CENTRAL TEXAS FARM CREDIT, 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.

Boyd J. Chamber, Chief Executive Officer
May 8, 2020

Robby A. Halfmann, Chairman, Board of Directors
May 8, 2020

Keith Prater, Chief Financial Officer
May 8, 2020

First Quarter 2020 Financial Report

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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 March 31, 2020. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2019 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

2020

In March 2020, a patronage refund of $6,800,000 was distributed to the Association's borrowers. The patronage refund was declared by the board of directors in December 2019, and the amount was based on the Association's 2019 operating results.

2019

In December 2019, the Association received a direct loan patronage of $2,039,245 from the Farm Credit Bank of Texas (Bank), representing 49 basis points on the average daily balance of the Association's direct loan with the Bank. During 2019, the Association received $241,777 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 $64,403 from the Bank, representing 68 basis points on the Association's average balance of participations in the Bank's patronage pool program.

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 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 program. 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 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 payment 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.

Loan Portfolio

Total loans outstanding at March 31, 2020, including nonaccrual loans and sales contracts, were $542,794,828 compared to $532,821,744 at December 31, 2019, reflecting an increase of 1.9%. Nonaccrual loans as a percentage of total loans outstanding were 0.1% at March 31, 2020, compared to 0.2% at December 31, 2019.

The Association recorded no recoveries and $290,338 in charge-offs for the quarter ended March 31, 2020, and no recoveries and $16,434 in charge-offs for the same period in 2019. The Association's allowance for loan losses was 0.2% of total loans outstanding as of March 31, 2020, and December 31, 2019.

Problem Loans

2020

During the first quarter of 2020, the Association recorded charge-offs in the amount of $290,338, and no recoveries were recorded.

2019

During the first quarter of 2019, the Association recorded charge-offs in the amount of $16,434, and no recoveries were recorded. The Association recorded charge-offs in the amount of $43,826 and no recoveries were recorded for the second quarter. In the third quarter of 2019, the Association recorded charge-offs in the amount of $106,772 and no recoveries recorded. The Association recorded charge-offs in the amount of $296,833 with no recoveries recorded for the fourth quarter.

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.

Territory Conditions

The United States has been operating under a presidentially declared national emergency since March 13, 2020 due to the Coronavirus Disease 2019 (also referred to as COVID-19). As of the end of the first quarter 2020, the social and economic impacts of the COVID-19 pandemic continued to mount and the US economy appeared to be headed into a sharp contraction. More than 275 million Americans are under stay-at-home orders or advisories. Some forms of economic activity have ground to a virtual halt, precipitating a sharp decline in GDP beginning in the second quarter and likely extending into the second half of the year.

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 our local economies.

The Association has been closely monitoring its loan portfolio and is particularly focused on sectors that may be pressured by COVID-19 and its related economic impacts, such as oil and gas, dairy, and beef cattle. The Association will continue to evaluate its allowance for loan losses as changes in outlook occur. Capital levels remain strong and should allow the Association to weather any adversity caused by the pandemic.

According to the March 2020 USDA Drought Monitor report, all of the Association's territory made its way out of the dry or drought status that had been relentless during the latter half of 2019. The report also showed 73.64% of the state was out of any dry condition status. Pasture conditions are considered mostly fair to good in many areas of the territory allowing producers to decrease or stop supplemental feeding.

The USDA's report "Texas Crop Progress and Condition" for the last week of March 2020 reported some early preparation for cotton planting had started with 5 percent of acres planted. Corn planting had started with 50 percent of the acres planted and 24 percent of acres emerged. Small grains continued to develop in most areas of the state due to increased moisture, however; cool weather slowed development in a few areas of the Cross Timbers and the Blacklands. Meanwhile, some areas of south Texas had reported premature heading as well as some failed fields due to dry conditions.

Cattle markets had found some footing by the end of 2019 that carried into mid-February of 2020. As soon as the threat of the COVID-19 virus showed signs of becoming a reality in the U.S., cattle futures took a downturn. Live cattle futures fell from $119/cwt on February 20, 2020 to $92/cwt in less than a month. In that same period, feeder cattle futures fell from $151/cwt to $114/cwt. Retail beef prices went up due to a run on supermarkets by consumers panic buying staple products to weather the "storm" of the virus with many cities and states calling on the public to quarantine themselves at home.

