ALABAMA AG CREDIT, ACA

2014
Quarterly Report
Third Quarter

For the Quarter Ended September 30, 2014

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
November 5, 2014

James L. Bassett, Chairman, Board of Directors
November 5, 2014

M. Scott Sellers, CPA, Sr. VP/Chief Financial Officer
November 5, 2014

J.K. Love, CPA, Chairman, Audit Committee
November 5, 2014

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

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

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

Results of Operations:

The association had net income of $4,570,199 and $10,831,086 for the three and nine months ended September 30, 2014, as compared to net income of $3,138,062 and $10,049,751 for the same periods in 2013, reflecting an increase of 45.6 and 7.8 percent, respectively. Net interest income was $6,285,786 and $17,731,200 for the three and nine months ended September 30, 2014, compared to $5,557,952 and $16,646,735 for the same periods in 2013.

	Nine months ended:			
	September 30, 2014		September 30, 2013	
	Average Balance	**Interest**	Average Balance	Interest
Loans	**$ 735,739,104**	**$ 26,355,019**	$ 698,515,741	$ 24,959,274
Interest-bearing liabilities	**605,128,064**	**8,623,819**	575,246,040	8,312,539
Impact of capital	**$ 130,611,040**		$ 123,269,701	
Net interest income		**$ 17,731,200**		$ 16,646,735

	2014 Average Yield	2013 Average Yield
Yield on loans	**4.78%**	4.76%
Cost of interest-bearing liabilities	**1.90%**	1.93%
Interest rate spread	**2.88%**	2.84%
Impact of capital	**0.33%**	0.34%
Net interest income as a percentage of average earning assets	**3.21%**	3.18%

	Nine months ended: September 30, 2014 vs. September 30, 2013		
	Increase (decrease) due to		
	Volume	**Rate**	**Total**
Interest income	**$ 1,330,047**	**$ 65,698**	**$ 1,395,745**
Interest expense	**431,803**	**(120,523)**	**311,280**
Net interest income	**$ 898,244**	**$ 186,221**	**$ 1,084,465**

Interest income for the three and nine months ended September 30, 2014, increased by $897,774 and $1,395,745, or 10.8 and 5.6 percent, respectively, from the same periods of 2013, primarily due to increases in average loan volume and in yields on earning assets. Interest income also increased in the third quarter of 2014 due to the collection of a large credit that had been classified as nonaccrual, resulting in recognition of approximately $530 thousand of foregone interest. Interest expense for the three and nine months ended September 30, 2014, increased by $169,940 and $311,280, or 6.1 and 3.7 percent, respectively, from the same periods of 2013 due primarily to an increase in average debt volume, offset partially by a slight decline in interest rates. Average loan volume for the third quarter of 2014 was $747,392,303, compared to $704,237,182 in the third quarter of 2013.

Noninterest income for the three and nine months ended September 30, 2014 increased by $1,201,135 and $837,453, or 691.6 percent and 86.8 percent, respectively, as compared to the same periods in 2013. The increase is primarily due to a gain on the sale of one acquired property in August of 2014. The increase was offset partially by decreasing loan fees. Loan fees presented on the income statement are the net of loan fees and deferred loan fees.

Noninterest expenses for the three and nine months ended September 30, 2014 increased by $165,179 and $768,607, or 6.8 percent and 10.8 percent, respectively, as compared to the same periods in 2013. The increase is primarily due to increases in salaries and benefits and occupancy costs. Salaries and benefits costs increased as a result of a net increase of ten employees from the third quarter of 2013 through the third quarter of 2014. Occupancy costs increased due primarily to the leasing of additional office space for the Association's administrative headquarters in late 2013.

The association's return on average assets for the nine months ended September 30, 2014, was 1.91 percent compared to 1.87 percent for the same period in 2013. The association's return on average equity for the nine months ended September 30, 2014, was 10.06 percent, compared to 9.89 percent for the same period in 2013.

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 September 30, 2014 stated at recorded investment (principal less funds held), were $759,291,753 compared to $725,591,784 at December 31, 2013, reflecting an increase of 4.6 percent. Nonaccrual loans as a percentage of total loans outstanding were 1.5 percent at September 30, 2014, compared to 1.9 percent at December 31, 2013. The major commodities within the Association's portfolio are timber, field crops, cattle, and poultry.

The Association recorded charge-offs of $43,242 and $245,597 for the quarter and nine months ended September 30, 2014, and charge-offs of $41,524 and $1,107,238, respectively, for the same periods in 2013. The Association recorded recoveries of $37,283 and $38,697 for the quarter and nine months ended September 30, 2014, and no recoveries in the first nine months of 2013. The Association's allowance for loan losses was 0.5 percent and 0.5 percent of total loans outstanding as of September 30, 2014, and December 31, 2013, respectively.

