LONE STAR, ACA

2017
Quarterly Report
First Quarter

LONE STAR
AG CREDIT

For the Quarter Ended March 31, 2017

REPORT OF MANAGEMENT

The consolidated financial statements of Lone Star, ACA are prepared by management, who is responsible for the statements' integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America appropriate in the circumstances. Other financial information included in the quarterly report is consistent with that in the consolidated financial statements and there are no significant changes in the association's internal controls or in other factors that could significantly affect such controls during the quarter.

The undersigned certify that this quarterly report has been reviewed and 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.

Troy Bussmeir, Chief Executive Officer

May 8, 2017

Tom Johnson, Chairman, Board of Directors

May 8, 2017

M'Lissa Kiel, Chief Financial Officer

May 8, 2017

Don Crawford, Chairman, Audit Committee

May 8, 2017

LONE STAR, ACA
MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the financial performance of the Lone Star, ACA (Agricultural Credit Association), referred to as the association, for the quarter ended March 31, 2017. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2016 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:

In December 2016, the board of Lone Star, ACA declared a 100 basis point (1.0 percent) cash patronage paid in March of 2017, based on 2016 earnings. The patronage was paid to eligible borrowers based on their average outstanding loan balance for the year ending December 31, 2016. The patronage amount paid was $13,833,763. The association's capital position remains strong and is 18.14 percent for the period ending March 2017, which is 11.14 percent above the regulatory minimum of 7.00 percent.

In 2016, the association paid patronage of $15,923,462, comprised of distributions of $12,923,433, which represents the 100 basis point cash patronage declared in December 2015 by the board of Lone Star, ACA and $3,000,029, which represents the distribution of equities allocated to the stockholders of the former Texas Land Bank, ACA.

Effective January 1, 2014, the association merged with Texas Land Bank, ACA through a business acquisition in accordance with authoritative accounting guidance. Texas Land Bank, ACA was previously headquartered in Waco, TX and served a territory covering 16 counties in Central Texas. The types of loans and commodities financed by Texas Land Bank, ACA were very similar to those of the association. The association's board of directors and management feel this acquisition provided the association with a stronger capital position through higher earnings, an increased market share of agricultural financing and extended an overall improved quality of farm credit lending to its stockholders and territory served.

Since 1917, the association and its predecessors have provided its members with quality financial services. The board of directors and management remain committed to maintaining the financial integrity of the association while offering competitive loan products that meet the financial needs of agricultural producers.

Loan Portfolio:

Total loans outstanding at March 31, 2017, including nonaccrual loans and sales contracts, were $1,683,795,556 compared to $1,653,166,308 at December 31, 2016, reflecting an increase of 1.9 percent. Nonaccrual loans as a percentage of total loans outstanding were 0.5 percent at March 31, 2017, compared to 0.4 percent at December 31, 2016.

The association recorded $187,642 in recoveries and $5,319 in charge-offs for the quarter ended March 31, 2017, and $157,290 in recoveries and $27,910 in charge-offs for the same period in 2016. The association's allowance for loan losses was 0.4 percent and 0.4 percent of total loans outstanding as of March 31, 2017, and December 31, 2016, respectively.

Risk Exposure:

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

	March 31, 2017		December 31, 2016	
	Amount	**%**	Amount	%
Nonaccrual	**$ 7,985,942**	**71.7%**	$ 6,169,054	66.5%
Formally restructured	**3,103,884**	**27.8%**	3,106,032	33.5%
Other property owned, net	**59,904**	**0.5%**	-	0.0%
Total	**$ 11,149,730**	**100.0%**	$ 9,275,086	100.0%

Results of Operations:

The association had net income of $8,232,007 for the three months ended March 31, 2017, as compared to net income of $7,281,618 for the same period in 2016, reflecting an increase of 13.1 percent. Net interest income was $11,792,056 for the three months ended March 31, 2017, compared to $10,762,214 for the same period in 2016.

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	Three months ended:			
	March 31, 2017		March 31, 2016	
	Average Balance	**Interest**	Average Balance	Interest
Loans	**$ 1,673,085,601**	**$ 18,925,296**	$ 1,569,460,222	$ 17,091,125
Total interest-earning assets	**1,673,085,601**	**18,925,296**	1,569,460,222	17,091,125
Interest-bearing liabilities	**1,342,820,016**	**7,133,240**	1,248,173,201	6,328,911
Impact of capital	**$ 330,265,585**		$ 321,287,021	
Net interest income		**$ 11,792,056**		$ 10,762,214

	2017 Average Yield	2016 Average Yield
Yield on loans	**4.59%**	4.38%
Total yield on interest-earning assets	**4.59%**	4.38%
Cost of interest-bearing liabilities	**2.15%**	2.04%
Interest rate spread	**2.43%**	2.34%
Net interest income as a percentage of average earning assets	**2.86%**	2.76%

	Three months ended: March 31, 2017 vs. March 31, 2016		
	Increase (decrease) due to		
	Volume	**Rate**	**Total**
Interest income - loans	**$ 1,119,129**	**$ 715,042**	**$ 1,834,171**
Total interest income	**1,119,129**	**715,042**	**1,834,171**
Interest expense	**475,946**	**328,383**	**804,329**
Net interest income	**$ 643,182**	**$ 386,660**	**$ 1,029,842**

Interest income for the three months ended March 31, 2017, increased by $1,834,171, or 10.7 percent respectively, from the same period of 2016, primarily due to an increase in yields on earning assets and an increase in average loan volume. Interest expense for the three months ended March 31, 2017, increased by $804,329, or 12.7 from the same period of 2016 due to an increase in average interest-bearing liabilities and the cost of those liabilities. Average loan volume for the first quarter of 2017 was $1,673,085,601, compared to $1,569,460,222 in the first quarter of 2016. The average net interest rate spread on the loan portfolio for the first quarter of 2017 was 2.43 percent, compared to 2.34 percent in the first quarter of 2016.

