

# ALABAMA AG CREDIT, ACA

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**2013**  
**Quarterly Report**  
**Second Quarter**



**For the Quarter Ended June 30, 2013**

## REPORT OF MANAGEMENT

The consolidated financial statements of Alabama Ag Credit, ACA (Association) are prepared by management, who are responsible for the statements' integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America appropriate in the circumstances. Other financial information included in the quarterly report is consistent with that in the consolidated financial statements.

To meet its responsibility for reliable financial information, management depends on the Farm Credit Bank of Texas' (Bank) and the Association's accounting and internal control systems, which have been designed to provide reasonable, but not absolute, assurance that assets are safeguarded and transactions are properly authorized and recorded. The systems have been designed to recognize that the cost of controls must be related to the benefits derived. The annual financial statements are audited by PricewaterhouseCoopers LLP, independent accountants, who conduct a review of internal controls solely for the purpose of establishing a basis for reliance thereon in determining the nature, extent and timing of audit tests applied in the audit of the financial statements in accordance with auditing standards generally accepted in the United States of America. The Association is also examined by the Farm Credit Administration.

The audit committee of the board of directors has oversight responsibility for the Association's system of internal controls and financial reporting. The audit committee consults regularly with management and meets periodically with the independent auditors and the internal auditor to review the scope and results of their work. The independent auditors and internal auditor have direct access to the audit committee.

The undersigned certify that, to the best of our knowledge and belief, the consolidated financial statements and other financial information included in this quarterly report reliably present the financial condition of Alabama Ag Credit, ACA and the results of its operations for the periods shown.



Douglas Thiessen, President/Chief Executive Officer  
August 5, 2013



James L. Bassett, Chairman, Board of Directors  
August 5, 2013



M. Scott Sellers, CPA, Sr. VP/Chief Financial Officer  
August 5, 2013



J.K. Love, CPA, Chairman, Audit Committee  
August 5, 2013

## **ALABAMA AG CREDIT, ACA MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following commentary reviews the financial performance of the Alabama Ag Credit, ACA (Agricultural Credit Association), referred to as the Association, for the quarter and six months ended June 30, 2013. These comments should be read in conjunction with the accompanying consolidated 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:**

At the annual stockholders meeting in April 2013 the Association's stockholders approved an amendment to the Association's capitalization bylaws addressing the amount of stock a borrower must purchase as a condition of borrowing from the Association. The change affected the range within which the board of directors is authorized to set the stock requirement, and also the manner in which the stock requirement is calculated. Further details are discussed in Note 3, "Capital," to the financial statements included in this quarterly report.

### **Results of Operations:**

The Association had net income of \$3,210,678 and \$6,911,690 for the three and six months ended June 30, 2013, as compared to net income of \$3,993,194 and \$7,404,130 for the same period in 2012, reflecting a decrease of 19.6 and 6.7 percent, respectively. Net interest income was \$5,519,652 and \$11,088,784 for the three and six months ended June 30, 2013, compared to \$5,309,632 and \$10,626,429 for the same period in 2012. Interest income for the three and six months ended June 30, 2013, decreased by \$203,018 and \$468,787, or 2.4 and 2.7 percent, respectively, from the same period of 2012, primarily due to decreases in yields on earning assets, offset by an increase in average loan volume. Interest expense for the three and six months ended June 30, 2013, decreased by \$413,038 and \$931,142, or 13.0 and 14.4 percent, respectively, from the same period of 2012 due to a decrease in interest rates, offset partially by an increase in average debt volume. Average loan volume for the second quarter of 2013 was \$698,094,312, compared to \$683,255,547 in the second quarter of 2012.

Noninterest income for the three and six months ended June 30, 2013 decreased by \$327,312 and \$422,798, or 40.5 percent and 34.8 percent, respectively, over the same periods of 2012. The decrease is due primarily to the receipt of a refund of excess insurance reserves from the Farm Credit System Insurance Corporation's (FCSIC) Insurance Fund in 2012. The refund was a non-recurring event; therefore no refund was received in 2013. The decrease was partially offset by net gains realized on sales of foreclosed properties in the first six months of 2013, as compared to net losses in the first six months of 2012.

Noninterest expenses for the three and six months ended June 30, 2013, increased by \$456,004 and \$742,673, or 24.1 percent and 18.8 percent, respectively, as compared to the same periods of 2012. The increase is primarily due to salary and employee benefit costs that increased for the first six months of 2013 compared to the first six months of 2012. The primary reason for the increase in these costs is due to a net increase of six employees. In addition, actuarially-determined, required contributions to the defined benefit (DB) retirement plan increased for 2013 compared to 2012. For more information on the DB plan, refer to the 2012 Annual Report and Note 7, "Employee Benefit Plans," to the consolidated financial statements in this quarterly report. Further, Insurance Fund premiums increased for the first six months of 2013 as compared to the same period in 2012 due to increased premium rates charged by the Fund's administrators. For more information on the Insurance Fund, see Note 1, "Organization and Operations," to the 2012 Annual Report.

