CAPITAL FARM CREDIT

PART OF THE FARM CREDIT SYSTEM

Quarterly Report
To Stockholders

Quarter Ended September 30, 2014

REPORT OF MANAGEMENT

The consolidated financial statements of Capital Farm Credit, ACA (the association) are prepared by management, who is 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' (FCB) 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 consolidated financial statements are examined by PricewaterhouseCoopers LLP, independent auditors, 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 consolidated 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 systems of internal control and financial reporting. The Audit Committee consults regularly with management and meets periodically with the independent auditors and the internal auditors to review the scope and results of their work. The independent auditors and internal auditors have direct access to the Audit Committee.

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

Ben R. Novosad

Ben R. Novosad,
Chief Executive Officer

Phillip Munden

Phillip Munden,
Chairman, Board of Directors

Don VandeVanter

Don VandeVanter,
Chief Financial Officer

November 5, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Dollars in thousands)

The following commentary explains management's assessment of the principal aspects of the consolidated financial condition and results of operations of Capital Farm Credit, ACA including its wholly-owned subsidiaries, Capital Farm Credit, PCA and Capital Farm Credit, FLCA, (collectively referred to as the association) for the quarter ended September 30, 2014. These comments should be read in conjunction with the accompanying consolidated financial statements and the December 31, 2013 Annual Report of the association. Results for interim periods are not necessarily indicative of results to be expected for future periods.

General economic conditions continue to improve and provide sustainable underlying strength throughout the State of Texas. Real estate prices continue to trend higher as well. There has been some decline in grain and cotton prices during the year which may negatively affect the farm producers, but this has generally helped the livestock, dairy and poultry producers. Overall, growing conditions are improved year-over-year and mild late summer temperatures have offered a better growing environment for the fall crop and grazing pastures.

Patronage Refunds by Association

The board of directors approved a $144,361 patronage distribution for 2013 for all patronage sourced earnings. At year end the association established an estimated cash patronage payable of $65,486 and $78,875 in nonqualified allocations. In March 2014 the association finalized the computation of these distributions which resulted in a reduction in cash patronage payable of $30 for an actual cash distribution of $65,456. In addition, nonqualified allocations were also adjusted by a reduction of $227 resulting in an actual allocation of $78,648. The owners of these nonqualified distributions do not pay federal income taxes until the equities are retired. It is the board's intention with these allocations to assign ownership of the earnings of the association, allowing the stockholders to benefit more fully from the earnings of the association and to create a method to make future equity distributions in the form of cash. While there is not a planned retirement of these allocated equities, the board of directors will make an annual evaluation of the association's capital position and determine if some cash retirements of these equities can be made. In 2012, the board of directors approved a $138,334 patronage distribution for 2012. $42,133 of this distribution was paid in cash in March 2013. $96,201 of this distribution was made in the form of nonqualified allocated equity distributions.

In November 2013 the association evaluated its capital position and retired $42,663 in non-qualified allocated equities. These equities represented $8,732, $16,026, and $17,905 from those allocated in 2006, 2007 and 2008, respectively. In November 2012, as part of the evaluation of its capital position, the association retired $55,000 in non-qualified allocated equities. These equities represented $11,327, $20,694, and $22,979 from those allocated in 2006, 2007 and 2008, respectively.

Business Acquisition

Effective February 28, 2014 the association entered into an agreement to purchase certain tangible and intangible assets of a sole proprietorship crop insurance business servicing the Winter Garden, Coastal Plains and Brazos Valley areas. The assets of this business were purchased for approximately $4.5 million. The association will utilize the acquisition to enhance the related services the association offers to its members. This asset is included in other assets in the accompanying Consolidated Balance Sheet.

Loan Portfolio

Total loan volume was $5,721,905 at September 30, 2014. This compares with loan volume owned by the association at December 31, 2013 of $5,380,398. This represents an increase of $341,507, or approximately 6.3 percent. Most of this increase was realized in the real estate mortgage segment as demand for real estate continues to grow and prices appreciate. The association continues to see growth in the production, rural residential real estate, energy, communications and agribusiness portfolios as well. The association has increased its marketing efforts and implemented new loan programs in an effort to continue to grow its loan portfolio.

The quality of the association's loan portfolio remained relatively stable since the previous year's end with decreases in formally restructured loans and other property owned, but with an increase in nonaccrual loans. The following table summarizes the association's components and trends of high-risk assets:

	September 30, 2014	**%**	December 31, 2013	%
Nonaccrual loans	**$ 66,302**	**81.9**	$ 60,622	74.9
Loans 90 days past due and still accruing interest	**1,962**	**2.4**	2,248	2.8
Formally restructured loans	**9,734**	**12.0**	12,659	15.6
Other property owned, net	**2,994**	**3.7**	5,437	6.7
Total	**$ 80,992**	**100.0**	$ 80,966	100.0

Nonaccrual loans increased $5,680 during the first nine months of 2014. This increase was recognized in the real estate mortgage sector with the transfer of one relatively large loan to nonaccrual during the year, while there were notable decreases in the production and agribusiness nonaccrual loans.

Loans that are 90 or more days past due and still accruing interest decreased $286 in the first nine months of 2014. Loans that remain in this category are to customers that have a documented plan that details how and when the amount owed will be paid.

Formally restructured loans decreased $2,925 during the first nine months of 2014 as a result of loan pay offs. The association is cooperating with distressed borrowers to work through temporary repayment problems, where possible. These restructurings may include a modification of loan terms to accommodate the financial difficulties of the customer.

