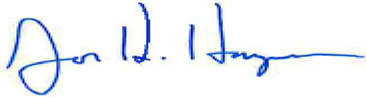
LONE STAR, ACA

2020
Quarterly Report
First Quarter

For the Quarter Ended March 31, 2020

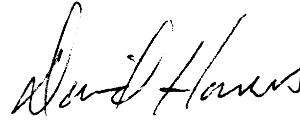
REPORT OF MANAGEMENT

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 our knowledge and belief.



Joe H. Hayman, Chief Executive Officer

May 8, 2020



David Harris, Chairman, Board of Directors

May 8, 2020

Nicholas Acosta, Chief Financial Officer

May 8, 2020

David Conrad, Chairman, Audit Committee

May 8, 2020

First Quarter 2020 Financial Report

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LONE STAR, ACA
MANAGEMENT'S DISCUSSION AND ANALYSIS

(dollars in thousands, except as noted)

The following discussion and analysis reviews the consolidated financial performance of the Lone Star, ACA, (ACA) including its wholly-owned subsidiaries Lone Star Ag Credit, FLCA and Lone Star Ag Credit, PCA, (collectively referred to herein as the Association) for the three months ended March 31, 2020. The discussion should be read in conjunction with the Association's Annual Report to Stockholders, and notes thereto, for the year ended December 31, 2019. Operating results for the three months ended March 31, 2020 are not necessarily indicative of the results for the year ending December 31, 2020 or any future period.

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 consolidated financial statements were prepared under the oversight of the Association's audit committee.

Significant Events:

In December 2019, the Board of Directors (Board) of Lone Star, ACA declared a cash patronage in the amount of $19,423,559 paid in March of 2020 based on 2019 earnings. The 2019 cash patronage represents on average a 1.5 percent reduction in borrowers loan interest rate. The patronage was paid to eligible borrowers based on their average outstanding loan balance for the year ending December 31, 2019. The Association's total capital position remains strong after the declaration of patronage at 19.04 percent for the period ending March 31, 2020.

The following table provides information on the patronage received from the Farm Credit Bank of Texas (Bank) for the year ended December 31, 2019:

		2019
Direct loan patronage	$	5,742,455
Stock investment in the Bank		772,220
AMBS investment patronage		145,426
Total Patronage Received	$	6,660,101

The direct loan patronage received represents 46 basis points on average daily balance of the Association's direct loan with the Bank.

During the first quarter of 2020, the Board appointed Joe Hayman as President and Chief Executive Officer. Mr. Hayman has served Farm Credit for more than 25 years, most recently as Chief Executive Officer at Southern AgCredit for the last 12 years. He replaces interim Chief Executive Officer Bill Melton who served the Association since November 2018.

Since 1917, the Association and its predecessors have provided its members with quality financial services. The Board 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:

The Association makes and services loans to farmers, ranchers, rural homeowners and certain farm-related businesses. The Association's loan volume consists of long-term farm mortgage loans, production and intermediate-term loans and farm-related business loans. These loan products are available to eligible borrowers with competitive variable, fixed, adjustable, LIBOR-based and prime-based interest rates. Commercial loans primarily consist of operating loans and short-term loans for working capital, equipment and livestock. Mortgage loans primarily consist of 20- to 40- year maturities. Loans serviced by the Association offer several installment payment cycles, the timing of which usually coincides with the seasonal cash-flow capabilities of the borrower.

Total loans outstanding at March 31, 2020, including nonaccrual loans and sales contracts, were $1,703,354,988 compared to $1,631,671,416 at December 31, 2019, reflecting an increase of 4.4 percent. Nonaccrual loans as a percentage of total loans outstanding were 0.2 percent at March 31, 2020, compared to 0.2 percent at December 31, 2019.

The Association recorded $7,126 in recoveries and $38,532 in charge-offs for the quarter ended March 31, 2020, and $24,631 in recoveries and $218,635 in charge-offs for the same period in 2019. The Association's allowance for loan losses was 0.5 percent and 0.4 percent of total loans outstanding as of March 31, 2020, and December 31, 2019, respectively.

Risk Exposure:

High-risk assets include nonaccrual 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.

	March 31, 2020		December 31, 2019	
	Amount	**%**	Amount	%
Nonaccrual	**$ 3,896,255**	**77.3%**	$ 3,333,895	74.4%
Formally restructured	**1,142,453**	**22.7%**	1,149,573	25.6%
Total	**$ 5,038,708**	**100.0%**	$ 4,483,468	100.0%

At March 31, 2020 and December 31, 2019, the Association held no property classified as other property owned.

Results of Operations:

The Association had net income of $7,382,267 for the three months ended March 31, 2020, as compared to net income of $6,418,114 for the same period in 2019, reflecting an increase of 15.0 percent. Net interest income was $11,732,828 for the three months ended March 31, 2020, compared to $11,655,945 for the same period in 2019.

	Three Months Ended			
	March 31, 2020		March 31, 2019	
	Average Balance	**Interest**	Average Balance	Interest
Loans	**$ 1,660,461,039**	**$ 21,044,719**	$ 1,561,218,753	$ 20,579,480
Total interest-earning assets	**1,660,461,039**	**21,044,719**	1,561,218,753	20,579,480
Interest-bearing liabilities	**1,308,136,081**	**9,311,891**	1,218,444,294	8,923,535
Impact of capital	**$ 352,324,958**		$ 342,774,459	
Net interest income		**$ 11,732,828**		$ 11,655,945

	2020	2019
	Average Yield	Average Yield
Yield on loans	**5.10%**	5.35%
Total yield on interest-earning assets	**5.10%**	5.35%
Cost of interest-bearing liabilities	**2.86%**	2.97%
Interest rate spread	**2.23%**	2.38%
Net interest income as a percentage of average earning assets	**2.84%**	3.03%

	Three months ended: March 31, 2020 vs. March 31, 2019		
	Increase (decrease) due to		
	Volume	**Rate**	**Total**
Interest income - loans	**$ 1,319,101**	**$ (853,862)**	**$ 465,239**
Total interest income	**1,319,101**	**(853,862)**	**465,239**
Interest expense	**662,367**	**(274,011)**	**388,356**
Net interest income	**$ 656,734**	**$ (579,851)**	**$ 76,883**

Interest income for the three months ended March 31, 2020, increased by $465,239 or 2.3 percent, from the same period of 2019, primarily due to an increase in average loan volume offset by a decrease in yields on earning assets. Interest expense for the three months ended March 31, 2020, increased by $388,356 or 4.4 percent, from the same period of 2019 due to an increase in interest-bearing liabilities offset by a decrease interest rates. Average loan volume for the first quarter of 2020 was $1,660,461,039, compared to $1,561,218,753 for the first quarter of 2019. The average net interest rate spread on the loan portfolio for the first quarter of 2020 was 2.23 percent, compared to 2.38 percent for the first quarter of 2019.

