIT, ACA

CONSOLIDATED BALANCE SHEET

	June 30, 2014 (unaudited)	December 31, 2013
ASSETS		
Cash	**$ 459,978**	$ 533,981
Loans	**410,877,725**	403,911,853
Less: allowance for loan losses	**619,259**	655,898
Net loans	**410,258,466**	403,255,955
Accrued interest receivable	**3,640,621**	3,406,655
Investment in and receivable from the Farm Credit Bank of Texas:		
Capital stock	**6,029,085**	6,029,085
Other	**478,140**	-
Other property owned, net	**652,125**	652,125
Premises and equipment, net	**695,677**	676,885
Other assets	**428,012**	166,221
Total assets	**$ 422,642,104**	$ 414,720,907
LIABILITIES		
Note payable to the Farm Credit Bank of Texas	**$ 321,381,887**	$ 314,071,861
Accrued interest payable	**468,572**	477,809
Drafts outstanding	**1,624,315**	887,996
Patronage payable	**-**	4,800,000
Other liabilities	**2,111,763**	2,171,371
Total liabilities	**325,586,537**	322,409,037
MEMBERS' EQUITY		
Capital stock and participation certificates	**2,138,915**	2,152,100
Unallocated retained earnings	**94,868,691**	90,102,324
Accumulated other comprehensive income	**47,961**	57,446
Total members' equity	**97,055,567**	92,311,870
Total liabilities and members' equity	**$ 422,642,104**	$ 414,720,907

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

CENTRAL TEXAS FARM CREDIT, ACA

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

	Quarter Ended June 30,		Six Months Ended June 30,	
	2014	2013	**2014**	2013
INTEREST INCOME				
Loans	**$ 4,653,834**	$ 4,443,867	**$ 9,232,249**	$ 8,884,888
INTEREST EXPENSE				
Note payable to the Farm Credit Bank of Texas	**1,414,612**	1,382,508	**2,800,303**	2,759,057
Net interest income	**3,239,222**	3,061,359	**6,431,946**	6,125,831
PROVISION FOR LOAN LOSSES (LOAN LOSS REVERSAL)	**(40,206)**	113,761	**(56,214)**	64,974
Net interest income after provision for loan losses (loan loss reversal)	**3,279,428**	2,947,598	**6,488,160**	6,060,857
NONINTEREST INCOME				
Income from the Farm Credit Bank of Texas:				
Patronage income	**267,942**	257,067	**530,520**	502,166
Loan fees	**16,040**	57,496	**46,606**	117,221
Financially related services income	**1,958**	3,130	**4,794**	4,786
Other noninterest income	**20,645**	-	**20,645**	25,496
Total noninterest income	**306,585**	317,693	**602,565**	649,669
NONINTEREST EXPENSES				
Salaries and employee benefits	**682,445**	605,925	**1,377,763**	1,300,118
Directors' expense	**24,404**	25,950	**54,264**	57,807
Purchased services	**41,878**	27,986	**88,913**	56,226
Travel	**39,375**	35,936	**82,559**	59,327
Occupancy and equipment	**41,675**	52,595	**98,579**	95,081
Communications	**33,499**	16,514	**54,452**	32,520
Advertising	**55,132**	30,063	**125,243**	64,875
Public and member relations	**55,468**	29,768	**90,700**	55,654
Supervisory and exam expense	**35,018**	36,590	**70,035**	73,181
Insurance Fund premiums	**89,075**	70,121	**176,655**	140,332
Other noninterest expense	**47,080**	30,288	**105,195**	75,110
Total noninterest expenses	**1,145,049**	961,736	**2,324,358**	2,010,231
NET INCOME	**2,440,964**	2,303,555	**4,766,367**	4,700,295
Other comprehensive income:				
Change in postretirement benefit plans	**(4,742)**	1,788	**(9,485)**	3,576
COMPREHENSIVE INCOME	**$ 2,436,222**	$ 2,305,343	**$ 4,756,882**	$ 4,703,871