Other property owned decreased $2,443 during the first nine months of 2014. The decrease resulted from the sale of a large acquired property. The association is actively working with real estate professionals to ensure properties are accurately valued on the association's books and that proactive marketing activities are in place.

Management also continues to routinely evaluate and monitor counterparty and collateral risks in an effort to avoid concentrations that could result in excess exposure to a single counterparty or type of collateral. The loan portfolio management practices in place have been designed to ensure loans and industries with actual or potential problems are promptly identified, monitored and addressed in a manner that allows the lending staff to work with problem customers and industries through periods of adversity.

Results of Operations

The association's net income for the nine months ended September 30, 2014 was $114,206 as compared to $104,680 for the nine months ended September 30, 2013, an increase of $9,526, or 9.1 percent.

The improvement in net income was affected by an increase in net interest income, an increase in noninterest income, a decrease in the provision for loan losses, offset by an increase in noninterest expense. Net interest income increased by $4,641 during the first nine months of 2014 compared to the same time period for 2013. An increase in average loan volume and higher average capital was the catalyst for the improvement in net interest income. Noninterest income increased $6,510 during the first nine months of 2014 compared to the same time period of 2013. The increase in noninterest income was mainly attributed to income generated by the recently acquired crop insurance business, as well as gains received on the sale of other property owned. In addition, provision for loan losses decreased $5,818 due to a provision reversal of $4,902 recognized in the nine months ended September 30, 2014. The reversal was mainly attributed to credit quality improvement in transitional property loans as demand for development property resulted in improved values of underlying collateral for these loans. Net income was negatively affected by an increase in noninterest expenses of $7,332.

The effects of changes in average volume and interest rates on net interest income in the nine months ended September 30, 2014, as compared with the corresponding period of the prior year, are presented in the following tables:

	For the nine months ended September 30, 2014		For the nine months ended September 30, 2013	
	Average Balance	**Interest**	Average Balance	Interest
Accrual loans and investments	**$ 5,453,802**	**$ 203,848**	$ 5,160,804	$ 196,041
Interest-bearing liabilities	**4,612,453**	**64,769**	4,390,082	61,603
Impact of capital	**$ 841,349**		$ 770,722	
Net interest income		**$ 139,079**		$ 134,438

	Average Yield	Average Yield
Yield on loans	**5.00%**	5.08%
Cost of interest-bearing Liabilities	**1.88%**	1.88%
Net interest margin	**3.12%**	3.20%

	2014 vs. 2013		
	Increase (decrease) due to		
	Volume	**Rate**	**Total**
Interest income	**$ 11,130**	**$ (3,323)**	**$ 7,807**
Interest expense	**3,120**	**46**	**3,166**
Net interest income	**$ 8,010**	**$ (3,369)**	**$ 4,641**

The association's noninterest income increased from $15,101 in the first nine months of 2013 to $21,611 in the first nine months of 2014. The majority of this difference is the result of an increase in gains on other property owned of $4,878, as collateral values on properties disposed of increased resulting in gain recognition upon disposition.

Noninterest expenses increased $7,332, or 16.6 percent in the first nine months of 2014 as compared to the same time period in 2013. This increase is primarily attributable to an increase of $4,449 in salary and employee benefits. There was an increase of 37 full-time employees as compared to the same time period in 2013, as the association hires staff in anticipation of pending retirements, new business initiatives to support future business growth and additional regulatory compliance. In addition, the association had an increase in other expenses of $1,044 partially due to the increases in amortization and depreciation related to software and hardware purchases that will help support the lending and training programs of the association. The increase in other expenses also included the valuation and amortization of the recently acquired crop insurance business. All other noninterest expenses increased $1,839 for the first nine months of 2014 as the Farm Credit System Insurance Corporation (FCSIC) increased the insurance premium 2 basis points in 2014.

Liquidity and Funding Sources

The interest rate risk inherent in the association's loan portfolio is substantially mitigated through the funding relationship with the FCB. The FCB manages interest rate risk through its direct loan pricing and asset/liability management process.

The primary source of liquidity and funding for the association is a direct loan from the FCB. The association had an outstanding balance of $4,808,931 at September 30, 2014, as compared to $4,466,210 at December 31, 2013. This increase in note payable to the FCB since December 2013 is the result of the increase in the association's loan portfolio. The direct loan carried a weighted average interest rate of 1.88 percent for the nine months ended September 30, 2014, compared to 1.87 percent for the year ended December 31, 2013. The indebtedness is collateralized by a pledge of substantially all of the association's assets to the FCB and is governed by a financing agreement.

Under the Act, the association is obligated to borrow only from the FCB unless the FCB approves borrowing from other funding sources. The FCB and FCA regulations have established limitations on the association's ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At September 30, 2014 the association's note payable was within the specified limitations. The maximum amount the association could borrow from the FCB as of September 30, 2014, was $5,690,803, as defined by the general financing agreement. This borrowing limit changes as the borrowing base increases or decreases. In general the FCB funds 100 percent of all eligible acceptable and special mention loans and 75 percent of all eligible substandard loans.

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

The association will continue to fund its operations through direct borrowings from the FCB, retained earnings, member stock and funds held in trust. It is management's opinion that funds available to the association are sufficient to fund its operations for the next twelve months.

