FARM CREDIT
OF CENTRAL FLORIDA

LENDING SUPPORT TO RURAL AMERICA™

annual report 2013

FARM CREDIT OF CENTRAL FLORIDA, ACA

2013 ANNUAL REPORT

Contents

Message from the President 2
Report of Management 3
Report on Internal Control Over Financial Reporting 4
Five-Year Summary of Selected Financial Data 5
Management's Discussion & Analysis of Financial Condition & Results of Operations 6-18
Disclosure Required by FCA Regulations 19-24
Report of the Audit Committee 25
Report of Independent Certified Public Accountants 26
Financial Statements 27-31
Notes to Financial Statements 32-58

Management

Reginald T. Holt .... President
Craig A. Register .... Executive Vice President
D. Scott Fontenot .... Executive Vice President & Treasurer
Courtney A. Eelman .... Senior Vice President
Jeffrey T. Phillips .... Senior Vice President
Johan S. Dam .... Senior Vice President
Regina W. Thomas .... Senior Vice President
Michael R. "Ron" O'Connor .... Senior Vice President
Scarlet D. Detjen .... Vice President – Director of Internal Audit

Board of Directors

David J. Stanford .... Chairman
W. Rex Clonts, Jr. .... Vice Chairman
Al Bellotto .... Director
C. Dennis Carlton, Sr. .... Director
Homer E. Hunnicutt, Jr. .... Director
John S. Langford .... Director
Keith D. Mixon .... Director
Robert R. Roberson .... Director
Lewis S. Stidham .... Director
Ronald R. Wetherington .... Director

Message from the President & Chief Executive Officer

The Great Recession that began in late 2007 presented significant challenges for both our member-customers and the Association. The domestic and international credit concerns, the housing bubble, and significant declines in real estate values all contributed to the challenges. While the recession technically ended in June 2009, the slow prolonged recovery continued these challenges. As a result, we continued to work with many customers to help them through these difficult times they have experienced. Because of your efforts to meet your obligations and our staff's continued dedication to provide exceptional customer service your Association experienced improvement in financial performance.

I am pleased to report with your continued support; your Association generated net income of $13.4 million for 2013 as compared to net income of $4.8 million for 2012 and a net loss of $5.6 million in 2011. As real estate values stabilized and credit quality improved the Association experienced declines in provisions for loan losses and losses on other properties owned. These improvements resulted in a $747 thousand reversal of allowance loan losses for 2013 as compared to provisions for loan losses of $2.6 million and $10.2 million in 2012 and 2011, respectively.

Patronage refunds from other Farm Credit institutions increased $5.4 million from 2012 as a result of a $5.2 million special distribution from AgFirst Farm Credit Bank. During 2013, AgFirst paid a special distribution of $200 million to its member (owner) associations. This was possible as AgFirst realized significant returns from its treasury-funding operations as interest rates declined over the past several years.

The Association's improved financial performance and strong capital position have allowed your board of directors to declare an estimated cash patronage of $3.5 million, which for customers in our general patronage pool will be approximately 16.2% of the interest earned on their loans.

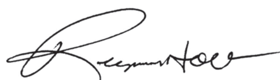
New loan demand continued to improve as the economy slowly improved. New loan closings increased $27.9 million, or 28.4% from 2012. As a result, outstanding loan volume including participations sold increased $61.4 million or 10.4%.

The Association experienced improvement in credit quality. Non-earning assets (loans for which the accrual of interest has stopped and properties acquired through foreclosure) declined $5.6 million or 37.7% to 2.46% of total loan assets. Non-earning assets have declined $24.6 million or 72.6% from their peak in 2009. While the level of delinquencies and defaults have improved, many of the distressed borrowers we continue to work with still face challenges as the economy slowly recovers. Many growers will continue to face increased input costs from higher energy costs and higher costs associated with protection from evasive disease and pests.

I am confident your Association is positioned to meet the challenges of the future. The diversity, expertise, and experience of your Board of Directors provide valuable insight into the direction and policy making of your Association to make sure your cooperative remains strong and viable. You can be assured the Board is focused on your interests and understands your challenges. The Board has approved a business plan and budget that will allow our very capable staff to continue to provide the level of products and exceptional service you have come to expect while improving efficiency and reducing costs. The Board continues to direct the staff to assist members facing adversity with all due consideration and reasonable avenues to work through difficult times.

As we move forward to our 100th anniversary in 2016, the Association, its Board of Directors and staff are focused on meeting the objective and mission of the Farm Credit System for its members. We believe in cooperative principles and strive to see that they are always applied to our business practices. Agriculture and rural America are our business. Our Association's Mission is *"To be the lender of Choice to agriculture and rural communities of Central Florida."* We do not take that lightly in good times or bad. We are still financing creditworthy farmers, ranchers, and rural home owners, and will continue to do so as we have for almost 100 years. When you need credit, we want your first thought to be **"FARM CREDIT."**

Thanks again for your continued support.



Reginald T. Holt
Chief Executive Officer

March 12, 2014

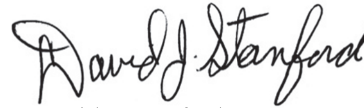
Report of Management

The accompanying Consolidated Financial Statements and related financial information appearing throughout this annual report have been prepared by management of Farm Credit of Central Florida, ACA (Association) in accordance with generally accepted accounting principles appropriate in the circumstances. Amounts which must be based on estimates represent the best estimates and judgments of management. Management is responsible for the integrity, objectivity, consistency, and fair presentation of the consolidated financial statements and financial information contained in this report.

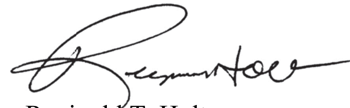
Management maintains and depends upon an internal accounting control system designed to provide reasonable assurance that transactions are properly authorized and recorded, that the financial records are reliable as the basis for the preparation of all financial statements, and that the assets of the Association are safeguarded. The design and implementation of all systems of internal control are based on judgments required to evaluate the costs of controls in relation to the expected benefits and to determine the appropriate balance between these costs and benefits. The Association maintains an internal audit program to monitor compliance with the systems of internal accounting control. Audits of the accounting records, accounting systems and internal controls are performed and internal audit reports, including appropriate recommendations for improvement, are submitted to the Board of Directors.

The Consolidated Financial Statements have been examined by independent certified public accountants, whose report appears elsewhere in this annual report. The Association is also subject to examination by the Farm Credit Administration.

The Consolidated Financial Statements, in the opinion of management, fairly present the financial condition of the Association. The undersigned certify that we have reviewed the 2013 Annual Report of Farm Credit of Central Florida, ACA, that the report has been prepared under the oversight of the audit committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.



David J. Stanford
Chairman of the Board



Reginald T. Holt
Chief Executive Officer

D. Scott Fontenot
Chief Financial Officer

March 12, 2014

Report on Internal Control Over Financial Reporting

The Association's principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining adequate internal control over financial reporting for the Association's Consolidated Financial Statements. For purposes of this report, "internal control over financial reporting" is defined as a process designed by, or under the supervision of the Association's principal executives and principal financial officers, or persons performing similar functions, and effected by its Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting information and the preparation of the Consolidated Financial Statements for external purposes in accordance with accounting principles generally accepted in the United States of America and includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Association, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial information in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Association, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Association's assets that could have a material effect on its Consolidated Financial Statements.

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of December 31, 2013. In making the assessment, management used the framework in *Internal Control — Integrated Framework*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Association's management concluded that as of December 31, 2013, the internal control over financial reporting was effective based upon the COSO (1992) criteria. Additionally, based on this assessment, the Association determined that there were no material weaknesses in the internal control over financial reporting as of December 31, 2013.

Reginald T. Holt
Chief Executive Officer

D. Scott Fontenot
Chief Financial Officer

March 12, 2014

Consolidated Five - Year Summary of Selected Financial Data

(dollars in thousands)	December 31, 2013	2012	2011	2010	2009
Balance Sheet Data					
Cash	$ 277	$ 56	$ 512	$ 13	$ 61
Investment securities	39,511	47,900	47,285	45,476	49,648
Loans	374,964	356,337	342,346	376,001	370,775
Less: allowance for loan losses	8,095	11,626	10,158	4,426	5,959
Net loans	366,869	344,711	332,188	371,575	364,816
Investments in other Farm Credit institutions	7,303	8,832	11,665	13,348	16,225
Other property owned	1,108	1,759	3,394	6,806	2,026
Other assets	17,734	11,946	11,368	14,475	13,008
Total assets	$ 432,802	$ 415,204	$ 406,412	$ 451,693	$ 445,784
Notes payable to AgFirst Farm Credit Bank*	$ 337,140	$ 333,645	$ 329,555	$ 369,260	$ 363,528
Accrued interest payable and other liabilities with maturities of less than one year	11,245	6,609	5,055	4,949	5,462
Total liabilities	348,385	340,254	334,610	374,209	368,990
Protected borrower stock	—	1	6	19	33
Capital stock and participation certificates	902	952	1,020	1,110	1,213
Retained earnings					
Allocated	34,167	34,202	33,183	33,183	33,183
Unallocated	49,767	39,813	37,586	43,153	42,338
Accumulated other comprehensive income (loss)	(419)	(18)	7	19	27
Total members' equity	84,417	74,950	71,802	77,484	76,794
Total liabilities and members' equity	$ 432,802	$ 415,204	$ 406,412	$ 451,693	$ 445,784
Statement of Operations Data					
Net interest income	$ 10,763	$ 10,568	$ 9,955	$ 9,019	$ 9,516
Provision for (reversal of allowance for) loan losses	(747)	2,595	10,202	8,817	7,415
Noninterest income (expense), net	1,856	(3,199)	(5,320)	695	(942)
Net income (loss)	$ 13,366	$ 4,774	$ (5,567)	$ 897	$ 1,159
Key Financial Ratios					
Rate of return on average:					
Total assets	3.27%	1.20%	(1.34)%	0.21%	0.26%
Total members' equity	16.67%	6.45%	(7.26)%	1.15%	1.50%
Net interest income as a percentage of average earning assets	2.69%	2.74%	2.52%	2.21%	2.24%
Net (chargeoffs) recoveries to average loans	(0.783)%	(0.337)%	(1.284)%	(2.872)%	(1.790)%
Total members' equity to total assets	19.50%	18.05%	17.67%	17.15%	17.23%
Debt to members' equity (:1)	4.13	4.54	4.66	4.83	4.80
Allowance for loan losses to loans	2.16%	3.26%	2.97%	1.18%	1.61%
Permanent capital ratio	21.13%	19.15%	18.84%	16.28%	15.89%
Total surplus ratio	20.87%	18.85%	18.16%	15.65%	15.23%
Core surplus ratio	17.64%	16.42%	15.72%	13.48%	13.05%
Net Income Distribution					
Estimated patronage refunds:					
Cash	$ 3,500	$ 1,528	$ —	$ —	$ —
Nonqualified retained earnings	—	1,019	—	—	—

** General financing agreement is renewable on a one-year cycle. The next renewal date is January 1, 2015.*

Management's Discussion & Analysis of Financial Condition & Results of Operations

(dollars in thousands, except as noted)

GENERAL OVERVIEW

The following commentary summarizes the financial condition and results of operations of Farm Credit of Central Florida, ACA, (Association) for the year ended December 31, 2013 with comparisons to the years ended December 31, 2012 and December 31, 2011. This information should be read in conjunction with the Consolidated Financial Statements, Notes to the Consolidated Financial Statements and other sections in this Annual Report. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors. For a list of the Audit Committee members, refer to the "Report of the Audit Committee" reflected in this Annual Report. Information in any part of this Annual Report may be incorporated by reference in answer or partial answer to any other item of the Annual Report.

The Association is an institution of the Farm Credit System (System), which was created by Congress in 1916 and has served agricultural producers for over 90 years. The System's mission is to maintain and improve the income and well-being of American farmers, ranchers, and producers or harvesters of aquatic products and farm-related businesses. The System is the largest agricultural lending organization in the United States. The System is regulated by the Farm Credit Administration, (FCA), which is an independent safety and soundness regulator.

The Association is a cooperative, which is owned by the members (also referred to throughout this Annual Report as stockholders or shareholders) served. The territory of the Association extends across a diverse agricultural region of central Florida. Refer to Note 1, *Organization and Operations*, of the Notes to the Consolidated Financial Statements for counties in the Association's territory. The Association provides credit to farmers, ranchers, rural residents, and agribusinesses. Our success begins with our extensive agricultural experience and knowledge of the market.

The Association obtains funding from AgFirst Farm Credit Bank (AgFirst or Bank). The Association is materially affected and shareholder investment in the Association could be affected by the financial condition and results of operations of the Bank. Copies of the Bank's Annual and Quarterly Reports are on the AgFirst website, ***www.agfirst.com,*** or may be obtained at no charge by calling 1-800-845-1745, extension 2832, or writing Susanne Caughman, AgFirst Farm Credit Bank, Post Office Box 1499, Columbia, SC 29202.

Copies of the Association's Annual and Quarterly reports are also available upon request free of charge on the Association's website, ***www.FarmCreditCFL.com***, or by calling 1-800-533-2773, or writing D. Scott Fontenot, Chief Financial Officer, Farm Credit of Central Florida, ACA, Post Office Box 8009, Lakeland, FL 33802-8009. The Association prepares an electronic version of the Annual Report, which is available on the website, within 75 days after the end of the fiscal year and distributes the Annual Reports to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly report, which is available on the internet, within 40 days after the end of each fiscal quarter, except that no report needs to be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Association.

FORWARD LOOKING INFORMATION

This annual information statement contains forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Words such as "anticipates," "believes," "could," "estimates," "may," "should," "will", or other variations of these terms are intended to identify the forward-looking statements. These statements are based on assumptions and analyses made in light of experience and other historical trends, current conditions, and expected future developments. However, actual results and developments may differ materially from our expectations and predictions due to a number of risks and uncertainties, many of which are beyond our control. These risks and uncertainties include, but are not limited to:

- political, legal, regulatory and economic conditions and developments in the United States and abroad;
- economic fluctuations in the agricultural, rural utility, international, and farm-related business sectors;
- weather-related, disease, and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income;
- changes in United States government support of the agricultural industry and the Farm Credit System, as a government-sponsored enterprise, as well as investor and rating-agency reactions to events involving other government-sponsored enterprises and other financial institutions; and
- actions taken by the Federal Reserve System in implementing monetary policy.

AGRICULTURAL OUTLOOK

The following United States Department of Agriculture (USDA) analysis provides a general understanding of the U.S. agricultural economic outlook. However, this outlook does not take into account all aspects of the Association's business. References to USDA information in this section refer to the U.S. agricultural market data and are not limited to information/data in the Association.

The February 2014 USDA forecast estimates 2013 farmers' net cash income, which is a measure of the cash income after payment of business expenses, at $130.1 billion, down $4.3 billion from 2012 and up $39.2 billion from its 10-year average of $90.9 billion. The decline in net cash income in 2013 was primarily due to a $10.2 billion increase in cash expenses and a $7.4 billion decrease in crop receipts, principally offset by increases in livestock receipts of $10.6 billion, farm-related income of $2.1 billion and direct government payments of $600 million.

The February 2014 USDA forecast for the farm economy, as a whole, forecasts 2014 farmers' net cash income to decrease to $101.9 billion, a $28.2 billion decrease from 2013, but $11.0 billion above the 10-year average. The forecasted decrease in farmers' net cash income for 2014 is primarily due to an expected decrease in cash receipts of $25.5 billion.

For 2014, the USDA projects crop receipts will decrease $26.7 billion, primarily due to an approximate $11.0 billion decline in corn receipts and a more than $6.0 billion decline in soybean receipts. Continued strong corn production is expected as U.S. farm operations rebound from the 2012 drought. As a result, the USDA expects the price of corn to decline significantly. Livestock receipts are predicted to increase in 2014 primarily due to increased dairy receipts.

The following table sets forth the commodity prices per bushel for certain crops and by hundredweight for beef cattle from December 31, 2010 to December 31, 2013:

Commodity	12/31/13	12/31/12	12/31/11	12/31/10
Corn	$4.41	$6.87	$5.86	$4.82
Soybeans	$13.00	$14.30	$11.50	$11.60
Wheat	$6.73	$8.30	$7.19	$6.45
Beef Cattle	$130.00	$124.00	$120.00	$98.10

The USDA's income outlook varies depending on farm size and commodity specialties. In 2013, the USDA revised its farm classification or typology to account for commodity price increases and shifts in production to larger farms. The USDA classifies all farms into four primary categories: small family farms (gross cash farm income (GCFI) less than $350 thousand), midsize family farms (GCFI between $350 thousand and under $1 million), large-scale family farms (GCFI of $1 million or more), and nonfamily farms (principal operator or individuals related to the operator do not own a majority of the business).

Approximately 97 percent of U.S. farms are family farms and the remaining 3 percent are nonfamily farms. The nonfamily farms produce 15 percent of the value of agricultural output. The small family farms represent about 90 percent of all U.S. farms, hold 60 percent of farm assets and account for 26 percent of the value of production. Approximately 60 percent of production occurs on 8 percent of family farms classified as midsize or large-scale.

According to the USDA February 2014 forecast, the growth in the values of farm sector assets, debt, and equity are forecasted to slow in 2014. The slowdown in growth is a result of expected lower net income, higher borrowing costs, and moderation in the growth of farmland values. Farm sector assets are expected to rise from $2.93 trillion for 2013 to $3.00 trillion in 2014 (a 2.4 percent increase) primarily due to an increase in the value of farm real estate. Overall, farm sector debt is estimated to increase from $309.2 billion in 2013 to $316.2 billion in 2014 (a 2.3 percent increase). Farm business equity (assets minus debt) is expected to rise from $2.62 trillion in 2013 to $2.68 trillion in 2014 (a 2.4 percent increase).

Two measures of the financial health of the agricultural sector used by the USDA are the farm sector's debt-to-asset and debt-to-equity ratios. These ratios are expected to continue to decline as they have over the past five years, falling to 10.54 percent and 11.78 percent in 2014, respectively, from 10.55 percent and 11.80 percent in 2013, respectively. These decreases would result in the lowest value for both measures since 1954. The historically low levels of debt relative to assets and equity reaffirm the farm sector's strong financial position despite the slowdown in asset growth. As noted by USDA, the farm sector is better insulated from the risks associated with commodity production, changing macroeconomic conditions, as well as fluctuations in farm asset values.

As estimated by the USDA in February 2014, the System's market share of farm business debt (defined as debt incurred by those involved in on-farm agricultural production) grew to 40.7 percent at December 31, 2012 (the latest available data), as compared with 39.5 percent at December 31, 2011. As mentioned above, overall, farm sector debt is estimated to increase from $309.2 billion in 2013 to $316.2 billion in 2014.

In general, agriculture has experienced a sustained period of favorable economic conditions due to stronger commodity prices, higher farm land values, and, to a lesser extent, government support programs. The Association's financial results remain favorable as a result of these agricultural economic conditions. Production agriculture; however, remains a cyclical business that is heavily influenced by commodity prices and various other factors. In an environment of less favorable economic conditions in agriculture and without sufficient government support programs, the Association's financial performance and credit quality measures would likely be negatively impacted. Conditions in the general economy remain more volatile given the state of the global economy. Certain agriculture sectors, as described more fully in this *Management's Discussion and Analysis*, recently have experienced significant financial stress and could experience financial stress in 2014. Any negative impact from these less favorable conditions should be lessened by geographic and commodity diversification and the influence of off-farm income sources supporting agricultural-related debt. However, agricultural borrowers who are more reliant on off-farm income sources may be adversely impacted by the continuing weak general economy.

CRITICAL ACCOUNTING POLICIES

The financial statements are reported in conformity with accounting principles generally accepted in the United States of America. Our significant accounting policies are critical to the understanding of our results of operations and financial position because some accounting policies require us to make complex or subjective judgments and estimates that may affect the value of certain assets or liabilities. We consider these policies critical because management must make judgments about matters that are inherently uncertain. For a complete discussion of significant accounting policies, see Note 2, *Summary of Significant Accounting Policies*, of the Notes to the Consolidated Financial

Statements. The following is a summary of certain critical policies.

- *Allowance for loan losses* — The allowance for loan losses is maintained at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through allowance reversals and loan charge-offs. The allowance for loan losses is determined based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including economic and political conditions, loan portfolio composition, credit quality and prior loan loss experience.

  Significant individual loans are evaluated based on the borrower's overall financial condition, resources, and payment record, the prospects for support from any financially responsible guarantor, and, if appropriate, the estimated net realizable value of any collateral. The allowance for loan losses encompasses various judgments, evaluations and appraisals with respect to the loans and their underlying security that, by nature, contains elements of uncertainty and imprecision. Changes in the agricultural economy and their borrower repayment capacity will cause these various judgments, evaluations and appraisals to change over time. Accordingly, actual circumstances could vary from the Association's expectations and predictions of those circumstances.

  Management considers the following factors in determining and supporting the levels of allowance for loan losses: the concentration of lending in agriculture, combined with uncertainties in farmland values, commodity prices, exports, government assistance programs, regional economic effects and weather-related influences. Changes in the factors considered by management in the evaluation of losses in the loan portfolios could result in a change in the allowance for loan losses and could have a direct impact on the provision for loan losses and the results of operations.

- *Valuation methodologies* — Management applies various valuation methodologies to assets and liabilities that often involve a significant degree of judgment, particularly when liquid markets do not exist for the particular items being valued. Quoted market prices are referred to when estimating fair values for certain assets for which an observable liquid market exists, such as most investment securities. Management utilizes significant estimates and assumptions to value items for which an observable liquid market does not exist. Examples of these items include impaired loans, other property owned, pension and other postretirement benefit obligations, and certain other financial instruments. These valuations require the use of various assumptions, including, among others, discount rates, rates of return on assets, repayment rates, cash flows, default rates, costs of servicing and liquidation values. The use of different assumptions could produce significantly different results, which could have material positive or negative effects on the Association's results of operations.

- *Pensions* — The Bank and its related Associations participate in defined benefit retirement plans. These plans are noncontributory and benefits are based on salary and years of service. In addition, the Bank and its related Associations also participate in defined contribution retirement savings plans. Pension expense for all plans is recorded as part of salaries and employee benefits. Pension expense for the defined benefit retirement plans is determined by actuarial valuations based on certain assumptions, including expected long-term rate of return on plan assets and discount rate. The expected return on plan assets for the year is calculated based on the composition of assets at the beginning of the year and the expected long-term rate of return on that portfolio of assets. The discount rate is used to determine the present value of our future benefit obligations. The discount rate for 2013 was selected by reference to analysis and yield curves of the plans' actuary and industry norms.

REGIONAL ECONOMICS

Florida's economic recovery cleared several important milestones in the previous year and continues to gain momentum. The Sunshine State is once again growing faster than the nation, with our estimate of real GSP expanding at a 3.6 percent pace in 2012, compared to 2.2 percent growth nationwide. Florida's unemployment rate declined twice as fast as the nation's and was 6.4 percent as of November 2013, compared to 7.0 percent for the U.S. Tourism has soared to new heights, and in-migration is accelerating. Stronger population growth is helping revive the real estate sector, fueling both sales and new construction.

While Florida's economy is once again growing more rapidly than the nation and the unemployment rate is lower, the subpar national economic recovery sets a relatively low bar to beat. Even with three years of job growth, there are 7.0 percent fewer jobs in Florida today than there were prior to the recession. Moreover, the average wage of the jobs being created is considerably less than the average of the jobs that were lost during the recession. The preponderance of low-paying jobs is one reason so few job seekers have returned to the workforce following the recession and helps explain why income growth has remained so sluggish.

Florida's economic recovery is following two distinct paths. One is being driven by the Fed's extraordinarily easy monetary policy, which has boosted asset prices and fueled higher-end consumer outlays. The same policy has bolstered currencies in Canada and Brazil, which are two of Florida's key trading partners and the source of much of the growth in international tourism. The other path shows fundamentals only gradually improving, with businesses cautiously expanding and a high proportion of new jobs coming from historically lower paying industries.