The Association's return on average assets for the three months ended March 31, 2020, was 1.75 percent compared to 1.63 percent for the same period in 2019. The Association's return on average equity for the three months ended March 31, 2020, was 8.36 percent, compared to 7.51 percent for the same period in 2019.

Noninterest income for the three months ended March 31, 2020, increased by $206,392 or 9.4 percent, compared to the same period of 2019, primarily due to an increase in patronage income from the Bank and an increase in loan fees resulting from growth in Association loan assets. Noninterest expenses for the three months ended March 31, 2020, decreased by $1,139,010 or 15.6 percent, compared to the same period of 2019, primarily due to a decrease in salaries and employee benefits due to turnover of senior employees towards the latter part of 2019. The decrease is also attributed to a decrease in purchased services as a result of a reduction in consulting, legal, and audit expenses.

Provisions for loan losses for the three months ended March 31, 2020, increased by $438,728 or 339.4 percent, compared to the same period last year. The provision increase is primarily due to the increase in Association loan assets.

Liquidity and Funding Sources:

The Association secures the majority of its lendable funds from 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.

		March 31, 2020		December 31, 2019
Note payable to the Bank	**$**	**1,361,073,940**	$	1,278,483,867
Accrued interest on note payable		**3,136,000**		3,092,379
Total	**$**	**1,364,209,940**	$	1,281,576,246

The outstanding balance of the note payable to the Bank was $1,361,073,940 as of March 31, 2020, is recorded as a liability on the Association's balance sheet. The note carried a weighted average interest rate of 2.68 percent at March 31, 2020. The indebtedness is collateralized by a pledge of substantially all of the Association's assets to the Bank and is governed by the general financing agreement. The increase in note payable to the Bank and related accrued interest payable since December 31, 2019, correlates directly with the overall increase in the Association accrual loan volume for the period. The Association's own funds, which represent the amount of the Association's loan portfolio funded by the Association's equity, were $342,961,352 at March 31, 2020. The maximum amount the Association may borrow from the Bank as of March 31, 2020, was $1,705,578,677 as defined by the general financing agreement. The indebtedness continues in effect until the expiration date of the general financing agreement, which is September 30, 2020, unless sooner terminated by the Bank upon the occurrence of an event of default, or by the Association, in the event of a breach of this agreement by the Bank, upon giving the Bank 30 calendar days' prior written notice, or in all other circumstances, upon giving the Bank 120 days' prior written notice.

Capital Resources:

The Association's capital position increased by $7,067,388 at March 31, 2020, compared to December 31, 2019. The Association's debt as a percentage of members' equity was 3.85:1 as of March 31, 2020, compared to 3.74:1 as of December 31, 2019.

FCA regulations require the Association to maintain minimums for various regulatory capital ratios. New regulations became effective January 1, 2017, which replaced the previously required core surplus and total surplus ratios with common equity tier 1, tier 1 capital, and total capital risk-based capital ratios. The new regulations also added tier 1 leverage and unallocated retained earnings and equivalents (UREE) ratios. The permanent capital ratio continues to remain in effect, with some modifications to align with the new regulations. As of March 31, 2020, the Association exceeded all regulatory capital requirements.

Economic Conditions:

The United States has been operating under a presidentially declared emergency since March 13, 2020 due to the Coronavirus Disease 2019 (also referred to as COVID-19). The Association continues during these unprecedented times to fulfill its mission to support agriculture and rural communities by providing access to reliable and consistent credit. The Association is closely monitoring its loan portfolio overall and is particularly focused on sectors that may be pressured by COVID-19 and its related economic impacts, such as oil and gas, food processing, timber and beef cattle. The Association has adjusted its portfolio monitoring and servicing practices and, if appropriate, will evaluate its allowance for loan losses as changes in outlook occur. Capital levels remained strong to support any adversity or continuing loan demand.

Operationally, the Association continues to function as normal during these challenging times. The Association has witnessed the benefits of past and current technology initiatives which allow personnel to work remotely and support both their families and their customer base. As it relates to the Association's internal controls over financial reporting and disclosure controls and procedures, the

controls and procedures continue to operate effectively and no material changes to the controls or financial systems have occurred or are contemplated.

The overall impact of COVID-19 is evolving rapidly, and future events are uncertain. Challenging economic conditions are likely ahead, however, as COVID-19 has caused many countries, including the U.S., to impose restrictions on travel and public gatherings. It is too early to accurately assess the potential impact of COVID-19 on the global, U.S. and district economies. The Association will continue to closely monitor the situation in the coming quarters.

Significant Recent Accounting Pronouncements:

Refer to Note 1 – "Organization and Significant Accounting Policies" in this quarterly report for disclosures of recent accounting pronouncements which may impact the Associations consolidated financial position and results of operations and for critical accounting policies.

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 2019 Annual Report of the Association more fully describe the Association's relationship with the Bank.

The annual and quarterly stockholder reports of the Bank are available free of charge, upon request. These reports can be obtained by writing to Farm Credit Bank of Texas, Corporate Communications, P.O. Box 202590, Austin, Texas 78720-2590 or calling (512) 465-1881. Copies of the Bank annual and quarterly stockholder reports can also be requested by e-mailing *fcb@farmcreditbank.com*. The annual and quarterly stockholder reports are also available on its website at *www.farmcreditbank.com*.