Capital Resources

The association's capital position remains strong, with total capital of $1,066,936 at September 30, 2014. This represents an increase of $114,340 from the December 31, 2013 total capital level of $952,596. This increase in capital is a direct result of the association's net income for the period. 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 16.23 percent. The association's core surplus ratio and total surplus ratio at September 30, 2014 were 15.90 percent and 15.90 percent, respectively, which is in compliance with the FCA's minimum ratio requirements of 3.5 percent and 7.0 percent, respectively.

FCA Final Rule

On March 31, 2014, the FCA published the interim final rule (79 FR 17854) removing the FCA regulatory requirement that associations hold non-binding advisory votes on senior officer compensation when 5 percent of the voting stockholders petition for the vote, and that Farm Credit banks and associations hold non-binding advisory votes on senior officer compensation if senior officer compensation increased by 15 percent or more from the previous reporting period. FCA determined that no changes to the interim final rule were warranted and adopted as a final rule the interim final rule, which removed from parts 611, 620, and 630 the requirement for advisory voting.

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 association believes the proposed rule has misapplied the Basel III framework with regards to the System's cooperative structure, most notably requiring a 10-year revolvement cycle for allocated equities to be classified as the highest form of capital. If this rule is left unchanged, it may significantly affect the association's capital management practices, including the timeframe in which allocated equities are retired and distributed in cash.

The public comment period ends on January 2, 2015.

Relationship with the Farm Credit Bank of Texas

The association's statutory obligation to borrow only from the FCB is described in the section "Liquidity and Funding Sources" of the Management's Discussion and Analysis, included in this quarterly report.

The FCB's role in mitigating the association's exposure to interest rate risk is described in the section "Liquidity and Funding Sources" of Management's Discussion and Analysis," included in this quarterly report.

The FCB provides computer systems to support the critical operations of the association. The association also has operating systems and facility-based systems that are not supported by the FCB. The FCB also provides other services the association can utilize.

The association's financial condition may be impacted by factors that affect the FCB as discussed in Note 1 to the consolidated financial statements, "Organization and Significant Accounting Policies," included in this quarterly report. The financial condition and results of operations of the FCB may materially affect the stockholders' investment in the association.

The Tenth Farm Credit District's (District) annual and quarterly stockholder reports 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 78720-2590 or calling (512) 483-9204. Copies of the District's annual and quarterly stockholder reports can also be requested by e-mailing *fcb@farmcreditbank.com*. The District's annual and quarterly stockholder reports 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. These reports can be obtained by writing to Capital Farm Credit, ACA, P.O. Box 488, Hondo, Texas 78861 or calling (830) 426-4589. Copies of the association's quarterly and annual stockholder reports are also available on its Website at *www.capitalfarmcredit.com* or can be requested by e-mailing *isela.morales@capitalfarmcredit.com*.

CAPITAL FARM CREDIT, ACA
CONSOLIDATED BALANCE SHEET
(Dollars in thousands)

	September 30, 2014 (Unaudited)	December 31, 2013 (Audited)
ASSETS		
Loans	**$ 5,721,905**	$ 5,380,398
Less: Allowance for losses	**(14,438)**	(19,526)
Net loans	**5,707,467**	5,360,872
Cash	**319**	1,014
Accrued interest receivable - loans	**56,863**	44,023
Accrued interest receivable - investments	**261**	223
Investments – held-to-maturity	**12,075**	14,864
Investment in and receivable from the FCB:		
Capital stock	**87,900**	87,900
Receivable	**14,101**	11,516
Investments in other Farm Credit Institutions	**4,405**	3,221
Other property owned, net	**2,994**	5,437
Premises and equipment, net	**16,865**	14,928
Other assets	**28,110**	7,013
Total assets	**$ 5,931,360**	$ 5,551,011
LIABILITIES		
Note payable to the FCB	**$ 4,808,931**	$ 4,466,210
Advanced conditional payments	**7,661**	6,855
Accrued interest payable	**7,425**	7,085
Drafts outstanding	**3,271**	5,557
Patronage distributions payable	**9**	65,486
Unfunded post retirement medical obligation	**18,614**	18,030
Other liabilities	**18,513**	29,192
Total liabilities	**4,864,424**	4,598,415
MEMBERS' EQUITY		
Capital stock and participation certificates	**23,225**	22,651
Non-qualified allocated retained earnings	**376,407**	376,634
Unallocated retained earnings	**665,555**	551,319
Accumulated other comprehensive income	**1,749**	1,992
Total members' equity	**1,066,936**	952,596
Total liabilities and members' equity	**$ 5,931,360**	$ 5,551,011

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

CAPITAL FARM CREDIT, ACA
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(Dollars in thousands)
(UNAUDITED)

