# 2014
# Annual Report

# Delta Agricultural Credit Association

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## Delta Agricultural Credit Association



**AgriBank, FCB's (AgriBank) financial condition and results of operations materially impact members' investment in Delta Agricultural Credit Association. To request free copies of the AgriBank and combined AgriBank and Affiliated Associations' financial reports contact us at P.O. Box 750, Dermott, AR 71638, (870) 538-3258. You may also contact AgriBank at 30 East 7th Street, Suite 1600, St. Paul, MN 55101, (651) 282-8800, or by e-mail at financialreporting@agribank.com. The AgriBank and combined AgriBank and Affiliated Associations' financial reports are also available through AgriBank's website at www.agribank.com.**

**To request free copies of our Annual or Quarterly Reports contact us as stated above. Our Annual Report is available on our website no later than 75 days after the end of the calendar year and members are provided a copy of such report no later than 90 days after the end of the calendar year. The Quarterly Reports are available on our website no later than 40 days after the end of each calendar quarter.**

# CONSOLIDATED FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

*Delta Agricultural Credit Association*

*(Dollars in thousands)*

| | 2014 | 2013 | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|
| **Statement of Condition Data** | | | | | |
| Loans | **$ 41,364** | $ 31,886 | $ 30,409 | $ 28,703 | $ 27,831 |
| Allowance for loan losses | **69** | 70 | 114 | 99 | 253 |
| Net loans | **41,295** | 31,816 | 30,295 | 28,604 | 27,578 |
| Investment in AgriBank, FCB | **1,196** | 1,196 | 1,196 | 1,196 | 1,250 |
| Other property owned | **--** | -- | -- | 6 | -- |
| Other assets | **1,111** | 910 | 964 | 931 | 1,061 |
| Total assets | **$ 43,602** | $ 33,922 | $ 32,455 | $ 30,737 | $ 29,889 |
| Obligations with maturities of one year or less | **$ 35,027** | $ 25,948 | $ 24,841 | $ 23,711 | $ 23,297 |
| Total liabilities | **35,027** | 25,948 | 24,841 | 23,711 | 23,297 |
| Protected members' equity | **13** | 13 | 14 | 14 | 17 |
| Capital stock and participation certificates | **1,827** | 1,706 | 1,739 | 1,598 | 1,445 |
| Unallocated surplus | **6,735** | 6,255 | 5,861 | 5,414 | 5,130 |
| Total members' equity | **8,575** | 7,974 | 7,614 | 7,026 | 6,592 |
| Total liabilities and members' equity | **$ 43,602** | $ 33,922 | $ 32,455 | $ 30,737 | $ 29,889 |
| **Statement of Income Data** | | | | | |
| Net interest income | **$ 1,525** | $ 1,373 | $ 1,449 | $ 1,311 | $ 1,160 |
| Provision for loan losses | **8** | 34 | 51 | 201 | 72 |
| Patronage income | **109** | 103 | 97 | 91 | 115 |
| Other expenses, net | **1,026** | 948 | 848 | 815 | 721 |
| Provision for income taxes | **--** | -- | 1 | 2 | 11 |
| Net income | **$ 600** | $ 494 | $ 646 | $ 384 | $ 471 |
| **Key Financial Ratios** | | | | | |
| Return on average assets | **1.6%** | 1.4% | 1.9% | 1.2% | 1.5% |
| Return on average members' equity | **7.2%** | 6.3% | 8.7% | 5.6% | 7.4% |
| Net interest income as a percentage of average earning assets | **4.2%** | 4.2% | 4.5% | 4.3% | 4.0% |
| Members' equity as a percentage of total assets | **19.7%** | 23.5% | 23.5% | 22.9% | 22.1% |
| Net charge-offs as a percentage of average loans | **--** | 0.2% | 0.1% | 1.2% | -- |
| Allowance for loan losses as a percentage of loans | **0.2%** | 0.2% | 0.4% | 0.3% | 0.9% |
| Permanent capital ratio | **23.3%** | 23.5% | 23.2% | 22.0% | 20.9% |
| Total surplus ratio | **17.8%** | 17.8% | 17.3% | 16.2% | 15.7% |
| Core surplus ratio | **16.8%** | 16.8% | 16.4% | 15.0% | 14.2% |
| **Other** | | | | | |
| Patronage distribution payable to members | **$ 120** | $ 100 | $ 200 | $ 100 | $ 135 |

The patronage distribution to members accrued for the year ended December 31, 2014 is distributed in cash during the first quarter of 2015. The patronage distributions accrued for the years ended December 31, 2013, 2012, 2011, and 2010 were distributed in cash during the first quarter of each subsequent year. No income was distributed to members in the form of dividends, stock, or allocated surplus during these periods.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

*Delta Agricultural Credit Association*

The following commentary reviews the consolidated financial condition and consolidated results of operations of Delta Agricultural Credit Association (the Association) and its subsidiaries, Delta, FLCA and Delta, PCA (the subsidiaries) and provides additional specific information. The accompanying consolidated financial statements and notes to the consolidated financial statements also contain important information about our financial condition and results of operations.

The Farm Credit System (System) is a nationwide system of cooperatively owned banks and associations established by Congress to meet the credit needs of American agriculture. As of January 1, 2015, the System consisted of three Farm Credit Banks (FCB), one Agricultural Credit Bank (ACB), and 76 customer-owned cooperative lending institutions (associations). The System serves all 50 states, Washington D.C., and Puerto Rico. This network of financial cooperatives is owned and governed by the rural customers the System serves.

AgriBank, FCB (AgriBank), a System bank, and its affiliated associations are collectively referred to as the AgriBank Farm Credit District (AgriBank District or the District). Delta Agricultural Credit Association is one of the affiliated associations in the District.

The Farm Credit Administration (FCA) is authorized by Congress to regulate the System. The Farm Credit System Insurance Corporation (FCSIC) ensures the timely payment of principal and interest on Systemwide debt obligations and the retirement of protected borrower capital at par or stated value.

## FORWARD-LOOKING INFORMATION

This Annual Report includes 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 "anticipate", "believe", "estimate", "may", "expect", "intend", "outlook", and similar expressions are used to identify such forward-looking statements. These statements reflect our current views with respect to future events. However, actual results may differ materially from our expectations due to a number of risks and uncertainties which may be beyond our control. These risks and uncertainties include, but are not limited to:

- political, legal, regulatory, financial markets, international, and economic conditions and developments in the United States (U.S.) and abroad,
- economic fluctuations in the agricultural and farm-related business sectors,
- unfavorable weather, disease, and other adverse climatic or biological conditions that periodically occur and impact agricultural productivity and income,
- changes in U.S. government support of the agricultural industry and the System as a government-sponsored enterprise, as well as investor and rating agency actions relating to events involving the U.S. government, other government-sponsored enterprises, and other financial institutions,
- actions taken by the Federal Reserve System in implementing monetary policy,
- credit, interest rate, and liquidity risks inherent in our lending activities, and
- changes in our assumptions for determining the allowance for loan losses, and fair value measurements.

## AGRICULTURAL AND ECONOMIC CONDITIONS

Our territory is located in rural southeast Arkansas. Crop, timber, and poultry production are the primary agricultural enterprises that influence our portfolio. Governmental, economic, environmental, and social forces have become more volatile. Globalization, low interest rates, and volatility continue to be major forces that have attracted buyers to this area seeking ownership of farm and timberland for economic stability. The lack of the new Farm Bill implementation has not had a negative impact on production agriculture. Favorable weather for crop production in 2014 offset weaker commodity prices which resulted in stabilizing the farm economy.

There is poultry expansion occurring in the western portion of our territory. We provided financing to build on-farm poultry facilities, which supported this poultry expansion. Favorable feed prices and integrator changes have spurred the demand for more on-farm poultry facilities. Cropland and timberland are at historical high market values. Currently, buyers continue to support this market level and because of this our territory is enjoying a favorable economic environment.

## LOAN PORTFOLIO

### Loan Portfolio

Total loans were $41.4 million at December 31, 2014, an increase of $9.5 million from December 31, 2013. The components of loans are presented in the following table (in thousands):

| As of December 31 | **2014** | 2013 | 2012 |
|---|---|---|---|
| Accrual loans: | | | |
| Real estate mortgage | **$ 28,835** | $ 19,118 | $ 16,369 |
| Production and intermediate term | **12,236** | 12,018 | 13,371 |
| Agribusiness | **200** | 210 | 211 |
| Rural residential real estate | **48** | 52 | -- |
| Nonaccrual loans | **45** | 488 | 458 |
| Total loans | **$ 41,364** | $ 31,886 | $ 30,409 |

The increase in total loans from December 31, 2013 resulted primarily from new business related to poultry enterprise financing within the real estate mortgage sector.

We offer variable, fixed, and adjustable interest rate loan programs to our borrowers. We determine interest margins charged on each lending program based on cost of funds, credit risk, market conditions, and the need to generate sufficient earnings.

### Portfolio Distribution

We are chartered to serve certain counties in Arkansas. Approximately 95.1% of our total loan portfolio was in Ashley, Bradley, Chicot, Desha, Drew, and Lincoln counties at December 31, 2014.

Agricultural concentrations exceeding 5.0% of our portfolio at December 31, 2014 included: poultry and eggs 39.3%, cash grains 35.4%, forestry 6.6%, beef 6.1%, and farm supplies 5.5%. Additional commodity concentration information is included in Note 3.

Our production and intermediate term loan portfolio shows some seasonality. Borrowings increase throughout the planting and growing seasons to meet farmers' operating and capital needs. These loans are normally at their lowest levels during the winter months because of operating repayments following harvest.

### Portfolio Credit Quality

The credit quality of our portfolio has remained stable from December 31, 2013. There were no adversely classified loans at December 31, 2014, or December 31, 2013. Adversely classified loans are loans we have identified as showing some credit weakness outside our credit standards. We have considered portfolio credit quality in assessing the reasonableness of our allowance for loan losses.

In certain circumstances, government guarantee programs are used to reduce the risk of loss. As of December 31, 2014, $19.1 million of our loans were, to some level, guaranteed under these government programs.

### Risk Assets

The following table summarizes risk information (accruing loans include accrued interest receivable) (dollars in thousands):

| As of December 31 | **2014** | 2013 | 2012 |
|---|---|---|---|
| Loans: | | | |
| Nonaccrual | **$ 45** | $ 488 | $ 458 |
| Accruing restructured | **--** | -- | -- |
| Accruing loans 90 days or more past due | **--** | -- | -- |
| Total risk loans | **45** | 488 | 458 |
| Other property owned | **--** | -- | -- |
| Total risk assets | **$ 45** | $ 488 | $ 458 |
| Risk loans as a percentage of total loans | **0.1%** | 1.5% | 1.5% |
| Nonaccrual loans as a percentage of total loans | **0.1%** | 1.5% | 1.5% |
| Total delinquencies as a percentage of total loans | **0.1%** | 1.5% | 0.8% |

Our risk assets have decreased from December 31, 2013 and remain at acceptable levels. Total risk loans as a percentage of total loans remains well within our established risk management guidelines.

The decrease in nonaccrual loans was due to payments on the guaranteed portion of Farm Service Agency (FSA) guaranteed loans. None of our nonaccrual loans were current.

### Allowance for Loan Losses

The allowance for loan losses is an estimate of losses on loans in our portfolio as of the financial statement date. We determine the appropriate level of allowance for loan losses based on the periodic evaluation of factors such as loan loss history, estimated probability of default, estimated loss severity, portfolio quality, and current economic and environmental conditions.

The following table presents allowance coverage, charge-off, and adverse asset information:

| As of December 31 | **2014** | 2013 | 2012 |
|---|---|---|---|
| Allowance as a percentage of: | | | |
| Loans | **0.2%** | 0.2% | 0.4% |
| Nonaccrual loans | **153.3%** | 14.3% | 24.9% |
| Total risk loans | **153.3%** | 14.3% | 24.9% |
| Net charge-offs (recoveries) as a percentage of average loans | **--** | 0.2% | 0.1% |
| Adverse assets to risk funds | **--** | -- | 0.3% |

The allowance as a percentage of nonaccrual loans increased due to a small decrease in our total allowance for loan losses in relation to the decrease in nonaccrual loans compared to December 31, 2013.

In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at December 31, 2014.

Additional loan information is included in Notes 3, 9, 10, 11, and 12.

## RESULTS OF OPERATIONS

The following table presents profitability information (dollars in thousands):

| For the year ended December 31 | **2014** | 2013 | 2012 |
|---|---|---|---|
| Net income | **$ 600** | $ 494 | $ 646 |
| Return on average assets | **1.6%** | 1.4% | 1.9% |
| Return on average members' equity | **7.2%** | 6.3% | 8.7% |

Changes in these ratios relate directly to:

- changes in income as discussed below,
- changes in assets as discussed in the Loan Portfolio, and
- changes in members' equity as discussed in the Capital Adequacy section.

