



**Yankee Farm Credit, ACA**

289 Hurricane Lane, Suite 102  
P.O. Box 467  
Williston, Vermont 05495  
802/879-4700 FAX 802/878-0360  
www.yankeeaca.com

**CONSOLIDATED FINANCIAL STATEMENTS  
FIRST QUARTER ENDED MARCH 31, 2016**

May 5, 2016

Dear Shareholder:

Enclosed are the Association's consolidated financial statements for the first quarter of 2016. These statements should be read in conjunction with the 2015 Annual Report to Shareholders.

The purpose of these financial statements is to provide timely financial information about your Association's financial condition and results of operations. Should you have any questions about these statements, please call us.

Copies of the Association's annual and quarterly reports are available to members at no charge from any of our local offices or by accessing the Association's website at [www.yankeeaca.com](http://www.yankeeaca.com). The Association's annual reports are available 75 days after year end, and quarterly reports are available 40 days after the end of each calendar quarter. As a shareholder, your investment in the Association is materially affected by the financial condition and results of operations of CoBank, ACB. CoBank's annual and quarterly reports are available at no charge from any of our offices. Our office locations are listed at the end of this report.

The undersigned certify that they have reviewed this report and it has been prepared in accordance with all statutory and regulatory requirements and that the information contained herein is true, accurate, and complete to the best of his or her knowledge and belief. The financial statements, in the opinion of management, fairly present the financial condition of the institution except as noted.

Sincerely,

  
\_\_\_\_\_  
Paul B. Franklin  
Chairperson, Board of Directors

  
\_\_\_\_\_  
George S. Putnam  
President and CEO

  
\_\_\_\_\_  
Rocki-Lee DeWitt  
Chairperson, Audit Committee

  
\_\_\_\_\_  
Pamela A. Simek  
SVP/Chief Financial Officer

## YANKEE FARM CREDIT, ACA

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

**First Quarter Ended March 31, 2016**  
(Dollars in thousands, except as noted)  
(Unaudited)

#### Results of Operations: First Quarter

Net income for the first quarter of 2016 was \$2.650 million, up slightly from net income of \$2.645 million in the first quarter of 2015.

Net interest income before the provision for loan losses was up \$408 thousand (11%) in 2016 as compared to 2015. The following table shows the components of this increase:

<u>Changes in net interest income due to:</u>	
Changes in volumes of accrual loans & debt	\$ 246
Changes in interest rates on accrual loans & debt	17
Changes in interest income on nonaccrual loans	145
Total change in net interest income	<u>\$ 408</u>

Changes in accrual volumes and rates are shown in the following table:

	Three Months Ended March 31,	
	2016	2015
Average accrual loan volume	\$ 446,291	\$ 420,749
Average interest rate on loans	4.35%	4.18%
Average interest rate spread	3.44%	3.48%

Average loan volume was higher in 2016, contributing to an increase of \$246 thousand and interest recognized upon payouts on nonaccrual loans contributed to \$145 thousand to the total change in net interest income as shown in the first table above.

There was a provision for credit losses of \$239 thousand in the first quarter of 2016, as compared to a negative provision for credit losses of \$136 thousand in the first quarter of 2015.

Other income increased by \$120 thousand (12%) in 2016 as compared to 2015. This increase resulted primarily from an increase of \$101 thousand in fees for financial services and an increase of \$26 thousand in patronage refunds from CoBank.

Other expense increased by \$148 thousand (7%) in 2016 as compared to 2015. Salaries and employee benefits increased by \$83 thousand (6%), and the premium paid to the Farm Credit Insurance Fund increased \$57 thousand (65%). These increases were partially offset by occupancy and equipment expense decreasing \$39 thousand (25%).

#### Loan Portfolio and Financial Condition

Loans originated by the Association decreased by \$9.5 million (1%) from year-end. Loans purchased decreased by \$0.8 million (3%) from year-end, and participations sold decreased by \$9.5 million (4%). Loans held by the Association decreased by \$0.7 million from year-end.

