CENTRAL TEXAS FARM CREDIT, ACA

2012
Quarterly Report
Second Quarter

For the Quarter Ended June 30, 2012

REPORT OF MANAGEMENT

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

Boyd J. Chambers

Boyd J. Chambers, Chief Executive Officer and President

July 24, 2012

Jerry Don Klose

Jerry Don Klose, Chairman, Board of Directors

July 24, 2012

Alan E Benedict

Alan E. Benedict, Controller and Treasurer

July 24, 2012

CENTRAL TEXAS FARM CREDIT, ACA
MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the financial performance of the Central Texas Farm Credit, ACA (Agricultural Credit Association), referred to as the association, for the quarter ended June 30, 2012. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2011 Annual Report to Stockholders.

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

The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries, the Production Credit Association (PCA) and the Federal Land Credit Association (FLCA). The consolidated financial statements were prepared under the oversight of the association's audit committee.

Significant Events:

2010

In December 2010, the association received a direct loan patronage of $1,637,018 from the Farm Credit Bank of Texas (the bank), representing 50 basis points on the average daily balance of the association's direct loan with the bank. During 2010, the association received $188,298 in patronage payments from the bank, based on the association's stock investment in the bank.

In April 2010, the association received a refund from the Farm Credit System Insurance Corporation (FCSIC) of prior year insurance premiums totaling $410,939 which was taken into income for 2010.

During the third quarter of 2010, association Director Chris West paid his loans in full and thereby became ineligible to continue serving as a Director. In addition, association Director Larry Damron resigned from his position, with the Board formally accepting his resignation.

In December, 2010, the Board of Directors agreed to amend the Bylaws to allow for the reduction of the Board from 11 to 9 Directors (8 Stockholder-elected and 1 Director-elected). Subsequent to year end, the Board formally adopted this change to the Bylaws by resolution at the January, 2011 Board Meeting.

Mr. James R. Isenhower retired as CEO of Central Texas Farm Credit, ACA effective December 31, 2010. Mr. Boyd J. Chambers became the new CEO effective January 1, 2011.

2011

In December 2011, the association received a direct loan patronage of $1,309,704 from the bank, representing 42 basis points on the average daily balance of the association's direct loan with the bank. During 2011, the association received $158,326 in patronage payments from the bank, based on the association's stock investment in the bank.

During December 2011, association director Cody Richmond resigned from his position, with the board formally accepting his resignation.

At the December 2011 Board meeting, the Board of Directors agreed to amend the Bylaws to allow for the reduction of the Board from 9 to 8 Directors (7 Stockholder-elected and 1 Director-elected). Subsequent to year end, the Board formally adopted this change to the Bylaws by resolution at the February, 2012 Board Meeting.

2012

In April 2012, Chairman Brent Heinze decided not to seek re-election in an effort to assist the association in reducing the number of directors on the board. In June 2012, the association board of directors elected Director Jerry Don Klose to succeed Brent Heinze as the board Chairman.

In May 2012, the association received a refund from the Farm Credit System Insurance Corporation (FCSIC) of prior year insurance premiums totaling $338,305 which was taken into income for 2012.

Problem Loans

2008

In the second quarter all loans being held by one large borrower were deemed non-viable and transferred to non-accrual. FLCA debt for this borrower totaled $3,155,256 and PCA debt totaled $3,673,011. Resolution of these debts was completed in the third quarter of 2008 with the exception of some on-going PCA related legal expenses. The entire FLCA debt was fully recovered at resolution and the PCA debt was recovered except for related charge-offs of $753,570. On-going legal expense ceased in 2010 with a cumulative total of $92,969. Additional legal expenses are not anticipated related to these accounts.

During the fourth quarter four district participation loans were deemed non-viable or as having significant financial stress which required these accounts to be transferred to a non-accrual status. These combined accounts resulted in $8,257,898 in loan volume being moved to non-accrual. All four accounts were eventually resolved with one being wholly transferred back to an accruing status. The remaining three of these accounts remained in non-accrual until resolution, requiring $1,949,598 in charge-offs. Due to subsequent recoveries on two of the accounts this charge-off figure was reduced to $1,855,475. One of the accounts also resulted in a new loan to another entity that purchased the assets of the troubled account.

2009

In the second quarter two participation loans were deemed non-viable and placed in a non-accrual status for a combined total of $5,842,305. Current year (2009) interest reversed for these loans totaled $43,211. Specific reserves were established on both of these loans totaling $2,441,569. Upon resolution of these two accounts in the second and third quarters of 2010, a charge-off amount of $964,889 was recognized and $1,476,680 of previous reserves was returned to income. One of these accounts resulted in $523,049 of acquired property and a restructured loan that was returned to accrual status. Both the acquired property and restructured loan remain on the association's books. The other loan was returned to an accrual status as well and remains on the association's books.

During the third quarter three additional participation loans totaling $5,739,970, were moved to a non-accrual status. Specific reserves originally established for these three loans totaled $1,097,884 and current year (2009) interest income reversals totaled $39,728. One account was resolved by being sold in the fourth quarter but required a charge-off of $794,733. All funds related to this sale were collected in full during the first quarter of 2010. The second account of these three accounts was resolved in the third quarter of 2010, resulting in a charge-off of $385,308. A subsequent recovery of $11,667 was realized on this account in the first quarter of 2011. The last of these three accounts was resolved in the third quarter of 2011with $325,103 of the debt being charged-off and $424,897 of the related $750,000 specific reserve being returned to income.

In the fourth quarter another district participation loan was deemed as a troubled debt and was promptly sold during the quarter. The sale related to this account resulted in a $11,643 charge-off and a $1,909 reversal of current year (2009) interest accruals. All funds related to this sale were fully collected in the first quarter of 2010.

2010

During the second quarter another district participation loan which the association participated in was deemed non-viable or as containing significant financial stress which resulted in this account being transferred to a non-accrual status. The peak balance of this non-accrual loan was $4,637,524. Current year (2010) interest income of $114,408 was reversed on this loan at the time of transfer to non-accrual. In the third quarter of 2011of this loan was collected in full.

Quarter End Weather and Crop Conditions

Hot, dry, windy days caused rangeland and pastures to continue to decline in many of the counties served by the association. A few areas reported scattered showers that benefited cotton, grain sorghum crops and pastures. The wheat harvest finished with good yields in many locales within the association's territory. Hay grazer was in good condition, and many producers began cutting and baling. Cotton planting was under way with producers irrigating where possible, dry land cotton was off to a good start as of quarter end. Large troublesome grasshopper populations had damaged crops in some areas. Rangeland and pastures improved in areas that received rain, however most producers were not expected to rebuild herds to previous numbers due to slow pasture recovery and price of replacement livestock. Pecan crops are looking strong, as are irrigated alfalfa and coastal Bermuda hay crops.

