CENTRAL TEXAS FARM CREDIT, ACA

2013
Quarterly Report
Third Quarter

For the Quarter Ended September 30, 2013

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

October 25, 2013

Jerry Don Klose

Jerry Don Klose, Chairman, Board of Directors

October 25, 2013

Zach May

Zach May, Chief Operating Officer

October 25, 2013

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 September 30, 2013. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2012 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:

2013

Effective March 31, 2013 Alan Benedict retired as Controller and Treasurer of Central Texas Farm Credit, ACA.

The board adopted a resolution at its March meeting which amended the ACA Bylaws to reduce the size of the board from 8 members (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 Wayland Shurley and Mickey 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 board of directors approved a $4,600,000 patronage distribution which was paid in March 2013.

In December 2012, the Association received a direct loan patronage of $1,300,049 from the Farm Credit Bank of Texas (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 November 2012, outside director Glenn Miller resigned his director position and in December 2012, Burl Lowery was appointed by the Board to fill the position effective January 1, 2013.

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 April 2012, 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.

2011

In December 2011, the board of directors approved a $4,500,000 patronage distribution which was paid in March 2012.

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

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.

In December 2010, the board of directors approved a $3,200,000 patronage distribution which was paid in March 2011.

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 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.

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 April 2010, the Association received a refund from the Farm Credit System Insurance Corporation (FCSIC) of prior year insurance premiums totaling $410,939, which was taken into income for 2010.

Problem Loans

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.

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, has once 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 which resulted in this account 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 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 2011with $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.

2008

In the second quarter all loans being held by one large borrower were deemed non-viable and transferred to non-accrual. FLCA debt for this borrower totaled $3,155,256 and PCA debt totaled $3,673,011. Resolution of these debts was completed in the third quarter of 2008 with the exception of some on-going PCA related legal expenses. The entire FLCA debt was fully recovered at resolution and the PCA debt was recovered except for related charge-offs of $753,570. On-going legal expense ceased in 2010 with a cumulative total of $92,969. Additional legal expenses are not anticipated related to this borrower's accounts.

During the fourth quarter four District participation loans were deemed non-viable or as having significant financial stress which required these accounts to be transferred to a non-accrual status. These combined accounts resulted in $8,257,898 in loan volume being moved to non-accrual. All four accounts were eventually resolved with one being wholly transferred back to an accruing status. The remaining three of these accounts remained in non-accrual until resolution, requiring $1,949,598 in charge-offs. Due to subsequent recoveries on two of the accounts this charge-off figure was reduced to $1,855,475. One of the accounts also resulted in a new loan to another entity that purchased the assets of the troubled account.

Quarter-end Weather and Crop Conditions

The US economy remains on the slow road to recovery as the current fiscal sequester and weakening growth overseas among the U.S. key trading partners moderate growth opportunity. Unfortunately, we have recently seen the second federal government shutdown in almost 20 years. Presently, GDP and jobs growth have stalled and will most likely not see substantial growth in the remainder of 2013, with no further improvement in either expected until 2014. Overall, underlying fundamentals of the private economy remain solid, and GDP growth is expected to accelerate, and should reach 3 percent next year.

As of the end of the third quarter of 2013, both U.S. exports and imports are forecasted to achieve record levels in 2014. Farmers should benefit from lower fuel and fertilizer costs in 2014; which should facilitate higher agricultural output and export volumes. Overall, world macroeconomic factors should continue to be favorable for U.S. farm exports in 2014.

The dollar's estimated rise in 2013 of 2.3 percent was the result of increasingly attractive U.S. financial assets as growth stabilized in the United States and investment prospects diminished in other developed countries. The stronger U.S. economy in 2014 should lift U.S. import demand even as U.S. exports rise providing a boost to world growth beyond North America.