The Association's annual and quarterly stockholder reports are also available free of charge, upon request. The annual and quarterly stockholder reports are available approximately 75 days after year end and 40 days after quarter end, respectively, and can be obtained by writing to Lone Star, ACA, 1612 Summit Avenue, Suite 300, Fort Worth, Texas 76102 or calling (817) 332-6565. The annual and quarterly stockholder reports for the Association are also available on its website at *www.lonestaragcredit.com*. Copies of the Association's annual and quarterly stockholder reports can also be requested by e-mailing *ShareHolderRelations@lonestaragcredit.com*.

LONE STAR, ACA

CONSOLIDATED BALANCE SHEET

	March 31, 2020 (unaudited)	December 31, 2019
ASSETS		
Cash	$ 162,377	$ 66,150
Loans	1,703,354,988	1,631,671,416
Less: allowance for loan losses	(7,730,629)	(7,129,083)
Net loans	1,695,624,359	1,624,542,333
Accrued interest receivable	10,400,811	9,223,030
Investment in and receivable from the Bank:		
Capital stock	25,010,310	25,036,060
Other	1,503,022	1,046,155
Premises and equipment, net	3,230,395	3,098,799
Other assets	3,426,268	3,416,805
Total assets	$ 1,739,357,542	$ 1,666,429,332
LIABILITIES		
Note payable to the Bank	$ 1,361,073,940	$ 1,278,483,867
Accrued interest payable	3,136,000	3,092,379
Drafts outstanding	20,021	44,338
Patronage dividends payable	-	19,423,559
Other liabilities	16,281,709	13,606,705
Total liabilities	1,380,511,670	1,314,650,848
MEMBERS' EQUITY		
Capital stock and participation certificates	5,481,715	5,737,095
Additional paid-in capital	91,343,553	91,343,553
Unallocated retained earnings	262,903,262	255,587,367
Accumulated other comprehensive income (loss)	(882,658)	(889,531)
Total members' equity	358,845,872	351,778,484
Total liabilities and members' equity	$ 1,739,357,542	$ 1,666,429,332

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

LONE STAR, ACA

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

	Three Months Ended March 31,	
	2020	2019
INTEREST INCOME		
Loans	**$ 21,044,719**	$ 20,579,480
Total interest income	**21,044,719**	20,579,480
INTEREST EXPENSE		
Note payable to the Bank	**9,311,775**	8,923,484
Advance conditional payments	**116**	51
Total interest expense	**9,311,891**	8,923,535
Net interest income	**11,732,828**	11,655,945
PROVISION FOR LOAN LOSSES	**568,002**	129,274
Net interest income after provision for loan losses	**11,164,826**	11,526,671
NONINTEREST INCOME		
Income from the Bank:		
Patronage income	**1,676,936**	1,603,925
Loan fees	**198,333**	78,315
Refunds from FCSIC	**293,816**	340,601
Financially related services income	**1,231**	2,362
Gain (loss) on other property owned, net	**-**	(5,917)
Gain on sale of premises and equipment, net	**56,641**	97,134
Other noninterest income	**166,562**	70,707
Total noninterest income	**2,393,519**	2,187,127
NONINTEREST EXPENSES		
Salaries and employee benefits	**3,726,869**	4,570,021
Directors' expense	**105,401**	113,117
Purchased services	**509,195**	705,051
Travel	**218,963**	244,722
Occupancy and equipment	**392,153**	388,996
Communications	**106,910**	91,251
Advertising	**93,898**	144,464
Public and member relations	**342,864**	347,372
Supervisory and exam expense	**156,721**	163,970
Insurance Fund premiums	**238,501**	252,469
Other components of net periodic postretirement benefit cost	**51,908**	68,611
Other noninterest expense	**231,510**	223,859
Total noninterest expenses	**6,174,893**	7,313,903
Income before income taxes	**7,383,452**	6,399,895
Provision for (benefit from) income taxes	**1,185**	(18,219)
NET INCOME	**7,382,267**	6,418,114
Other comprehensive income:		
Change in postretirement benefit plans	**6,873**	(2,646)
COMPREHENSIVE INCOME	**$ 7,389,140**	$ 6,415,468

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

LONE STAR, ACA

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

(unaudited)

	Capital Stock/ Participation Certificates	Additional Paid-in-Capital	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2018	$ 5,911,140	$ 91,343,553	$ -	$ 246,571,786	$ (399,101)	$ 343,427,378
Comprehensive income	-	-	-	6,418,114	(2,646)	6,415,468
Capital stock/participation certificates and allocated retained earnings issued	121,070	-	-	-	-	121,070
Capital stock/participation certificates and allocated retained earnings retired	(200,805)	-	-	-	-	(200,805)
Dividends declared	-	-	-	98,195	-	98,195
Balance at March 31, 2019	$ 5,831,405	$ 91,343,553	$ -	$ 253,088,095	$ (401,747)	$ 349,861,306
Balance at December 31, 2019	$ 5,737,095	$ 91,343,553	$ -	$ 255,587,367	$ (889,531)	$ 351,778,484
Comprehensive income	-	-	-	7,382,267	6,873	7,389,140
Capital stock/participation certificates and allocated retained earnings issued	225,205	-	-	-	-	225,205
Capital stock/participation certificates and allocated retained earnings retired	(480,585)	-	-	-	-	(480,585)
Dividends declared	-	-	-	(66,372)	-	(66,372)
Balance at March 31, 2020	**$ 5,481,715**	**$ 91,343,553**	**$ -**	**$ 262,903,262**	**$ (882,658)**	**$ 358,845,872**

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

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

Lone Star, ACA, including its wholly-owned subsidiaries, Lone Star, PCA and Lone Star, FLCA (collectively referred to as "the Association"), is a member-owned cooperative which provides credit and credit-related services to, or for the benefit of, eligible borrowers/stockholders for qualified agricultural purposes in the counties of Bell, Borden, Bosque, Bowie, Burnet, Camp, Cass, Cooke, Coryell, Dallas, Delta, Denton, Eastland, Ellis, Erath, Falls, Fannin, Fisher, Freestone, Grayson, Hamilton, Hill, Hood, Johnson, Kent, Lamar, Lampasas, Limestone, McLennan, Milam, Mitchell, Morris, Navarro, Nolan, Palo Pinto, Parker, Red River, Scurry, Shackelford, Somervell, Stephens, Tarrant, Taylor, Throckmorton, Titus, Williamson, Wise and Young 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 accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. (GAAP) for interim financial information. Accordingly, they do not include all of the disclosures required by GAAP for annual financial statements and should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2019, as contained in the 2019 Annual Report to Stockholders.

