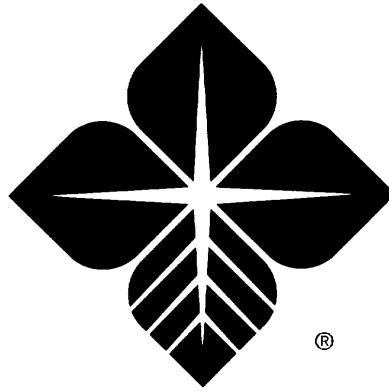


CENTRAL TEXAS FARM CREDIT, ACA

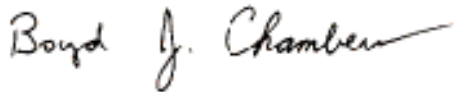
**2019
Quarterly Report
Third Quarter**



For the Quarter Ended September 30, 2019

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.



Boyd J. Chambers, Chief Executive Officer

November 5, 2019



Robby A. Halfmann, Chairman, Board of Directors

November 5, 2019



Keith Prater, Chief Financial Officer

November 5, 2019

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

The following commentary reviews the financial performance of the Central Texas Farm Credit, ACA (Agricultural Credit Association), referred to as the Association, for the quarter ended September 30, 2019. These comments should be read in conjunction with the accompanying financial statements and the 2018 Annual Report to Stockholders.

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

The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries. The consolidated financial statements were prepared under the oversight of the Association's audit committee.

Significant Events:

2019

In March 2019, a patronage refund of \$6,500,000 was distributed to the Association's borrowers. The patronage refund was declared by the board of directors in December 2018, and the amount was based on the Association's 2018 operating results.

2018

In December 2018, the Association received a direct loan patronage of \$1,762,208 from the Farm Credit Bank of Texas (Bank), representing 44 basis points on the average daily balance of the Association's direct loan with the Bank. During 2018, the Association received \$209,974 in patronage payments from the Bank, based on the Association's stock investment in the Bank. The Association received a capital markets patronage of \$65,095 from the Bank, representing 66 basis points on the Association's average balance of participations in the Bank's patronage pool. In August of 2018, CoBank announced that its board of directors approved a special, one-time patronage distribution as part of a broader plan to share the benefits of federal tax reform legislation with eligible customer-owners. This resulted in the Bank's receipt of a special patronage distribution from CoBank in September of 2018, and the Association's pro-rata share of the distribution was \$39,424.

In March 2018, a patronage refund of \$6,300,000 was distributed to the Association's borrowers. The patronage refund was declared by the board of directors in December 2017, and the amount was based on the Association's 2017 operating results.

2017

In December 2017, the Association received a direct loan patronage of \$1,531,794 from the Bank, representing 39 basis points on the average daily balance of the Association's direct loan with the Bank. During 2017, the Association received \$166,872 in patronage payments from the Bank, based on the Association's stock investment in the Bank. Also, the Association received a capital markets patronage of \$49,651 from the Bank, representing 75 basis points on the Association's average balance of participations in the Bank's patronage pool program.

In March 2017, a patronage refund of \$6,000,000 was distributed to the Association's borrowers. The patronage refund was declared by the board of directors in December 2016, and the amount was based on the Association's 2016 operating results.

2016

In December 2016, the Association received a direct loan patronage of \$1,592,290 from the Bank, representing 41 basis points on the average daily balance of the Association's direct loan with the Bank. During 2016, the Association also received \$128,071 in patronage payments from the Bank, based on the Association's stock investment in the Bank. In addition, the Association received a capital markets patronage of \$54,450 from the Bank, representing 75 basis points on the Association's average balance of participations in the Bank's patronage pool.

In September 2016, the Association completed the construction of a new headquarters building located in the city of Early, which is included in premises and equipment on the consolidated balance sheet.

In March 2016, a patronage refunding of \$5,600,000 was distributed to the Association's borrowers. The patronage refund was declared by the board of directors in December 2015, and the amount was based on the Association's 2015 operating results.

Loan Portfolio:

Total loans outstanding at September 30, 2019, including nonaccrual loans and sales contracts, were \$524,141,112 compared to \$509,538,598 at December 31, 2018, reflecting an increase of 2.9 percent. Nonaccrual loans as a percentage of total loans outstanding were 0.1 percent at September 30, 2019, compared to 0.6 percent at December 31, 2018.

The Association recorded no recoveries and \$106,772 in charge-offs for the quarter ended September 30, 2019, and no recoveries and \$962,756 in charge-offs for the same period in 2018. The Association's allowance for loan losses was 0.2 percent of total loans outstanding as of September 30, 2019 and December 31, 2018.

Problem Loans

2019

During the first quarter of 2019, the Association recorded charge-offs in the amount of \$16,434, and no recoveries were recorded.

During the second quarter of 2019, the Association recorded charge-offs in the amount of \$43,826 and no recoveries were recorded.

During the third quarter of 2019, the Association recorded charge-offs in the amount of \$106,772 and no recoveries were recorded.

2018

During the first quarter of 2018, the Association recorded a charge-off in the amount of \$17,992 related to three loans to the same borrower. A recovery of \$52,508 was recorded during the first quarter due to the payoff of one loan that had been charged off in 2017. During the second quarter, the Association recorded a recovery in the amount of \$17,992 that had been charged off in the first quarter of 2018. During the third quarter of 2018, the Association recorded a charge-off in the amount of \$962,756 related to a multi-loan relationship. During the fourth quarter, the Association recorded a charge-off in the amount of \$132,088 related to a multi-loan relationship.

2017

During the second quarter of 2017, the Association recorded a charge-off in the amount of \$52,508.

2016

During the third quarter of 2016, a nonaccrual loan in the amount of \$198,666 was foreclosed on. The property was sold during the quarter and the Association was paid in full.

During the third quarter of 2016, three production and intermediate term loans to a borrower were downgraded to Substandard Non-Accrual and subsequent charge-off of \$1,029,171 was recognized.