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

	September 30, 2014	December 31, 2013
Acceptable	**96.7%**	95.7%
OAEM	**0.9%**	1.3%
Substandard/doubtful	**2.4%**	3.0%
	100.0%	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.

	September 30, 2014		December 31, 2013	
	Amount	**%**	Amount	%
Nonaccrual	**$ 11,534,650**	**91.7%**	$ 13,696,374	83.7%
90 days past due and still accruing interest	**59,356**	**0.5%**	103,173	0.6%
Formally restructured	**444,623**	**3.5%**	1,180,291	7.2%
Other property owned, net	**542,899**	**4.3%**	1,398,915	8.5%
Total	**$ 12,581,528**	**100.0%**	$ 16,378,753	100.0%

At September 30, 2014 loans that were considered impaired were $12,038,629, compared to $14,979,838 at December 31, 2013. This represents 1.6 percent and 2.1 percent of loan volume, respectively. Impaired loans consist of all high-risk assets except other property owned, net. The decrease in nonaccrual loans from December 31, 2013 to September 30, 2014 is attributable primarily to several credits that were paid down significantly and several more credits that were upgraded to accrual status as a result of improved performance during the first nine months of 2014.

Liquidity and Funding Sources:

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

	September 30, 2014	December 31, 2013
Note payable to the bank	**$ 624,391,818**	$ 594,831,348
Accrued interest on note payable	**968,776**	966,859
Total	**$ 625,360,594**	$ 595,798,207

The Association operates under a general financing agreement (GFA) with the Bank. The current GFA is effective through September 30, 2015. The primary source of liquidity and funding for the Association is a direct loan from the Bank. The outstanding balance of $624,391,818 as of September 30, 2014, is recorded as a liability on the Association's balance sheet. The note carried a weighted average interest rate of 1.86 percent at September 30, 2014. The indebtedness is collateralized by a pledge of substantially all of the Association's assets to the Bank and is governed by the GFA. The increase in note payable to the Bank since December 31, 2013, is due to increased funding needs generated by growth in the Association's loan portfolio. The Association's own funds, which represent the amount of the Association's loan portfolio funded by the Association's equity, were $133,695,934 at September 30, 2014. The maximum amount the Association may borrow from the bank as of September 30, 2014, was $759,943,375 as defined by the GFA. The indebtedness continues in effect until the expiration date of the GFA, unless sooner terminated by the Bank upon the occurrence of an event of default, or by the Association, in the event of a breach of this agreement by the Bank, upon giving the Bank 30 calendar days' prior written notice, or in all other circumstances, upon giving the Bank 120 days' prior written notice.

Capital Resources:

The Association's capital position increased by $10,902,579 at September 30, 2014, compared to December 31, 2013. The association's debt as a ratio of members' equity was 4.23:1 as of September 30, 2014, compared to 4.41:1 as of December 31, 2013.

Under regulations governing minimum permanent capital adequacy and other capitalization issues, the association is required to maintain a minimum adjusted permanent capital of 7.0 percent of risk-adjusted assets as defined by the FCA. The Association's permanent capital ratio at September 30, 2014, was 18.2 percent, which is in compliance with the FCA's minimum permanent capital standard. The Association's core surplus ratio and total surplus ratio at September 30, 2014, were 17.8 and 17.8 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.

Regulatory Matters

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

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

The public comment period ended on October 23, 2014.

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

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

The public comment period ends on January 2, 2015.

Relationship With the Farm Credit Bank of Texas:

The Association's financial condition may be impacted by factors that affect the Bank. The financial condition and results of operations of the Bank may materially affect the stockholder's investment in the Association. The Management's Discussion and Analysis and Notes to Financial Statements contained in the 2013 Annual Report of Alabama 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 *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 annual and quarterly stockholder reports are also available free of charge, upon request. The quarterly reports will be available on the Association's website at *www.AlabamaAgCredit.com* approximately 40 days after quarter end and can also be obtained by writing to Alabama Ag Credit, ACA, 2660 EastChase Lane, Suite 401, Montgomery, Alabama, 36117 or calling (334) 270-8687. Copies of the Association's quarterly stockholder reports can also be requested by e-mailing *Andra.Wolf@AlabamaAgCredit.com.* The Association's annual stockholder report is available on its website 75 days after the fiscal year end. Copies of the Association's annual stockholder report can also be requested 90 days after the fiscal year end.