The following table summarizes the changes in components of net income (in thousands):

| | For the year ended December 31 | | | Increase (decrease) in net income | |
|---|---|---|---|---|---|
| | **2014** | 2013 | 2012 | **2014 vs 2013** | 2013 vs 2012 |
| Net interest income | **$ 1,525** | $ 1,373 | $ 1,449 | **$ 152** | $ (76) |
| Provision for loan losses | **8** | 34 | 51 | **26** | 17 |
| Patronage income | **109** | 103 | 97 | **6** | 6 |
| Other income, net | **13** | 21 | 42 | **(8)** | (21) |
| Operating expenses | **1,039** | 969 | 890 | **(70)** | (79) |
| Provision for income taxes | **--** | -- | 1 | **--** | 1 |
| Net income | **$ 600** | $ 494 | $ 646 | **$ 106** | $ (152) |

### Net Interest Income

The following table quantifies changes in net interest income (in thousands):

| | **2014 vs 2013** | 2013 vs 2012 |
|---|---|---|
| Changes in volume | **$ 204** | $ (9) |
| Changes in interest rates | **(52)** | (67) |
| Net change | **$ 152** | $ (76) |

There was no income on nonaccrual loans in 2014, 2013, or 2012, respectively. Nonaccrual income is recognized when received in cash, collection of the recorded investment is fully expected, and prior charge-offs have been recovered.

Net interest margin (net interest income as a percentage of average earning assets) was 4.2%, 4.2%, and 4.5% in 2014, 2013, and 2012, respectively. We expect margins to compress in the future if interest rates rise and competition increases.

### Provision for Loan Losses

The fluctuation in the provision for loan losses is related to our estimate of losses in our portfolio for the applicable years. The decrease in the provision for loan losses in 2014 was due to the reduction in nonaccrual loan volume. Refer to Note 3 for additional discussion.

### Patronage Income

We received patronage income based on the average balance of our note payable to AgriBank. AgriBank's Board of Directors sets the patronage rate. The patronage rates were 33.5 basis points, 34.5 basis points, and 32.0 basis points in 2014, 2013, and 2012, respectively. We recorded patronage income of $98 thousand, $92 thousand, and $84 thousand in 2014, 2013, and 2012, respectively.

We received another component of patronage, referred to as equalization income, from AgriBank. The quarterly average balance of any excess stock investment in AgriBank is used to determine this amount. Additionally, we earn equalization on any stock investment in AgriBank required to be held when our growth exceeds a targeted growth rate. The equalization rate is set by AgriBank's Board of Directors and is targeted at the average cost of funds for all affiliated associations as a group. Equalization income totaled $8 thousand, $8 thousand, and $9 thousand for 2014, 2013, and 2012, respectively.

### Other Income

The decline in other income was primarily due to less servicing fee income.

### Operating Expenses

The following presents a comparison of operating expenses by major category and the operating rate (operating expenses as a percentage of average earning assets) for the past three years (dollars in thousands):

| For the year ended December 31 | **2014** | 2013 | 2012 |
|---|---|---|---|
| Salaries and employee benefits | **$ 695** | $ 645 | $ 575 |
| Purchased and vendor services | **152** | 145 | 141 |
| Communications | **11** | 10 | 11 |
| Occupancy and equipment | **36** | 33 | 35 |
| Advertising and promotion | **30** | 31 | 29 |
| Examination | **20** | 20 | 20 |
| Farm Credit System insurance | **24** | 21 | 10 |
| Other | **71** | 64 | 69 |
| Total operating expenses | **$ 1,039** | $ 969 | $ 890 |
| Operating rate | **2.8%** | 3.0% | 2.8% |

Operating expenses increased primarily due to annual merit increases.

## FUNDING AND LIQUIDITY

### Funding

We borrow from AgriBank under a note payable, in the form of a line of credit, as described in Note 5. The following table summarizes note payable information (dollars in thousands):

| For the year ended December 31 | **2014** | 2013 | 2012 |
|---|---|---|---|
| Average balance | **$ 29,352** | $ 26,670 | $ 26,342 |
| Average interest rate | **1.6%** | 1.4% | 1.6% |

Our other source of lendable funds is from unallocated surplus. The repricing attributes of our line of credit generally correspond to the repricing attributes of our loan portfolio which significantly reduces our market interest rate risk.

### Liquidity

Our approach to sustaining sufficient liquidity to fund operations and meet current obligations is to maintain an adequate line of credit with AgriBank. At December 31, 2014, we had $14.4 million available under our line of credit. We generally apply excess cash to this line of credit.

## CAPITAL ADEQUACY

Total members' equity increased $601 thousand from December 31, 2013, primarily due to net income for the year and increased capital stock and participation certificates, partially offset by patronage distribution accruals.

Members' equity position information is as follows (dollars in thousands):

| As of December 31 | **2014** | 2013 | 2012 |
|---|---|---|---|
| Members' equity | **$ 8,575** | $ 7,974 | $ 7,614 |
| Surplus as a percentage of members' equity | **78.5%** | 78.4% | 77.0% |
| Permanent capital ratio | **23.3%** | 23.5% | 23.2% |
| Total surplus ratio | **17.8%** | 17.8% | 17.3% |
| Core surplus ratio | **16.8%** | 16.8% | 16.4% |

Our capital plan is designed to maintain an adequate amount of surplus and allowance for loan losses which represents our reserve for adversity prior to impairment of stock. We manage our capital to allow us to meet member needs and protect member interests, both now and in the future.

At December 31, 2014, our permanent capital, total surplus, and core surplus ratios exceeded the regulatory minimum requirements.

Additional discussion of these regulatory ratios is included in Note 6.

In addition to these regulatory requirements, we establish an optimum permanent capital. This target allows us to maintain a capital base adequate for future growth and investment in new products and services. The target is subject to revision as circumstances change. As of December 31, 2014, our optimum permanent capital target was 18.0%.

The changes in our capital ratios reflect changes in capital and assets. Refer to the Loan Portfolio section for further discussion of the changes in assets. Additional members' equity information is included in Note 6.

## RELATIONSHIP WITH AGRIBANK

### Borrowing

We borrow from AgriBank to fund our lending operations in accordance with the Farm Credit Act. Approval from AgriBank is required for us to borrow elsewhere. A General Financing Agreement (GFA), as discussed in Note 5, governs this lending relationship.

Cost of funds under the GFA includes a marginal cost of debt component, a spread component, which includes cost of servicing, cost of liquidity, bank profit, and, if applicable, a risk premium component. However, in the periods presented, we were not subject to the risk premium component.

The marginal cost of debt approach simulates matching the cost of underlying debt with substantially the same terms as the anticipated terms of our loans to borrowers. This approach substantially protects us from market interest rate risk.

### Investment

We are required to invest in AgriBank capital stock as a condition of borrowing. This investment may be in the form of purchased stock or stock representing previously distributed AgriBank surplus. On March 5, 2014, the AgriBank Board of Directors approved an amendment to the AgriBank capital plan which reduced the base required stock investment for all affiliated associations, including Delta Agricultural Credit Association from 2.5% to 2.25% effective March 31, 2014. As of December 31, 2014, we were required to maintain a stock investment equal to 2.25% of the average quarterly balance of our note payable to AgriBank plus an additional 1.0% on growth that exceeded a targeted rate. AgriBank's current bylaws allow AgriBank to increase the required investment to 4.0%. However, AgriBank currently has not communicated a plan to increase the required investment.

At December 31, 2014, $736 thousand of our investment in AgriBank consisted of stock representing distributed AgriBank surplus and $460 thousand consisted of purchased investment. For the periods presented in this report, we have received no dividend income on this stock investment and we do not anticipate any in future years.

### Patronage

We receive different types of discretionary patronage from AgriBank. AgriBank's Board of Directors sets the level of patronage for each of the following:

- patronage on our note payable with AgriBank, and
- equalization income based on our excess stock or growth required stock investment in AgriBank,

Patronage income for 2012 and 2013 on our note payable with AgriBank was paid in the form of cash and AgriBank stock. Beginning in 2014, patronage income earned on our note payable with AgriBank is paid in cash.

### Purchased Services

We purchase various services from AgriBank including certain financial and retail systems, financial reporting services, technology services, and insurance services.

The total cost of services we purchased from AgriBank was $67 thousand, $63 thousand, and $57 thousand in 2014, 2013, and 2012, respectively.

### Impact on Members' Investment

Due to the nature of our financial relationship with AgriBank, the financial condition and results of operations of AgriBank materially impact our members' investment. To request free copies of the AgriBank and the combined AgriBank and Affiliated Associations' financial reports contact us at P.O. Box 750, Dermott, AR 71638, (870) 538-3258. You may also contact AgriBank at 30 East 7th Street, Suite 1600, St. Paul, MN 55101, (651) 282-8800, or by e-mail at financialreporting@agribank.com. The AgriBank and combined AgriBank and Affiliated Associations' financial reports are also available through AgriBank's website at www.agribank.com.

To request free copies of our Annual or Quarterly Reports contact us as stated above. Our Annual Report is available on our website no later than 75 days after the end of the calendar year and members are provided a copy of such report no later than 90 days after the end of the calendar year. The Quarterly Reports are available on our website no later than 40 days after the end of each calendar quarter.

## OTHER RELATIONSHIPS AND PROGRAMS

### Relationships with Other Farm Credit Institutions

**Insight Technology Unit:** We participate in the Insight Technology Unit (Insight) with certain other AgriBank District associations to facilitate the development and maintenance of certain retail technology systems essential to providing credit to our borrowers. Insight is governed by representatives of each participating association. The expenses are shared pro-rata based on the number of loans and leases of each participant.

**Farm Credit Foundations:** We have a relationship with Farm Credit Foundations (Foundations) which involves purchasing human resource information systems, benefit, payroll, and workforce management services. As of December 31, 2014, 2013, and 2012, our investment in Foundations was $7 thousand. The total cost of services we purchased from Foundations was $36 thousand, $35 thousand, and $36 thousand in 2014, 2013, and 2012, respectively.

## REGULATORY MATTERS

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

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

The public comment period ended on February 16, 2015.

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

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

The public comment period ended on October 23, 2014.

Effective June 18, 2014, the FCA Board adopted a final rule to remove all requirements related to advisory votes at Farm Credit Institutions. This rule eliminates the requirement for advisory votes on CEO and/or senior officer compensation.

# REPORT OF MANAGEMENT

*Delta Agricultural Credit Association*

We prepare the consolidated financial statements of Delta Agricultural Credit Association (the Association) and are responsible for their integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. The consolidated financial statements, in our opinion, fairly present the financial condition of the Association. Other financial information included in the Annual Report is consistent with that in the consolidated financial statements.

To meet our responsibility for reliable financial information, we depend on accounting and internal control systems designed to provide reasonable, but not absolute assurance that assets are safeguarded and transactions are properly authorized and recorded. Costs must be reasonable in relation to the benefits derived when designing accounting and internal control systems. Financial operations audits are performed to monitor compliance. PricewaterhouseCoopers LLP, our independent auditors, audit the consolidated financial statements. They also conduct a review of internal controls to the extent necessary to comply with auditing standards generally accepted in the United States of America. The Farm Credit Administration also performs examinations for safety and soundness as well as compliance with applicable laws and regulations.

The Board of Directors has overall responsibility for our system of internal control and financial reporting. The Board of Directors and its Audit Committee consults regularly with us and meets periodically with the independent auditors and other auditors to review the scope and results of their work. The independent auditors have direct access to the Board of Directors, which is composed solely of directors who are not officers or employees of the Association.

The undersigned certify we have reviewed the Association's Annual Report and it has been prepared in accordance with all applicable statutory or regulatory requirements and the information contained herein is true, accurate, and complete to the best of our knowledge and belief.

Mike Norris

Mike Norris
Chairperson of the Board
Delta Agricultural Credit Association

Mark Kaufman

Mark W. Kaufman
Chief Executive Officer
Delta Agricultural Credit Association

Mary Ann Johnson

Mary Ann Johnson
Chief Financial Officer
Delta Agricultural Credit Association

March 12, 2015

# REPORT OF AUDIT COMMITTEE

*Delta Agricultural Credit Association*

The consolidated financial statements were prepared under the oversight of the Audit Committee. The Audit Committee is composed of the entire Board of Directors of Delta Agricultural Credit Association (the Association). The Audit Committee oversees the scope of the Association's internal audit program, the approval, and independence of PricewaterhouseCoopers LLP (PwC) as independent auditors, the adequacy of the Association's system of internal controls and procedures, and the adequacy of management's actions with respect to recommendations arising from those auditing activities. The Audit Committee's responsibilities are described more fully in the Internal Control Policy and the Audit Committee Charter.

Management is responsible for internal controls and the preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. PwC is responsible for performing an independent audit of the consolidated financial statements in accordance with auditing standards generally accepted in the United States of America and to issue their report based on their audit. The Audit Committee's responsibilities include monitoring and overseeing these processes.

In this context, the Audit Committee reviewed and discussed the audited consolidated financial statements for the year ended December 31, 2014, with management. The Audit Committee also reviewed with PwC the matters required to be discussed by Statement on Auditing Standards AU-C 260, *The Auditor's Communication with Those Charged with Governance*, and both PwC and the internal auditors directly provided reports on any significant matters to the Audit Committee.

