



Notification of Non-Reliance on Previously Issued Financial Statements

August 9, 2017

The Board of Directors and Management of Lone Star, ACA (the "Association") have determined that we do not have sufficient information to publish the Association's Second Quarter 2017 financial statements on a timely basis. Furthermore, Management has determined the Association's financial statements as of and for the year ended December 31, 2016, as well as the three months ended March 31, 2017, should no longer be relied upon, pending the outcome of our further review. In the meantime, the Association's website will not contain links to these financial statements. Additionally, any previously issued regulatory reports and shareholder communications describing the Association's financial statements for these periods should no longer be relied upon.

During the second quarter of 2017, Association management discovered appraisal and accounting irregularities affecting a segment of the Association's lending portfolio. An in-depth investigation is currently being conducted regarding the circumstances giving rise to these irregularities, and the risks associated with them, and we are taking all measures to mitigate those risks. Management is actively evaluating the ramifications of this issue on the financial statements herein cited. Through our investigation of the portfolio to date, we identified loans totaling \$3.3 million that should have been charged-off in 2016, and an additional \$5.8 million that should have been charged-off during the first quarter 2017. Management believes the financial impact of these accounting entries will possibly result in a less significant impact to income; however, upon completion of the investigation, the losses could increase. Additional analysis is required in order to make a complete determination. This issue did result in an overstatement of the Association's net income, assets and members' equity for these periods and is the result of a material weakness in certain internal controls. The Association will work diligently to prepare and republish restated reports for the above-mentioned periods once the investigation is complete. Although final loss amounts are still being quantified, Lone Star currently remains in compliance with its regulatory capital requirements. Further, the Association's borrowing base requirements and other key elements of its general financing agreement with the Farm Credit Bank of Texas, its funding bank, are in compliance; however, these conditions could change once the investigation is complete. The Association expects to remain fiscally sound and a reliable source of financing for its members, both now and in the future.