ALABAMA AG CREDIT, ACA

CONSOLIDATED BALANCE SHEET

	September 30, 2014 (unaudited)	December 31, 2013
ASSETS		
Cash	**$ 10,512**	$ 11,729
Loans	**759,291,753**	725,591,784
Less: allowance for loan losses	**4,130,330**	3,541,791
Net loans	**755,161,423**	722,049,993
Accrued interest receivable	**7,581,543**	6,066,149
Investment in and receivable from the Bank:		
Capital stock	**11,547,290**	11,547,290
Accrued patronage receivable	**432,000**	113,946
Other	**1,169,600**	5,242,030
Other property owned, net	**542,899**	1,398,915
Premises and equipment, net	**4,664,387**	3,183,662
Other assets	**839,312**	409,022
Total assets	**$ 781,948,966**	$ 750,022,736
LIABILITIES		
Note payable to the Bank	**$ 624,391,818**	$ 594,831,348
Accrued interest payable	**968,776**	966,859
Drafts outstanding	**3,173,710**	5,066,414
Patronage distributions payable	**5,020**	6,100,071
Other liabilities	**3,781,728**	4,332,709
Total liabilities	**632,321,052**	611,297,401
MEMBERS' EQUITY		
Capital stock and participation certificates	**3,608,655**	3,521,035
Unallocated retained earnings	**146,144,481**	135,313,229
Accumulated other comprehensive income (loss)	**(125,222)**	(108,929)
Total members' equity	**149,627,914**	138,725,335
Total liabilities and members' equity	**$ 781,948,966**	$ 750,022,736

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

ALABAMA AG CREDIT, ACA

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2014	2013	**2014**	2013
INTEREST INCOME				
Loans	**$ 9,235,546**	$ 8,337,772	**$ 26,355,019**	$ 24,959,274
INTEREST EXPENSE				
Note payable to the Bank	**2,949,760**	2,779,820	**8,623,819**	8,312,539
Net interest income	**6,285,786**	5,557,952	**17,731,200**	16,646,735
PROVISION FOR LOAN LOSSES				
Provision for loan losses	**488,349**	156,696	**795,439**	423,463
Net interest income after provision for loan losses	**5,797,437**	5,401,256	**16,935,761**	16,223,272
NONINTEREST INCOME				
Patronage income from the Bank	**198,499**	198,145	**590,569**	591,117
Loan fees	**(25,118)**	41,174	**71,396**	200,451
Financially related services income	**1,236**	1,088	**1,877**	2,312
Gain (loss) on other property owned, net	**1,176,832**	(66,729)	**1,008,627**	86,220
Gain on sale of premises and equipment, net	**23,364**	-	**69,965**	17,750
Other noninterest income	**-**	-	**59,971**	67,102
Total noninterest income	**1,374,813**	173,678	**1,802,405**	964,952
NONINTEREST EXPENSES				
Salaries and employee benefits	**1,599,494**	1,586,881	**4,844,212**	4,586,398
Directors' expense	**48,370**	32,374	**186,108**	187,336
Purchased services	**66,889**	97,904	**248,984**	275,237
Travel	**206,249**	171,495	**528,978**	435,303
Occupancy and equipment	**161,931**	136,748	**503,511**	361,188
Communications	**74,198**	30,270	**226,709**	87,773
Advertising	**98,793**	82,763	**207,146**	217,955
Public and member relations	**68,620**	48,641	**209,911**	161,126
Supervisory and exam expense	**60,905**	55,717	**172,341**	171,025
Insurance Fund premiums	**170,477**	135,919	**611,959**	508,950
Other noninterest expense	**46,125**	58,160	**167,221**	146,182
Total noninterest expenses	**2,602,051**	2,436,872	**7,907,080**	7,138,473
NET INCOME	**4,570,199**	3,138,062	**10,831,086**	10,049,751
Other comprehensive income (loss)::				
Change in postretirement benefit plans	**(5,431)**	5,680	**(16,293)**	17,041
COMPREHENSIVE INCOME	**$ 4,564,768**	$ 3,143,742	**$ 10,814,793**	$ 10,066,792

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

ALABAMA AG CREDIT, ACA

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

(unaudited)

	Capital Stock/ Participation Certificates	Unallocated Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2012	$ 4,073,445	$ 126,993,204	$ (578,099)	$ 130,488,550
Net income	-	10,049,751	-	10,049,751
Other comprehensive income	-	-	17,041	17,041
Capital stock/participation certificates issued	466,695	-	-	466,695
Capital stock/participation certificates retired	(1,057,210)	-	-	(1,057,210)
Patronage refunds:				
Change in patronage declared and paid	-	415	-	415
Balance at September 30, 2013	$ 3,482,930	$ 137,043,370	$ (561,058)	$ 139,965,242
Balance at December 31, 2013	$ 3,521,035	$ 135,313,229	$ (108,929)	$ 138,725,335
Net income	-	10,831,086	-	10,831,086
Other comprehensive income	-	-	(16,293)	(16,293)
Capital stock/participation certificates issued	367,410	-	-	367,410
Capital stock/participation certificates retired	(279,790)	-	-	(279,790)
Patronage refunds:				
Change in patronage declared and paid	-	166	-	166
Balance at September 30, 2014	**$ 3,608,655**	**$ 146,144,481**	**$ (125,222)**	**$ 149,627,914**

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:

The 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 accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. (GAAP) for interim financial information. Accordingly, they do not include all of the disclosures required by GAAP for annual financial statements and should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2013, as contained in the 2013 Annual Report to Stockholders.