The loan portfolio continues to be concentrated in the dairy industry. Farm prices for dairy products decreased in the first quarter of 2016. Federal Order 1 prices for the first quarter of 2016 averaged \$16.03/cwt, down \$1.84/cwt (10%) from the fourth quarter of 2015, and down \$2.39/cwt (13%) from the first quarter of 2015. The change in prices received for dairy products has been accompanied by a slight decrease in the cost of farm inputs, particularly purchased feed. The composite Feed Index published by the USDA was 97 for the first two months of 2016, down 4% from the fourth quarter of 2015, and down 11% from the first quarter of 2015. (Feed Index = 100 for 2011)

## Management's Discussion & Analysis (cont.)

Enrollment for the 2016 Margin Protection Program for Dairy Producers (MPP-Dairy) took place in the second half of 2015. MPP-Dairy is designed to provide a compensating benefit payment to producers when a national trigger indicates that margins between milk prices and feed costs fall below a designated level. The program is designed to give producers a cash benefit during periods of low margins (milk income over feed costs). Producers are allowed to pick a margin level and the percentage of their historic milk production to be covered. Producers pay a premium based on the level of coverage they have selected.

Loan quality improved slightly and remained strong through the first quarter of 2016. Loans graded Substandard or lower were 3.0% of total loans at March 31, 2016, 0.1% improved from year-end. High risk assets comprised 0.4% of loans and related assets at March 31, 2016, unchanged from year-end. (High risk assets include nonaccrual loans, accrual troubled debt restructured loans, loans delinquent 90 days or more but not yet classified as nonaccrual, and other property owned.) Repayment performance remained satisfactory. Loans (both accrual and nonaccrual) delinquent 30 days or more were 0.5% at March 31, 2016, 0.1% improved from year-end. The 12-month rolling average for this statistic was 0.7% at March 31, 2016, unchanged from year-end. There were no charge-offs or recoveries in the first quarter of 2016. There were no charge-offs, but recoveries of \$3 thousand in the first quarter of 2015.

As discussed in the 2015 Annual Report to Shareholders, the Association declared a patronage distribution of \$4.862 million based on 2015 earnings, 100% in cash. This was paid on March 23, 2016.

Members' equity as a percentage of assets was 20.5% at March 31, 2016, as compared to 20.0% at year-end. The Association's permanent capital ratio was 19.1% at March 31, 2016, down 0.5% from year-end.

These financial statements were prepared under the oversight of the Audit Committee of the Board of Directors.

**YANKEE FARM CREDIT, ACA**  
**CONSOLIDATED BALANCE SHEET**  
(Unaudited)

	March 31, 2016	December 31, 2015
	(in thousands)	
<b><u>ASSETS</u></b>		
Loans originated by the Association	\$ 679,157	\$ 688,636
Plus participations purchased	21,744	22,495
Less participations sold	<u>252,585</u>	<u>262,131</u>
Loans held by the Association	448,316	449,000
Less allowance for loan losses	<u>5,345</u>	<u>5,123</u>
Net loans	442,971	443,877
Cash	1,472	4,210
Accrued interest receivable	1,798	1,484
Patronage refunds due from CoBank, ACB	1,016	3,302
Investment in CoBank, ACB	17,072	16,637
Mission related investment	313	307
Premises and equipment, less accumulated depreciation	3,456	3,498
Other assets	1,263	1,138
Total assets	<u>\$ 469,361</u>	<u>\$ 474,453</u>
<b><u>LIABILITIES</u></b>		
Note payable to CoBank, ACB	\$ 368,439	\$ 372,830
Patronage distribution payable	1,262	4,862
Reserve for unfunded commitments	109	92
Other liabilities	<u>3,168</u>	<u>1,680</u>
Total liabilities	<u>372,978</u>	<u>379,464</u>
<b><u>MEMBERS' EQUITY</u></b>		
Capital stock and participation certificates	1,099	1,093
Unallocated surplus	97,097	95,709
Accumulated other comprehensive (loss)	<u>(1,813)</u>	<u>(1,813)</u>
Total members' equity	96,383	94,989
Total liabilities and members' equity	<u>\$ 469,361</u>	<u>\$ 474,453</u>