The local economy in our chartered territory remains stable. Real estate prices have not decreased materially despite a slowdown in sales. The majority of the Association's new loans made during the past number of years have been to absentee landowners looking for a place for a small agricultural operation or for recreational use. As such, the Association has a diversified borrower base that is not concentrated in only one industry. 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 third quarter, tropical storm Manuel brought much-needed rain to parts of the Association's territory, improving soil moisture for winter forage planting and improving rangeland and pastures as well. Areas that received substantial rains saw good runoff into stock tanks. However, many tanks remained extremely low. Farmers continued fertilizing and otherwise preparing fields for fall planting. Already planted winter wheat and oats benefited from the rain. In most areas, cotton was in good condition, setting bolls with some fields beginning to open. Some producers believe they will be stripping cotton in about a month and have started preparing harvest equipment. Livestock were in good condition as producers continued supplemental feeding. Hay supplies were short, but some failed cotton acres planted back to hay were being bailed with promising yields. The corn harvest concluded with fair to good yields reported.

Summation

For over 96 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 September 30, 2013, including nonaccrual loans, were $391,627,786 compared to $386,053,139 at December 31, 2012, reflecting an increase of 1.4 percent. Nonaccrual loans as a percentage of total loans outstanding were 0.9 percent at September 30, 2013, compared to 1.1 percent at December 31, 2012.

The Association did not record any recoveries or charge-offs for the quarter ended September 30, 2013, or for the same period in 2012. The Association's allowance for loan losses was 0.3 percent and 0.5 percent of total loans outstanding as of September 30, 2013, and December 31, 2012, respectively.

Currently, the Association has $3,524,651 in nonaccrual loans stemming from four loans. Three of these loans are included in the Association's core loan portfolio for a total of $1,082,930 and one of these loans is included in the Association's participation loan portfolio in the amount of $2,441,721. 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.

	September 30, 2013		December 31, 2012	
	Amount	**%**	Amount	%
Nonaccrual	**$ 3,524,651**	**74.2%**	$ 4,239,610	78.0%
90 days past due and still accruing interest	**62,416**	**1.3%**	-	0.0%
Formally restructured	**643,219**	**13.5%**	674,451	12.4%
Other property owned, net	**523,049**	**11.0%**	523,049	9.6%
Total	**$ 4,753,335**	**100.0%**	$ 5,437,110	100.0%

Results of Operations:

The Association had net income of $2,450,808 and $7,151,103 for the three and nine months ended September 30, 2013, as compared to net income of $1,659,629 and $6,964,223 for the same period in 2012, reflecting increases of 47.7 and 2.7 percent, respectively. Net interest income was $3,054,513 and $9,180,343 for the three and nine months ended September 30, 2013, compared to $3,020,949 and $9,078,737 for the same period in 2012.

	September 30, 2013		September 30, 2012	
	Average Balance	**Interest**	Average Balance	Interest
Loans	**$ 384,685,851**	**$ 13,319,251**	$ 380,998,817	$ 13,787,456
Interest-bearing liabilities	**299,504,117**	**4,138,908**	301,755,838	4,708,719
Impact of capital	**$ 85,181,734**		$ 79,242,979	
Net interest income		**$ 9,180,343**		$ 9,078,737

	2013 Average Yield	2012 Average Yield
Yield on loans	**4.63%**	4.83%
Cost of interest-bearing liabilities	**1.85%**	2.08%
Interest rate spread	**2.78%**	2.75%
Net interest income as a percentage of average earning assets	**3.19%**	3.18%

	September 30, 2013 vs. September 30, 2012		
	Increase (decrease) due to		
	Volume	**Rate**	**Total**
Interest income - loans	**$ 133,302**	**$ (601,507)**	**$ (468,205)**
Interest expense	**(35,105)**	**(534,706)**	**(569,811)**
Net interest income	**$ 168,407**	**$ (66,801)**	**$ 101,606**

Interest income for the three and nine months ended September 30, 2013, decreased by $115,999 and $468,205, or 2.5 and 3.4 percent, respectively, from the same periods of 2012, primarily due to declines in yields on earning assets offset by an increase in average loan volume. Interest expense for the three and nine months ended September 30, 2013, decreased by $149,563 and $569,811, or 9.8 and 12.1 percent, respectively, from the same periods of 2012 due to a decrease in interest rates and a decrease in average debt volume. Average loan volume for the third quarter of 2013 was $387,137,116, compared to $384,453,385 in the third quarter of 2012. The average net interest rate spread on the loan portfolio for the third quarter of 2013 was 2.73 percent, compared to 2.71 percent in the third quarter of 2012.