In the opinion of management, the accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with GAAP except for the inclusion of a statement of cash flows. GAAP require a business enterprise that provides a set of financial statements reporting both financial position and results of operations to also provide a statement of cash flows for each period for which results of operations are provided. In regulations issued by the Farm Credit Administration (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 preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year ending December 31, 2014. Descriptions of the significant accounting policies are included in the 2013 Annual Report to Stockholders. In the opinion of management, these policies and the presentation of the interim financial condition and results of operations conform with GAAP and prevailing practices within the banking industry.

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

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

The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries. Certain amounts in the prior period’s financial statements have been reclassified to conform to current financial statement presentation.

NOTE 2 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

A summary of loans follows:

Loan Type	**September 30, 2014 Amount**	December 31, 2013 Amount
Production agriculture:		
Real estate mortgage	**$ 658,648,194**	$ 650,893,297
Production and intermediate term	**49,042,159**	36,421,021
Agribusiness:		
Loans to cooperatives	**3,209,797**	2,777,177
Processing and marketing	**29,388,409**	22,264,559
Farm-related business	**3,669,286**	158,200
Communication	**1,642,303**	950,170
Water and waste water	**1,068,020**	714,228
Rural residential real estate	**12,623,585**	11,413,132
Total	**$ 759,291,753**	$ 725,591,784

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 September 30, 2014:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 1,742,513	$ 3,430,521	$ -	$ -	$ 1,742,513	$ 3,430,521
Production and intermediate term	2,235,476	-	-	-	2,235,476	-
Agribusiness	33,993,164	-	-	-	33,993,164	-
Communication	1,642,303	-	-	-	1,642,303	-
Water and waste water	567,520	-	-	-	567,520	-
Total	$ 40,180,976	$ 3,430,521	$ -	$ -	$ 40,180,976	$ 3,430,521

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 ACPs are included in other liabilities. ACPs are not insured, and interest is generally paid by the Association on such balances. Balances of ACPs were $13,217,965 and $13,420,772 at September 30, 2014, and December 31, 2013, respectively.

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

	September 30, 2014	December 31, 2013
Nonaccrual loans:		
Real estate mortgage	**$ 10,037,825**	$12,644,521
Production and intermediate term	**1,277,297**	826,498
Rural residential real estate	**219,528**	225,355
Total nonaccrual loans	**11,534,650**	13,696,374
Accruing restructured loans:		
Real estate mortgage	**444,623**	1,180,291
Total accruing restructured loans	**444,623**	1,180,291
Accruing loans 90 days or more past due:		
Real estate mortgage	**59,356**	103,173
Total accruing loans 90 days or more past due	**59,356**	103,173
Total nonperforming loans	**12,038,629**	14,979,838
Other property owned	**542,899**	1,398,915
Total nonperforming assets	**$ 12,581,528**	$16,378,753

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

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

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

	September 30, 2014	December 31, 2013
Real estate mortgage		
Acceptable	**96.6** %	95.6 %
OAEM	**1.0**	1.4
Substandard/doubtful	**2.4**	2.9
	100.0	99.9
Production and intermediate term		
Acceptable	**95.5**	95.1
OAEM	**-**	-
Substandard/doubtful	**4.5**	4.9
	100.0	100.0
Agribusiness		
Acceptable	**100.0**	100.0
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.0	100.0
Water/waste water		
Acceptable	**100.0**	100.0
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.0	100.0
Communication		
Acceptable	**100.0**	100.0
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.0	100.0
Rural residential real estate		
Acceptable	**95.4**	94.0
OAEM	**0.2**	0.6
Substandard/doubtful	**4.4**	5.4
	100.0	100.0
Total loans		
Acceptable	**96.7**	95.7
OAEM	**0.9**	1.3
Substandard/doubtful	**2.4**	3.0
	100.0 %	100.0 %