The Association's provision for loan loss was \$441,874 and \$266,767 for the three and six months ended June 30, 2013 as compared to \$232,654 and \$477,443 for the same periods in 2012. The overall number of loans and related loss exposures for the first six months of 2013 remained relatively stable compared to the same period of 2012. The Association recognized charge-offs of \$510,156 and \$1,065,714 for the three and six months ended June 30, 2013, and charge-offs of \$516,349 and \$690,997 for the same periods in 2012. Of the charge-offs recognized in 2013, 77% was generated by four large credits. The Association has recorded no recoveries in 2013 as compared to \$19,059 for the three and six months ended June 13, 2012. The Association's allowance for loan losses was 0.6 percent and 0.6 percent of total loans outstanding as of June 30, 2013, and 2012, respectively.

The Association's return on average assets for the six months ended June 30, 2013, was 1.95 percent compared to 2.13 percent for the same period in 2012. The Association's return on average equity for the six months ended June 30, 2013, was 10.37 percent, compared to 11.89 percent for the same period in 2012.

### Loan Portfolio:

The Association makes and services loans to farmers, ranchers, rural homeowners and certain farm-related businesses. The Association's loan volume consists of long-term farm mortgage loans, production and intermediate-term loans, and farm-related business loans. These loans are available to eligible borrowers with competitive prime- and LIBOR-based, fixed and adjustable interest rates and loan maturities ranging up to 40 years. Loans serviced by the Association offer several installment payment cycles, the timing of which usually coincides with seasonal cash-flow capabilities of the borrower.

Total loans outstanding at June 30, 2013 stated at recorded investment (principal less funds held), were \$701,228,801 compared to \$695,195,596 at December 31, 2012, reflecting an increase of 0.9 percent. The major commodities within the Association's loan portfolio are timber, field crops, cattle and poultry.

The following table reflects the credit quality of the Association's loan volume as of:

	<b>June 30, 2013</b>	December 31, 2012
Acceptable	<b>94.7%</b>	94.5%
OAEM	<b>2.3%</b>	1.9%
Substandard/doubtful	<b>3.0%</b>	3.6%
Total	<b>100.0%</b>	100.0%

### 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:

	<b>June 30, 2013</b>		December 31, 2012	
	<b>Amount</b>	<b>%</b>	Amount	%
Nonaccrual	<b>\$ 11,887,818</b>	<b>79.4%</b>	\$ 15,754,037	79.3%
90 days past due and still accruing interest	-	<b>0.0%</b>	54,809	0.3%
Formally restructured	<b>1,200,888</b>	<b>8.0%</b>	1,269,606	6.4%
Other property owned, net	<b>1,890,979</b>	<b>12.6%</b>	2,786,222	14.0%
Total	<b>\$ 14,979,685</b>	<b>100.0%</b>	\$ 19,864,674	100.0%

At June 30, 2013 loans that were considered impaired were \$13,088,706, compared to \$17,078,452 at December 31, 2012. This represents 1.9 percent and 2.5 percent of loan volume, respectively. Impaired loans consist of all high-risk assets except other property owned, net. While the total number of nonaccrual loans as of June 30, 2013 remained relatively consistent compared to December 31, 2012, the primary reason for the decrease in volume is attributable to one large credit that was paid down substantially during the first quarter of 2013.

### Liquidity and Funding Sources:

The Association secures the majority of its lendable funds from the Farm Credit Bank of Texas (the Bank), which obtains its funds through the issuance of System-wide obligations. The following schedule summarizes the Association's borrowings.

	<b>June 30, 2013</b>	December 31, 2012
Note payable to the Bank	<b>\$ 576,727,254</b>	\$ 571,732,937
Accrued interest on note payable	<b>904,060</b>	973,500
Total	<b>\$ 577,631,314</b>	\$ 572,706,437

**Capital Resources:**

The Association's capital position increased by \$6,953,971 at June 30, 2013, compared to December 31, 2012. The Association's debt as a ratio to members' equity was 4.25:1 as of June 30, 2013, compared to 4.48:1 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 June 30, 2013, was 18.1 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, 2013, were 17.5 and 17.5 percent, respectively, which is in compliance with the FCA's minimum surplus standard.

**Significant Recent Accounting Pronouncements:**

Information regarding significant recent accounting pronouncements, required to be disclosed, is incorporated herein by reference to Note 1 to the consolidated financial statements, "Organization and Significant Accounting Policies," included in this quarterly report.

**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 Alabama Ag 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 [fcf@farmcreditbank.com](mailto:fcf@farmcreditbank.com). The annual and quarterly stockholder reports for the Bank and the District are also available on its website at [www.farmcreditbank.com](http://www.farmcreditbank.com).

The Association's quarterly stockholder reports are also available free of charge, upon request. These reports can be obtained by writing to Alabama Ag Credit, ACA, P.O. Box 241687, Montgomery, Alabama, 36124-1687, or by calling (334) 270-8687. Copies of the reports can also be requested by e-mailing [andra.wolf@AlabamaAgCredit.com](mailto:andra.wolf@AlabamaAgCredit.com). The Association's quarterly stockholder reports are available on its web site at [www.AlabamaAgCredit.com](http://www.AlabamaAgCredit.com) approximately 40 days after each quarter end, and the annual stockholder report is available on its web site 75 days after the fiscal year end. Copies of the annual stockholder report can also be requested 90 days after the fiscal year end.