The Association's return on average assets for the nine months ended September 30, 2013, was 2.42 percent compared to 2.37 percent for the same period in 2012. The Association's return on average equity for the nine months ended September 30, 2013, was 10.55 percent, compared to 10.80 percent for the same period in 2012.

Because the Association depends on the Bank for funding, any significant positive or negative factors affecting the operations of the Bank would have a similar effect on the operations of the Association.

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.

	September 30, 2013	December 31, 2012
Note payable to the Farm Credit Bank of Texas	**$ 305,599,191**	$ 301,702,000
Accrued interest on note payable	**449,440**	496,888
Total	**$ 306,048,631**	$ 302,198,888

The primary source of liquidity and funding for the Association is a direct loan from the Bank. The outstanding balance of $305,599,191 as of September 30, 2013, is recorded as a liability on the Association's balance sheet. The note carried a weighted average interest rate of 1.77 percent at September 30, 2013. The indebtedness is collateralized by a pledge of substantially all of the

Association's assets to the Bank and is governed by a general financing agreement. The increase in note payable to the Bank since December 31, 2012 is due to an increase in the Association's loan volume and the decrease in related accrued interest payable over the same period is due to decreases in interest rates. The Association's own funds, which represent the amount of the Association's loan portfolio funded by the Association's equity, were $85,359,274 at September 30, 2013. The maximum amount the Association may borrow from the Bank as of September 30, 2013, was $392,947,084 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 2013 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 borrowings from the Bank, capital surplus from prior years and borrower stock. It is management's opinion that funds available to the Association are sufficient to fund its operations for the coming year and foreseeable future.

Capital Resources:

The Association's capital position increased by $7,180,152 at September 30, 2013, compared to December 31, 2012. The Association's debt as a percentage of members' equity was 3.28:1 as of September 30, 2013, compared to 3.56:1 as of December 31, 2012.

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, 2013, was 21.3 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, 2013, were 20.8 and 20.8 percent, respectively, which is in compliance with the FCA's minimum surplus standard.

Significant Recent Accounting Pronouncements:

In December 2011, the Financial Accounting Standards Board (FASB) issued guidance entitled "Balance Sheet – Disclosures About Offsetting Assets and Liabilities." The guidance requires an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. This includes the effect or potential effect of rights of offset associated with an entity's recognized assets and recognized liabilities. The requirements apply to recognized financial instruments and derivative instruments that are offset in accordance with the rights of offset set forth in accounting guidance and for those recognized financial instruments and derivative instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset or not. This guidance is to be applied retrospectively for all comparative periods and is effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. The adoption of this guidance did not impact financial condition or results of operations, but resulted in additional disclosures.

In February 2013, the FASB issued guidance, "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income." The guidance requires entities to present either parenthetically on the face of the financial statements or in the notes to the financial statements, significant amounts reclassified from each component of accumulated other comprehensive income and the income statement line items affected by the reclassification. The guidance is effective for public entities for annual periods beginning after December 15, 2012, and for nonpublic entities for annual periods beginning after December 15, 2013. The Association has adopted this guidance, which did not impact the financial condition or results of operations, but resulted in additional disclosures which are included in Note 6 – Employee Benefit Plans.

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 2012 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. Copies of the Association's quarterly stockholder reports can also be requested by e-mailing *zach.may@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