	For the three months ended September 30, 2014	For the three months ended September 30, 2013	**For the nine months ended September 30, 2014**	For the nine months ended September 30, 2013
INTEREST INCOME				
Loans	**$ 69,194**	$ 66,460	**$ 203,371**	$ 195,445
Investments	**153**	190	**477**	596
Total interest income	**69,347**	66,650	**203,848**	196,041
INTEREST EXPENSE				
Note payable to the FCB and others	**22,483**	20,812	**64,769**	61,603
Net interest income	**46,864**	45,838	**139,079**	134,438
PROVISION FOR LOAN LOSSES				
(Reversal of) provision for loan losses	**(544)**	510	**(4,902)**	916
Net interest income after provision for losses	**47,408**	45,328	**143,981**	133,522
NONINTEREST INCOME				
Patronage income from the FCB	**3,968**	3,737	**11,586**	11,019
Loan fees	**669**	909	**1,898**	2,787
Gain (loss) on other property owned, net	**4,316**	131	**4,732**	(146)
Other income	**1,292**	499	**3,395**	1,441
Total noninterest income	**10,245**	5,276	**21,611**	15,101
NONINTEREST EXPENSES				
Salaries and employee benefits	**9,311**	8,046	**27,548**	23,099
Farm Credit System insurance premium	**1,321**	1,053	**3,871**	3,118
Pension plan funding expense	**944**	1,144	**2,832**	3,431
Occupancy and equipment	**860**	757	**2,878**	2,561
Advertising	**760**	589	**2,357**	1,587
Travel	**705**	723	**1,960**	1,930
Purchased services and allocations	**622**	620	**1,744**	1,434
Public and member relations	**587**	478	**1,909**	1,664
FCA supervisory and exam expense	**306**	309	**918**	926
Communications	**259**	287	**860**	832
Directors’ expense	**159**	172	**595**	602
Other expenses	**1,405**	1,106	**3,909**	2,865
Total noninterest expenses	**17,239**	15,284	**51,381**	44,049
Income before federal income tax	**40,414**	35,320	**114,211**	104,574
Federal income tax	**(8)**	(117)	**5**	(106)
NET INCOME	**$ 40,422**	$ 35,437	**$ 114,206**	$ 104,680
Other comprehensive loss:				
Change in postretirement benefit plans	**(81)**	(38)	**(243)**	(113)
Income tax expense related to items of other comprehensive income	**-**	-	**-**	-
Other comprehensive loss, net of tax	**(81)**	(38)	**(243)**	(113)
COMPREHENSIVE INCOME	**$ 40,341**	$ 35,399	**$ 113,963**	$ 104,567

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

CAPITAL FARM CREDIT, ACA
CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY
(Dollars in thousands)
(UNAUDITED)

	Capital Stock/ Participation Certificates	Retained Earnings: Non-qualified Allocated	Retained Earnings: Unallocated	Accumulated Other Comprehensive Income	Total Members' Equity
Balance at December 31, 2012	$ 22,145	$ 322,883	$ 568,362	$ (1,545)	$ 911,845
Net income	-	-	104,680	-	104,680
Other comprehensive loss	-	-	-	(113)	(113)
Capital stock/participation certificates issued	2,728	-	-	-	2,728
Capital stock/participation certificates/ allocated equities retired	(2,313)	(42,667)	-	-	(44,980)
Nonqualified allocations	-	-	-	-	-
Other adjustments	-	(88)	102	-	14
Balance at September 30, 2013	22,560	280,128	673,144	(1,658)	974,174
Net income	-	-	40,163	-	40,163
Other comprehensive gain	-	-	-	3,650	3,650
Capital stock/participation certificates issued	802	-	-	-	802
Capital stock/participation certificates/ allocated equities retired	(711)	4	-	-	(707)
Reclassification	-	17,525	(17,525)	-	-
Patronage distributions declared:					
Cash	-	-	(65,486)	-	(65,486)
Nonqualified allocations	-	78,875	(78,875)	-	-
Other adjustments	-	102	(102)	-	-
Balance at December 31, 2013	22,651	376,634	551,319	1,992	952,596
Net income	-	-	114,206	-	114,206
Other comprehensive loss	-	-	-	(243)	(243)
Capital stock/participation certificates issued	2,687	-	-	-	2,687
Capital stock/participation certificates/ allocated equities retired	(2,113)	-	-	-	(2,113)
Other adjustments	-	(227)	30	-	(197)
Balance at September 30, 2014	**$ 23,225**	**$ 376,407**	**$ 665,555**	**$ 1,749**	**$ 1,066,936**

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

CAPITAL FARM CREDIT, ACA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands)
(UNAUDITED)

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

Capital Farm Credit, ACA including its wholly owned subsidiaries, Capital Farm Credit, PCA and Capital Farm Credit, FLCA, (collectively called the "association"), is a member-owned cooperative which provides credit and credit-related services to, or for the benefit of, eligible borrowers/stockholders (farmers, ranchers, rural home owners and certain farm-related businesses) for qualified agricultural purposes in 192 counties in the state of Texas.

The association is a lending institution of the Farm Credit System (System) which was established by acts of Congress and is subject to the provisions of the Farm Credit Act of 1971, as amended (Act.)

A description of the organization and operations of the association, the significant accounting policies followed, and the financial condition and results of operations as of December 31, 2013 are contained in the 2013 Annual Report to Stockholders.

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.

The Farm Credit Bank of Texas (FCB) and its related associations are collectively referred to as the "District." The association's financial condition may be affected by factors that affect the FCB. The financial condition and results of operations of the FCB may materially affect stockholders' investment in the association. Upon request, stockholders of the association will be provided the Tenth Farm Credit District's Annual Report to Stockholders, which includes the combined financial statements of the FCB and all of the District associations. The District's annual report discusses the material aspects of the financial condition, changes in financial condition, and results of operations for the FCB and the District. In addition, the District's annual report identifies favorable and unfavorable trends, significant events, uncertainties and the impact of activities of the Farm Credit System Insurance Corporation.

In the opinion of management, the unaudited financial information is complete and reflects, all adjustments, consisting of normal recurring adjustments, necessary for a fair statement of results for the interim periods. 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 non-public entities for annual periods beginning after December 15, 2013. The association implemented this guidance effective with its 2013 annual report, and the adoption of this guidance did not impact the financial condition or results of operations, but resulted in additional disclosures.