The Audit Committee had discussions with and received written disclosures from PwC confirming its independence. The Audit Committee also reviewed the non-audit services provided by PwC, if any, and concluded these services were not incompatible with maintaining PwC's independence. The Audit Committee discussed with management and PwC any other matters and received any assurances from them as the Audit Committee deemed appropriate.

Based on the foregoing review and discussions, and relying thereon, the Audit Committee recommended that the Board of Directors include the audited consolidated financial statements in the Annual Report for the year ended December 31, 2014.

Mike Norris

Mike Norris
Chairperson of the Audit Committee
Delta Agricultural Credit Association

Members of the Audit Committee are:
Mike Norris
C. Randall Cox
Kim Ellington
Al Beaty
Joe Mencer
Bruce Bond

March 12, 2015

pwc

## Independent Auditor's Report

To the Board of Directors of Delta Agricultural Credit Association,

We have audited the accompanying consolidated financial statements of Delta Agricultural Credit Association (the Association) and its subsidiaries, which comprise the consolidated statements of condition as of December 31, 2014, 2013 and 2012, and the related consolidated statements of income, changes in members' equity and 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.

***Auditor's 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 Delta Agricultural Credit Association and its subsidiaries at December 31, 2014, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

March 12, 2015

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# CONSOLIDATED STATEMENTS OF CONDITION

*Delta Agricultural Credit Association*

*(in thousands)*

| As of December 31 | | 2014 | | 2013 | | 2012 |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| Loans | **$** | **41,364** | $ | 31,886 | $ | 30,409 |
| Allowance for loan losses | | **69** | | 70 | | 114 |
| Net loans | | **41,295** | | 31,816 | | 30,295 |
| Investment in AgriBank, FCB | | **1,196** | | 1,196 | | 1,196 |
| Accrued interest receivable | | **832** | | 638 | | 688 |
| Other assets | | **279** | | 272 | | 276 |
| Total assets | **$** | **43,602** | $ | 33,922 | $ | 32,455 |
| **LIABILITIES** | | | | | | |
| Note payable to AgriBank, FCB | **$** | **31,481** | $ | 25,609 | $ | 24,419 |
| Accrued interest payable | | **141** | | 99 | | 90 |
| Patronage distribution payable | | **120** | | 100 | | 200 |
| Other liabilities | | **3,285** | | 140 | | 132 |
| Total liabilities | | **35,027** | | 25,948 | | 24,841 |
| Contingencies and commitments | | **--** | | -- | | -- |
| **MEMBERS' EQUITY** | | | | | | |
| Protected members' equity | | **13** | | 13 | | 14 |
| Capital stock and participation certificates | | **1,827** | | 1,706 | | 1,739 |
| Unallocated surplus | | **6,735** | | 6,255 | | 5,861 |
| Total members' equity | | **8,575** | | 7,974 | | 7,614 |
| Total liabilities and members' equity | **$** | **43,602** | $ | 33,922 | $ | 32,455 |

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

# CONSOLIDATED STATEMENTS OF INCOME

*Delta Agricultural Credit Association*

*(in thousands)*

| For the year ended December 31 | | **2014** | | 2013 | | 2012 |
|---|---|---|---|---|---|---|
| **Interest income** | **$** | **1,984** | $ | 1,743 | $ | 1,859 |
| **Interest expense** | | **459** | | 370 | | 410 |
| Net interest income | | **1,525** | | 1,373 | | 1,449 |
| **Provision for loan losses** | | **8** | | 34 | | 51 |
| Net interest income after provision for loan losses | | **1,517** | | 1,339 | | 1,398 |
| **Other income** | | | | | | |
| Patronage income | | **109** | | 103 | | 97 |
| Financially related services income | | **3** | | 4 | | 4 |
| Fee income | | **6** | | 12 | | 4 |
| Allocated Insurance Reserve Accounts distribution | | **--** | | -- | | 25 |
| Miscellaneous income, net | | **4** | | 5 | | 9 |
| Total other income | | **122** | | 124 | | 139 |
| **Operating expenses** | | | | | | |
| Salaries and employee benefits | | **695** | | 645 | | 575 |
| Other operating expenses | | **344** | | 324 | | 315 |
| Total operating expenses | | **1,039** | | 969 | | 890 |
| Income before income taxes | | **600** | | 494 | | 647 |
| **Provision for income taxes** | | **--** | | -- | | 1 |
| Net income | **$** | **600** | $ | 494 | $ | 646 |

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

# CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

*Delta Agricultural Credit Association*

*(in thousands)*

| | Protected Members' Equity | Capital Stock and Participation Certificates | Unallocated Surplus | Total Members' Equity |
|---|---|---|---|---|
| Balance as of December 31, 2011 | $ 14 | $ 1,598 | $ 5,414 | $ 7,026 |
| Net income | -- | -- | 646 | 646 |
| Unallocated surplus designated for patronage distributions | -- | -- | (199) | (199) |
| Capital stock and participation certificates issued | -- | 527 | -- | 527 |
| Capital stock and participation certificates retired | -- | (386) | -- | (386) |
| Balance as of December 31, 2012 | 14 | 1,739 | 5,861 | 7,614 |
| Net income | -- | -- | 494 | 494 |
| Unallocated surplus designated for patronage distributions | -- | -- | (100) | (100) |
| Capital stock and participation certificates issued | -- | 316 | -- | 316 |
| Capital stock and participation certificates retired | (1) | (349) | -- | (350) |
| Balance as of December 31, 2013 | 13 | 1,706 | 6,255 | 7,974 |
| Net income | **--** | **--** | **600** | **600** |
| Unallocated surplus designated for patronage distributions | **--** | **--** | **(120)** | **(120)** |
| Capital stock and participation certificates issued | **--** | **358** | **--** | **358** |
| Capital stock and participation certificates retired | **--** | **(237)** | **--** | **(237)** |
| **Balance as of December 31, 2014** | **$ 13** | **$ 1,827** | **$ 6,735** | **$ 8,575** |

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

# CONSOLIDATED STATEMENTS OF CASH FLOWS

*Delta Agricultural Credit Association*

*(in thousands)*

| For the year ended December 31 | 2014 | 2013 | 2012 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Net income | **$ 600** | $ 494 | $ 646 |
| Depreciation on premises and equipment | **8** | 7 | 7 |
| Provision for loan losses | **8** | 34 | 51 |
| Stock patronage received from AgriBank, FCB | **--** | (43) | (37) |
| Changes in operating assets and liabilities: | | | |
| (Increase) decrease accrued interest receivable | **(208)** | 41 | (70) |
| (Increase) decrease other assets | **(3)** | -- | 8 |
| Increase (decrease) accrued interest payable | **42** | 9 | (28) |
| Increase (decrease) other liabilities | **3,145** | 8 | (7) |
| Net cash provided by operating activities | **3,592** | 550 | 570 |
| **Cash flows from investing activities** | | | |
| Increase in loans, net | **(9,238)** | (1,421) | (1,418) |
| Redemptions of investment in AgriBank, FCB, net | **--** | 43 | 37 |
| Purchases of investment in other Farm Credit Institutions, net | **--** | -- | (7) |
| Proceeds from sales of other property owned | **--** | -- | 6 |
| Purchases of premises and equipment, net | **(12)** | (3) | (15) |
| Net cash used in investing activities | **(9,250)** | (1,381) | (1,397) |
| **Cash flows from financing activities** | | | |
| Increase in note payable to AgriBank, FCB, net | **5,872** | 1,190 | 1,065 |
| Patronage distributions paid | **(100)** | (200) | (99) |
| Capital stock and participation certificates retired, net | **(114)** | (159) | (139) |
| Net cash provided by financing activities | **5,658** | 831 | 827 |
| Net change in cash | **--** | -- | -- |
| Cash at beginning of year | **--** | -- | -- |
| Cash at end of year | **$ --** | $ -- | $ -- |
| **Supplemental schedule of non-cash activities** | | | |
| Stock financed by loan activities | **$ 358** | $ 311 | $ 526 |
| Stock applied against loan principal | **122** | 186 | 242 |
| Stock applied against interest | **1** | -- | 4 |
| Interest transferred to loans | **13** | 9 | 40 |
| Patronage distributions payable to members | **120** | 100 | 200 |
| **Supplemental information** | | | |
| Interest paid | **$ 417** | $ 361 | $ 438 |
| Taxes paid | **(1)** | 1 | (7) |

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

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*Delta Agricultural Credit Association*

## NOTE 1: ORGANIZATION AND OPERATIONS

### Farm Credit System and District

The Farm Credit System (System) is a nationwide system of cooperatively owned banks and associations established by Congress to meet the credit needs of American agriculture. As of January 1, 2015, the System consisted of three Farm Credit Banks (FCB), one Agricultural Credit Bank (ACB), and 76 customer-owned cooperative lending institutions (associations). AgriBank, FCB (AgriBank), a System bank, and its affiliated associations are collectively referred to as the AgriBank Farm Credit District (AgriBank District or the District). At January 1, 2015, the District consisted of 17 Agricultural Credit Associations (ACA) that each have wholly-owned Federal Land Credit Association (FLCA) and Production Credit Association (PCA) subsidiaries.

FLCAs are authorized to originate long-term real estate mortgage loans. PCAs are authorized to originate short-term and intermediate term loans. ACAs are authorized to originate long-term real estate mortgage loans and short-term and intermediate term loans either directly or through their subsidiaries. Associations are authorized to provide lease financing options for agricultural purposes and are also authorized to purchase and hold certain types of investments. AgriBank provides funding to all associations chartered within the District.

Associations are authorized to provide, either directly or in participation with other lenders, credit and related services to eligible borrowers. Eligible borrowers may include farmers, ranchers, producers or harvesters of aquatic products, rural residents, and farm-related service businesses. In addition, associations can participate with other lenders in loans to similar entities. Similar entities are parties that are not eligible for a loan from a System lending institution, but have operations that are functionally similar to the activities of eligible borrowers.

The Farm Credit Administration (FCA) is authorized by Congress to regulate the System banks and associations. We are examined by the FCA and certain association actions are subject to the prior approval of the FCA and/or AgriBank.

The Farm Credit Act established the Farm Credit System Insurance Corporation (FCSIC) to administer the Farm Credit Insurance Fund (Insurance Fund). The Insurance Fund is used to ensure the timely payment of principal and interest on Farm Credit Systemwide debt obligations, to ensure the retirement of protected borrower capital at par or stated value, and for other specified purposes.

At the discretion of the FCSIC, the Insurance Fund is also available to provide assistance to certain troubled System institutions and for the operating expenses of the FCSIC. Each System bank is required to pay premiums into the Insurance Fund until the assets in the Insurance Fund equal 2.0% of the aggregated insured obligations adjusted to reflect the reduced risk on loans or investments guaranteed by federal or state governments. This percentage of aggregate obligations can be changed by the FCSIC, at its sole discretion, to a percentage it determines to be actuarially sound. The basis for assessing premiums is debt outstanding with adjustments made for nonaccrual loans and impaired investment securities which are assessed a surcharge while guaranteed loans and investment securities are deductions from the premium base. AgriBank, in turn, assesses premiums to District associations each year based on similar factors.

### Association

Delta Agricultural Credit Association (the Association) and its subsidiaries, Delta, FLCA and Delta, PCA (the subsidiaries) are lending institutions of the System. We are a member-owned cooperative providing credit and credit-related services to, or for the benefit of, eligible members for qualified agricultural purposes in the counties of Ashley, Bradley, Chicot, Desha, Drew and part of Lincoln in the state of Arkansas.

We borrow from AgriBank and provide financing and related services to our members. Our ACA holds all the stock of the FLCA and PCA subsidiaries.

We offer credit life insurance to borrowers and those eligible to borrow.

## NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Accounting Principles and Reporting Policies

Our accounting and reporting policies conform to accounting principles generally accepted in the United States of America (GAAP) and the prevailing practices within the financial services industry. Preparing financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

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

### Principles of Consolidation

The consolidated financial statements present the consolidated financial results of Delta Agricultural Credit Association and its subsidiaries. All material intercompany transactions and balances have been eliminated in consolidation.

**Significant Accounting Policies**

**Loans**: are carried at their principal amount outstanding net of any unearned income and cumulative charge-offs. Loan interest is accrued and credited to interest income based upon the daily principal amount outstanding. The net amount of fees and related origination costs are not material to the consolidated financial statements taken as a whole.

We place loans in nonaccrual status when:

- principal or interest is delinquent for 90 days or more (unless the loan is well secured and in the process of collection) or
- circumstances indicate that full collection is not expected.