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

**YANKEE FARM CREDIT, ACA**  
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
(Unaudited)

	Three Months Ended	
	March 31,	
	2016	2015
	(in thousands)	
<b><u>INTEREST INCOME</u></b>		
Loans	\$ 4,975	\$ 4,342
Total interest income	<u>4,975</u>	<u>4,342</u>
<b><u>INTEREST EXPENSE</u></b>		
Note payable to CoBank, ACB	822	597
Total interest expense	<u>822</u>	<u>597</u>
Net interest income	4,153	3,745
Provision for credit losses	239	(136)
Net interest income after provision for credit losses	<u>3,914</u>	<u>3,881</u>
<b><u>OTHER INCOME</u></b>		
Patronage refunds from CoBank, ACB	658	632
Fees for financial services	469	368
Loan fees and other income	13	20
Total other income	<u>1,140</u>	<u>1,020</u>
<b><u>OTHER EXPENSE</u></b>		
Salaries and employee benefits	1,364	1,281
Occupancy and equipment	119	158
Farm Credit Insurance Fund premium	145	88
Fees paid to Farm Credit Financial Partners, Inc.	324	324
Other expenses	448	401
Total other expense	<u>2,400</u>	<u>2,252</u>
Income before income taxes	2,654	2,649
Provision for income taxes	4	4
Net income	<u>\$ 2,650</u>	<u>\$ 2,645</u>
<b><u>OTHER COMPREHENSIVE INCOME</u></b>		
OCI related to pension liabilities	-	-
Comprehensive income	<u>\$ 2,650</u>	<u>\$ 2,645</u>

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

**YANKEE FARM CREDIT, ACA**  
**CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY**  
(Unaudited)

	Capital Stock and Participation Certificates	Unallocated Surplus	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
	(in thousands)			
Balance at December 31, 2014	\$ 1,082	\$ 90,347	\$ (1,756)	\$ 89,673
Comprehensive income				
Net income	-	2,645	-	2,645
Other comprehensive income				
Change in pension liabilities	-	-	-	-
Total comprehensive income	<u>-</u>	<u>2,645</u>	<u>-</u>	<u>2,645</u>
Capital stock/PCs issued	39	-	-	39
Capital stock/PCs retired	(37)	-	-	(37)
Patronage distribution accrued				
Cash	-	(1,208)	-	(1,208)
Adjustment for rounding	(1)	-	-	(1)
Balance at March 31, 2015	<u>\$ 1,083</u>	<u>\$ 91,784</u>	<u>\$ (1,756)</u>	<u>\$ 91,111</u>
Balance at December 31, 2015	\$ 1,093	\$ 95,709	\$ (1,813)	\$ 94,989
Comprehensive income				
Net income	-	2,650	-	2,650
Other comprehensive income				
Change in pension liabilities	-	-	-	-
Total comprehensive income	<u>-</u>	<u>2,650</u>	<u>-</u>	<u>2,650</u>
Capital stock/PCs issued	35	-	-	35
Capital stock/PCs retired	(29)	-	-	(29)
Patronage distribution accrued				
Cash	-	(1,262)	-	(1,262)
Adjustment for rounding	-	-	-	-
Balance at March 31, 2016	<u>\$ 1,099</u>	<u>\$ 97,097</u>	<u>\$ (1,813)</u>	<u>\$ 96,383</u>

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

## YANKEE FARM CREDIT, ACA

### Notes To Consolidated Financial Statements

**First Quarter Ended March 31, 2016**  
(Dollars in thousands, except as noted)  
(Unaudited)

#### **NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES**

Yankee Farm Credit, ACA (the Association) is a member-owned cooperative within the Farm Credit System. A description of the organization and operations of the Association, the significant accounting policies followed, and the financial condition and results of operations as of and for the year ended December 31, 2015 are contained in the 2015 Annual Report to Shareholders. These unaudited first quarter 2016 financial statements should be read in conjunction with the 2015 Annual Report to Shareholders.