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.

Certain amounts in the prior period's financial statements have been reclassified to conform to the current period's financial statement presentation.

NOTE 2 — INVESTMENTS:

Investments Held-to-Maturity

The association's held-to-maturity investment consists of Farmer Mac guaranteed agricultural mortgage-backed securities (AMBS). A summary of the amortized cost and fair value of investment securities held-to-maturity is as follows:

September 30, 2014	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield	Weighted Average Life (Years)
Agricultural mortgage-backed securities	$ 12,075	$ 118	$ -	$ 12,193	4.97%	3.18

December 31, 2013	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield	Weighted Average Life (Years)
Agricultural mortgage-backed securities	$ 14,864	$ 27	$ -	$ 14,891	4.77%	3.52

The Farmer Mac AMBS were received in exchange for mortgage loans which were previously covered under the long-term standby commitment to purchase agreement with Farmer Mac. No gain or loss was recognized in the financial statements upon completion of the exchange transactions. The association continues to service the loans included in the transaction.

NOTE 3 — BUSINESS ACQUISITION:

Effective February 28, 2014 the association entered into an agreement to purchase certain tangible and intangible assets of a sole proprietorship crop insurance business servicing the Winter Garden, Coastal Plains and Brazos Valley areas in Texas. The assets of this business were purchased for approximately $4.5 million. The association will utilize the acquisition to enhance the related services the association offers to its members. The assets purchased are included in other assets in the accompanying Consolidated Balance Sheet.

NOTE 4 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

A summary of loans follows:

Industry	September 30, 2014	%	December 31, 2013	%
Production agriculture:				
Real estate mortgage	**$ 4,486,421**	**78.5**	$ 4,279,805	79.5
Production and intermediate term	**591,883**	**10.3**	530,522	9.9
Agribusiness	**420,156**	**7.3**	373,129	6.9
Rural residential real estate	**115,409**	**2.0**	99,753	1.9
Energy	**47,930**	**0.8**	42,998	0.8
Communication	**42,008**	**0.7**	34,911	0.6
Mission related investments	**11,377**	**0.2**	11,617	0.2
Lease receivables	**3,883**	**0.1**	4,092	0.1
Water and waste disposal	**2,838**	**0.1**	3,571	0.1
Total	**$ 5,721,905**	**100.0**	$ 5,380,398	100.0

At September 30, 2014, the association held seven transactions, which are reported as loans on the consolidated balance sheet totaling $9,573 and with $44 in remaining commitments extended under the Rural America Bond Program approved by the FCA. The program is designed to meet the growing and changing needs of agricultural enterprises, agribusinesses and rural communities by providing investment in rural areas.

The association purchases or sells participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration regulations. The following table presents information regarding the balances of participations purchased and sold as of 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	$ 97,908	$ 54,248	$ 2,601	$ -	$ 100,509	$ 54,248
Production and intermediate term	102,804	25,426	-	-	102,804	25,426
Agribusiness	286,394	35,422	3,919	-	290,313	35,422
Communication	42,008	-	-	-	42,008	-
Energy	47,930	-	-	-	47,930	-
Water and waste disposal	2,838	-	-	-	2,838	-
Lease receivables	3,883	-	-	-	3,883	-
Mission related investments	5,155	-	4,418	-	9,573	-
Total	$ 588,920	$ 115,096	$ 10,938	$ -	$ 599,858	$ 115,096

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	**$ 51,970**	$ 42,188
Production and intermediate-term	**9,796**	10,677
Agribusiness	**4,293**	7,272
Residential Real Estate	**208**	437
Lease receivable	**35**	48
Total nonaccrual loans	**$ 66,302**	$ 60,622
Accruing restructured loans:		
Real estate mortgage	**$ 4,953**	$ 7,932
Production and intermediate-term	**2,430**	2,471
Mission related investments	**2,371**	2,355
Residential real estate	**86**	-
Total accruing restructured loans	**$ 9,840**	$ 12,758
Accruing loans 90 days or more past due:		
Real estate mortgage	**$ 1,835**	$ 399
Production and intermediate-term	**145**	1,902
Total accruing loans 90 days or more past due	**$ 1,980**	$ 2,301
Total nonperforming loans	**$ 78,122**	$ 75,681
Other property owned	**2,994**	5,437
Total nonperforming assets	**$ 81,116**	$ 81,118

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 classified under the Farm Credit Administration's Uniform Loan Classification System 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	**97.1%**	97.0%
OAEM	**1.1%**	1.0%
Substandard/doubtful	**1.8%**	2.0%
	100.0%	100.0%
Production and intermediate-term		
Acceptable	**94.2%**	92.3%
OAEM	**2.5%**	3.1%
Substandard/doubtful	**3.3%**	4.6%
	100.0%	100.0%
Agribusiness		
Acceptable	**95.5%**	92.9%
OAEM	**3.5%**	3.0%
Substandard/doubtful	**1.0%**	4.1%
	100.0%	100.0%
Energy		
Acceptable	**95.6%**	89.4%
OAEM	**4.4%**	-
Substandard/doubtful	**0.0%**	10.6%
	100.0%	100.0%
Water and waste disposal		
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	**97.6%**	97.4%
OAEM	**1.5%**	1.5%
Substandard/doubtful	**0.9%**	1.1%
	100.0%	100.0%
Lease receivables		
Acceptable	**93.2%**	92.3%
OAEM	**5.7%**	6.3%
Substandard/doubtful	**1.1%**	1.4%
	100.0%	100.0%
Mission related investments		
Acceptable	**96.9%**	97.1%
OAEM	**-**	-
Substandard/doubtful	**3.1%**	2.9%
	100.0%	100.0%
Total Loans		
Acceptable	**96.7%**	96.2%
OAEM	**1.4%**	1.3%
Substandard/doubtful	**1.9%**	2.5%
	100.0%	100.0%