After the sale of acquired property in 2013, a balance of \$129,075 was held in acquired property to represent funds still owed to the Association. During the third quarter of 2016 that amount was charged-off as the collection of those funds was no longer expected.

Territory Conditions

The local economy in our chartered territory remains relatively strong. Real estate values are stable to slightly increasing and land sales have continued to increase despite volatile ag-related commodities and petroleum prices and the lost income for people connected to those industries. The majority of the Association's new loans made during the past number of years have been to absentee landowners with diverse income sources looking for a place for a small agricultural operation or recreational use. As a result, the Association has a diversified portfolio that is not heavily dependent on agricultural income. Even those borrowers who are primarily agricultural producers typically have outside income from a spouse's employment, part-time job, investments, etc. The above is reflected in the Association's sound credit quality and small number of delinquencies.

By the end of the third quarter of 2019 many areas of our territory had started to show signs of drought after having above average rainfall across most of the state. According to the September 2019 USDA Drought Monitor report, most of the territory was in abnormally dry to moderate drought zones. Pasture conditions were considered fair to below average in many areas of the territory with some areas providing supplemental feeding due to the dry conditions.

The USDA's report "Texas Crop Progress and Condition" the last week of September 2019 reported 71 percent of cotton acres had bolls opening and 18 percent harvested. Cotton crop conditions were considered mostly good to fair with 11 percent of acres report excellent. Winter wheat planting was already underway with 34 percent of acres planted and 6 percent emerged.

Cattle markets continued to decline through most of the third quarter. News of a lawsuit filed in late April by R-Calf (Ranchers-Cattlemen Action Legal Fund United Stockholders of America) against the top four packers in the country (Tyson, JBS, Cargill, and National Beef) accusing them of collusion on prices paid for slaughter cattle upset the cattle futures market. To further the decline, two separate packer facilities experienced fires that halted production in one facility and slowed production in the other. Boxed beef trade pricing increased significantly after the first fire, which triggered a USDA investigation into trade practices between packers and retail buyers. That investigation is still underway and has not resulted in any further news to date.

The third quarter ended with feeder cattle futures trading at \$142/cwt and live cattle trading at \$104/cwt. The cattle market spent most of the third quarter looking for a direction. Bookended by the issues mentioned earlier and decent consumer demand, the market has been stuck in the middle. Some are forecasting a slight decrease in cattle prices through the end of 2019 and into early 2020 due to concerns over the outcome of trade negotiations with China.

The USDA “Milk Production” report, released September 2019, reported Texas milk production in August totaled 1.150 million pounds. This was a 4.6% increase compared to last year due to slightly higher cow numbers. CME futures indicate dairy prices are up \$0.69 since the last quarter with the third quarter ending at \$18.13. The October contract is trading at \$18.62 with forward contracts trading lower.

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.

	September 30, 2019		December 31, 2018	
	Amount	%	Amount	%
Nonaccrual	\$ 629,774	42.4%	\$ 2,946,650	100.0%
90 days past due and still accruing interest	856,227	57.6%	-	0.0%
Total	<u>\$ 1,486,001</u>	<u>100.0%</u>	<u>\$ 2,946,650</u>	<u>100.0%</u>

Results of Operations:

The Association had net income of \$2,375,000 and \$7,168,311 for the three and nine months ended September 30, 2019, as compared to net income of \$1,487,549 and \$6,751,372 for the same periods in 2018, reflecting an increase of 59.7 and 6.2 percent. Net interest income was \$3,886,426 and \$11,654,415 for the three and nine months ended September 30, 2019, compared to \$3,701,861 and \$11,122,324 for the same periods in 2018.

	Nine Months Ended			
	September 30, 2019		September 30, 2018	
	Average Balance	Interest	Average Balance	Interest
Loans	\$ 515,060,969	\$ 21,164,470	\$ 497,598,596	\$ 18,912,137
Interest-bearing liabilities	412,701,298	9,510,055	397,345,797	7,789,813
Impact of capital	<u>\$ 102,359,671</u>		<u>\$ 100,252,799</u>	
Net interest income		<u>\$ 11,654,415</u>		<u>\$ 11,122,324</u>
	2019		2018	
	Average Yield		Average Yield	
Yield on loans	5.49%		5.08%	
Cost of interest-bearing liabilities	3.08%		2.62%	
Interest rate spread	2.41%		2.46%	
Net interest income as a percentage of average earning assets	3.03%		2.99%	

Nine months ended:			
September 30, 2019 vs. September 30, 2018			
Increase due to			
	Volume	Rate	Total
Interest income - loans	\$ 663,690	\$ 1,588,643	\$ 2,252,333
Interest expense	301,035	1,419,207	1,720,242
Net interest income	<u>\$ 362,655</u>	<u>\$ 169,436</u>	<u>\$ 532,091</u>

Interest income for the three and nine months ended September 30, 2019, increased by \$612,515 and \$2,252,333, or 9.4 and 11.9 percent respectively, from the same period of 2018, primarily due to increases in yields on earning assets and an increase in average loan volume. Interest expense for the three and nine months ended September 30, 2019, increased by \$427,950 and \$1,720,242 or 15.1 and 22.1 percent, from the same period of 2018 due to an increase in interest rates and an increase in average debt volume. Average loan volume for the third quarter of 2019 was \$521,707,665 compared to \$502,552,816 in the third quarter of 2018. The average net interest rate spread on the loan portfolio for the third quarter of 2019 was 2.41 percent, compared to 2.46 percent in the third quarter of 2018.

The Association's return on average assets for the nine months ended September 30, 2019, was 1.80 percent compared to 1.75 percent for the same period in 2018. The Association's return on average equity for the nine months ended September 30, 2019, was 8.40 percent, compared to 8.12 percent for the same period in 2018.