In February 2016, the Financial Accounting Standards Board (FASB) issued guidance entitled "Leases." The guidance requires the recognition by lessees of lease assets and lease liabilities on the balance sheet for the rights and obligations created by those leases. Leases with lease terms of more than 12 months are impacted by this guidance. This guidance becomes effective for interim and annual periods beginning after December 15, 2018, with early application permitted. The Association is currently evaluating the impact of adoption on its financial condition and results of operations.

In January 2016, the FASB issued guidance entitled "Recognition and Measurement of Financial Assets and Liabilities." This guidance becomes effective for interim and annual periods beginning after December 15, 2017. The adoption of this guidance is not expected to impact the Association's financial condition or its results of operations.

In August 2014, the FASB issued guidance entitled "Presentation of Financial Statements - Going Concern." The guidance governs management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. This guidance requires management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year after the date the financial statements are issued or within one year after the financial statements are available to be issued, when applicable. Substantial doubt exists if it is probable that the entity will be unable to meet its obligations for the assessed period. This guidance becomes effective for interim and annual periods ending after December 15, 2016, and early application is permitted. Management will be required to make its initial assessment as of December 31, 2016.

In May 2014, the FASB issued guidance entitled, "Revenue from Contracts with Customers." The guidance governs revenue recognition from contracts with customers and requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Financial instruments and other contractual rights within the scope of other guidance issued by the FASB are excluded from the scope of this new revenue recognition guidance. In this regard, a majority of our contracts would be excluded from the scope of this new guidance. In August 2015, the FASB issued an update that defers this guidance by one year, which results in the new revenue standard becoming effective for interim and annual reporting periods beginning after December 15, 2017. The Association is in the process of reviewing contracts to determine the effect, if any, on their financial condition or results of operations.

The accompanying financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform to generally accepted accounting principles and prevailing practices within the banking industry. The results of operations for the three month period ended March 31, 2016 are not necessarily indicative of the results to be expected for the full year.

**NOTE 2 - LOANS AND ALLOWANCE FOR LOAN LOSSES**

A summary of loans follows:

	Value at	
	March 31, 2016	December 31, 2015
Long-term farm mortgage	\$ 190,163	\$ 187,050
Country home	2,013	2,045
Farm related business	24,449	26,417
Production and intermediate term	462,532	473,124
Total loan originated by the Association	679,157	688,636
Plus participations purchased	21,744	22,495
Less participations sold	252,585	262,131
Loans held by the Association	<u>\$ 448,316</u>	<u>\$ 449,000</u>

The Association purchases and sells participation interests with other parties in order to diversify risk, manage loan volume and comply with FCA regulations. All of the Association's loan purchases and sales are with other Farm Credit institutions. The following table presents information regarding the balances of participations purchased and sold:

	Value at			
	March 31, 2016		December 31, 2015	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Long-term farm mortgage	\$ 13,837	\$ 11,537	\$ 13,603	\$ 11,671
Farm related business	7,265	1,395	8,233	1,964
Production and intermediate term	642	239,653	659	248,496
Total	<u>\$ 21,744</u>	<u>\$ 252,585</u>	<u>\$ 22,495</u>	<u>\$ 262,131</u>

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

	Value at	
	March 31, 2016	December 31, 2015
<u>Nonaccrual Loans:</u>		
Long-term farm mortgage	\$ 736	\$ 765
Farm related business	291	391
Production and intermediate term	294	329
Total nonaccrual loans	<u>\$ 1,321</u>	<u>\$ 1,485</u>
<u>Accrual Troubled Debt Restructured Loans:</u>		
Long-term farm mortgage	\$ 513	\$ 517
Total troubled debt restructured loans	<u>\$ 513</u>	<u>\$ 517</u>
Total impaired assets	<u>\$ 1,834</u>	<u>\$ 2,002</u>

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the Association, for economic or legal reasons related to the member's financial difficulties, grants a concession to the member that it would not have otherwise considered. The Association had no new TDR loans through the period ending March 31, 2016.