The following table provides 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	Loans > 90 Days and Accruing
Real estate mortgage	$ 44,840	$26,077	$ 70,917	$ 4,444,072	4,514,989	$ 1,835
Production and intermediate term	2,568	3,955	6,523	596,436	602,959	145
Agribusiness	317	2,008	2,325	419,573	421,898	-
Communication	-	-	-	42,050	42,050	-
Energy	-	-	-	47,956	47,956	-
Water and waste disposal	-	-	-	2,838	2,838	-
Rural residential real estate	1,194	9	1,203	129,360	130,563	-
Lease receivables	27	-	27	3,928	3,955	-
Mission related investments	-	-	-	11,560	11,560	-
Total	$ 48,946	$32,049	$ 80,995	$ 5,697,773	$5,778,768	$ 1,980

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	Loans > 90 Days and Accruing
Real estate mortgage	$ 19,401	$18,283	$ 37,684	$ 4,260,949	$4,298,633	$ 399
Production and intermediate term	7,067	3,998	11,065	526,797	537,862	1,902
Agribusiness	1,087	2,238	3,325	371,223	374,548	-
Communication	-	-	-	34,958	34,958	-
Energy	-	-	-	43,028	43,028	-
Water and waste disposal	-	-	-	3,573	3,573	-
Rural residential real estate	418	201	619	115,269	115,888	-
Lease receivables	-	-	-	4,187	4,187	-
Mission related investments	-	-	-	11,744	11,744	-
Total	$ 27,973	$24,720	$ 52,693	$ 5,371,728	$5,424,421	$ 2,301

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. Troubled debt restructurings are undertaken in order to improve the likelihood of recovery on the loan and may include, but are not limited to, forgiveness of principal or interest, interest rate reductions that are lower than the current market rate for new debt with similar risk, or significant term or payment extensions.

As of September 30, 2014 the total troubled debt restructured loans was $12,259, including $2,419 classified as nonaccrual and $9,840 classified as accrual, with specific allowance for loan losses of $128. As of September 30, 2014 commitments to lend funds to borrowers whose loan terms have been modified in a troubled debt restructuring were $48.

The following table presents additional information regarding troubled debt restructurings, which includes both accrual and nonaccrual loans with troubled debt restructuring designation that occurred. Balance of Pre-TDR designation represents quarter-end loans just prior to restructuring and post-TDR represents the quarter-end loans immediately following the restructuring. The association had no loans that met the accounting criteria as a troubled debt restricting and that occurred during the quarter ended September 2014 and 2013.

	Troubled Debt Restructuring Activity			
	2014		2013	
Nine months ended September 30:	Pre-TDR Designation Balance	Post-TDR Designation Balance	Pre-TDR Designation Balance	Post-TDR Designation Balance
Production and intermediate term	$ -	$ -	$ 83	$ 83
Rural residential real estate	94	91	-	-
Total	$ 94	$ 91	$ 83	$ 83

The association had no loans that met the accounting criteria as a troubled debt restructuring and that occurred during the previous twelve months, and for which there was a payment default during that same period. A payment default is defined as a payment that is 30 days past due after the date the loan was restructured.

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).

Additional impaired loan information is as follows:

	At September 30, 2014			At December 31, 2013		
	Loan Balance	Unpaid Principal Balance[a]	Related Specific Allowance	Loan Balance	Unpaid Principal Balance[a]	Related Specific Allowance
Impaired loans with a related allowance for loan losses:						
Real estate mortgage	$ 1,711	$ 1,909	$ 206	$ 14,719	$ 20,288	$ 2,042
Production and intermediate term	3,778	3,983	1,668	6,796	7,029	1,291
Agribusiness	962	1,572	123	4,069	7,096	1,047
Rural residential real estate	9	59	1	-	-	-
Lease receivables	-	-	-	-	-	-
Mission related investments	2,311	2,311	80	2,331	2,331	78
Total	$ 8,771	$ 9,834	$ 2,078	$ 27,915	$ 36,744	$ 4,458
Impaired loans with no related allowance for loan losses:						
Real estate mortgage	$ 57,020	$ 64,602	$ -	$ 35,759	$ 37,060	$ -
Production and intermediate term	8,555	11,644	-	8,167	13,742	-
Agribusiness	3,332	22,650	-	3,202	21,142	-
Rural residential real estate	285	460	-	438	524	-
Lease receivables	35	35	-	48	48	-
Total	$ 69,227	$ 99,391	$ -	$ 47,614	$ 72,516	$ -
Total impaired loans:						
Real estate mortgage	$ 58,731	$ 66,511	$ 206	$ 50,478	$ 57,348	$ 2,042
Production and intermediate term	12,333	15,627	1,668	14,963	20,771	1,291
Agribusiness	4,294	24,222	123	7,271	28,238	1,047
Rural residential real estate	294	519	1	438	524	-
Lease receivables	35	35	-	48	48	-
Mission related investments	2,311	2,311	80	2,331	2,331	78
Total	$ 77,998	$ 109,225	$ 2,078	$ 75,529	$ 109,260	$ 4,458