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

September 30, 2014	**30-89 Days Past Due**	**90 Days or More Past Due**	**Total Past Due**	**Not Past Due or Less Than 30 Days Past Due**	**Total Loans**	**Recorded Investment >90 Days and Accruing**
Real estate mortgage	**$ 2,233,263**	**$ 2,681,792**	**$ 4,915,055**	**$ 660,509,799**	**$ 665,424,854**	**$ 59,356**
Production and intermediate term	**-**	**10,868**	**10,868**	**49,736,153**	**49,747,021**	**-**
Loans to cooperatives	**-**	**-**	**-**	**3,216,782**	**3,216,782**	**-**
Processing and marketing	**-**	**-**	**-**	**29,418,774**	**29,418,774**	**-**
Farm-related business	**-**	**-**	**-**	**3,671,773**	**3,671,773**	**-**
Communication	**-**	**-**	**-**	**1,642,428**	**1,642,428**	**-**
Water and waste water	**-**	**-**	**-**	**1,069,665**	**1,069,665**	**-**
Rural residential real estate	**11,400**	**108,789**	**120,189**	**12,561,810**	**12,681,999**	**-**
Total	**$ 2,244,663**	**$ 2,801,449**	**$ 5,046,112**	**$ 761,827,184**	**$ 766,873,296**	**$ 59,356**

December 31, 2013	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment >90 Days and Accruing
Real estate mortgage	$ 3,100,414	$ 1,829,131	$ 4,929,545	$ 651,538,699	$ 656,468,244	$ 103,173
Production and intermediate term	-	-	-	36,849,030	36,849,030	-
Loans to cooperatives	-	-	-	2,784,291	2,784,291	-
Processing and marketing	-	-	-	22,281,804	22,281,804	-
Farm-related business	-	-	-	158,768	158,768	-
Communication	-	-	-	950,240	950,240	-
Water and waste water	-	-	-	714,994	714,994	-
Rural residential real estate	69,364	31,183	100,547	11,350,015	11,450,562	-
Total	$ 3,169,778	$ 1,860,314	$ 5,030,092	$ 726,627,841	$ 731,657,933	$ 103,173

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 September 30, 2014, the total recorded investment of TDR loans was $4,617,862, including $4,173,239 classified as nonaccrual and $444,623 classified as accrual, with specific allowance for loan losses of $362,935. All loans classified as TDRs were individually evaluated to determine the need for allowance for loan losses. As of September 30, 2014, the Association had no commitments to lend funds to borrowers whose loan terms have been modified in a TDR.

The following tables present additional information regarding TDRs, which includes both accrual and nonaccrual loans with TDR designation, that occurred during the nine months ended September 30, 2014. The premodification outstanding recorded investment represents the recorded investment of the loans as of the quarter end prior to the restructuring. The postmodification outstanding recorded investment represents the recorded investment of the loans as of the quarter end the restructuring occurred. Loans formally restructured prior to January 1, 2014, were $619,192.

For the Three Months Ended September 30, 2014	**Premodification Outstanding Recorded Investment**	**Postmodification Outstanding Recorded Investment**
Troubled debt restructurings:		
Real estate mortgage	**$ 202,575**	**$ 203,834**
Total	**$ 202,575**	**$ 203,834**

For the Three Months Ended September 30, 2013	Premodification Outstanding Recorded Investment	Postmodification Outstanding Recorded Investment
Troubled debt restructurings:		
Real estate mortgage	$ 116,277	$ 116,277
Total	$ 116,277	$ 116,277

For the Nine Months Ended September 30, 2014	**Premodification Outstanding Recorded Investment**	**Postmodification Outstanding Recorded Investment**
Troubled debt restructurings:		
Real estate mortgage	**$ 3,364,733**	**$ 3,360,177**
Production and intermediate term	**635,159**	**641,438**
Total	**$ 3,999,892**	**$ 4,001,615**

For the Nine Months Ended September 30, 2013	Premodification Outstanding Recorded Investment	Postmodification Outstanding Recorded Investment
Troubled debt restructurings:		
Real estate mortgage	$ 116,277	$ 116,277
Total	$ 116,277	$ 116,277

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 restructuring and that occurred within the previous 12 months and for which there was a subsequent payment default during the period. A payment default is defined as a payment that is 30 days past due after the date the loan was restructured.