Of the two paths Florida's economic recovery is following, the one being blazed by the Fed's extraordinarily accommodative monetary policy, or quantitative easing (QE), has certainly garnered the most headlines. The Florida Association of Realtors shows the median price of a single-family home rising 15.2 percent over the past year and by more than 25 percent in South Florida. Prices are being driven by strong investor buying from foreign and domestic investors, tight supplies of homes available for sale, and extraordinarily low mortgage rates.

Lower interest rates have also provided a more fundamental boost to the economy by allowing homeowners to refinance at much lower interest rates and reduce their monthly mortgage payments. The refinancing boom has boosted consumer spending and provided a lift to the broader economy in many of the areas hardest hit by the housing crisis.

From an employment perspective, Florida's economic recovery is beginning to once again resemble the recoveries seen in the past. Job growth has raced ahead of the nation and, after briefly hovering more than 1.5 percentage points above the national average, Florida's unemployment rate has fallen below the nation. Nonfarm employment has risen 1.9 percent over the past year, with solid gains in the private sector being partially offset by continued cutbacks in government payrolls. Hiring has picked up across most industries but is clearly being led by gains in Florida's key hospitality sector.

Without the contribution from investors and international buyers, home sales and home prices would not have risen nearly as much as they have recently. Tourism may also cool off a bit if the U.S. dollar gains strength against the Canadian dollar and Brazilian real, and the enthusiasm international investors have shown toward Florida home purchases begins to fade. Once investor and international buyer activity cools, sales and price appreciation will likely subside, which might undermine the recovery in consumer confidence. Confidence will also take a hit if the stock market hits a speed bump or two as the end of QE takes place. Of course, the most likely trigger for a tapering off in the Fed's securities purchases would be a strengthening in the broader economy. On that front, there are some encouraging signs, including stronger population growth, rising residential and commercial construction and an increase in relocations and expansions. While a strengthening broader economy might bring higher interest rates along with it, that appears to be a price worth paying if it brings a more Florida-like recovery back to Florida.

Agricultural Sectors

Agriculture, agribusiness, food processing and manufacturing are still a significant economic driver to the local and state economy. These business segments provide significant jobs and revenues to the state and local economies.

The agricultural industry in the Central Florida region produces a wide variety of farm commodities with nursery, citrus and strawberries still the largest market segments and principal commodities financed. None of the commodities produced in the region are included in any USDA government support programs and are not materially impacted by changes in U.S. farm legislation. The agricultural demographics of the region have significantly changed as a result of non-agricultural development pressures and three devastating freeze events that occurred in the 1980's. Other than some adverse impacts of hurricanes during 2004, the region has not suffered a major catastrophic event such as a freeze event since December 1989.

While the overall agricultural economy in the Central Florida region has been good over the last few years, there are several significant issues that have affected the area. These issues include the introduction of pest and plant diseases such as citrus canker and greening to the citrus industry, weather-related risks, water-use regulations, environmental rules and regulations, land use and growth management regulations, and challenges to property rights. Nursery growers have begun to see improvement in the market as the economy is recovering from the recent recession. Many of the Florida producers, including strawberry and citrus growers, are concerned with labor shortages for harvest seasons.

Floriculture and Nursery Industry

The floriculture and nursery product sectors continue to be a significant market for the Association, with production concentrated primarily in the Apopka area (including Orange, Lake and Volusia counties). Nursery producers in the Association's territory produce a variety of nursery products, including but not limited to woody ornamentals and trees, annual and perennial bedding and garden plants, and potted foliage and greens. Although sales growth in both the floriculture and nursery product sectors has slowed over the last decade, history has shown that the demand for each of these crops is driven by different market factors.

One segment consists of woody stemmed plants and trees that are primarily produced for end-use in the outdoor landscape market. As such, a large portion of the total demand for these crops is driven by landscape regulation, new housing construction and home-improvement activity. As supply and demand for landscape trees fell between 2006 and 2011, nurseries stopped planting new fields, abandoned existing fields, ceased maintaining critical infrastructure, and in many cases completely exited the market. Demand is increasing due to shortages in various product lines combined with an increase in housing starts, which is resulting in prices slowly and steadily increasing.

Overall, the floriculture and nursery industry is a very dynamic market sector. Growers in the Association's territory should continue to benefit from the unique growing conditions inherent to the region and the established marketing and transportation infrastructure that exists. If the industry continues growing during the next couple of years, the pace will be much slower than was seen in the 1980s and 1990s. Producers are likely to continue to face pricing pressure. With improvement seen in the housing and development sectors, ornamental and tree markets are likely to experience a continued pick up in demand.

Strawberry

Florida provides most of the nation's domestically grown strawberries during the winter months mostly from fields throughout the Plant City area. The Florida strawberry season typically begins about Thanksgiving and goes into March.

Overall U.S. fresh strawberry supplies were at an all-time high in 2012. Domestic fresh strawberry production in 2012 was up 4 percent from the previous year, reaching a record 2.42 billion pounds. While Florida's production dropped 26 percent from the record-large crop in 2011, California's production increased 7 percent and several other strawberry-producing states also registered production increases. U.S. fresh strawberry imports (almost entirely from Mexico) also set a new high, totaling 351 million pounds, surpassing the previous record of 244 million pounds in 2011. Although fresh strawberry grower prices in 2012 averaged 4 percent higher than in 2011 (mostly due to the higher average grower price in California), ample supplies, both from domestic and import sources, translated to lower prices for consumers. The U.S. average retail price for fresh strawberries was $1.99 in 2012, compared with $2.08 in 2011. Strawberry

farms in Florida also faced labor shortages during the 2012-13 season. Stricter immigration controls have led to the shortage, forcing fruit to remain unpicked because growers simply don't have enough workers to harvest. In January, some fields were let go because growers couldn't get the labor to pick the strawberries.

Other notable threats to the profitability of Florida's winter strawberry growers are typical production concerns of plant disease, adverse weather and potential over supply during its marketing window. A number of strawberry farmers have partially mitigated this risk by vertically integrating their operations and performing functions such as cooling, packing, processing and marketing. In fact, many of the Association's larger growers (and hence those to which the ACA has the greatest exposure) are fully integrated with strawberry growing, packing and shipping operations and are consequently somewhat less vulnerable to changes in growing conditions from season to season. Due to improved vegetable crop demand and price, many strawberry growers practice double cropping techniques by following strawberries with vegetables planted on the same prepared beds.

Citrus

The citrus industry is an essential part of the Florida economy providing $4.62 billion to state gross domestic product and contributing a total economic revenue impact of $8.91 billion. The Florida citrus industry is, however, under threat by a number of challenges in dealing with diseases (e.g. citrus canker, citrus greening, black spot and tristeza), extreme weather conditions (e.g. hurricanes, freezes, etc.), constrained nursery and budwood supply, urban development, energy cost increases, environmental policy, labor issues, and long-term uncertainty.

In the final 2012/13 citrus production forecast in July's *Crop Production* report, Florida's all-orange estimate was down 9 percent from the 2011/12 harvest. As the 2012/13 season moved forward from the original October 2012 forecast, Florida experienced downward production revisions. Non-Valencia orange production was at 3.0 million tons, down nearly 10 percent from the 2011/12 total of 3.3 million tons. Drop rates were very high this season for the early-to-midseason varieties and navel oranges – at 18 percent and 27 percent, respectively. A similar situation occurred for Valencia oranges which reached an average fruit drop rate of 22 percent that pushed total production down to 2.98 million tons, from 2011/12's 3.3 million tons. Grower prices for Florida processing oranges averaged $6.60 per 90-lb box during the 2012/13 season, a 14 percent reduction from the prior season. The 2012/13 season average grower price is 2 percent above the 5-year average price of $6.49 per box. Prices were down compared to the previous season when demand for domestic oranges was high to supplement domestic orange juice supplies due to import restrictions imposed on imported orange juice.

The cost of grove maintenance continues to be high. These costs have been particularly impacted by high fertilizer prices and increased crop protectant and nutritional requirements. A significant factor facing the industry is citrus greening. This is a highly destructive disease whose impact is still limited, but continues to affect Florida's citrus industry. Efforts to control citrus greening, which adversely impacts tree health and production, has contributed significantly to overall grove maintenance expense. It is not known to what extent citrus greening can be controlled and therefore, many growers are uncertain regarding future production prospects.

Despite higher grove maintenance expenses, citrus fruit prices have risen sufficiently to result in continued profitable operations for growers able to satisfactorily control the production impact of greening. The long-run outlook for orange producers is dependent on adequate fruit prices to cover increased costs, and the ability to control disease pressure.

The long-run outlook for grapefruit has improved modestly with smaller crops and stabilization of the demand for grapefruit juice. Florida remains the main supplier of fresh grapefruit to the world market. Demand for both fresh and processed grapefruit products remains weak by historical standards. Grapefruit growers must also deal with both citrus greening and citrus canker.

Blueberry

Commercial blueberry production has significantly increased in Florida since 2000. As a result, Florida has become a major producer of early-season blueberries. In recent years, Florida typically ranks third or fourth nationally in value for commercial blueberry production – behind Michigan and New Jersey and sometimes behind Georgia.

The Florida blueberry industry has developed despite production problems because Florida growers can produce high-quality fruit when few fresh berries are available. High prices received for this fruit have made some farms more profitable even with relatively low yields. However, high prices encourage competition. If berry prices remain high, competition from Central America, Mexico, and the Caribbean may develop. The best long-term defense for Florida growers is through higher yields per acre, lower production costs, and development of currently under-exploited markets for blueberries. Improvements have been made to grower production and efficiency during the last several years – including releasing highbush variety plants. Acreage and production continue to increase and fruit prices have remained strong to date.

Florida blueberries are the first to become available during the U.S. blueberry season, typically having market presence until other producing States enter the market. There were no major weather issues affecting Florida's blueberry supplies last April, but volumes in May were about 2 weeks early and overall crop size not as large as initially expected, according to the Florida Blueberry Growers Association. F.o.b. shipping-point prices for Florida blueberries opened in late March at $32-35 per flat of 12 (6-oz) cups with lids (medium-large), higher than last year's opening price range of $30-32. F.o.b. prices in April averaged $23-27 (large), finishing around mid-May at $21-25 (large). Last year, prices were at $19-25 (large) in April, and closed at $20-22 (large).

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners, and farm-related businesses for financing of short and intermediate-term loans and long-term real estate mortgage loans through numerous product types.

The diversification of the Association loan volume by type for each of the past three years is shown below.

Loan Type	2013		December 31, 2012		2011	
	(dollars in thousands)					
Production and intermediate-term	$ 160,984	42.93%	$ 165,063	46.32%	$ 158,080	46.18%
Real estate mortgage	153,346	40.90	145,976	40.97	130,026	37.98
Processing and marketing	26,174	6.98	4,525	1.27	5,634	1.65
Rural residential real estate	14,333	3.82	15,619	4.38	17,854	5.21
Farm-related business	9,169	2.44	11,700	3.28	13,442	3.93
Loans to cooperatives	8,020	2.14	10,975	3.08	14,575	4.26
Energy	2,204	0.59	2,479	0.70	2,736	0.80
Communication	734	0.20	–	–	–	–
Total	$ 374,964	100.00%	$ 356,337	100.00%	$ 342,346	100.00%

While we make loans and provide financially related services to qualified borrowers in the agricultural and rural sectors and to certain related entities, our loan portfolio is diversified.

The distribution of the loan volume by line of business for the past three years is as follows:

Line of Business	2013	December 31, 2012	2011
Apopka	8.83%	10.31%	10.21%
Plant City	6.90	6.05	6.19
Brooksville	3.37	3.67	3.88
Lake Wales	2.67	2.85	3.53
Lakeland	0.71	2.39	2.83
Agribusiness	62.25	62.46	60.33
Capital Markets	8.25	7.56	6.69
Residential Lending	0.05	0.10	0.05
Special Assets	6.97	4.61	6.29
	100.00%	100.00%	100.00%

Commodity and industry categories are based upon the Standard Industrial Classification (SIC) system published by the federal government. The system is used to assign commodity or industry categories based upon the largest agricultural commodity of the customer.

The major commodities in the Association loan portfolio are shown below. The predominant commodities are nursery, citrus, strawberries, and livestock, which constitute over 72 percent of the entire portfolio.

Commodity Group per SIC Codes	December 31 2013		December 31 2012		December 31 2011	
	(dollars in thousands)					
Citrus	$ 78,471	20.93%	$ 81,314	22.82%	$ 67,226	19.64%
Nursery	74,928	19.98	78,618	22.06	86,505	25.26
Strawberries	60,799	16.21	57,439	16.12	53,230	15.55
Livestock	57,862	15.43	47,641	13.37	44,862	13.10
Blueberries	22,074	5.89	21,915	6.15	13,651	3.99
Fruits & Vegetables	11,624	3.10	8,983	2.52	15,467	4.52
Rural Home	9,405	2.51	11,155	3.13	12,153	3.55
Timber	11,810	3.15	12,264	3.44	12,224	3.57
Landlord/Lessors	7,108	1.90	5,528	1.55	7,762	2.27
Other	40,883	10.90	31,480	8.84	29,266	8.55
Total	$ 374,964	100.00%	$ 356,337	100.00%	$ 342,346	100.00%

The Association manages concentration risks, both industry and large borrower, through an internal hold limit policy based on individual loan risk ratings, loss given defaults, and industry concentrations. Industry concentrations for hold limit purposes are calculated using the repayment dependency code rather than the SIC code. As a result, for portfolio management purposes, industry classifications are determined based on high dependency of repayment coming from the actual commodity itself. Repayment ability is closely related to the commodities produced by our borrowers, and increasingly, the off-farm income of borrowers. For example, citrus and livestock industries are a large percent of the total portfolio but each also have very low repayment dependency coming from the actual commodity itself. Portfolio management industries concentrations are classified in three concentration levels based on the industry concentration (with high dependency) as a percent of total ACA capital; 1) High – greater than 100% of total capital; 2) Medium – between 50% and 100% of total capital; and 3) Low – less than 50% of total capital. The Association's loan portfolio contains three medium concentrations in the nursery, strawberry and citrus industries. All other industries are in the low concentration level.

Portfolio Management Industry as % of Capital	December 31 2013	2012	2011
	(% of Total Capital)		
Nursery	86.38%	97.21%	101.92 %
Strawberries	80.37	77.33	74.66
Citrus	53.15	55.86	39.07
Fruits & Vegetables	21.18	18.56	27.07
Blueberries	20.77	23.61	17.42

The concentration of large loans has decreased over the past several years and the agricultural enterprise mix of these loans is diversified and similar to that of the overall portfolio. The risk in the portfolio associated with commodity concentration and large loans is reduced by the range of diversity of enterprises in the Association's territory as well as the new internal hold limit policy which will limit any additional increases to already high concentrations.

The increase in loan volume for the twelve months ended December 31, 2013, is primarily attributed to increased demand for loans from within the Association's charted territory combined with increased borrowings on large corporate lines of credit.

For the past few years, the Association has experienced a shift in loan assets. Expressed as a percentage of net loans, the long-term volume trend has been downward while the short-and intermediate-term loan volume trend is upward. The short-term portfolio, which is cyclical in nature and heavily influenced by operating-type loans, normally reaches a minimum balance in August or September and rapidly increases in the fall months as strawberry and other winter vegetable growers increase their borrowings to prepare for the next crop season. The Association has grown the long-term portfolio through increased mortgage lending on real estate and facilities used for agriculture production.

During 2013, the Association increased activity in total loan participations within and outside of the System. Loan participations provides a means for the Association to spread credit concentration risk and realize non-patronage sourced interest and fee income, which may strengthen its capital position.

Loan Participations:	2013	December 31, 2012	2011
	(dollars in thousands)		
Participations Purchased – FCS Institutions	$ 30,952	$ 26,952	$ 22,903
Participations Sold	(287,162)	(251,393)	(318,524)
Total	$ (256,210)	$ (224,441)	$ (295,621)

For the years ended December 31, 2013, 2012, and 2011, the Association did not have any loans sold with recourse, retained subordinated participation interests in loans sold, or interests in pools of subordinated participation interests.

The Association sells qualified long-term residential mortgage loans into the secondary market. For the years ended December 31, 2013, 2012, and 2011, the Association originated loans for resale totaling $6,251, $6,683, and $3,335, respectively, which were sold into the secondary market.

INVESTMENT SECURITIES

As permitted under FCA regulations, the Association is authorized to hold eligible investments for the purposes of reducing interest rate risk and managing surplus short-term funds. The Bank is responsible for approving the investment policies of the Association. The Bank annually reviews the investment portfolio of every Association that it funds. The Association's investments consist of pools of Small Business Administration (SBA) guaranteed loans. These investments carry the full faith and credit of the United States government. The balance of these SBA investments, classified as being held-to-maturity, amounted to $39,511 at December 31, 2013, $47,900 at December 31, 2012, and $47,285 at December 31, 2011.

CREDIT RISK MANAGEMENT

Credit risk arises from the potential inability of an obligor to meet its repayment obligation. As part of the process to evaluate the success of a loan, the Association continues to review the credit quality of the loan portfolio on an ongoing basis. With the approval of the Association Board of Directors, the Association establishes underwriting standards and lending policies that provide direction to loan officers. Underwriting standards include, among other things, an evaluation of:

- Character – borrower integrity and credit history
- Capacity – repayment capacity of the borrower based on cash flows from operations or other sources of income
- Collateral – protection for the lender in the event of default and a potential secondary source of repayment
- Capital – ability of the operation to survive unanticipated risks
- Conditions – intended use of the loan funds

The credit risk management process begins with an analysis of the borrower's credit history, repayment capacity, and financial position. Repayment capacity focuses on the borrower's ability to repay the loan based upon cash flows from operations or other sources of income, including non-farm income. Real estate loans must be collateralized by first liens on the real estate (collateral). As required by FCA regulations, each institution that makes loans on a collateralized basis must have collateral evaluation policies and procedures. Real estate mortgage loans may be made only in amounts up to 85 percent of the original appraised value of the property taken as collateral or up to 97 percent of the appraised value if guaranteed by a state, federal, or other governmental agency. The actual loan to appraised value when loans are made is generally lower than the statutory maximum percentage. With certain exceptions identified in Association policy, appraisals are required for loans of more than $250,000. In addition, each loan is assigned a credit risk rating based upon the underwriting standards. This credit risk rating process incorporates objective and subjective criteria to identify inherent strengths, weaknesses, and risks in a particular relationship.

We review the credit quality of the loan portfolio on an ongoing basis as part of our risk management practices. Each loan is classified according to the Uniform Classification System, which is used by all Farm Credit System institutions. Below are the classification definitions.

- 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 facts, conditions and values that make collection in full highly questionable.
- Loss – Assets are considered uncollectible.

The following table presents selected statistics related to the credit quality of loans including accrued interest at December 31.

Credit Quality	2013	2012	2011
Acceptable & OAEM	88.90%	84.07%	86.04%
Substandard	11.10%	15.93%	13.96%
Doubtful	–%	–%	–%
Loss	–%	–%	–%
Total	100.00%	100.00%	100.00%

Nonperforming Assets

The Association's loan portfolio is divided into performing and high-risk categories. The Special Assets Management Department is responsible for servicing loans classified as high-risk. The high-risk assets, including accrued interest, are detailed below:

High-risk Assets	December 31, 2013	2012	2011
	(dollars in thousands)		
Nonaccrual loans	$ 8,157	$ 13,120	$ 18,815
Restructured loans	15,624	15,956	11,965
Accruing loans 90 days past due	–	–	–
Total high-risk loans	23,781	29,076	30,780
Other property owned	1,108	1,759	3,394
Total high-risk assets	$ 24,889	$ 30,835	$ 34,174
Ratios			
Nonaccrual loans to total loans	2.18%	3.68%	5.50%
High-risk assets to total assets	5.75%	7.43%	8.41%

Nonaccrual loans represent all loans where there is a reasonable doubt as to the collection of principal and/or future interest accruals, under the contractual terms of the loan. In substance, nonaccrual loans reflect loans where the accrual of interest has been suspended. Nonaccrual loans decreased $4,963 or 38% in 2013. This decrease is a result of liquidations, transfers back to

accrual, transfers to other property owned, and charge-offs ranging from various industries and loan types. The largest nonaccrual sectors are nursery, citrus and cattle loans due to the weakness associated with the individual borrower's repayment capacity and continuing decline of overall collateral values. Of the $8,157 in nonaccrual volume at December 31, 2013, $3,140 or 38%, was current as to scheduled principal and interest payments, but did not meet all regulatory requirements to be transferred into accrual status compared to 40% and 23% at December 31, 2012 and 2011, respectively. The 2013 Other Property Owned balance of $1,108 consists of 5 real estate parcels obtained through foreclosure or deed-in-lieu of foreclosure actions. During 2013, the Association sold 10 properties which reduced the OPO balance by $651.

Loan restructuring is available to financially distressed borrowers. Restructuring of loans occurs when the Association grants a concession to a borrower based on either a court order or good faith in a borrower's ability to return to financial viability. The concessions can be in the form of a modification of terms or rates, a compromise of amounts owed, or deed in lieu of foreclosure. Other receipts of assets and/or equity to pay the loan in full or in part are also considered restructured loans. The type of alternative financing structure chosen is based on minimizing the loss incurred by both the Association and the borrower.

Allowance for Loan Losses

The allowance for loan losses at each period end was considered by Association management to be adequate to absorb probable losses existing in and inherent to its loan portfolio. The allowance for loan losses is broken down between specific reserves assigned to an individual loan and general reserves which are available for the expected losses within the entire portfolio. The current allowance for loan losses at December 31, 2013 contains $4,355 in specific reserves and $3,740 in general reserves.

The following table presents the activity in the allowance for loan losses for the most recent three years:

Allowance for Loan Losses Activity:	Year Ended December 31, 2013	2012	2011
	(dollars in thousands)		
Balance at beginning of year	$ 11,626	$ 10,158	$ 4,426
Charge-offs:			
Real estate mortgage	(1,578)	(603)	(883)
Production and intermediate-term	(1,098)	(624)	(2,831)
Agribusiness	–	–	(1)
Rural residential real estate	(139)	(49)	(1,008)
Total charge-offs	(2,815)	(1,276)	(4,723)
Recoveries:			
Real estate mortgage	16	23	17
Production and intermediate-term	15	83	205
Rural residential real estate	–	43	31
Total recoveries	31	149	253
Net (charge-offs) recoveries	(2,784)	(1,127)	(4,470)
Provision for (reversal of allowance for) loan losses	(747)	2,595	10,202
Balance at end of year	$ 8,095	$ 11,626	$ 10,158
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	(0.783)%	(0.337)%	(1.28)%

The $747 reversal of allowance for loan loss taken in 2013 was primarily the result of decreased nonaccrual volumes coupled with improved credit quality. The net loan charge-offs of $2,784 were primarily associated with the cattle and nursery industries and were attributed to the overall decline in collateral values causing increased expected loan losses.

The allowance for loan losses by loan type for the most recent three years is as follows:

Allowance for Loan Losses by Type	December 31, 2013	2012	2011
	(dollars in thousands)		
Real estate mortgage	$ 3,924	$ 6,418	$ 4,319
Production and intermediate-term	3,398	4,016	4,793
Communication	2	–	–
Agribusiness	154	18	38
Energy	–	3	4
Rural residential real estate	617	1,171	1,004
Total loans	$ 8,095	$ 11,626	$ 10,158

The allowance for loan losses as a percentage of loans outstanding and as a percentage of certain other credit quality indicators is shown below:

Allowance for Loan Losses as a Percentage of:	December 31, 2013	2012	2011
Total loans	2.16%	3.26%	2.97%
Nonperforming loans	34.04%	39.98%	33.00%
Nonaccrual loans	99.24%	88.61%	53.99%

Please refer to Note 3, *Loans and Allowance for Loan Losses*, of the Notes to the Consolidated Financial Statements, for further information concerning the allowance for loan losses. The Allowance for Loan Losses was determined according to generally accepted accounting principles.