There were no additional commitments to lend additional funds to members whose loans were classified as troubled debts restructured at March 31, 2016.



The following table provides information on outstanding loans restructured in troubled debt restructurings (including accrued interest) as of March 31, 2016:

	Loans Modified as TDRs		TDRs in Nonaccrual Status*	
	March 31, 2016	December 31, 2015	March 31, 2016	December 31, 2015
Long-term farm mortgage	\$ 513	\$ 517	\$ -	\$ -
Farm related business	11	28	11	28
Production and intermediate term	-	7	-	7
Total	<u>\$ 524</u>	<u>\$ 552</u>	<u>\$ 11</u>	<u>\$ 35</u>

\*represents the portion of loans modified as TDRs (first two columns) that are in nonaccrual status

The following table provides an age analysis of past due loans (including accrued interest) as of March 31, 2016:

	Past Due		
	30 – 89 Days	≥ 90 Days	Total
Long-term farm mortgage	\$ 361	\$ 21	\$ 382
Farm related business	206	269	475
Production and intermediate term	1,076	286	1,362
Total loans past due	<u>\$ 1,643</u>	<u>\$ 576</u>	<u>\$ 2,219</u>

There were no loans 90 days or more past due but still classified as accrual at March 31, 2016.

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

	March 31, 2016	December 31, 2015
Long-term farm mortgage		
Acceptable	36.2%	35.8%
OAEM*	1.9%	1.5%
Substandard/doubtful	1.4%	1.3%
	<u>39.5%</u>	<u>38.6%</u>
Country home		
Acceptable	0.4%	0.4%
OAEM*	0.1%	0.1%
Substandard/doubtful	0.0%	0.0%
	<u>0.5%</u>	<u>0.5%</u>
Farm related business		
Acceptable	11.8%	12.1%
OAEM*	0.4%	0.4%
Substandard/doubtful	0.3%	0.3%
	<u>12.5%</u>	<u>12.8%</u>
Production and intermediate term		
Acceptable	44.9%	45.4%
OAEM*	1.3%	1.2%
Substandard/doubtful	1.3%	1.5%
	<u>47.5%</u>	<u>48.1%</u>
Total Loans		
Acceptable	93.3%	93.7%
OAEM*	3.7%	3.2%
Substandard/doubtful	3.0%	3.1%
	<u>100.0%</u>	<u>100.0%</u>

\*Other Assets Especially Mentioned

The following tables present information on impaired loans and related amounts in the Allowance for Loan Losses:

	At March 31, 2016		
	Recorded Investment	Unpaid Principal Balance*	Related Allowance
<b>Impaired Loans with a related allowance for loan losses:</b>			
Long-term farm mortgage	\$ 1,249	\$ 1,843	\$ 58
Farm related business	291	618	36
Production and intermediate term	294	728	78
Total	<u>\$ 1,834</u>	<u>\$ 3,189</u>	<u>\$ 172</u>
<b>Impaired Loans with no related allowance for loan losses:</b>			
Production and intermediate term	\$ -	\$ 29	\$ -
Total	<u>\$ -</u>	<u>\$ 29</u>	<u>\$ -</u>
<b>Total Impaired Loans:</b>			
Long-term farm mortgage	\$ 1,249	\$ 1,843	\$ 58
Farm related business	291	618	36
Production and intermediate term	294	757	78
Total	<u>\$ 1,834</u>	<u>\$ 3,218</u>	<u>\$ 172</u>