The association's return on average assets for the three months ended March 31, 2017, was 1.95 percent compared to 1.83 percent for the same period in 2016. The association's return on average equity for the three months ended March 31, 2017, was 9.77 percent, compared to 8.84 percent for the same period in 2016.

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 Systemwide obligations and with lendable equity. The following schedule summarizes the association's borrowings.

		March 31, 2017		December 31, 2016
Note payable to the bank	$	**1,358,200,428**	$	1,320,377,658
Accrued interest on note payable		**2,434,506**		2,293,082
Total	$	**1,360,634,934**	$	1,322,670,740

The association operates under a general financing agreement (GFA) with the bank. The current GFA is effective through September 30, 2018. The primary source of liquidity and funding for the association is a direct loan from the bank. The outstanding balance of $1,358,200,428 as of March 31, 2017, is recorded as a liability on the association's balance sheet. The note carried a weighted average interest rate of 2.09 percent at March 31, 2017. 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, 2016, correlates with the overall growth in association accrual loan volume. The association's own funds, which represent the amount of the association's loan portfolio funded by the association's equity, were $327,462,069 at March 31, 2017. The maximum amount the association may borrow from the bank as of March 31, 2017, was $1,683,326,885 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, 2018, 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 $8,242,692 at March 31, 2017, compared to December 31, 2016. The association's debt as a percentage of members' equity was 3.97:1 as of March 31, 2017, compared to 3.99:1 as of December 31, 2016.

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.

Significant Recent Accounting Pronouncements:

In June 2016, the Financial Accounting Standards Board (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 currently 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. This guidance becomes effective for interim and annual periods beginning after December 15, 2018, with early application permitted. The association is currently evaluating the impact of adoption on its financial condition and results of operations. The adoption of this guidance is not expected to impact the Association's financial condition or its results of operations.

In January 2016, the FASB issued guidance entitled "Recognition and Measurement of Financial Assets and Liabilities." The guidance affects, among other things, the presentation and disclosure requirements for financial instruments. For public entities, the guidance eliminates the requirement to disclose the methods and significant assumptions used to estimate the fair value of financial instruments carried at amortized cost. This guidance becomes effective for interim and annual periods beginning after December 15, 2017. The adoption of this guidance is not expected to impact the association's financial condition or its results of operations.

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

In May 2014, the FASB issued guidance entitled, "Revenue from Contracts with Customers." The guidance governs revenue recognition from contracts with customers and requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Financial instruments and other contractual rights within the scope of other guidance issued by the FASB are excluded from the scope of this new revenue recognition guidance. In this regard, a majority of our contracts would be excluded from the scope of this new guidance. In August 2015, the FASB issued an update that defers this guidance by one year, which results in the new revenue standard becoming effective for interim and annual reporting periods beginning after December 15, 2017. The association is in the process of reviewing contracts to determine the effect, if any, on their financial condition or results of operations. The adoption of this guidance is not expected to impact the Association's financial condition or its results of operations.

Regulatory Matters:

On March 10, 2016, the Farm Credit Administration 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 regulatory 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 the requirements of section 939A of the Dodd-Frank Act.

The final rule became effective on January 1, 2017. The association is in compliance with the required minimum capital standards as of March 31, 2017.

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 2016 Annual Report of Lone Star, ACA more fully describe the association's relationship with the bank.

The Texas Farm Credit District's (district) annual and quarterly stockholder reports, as well as those of the bank, are available free of charge, upon request. These reports can be obtained by writing to Farm Credit Bank of Texas, The Ag Agency, P.O. Box 202590, Austin, Texas 78720, or by calling (512) 483-9204. Copies of the district's quarterly and annual stockholder reports also can be requested by e-mail at *fcb@farmcreditbank.com*. The annual and quarterly stockholder reports for the bank and the district 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 Lone Star, ACA, 1612 Summit Avenue, Suite 300, Fort Worth, Texas, 76102 or calling (817)332-6565. Copies of the association's quarterly stockholder reports can also be requested by e-mailing *nick.acosta@lonestaragcredit.com.* The association makes its annual and quarterly stockholder reports available on its website at *www.lonestaragcredit.com*.

LONE STAR, ACA

BALANCE SHEET

	March 31, 2017 (unaudited)	December 31, 2016
ASSETS		
Cash	$ **156,173**	$ 60,478
Loans	**1,683,795,556**	1,653,166,308
Less: allowance for loan losses	**(6,888,954)**	(7,046,323)
Net loans	**1,676,906,602**	1,646,119,985
Accrued interest receivable	**9,194,967**	9,260,706
Investment in and receivable from the Farm Credit Bank of Texas:		
Capital stock	**26,002,180**	26,002,180
Other	**2,541,973**	1,556,926
Other property owned, net	**59,904**	-
Premises and equipment, net	**3,124,953**	3,160,358
Other assets	**1,853,240**	889,148
Total assets	$ **1,719,839,992**	$ 1,687,049,781
LIABILITIES		
Note payable to the Farm Credit Bank of Texas	$ **1,358,200,428**	$ 1,320,377,658
Accrued interest payable	**2,434,506**	2,293,082
Drafts outstanding	**202,732**	229,275
Dividends payable	**-**	13,824,603
Other liabilities	**13,032,793**	12,598,322
Total liabilities	**1,373,870,459**	1,349,322,940
MEMBERS' EQUITY		
Capital stock and participation certificates	**6,449,595**	6,431,805
Additional paid-in capital	**91,343,553**	91,343,553
Unallocated retained earnings	**249,007,338**	240,784,491
Accumulated other comprehensive income (loss)	**(830,953)**	(833,008)
Total members' equity	**345,969,533**	337,726,841
Total liabilities and members' equity	$ **1,719,839,992**	$ 1,687,049,781