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

CENTRAL TEXAS 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	$ 2,120,295	$ 85,182,394	$ (286,751)	$ 87,015,938
Comprehensive income	-	4,700,295	3,576	4,703,871
Capital stock/participation certificates and allocated retained earnings issued	149,375	-	-	149,375
Capital stock/participation certificates and allocated retained earnings retired	(136,010)	-	-	(136,010)
Balance at June 30, 2013	$ 2,133,660	$ 89,882,689	$ (283,175)	$ 91,733,174
Balance at December 31, 2013	$ 2,152,100	$ 90,102,324	$ 57,446	$ 92,311,870
Comprehensive income	-	4,766,367	(9,485)	4,756,882
Capital stock/participation certificates and allocated retained earnings issued	148,925	-	-	148,925
Capital stock/participation certificates and allocated retained earnings retired	(162,110)	-	-	(162,110)
Balance at June 30, 2014	**$ 2,138,915**	**$ 94,868,691**	**$ 47,961**	**$ 97,055,567**

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

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

The Central Texas 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 Baylor, Brown, Callahan, Coke, Coleman, Comanche, Concho, Haskell, Irion, Jones, Knox, McCulloch, Menard, Mills, Reagan, Runnels, San Saba, Sterling, and Tom Green. 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 with GAAP, except for the inclusion of a statement of cash flows. GAAP require a business enterprise that provides a set of financial statements reporting both financial position and results of operations to also provide a statement of cash flows for each period for which results of operations are provided. In regulations issued by FCA, associations have the option to exclude statements of cash flows in interim financial statements. Therefore, the Association has elected not to include a statement of cash flows in these consolidated financial statements. These interim financial statements should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2013, as contained in the 2013 Annual Report to Stockholders. The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year ending December 31, 2014. Descriptions of the significant accounting policies are included in the 2013 Annual Report to Stockholders. In the opinion of management, these policies and the presentation of the interim financial condition and results of operations conform with GAAP and prevailing practices within the banking industry.

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

The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries. The preparation of these consolidated financial statements requires the use of management's estimates. The results for the quarter ended June 30, 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	**June 30, 2014 Amount**	December 31, 2013 Amount
Production agriculture:		
Real estate mortgage	**$ 302,640,229**	$ 298,023,812
Production and intermediate term	**36,138,284**	39,933,199
Agribusiness:		
Processing and marketing	**34,123,992**	33,429,752
Farm-related business	**9,984,364**	6,285,991
Energy	**15,014,484**	14,353,951
Communication	**9,801,235**	9,052,980
Water and waste water	**1,599,893**	714,228
Rural residential real estate	**1,575,244**	2,117,940
Total	**$ 410,877,725**	$ 403,911,853

The Association purchases or sells participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration regulations. The following table presents information regarding the balances of participations purchased and sold at June 30, 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	$ 14,596,175	$ 9,522,206	$ -	$ -	$ 14,596,175	$ 9,522,206
Production and intermediate term	6,158,451	-	-	-	6,158,451	-
Agribusiness	29,543,926	-	-	-	29,543,926	-
Communication	9,754,698	-	-	-	9,754,698	-
Energy	15,014,484	-	-	-	15,014,484	-
Water and waste water	1,599,893	-	-	-	1,599,893	-
Total	$ 76,667,627	$ 9,522,206	$ -	$ -	$ 76,667,627	$ 9,522,206

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. There were no ACPs at June 30, 2014, and December 31, 2013, respectively.