Liquidity and Funding Sources:

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

	September 30, 2019	December 31, 2018
Note payable to the Bank	\$ 420,928,535	\$ 404,917,907
Accrued interest on note payable	1,054,141	1,014,757
Total	<u>\$ 421,982,676</u>	<u>\$ 405,932,664</u>

The Association operates under a general financing agreement (GFA) with the Bank. The current GFA is effective through September 30, 2020. The primary source of liquidity and funding for the Association is a direct loan from the Bank. The outstanding balance of \$420,928,535 as of September 30, 2019, is recorded as a liability on the Association's balance sheet. The note carried a weighted average interest rate of 3.06 percent at September 30, 2019. 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, 2018, is due to the Association's increase in loan volume. The Association's own funds, which represent the amount of the Association's loan portfolio funded by the Association's equity, were \$101,209,553 at September 30, 2019. The maximum amount the Association may borrow from the Bank as of September 30, 2019, was \$529,520,766 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 \$7,133,817 at September 30, 2019, compared to December 31, 2018. The Association's debt as a percentage of members' equity was 3.62:1 as of September 30, 2019, compared to 3.77:1 as of December 31, 2018.

Farm Credit Administration 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 September 30, 2019, the Association exceeded all regulatory capital requirements.

Significant Recent Accounting Pronouncements:

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 is evaluating the impact of adoption on the Association’s financial condition and 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 becomes effective for interim and annual periods beginning after December 15, 2019. Early adoption is permitted and an entity is permitted to early adopt any removal or modified disclosures and delay adoption of the additional disclosures until their effective date. The adoption of this guidance will not impact the Association’s financial condition or its results of operations but will impact the fair value measurements disclosures.

In February 2018, the FASB issued guidance entitled “Income Statement – Reporting Comprehensive Income – Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income.” This guidance allows for the reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects from the recently issued tax legislation, Tax Cuts and Jobs Act (TCJA) that lowered the federal corporate tax rate from 35% to 21%. The amount of the reclassification shall include the effect of the change in the tax rate on gross deferred tax amounts and related valuation allowances at the date of enactment of the TCJA related to items remaining in accumulated other comprehensive income. The guidance became effective for financial statements issued for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. The Association is evaluating the impact of adoption on the Association’s financial condition and its results of operations.

In March 2017, the FASB issued guidance entitled “Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Cost.” The guidance requires that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. Other components are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. This guidance became effective for interim and annual periods beginning after December 15, 2017. The adoption of this guidance did not impact the Association’s financial condition but did change the classification of certain items in the results of operations.

In August 2016, the FASB issued guidance entitled “Classification of Certain Cash Receipts and Cash Payments.” The guidance addresses specific cash flow issues with the objective of reducing the diversity in the classification of these cash flows. Included in the cash flow issues are debt prepayment or debt extinguishment costs and settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing. This guidance became effective for interim and annual periods beginning after December 15, 2017. The adoption of this guidance did not impact the Association’s financial condition or its results of operations but did change the classification of certain items in the statement of cash flows.

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 becomes effective for interim and annual periods beginning after December 15, 2020, with early application permitted. The Association is evaluating the impact of adoption on its financial condition and results of operations.

In February 2016, the 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. The guidance and related amendments in this update became effective for interim and annual periods beginning after December 15, 2018, with early application permitted. The adoption of this guidance did not materially impact the Association’s financial condition and results of operations but did impact lease disclosures.

Regulatory Matters:

On March 10, 2016 the Farm Credit Association approved a final rule to modify the regulatory capital requirements for System banks and associations. The stated objectives of the proposed rule are as follows:

- To modernize capital requirements while ensuring that the institutions continue to hold sufficient capital to fulfill their mission as a government-sponsored enterprise,
- To ensure that the System’s capital requirements are comparable to the Basel III framework and the standardized approach that the federal banking regulatory agencies have adopted, but also to ensure that the rules recognize the cooperative structure and the organization of the System,
- To make System regulatory capital requirements more transparent, and
- To meet requirements of Section 919A of the Dodd-Frank Act.

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 2018 Annual Report of Central Texas Farm Credit, ACA 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, or by calling (512) 483-9204. The annual and quarterly stockholder reports for the Bank 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. These reports can be obtained by writing to Central Texas Farm Credit ACA, P.O. Box 3200, Early, Texas, 76803, or calling (325) 643-5563. The annual and quarterly stockholder reports for the Association are also available on its website at www.centraltexasfarmcredit.com. Copies of the Association’s annual and quarterly stockholder reports can also be requested by e-mailing Keith.Prater@farmcreditbank.com.

CENTRAL TEXAS FARM CREDIT, ACA

CONSOLIDATED BALANCE SHEET

	September 30, 2019 (unaudited)	December 31, 2018
<u>ASSETS</u>		
Cash	\$ 4,807	\$ 11,112
Loans	524,141,112	509,538,598
Less: allowance for loan losses	<u>1,200,848</u>	<u>1,012,884</u>
Net loans	522,940,264	508,525,714
Accrued interest receivable	6,609,571	5,341,573
Investment in and receivable from the Farm Credit Bank of Texas:		
Capital stock	7,961,880	7,961,880
Other	410,779	911,339
Premises and equipment, net	3,839,417	3,663,056
Other assets	<u>1,497,588</u>	<u>206,771</u>
Total assets	<u>\$ 543,264,306</u>	<u>\$ 526,621,445</u>
<u>LIABILITIES</u>		
Note payable to the Farm Credit Bank of Texas	\$ 420,928,535	\$ 404,917,907
Advance conditional payments	10,206	10,576
Accrued interest payable	1,054,141	1,014,757
Dividends payable	-	6,500,000
Other liabilities	<u>3,648,022</u>	<u>3,688,620</u>
Total liabilities	<u>425,640,904</u>	<u>416,131,860</u>
<u>MEMBERS' EQUITY</u>		
Capital stock and participation certificates	2,239,050	2,258,190
Unallocated retained earnings	115,336,836	108,168,525
Accumulated other comprehensive income	<u>47,516</u>	<u>62,870</u>
Total members' equity	<u>117,623,402</u>	<u>110,489,585</u>
Total liabilities and members' equity	<u>\$ 543,264,306</u>	<u>\$ 526,621,445</u>