Summation

For over 94 years, the association has continued to provide its members with quality financial services. The board of directors and management remain committed to maintaining the financial integrity of the association while offering competitive loan products that meet the financial needs of agricultural producers.

Loan Portfolio:

Total loans outstanding at June 30, 2012, including non-accrual loans and sales contracts, were $384,203,819 compared to $378,541,377 at December 31, 2011, reflecting an increase of 1.5 percent. Non-accrual loans as a percentage of total loans outstanding were 0.3 percent at June 30, 2012, compared to 0.4 percent at December 31, 2011.

The association recorded no recoveries or charge-offs for the quarters ended June 30, 2012, and June 30, 2011. The association's allowance for loan losses was 0.2 percent and 0.2 percent of total loans outstanding as of June 30, 2012, and December 31, 2011, respectively.

Currently the association has $1,168,556 in non-accrual accounts stemming from four loans within the association's core loan portfolio. There have been no material changes in the association's core portfolio's borrower profile, geographic distribution, commodity concentration, or asset quality.

Risk Exposure:

High-risk assets include non-accrual loans, loans that are past due 90 days or more and still accruing interest, formally restructured loans and other property owned. The following table illustrates the association's components and trends of high-risk assets.

	June 30, 2012		December 31, 2011	
	Amount	%	Amount	%
Nonaccrual	$ 1,168,556	49.3%	$ 1,339,888	51.8%
90 days past due and still accruing interest	-	0.0%	-	0.0%
Formally restructured	679,816	28.7%	692,248	26.8%
Other property owned, net	523,049	22.1%	552,549	21.4%
Total	$ 2,371,421	100.0%	$ 2,584,685	100.0%

Results of Operations:

The association had net income of $2,844,303 and $5,304,593 for the three and six months ended June 30, 2012, as compared to net income of $2,053,953 and $4,104,026 for the same period in 2011, reflecting an increase of 38.5 percent and 29.3 percent, respectively. Net interest income was $3,060,315 and $6,057,788 for the three and six months ended June 30, 2012, compared to $2,901,849 and $5,835,747 for the same period in 2011. Gross interest income for the three and six months ended June 30, 2012, increased by $269,202 and $609,381, or 5.5 percent and 6.2 percent, respectively, from the same period of 2011, primarily due to increases in yields on earning assets. Interest expense for the three and six months ended June 30, 2012, decreased by $427,668 and $831,422, or 21.5 percent and 20.7 percent, respectively, from the same period of 2011 due to a decrease in interest rates as well as a decrease in average debt volume. Average loan volume for the second quarter of 2012 was $382,640,284, compared to $386,861,810 in the second quarter of 2011. The average spread on the loan portfolio for the second quarter of 2012 was 2.79 percent, compared to 2.55 percent in the second quarter of 2011.

The association's return on average assets for the six months ended June 30, 2012, was 2.73 percent compared to 2.06 percent for the same period in 2011. The association's return on average equity for the six months ended June 30, 2012, was 12.58 percent, compared to 10.48 percent for the same period in 2011. In addition to the improvement in net interest income, the association's return numbers were further strengthened by an unexpected refund of prior year insurance premiums by the FCSIC which totaled $338,305.

Because the association depends on the bank for funding, any significant positive or negative factors affecting the operations of the bank would have a similar effect on the operations of the association.

Liquidity and Funding Sources:

The association secures the majority of its lendable funds from the Farm Credit Bank of Texas (the bank), which obtains its funds through the issuance of system-wide obligations and with lendable equity. The following schedule summarizes the association's borrowings.

		June 30, 2012		December 31, 2011
Note payable to the bank	$	303,790,556	$	300,441,402
Accrued interest on note payable		506,901		576,116
Total	$	304,297,457	$	301,017,518

The association's own funds were $80,460,844, $78,225,710, and $71,942,585 at June 30, 2012, December 31, 2011 and June 30, 2011, respectively. As of June 30, 2012, the association's liquidity margin was 25.91 percent and the maximum amount of direct note borrowing available for the association, from the bank, was $386,268,305, as defined by the association's general financing agreement.

The liquidity policy of the association is to manage cash balances, to maximize debt reduction and to increase accrual loan volume. This policy will continue to be pursued during all of 2012 and into the future. As borrower payments are received, they are applied to the association's note payable to the bank.

The association will continue to fund its operations through direct borrowings from the bank, capital surplus from prior years and borrower stock. It is management's opinion that funds available to the association are sufficient to fund its operations for the coming year and foreseeable future.

Capital Resources:

The association's capital position increased by $5,233,206 as of June 30, 2012, as compared to the December 31, 2011 capital position. The association's debt as a percentage of members' equity was 3.53:1 as of June 30, 2012, compared to 3.74:1 as of December 31, 2011.

Under regulations governing minimum permanent capital adequacy and other capitalization issues, the association is required to maintain a minimum adjusted permanent capital of 7.0 percent of risk-adjusted assets, total surplus of 7.0 percent of risk-adjusted assets and core surplus of 3.5 percent of risk-adjusted assets as defined by the FCA. The association's permanent capital ratio at June 30, 2012, was 19.8 percent, which is in compliance with the FCA's minimum permanent capital standard. The association's core surplus ratio and total surplus ratio at June 30, 2012, were 19.3 percent and 19.3 percent, respectively, which is in compliance with the FCA's minimum surplus standards.

Significant Recent Accounting Pronouncements:

A summary of pertinent accounting and reporting guidance provided by the Financial Accounting Standards Board (FASB) is provided in Note 1 to financial statements contained in this quarterly report to stockholders.

Relationship with the Farm Credit Bank of Texas:

The association's financial condition may be impacted by factors that affect the bank. The financial condition and results of operations of the bank may materially affect the stockholder's investment in the association. The Management's Discussion and Analysis and Notes to Financial Statements contained in the December 31, 2011 Annual Report of Central Texas Farm Credit, ACA more fully describe the association's relationship with the bank.