**ALABAMA AG CREDIT, ACA**

**CONSOLIDATED BALANCE SHEET**

	<b>June 30, 2013 (unaudited)</b>	<b>December 31, 2012</b>
<b><u>ASSETS</u></b>		
Cash	\$ 11,755	\$ 11,100
Loans	701,228,801	695,195,596
Less: allowance for loan losses	4,043,978	4,842,925
Net loans	<u>697,184,823</u>	<u>690,352,671</u>
Accrued interest receivable	6,652,611	5,967,419
Investment in and receivable from the Bank:		
Capital stock	11,299,515	11,299,515
Accrued patronage receivable	285,900	144,104
Other	735,779	1,653,018
Other property owned, net	1,890,979	2,786,222
Premises and equipment	2,698,060	2,680,803
Other assets	838,030	263,692
Total assets	<u><u>\$ 721,597,452</u></u>	<u><u>\$ 715,158,544</u></u>
<b><u>LIABILITIES</u></b>		
Note payable to the Bank	\$ 576,727,254	\$ 571,732,937
Accrued interest payable	904,060	973,500
Drafts outstanding	2,064,406	2,380,668
Patronage distributions payable	2,521	5,600,049
Other liabilities	4,456,690	3,982,840
Total liabilities	<u><u>584,154,931</u></u>	<u><u>584,669,994</u></u>
<b><u>MEMBERS' EQUITY</u></b>		
Capital stock and participation certificates	4,103,950	4,073,445
Unallocated retained earnings	133,905,309	126,993,204
Accumulated other comprehensive income (loss)	<u>(566,738)</u>	<u>(578,099)</u>
Total members' equity	<u>137,442,521</u>	<u>130,488,550</u>
Total liabilities and members' equity	<u><u>\$ 721,597,452</u></u>	<u><u>\$ 715,158,544</u></u>

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

ALABAMA AG CREDIT, ACA

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited)

	Quarter Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
<b><u>INTEREST INCOME</u></b>				
Loans	\$ 8,277,530	\$ 8,480,548	\$ 16,621,503	\$ 17,090,290
<b><u>INTEREST EXPENSE</u></b>				
Note payable to the Bank	2,757,878	3,170,916	5,532,719	6,463,861
Net interest income	5,519,652	5,309,632	11,088,784	10,626,429
<b><u>PROVISION FOR LOSSES</u></b>				
Provision for loan losses	441,874	232,654	266,767	477,443
Net interest income after provision for losses	5,077,778	5,076,978	10,822,017	10,148,986
<b><u>NONINTEREST INCOME</u></b>				
Patronage income from the Bank	196,722	202,601	392,972	408,653
Loan fees	40,145	24,862	159,277	217,431
Financially related services income	533	668	1,224	1,567
Gain (loss) on other property owned, net	225,864	(18,718)	152,949	(69,324)
Gain on sale of premises and equipment, net	17,770	425	17,750	12,372
Other noninterest income	-	598,508	67,102	643,373
Total noninterest income	481,034	808,346	791,274	1,214,072
<b><u>NONINTEREST EXPENSES</u></b>				
Salaries and employee benefits	1,552,329	1,243,180	3,099,405	2,627,334
Directors' expense	65,188	68,701	154,962	171,896
Purchased services	106,629	103,422	186,874	196,847
Travel	168,795	114,923	266,016	200,723
Occupancy and equipment	124,518	115,854	224,440	221,431
Communications	26,016	25,321	58,322	55,107
Advertising	61,040	62,485	135,192	118,892
Public and member relations	46,237	55,827	112,486	105,989
Supervisory and exam expense	57,654	60,711	115,308	121,421
Insurance Fund premiums	146,955	68,626	373,030	236,463
Other noninterest expense	41,636	40,420	93,171	71,977
CMS expense reimbursements	(48,863)	(67,340)	(117,605)	(169,152)
Total noninterest expenses	2,348,134	1,892,130	4,701,601	3,958,928
<b>NET INCOME</b>	<b>3,210,678</b>	<b>3,993,194</b>	<b>6,911,690</b>	<b>7,404,130</b>
Other comprehensive income (loss):				
Change in postretirement benefit plans	5,680	(5,221)	11,361	(10,443)
<b>COMPREHENSIVE INCOME</b>	<b>\$ 3,216,358</b>	<b>\$ 3,987,973</b>	<b>\$ 6,923,051</b>	<b>\$ 7,393,687</b>

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

**ALABAMA AG CREDIT, ACA**

**CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY**

(unaudited)

	<u>Capital Stock/ Participation Certificates</u>	<u>Unallocated Retained Earnings</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total Members' Equity</u>
Balance at December 31, 2011	\$ 4,010,440	\$ 117,483,811	\$ (120,934)	\$ 121,373,317
Net income	-	7,404,130	-	7,404,130
Other comprehensive income (loss)	-	-	(10,443)	(10,443)
Capital stock/participation certificates issued	252,150	-	-	252,150
Capital stock/participation certificates	(224,340)	-	-	(224,340)
<b>Balance at June 30, 2012</b>	<u><u>\$ 4,038,250</u></u>	<u><u>\$ 124,887,941</u></u>	<u><u>\$ (131,377)</u></u>	<u><u>\$ 128,794,814</u></u>
Balance at December 31, 2012	\$ 4,073,445	\$ 126,993,204	\$ (578,099)	\$ 130,488,550
Net income	-	6,911,690	-	6,911,690
Other comprehensive income (loss)	-	-	11,361	11,361
Capital stock/participation certificates issued	339,835	-	-	339,835
Capital stock/participation certificates	(309,330)	-	-	(309,330)
Patronage refunds:				
Change in patronage declared and paid	-	415	-	415
<b>Balance at June 30, 2013</b>	<u><u>\$ 4,103,950</u></u>	<u><u>\$ 133,905,309</u></u>	<u><u>\$ (566,738)</u></u>	<u><u>\$ 137,442,521</u></u>