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

CENTRAL TEXAS FARM CREDIT, ACA

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited)

	Quarter Ended		Nine Months Ended	
	September 30,		September 30,	
	2019	2018	2019	2018
<u>INTEREST INCOME</u>				
Loans	\$ 7,142,277	\$ 6,529,721	\$ 21,164,470	\$ 18,912,137
<u>INTEREST EXPENSE</u>				
Note payable to the Farm Credit Bank of Texas	3,255,811	2,827,860	9,510,055	7,789,813
Net interest income	3,886,466	3,701,861	11,654,415	11,122,324
<u>PROVISION FOR LOAN LOSSES</u>				
	142,572	933,954	398,614	605,911
Net interest income after provision for loan losses	3,743,894	2,767,907	11,255,801	10,516,413
<u>NONINTEREST INCOME</u>				
Income from the Farm Credit Bank of Texas:				
Patronage income	487,585	438,176	1,411,067	1,167,154
Loan fees	48,422	31,636	118,144	95,597
Financially related services income	998	914	4,955	5,268
Other noninterest income	-	500	120,947	310,854
Total noninterest income	537,005	471,226	1,655,113	1,578,873
<u>NONINTEREST EXPENSES</u>				
Salaries and employee benefits	1,098,906	1,007,848	3,392,501	2,993,580
Directors' expense	63,994	47,970	135,594	112,101
Purchased services	117,376	55,732	340,115	183,436
Travel	110,962	56,777	258,171	174,825
Occupancy and equipment	105,552	81,685	316,415	271,710
Communications	31,774	29,313	98,936	88,341
Advertising	23,626	32,161	89,671	125,886
Public and member relations	120,177	150,163	322,883	320,920
Supervisory and exam expense	55,876	54,392	164,658	154,179
Insurance Fund premiums	87,165	84,689	341,969	250,084
Loss on premises and equipment, net	-	279	-	279
Other components of net periodic postretirement benefit cost	27,117	38,679	81,351	116,079
Other losses	4,801	-	12,272	-
Other noninterest expense	58,033	111,896	188,067	552,494
Total noninterest expenses	1,905,359	1,751,584	5,742,603	5,343,914
NET INCOME	2,375,540	1,487,549	7,168,311	6,751,372
Other comprehensive income:				
Change in postretirement benefit plans	(5,118)	3,081	(15,354)	9,243
COMPREHENSIVE INCOME	\$ 2,370,422	\$ 1,490,630	\$ 7,152,957	\$ 6,760,615

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

CENTRAL TEXAS FARM CREDIT, ACA

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

(unaudited)

	<u>Capital Stock/ Participation Certificates</u>	<u>Unallocated Retained Earnings</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total Members' Equity</u>
Balance at December 31, 2017	\$ 2,305,685	\$ 105,344,781	\$ (386,966)	\$ 107,263,500
Comprehensive income	-	6,751,372	9,243	6,760,615
Capital stock/participation certificates and allocated retained earnings issued	210,405	-	-	210,405
Capital stock/participation certificates and allocated retained earnings retired	(250,985)	-	-	(250,985)
Balance at September 30, 2018	<u>\$ 2,265,105</u>	<u>\$ 112,096,153</u>	<u>\$ (377,723)</u>	<u>\$ 113,983,535</u>
Balance at December 31, 2018	\$ 2,258,190	\$ 108,168,525	\$ 62,870	\$ 110,489,585
Comprehensive income	-	7,168,311	(15,354)	7,152,957
Capital stock/participation certificates and allocated retained earnings issued	234,405	-	-	234,405
Capital stock/participation certificates and allocated retained earnings retired	(253,545)	-	-	(253,545)
Balance at September 30, 2019	<u>\$ 2,239,050</u>	<u>\$ 115,336,836</u>	<u>\$ 47,516</u>	<u>\$ 117,623,402</u>

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

CENTRAL TEXAS FARM CREDIT, ACA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

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

The 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, 2018, as contained in the 2018 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, 2018, as contained in the 2018 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, 2019. Descriptions of the significant accounting policies are included in the 2018 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 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 is evaluating the impact of adoption on the Association’s financial condition and 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 becomes effective for interim and annual periods beginning after December 15, 2019. Early adoption is permitted and an entity is permitted to early adopt any removal or modified disclosures and delay adoption of the additional disclosures until their effective date. The adoption of this guidance will not impact the Association’s financial condition or its results of operations but will impact the fair value measurements disclosures. The Association early adopted the removal and modified disclosures during the fourth quarter of 2018.

In February 2018, the FASB issued guidance entitled “Income Statement – Reporting Comprehensive Income – Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income.” This guidance allows for the reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects from the recently issued tax legislation, Tax Cuts and Jobs Act (TCJA) that lowered the federal corporate tax rate from 35% to 21%. The amount of the reclassification shall include the effect of the change in the tax rate on gross deferred tax amounts and related valuation allowances at the date of enactment of the TCJA related to items remaining in accumulated other comprehensive income. The guidance became effective for financial statements issued for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. The Association is evaluating the impact of adoption on the Association’s financial condition and its results of operations

In March 2017, the FASB issued guidance entitled “Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Cost.” The guidance requires that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. Other components are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. This guidance became effective for interim and annual periods beginning after December 15, 2017. The adoption of this guidance did not impact the Association’s financial condition but did change the classification of certain items in the results of operations.

In August 2016, the FASB issued guidance entitled “Classification of Certain Cash Receipts and Cash Payments.” The guidance addresses specific cash flow issues with the objective of reducing the diversity in the classification of these cash flows. Included in the cash flow issues are debt prepayment or debt extinguishment costs and settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing. This guidance became effective for interim and annual periods beginning after December 15, 2017. The adoption of this guidance did not impact the Association’s financial condition or its results of operations but did change the classification of certain items in the statement of cash flows.

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 becomes effective for interim and annual periods beginning after December 15, 2020, with early application permitted. The Association is evaluating the impact of adoption on its financial condition and results of operations.