RESULTS OF OPERATIONS

Net Interest Income

Net interest income was $10,763, $10,568, and $9,955 in 2013, 2012 and 2011, respectively. Net interest income is the difference between interest income and interest expense. Net interest income is the principal source of earnings for the Association and is impacted by volume, yields on assets and cost of debt. The primary reason for the increase in net interest income is the increase in loan volume as compared to the same period last year. The effects of changes in average volume and interest rates on net interest income over the past three years are presented in the following table:

Change in Net Interest Income:

	Volume*	Rate	Nonaccrual Income	Total
	(dollars in thousands)			
12/31/13 - 12/31/12				
Interest income	$ 590	$ (268)	$ (119)	$ 203
Interest expense	85	(77)	–	8
Change in net interest income	$ 505	$ (191)	$ (119)	$ 195
12/31/12 - 12/31/11				
Interest income	$ (392)	$ (169)	$ 69	$ (492)
Interest expense	(341)	(764)	–	(1,105)
Change in net interest income	$ (51)	$ 595	$ 69	$ 613

* *Volume variances can be the result of increased/decreased loan volume or from changes in the percentage composition of assets and liabilities between periods.*

Noninterest Income

Noninterest income for each of the three years ended December 31 is shown in the following table:

Noninterest Income	For the Year Ended December 31, 2013	2012	2011	Percentage Increase/(Decrease) 2013/2012	2021/2011
	(dollars in thousands)				
Loan fees	$ 640	$ 523	$ 569	22.37%	(8.08)%
Fees for financially related services	116	107	133	8.41	(19.55)
Patronage refund from other Farm Credit Institutions	10,710	5,307	4,925	101.81	7.76
Gains (losses) on other property owned, net	(2,500)	(1,140)	(3,018)	(78.07)	(62.23)
Gains (losses) on sales of rural home loans, net	145	156	84	(7.05)	85.71
Insurance Fund Refund	–	379	–	(100.00)	100.00
Other noninterest income	71	54	35	31.48	54.29
Total noninterest income	$ 11,432	$ 5,386	$ 2,728	112.25%	97.43%

Noninterest income increased $6,046 or112.25% for December 31, 2013, as compared to the same period of 2012. December 31, 2012 noninterest income increased $2,658 or 97.43% when compared to the same period of 2011. The increase in noninterest income for 2013 is primarily the result of the increase in patronage refund from other Farm Credit Institutions and decreased losses on Other Property Owned. The Association received a $5,212 special patronage distribution from the Bank in 2013 as compared to $1,011 in 2012. The Association's patronage earnings from the Capitalized Participation Pool (CPP) with AgFirst were $1,484 compared to prior year's $435 due to the improvement in credit quality in the CPP portfolio. The Association also decreased losses on Other Property Owned by $890 compared to the same period of 2012. The losses are made up of expenses of holding the OPO asset as well as write-downs of the asset due to lower market values for the properties and additional losses taken at the time of the sale of the asset. During 2012, the Association recorded $379 of insurance premium refunds from the Farm Credit System Insurance Corporation (FCSIC), which insures the System's debt obligations. The Association did not record a refund in 2013. These payments are nonrecurring and resulted from the assets of the Farm Credit Insurance Fund exceeding the secure base amount as defined by the Farm Credit Act.

Noninterest Expense

Noninterest expense for each of the three years ended December 31 is shown in the following table:

Noninterest Expense	For the Year Ended December 31, 2013	2012	2011	Percentage Increase/(Decrease) 2013/2012	2012/2011
	(dollars in thousands)				
Salaries and employee benefits	$ 6,911	$ 6,147	$ 5,481	12.43%	12.15%
Occupancy and equipment	684	648	683	5.56	(5.12)
Insurance Fund premium	290	150	196	93.33	(23.47)
Other operating expenses	1,689	1,640	1,688	2.99	(2.84)
Total noninterest expense	$ 9,574	$ 8,585	$ 8,048	11.52	6.67%

Noninterest expense increased $989 or 11.52 percent for December 31, 2013, as compared to the same period of 2012 and December 31, 2012 increased $537 or 6.67 percent compared to the same period of 2011. The primary reason for the increase in 2013 was the increase in Salaries and Employee Benefits.

During 2013, the Association booked a corporate bonus plan accrual in the amount of $927 thousand as compared to $506 in 2012. As a result, Salary and Employee Benefits are up 12.43% from same period prior year. Excluding the corporate bonus plan accrual, Salary and Employee Benefits would be up only 5.56% from same period prior year.

Insurance Fund premiums increased 93.33 percent for the twelve months ended December 31, 2013, compared to the same period of 2012. The Farm Credit System Insurance Corporation (FCSIC) changed the methodology in assessing the insurance premiums as a result of the 2008 Farm Bill. Please refer to the "Regulatory Matters" section of this Management's Discussion and Analysis for details concerning the 2008 Farm Bill. The FCSIC set premiums at 10 basis points on adjusted insured debt outstanding for 2013 with an additional 10 basis point premium on the average principal outstanding of nonaccrual loans and any other-than-temporarily impaired investments. For 2012, the FCSIC set premiums at 5 basis points, on adjusted insured debt outstanding with an additional 10 basis point premium on the average principal outstanding of nonaccrual loans and any other-than-temporarily impaired investments. For 2011 and 2010 the FCSIC set premiums at 6 basis points on adjusted insured debt outstanding with an addition 10 basis points premium on the average principal outstanding of nonaccrual loans and any other-than-temporary impaired investments. For 2009 the FCSIC set premiums at 20 basis points on adjusted insured debt outstanding with and additional 10 basis points permium on the average principal outstanding of nonaccrual loans and any other-than-temporary impaired investments. For all previous years, premiums of up to 15 basis points could be charged on accruing loans and up to 25 basis points for nonaccrual loans.

Income Taxes

The Association recorded a $2 provision for income taxes for the year ended December 31, 2013, as compared to no provision for 2012, or 2011. Refer to Note 2, *Summary of Significant Accounting Policies, Income Taxes*, of the Notes to the Consolidated Financial Statements, for more information concerning Association income taxes.

Key Results of Operations Comparisons

Key results of operations comparisons for each of the twelve months ended December 31 are shown in the following table:

Key Results of Operations Comparisons	For the 12 Months Ended 12/31/13	12/31/12	12/31/11
Return on average assets	3.27%	1.20%	(1.34)%
Return on average members' equity	16.67%	6.45%	(7.26)%
Net interest income as a percentage of average earning assets	2.69%	2.74%	2.52%
Net (charge-offs) recoveries to average loans	(0.78)%	(0.34)%	(1.28)%

A key factor in the growth of net income for future years will be continued improvement in net interest and noninterest income as well as improvement in overall asset quality. Our goal is to generate earnings sufficient to fund operations, adequately capitalize the Association, and achieve an adequate rate of return

for our members. To meet this goal, the agricultural economy must stabilize and improve and the Association must meet certain objectives. These objectives are to attract and maintain high quality loan volume priced at competitive rates and to manage credit risk in our entire portfolio, while efficiently meeting the credit needs of our members.

LIQUIDITY AND FUNDING SOURCES

Liquidity and Funding

The principal source of funds for the Association is the borrowing relationship established with the Bank through a General Financing Agreement (GFA). The GFA utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The Bank advances the funds to the Association, creating notes payable (or direct loans) to the Bank. The Bank manages interest rate risk through direct loan pricing and asset/liability management. The notes payable are segmented into variable rate and fixed rate components. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. Association capital levels effectively create a borrowing margin between the amount of loans outstanding and the amount of notes payable outstanding. This margin is commonly referred to as "Loanable Funds."

Total notes payable to the Bank at December 31, 2013, was $337,140 as compared to $333,645 at December 31, 2012 and $329,555 at December 31, 2011. The increase of 1.05 percent compared to December 31, 2012 was attributable to the increase of total loan assets. The average volume of outstanding notes payable to the Bank was $323,677 and $319,412 for the years ended December 31, 2013 and 2012, respectively. Refer to Note 6, of the Notes to the Consolidated Financial Statements, for weighted average interest rates and maturities, and additional information concerning the Association's notes payable.

Liquidity management is the process whereby funds are made available to meet all financial commitments including the extension of credit, payment of operating expenses and payment of debt obligations. The Association receives access to funds through its borrowing relationship with the Bank and from income generated by operations. The liquidity policy of the Association is to manage cash balances to maximize debt reduction and to increase loan volume. As borrower payments are received, they are applied to the Association's note payable to the Bank. The Association's investments and other secondary market programs provide additional liquidity. Sufficient liquid funds have been available to meet all financial obligations. There are no known trends likely to result in a liquidity deficiency for the Association.

The Association had no lines of credit from third party financial institutions as of December 31, 2013.

Funds Management

The Bank and the Association manage assets and liabilities to provide a broad range of loan products and funding options, which are designed to allow the Association to be competitive in all interest rate environments. The primary objective of the asset/liability management process is to provide stable and rising earnings, while maintaining adequate capital levels by managing exposure to credit and interest rate risks.

Demand for loan types is a driving force in establishing a funds management strategy. The Association offers fixed, adjustable and variable rate loan products that are marginally priced according to financial market rates. Variable rate loans may be indexed to market indices such as the Prime Rate or the 30-day and 90-day London Interbank Offered Rate (LIBOR). Adjustable rate mortgages are indexed to U.S. Treasury Rates. Fixed rate loans are priced based on the current cost of System debt of similar terms to maturity.

The majority of the interest rate risk in the Association's Consolidated Balance Sheets is transferred to the Bank through the notes payable structure. The Bank, in turn, actively utilizes funds management techniques to identify, quantify and control risk associated with the loan portfolio.

Relationship with the Bank

The Association's statutory obligation to borrow only from the Bank is discussed in Note 6, *Notes Payable to AgFirst Farm Credit Bank*, of the Notes to the Consolidated Financial Statements in this annual report. The Bank's ability to access capital of the Association is discussed in Note 4, *Investment in Other Farm Credit Institutions*, of the Notes to the Consolidated Financial Statements. The Bank's role in mitigating the Association's exposure to interest rate risk is described in the "Liquidity and Funding" section of this Management's Discussion and Analysis and in Note 6, *Notes Payable to AgFirst Farm Credit Bank*, included in this annual report.

CAPITAL RESOURCES

Capital serves to support asset growth and provide protection against unexpected credit and interest rate risk and operating losses. Capital is also needed for future growth and investment in new products and services.

The Association Board of Directors establishes, adopts, and maintains a formal written capital adequacy plan to ensure that adequate capital is maintained for continued financial viability, to provide for growth necessary to meet the needs of members/borrowers, and to ensure that all stockholders are treated equitably. There were no material changes to the capital plan for 2013 that would affect minimum stock purchases or would have an effect on the Association's ability to retire stock and distribute earnings.

Total members' equity at December 31, 2013, increased 12.63 percent to $84,417 from the December 31, 2012, total of $74,950. At December 31, 2012, total members' equity increased 4.38 percent from the December 31, 2011 total of $71,802. The increase in 2013 was primarily attributed to the positive earnings which caused an increase in retained earnings (allocated surplus and unallocated surplus) being partially offset by the reduction in capital stock and participation certificates.

Total capital stock and participation certificates were $902 on December 31, 2013, compared to $952 on December 31, 2012

and $1,026 on December 31, 2011. The 2013 decrease from 2012 and the 2012 decrease from 2011 were attributed to the retirement of protected borrower stock and participation certificates on loans liquidated in the normal course of business and the retirement of excess stock through revolvement.

FCA sets minimum regulatory capital requirements for System banks and associations. Capital adequacy is evaluated using a number of regulatory ratios. According to the FCA regulations, each institution's permanent capital ratio is calculated by dividing permanent capital by a risk adjusted asset base. Risk adjusted assets mean the total dollar amount of the institution's assets adjusted by an appropriate credit conversion factor as defined by regulation. For all periods represented, the Association exceeded minimum regulatory standards for all the ratios. The Association's capital ratios as of December 31 and the FCA minimum requirements follow:

	2013	2012	2011	Regulatory Minimum
Permanent capital ratio	21.13%	19.15%	18.84%	7.00%
Total surplus ratio	20.87%	18.85%	18.16%	7.00%
Core surplus ratio	17.64%	16.42%	15.72%	3.50%

The increase in the Association's Permanent Capital Ratios for December 31, 2013 from December 31, 2012 was attributed to an increase in permanent capital offset by an increase in risk adjusted assets. Improved earnings during 2013 coupled with a lower required equity investment in the Bank was the reason for the improvement in the Permanent Capital Ratio from prior period 2012. This increase in capital also caused the increase in the Association's Total Surplus Ratio and Core Surplus Ratio for 2013. The increase in the Association's 2012 capital ratios compared to prior year 2011 results from improved earnings and lower required equity investment in the Bank. There are no trends, commitments, contingencies, or events that are likely to affect the Association's ability to meet regulatory minimum capital standards and capital adequacy requirements.

See Note 7, *Members' Equity*, of the Consolidated Financial Statements, for further information concerning capital resources.

PATRONAGE PROGRAM

Prior to the beginning of any fiscal year, the Association's Board of Directors, by adoption of a resolution, may establish a Patronage Allocation Program to distribute its available consolidated net earnings. This resolution provides for the application of net earnings in the manner described in the Association's Bylaws. This includes the setting aside of funds to increase surplus to meet minimum capital adequacy standards established by FCA Regulations, to increase surplus to meet Association capital adequacy standards to a level necessary to support competitive pricing at targeted earnings levels, and for reasonable reserves for necessary purposes of the Association. After excluding net earnings attributable to (a) the portion of loans participated to another institution, (b) participation loans purchased, and (c) other non-patronage sourced activities, the remaining consolidated net earnings are eligible for allocation to borrowers. Refer to Note 7, *Members' Equity*, of the Notes to the Consolidated Financial Statements, for more information concerning the patronage distributions. The Association declared patronage distributions of $3,500 in 2013 and $2,547 in 2012. The Association did not declare a patronage distribution in 2011.

YOUNG, BEGINNING AND SMALL (YBS) FARMERS AND RANCHERS PROGRAM

The Association's mission is to provide financial services to agriculture and the rural community, which includes providing credit to Young*, Beginning** and Small*** farmers. Because of the unique needs of these individuals, and their importance to the future growth of the Association, the Association has established annual marketing goals to increase our market share of loans to YBS farmers. Specific marketing plans have been developed to target these groups, and resources have been designated to help ensure YBS borrowers have access to a stable source of credit. As a result, 2013 goals for new volume were established. However, due to continued credit quality issues within all portfolios, the established goals were not met during 2013.

2013 YBS Goals and Results	2013 Goal	2013 Result	% of Goal
Young			
# of New Loans	15	14	93.33%
$ of New Loans	$1,250	$3,405	272.43%
Beginning			
# of New Loans	50	30	60.00%
$ of New Loans	$8,250	$6,230	75.51%
Small			
# of New Loans	75	41	54.67%
$ of New Loans	$12,500	$6,739	53.91%
Total YBS Program			
# of New Loans	140	85	60.71%
$ of New Loans	$22,000	$16,374	74.43%

The following table outlines the loan volume and number of YBS loans in the loan portfolio for the Association.

	As of December 31, 2013	
	Number of Loans	Amount of Loans
Young	66	$8,233
Beginning	215	37,022
Small	388	48,481

Note: For purposes of the above table, a loan could be classified in more than one category, depending upon the characteristics of the underlying borrower.

The 2010 USDA Ag census data has been used as a benchmark to measure penetration of the Association's marketing efforts. The census data indicated that within the Association's chartered territory (counties) there were 18,560 reported farmers of which by definition 412 or 2.22 percent were Young, 4,927 or 26.55 percent were Beginning, and 13,221 or 71.23 percent were Small. Comparatively, as of December 31, 2013, the demographics of the Association's agricultural portfolio contained 669 YBS farmers, of which by definition 66 or 9.87 percent were Young, 215 or 32.14 percent were Beginning and 388 or 57.99 percent were Small.

The Association Board of Directors has adopted a Young, Beginning, and Small Farmer Plan with specific goals for the number of loans and new volume closed for 2014 and two succeeding years. The Association will continue to review the demographics of its territory during 2014 utilizing 2010 Ag census data.

The following strategies and outreach programs have been conducted which assists and supports the Association's efforts to meet its objectives and goals for financing to the Young, Beginning, and Small farmers.

- Support of 4-H, FFA, and young farmer organizations through sponsorships and donations.
- Sponsor seminars on farm transition planning and financial management.
- Youth livestock financing program for Youth Steer and Swine Shows. Available territory wide.
- Financial Training in cooperation with Florida Southern College, Citrus and Horticulture Dept.
- Employees serve as judges for youth livestock project record books.
- Sponsor participants and participate in Florida Council of Coops, Young Cooperator Conference.
- Sponsor Florida Nursery Growers Young Professional Award.

In addition, the Association's lending personnel actively participate in various commodity trade group conferences and continuing education programs.

Association lenders have established performance goals to provide informational and financial training to agricultural youth groups and industry trade associations.

The Association is committed to the future success of Young, Beginning and Small farmers.

* Young farmers are defined as those farmers, ranchers, producers or harvesters of aquatic products who are age 35 or younger as of the date the loan is originally made.

** Beginning farmers are defined as those farmers, ranchers, producers or harvesters of aquatic products who have 10 years or less farming or ranching experience as of the date the loan is originally made.

*** Small farmers are defined as those farmers, ranchers, producers or harvesters of aquatic products who normally generate less than $250 in annual gross sales of agricultural or aquatic products at the date the loan is originally made.

REGULATORY MATTERS

For the twelve months ended December 31, 2013, the FCA took no enforcement action against the Association.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) was signed into law on July 21, 2010. While the Dodd-Frank Act represents a significant overhaul of many aspects of the regulation of the financial services industry, many of the statutory provisions of the Dodd-Frank Act are not applicable to the Farm Credit System. The Dodd-Frank Act requires various federal agencies to adopt a broad range of new implementing rules and regulations, and to prepare numerous studies and reports for Congress. The federal agencies are given significant discretion in drafting the implementing rules and regulations, and consequently, many of the details and much of the impact of the Dodd-Frank Act may not be known for many more months or years.

The Dodd-Frank Act creates new regulators and expands the authority of the Federal Reserve Board over non-bank financial companies previously not subject to its or other bank regulators' direct jurisdiction, particularly those that are considered systemically important to the U.S. financial system. The legislation created the Financial Oversight Council, a coordinating body of financial regulators, which is designed to monitor and pinpoint systemic risks across the financial spectrum. Nevertheless, the Dodd-Frank Act largely preserves the authority of the FCA as the System's independent federal regulator by excluding System institutions from being considered non-bank financial companies and providing other exemptions and exclusions from certain of the law's provisions. Also, the rules prohibiting banking entities from engaging in proprietary trading under the so-called Volcker Rule do not apply to the debt securities issued by the System.

The provisions of the Dodd-Frank Act pertaining to the regulation of derivatives transactions require more of these transactions to be cleared through a third-party central clearinghouse and traded on regulated exchanges or other multilateral platforms, and margin is required for these transactions. Derivative transactions that will not be subject to mandatory trading and clearing requirements may also be subject to minimum margin and capital requirements. As required by the Dodd-Frank Act, the Commodity Futures Trading Commission (CFTC) considered and exempted System institutions from certain of these new requirements, including mandatory clearing for many of the derivative transactions entered into by System institutions. These new requirements may make derivative transactions more costly and less attractive as risk management tools for System institutions; and thus may impact the System's funding and hedging strategies.

The Dodd-Frank Act also created a new federal agency called the Consumer Financial Protection Bureau (CFPB). The CFPB has the responsibility to regulate the offering of consumer financial products or services under federal consumer financial laws. The Farm Credit Administration retains the responsibility to oversee and enforce compliance by System institutions with relevant rules adopted by the CFPB.

In light of the foregoing, it is difficult to predict at this time the extent to which the Dodd-Frank Act or the forthcoming implementing rules and regulations will have an impact on the System. However, it is possible they could affect funding and hedging strategies and increase funding and hedging costs.

Farm Bill

The Agricultural Act of 2014 (Farm Bill) was signed into law on February 7, 2014. This new Farm Bill will govern an array of federal farm and food programs, including commodity price and support payments, farm credit, agricultural conservation, research, rural development, and foreign and domestic food programs for five years. The new Farm Bill eliminates $23 billion in mandatory federal spending over a 10-year period, representing a reduction in the U.S. government farm policy support. The Farm Bill repeals direct payments and limits producers to risk management tools that offer protection when they suffer significant losses. The Farm Bill provides continued support for crop insurance programs, strengthens livestock disaster assistance and provides dairy producers with a voluntary margin protection program without imposing government-mandated supply controls.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Please refer to Note 2, *Summary of Significant Accounting Policies*, in the Notes to the Consolidated Financial Statements for recently issued accounting pronouncements.

Disclosure Required by Farm Credit Administration Regulations

Description of Business

Descriptions of the territory served, persons eligible to borrow, types of lending activities engaged in, financial services offered and related Farm Credit organizations are incorporated herein by reference to Note 1, *Organization and Operations*, of the Consolidated Financial Statements included in this Annual Report to shareholders.

The description of significant developments that had or could have a material impact on earnings or interest rates to borrowers, acquisitions or dispositions of material assets, material changes in the manner of conducting the business, seasonal characteristics, and concentrations of assets, if any, is incorporated in *"Management's Discussion and Analysis of Financial Condition and Results of Operations"* included in this Annual Report.

Unincorporated Business Entities

The Association had no unincorporated business entities at December 31, 2013.

Description of Property

The following table sets forth certain information regarding the properties of the reporting entity, all of which are located in Florida:

Location	Description	Form of Ownership
115 S. Missouri Ave.* Lakeland	Administrative/ Branch	Leased
507 E. Third Street Apopka	Branch	Owned
36 W. Polk Avenue Lake Wales	Branch	Owned
2301 Thonotosassa Road Plant City	Branch	Owned
31081 Cortez Blvd.** Brooksville	Branch	Leased

* *The Administrative / branch office located at 115 S. Missouri Ave. is leased through December 31, 2016 with a 4-year option to renew.*

** *The branch office located at 31081 Cortez Blvd. was leased through November 30, 2012 and was then converted to a month-to-month rental.*

Legal Proceedings

Information, if any, to be disclosed in this section is incorporated herein by reference to Note 11, *Commitments and Contingencies*, of the Consolidated Financial Statements included in this Annual Report.

Description of Capital Structure

Information to be disclosed in this section is incorporated herein by reference to Note 7, *Members' Equity*, of the Consolidated Financial Statements included in this Annual Report.

Description of Liabilities

The description of liabilities, contingent liabilities and obligations to be disclosed in this section is incorporated herein by reference to Notes 2, 6, 9 and 11 of the Consolidated Financial Statements included in this Annual Report.

Management's Discussion and Analysis of Financial Condition and Results of Operations

"Management's Discussion and Analysis of Financial Condition and Results of Operations," which appears in this Annual Report and is to be disclosed in this section, is incorporated herein by reference.