The Texas Farm Credit District's (district) annual and quarterly stockholder reports are available free of charge, upon request. These reports can be obtained by writing to Farm Credit Bank of Texas, The Ag Agency, P.O. Box 202590, Austin, Texas 78720, or by calling (512) 483-9204. Copies of the district's quarterly and annual stockholder reports also can be requested by e-mail at *fcb@farmcreditbank.com.* The district makes its annual and quarterly stockholder reports available on its website at *www.farmcreditbank.com.*

The association's quarterly stockholder reports are also available free of charge, upon request. These reports will be available approximately 40 days after quarter-end and can be obtained from the association's website at www.centraltexasaca.com or by writing to CENTRAL TEXAS FARM CREDIT, ACA , P.O. Box 511, Coleman, Texas 76834, or calling (325) 625-2165. Copies of the association's quarterly stockholder reports can also be requested by e-mailing *alan.benedict@farmcreditbank.com.* The association also makes its annual stockholder reports available on its website at www.centraltexasaca.com 75 days after the fiscal year end. Copies of the association's annual stockholder report can also be requested at any Central Texas Farm Credit, ACA office 90 days after the fiscal year end. Hard copies of the published annual report are also mailed to all association stockholders no later than 90 days after the fiscal year end.

CENTRAL TEXAS FARM CREDIT, ACA

CONSOLIDATED BALANCE SHEET

		June 30, 2012 (unaudited)		December 31, 2011
ASSETS				
Cash	$	982,886	$	1,150,203
Investments		-		-
Loans		384,203,819		378,541,377
Less: allowance for loan losses		932,231		878,513
Net loans		383,271,588		377,662,864
Accrued interest receivable		3,769,928		3,739,673
Investment in and receivable from the bank:				
Capital stock		6,272,795		6,272,795
Other		450,803		-
Deferred taxes, net		-		-
Other property owned, net		523,049		552,549
Premises and equipment		603,914		611,477
Other assets		459,019		163,716
Total assets	$	396,333,982	$	390,153,277
LIABILITIES				
Note payable to the bank	$	303,790,556	$	300,441,402
Advance conditional payments		-		-
Accrued interest payable		506,901		576,116
Drafts outstanding		2,513,901		301,417
Dividends payable		-		4,500,000
Patronage distributions payable		-		-
Deferred taxes, net		-		-
Other liabilities		2,001,958		2,046,882
Total liabilities		308,813,316		307,865,817
MEMBERS' EQUITY				
Capital stock and participation certificates		2,145,655		2,206,060
Additional paid-in capital		-		-
Allocated retained earnings		-		-
Unallocated retained earnings		85,526,917		80,222,323
Accumulated other comprehensive income (loss)		(151,906)		(140,923)
Total members' equity		87,520,666		82,287,460
Total liabilities and members' equity	$	396,333,982	$	390,153,277

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

CENTRAL TEXAS FARM CREDIT, ACA

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(unaudited)

	Quarter Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
INTEREST INCOME				
Loans	$ 4,625,157	$ 4,894,359	$ 9,237,094	$ 9,846,475
Investments	-	-	-	-
Other	-	-	-	-
Total interest income	4,625,157	4,894,359	9,237,094	9,846,475
INTEREST EXPENSE				
Note payable to the bank	1,564,842	1,992,510	3,179,306	4,010,728
Advance conditional payments	-	-	-	-
Total interest expense	1,564,842	1,992,510	3,179,306	4,010,728
Net interest income	3,060,315	2,901,849	6,057,788	5,835,747
PROVISION FOR LOAN LOSSES	27,297	2,484	46,421	(16,248)
Net interest income after provision for loan losses	3,033,018	2,899,365	6,011,367	5,851,995
NONINTEREST INCOME				
Income from the bank:				
Patronage income	259,538	40,648	515,501	81,493
Loan fees	106,471	90,749	281,586	164,301
Refunds from Farm Credit System Insurance Corporation	-	-	-	-
Financially related services income	2,221	2,677	4,847	5,984
Gain (loss) on other property owned, net	-	-	1,910	390
Gain (loss) on sale of premises and equipment, net	-	-	-	19,541
Other noninterest income	338,305	13,015	358,604	72,737
Impairment losses on investments				
Total other-than-temporary impairment losses	-	-	-	-
Less: portion of loss recognized in other comprehensive income	-	-	-	-
Net impairment loss recognized in earnings	368,230	134,074	803,844	271,709
Total noninterest income	706,535	147,089	1,162,448	344,446
NONINTEREST EXPENSES				
Salaries and employee benefits	598,047	657,885	1,240,427	1,356,888
Directors' expense	32,936	30,653	59,791	55,144
Purchased services	40,674	53,359	77,010	142,172
Travel	21,534	40,121	46,024	81,139
Occupancy and equipment	46,759	41,682	94,392	81,943
Communications	5,809	7,338	13,537	15,535
Advertising	37,206	32,888	72,167	75,962
Public and member relations	17,741	22,251	48,435	42,768
Supervisory and exam expense	40,315	41,555	80,630	83,111
Insurance Fund premiums	35,480	46,969	70,623	94,188
Merger-implementation and restructuring costs	-	-	-	-
Other noninterest expense	18,749	17,800	66,186	63,565
Total noninterest expenses	895,250	992,501	1,869,222	2,092,415
Income before income taxes	2,844,303	2,053,953	5,304,593	4,104,026
Provision for (benefit from) income taxes	-	-	-	-
NET INCOME	2,844,303	2,053,953	5,304,593	4,104,026
Other comprehensive income:				
Change in postretirement benefit plans	(5,491)	(6,785)	(10,983)	(13,571)
Income tax expense related to items of other comprehensive income	-	-	-	-
Other comprehensive income, net of tax	(5,491)	(6,785)	(10,983)	(13,571)
COMPREHENSIVE INCOME	$ 2,838,812	$ 2,047,168	$ 5,293,610	$ 4,090,455

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

CENTRAL TEXAS FARM CREDIT, ACA

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY
(unaudited)