	September 30, 2013 (unaudited)	December 31, 2012
ASSETS		
Cash	**$ 738,404**	$ 1,611,150
Loans	**391,627,786**	386,053,139
Less: allowance for loan losses	**1,193,036**	1,748,030
Net loans	**390,434,750**	384,305,109
Accrued interest receivable	**3,947,175**	3,438,702
Investment in and receivable from the Farm Credit Bank of Texas:		
Capital stock	**6,047,355**	6,047,355
Other	**673,884**	-
Other property owned, net	**523,049**	523,049
Premises and equipment	**660,438**	629,163
Other assets	**314,286**	197,410
Total assets	**$ 403,339,341**	$ 396,751,938
LIABILITIES		
Note payable to the Farm Credit Bank of Texas	**$ 305,599,191**	$ 301,702,000
Accrued interest payable	**449,440**	496,888
Drafts outstanding	**693,012**	658,710
Patronage distributions payable	**-**	4,600,000
Other liabilities	**2,401,608**	2,278,402
Total liabilities	**309,143,251**	309,736,000
MEMBERS' EQUITY		
Capital stock and participation certificates	**2,143,980**	2,120,295
Unallocated retained earnings	**92,333,497**	85,182,394
Accumulated other comprehensive income (loss)	**(281,387)**	(286,751)
Total members' equity	**94,196,090**	87,015,938
Total liabilities and members' equity	**$ 403,339,341**	$ 396,751,938

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 September 30,		Nine Months Ended September 30,	
	2013	2012	**2013**	2012
INTEREST INCOME				
Loans	**$ 4,434,363**	$ 4,550,362	**$ 13,319,251**	$ 13,787,456
INTEREST EXPENSE				
Note payable to the Farm Credit Bank of Texas	**1,379,850**	1,529,413	**4,138,908**	4,708,719
Net interest income	**3,054,513**	3,020,949	**9,180,343**	9,078,737
PROVISION FOR LOAN LOSSES	**(622)**	817,648	**64,352**	864,069
Net interest income after provision for loan losses	**3,055,135**	2,203,301	**9,115,991**	8,214,668
NONINTEREST INCOME				
Income from the Farm Credit Bank of Texas:				
Patronage income	**254,282**	258,491	**756,448**	773,992
Loan fees	**53,260**	121,652	**170,481**	403,238
Financially related services income	**1,942**	2,427	**6,728**	7,274
Gain on other property owned, net	**-**	-	**-**	1,910
Other noninterest income	**9**	30	**25,505**	358,634
Total noninterest income	**309,493**	382,600	**959,162**	1,545,048
NONINTEREST EXPENSES				
Salaries and employee benefits	**590,001**	642,306	**1,890,118**	1,882,733
Directors' expense	**27,705**	27,414	**85,512**	87,205
Purchased services	**12,833**	40,540	**69,059**	117,550
Travel	**25,521**	17,662	**84,848**	63,686
Occupancy and equipment	**48,897**	37,637	**143,978**	123,019
Communications	**16,656**	7,969	**49,176**	21,506
Advertising	**33,299**	29,395	**98,174**	101,562
Public and member relations	**32,343**	29,221	**87,997**	77,655
Supervisory and exam expense	**35,017**	36,591	**108,198**	117,221
Insurance Fund premiums	**70,623**	35,589	**210,954**	106,212
Other noninterest expense	**20,925**	21,948	**96,036**	97,144
Total noninterest expenses	**913,820**	926,272	**2,924,050**	2,795,493
NET INCOME	**2,450,808**	1,659,629	**7,151,103**	6,964,223
Other comprehensive income:				
Change in postretirement benefit plans	**1,788**	(5,491)	**5,364**	(16,474)
COMPREHENSIVE INCOME	**$ 2,452,596**	$ 1,654,138	**$ 7,156,467**	$ 6,947,749

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, 2011	$ 2,206,060	$ 80,222,323	$ (140,923)	$ 82,287,460
Comprehensive income	-	6,964,223	(16,474)	6,947,749
Capital stock/participation certificates and allocated retained earnings issued	181,940	-	-	181,940
Capital stock/participation certificates and allocated retained earnings retired	(242,935)	-	-	(242,935)
Balance at September 30, 2012	$ 2,145,065	$ 87,186,546	$ (157,397)	$ 89,174,214
Balance at December 31, 2012	$ 2,120,295	$ 85,182,394	$ (286,751)	$ 87,015,938
Comprehensive income	-	7,151,103	5,364	7,156,467
Capital stock/participation certificates and allocated retained earnings issued	227,950	-	-	227,950
Capital stock/participation certificates and allocated retained earnings retired	(204,265)	-	-	(204,265)
Balance at September 30, 2013	**$ 2,143,980**	**$ 92,333,497**	**$ (281,387)**	**$ 94,196,090**

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

CENTRAL TEXAS FARM CREDIT, ACA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

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 in the state of Texas. 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 significant accounting policies followed and the financial condition and results of operations of the Association as of and for the year ended December 31, 2012, are contained in the 2012 Annual Report to Stockholders. These unaudited third quarter 2013 financial statements should be read in conjunction with the 2012 Annual Report to Stockholders.