The latest USDA "Milk Production" report released in March 2020, reported Texas milk production in February totaled 1.17 billion pounds. This was a 10.8% increase compared to last year due to slightly higher cow numbers and higher average production per cow. Class III milk futures followed a similar pattern as cattle, though not as sharp, with prices falling from $16.88/cwt to $15.06/cwt in less than a month. Forward contracts suggest further declines with April at $13.56/cwt and May at $11.47/cwt.

As with other areas of the economy, it is hard for economists to estimate the longevity of the downturn in ag commodities due to its relation to the longevity of the virus. Most of our borrowers continue to do well right now, but many remain cautious due to volatile commodity markets. Management realizes the impact the current commodity environment could potentially have on borrowers. We are closely monitoring our loans with repayment ability tied to these commodities, and we will continue to do so until markets stabilize.

At the end of the first quarter of 2020, we received a few inquiries about payment relief related to the COVID-19 pandemic. However, outside of volatile commodity futures, it is still unclear what impact the pandemic will have on our territory.

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	**$ 605,772**	**94.3%**	$ 815,311	100.0%
90 days past due and still accruing interest	**36,554**	**5.7%**	-	0.0%
Formally restructured	**-**	**0.0%**	-	0.0%
Other property owned, net	**-**	**0.0%**	-	0.0%
Total	**$ 642,326**	**100.0%**	$ 815,311	100.0%

Results of Operations

The Association had net income of $2,369,233 for the three months ended March 31, 2020, as compared to net income of $2,444,502 for the same period in 2019, reflecting a decrease of 3.1%. Net interest income was $3,932,567 for the three ended March 31, 2020, compared to $3,885,446 for the same period in 2019.

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	Three Months Ended			
	March 31, 2020		March 31, 2019	
	Average Balance	Interest	Average Balance	Interest
Loans	$ 537,479,985	$ 7,028,684	$ 512,542,450	$ 6,967,761
Interest-bearing liabilities	430,288,411	3,096,117	408,488,432	3,082,315
Impact of capital	$ 107,191,574		$ 104,054,018	
Net interest income		$ 3,932,567		$ 3,885,446

	2020 Average Yield	2019 Average Yield
Yield on loans	5.26%	5.51%
Cost of interest-bearing liabilities	2.89%	3.06%
Interest rate spread	2.37%	2.45%
Net interest income as a percentage of average earning assets	2.94%	3.07%

	Three months ended: March 31, 2020 vs. March 31, 2019		
	Increase (decrease) due to		
	Volume	Rate	Total
Interest income - loans	$ 341,842	$ (280,919)	$ 60,923
Interest expense	165,869	(152,067)	13,802
Net interest income	$ 175,973	$ (128,852)	$ 47,121

Interest income for the three ended March 31, 2020, increased by $60,923 or 0.9% 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 $13,802 or 0.5% from the same period of 2019 due to an increase in average debt volume offset by a decrease in rates. Average loan volume for the first quarter of 2020 was $537,479,985, compared to $512,542,450 in the first quarter of 2019. The average net interest rate spread on the loan portfolio for the first quarter of 2020 was 2.37%, compared to 2.45% in the first quarter of 2019. The lower spread in 2020 is related to new loan volume booked at a lower spread which has led to a lower net interest margin.

The Association's return on average assets for the three months ended March 31, 2020, was 1.71% compared to 1.87% for the same period in 2019. The Association's return on average equity for the three months ended March 31, 2020, was 8.33%, compared to 8.87% for the same period in 2019.

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.

	March 31, 2020	December 31, 2019
Note payable to the Bank	$ 439,337,864	$ 425,985,170
Accrued interest on note payable	1,046,410	1,063,236
Total	$ 440,384,274	$ 427,048,406

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 $439,337,864 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 2.90 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, 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 $101,297,102 at March 31, 2020. The maximum amount the Association may borrow from the Bank as of March 31, 2020, was $548,040,427 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.