	Capital Stock/ Participation Certificates	Additional Paid-in-Capital	Retained Earnings		Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
			Allocated	Unallocated		
Balance at December 31, 2010	$ 2,254,885	$ -	$ -	$ 74,665,875	$ (57,534)	$ 76,863,226
Net income	-	-	-	4,104,026	-	4,104,026
Other comprehensive income	-	-	-	-	(13,571)	(13,571)
Capital stock/participation certificates and allocated retained earnings issued	130,520	-	-	-	-	130,520
Capital stock/participation certificates and allocated retained earnings retired	(133,995)	-	-	-	-	(133,995)
Stock equalization	-	-	-	-	-	-
Dividends declared	-	-	-	-	-	-
Equity issued or recharacterized upon merger	-	-	-	-	-	-
Equity retired or recharacterized upon merger	-	-	-	-	-	-
Patronage refunds:						
Cash	-	-	-	-	-	-
Capital stock/participation certificates and allocated retained earnings	-	-	-	-	-	-
Balance at June 30, 2011	$ 2,251,410	$ -	$ -	$ 78,769,901	$ (71,105)	$ 80,950,206
Balance at December 31, 2011	$ 2,206,060	$ -	$ -	$ 80,222,323	$ (140,923)	$ 82,287,460
Net income	-	-	-	5,304,594	-	5,304,594
Other comprehensive income	-	-	-	-	(10,983)	(10,983)
Capital stock/participation certificates and allocated retained earnings issued	120,085	-	-	-	-	120,085
Capital stock/participation certificates and allocated retained earnings retired	(180,490)	-	-	-	-	(180,490)
Stock equalization	-	-	-	-	-	-
Dividends declared	-	-	-	-	-	-
Equity issued or recharacterized upon merger	-	-	-	-	-	-
Equity retired or recharacterized upon merger	-	-	-	-	-	-
Patronage refunds:						
Cash	-	-	-	-	-	-
Capital stock/participation certificates and allocated retained earnings	-	-	-	-	-	-
Balance at June 30, 2012	**$ 2,145,655**	**$ -**	**$ -**	**$ 85,526,917**	**$ (151,906)**	**$ 87,520,666**

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

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

The Central Texas Farm Credit, ACA (Agricultural Credit Association), referred to as the association, is a member-owned cooperative that provides credit and credit-related services to or for the benefit of eligible borrowers/stockholders for qualified agricultural purposes. The association serves the nineteen (19) counties of Baylor, Brown, Callahan, Coke, Coleman, Comanche, Concho, Haskell, Irion, Jones, Knox, McCulloch, Menard, Mills, Reagan, Runnels, San Saba, Sterling, and Tom Green in the state of Texas. The association is a lending institution of the Farm Credit System (the system), which was established by Acts of Congress to meet the needs of American agriculture.

The significant accounting policies followed and the financial condition and results of operations of the association as of and for the year ended December 31, 2011, are contained in the 2011 Annual Report to Stockholders. These unaudited second quarter 2012 financial statements should be read in conjunction with the 2011 Annual Report to Stockholders.

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

In September 2011, the FASB issued guidance entitled "Compensation – Retirement Benefits – Multi-employer Plans." The guidance is intended to provide more information about an employer's financial obligations to a multi-employer pension plan, which should help financial statement users better understand the financial health of significant plans in which the employer participates. The additional disclosures include: a) a description of the nature of plan benefits, b) a qualitative description of the extent to which the employer could be responsible for the obligations of the plan, including benefits earned by employees during employment with another employer and c) other quantitative information to help users understand the financial information about the plan. The amendments are effective for annual periods for fiscal years ending after December 15, 2012, for nonpublic entities. The amendments should be applied retrospectively for all prior periods presented. The adoption will not impact the association's financial condition or results of operation.

In June and December 2011, the FASB issued guidance entitled "Comprehensive Income – Presentation of Comprehensive Income." This guidance is intended to increase the prominence of other comprehensive income in financial statements. The main provisions of the guidance provide that an entity that reports items of other comprehensive income has the option to present comprehensive income in either one or two consecutive financial statements. This guidance did not change the items that must be reported in other comprehensive income. With either approach, an entity is required to disclose reclassification adjustments for items reclassified from other comprehensive income to net income in the statement(s). The December 2011 guidance deferred the effective date for the presentation of reclassification adjustments.

This guidance is applied retrospectively and is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The adoption of this guidance did not impact financial condition or results of operations, but resulted in changes to the presentation of comprehensive income.

In May 2011, the FASB issued guidance entitled "Fair Value Measurement – Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs." The amendments clarify certain aspects of the fair value measurement and disclosure requirements. The amendments are to be applied prospectively and are effective during interim and annual periods beginning after December 31, 2011. The adoption of this guidance did not impact the financial condition or results of operations but resulted in additional disclosures.

In April 2011, the FASB issued its guidance entitled, "A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring," which provides for clarification on whether a restructuring constitutes a troubled debt restructuring. In evaluating whether a restructuring is a troubled debt restructuring, a creditor must separately conclude that both of the following exists: (1) the restructuring constitutes a concession, and (2) the debtor is experiencing financial difficulties. The guidance is effective for nonpublic entities for annual periods ending on or after December 15, 2012, including interim periods within those annual periods. The adoption of this guidance was not material to the financial condition or results of operations.

The accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with generally accepted accounting principles, except for the inclusion of a statement of cash flows. Generally accepted accounting principles require a business enterprise that provides a set of financial statements reporting both financial position and results of operations to also provide a statement of cash flows for each period for which results of operations are provided. In regulations issued by FCA, associations have the option to exclude statements of cash flows in interim financial statements. Therefore, the association has elected not to include a statement of cash flows in these consolidated financial statements.

The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries, the Production Credit Association (PCA) and the Federal Land Credit Association (FLCA). The preparation of these consolidated financial statements requires the use of management's estimates. The results for the quarter ended June 30, 2012, are not necessarily indicative of the results to be expected for the year ended December 31, 2012. Certain amounts in the prior period's financial statements have been reclassified to conform to current financial statement presentation.

NOTE 2 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

A summary of loans follows:

Loan Type	**June 30, 2012 Amount**	December 31, 2011 Amount
Production agriculture:		
Real estate mortgage	**$ 288,949,784**	$ 292,664,686
Production and intermediate term	**28,548,340**	30,823,867
Agribusiness:		
Loans to cooperatives	**-**	-
Processing and marketing	**36,801,980**	30,156,902
Farm-related business	**5,324,155**	6,225,303
Communication	**14,520,113**	10,622,339
Energy	**12,093,292**	9,633,250
Water and waste disposal	**-**	232,846
Rural residential real estate	**1,736,083**	1,921,857
International	**-**	-
Lease receivables	**-**	-
Mission-related investments	**-**	-
Total	**$ 387,973,747**	$ 382,281,050

The association purchases or sells participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration regulations. The following table presents information regarding the balances of participations purchased and sold at June 30, 2012:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 14,770,529	$ 341,503	$ -	$ -	$ 14,770,529	$ 341,503
Production and intermediate term	5,041,008	-	-	-	5,041,008	-
Agribusiness	31,455,914	-	-	-	31,455,914	-
Communication	14,420,307	-	-	-	14,420,307	-
Energy	12,049,779	-	-	-	12,049,779	-
Water and waste disposal	-	-	-	-	-	-
Rural residential real estate	-	-	-	-	-	-
International	-	-	-	-	-	-
Lease receivables	-	-	-	-	-	-
Mission-related investments	-	-	-	-	-	-
Total	$ 77,737,537	$ 341,503	$ -	$ -	$ 77,737,537	$ 341,503