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



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

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

Alabama Ag 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 Autauga, Baldwin, Barbour, Bibb, Bullock, Butler, Chambers, Chilton, Choctaw, Clarke, Coffee, Conecuh, Coosa, Covington, Crenshaw, Dale, Dallas, Elmore, Escambia, Geneva, Greene, Hale, Henry, Houston, Lee, Lowndes, Macon, Marengo, Mobile, Monroe, Montgomery, Perry, Pickens, Pike, Russell, Sumter, Tallapoosa, Tuscaloosa, Washington and Wilcox in the state of Alabama. The Association is a lending institution of the Farm Credit System (the System), which was established by Acts of Congress to meet the needs of American agriculture.

The Farm Credit Bank of Texas (Bank) and its related associations (including the Association) are collectively referred to as the Tenth Farm Credit District (District). The Bank provides funding to all associations within the District and is responsible for supervising certain activities of the District associations. At December 31, 2012, the District consisted of the Bank, one Federal Land Credit Association (FLCA) and 16 ACA parent companies, which have two wholly-owned subsidiaries, an FLCA and a Production Credit Association (PCA), operating in or servicing the states of Alabama, Louisiana, Mississippi, New Mexico and Texas. ACA parent companies provide financing and related services through their FLCA and PCA subsidiaries. The FLCA makes secured long-term agricultural real estate and rural home mortgage loans. The PCA makes short- and intermediate-term loans for agricultural production or operating purposes.

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 second 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 will not impact financial condition or results of operations, but will result 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.

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 three and six months ended June 30, 2013, are not necessarily indicative of the results to be expected for the year ended 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:

	<u>June 30, 2013</u>	<u>December 31, 2012</u>
Production agriculture:		
Real estate mortgage	<b>\$ 642,001,313</b>	\$ 653,323,921
Production and intermediate term	<b>30,469,221</b>	16,173,037
Agribusiness:		
Loans to cooperatives	<b>2,122,852</b>	2,536,858
Processing and marketing	<b>15,169,014</b>	11,906,744
Farm-related business	<b>187,319</b>	160,565
Communication	<b>950,009</b>	949,831
Rural residential real estate	<b>10,329,073</b>	10,144,640
Total	<b><u>\$ 701,228,801</u></b>	<b><u>\$ 695,195,596</u></b>

The Association purchases or sells participation interests with other parties in order to diversify risk, manage loan volume and comply with FCA regulations. The following table presents information regarding the balances of participations purchased and sold at June 30, 2013:

	<u>Other Farm Credit Institutions</u>		<u>Non-Farm Credit Institutions</u>		<u>Total</u>	
	<u>Participations Purchased</u>	<u>Participations Sold</u>	<u>Participations Purchased</u>	<u>Participations Sold</u>	<u>Participations Purchased</u>	<u>Participations Sold</u>
Real estate mortgage	\$ 4,264,046	\$ 14,514,174	\$ -	\$ -	\$ 4,264,046	\$ 14,514,174
Production and intermediate term	2,034,967	-	-	-	2,034,967	-
Agribusiness	14,888,824	-	-	-	14,888,824	-
Communication	949,999	-	-	-	949,999	-
Total	<b><u>\$ 22,137,836</u></b>	<b><u>\$ 14,514,174</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 22,137,836</u></b>	<b><u>\$ 14,514,174</u></b>

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

	<u>June 30, 2013</u>	<u>December 31, 2012</u>
<b>Nonaccrual loans:</b>		
Real estate mortgage	<b>\$ 10,546,390</b>	\$ 14,170,718
Agribusiness	<b>1,141,156</b>	1,451,156
Rural residential real estate	<b>200,272</b>	132,163
Total nonaccrual loans	<b><u>11,887,818</u></b>	<u>15,754,037</u>
<b>Accruing restructured loans:</b>		
Real estate mortgage	<b>1,200,888</b>	1,269,606
Total accruing restructured loans	<b><u>1,200,888</u></b>	<u>1,269,606</u>
<b>Accruing loans 90 days or more past due:</b>		
Real estate mortgage	-	54,809
Total accruing loans 90 days or more	<u>-</u>	<u>54,809</u>
Total nonperforming loans	<b>13,088,706</b>	17,078,452
Other property owned	<b>1,890,979</b>	2,786,222
Total nonperforming assets	<b><u>\$ 14,979,685</u></b>	<b><u>\$ 19,864,674</u></b>