[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 loan losses:								
Real estate mortgage	$ 1,631	$ -	$ 16,430	$ 8	$ 8,837	$ 4	$ 17,126	$ 38
Production and intermediate term	6,929	3	3,848	8	6,986	40	2,811	13
Agribusiness	1,207	-	8,903	-	1,819	-	12,936	-
Communication	-	-	-	-	-	-	301	-
Rural residential real estate	6	-	113	-	12	-	134	9
Lease receivables	-	-	-	-	-	-	-	-
Mission related investments	2,312	36	-	3	2,323	108	-	-
Total	$ 12,085	$ 39	$ 29,294	$ 19	$ 19,977	$ 152	$ 33,308	$ 60
Impaired loans with no related allowance for loan losses:								
Real estate mortgage	$ 51,241	$ 161	$ 44,340	$ 525	$ 43,247	$ 771	$ 46,928	$ 1,054
Production and intermediate term	5,453	102	10,142	108	5,700	274	7,534	296
Agribusiness	3,322	-	4,697	27	3,372	-	5,986	70
Rural residential real estate	405	3	889	3	402	7	801	7
Lease receivables	37	-	52	-	41	-	56	-
Mission related investments	-	-	-	-	-	-	-	
Total	$ 60,458	$ 266	$ 60,120	$ 663	$ 52,762	$ 1,052	$ 61,305	$ 1,427
Total impaired loans:								
Real estate mortgage	$ 52,872	$ 161	$ 60,770	$ 533	$ 52,084	$ 775	$ 64,054	$ 1,092
Production and intermediate term	12,382	105	13,990	116	12,686	314	10,345	309
Agribusiness	4,529	-	13,600	27	5,191	-	18,922	70
Communication	-	-	-	-	-	-	301	-
Rural residential real estate	411	3	1,002	3	414	7	935	16
Lease receivables	37	-	52	-	41	-	56	-
Mission related investments	2,312	36	-	3	2,323	108	-	-
Total	$ 72,543	$ 305	$ 89,414	$ 682	$ 72,739	$ 1,204	$ 94,613	$ 1,487

**Average loans are not deemed to be changed for one day's activity.

A summary of changes in the allowance for loan losses and the ending balance including accrued interest of loans outstanding are as follows:

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communication	Energy and water/waste water	Rural Residential Real Estate	Lease Receivable	Mission Related Investments	Total
Allowance for loan losses:									
Balance at June 30, 2014	$ 5,745	$ 6,738	$ 1,787	$ 125	$ 307	$ 153	$ 27	$ 91	$ 14,973
Charge-offs	(2)	4	(197)	-	-	-	-	-	(195)
Recoveries	3	67	134	-	-	-	-	-	204
Provision for loan losses	(23)	(323)	(201)	1	(11)	11	-	2	(544)
Balance at September 30, 2014	$ 5,723	$ 6,486	$ 1,523	$ 126	$ 296	$ 164	$ 27	$ 93	$ 14,438
Balance at December 31, 2013	$ 9,284	$ 4,968	$ 4,326	$ 104	$ 502	$ 211	$ 26	$ 105	$ 19,526
Charge-offs	(126)	(143)	(248)	-	-	(74)	-	-	(591)
Recoveries	82	134	189	-	-	-	-	-	405
Provision for loan losses	(3,517)	1,527	(2,744)	22	(206)	27	1	(12)	(4,902)
Balance at September 30, 2014	$ 5,723	$ 6,486	$ 1,523	$ 126	$ 296	$ 164	$ 27	$ 93	$ 14,438
Allowance for loan losses: Ending Balance at September 30, 2014									
Individually evaluated for impairment	$ 206	$ 1,668	$ 123	$ -	$ -	$ 1	$ -	$ 80	$ 2,078
Allowance for loan losses: Collectively evaluated for impairment	$ 5,517	$ 4,818	$ 1,400	$ 126	$ 296	$ 163	$ 27	$ 13	$ 12,360
Balance at June 30, 2013	$ 11,318	$ 4,462	$ 9,991	$ 87	$ 458	$ 138	$ 6	$ 34	$ 26,494
Charge-offs	(433)	(444)	(4,139)	-	-	(118)	-	-	(5,134)
Recoveries	271	157	23	-	-	11	-	-	462
Provision for loan losses	140	752	(695)	3	98	169	23	20	510
Adjustment due to merger	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-
Balance at September 30, 2013	$ 11,296	$ 4,927	$ 5,180	$ 90	$ 556	$ 200	$ 29	$ 54	$ 22,332
Balance at December 31, 2012	$ 11,120	$ 4,362	$ 15,170	$ 554	$ 410	$ 170	$ 7	$ 24	$ 31,817
Charge-offs	(966)	(476)	(9,649)	-	-	(128)	-	-	(11,219)
Recoveries	284	230	293	-	-	11	-	-	818
Provision for loan losses	858	811	(634)	(464)	146	147	22	30	916
Balance at September 30, 2013	$ 11,296	$ 4,927	$ 5,180	$ 90	$ 556	$ 200	$ 29	$ 54	$ 22,332
Allowance for loan losses: Ending Balance at December 31, 2013									
individually evaluated for impairment	$ 2,042	$ 1,291	$ 1,047	$ -	$ -	$ -	$ -	$ 78	$ 4,458
Allowance for loan losses: collectively evaluated for impairment	$ 7,242	$ 3,677	$ 3,279	$ 104	$ 502	$ 211	$ 26	$ 27	$ 15,068
Loans, including accrued interest:									
Ending Balance at September 30, 2014	$ 4,514,991	$ 602,960	$ 421,897	$ 42,050	$ 50,794	$ 130,562	$ 3,955	$ 11,559	$ 5,778,768
Ending balance for loans Individually evaluated for impairment	$ 58,731	$ 12,235	$ 4,293	$ -	$ -	$ 294	$ 35	$ 2,312	$ 77,900
Ending balance for loans Collectively evaluated for impairment	$ 4,456,260	$ 590,725	$ 417,604	$ 42,050	$ 50,794	$ 130,268	$ 3,920	$ 9,247	$ 5,700,868
Ending Balance at December 31, 2013	$ 4,298,633	$ 537,862	$ 374,548	$ 34,958	$ 46,601	$ 115,888	$ 4,187	$ 11,744	$ 5,424,421
Ending balance for loans individually evaluated for impairment	$ 50,478	$ 14,963	$ 7,271	$ -	$ -	$ 438	$ 48	$ 2,331	$ 75,529
Ending balance for loans collectively evaluated for impairment	$ 4,248,155	$ 522,899	$ 367,277	$ 34,958	$ 46,601	$ 115,450	$ 4,139	$ 9,413	$ 5,348,892