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

	June 30, 2012	December 31, 2011
Nonaccrual loans:		
Real estate mortgage	$ 1,168,556	$ 1,339,888
Production and intermediate term	-	-
Agribusiness	-	-
Communication	-	-
Energy	-	-
Water and waste disposal	-	-
Rural residential real estate	-	-
International	-	-
Lease receivables	-	-
Mission-related investments	-	-
Total nonaccrual loans	1,168,556	1,339,888
Accruing restructured loans:		
Real estate mortgage	679,816	692,248
Production and intermediate term	-	-
Agribusiness	-	-
Communication	-	-
Energy	-	-
Water and waste disposal	-	-
Rural residential real estate	-	-
International	-	-
Lease receivables	-	-
Mission-related investments	-	-
Total accruing restructured loans	679,816	692,248
Accruing loans 90 days or more past due:		
Real estate mortgage	-	-
Production and intermediate term	-	-
Agribusiness	-	-
Communication	-	-
Energy	-	-
Water and waste disposal	-	-
Rural residential real estate	-	-
International	-	-
Lease receivables	-	-
Mission-related investments	-	-
Total accruing loans 90 days or more	-	-
Total nonperforming loans	1,848,372	2,032,136
Other property owned	523,049	552,549
Total nonperforming assets	$ 2,371,421	$ 2,584,685

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

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

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

	June 30, 2012	December 31, 2011
Real estate mortgage		
Acceptable	**98.5 %**	98.4 %
OAEM	**0.9**	0.9
Substandard/doubtful	**0.6**	0.7
	100.0	100.0
Production and intermediate term		
Acceptable	**96.3**	93.1
OAEM	**-**	2.9
Substandard/doubtful	**3.7**	4.0
	100.0	100.0
Agribusiness		
Acceptable	**85.9**	82.6
OAEM	**6.8**	8.5
Substandard/doubtful	**7.4**	8.9
	100.1	100.0
Energy and water/waste disposal		
Acceptable	**71.0**	82.5
OAEM	**15.2**	-
Substandard/doubtful	**13.8**	17.5
	100.0	100.0
Communication		
Acceptable	**100.0**	100.0
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.0	100.0
Rural residential real estate		
Acceptable	**100.0**	100.0
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.0	100.0
International		
Acceptable	**-**	-
OAEM	**-**	-
Substandard/doubtful	**-**	-
	-	-
Lease receivables		
Acceptable	**-**	-
OAEM	**-**	-
Substandard/doubtful	**-**	-
	-	-
Mission-related investments		
Acceptable	**-**	-
OAEM	**-**	-
Substandard/doubtful	**-**	-
	-	-
Total loans		
Acceptable	**96.1**	96.0
OAEM	**1.9**	1.8
Substandard/doubtful	**2.0**	2.2
	100.0 %	100.0 %

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

June 30, 2012	**30-89 Days Past Due**	**90 Days or More Past Due**	**Total Past Due**	**Not Past Due or Less Than 30 Days Past Due**	**Total Loans**	**Recorded Investment >90 Days and Accruing**
Real estate mortgage	**$ 302,386**	**$ 84,789**	**$ 387,175**	**$ 288,562,609**	**$ 288,949,784**	**$ -**
Production and intermediate term	**21,421**	**-**	**21,421**	**28,526,919**	**28,548,340**	**-**
Loans to cooperatives	**-**	**-**	**-**	**-**	**-**	**-**
Processing and marketing	**-**	**-**	**-**	**36,801,980**	**36,801,980**	**-**
Farm-related business	**-**	**-**	**-**	**5,324,154**	**5,324,154**	**-**
Communication	**-**	**-**	**-**	**14,520,113**	**14,520,113**	**-**
Energy	**-**	**-**	**-**	**12,093,293**	**12,093,293**	**-**
Water and waste disposal	**-**	**-**	**-**	**-**	**-**	**-**
Rural residential real estate	**-**	**-**	**-**	**1,736,083**	**1,736,083**	**-**
International	**-**	**-**	**-**	**-**	**-**	**-**
Lease receivables	**-**	**-**	**-**	**-**	**-**	**-**
Mission-related investments	**-**	**-**	**-**	**-**	**-**	**-**
Total	**$ 323,807**	**$ 84,789**	**$ 408,596**	**$ 387,565,151**	**$ 387,973,747**	**$ -**

December 31, 2011	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment >90 Days and Accruing
Real estate mortgage	$ 157,568	$ -	$ 157,568	$ 292,507,118	$ 292,664,686	$ -
Production and intermediate term	-	-	-	30,823,867	30,823,867	-
Loans to cooperatives	-	-	-	-	-	-
Processing and marketing	-	-	-	30,156,902	30,156,902	-
Farm-related business	-	-	-	6,225,304	6,225,304	-
Communication	-	-	-	10,622,339	10,622,339	-
Energy	-	-	-	9,633,250	9,633,250	-
Water and waste disposal	-	-	-	232,846	232,846	-
Rural residential real estate	-	-	-	1,921,856	1,921,856	-
International	-	-	-	-	-	-
Lease receivables	-	-	-	-	-	-
Mission-related investments	-	-	-	-	-	-
Total	$ 157,568	$ -	$ 157,568	$ 382,123,482	$ 382,281,050	$ -

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

A restructuring of a debt constitutes a troubled debt restructuring if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. Troubled debt restructurings are undertaken in order to improve the likelihood of recovery on the loan and may include, but are not limited to, forgiveness of principal or interest, interest rate reductions that are lower than the current market rate for new debt with similar risk, or significant term or payment extensions.

As of June 30, 2012, the total recorded investment of troubled debt restructured loans was $679,816, none of which is classified as non-accrual, with no related specific allowance for loan losses. As of June 30, 2012, there were no commitments to lend funds to borrowers whose loan terms have been modified in a troubled debt restructuring.