In December 2011, the Financial Accounting Standards Board (FASB) issued guidance entitled "Balance Sheet – Disclosures About Offsetting Assets and Liabilities." The guidance requires an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. This includes the effect or potential effect of rights of offset associated with an entity's recognized assets and recognized liabilities. The requirements apply to recognized financial instruments and derivative instruments that are offset in accordance with the rights of offset set forth in accounting guidance and for those recognized financial instruments and derivative instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset or not. This guidance is to be applied retrospectively for all comparative periods and is effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. The adoption of this guidance did not impact financial condition or results of operations, but resulted in additional disclosures.

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

The accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with generally accepted accounting principles, except for the inclusion of a statement of cash flows. Generally accepted accounting principles 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.

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, 2013, are not necessarily indicative of the results to be expected for the year ending December 31, 2013. 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, 2013 Amount**	December 31, 2012 Amount
Production agriculture:		
Real estate mortgage	**$ 288,206,031**	$ 287,170,550
Production and intermediate term	**36,293,059**	31,439,776
Agribusiness:		
Processing and marketing	**35,918,952**	36,216,059
Farm-related business	**6,358,282**	5,308,306
Energy	**14,302,273**	13,484,333
Communication	**8,319,136**	10,776,987
Rural residential real estate	**2,230,053**	1,657,128
Total	**$ 391,627,786**	$ 386,053,139

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, 2013:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 13,777,234	$ 329,494	$ -	$ -	$ 13,777,234	$ 329,494
Production and intermediate term	5,335,842	-	-	-	5,335,842	-
Agribusiness	30,936,980	-	-	-	30,936,980	-
Communication	8,259,288	-	-	-	8,259,288	-
Energy	14,302,273	-	-	-	14,302,273	-
Total	$ 72,611,617	$ 329,494	$ -	$ -	$ 72,611,617	$ 329,494

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 September 30, 2013, or December 31, 2012.

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

	September 30, 2013	December 31, 2012
Nonaccrual loans:		
Real estate mortgage	**$ 1,082,930**	$ 1,127,889
Agribusiness	**2,441,721**	3,111,721
Total nonaccrual loans	**3,524,651**	4,239,610
Accruing restructured loans:		
Real estate mortgage	**643,219**	674,451
Total accruing restructured loans	**643,219**	674,451
Accruing loans 90 days or more past due:		
Real estate mortgage	**62,416**	-
Total accruing loans 90 days or more	**62,416**	-
Total nonperforming loans	**4,230,286**	4,914,061
Other property owned	**523,049**	523,049
Total nonperforming assets	**$ 4,753,335**	$ 5,437,110

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, 2013		December 31, 2012	
Real estate mortgage				
Acceptable	**98.8**	%	98.5	%
OAEM	**0.6**		0.8	
Substandard/doubtful	**0.6**		0.7	
	100.0		100.0	
Production and intermediate term				
Acceptable	**99.3**		96.9	
OAEM	**0.1**		-	
Substandard/doubtful	**0.6**		3.1	
	100.0		100.0	
Agribusiness				
Acceptable	**94.2**		87.9	
OAEM	**-**		4.6	
Substandard/doubtful	**5.8**		7.5	
	100.0		100.0	
Energy				
Acceptable	**89.3**		88.0	
OAEM	**-**		-	
Substandard/doubtful	**10.7**		12.0	
	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	
Total loans				
Acceptable	**98.0**		96.9	
OAEM	**0.4**		1.1	
Substandard/doubtful	**1.6**		2.0	
	100.0	%	100.0	%