LONE STAR, ACA

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

	Quarter and Three Months Ended March 31,	
	2017	2016
INTEREST INCOME		
Loans	**$ 18,925,296**	$ 17,091,125
Total interest income	**18,925,296**	17,091,125
INTEREST EXPENSE		
Note payable to the Farm Credit Bank of Texas	**7,133,232**	6,328,903
Advance conditional payments	**8**	8
Total interest expense	**7,133,240**	6,328,911
Net interest income	**11,792,056**	10,762,214
PROVISION FOR LOAN LOSSES	**(342,499)**	(201,612)
Net interest income after provision for loan losses	**12,134,555**	10,963,826
NONINTEREST INCOME		
Income from the Farm Credit Bank of Texas:		
Patronage income	**1,553,126**	1,441,975
Loan fees	**123,371**	231,445
Financially related services income	**2,804**	4,105
Gain (loss) on other property owned, net	**13,396**	63,349
Gain (loss) on sale of premises and equipment, net	**(100)**	(261)
Other noninterest income	**150,244**	119,860
Total noninterest income	**1,842,841**	1,860,473
NONINTEREST EXPENSES		
Salaries and employee benefits	**3,519,852**	3,350,684
Directors' expense	**127,092**	134,072
Purchased services	**267,780**	160,141
Travel	**176,343**	176,385
Occupancy and equipment	**304,620**	345,581
Communications	**68,719**	90,304
Advertising	**155,317**	214,756
Public and member relations	**259,306**	212,108
Supervisory and exam expense	**133,933**	108,305
Insurance Fund premiums	**640,136**	633,562
Other noninterest expense	**80,453**	113,142
Total noninterest expenses	**5,733,551**	5,539,040
Income before income taxes	**8,243,845**	7,285,259
Provision for (benefit from) income taxes	**11,838**	3,641
NET INCOME	**8,232,007**	7,281,618
Other comprehensive income:		
Change in postretirement benefit plans	**2,055**	3,486
Other comprehensive income, net of tax	**2,055**	3,486
COMPREHENSIVE INCOME	**$ 8,234,062**	$ 7,285,104

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

LONE STAR, ACA

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

(unaudited)

	Capital Stock/ Participation Certificates	Additional Paid-in-Capital	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2015	$ 6,339,120	$ 91,343,553	$ 3,000,029	$ 227,852,221	$ (820,747)	$ 327,714,176
Comprehensive income	-	-	-	7,281,618	3,486	7,285,104
Capital stock/participation certificates and allocated retained earnings issued	198,305	-	-	-	-	198,305
Preferred Stock retired						
Capital stock/participation certificates and allocated retained earnings retired	(186,110)	-	-	-	-	(186,110)
Patronage refunds:						
Cash	-	-	-	(60,391)	-	(60,391)
Balance at March 31, 2016	$ 6,351,315	$ 91,343,553	$ 3,000,029	$ 235,073,448	$ (817,261)	$ 334,951,084
Balance at December 31, 2016	$ 6,431,805	$ 91,343,553	$ -	$ 240,784,491	$ (833,008)	$ 337,726,841
Comprehensive income	-	-	-	8,232,007	2,055	8,234,062
Capital stock/participation certificates and allocated retained earnings issued	212,215	-	-	-	-	212,215
Preferred Stock retired						
Capital stock/participation certificates and allocated retained earnings retired	(194,425)	-	-	-	-	(194,425)
Patronage refunds:						
Cash	-	-	-	(9,160)	-	(9,160)
Balance at March 31, 2017	**$ 6,449,595**	**$ 91,343,553**	**$ -**	**$ 249,007,338**	**$ (830,953)**	**$ 345,969,533**

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

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

The Lone Star, 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 Bell, Borden, Bosque, Bowie, Burnet, Camp, Cass, Cooke, Coryell, Dallas, Delta, Denton, Eastland, Ellis, Erath, Falls, Fannin, Fisher, Freestone, Grayson, Hamilton, Hill, Hood, Johnson, Kent, Lamar, Lampasas, Limestone, McLennan, Milam, Mitchell, Morris, Navarro, Nolan, Palo Pinto, Parker, Red River, Scurry, Shackelford, Somerville, Stephens, Tarrant, Taylor, Throckmorton, Titus, Williamson, Wise and Young in the state of Texas.

Effective January 1, 2014, the association merged with Texas Land Bank, ACA. The primary reason for the merger was based on a determination that the combined organization would be financially and operationally stronger than either association on a stand-alone basis. The merger was accounted for under the acquisition method of accounting.