Additional impaired loan information is as follows:

	At June 30, 2012			At December 31, 2011		
	Recorded Investment	**Unpaid Principal Balance[a]**	**Related Allowance**	Recorded Investment	Unpaid Principal Balance[a]	Related Allowance
Impaired loans with a related allowance for credit losses:						
Real estate mortgage	$ -	$ -	$ -	$ -	$ -	$ -
Production and intermediate term	-	-	-	-	-	-
Loans to cooperatives	-	-	-	-	-	-
Processing and marketing	-	-	-	-	-	-
Farm-related business	-	-	-	-	-	-
Communication	-	-	-	-	-	-
Energy and water/waste disposal	-	-	-	-	-	-
Rural residential real estate	-	-	-	-	-	-
International	-	-	-	-	-	-
Lease receivables	-	-	-	-	-	-
Mission-related investments	-	-	-	-	-	-
Total	$ -	$ -	$ -	$ -	$ -	$ -
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	$ 1,848,146	$ 1,848,146	$ -	$ 2,031,906	$ 2,031,906	$ -
Production and intermediate term	-	-	-	-	-	-
Loans to cooperatives	-	-	-	-	-	-
Processing and marketing	-	-	-	-	-	-
Farm-related business	-	-	-	-	-	-
Communication	-	-	-	-	-	-
Energy and water/waste disposal	-	-	-	-	-	-
Rural residential real estate	-	-	-	-	-	-
International	-	-	-	-	-	-
Lease receivables	-	-	-	-	-	-
Mission-related investments	-	-	-	-	-	-
Total	$ 1,848,146	$ 1,848,146	$ -	$ 2,031,906	$ 2,031,906	$ -
Total impaired loans:						
Real estate mortgage	$ 1,848,146	$ 1,848,146	$ -	$ 2,031,906	$ 2,031,906	$ -
Production and intermediate term	-	-	-	-	-	-
Loans to cooperatives	-	-	-	-	-	-
Processing and marketing	-	-	-	-	-	-
Farm-related business	-	-	-	-	-	-
Communication	-	-	-	-	-	-
Energy and water/waste disposal	-	-	-	-	-	-
Rural residential real estate	-	-	-	-	-	-
International	-	-	-	-	-	-
Lease receivables	-	-	-	-	-	-
Mission-related investments	-	-	-	-	-	-
	$ 1,848,146	$ 1,848,146	$ -	$ 2,031,906	$ 2,031,906	$ -

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

	For the Three Months Ended			
	June 30, 2012		June 30, 2011	
	Average Impaired Loans	**Interest Income Recognized**	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:				
Real estate mortgage	$ -	$ -	$ -	$ -
Production and intermediate term	-	-	-	-
Loans to cooperatives	-	-	-	-
Processing and marketing	-	-	-	-
Farm-related business	-	-	-	-
Communication	-	-	-	-
Energy and water/waste disposal	-	-	-	-
Rural residential real estate	-	-	-	-
International	-	-	-	-
Lease receivables	-	-	-	-
Mission-related investments	-	-	-	-
Total	$ -	$ -	$ -	$ -
Impaired loans with no related allowance for credit losses:				
Real estate mortgage	$ 1,871,372	$ 25,950	$ 1,431,900	$ 2,621
Production and intermediate term	-	-	-	-
Loans to cooperatives	-	-	-	-
Processing and marketing	-	-	-	-
Farm-related business	-	-	4,637,524	-
Communication	-	-	-	-
Energy and water/waste disposal	-	-	-	-
Rural residential real estate	-	-	-	-
International	-	-	-	-
Lease receivables	-	-	-	-
Mission-related investments	-	-	-	-
Total	$ 1,871,372	$ 25,950	$ 6,069,424	$ 2,621
Total impaired loans:				
Real estate mortgage	$ 1,874,325	$ 25,950	$ 1,431,900	$ 2,621
Production and intermediate term	-	-	-	-
Loans to cooperatives	-	-	-	-
Processing and marketing	-	-	-	-
Farm-related business	-	-	4,637,524	-
Communication	-	-	-	-
Energy and water/waste disposal	-	-	-	-
Rural residential real estate	-	-	-	-
International	-	-	-	-
Lease receivables	-	-	-	-
Mission-related investments	-	-	-	-
	$ 1,874,325	$ 25,950	$ 6,069,424	$ 2,621

	For the Six Months Ended			
	June 30, 2012		June 30, 2011	
	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:				
Real estate mortgage	$ -	$ -	$ -	$ -
Production and intermediate term	-	-	-	-
Loans to cooperatives	-	-	-	-
Processing and marketing	-	-	-	-
Farm-related business	-	-	-	-
Communication	-	-	-	-
Energy and water/waste disposal	-	-	-	-
Rural residential real estate	-	-	-	-
International	-	-	-	-
Lease receivables	-	-	-	-
Mission-related investments	-	-	-	-
Total	$ -	$ -	$ -	$ -
Impaired loans with no related allowance for credit losses:				
Real estate mortgage	$ 1,874,325	$ 29,525	$ 1,434,721	$ 20,656
Production and intermediate term	-	-	-	-
Loans to cooperatives	-	-	-	-
Processing and marketing	-	-	-	-
Farm-related business	-	-	4,637,524	-
Communication	-	-	-	-
Energy and water/waste disposal	-	-	-	-
Rural residential real estate	-	-	-	-
International	-	-	-	-
Lease receivables	-	-	-	-
Mission-related investments	-	-	-	-
Total	$ 1,874,325	$ 29,525	$ 6,072,245	$ 20,656
Total impaired loans:				
Real estate mortgage	$ 1,874,325	$ 29,525	$ 1,434,721	$ 20,656
Production and intermediate term	-	-	-	-
Loans to cooperatives	-	-	-	-
Processing and marketing	-	-	-	-
Farm-related business	-	-	4,637,524	-
Communication	-	-	-	-
Energy and water/waste disposal	-	-	-	-
Rural residential real estate	-	-	-	-
International	-	-	-	-
Lease receivables	-	-	-	-
Mission-related investments	-	-	-	-
	$ 1,874,325	$ 29,525	$ 6,072,245	$ 20,656

A summary of changes in the allowance for loan losses and period end recorded investment in loans is as follows:

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy and Water/Waste Disposal	Rural Residential Real Estate	International	Lease Receivable	Mission-Related Investments	Total
Allowance for Credit Losses:										
Balance at March 31, 2012	$ 215,833	$ 282,014	$ 215,518	$ 41,315	$ 151,949	$ 1,466	$ -	$ -	$ -	$ 908,095
Charge-offs	-	-	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-	-	-
Provision for loan losses	(4,108)	5,624	(1,408)	13,535	13,684	(30)	-	-	-	27,297
Adjustment due to merger	-	-	-	-	-	-	-	-	-	-
Other	(2)	2,787	(539)	293	(5,701)	-	-	-	-	(3,162)
Balance at June 30, 2012	$ 211,723	$ 290,425	$ 213,571	$ 55,143	$ 159,932	$ 1,436	$ -	$ -	$ -	$ 932,230
Balance at December 31, 2011	$ 226,217	$ 270,711	$ 215,308	$ 19,637	$ 145,160	$ 1,480	$ -	$ -	$ -	$ 878,513
Charge-offs	-	-	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-	-	-
Provision for loan losses	(14,452)	(4,099)	4,753	35,095	25,168	(44)	-	-	-	46,421
Adjustment due to merger	-	-	-	-	-	-	-	-	-	-
Other	(42)	23,813	(6,490)	411	(10,396)	-	-	-	-	7,296
Balance at June 30, 2012	$ 211,723	$ 290,425	$ 213,571	$ 55,143	$ 159,932	$ 1,436	$ -	$ -	$ -	$ 932,230
Ending Balance:										
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	211,723	290,425	213,571	55,143	159,932	1,436	-	-	-	932,230
Loans acquired with deteriorated credit quality	-	-	-	-	-	-	-	-	-	-
Balance at June 30, 2012	$ 211,723	$ 290,425	$ 213,571	$ 55,143	$ 159,932	$ 1,436	$ -	$ -	$ -	$ 932,230
Balance at March 31, 2011	$ 214,673	$ 285,663	$ 1,096,939	$ -	$ 2,589	$ 3,197	$ -	$ -	$ -	$ 1,603,061
Charge-offs	-	-	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-	-	-
Provision for loan losses	(102,555)	(177,714)	287,071	-	(2,156)	(2,162)	-	-	-	2,484
Adjustment due to merger	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
June 30, 2011	$ 112,118	$ 107,949	$ 1,384,010	$ -	$ 433	$ 1,035	$ -	$ -	$ -	$ 1,605,545
Balance at December 31, 2010	$ 158,055	$ 199,059	$ 1,261,759	$ -	$ 808	$ 2,112	$ -	$ -	$ -	$ 1,621,793
Charge-offs	-	-	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-	-	-
Provision for loan losses	(45,937)	(91,110)	122,251	-	(375)	(1,077)	-	-	-	(16,248)
Adjustment due to merger	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
June 30, 2011	$ 112,118	$ 107,949	$ 1,384,010	$ -	$ 433	$ 1,035	$ -	$ -	$ -	$ 1,605,545
Ending Balance:										
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	112,118	107,949	1,384,010	-	433	1,035	-	-	-	1,605,545
Loans acquired with deteriorated credit quality	-	-	-	-	-	-	-	-	-	-
June 30, 2011	$ 112,118	$ 107,949	$ 1,384,010	$ -	$ 433	$ 1,035	$ -	$ -	$ -	$ 1,605,545

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy and Water/Waste Disposal	Rural Residential Real Estate	International	Lease Receivable	Mission-Related Investments	Total
Recorded Investments and Interest in Loans Outstanding:										
Ending Balance at June 30, 2012	$ 288,949,784	$ 28,548,340	$ 42,126,125	$ 14,520,113	$ 12,093,292	$ 1,736,083	$ -	$ -	$ -	$ 387,973,737
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	$ 288,949,784	$ 28,548,340	$ 42,126,125	$ 14,520,113	$ 12,093,292	$ 1,736,083	$ -	$ -	$ -	$ 387,973,747
Loans acquired with deteriorated credit quality	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Ending Balance at December 31, 2011	$ 292,664,686	$ 30,823,867	$ 36,382,206	$ 10,622,339	$ 9,866,096	$ 1,921,856	$ -	$ -	$ -	$ 382,281,050
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	$ 292,664,686	$ 30,823,867	$ 36,382,206	$ 10,622,339	$ 9,866,096	$ 1,921,856	$ -	$ -	$ -	$ 382,281,050
Loans acquired with deteriorated credit quality	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

NOTE 3 — CAPITAL:

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

NOTE 4 — INCOME TAXES:

Central Texas Farm Credit, ACA and its PCA subsidiary are subject to federal and certain other income taxes. The associations are eligible to operate as cooperatives that qualify for tax treatment under subchapter T of the Internal Revenue code. Under specified conditions, the associations can exclude from taxable income amounts distributed as qualified patronage refunds in the form of cash, stock or allocated surplus. Provisions for income taxes are made only on those earnings that will not be distributed as qualified patronage refunds. In the first quarter of 2012, the association provided a patronage distribution of $4,500,000 to its eligible stockholders. Deferred taxes are recorded at the tax effect of all temporary differences based on the assumption that such temporary differences are retained by the institution and will therefore impact future tax payments. A valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (over 50 percent probability), based on management's estimate, that they will not be realized. The association's valuation allowance was -$1,018,243 as of the quarter June 30, 2012, for no available tax benefit as of that point in time.

The subsidiary, Central Texas Land Bank, FLCA, is exempt from federal and other income taxes as provided in the Farm Credit Act of 1971.

In June 2006, the Financial Accounting Standards Board (FASB) released Interpretation No. 48, "Accounting for Uncertainty in Income Taxes." This interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes." This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Interest and penalties recognized are classified in the financial statements as a component of income taxes. This interpretation is effective for fiscal years beginning after December 15, 2006. The impact of applying the interpretation is not expected to have a material impact on the association's financial condition or results of operations.

Effective January 1, 2007, the association adopted *FIN 48: Accounting for Uncertainty in Income Taxes.* Adoption of the accounting interpretation resulted in no material adjustments to the association's financial statements at that time and no material impact is anticipated due to this accounting interpretation in future periods. Management believes the tax positions taken by the association will be sustained upon examination, including resolution of any related appeals or litigation processes, based upon the technical merits of the positions. In its evaluation process, management has presumed that the tax positions will be examined by the appropriate taxing authority that has full knowledge of all relevant information.

NOTE 5 — FAIR VALUE MEASUREMENTS:

FASB guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. See Note 12 to the 2011 Annual Report to Stockholders for a more complete description.

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

June 30, 2012	**Fair Value Measurement Using**			**Total Fair Value**	**Total Gains (Losses)**
	Level 1	**Level 2**	**Level 3**		
Assets:					
Loans*	$ -	$ -	$ -	$ -	$ -
Other property owned	-	-	523,049	523,049	-

December 31, 2011	Fair Value Measurement Using			Total Fair Value	Total Gains (Losses)
	Level 1	Level 2	Level 3		
Assets:					
Loans*	$ -	$ -	$ -	$ -	$ -
Other property owned	-	-	552,549	552,549	-

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

Valuation Techniques

As more fully discussed in Note 12 to the 2011 Annual Report to Stockholders, authoritative guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following represent a brief summary of the valuation techniques used for the association's assets and liabilities. For a more complete description, see Note 12 to the 2011 Annual Report to Stockholders.