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

September 30, 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	**$ 20,692**	**$ 833,798**	**$ 854,490**	**$ 290,816,392**	**$ 291,670,882**	**$ 62,416**
Production and intermediate term	**131,029**	**-**	**131,029**	**36,502,487**	**36,633,516**	**-**
Processing and marketing	**-**	**2,441,721**	**2,441,721**	**33,559,921**	**36,001,642**	**-**
Energy	**-**	**-**	**-**	**14,305,866**	**14,305,866**	**-**
Communication	**-**	**-**	**-**	**8,335,715**	**8,335,715**	**-**
Farm-related business	**-**	**-**	**-**	**6,363,944**	**6,363,944**	**-**
Rural residential real estate	**-**	**-**	**-**	**2,263,396**	**2,263,396**	**-**
Total	**$ 151,721**	**$ 3,275,519**	**$ 3,427,240**	**$ 392,147,721**	**$ 395,574,961**	**$ 62,416**

December 31, 2012	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	$ 2,138,461	$ -	$ 2,138,461	$ 288,129,195	$ 290,267,656	$ -
Production and intermediate term	103,499	-	103,499	31,582,794	31,686,293	-
Processing and marketing	-	3,111,721	3,111,721	33,155,656	36,267,377	-
Energy	-	-	-	13,489,807	13,489,807	-
Communication	-	-	-	10,798,239	10,798,239	-
Farm-related business	-	-	-	5,310,706	5,310,706	-
Rural residential real estate	-	-	-	1,671,763	1,671,763	-
Total	$ 2,241,960	$ 3,111,721	$ 5,353,681	$ 384,138,160	$ 389,491,841	$ -

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, 2013, the total recorded investment of troubled debt restructured loans was $643,219, all of which was classified as accrual. No specific allowance for loan losses were recorded for troubled debt restructurings. As of September 30, 2013 and December 31, 2012, 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). There were no troubled debt restructurings that occurred during the quarter ending September 30, 2013.

The predominant form of concession granted for troubled debt restructuring includes 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.

	Loans Modified as TDRs		TDRs in Nonacrual Status*	
	September 30, 2013	December 31, 2012	September 30, 2013	December 31, 2012
Real estate mortgage	$ 643,219	$ 674,451	$ -	$ -
Total	$ 643,219	$ 674,451	$ -	$ -

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

Additional impaired loan information is as follows:

	September 30, 2013			December 31, 2012		
	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:						
Processing and marketing	**$ 2,441,721**	**$ 3,111,721**	**$ 1,157,000**	$ 3,111,721	$ 3,111,721	$ 977,000
Total	**$ 2,441,721**	**$ 3,111,721**	**$ 1,157,000**	$ 3,111,721	$ 3,111,721	$ 977,000
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	**$ 1,788,565**	**$ 1,784,762**	**$ -**	$ 1,802,340	$ 1,802,228	$ -
Total	**$ 1,788,565**	**$ 1,784,762**	**$ -**	$ 1,802,340	$ 1,802,228	$ -
Total impaired loans:						
Real estate mortgage	**$ 1,788,565**	**$ 1,784,762**	**$ -**	$ 1,802,340	$ 1,802,228	$ -
Processing and marketing	**2,441,721**	**3,111,721**	**1,157,000**	3,111,721	3,111,721	977,000
Total	**$ 4,230,286**	**$ 4,896,483**	**$ 1,157,000**	$ 4,914,061	$ 4,913,949	$ 977,000

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

	For the Quarter Ended September 30, 2013		For the Quarter Ended September 30, 2012	
	Average Impaired Loans	**Interest Income Recognized**	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:				
Processing and marketing	**$ 2,441,721**	**$ -**	$ 219,219	$ 148
Total	**$ 2,441,721**	**$ -**	$ 219,219	$ 148
Impaired loans with no related allowance for credit losses:				
Real estate mortgage	**$ 1,803,690**	**$ 10,663**	$ 1,878,692	$ 10,710
Processing and marketing	**-**	**-**	217,377	131
Total	**$ 1,803,690**	**$ 10,663**	$ 2,096,069	$ 10,841
Total impaired loans:				
Real estate mortgage	**$ 1,803,690**	**$ 10,663**	$ 1,878,692	$ 10,710
Processing and marketing	**2,441,721**	**-**	436,596	279
Total	**$ 4,245,411**	**$ 10,663**	$ 2,315,288	$ 10,989