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

	June 30, 2014	December 31, 2013
Nonaccrual loans:		
Real estate mortgage	**$ 141,541**	$ 98,419
Production and intermediate term	**42,138**	57,466
Total nonaccrual loans	**183,679**	155,885
Accruing restructured loans:		
Real estate mortgage	**-**	646,649
Total accruing restructured loans	**-**	646,649
Total nonperforming loans	**183,679**	802,534
Other property owned	**652,125**	652,125
Total nonperforming assets	**$ 835,804**	$ 1,454,659

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:

	June 30, 2014		December 31, 2013	
Real estate mortgage				
Acceptable	**98.7**	%	98.4	%
OAEM	**1.2**		1.3	
Substandard/doubtful	**0.1**		0.3	
	100.0		100.0	
Production and intermediate term				
Acceptable	**99.9**		99.9	
OAEM	**-**		-	
Substandard/doubtful	**0.1**		0.1	
	100.0		100.0	
Agribusiness				
Acceptable	**100.0**		100.0	
OAEM	**-**		-	
Substandard/doubtful	**-**		-	
	100.0		100.0	
Energy				
Acceptable	**90.4**		89.6	
OAEM	**-**		-	
Substandard/doubtful	**9.6**		10.4	
	100.0		100.0	
Communication				
Acceptable	**100.0**		100.0	
OAEM	**-**		-	
Substandard/doubtful	**-**		-	
	100.0		100.0	
Rural residential real estate				
Acceptable	**100.0**		100.0	
OAEM	**-**		-	
Substandard/doubtful	**-**		-	
	100.0		100.0	
Water and waste water				
Acceptable	**100.0**		100.0	
OAEM	**-**		-	
Substandard/doubtful	**-**		-	
	100.0		100.0	
Total loans				
Acceptable	**98.7**		98.5	
OAEM	**0.9**		0.9	
Substandard/doubtful	**0.4**		0.6	
	100.0	%	100.0	%

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

June 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	**$ 421,386**	**$ 90,984**	**$ 512,370**	**$ 305,367,219**	**$ 305,879,589**	**$ -**
Production and intermediate term	**163,216**	**26,948**	**190,164**	**36,252,776**	**36,442,940**	**-**
Processing and marketing	**-**	**-**	**-**	**34,166,187**	**34,166,187**	**-**
Farm-related business	**-**	**-**	**-**	**9,990,973**	**9,990,973**	**-**
Communication	**-**	**-**	**-**	**9,814,872**	**9,814,872**	**-**
Energy	**-**	**-**	**-**	**15,027,080**	**15,027,080**	**-**
Water and waste water	**-**	**-**	**-**	**1,600,164**	**1,600,164**	**-**
Rural residential real estate	**-**	**-**	**-**	**1,596,541**	**1,596,541**	**-**
Total	**$ 584,602**	**$ 117,932**	**$ 702,534**	**$ 413,815,812**	**$ 414,518,346**	**$ -**

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 Accruing
Real estate mortgage	$ 29,397	$ 98,419	$ 127,816	$ 300,832,491	$ 300,960,307	$ -
Production and intermediate term	-	26,948	26,948	40,294,008	40,320,956	-
Processing and marketing	-	-	-	33,475,174	33,475,174	-
Farm-related business	-	-	-	6,291,738	6,291,738	-
Communication	-	-	-	9,067,361	9,067,361	-
Energy	-	-	-	14,355,396	14,355,396	-
Water and waste water	-	-	-	714,585	714,585	-
Rural residential real estate	-	-	-	2,132,991	2,132,991	-
Total	$ 29,397	$ 125,367	$ 154,764	$ 407,163,744	$ 407,318,508	$ -

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 June 30, 2014, the Association had no troubled debt restructured loans, and there were no commitments to lend funds to borrowers whose loan terms have been modified in a troubled debt restructuring. 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).