Investment Securities

Where quoted prices are available in an active market, available-for-sale securities are classified as Level 1. If quoted prices are not available in an active market, the fair value of securities is estimated using quoted prices for similar securities received from pricing services, pricing models that utilize observable inputs or discounted cash flows. Generally, these securities are classified as Level 2. This would include certain mortgage-backed securities. Where there is limited activity or less transparency around inputs to the valuation, the securities are classified as Level 3. Securities classified within Level 3 include asset-backed securities and certain mortgage-backed securities, including those issued by Farmer Mac.

Assets Held in Nonqualified Benefits Trusts

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

Loans

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

Other Property Owned

Other property owned is generally classified as Level 3. The fair value is based upon the collateral value, which is generally determined using appraisals or other indications based on comparable sales of similar properties. Costs to sell represent transaction costs and are not included as a component of the asset's fair value.

NOTE 6 — EMPLOYEE BENEFITS PLANS:

The following table summarizes the components of net periodic benefit costs of non-pension other postretirement employee benefits for the three months ended June 30, 2012 and June 30, 2011:

	Other Benefits	
	2012	2011
Service cost	$ **12,660**	$ 11,550
Interest cost	**18,212**	18,072
Expected return on plan assets	**-**	-
Amortization of prior service (credits) costs	**(5,491)**	(6,785)
Amortizations of net actuarial (gain) loss	**-**	-
Net periodic benefit cost	$ **25,381**	$ 22,837

The following table summarizes the components of net periodic benefit costs of non-pension other postretirement employee benefits for the six months ended June 30, 2012 and June 30, 2011:

	Other Benefits	
	2012	2011
Service cost	$ **25,320**	$ 23,100
Interest cost	**36,424**	36,145
Expected return on plan assets	**-**	-
Amortization of prior service (credits) costs	**(10,983)**	(13,571)
Amortizations of net actuarial (gain) loss	**-**	-
Net periodic benefit cost	$ **50,761**	$ 45,674

In September 2006 the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 158 "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" (SFAS 158), which required the recognition of the overfunded or underfunded status of pension and other postretirement benefit plans on the balance sheet. The balance sheet recognition provisions of SFAS 158 were adopted at December 31, 2007. SFAS 158 also requires that employers measure the benefit obligation and plan assets as of the fiscal year end for fiscal years ending after December 15, 2008. In fiscal 2007 and earlier, we used a September 30 measurement date for pension and other postretirement benefit plans. The Standard provides two approaches for an employer to transition to a fiscal year end measurement date. We have applied the second approach, which allows for the use of the measurements determined for the prior year-end.

Under this alternative, postretirement benefit income measured for the three month period October 1, 2007, to December 31, 2007, (determined using the September 2007 measurement date) was recorded as an adjustment to beginning 2008 retained earnings. As a result, the association decreased retained earnings (Accumulated Other Comprehensive Income) by $6,933 and increased the postretirement benefit cost asset/liability by an offsetting $6,933. Additionally, the association recorded a charge to retained earnings (Accumulated Other Comprehensive Income) related to postretirement benefits in the amount of $13,980 as a result of its change in the measurement date for other postretirement benefits from September 30 to December 31, 2007, in accordance with Statement of Financial Accounting Standards No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans".

During 2012 the association anticipates making decreases in retained earnings (Accumulated Other Comprehensive Income – Unrecognized Prior Service Cost) totaling $21,965 with matching increases to the postretirement benefit cost asset/liability account. As of June 30, 2012, the association had decreased retained earnings and posted offsetting increases to the postretirement benefit cost asset/liability account by $10,983.

The association has accrued $36,424 to fund its employee's net periodic postretirement benefit costs asset/liability account thus far in 2012 and plans on accruing $ 36,423 in the last six months of 2012, for a total of $72,847 for the year.

The association previously disclosed in its financial statements for the year ended December 31, 2011, that it expected to utilize $33,970 of its post retirement benefit cost asset/liability account in 2012. As of June 30, 2012, $16,262 of the post retirement benefit costs asset/liability account has been used to cover related expenses by the association.

The association previously disclosed in its financial statements for the year ended December 31, 2011, that it expected to contribute $586,150 to its defined pension plan in 2012. As of June 30, 2012, $293,075 of contributions had been made. The association presently anticipates contributing an additional $293,075 to fund its defined pension plan in 2012 for the expected total of $586,150.

Employees of the association participate in either a defined benefit pension plan (DB Plan) or the defined contribution pension-plan (DC Plan) and are eligible to participate in the District Thrift-Plus Plan (401(k) plan). The DB Plan is closed to new participants. Participants generally include employees hired prior to January 1, 1996. The DB Plan is non-contributory and provides benefits based on salary and years of service. The "Projected Unit Credit" actuarial method is used for financial reporting and funding purposes for the DB Plan. Contributions or association expense accruals related to the DB plan for 2012 as mentioned above are scheduled to total $586,150 by December 31, 2012.

Participants in the DC Plan generally include employees who elected to transfer from the DB Plan prior to January 1, 1996, and employees that were hired on or after January 1, 1996. Participants in the DC plan direct the placement of their employers' contributions, 5.0 percent of eligible compensation, made on their behalf into various investment alternatives.

The structure of the District's retirement plans is characterized as multi-employer, since none of the assets, liabilities or costs of any plan are segregated or separately accounted for by the District's participating associations. No portion of any surplus assets is available to the associations, nor are the associations required to pay for plan liabilities upon withdrawal from the plans. As a result, the associations recognize as pension cost the required contribution to the plans each quarter and throughout the year. Contributions due and unpaid are recognized as a liability. As of June 30, 2012, the current year cost for the DB and DC Plans were $293,075 and $24,638 respectively.

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

	2012	2011
Accumulated other comprehensive income (loss) at January 1	**$ (140,923)**	$ (57,534)
Amortization of prior service credit (costs) included in net periodic postretirement benefit cost	**(10,983)**	(13,571)
Amortization of actuarial gain (loss) included in net periodic postretirement benefit cost	**-**	-
Income tax expense related to items of other comprehensive income	**-**	-
Other comprehensive income (loss), net of tax	**(10,983)**	(13,571)
Accumulated other comprehensive income at June 30	**$ (151,906)**	$ (71,105)

NOTE 7 — COMMITMENTS AND CONTINGENT LIABILITIES:

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

NOTE 8 — SUBSEQUENT EVENTS:

The association has evaluated subsequent events through July 24, 2012, which is the date the financial statements were issued.