In February 2016, the 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. The guidance and related amendments in this update became effective for interim and annual periods beginning after December 15, 2018, with early application permitted. The adoption of this guidance did not materially impact the Association’s financial condition and results of operations but did impact lease disclosures.

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 September 30, 2019, are not necessarily indicative of the results to be expected for the year ended December 31, 2019. Certain amounts in the prior period’s financial statements have been reclassified to conform to current financial statement presentation.

NOTE 2 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

A summary of loans follows:

Loan Type	September 30, 2019	December 31, 2018
Production agriculture:		
Real estate mortgage	\$ 355,780,471	\$ 354,178,439
Production and intermediate term	73,211,273	76,764,413
Agribusiness:		
Processing and marketing	42,878,625	40,002,467
Farm-related business	16,776,731	16,073,468
Loans to cooperatives	12,971,530	2,287,400
Communication	13,036,656	10,459,954
Energy	8,777,057	9,073,421
Rural residential real estate	708,769	699,036
Total	<u>\$ 524,141,112</u>	<u>\$ 509,538,598</u>

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 as of September 30, 2019:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
	Agribusiness	\$46,536,861	\$ -	\$ -	\$ -	\$46,536,861
Production and intermediate term	17,619,840	6,804,181	-	-	17,619,840	6,804,181
Communication	13,036,656	-	-	-	13,036,656	-
Energy	8,777,057	-	-	-	8,777,057	-
Real estate mortgage	-	11,346,470	-	-	-	11,346,470
Total	<u>\$85,970,414</u>	<u>\$18,150,651</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$85,970,414</u>	<u>\$18,150,651</u>

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 \$10,206 and \$10,576 at September 30, 2019, and December 31, 2018, respectively.

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

	September 30, 2019	December 31, 2018
Nonaccrual loans:		
Production and intermediate term	\$ 403,141	\$ 920,932
Real estate mortgage	<u>226,633</u>	<u>2,025,718</u>
Total nonaccrual loans	<u><u>629,774</u></u>	<u><u>2,946,650</u></u>
Accruing loans 90 days or more past due:		
Production and intermediate term	\$ -	\$ -
Real estate mortgage	<u>856,227</u>	<u>-</u>
Total accruing loans 90 days or more past due	<u><u>856,227</u></u>	<u><u>-</u></u>
Total nonperforming loans	1,486,001	2,946,650
Other property owned	<u>-</u>	<u>-</u>
Total nonperforming assets	<u><u>\$ 1,486,001</u></u>	<u><u>\$2,946,650</u></u>

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:

	September 30, 2019		December 31, 2018	
Real estate mortgage				
Acceptable	95.2	%	94.5	%
OAEM	4.7		4.7	
Substandard/doubtful	0.1		0.8	
	100.0		100.0	
Production and intermediate term				
Acceptable	96.7		91.8	
OAEM	2.7		6.5	
Substandard/doubtful	0.6		1.7	
	100.0		100.0	
Agribusiness				
Acceptable	94.9		100.0	
OAEM	5.1		-	
Substandard/doubtful	-		-	
	100.0		100.0	
Communication				
Acceptable	100.0		100.0	
OAEM	-		-	
Substandard/doubtful	-		-	
	100.0		100.0	
Energy				
Acceptable	68.4		90.1	
OAEM	9.4		9.9	
Substandard/doubtful	22.2		-	
	100.0		100.0	
Rural residential real estate				
Acceptable	100.0		100.0	
OAEM	-		-	
Substandard/doubtful	-		-	
	100.0		100.0	
Total loans				
Acceptable	95.1		94.7	
OAEM	4.4		4.5	
Substandard/doubtful	0.5		0.8	
	100.0	%	100.0	%

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

September 30, 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	Recorded Investment >90 Days and Accruing
Real estate mortgage	\$ 2,908,315	\$ 860,119	\$ 3,768,434	\$ 357,042,942	\$ 360,811,376	\$ -
Production and intermediate term	1,378,166	403,141	1,781,307	72,675,154	74,456,461	-
Processing and marketing	-	-	-	42,961,996	42,961,996	-
Farm-related business	-	-	-	16,863,547	16,863,547	-
Loans to cooperatives	-	-	-	13,100,731	13,100,731	-
Communication	-	-	-	13,044,455	13,044,455	-
Energy	-	-	-	8,800,608	8,800,608	-
Rural residential real estate	-	-	-	711,509	711,509	-
Total	\$ 4,286,481	\$ 1,263,260	\$ 5,549,741	\$ 525,200,942	\$ 530,750,683	\$ -

December 31, 2018	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment >90 Days and Accruing
Real estate mortgage	\$ 3,504,977	\$ 1,613,541	\$ 5,118,518	\$ 353,207,102	\$ 358,325,620	\$ -
Production and intermediate term	425,389	716,961	1,142,350	76,676,484	77,818,834	-
Processing and marketing	-	-	-	40,061,377	40,061,377	-
Farm-related business	-	-	-	16,135,257	16,135,257	-
Loans to cooperatives	-	-	-	2,286,708	2,286,708	-
Communication	-	-	-	10,461,413	10,461,413	-
Energy	-	-	-	9,089,359	9,089,359	-
Rural residential real estate	-	-	-	701,603	701,603	-
Total	\$ 3,930,366	\$ 2,330,502	\$ 6,260,868	\$ 508,619,303	\$ 514,880,171	\$ -

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

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

As of September 30, 2019, the Association did not have any troubled debt restructured loans. In restructuring where principal is forgiven, the amount of 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).

The predominant form of concession granted for troubled debt restructuring is extension of the term. Other types of modifications include principal or accrued interest reductions, interest rate decreases, and delayed payments, among others. At times, these terms might be offset with incremental payments, collateral, or new borrower guarantees, in which the Association assesses all of the modified terms to determine if the overall modification qualifies as a troubled debt restructuring.