The predominant form of concession granted for troubled debt restructuring is an extension of the term. Other types of modifications include principal or accrued interest reductions, interest rate decreases and delayed payments, among others. 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 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*	
	June 30, 2014	December 31, 2013	**June 30, 2014**	December 31, 2013
Real estate mortgage	**$ -**	$ 646,649	**$ -**	$ -
Total	**$ -**	$ 646,649	**$ -**	$ -

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

Additional impaired loan information is as follows:

	June 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	**$ -**	**$ -**	**$ -**	$ -	$ -	$ -
Production and intermediate term	**-**	**-**	**-**	-	-	-
Total	**$ -**	**$ -**	**$ -**	$ -	$ -	$ -
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	**$ 141,541**	**$ 141,541**	**$ -**	$ 745,068	$ 741,531	$ -
Production and intermediate term	**42,138**	**221,761**	**-**	57,466	237,090	-
Total	**$ 183,679**	**$ 363,302**	**$ -**	$ 802,534	$ 978,621	$ -
Total impaired loans:						
Real estate mortgage	**$ 141,541**	**$ 141,541**	**$ -**	$ 745,068	$ 741,531	$ -
Production and intermediate term	**42,138**	**221,761**	**-**	57,466	237,090	-
Total	**$ 183,679**	**$ 363,302**	**$ -**	$ 802,534	$ 978,621	$ -

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

	For the Three Months Ended				For the Six Months Ended			
	June 30, 2014		June 30, 2013		**June 30, 2014**		June 30, 2013	
	Average Impaired Loans	**Interest Income Recognized**	Average Impaired Loans	Interest Income Recognized	**Average Impaired Loans**	**Interest Income Recognized**	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:								
Real estate mortgage	**$ -**	**$ -**	$ -	$ -	**$ -**	**$ -**	$ -	$ -
Production and intermediate term	**-**	**-**	3,060,183	-	**-**	**-**	3,085,810	-
Total	**$ -**	**$ -**	$ 3,060,183	$ -	**$ -**	**$ -**	$ 3,085,810	$ -
Impaired loans with no related allowance for credit losses:								
Real estate mortgage	**$ 110,748**	**$ 1,027**	$ 1,767,272	$ 21,643	**$ 100,506**	**$ 1,866**	$ 1,783,803	$ 28,609
Production and intermediate term	**45,251**	**646**	-	-	**51,325**	**646**	-	-
Total	**$ 155,999**	**$ 1,673**	$ 1,767,272	$ 21,643	**$ 151,831**	**$ 2,512**	$ 1,783,803	$ 28,609
Total impaired loans:								
Real estate mortgage	**$ 110,748**	**$ 1,027**	$ 1,767,272	$ 21,643	**$ 100,506**	**$ 1,866**	$ 1,783,803	$ 28,609
Production and intermediate term	**45,251**	**646**	3,060,183	-	**51,325**	**646**	3,085,810	-
Total	**$ 155,999**	**$ 1,673**	$ 4,827,455	$ 21,643	**$ 151,831**	**$ 2,512**	$ 4,869,613	$ 28,609