Since the association operates for the mutual benefit of its customer-owners and other customers and not for the benefit of any other equity investors, capital stock provides no significant interest in corporate earnings or growth. Specifically, due to restrictions in applicable regulations and their bylaws, the associations can issue stock only at its par value of $5 per share, the stock is not tradable, and the stock can be retired only for the lesser of par value or book value. In these and other respects, the shares of stock in one association that were converted to shares of another association had identical rights and attributes. For this reason, the conversion of stock pursuant to the merger occurred at a one-for-one exchange ratio. Management believes that because the stock in each association is fixed in value, the stock issued pursuant to the merger provides no basis for estimating the fair value of the consideration transferred pursuant to the merger. In the absence of a purchase price determination, the acquiring association identified and estimated the acquisition date fair value of the net assets of the acquired association instead of the acquisition date fair value of the equity interests transferred as consideration. The fair value of the assets acquired, including specific intangible assets and liabilities assumed, were measured based on various estimates using assumptions that management believes are reasonable utilizing information currently available. This evaluation produced a fair value of identifiable assets acquired and liabilities assumed that was substantially equal to the fair value of the member interests transferred in the merger. The excess value received, by the acquiring association from the acquired association, over the par value of capital stock and participation certificates issued in the merger is considered to be additional paid-in capital.

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, 2016, as contained in the 2016 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, 2016, as contained in the 2016 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, 2017. Descriptions of the significant accounting policies are included in the 2016 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 June 2016, the Financial Accounting Standards Board (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 currently 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. This guidance becomes effective for interim and annual periods beginning after December 15, 2018, with early application permitted. The association is currently evaluating the impact of adoption on its financial condition and results of operations. The adoption of this guidance is not expected to impact the association's financial condition or its results of operations.

In January 2016, the FASB issued guidance entitled "Recognition and Measurement of Financial Assets and Liabilities." The guidance affects, among other things, the presentation and disclosure requirements for financial instruments. For public entities, the guidance eliminates the requirement to disclose the methods and significant assumptions used to estimate the fair value of financial instruments carried at amortized cost. This guidance becomes effective for interim and annual periods beginning after December 15, 2017. The adoption of this guidance is not expected to impact the association's financial condition or its results of operations.

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

In May 2014, the FASB issued guidance entitled, "Revenue from Contracts with Customers." The guidance governs revenue recognition from contracts with customers and requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Financial instruments and other contractual rights within the scope of other guidance issued by the FASB are excluded from the scope of this new revenue recognition guidance. In this regard, a majority of our contracts would be excluded from the scope of this new guidance. In August 2015, the FASB issued an update that defers this guidance by one year, which results in the new revenue standard becoming effective for interim and annual reporting periods beginning after December 15, 2017. The association is in the process of reviewing contracts to determine the effect, if any, on their financial condition or results of operations. The adoption of this guidance is not expected to impact the Association's financial condition or 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, 2017, are not necessarily indicative of the results to be expected for the year ended December 31, 2017. 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	March 31, 2017 Amount	December 31, 2016 Amount
Production agriculture:		
Real estate mortgage	**$ 1,313,779,636**	$ 1,302,128,320
Production and intermediate term	**128,866,974**	130,142,461
Agribusiness:		
Loans to cooperatives	**21,217,303**	14,557,951
Processing and marketing	**128,897,219**	117,989,550
Farm-related business	**15,587,328**	13,514,114
Communication	**8,755,309**	8,068,303
Energy	**45,609,974**	45,294,868
Water and waste water	**6,240,010**	6,398,890
Rural residential real estate	**14,841,803**	15,071,851
Total	**$ 1,683,795,556**	$ 1,653,166,308

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, 2017:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 23,524,306	$ 25,037,303	$ -	$ -	$ 23,524,306	$ 25,037,303
Production and intermediate term	41,083,324	689,530	-	-	41,083,324	689,530
Agribusiness	151,253,843	-	-	-	151,253,843	-
Communication	8,755,309	-	-	-	8,755,309	-
Energy	45,609,974	-	-	-	45,609,974	-
Water and waste water	4,800,062	-	1,439,949	-	6,240,011	-
Total	$ 275,026,818	$ 25,726,833	$ 1,439,949	$ -	$ 276,466,767	$ 25,726,833

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 $16,040,455 and $15,857,496 at March 31, 2017, and December 31, 2016, respectively.

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

	March 31, 2017	December 31, 2016
Nonaccrual loans:		
Real estate mortgage	**$ 4,890,923**	$ 3,163,755
Production and intermediate term	**2,083,540**	2,117,316
Rural residential real estate	**1,011,479**	887,983
Total nonaccrual loans	**7,985,942**	6,169,054
Accruing restructured loans:		
Real estate mortgage	**3,103,884**	3,106,032
Total accruing restructured loans	**3,103,884**	3,106,032
Total nonperforming loans	**11,089,826**	9,275,086
Other property owned	**59,904**	-
Total nonperforming assets	**$ 11,149,730**	$ 9,275,086

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, 2017	December 31, 2016
Real estate mortgage		
Acceptable	**98%**	98%
OAEM	**1%**	1%
Substandard/doubtful	**1%**	1%
	100%	100%
Production and intermediate term		
Acceptable	**98%**	98%
OAEM	**0%**	0%
Substandard/doubtful	**2%**	2%
	100%	100%
Agribusiness		
Acceptable	**97%**	97%
OAEM	**2%**	2%
Substandard/doubtful	**1%**	1%
	100%	100%
Energy and water/waste water		
Acceptable	**98%**	98%
OAEM	**2%**	2%
Substandard/doubtful	**0%**	0%
	100%	100%
Communication		
Acceptable	**100%**	100%
OAEM	**0%**	0%
Substandard/doubtful	**0%**	0%
	100%	100%
Rural residential real estate		
Acceptable	**90%**	91%
OAEM	**1%**	1%
Substandard/doubtful	**9%**	8%
	100%	100%
Total loans		
Acceptable	**98%**	98%
OAEM	**1%**	1%
Substandard/doubtful	**1%**	1%
	100%	100%