When a loan is placed in nonaccrual status, we reverse current year accrued interest to the extent principal plus accrued interest before the transfer exceeds the net realizable value of the collateral. Any unpaid interest accrued in a prior year is capitalized to the recorded investment of the loan, unless the net realizable value is less than the recorded investment in the loan, then it is charged-off against the allowance for loan losses. Any cash received on nonaccrual loans is applied to reduce the recorded investment in the loan, except in those cases where the collection of the recorded investment is fully expected and the loan does not have any unrecovered prior charge-offs. In these circumstances interest is credited to income when cash is received. Loans are charged-off at the time they are determined to be uncollectible. 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,
- the borrower has demonstrated payment performance, and
- the loan is not classified as doubtful or loss.

In situations where, for economic or legal reasons related to the borrower's financial difficulties, we grant a concession for other than an insignificant period of time to the borrower that we would not otherwise consider, the related loan is classified as a troubled debt restructuring, also known as a restructured loan. A concession is generally granted in order to minimize economic loss and avoid foreclosure. Concessions vary by program and borrower and may include interest rate reductions, term extensions, payment deferrals, or an acceptance of additional collateral in lieu of payments. In limited circumstances, principal may be forgiven. Loans classified as troubled debt restructurings are considered risk loans (as defined below).

Loans that are sold as participations are transferred as entire financial assets, groups of entire financial assets, or participating interests in the loans. The transfers of such assets or participating interests are structured such that control over the transferred assets or participating interests have been surrendered and that all of the conditions have been met to be accounted for as a sale.

**Allowance for Loan Losses:** The allowance for loan losses is an estimate of losses in our loan portfolio as of the financial statement date. We determine the appropriate level of allowance for loan losses based on periodic evaluation of factors such as:

- loan loss history,
- estimated probability of default,
- estimated loss severity,
- portfolio quality, and
- current economic and environmental conditions.

Loans in our portfolio that are considered impaired are analyzed individually to establish a specific allowance. A loan is impaired when it is probable that all amounts due will not be collected according to the contractual terms of the loan agreement. We generally measure impairment based on the net realizable value of the collateral. All risk loans are considered to be impaired loans. Risk loans include:

- nonaccrual loans,
- accruing restructured loans, and
- accruing loans 90 days or more past due.

We record a specific allowance to reduce the carrying amount of the risk loan by the amount the recorded investment exceeds the net realizable value of collateral. When we deem a loan to be uncollectible, we charge the loan principal and prior year(s) accrued interest against the allowance for loan losses. Subsequent recoveries, if any, are added to the allowance for loan losses.

An allowance is recorded for probable and estimable credit losses as of the financial statement date for loans that are not individually assessed as impaired. We use a two-dimensional loan risk rating model that incorporates a 14-point rating scale to identify and track the probability of borrower default and a separate 6-point scale addressing the loss severity. The combination of estimated default probability and loss severity is the primary basis for recognition and measurement of loan collectability of these pools of loans. These estimated losses may be adjusted for relevant current environmental factors.

Changes in the allowance for loan losses consist of provision activity, recorded in "Provision for loan losses" in the Consolidated Statements of Income, recoveries, and charge-offs.

**Investment in AgriBank:** Our stock investment in AgriBank is on a cost plus allocated equities basis.

**Premises and Equipment:** The carrying amount of premises and equipment is at cost, less accumulated depreciation and is included in "Other assets" in the Consolidated Statements of Condition. Calculation of depreciation is generally on the straight-line method over the estimated useful lives of the assets. Gains or losses on disposition are included in "Miscellaneous income, net" in the Consolidated Statements of Income. Depreciation and maintenance and repair expenses are included in "Other operating expenses" in the Consolidated Statements of Income and improvements are capitalized.

**Post-Employment Benefit Plans:** The District has various post-employment benefit plans in which our employees participate. Expenses related to these plans are included in “Salaries and employee benefits” in the Consolidated Statements of Income.

Certain employees participate in the defined benefit retirement plan of the District. The plan is comprised of two benefit formulas. At their option, employees hired prior to October 1, 2001 are on the cash balance formula or on the final average pay formula. New benefits eligible employees hired between October 1, 2001 and December 31, 2006 are on the cash balance formula. Effective January 1, 2007, the defined benefit retirement plan was closed to new employees. The District plan utilizes the "Projected Unit Credit" actuarial method for financial reporting and funding purposes.

We also provide certain health insurance benefits to eligible retired employees according to the terms of those benefit plans. The anticipated cost of these benefits is accrued during the employees’ active service period.

The defined contribution plans allow eligible employees to save for their retirement either pre-tax, Roth after-tax, post-tax, or both, with an employer match on a percentage of the employee’s contributions. We provide benefits under this plan in the form of a fixed percentage of salary contribution in addition to the employer match for those employees that do not participate in the District’s defined benefit retirement plan. Employer contributions are expensed when incurred.

**Income Taxes:** The ACA and PCA accrue federal and state income taxes. Deferred tax assets and liabilities are recognized for future tax consequences of temporary differences between the carrying amounts and tax basis of assets and liabilities. Deferred tax assets are recorded if the deferred tax asset is more likely than not to be realized. If the realization test cannot be met, the deferred tax asset is reduced by a valuation allowance. The expected future tax consequences of uncertain income tax positions are accrued.

The FLCA is exempt from federal and other taxes to the extent provided in the Farm Credit Act.

**Patronage Program:** We accrue patronage distributions according to a prescribed formula approved by the Board of Directors. Generally, we pay the accrued patronage during the first quarter after year end.

**Off-Balance Sheet Credit Exposures:** Commitments to extend credit are agreements to lend to customers, generally having fixed expiration dates or other termination clauses. Any reserve for unfunded lending commitments is based on management’s best estimate of losses inherent in these instruments, but the commitments have not yet disbursed. Factors such as likelihood of disbursal and likelihood of losses given disbursement are utilized in determining a reserve, if needed. Based on management’s assessment, any reserve is recorded in “Other liabilities” in the Consolidated Statements of Condition and a corresponding loss is recorded in “Provision for credit losses” in the Consolidated Statements of Income. However, no such reserve was necessary as of December 31, 2014, 2013, or 2012.

**Statements of Cash Flows:** For purposes of reporting cash flow, cash includes cash on hand.

**Fair Value Measurement:** The accounting guidance describes three levels of inputs that may be used to measure fair value.

Level 1 — Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 — Observable inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly. Level 2 inputs include the following:

- quoted prices for similar assets or liabilities in active markets,
- quoted prices for identical or similar assets or liabilities in markets that are not active so that they are traded less frequently than exchange-traded instruments, quoted prices that are not current, or principal market information that is not released publicly,
- inputs that are observable such as interest rates and yield curves, prepayment speeds, credit risks, and default rates, and
- inputs derived principally from or corroborated by observable market data by correlation or other means.

Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. These unobservable inputs reflect the reporting entity’s own assumptions about assumptions that market participants would use in pricing the asset or liability. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

**Recently Issued or Adopted Accounting Pronouncements**

We have assessed the potential impact of accounting standards that have been issued, but are not yet effective, and have determined that no such standards are expected to have a material impact to our consolidated financial statements. In addition, no accounting pronouncements were adopted during 2014.

## NOTE 3: LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans consisted of the following (dollars in thousands):

| | **2014** | | | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|---|---|---|
| As of December 31 | | Amount | **%** | | Amount | % | | Amount | % |
| Real estate mortgage | **$** | **28,835** | **69.7%** | $ | 19,253 | 60.3% | $ | 16,606 | 54.6% |
| Production and intermediate term | | **12,281** | **29.7%** | | 12,371 | 38.8% | | 13,592 | 44.7% |
| Agribusiness | | **200** | **0.5%** | | 210 | 0.7% | | 211 | 0.7% |
| Rural residential real estate | | **48** | **0.1%** | | 52 | 0.2% | | -- | -- |
| Total | **$** | **41,364** | **100.0%** | $ | 31,886 | 100.0% | $ | 30,409 | 100.0% |

### Portfolio Concentrations

We have individual borrower, agricultural, and territorial concentrations.

As of December 31, 2014, volume plus commitments to our ten largest borrowers totaled an amount equal to 19.3% of total loans and commitments.

Agricultural concentrations were as follows:

| As of December 31 | **2014** | 2013 | 2012 |
|---|---|---|---|
| Poultry and eggs | **39.3%** | 18.5% | 8.0% |
| Cash Grains | **35.4%** | 47.9% | 52.0% |
| Forestry | **6.6%** | 7.5% | 7.0% |
| Beef | **6.1%** | 6.4% | 6.0% |
| Farm Supplies | **5.5%** | 9.3% | 11.0% |
| Fish | **2.1%** | 3.7% | 4.0% |
| Other | **5.0%** | 6.7% | 12.0% |
| Total | **100.0%** | 100.0% | 100.0% |

The poultry expansion occurring in the western portion of our territory has created a shift in our agricultural concentrations, increasing our poultry and eggs concentration while decreasing other agricultural concentrations. We provided financing to build on-farm poultry facilities, which supported this poultry expansion.

We are chartered to operate in certain counties in Arkansas. Approximately 95.1% of our total loan portfolio was in Ashley, Bradley, Chicot, Desha, Drew, and Lincoln counties at December 31, 2014.

While these concentrations represent our maximum potential credit risk as it relates to recorded loan principal, a substantial portion of our lending activities are collateralized. This reduces our exposure to credit loss associated with our lending activities. We consider credit risk exposure in establishing the allowance for loan losses.

### Participations

We may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume, or comply with the FCA Regulations or General Financing Agreement (GFA) limitations. We did not have any participation interests purchased as of December 31, 2014, 2013, or 2012. Participations sold to Other Farm Credit Institutions were as follows (dollars in thousands):

| **As of December 31, 2014** | | Total Participations Sold |
|---|---|---|
| Real estate mortgage | **$** | **(141)** |
| Production and intermediate term | | **(2,811)** |
| Total | **$** | **(2,952)** |
| As of December 31, 2013 | | |
| Real estate mortgage | $ | (160) |
| Production and intermediate term | | (1,454) |
| Total | $ | (1,614) |
| As of December 31, 2012 | | |
| Real estate mortgage | $ | (427) |
| Production and intermediate term | | (797) |
| Total | $ | (1,224) |

**Credit Quality and Delinquency**

One credit quality indicator we utilize is the FCA Uniform Classification System that categorizes loans into five categories. The categories are defined as follows:

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

We had no loans categorized as loss at December 31, 2014, 2013, or 2012.

The following table summarizes loans and related accrued interest receivable classified under the FCA Uniform Classification System by loan type (dollars in thousands):

| | Acceptable | | Substandard/ Doubtful | | Total |
|---|---|---|---|---|---|
| **As of December 31, 2014** | Amount | % | Amount | % | Amount |
| Real estate mortgage | **$ 29,532** | **100.0%** | **$ --** | **--** | **$ 29,532** |
| Production and intermediate term | **12,406** | **100.0%** | **--** | **--** | **12,406** |
| Agribusiness | **210** | **100.0%** | **--** | **--** | **210** |
| Rural residential real estate | **48** | **100.0%** | **--** | **--** | **48** |
| Total | **$ 42,196** | **100.0%** | **$ --** | **--** | **$ 42,196** |

| | Acceptable | | Substandard/ Doubtful | | Total |
|---|---|---|---|---|---|
| As of December 31, 2013 | Amount | % | Amount | % | Amount |
| Real estate mortgage | $ 19,729 | 100.0% | $ -- | -- | $ 19,729 |
| Production and intermediate term | 12,533 | 100.0% | -- | -- | 12,533 |
| Agribusiness | 210 | 100.0% | -- | -- | 210 |
| Rural residential real estate | 52 | 100.0% | -- | -- | 52 |
| Total | $ 32,524 | 100.0% | $ -- | -- | $ 32,524 |

| | Acceptable | | Substandard/ Doubtful | | Total |
|---|---|---|---|---|---|
| As of December 31, 2012 | Amount | % | Amount | % | Amount |
| Real estate mortgage | $ 17,050 | 99.9% | $ 24 | 0.1% | $ 17,074 |
| Production and intermediate term | 13,812 | 100.0% | -- | -- | 13,812 |
| Agribusiness | 211 | 100.0% | -- | -- | 211 |
| Total | $ 31,073 | 99.9% | $ 24 | 0.1% | $ 31,097 |

The following table provides an aging analysis of past due loans and related accrued interest receivable by loan type (in thousands):

| **As of December 31, 2014** | 90 Days or More Past Due | Total Past Due | Not Past Due or Less than 30 Days Past Due | Total Loans |
|---|---|---|---|---|
| Real estate mortgage | **$ --** | **$ --** | **$ 29,532** | **$ 29,532** |
| Production and intermediate term | **45** | **45** | **12,361** | **12,406** |
| Agribusiness | **--** | **--** | **210** | **210** |
| Rural residential real estate | **--** | **--** | **48** | **48** |
| Total | **$ 45** | **$ 45** | **$ 42,151** | **$ 42,196** |

| As of December 31, 2013 | 90 Days or More Past Due | Total Past Due | Not Past Due or Less than 30 Days Past Due | Total Loans |
|---|---|---|---|---|
| Real estate mortgage | $ 134 | $ 134 | $ 19,595 | $ 19,729 |
| Production and intermediate term | 354 | 354 | 12,179 | 12,533 |
| Agribusiness | -- | -- | 210 | 210 |
| Rural residential real estate | -- | -- | 52 | 52 |
| Total | $ 488 | $ 488 | $ 32,036 | $ 32,524 |

| As of December 31, 2012 | 90 Days or More Past Due | Total Past Due | Not Past Due or Less than 30 Days Past Due | Total Loans |
|---|---|---|---|---|
| Real estate mortgage | $ 237 | $ 237 | $ 16,837 | $ 17,074 |
| Production and intermediate term | -- | -- | 13,812 | 13,812 |
| Agribusiness | -- | -- | 211 | 211 |
| Total | $ 237 | $ 237 | $ 30,860 | $ 31,097 |

## Risk Loans

The following table presents risk loan information (accruing loans include accrued interest receivable) (in thousands):

| As of December 31 | **2014** | 2013 | 2012 |
|---|---|---|---|
| Nonaccrual loans: | | | |
| Current | **$ --** | $ -- | $ 221 |
| Past due | **45** | 488 | 237 |
| Total nonaccrual loans | **45** | 488 | 458 |
| Total risk loans | **$ 45** | $ 488 | $ 458 |
| Volume with specific reserves | **$ --** | $ 134 | $ -- |
| Volume without specific reserves | **45** | 354 | 458 |
| Total risk loans | **$ 45** | $ 488 | $ 458 |
| Total specific reserves | **$ --** | $ 13 | $ -- |

| For the year ended December 31 | **2014** | 2013 | 2012 |
|---|---|---|---|
| Total income on risk loans | **$ --** | $ -- | $ -- |
| Average risk loans | **$ 151** | $ 901 | $ 297 |

The decrease in nonaccrual loans was due to payments on the guaranteed portion of Farm Service Agency (FSA) guaranteed loans.