The liquidity policy of the Association is to manage cash balances, to maximize debt reduction, and to increase accrual loan volume. This policy will continue to be pursued during 2019. As borrower payments are received, they are applied to the Association's note payable to the Bank.

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

Capital Resources

The Association's capital position increased by $2,375,410 at March 31, 2020, compared to December 31, 2019. The Association's debt as a percentage of members' equity was 3.86:1 as of March 31, 2020, compared to 3.87:1 as of December 31, 2019.

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 March 31, 2020, the Association exceeded all regulatory capital requirements.

Significant Recent Accounting Pronouncements

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. The adoption of this guidance did not materially impact the institution's financial condition or results of operations.

In August 2018, 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 became 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. The guidance is to be applied on a retrospective or prospective basis to all implementation costs incurred after the date of adoption. The adoption of this guidance did not materially 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 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.

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 2019 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 quarterly stockholder reports are also available free of charge, upon request. These reports can be obtained by writing to Central Texas Farm Credit, ACA, 1026 Early Boulevard, Early, Texas, 76802, 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 quarterly stockholder reports can also be requested by e-mailing *Keith.Prater@farmcreditbank.com.*

CENTRAL TEXAS FARM CREDIT, ACA

CONSOLIDATED BALANCE SHEET

	March 31, 2020 (unaudited)	December 31, 2019
ASSETS		
Cash	$ 4,036	$ 4,036
Loans	542,794,828	532,821,744
Less: allowance for loan losses	1,230,374	1,199,074
Net loans	541,564,454	531,622,670
Accrued interest receivable	5,966,343	6,104,714
Investment in and receivable from the Farm Credit Bank of Texas:		
Capital stock	8,271,555	8,271,555
Other	667,719	1,169,231
Premises and equipment, net	3,716,517	3,734,538
Other assets	1,086,096	275,875
Total assets	$ 561,276,720	$ 551,182,619
LIABILITIES		
Note payable to the Farm Credit Bank of Texas	$ 439,337,864	$ 425,985,170
Accrued interest payable	1,046,410	1,063,236
Dividends payable	-	6,800,000
Other liabilities	5,376,116	4,193,293
Total liabilities	445,760,390	438,041,699
MEMBERS' EQUITY		
Capital stock and participation certificates	2,247,100	2,235,805
Unallocated retained earnings	113,373,103	111,003,870
Accumulated other comprehensive loss	(103,873)	(98,755)
Total members' equity	115,516,330	113,140,920
Total liabilities and members' equity	$ 561,276,720	$ 551,182,619

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 March 31,	
	2020	2019
INTEREST INCOME		
Loans	**$ 7,028,684**	$ 6,967,761
INTEREST EXPENSE		
Note payable to the Farm Credit Bank of Texas	**3,096,117**	3,082,315
Net interest income	**3,932,567**	3,885,446
PROVISION FOR LOAN LOSSES	**321,200**	124,680
Net interest income after provision for loan losses	**3,611,367**	3,760,766
NONINTEREST INCOME		
Income from the Farm Credit Bank of Texas:		
Patronage income	**508,420**	454,830
Loan fees	**134,450**	30,609
Financially related services income	**3,452**	3,147
Other noninterest income	**148,828**	120,948
Total noninterest income	**795,150**	609,534
NONINTEREST EXPENSES		
Salaries and employee benefits	**1,213,941**	1,158,415
Directors' expense	**19,536**	34,450
Purchased services	**170,857**	91,935
Travel	**56,691**	46,968
Occupancy and equipment	**116,109**	115,682
Communications	**32,200**	35,569
Advertising	**40,682**	42,283
Public and member relations	**110,681**	104,841
Supervisory and exam expense	**55,876**	54,392
Insurance Fund premiums	**171,814**	168,791
Other noninterest expense	**48,897**	72,472
Total noninterest expenses	**2,037,284**	1,925,798
NET INCOME	**2,369,233**	2,444,502
Other comprehensive income:		
Change in postretirement benefit plans	**(5,118)**	(5,118)
COMPREHENSIVE INCOME	**$ 2,364,115**	$ 2,439,384