Additional impaired loan information is as follows:

	September 30, 2019			December 31, 2018		
	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	\$ -	\$ -	\$ -	\$ 264,667	\$ 264,774	\$ 15,526
Production and intermediate term	-	-	-	-	-	-
Energy	-	-	66,667	-	-	66,667
Total	\$ -	\$ -	\$ 66,667	\$ 264,667	\$ 264,774	\$ 82,193
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	\$ 1,082,860	\$ 1,119,158	\$ -	\$ 1,761,051	\$ 1,767,651	\$ -
Production and intermediate term	403,141	2,599,628	-	920,932	3,044,947	-
Energy	-	-	-	-	-	-
Total	\$ 1,486,001	\$ 3,718,786	\$ -	\$ 2,681,983	\$ 4,812,598	\$ -
Total impaired loans:						
Real estate mortgage	\$ 1,082,860	\$ 1,119,158	\$ -	\$ 2,025,718	\$ 2,032,425	\$ 15,526
Production and intermediate term	403,141	2,599,628	-	920,932	3,044,947	-
Energy	-	-	66,667	-	-	66,667
Total	\$ 1,486,001	\$ 3,718,786	\$ 66,667	\$ 2,946,650	\$ 5,077,372	\$ 82,193

^a Unpaid principal balance represents the recorded principal balance of the loan.

	For the Three Months Ended				For the Nine Months Ended			
	September 30, 2019		September 30, 2018		September 30, 2019		September 30, 2018	
	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:								
Real estate mortgage	\$ -	\$ -	\$ 248,842	\$ -	\$ -	\$ -	\$ 250,891	\$ -
Production and intermediate term	-	-	-	-	-	-	-	-
Energy	38,281	647	-	-	21,131	992	1,817	78
Total	\$ 38,281	\$ 647	\$ 248,842	\$ -	\$ 21,131	\$ 992	\$ 252,708	\$ 78
Impaired loans with no related allowance for credit losses:								
Real estate mortgage	\$ 1,295,763	\$ 11,761	\$ 1,115,868	\$ 10,179	\$ 1,724,225	\$ 35,755	\$ 1,131,392	\$ 16,302
Production and intermediate term	477,586	107	1,709,924	2,250	505,945	-	1,800,804	6
Energy	-	-	-	-	-	-	187,363	7,289
Total	\$ 1,773,349	\$ 11,868	\$ 2,825,792	\$ 12,429	\$ 2,230,170	\$ 35,755	\$ 3,119,559	\$ 23,597
Total impaired loans:								
Real estate mortgage	\$ 1,295,763	\$ 11,761	\$ 1,364,710	\$ 10,179	\$ 1,724,225	\$ 35,755	\$ 1,382,283	\$ 16,302
Production and intermediate term	477,586	107	1,709,924	2,250	505,945	-	1,800,804	6
Energy	38,281	647	-	-	21,131	992	189,180	7,367
Total	\$ 1,811,630	\$ 12,515	\$ 3,074,634	\$ 12,429	\$ 2,251,301	\$ 36,747	\$ 3,372,267	\$ 23,675

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

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy	Rural Residential Real Estate	Total
Allowance for Credit Losses:							
Balance at June 30, 2019	\$ 304,673	\$ 361,275	\$ 277,345	\$ 38,394	\$ 204,225	\$ 333	\$ 1,186,245
Charge-offs	(35,675)	(71,097)	-	-	-	-	(106,772)
Recoveries	-	-	-	-	-	-	-
Provision for loan losses	35,954	61,064	46,679	2,021	(3,144)	(2)	142,572
Other	1	5,489	(7,104)	8	(19,591)	-	(21,197)
Balance at September 30, 2019	<u>\$ 304,953</u>	<u>\$ 356,731</u>	<u>\$ 316,920</u>	<u>\$ 40,423</u>	<u>\$ 181,490</u>	<u>\$ 331</u>	<u>\$ 1,200,848</u>
Balance at December 31, 2018	\$ 317,464	\$ 379,003	\$ 203,931	\$ 43,278	\$ 68,997	\$ 211	\$ 1,012,884
Charge-offs	(95,262)	(71,770)	-	-	-	-	(167,032)
Recoveries	-	-	-	-	-	-	-
Provision for loan losses	82,383	67,996	131,687	(2,607)	119,035	120	398,614
Other	368	(18,498)	(18,698)	(248)	(6,542)	-	(43,618)
Balance at September 30, 2019	<u>\$ 304,953</u>	<u>\$ 356,731</u>	<u>\$ 316,920</u>	<u>\$ 40,423</u>	<u>\$ 181,490</u>	<u>\$ 331</u>	<u>\$ 1,200,848</u>
Ending Balance:							
Individually evaluated for impairment	\$ -	\$ -	\$ -	\$ -	\$ 66,667	\$ -	\$ 66,667
Collectively evaluated for impairment	304,953	356,731	316,920	40,423	114,823	331	1,134,181
Balance at September 30, 2019	<u>\$ 304,953</u>	<u>\$ 356,731</u>	<u>\$ 316,920</u>	<u>\$ 40,423</u>	<u>\$ 181,490</u>	<u>\$ 331</u>	<u>\$ 1,200,848</u>
Balance at June 30, 2018	\$ 252,394	\$ 353,904	\$ 221,683	\$ 49,374	\$ 80,560	\$ 1,255	\$ 959,170
Charge-offs	-	(962,756)	-	-	-	-	(962,756)
Recoveries	-	-	-	-	-	-	-
Provision for loan losses	27,196	941,698	(22,992)	(4,022)	(7,694)	(232)	933,954
Other	19	21,480	3,719	216	451	63	25,948
Balance at September 30, 2018	<u>\$ 279,609</u>	<u>\$ 354,326</u>	<u>\$ 202,410</u>	<u>\$ 45,568</u>	<u>\$ 73,317</u>	<u>\$ 1,086</u>	<u>\$ 956,316</u>
Balance at December 31, 2017	\$ 252,274	\$ 414,969	\$ 256,914	\$ 51,606	\$ 312,302	\$ 916	\$ 1,288,981
Charge-offs	-	(980,748)	-	-	-	-	(980,748)
Recoveries	52,508	17,992	-	-	-	-	70,500
Provision for loan losses	(25,158)	916,490	(84,318)	(6,488)	(194,224)	(391)	605,911
Other	(15)	(14,377)	29,814	450	(44,761)	561	(28,328)
Balance at September 30, 2018	<u>\$ 279,609</u>	<u>\$ 354,326</u>	<u>\$ 202,410</u>	<u>\$ 45,568</u>	<u>\$ 73,317</u>	<u>\$ 1,086</u>	<u>\$ 956,316</u>
Ending Balance:							
Individually evaluated for impairment	\$ 15,526	\$ -	\$ -	\$ -	\$ 66,667	\$ -	\$ 82,193
Collectively evaluated for impairment	264,083	354,326	202,410	45,568	6,650	1,086	874,123
Balance at September 30, 2018	<u>\$ 279,609</u>	<u>\$ 354,326</u>	<u>\$ 202,410</u>	<u>\$ 45,568</u>	<u>\$ 73,317</u>	<u>\$ 1,086</u>	<u>\$ 956,316</u>