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

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

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

	<b>June 30, 2013</b>	December 31, 2012
Real estate mortgage		
Acceptable	<b>94.7</b> %	94.5 %
OAEM	<b>2.3</b>	2.0
Substandard/doubtful	<b>2.9</b>	3.5
	<b>99.9</b>	100.0
Production and intermediate term		
Acceptable	<b>95.6</b>	99.9
OAEM	<b>4.3</b>	-
Substandard/doubtful	<b>0.1</b>	0.1
	<b>100.0</b>	100.0
Agribusiness		
Acceptable	<b>93.5</b>	90.1
OAEM	-	-
Substandard/doubtful	<b>6.5</b>	9.9
	<b>100.0</b>	100.0
Communication		
Acceptable	<b>100.0</b>	100.0
OAEM	-	-
Substandard/doubtful	-	-
	<b>100.0</b>	100.0
Rural residential real estate		
Acceptable	<b>91.9</b>	92.7
OAEM	<b>0.7</b>	1.0
Substandard/doubtful	<b>7.4</b>	6.3
	<b>100.0</b>	100.0
Total loans		
Acceptable	<b>94.7</b>	94.5
OAEM	<b>2.3</b>	1.9
Substandard/doubtful	<b>3.0</b>	3.6
	<b>100.0</b> %	100.0 %

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

<u>June 30, 2013</u>	<u>30-89 Days Past Due</u>	<u>90 Days or More Past Due</u>	<u>Total Past Due</u>	<u>Not Past Due or Less Than 30 Days Past Due</u>	<u>Total Loans</u>	<u>Recorded Investment &gt;90 Days and Accruing</u>
Real estate mortgage	\$ 4,093,464	\$ 3,197,211	\$ 7,290,675	\$ 640,894,741	\$ 648,185,416	\$ -
Production and intermediate term	-	-	-	30,879,013	30,879,013	-
Loans to cooperatives	-	-	-	2,123,773	2,123,773	-
Processing and marketing	-	1,128,061	1,128,061	14,057,273	15,185,334	-
Farm-related business	-	-	-	187,783	187,783	-
Communication	-	-	-	950,233	950,233	-
Rural residential real estate	-	-	-	10,369,860	10,369,860	-
<b>Total</b>	<b>\$ 4,093,464</b>	<b>\$ 4,325,272</b>	<b>\$ 8,418,736</b>	<b>\$ 699,462,676</b>	<b>\$ 707,881,412</b>	<b>\$ -</b>

  

<u>December 31, 2012</u>	<u>30-89 Days Past Due</u>	<u>90 Days or More Past Due</u>	<u>Total Past Due</u>	<u>Not Past Due or Less Than 30 Days Past Due</u>	<u>Total Loans</u>	<u>Recorded Investment &gt;90 Days and Accruing</u>
Real estate mortgage	\$ 3,199,790	\$ 6,885,265	10,085,055	\$ 648,983,207	\$ 659,068,262	\$ 54,809
Production and intermediate term	155,609	-	155,609	16,186,750	16,342,359	-
Loans to cooperatives	-	-	-	2,537,822	2,537,822	-
Processing and marketing	-	1,426,398	1,426,398	10,486,251	11,912,649	-
Farm-related business	-	-	-	160,896	160,896	-
Communication	-	-	-	949,910	949,910	-
Rural residential real estate	129,507	32,330	161,837	10,029,280	10,191,117	-
<b>Total</b>	<b>\$ 3,484,906</b>	<b>\$ 8,343,993</b>	<b>\$11,828,899</b>	<b>\$ 689,334,116</b>	<b>\$ 701,163,015</b>	<b>\$ 54,809</b>

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

A restructuring of a debt constitutes a troubled debt restructuring (TDR) 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. TDRs 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, 2013, the total recorded investment of troubled debt restructured loans was \$2,126,099 including \$925,211 classified as nonaccrual and \$1,200,888 classified as accrual, with specific allowance for loan losses of \$39,176. All loans classified as TDRs were individually evaluated to determine the need for allowance for loan losses. As of June 30, 2013, the Association had no commitments to lend funds to borrowers whose loan terms have been modified in a TDR.

During the three and six months ended June 30, 2013, there were no additional loans which were modified in a TDR.

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 TDRs includes extension of the term and/or delayed payments. Other types of modifications include principal or accrued interest reductions and interest rate decreases, 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 TDR.

The following table presents information regarding loans that met the accounting criteria as a TDR and that occurred within the previous 12 months and for which there was a payment default during the period. A payment default is defined as a payment that is 30 days past due after the date the loan was restructured.

Troubled debt restructurings that subsequently defaulted:	Recorded Investment at	
	June 30, 2013	
Real estate mortgage	\$	98,894
<b>Total</b>	<b>\$</b>	<b>98,894</b>

Additional impaired loan information is as follows:

	June 30, 2013			At December 31, 2012		
	Recorded Investment	Unpaid Principal Balance <sup>a</sup>	Related Allowance	Recorded Investment	Unpaid Principal Balance <sup>a</sup>	Related Allowance
Impaired loans with a related allowance for credit losses:						
Real estate mortgage	\$ 3,344,858	\$ 4,083,925	\$ 943,476	\$ 5,708,996	\$ 6,816,241	\$ 1,694,695
Production and intermediate term	-	-	-	-	-	-
Processing and marketing	450,722	760,722	225,000	760,722	760,722	453,077
Farm-related business	13,095	13,095	13,095	13,095	13,095	13,095
Rural residential real estate	-	-	-	32,330	36,990	3,500
Total	\$ 3,808,675	\$ 4,857,742	\$ 1,181,571	\$ 6,515,143	\$ 7,627,048	\$ 2,164,367
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	\$ 8,402,424	\$ 8,912,432	\$ -	\$ 9,786,138	\$10,013,685	\$ -
Production and intermediate term	-	-	-	-	-	-
Processing and marketing	677,339	677,339	-	677,339	677,339	-
Farm-related business	-	-	-	-	-	-
Rural residential real estate	200,268	200,268	-	99,832	99,832	-
Total	\$ 9,280,031	\$ 9,790,039	\$ -	\$ 10,563,309	\$10,790,856	\$ -
Total impaired loans:						
Real estate mortgage	\$ 11,747,282	\$ 12,996,357	\$ 943,476	\$ 15,495,134	\$16,829,926	\$ 1,694,695
Production and intermediate term	-	-	-	-	-	-
Processing and marketing	1,128,061	1,438,061	225,000	1,438,061	1,438,061	453,077
Farm-related business	13,095	13,095	13,095	13,095	13,095	13,095
Rural residential real estate	200,268	200,268	-	132,162	136,822	3,500
Total	\$ 13,088,706	\$ 14,647,781	\$ 1,181,571	\$ 17,078,452	\$18,417,904	\$ 2,164,367

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

	For the Three Months Ended			
	June 30, 2013		June 30, 2012	
	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:				
Real estate mortgage	\$ 3,002,229	\$ 7,526	\$ 7,137,294	\$ 18,878
Production and intermediate term	-	-	-	-
Processing and marketing	743,689	-	-	-
Farm-related business	13,095	-	13,095	-
Rural residential real estate	-	-	-	-
Total	\$ 3,759,013	\$ 7,526	\$ 7,150,389	\$ 18,878
Impaired loans with no related allowance for credit losses:				
Real estate mortgage	\$ 9,249,946	\$ 19,697	\$ 10,574,846	\$ 23,755
Production and intermediate term	-	-	16,507	-
Processing and marketing	677,339	-	-	-
Farm-related business	171,014	679	-	-
Rural residential real estate	-	-	105,369	-
Total	\$ 10,098,299	\$ 20,376	\$ 10,696,722	\$ 23,755
Total impaired loans:				
Real estate mortgage	\$ 12,252,175	\$ 27,223	\$ 17,712,140	\$ 42,633
Production and intermediate term	-	-	16,507	-
Processing and marketing	1,421,028	-	-	-
Farm-related business	184,109	679	13,095	-
Rural residential real estate	-	-	105,369	-
Total	\$ 13,857,312	\$ 27,902	\$ 17,847,111	\$ 42,633

	For the Six Months Ended			
	June 30, 2013		June 30, 2012	
	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:				
Real estate mortgage	\$ 2,851,379	\$ 10,860	\$ 6,629,781	\$ 25,298
Production and intermediate term	-	-	-	-
Processing and marketing	752,205	-	-	-
Farm-related business	13,095	-	13,095	-
Rural residential real estate	-	-	-	-
Total	\$ 3,616,679	\$ 10,860	\$ 6,642,876	\$ 25,298
Impaired loans with no related allowance for credit losses:				
Real estate mortgage	\$ 10,234,360	\$ 37,345	\$ 10,013,028	\$ 40,711
Production and intermediate term	-	-	16,507	-
Processing and marketing	677,339	-	-	-
Farm-related business	-	-	-	-
Rural residential real estate	134,692	679	107,789	-
Total	\$ 11,046,391	\$ 38,024	\$ 10,137,324	\$ 40,711
Total impaired loans:				
Real estate mortgage	\$ 13,085,739	\$ 48,205	\$ 16,642,809	\$ 66,009
Production and intermediate term	-	-	16,507	-
Processing and marketing	1,429,544	-	-	-
Farm-related business	13,095	-	13,095	-
Rural residential real estate	134,692	679	107,789	-
Total	\$ 14,663,070	\$ 48,884	\$ 16,780,200	\$ 66,009