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

March 31, 2017	**30-89 Days Past Due**	**90 Days or More Past Due**	**Total Past Due**	**Not Past Due or Less Than 30 Days Past Due**	**Total Loans**
Real estate mortgage	**$ 5,442,458**	**$ 719,983**	**$ 6,162,441**	**$ 1,315,427,550**	**$ 1,321,589,991**
Production and intermediate term	**1,622,960**	**1,252,139**	**2,875,099**	**126,923,946**	**129,799,045**
Loans to cooperatives	**-**	**-**	**-**	**21,241,108**	**21,241,108**
Processing and marketing	**-**	**-**	**-**	**129,073,501**	**129,073,501**
Farm-related business	**-**	**-**	**-**	**15,644,759**	**15,644,759**
Communication	**-**	**-**	**-**	**8,756,160**	**8,756,160**
Energy	**-**	**-**	**-**	**45,763,074**	**45,763,074**
Water and waste water	**-**	**-**	**-**	**6,249,333**	**6,249,333**
Rural residential real estate	**37,710**	**685,498**	**723,208**	**14,150,344**	**14,873,552**
Total	**$ 7,103,128**	**$ 2,657,620**	**$ 9,760,748**	**$ 1,683,229,775**	**$ 1,692,990,523**

December 31, 2016	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	$ 964,121	$ 517,454	$ 1,481,575	$ 1,308,635,460	$ 1,310,117,035
Production and intermediate term	1,177,454	110,821	1,288,275	129,707,077	130,995,352
Loans to cooperatives	-	-	-	14,576,489	14,576,489
Processing and marketing	-	-	-	118,138,963	118,138,963
Farm-related business	-	-	-	13,549,986	13,549,986
Communication	-	-	-	8,069,218	8,069,218
Energy	-	-	-	45,468,243	45,468,243
Water and waste water	-	-	-	6,406,716	6,406,716
Rural residential real estate	43,803	701,898	745,701	14,359,311	15,105,012
Total	$ 2,185,378	$ 1,330,173	$ 3,515,551	$ 1,658,911,463	$ 1,662,427,014

Troubled Debt Restructuring: A restructuring of a debt constitutes a troubled debt restructuring if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. Troubled debt restructurings 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, 2017, the total recorded investment of troubled debt restructured loans was $3,476,748, including $372,864 classified as nonaccrual and $3,103,884 classified as accrual, with specific allowance for loan losses of $0. As of March 31, 2017, commitments to lend funds to borrowers whose loan terms have been modified in a troubled debt restructuring were $0 at period end and $0 at December 31, 2016.

The following tables present additional information regarding troubled debt restructurings, which includes both accrual and nonaccrual loans with troubled debt restructuring designation, that occurred during the three months ended March 31, 2017. The premodification outstanding recorded investment represents the recorded investment of the loans as of the quarter end prior to the restructuring. The postmodification outstanding recorded investment represents the recorded investment of the loans as of the quarter end the restructuring occurred. Loans formally restructured prior to January 1, 2017, were $3,347,539.

For the Three Months Ended March 31, 2017	Premodification Outstanding Recorded Investment	Postmodification Outstanding Recorded Investment
Troubled debt restructurings:		
Real estate mortgage	$ 132,948	$ 129,209
Total	$ 132,948	$ 129,209

For the Three Months Ended March 31, 2016	Premodification Outstanding Recorded Investment	Postmodification Outstanding Recorded Investment
Troubled debt restructurings:		
Real estate mortgage	$ 85,863	$ 85,388
Total	$ 85,863	$ 85,388

In restructurings where principal is forgiven, the amount of the forgiveness is immediately charged off. In restructurings where accrued interest is forgiven, the interest is reversed (if current year interest) or charged off (if prior year interest). There were no restructurings where principal was forgiven that required a charge off, at the modification date, for the quarter ending March 31, 2017.

The predominate form of concession granted for troubled debt restructuring includes a delay in the repayment of principal. At times these terms might be offset with incremental payments, collateral or new borrower guarantees, in which case the association assesses all of the modified terms to determine if the overall modification qualifies as a troubled debt restructuring.

At March 31, 2017, the association had no loans that met the accounting criteria as a troubled debt restructuring and that occurred within the previous 12 months and for which there was a subsequent payment default during the period. A payment default is defined as a payment that is 30 days past due after the date the loan was restructured.

Troubled debt restructurings that subsequently defaulted:	Recorded Investment at March 31, 2017	Recorded Investment at December 31, 2016
Real estate mortgage	$ -	$ 88,140
Total	$ -	$ 88,140

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

	Loans Modified as TDRs		TDRs in Nonaccrual Status*	
	March 31, 2017	December 31, 2016	March 31, 2017	December 31, 2016
Real estate mortgage	$ 3,476,748	$ 3,358,316	$ 372,864	$ 252,284
Total	$ 3,476,748	$ 3,358,316	$ 372,864	$ 252,284

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

Additional impaired loan information is as follows:

	March 31, 2017			December 31, 2016		
	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	$ 367,804	$ 367,804	$ 20,777	$ 559,032	$ 559,032	$ 21,683
Production and intermediate term	1,042,516	1,042,516	334,693	997,749	997,749	327,955
Rural residential real estate	152,682	153,391	14,867	-	-	-
Total	$ 1,563,002	$ 1,563,711	$370,337	$ 1,556,781	$ 1,556,781	$ 349,638
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	$ 7,627,003	$ 7,670,028	$ -	$ 5,710,755	$ 5,746,870	$ -
Production and intermediate term	1,041,024	1,349,403	-	1,119,567	1,450,405	-
Rural residential real estate	858,797	858,990	-	887,983	888,177	-
Total	$ 9,526,824	$ 9,878,421	$ -	$ 7,718,305	$ 8,085,452	$ -
Total impaired loans:						
Real estate mortgage	$ 7,994,807	$ 8,037,832	$ 20,777	$ 6,269,787	$ 6,305,902	$ 21,683
Production and intermediate term	2,083,540	2,391,919	334,693	2,117,316	2,448,154	327,955
Rural residential real estate	1,011,479	1,012,381	14,867	887,983	888,177	-
Total	$11,089,826	$11,442,132	$370,337	$ 9,275,086	$ 9,642,233	$ 349,638

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

	For the Quarter & Year Ended March 31, 2017		For the Quarter & Year Ended March 31, 2016	
	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:				
Real estate mortgage	$ 367,457	$ -	$ 68,312	$ -
Production and intermediate term	1,019,738	-	-	-
Farm-related business	-	-	-	-
Rural residential real estate	56,204	1,179	-	-
Total	$ 1,443,399	$ 1,179	$ 68,312	$ -
Impaired loans with no related allowance for credit losses:				
Real estate mortgage	$ 5,875,076	$ 277,372	$ 6,153,859	$ 4,555
Production and intermediate term	1,112,730	-	22,802	39
Farm-related business	-	1,616	-	1,591
Rural residential real estate	871,677	-	147,234	-
Total	$ 7,859,483	$ 278,988	$ 6,323,895	$ 6,185
Total impaired loans:				
Real estate mortgage	$ 6,242,533	$ 277,372	$ 6,222,171	$ 4,555
Production and intermediate term	2,132,468	-	22,802	39
Farm-related business	-	1,616	-	1,591
Rural residential real estate	927,881	1,179	147,234	-
Total	$ 9,302,882	$ 280,167	$ 6,392,207	$ 6,185

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

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy and Water/Waste Water	Rural Residential Real Estate	Total
Allowance for Credit Losses:							
Balance at December 31, 2016	$ 5,403,950	$ 843,032	$ 584,077	$ 14,320	$ 138,081	$ 62,863	$ 7,046,323
Charge-offs	(5,319)	-	-	-	-	-	(5,319)
Recoveries	18,447	23,221	145,974	-	-	-	187,642
Provision for loan losses	(268,500)	(28,971)	(57,554)	583	(3,274)	15,217	(342,499)
Adjustment due to merger	-	-	-	-	-	-	-
Other	(2,939)	(1,261)	8,466	583	(2,042)	-	2,807
Balance at March 31, 2017	$ 5,145,639	$ 836,021	$ 680,963	$ 15,486	$ 132,765	$ 78,080	$ 6,888,954
Ending Balance:							
Individually evaluated for impairment	$ 20,777	$ 334,693	$ -	$ -	$ -	$ 14,867	$ 370,337
Collectively evaluated for impairment	5,124,862	501,328	680,963	15,486	132,765	63,213	6,518,617
Balance at March 31, 2017	$ 5,145,639	$ 836,021	$ 680,963	$ 15,486	$ 132,765	$ 78,080	$ 6,888,954
Balance at December 31, 2015	$ 5,884,916	$ 299,660	$ 285,442	$ 88,173	$ 100,696	$ 158,534	$ 6,817,421
Charge-offs	(27,910)	-	-	-	-	-	(27,910)
Recoveries	2,769	47,101	107,420	-	-	-	157,290
Provision for loan losses	(19,305)	(832)	(79,285)	(84,823)	(3,687)	(13,680)	(201,612)
Adjustment due to merger	-	-	-	-	-	-	-
Other	947	(4,297)	(4,306)	(220)	2,912	396	(4,568)
Balance at March 31, 2016	$ 5,841,417	$ 341,632	$ 309,271	$ 3,130	$ 99,921	$ 145,250	$ 6,740,621
Ending Balance:							
Individually evaluated for impairment	$ 3,481	$ -	$ -	$ -	$ -	$ -	$ 3,481
Collectively evaluated for impairment	5,837,935	341,632	309,271	3,130	99,921	145,251	6,737,140
Balance at March 31, 2016	$ 5,841,416	$ 341,632	$ 309,271	$ 3,130	$ 99,921	$ 145,251	$ 6,740,621

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy and Water/Waste Water	Rural Residential Real Estate	Total
Recorded Investments in Loans Outstanding:							
Ending Balance at March 31, 2017	$ 1,321,589,991	$ 129,799,045	$ 165,959,368	$ 8,756,160	$ 52,012,407	$ 14,873,552	$ 1,692,990,523
Individually evaluated for impairment	$ 7,994,807	$ 2,083,540	$ -	$ -	$ -	$ 1,011,479	$ 11,089,826
Collectively evaluated for impairment	$ 1,313,595,184	$ 127,715,505	$ 165,959,368	$ 8,756,160	$ 52,012,407	$ 13,862,073	$ 1,681,900,697
Loans acquired with deteriorated credit quality	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Ending Balance at March 31, 2016	$ 1,227,787,602	$ 131,537,102	$ 161,652,713	$ 4,308,864	$ 58,842,981	$ 19,279,137	$ 1,603,408,399
Individually evaluated for impairment	$ 5,776,156	$ 3,941	$ -	$ -	$ -	$ 143,862	$ 5,923,959
Collectively evaluated for impairment	$ 1,221,764,604	$ 131,518,221	$ 161,652,713	$ 4,308,864	$ 58,842,981	$ 19,135,275	$ 1,597,222,658
Loans acquired with deteriorated credit quality	$ 246,842	$ 14,940	$ -	$ -	$ -	$ -	$ 261,782

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

Effective January 1, 2017, the regulatory capital requirements for System Banks and Associations were modified. The new regulations replaced existing 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 a tier 1 leverage ratio and an unallocated retained earnings equivalents (UREE) leverage ratio. The permanent capital ratio continues to remain in effect.