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy	Rural Residential Real Estate	Total
Recorded Investments in Loans Outstanding:							
Ending Balance at							
September 30, 2019	\$360,811,376	\$ 74,456,461	\$72,926,274	\$ 13,044,455	\$ 8,800,608	\$ 711,509	\$ 530,750,683
Individually evaluated for impairment	\$ 1,082,860	\$ 403,141	\$ -	\$ -	\$ -	\$ -	\$ 1,486,001
Collectively evaluated for impairment	\$359,728,516	\$ 74,053,320	\$72,926,274	\$ 13,044,455	\$ 8,800,608	\$ 711,509	\$ 529,264,682
Ending Balance at							
September 30, 2018	\$355,738,266	\$ 71,868,182	\$62,063,762	\$ 10,381,276	\$ 9,349,427	\$ 931,069	\$ 510,331,982
Individually evaluated for impairment	\$ 2,015,486	\$ 1,006,983	\$ -	\$ -	\$ -	\$ -	\$ 3,022,469
Collectively evaluated for impairment	\$353,722,780	\$ 70,861,199	\$62,063,762	\$ 10,381,276	\$ 9,349,427	\$ 931,069	\$ 507,309,513

NOTE 3 — CAPITAL:

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

Regulatory Capitalization Requirements

Risk-adjusted:	Regulatory Minimums	Conservation Buffer	Total	As of September 30, 2019
Common equity tier 1 ratio	4.50%	2.50%	7.00%	19.15%
Tier 1 capital ratio	6.00%	2.50%	8.50%	19.15%
Total capital ratio	8.00%	2.50%	10.50%	19.41%
Permanent capital ratio	7.00%	0.00%	7.00%	19.19%
Non-risk-adjusted:				
Tier 1 leverage ratio	4.00%	1.00%	5.00%	20.26%
UREE leverage ratio	1.50%	0.00%	1.50%	21.34%

	Common equity tier 1 ratio	Tier 1 capital ratio	Total capital ratio	Permanent capital ratio
Numerator:				
Unallocated retained earnings	\$113,298,119	\$113,298,119	\$113,298,119	\$113,298,119
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	2,242,425	2,242,425	2,242,425	2,242,425
Allowance for loan losses and reserve for credit losses subject to certain limitations			1,429,759	
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	(7,961,880)	(7,961,880)	(7,961,880)	(7,961,880)
	<u>\$ 107,578,664</u>	<u>\$ 107,578,664</u>	<u>\$ 109,008,423</u>	<u>\$ 107,578,664</u>
Denominator:				
Risk-adjusted assets excluding allowance	\$569,597,024	\$569,597,024	\$569,597,024	\$569,597,024
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	(7,961,880)	(7,961,880)	(7,961,880)	(7,961,880)
Allowance for loan losses				(1,179,469)
	<u>\$ 561,635,144</u>	<u>\$ 561,635,144</u>	<u>\$ 561,635,144</u>	<u>\$ 560,455,675</u>

	Tier 1 leverage ratio	UREE leverage ratio
Numerator:		
Unallocated retained earnings	\$ 113,298,119	\$ 113,298,119
Common Cooperative Equities:		
Statutory minimum purchased borrower stock	2,242,425	-
Regulatory Adjustments and Deductions:		
Amount of allocated investments in other System institutions	(7,961,880)	-
	<u>\$ 107,578,664</u>	<u>\$ 113,298,119</u>
Denominator:		
Total Assets	\$ 541,949,838	\$ 541,949,838
Regulatory Adjustments and Deductions:		
Regulatory deductions included in tier 1 capital	(11,052,443)	(11,052,443)
	<u>\$ 530,897,395</u>	<u>\$ 530,897,395</u>

An additional component of equity is accumulated other comprehensive income, which is reported net of taxes, is as follows:

Accumulated Other Comprehensive Income (Loss)	
September 30, 2019	Net of Tax
Nonpension postretirement benefits	<u>\$ 47,516</u>
Total	<u>\$ 47,516</u>
September 30, 2018	Net of Tax
Nonpension postretirement benefits	<u>\$ (377,723)</u>
Total	<u>\$ (377,723)</u>

The Association's accumulated other comprehensive income (loss) relates entirely to its nonpension other postretirement benefits. Amortization of prior service credits and of actuarial (gain) loss are reflected in "Salaries and employee benefits" in the Consolidated Statement of Comprehensive Income. The following table summarizes the changes in accumulated other comprehensive income (loss) for the nine months ended September 30:

	<u>2019</u>	<u>2018</u>
Accumulated other comprehensive income (loss) at January 1	\$ 62,870	\$(386,966)
Amortization of prior service credit included in salaries and employee benefits	(15,354)	(10,123)
Income tax expense related to items of other comprehensive income	-	19,366
Other comprehensive income (loss), net of tax	<u>(15,354)</u>	<u>9,243</u>
Accumulated other comprehensive income (loss) at September 30	<u>\$ 47,516</u>	<u>\$(377,723)</u>

NOTE 4 —LEASES:

The Association evaluates arrangements at inception to determine if it meets the criteria for a lease. Leases with an initial term of twelve months or less are not recorded on the balance sheet with lease expense recognized on a straight-line basis over the lease term. Operating leases are included in other assets for right-of-use (ROU) assets and other liabilities for lease liabilities on the balance sheet.