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)

	Capital Stock/ Participation Certificates	Unallocated Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2018	$ 2,258,190	$ 108,168,525	$ 62,870	$ 110,489,585
Comprehensive income	-	2,444,502	(5,118)	2,439,384
Capital stock/participation certificates and allocated retained earnings issued	78,205	-	-	78,205
Preferred Stock retired				
Capital stock/participation certificates and allocated retained earnings retired	(76,235)	-	-	(76,235)
Balance at March 31, 2019	$ 2,260,160	$ 110,613,027	$ 57,752	$ 112,930,939
Balance at December 31, 2019	$ 2,235,805	$ 111,003,870	$ (98,755)	$ 113,140,920
Comprehensive income	-	2,369,233	(5,118)	2,364,115
Capital stock/participation certificates and allocated retained earnings issued	93,095	-	-	93,095
Preferred Stock retired				
Capital stock/participation certificates and allocated retained earnings retired	(81,800)	-	-	(81,800)
Balance at March 31, 2020	**$ 2,247,100**	**$ 113,373,103**	**$ (103,873)**	**$ 115,516,330**

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, Stonewall, 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 and is subject to the provisions of the Farm Credit Act of 1971 as amended.

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. The adoption of this guidance did not materially impact the institution's financial condition or results of operations.

In August 2018, 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 became 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. The guidance is to be applied on a retrospective or prospective basis to all implementation costs incurred after the date of adoption. The adoption of this guidance did not materially 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 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 may 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	**March 31, 2020 Amount**	December 31, 2019 Amount
Production agriculture:		
Real estate mortgage	**$ 360,705,823**	$ 358,153,491
Production and intermediate term	**73,917,633**	78,271,008
Agribusiness:		
Processing and marketing	**48,574,618**	44,440,742
Farm-related business	**18,405,714**	16,275,606
Loans to cooperatives	**17,838,732**	13,069,068
Communication	**12,806,343**	12,826,478
Energy	**9,781,018**	8,968,190
Rural residential real estate	**764,947**	817,161
Total	**$ 542,794,828**	$ 532,821,744

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
Agribusiness	$ 58,417,869	$ -	$ -	$ -	$ 58,417,869	$ -
Production and intermediate term	14,089,685	7,621,605	-	-	14,089,685	7,621,605
Communication	12,806,343	-	-	-	12,806,343	-
Energy	9,781,018	-	-	-	9,781,018	-
Real estate mortgage	-	12,744,076	-	-	-	12,744,076
Total	$ 95,094,915	$ 20,365,681	$ -	$ -	$ 95,094,915	$ 20,365,681

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. The Association had no ACPs at March 31, 2020, and December 31, 2019.

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

	March 31, 2020	December 31, 2019
Nonaccrual loans:		
Production and intermediate term	**$ 254,076**	$ 544,413
Real estate mortgage	**221,615**	270,898
Energy	**130,081**	-
Total nonaccrual loans	**605,772**	815,311
Accruing loans 90 days or more past due:		
Production and intermediate term	**36,554**	-
Real estate mortgage	**-**	-
Energy	**-**	-
Total accruing loans 90 days or more past due	**36,554**	-
Total nonperforming assets	**$ 642,326**	$ 815,311

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	**96.2** %	95.4 %
OAEM	**3.7**	4.5
Substandard/doubtful	**0.1**	0.1
	100.0	100.0
Production and intermediate term		
Acceptable	**97.7**	96.6
OAEM	**2.0**	2.7
Substandard/doubtful	**0.3**	0.7
	100.0	100.0
Agribusiness		
Acceptable	**96.4**	95.9
OAEM	**3.6**	4.1
Substandard/doubtful	**-**	-
	100.0	100.0
Energy		
Acceptable	**81.7**	80.4
OAEM	**-**	-
Substandard/doubtful	**18.3**	19.6
	100.0	100.0
Communication		
Acceptable	**100.0**	100.0
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.0	100.0
Rural residential real estate		
Acceptable	**100.0**	100.0
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.0	100.0
Total loans		
Acceptable	**96.3**	95.5
OAEM	**3.3**	4.0
Substandard/doubtful	**0.4**	0.5
	100.0 %	100.0 %