In the opinion of management, 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 (GAAP), except for the inclusion of a statement of cash flows. GAAP 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. These interim financial statements should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2019, as contained in the 2019 Annual Report to Stockholders. The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year ending December 31, 2020. Descriptions of the significant accounting policies are included in the 2019 Annual Report to Stockholders. In the opinion of management, these policies and the presentation of the interim financial condition and results of operations conform with GAAP and prevailing practices within the banking industry.

In December 2019, the Financial Accounting Standards Board (FASB) issued guidance entitled "Simplifying the Accounting for Income Taxes." This guidance eliminates certain intra period tax allocations, foreign deferred tax recognition and interim period tax calculations. In addition, the guidance simplifies disclosure regarding capital and franchise taxes, the allocation of goodwill in business combinations, subsidiary financial statements and other disclosures. The new guidance is intended to eliminate and/or simplify certain aspects of income tax accounting that are complex or that require significant judgment in application or presentation. The guidance becomes effective for fiscal years beginning after December 15, 2021. Early adoption of the guidance is permitted and the institution adopted this guidance on January 1, 2020. The adoption of this guidance did not impact the institution's financial condition or results of operations; nor did the guidance impact the presentation of taxes for prior periods in these interim financial statements.

In August 2018, the Financial Accounting Standards Board (FASB) issued guidance entitled "Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Cost." The guidance aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by this guidance. This guidance becomes effective for interim and annual periods beginning after December 15, 2019. The guidance also requires an entity (customer) to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement. It further specifies where to present expense and payments in the financial statements. Early adoption is permitted. The guidance is to be applied on a retrospective or prospective basis to all implementation costs incurred after the date of adoption. The Association early adopted to be in line with the FCS. The adoption of this guidance did not impact the Association's financial condition or its results of operations.

In August 2018, the FASB issued guidance entitled "Disclosure Framework — Changes to the Disclosure Requirements for Defined Benefit Plans." The guidance modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. This guidance becomes effective for fiscal years ending after December 15, 2020. Early adoption is permitted. The guidance is to be applied on a retrospective basis for all periods. The adoption of this guidance will not impact the Association's financial condition or its results of operations, but will impact the employee benefit plan disclosures.

In August 2018, the FASB issued guidance entitled “Disclosure Framework — Changes to the Disclosure Requirements for Fair Value Measurement.” The guidance modifies the requirements on fair value measurements by removing, modifying or adding to the disclosures. This guidance became effective for interim and annual periods beginning after December 15, 2019. Early adoption was permitted and an entity was permitted to early adopt any removal or modified disclosures and delay adoption of the additional disclosures until their effective date. The Association early adopted the removal and modified disclosures during the fourth quarter of 2018. The adoption of this guidance did not impact the Association’s financial condition or its results of operations but did impact the fair value measurements disclosures.

In June 2016, the FASB issued guidance entitled “Measurement of Credit Losses on Financial Instruments.” The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses. For public business entities that are not U.S. Securities and Exchange Commission filers this guidance was to become effective for interim and annual periods beginning after December 15, 2020, with early application permitted. In November 2019, the FASB issued an update that amends the mandatory effective date for this guidance for certain institutions. The change resulted from a change in the effective date philosophy that extends and simplifies the adoption by staggering the dates between large public entities and other entities. As a result of the change, the new credit loss standard, for those institutions qualifying for the delay, becomes effective for interim and annual reporting periods beginning after December 15, 2022, with early adoption permitted. The Association qualifies for the delay in the adoption date. The Association continues to evaluate the impact of adoption on the Association’s financial condition and its results of operations.

The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries. The preparation of these consolidated financial statements requires the use of management’s estimates. The results for the quarter ended March 31, 2020, are not necessarily indicative of the results to be expected for the year ended December 31, 2020. Certain amounts in the prior period’s financial statements have been reclassified to conform to current financial statement presentation.

NOTE 2 — INVESTMENTS:

The Association may hold mission-related and other investments. The Farm Credit Administration approves mission-related programs and other mission-related investments. The following is a summary of mission-related and other investments that are held to maturity:

During 2010, the Association exchanged loans totaling $59,626,146 for Federal Agricultural Mortgage Corporation (Farmer Mac) guaranteed mortgage-backed securities (AMBS). The loans were previously covered under the Long-Term Standby Commitment to Purchase Agreements with Farmer Mac. No gain or loss was recognized in the financial statements upon completion of the exchange transactions.

Effective January 26, 2012, the Bank purchased Lone Star’s securitized Farmer Mac Agricultural Mortgage Backed Securities (AMBS) Investments. The purchase of $35,459,508 included outstanding principal and accrued interest as of that date. There was no gain or loss recognized by the Association on this transaction. The Association will continue to service the underlying loans that were included in this security. Also, for 2012 there was no effect to Lone Star’s income based on this transaction as the Bank was able to pay the Association a patronage equivalent to the net interest that it would have earned on the AMBS investment. The amount of patronage received in 2019 was $145,426. However, for future years, the Bank’s payment of patronage is at the discretion of the Bank’s board of directors. The remaining balance of the AMBS investment at March 31, 2020 was $4,989,359.

NOTE 3 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

A summary of loans follows:

Loan Type	**March 31, 2020 Amount**	December 31, 2019 Amount
Production agriculture:		
Real estate mortgage	**$ 1,334,204,173**	$ 1,292,173,087
Production and intermediate term	**88,734,660**	90,965,270
Agribusiness:		
Loans to cooperatives	**22,554,056**	8,713,334
Processing and marketing	**155,744,106**	143,710,232
Farm-related business	**27,771,273**	21,554,430
Communication	**23,535,471**	23,407,450
Energy	**35,604,173**	36,294,005
Water and waste water	**5,626,999**	5,574,542
Rural residential real estate	**9,580,077**	9,279,066
Total	**$ 1,703,354,988**	$ 1,631,671,416

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 March 31, 2020:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 24,876,201	$ 7,337,277	$ 2,000,000	$ -	$ 26,876,201	$ 7,337,277
Production and intermediate term	39,521,125	-	-	-	39,521,125	-
Agribusiness	179,326,073	6,633,554	-	-	179,326,073	6,633,554
Communication	23,535,471	-	-	-	23,535,471	-
Energy	35,604,173	-	-	-	35,604,173	-
Water and waste water	3,991,298	-	1,635,701	-	5,626,999	-
Total	$ 306,854,341	$ 13,970,831	$ 3,635,701	$ -	$ 310,490,042	$ 13,970,831

The Association is authorized under the Farm Credit Act to accept “advance conditional payments” (ACPs) from borrowers. To the extent the borrower’s access to such ACPs is restricted and the legal right of setoff exists, the ACPs are netted against the borrower’s related loan balance. Unrestricted advance conditional payments are included in other liabilities. ACPs are not insured, and interest is generally paid by the Association on such balances. Balances of ACPs were $13,902,637 and $12,280,155 at March 31, 2020, and December 31, 2019, respectively.