	For the Nine Months Ended			
	September 30, 2013		September 30, 2012	
	Average Impaired Loans	**Interest Income Recognized**	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:				
Processing and marketing	**$ 2,868,754**	**$ -**	$ 219,219	$ (3,847)
Total	**$ 2,868,754**	**$ -**	$ 219,219	$ (3,847)
Impaired loans with no related allowance for credit losses:				
Real estate mortgage	**$ 1,829,437**	**$ 40,682**	$ 1,875,791	$ 41,239
Processing and marketing	**-**	**-**	73,255	(3,426)
Total	**$ 1,829,437**	**$ 40,682**	$ 1,949,046	$ 37,813
Total impaired loans:				
Real estate mortgage	**$ 1,829,437**	**$ 40,682**	$ 1,875,791	$ 41,239
Processing and marketing	**2,868,754**	**-**	292,474	(7,273)
Total	**$ 4,698,191**	**$ 40,682**	$ 2,168,265	$ 33,966

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	Rural Residential Real Estate	Total
Allowance for Credit Losses:							
Balance at June 30, 2013	$ 200,668	$ 265,418	$ 561,115	$ 20,615	$ 165,970	$ 1,490	$ 1,215,276
Charge-offs	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-
Provision for loan losses	14,892	(24,323)	11,827	(1,346)	(1,697)	25	(622)
Other	(2,378)	(11,207)	(8,174)	(903)	968	76	(21,618)
Balance at September 30, 2013	$ 213,182	$ 229,888	$ 564,768	$ 18,366	$ 165,241	$ 1,591	$ 1,193,036
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	7,682	(60,171)	127,471	(2,214)	(8,841)	425	64,352
Other	(2,332)	(8,426)	55,815	(1,685)	7,341	(59)	50,654
Balance at September 30, 2013	$ 213,182	$ 229,888	$ 564,768	$ 18,366	$ 165,241	$ 1,591	$ 1,193,036
Ending Balance:							
Individually evaluated for impairment	$ -	$ -	$ 487,000	$ -	$ -	$ -	$ 487,000
Collectively evaluated for impairment	213,182	229,888	77,768	18,366	165,241	1,591	706,036
Balance at September 30, 2013	$ 213,182	$ 229,888	$ 564,768	$ 18,366	$ 165,241	$ 1,591	$ 1,193,036
Balance at June 30, 2012	$ 211,723	$ 290,425	$ 213,571	$ 55,143	$ 159,932	$ 1,436	$ 932,230
Charge-offs	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-
Provision for loan losses	(25,814)	1,390	822,238	4,951	15,055	(171)	817,649
Other	2	(6,171)	1,193	(702)	(2,594)	-	(8,272)
Balance at September 30, 2012	$ 185,911	$ 285,644	$ 1,037,002	$ 59,392	$ 172,393	$ 1,265	$ 1,741,607
Balance at December 31, 2011	$ 226,217	$ 270,711	$ 215,308	$ 19,637	$ 145,160	$ 1,480	$ 878,513
Charge-offs	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-
Provision for loan losses	(40,346)	28,435	823,000	39,394	13,802	(215)	864,070
Other	40	(13,502)	(1,306)	361	13,431	-	(976)
Balance at September 30, 2012	$ 185,911	$ 285,644	$ 1,037,002	$ 59,392	$ 172,393	$ 1,265	$ 1,741,607
Ending Balance:							
Individually evaluated for impairment	$ -	$ -	$ 920,000	$ -	$ -	$ -	$ 920,000
Collectively evaluated for impairment	185,911	285,644	117,002	59,392	172,393	1,265	821,607
Balance at September 30, 2012	$ 185,911	$ 285,644	$ 1,037,002	$ 59,392	$ 172,393	$ 1,265	$ 1,741,607