	Regulatory Minimums	Capital Conservation Buffer*	Total	As of 31-Mar-17
Risk-adjusted:				
Common equity tier 1 ratio	4.50%	2.50% *	7.00%	18.06%
Tier 1 capital ratio	6.00%	2.50% *	8.50%	18.06%
Total capital ratio	8.00%	2.50% *	10.50%	18.48%
Permanent capital ratio	7.00%	0.00%	7.00%	18.14%
Non-risk-adjusted:				
Tier 1 leverage ratio	4.00%	1.00%	5.00%	18.81%
UREE leverage ratio	1.50%	0.00%	1.50%	19.97%

*The 2.5% capital conservation buffer for the risk-adjusted ratios will be phased in over a three year period ending on December 31, 2019.

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

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

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

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

- Common equity tier 1 ratio is statutory minimum purchased borrower stock, other required borrower stock held for a minimum of 7 years, allocated equities held for a minimum of 7 years or not subject to revolvement, unallocated retained earnings, paid-in capital, less certain regulatory required deductions including the amount of allocated investments in other System institutions, and the amount of purchased investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.

- Tier 1 capital ratio is common equity tier 1 plus non-cumulative perpetual preferred stock, divided by average risk-adjusted assets.

- Total capital is tier 1 capital plus other required borrower stock held for a minimum of 5 years, allocated equities held for a minimum of 5 years, subordinated debt and limited-life preferred stock greater than 5 years to maturity at issuance subject to certain limitations, allowance and reserve for credit losses under certain limitations less certain investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.

- Permanent capital ratio (PCR) is all at-risk borrower stock, any allocated excess stock, unallocated retained earnings, paid-in capital, subordinated debt and preferred subject to certain limitations, less certain allocated and purchased investments in other System institutions, divided by PCR risk-adjusted assets.

- Tier 1 leverage ratio is tier 1 capital, including regulatory deductions, divided by average assets less regulatory deductions subject to tier 1 capital.

- UREE leverage ratio is unallocated retained earnings, paid-in capital, allocated surplus not subject to revolvement less certain regulatory required deductions including the amount of allocated investments in other System institutions divided by average assets less regulatory deductions subject to tier 1 capital.

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

Risk-adjusted Capital Ratios

	Common equity tier 1 ratio elements	Tier 1 capital ratio elements	Total capital ratio elements	Permanent capital ratio elements
Numerator:				
Unallocated retained earnings	178,916,711	178,916,711	178,916,711	178,916,711
Paid-in capital	91,343,553	91,343,553	91,343,553	91,343,553
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	6,443,251	6,443,251	6,443,251	6,443,251
Other required member purchased stock held <5 years				
Other required member purchased stock held ≥ 5 years but < 7 years				
Other required member purchased stock held ≥7 years				
Allocated equities:				
Allocated equities held <5 years				
Allocated equities held ≥5 years but < 7 years				
Allocated equities held ≥7				
Nonqualified allocated equities not subject to retirement	65,733,966	65,733,966	65,733,966	65,733,966
Non-cumulative perpetual preferred stock				
Other preferred stock subject to certain limitations				
Subordinated debt subject to certain limitation				
Allowance for loan losses and reserve for credit losses subject to certain limitations			7,296,827	
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	(26,001,180)	(26,001,180)	(26,001,180)	(26,001,180)
Other regulatory required deductions				
Total Numerator	316,436,301	316,436,301	323,733,128	316,436,301
Denominator:				
Risk-adjusted assets excluding allowance	1,777,671,273	1,777,671,273	1,777,671,273	1,777,671,273
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	(26,001,180)	(26,001,180)	(26,001,180)	(26,001,180)
Allowance for loan losses				(7,079,296)
Total Denominator	1,751,670,093	1,751,670,093	1,751,670,093	1,744,590,797

Non-risk-adjusted Capital Ratios

	Tier 1 leverage ratio elements	UREE leverage ratio elements
Numerator:		
Unallocated retained earnings	178,916,711	178,916,711
Paid-in capital	91,343,553	91,343,553
Common Cooperative Equities:		
Statutory minimum purchased borrower stock	6,443,251	
Other required member purchased stock held <5 years		
Other required member purchased stock held ≥ 5 years but < 7 years		
Other required member purchased stock held ≥7 years		
Allocated equities:		
Allocated equities held ≥7		
Nonqualified allocated equities not subject to retirement	65,733,966	65,733,966
Non-cumulative perpetual preferred stock		
Other preferred stock subject to certain limitations		
Subordinated debt subject to certain limitation		
Allowance for loan losses and reserve for credit losses subject to certain limitations		
Regulatory Adjustments and Deductions:		
Amount of allocated investments in other System institutions	(26,001,180)	
Other regulatory required deductions		
Total Numerator	316,436,301	335,994,230
Denominator:		
Total Assets	1,708,186,023	1,708,186,023
Regulatory Adjustments and Deductions:		
Regulatory deductions included in tier 1 capital	(26,001,180)	(26,001,180)
Total Denominator	1,682,184,843	1,682,184,843