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

	March 31, 2020	December 31, 2019
Nonaccrual loans:		
Real estate mortgage	**$ 3,800,721**	$ 3,295,585
Production and intermediate term	**89,925**	29,940
Rural residential real estate	**5,609**	8,370
Total nonaccrual loans	**3,896,255**	3,333,895
Accruing restructured loans:		
Real estate mortgage	**99,833**	101,701
Production and intermediate term	**1,042,620**	1,047,872
Total accruing restructured loans	**1,142,453**	1,149,573
Total nonperforming loans	**5,038,708**	4,483,468
Total nonperforming assets	**$ 5,038,708**	$ 4,483,468

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:

	March 31, 2020	December 31, 2019
Real estate mortgage		
Acceptable	**96%**	96%
OAEM	**3%**	3%
Substandard/doubtful	**1%**	1%
	100%	100%
Production and intermediate term		
Acceptable	**88%**	91%
OAEM	**11%**	8%
Substandard/doubtful	**1%**	1%
	100%	100%
Loans to cooperatives		
Acceptable	**100%**	100%
OAEM	**0%**	0%
Substandard/doubtful	**0%**	0%
	100%	100%
Processing and marketing		
Acceptable	**93%**	93%
OAEM	**7%**	7%
Substandard/doubtful	**0%**	0%
	100%	100%
Farm-related business		
Acceptable	**100%**	100%
OAEM	**0%**	0%
Substandard/doubtful	**0%**	0%
	100%	100%
Communication		
Acceptable	**100%**	100%
OAEM	**0%**	0%
Substandard/doubtful	**0%**	0%
	100%	100%
Energy		
Acceptable	**90%**	89%
OAEM	**0%**	0%
Substandard/doubtful	**10%**	11%
	100%	100%
Water and waste water		
Acceptable	**100%**	100%
OAEM	**0%**	0%
Substandard/doubtful	**0%**	0%
	100%	100%
Rural residential real estate		
Acceptable	**98%**	98%
OAEM	**1%**	1%
Substandard/doubtful	**1%**	1%
	100%	100%
Total loans		
Acceptable	**96%**	96%
OAEM	**3%**	3%
Substandard/doubtful	**1%**	1%
	100%	100%

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

March 31, 2020	**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**
Real estate mortgage	**$ 7,329,219**	**$ 1,177,779**	**$ 8,506,998**	**$ 1,334,834,711**	**$ 1,343,341,709**
Production and intermediate term	**562,327**	**85,399**	**647,726**	**88,765,519**	**89,413,245**
Loans to cooperatives	**-**	**-**	**-**	**22,572,470**	**22,572,470**
Processing and marketing	**-**	**-**	**-**	**155,970,646**	**155,970,646**
Farm-related business	**-**	**-**	**-**	**27,921,130**	**27,921,130**
Communication	**-**	**-**	**-**	**23,563,298**	**23,563,298**
Energy	**-**	**-**	**-**	**35,729,579**	**35,729,579**
Water and waste water	**-**	**-**	**-**	**5,634,942**	**5,634,942**
Rural residential real estate	**15,364**	**1,782**	**17,146**	**9,591,634**	**9,608,780**
Total	**$ 7,906,910**	**$ 1,264,960**	**$ 9,171,870**	**$ 1,704,583,929**	**$ 1,713,755,799**

December 31, 2019	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
Real estate mortgage	$ 6,102,762	$ 993,465	$ 7,096,227	$ 1,293,326,351	$ 1,300,422,578
Production and intermediate term	270,694	29,940	300,634	91,189,762	91,490,396
Loans to cooperatives	-	-	-	8,721,392	8,721,392
Processing and marketing	-	-	-	143,952,511	143,952,511
Farm-related business	-	-	-	21,580,739	21,580,739
Communication	-	-	-	23,409,603	23,409,603
Energy	-	-	-	36,427,019	36,427,019
Water and waste water	-	-	-	5,586,319	5,586,319
Rural residential real estate	19,491	-	19,491	9,284,398	9,303,889
Total	$ 6,392,947	$ 1,023,405	$ 7,416,352	$ 1,633,478,094	$ 1,640,894,446

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.

Troubled Debt Restructuring: 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 (TDRs) 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 March 31, 2020, the total recorded investment of troubled debt restructured loans was $1,195,623, including $53,170 classified as nonaccrual and $1,142,453 classified as accrual, with specific allowance for loan losses of $206,034. There were no commitments to lend funds to borrowers whose loan terms have been modified in a trouble debt restructuring as of March 31, 2020 and December 31, 2019.

There were no loans with troubled debt restructuring designation that occurred during the three months ended March 31, 2020 and 2019, respectively.

In restructurings where principal is forgiven, the amount of the forgiveness is immediately charged off. In restructurings where accrued interest is forgiven, the interest is reversed (if current year interest) or charged off (if prior year interest). There were no restructurings where principal was forgiven that required a charge-off, at the modification date, for the three months ended March 31, 2020 and 2019, respectively.

The predominant form of concession granted for troubled debt restructuring includes an extension of the term, principal or accrued interest reduction, interest rate decrease or delayed in repayment of principal, among others. At times, these terms might be offset with incremental payments, collateral or new borrower guarantees, in which case the Association assesses all the modified terms to determine if the overall modification qualifies as a troubled debt restructuring.