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	Rural Residential Real Estate	Total
<b>Allowance for Credit Losses:</b>						
<b>Balance at</b>						
March 31, 2013	\$ 3,016,254	\$ 27,844	\$ 1,025,457	\$ 845	\$ 41,860	\$ 4,112,260
Charge-offs	(200,156)	-	(310,000)	-	-	(510,156)
Recoveries	-	-	-	-	-	-
Provision for loan losses	293,776	4,795	133,735	3	9,565	441,874
<b>Balance at</b>						
June 30, 2013	\$ 3,109,874	\$ 32,639	\$ 849,192	\$ 848	\$ 51,425	\$ 4,043,978
<b>Balance at</b>						
December 31, 2012	\$ 3,746,684	\$ 10,963	\$ 1,051,538	\$ 845	\$ 32,895	\$ 4,842,925
Charge-offs	(749,750)	-	(310,000)	-	(5,964)	(1,065,714)
Recoveries	-	-	-	-	-	-
Provision for loan losses	112,940	21,676	107,654	3	24,494	266,767
<b>Balance at</b>						
June 30, 2013	\$ 3,109,874	\$ 32,639	\$ 849,192	\$ 848	\$ 51,425	\$ 4,043,978
<b>Ending Balance:</b>						
Individually evaluated for impairment	\$ 1,202,767	\$ -	\$ 238,095	\$ -	\$ 38,631	\$ 1,479,493
Collectively evaluated for impairment	1,907,107	32,639	611,097	848	12,794	2,564,485
<b>Balance at</b>						
June 30, 2013	\$ 3,109,874	\$ 32,639	\$ 849,192	\$ 848	\$ 51,425	\$ 4,043,978
<b>Balance at</b>						
March 31, 2012	\$ 3,806,063	\$ 4,585	\$ 571,879	\$ -	\$ 27,074	\$ 4,409,601
Charge-offs	(516,349)	-	-	-	-	(516,349)
Recoveries	19,059	-	-	-	-	19,059
Provision for loan losses	226,300	4,926	(2,051)	-	3,479	232,654
<b>Balance at</b>						
June 30, 2012	\$ 3,535,073	\$ 9,511	\$ 569,828	\$ -	\$ 30,553	\$ 4,144,965
<b>Balance at</b>						
December 31, 2011	\$ 3,761,142	\$ 3,929	\$ 531,252	\$ -	\$ 43,137	\$ 4,339,460
Charge-offs	(690,997)	-	-	-	-	(690,997)
Recoveries	19,059	-	-	-	-	19,059
Provision for loan losses	445,869	5,582	38,576	-	(12,584)	477,443
<b>Balance at</b>						
June 30, 2012	\$ 3,535,073	\$ 9,511	\$ 569,828	\$ -	\$ 30,553	\$ 4,144,965
<b>Ending Balance:</b>						
Individually evaluated for impairment	\$ 1,934,637	\$ -	\$ 13,095	\$ -	\$ 17,780	\$ 1,965,512
Collectively evaluated for impairment	1,600,436	9,511	556,733	-	12,773	2,179,453
<b>Balance at</b>						
June 30, 2012	\$ 3,535,073	\$ 9,511	\$ 569,828	\$ -	\$ 30,553	\$ 4,144,965

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Rural Residential Real Estate	Total
<b>Recorded Investments in Loans Outstanding: Ending Balance at June 30, 2013</b>	<b>\$ 648,185,416</b>	<b>\$ 30,879,013</b>	<b>\$ 17,496,890</b>	<b>\$ 950,233</b>	<b>\$ 10,369,860</b>	<b>\$ 707,881,412</b>
<b>Individually evaluated for impairment</b>	<b>\$ 19,089,025</b>	<b>\$ 26,785</b>	<b>\$ 1,141,156</b>	<b>\$ -</b>	<b>\$ 771,564</b>	<b>\$ 21,028,530</b>
<b>Collectively evaluated for impairment</b>	<b>\$ 629,096,391</b>	<b>\$ 30,852,228</b>	<b>\$ 16,355,734</b>	<b>\$ 950,233</b>	<b>\$ 9,598,296</b>	<b>\$ 686,852,882</b>
Ending Balance at June 30, 2012	\$ 655,584,681	\$ 13,507,729	\$ 9,428,789		\$ 9,660,004	\$ 688,181,203
Individually evaluated for impairment	\$ 24,358,933	\$ 16,507	\$ 1,451,416	\$ -	\$ 654,557	\$ 26,481,413
Collectively evaluated for impairment	\$ 631,225,748	\$ 13,491,222	\$ 7,977,373	\$ -	\$ 9,005,447	\$ 661,699,790

### 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.

At the annual stockholders' meeting in April 2013, the Association's stockholders approved an amendment to the Association's capitalization bylaws addressing the amount of stock a borrower must purchase as a condition of borrowing from the Association. The change affected the range within which the board of directors is authorized to set the stock requirement, and also the manner in which the stock requirement is calculated.

Currently the stock purchase required is applied on a per loan basis and is measured as 2 percent of the individual loan amount up to a maximum of \$1,000. However, in addition, if needed to meet regulatory capital adequacy requirements, the board of directors is authorized to increase the percentage of stock requirement for each borrower up to a maximum of 10 percent of individual loan amounts.

Effective July 1, 2013, the stock requirement will change to be applied at the borrower level instead of the loan level and will be measured as 2 percent of the aggregate of all of a borrower's loans, up to a maximum of \$1,000. Further, if needed to meet regulatory capital adequacy requirements, the maximum amount to which the board of directors may increase the stock requirement changed from 10 percent of the individual loan amounts to 5 percent of the individual loan amounts.

In relation to the amended stock requirement, the board of directors approved a "stock equalization" action, or the refund of excess stock amounts to borrowers impacted by the conversion of the stock requirement from the loan level to the borrower level. The stock equalization refund is expected to have a minimal impact on the Association's permanent capital ratio. The stock equalization refund is expected to be completed in the third quarter of 2013.

### NOTE 4 — CAPITAL MARKETS:

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

Pursuant to the terms of the alliance, each of the five CMS participating associations generally share equally in the costs of operating the venture. All CMS noninterest expenses are recorded gross on the Association's books and then reimbursed 80 percent by the other four associations. The total amount of reimbursements is included on the statement of comprehensive income in the line item entitled "CMS expense reimbursements." The Association's pro-rata share of income from CMS operations are recorded in the statement of comprehensive income in their respective line items.