NOTE 5 — FAIR VALUE MEASUREMENTS:

Accounting guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability. See Note 14 "Fair Value Measurements" of the 2013 Annual Report to stockholders for a more complete description.

Assets held in nonqualified benefits trusts related to deferred compensation and supplemental retirement plans are classified as Level 1. Level 1 valuation utilizes quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. The trust funds include investments that are actually traded and have quoted net assets values that are quoted in the marketplace. These assets are measured at fair value on a recurring basis and are summarized below:

	Total Fair Value September 30, 2014	Total Fair Value December 31, 2013
Beginning Balance	**$ 4,402**	**$ 2,937**
Transfers In	**217**	**828**
Other Market Changes	**385**	**637**
Assets held in non-qualified benefits trusts	**$ 5,004**	**$ 4,402**

Sensitivity to Changes in Significant Unobservable Inputs

For recurring fair value measurements categorized within Level 3 of the fair value hierarchy, the significant unobservable inputs used in the fair value measurement of the mortgage-backed securities are prepayment rates, probability of default, and loss severity in the event of default. Significant increases (decreases) in any of those inputs in isolation would result in a significantly lower (higher) fair value measurement.

Generally, a change in the assumption used for the probability of default is accompanied by a directionally similar change in the assumption used for the loss severity and a directionally opposite change in the assumption used for prepayment rates.

Quoted market prices are generally not available for the instruments presented below. Accordingly, fair values are based on internal models that consider judgments regarding anticipated cash flows, future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates involve uncertainties and matters of judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

With regard to impaired loans and other property owned generally classified as Level 3 and evaluated for impairment, it is not practicable to provide specific information on inputs as each collateral property is unique. The association utilizes 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.

These assets are measured at fair value on a nonrecurring basis and are summarized below:

	Total Fair Value September 30, 2014	Total Fair Value December 31, 2013
Impaired Loans	**$ 6,693**	$ 23,457
Other property owned	**2,994**	5,437
Total	**$ 9,687**	$ 28,894

NOTE 6 — MEMBERS EQUITY:

The board of directors approved a $144,361 patronage distribution for 2013 for all patronage sourced earnings. At year end the association established an estimated cash patronage payable of $65,486 and $78,875 in nonqualified allocations. In March 2014 the association finalized the computation of these distributions which resulted in a reduction in cash patronage payable of $30 for an actual cash distribution of $65,456. In addition, nonqualified allocations were also adjusted by a reduction of $227 resulting in an actual allocation of $78,648. The owners of these nonqualified distributions do not pay federal income taxes until the equities are retired. It is the board's intention with these allocations to assign ownership of the earnings of the association, allowing the stockholders to benefit more fully from the earnings of the association and to create a method to make future equity distributions in the form of cash. While there is not a planned retirement of these allocated equities, the board of directors will make an annual evaluation of the association's capital position and determine if some cash retirements of these equities can be made. In 2012, the board of directors approved a $138,334 patronage distribution for 2012. $42,133 of this distribution was paid in cash in March 2013. $96,201 of this distribution was made in the form of nonqualified allocated equity distributions.

In November 2013 the association evaluated its capital position and retired $42,663 in non-qualified allocated equities. These equities represented $8,732, $16,026, and $17,905 from those allocated in 2006, 2007 and 2008, respectively. In November 2012, as part of the evaluation of its capital position, the association retired $55,000 in non-qualified allocated equities. These equities represented $11,327, $20,694, and $22,979 from those allocated in 2006, 2007 and 2008, respectively.

NOTE 7 — EMPLOYEE BENEFIT PLANS:

The association expects to contribute $3,777 to its pension plan in 2014, which will be $797 less than the 2013 contribution. Pension plan funding expense was $2,832 and $3,431 for the nine months ended September 30, 2014 and 2013 respectively.

NOTE 8 — SUBSEQUENT EVENTS:

The association has evaluated subsequent events through November 5, 2014 which is the date the financial statements were issued and there are no significant events requiring disclosure as of this date.