At March 31, 2020, the Association had no payment defaults on loans that were restructured within the previous 12 months. A payment default is defined as a payment that is 30 days past due after the date the loan was restructured.

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

	Loans Modified as TDRs		TDRs in Nonaccrual Status*		TDRs in Accrual Status*		Specific Allowance
	March 31, 2020	December 31, 2019	**March 31, 2020**	December 31, 2019	**March 31, 2020**	December 31, 2019	**March 31, 2020**
Real estate mortgage	**$ 153,003**	$ 159,540	**$ 53,170**	$ 57,839	**$ 99,833**	$ 101,701	**$ -**
Production and intermediate term	**1,042,620**	1,048,029	**-**	157	**1,042,620**	1,047,872	**206,034**
Total	**$ 1,195,623**	$ 1,207,569	**$ 53,170**	$ 57,996	**$1,142,453**	$1,149,573	**$ 206,034**

*represents the portion of loans modified as TDRs that are in nonaccrual status

Additional impaired loan information is as follows:

	March 31, 2020			December 31, 2019		
	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	**$ 403,817**	**$ 403,817**	**$ 13,383**	$ -	$ -	$ -
Production and intermediate term	**1,042,619**	**1,038,616**	**206,034**	1,047,872	1,043,822	206,034
Rural residential real estate	**-**	**-**	**-**	-	-	-
Total	**$ 1,446,436**	**$ 1,442,433**	**$ 219,417**	$ 1,047,872	$ 1,043,822	$ 206,034
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	**$ 3,496,737**	**$ 3,551,411**	**$ -**	$ 3,397,286	$ 3,452,225	$ -
Production and intermediate term	**89,926**	**148,111**	**-**	29,940	235,980	-
Rural residential real estate	**5,609**	**5,805**	**-**	8,370	8,566	-
Total	**$ 3,592,272**	**$ 3,705,327**	**$ -**	$ 3,435,596	$ 3,696,771	$ -
Total impaired loans:						
Real estate mortgage	**$ 3,900,554**	**$ 3,955,228**	**$ 13,383**	$ 3,397,286	$ 3,452,225	$ -
Production and intermediate term	**1,132,545**	**1,186,727**	**206,034**	1,077,812	1,279,802	206,034
Rural residential real estate	**5,609**	**5,805**	**-**	8,370	8,566	-
Total	**$ 5,038,708**	**$ 5,147,760**	**$ 219,417**	$ 4,483,468	$ 4,740,593	$ 206,034

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

	For the Three Months Ended			
	March 31, 2020		March 31, 2019	
	Average Impaired Loans	**Interest Income Recognized**	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:				
Real estate mortgage	**$ 22,188**	**$ 5,765**	$ -	$ -
Production and intermediate term	**1,041,082**	**13,341**	-	-
Rural residential real estate	**-**	**-**	-	-
Total	**$ 1,063,270**	**$ 19,106**	$ -	$ -
Impaired loans with no related allowance for credit losses:				
Real estate mortgage	**$ 3,322,912**	**$ 8,084**	$ 3,908,559	$ 4,646
Production and intermediate term	**33,087**	**969**	1,141,762	16,925
Rural residential real estate	**6,814**	**-**	133,001	-
Total	**$ 3,362,813**	**$ 9,053**	$ 5,183,322	$ 21,571
Total impaired loans:				
Real estate mortgage	**$ 3,345,100**	**$ 13,849**	$ 3,908,559	$ 4,646
Production and intermediate term	**1,074,169**	**14,310**	1,141,762	16,925
Rural residential real estate	**6,814**	**-**	133,001	-
Total	**$ 4,426,083**	**$ 28,159**	$ 5,183,322	$ 21,571

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

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy and Water/Waste Water	Rural Residential Real Estate	Total
Allowance for Credit Losses:							
Balance at December 31, 2019	$ 4,713,632	$ 969,201	$ 835,460	$ 20,870	$ 451,789	$ 138,131	$ 7,129,083
Charge-offs	-	(38,532)	-	-	-	-	(38,532)
Recoveries	-	7,126	-	-	-	-	7,126
Provision for loan losses	793,389	(184,320)	218,985	72,043	(234,463)	(97,632)	568,002
Other	811	18,826	40,220	382	4,711	-	64,950
Balance at March 31, 2020	$ 5,507,832	$ 772,301	$ 1,094,665	$ 93,295	$ 222,037	$ 40,499	$ 7,730,629
Ending Balance:							
Individually evaluated for impairment	$ 13,383	$ 206,034	$ -	$ -	$ -	$ -	$ 219,417
Collectively evaluated for impairment	5,494,449	566,267	1,094,665	93,295	222,037	40,499	7,511,212
Balance at March 31, 2020	$ 5,507,832	$ 772,301	$ 1,094,665	$ 93,295	$ 222,037	$ 40,499	$ 7,730,629
Balance at December 31, 2018	$ 6,497,578	$ 1,457,800	$ 350,450	$ 12,783	$ 224,208	$ 102,611	$ 8,645,430
Charge-offs	(141,299)	(27,087)	-	-	-	(50,249)	(218,635)
Recoveries	-	19,431	5,200	-	-	-	24,631
Provision for loan losses	(92,548)	(200,124)	82,037	(882)	336,642	4,149	129,274
Other	(109)	(29,252)	(16,951)	66	574	-	(45,672)
Balance at March 31, 2019	$ 6,263,622	$ 1,220,768	$ 420,736	$ 11,967	$ 561,424	$ 56,511	$ 8,535,028
Ending Balance:							
Collectively evaluated for impairment	6,263,622	1,220,768	420,736	11,967	561,424	56,511	8,535,028
Balance at March 31, 2019	$ 6,263,622	$ 1,220,768	$ 420,736	$ 11,967	$ 561,424	$ 56,511	$ 8,535,028