	At December 31, 2015		
	Recorded Investment	Unpaid Principal Balance*	Related Allowance
<b>Impaired Loans with a related allowance for loan losses:</b>			
Long-term farm mortgage	\$ 1,282	\$ 1,857	\$ 59
Farm related business	391	842	72
Production and intermediate term	329	774	75
Total	<u>\$ 2,002</u>	<u>\$ 3,473</u>	<u>\$ 206</u>
<b>Impaired Loans with no related allowance for loan losses:</b>			
Production and intermediate term	-	19	-
Total	<u>\$ -</u>	<u>\$ 19</u>	<u>\$ -</u>
<b>Total Impaired Loans:</b>			
Long-term farm mortgage	\$ 1,282	\$ 1,857	\$ 59
Farm related business	391	842	72
Production and intermediate term	329	793	75
Total	<u>\$ 2,002</u>	<u>\$ 3,492</u>	<u>\$ 206</u>

\*Unpaid principal balance represents the borrower's contractual balance of the loan.

The following table presents additional information on impaired loans:

	Three Months Ended			
	March 31, 2016		March 31, 2015	
	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized
<b>Impaired Loans with a related allowance for loan losses:</b>				
Long-term farm mortgage	\$ 1,266	\$ 8	\$ 1,637	\$ 7
Farm related business	313	133	665	-
Production and intermediate term	309	-	434	-
Total	<u>\$ 1,888</u>	<u>\$ 141</u>	<u>\$ 2,736</u>	<u>\$ 7</u>
<b>Impaired Loans with no related allowance for loan losses:</b>				
Long-term farm mortgage	\$ -	\$ -	\$ 184	\$ 2
Farm related business	3	-	1	3
Production and intermediate term	4	13	-	-
Total	<u>\$ 7</u>	<u>\$ 13</u>	<u>\$ 185</u>	<u>\$ 5</u>
<b>Total Impaired Loans:</b>				
Long-term farm mortgage	\$ 1,266	\$ 8	\$ 1,821	\$ 9
Farm related business	316	133	665	3
Production and intermediate term	313	13	435	-
Total	<u>\$ 1,895</u>	<u>\$ 154</u>	<u>\$ 2,921</u>	<u>\$ 12</u>

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

	Long-term Farm Mortgage	Country Home	Farm Related Business	Production & Intermediate Term	Total
<b>Allowance for Loan Losses:</b>					
Balance at December 31, 2015	\$ 2,380	\$ 10	\$ 324	\$ 2,409	\$ 5,123
Charge-offs	-	-	-	-	-
Recoveries	-	-	-	-	-
Provision for (reversal of provision for) loan losses	80	-	(34)	176	222
Balance at March 31, 2016	<u>\$ 2,460</u>	<u>\$ 10</u>	<u>\$ 290</u>	<u>\$ 2,585</u>	<u>\$ 5,345</u>
Ending Balance: individually evaluated for impairment	\$ 58	\$ -	\$ 36	\$ 78	\$ 172
Ending Balance: collectively evaluated for impairment	2,402	10	254	2,407	5,173
Balance at March 31, 2016	<u>\$ 2,460</u>	<u>\$ 10</u>	<u>\$ 290</u>	<u>\$ 2,585</u>	<u>\$ 5,345</u>
Balance at December 31, 2014	\$ 2,570	\$ 10	\$ 344	\$ 2,359	\$ 5,283
Charge-offs	-	-	-	-	-
Recoveries	-	-	3	-	3
Provision for (reversal of provision for) loan losses	(92)	(1)	160	(203)	(136)
Balance at March 31, 2015	<u>\$ 2,478</u>	<u>\$ 9</u>	<u>\$ 507</u>	<u>\$ 2,156</u>	<u>\$ 5,150</u>
Ending Balance: individually evaluated for impairment	\$ 77	\$ -	\$ 178	\$ 54	\$ 309
Ending Balance: collectively evaluated for impairment	2,401	9	329	2,102	4,841
Balance at March 31, 2015	<u>\$ 2,478</u>	<u>\$ 9</u>	<u>\$ 507</u>	<u>\$ 2,156</u>	<u>\$ 5,150</u>