Senior Officers

The following represents certain information regarding the senior officers of the Association and their business experience for the past five years:

Senior Officer	Time in Position	Prior Experience
Reginald T. Holt, *President & Chief Executive Officer*	6 years	Sr. VP & Director of Agribusiness Lending from October 1997 to April 2008. Area VP from June 1992 to October 1997. Also serves on the Executive Committee of the AgFirst Farm Credit Council.
Craig A. Register, *Executive Vice President / Chief Lending Officer*	6 years	Director of Credit Administration at AgFirst from December 2004 to February 2008. Various positions of increasing responsibilities in the Association's Credit Department from January 1986 to November 2004.
D. Scott Fontenot, *Executive Vice President & Corporate Treasurer / CFO*	5 years	Association Director of Risk Management from March 2009 to June 2009. EVP & CFO of Jack M. Berry, Inc. from 2005 to 2009. CFO of Farm Credit of Southwest Florida from 2000 to 2004.
Courtney A. Eelman *Sr. Vice President / Chief Credit Officer*	2 years	Association Director of Loan Administration from March 2008 to 2011. Association Credit Administrator from December 2003 to March 2008. Credit Analyst with AmSouth Bank from November 2001 to December 2003. Association Credit Analyst from December 1999 to October 2001.
Jeffrey T. Phillips, *Sr. Vice President / Chief Relationship Manager*	6 years	Association Sr. Relationship Manager from January 2001 to March 2008, Association Credit Analyst from August 1997 to January 2001.
Johan S. Dam *Sr. Vice President /Chief Relationship Manager and Special Asset Manager*	5 years	Association Corporate Relationship Manager from May 2007 to February 2009. AVP Commercial Relationship Manager SunTrust Bank from December1999 to April 2007.
Regina W. Thomas, *Sr. Vice President / Chief Business Development Officer*	6 years	Association Relationship Manager from November 1999 to March 2008. Branch Manager at Carolina Farm Credit from April 1994 to November 1999.
M. Ronald O'Connor *Sr. Vice President /Marketing Related Service Manager and Governmental Affairs*	5 years	Association Marketing Related Service Manager from March 1987 to March 2009. Also member of the Florida Citrus Mutual, Florida Cattlemen's Association's, FNGLA's allied committees, Florida Ag Hall of Fame, Florida Council of Cooperatives and awarded an Honorary FFA membership.

The total amount of compensation earned by the CEO and the highest paid officers as a group during the years ended December 31, 2013, 2012 and 2011, is as follows:

Name of Individual or Number in Group	Year	Salary	Bonus	Deferred Comp.	Change in Pension Value	Perq/ Other*	Total
Reginald T. Holt	2013	$ 312,512	$ 117,941	$ –	$ 1,093,144	$ –	$ 1,523,597
Reginald T. Holt	2012	$ 312,511	$ –	$ –	$ –	$ –	$ 312,511
Reginald T. Holt	2011	$ 300,010	$ –	$ –	$ –	$ –	$ 300,010
7	2013	$ 1,047,820	$ 293,014	$ –	$ 5,295	$ –	$ 1,346,129
8	2012	$ 1,109,947	$ 220,620	$ –	$ –	$ –	$ 1,330,567
8	2011	$ 1,041,292	$ –	$ –	$ –	$ –	$ 1,041,292

* *Amounts in the above table classified as Perquisites include travel incentives, group life insurance, automobile compensation, purchased automobile, spousal travel, relocation and tuition reimbursement, if the annual aggregate value of such Perquisites is more than $5,000.*

Disclosure of information on the total compensation paid during 2013 to any senior officer or to any other employee included in the aggregate group total as reported in the above is available and will be disclosed to the shareholders of the institution upon request.

In addition to base salary, all Association employees (except the Director of Internal Audit who may earn additional compensation under the Auditor Incentive Plan) may earn additional compensation under a corporate bonus plan (Plan). The Plan is designed to encourage participants to achieve the objectives of the Association by providing incentives to those employees who attain and sustain consistently high levels of performance, which contribute to the overall success and profitability of the Association. The Plan is designed to support the ACA's organizational vision, long-range and annual strategic plans. The Plan consists of three pools; 1) General Pool; 2) Loan Officer Pool; and 3) SAM Officer Pool.

The General Pool covers all employees that are not lenders and/or lending managers. The payout of the pool is based on the Association meeting and exceeding certain objectives for Earnings and Liquidity (weighted at 34%), Asset Quality and Credit Administration (weighted at 33%), and Lending and Growth (weighted at 33%). Payments are calculated at year-end based on the weighted average performance in each category, paid 100 percent in cash. The General Pool contains four different payout levels. Level 1 contains all non-exempt employees (for wage and salary administration purposes) and the maximum award at this level shall not exceed 5% of their

annual earned salary. Level 2 contains exempt employees (except CEO, Senior Officers, Director of Internal Audit, and employees identified as "lenders") and the maximum award at this level shall not exceed 12% of their annual earned salary. Level 3 contains Senior Officers (except CEO, Director of Internal Audit, and employees identified as "lenders") and the maximum award at this level shall not exceed 25% of their annual earned salary. Level 4 contains the CEO only and the maximum award at this level shall not exceed 40% of the annual earned salary. Each of the levels requires a certain minimum individual employee evaluation score. In addition, the General Pool limits the total of all payments within the pool to a maximum of 25 percent of the total net income variance over budget.

The Loan Officer Pool covers lenders and the lending managers and is based upon the individual performance of each. Award percentage points are earned for Portfolio Management (weighted 65%) and Loan Administration (weighted 35%) standards based upon a points scoring matrix with performance areas weighted according to the individual's standard of performance. Deductions to earned awards shall be made for the individual's performance score in the area of Loan Administration (asset quality and delinquencies). Payments at this level are calculated at year-end based on the weighted average performance in each category and also require a certain minimum individual employee evaluation score. The maximum award at this level shall not exceed 50% of their annual earned salary for all employees who have executed a non-disclosure and non-solicitation agreement and 30% of their annual earned salary for all employees who have not executed a non-disclosure and non-solicitation agreement. All payments are paid 100% in cash.

The SAM Officer Pool covers Special Asset Management lenders and the SAM lending managers and is based upon the individual performance of each. Award percentage points are earned for Resolutions on Non-performing Assets (weighted 65%) and Loan Administration (weighted 35%) standards based upon a points scoring matrix with performance areas weighted according to the individual's standard of performance. Deductions to earned awards shall be made for the individual's performance score in the area of Loan Administration. Payments at this level are calculated at year-end based on the weighted average performance in each category and also require a certain minimum individual employee evaluation score. The maximum award at this level shall not exceed 50% of their annual earned salary for all employees who have executed a non-disclosure and non-solicitation agreement and 30% of their annual earned salary for all employees who have not executed a non-disclosure and non-solicitation agreement. All payments are paid 100% in cash.

The Director of Internal Audit may earn additional compensation under the Auditor Incentive Plan. The purpose of the plan is to encourage participants to achieve the long-term objectives of the Association by providing incentives to eligible audit staff that attain and sustain consistently high levels of performance, which contribute to the safety and soundness of the Association. The pay-out of the plan is based on the audit employee's performance rating as determined by their respective employee evaluation which is conducted by the audit committee and reviewed by the board. While the award is based on the employee's performance the final pay-out is made at the discretion of the board of directors.

Payment of the Corporate Bonus is in the first quarter of 2014. Bonuses are shown in the year earned, which may be different than the year of payment.

Pension Benefits Table
As of December 31, 2013

Name of Individual or Number in Group	Year	Plan Name	Number of Years Credited Service	Actuarial Present Value of Accumulated Benefits	Payments During 2013
CEO:					
Reginald T. Holt	2013	AgFirst Retirement Plan	33.5	$ 2,331,195	$ –
Reginald T. Holt	2013	Supplemental Executive Retirement Plan	33.5	867,626	–
Reginald T. Holt	2013	Executive Retirement Plan		–	–
				$ 3,198,821	$ –
Senior Officers and Highly Compensated Employees:					
7 Officers, excluding the CEO	2013	AgFirst Retirement Plan	19.64*	$ 3,076,021	$ –
0 Officers, excluding the CEO	2013	Supplemental Executive Retirement Plan	–	–	–
0 Officers, excluding the CEO	2013	Executive Retirement Plan	–	–	–
				$ 3,076,021	$ –

* *Represents the average years of credited service for the group*

The Association also sponsors a non-qualified defined benefit supplemental executive retirement plan for the Association's former CEO. The purpose of the non-qualified plan is to provide benefits that supplement the qualified defined benefit plan in which the Association's employees participate. For the former CEO, compensation in excess of the 401(a)(17) limit and benefits in excess of the 415(b) limit in the qualified defined benefit plan will be made up through the non-qualified plan. As a non-qualified plan, assets have been allocated and separately invested for this plan, but are not isolated from the general creditors of the Association. Additionally, all employees are reimbursed for all direct travel expenses incurred when traveling on Association business. A copy of the travel policy is available to shareholders upon written request.

On October 3, 2012, FCA adopted a regulation that requires all System institutions to hold advisory votes on the compensation for all senior officers and/or the CEO when the compensation of either the CEO or the senior officer group increases by 15 percent or more from the previous reporting period. In

addition, the regulation requires associations to hold an advisory vote on CEO and/or senior officer compensation when 5 percent of the voting stockholders petition for the vote and to disclose the petition authority in the annual report to shareholders. The regulation became effective December 17, 2012, and the base year for determining whether there is a 15 percent or greater increase was 2013. The Association did not hold an advisory vote based on a stockholder petition in 2013.

On January 17, 2014, the President signed into law the Consolidated Appropriations Act which includes language prohibiting the FCA from using any funds available to "to implement or enforce" the regulation. In addition, on February 7, 2014, the President signed into law the Agricultural Act of 2014. Section 5404 of the law directs FCA to within 60 days of enactment of the law "review its rules to reflect the Congressional intent that a primary responsibility of boards of directors of Farm Credit System institutions, as elected representatives of their stockholders, is to oversee compensation practices." FCA has not yet taken any action with respect to their regulation in response to these actions.

Directors

The following chart details the year the director began serving on the board, the current term of expiration, current committee assignments, number of meetings, other activities, compensation for Board meetings and other activities and total cash compensation paid:

		Term in Office		Number of Days Served		Compensation			
Director	**Position**	**Election Year**	**Current Term Expiration**	**Board Meetings**	**Other Official Activities**	**Regular Board Meetings**	**Other Activities***	**Total Paid During 2013**	**Committee Assignments**
David J. Stanford	Chairman	1992	2014	12	49	$ 4,800.00	$ 21,200.00	$ 26,000.00	Compensation, Credit, Governance
W. Rex Clonts, Jr.	Vice-Chairman	1997	2015	11	27	4,400.00	11,700.00	16,100.00	Credit, Governance, Legislative
Al Bellotto	Director	1991	2015	11	10	4,400.00	6,800.00	11,200.00	Audit, Legislative
C. Dennis Carlton, Sr.	Director	2004	2016	11	30	4,400.00	12,000.00	16,400.00	Compensation, Credit, Legislative
Homer E. Hunnicutt, Jr.	Director	1991	2016	12	41	4,800.00	15,500.00	20,300.00	Audit, Credit, Governance
John S. Langford	Director	2005	2015	12	20	4,800.00	9,700.00	14,500.00	Audit, Compensation, Governance
Keith D. Mixon	Director	2012	2014	10	9	4,000.00	6,200.00	10,200.00	Audit, Compensation, Legislative
Robert R. Roberson	Director	1997	2016	12	39	4,800.00	15,600.00	20,400.00	Credit, Governance, Legislative
Lewis S. Stidham	Outside Director	1995	2016	12	20	4,800.00	10,800.00	15,600.00	Audit, Legislative
Ronald R. Wetherington	Director	1993	2014	11	33	4,400.00	12,600.00	17,000.00	Audit, Credit
						$ 45,600.00	$ 122,100.00	$ 167,700.00	

* *Includes board committee meetings and other board activities other than regular board meetings.*

Subject to approval by the board, the Association may allow directors an annual retainer of $3,000 to be paid monthly and honoraria of $400 for attendance at meetings and committee meetings, $300 for special assignments, $200 for telephone conference calls and $200 for travel days that include an overnight stay. Total compensation paid to directors as a group was $167,700 for 2013. No director received more than $5,000 in non-cash compensation during the year.

Directors are reimbursed on an actual cost basis for all expenses incurred in the performance of official duties. Such expenses may include transportation, lodging, meals, tips, tolls, parking of cars, laundry, registration fees, and other expenses associated with travel on official business. A copy of the policy is available to shareholders of the Association upon request.

The aggregate amount of reimbursement for travel, subsistence and other related expenses for all directors as a group was $42,104 for 2013, $50,568 for 2012 and $45,321 for 2011.

The following represents certain information regarding the directors of the Association, including their principal occupation and employment for the past five years. Unless specifically listed, the principal occupation of the board member for the past five years has been as a self-employed farmer.

David J. Stanford, ***Chairman,*** is a citrus grower and now retired citrus processor and serves on the board of South Lake Apopka Citrus Growers Association (citrus cooperative). Mr. Stanford also serves as the Association representative on the AgFirst District Advisory Council.

W. Rex Clonts, Jr., Vice-Chairman, is a citrus grower and serves on the boards of Florida Citrus Mutual, the Florida Fruit and Vegetable Association, and Citizens Bank of Florida. He is also President of Seminole County Farm Bureau. His principal occupation and employment for the past 5 years was with Clonts Groves, Inc.

Al Bellotto, is a cattleman and citrus grower and serves on the boards of the Florida Cattlemen's Association and the Polk County Cattlemen's Association (Beef Promotion). His principal occupation and employment for the past 5 years was with Al Bellotto, Inc.

C. Dennis Carlton, Sr. is a cattleman, citrus grower and real estate broker and serves on the boards of Center State Bank & Agricultural Economic Development Council of Hillsborough County.

Homer E. Hunnicutt, Jr. is a cattleman and serves on the boards of SunTrust Bank – Nature Coast. His principal occupation and employment for the past 5 years was with Finest Farms. Mr. Hunnicutt also serves as the Association's alternate representative on the AgFirst Nominating Committee.

John S. Langford is a citrus grower, citrus fruit dealer and real estate agent and serves on the boards of Community Southern Bank (Lakeland, FL), the Polk County Farm Bureau, currently serves as its' Treasurer, and has served as Vice-Chairman of the Polk County Planning Commission. His principal occupation and employment for the past 5 years was with John Langford, Inc. He is the designated financial expert for Farm Credit of Central Florida. Mr. Langford also serves as a Director of AgFirst Farm Credit Bank.

Keith D. Mixon is the President of SunnyRidge Farms, Inc./Dole Berry Company and serves on the board of Florida Fruit and Vegetable Association.

Robert R. Roberson is a nurseryman. His principal occupation and employment for the past 5 years was with Foliage Factory Too, Inc. and Rob-S Holdings LLC dba FFT Nursery. Mr. Roberson owns Less Energy Systems LLC, an energy savings company in Apopka, FL. In addition, he has an active real estate license with Mike Ellis Realty.

Lewis S. Stidham is a former commercial banker from Citrus & Chemical Bank. His principal occupation for the past 5 years has been self-employment.

Ronald R. Wetherington is a strawberry and citrus grower and serves on the boards of the Hillsborough County Farm Bureau, Florida FFA Foundation Board and Hillsborough County Law Enforcement Association. His principal occupation and employment for the past 5 years was with Wetherington Farms. Mr. Wetherington serves as the Association's alternate representative on the AgFirst District Advisory Council and serves as the Association representative on the AgFirst Nominating Committee.

Transactions with Senior Officers and Directors

The reporting entity's policies on loans to and transactions with its officers and directors, to be disclosed in this section are incorporated herein by reference to Note 10, *Related Party Transactions*, of the Consolidated Financial Statements included in this Annual Report. There have been no transactions between the Association and senior officers or directors which require reporting per FCA regulations.

Involvement in Certain Legal Proceedings

There were no matters which came to the attention of management or the board of directors regarding involvement of current directors or senior officers in specified legal proceedings which should be disclosed in this section. No directors or senior officers have been involved in any legal proceedings during the last five years which require reporting per FCA regulations.

Relationship with Independent Certified Public Accountants

There were no changes in or material disagreements with our independent certified public accountant on any matter of accounting principles or financial statement disclosure during this period.

Aggregate fees for services rendered by its independent certified public accountants for the year ended December 31, 2013 were as follows:

	2013
Independent Certified Public Accountants	
PricewaterhouseCoopers LLP	
Audit services	$ 64,285
Total	$ 64,285

PricewaterhouseCoopers audit fees were for the annual audit of and for rendering an opinion on the Association's Consolidated Financial Statements.

Consolidated Financial Statements

The Consolidated Financial Statements, together with the report thereon of PricewaterhouseCoopers LLP dated March 12, 2014 and the report of management, which appear in this Annual Report are incorporated herein by reference.

Copies of the Association's Annual and Quarterly reports are available upon request free of charge by calling 1-800-533-2773 or writing D. Scott Fontenot, Chief Financial Officer, Farm Credit of Central Florida, ACA, P.O. Box 8009, Lakeland, FL 33802 or accessing the web site, ***www.farmcreditcfl.com***. The Association prepares an electronic version of the Annual Report which is available on the Association's web site within 75 days after the end of the fiscal year and distributes the Annual Reports to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

Borrower Information Regulations

Since 1972, Farm Credit Administration (FCA) regulations have required that borrower information be held in strict confidence by Farm Credit System (FCS) institutions, their directors, officers and employees. These regulations provide Farm Credit institutions clear guidelines for protecting their borrowers' nonpublic personal information.

On November 10, 1999, the FCA Board adopted a policy that requires FCS institutions to formally inform new borrowers at loan closing of the FCA regulations on releasing borrower information and to address this information in the Annual Report. The implementation of these measures ensures that new and existing borrowers are aware of the privacy protections afforded them through FCA regulations and Farm Credit System institution efforts.

Credit and Services to Young, Beginning, and Small Farmers and Ranchers and Producers or Harvesters of Aquatic Products

Information to be disclosed in this section is incorporated herein by reference to the similarly named section in the Management's Discussion and Analysis of Financial Condition and Results of Operations section included in this Annual Report to the shareholders.

Shareholder Investment

Shareholder investment in the Association could be materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank (Bank or AgFirst). Copies of the Bank's Annual and Quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2832, or writing Susanne Caughman, AgFirst Farm Credit Bank, P. O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained by going to AgFirst's web site at ***www.agfirst.com***. The Bank prepares an electronic version of the Annual Report, which is available on the website, within 75 days after the end of the fiscal year and distributes the Annual Reports to shareholders within 90 days after the end of the fiscal year. The Bank prepares an electronic version of the Quarterly report within 40 days after the end of each fiscal quarter, except that no report needs to be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Bank.

Report of the Audit Committee

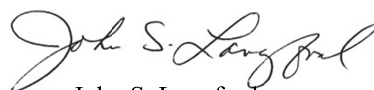
The Audit Committee of the Board of Directors (Committee) is comprised of the directors named below. None of the directors who serve on the Committee is an employee of Farm Credit of Central Florida, ACA and in the opinion of the Board of Directors, each is free of any relationship with the Association or management that would interfere with the director's independent judgment on the Committee.

The Committee has adopted a written charter that has been approved by the Board of Directors. The Committee has reviewed and discussed the Association's audited financial statements with management, which has primary responsibility for the financial statements.

PricewaterhouseCoopers LLP (PwC), the Association's independent certified public accountant for 2013, is responsible for expressing an opinion on the conformity of the Association's audited financial statements with accounting principles generally accepted in the United States of America. The Committee has discussed with PwC the matters that are required to be discussed by Statement on Auditing Standards No. 114 *(The Auditor's Communication With Those Charged With Governance)*. PwC has provided to the Committee the written disclosures and the letter required by Independence Standards Board Standard No. 1 *(Independence Discussions with Audit Committees)*, and the Committee has discussed with PwC that firm's independence.

The Committee has also concluded that PwC's provision of non-audit services, if any, to the Association is compatible with PwC's independence.

Based on the considerations referred to above, the Committee recommended to the Board of Directors that the audited financial statements be included in the Association's Annual Report for 2013. The foregoing report is provided by the following independent directors, who constitute the Committee:



John S. Langford
Chairman of the Audit Committee

Members of Audit Committee

Al Bellotto
Homer E. Hunnicutt, Jr.
Keith D. Mixon
Robert R. Roberson
Lewis S. Stidham
Ronald R. Wetherington

March 12, 2014

Report of Independent Certified Public Accountants

Report of Independent Certified Public Accountants

To the Board of Directors and Members
of Farm Credit of Central Florida, ACA

We have audited the accompanying consolidated financial statements of Farm Credit of Central Florida, ACA and its subsidiaries (the Association), which comprise the consolidated balance sheets as of December 31, 2013, 2012 and 2011, and the related consolidated statements of operations, of comprehensive income (loss), of changes in members' equity and of cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Certified Public Accountants' Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Association's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Farm Credit of Central Florida, ACA and its subsidiaries at December 31, 2013, 2012 and 2011, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

March 12, 2014

PricewaterhouseCoopers LLP, 401 E. Las Olas Blvd, Suite 1800, Fort Lauderdale, FL 33301
T: (954)764-7111, F: (954)525-4453, www.pwc.com/us

Consolidated Balance Sheets

(dollars in thousands)	December 31, 2013	2012	2011
Assets			
Cash	$ 277	$ 56	$ 512
Investment securities:			
Held to maturity (fair value of $40,417, $49,101, and $48,038, respectively)	39,511	47,900	47,285
Loans	374,964	356,337	342,346
Less: allowance for loan losses	8,095	11,626	10,158
Net loans	366,869	344,711	332,188
Loans held for sale	245	—	—
Accrued interest receivable	1,665	1,997	1,614
Investments in other Farm Credit institutions	7,303	8,832	11,665
Premises and equipment, net	747	677	747
Other property owned	1,108	1,759	3,394
Due from AgFirst Farm Credit Bank	10,453	5,037	4,643
Other assets	4,624	4,235	4,364
Total assets	$ 432,802	$ 415,204	$ 406,412
Liabilities			
Notes payable to AgFirst Farm Credit Bank	$ 337,140	$ 333,645	$ 329,555
Accrued interest payable	574	555	574
Patronage refunds payable	3,539	1,551	26
Other liabilities	7,132	4,503	4,455
Total liabilities	348,385	340,254	334,610
Commitments and contingencies			
Members' Equity			
Protected borrower stock	—	1	6
Capital stock and participation certificates	902	952	1,020
Retained earnings			
Allocated	34,167	34,202	33,183
Unallocated	49,767	39,813	37,586
Accumulated other comprehensive income (loss)	(419)	(18)	7
Total members' equity	84,417	74,950	71,802
Total liabilities and members' equity	$ 432,802	$ 415,204	$ 406,412

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

Consolidated Statements of Operations

(dollars in thousands)	For the year ended December 31, 2013	2012	2011
Interest Income			
Investment securities	$ 857	$ 1,064	$ 938
Loans	16,280	15,871	16,489
Total interest income	17,137	16,935	17,427
Interest Expense			
Notes payable to AgFirst Farm Credit Bank	6,374	6,367	7,472
Net interest income	10,763	10,568	9,955
Provision for (reversal of allowance for) loan losses	(747)	2,595	10,202
Net interest income after provision for (reversal of allowance for) loan losses	11,510	7,973	(247)
Noninterest Income			
Loan fees	640	523	569
Fees for financially related services	116	107	133
Patronage refunds from other Farm Credit institutions	10,710	5,307	4,925
Gains (losses) on other property owned, net	(250)	(1,140)	(3,018)
Gains (losses) on sales of rural home loans, net	145	156	84
Insurance Fund refunds	—	379	—
Other noninterest income	71	54	35
Total noninterest income	11,432	5,386	2,728
Noninterest Expense			
Salaries and employee benefits	6,911	6,147	5,481
Occupancy and equipment	684	648	683
Insurance Fund premiums	290	150	196
Other operating expenses	1,689	1,640	1,688
Total noninterest expense	9,574	8,585	8,048
Income (loss) before income taxes	13,368	4,774	(5,567)
Provision for income taxes	2	—	—
Net income (loss)	$ 13,366	$ 4,774	$ (5,567)