Nonaccrual loans by loan type were as follows (in thousands):

| As of December 31 | **2014** | 2013 | 2012 |
|---|---|---|---|
| Real estate mortgage | **$ --** | $ 134 | $ 237 |
| Production and intermediate term | **45** | 354 | 221 |
| Total | **$ 45** | $ 488 | $ 458 |

All risk loans are considered to be impaired loans. The following table provides additional impaired loan information (in thousands):

| | As of December 31, 2014 | | | For the year ended December 31, 2014 | |
|---|---|---|---|---|---|
| | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Impaired Loans | Interest Income Recognized |
| Impaired loans with a related allowance for loan losses: | | | | | |
| Production and intermediate term | $ 45 | $ 50 | $ -- | $ 118 | $ -- |
| Total | $ 45 | $ 50 | $ -- | $ 118 | $ -- |
| Impaired loans with no related allowance for loan losses: | | | | | |
| Real estate mortgage | $ -- | $ -- | $ -- | $ 33 | $ -- |
| Production and intermediate term | -- | 19 | -- | -- | -- |
| Total | $ -- | $ 19 | $ -- | $ 33 | $ -- |
| Total impaired loans: | | | | | |
| Real estate mortgage | $ -- | $ -- | $ -- | $ 33 | $ -- |
| Production and intermediate term | 45 | 69 | -- | 118 | -- |
| Total | $ 45 | $ 69 | $ -- | $ 151 | $ -- |

| | As of December 31, 2013 | | | For the year ended December 31, 2013 | |
|---|---|---|---|---|---|
| | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Impaired Loans | Interest Income Recognized |
| Impaired loans with a related allowance for loan losses: | | | | | |
| Real estate mortgage | $ 134 | $ 150 | $ 13 | $ 237 | $ -- |
| Total | $ 134 | $ 150 | $ 13 | $ 237 | $ -- |
| Impaired loans with no related allowance for loan losses: | | | | | |
| Production and intermediate term | 354 | 438 | -- | 664 | -- |
| Total | $ 354 | $ 438 | $ -- | $ 664 | $ -- |
| Total impaired loans: | | | | | |
| Real estate mortgage | $ 134 | $ 150 | $ 13 | $ 237 | $ -- |
| Production and intermediate term | 354 | 438 | -- | 664 | -- |
| Total | $ 488 | $ 588 | $ 13 | $ 901 | $ -- |

| | As of December 31, 2012 | | | For the year ended December 31, 2012 | |
|---|---|---|---|---|---|
| | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Impaired Loans | Interest Income Recognized |
| Impaired loans with no related allowance for loan losses: | | | | | |
| Real estate mortgage | $ 237 | $ 222 | $ -- | $ 270 | $ -- |
| Production and intermediate term | 221 | 241 | -- | 27 | -- |
| Total | $ 458 | $ 463 | $ -- | $ 297 | $ -- |
| Total impaired loans: | | | | | |
| Real estate mortgage | $ 237 | $ 222 | $ -- | $ 270 | $ -- |
| Production and intermediate term | 221 | 241 | -- | 27 | -- |
| Total | $ 458 | $ 463 | $ -- | $ 297 | $ -- |

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

Unpaid principal balance represents the contractual principal balance of the loan.

We did not have any material commitments to lend additional money to borrowers whose loans were at risk at December 31, 2014.

## Troubled Debt Restructurings

Included within our loans are troubled debt restructurings (TDRs). These loans have been modified by granting a concession in order to maximize the collection of amounts due when a borrower is experiencing financial difficulties. All risk loans, including TDRs, are analyzed within our allowance for loan losses.

There were no TDRs that occurred during the years ended December 31, 2014, 2013, or 2012.

There were no TDRs that defaulted during the years ended December 31, 2014, 2013, or 2012 in which the modification was within 12 months of the respective reporting period.

There were no TDRs outstanding at December 31, 2014.

## Allowance for Loan Losses

A summary of the changes in the allowance for loan losses follows (in thousands):

| For the year ended December 31 | **2014** | 2013 | 2012 |
|---|---|---|---|
| Balance at beginning of year | **$ 70** | $ 114 | $ 99 |
| Provision for loan losses | **8** | 34 | 51 |
| Loan recoveries | **2** | 2 | (5) |
| Loan charge-offs | **(11)** | (80) | (31) |
| Balance at end of year | **$ 69** | $ 70 | $ 114 |

The decrease in the provision for loan losses in 2014 is due to the reduction in nonaccrual loan volume.

A summary of changes in the allowance for loan losses and period end recorded investment in loans by loan type follows (in thousands):

| | Real Estate Mortgage | Production and Intermediate Term | Agribusiness | Rural Residential Real Estate | Total |
|---|---|---|---|---|---|
| Allowance for loan losses: | | | | | |
| Balance as of December 31, 2013 | **$ 67** | **$ 3** | **$ --** | **$ --** | **$ 70** |
| (Reversal of) provision for loan losses | **(1)** | **9** | **--** | **--** | **8** |
| Loan recoveries | **--** | **2** | **--** | **--** | **2** |
| Loan charge-offs | **(2)** | **(9)** | **--** | **--** | **(11)** |
| Balance as of December 31, 2014 | **$ 64** | **$ 5** | **$ --** | **$ --** | **$ 69** |
| Ending balance: individually evaluated for impairment | **$ --** | **$ --** | **$ --** | **$ --** | **$ --** |
| Ending balance: collectively evaluated for impairment | **$ 64** | **$ 5** | **$ --** | **$ --** | **$ 69** |
| Recorded investment in loans outstanding: | | | | | |
| Ending balance as of December 31, 2014 | **$ 29,532** | **$ 12,406** | **$ 210** | **$ 48** | **$ 42,196** |
| Ending balance: individually evaluated for impairment | **$ --** | **$ 45** | **$ --** | **$ --** | **$ 45** |
| Ending balance: collectively evaluated for impairment | **$ 29,532** | **$ 12,361** | **$ 210** | **$ 48** | **$ 42,151** |

| | Real Estate Mortgage | Production and Intermediate Term | Agribusiness | Rural Residential Real Estate | Total |
|---|---|---|---|---|---|
| Allowance for loan losses: | | | | | |
| Balance as of December 31, 2012 | $ 92 | $ 22 | $ -- | $ -- | $ 114 |
| (Reversal of) provision for loan losses | (25) | 59 | -- | -- | 34 |
| Loan recoveries | -- | 2 | -- | -- | 2 |
| Loan charge-offs | -- | (80) | -- | -- | (80) |
| Balance as of December 31, 2013 | $ 67 | $ 3 | $ -- | $ -- | $ 70 |
| Ending balance: individually evaluated for impairment | $ 13 | $ -- | $ -- | $ -- | $ 13 |
| Ending balance: collectively evaluated for impairment | $ 54 | $ 3 | $ -- | $ -- | $ 57 |
| Recorded investment in loans outstanding: | | | | | |
| Ending balance as of December 31, 2013 | $ 19,729 | $ 12,533 | $ 210 | $ 52 | $ 32,524 |
| Ending balance: individually evaluated for impairment | $ 134 | $ 354 | $ -- | $ -- | $ 488 |
| Ending balance: collectively evaluated for impairment | $ 19,595 | $ 12,179 | $ 210 | $ 52 | $ 32,036 |

| | Real Estate Mortgage | Production and Intermediate Term | Agribusiness | Rural Residential Real Estate | Total |
|---|---|---|---|---|---|
| Allowance for loan losses: | | | | | |
| Balance as of December 31, 2011 | $ 58 | $ 41 | $ -- | $ -- | $ 99 |
| Provision for loan losses | 46 | 5 | -- | -- | 51 |
| Loan recoveries | (6) | 1 | -- | -- | (5) |
| Loan charge-offs | (6) | (25) | -- | -- | (31) |
| Balance as of December 31, 2012 | $ 92 | $ 22 | $ -- | $ -- | $ 114 |
| Ending balance: individually evaluated for impairment | $ -- | $ -- | $ -- | $ -- | $ -- |
| Ending balance: collectively evaluated for impairment | $ 92 | $ 22 | $ -- | $ -- | $ 114 |
| Recorded investment in loans outstanding: | | | | | |
| Ending balance as of December 31, 2012 | $ 17,074 | $ 13,812 | $ 211 | $ -- | $ 31,097 |
| Ending balance: individually evaluated for impairment | $ 237 | $ 221 | $ -- | $ -- | $ 458 |
| Ending balance: collectively evaluated for impairment | $ 16,837 | $ 13,591 | $ 211 | $ -- | $ 30,639 |

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

## NOTE 4: INVESTMENT IN AGRIBANK

Effective March 31, 2014, we were required by AgriBank to maintain an investment equal to 2.25% of the average quarterly balance of our note payable to AgriBank plus an additional 1.0% on growth that exceeded a targeted rate. Prior to March 31, 2014, the required investment was equal to 2.5%.

The following summarizes investment balances (in thousands):

| As of December 31 | **2014** | 2013 | 2012 |
|---|---|---|---|
| Required stock investment | **$ 736** | $ 659 | $ 623 |
| Excess stock investment | **460** | 537 | 573 |
| Total investment | **$ 1,196** | $ 1,196 | $ 1,196 |

## NOTE 5: NOTE PAYABLE TO AGRIBANK

Our note payable to AgriBank represents borrowings, in the form of a line of credit, to fund our loan portfolio. The line of credit is governed by a GFA and our assets serve as collateral. The following table summarizes note payable information (dollars in thousands):

| As of December 31 | **2014** | 2013 | 2012 |
|---|---|---|---|
| Line of credit | **$ 46,000** | $ 43,000 | $ 40,000 |
| Outstanding principal under the line of credit | **31,481** | 25,609 | 24,419 |
| Interest rate | **1.8%** | 1.6% | 1.5% |

Our note payable matures March 31, 2015, at which time the note will be renegotiated.

The GFA provides for limitations on our ability to borrow funds based on specified factors or formulas relating primarily to outstanding balances, credit quality, and financial condition. At December 31, 2014, and throughout the year, we were within the specified limitations and in compliance with all debt covenants.

## NOTE 6: MEMBERS' EQUITY

### Capitalization Requirements

In accordance with the Farm Credit Act, each borrower is required to invest in us as a condition of obtaining a loan. As authorized by the Agricultural Credit Act and our capital bylaws, our Board of Directors has adopted a capital plan that establishes a stock purchase requirement for obtaining a loan of 2.0% of the customer's total loan(s) or one thousand dollars, whichever is less for mortgage loans or intermediate-term loans and 5.0% of the loan amount for commercial loans. The Board of Directors may increase the amount of required investment to the extent authorized in the capital bylaws. The borrower acquires ownership of the capital stock at the time the loan is made. The aggregate par value of the stock is added to the principal amount of the related obligation. We retain a first lien on the stock or participation certificates owned by customers.

## Protection Mechanisms

Under the Farm Credit Act, certain borrower equity is protected. We are required to retire protected borrower equity at par or stated value regardless of its book value. Protected borrower equity includes capital stock and participation certificates that were outstanding as of January 6, 1988, or were issued prior to October 6, 1988 as a requirement for obtaining a loan. If we were to be unable to retire protected borrower equity at par value or stated value, the FCSIC would provide the amounts needed to retire this equity.