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	Water and Waste Water	Rural Residential Real Estate	Total
Allowance for Credit Losses:								
Balance at March 31, 2014	$ 225,777	$ 179,766	$ 73,522	$ 19,320	$ 148,287	$ 1,782	$ 1,280	$ 649,734
Charge-offs	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-
Provision for loan losses	(16,694)	(22,849)	2,071	(423)	(2,052)	(12)	(247)	(40,206)
Other	2	(88)	9,711	40	92	(34)	8	9,731
Balance at June 30, 2014	$ 209,085	$ 156,829	$ 85,304	$ 18,937	$ 146,327	$ 1,736	$ 1,041	$ 619,259
Balance at December 31, 2013	$ 222,030	$ 199,044	$ 62,622	$ 19,080	$ 150,940	$ 771	$ 1,411	$ 655,898
Charge-offs	-	-	-	-	-	-	-	-
Recoveries	8,210	-	-	-	-	-	-	8,210
Provision for loan losses	(21,162)	(43,396)	12,486	(769)	(4,009)	1,046	(410)	(56,214)
Other	7	1,181	10,196	626	(604)	(81)	40	11,365
Balance at June 30, 2014	$ 209,085	$ 156,829	$ 85,304	$ 18,937	$ 146,327	$ 1,736	$ 1,041	$ 619,259
Ending Balance:								
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	209,085	156,829	85,304	18,937	146,327	1,736	1,041	619,259
Balance at June 30, 2014	$ 209,085	$ 156,829	$ 85,304	$ 18,937	$ 146,327	$ 1,736	$ 1,041	$ 619,259
Balance at March 31, 2013	$ 206,217	$ 269,972	$ 1,053,729	$ 19,791	$ 169,714	$ -	$ 1,320	$ 1,720,743
Charge-offs	-	-	(670,000)	-	-	-	-	(670,000)
Recoveries	-	-	-	-	-	-	-	-
Provision for loan losses	(5,595)	(1,714)	125,808	1,657	(6,641)	-	246	113,761
Other	46	(2,840)	51,578	(833)	2,897	-	(76)	50,772
Balance at June 30, 2013	$ 200,668	$ 265,418	$ 561,115	$ 20,615	$ 165,970	$ -	$ 1,490	$ 1,215,276
Balance at December 31, 2012	$ 207,832	$ 298,485	$ 1,051,482	$ 22,265	$ 166,741	$ -	$ 1,225	$ 1,748,030
Charge-offs	-	-	(670,000)	-	-	-	-	(670,000)
Recoveries	-	-	-	-	-	-	-	-
Provision for loan losses	(7,210)	(35,848)	115,644	(868)	(7,144)	-	400	64,974
Other	46	2,781	63,989	(782)	6,373	-	(135)	72,272
Balance at June 30, 2013	$ 200,668	$ 265,418	$ 561,115	$ 20,615	$ 165,970	$ -	$ 1,490	$ 1,215,276
Ending Balance:								
Individually evaluated for impairment	$ -	$ -	$ 487,000	$ -	$ -	$ -	$ -	$ 487,000
Collectively evaluated for impairment	200,668	265,418	74,115	20,615	165,970	-	1,490	728,276
Balance at June 30, 2013	$ 200,668	$ 265,418	$ 561,115	$ 20,615	$ 165,970	$ -	$ 1,490	$ 1,215,276

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy	Water/Waste Water	Rural Residential Real Estate	Total
Recorded Investments in Loans Outstanding:								
Ending Balance at June 30, 2014	$ 305,879,589	$ 36,442,940	$ 44,157,160	$ 9,814,872	$ 15,027,080	$ 1,600,164	$ 1,596,541	$ 414,518,346
Individually evaluated for impairment	$ 141,541	$ 42,138	$ -	$ -	$ -	$ -	$ -	$ 183,679
Collectively evaluated for impairment	$ 305,738,048	$ 36,400,802	$ 44,157,160	$ 9,814,872	$ 15,027,080	$ 1,600,164	$ 1,596,541	$ 414,334,667
Ending Balance at June 30, 2013	$ 290,079,655	$ 31,650,920	$ 42,811,023	$ 8,994,041	$ 14,282,945	$ -	$ 2,017,239	$ 389,835,823
Individually evaluated for impairment	$ 1,084,130	$ -	$ 2,441,721	$ -	$ -	$ -	$ -	$ 3,525,851
Collectively evaluated for impairment	$ 288,995,525	$ 31,650,920	$ 40,369,302	$ 8,994,041	$ 14,282,945	$ -	$ 2,017,239	$ 386,309,972

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 portfolio; sufficiency of liquid funds; needs of an institution's customer base; and any other risk-oriented activities, such as funding and interest rate risk, potential obligations under joint and several liability, contingent and off-balance-sheet liabilities or other conditions warranting additional capital. At least quarterly, management reviews the Association's goals and objectives with the board.