## NOTE 5 — INCOME TAXES:

Alabama Ag Credit, ACA its PCA subsidiary, Alabama Ag Credit, PCA, (Associations) 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, 2013, 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 has recorded a full valuation allowance against its deferred tax asset as of June 30, 2013 based on management's estimate that it is more likely than not that the deferred tax asset will not be realized. For the three and six months ended June 30, 2013, the Association had no taxable income.

The FLCA subsidiary, Alabama Ag Credit, FLCA, is exempt from federal and other income taxes as provided in the Farm Credit Act of 1971.

## NOTE 6 — FAIR VALUE MEASUREMENTS:

FASB guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. See Note 14 to the 2012 Annual Report to Stockholders for a more complete description.

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

<u>June 30, 2013</u>	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Assets:				
Loans*	\$ -	\$ -	\$ 5,499,050	\$ 5,499,050
Other property owned	-	-	2,182,715	2,182,715
<u>December 31, 2012</u>	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Assets:				
Loans*	\$ -	\$ -	\$10,736,078	\$ 10,736,078
Other property owned	-	-	3,122,879	3,122,879

\*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 14 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.

By contrast, however, other property owned, net is reported in the accompanying balance sheet at the lower of the related loan's carrying amount (at acquisition) or the collateral's fair value less estimated costs to sell. As of June 30, 2013, other property owned, net is reported at \$1,890,979 in the balance sheet.

### NOTE 7 — EMPLOYEE BENEFIT PLANS:

**Employee Retirement Plans:** As discussed in Note 2 and Note 12 to the 2012 Annual Report to Stockholders, employees of the Association participate in either the District's defined benefit pension plan (DB Plan) or the District's defined contribution plan (DC Plan).

The structure of the District's defined benefit pension plan is characterized as multi-employer since the assets, liabilities and cost of the plan are not segregated or separately accounted for by participating employers (Bank and associations). The Association recognizes its amortized annual contributions to the plan as an expense. The annual contribution is paid in January of each year, and amortized into expense on a monthly basis; unamortized contributions are included in "Other Assets" in the consolidated balance sheet. The following table represents DB contributions made, amounts amortized into expense, and the remaining unamortized contributions amounts as of June 30:

	DB Contribution	YTD Amortization	Unamortized Contribution
2013	\$ 731,580	\$ 365,790	\$ 365,790
2012	604,030	302,015	302,015

Association contributions to the DC Plan are expensed as incurred. For the six months ended June 30, 2013 and 2012, the Association recognized pension costs for the DC Plan of \$90,969 and \$76,949, respectively.

Employees are also eligible to participate in the Farm Credit Benefits Alliance 401(k) Plan. Contributions to the 401(k) plan are expensed as incurred. The Association's contributions to the 401(k) plan were \$91,273 and \$80,994 for the six months ended June 30, 2013 and 2012, respectively.

**Other Postretirement Benefits:** In addition to pension benefits, the Association provides certain health care benefits to qualifying retired employees (other postretirement benefits). These benefits are not characterized as multi-employer, and consequently, the liability for these benefits is included in the consolidated balance sheet. The following table summarizes the components of net periodic benefit costs of non-pension other postretirement employee benefits for the three months ended June 30:

	Other Benefits	
	2013	2012
Service cost	\$ 16,856	\$ 13,138
Interest cost	25,331	22,480
Expected return on plan assets	-	-
Amortization of prior service credits	(6,570)	(7,952)
Amortizations of net actuarial loss	12,250	2,731
Net periodic benefit cost	\$ 47,867	\$ 30,397

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

	Other Benefits	
	<u>2013</u>	<u>2012</u>
Service cost	\$ 33,712	\$ 26,276
Interest cost	50,662	44,960
Expected return on plan assets	-	-
Amortization of prior service credits	(13,140)	(15,905)
Amortizations of net actuarial loss	24,502	5,462
Net periodic benefit cost	<u>\$ 95,736</u>	<u>\$ 60,793</u>

The Association's liability for the unfunded accumulated obligation for these benefits at June 30, 2013 was \$2,388,668 and is included in "Other Liabilities" in the consolidated balance sheet.

The Association's accumulated other comprehensive loss relates entirely to its non-pension other postretirement benefits. The following table summarizes the changes in accumulated other comprehensive loss for the six months ended June 30:

	<u>2013</u>	<u>2012</u>
Accumulated other comprehensive loss at January 1	\$ (578,099)	\$ (120,934)
Amortization of prior service credit included in net periodic postretirement benefit cost	(13,140)	(15,905)
Amortization of actuarial gain included in net periodic postretirement benefit cost	24,501	5,462
Other comprehensive income (loss), net of tax	11,361	(10,443)
Accumulated other comprehensive loss at June 30	<u>\$ (566,738)</u>	<u>\$ (131,377)</u>

#### **NOTE 8 — COMMITMENTS AND CONTINGENT LIABILITIES:**

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

#### **NOTE 9 — SUBSEQUENT EVENTS:**

The Association has evaluated subsequent events through August 5, 2013, which is the date the financial statements were issued.