## Regulatory Capitalization Requirements

Under current capital adequacy regulations, we are required to maintain a permanent capital ratio of at least 7.0%, a total surplus ratio of at least 7.0%, and a core surplus ratio of at least 3.5%. The calculation of these ratios in accordance with the FCA Regulations is discussed as follows:

- The permanent capital ratio is average at-risk capital divided by average risk-adjusted assets. At December 31, 2014, our ratio was 23.3%.
- The total surplus ratio is average unallocated surplus less any deductions made in the computation of permanent capital divided by average risk-adjusted assets. At December 31, 2014, our ratio was 17.8%.
- The core surplus ratio is average unallocated surplus less any deductions made in the computation of total surplus and less any excess stock investment in AgriBank divided by average risk-adjusted assets. At December 31, 2014, our ratio was 16.8%.

Regulatory capital includes all of our investment in AgriBank that is in excess of the required investment under an allotment agreement with AgriBank. We included 38.5%, 44.9%, and 47.9% of our investment in AgriBank as capital at December 31, 2014, 2013, and 2012, respectively. These changes did not have a material impact on our regulatory capital ratios.

## Description of Equities

The following table presents information regarding classes and number of shares of stock and participation certificates outstanding as of December 31, 2014. All shares and participation certificates are stated at a $5.00 par value.

| | Shares Outstanding |
|---|---|
| Class A common stock (protected) | **2,583** |
| Class B common stock (at-risk) | **5,080** |
| Class C common stock (at-risk) | **360,307** |

Under our bylaws, we are also authorized to issue Class D and Class E common stock, Series 2 participation certificates and Class F preferred stock. Each of these classes of stock is at-risk and nonvoting with a $5.00 par value per share. Currently, no stock of these classes has been issued.

Only holders of Class C stock have voting rights. Our bylaws do not prohibit us from paying dividends on any classes of stock. However, no dividends have been declared to date.

Our bylaws generally permit stock and participation certificates to be retired at the discretion of our Board of Directors and in accordance with our capitalization plans, provided prescribed capital standards have been met. At December 31, 2014, we exceeded the prescribed standards. We do not anticipate any significant changes in capital that would affect the normal retirement of stock.

In the event of our liquidation or dissolution, according to our bylaws, any remaining assets after payment or retirement of all liabilities will be distributed first, to holders of Class F preferred stock, and second, to all holders of common stock and participation certificates.

In the event of impairment, losses will be absorbed first, pro-rata by holders of all classes of common stock and participation certificates and then by holders of Class F preferred stock; however, protected stock will be retired at par value regardless of impairment.

All classes of stock are transferable to other customers who are eligible to hold such class as long as we meet the regulatory minimum capital requirements.

## Patronage Distributions

We accrued patronage distributions of $120 thousand, $100 thousand, and $200 thousand at December 31, 2014, 2013, and 2012, respectively. Generally, the patronage distributions are paid in cash during the first quarter after year end. The Board of Directors may authorize a distribution of earnings provided we meet all statutory and regulatory requirements.

The FCA Regulations prohibit patronage distributions to the extent they would reduce our permanent capital ratio below the minimum permanent capital adequacy standards. We do not foresee any events that would result in this prohibition in 2015.

## NOTE 7: INCOME TAXES

### Provision for Income Taxes

Our provision for income taxes follows (dollars in thousands):

| For the year ended December 31 | **2014** | 2013 | 2012 |
|---|---|---|---|
| Current: | | | |
| Federal | **$ --** | $ -- | $ -- |
| State | **--** | -- | 1 |
| Total current | **--** | -- | 1 |
| Deferred: | | | |
| Federal | **4** | (5) | 15 |
| Increase in valuation allowance | **(4)** | 5 | (15) |
| Total deferred | **--** | -- | -- |
| Provision for income taxes | **$ --** | $ -- | $ 1 |
| Effective tax rate | **--** | -- | 0.2% |

The following table quantifies the differences between the provision for income taxes and income taxes at the statutory rates (in thousands):

| For the year ended December 31 | **2014** | 2013 | 2012 |
|---|---|---|---|
| Federal tax at statutory rates | **$ 204** | $ 165 | $ 195 |
| State tax, net | **1** | 2 | 6 |
| Patronage distributions | **(41)** | (35) | (68) |
| Effect of non-taxable entity | **(158)** | (123) | (107) |
| Decrease in valuation allowance | **(4)** | -- | (15) |
| Surtax exemption and other | **(2)** | (9) | (10) |
| Provision for income taxes | **$ --** | $ -- | $ 1 |

### Deferred Income Taxes

Tax laws require certain items to be included in our tax returns at different times than the items are reflected on our Consolidated Statements of Income. Some of these items are temporary differences that will reverse over time. We record the tax effect of temporary differences as deferred tax assets and liabilities netted on our Consolidated Statements of Condition. Deferred tax assets and liabilities were composed of the following (in thousands):

| As of December 31 | **2014** | 2013 | 2012 |
|---|---|---|---|
| Allowance for loan losses | **$ 7** | $ 14 | $ 15 |
| Postretirement benefit accrual | **15** | 22 | 16 |
| Other assets | **10** | -- | -- |
| Total deferred tax assets | **32** | 36 | 31 |
| Valuation allowance | **(32)** | (36) | (31) |
| Deferred tax assets, net | **$ --** | $ -- | $ -- |
| Gross deferred tax assets | **$ 32** | $ 36 | $ 31 |

A valuation allowance for the deferred tax assets was necessary at December 31, 2014, 2013, or 2012 because we determined that not all of the deferred tax asset was completely realizable due to our minimal current tax liability over the past several years, caused mainly by the patronage program.

We have not provided for deferred income taxes on patronage allocations received from AgriBank prior to 1993. Such allocations, distributed in the form of stock, are subject to tax only upon conversion to cash. Our intent is to permanently maintain this investment in AgriBank. With respect to the AgriBank stock distributed in 2002, the Board of Directors has passed a resolution that, should this stock ever be converted to cash, creating a tax liability, an equal amount will be distributed to patrons at that time under the Association's patronage program. Our total permanent investment in AgriBank is $1.2 million. Additionally, we have not provided deferred income taxes on accumulated FLCA earnings of $2.4 million as it is our intent to permanently maintain this equity in the FLCA or to distribute the earnings to members in a manner that results in no additional tax liability to us.

Our income tax returns are subject to review by various United States taxing authorities. We record accruals for items that we believe may be challenged by these taxing authorities. However, we had no uncertain income tax positions at December 31, 2014. In addition, we believe we are no longer subject to income tax examinations for years prior to 2011.

## NOTE 8: EMPLOYEE BENEFIT PLANS

### Pension and Post-Employment Benefit Plans

Complete financial information for the pension and post-employment benefit plans may be found in the Combined AgriBank and Affiliated Associations 2014 Annual Report (District financial statements).

The Farm Credit Foundations Plan Sponsor and Trust Committees provide oversight of the benefit plans. These governance committees are comprised of elected or appointed representatives (senior leadership and/or Board of Director members) from the participating organizations. The Coordinating Committee (a subset of the Plan Sponsor Committee comprised of AgriBank District representatives) is responsible for decisions regarding retirement benefits at the direction of the AgriBank District participating employers. The Trust Committee is responsible for fiduciary and plan administrative functions.

**Pension Plan:** Certain employees participate in the AgriBank District Retirement Plan, a District-wide multi-employer defined benefit retirement plan. The Department of Labor has determined the plan to be a governmental plan; therefore, the plan is not subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended (ERISA). As the plan is not subject to ERISA, the plan's benefits are not insured by the Pension Benefit Guaranty Corporation. Accordingly, the amount of accumulated benefits that participants would receive in the event of the plan's termination is contingent on the sufficiency of the plan's net assets to provide benefits at that time. This Plan is noncontributory and covers certain eligible District employees. The assets, liabilities, and costs of the plan are not segregated by participating entities. As such, plan assets are available for any of the participating employers' retirees at any point in time. Additionally, if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers. Further, if we choose to stop participating in the plan, we may be required to pay an amount based on the underfunded status of the plan. Because of the nature of the plan, any individual employer is not able to unilaterally change the provisions of the plan. If an employee transfers to another employer within the same plan, the employee benefits under the plan transfer. Benefits are based on salary and years of service. There is no collective bargaining agreement in place as part of this plan.

As disclosed in the District financial statements, the defined benefit pension plan reflects an unfunded liability totaling $423.9 million at December 31, 2014. The pension benefits funding status reflects the net of the fair value of the plan assets and the projected benefit obligation at the date of these consolidated financial statements. The projected benefit obligation is the actuarial present value of all benefits attributed by the pension benefit formula to employee service rendered prior to the measurement date based on assumed future compensation levels. The projected benefit obligation of the District-wide plan was $1.2 billion, $1.0 billion, and $1.1 billion at December 31, 2014, 2013, and 2012, respectively. The fair value of the plan assets was $811.1 million, $759.5 million, and $640.1 million at December 31, 2014, 2013, and 2012, respectively. The accumulated benefit obligation, which is the actuarial present value of the benefits attributed to employee service rendered before the measurement date and based on current employee service and compensation, exceeds pension plan assets. The accumulated benefit obligation for the District-wide plan was $1.1 billion, $864.2 million, and $908.2 million at December 31, 2014, 2013, and 2012, respectively. The funding status is subject to many variables including performance of plan assets and interest rate levels. Therefore, changes in assumptions could significantly affect these estimates.

Costs are determined for each individual employer based on costs directly related to their current employees as well as an allocation of the remaining costs based proportionately on the estimated projected liability of the employer under this plan. We recognize our proportional share of expense and contribute a proportional share of funding. Total plan expense for participating employers was $45.8 million, $63.3 million, and $52.7 million for 2014, 2013, and 2012, respectively. Our allocated share of plan expenses included in "Salaries and employee benefits" in the Consolidated Statements of Income was $64 thousand, $83 thousand, and $67 thousand for 2014, 2013, and 2012, respectively. The plan expense for participating employers in 2015 is expected to increase to levels more consistent with 2013 primarily due to changes in discount rate and mortality assumptions. Participating employers contributed $52.0 million, $59.0 million, and $51.3 million to the plan in 2014, 2013, and 2012, respectively. Our allocated share of these pension contributions was $72 thousand, $78 thousand, and $66 thousand for 2014, 2013, and 2012, respectively. Benefits paid to participants in the District were $42.6 million in 2014, none of which were paid to our senior officers who were actively employed during the year. While the plan is a governmental plan and is not subject to minimum funding requirements, the employers contribute amounts necessary on an actuarial basis to provide the plan with sufficient assets to meet the benefits to be paid to participants. The amount of the total District employer contributions expected to be paid into the pension plans during 2015 is $57.9 million. Our allocated share of these pension contributions is expected to be $86 thousand. The amount ultimately to be contributed and the amount ultimately recognized as expense as well as the timing of those contributions and expenses, are subject to many variables including performance of plan assets and interest rate levels. These variables could result in actual contributions and expenses being greater than or less than the amounts reflected in the District financial statements.

**Retiree Medical Plans:** District employers also provide certain health insurance benefits to eligible retired employees according to the terms of the benefit plan. The anticipated costs of these benefits are accrued during the period of the employee's active status. Postretirement benefit costs included in "Salaries and employee benefits" in the Consolidated Statements of Income were $3 thousand, $2 thousand, and $2 thousand for 2014, 2013, and 2012, respectively. Our cash contributions, equal to the benefits paid, were $7 thousand, $7 thousand, and $6 thousand for 2014, 2013, and 2012, respectively.

### Defined Contribution Plans

We participate in a District-wide defined contribution retirement savings plan. For employees hired before January 1, 2007, employee contributions are matched dollar for dollar up to 2.0% and 50 cents on the dollar on the next 4.0% on both pre-tax and post-tax contributions. The maximum employer match is 4.0%. For employees hired after December 31, 2006, we contribute 3.0% of the employee's compensation and will match employee contributions dollar for dollar up to a maximum of 6.0% on both pre-tax and post-tax contributions. The maximum employer contribution is 9.0%.

We also participate in a District-wide Nonqualified Deferred Compensation Plan. Eligible participants must meet one of the following criteria: certain salary thresholds as determined by the IRS, be either a Chief Executive Officer or President of a participating employer, or have previously elected pre-tax deferrals in 2006 under predecessor nonqualified deferred compensation plans. Under this plan the employee may defer a portion of his/her salary, bonus, and other compensation. Additionally, the plan provides for supplemental employer matching contributions related to any compensation deferred by the employee that would have been eligible for a matching contribution under the retirement savings plan if it were not for certain IRS limitations.

Employer contribution expenses for the retirement savings plans, included in “Salaries and employee benefits” in the Consolidated Statements of Income, were $22 thousand, $19 thousand, and $17 thousand in 2014, 2013, and 2012, respectively. These expenses were equal to our cash contributions for each year.