ROU assets represent the Association's right to use an underlying asset for the lease term and lease liabilities represent the Association's obligation to make lease payments arising from the lease. Operating ROU assets and liabilities are recognized based on the present value of the lease payments over the lease term. The Association's lease term may include options to extend or terminate the lease when it is reasonably certain that the Association will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

On May 1, 2019, the Association entered into a lease for approximately 1,680 square feet of office space for administration staff. The lease is for 60 months effective May of 2019 and expiring April of 2024. The present value straight-line cost of space is \$1,876 per month.

Adoption of the leasing standard impacted our previously reported results as follows:

	Balance Sheet Classification	As of September 30, 2019	As Previously Reported December 31, 2018	Lease Standard Adjustment	As Restated January 1, 2019
Operating leases	Operating lease right-of-use asset	\$ 70,672	\$ -	\$ -	\$ -
Total lease assets		<u>\$ 70,672</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Operating leases	Operating lease liabilities	\$ 96,619	\$ -	\$ -	\$ -
Total lease liabilities		<u>\$ 96,619</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The components of lease expense were as follows:

	For the Nine Months Ended September 30, 2019
Operating lease cost	<u>\$ 7,047</u>
Net lease cost	<u>\$ 7,047</u>

Other information related to leases was as follows:

	For the Nine Months Ended September 30, 2019
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	\$ 7,047
Right-of-use assets obtained in exchange for lease obligations:	
Operating leases	-

Lease term and discount rate are as follows:

	September 30, 2019
Weighted average remaining lease term in years	
Operating leases	4.6
Weighted average discount rate	
Operating leases	3.06%

Future minimum lease payments under non-cancellable leases as of September 30, 2019 were as follows:

	<u>Total</u>
2019 (excluding the nine months ended 9/30/19)	\$ 5,460
2020	21,840
2021	22,400
2022	22,680
2023	23,240
Thereafter	<u>7,840</u>
Total	<u>\$ 103,460</u>

NOTE 5 — INCOME TAXES:

Central Texas Farm Credit, 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. Central Texas Farm Credit, ACA operates as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, Central Texas Farm Credit, 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. The Association's valuation allowance was \$691,566 as of the quarter ended September 30, 2019 for no available tax benefit as of that point in time.

NOTE 6 — 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 13 to the 2018 Annual Report to Stockholders for a more complete description.

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

<u>September 30, 2019</u>	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>	<u>Total Gains (Losses)</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>		
Assets:					
Loans*	\$ -	\$ -	\$ -	\$ -	\$ -
Other property owned	-	-	-	-	-
 <u>December 31, 2018</u>					
	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>	<u>Total Gains (Losses)</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>		
Assets:					
Loans*	\$ -	\$ -	\$182,581	\$ 182,581	\$ -
Other property owned	-	-	-	-	-

*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 2018 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 2018 Annual Report to Stockholders.

Loans Evaluated for Impairment

For certain loans evaluated for impairment under FASB 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.

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 the other property owned involves the use of independent appraisals and other market-based information. Costs to sell represent transaction costs and are not included as a component of the asset's fair value. As a result, these fair value measurements fall within Level 3 of the hierarchy.

Cash

For cash, the carrying amount is a reasonable estimate of fair value.

Loans

Fair value is estimated by discounting the expected future cash flows using the Associations' current interest rates at which similar loans would be made to borrowers with similar credit risk. The discount rates are based on the Associations' current loan origination rates as well as management's estimates of credit risk. Management has no basis to determine whether the fair values presented would be indicative of the value negotiated in an actual sale and could be less.

For purposes of estimating fair value of accruing loans, the loan portfolio is segregated into pools of loans with homogeneous characteristics. Expected future cash flows, primarily based on contractual terms, and interest rates reflecting appropriate credit risk are separately determined for each individual pool.

The fair value of loans in nonaccrual status that are current as to principal and interest is estimated as described above, with appropriately higher interest rates which reflect the uncertainty of continued cash flows. For collateral-dependent impaired loans, it is assumed that collection will result only from the disposition of the underlying collateral.

NOTE 7 — 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 September 30:

Three Months Ended September 30 :

	Other Benefits	
	2019	2018
Service cost	\$ 9,598	\$ 13,030
Interest cost	22,636	22,586
Amortization of prior service credits	(5,118)	(3,374)
Amortization of net actuarial loss	-	13,201
Net periodic benefit cost	<u>\$ 27,116</u>	<u>\$ 45,443</u>

Nine Months Ended September 30 :

	Other Benefits	
	2019	2018
Service cost	\$ 28,793	\$ 39,092
Interest cost	67,910	67,759
Amortization of prior service credits	(15,354)	(10,123)
Amortization of net actuarial loss	-	19,366
Net periodic benefit cost	<u>\$ 81,349</u>	<u>\$ 116,094</u>

The Association's liability for the unfunded accumulated obligation for these benefits at September 30, 2019, was \$1,990,369 and is included in "Other Liabilities" in 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 structure of the District's defined benefit pension plan 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 plan as an expense. As of September 30, 2019, \$81,349 of contributions have been made. The Association presently anticipates contributing an additional \$27,113 to fund the defined benefit pension plan in 2018 for a total of \$108,462.

NOTE 8 — 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 9 — SUBSEQUENT EVENTS:

The Association has evaluated subsequent events through November 5, 2019, which is the date the financial statements were issued. There are no other significant events requiring disclosure as of November 5, 2019.