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy and Water/Waste Water	Rural Residential Real Estate	Total
Recorded Investments in Loans Outstanding:							
Ending Balance at March 31, 2020	$ 1,343,341,709	$ 89,413,245	$ 206,464,246	$ 23,563,298	$ 41,364,521	$ 9,608,780	$ 1,713,755,799
Individually evaluated for impairment	$ 3,900,554	$ 1,132,545	$ -	$ -	$ -	$ 5,609	$ 5,038,708
Collectively evaluated for impairment	$ 1,339,441,155	$ 88,280,700	$ 206,464,246	$ 23,563,298	$ 41,364,521	$ 9,603,171	$ 1,708,717,091
Ending Balance at December 31, 2019	$ 1,300,422,578	$ 91,490,396	$ 174,254,642	$ 23,409,603	$ 42,013,338	$ 9,303,889	$ 1,640,894,446
Individually evaluated for impairment	$ 3,397,286	$ 1,077,812	$ -	$ -	$ -	$ 8,370	$ 4,483,468
Collectively evaluated for impairment	$ 1,297,025,292	$ 90,412,584	$ 174,254,642	$ 23,409,603	$ 42,013,338	$ 9,295,519	$ 1,636,410,978

NOTE 4 —LEASES:

The components of lease expense were as follows:

	For the Three Months Ended March 31, 2020	For the Three Months Ended March 31, 2019
Operating lease cost	$ 158,788	$ 144,128
Net lease cost	$ 158,788	$ 144,128

Other information related to leases was as follows:

	For the Three Months Ended March 31, 2020	For the Three Months Ended March 31, 2019
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ 145,752	$ 134,644

Lease term and discount rate are as follows:

	March 31, 2020	December 31, 2019
Weighted average remaining lease term in years		
Operating leases	3.5	3.7
Weighted average discount rate		
Operating leases	2.9%	2.8%

Future minimum lease payments under non-cancellable leases as of March 31, 2020 were as follows:

	Operating Leases
2020 (excluding the three months ended 3/31/20)	$ 437,860
2021	596,639
2022	393,669
2023	354,246
2024	150,104
Total lease payments	$ 1,932,518

NOTE 5 — 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 institution's capital adequacy goals as well as the minimum permanent capital standards. The Plan monitors projected patronage 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.

Regulatory Capitalization Requirements

Risk-adjusted:	Regulatory Minimums	Conservation Buffer	Total	As of March 31, 2020
Common equity tier 1 ratio	4.50%	2.50%	7.00%	18.96%
Tier 1 capital ratio	6.00%	2.50%	8.50%	18.96%
Total capital ratio	8.00%	2.50%	10.50%	19.38%
Permanent capital ratio	7.00%	0.00%	7.00%	19.04%
Non-risk-adjusted:				
Tier 1 leverage ratio	4.00%	1.00%	5.00%	19.81%
UREE leverage ratio	1.50%	0.00%	1.50%	20.97%

Risk-adjusted assets have been defined by FCA Regulations as the Statement of Condition assets and off-balance-sheet commitments adjusted by various percentages, depending on the level of risk inherent in the various types of assets. The primary changes which generally have the impact of increasing risk-adjusted assets (decreasing risk-based regulatory capital ratios) were as follows:

- Inclusion of off-balance-sheet commitments less than 14 months
- Increased risk-weighting of most loans 90 days past due or in nonaccrual status

Risk-adjusted assets is calculated differently for the permanent capital ratio (referred herein as PCR risk-adjusted assets) compared to the other risk-based capital ratios. The primary difference is the deduction of the allowance for loan losses from risk-adjusted assets for the permanent capital ratio.

The ratios are based on a three-month average daily balance in accordance with FCA regulations and are calculated as follows:

- Common equity tier 1 ratio is statutory minimum purchased borrower stock, other required borrower stock held for a minimum of 7 years, allocated equities held for a minimum of 7 years or not subject to revolvement, unallocated retained earnings, paid-in capital, less certain regulatory required deductions including the amount of allocated investments in other System institutions, and the amount of purchased investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.
- Tier 1 capital ratio is common equity tier 1 plus non-cumulative perpetual preferred stock, divided by average risk-adjusted assets.
- Total capital is tier 1 capital plus other required borrower stock held for a minimum of 5 years, allocated equities held for a minimum of 5 years, subordinated debt and limited-life preferred stock greater than 5 years to maturity at issuance subject to certain limitations, allowance and reserve for credit losses under certain limitations less certain investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.
- Permanent capital ratio (PCR) is all at-risk borrower stock, any allocated excess stock, unallocated retained earnings, paid-in capital, subordinated debt and preferred subject to certain limitations, less certain allocated and purchased investments in other System institutions, divided by PCR risk-adjusted assets.
- Tier 1 leverage ratio is tier 1 capital, including regulatory deductions, divided by average assets less regulatory deductions subject to tier 1 capital.
- UREE leverage ratio is unallocated retained earnings, paid-in capital, allocated surplus not subject to revolvement less certain regulatory required deductions including the amount of allocated investments in other System institutions divided by average assets less regulatory deductions subject to tier 1 capital.

If the capital ratios fall below the minimum regulatory requirements, including the capital conservation and leverage buffer amounts, capital distributions (equity redemptions, dividends, and patronage) and discretionary bonus payments to senior officers are restricted or prohibited without prior FCA approval.

The components of the Association's risk-adjusted capital, based on 90 day average balances, were as follows at March 31, 2020:

(dollars in thousands)	Common equity tier 1 ratio	Tier 1 capital ratio	Total capital ratio	Permanent capital ratio
Numerator:				
Unallocated retained earnings	$ 193,224,236	$ 193,224,236	$ 193,224,236	$ 193,224,236
Paid-in capital	91,343,553	91,343,553	91,343,553	91,343,553
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	5,646,815	5,646,815	5,646,815	5,646,815
Nonqualified allocated equities not subject to retirement	65,733,966	65,733,966	65,733,966	65,733,966
Allowance for loan losses and reserve for credit losses subject to certain limitations	-	-	7,306,884	-
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	(25,035,774)	(25,035,774)	(25,035,774)	(25,035,774)
	$ 330,912,796	$ 330,912,796	$ 338,219,680	$ 330,912,796
Denominator:				
Risk-adjusted assets excluding allowance	$ 1,770,103,305	$ 1,770,103,305	$ 1,770,103,305	$ 1,770,103,305
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	(25,035,774)	(25,035,774)	(25,035,774)	(25,035,774)
Allowance for loan losses	-	-	-	(7,125,853)
	$ 1,745,067,531	$ 1,745,067,531	$ 1,745,067,531	$ 1,737,941,678

The components of the Association's non-risk-adjusted capital, based on 90 day average balances, were as follows at March 31, 2020:

(dollars in thousands)	Tier 1 leverage ratio	UREE leverage ratio
Numerator:		
Unallocated retained earnings	$ 193,224,236	$ 193,224,236
Paid-in capital	91,343,553	91,343,553
Common Cooperative Equities:		
Statutory minimum purchased borrower stock	5,646,815	-
Nonqualified allocated equities not subject to retirement	65,733,966	65,733,966
Regulatory Adjustments and Deductions:		
Amount of allocated investments in other System institutions	(25,035,774)	(1,000)
	$ 330,912,796	$ 350,300,755
Denominator:		
Total Assets	$ 1,695,414,168	$ 1,695,414,168
Regulatory Adjustments and Deductions:		
Regulatory deductions included in tier 1 capital	(25,242,322)	(25,242,322)
	$ 1,670,171,846	$ 1,670,171,846

The Association's accumulated other comprehensive income (loss) relates entirely to its nonpension other postretirement benefits. The following table summarizes the change in accumulated other comprehensive income (loss) for the three months ended March 31:

	2020	2019
Accumulated other comprehensive income (loss) at January 1	$ (889,531)	$ (399,101)
Amortization of prior service (credit) costs included in salaries and employee benefits	(6,629)	(6,629)
Amortization of actuarial (gain) loss included in salaries and employee benefits	13,502	3,983
Other comprehensive income (loss), net of tax	6,873	(2,646)
Accumulated other comprehensive income (loss) at March 31	$ (882,658)	$ (401,747)

NOTE 6 — INCOME TAXES:

Lone Star, ACA conducts its business activities through two wholly-owned subsidiaries. Long-term mortgage lending activities are conducted through a wholly-owned FLCA subsidiary which is exempt from federal and state income tax. Short- and intermediate-term lending activities are conducted through a wholly-owned PCA subsidiary. The PCA subsidiary and the ACA holding company are subject to income tax. Lone Star, ACA operates as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, Lone Star, ACA can exclude from taxable income amounts distributed as qualified patronage dividends in the form of cash, stock or allocated retained earnings. Provisions for income taxes are made only on those taxable earnings that will not be distributed as qualified patronage dividends. 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 (more than 50 percent probability), based on management's estimate, that they will not be realized.

As of March 31, 2020, the deferred income tax valuation allowance was $10,546,840.

NOTE 7 — 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 15 to the 2019 Annual Report to Stockholders for a more complete description.

Assets and liabilities measured at fair value on a recurring basis are summarized below:

March 31, 2020	**Fair Value Measurement Using**			**Total Fair Value**
	Level 1	**Level 2**	**Level 3**	
Assets:				
Assets held in nonqualified benefit trusts	**$ 178,303**	**$ -**	**$ -**	**$ 178,303**
Total assets	**178,303**	**-**	**-**	**178,303**

December 31, 2019	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Assets held in nonqualified benefit trusts	$ 254,306	$ -	$ -	$ 254,306
Total assets	254,306	-	-	254,306

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

March 31, 2020	**Fair Value Measurement Using**			**Total Fair Value**
	Level 1	**Level 2**	**Level 3**	
Assets:				
Loans*	**$ -**	**$ -**	**$1,227,021**	**$1,227,021**

December 31, 2019	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Loans*	$ -	$ -	$ 841,838	$ 841,838

*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 2 to the 2019 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 Notes to the 2019 Annual Report to Stockholders.

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.

Standby Letters of Credit

The fair value of letters of credit approximate the fees currently charged for similar agreements or the estimated cost to terminate or otherwise settle similar obligations.

Loans Evaluated for Impairment

For certain loans evaluated for impairment under impairment guidance, the fair value is based upon the underlying collateral since the loans are 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, a majority of these loans have fair value measurements that fall within Level 3 of the fair value 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. The fair value of these loans would fall under Level 2 of the hierarchy if the process uses independent appraisals and other market-based information.

Fair Value of Concessions Granted

The Association has recorded amounts related to the fair value of concessions granted for certain loans related to the breach of Association policies in 2016 and 2017. These amounts are netted against the unpaid principal balance of the related loans similar to a discount. The concessions granted were either through the refinancing of a relationship or as a result of acceptance of rates and terms previously negotiated, which were more favorable than market terms and rates. The fair value of the concessions are based on the expected future cash flows under the new contractual terms, discounted at a market interest rate. The fair value of the concessions is amortized into interest income over the contractual life of the related loans.

Other Property Owned

Other property owned is generally classified as Level 3 of the fair value hierarchy. The process for measuring the fair value of other property owned involves the use of appraisals or other market-based information. Costs to sell represent transaction costs and are not included as a component of the asset's fair value.

NOTE 8 — EMPLOYEE BENEFIT PLANS:

The following table summarizes the components of net periodic benefit costs of nonpension other postretirement employee benefits for the three months ended March 31:

	Other Benefits	
	2020	2019
Service cost	**$ 17,748**	$ 25,052
Interest cost	**54,554**	53,801
Amortization of prior service (credits) costs	**(6,629)**	(6,517)
Amortization of net actuarial (gain) loss	**3,983**	21,327
Net periodic benefit cost	**$ 69,656**	$ 93,663

The Association's liability for the unfunded accumulated obligation for these benefits at March 31, 2020, was $5,275,698 and is included in other liabilities on the balance sheet.

The components of net periodic benefit cost other than the service cost component are included in the line item "other components of net periodic postretirement benefit cost" in the income statement. The Association previously disclosed in its financial statements for the year ended December 31, 2019, that it expects to contribute $199,549 to the district's DC plan in 2020.

The structure of the district's DB plan, which is noncontributory and benefits are based on salary and years of service, is characterized as multiemployer since the assets, liabilities and cost of the plan are not segregated or separately accounted for by participating employers (Bank and associations). The Association recognizes its amortized annual contributions to the DB plan as an expense. The Association has contributed $55,308 to fund the DB plan for 2020. As of March 31, 2020, the Association has expensed and recognized $13,827.

NOTE 9 — 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 10 — SUBSEQUENT EVENTS:

The Association has evaluated subsequent events through May 8, 2020 which is the date the financial statements were issued or available to be issued.

There are no other significant events requiring disclosure as of May 8, 2020.