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

Consolidated Statements of Comprehensive Income (Loss)

(dollars in thousands)	For the year ended December 31, 2013	2012	2011
Net income (loss)	$ 13,366	$ 4,774	$ (5,567)
Other Comprehensive Income Net of Tax			
Employee benefit plans adjustments (Note 7)	(401)	(25)	(12)
Comprehensive income (loss)	$ 12,965	$ 4,749	$ (5,579)

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

Consolidated Statements of Changes in Members' Equity

(dollars in thousands)	Protected Borrower Stock	Capital Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2010	$ 19	$ 1,110	$ 33,183	$ 43,153	$ 19	$ 77,484
Comprehensive income (loss)				(5,567)	(12)	(5,579)
Protected borrower stock retired	(13)					(13)
Capital stock/participation certificates issued/(retired), net		(90)				(90)
Balance at December 31, 2011	6	1,020	33,183	37,586	7	71,802
Comprehensive income				4,774	(25)	4,749
Protected borrower stock retired	(5)					(5)
Capital stock/participation certificates issued/(retired), net		(68)				(68)
Patronage distribution						
Cash				(1,528)		(1,528)
Nonqualified retained earnings			1,019	(1,019)		—
Balance at December 31, 2012	1	952	34,202	39,813	(18)	74,950
Comprehensive income				13,366	(401)	12,965
Protected borrower stock retired	(1)					(1)
Capital stock/participation certificates issued/(retired), net		(50)				(50)
Patronage distribution						
Cash				(3,500)		(3,500)
Patronage distribution adjustment			(35)	88		53
Balance at December 31, 2013	$ —	$ 902	$ 34,167	$ 49,767	$ (419)	$ 84,417

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

Consolidated Statements of Cash Flows

(dollars in thousands)	For the year ended December 31, 2013	2012	2011
Cash flows from operating activities:			
Net income (loss)	$ 13,366	$ 4,774	$ (5,567)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation on premises and equipment	136	135	167
Amortization (accretion) of net deferred loan origination costs (fees)	106	8	68
Premium amortization (discount accretion) on investments	681	717	674
Provision for (reversal of allowance for) loan losses	(747)	2,595	10,202
(Gains) losses on other property owned	429	1,000	2,908
(Gains) losses on sales of rural home loans, net	(145)	(156)	(84)
Changes in operating assets and liabilities:			
(Increase) decrease in loans held for sale, net	(100)	156	84
(Increase) decrease in accrued interest receivable	332	(383)	121
(Increase) decrease in due from AgFirst Farm Credit Bank	(5,416)	(394)	2,337
(Increase) decrease in other assets	(389)	129	526
Increase (decrease) in accrued interest payable	19	(19)	(150)
Increase (decrease) in other liabilities	2,228	23	247
Total adjustments	(2,866)	3,811	17,100
Net cash provided by (used in) operating activities	10,500	8,585	11,533
Cash flows from investing activities:			
Purchases of investment securities, held to maturity	—	(8,877)	(9,984)
Proceeds from maturities of or principal payments received on investment securities, held to maturity	7,708	7,545	7,501
Net (increase) decrease in loans	(22,829)	(17,839)	26,377
(Increase) decrease in investment in other Farm Credit institutions	1,529	2,833	1,683
Purchases of premises and equipment	(206)	(65)	(44)
Proceeds from sales of other property owned	1,534	3,348	3,244
Net cash provided by (used in) investing activities	(12,264)	(13,055)	28,777
Cash flows from financing activities:			
Advances on (repayment of) notes payable to AgFirst Farm Credit Bank, net	3,495	4,090	(39,705)
Protected borrower stock retired	(1)	(5)	(13)
Capital stock and participation certificates issued/(retired), net	(50)	(68)	(90)
Patronage refunds and dividends paid	(1,459)	(3)	(3)
Net cash provided by (used in) financing activities	1,985	4,014	(39,811)
Net increase (decrease) in cash	221	(456)	499
Cash, beginning of period	56	512	13
Cash, end of period	$ 277	$ 56	$ 512
Supplemental schedule of non-cash activities:			
Receipt of property in settlement of loans	$ 1,312	$ 2,713	$ 2,740
Estimated cash dividends or patronage distributions declared or payable	3,500	1,528	—
Employee benefit plans adjustments (Note 7)	401	25	12
Supplemental information:			
Interest paid	$ 6,355	$ 6,386	$ 7,622

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

Notes to the Consolidated Financial Statements

(dollars in thousands, except as noted)

Note 1 — Organization and Operations

A. **Organization:** Farm Credit of Central Florida, ACA (the Association or ACA) is a member-owned cooperative that provides credit and credit-related services to qualified borrowers in the counties of Brevard, Citrus, Hernando, Hillsborough, Lake, Orange, Osceola, Pasco, Pinellas, Polk, Seminole, Sumter, and Volusia in the state of Florida.

The Association is a lending institution in the Farm Credit System (System), a nationwide network of cooperatively owned banks and associations. It was established by Acts of Congress and is subject to the provisions of the Farm Credit Act of 1971, as amended (Farm Credit Act). The System specializes in providing financing and related services to qualified borrowers for agricultural and rural purposes.

The nation is served by three Farm Credit Banks (FCBs) and one Agricultural Credit Bank (ACB), (collectively, the System Banks) each of which has specific lending authorities within its chartered territory. The ACB also has additional specific nationwide lending authorities.

Each System Bank serves one or more Agricultural Credit Associations (ACAs) that originate long-term, short-term and intermediate-term loans, Production Credit Associations (PCAs) that originate and service short- and intermediate-term loans, and/or Federal Land Credit Associations (FLCAs) that originate and service long-term real estate mortgage loans. These associations borrow a majority of the funds for their lending activities from their related bank. System Banks are also responsible for supervising the activities of associations within their districts. AgFirst and its related associations (Associations or District Associations) are collectively referred to as the AgFirst District. The District Associations jointly own all of AgFirst's voting stock. As of year end, the District consisted of the Bank and nineteen District Associations. All nineteen were structured as ACA holding companies, with PCA and FLCA subsidiaries. FLCAs are tax-exempt while ACAs and PCAs are taxable.

The Farm Credit Administration (FCA) is delegated authority by Congress to regulate the System banks and associations. The FCA examines the activities of the associations and certain actions by the associations are subject to the prior approval of the FCA and the supervising bank.

The Farm Credit Act also established the Farm Credit System Insurance Corporation (Insurance Corporation) to administer the Farm Credit Insurance Fund (Insurance Fund). The Insurance Fund is required to be used (1) to ensure the timely payment of principal and interest on Systemwide debt obligations (Insured Debt), (2) to ensure the retirement of protected borrower capital at par or stated value, and (3) for other specified purposes. The Insurance Fund is also available for discretionary uses by the Insurance Corporation to provide assistance to certain troubled System institutions and to cover the operating expenses of the Insurance Corporation. Each System bank has been required to pay premiums, which may be passed on to the Association, into the Insurance Fund, based on its annual average adjusted outstanding Insured Debt until the assets in the Insurance Fund reach the "secure base amount." The secure base amount is defined in the Farm Credit Act as 2.0 percent of the aggregate insured obligations (adjusted to reflect the reduced risk on loans or investments guaranteed by federal or state governments) or such other percentage of the aggregate obligations as the Insurance Corporation at its sole discretion determines to be actuarially sound. When the amount in the Insurance Fund exceeds the secure base amount, the Insurance Corporation is required to reduce premiums and may return excess funds above the secure base amount to System institutions. However, it must still ensure that reduced premiums are sufficient to maintain the level of the Insurance Fund at the secure base amount.

B. **Operations:** The Farm Credit Act sets forth the types of authorized lending activity and financial services that can be offered by the Association, and the persons eligible to borrow.

The Associations borrow from the Bank and in turn may originate and service short- and intermediate-term loans to their members, as well as, long-term real estate mortgage loans.

The Bank primarily lends to the District Associations in the form of a line of credit to fund the Associations' loan portfolios and operations. These lines of credit (or Direct Notes) are collateralized by a pledge of substantially all of each Association's assets. The terms of the Direct Notes are governed by a general financing agreement between the Bank and Association. Each advance is structured such that the principal cash flow, repricing characteristics, and underlying index (if any) of the advance match those of the assets being funded. By match-funding the Association loans, the Associations' exposure to interest rate risk is minimized.

In addition to providing loan funds, the Bank provides District Associations with banking and support services such as: accounting, human resources, information systems, and marketing. The costs of these support services are included in the interest charges to the Associations, or in some cases billed directly to certain Associations that use a specific service.

The Association is authorized to provide, either directly or in participation with other lenders, credit, credit commitments, and related services to eligible borrowers. Eligible borrowers include farmers, ranchers, producers or harvesters of aquatic products, rural residents, and farm-related businesses.

The Association may sell to any System borrowing member, on an optional basis, credit or term life insurance appropriate to protect the loan commitment in the event of death of the debtor(s). The sale of other insurance necessary to protect a member's farm or aquatic unit is permitted, but limited to hail and multi-peril crop insurance, and insurance necessary to protect the facilities and equipment of aquatic borrowers.

Note 2 — Summary of Significant Accounting Policies

The accounting and reporting policies of the Association conform with accounting principles generally accepted in the United States of America (GAAP) and prevailing practices within the banking industry. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the Consolidated Financial Statements and accompanying notes. Significant estimates are discussed in these footnotes, as applicable. Actual results may differ from these estimates.

The accompanying consolidated financial statements include the accounts of the ACA, PCA and FLCA. Certain amounts in the prior year financial statements may have been reclassified to conform to the current period presentation. Such reclassifications had no effect on net income or total capital as previously reported.

In connection with the preparation of the consolidated financial statements for the year ended December 31, 2013, management identified the following errors that impacted the Association's previously issued consolidated financial statements:

Management determined that certain loans were erroneously classified as troubled debt restructurings in the Association's 2012 consolidated financial statements totaling $5,372. This error caused the disclosure of additional impaired loans and troubled debt restructurings in the footnotes to the consolidated financial statements, but did not affect the Association's balance sheet, income statement, changes in members' equity or cash flows during any of the affected periods. Management evaluated this error and concluded that it did not result in a material misstatement of the Association's previously issued consolidated financial statements. Accordingly, management has revised its previously reported consolidated financial statements to adjust for this error. The value of accruing restructured loans at December 31, 2012 was revised from $21,328 to $15,956 in Note 3- *Loans and Allowance for Loan Losses*. As a result, total impaired loans were revised from $34,448 to $29,076, and the total troubled debt restructurings was revised from $27,476 to $22,104 as at December 31, 2012.

Management also determined that certain securities in the Association's investment portfolio were erroneously classified as Level 3 securities, instead of Level 2 securities, for disclosure and presentation purposes in the 2012 consolidated financial statements. This error caused the disclosure of additional qualitative information about the affected securities, because of their Level 3 designation, but did not affect the Association's balance sheet, income statement, changes in members' equity or cash flows during any of the affected periods. The reported valuation of these securities was not affected by this error. Management evaluated this error and concluded that it did not result in a material misstatement of the Association's previously issued consolidated financial statements. Accordingly, management has revised its previously reported consolidated financial statements to adjust for this error. With the revision the value of the investment securities portfolio totaling $49,101 at December 31, 2012 was reclassified from Level 3 securities to Level 2 securities in Note 8 – *Fair Value Measurement*.

A. **Cash:** Cash represents cash on hand and on deposit at banks.

B. **Loans and Allowance for Loan Losses:** The Association is authorized to make long-term real estate loans with maturities of 5 to 40 years and certain short- and intermediate-term loans for agricultural production or operating purposes with maturities of not more than 10 years. Loans are carried at their principal amount outstanding adjusted for charge-offs, premiums, discounts, deferred loan fees or costs, and derivative instruments and hedging valuation adjustments, if any. Interest on loans is accrued and credited to interest income based upon the daily principal amount outstanding. The difference in the total investment in a loan and its principal amount may be deferred as part of the carrying amount of the loan and the net difference amortized over the life of the related loan as an adjustment to interest income using the effective interest method.

Impaired loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms of the loan and are generally considered substandard or doubtful, which is in accordance with the loan rating model, as described below. Impaired loans include nonaccrual loans, restructured loans, and loans past due 90 days or more and still accruing interest. A loan is considered contractually past due when any principal repayment or interest payment required by the loan instrument is not received on or before the due date. A loan remains contractually past due until it is formally restructured or until the entire amount past due, including principal, accrued interest, and penalty interest incurred as the result of past due status, is collected or otherwise discharged in full.

Loans are generally placed in nonaccrual status when principal or interest is delinquent for 90 days (unless adequately collateralized and in the process of collection) or circumstances indicate that collection of principal and/or interest is in doubt. When a loan is placed in nonaccrual status, accrued interest deemed uncollectible is reversed (if accrued in the current year) or charged against the allowance for loan losses (if accrued in the prior year).

When loans are in nonaccrual status, the interest portion of payments received in cash is recognized as interest income if collection of the recorded investment in the loan is fully expected and the loan does not have a remaining unrecovered prior charge-off associated with it. Otherwise, loan payments are applied against the recorded investment in the loan. Nonaccrual loans may be returned to accrual status

when principal and interest are current, prior charge-offs have been recovered, the ability of the borrower to fulfill the contractual repayment terms is fully expected and the loan is not classified "doubtful" or "loss."

Loans are charged off, wholly or partially, as appropriate, at the time they are determined to be uncollectible.

In cases where a borrower experiences financial difficulties and the Association makes certain concessions to the borrower such as a modification to the contractual terms of the loan, the loan is classified as a restructured loan. A restructured loan constitutes a troubled debt restructuring if for economic or legal reasons related to the debtor's financial difficulties the Association grants a concession to the debtor that it would not otherwise consider. If the borrower's ability to meet the revised payment schedule is uncertain, the loan is classified as a nonaccrual loan.

The allowance for loan losses is maintained at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio as of the report date. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through loan charge-offs and allowance reversals. A review of individual loans in each respective portfolio is performed periodically to determine the appropriateness of risk ratings and to ensure loss exposure to the Association has been identified. The allowance for loan losses is a valuation account used to reasonably estimate loan losses as of the financial statement date. Determining the appropriate allowance for loan losses balance involves significant judgment about when a loss has been incurred and the amount of that loss.

The Association considers the following factors, among others, when determining the allowance for loan losses:

- Credit risk classifications,
- Collateral values,
- Risk concentrations,
- Weather related conditions,
- Current production and economic conditions, and
- Prior loan loss experience.

A specific allowance may be established for impaired loans under Financial Accounting Standards Board (FASB) guidance on accounting by creditors for impairment of a loan. Impairment of these loans is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price, or fair value of the collateral if the loan is collateral dependent.

A general allowance may also be established under FASB guidance on accounting for contingencies, to reflect estimated probable credit losses incurred in the remainder of the loan portfolio at the financial statement date, which excludes loans included under the specific allowance discussed above. A general allowance can be evaluated on a pool basis for those loans with similar characteristics. The level of the general allowance may be based on management's best estimate of the likelihood of default adjusted for other relevant factors reflecting the current environment.

The credit risk rating methodology is a key component of the Association's allowance for loan losses evaluation, and is generally incorporated into the institution's loan underwriting standards and internal lending limit. The Association uses a two-dimensional loan rating model based on internally generated combined system risk rating guidance that incorporates a 14-point risk rating scale to identify and track the probability of borrower default and a separate scale addressing loss given default over a period of time. Probability of default is the probability that a borrower will experience a default within 12 months from the date of the determination of the risk rating. A default is considered to have occurred if the lender believes the borrower will not be able to pay its obligation in full or the borrower is past due more than 90 days. The loss given default is management's estimate as to the anticipated economic loss on a specific loan assuming default has occurred or is expected to occur within the next 12 months.

Each of the 14 categories carries a distinct percentage of default probability. The 14-point risk rating scale provides for granularity of the probability of default, especially in the acceptable ratings. There are nine acceptable categories that range from a borrower of the highest quality to a borrower of minimally acceptable quality. The probability of default between 1 and 9 is very narrow and would reflect almost no default to a minimal default percentage. The probability of default grows more rapidly as a loan moves from a "9" to other assets especially mentioned and grows significantly as a loan moves to a substandard (viable) level. A substandard (non-viable) rating indicates that the probability of default is almost certain.

C. **Loans Held for Sale:** Loans are classified as held for sale when there is intent to sell the loans within a reasonable period of time. Loans originated and intended for sale are carried at the lower of cost or aggregate estimated market value.

   Generally, only home loans that are to be sold on the secondary mortgage market through various lenders are held for sale.

D. **Other Property Owned:** Other property owned, consisting of real estate, personal property and other assets acquired through a collection action, is recorded upon acquisition at fair value less estimated selling costs. Any initial reduction in the carrying amount of a loan to the fair value of the collateral received is charged to the allowance for loan losses. Revised estimates to the fair value less cost to sell are reported as adjustments to the carrying amount of the asset, provided that such adjusted value is not in excess of the carrying amount at acquisition. Income, expenses, and carrying value adjustments related to other property owned are included in Gains (Losses) from Other Property Owned, Net in the Consolidated Statements of Income.

E. **Premises and Equipment:** Land is carried at cost. Premises and equipment are carried at cost less accumulated depreciation. Depreciation is provided on the straight-line method over the estimated useful lives of the assets. Gains and losses on dispositions are reflected in current earnings.

Maintenance and repairs are charged to expense and improvements are capitalized.

F. **Investments:** The Association holds investments as described below.

Other Investments
As discussed in Note 8, certain investments, consisting primarily of mutual funds, are held in trust accounts and are reported at fair value. Holding period gains and losses are included within other noninterest income on the consolidated statements of comprehensive income and the balance of these investments, totaling $175, is included in other assets on the accompanying consolidated balance sheet as of December 31, 2013.

Investment in Other Farm Credit Institutions
The Association is required to maintain ownership in the Bank in the form of Class B and Class C stock, as presented on the consolidated balance sheet as investments in Other Farm Credit Institutions. Accounting for this investment is on the cost plus allocated equities basis.

Investment Securities
The Association, as permitted under the FCA regulations, holds investments for purposes of managing short-term surplus funds and reducing interest rate risk. Investments are classified as held-to-maturity and accordingly have been reported at amortized cost. Purchase premiums and discounts are amortized or accreted ratably over the term of the respective security using interest method.

The Association may also hold additional investments in accordance with mission-related investment and other investment programs approved by the Farm Credit Administration. These programs allow the Association to make investments that further the System's mission to serve rural America. Asset backed securities issued by the Small Business Administration are considered eligible investments. Mission-related investments for which the Association has the intent and ability to hold to maturity are classified as held-to-maturity and carried at amortized cost.

The Association reviews all investments that are in a loss position in order to determine whether the unrealized loss, which is considered an impairment, is temporary or other-than-temporary. In the event of other-than-temporary impairment, the carrying value of the security would be written down to fair value, the credit-related loss would be included in earnings in the period of impairment and the non-credit related portion would be recognized in other comprehensive income. Credit related loss is defined as the shortfall of the present value of the cash flows expected to be collected in relation to the amortized cost basis.

G. **Voluntary Advance Conditional Payments:** The Association is authorized under the Farm Credit Act to accept advance payments from borrowers. To the extent the borrower's access to such advance payments is restricted, the advanced conditional payments are netted against the borrower's related loan balance. Amounts in excess of the related loan balance and amounts to which the borrower has unrestricted access are presented as other liabilities in the accompanying Consolidated Balance Sheets. Advanced conditional payments are not insured. Interest is generally paid by the Association on such accounts.

H. **Employee Benefit Plans:** The Association participates in District and multi-District sponsored benefit plans. These plans include a defined benefit final average pay retirement plan, a defined benefit cash balance retirement plan, a defined benefit other postretirement benefits plan, and a defined contribution 401(k) plan.

Multi-Employer Defined Benefit Plans
Substantially all employees may participate in either the AgFirst Farm Credit Retirement Plan or the AgFirst Farm Credit Cash Balance Retirement Plan (collectively referred to as the "Plans"), which are defined benefit plans and considered multi-employer under FASB accounting guidance. The Plans are noncontributory and include eligible Association and District employees. The "Projected Unit Credit" actuarial method is used for financial reporting purposes. The actuarially-determined costs of the Plans are allocated to each participating entity by multiplying the Plans' net pension expense by each institution's eligible service cost and accumulated benefit obligation as a percentage of the total eligible service cost and total accumulated benefit obligation for all Plan participants. The cumulative excess of amounts funded by the Association over the cost allocated to the Association is reflected as prepaid retirement expense, a component of other assets in the Association's Consolidated Balance Sheets.

In addition to pension benefits, the Association provides certain health care and life insurance benefits for retired employees (other postretirement benefits) through a multi-District sponsored retiree healthcare plan. Substantially all employees are eligible for those benefits when they reach early retirement age while working for the Association. Certain charges related to this plan are an allocation of District charges based on the Association's proportional share of the plan liability. Authoritative accounting guidance requires the accrual of the expected cost of providing these benefits to an employee, their beneficiaries and covered dependents during the years the employee renders service necessary to become eligible for benefits. The cumulative excess of cost allocated to the Association over the amounts funded by the Association is reflected as postretirement benefits other than pensions, a component of Other Liabilities in the Association's Consolidated Balance Sheets.

Since the foregoing plans are multi-employer, the Association does not apply the provisions of FASB guidance on employers' accounting for defined benefit pension and other postretirement plans in its stand-alone financial statements. Rather, the effects of this guidance are reflected in the Combined Financial Statements of AgFirst Farm Credit Bank and District Associations.

Additional information for the above may be found in Note 9 and the Notes to the Combined Financial Statements of AgFirst Farm Credit Bank and District Associations' Annual Report.

Single Employer Defined Benefit Plans
The Association also sponsors a single employer defined benefit supplemental retirement plan and offers a FCBA supplemental 401(k) plan for certain key employees. These plans are nonqualified; therefore, the associated liabilities are included in the Association's Consolidated Balance Sheets in Other Liabilities.

The foregoing defined benefit plan is considered single employer, therefore the Association applies the provisions of FASB guidance on employers' accounting for defined benefit pension and other postretirement plans in its stand-alone financial statements. See Note 9 for additional information.

Defined Contribution Plans
Substantially all employees are eligible to participate in the defined contribution Farm Credit Benefit Alliance (FCBA) 401(k) Plan, subsequently referred to as the 401(k) Plan, which qualifies as a 401(k) plan as defined by the Internal Revenue Code. Employee deferrals are not to exceed the maximum deferral as determined and adjusted by the Internal Revenue Service. Company contributions to the 401(k) Plan are expensed as funded.

Additional information for the above may be found in Note 9 and the Notes to the Combined Financial Statements of AgFirst Farm Credit Bank and District Associations' Annual Report.

I. **Income Taxes:** The Association is generally subject to Federal and certain other income taxes. As previously described, the ACA holding company has two wholly-owned subsidiaries, a PCA and a FLCA. The FLCA subsidiary is exempt from federal and state income taxes as provided in the Farm Credit Act. The ACA holding company and the PCA subsidiary are subject to federal, state, and certain other income taxes.

   The Association is eligible to operate as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, the Association 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 taxable earnings that will not be distributed as qualified patronage refunds. The Association distributes patronage on the basis of book income.

   The Association accounts for income taxes under the asset and liability method, recognizing deferred tax assets and liabilities for the expected future tax consequences of the temporary differences between the carrying amounts and tax bases of assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be realized or settled.

   The Association records a valuation allowance at the balance sheet dates against that portion of the Association's deferred tax assets that, based on management's best estimates of future events and circumstances, more likely than not (a likelihood of more than 50 percent) will not be realized. The consideration of valuation allowances involves various estimates and assumptions as to future taxable earnings, including the effects of our expected patronage program, which reduces taxable earnings.

J. **Due from AgFirst Farm Credit Bank:** The Association records patronage refunds from the Bank and certain District associations on an accrual basis.