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

Accum Other Comp Income (Loss)

March 31, 2017	**Before Tax**	**Deferred Tax**	**Net of Tax**
Nonpension postretirement benefits	**$ 2,055**	**$ -**	**$ 2,055**
Total	**$ 2,055**	**$ -**	**$ 2,055**

March 31, 2016	Before Tax	Deferred Tax	Net of Tax
Nonpension postretirement benefits	$ 3,486	$ -	$ 3,486
Total	$ 3,486	$ -	$ 3,486

The association's accumulated other comprehensive income (loss) relates entirely to its nonpension other postretirement benefits. Amortization of prior service (credits) cost 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 three months ended March 31:

	2017	2016
Accumulated other comprehensive income (loss) at January 1	**$ (833,008)**	$ (820,747)
Amortization of prior service (credit) costs included in salaries and employee benefits	**17,262**	27,382
Amortization of actuarial (gain) loss included in salaries and employee benefits	**(15,207)**	(23,896)
Other comprehensive income (loss), net of tax	**2,055**	3,486
Accumulated other comprehensive income at March 31	**$ (830,953)**	$ (817,261)

NOTE 4 — INCOME TAXES:

Lone Star, ACA conducts its business activities through two wholly-owned subsidiaries. Long-term mortgage lending activities are conducted through a wholly-owned FLCA subsidiary which is exempt from federal and state income tax. Short- and intermediate-term lending activities are conducted through a wholly-owned PCA subsidiary. The PCA subsidiary and the ACA holding company are subject to income tax. Lone Star, ACA operates as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, Lone Star, ACA can exclude from taxable income amounts distributed as qualified patronage dividends in the form of cash, stock or allocated retained earnings. Provisions for income taxes are made only on those taxable earnings that will not be distributed as qualified patronage dividends. Deferred taxes are recorded at the tax effect of all temporary differences based on the assumption that such temporary differences are retained by the institution and will therefore impact future tax payments. A valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (more than 50 percent probability), based on management's estimate, that they will not be realized.

NOTE 5 — FAIR VALUE MEASUREMENTS:

FASB guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. See Note 2 to the 2016 Annual Report to Stockholders for a more complete description.

With regard to impaired loans and other property owned, it is not practicable to provide specific information on inputs as each collateral property is unique. System institutions utilize appraisals to value these loans and other property owned and take into account unobservable inputs such as income and expense, comparable sales, replacement cost and comparability adjustments.

Information about Other Financial Instrument Fair Value Measurements:

	Valuation Technique(s)	Input
Cash	Carrying value	Par/principal and appropriate interest yield
Loans	Discounted cash flow	Prepayment forecasts Probability of default Loss severity
Other interest bearing liabilities	Carrying value	Par/principal and appropriate interest yield

Assets and liabilities measured at fair value on a recurring basis at March 31, 2017 and December 31, 2016 only include nonqualified benefit trusts. This Level 1 asset was $148,343 and $134,688 at March 31, 2017 and December 31, 2016, respectively.

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

March 31, 2017	**Fair Value Measurement Using**			**Total Fair**
	Level 1	**Level 2**	**Level 3**	**Value**
Assets:				
Loans*	**$ -**	**$ -**	**$1,159,398**	**$1,159,398**
Other property owned	**-**	**-**	**59,904**	**59,904**

December 31, 2016	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Loans*	$ -	$ -	$ 1,168,534	$ 1,168,534
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.

With regard to nonrecurring measurements for impaired loans and other property owned, it is not practicable to provide specific information on inputs, as each collateral property is unique. System institutions utilize appraisals to value these loans and other property owned and take into account unobservable inputs, such as income and expense, comparable sales, replacement cost and comparability adjustments.

Valuation Techniques

As more fully discussed in Note 2 to the 2016 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 2016 Annual Report to Stockholders.

Investment Securities

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

Assets Held in Nonqualified Benefits Trusts

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

Standby Letters of Credit

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

Loans

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

Other Property Owned

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

The fair value of commitments is estimated using the fees currently charged for similar agreements, taking into account the remaining terms of the agreements and the creditworthiness of the counterparties. For fixed-rate loan commitments, estimated fair value also considers the difference between current levels of interest rates and the committed rates.

NOTE 6 — 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	
	2017	2016
Service cost	**$ 22,415**	$ 19,434
Interest cost	**53,850**	52,871
Amortization of prior service (credits) costs	**(8,689)**	(8,689)
Amortization of net actuarial (gain) loss	**10,743**	12,176
Net periodic benefit cost	**$ 78,319**	$ 75,792

The association's liability for the unfunded accumulated obligation for these benefits at March 31, 2017, was $4,794,038 and is included in "Other Liabilities" in the balance sheet.

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, 2016, that it expected to contribute $1,156,528 to the district's defined benefit pension plan in 2017. As of March 31, 2017, $289,132 of contributions have been made. The association presently anticipates contributing an additional $867,396 to fund the defined benefit pension plan in 2017 for a total of $1,156,528.

NOTE 7 — COMMITMENTS AND CONTINGENT LIABILITIES:

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

NOTE 8 — SUBSEQUENT EVENTS:

The association has evaluated subsequent events through May 8, 2017, which is the date the financial statements were issued. There are no other significant events requiring disclosure as of May 8, 2017.