## NOTE 9: RELATED PARTY TRANSACTIONS

In the ordinary course of business, we may enter into loan transactions with our officers, directors, their immediate family members, and other organizations with which such persons may be associated. Such transactions are subject to special approval requirements contained in the FCA Regulations and are made on the same terms, including interest rates, amortization schedules, and collateral, as those prevailing at the time for comparable transactions with other persons. In our opinion, none of these loans outstanding at December 31, 2014 involved more than a normal risk of collectability.

The following table presents information on loans to related parties (in thousands):

| | **2014** | 2013 | 2012 |
|---|---|---|---|
| As of December 31: | | | |
| Total related party loans | **$ 3,741** | $ 3,181 | $ 3,764 |
| For the year ended December 31: | | | |
| Advances to related parties | **$ 9,095** | $ 6,764 | $ 9,927 |
| Repayments by related parties | **9,475** | 7,535 | 10,634 |

The related parties can be different each year end primarily due to changes in the composition of the Board of Directors. Advances and repayments to related parties at the end of each year are included in the preceding chart.

As discussed in Note 5, we borrow from AgriBank, in the form of a line of credit, to fund our loan portfolio.

We purchase various services from AgriBank including certain financial and retail systems, financial reporting services, technology services, insurance services, and internal audit services. The total cost of services we purchased from AgriBank was $67 thousand, $63 thousand, and $57 thousand in 2014, 2013, and 2012, respectively.

We also purchase human resource information systems, benefit, payroll, and workforce management services from Farm Credit Foundations (Foundations). As of December 31, 2014, 2013, and 2012, our investment in Foundations was $7 thousand. The total cost of services purchased from Foundations was $36 thousand, $35 thousand, and $36 thousand in 2014, 2013, and 2012, respectively.

## NOTE 10: CONTINGENCIES AND COMMITMENTS

In the normal course of business, we have contingent liabilities and outstanding commitments which may not be reflected in the accompanying consolidated financial statements. We do not anticipate any material losses because of these contingencies or commitments.

We may be named as a defendant in lawsuits or legal actions in the normal course of business. At the date of these consolidated financial statements, we were not aware of any such actions that would have a material impact on our financial condition. However, such actions could arise in the future.

We have commitments to extend credit to satisfy the financing needs of our borrowers. These financial instruments involve, to varying degrees, elements of credit risk that may be 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 loan contract. At December 31, 2014, we had commitments to extend credit of $14.7 million.

Commitments to extend credit generally have fixed expiration dates or other termination clauses and we may require payment of a fee. If commitments to extend credit remain unfulfilled or have not expired, they may have credit risk not recognized in the financial statements. Many of the commitments to extend credit will expire without being fully drawn upon. Therefore, the total commitments do not necessarily represent future cash requirements. The credit risk involved in issuing these financial instruments is essentially the same as that involved in extending loans to borrowers and we apply the same credit policies.

## NOTE 11: FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or most advantageous market for the asset or liability. Accounting guidance also establishes a fair value hierarchy, with three input levels that may be used to measure fair value. Refer to Note 2 for a more complete description of the three input levels.

We did not have any assets measured at fair value on a recurring basis at December 31, 2014, 2013, or 2012.

### Non-Recurring Basis

We may be required, from time to time, to measure certain assets at fair value on a non-recurring basis. Information on assets measured at fair value on a non-recurring basis follows (in thousands):

| **As of December 31, 2014** | Fair Value Measurement Using | | | | |
|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total Fair Value | Total Gains (Losses) |
| Loans | **$ --** | **$ 48** | **$ --** | **$ 48** | **$ 2** |

| As of December 31, 2013 | Fair Value Measurement Using | | | | |
|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total Fair Value | Total Gains (Losses) |
| Loans | $ -- | $ -- | $ 127 | $ 127 | $ (93) |

| As of December 31, 2012 | Fair Value Measurement Using | | | | |
|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total Fair Value | Total Gains (Losses) |
| Loans | $ -- | $ -- | $ -- | $ -- | $ (31) |

### Valuation Techniques

**Loans:** Represents the carrying amount and related write-downs of loans which were evaluated for individual impairment based on the appraised value of the underlying collateral. When the value of the collateral, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established. Costs to sell represent transaction costs and are not included as a component of the asset's fair value.

## NOTE 12: FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair value of all our financial instruments is as follows (in thousands):

| | **2014** | | 2013 | | 2012 | |
|---|---|---|---|---|---|---|
| As of December 31 | Carrying Amount | Fair Value | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| **Financial assets:** | | | | | | |
| Net loans | **$ 41,295** | **$ 41,543** | $ 31,816 | $ 31,491 | $ 30,295 | $ 30,642 |
| **Financial liabilities:** | | | | | | |
| Note payable to AgriBank, FCB | **$ 31,481** | **$ 31,580** | $ 25,609 | $ 25,297 | $ 24,419 | $ 24,606 |
| **Unrecognized financial instruments:** | | | | | | |
| Commitments to extend credit | | **$ (18)** | | $ (17) | | $ (19) |

Quoted market prices are generally not available for our financial instruments. Accordingly, we base fair values on:

- judgments regarding future expected losses,
- current economic conditions,
- risk characteristics of various financial instruments,
- credit risk, and
- other factors.

These estimates involve uncertainties, matters of judgment, and cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Estimating the fair value of our investment in AgriBank is not practical because the stock is not traded. As discussed in Notes 2 and 4, the investment is a requirement of borrowing from AgriBank.

A description of the methods and assumptions used to estimate the fair value of each class of our financial instruments, for which it is practical to estimate that value, follows:

**Net loans:** Because no active market exists for our loans, fair value is estimated by discounting the expected future cash flows using current interest rates at which similar loans would be made or repriced to borrowers with similar credit risk. In addition, loans are valued using the Farm Credit interest rate yield curve, prepayment rates, contractual loan information, credit classification, and collateral values. As the discount rates are based upon internal pricing mechanisms and other management estimates, management has no basis to determine whether the fair values presented would be indicative of the exit price negotiated in an actual sale. Furthermore, certain statutory or regulatory factors not considered in the valuation, such as the unique statutory rights of System borrowers, could render our portfolio less marketable outside the System.

For fair value of loans individually impaired, we assume collection will result only from the sale of the underlying collateral. Fair value is estimated to equal the total net realizable value of the underlying collateral. Costs to sell represent transaction costs and are not included as a component of the asset's fair value.

**Note payable to AgriBank:** Estimating the fair value of the note payable to AgriBank is determined by segregating the note into pricing pools according to the types and terms of the underlying loans funded. We discount the estimated cash flows from these pools using the current rate charged by AgriBank for additional borrowings with similar characteristics.

**Commitments to extend credit:** Estimating the fair value of commitments to extend credit is determined by the inherent credit loss in such instruments.

## NOTE 13: QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Quarterly consolidated results of operations for the year ended December 31 follows (in thousands):

| **2014** | First | Second | Third | Fourth | Total |
|---|---|---|---|---|---|
| Net interest income | **$ 273** | **$ 348** | **$ 472** | **$ 432** | **$ 1,525** |
| Provision for loan losses | **--** | **--** | **--** | **8** | **8** |
| Patronage income | **18** | **23** | **30** | **38** | **109** |
| Other expense, net | **256** | **247** | **247** | **276** | **1,026** |
| Net income | **$ 35** | **$ 124** | **$ 255** | **$ 186** | **$ 600** |

| 2013 | First | Second | Third | Fourth | Total |
|---|---|---|---|---|---|
| Net interest income | $ 262 | $ 340 | $ 432 | $ 339 | $ 1,373 |
| Provision for (reversal of) loan losses | -- | 6 | (1) | 29 | 34 |
| Patronage income | 15 | 20 | 24 | 44 | 103 |
| Other expense, net | 239 | 247 | 223 | 239 | 948 |
| Net income | $ 38 | $ 107 | $ 234 | $ 115 | $ 494 |

| 2012 | First | Second | Third | Fourth | Total |
|---|---|---|---|---|---|
| Net interest income | $ 266 | $ 356 | $ 480 | $ 347 | $ 1,449 |
| Provision for loan losses | -- | 6 | 7 | 38 | 51 |
| Patronage income | 15 | 19 | 24 | 39 | 97 |
| Other expense, net | 213 | 199 | 212 | 224 | 848 |
| Provision for income taxes | -- | -- | -- | 1 | 1 |
| Net income | $ 68 | $ 170 | $ 285 | $ 123 | $ 646 |

## NOTE 14: SUBSEQUENT EVENTS

We have evaluated subsequent events through March 12, 2015, which is the date the consolidated financial statements were available to be issued. There have been no material subsequent events that would require recognition in our 2014 consolidated financial statements or disclosures in the Notes to Consolidated Financial Statements.

# DISCLOSURE INFORMATION REQUIRED BY REGULATIONS

*Delta Agricultural Credit Association*
*(Unaudited)*

### Description of Business

General information regarding the business is discussed in Note 1 of this Annual Report.

The description of significant business developments, if any, is discussed in the "Management's Discussion and Analysis" section of this Annual Report.

### Description of Property

The following table sets forth certain information regarding our properties:

| Location | Description | Usage |
|---|---|---|
| Dermott, AR | Owned | Headquarters |
| Monticello, AR | Leased | Branch |

### Legal Proceedings

Information regarding legal proceedings is discussed in Note10 of this Annual Report. We were not subject to any enforcement actions as of December 31, 2014.

### Description of Capital Structure

Information regarding our capital structure is discussed in Note 6 of this Annual Report.

### Description of Liabilities

Information regarding liabilities is discussed in Notes 5, 6, 7, 8, 10, and 12, of this Annual Report.

### Selected Financial Data

The "Consolidated Five-Year Summary of Selected Financial Data" is presented at the beginning of this Annual Report.

### Management's Discussion and Analysis

Information regarding any material aspects of our financial condition, changes in financial condition, and results of operations are discussed in the "Management's Discussion and Analysis" section of this Annual Report.

### Board of Directors

Information regarding directors who served as of December 31, 2014, including business experience in the last five years and any other business interest where a director serves on the Board of Directors or as a senior officer follows:

**Al Beaty**, Outside Director, retired. He is also a director of Drew County Farm Bureau, insurance sales, Monticello, AR. His current term on the board began in January 2012 and expires in January 2015.

**Bruce Bond** is a self-employed cotton and grain farmer. He is also a director of Lake Village Seed and Tire, farm supply store, Lake Village, AR. His current term on the board began in March 2014 and expires in March 2017.

**C. Randall Cox**, Vice Chairperson of the Board, is a retired cotton and grain farmer. His current term on the board began in March 2012 and expires in March 2015.

**Kim Ellington** is a self-employed grain and sod owner. His current term on the board began in March 2013 and expires in March 2016.

**Joe Mencer** is a self-employed cotton and grain farmer. He is also a director for several entities: USA Rice Federation, rice promotion, Little Rock, AR; Arkansas Boll Weevil Eradication Foundation, Boll Weevil eradication, Little Rock, AR; Chicot County Farm Bureau, Lake Village, AR, involved in agricultural services, insurance and promotional activities; Lake Village Seed & Tire, farm supply store, Lake Village, AR; Chicot County Conservation District, soil and water conservation, Lake Village, AR; the Delta Grain and Gin, cotton ginning, Dermott, AR; and Pendleton Gin, a cotton ginning company in Dumas, AR. His current term on the board began in March 2012 and expires on March 2015.

**Mike Norris**, Chairperson of the Board, is a self-employed cotton and grain farmer. He is also a director of Pendleton Gin, a cotton ginning company in Dumas, AR. His current term on the board began in March 2012 and expires in March 2015.

Pursuant to our bylaws, directors are paid a per diem of $125 per day for attendance at board meetings and other special meetings. Directors serving on the loan committee are paid a per diem of $75 per day. Directors are also provided with $100,000 24-hour Accidental Death and Dismemberment insurance coverage while traveling on Association business. The annual premium cost to us is $20 per director.

Information regarding compensation paid to each director who served during 2014 follows:

| | Number of Days Served | | | Compensation Paid for Service on a Board Committee | Name of Committee | | Total Compensation Earned in 2014 |
|---|---|---|---|---|---|---|---|
| | Board Meetings | Other Official Activities | | | | | |
| Al Beaty, Outside Director | 7.0 | 3.0 | | -- | -- | | 1,250 |
| Bruce Bond | 6.0 | 3.0 | | -- | -- | | 1,125 |
| C. Randall Cox, Vice Chairperson | 7.0 | 20.0 | | 1,125 | Loan | | 2,625 |
| Kim Ellington | 7.0 | 0.0 | | -- | -- | | 875 |
| Joe Mencer | 7.0 | 2.0 | | -- | -- | | 1,125 |
| Mike Norris, Chairperson | 6.0 | 20.0 | $ | 1,125 | Loan | $ | 2,500 |
| Total | | | $ | 2,250 | | $ | 9,500 |

## Senior Officers

The senior officers include:

Mark W. Kaufman, Chief Executive Officer (CEO)
Keith Hunter, Vice-President (VP)
Mary Ann Johnson, Chief Financial Officer (CFO)

Mark W. Kaufman has been the CEO since June 2002. Keith Hunter has been the VP since January 2005. Mary Ann Johnson has been the CFO since January 1990. All of the senior officers have been with the Farm Credit System for the past five years. Keith Hunter is also a Director for the Chicot County Conservation District, Lake Village, AR, which is a soil and water conservation entity.