Troubled debt restructurings that subsequently defaulted:	**Recorded Investment at September 30, 2014**	Recorded Investment at September 30, 2013
Real estate mortgage	**$ -**	$ 209,468
Total	**$ -**	$ 209,468

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

	Loans Modified as TDRs		TDRs in Nonaccrual Status	
	September 30, 2014	December 31, 2013	**September 30, 2014**	December 31, 2013
Real estate mortgage	**$ 3,976,424**	$ 1,943,176	**$ 3,531,801**	$ 762,885
Production and intermediate term	**641,438**	-	**641,438**	-
Total	**$ 4,617,862**	$ 1,943,176	**$ 4,173,239**	$ 762,885

Additional impaired loan information is as follows:

	September 30, 2014			December 31, 2013		
	Recorded Investment	**Unpaid Principal Balance[a]**	**Related Allowance**	Recorded Investment	Unpaid Principal Balance[a]	Related Allowance
Impaired loans with a related allowance for credit losses:						
Real estate mortgage	**$ 5,453,195**	**$ 5,853,597**	**$ 1,046,062**	$ 3,148,290	$ 3,654,926	$ 724,402
Production and intermediate term	**-**	**-**	**-**	-	-	-
Farm-related business	**-**	**-**	**-**	-	-	-
Rural residential real estate	**4,162**	**4,162**	**1,578**	4,162	4,162	5,037
Total	**$ 5,457,357**	**$ 5,857,759**	**$ 1,047,640**	$ 3,152,452	$ 3,659,088	$ 729,439
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	**$ 5,092,925**	**$ 6,725,172**	**$ -**	$10,779,695	$ 12,362,511	$ -
Production and intermediate term	**1,277,297**	**1,307,060**	**-**	826,498	859,240	-
Farm-related business	**-**	**13,095**	**-**	-	13,095	-
Rural residential real estate	**215,365**	**215,365**	**-**	221,193	221,193	-
Total	**$ 6,585,587**	**$ 8,260,692**	**$ -**	$11,827,386	$ 13,456,039	$ -
Total impaired loans:						
Real estate mortgage	**$ 10,546,120**	**$ 12,578,769**	**$ 1,046,062**	$13,927,985	$ 16,017,437	$ 724,402
Production and intermediate term	**1,277,297**	**1,307,060**	**-**	826,498	859,240	-
Farm-related business	**-**	**13,095**	**-**	-	13,095	-
Rural residential real estate	**219,527**	**219,527**	**1,578**	225,355	225,355	5,037
Total	**$ 12,042,944**	**$ 14,118,451**	**$ 1,047,640**	$14,979,838	$ 17,115,127	$ 729,439

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

	For the Three Months Ended				For the Nine Months Ended			
	September 30, 2014		September 30, 2013		**September 30, 2014**		September 30, 2013	
	Average Impaired Loans	**Interest Income Recognized**	Average Impaired Loans	Interest Income Recognized	**Average Impaired Loans**	**Interest Income Recognized**	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:								
Real estate mortgage	**$ 5,314,939**	**$ 2,148**	$ 2,596,690	$ 10,031	**$ 3,598,021**	**$ 5,897**	$ 2,766,483	$ 20,891
Production and intermediate term	**-**	**-**	-	-	**-**	**-**	-	-
Processing and marketing	**-**	**-**	450,722	-	**-**	**-**	651,711	-
Farm-related business	**-**	**-**	13,095	-	**-**	**-**	13,095	-
Rural residential real estate	**4,162**	**-**	-	-	**4,162**	**-**	-	-
Total	**$ 5,319,101**	**$ 2,148**	$ 3,060,507	$ 10,031	**$ 3,602,183**	**$ 5,897**	$ 3,431,289	$ 20,891
Impaired loans with no related allowance for credit losses:								
Real estate mortgage	**$ 4,867,331**	**$ 562,292**	$ 8,714,174	$ 19,712	**$ 7,514,698**	**$ 740,686**	$ 9,727,631	$ 57,057
Production and intermediate term	**1,212,243**	**-**	4,824	299	**940,102**	**721**	1,608	299
Processing and marketing	**-**	**-**	677,339	-	**-**	**-**	677,339	-
Farm-related business	**-**	**-**	-	-	**-**	**-**	-	-
Rural residential real estate	**216,563**	**-**	199,065	-	**197,967**	**536**	156,149	679
Total	**$ 6,296,137**	**$ 562,292**	$ 9,595,402	$ 20,011	**$ 8,652,767**	**$ 741,943**	$ 10,562,727	$ 58,035
Total impaired loans:								
Real estate mortgage	**$ 10,182,270**	**$ 564,440**	$11,310,864	$ 29,743	**$ 11,112,719**	**$ 746,583**	$ 12,494,114	$ 77,948
Production and intermediate term	**1,212,243**	**-**	4,824	299	**940,102**	**721**	1,608	299
Processing and marketing	**-**	**-**	1,128,061	-	**-**	**-**	1,329,050	-
Farm-related business	**-**	**-**	13,095	-	**-**	**-**	13,095	-
Rural residential real estate	**220,725**	**-**	199,065	-	**202,129**	**536**	156,149	679
Total	**$ 11,615,238**	**$ 564,440**	$12,655,909	$ 30,042	**$ 12,254,950**	**$ 747,840**	$ 13,994,016	$ 78,926