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**	**Recorded Investment >90 Days and Accruing**
Real estate mortgage	**$ 872,710**	**$ -**	**$ 872,710**	**$ 364,276,629**	**$365,149,339**	**$ -**
Production and intermediate term	**65,207**	**239,721**	**304,928**	**74,589,575**	**74,894,503**	**36,554**
Processing and marketing	**-**	**-**	**-**	**48,650,270**	**48,650,270**	**-**
Farm-related business	**-**	**-**	**-**	**18,487,951**	**18,487,951**	**-**
Loans to cooperatives	**-**	**-**	**-**	**18,205,710**	**18,205,710**	**-**
Communication	**-**	**-**	**-**	**12,811,661**	**12,811,661**	**-**
Energy	**-**	**-**	**-**	**9,794,235**	**9,794,235**	**-**
Rural residential real estate	**-**	**-**	**-**	**767,502**	**767,502**	**-**
Total	**$ 937,917**	**$ 239,721**	**$1,177,638**	**$ 547,583,533**	**$548,761,171**	**$ 36,554**

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	Recorded Investment >90 Days and Accruing
Real estate mortgage	$ 2,254,633	$ -	$2,254,633	$ 360,213,781	$362,468,414	$ -
Production and intermediate term	181,040	353,363	534,403	79,085,719	79,620,122	-
Processing and marketing	-	-	-	44,532,958	44,532,958	-
Farm-related business	-	-	-	16,350,903	16,350,903	-
Loans to cooperatives	-	-	-	13,316,501	13,316,501	-
Communication	-	-	-	12,840,056	12,840,056	-
Energy	-	-	-	8,982,030	8,982,030	-
Rural residential real estate	-	-	-	820,474	820,474	-
Total	$ 2,435,673	$ 353,363	$2,789,036	$ 536,142,422	$538,931,458	$ -

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 (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 Association had no troubled debt restructured loans. In structuring 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 includes 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 case we assess all of the modified terms to determine if the overall modification qualifies as a troubled debt restructuring.

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:						
Production and intermediate term	$ -	$ -	$ -	$ -	$ -	$ -
Real estate mortgage	-	-	-	-	-	-
Energy	130,081	130,081	66,667	-	-	66,667
Total	$130,081	$ 130,081	$ 66,667	$ -	$ -	$ 66,667
Impaired loans with no related allowance for credit losses:						
Production and intermediate term	$290,630	$1,229,294	$ -	$ 544,413	$1,195,987	$ -
Real estate mortgage	221,615	221,615	-	270,898	270,898	-
Energy	-	-	-	-	-	-
Total	$512,245	$1,450,909	$ -	$ 815,311	$1,466,885	$ -
Total impaired loans:						
Production and intermediate term	$290,630	$1,229,294	$ -	$ 544,413	$1,195,987	$ -
Real estate mortgage	221,615	221,615	-	270,898	270,898	-
Energy	130,081	130,081	66,667	-	-	66,667
Total	$642,326	$1,580,990	$ 66,667	$ 815,311	$1,466,885	$ 66,667

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

	For the Quarter & Year Ended March 31, 2020		For the Quarter & Year Ended March 31, 2019	
	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:				
Production and intermediate term	$ -	$ -	$ -	$ -
Real estate mortgage	-	-	263,966	-
Energy	18,940	-	1,366	-
Total	$ 18,940	$ -	$ 265,332	$ -
Impaired loans with no related allowance for credit losses:				
Production and intermediate term	$ 573,713	$ 559	$ 545,631	$ -
Real estate mortgage	248,069	75	1,081,337	-
Energy	-	-	-	-
Total	$ 821,782	$ 634	$1,626,968	$ -
Total impaired loans:				
Production and intermediate term	$ 573,713	$ 559	$ 545,631	$ -
Real estate mortgage	248,069	75	1,345,303	-
Energy	18,940	-	1,366	-
Total	$ 840,722	$ 634	$1,892,300	$ -