K. **Valuation Methodologies:** FASB 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. This guidance also 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. It prescribes three levels of inputs that may be used to measure fair value which are discussed in Note 8.

   Management applies various valuation methodologies to assets and liabilities that often involve a significant degree of judgment, particularly when active markets do not exist for the particular items being valued.

   Examples of items for which management may utilize significant estimates and assumptions include: impaired loans, other property owned, pension and other postretirement benefit obligations, certain derivatives, certain investment securities and other financial instruments. These valuations require the use of various assumptions, including, among others, discount rates, rates of return on assets, repayment rates, cash flows, default rates, costs of servicing, and liquidation values. The use of different assumptions could produce significantly different asset or liability values, which could have material positive or negative effects on the Association's results of operations.

   The Association may use the Bank or third parties to obtain fair value prices. Quoted market prices are referred to when estimating fair values for any assets or liabilities for which observable, active markets exist.

L. **Off-Balance-Sheet Credit Exposures:** The credit risk associated with commitments to extend credit and letters of credit is essentially the same as that involved with extending loans to customers and is subject to normal credit policies. Collateral may be obtained based on management's assessment of the customer's creditworthiness.

   Commitments to extend credit are agreements to lend to customers, generally having fixed expiration dates or other termination clauses that may require payment of a fee.

   Letters of credit are commitments issued to guarantee the performance of a customer to a third party. These letters of credit are issued to facilitate commerce and typically result in the commitment being funded when the underlying transaction is consummated between the customer and third party.

M. **Subsequent Events:** The Association evaluates subsequent events and has determined there are none requiring disclosure through March 12, 2014, which is the date the financial statements were issued.

N. **Accounting Standards Updates (ASUs):** In February 2013 the Financial Accounting Standards Board (FASB) issued ASU 2013-04, "Liabilities (Topic 405): Obligations Resulting from Joint and Several Liability Arrangements for which the Total Amount of the Obligation Is Fixed at the Reporting Date," which addresses the recognition, measurement and disclosure of certain obligations including debt arrangements, other contractual obligations, and settled litigation and judicial rulings. The amendments are to be applied retrospectively to all prior periods presented for those obligations resulting from joint and several liability arrangements within the ASU's scope that exist at the beginning of an entity's fiscal year of adoption. An entity may elect to use hindsight for the comparative periods (if it changed its accounting as a result of adopting the amendments in the ASU) and should disclose that fact. The amendments are effective for public entities for fiscal years, and interim periods within those years, beginning after December 15, 2013. For nonpublic entities, the amendments are effective for fiscal years ending after December 15, 2014, and interim periods and annual periods thereafter. Early application is permitted. It is not anticipated the adoption of this guidance will have a material impact on the Association's financial condition or results of operations but could result in additional disclosures.

In February 2013 the FASB issued ASU 2013-02, "Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income." The ASU is intended to improve the transparency of reporting reclassifications out of accumulated other comprehensive income (AOCI). The amendments do not change the requirements for reporting net income or other comprehensive income in financial statements. However, the amendments require an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail about those amounts. For public entities, the amendments are effective prospectively for reporting periods beginning after December 15, 2012. For nonpublic entities, the amendments are effective prospectively for reporting periods beginning after December 15, 2013. Early adoption is permitted. The adoption of this ASU had no effect on the Association's financial condition or results of operations.

In January 2013, the FASB issued ASU 2013-01 "Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities." The ASU clarifies that ordinary trade receivables and payables are not in the scope of ASU 2011-11, "Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities." Specifically, ASU 2011-11 applies only to derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with specific criteria or subject to a master netting arrangement or similar agreement. The effective date is the same as that for ASU 2011-11.

In December 2011, the FASB issued ASU 2011-11, "Balance Sheet (Topic 220) - Disclosures about Offsetting Assets and Liabilities." The guidance requires an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. This includes the effect or potential effect of rights of setoff associated with an entity's recognized assets and recognized liabilities. The requirements apply to recognized financial instruments and derivative instruments that are offset in accordance with accounting guidance and for those recognized financial instruments and derivative instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset or not. This guidance is to be applied retrospectively for all comparative periods and is effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. The adoption of this guidance, in conjunction with ASU 2013-01 above, did not impact the Association's financial condition or its results of operations, but did result in additional disclosures.

In September 2011, the FASB issued ASU 2011-09, "Compensation (Topic 715): Retirement Benefits – Multiemployer Plans." The amendment is intended to provide for more information about an employer's financial obligations to multiemployer pension and other postretirement benefit plans, which should help financial statement users better understand the financial health of significant plans in which the employer participates. The additional disclosures include the following: (1) a description of the nature of plan benefits; (2) a qualitative description of the extent to which the employer could be responsible for the obligations of the plan, including benefits earned by employees during employment with another employer, and (3) other quantitative information to help users understand the financial information about the plan. The amendments are effective for annual periods for fiscal years ending after December 15, 2011 for public entities. The amendments should be applied retrospectively for all prior periods presented. The adoption did not impact the Association's financial condition or results of operations but did result in additional disclosures (see Note 9).

In June 2011, the FASB issued ASU 2011-05, "Comprehensive Income (Topic 220): Presentation of Comprehensive Income." This amendment is intended to increase the prominence of other comprehensive income in financial statements. The current option that permits the presentation of other comprehensive income in the statement of changes in equity has been eliminated. The main provisions of the guidance provides that an entity that reports items of other comprehensive income has the option to present comprehensive income in either one or two consecutive financial statements: (1) A single statement must present the components of net income and total net income, the components of other comprehensive income and total other comprehensive income, and a total for

comprehensive income; (2) In a two-statement approach, an entity must present the components of net income and total net income in the first statement. That statement must be immediately followed by a financial statement that presents the components of other comprehensive income, a total for other comprehensive income, and a total for comprehensive income. With either approach, an entity is required to present reclassification adjustments for items reclassified from other comprehensive income to net income in the statement(s). This guidance is to be applied retrospectively. For public entities, it is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The adoption of this guidance did not impact the Association's financial condition or results of operations, but resulted in changes to the presentation of comprehensive income. In December 2011, the FASB issued guidance (ASU 2011-12; Topic 220) to defer the new requirement to present components of accumulated other comprehensive income reclassified as components of net income on the face of the financial statements. All other requirements in the guidance for comprehensive income are required to be adopted as set forth in the June 2011 guidance. The deferral is effective at the same time the new standard on comprehensive income is adopted. The FASB finalized this guidance in January 2013 with the issuance of ASU 2013-02, which took effect for public companies in interim and annual reporting periods beginning after December 15, 2012.

In May 2011, the FASB issued ASU 2011-04, "Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs." The amendments change the wording used to describe the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. The amendments include the following: (1) Application of the highest and best use and valuation premise is only relevant when measuring the fair value of nonfinancial assets (does not apply to financial assets and liabilities); (2) Aligns the fair value measurement of instruments classified within an entity's shareholders' equity with the guidance for liabilities. As a result, an entity should measure the fair value of its own equity instruments from the perspective of a market participant that holds the instruments as assets; (3) Clarifies that a reporting entity should disclose quantitative information about the unobservable inputs used in a fair value measurement that is categorized within Level 3 of the fair value hierarchy; (4) An exception to the requirement for measuring fair value when a reporting entity manages its financial instruments on the basis of its net exposure, rather than its gross exposure, to those risks; (5) Clarifies that the application of premiums and discounts in a fair value measurement is related to the unit of account for the asset or liability being measured at fair value. Premiums or discounts related to size as a characteristic of the entity's holding (that is, a blockage factor) instead of as a characteristic of the asset or liability (for example, a control premium), are not permitted. A fair value measurement that is not a Level 1 measurement may include premiums or discounts other than blockage factors when market participants would incorporate the premium or discount into the measurement at the level of the unit of account specified in other guidance; (6) Expansion of the disclosures about fair value measurements. The most significant change will require entities, for their recurring Level 3 fair value measurements, to disclose quantitative information about unobservable inputs used, a description of the valuation processes used by the entity, and a qualitative discussion about the sensitivity of the measurements. New disclosures are required about the use of a nonfinancial asset measured or disclosed at fair value if its use differs from its highest and best use. In addition, entities must report the level in the fair value hierarchy of assets and liabilities not recorded at fair value but where fair value is disclosed. The amendments are to be applied prospectively. The amendments are effective during interim and annual periods beginning after December 15, 2011. Early application was not permitted. The adoption of this guidance did not impact the Association's financial condition or results of operations, but resulted in additional disclosures.

Note 3 — Loans and Allowance for Loan Losses

A summary of loans outstanding at period end follows:

	December 31,		
	2013	2012	2011
Real estate mortgage	$ 153,346	$ 145,976	$ 130,026
Production and intermediate-term	160,984	165,063	158,080
Loans to cooperatives	8,020	10,975	14,575
Processing and marketing	26,174	4,525	5,634
Farm-related business	9,169	11,700	13,441
Communication	734	–	–
Energy and water/waste disposal	2,204	2,479	2,736
Rural residential real estate	14,333	15,619	17,854
Total Loans	$ 374,964	$ 356,337	$ 342,346

A substantial portion of the Association's lending activities is collateralized and the Association's exposure to credit loss associated with lending activities is reduced accordingly.

The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but typically includes farmland and income-producing property, such as crops and livestock, as well as

receivables. Long-term real estate loans are collateralized by the first liens on the underlying real property. Federal regulations state that long-term real estate loans are not to exceed 85 percent (97 percent if guaranteed by a government agency) of the property's appraised value. However, a decline in a property's market value subsequent to loan origination or advances, or other actions necessary to protect the financial interest of the Association in the collateral, may result in the loan to value ratios in excess of the regulatory maximum.

The Association may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume, and comply with FCA regulations. The following tables present participation loan balances at periods ended:

December 31, 2013	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ –	$ 45,071	$ –	$ –	$ –	$ –	$ –	$ 45,071
Production and intermediate-term	8,441	188,990	–	–	–	–	8,441	188,990
Loans to cooperatives	–	1,285	–	–	–	–	–	1,285
Processing and marketing	19,573	47,459	–	–	–	–	19,573	47,459
Farm-related business	–	4,358	–	–	–	–	–	4,358
Communication	734	–	–	–	–	–	734	–
Energy and water/waste disposal	2,204	–	–	–	–	–	2,204	–
Total	$ 30,952	$ 287,163	$ –	$ –	$ –	$ –	$ 30,952	$ 287,163

December 31, 2012	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 2,240	$ 61,984	$ –	$ –	$ –	$ –	$ 2,240	$ 61,984
Production and intermediate-term	22,233	177,747	–	–	–	–	22,233	177,747
Loans to cooperatives	–	3,599	–	–	–	–	–	3,599
Processing and marketing	–	4,879	–	–	–	–	–	4,879
Farm-related business	–	3,184	–	–	–	–	–	3,184
Energy and water/waste disposal	2,479	–	–	–	–	–	2,479	–
Total	$ 26,952	$ 251,393	$ –	$ –	$ –	$ –	$ 26,952	$ 251,393

December 31, 2011	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ –	$ 67,075	$ –	$ –	$ –	$ –	$ –	$ 67,075
Production and intermediate-term	19,680	237,464	–	–	–	–	19,680	237,464
Loans to cooperatives	205	8,196	–	–	–	–	205	8,196
Processing and marketing	282	3,084	–	–	–	–	282	3,084
Farm-related business	–	2,705	–	–	–	–	–	2,705
Energy and water/waste disposal	2,736	–	–	–	–	–	2,736	–
Total	$ 22,903	$ 318,524	$ –	$ –	$ –	$ –	$ 22,903	$ 318,524

A significant source of liquidity for the Association is the repayments and maturities of loans. The following table presents the contractual maturity distribution of loans by loan type at the latest period end:

December 31, 2013	Due less than 1 year	Due 1 Through 5 years	Due after 5 years	Total
Real estate mortgage	$ 14,686	$ 42,960	$ 95,700	$ 153,346
Production and intermediate-term	33,193	79,609	48,182	160,984
Loans to cooperatives	1,520	2,694	3,806	8,020
Processing and marketing	3,056	9,879	13,239	26,174
Farm-related business	1,545	5,836	1,788	9,169
Communication	–	734	–	734
Energy and water/waste disposal	–	–	2,204	2,204
Rural residential real estate	2,425	4,469	7,439	14,333
Total Loans	$ 56,425	$ 146,181	$ 172,358	$ 374,964
Percentage	15.05%	38.98%	45.97%	100.00%

The following table shows loans and related accrued interest classified under the FCA Uniform Loan Classification System as a percentage of total loans and related accrued interest receivable by loan type as of:

	December 31,		
	2013	2012	2011
Real estate mortgage:			
Acceptable	85.05%	80.34%	78.37%
OAEM	4.32	4.06	5.88
Substandard/doubtful/loss	10.63	15.60	15.75
	100.00%	100.00%	100.00%
Production and intermediate-term:			
Acceptable	75.54%	75.36%	72.27%
OAEM	10.40	6.15	12.93
Substandard/doubtful/loss	14.06	18.49	14.80
	100.00%	100.00%	100.00%
Loans to cooperatives:			
Acceptable	100.00%	96.06%	96.92%
OAEM	–	3.94	3.08
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Processing and marketing:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Farm-related business:			
Acceptable	91.07%	99.22%	99.98%
OAEM	8.93	0.78	0.01
Substandard/doubtful/loss	–	–	0.01
	100.00%	100.00%	100.00%
Communication:			
Acceptable	100.00%	–%	–%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	–%	–%
Energy and water/waste disposal:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Rural residential real estate:			
Acceptable	76.93%	69.83%	71.15%
OAEM	4.37	7.98	6.96
Substandard/doubtful/loss	18.70	22.19	21.89
	100.00%	100.00%	100.00%
Total Loans:			
Acceptable	82.28%	79.06%	77.35%
OAEM	6.62	5.01	8.69
Substandard/doubtful/loss	11.10	15.93	13.96
	100.00%	100.00%	100.00%

The following tables provide an age analysis of past due loans and related accrued interest as of:

December 31, 2013	30 Through 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 or More Past Due and Accruing Interest
Real estate mortgage	$ 1,095	$ 3,195	$ 4,290	$ 149,676	$ 153,966	$ –
Production and intermediate-term	280	776	1,056	160,542	161,598	–
Loans to cooperatives	–	–	–	8,066	8,066	–
Processing and marketing	–	–	–	26,226	26,226	–
Farm-related business	–	–	–	9,217	9,217	–
Communication	–	–	–	734	734	–
Energy and water/waste disposal	–	–	–	2,204	2,204	–
Rural residential real estate	777	346	1,123	13,259	14,382	–
Total	$ 2,152	$ 4,317	$ 6,469	$ 369,924	$ 376,393	$ –

December 31, 2012	30 Through 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 or More Past Due and Accruing Interest
Real estate mortgage	$ 903	$ 3,496	$ 4,399	$ 142,309	$ 146,708	$ –
Production and intermediate-term	795	2,066	2,861	162,973	165,834	–
Loans to cooperatives	–	–	–	11,041	11,041	–
Processing and marketing	–	–	–	4,549	4,549	–
Farm-related business	–	–	–	11,759	11,759	–
Energy and water/waste disposal	–	–	–	2,479	2,479	–
Rural residential real estate	679	1,104	1,783	13,896	15,679	–
Total	$ 2,377	$ 6,666	$ 9,043	$ 349,006	$ 358,049	$ –

	December 31, 2011					
	30 Through 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 or More Past Due and Accruing Interest
Real estate mortgage	$ 1,019	$ 6,141	$ 7,160	$ 123,397	$ 130,557	$ –
Production and intermediate-term	171	6,273	6,444	152,172	158,616	–
Loans to cooperatives	–	–	–	14,666	14,666	–
Processing and marketing	–	–	–	5,662	5,662	–
Farm-related business	–	–	–	13,517	13,517	–
Energy and water/waste disposal	–	–	–	2,736	2,736	–
Rural residential real estate	1,114	473	1,587	16,343	17,930	–
Total	$ 2,304	$ 12,887	$ 15,191	$ 328,493	$ 343,684	$ –

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.

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

	December 31,		
	2013	2012	2011
Nonaccrual loans:			
Real estate mortgage	$ 4,106	$ 8,186	$ 8,929
Production and intermediate-term	3,452	3,739	8,377
Rural residential real estate	599	1,195	1,509
Total nonaccrual loans	$ 8,157	$ 13,120	$ 18,815
Accruing restructured loans:			
Real estate mortgage	$ 7,363	$ 7,150	$ 4,863
Production and intermediate-term	7,061	7,590	6,319
Rural residential real estate	1,200	1,216	783
Total accruing restructured loans	$ 15,624	$ 15,956	$ 11,965
Accruing loans 90 days or more past due:			
Total accruing loans 90 days or more past due	$ –	$ –	$ –
Total nonperforming loans	$ 23,781	$ 29,076	$ 30,780
Other property owned	1,108	1,759	3,394
Total nonperforming assets	$ 24,889	$ 30,835	$ 34,174
Nonaccrual loans as a percentage of total loans	2.18%	3.68%	5.50%
Nonperforming assets as a percentage of total loans and other property owned	6.62%	8.61%	9.88%
Nonperforming assets as a percentage of capital	29.48%	41.14%	47.59%

The following table presents information relating to impaired loans (including accrued interest) as defined in Note 2:

	December 31,		
	2013	2012	2011
Impaired nonaccrual loans:			
Current as to principal and interest	$ 3,140	$ 5,188	$ 4,365
Past due	5,017	7,932	14,450
Total impaired nonaccrual loans	8,157	13,120	18,815
Impaired accrual loans:			
Restructured	15,624	15,956	11,965
90 days or more past due	–	–	–
Total impaired accrual loans	15,624	15,956	11,965
Total impaired loans	$ 23,781	$ 29,076	$ 30,780

The following tables present additional impaired loan information at period end. Unpaid principal balance represents the contractual principal balance of the loan.

	December 31, 2013			Year Ended December 31, 2013	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	$ 9,731	$ 10,347	$ 2,742	$ 11,505	$ 102
Production and intermediate-term	4,454	4,594	1,156	5,266	46
Rural residential real estate	1,516	1,538	457	1,793	16
Total	$ 15,701	$ 16,479	$ 4,355	$ 18,564	$ 164
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 1,738	$ 1,854	$ –	$ 2,055	$ 17
Production and intermediate-term	6,059	8,329	–	7,164	64
Rural residential real estate	283	353	–	334	3
Total	$ 8,080	$ 10,536	$ –	$ 9,553	$ 84
Total impaired loans:					
Real estate mortgage	$ 11,469	$ 12,201	$ 2,742	$ 13,560	$ 119
Production and intermediate-term	10,513	12,923	1,156	12,430	110
Rural residential real estate	1,799	1,891	457	2,127	19
Total	$ 23,781	$ 27,015	$ 4,355	$ 28,117	$ 248

	December 31, 2012			Year Ended December 31, 2012	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	$ 12,056	$ 12,765	$ 4,773	$ 12,484	$ 151
Production and intermediate-term	10,442	10,562	1,705	10,813	131
Rural residential real estate	2,319	2,527	878	2,402	29
Total	$ 24,817	$ 25,854	$ 7,356	$ 25,699	$ 311
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 3,280	$ 2,714	$ –	$ 3,397	$ 41
Production and intermediate-term	887	4,887	–	919	11
Rural residential real estate	92	160	–	94	1
Total	$ 4,259	$ 7,761	$ –	$ 4,410	$ 53
Total impaired loans:					
Real estate mortgage	$ 15,336	$ 15,479	$ 4,773	$ 15,881	$ 192
Production and intermediate-term	11,329	15,449	1,705	11,732	142
Rural residential real estate	2,411	2,687	878	2,496	30
Total	$ 29,076	$ 33,615	$ 7,356	$ 30,109	$ 364

	December 31, 2011			Year Ended December 31, 2011	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	$ 6,845	$ 7,958	$ 2,543	$ 5,405	$ 60
Production and intermediate-term	4,960	6,857	1,239	3,916	44
Rural residential real estate	1,492	2,173	703	1,178	13
Total	$ 13,297	$ 16,988	$ 4,485	$ 10,499	$ 117
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 6,947	$ 7,172	$ –	$ 5,484	$ 61
Production and intermediate-term	9,736	16,070	–	7,688	85
Rural residential real estate	800	857	–	631	7
Total	$ 17,483	$ 24,099	$ –	$ 13,803	$ 153
Total impaired loans:					
Real estate mortgage	$ 13,792	$ 15,130	$ 2,543	$ 10,889	$ 121
Production and intermediate-term	14,696	22,927	1,239	11,604	129
Rural residential real estate	2,292	3,030	703	1,809	20
Total	$ 30,780	$ 41,087	$ 4,485	$ 24,302	$ 270

There were no material commitments to lend additional funds to debtors whose loans were classified as impaired at each reporting period.

The following table summarizes interest income on nonaccrual and accruing restructured loans that would have been recognized under the original terms of the loans:

	Year Ended December 31,		
	2013	2012	2011
Interest income which would have been recognized under the original loan terms	$ 753	$ 1,140	$ 1,437
Less: interest income recognized	248	364	267
Foregone interest income	$ 505	$ 776	$ 1,170

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*	Communication	Energy and Water/Waste Disposal	Rural Residential Real Estate	Total
Allowance for credit losses:							
Balance at December 31, 2012	$ 6,418	$ 4,016	$ 18	$ –	$ 3	$ 1,171	$ 11,626
Charge-offs	(1,578)	(1,098)	–	–	–	(139)	(2,815)
Recoveries	16	15	–	–	–	–	31
Provision for loan losses	(932)	465	136	2	(3)	(415)	(747)
Balance at December 31, 2013	$ 3,924	$ 3,398	$ 154	$ 2	$ –	$ 617	$ 8,095
Balance at December 31, 2011	$ 4,319	$ 4,793	$ 38	$ –	$ 4	$ 1,004	$ 10,158
Charge-offs	(603)	(624)	–	–	–	(49)	(1,276)
Recoveries	23	83	–	–	–	43	149
Provision for loan losses	2,679	(236)	(20)	–	(1)	173	2,595
Balance at December 31, 2012	$ 6,418	$ 4,016	$ 18	$ –	$ 3	$ 1,171	$ 11,626
Balance at December 31, 2010	$ 2,266	$ 1,585	$ 59	$ –	$ 4	$ 512	$ 4,426
Charge-offs	(883)	(2,831)	–	–	–	(1,009)	(4,723)
Recoveries	17	205	–	–	–	31	253
Provision for loan losses	2,919	5,834	(21)	–	–	1,470	10,202
Balance at December 31, 2011	$ 4,319	$ 4,793	$ 38	$ –	$ 4	$ 1,004	$ 10,158
Loans individually evaluated for impairment	$ 2,742	$ 1,156	$ –	$ –	$ –	$ 457	$ 4,355
Loans collectively evaluated for impairment	1,182	2,242	154	2	–	160	3,740
Balance at December 31, 2013	$ 3,924	$ 3,398	$ 154	$ 2	$ –	$ 617	$ 8,095
Loans individually evaluated for impairment	$ 4,773	$ 1,705	$ –	$ –	$ –	$ 878	$ 7,356
Loans collectively evaluated for impairment	1,645	$ 2,311	$ 18	$ –	$ 3	$ 293	$ 4,270
Balance at December 31, 2012	$ 6,418	$ 4,016	$ 18	$ –	$ 3	$ 1,171	$ 11,626
Loans individually evaluated for impairment	$ 2,543	$ 1,239	$ –	$ –	$ –	$ 703	$ 4,485
Loans collectively evaluated for impairment	1,776	$ 3,554	$ 38	$ –	$ 4	$ 301	$ 5,673
Balance at December 31, 2011	$ 4,319	$ 4,793	$ 38	$ –	$ 4	$ 1,004	$ 10,158
Recorded investment in loans outstanding:							
Loans individually evaluated for impairment	$ 11,481	$ 11,157	$ –	$ –	$ –	$ 1,799	$ 24,437
Loans collectively evaluated for impairment	142,485	150,441	43,509	734	2,204	12,583	351,956
Ending balance at December 31, 2013	$ 153,966	$ 161,598	$ 43,509	$ 734	$ 2,204	$ 14,382	$ 376,393
Loans individually evaluated for impairment	$ 14,447	$ 10,938	$ –	$ –	$ –	$ 2,411	$ 27,796
Loans collectively evaluated for impairment	132,261	$ 154,896	$ 27,349	$ –	$ 2,479	$ 13,268	$ 330,253
Ending balance at December 31, 2012	$ 146,708	$ 165,834	$ 27,349	$ –	$ 2,479	$ 15,679	$ 358,049
Loans individually evaluated for impairment	$ 9,030	$ 8,276	$ –	$ –	$ –	$ 1,509	$ 18,815
Loans collectively evaluated for impairment	121,527	$ 150,340	$ 33,845	$ –	$ 2,736	$ 16,421	$ 324,869
Ending balance at December 31, 2011	$ 130,557	$ 158,616	$ 33,845	$ –	$ 2,736	$ 17,930	$ 343,684

To mitigate risk of loan losses, the Association may enter into guarantee arrangements with certain GSEs, including the Federal Agricultural Mortgage Corporation (Farmer Mac), and state or federal agencies. These guarantees generally remain in place until the loans are paid in full or expire and give the Association the right to be reimbursed for losses incurred or to sell designated loans to the guarantor in the event of default (typically four months past due), subject to certain conditions. The guaranteed balance of designated loans under these agreements was $36,008, $38,819, and $36,710 at December 31, 2013, 2012, and 2011, respectively. Fees paid for such guarantee commitments totaled $126, $136, and $175 for 2013, 2012, and 2011, respectively. These amounts are classified as noninterest expense.