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	Water/Waste Water	Rural Residential Real Estate	Total
Allowance for Credit Losses:							
Balance at June 30, 2014	$ 2,765,607	$ 66,545	$ 771,975	$ 1,151	$ 676	$ 41,986	$ 3,647,940
Charge-offs	(43,242)	-	-	-	-	-	(43,242)
Recoveries	37,283	-	-	-	-	-	37,283
Provision for loan losses	1,229,453	(980)	(728,425)	(179)	80	(11,600)	488,349
Balance at September 30, 2014	$ 3,989,101	$ 65,565	$ 43,550	$ 972	$ 756	$ 30,386	$ 4,130,330
Balance at December 31, 2013	$ 2,529,315	$ 61,654	$ 919,289	$ 810	$ 784	$ 29,939	$ 3,541,791
Charge-offs	(245,597)	-	-	-	-	-	(245,597)
Recoveries	38,697	-	-	-	-	-	38,697
Provision for loan losses	1,666,686	3,911	(875,739)	162	(28)	447	795,439
Balance at September 30, 2014	$ 3,989,101	$ 65,565	$ 43,550	$ 972	$ 756	$ 30,386	$ 4,130,330
Individually evaluated for impairment	$ 1,219,847	$ -	$ -	$ -	$ -	$ 9,439	$ 1,229,286
Collectively evaluated for impairment	2,769,254	65,565	43,550	972	756	20,947	2,901,044
Balance at September 30, 2014	$ 3,989,101	$ 65,565	$ 43,550	$ 972	$ 756	$ 30,386	$ 4,130,330
Balance at June 30, 2013	$ 3,109,874	$ 32,639	$ 849,192	$ 848	$ -	$ 51,425	$ 4,043,978
Charge-offs	(41,524)	-	-	-	-	-	(41,524)
Recoveries	-	-	-	-	-	-	-
Provision for loan losses	(181,233)	54,093	305,491	-	-	(21,655)	156,696
Balance at September 30, 2013	$ 2,887,117	$ 86,732	$ 1,154,683	$ 848	$ -	$ 29,770	$ 4,159,150
Balance at December 31, 2012	$ 3,746,684	$ 10,963	$ 1,051,538	$ 845	$ -	$ 32,895	$ 4,842,925
Charge-offs	(791,274)	-	(310,000)	-	-	(5,964)	(1,107,238)
Recoveries	-	-	-	-	-	-	-
Provision for loan losses	(68,293)	75,769	413,145	3	-	2,839	423,463
Balance at September 30, 2013	$ 2,887,117	$ 86,732	$ 1,154,683	$ 848	$ -	$ 29,770	$ 4,159,150
Individually evaluated for impairment	$ 1,322,939	$ -	$ 238,095	$ -	$ -	$ 14,783	$ 1,575,817
Collectively evaluated for impairment	1,564,178	86,732	916,588	848	-	14,987	2,583,333
Balance at September 30, 2013	$ 2,887,117	$ 86,732	$ 1,154,683	$ 848	$ -	$ 29,770	$ 4,159,150

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy and Water/Waste Water	Rural Residential Real Estate	Total
Recorded Investments in Loans Outstanding:							
Ending Balance at September 30, 2014	$ 665,424,854	$ 49,747,021	$ 36,307,329	$ 1,642,428	$ 1,069,665	$ 12,681,999	$ 766,873,296
Individually evaluated for impairment	$ 15,730,799	$ 2,233,333	$ -	$ -	$ -	$ 567,907	$ 18,532,039
Collectively evaluated for impairment	$ 649,694,055	$ 47,513,688	$ 36,307,329	$ 1,642,428	$ 1,069,665	$ 12,114,092	$ 748,341,257
Ending Balance at September 30, 2013	$ 643,239,044	$ 36,920,090	$ 20,721,882	$ 950,156	$ -	$ 10,781,429	$ 712,612,601
Individually evaluated for impairment	$ 21,955,582	$ 2,174,850	$ 1,141,156	$ -	$ -	$ 601,410	$ 25,872,998
Collectively evaluated for impairment	$ 621,283,462	$ 34,745,240	$ 19,580,726	$ 950,156	$ -	$ 10,180,019	$ 686,739,603

NOTE 3 — CAPITAL:

The Association's board of directors has established a Capital Adequacy Plan (Plan) that includes the capital targets that are necessary to achieve the institution's capital adequacy goals as well as the minimum permanent capital standards. The Plan monitors projected dividends, equity retirements and other actions that may decrease the association's permanent capital. In addition to factors that must be considered in meeting the minimum standards, the board of directors also monitors the following factors: capability of management; quality of operating policies, procedures and internal controls; quality and quantity of earnings; asset quality and the adequacy of the allowance for losses to absorb potential loss within the loan portfolio; sufficiency of liquid funds; needs of an institution's customer base; and any other risk-oriented activities, such as funding and interest rate risk, potential obligations under joint and several liability, contingent and off-balance-sheet liabilities or other conditions warranting additional capital. At least quarterly, management reviews the Association's goals and objectives with the board.