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 December 31, 2019	$ 301,326	$ 376,462	$ 344,949	$ 39,210	$ 136,701	$ 426	$ 1,199,074
Charge-offs	-	(290,338)	-	-	-	-	(290,338)
Recoveries	-	-	-	-	-	-	-
Provision for loan losses	(3,701)	294,548	39,644	(1,288)	(7,898)	(105)	321,200
Other	(36)	(32,442)	(2,029)	95	34,850	-	438
Balance at March 31, 2020	$ 297,589	$ 348,230	$ 382,564	$ 38,017	$ 163,653	$ 321	$ 1,230,374
Ending Balance:							
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ 66,667	$ -	$ 66,667
Collectively evaluated for impairment	297,589	348,230	382,564	38,017	96,986	321	1,163,707
Balance at March 31, 2020	$ 297,589	$ 348,230	$ 382,564	$ 38,017	$ 163,653	$ 321	$ 1,230,374
Balance at December 31, 2018	$ 317,464	$ 379,003	$ 203,931	$ 43,278	$ 68,997	$ 211	$ 1,012,884
Charge-offs	(15,761)	(673)	-	-	-	-	(16,434)
Recoveries	-	-	-	-	-	-	-
Provision for loan losses	(382)	(21,580)	15,044	3,867	127,620	111	124,680
Other	367	(2)	3,358	(154)	1,557	-	5,126
Balance at March 31, 2019	$ 301,688	$ 356,748	$ 222,333	$ 46,991	$ 198,174	$ 322	$ 1,126,256
Ending Balance:							
Individually evaluated for impairment	$ 5,000	$ -	$ -	$ -	$ 66,667	$ -	$ 71,667
Collectively evaluated for impairment	296,688	356,748	222,333	46,991	131,507	322	1,054,589
Balance at March 31, 2019	$ 301,688	$ 356,748	$ 222,333	$ 46,991	$ 198,174	$ 322	$ 1,126,256

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy	Rural Residential Real Estate	Total
Recorded Investments in Loans Outstanding:							
Ending Balance at March 31, 2020	$365,149,339	$ 74,894,503	$85,343,931	$ 12,811,661	$ 9,794,235	$767,502	$ 548,761,171
Individually evaluated for impairment	$ 221,615	$ 287,383	$ -	$ -	$ 130,081	$ -	$ 639,079
Collectively evaluated for impairment	$364,927,724	$ 74,607,120	$85,343,931	$ 12,811,661	$ 9,664,154	$767,502	$ 548,122,092
Ending Balance at December 31, 2019	$362,463,414	$ 79,620,122	$74,200,362	$ 12,840,056	$ 8,982,030	$820,474	$ 538,926,458
Individually evaluated for impairment	$ 270,898	$ 544,413	$ -	$ -	$ -	$ -	$ 815,311
Collectively evaluated for impairment	$362,192,516	$ 79,075,709	$74,200,362	$ 12,840,056	$ 8,982,030	$820,474	$ 538,111,147

NOTE 3 —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	$ 4,228	$ -
Net lease cost	$ 4,228	$ -

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	$ 5,460	$ -

Lease term and discount rate are as follows:

	March 31, 2020	December 31, 2019
Weighted average remaining lease term in years		
Operating leases	4.1	4.3
Weighted average discount rate		
Operating leases	2.9%	3.0%

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)	$ 16,380
2021	22,400
2022	22,680
2023	23,240
2024	7,840
Thereafter	-
Total	$ 92,540

NOTE 4 — 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 March 31, 2020
Common equity tier 1 ratio	4.50%	2.50%	7.00%	18.45%
Tier 1 capital ratio	6.00%	2.50%	8.50%	18.45%
Total capital ratio	8.00%	2.50%	10.50%	18.70%
Permanent capital ratio	7.00%	0.00%	7.00%	18.49%
Non-risk-adjusted:				
Tier 1 leverage ratio	4.00%	1.00%	5.00%	19.41%
UREE leverage ratio	1.50%	0.00%	1.50%	20.49%