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. The following tables present additional information about activity that occurred during the periods presented related to TDRs.

	Year Ended December 31, 2013			
	Pre-modification Outstanding Recorded Investment			
	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Real estate mortgage	$ 78	$ 1,167	$ 649	$ 1,894
Production and intermediate-term	–	3,509	100	3,609
Rural residential real estate	202	–	–	202
Total	$ 280	$ 4,676	$ 749	$ 5,705

	Year Ended December 31, 2013				
	Post-modification Outstanding Recorded Investment				Effects of Modification
	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Troubled debt restructurings:					
Real estate mortgage	$ 82	$ 1,198	$ 647	$ 1,927	$ –
Production and intermediate-term	–	3,532	100	3,632	(887)
Rural residential real estate	202	–	–	202	–
Total	$ 284	$ 4,730	$ 747	$ 5,761	$ (887)

	Year Ended December 31, 2012			
	Pre-modification Outstanding Recorded Investment			
	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Real estate mortgage	$ –	$ 2,717	$ 96	$ 2,813
Production and intermediate-term	–	4,814	786	5,600
Rural residential real estate	83	207	–	290
Total	$ 83	$ 7,738	$ 882	$ 8,703

	Year Ended December 31, 2012				
	Post-modification Outstanding Recorded Investment				Effects of Modification
	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Troubled debt restructurings:					
Real estate mortgage	$ –	$ 2,726	$ 97	$ 2,823	$ –
Production and intermediate-term	–	4,697	799	5,496	(66)
Rural residential real estate	83	207	–	290	–
Total	$ 83	$ 7,630	$ 896	$ 8,609	$ (66)

	Year Ended December 31, 2011			
	Pre-modification Outstanding Recorded Investment			
	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Real estate mortgage	$ –	$ 7,247	$ –	$ 7,247
Production and intermediate-term	–	11,632	–	11,632
Rural residential real estate	–	1,102	–	1,102
Total	$ –	$ 19,981	$ –	$ 19,981

	Year Ended December 31, 2011				
	Post-modification Outstanding Recorded Investment				Effects of Modification
	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Troubled debt restructurings:					
Real estate mortgage	$ –	$ 7,327	$ –	$ 7,327	$ (6)
Production and intermediate-term	–	11,561	–	11,561	(227)
Rural residential real estate	–	1,102	–	1,102	–
Total	$ –	$ 19,990	$ –	$ 19,990	$ (233)

Interest concessions may include interest forgiveness and interest deferment. Principal concessions may include principal forgiveness, principal deferment, and maturity extension. Other concessions may include additional compensation received which might be in the form of cash or other assets.

There were no TDRs that occurred during the previous twelve months and for which there was a subsequent payment default during the periods presented. Payment default is defined as a payment that was thirty days or more past due.

The following table provides information at each period end on outstanding loans restructured in troubled debt restructurings. These loans are included as impaired loans in the impaired loan table.

	Total TDRs			Nonaccrual TDRs		
	December 31,			December 31,		
	2013	2012	2011	2013	2012	2011
Real estate mortgage	$ 10,375	$ 11,708	$ 7,208	$ 3,012	$ 4,558	$ 2,345
Production and intermediate-term	9,316	9,089	7,164	2,255	1,499	845
Rural residential real estate	1,376	1,307	1,019	176	91	236
Total Loans	$ 21,067	$ 22,104	$ 15,391	$ 5,443	$ 6,148	$ 3,426
Additional commitments to lend	$ –	$ 223	$ 44			

Note 4 — Investments

Investment in Other Farm Credit Institutions

Investments in other Farm Credit System institutions are generally nonmarketable investments consisting of stock and participation certificates, allocated surplus, and reciprocal investments in other institutions regulated by the FCA. The Association is required to maintain ownership in the Bank in the form of Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. Accounting for this investment is on the cost plus allocated equities basis. The Association's investment in the Bank totaled $6,995 for 2013, $8,524 for 2012 and $11,358 for 2011.

Investment Securities

The Association's investments consist primarily of asset-backed securities (ABSs). These ABSs are issued through the Small Business Administration and are guaranteed by the full faith and credit of the United States government. They are held for managing short-term surplus funds and reducing interest rate risk. These securities meet the applicable FCA regulatory guidelines related to government agency guaranteed investments.

A summary of the amortized cost and fair value of investment securities held-to-maturity follows:

	December 31, 2013				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Asset backed securities	$ 39,511	$ 954	$ (48)	$ 40,417	2.07%

	December 31, 2012				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Asset backed securities	$ 47,900	$ 1,240	$ (39)	$ 49,101	2.03%

	December 31, 2011				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Asset backed securities	$ 47,285	$ 782	$ (29)	$ 48,038	2.01%

A summary of the contractual maturity, amortized cost and estimated fair value of investment securities held-to-maturity follows:

	December 31, 2013		
	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	$ 251	$ 245	2.01%
After one year through five years	23,812	24,332	2.18
After five years through ten years	9,763	9,929	1.83
After ten years	5,685	5,911	2.04
Total	$ 39,511	$ 40,417	2.07%

A portion of these investments has contratcual maturities in excess of ten years. However, expected maturities for these types of securities can differ from contractual maturities because borrowers may have the right to prepay obligations with or without prepayment penalties.

An investment is considered impaired if its fair value is less than its cost. The following tables show the fair value and gross unrealized losses for investments that were in a continuous unrealized loss position aggregated by investment category at each reporting period. A continuous unrealized loss position for an investment is measured from the date the impairment was first identified.

	December 31, 2013			
	Less than 12 Months		Greater than 12 Months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Asset-backed securities	$ 932	$ (11)	$ 1,231	$ (37)

	December 31, 2012			
	Less than 12 Months		Greater than 12 Months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Asset-backed securities	$ 236	$ –	$ 1,784	$ (39)

	December 31, 2011			
	Less than 12 Months		Greater than 12 Months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Asset-backed securities	$ –	$ –	$ 853	$ (29)

FASB guidance contemplates numerous factors in determining whether an impairment is other-than-temporary. These factors include: (1) whether or not management intends to sell the security, (2) whether it is more likely than not that management would be required to sell the security before recovering its costs, and (3) whether management expects to recover the security's entire amortized cost basis (even if there is no intention to sell). If the Association intends to sell the security or it is more likely than not that it would be required to sell the security, the impairment loss equals the full difference between amortized cost and fair value of the security. When the Association does not intend to sell securities in an unrealized loss position and it is not more likely than not that it would be required to sell the securities, other-than-temporary impairment loss is separated into credit loss and non-credit loss. Credit loss is defined as the shortfall of the present value of the cash flows expected to be collected in relation to the amortized cost basis.

The Association performs periodic credit reviews, including other-than-temporary impairment analyses, on its investment securities portfolio. The objective is to quantify future possible loss of principal or interest due on securities in the portfolio. Factors considered in determining whether an impairment is other-than-temporary include among others: (1) the length of time and the extent to which the fair value is less than cost, (2) adverse conditions specifically related to the industry, (3) geographic area and the condition of the underlying collateral, (4) payment structure of the security, (5) ratings by rating agencies, (6) the credit worthiness of bond insurers, and (7) volatility of the fair value changes.

The Association uses the present value of cash flows expected to be collected from each debt security to determine the amount of credit loss. This technique requires assumptions related to the underlying collateral, including default rates, amount and timing of prepayments, and loss severity. Assumptions can vary widely from security to security and are influenced by such factors as loan interest rate, geographical location of the borrower, borrower characteristics, and collateral type.

Significant inputs used to estimate the amount of credit loss include, but are not limited to, performance indicators of the underlying assets in the security (including default rates, delinquency rates, and percentage of nonperforming assets), loan-to-collateral value ratios, third-party guarantees, current levels of subordination, vintage, geographic concentration, and credit ratings. The Association may obtain assumptions for the default rate, prepayment rate, and loss severity rate from an independent third party, or generate the assumptions internally.

The Association has not recognized any credit losses as any impairments were deemed temporary and resulted from non-credit related factors. The Association has the ability and intent to hold these temporarily impaired investments until a recovery of unrealized losses occurs, which may be at maturity, and at this time expects to collect the full principal amount and interest due on these securities, especially after considering credit enhancements.

Substaintially all of these investments were in U.S. government agency securities and the Association expects these securities would not be settled at a price les than their amortized cost. All securities continue to perform at period end.

Note 5 — Real Estate and Other Property

Premises and Equipment

Premises and equipment consists of the following:

	December 31, 2013	2012	2011
Land	$ 224	$ 224	$ 224
Buildings and improvements	886	880	880
Furniture and equipment	1,256	1,266	1,290
	2,366	2,370	2,394
Less: accumulated depreciation	1,619	1,693	1,647
Total	$ 747	$ 677	$ 747

The Association is obligated under various noncancellable operating leases for offices. At December 31, 2013 future minimum lease payments for all noncancellable operating leases are as follows:

2014	$ 369
2015	380
2016	391
2017	–
2018	–
Subsequent years	–
Total minimum lease payments	$ 1,140

Other Property Owned

Net gains (losses) on other property owned consist of the following:

	December 31, 2013	2012	2011
Gains (losses) on sale, net	$ (53)	$ 134	$ (496)
Carrying value unrealized gains (losses)	(376)	(1,134)	(2,412)
Operating income (expense), net	179	(140)	(110)
Gains (losses) on other property owned, net	$ (250)	$ (1,140)	$ (3,018)

Note 6 — Debt

Notes Payable to AgFirst Farm Credit Bank

The Association's indebtedness to the Bank represents borrowings by the Association primarily to fund its loan portfolio. This indebtedness is collateralized by a pledge of substantially all of the Association's assets and the terms of the revolving line of credit are governed by the General Financing Agreement (GFA). The GFA defines Association performance criteria for borrowing from the Bank, which includes borrowing base margin, earnings, and capital covenants.

Interest rates on both variable and fixed rate notes payable are generally established loan-by-loan based on the Bank's marginal cost of funds, capital position, operating costs and return objectives. In the event of prepayment of any portion of a fixed rate advance, the Association may incur a prepayment penalty in accordance with the terms of the GFA and which will be included in interest expense. The interest rate is periodically adjusted by the Bank based upon agreement between the Bank and the Association.

The weighted average interest rates on the variable rate notes were 1.44 percent for LIBOR-based loans and 1.56 percent for Prime-based loans, and the weighted average remaining maturities were 3.2 years and 8.7 years, respectively, at December 31, 2013. The weighted average interest rate on the fixed rate and adjustable rate mortgage (ARM) loans which are match funded by the Bank was 2.53 percent and the weighted average remaining maturity was 6.9 years at December 31, 2013. The weighted average interest rate on all interest-bearing notes payable was 2.10 percent and the weighted average remaining maturity was 5.5 years at December 31, 2013.

Variable rate and fixed rate notes payable represent approximately 29.44 percent and 70.56 percent, respectively, of total notes payable at December 31, 2013.

Under the Farm Credit Act, the Association is obligated to borrow only from the Bank, unless the Bank approves borrowing from other funding sources. The Bank, consistent with FCA regulations, has established limitations on the Association's ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition.

Note 7 — Members' Equity

A description of the Association's capitalization requirements, protection mechanisms, regulatory capitalization requirements and restrictions, and equities are provided below.

A. Protected Borrower Equity

Protection of certain borrower equity is provided under the Farm Credit Act which requires the Association, when retiring protected borrower equity, to retire such equity at par or stated value regardless of its book value. Protected borrower equity includes capital stock, participation certificates and allocated equities which were outstanding as of January 6, 1988, or were issued or allocated prior to October 6, 1988. If an Association is unable to retire protected borrower equity at par value or stated value, amounts required to retire this equity would be obtained from the Insurance Fund.

B. Capital Stock and Participation Certificates

In accordance with the Farm Credit Act and the Association's capitalization bylaws, each borrower is required to invest in Class C stock for agricultural loans, or participation certificates in the case of rural home and farm related business loans, as a condition of borrowing. The initial borrower investment, through either purchase or transfer, must be in an amount equal to the lesser of $1 thousand or two percent of the amount of the loan. The Board of Directors may increase the amount of investment if necessary to meet the Association's capital needs. Loans designated for sale or sold into the Secondary Market on or after April 16, 1996 will have no voting stock or participation certificate purchase requirement if sold within 180 days following the date of designation.

The borrower acquires ownership of the capital stock or participation certificates at the time the loan is made, but usually does not make a cash investment. The aggregate par value is generally added to the principal amount of the related loan obligation. The Association retains a first lien on the stock or participation certificates owned by borrowers. Retirement of such equities will generally be at the lower of par or book value, and repayment of a loan does not automatically result in retirement of the corresponding stock or participation certificates.

C. Regulatory Capitalization Requirements and Restrictions

FCA regulations require that certain minimum standards for capital be achieved and maintained. These standards are measured based on capital as a percentage of risk-adjusted assets and off-balance-sheet commitments and surplus levels as a percentage of risk-adjusted assets.

Failure to meet the capital requirements can initiate certain mandatory and possibly additional discretionary actions by FCA that, if undertaken, could have a direct material effect on the Association's financial statements. The Association is prohibited from reducing permanent capital by retiring stock or making certain other distributions to shareholders unless prescribed capital standards are met.

The Association's capital ratios as of December 31 and the FCA minimum requirements follow:

	2013	2012	2011	Regulatory Minimum
Permanent capital ratio	21.13%	19.15%	18.84%	7.00%
Total surplus ratio	20.87%	18.85%	18.16%	7.00%
Core surplus ratio	17.64%	16.42%	15.72%	3.50%

An FCA regulation empowers it to direct a transfer of funds or equities by one or more System institutions to another System institution under specified circumstances. The Association has not been called upon to initiate any transfers and is not aware of any proposed action under this regulation.

There are currently no prohibitions in place that would prevent the Association from retiring stock, distributing earnings, or paying dividends per the statutory and regulatory restrictions, and the Association has no reason to believe any such restrictions may apply in the future.

D. Description of Equities

The Association is authorized to issue or have outstanding Classes A and D Preferred Stock, Classes A, B and C Common Stock, Classes B and C Participation Certificates and such other classes of equity as may be provided for in amendments to the bylaws in such amounts as may be necessary to conduct the Association's business. All stock and participation certificates have a par or face value of five dollars ($5.00) per share.

The Association had the following shares outstanding at December 31, 2013:

		Shares Outstanding	
Class	Protected	Number	Aggregate Par Value
B Common/Nonvoting	Yes	–	$ –
C Common/Voting	No	155,318	777
B Participation Certificates/Nonvoting	Yes	–	–
C Participation Certificates/Nonvoting	No	25,056	125
Total Capital Stock and Participation Certificates		180,374	$ 902

Protected common stock and participation certificates are retired at par or face value in the normal course of business. At-risk common stock and participation certificates are retired at the sole discretion of the Board at book value not to exceed par or face amounts, provided the minimum capital adequacy standards established by the Board are met.

Retained Earnings

The Association maintains an unallocated retained earnings account and an allocated retained earnings account. The minimum aggregate amount of these two accounts is determined by the Board. At the end of any fiscal year, if the retained earnings accounts otherwise would be less than the minimum amount determined by the Board as necessary to maintain adequate capital reserves to meet the commitments of the Association, the Association shall apply earnings for the year to the unallocated retained earnings account in such amounts as may be determined necessary by the Board. Unallocated retained earnings are maintained for each borrower to permit liquidation on a patronage basis.

The Association maintains an allocated retained earnings account consisting of earnings held and allocated to borrowers on a patronage basis. In the event of a net loss for any fiscal year, such allocated retained earnings account will be subject to full impairment in the order specified in the bylaws beginning with the most recent allocation.

The Association has a first lien and security interest on all retained earnings account allocations owned by any borrowers, and all distributions thereof, as additional collateral for their indebtedness to the Association. When the debt of a borrower is in default or is in the process of final liquidation by payment or otherwise, the Association, upon approval of the Board, may order any and all retained earnings account allocations owned by such borrower to be applied on the indebtedness.

Allocated equities shall be retired solely at the discretion of the Board, provided that minimum capital standards established by the FCA and the Board are met.

At December 31, 2013, allocated members' equity consisted of $11,359 of qualified surplus, $20,656 of nonqualified allocated surplus and $2,152 of nonqualified retained surplus. Nonqualified distributions are tax deductible only when redeemed.

Dividends

The Association may declare noncumulative dividends on its capital stock and participation certificates provided the dividend rate does not exceed 20 percent of the par value of the respective capital stock and participation certificates. Such dividends may be paid solely on Classes A and D Preferred Stock or on all classes of stock and participation certificates.

The rate of dividends paid on Class A Preferred Stock for any fiscal year may not be less than the rate of dividends paid on Classes A, B or C Common Stock or participation certificates for such year. The rate of dividends on Classes A, B and C Common Stock and participation certificates shall be at the same rate per share.

Dividends may not be declared if, after recording the liability, the Association would not meet its capital adequacy standards. No dividends were declared by the Association for any of the periods included in these Consolidated Financial Statements.

Patronage Distributions

Prior to the beginning of any fiscal year, the Board, by adoption of a resolution, may obligate the Association to distribute to borrowers on a patronage basis all or any portion of available net earnings for such fiscal year or for that and subsequent fiscal years. Patronage distributions are based on the proportion of the borrower's interest to the amount of interest earned by the Association on its total loans unless another proportionate patronage basis is approved by the Board.

If the Association meets its capital adequacy standards after making the patronage distributions, the patronage distributions may be in cash, authorized stock of the Association, allocations of earnings retained in an allocated members' equity account, or any one or more of such forms of distribution. Patronage distributions of the Association's earnings may be paid on either a qualified or nonqualified basis, or a combination of both, as determined by the Board. A minimum of 20 percent of the total qualified patronage distribution to any borrower for any fiscal year shall always be paid in cash.

Transfer

Classes A and D Preferred, Classes A, B and C Common Stocks, and Classes B and C Participation Certificates may be transferred to persons or entities eligible to purchase or hold such equities.

Impairment

Any net losses recorded by the Association shall first be applied against unallocated members' equity. To the extent that such losses would exceed unallocated members' equity, such losses would be applied consistent with the Association's bylaws and distributed pro rata to each share and/or unit outstanding in the class, in the following order:

a) ***First***, Assistance Preferred Stock issued and outstanding (if any);

b) ***Second***, allocated surplus evidenced by nonqualified written notices of allocation, in its entirety, with application to most recent allocation first and then in reverse order until all such allocated surplus has been exhausted;

c) ***Third***, allocated surplus evidenced by qualified written notices of allocation, in its entirety, with application to most recent allocation first and then in reverse order until all such allocated surplus has been exhausted;

d) ***Fourth***, Class A Common and Class B Common Stock, Class C Common Stock, Class E Common Stock, Class C Participation Certificates and Class B Participation Certificates issued and outstanding, pro rata until such stock is fully impaired;

e) ***Fifth***, Class A Preferred and Class D Preferred Stock issued and outstanding, if any.

Liquidation

In the event of liquidation or dissolution of the Association, any assets of the Association remaining after payment or retirement of all liabilities should be distributed to the holders of the outstanding stock and participation certificates in the following order:

a) ***First***, to the holders of Class A Preferred and Class D Preferred Stock until an amount equal to the aggregate par value of all shares of said stock then issued and outstanding has been distributed to such holders;

b) ***Second***, to the holders of Class A Common, Class B Common, Class C Common Stock, Class E Common Stock, and Class B Participation Certificates and Class C Participation Certificates, pro rata in proportion to the number of shares or units of each such class of stock or participation certificate then issued and outstanding, until an amount equal to the aggregate par value or face amount of all such shares or units has been distributed to such holders;

c) ***Third***, to the holders of allocated surplus evidenced by qualified written notices of allocation, in the order of year of issuance and pro rata by year of issuance, until the total amount of such allocated surplus has been distributed;

d) ***Fourth***, to the holders of allocated surplus evidenced by nonqualified written notices of allocation, in the order of year of issuance and pro rata by year of issuance, until the total amount of such allocated surplus has been distributed;

e) ***Fifth***, in so far as practicable, all unallocated surplus issued after April 15, 1999, shall be distributed to Patrons of the Association from the period beginning April 15, 1999, through the date of liquidation, on a patronage basis; and

f) ***Sixth***, any remaining assets of the Association after such distributions shall be distributed ratably to the holders of all classes of stock and participation certificates in proportion to the number of shares or units of such class of stock or participation certificates held by such holders.

All distributions to the holders of any class of stock and/or participation certificate holders shall be made pro rata in proportion to the number of shares or units of such class of stock or participation certificates held by such holders.

E. **Accumulated Other Comprehensive Income**

The following tables present activity related to AOCI for the periods ended December 31:

Changes in Accumulated Other Comprehensive income by Component *(a)*

	Year to Date		
	2013	**2012**	**2011**
Employee Benefit Plans:			
Balance at beginning of period	$ (18)	$ 7	$ 19
Other comprehensive income before reclassifications	(401)	(25)	(12)
Amounts reclassified from AOCI	–	–	–
Net current period other comprehensive income	(401)	(25)	(12)
Balance at end of period	$ (419)	$ (18)	$ 7

Reclassifications Out of Accumulated Other Comprehensive Income *(b)*

	Year to Date			
	2013	**2012**	**2011**	**Income Statement Line Item**
Defined Benefit Pension Plans:				
Periodic pension costs	$ –	$ –	$ –	See Note 9.
Net amounts reclassified	$ –	$ –	$ –	

(a) Amounts in parentheses indicate debits to AOCI.
(b) Amounts in parentheses indicate debits to profit/loss.

Note 8 — Fair Value Measurement

Fair value is defined 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.

Accounting guidance establishes a hierarchy for disclosure of fair value measurements to maximize the use of observable inputs, that is, inputs that reflect the assumptions market participants would use in pricing an asset or liability based on market data obtained from sources independent of the reporting entity. The hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. A financial instrument's categorization within the hierarchy tiers is based upon the lowest level of input that is significant to the fair value measurement.