## Senior Officer Compensation

We believe the design and governance of our CEO, senior officers, and highly compensated individuals compensation program is consistent with the highest standards of risk management and provides total compensation that promotes our mission to ensure a safe, sound, and dependable source of credit and related services for agriculture and rural America.

The CEO, senior officers, and highly compensated individuals are compensated with a mix of direct cash and retirement plans generally available to all employees. We have various post-employment benefit plans which are generally available to all Association employees, including the CEO, senior officers, and highly compensated individuals, based on dates of service to the Association and are not otherwise differentiated by position, unless specifically stated. Information regarding the post-employment benefit plans is included in Notes 2 and 8 of this Annual Report. We do not offer any short-term or long-term incentives to our CEO, senior officers or highly compensated individuals.

**Base Salary:** CEO, senior officer, and highly compensated individuals base salaries reflect the officer's experience and level of responsibility. Base salaries are subject to review and approval by our Board of Directors and are subject to adjustment based on changes in responsibilities or competitive market conditions.

**Other Components of Compensation:** Additionally, compensation associated with group term life insurance premiums, disability insurance premiums, or other taxable reimbursements may be made available to the CEO and senior officers based on job criteria or similar plans available to all employees.

A summary of compensation earned by the CEO, senior officers, and highly compensated individuals follows (in thousands):

| Name of Individual | Year | | Salary | | Deferred/ Perquisites | | Other* | | Total |
|---|---|---|---|---|---|---|---|---|---|
| Mark W. Kaufman, CEO | **2014** | **$** | **96** | **$** | **1** | **$** | **127** | **$** | **224** |
| Mark W. Kaufman, CEO | 2013 | | 92 | | 1 | | 27 | | 120 |
| Mark W. Kaufman, CEO | 2012 | | 88 | | -- | | 4 | | 92 |
| Aggregate Number of Senior Officers/Highly Compensated Individuals, excluding CEO | | | | | | | | | |
| Four | **2014** | **$** | **270** | **$** | **1** | **$** | **116** | **$** | **387** |
| Four | 2013 | | 248 | | 1 | | 33 | | 282 |
| Four | 2012 | | 222 | | -- | | 8 | | 230 |

The amount in "Other" category in the preceding table includes:

- Beginning in 2013, "Other" also includes any changes in the value of pension benefits. The change in value of the pension benefits is defined as the change in the vested portion of the present value of the accumulated benefit obligation from December 31 of the prior year to December 31 of the most recent year for the District-wide Pension Plan and the Pension Restoration Plan, as applicable, as disclosed in Note 8. This value is not reflected for 2012.

- Employer match on defined contribution plans available to all employees.

No tax reimbursements are made to senior officers/highly compensated individuals.

The value of the pension benefits from December 31, 2013 to December 31, 2014 changed primarily due to changes in actuarial assumptions. The assumptions with the largest impact in 2014 included a reduction in the discount rate and updated mortality tables reflecting longer life expectancies.

Members may request information on the compensation paid during 2014 to the individuals included in the preceding table.

On February 26, 2015, the FCA published a final rule in the Federal Register to revise compensation disclosures to shareholders and investors. The rule would exclude certain employees from the current report requirements in the chart above. Under the current rule, an employee who is not otherwise among the Association's five most highly compensated employees may have a significant change in the value of his/her pension, making him/her among the top five most highly compensated employees. This could cause an individual to be excluded from the disclosure, who under normal circumstances, would be considered among the Association's most highly compensated. The final rule would exclude from the requirement any employee who, without changes in value related to their pension plan, would not be considered among the top five most highly compensated employees. The exclusion would only apply if the individual's pension plan was available to all similarly situated employees on the same basis. While not final as of December 31, 2014, employees disclosed for 2014 in the above chart were determined based on the final rule. No disclosures were changed from prior reporting periods; therefore, comparability may be limited as a result of this change.

Effective June 18, 2014, the FCA Board adopted a final rule to remove all requirements related to advisory votes at Farm Credit Institutions. This rule eliminates the requirement for advisory votes on CEO and/or senior officer compensation.

A summary of the pension benefits attributable to the CEO, senior officers, and highly compensated individuals as of December 31, 2014 follows (dollars in thousands):

| Name of Individual | Plan | Years of Credited Service | Present Value of Accumulated Benefits | Payments Made During the Reporting Period |
|---|---|---|---|---|
| Mark W. Kaufman, CEO | AgriBank District Retirement Plan | **34.9** | **$ 584** | **$ --** |
| Aggregate Number of Senior Officers/Highly Compensated Individuals, excluding CEO | | | | |
| Three | AgriBank District Retirement Plan | **18.7** | **$ 351** | **$ --** |

The change in composition of the aggregate senior officer and highly compensated individuals can have a significant impact on the calculation of the accumulated pension benefits.

Effective January 1, 2007, the AgriBank District Retirement Plan was closed to new employees. Therefore, any employee starting employment with the AgriBank District after that date is not eligible to be in the plan.

**Transactions with Senior Officers and Directors**

Information regarding related party transactions is discussed in Note 9 of this Annual Report.

**Travel, Subsistence, and Other Related Expenses**

Directors and senior officers are reimbursed for reasonable travel, subsistence, and other related expenses associated with business functions. A copy of our policy for reimbursing these costs is available by contacting us at P.O. Box 750, Dermott, AR 71638, (870) 538-3258.

The total directors' travel, subsistence, and other related expenses were $12 thousand, $7 thousand, and $9 thousand in 2014, 2013, and 2012, respectively.

**Involvement in Certain Legal Proceedings**

No events occurred during the past five years that are material to evaluating the ability or integrity of any person who served as a director or senior officer on January 1, 2015 or at any time during 2014.

**Member Privacy**

The FCA Regulations protect members' nonpublic personal financial information. Our directors and employees are restricted from disclosing information about our association or our members not normally contained in published reports or press releases.

**Relationship with Qualified Public Accountant**

There were no changes in independent auditors since the last Annual Report to members and we are in agreement with the opinion expressed by the independent auditors. The total fees paid during 2014 were $8 thousand. The fees paid were for audit services.

## Financial Statements

The "Report of Management", "Report of Audit Committee", "Independent Auditor's Report", "Consolidated Financial Statements", and "Notes to Consolidated Financial Statements" are presented prior to this portion of the Annual Report.

## Credit and Services to Young, Beginning, and Small Farmers and Ranchers

Information regarding credit and services to young, beginning, and small farmers and ranchers, and producers or harvesters of aquatic products is discussed in an addendum to this Annual Report.

## Equal Employment Opportunity

We are an equal opportunity employer. It is our policy to provide equal employment opportunity to all persons regardless of race, color, religion, national origin, sex, age, disability, veteran status, genetic information, sexual orientation, creed, marital status, status with regard to public assistance, membership or activity involving a local human rights commission, or any other characteristic protected by law. We comply with all state and local equal employment opportunity regulations. We conduct all personnel decisions and processes relating to our employees and job applicants in an environment free of discrimination and harassment.

# YOUNG, BEGINNING, AND SMALL FARMERS AND RANCHERS

*Delta Agricultural Credit Association*
*(Unaudited)*

We have specific programs in place to serve the credit and related needs of young, beginning, and small farmers and ranchers (YBS) in our territory. The definitions of YBS as developed by the Farm Credit Administration (FCA) follow:

- Young: A farmer, rancher, or producer or harvester of aquatic products who is age 35 or younger as of the loan transaction date.
- Beginning: A farmer, rancher, or producer or harvester of aquatic products who has 10 years or less farming or ranching experience as of the loan transaction date.
- Small: A farmer, rancher, or producer or harvester of aquatic products who normally generates less than $250 thousand in annual gross sales of agricultural or aquatic products.

Our Demographic Study Revision for farmers, ranchers and producers of aquatic products is based on our information from the end of fourth quarter 2013. The source of YBS information for the comparison of Young, Beginning, and Small Farmers in our territory is the 2007 United States Department of Agriculture Census and the Chicot County Extension Service. Our portfolio statistics are based on number of loans, while the census data is based on number of farms. While the numbers are fairly similar, the difference in methodology should be taken into consideration. In addition, note that our association includes Ashley, Chicot, Desha, Drew, and Lincoln counties. Only 30% of Lincoln County is in our territory.

The total number of Young, Beginning and Small farmers in our territory is 75 young farmers, 437 beginning farmers, and 359 small farmers. Our Young, Beginning and Small farmer program consists of 50 young farmers or 67% of the market, 116 beginning farmers or 26% of the market, and 127 small farmers or 35% of the market in our territory.

There are approximately 30 agricultural lending institution offices in our territory. We make up 7% of the business of these agricultural lending agencies. Our market share of the YBS producers exceeds our physical presence in the community. It is very difficult for a YBS operation to become a viable operation with today's economic, environmental, governmental, and social forces. Efforts have succeeded in creating a larger percentage of YBS numbers in our portfolio than exists in our territory. We will continue to emphasize YBS portfolio growth.

**Mission Statement**

Our mission is to provide support for the YBS farmers. As a farmer-owned cooperative, we will promote and assist these farmers with their careers by providing a competitive and dependable source of constructive credit.

**Quantitative Goals**

Annual quantitative targets for YBS farmers are to increase our new volume in dollars by 1% and increase our percentage of share in the territory by a minimum of 1%.

We exceeded quantitative goals for YBS new volume again this year. This is not an easy undertaking with past and current economic conditions. Our goal to increase our percentage of share in our territory was not met. We had decreases in the Young (10%) and Small (1%) categories, and remained the same in the Beginning category. Our biggest growth was in new loans, including those to YBS farmers. In comparison to 2013 year-end balances, our New borrower numbers increased in volume in all three categories. New Small borrower numbers remained the same, while volume more than doubled.

For 2014, our goal was to increase our percentage of territory for Young and Small borrowers, while maintaining our Beginning borrowers. Although we ended the year with a territorial decrease of 10% of Young borrowers, no change in Beginning, and 1% decrease in Small borrowers, our year-end percentage of number and volume increased in comparison to 2013.

**Qualitative Goals and Outreach Programs**

Annual qualitative goals for YBS farmers are to maintain our current borrowers as well as attract new YBS borrowers with an acceptable credit classification. In addition, we want to have 90% of these new and existing loans having a risk rating of 9 or better.

We have developed lending methodologies for YBS farmers. Credit factors have been specifically developed and are in use by the lending staff. The Farm Service Agency (FSA) Guarantee Program is used in many cases to offset credit risk associated with the inadequate collateral or capital exhibited by many YBS farmers.

**Safety and Soundness of the Program**

We will review any loan request with the intent to make the loan if the credit and eligibility criteria can be met. We will use the FSA Guarantee Program to reduce risk associated with YBS loans, if applicable. The credit and services offered to YBS farmers are provided in a safe and sound manner.

# FUNDS HELD PROGRAM

*Delta Agricultural Credit Association*
*(Unaudited)*

**Purpose**

The purpose of this policy is to establish standardized documentation and procedures on the uses of the Funds Held feature.

**Policy**

Funds Held Account Purpose. It is the intention of the Association to make available the Funds Held feature to borrowers for the purpose of escrowing available funds to be applied to future scheduled payments of principal, interest payable, and other collateral expenses such as property taxes and insurance.

Funds Held Account Balance Maximum. Funds Held principal balance cannot exceed the related loan's outstanding principal balance. Recommended maximum balance not to exceed the equivalent of 50% of the current outstanding principal loan balance.

Interest Paid on Funds Held. Interest paid on Funds Held balances will be equal to the current Bill Rate charged on the respective loan account. Interest paid shall not exceed the rate charged on the related loan(s).

A 1099-INT Form will be sent to borrowers and reported to the IRS in accordance with IRS Regulations. Funds Held interest income will be reported on an "accrual basis," as opposed to 1098 Interest Paid reporting which is on a "cash basis."

Availability of Funds Held Balances for Withdrawal. The Association wishes to avoid potential abuse of this feature. The Association is not a chartered depository institution. Therefore, a Funds Held account cannot be treated as a deposit account from which funds can be withdrawn on demand.

However, withdrawals may be approved by management, on an exception basis, not to exceed FOUR withdrawals per calendar year per loan.

Borrowers shall be provided adequate disclosures regarding:

- The fact that Funds Held balances are uninsured, including an explanation of the risk in the event of liquidation of the institution;
- Limits on amounts that can be paid into Funds Held;
- Interest rates that will be paid; and
- Withdrawal guidelines or restrictions.

**Responsibility**

The management will be responsible for monitoring and approving Funds Held withdrawals. The management may delegate Funds Held withdrawal approvals to branch managers.

Association management shall report to the Board of Directors, on an annual basis, information concerning customer's use of the Funds Held account.

The Board of Directors will periodically review the adequacy of the provisions of this policy.

Delta Agricultural Credit Association
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Visit us at www.deltaaca.com