	Common equity tier 1 ratio	Tier 1 capital ratio	Total capital ratio	Permanent capital ratio
Numerator:				
Unallocated retained earnings	**112,028,146**	**112,028,146**	**112,028,146**	**112,028,146**
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	**2,242,464**	**2,242,464**	**2,242,464**	**2,242,464**
Allowance for loan losses and reserve for credit losses subject to certain limitations			**1,448,475**	
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	**(8,164,889)**	**(8,164,889)**	**(8,164,889)**	**(8,164,889)**
	106,105,721	106,105,721	107,554,196	106,105,721
Denominator:				
Risk-adjusted assets excluding allowance	**583,343,125**	**583,343,125**	**583,343,125**	**583,343,125**
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	**(8,164,889)**	**(8,164,889)**	**(8,164,889)**	**(8,164,889)**
Allowance for loan losses				**(1,196,215)**
	575,178,236	575,178,236	575,178,236	573,982,021

	Tier 1 leverage ratio	UREE leverage ratio
Numerator:		
Unallocated retained earnings	**112,028,146**	**112,028,146**
Common Cooperative Equities:		
Statutory minimum purchased borrower stock	**2,242,464**	-
Regulatory Adjustments and Deductions:		
Amount of allocated investments in other System institutions	**(8,164,889)**	**-**
Other regulatory required deductions	**-**	**-**
	106,105,721	**112,028,146**
Denominator:		
Total Assets	**557,865,263**	**557,865,263**
Regulatory Adjustments and Deductions:		
Regulatory deductions included in tier 1 capital	**(11,073,616)**	**(11,073,616)**
	546,791,647	546,791,647

An additional component of equity is accumulated other comprehensive loss, which is reported net of taxes:

Accum Other Comp Loss	
March 31, 2020	**Net of Tax**
Nonpension postretirement benefits	**$ (103,873)**
Total	**$ (103,873)**
March 31, 2019	Net of Tax
Nonpension postretirement benefits	$ (57,752)
Total	$ (57,752)

The Association's accumulated other comprehensive loss relates entirely to its nonpension other postretirement benefits. Amortization of prior service cost and of actuarial loss are reflected in "Salaries and employee benefits" in the Consolidated Statements of Comprehensive Income. The following table summarizes the change in accumulated other comprehensive income (loss) for the three months ended March 31:

	2020	**2019**
Accumulated other comprehensive (loss) income at January 1	**$ (98,755)**	$ 62,870
Amortization of prior service credit included in salaries and employee benefits	**(5,118)**	(5,118)
Other comprehensive income loss, net of tax	**(5,118)**	(5,118)
Accumulated other comprehensive (loss) income at March 31	**$ (103,873)**	$ 57,752

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 $695,274 as of the quarter ended March 31, 2020 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 2019 Annual Report to Stockholders for a more complete description.

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

March 31, 2020	**Fair Value Measurement Using**			**Total Fair Value**	**Total Gains (Losses)**
	Level 1	**Level 2**	**Level 3**		
Assets:					
Loans*	**$ -**	**$ -**	**$ 63,414**	**$ 63,414**	**$ -**

December 31, 2019	Fair Value Measurement Using			Total Fair Value	Total Gains (Losses)
	Level 1	Level 2	Level 3		
Assets:					
Loans*	$ -	$ -	$ -	$ -	$ -

*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 13 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.

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 March 31:

	Other Benefits	
	2020	2019
Service cost	**$ 9,867**	$ 9,598
Interest cost	**18,291**	22,637
Amortization of prior service credits	**(5,118)**	(5,118)
Net periodic benefit cost	**$ 23,040**	$ 27,117

The Association's liability for the unfunded accumulated obligation for these benefits at March 31, 2020, was $251,614 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 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. The Association previously disclosed in its financial statements for the year ended December 31, 2019, that it expected to contribute $61,218 to the District's defined benefit pension plan in 2020. As of March 31, 2020, $23,040 of contributions have been made. The Association presently anticipates contributing an additional $69,120 to fund the defined benefit pension plan in 2020 for a total of $92,160.

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 May 8, 2020, which is the date the financial statements were issued. There are no other significant events requiring disclosure as of May 8, 2020.