Estimating the fair value of the Association's investment in the Bank and Other Farm Credit Institutions is not practicable because the stock is not traded. The net investment is a requirement of borrowing from the Bank and is carried at cost plus allocated equities in the accompanying Consolidated Balance Sheets. The Association owns 2.74 percent of the issued stock of the Bank as of December 31, 2013 net of any reciprocal investment. As of that date, the Bank's assets totaled $28.8 billion and shareholders' equity totaled $2.1 billion. The Bank's earnings were $457 million at December 31, 2013. In addition, the Association has an investment of $308 related to other Farm Credit institutions.

The classifications of the Association's financial instruments within the fair value hierarchy are as follows:

Level 1

Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Assets held in trust funds, related to deferred compensation plans, and assets held in mutual funds, related to the Association's Corporate Giving Fund, are classified as Level 1. The trust funds include investments in securities that are actively traded and have quoted net asset value prices that are directly observable in the marketplace.

For cash, the carrying value is primarily utilized as a reasonable estimate of fair value.

Level 2

Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets; quoted prices in markets that are not active; and inputs that are observable, or can be corroborated, for substantially the full term of the asset or liability.

ABSs, such as those issued through the Small Business Administration are classified Level 2.

Level 3

Level 3 inputs to the valuation methodology are unobservable and supported by little or no market activity. Valuation is determined using pricing models, discounted cash flow methodologies, or similar techniques, and could include significant management judgment or estimation. Level 3 assets and liabilities also could include instruments whose price has been adjusted based on dealer quoted pricing that is different than the third-party valuation or internal model pricing.

Because no active market exists for the Association's accruing loans, fair value is estimated by discounting the expected future cash flows using the Association's current interest rates at which similar loans currently would be made to borrowers with similar credit risk. The loan portfolio is segregated into pools of loans with homogeneous characteristics based upon repricing and credit risk. Expected future cash flows and interest rates reflecting appropriate credit risk are separately determined for each individual pool.

Fair values of loans in a nonaccrual status are estimated to be the carrying amount of the loan less specific reserves. Certain loans evaluated for impairment under FASB guidance have fair values based upon the underlying collateral, as the loans were collateral-dependent. Specific reserves were established for these loans when the value of the collateral, less estimated cost to sell, was less than the principal balance of the loan. 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.

The notes payable are segregated into pricing pools according to the types and terms of the loans (or other assets) which they fund. Fair value of the notes payable is estimated by discounting the anticipated cash flows of each pricing pool using the current rate that would be charged for additional borrowings. For purposes of this estimate it is assumed the cash flow on the notes is equal to the principal payments on the Association's loan receivables. This assumption implies that earnings on the Association's interest margin are used to fund operating expenses and capital expenditures.

Other property owned is classified as a level 3 asset. The fair value is generally determined using formal appraisals of each individual property. These assets are held for sale. Costs to sell represent transaction costs and are not included as a component of the fair value of other property owned. Other property owned consists of real and personal property acquired through foreclosure or deed in lieu of foreclosure and is carried as an asset held for sale, which is generally not its highest and best use. These properties are part of the Association's credit risk mitigation efforts, not its ongoing business. In addition, FCA regulations require that these types of property be disposed of within a reasonable period of time.

For commitments to extend credit, the estimated market value of off-balance-sheet commitments is minimal since the committed rate approximates current rates offered for commitments with similar rate and maturity characteristics; therefore, the related credit risk is not significant.

For other investments, which consist of Tobacco Buyout SIIC, fair value is determined by discounting the expected future cash flows using prevailing rates for similar assets.

The following tables present the changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the periods presented. The Association had no transfers of assets or liabilities into or out of Level 1 or Level 2 during the periods presented.

	Standby Letters Of Credit
Balance at January 1, 2013	$ 48
Issuances	–
Settlements	(8)
Balance at December 31, 2013	$ 40

	Standby Letters Of Credit
Balance at January 1, 2012	$ 18
Issuances	30
Settlements	–
Balance at December 31, 2012	$ 48

	Standby Letters Of Credit
Balance at January 1, 2011	$ 61
Issuances	–
Settlements	(43)
Balance at December 31, 2011	$ 18

SENSITIVITY TO CHANGES IN SIGNIFICANT UNOBSERVABLE INPUTS

Discounted cash flow or similar modeling techniques are generally used to determine the recurring fair value measurements for Level 3 assets and liabilities. Use of these techniques requires determination of relevant inputs and assumptions, some of which represent significant unobservable inputs as indicated in the tables that follow. Accordingly, changes in these unobservable inputs may have a significant impact on fair value.

Certain of these unobservable inputs will (in isolation) have a directionally consistent impact on the fair value of the instrument for a given change in that input. Alternatively, the fair value of the instrument may move in an opposite direction for a given change in another input. Where multiple inputs are used within the valuation technique of an asset or liability, a change in one input in a certain direction may be offset by an opposite change in another input having a potentially muted impact to the overall fair value of that particular instrument. Additionally, a change in one unobservable input may result in a change to another unobservable input (that is, changes in certain inputs are interrelated with one another), which may counteract or magnify the fair value impact.

Investment Securities

The fair values of predominantly all Level 3 investment securities have consistent inputs, valuation techniques and correlation to changes in underlying inputs. The models used to determine fair value for these instruments use certain significant unobservable inputs within a discounted cash flow or market comparable pricing valuation technique. Such inputs generally include discount rate components including risk premiums, prepayment estimates, default estimates and loss severities.

These Level 3 assets would decrease (increase) in value based upon an increase (decrease) in discount rates, defaults, or loss severities. Conversely, the fair value of these assets would generally increase (decrease) in value if the prepayment input were to increase (decrease).

Generally, a change in the assumption used for defaults is accompanied by a directionally similar change in the risk premium component of the discount rate (specifically, the portion related to credit risk) and a directionally opposite change in the assumption used for prepayments. Unobservable inputs for loss severities do not normally increase or decrease based on movements in the other significant unobservable inputs for these Level 3 assets.

Other Property Owned/Impaired Loans

Other property owned and impaired loans are valued using appraisals, market comparable sales, replacement costs and income and expense (cash flow) techniques. Certain unobservable inputs are used within these techniques to determine the Level 3 fair value of these properties. The significant unobservable inputs are primarily sensitive only to industry, geographic and overall economic conditions, and/or specific attributes of each property.

Inputs to Valuation Techniques

Management determines the Association's valuation policies and procedures. The Bank performs the majority of the Association's valuations, and its valuation processes are calibrated annually by an independent consultant. The fair value measurements are analyzed on a quarterly basis. For other valuations, documentation is obtained for third party information, such as pricing, and periodically evaluated alongside internal information and pricing that is available.

Quoted market prices are generally not available for the instruments presented below. Accordingly fair values are based on 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.

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

	Fair Value	Valuation Technique(s)	Unobservable Input	Range
Impaired loans and other property owned	$ 20,645	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement costs	*
			Comparability adjustments	*

** Ranges for this type of input are not useful because each collateral property is unique.*

Information about Other Financial Instrument Fair Value Measurements

	Valuation Technique(s)	Input
Cash	Carrying Value	Par/Principal and appropriate interest yield
Loans	Discounted cash flow	Prepayment forecasts Probability of default Loss severity
Investment securities, held-to-maturity	Discounted cash flow	Prepayment rates Risk adjusted discount rate
Notes payable to AgFirst Farm Credit Bank	Discounted cash flow	Prepayment forecasts Probability of default Loss severity

The following tables present the carrying amounts and fair values of assets and liabilities that are measured at fair value on a recurring and nonrecurring basis, as well as those financial instruments not measured at fair value, for each of the hierarchy levels:

	At or for the Year ended December 31, 2013					
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
Recurring Measurements						
Assets:						
Assets held in Trust funds	$ 175	$ 175	$ –	$ –	$ 175	
Recurring Assets	$ 175	$ 175	$ –	$ –	$ 175	
Liabilities:						
Standby letters of credit	$ 40	$ –	$ –	$ 40	$ 40	
Recurring Liabilities	$ 40	$ –	$ –	$ 40	$ 40	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 19,426	$ –	$ –	$ 19,426	$ 19,426	$ 217
Other property owned	1,108	–	$ –	1,219	1,219	(429)
Nonrecurring Assets	$ 20,534	$ –	$ –	$ 20,645	$ 20,645	$ (212)
Other Financial Instruments						
Assets:						
Cash	$ 277	$ 277	$ –	$ –	$ 277	
Investment securities, held-to-maturity	39,511	–	40,417	–	40,417	
Loans	347,688	–	–	345,246	345,246	
Other Assets	$ 387,476	$ 277	$ 40,417	$ 345,246	$ 385,940	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 337,140	$ –	$ –	$ 332,272	$ 332,272	
Other Liabilities	$ 337,140	$ –	$ –	$ 332,272	$ 332,272	

	At or for the Year ended December 31, 2012					
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
Recurring Measurements						
Assets:						
Assets held in Trust funds	$ 124	$ 124	$ –	$ –	$ 124	
Recurring Assets	$ 124	$ 124	$ –	$ –	$ 124	
Liabilities:						
Standby letters of credit	$ 48	$ –	$ –	$ 48	$ 48	
Recurring Liabilities	$ 48	$ –	$ –	$ 48	$ 48	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 21,720	$ –	$ –	$ 21,720	$ 21,720	$ (3,997)
Other property owned	1,759	–	–	1,894	1,894	(1,000)
Nonrecurring Assets	$ 23,479	$ –	$ –	$ 23,614	$ 23,614	$ (4,997)
Other Financial Instruments						
Assets:						
Cash	$ 56	$ 56	$ –	$ –	$ 56	
Investment securities, held-to-maturity	47,900	–	49,101	–	49,101	
Loans	322,991	–	–	323,757	323,757	
Other Assets	$ 370,947	$ 56	$ 49,101	$ 323,757	$ 372,914	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 333,645	$ –	$ –	$ 324,502	$ 324,502	
Other Liabilities	$ 333,645	$ –	$ –	$ 324,502	$ 324,502	

The following table presents the assets and liabilities that are measured at fair value on a recurring basis at December 31, 2011:

	December 31, 2011			
	Level 1	Level 2	Level 3	Total Fair Value
Assets:				
Assets held in trust funds	$ 133	$ –	$ –	$ 133
Total Assets	$ 133	$ –	$ –	$ 133
Liabilities:				
Standby letters of credit	$ –	$ –	$ 18	$ 18
Total Liabilities	$ –	$ –	$ 18	$ 18

Assets and liabilities measured at fair value on a nonrecurring basis at December 31, 2011 are summarized below.

	December 31, 2011				
	Level 1	Level 2	Level 3	Total Fair Value	YTD Total Gains (Losses)
Assets:					
Impaired loans	$ –	$ –	$ 8,812	$ 8,812	$ (6,276)
Other property owned	$ –	$ –	$ 3,604	$ 3,604	$ (2,908)

The estimated fair values of the Association's financial instruments at December 31, 2011 are as follows:

	December 31, 2011	
	Carrying Amount	Carrying Amount
Financial assets:		
Cash	$ 512	$ 512
Loans, net of allowance	$ 332,188	$ 334,910
Investment securities	$ 47,285	$ 48,038
Assets held in trust funds	$ 133	$ 133
Financial liabilities:		
Notes payable to AgFirst Farm Credit Bank	$ 329,555	$ 331,850

Note 9 — Employee Benefit Plans

The Association participates in four District sponsored benefit plans. These plans include two multiemployer defined benefit pension plans, the AgFirst Farm Credit Retirement Plan which is a final average pay plan (FAP) and the AgFirst Farm Credit Cash Balance Retirement Plan which is a cash balance plan (CB). In addition, the Association participates in a multiemployer defined benefit other postretirement benefits plan (OPEB), the Farm Credit Benefits Alliance Retiree and Disabled Medical and Dental Plan and a defined contribution 401(k) plan. The risks of participating in these multiemployer plans are different from single-employer plans in the following aspects:

a) Assets contributed to multiemployer plans by one employer may be used to provide benefits to employees of other participating employers.

b) If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.

c) If the Association chooses to stop participating in some of its multiemployer plans, the Association may be required to contribute to eliminate the underfunded status of the plan.

The Association's participation in the multiemployer defined benefit plans for the annual periods ended December 31, are outlined in the table below. The "Percentage Funded to Projected Benefit Obligation" or "Percentage Funded to Accumulated Postretirement Benefit Obligation" represents the funded amount for the entire plan and the "Contributions" and "Percentage of Total Contributions" columns represent the Association's respective amounts.

Pension Plan	Percentage Funded to Projected Benefit Obligation			Contributions			Percentage of Total Contributions		
	2013	2012	2011	2013	2012	2011	2013	2012	2011
AgFirst Farm Credit Retirement Plan	89.47%	77.35%	74.82%	$1,121	$984	$865	2.23%	2.16%	2.18%
AgFirst Farm Credit Cash Balance Retirement Plan	95.06%	86.01%	81.77%	$65	$51	$27	3.67%	3.71%	3.24%

Other Postretirement Benefit Plan	Percentage Funded to Accumulated Postretirement Benefit Obligation			Contributions			Percentage of Total Contribution		
	2013	2012	2011	2013	2012	2011	2013	2012	2011
Farm Credit Benefits Alliance Retiree and Disabled Medical and Dental Plans	0.00%	0.00%	0.00%	$165	$154	$149	2.37%	2.49%	2.51%

The District's multiemployer plans are not subject to ERISA and no Form 5500 is required. As such, the following information is neither available for nor applicable to the plans:

1. The Employee Identification Number (EIN) and three-digit Pension Plan Number

2. The most recent Pension Protection Act (PPA) zone status. Among other factors, plans in the red zone are generally less than 65 percent funded, plans in the yellow zone are less than 80 percent funded, and plans in the green zone are at least 80 percent funded.

3. The "FIP/RP Status" indicating whether a financial improvement plan (FIP) or a rehabilitation plan (RP) is either pending or has been implemented.

4. The expiration date(s) of collective-bargaining agreement(s).

Substantially all employees of the Association are eligible to participate in either the FAP Plan or the CB Plan. These two Plans are noncontributory and include eligible Association and other District employees. For participants hired prior to January 1, 2003, benefits are provided under the FAP Plan and are based on eligible compensation and years of service. For participants hired on or after January 1, 2003, benefits are provided under the CB Plan and are determined using a percent of eligible compensation formula. The employer contribution into the CB Plan is based on a formula of 3.00-5.00 percent of eligible compensation (depending on years of service) and interest credits as allocated to an employee's theoretical account balance. The actuarially-determined costs of these plans are allocated to each participating entity, including the Association, by multiplying the plans' net pension expense by each institution's eligible service cost and accumulated benefit obligation as a percentage of the total eligible service cost and total accumulated benefit obligation for all plan participants. Plan expenses included in employee benefit costs were $1,131 for 2013, $1,125 for 2012, and $1,102 for 2011. The cumulative excess of amounts funded by the Association over the cost allocated to the Association is reflected as prepaid retirement expense, a component of Other Assets in the Consolidated Balance Sheets.

In addition to providing pension benefits, the Association provides certain medical and dental benefits for eligible retired employees through the OPEB Plan. Substantially all of the Association employees may become eligible for the benefits if they reach early retirement age while working for the Association. Early retirement age is defined as a minimum of age 55 and 10 years of service. Employees hired after December 31, 2002, and employees who separate from service between age 50 and age 55, are required to pay the full cost of their retiree health insurance coverage. Employees who retire subsequent to December 1, 2007 are no longer provided retiree life insurance benefits. Certain Association charges related to this plan are an allocation of District charges based on the Association's proportional share of the plan liability. This plan

is unfunded with expenses paid as incurred. Postretirement benefits other than pensions included in employee benefit costs were $181 for 2013, $156 for 2012, and $205 for 2011. The cumulative excess of cost allocated to the Association over the amounts funded by the Association is reflected as postretirement benefits other than pensions, a component of other liabilities in the Association's Consolidated Balance Sheets.

The Association also participates in the defined contribution Farm Credit Benefit Alliance (FCBA) 401(k) Plan (401(k) Plan), which qualifies as a 401(k) plan as defined by the Internal Revenue Code. For employees hired on or prior to December 31, 2002, the Association contributes $0.50 for each $1.00 of the employee's first 6.00 percent of contribution (based on total compensation) up to the maximum employer contribution of 3.00 percent of total compensation. For employees hired on or after January 1, 2003, the Association contributes $1.00 for each $1.00 of the employee's first 6.00 percent of contribution up to the maximum employer contribution of 6.00 percent of total compensation. Employee deferrals are not to exceed the maximum deferral as determined and adjusted by the Internal Revenue Service. The 401(k) Plan costs are expensed as funded. Employer contributions to this plan included in salaries and employee benefit costs were $187, $158, and $154 for the years ended December 31, 2013, 2012, and 2011, respectively.

FASB guidance further requires the determination of the fair value of plan assets and recognition of actuarial gains and losses, prior service costs or credits, and transition assets or obligations as a component of AOCI. Under the guidance, these amounts are subsequently recognized as components of net periodic benefit costs over time. For 2013, 2012, and 2011, $401, $25 and $12 has been recognized as a net debit to AOCI to reflect these elements.

The supplemental retirement plan is unfunded and had a projected benefit obligation of $694 and a net under-funded status of $694 at December 31, 2013. Net periodic pension cost was $12, $14, and $15 for 2013, 2012, and 2011, respectively. Assumptions used to determine the projected benefit obligation as of December 31, 2013 included a discount rate of 5.00 percent and a rate of compensation increase of 2.00 percent.

Additional financial information for the four District sponsored multi-employer plans may be found in the Notes to the Combined Financial Statements of AgFirst Farm Credit Bank and District Associations' 2013 Annual Report.

Note 10 — Related Party Transactions

In the ordinary course of business, the Association enters into loan transactions with officers and directors of the Association, their immediate families and other organizations with which such persons may be associated. Such loans are subject to special approval requirements contained in the FCA regulations and are made on the same terms, including interest rates, amortization schedule, and collateral, as those prevailing at the time for comparable transactions with unaffiliated borrowers.

Total gross loans to such persons at December 31, 2013 amounted to $12,906. During 2013, $5,687 of new loans were made and repayments totaled $3,076. In the opinion of management, none of these loans outstanding at December, 31, 2013 involved more than a normal risk of collectability, except as described below.

Real estate mortgage and production and intermediate term loans totaling $537 to one director of the Association, Al Bellotto, and a corporate entity, Al Bellotto, Inc., were classified as Substandard due to more than normal risk of collectability as determined by the Association. This classification of Substandard is the result of negative working capital and declining repayment capacity. By March 31, 2014, the borrowers expect to liquidate three loans totaling $287 and reduce outstandings under the production line of credit to less than $1. Additionally, the total available commitment at this time will be $150. Upon execution of this liquidation plan, it is probable that the remaining loan will return to a normal risk of collectability.

Note 11 — Commitments and Contingencies

From time to time, legal actions are pending against the Association in which claims for money damages are asserted. On at least a quarterly basis, the Association assesses its liabilities and contingencies in connection with outstanding legal proceedings utilizing the latest information available. While the outcome of legal proceedings is inherently uncertain, on the basis of information presently available, management, after consultation with legal counsel, is of the opinion that the ultimate liability, if any, from these actions, would not be material in relation to the financial position of the Association. Because it is not probable that the Association will incur a loss or the loss is not estimable, no liability has been recorded for any claims that may be pending.

In the normal course of business, the Association may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of its borrowers. These financial instruments may include commitments to extend credit or letters of credit.

The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commercial letters of credit are agreements to pay a beneficiary under conditions specified in the letter of credit. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee.

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their amounts are not reflected on the Consolidated Balance Sheets until funded or drawn upon. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers and management applies the same credit policies to these commitments. Upon fully funding a commitment, the credit risk amounts are equal to the contract amounts, assuming that borrowers fail completely to meet their obligations and the collateral or other security is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower.

At December 31, 2013, $72,487 of commitments to extend credit and no commercial letters of credit were outstanding.

The Association also participates in standby letters of credit to satisfy the financing needs of its borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. At December 31, 2013, standby letters of credit outstanding totaled $1,431 with expiration dates ranging from January 1, 2014 to April 30, 2018. The maximum potential amount of future payments that may be required under these guarantees was $1,431.

Note 12 — Income Taxes

At December 31, 2013, 2012 and 2011, the Association recorded $2, $0, and $0, respectively for provision or benefit for federal or state income taxes.

The provision (benefit) for income tax differs from the amount of income tax determined by applying the applicable U.S. statutory federal income tax rate to pretax income as follows:

	December 31,		
	2013	**2012**	**2011**
Federal tax at statutory rate	$ 4,678	$ 1,623	$ (1,893)
Effect of non-taxable FLCA subsidiary	(3,322)	(1,527)	647
Patronage distributions	(1,225)	(520)	–
Change in valuation allowance	60	380	1,372
Other	(189)	44	(126)
Provision (benefit) for income taxes	$ 2	$ –	$ –

Deferred tax assets and liabilities are comprised of the following at:

	December 31,		
	2013	**2012**	**2011**
Deferred income tax assets:			
Allowance for loan losses	$ 919	$ 1,468	$ 1,475
Net operating loss – carryforward	7,189	6,415	5,701
Nonaccrual loan interest	51	197	520
Gross deferred tax assets	8,159	8,080	7,696
Less: valuation allowance	(8,094)	(8,034)	(7,654)
Gross deferred tax assets, net of valuation allowance	65	46	42
Deferred income tax liabilities:			
Loan origination fees	(65)	(46)	(42)
Gross deferred tax liability	(65)	(46)	(42)
Net deferred tax asset (liability)	$ –	$ –	$ –

At December 31, 2013, deferred income taxes have not been provided by the Association on approximately $1.2 million of patronage refunds received from the Bank prior to January 1, 1993. Such refunds, distributed in the form of stock, are subject to tax only upon conversion to cash. The tax liability related to future conversions is not expected to be material.

The Association recorded a valuation allowance of $8,094, $8,034 and $7,654 as of December 31, 2013, 2012 and 2011, respectively. The Association will continue to evaluate the realizability of these deferred tax assets and adjust the valuation allowance accordingly.

There were no uncertain tax positions identified related to the current year and the Association has no unrecognized tax benefits at December 31, 2013 for which liabilities have been established. The Association recognizes interest and penalties, if any, related to unrecognized tax benefits as a component of income tax expense.

The tax years that remain open for federal and major state income tax jurisdictions are 2010 and forward.

Note 13 — Additional Financial Information

Quarterly Financial Information (Unaudited)

Quarterly results of operations follow:

	2013				
	First	Second	Third	Fourth	Total
Net interest income	$ 2,712	$ 2,662	$ 2,682	$ 2,707	$ 10,763
Provision for (reversal of allowance for) loan losses	(133)	(434)	(180)	–	(747)
Noninterest income (expense), net	(731)	(784)	(409)	3,780	1,856
Net income (loss)	$ 2,114	$ 2,312	$ 2,453	$ 6,487	$ 13,366

	2012				
	First	Second	Third	Fourth	Total
Net interest income	$ 2,632	$ 2,608	$ 2,630	$ 2,698	$ 10,568
Provision for (reversal of allowance for) loan losses	990	440	215	950	2,595
Noninterest income (expense), net	(1,337)	(9)	(2,035)	182	(3,199)
Net income (loss)	$ 305	$ 2,159	$ 380	$ 1,930	$ 4,774

	2011				
	First	Second	Third	Fourth	Total
Net interest income	$ 2,442	$ 2,479	$ 2,516	$ 2,518	$ 9,955
Provision for (reversal of allowance for) loan losses	3,138	1,143	1,121	4,800	10,202
Noninterest income (expense), net	(814)	(1,043)	(2,396)	(1,067)	(5,320)
Net income (loss)	$ (1,510)	$ 293	$ (1,001)	$ (3,349)	$ (5,567)