An additional component of equity is accumulated other comprehensive income. The Association's accumulated other comprehensive income (loss) relates entirely to its nonpension other postretirement benefits. Amortization of prior service (credits) cost and of actuarial (gain) loss are reflected in "Salaries and employee benefits" in the Consolidated Statement of Comprehensive Income. The following table summarizes the changes in accumulated other comprehensive income (loss) for the nine months ended September 30:

	2014	2013
Accumulated other comprehensive income (loss) at January 1	**$ (108,929)**	$ (578,099)
Amortization of prior service (credit) costs included in salaries and employee benefits	**(19,710)**	(19,710)
Amortization of actuarial (gain) loss included in salaries and employee benefits	**3,417**	36,751
Other comprehensive income (loss), net of tax	**(16,293)**	17,041
Accumulated other comprehensive income at September 30	**$ (125,222)**	$ (561,058)

NOTE 4 — INCOME TAXES:

Alabama Ag Credit, ACA and 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 nine months ended September 30, 2014, the Association participated 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 September 30, 2014 based on management's estimate that it is more likely than not that the deferred tax asset will not be realized. For the nine months ended September 30, 2014, and 2013, the Associations had no taxable income. The subsidiary, Alabama Ag Credit, 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 14 to the 2013 Annual Report to Stockholders for a more complete description.

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

September 30, 2014	**Fair Value Measurement Using**			**Total Fair**
	Level 1	**Level 2**	**Level 3**	**Value**
Assets:				
Assets held in nonqualified benefit trusts	**$ 21,469**	**$ -**	**$ -**	**$ 21,469**

December 31, 2013	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Assets held in nonqualified benefit trusts	$ 20,000	$ -	$ -	$ 20,000

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

September 30, 2014	**Fair Value Measurement Using**			**Total Fair**
	Level 1	**Level 2**	**Level 3**	**Value**
Assets:				
Loans*	**$ -**	**$ -**	**$ 6,858,538**	**$ 6,858,538**
Other property owned	**-**	**-**	**604,798**	**604,798**

December 31, 2013	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Loans*	$ -	$ -	$ 3,651,480	$ 3,651,480
Other property owned	-	-	1,458,267	1,458,267

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

Information About Recurring and Nonrecurring Level 3 Fair Value Measurements

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

Valuation Techniques

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

Assets Held in Nonqualified Benefits Trusts

Assets held in trust funds related to deferred compensation and supplemental retirement plans are classified within Level 1. The trust funds include investments that are actively traded and have quoted net asset values that are observable in the marketplace.

Loans Evaluated for Impairment

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

Other Property Owned

Other property owned is generally classified as Level 3 of the fair value hierarchy. The process for measuring the fair value of the other property owned involves the use of independent appraisals and other market-based information. Costs to sell represent transaction costs and are not included as a component of the asset's fair value. As a result, these fair value measurements fall within Level 3 of the hierarchy. As of September 30, 2014, other property owned, net is reported at $542,899 in the consolidated balance sheet.

NOTE 6 — EMPLOYEE BENEFIT PLANS:

Employee Retirement Plans: As discussed in Note 2 and Note 12 to the 2013 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 DB 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 September 30:

	2014	2013
DB contribution	**$ 627,158**	$ 731,580
YTD amortization	**470,369**	548,685
Unamortized contribution	**$ 156,789**	$ 182,895

Association contributions to the DC Plan are expensed as incurred. For the nine months ended September 30, 2014 and 2013, the Association recognized pension costs for the DC Plan of $162,563 and $137,686, 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 $150,869 and $140,200 for the nine months ended September 30, 2014 and 2013, 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 nonpension other postretirement employee benefits for the nine months ended September 30:

	Other Benefits	
	2014	2013
Service cost	**$ 42,288**	$ 50,568
Interest cost	**77,565**	75,993
Expected return on plan assets	**-**	-
Amortization of prior service (credits) costs	**(19,710)**	(19,710)
Amortization of net actuarial (gain) loss	**3,417**	36,751
Net periodic benefit cost	**$ 103,560**	$ 143,602

The Association's liability for the unfunded accumulated obligation for these benefits at September 30, 2014, was $2,099,188 and is included in "Other Liabilities" in the balance sheet.

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 November 5, 2014, which is the date the financial statements were issued. There are no other significant events requiring disclosure as of November 5, 2014.