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

June 30, 2014	**Net of Tax**
Nonpension postretirement benefits	**$ 47,961**
Total	**$ 47,961**

June 30, 2013	Net of Tax
Nonpension postretirement benefits	$ (283,175)
Total	$ (283,175)

The Association's accumulated other comprehensive income (loss) relates entirely to its nonpension other postretirement benefits. Amortization of prior service credits and of actuarial loss are reflected in “Salaries and employee benefits” in the consolidated statement of comprehensive income. The following table summarizes the changes in accumulated other comprehensive income (loss) for the six months ended June 30:

	2014	2013
Accumulated other comprehensive income (loss) at January 1	**$ 57,446**	$ (286,751)
Amortization of prior service credits included in salaries and employee benefits	**(9,485)**	(9,485)
Amortization of actuarial loss included in salaries and employee benefits	**-**	13,061
Other comprehensive income (loss), net of tax	**(9,485)**	3,576
Accumulated other comprehensive income (loss) at June 30	**$ 47,961**	$ (283,175)

NOTE 4 — INCOME TAXES:

Central Texas Farm Credit, ACA and its subsidiary are subject to federal and certain other income taxes. The associations are eligible to operate as cooperatives that qualify for tax treatment under Subchapter T of the Internal Revenue code. Under specified conditions, the associations can exclude from taxable income amounts distributed as qualified patronage refunds in the form of cash, stock or allocated surplus. Provisions for income taxes are made only on those earnings that will not be distributed as qualified patronage refunds. During the six months ended June 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’s valuation allowance was $1,119,933 as of the quarter ended March 31, 2014, for no available tax benefit as of that point in time.

The subsidiary, Central Texas Federal Land Bank, FLCA, is exempt from federal and other income taxes as provided in the Farm Credit Act of 1971.

NOTE 5 — FAIR VALUE MEASUREMENTS:

FASB guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. See Note 2 to the 2013 Annual Report to Stockholders for a more complete description.

There were no transfers to or from Level 1, Level 2, or Level 3 for the six months ended June 30, 2014 or for the year ended December 31, 2013.

The Association had no assets or liabilities measured at fair value on a recurring basis at June 30, 2014 or December 31, 2013.

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

June 30, 2014	**Fair Value Measurement Using**			**Total Fair**
	Level 1	**Level 2**	**Level 3**	**Value**
Assets:				
Loans*	**$ -**	**$ -**	**$ -**	**$ -**
Other property owned	**-**	**-**	**652,125**	**652,125**

December 31, 2013	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Loans*	$ -	$ -	$ -	$ -
Other property owned	-	-	652,125	652,125

*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.

Information about Nonrecurring Level 3 Fair Value Measurements

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.

Valuation Techniques

As more fully discussed in Note 2 to the 2013 Annual Report to Stockholders, authoritative guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following represent a brief summary of the valuation techniques used for the Association's assets and liabilities. For a more complete description, see Notes to the 2013 Annual Report to Stockholders

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 June 30:

	Other Benefits	
	2014	2013
Service cost	**$ 11,087**	$ 13,429
Interest cost	**18,423**	18,213
Amortization of prior service credits	**(4,742)**	(4,743)
Amortization of net actuarial loss	**-**	6,531
Net periodic benefit cost	**$ 24,768**	$ 33,430

The Association's liability for the unfunded accumulated obligation for these benefits at June 30, 2014, was $1,473,011 and is included in "Other Liabilities" in the consolidated balance sheet.

The structure of the District's defined benefit pension plan is characterized as multiemployer since the assets, liabilities and cost of the plan are not segregated or separately accounted for by participating employers (Bank and associations). The Association recognizes its amortized annual contributions to the plan as an expense. As of June 30, 2014, $253,350 of contributions have been made. The Association presently anticipates contributing an additional $253,350 to fund the defined benefit pension plan in 2014 for a total of $506,700.

NOTE 7 — COMMITMENTS AND CONTINGENT LIABILITIES:

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

NOTE 8 — SUBSEQUENT EVENTS:

The Association has evaluated subsequent events through July 22, 2014, which is the date the financial statements were issued. There are no other significant events requiring disclosure as of July 22, 2014.