	Long-term Farm Mortgage	Country Home	Farm Related Business	Production & Intermediate Term	Total
<b>Recorded Investment in Loans Outstanding:</b>					
At March 31, 2016					
Ending Balance for loans collectively evaluated for impairment	\$ 191,214	\$ 2,013	\$ 30,028	\$ 223,227	\$ 446,482
Ending Balance for loans Individually evaluated for impairment	1,249	-	291	294	1,834
Ending Balance at March 31, 2016	<u>\$ 192,463</u>	<u>\$ 2,013</u>	<u>\$ 30,319</u>	<u>\$ 223,521</u>	<u>\$ 448,316</u>
At December 31, 2015					
Ending Balance for loans collectively evaluated for impairment	\$ 187,700	\$ 2,045	\$ 32,295	\$ 224,958	\$ 446,998
Ending Balance for loans individually evaluated for impairment	1,282	-	391	329	2,002
Ending Balance at December 31, 2015	<u>\$ 188,982</u>	<u>\$ 2,045</u>	<u>\$ 32,686</u>	<u>\$ 225,287</u>	<u>\$ 449,000</u>

The methodology for determining the Allowance for Credit Losses takes into consideration potential losses related to unfunded commitments, and as a result, we have established a separate Reserve for Unfunded Commitments, which is included on the Association's balance sheet.

The provision for the Reserve for Unfunded Commitments is part of the Provision for Credit Losses on the income statement. The components of the Provision for Credit Losses are presented in the table below:

	Three Months Ended March 31,	
	2016	2015
Provision for loan losses	\$ 222	\$ (135)
Provision for unfunded commitments	17	(1)
Total provision for credit losses	<u>\$ 239</u>	<u>\$ (136)</u>

### **NOTE 3 - CAPITAL**

Please see the 2015 Annual Report to Shareholders, particularly Note 7 to the Financial Statements, for a description of the Association's capitalization policies. The Association's requirement for purchased equities (stock and participation certificates) is presently the legal minimum of 2.0% of the loan with a cap of \$1 thousand.

The patronage distribution for 2015 was \$4.862 million and was distributed 100% in cash on March 23, 2016. A patronage distribution program is also in effect for 2016. The amount of the patronage distribution for 2016 will depend on financial results for the year as a whole and is therefore not known with certainty at this time. However, management estimates that the patronage distribution attributable to the first quarter of 2016 is approximately \$1.262 million. Management believes it is probable that the 2016 patronage distribution will be paid 100% in cash. Therefore, the accompanying financial statements show an interim accrual at the end of the first quarter of 2016

for patronage distribution payable of \$1.262 million. The corresponding interim accrual at the end of the first quarter of 2015 for patronage distribution payable was \$1.208 million (also 100% cash).

The Association's regulatory capital ratios were:

	Value At		Regulatory Minimum
	March 31, 2016	December 31, 2015	
Core surplus ratio	18.9%	19.3%	3.5%
Total surplus ratio	18.9%	19.3%	7.0%
Permanent capital ratio	19.1%	19.6%	7.0%

Additionally, for 2016, the Association has established an internal minimum of 16.0% for the permanent capital ratio and a goal range of 18.5% - 20.5%. The ratio at March 31, 2016, as indicated above, is not indicative of the full year.

#### **NOTE 4 - INCOME TAXES**

Please see the 2015 Annual Report to Shareholders, particularly Note 8 to the Financial Statements, for a description of the Association's deferred tax assets and liabilities and the corresponding valuation allowance. There were no significant changes in the composition or valuation of tax assets/liabilities during the first quarter of 2016.