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy	Rural Residential Real Estate	Total
Recorded Investments in Loans Outstanding:							
Ending Balance at September 30, 2013	$291,670,882	$ 36,633,516	$42,365,586	$ 8,335,715	$ 14,305,866	$ 2,263,396	$ 395,574,961
Individually evaluated for impairment	$ 1,082,930	$ -	$ 2,441,721	$ -	$ -	$ -	$ 3,524,651
Collectively evaluated for impairment	$290,587,952	$ 36,633,516	$39,923,865	$ 8,335,715	$ 14,305,866	$ 2,263,396	$ 392,050,310
Ending Balance at September 30, 2012	$292,064,154	$ 30,999,522	$40,772,943	$ 14,326,827	$ 12,873,232	$ 1,722,858	$ 392,759,536
Individually evaluated for impairment	$ 1,210,983	$ -	$ 3,111,721	$ -	$ -	$ -	$ 4,322,704
Collectively evaluated for impairment	$290,853,171	$ 30,999,522	$37,661,222	$ 14,326,827	$ 12,873,232	$ 1,722,858	$ 388,436,832

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.

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 nine months ended September 30, 2013, the Association provided a patronage distribution of $4,600,000 to its eligible stockholders. 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 $931,184.

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 2012 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 nine months ended September 30, 2013 or for the year ended December 31, 2012.

The Association had no assets or liabilities measured at fair value on a recurring basis at September 30, 2013 or December 31, 2012.

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

September 30, 2013	**Fair Value Measurement Using**			**Total Fair Value**
	Level 1	**Level 2**	**Level 3**	
Assets:				
Loans*	**$ -**	**$ -**	**$ 1,284,721**	**$ 1,284,721**
Other property owned	**-**	**-**	**523,049**	**523,049**

December 31, 2012	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Loans*	$ -	$ -	$ 2,131,062	$ 2,131,062
Other property owned	-	-	523,049	523,049

*Represents the fair value of certain loans that were evaluated for impairment under authoritative guidance "Accounting by Creditors for Impairment of a Loan." The fair value was based upon the underlying collateral since these were collateral-dependent loans for which real estate is the collateral.

Valuation Techniques

As more fully discussed in Note 2 to the 2012 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 2012 Annual Report to Stockholders.

Loans

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

Other Property Owned

Other property owned is generally classified as Level 3. The fair value is based upon the collateral value, which is generally determined using appraisals or other indications based on comparable sales of similar properties. Costs to sell represent transaction costs and are not included as a component of the asset's 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 September 30:

	Other Benefits	
	2013	2012
Service cost	**$ 13,429**	$ 12,660
Interest cost	**18,213**	18,212
Amortization of prior service credits	**(4,742)**	(5,491)
Amortization of net actuarial loss	**6,530**	-
Net periodic benefit cost	**$ 33,430**	$ 25,381

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	
	2013	2012
Service cost	**$ 40,286**	$ 37,980
Interest cost	**54,640**	54,636
Amortization of prior service credits	**(14,227)**	(16,474)
Amortization of net actuarial loss	**19,591**	-
Net periodic benefit cost	**$ 100,290**	$ 76,142

The Association’s liability for the unfunded accumulated obligation for these benefits at September 30, 2013, was $1,744,766 and is included in “Other Liabilities” in the balance sheet.

The structure of the District’s defined benefit pension plan is characterized as multiemployer since the assets, liabilities and cost of the plan are not segregated or separately accounted for by participating employers (Bank and associations). The Association recognizes its amortized annual contributions to the plan as an expense. As of September 30, 2013, $434,925 of contributions have been made. The Association presently anticipates contributing an additional $144,975 to fund the defined benefit pension plan in 2013 for a total of $579,900.

The Association's accumulated other comprehensive 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 loss for the nine months ended September 30:

	2013	2012
Accumulated other comprehensive loss at January 1	**$ (286,751)**	$ (140,923)
Amortization of prior service credits included in net periodic postretirement benefit cost	**(14,227)**	(16,474)
Amortization of actuarial loss included in net periodic postretirement benefit cost	**19,591**	-
Other comprehensive income (loss), net of tax	**5,364**	(16,474)
Accumulated other comprehensive loss at September 30	**$ (281,387)**	$ (157,397)

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 October 25, 2013, which is the date the financial statements were issued. There are no other significant events requiring disclosure as of October 25, 2013.