#### **NOTE 5 - FAIR VALUE MEASUREMENTS**

Accounting guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. Please see the 2015 Annual Report to Shareholders, particularly Note 2L and Note 11 to the Financial Statements, for a more complete description.

The Association had no assets measured at fair value on a recurring basis at March 31, 2016 or at December 31, 2015.

Assets measured at fair value on a non-recurring basis at March 31, 2016 are summarized below:

	Fair Value Measurement Using		
	Level 1	Level 2	Level 3
<u>Assets:</u>			
Impaired loans	\$ -	\$ -	\$ 1,683
Total Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,683</u>

Assets measured at a fair value on a non-recurring basis at December 31, 2015 are summarized below:

	Fair Value Measurement Using		
	Level 1	Level 2	Level 3
<u>Assets:</u>			
Impaired loans	\$ -	\$ -	\$ 2,002
Total Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,002</u>

There were no liabilities measured at fair value on a recurring or non-recurring basis at March 31, 2016.

As more fully discussed in Note 2L and Note 11 of the 2015 Annual Report to Shareholders, accounting 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 Associations' assets.

*Impaired Loans:* For certain loans evaluated for impairment, the fair value is based upon the underlying collateral since the loans were collateral dependent loans. 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 results, these fair value measurements fall within Level 3 of the hierarchy. 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.

Financial assets and financial liabilities measured at carrying amounts and not measured at fair value on the Balance Sheet for each of the fair value hierarchy values are summarized as follows:

	March 31, 2016		December 31, 2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial Assets:</b>				
Loans, net	\$ 442,971	\$ 444,280	\$ 443,877	\$ 443,495
Cash	1,472	1,472	4,210	4,210
Investment in CoBank, ACB	17,072	17,072	16,637	16,637
<b>Financial Liabilities:</b>				
Notes payable to CoBank, ACB	\$ 368,439	\$ 368,892	\$ 372,830	\$ 372,789

A description of the methods and assumptions used to estimate the fair value of the Association's financial instruments for which it is practicable to estimate that value follows:

*Loans:* Fair value is estimated by discounting the expected future cash flows using the Association's and/or CoBank's current interest rates at which similar loans would be made to borrowers with similar credit risk. As discount rates are based on the Association's current loan rates as well as management estimates, management has no basis to determine whether the estimated fair values presented would be indicative of assumptions and adjustments that a purchaser of the Association's loans would see in an actual sale, which could be less.

*Cash:* The carrying value is a reasonable estimate of the fair value.

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

## **NOTE 6 - SUBSEQUENT EVENTS**

The Association has evaluated subsequent events through May 5, 2016, which is the date the financial statements were available to be issued. No subsequent events were identified that would require additional disclosures or adjustments to the financial statements.

### **YANKEE FARM CREDIT, ACA OFFICE LOCATIONS**

Yankee Farm Credit, ACA  
9784 Route 9  
P.O. Box 507  
Chazy, NY 12921  
(800) 545-8374  
(518) 846-7330

Yankee Farm Credit, ACA  
320 Exchange Street  
P.O. Box 350  
Middlebury, VT 05753  
(800) 545-1169  
(802) 388-2692

Yankee Farm Credit, ACA  
250 Commerce Way  
Newport, VT 05855 (mailing)  
Derby, VT 05829 (physical)  
(800) 370-2738  
(802) 334-8050

Yankee Farm Credit, ACA  
130 Upper Welden Street  
P.O. Box 240  
St. Albans, VT 05478  
(800) 545-1097  
(802) 524-7800

Yankee Farm Credit, ACA  
52 Farmvu Drive  
P.O. Box 1009  
White River Jct., VT 05001  
(800) 370-3276  
(802) 295-3670

Yankee Farm Credit, ACA  
289 Hurricane Lane, Suite 102  
P.O. Box 467  
Williston, VT 05495  
(800) 639-3053  
(802) 879-4700

Website: [www.yankeeaca.com](http://www.yankeeaca.com)