

2019 Annual Report



**Delta Agricultural Credit
Association**

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Delta Agricultural Credit Association

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CONSOLIDATED FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

Delta Agricultural Credit Association

(dollars in thousands)

As of December 31	2019	2018	2017	2016	2015
Statement of Condition Data					
Loans	\$ 42,477	\$ 48,988	\$ 49,709	\$ 50,458	\$ 49,506
Allowance for loan losses	104	104	105	105	121
Net loans	42,373	48,884	49,604	50,353	49,385
Investment in AgriBank, FCB	1,300	1,196	1,196	1,196	1,196
Other assets	1,356	1,467	1,433	1,550	1,687
Total assets	\$ 45,029	\$ 51,547	\$ 52,233	\$ 53,099	\$ 52,268
Obligations with maturities of one year or less	\$ 35,146	\$ 41,976	\$ 41,446	\$ 43,144	\$ 43,157
Total liabilities	35,146	41,976	41,446	43,144	43,157
Protected members' equity	7	7	12	12	12
Capital stock and participation certificates	155	158	1,857	1,760	1,712
Unallocated surplus	9,721	9,406	8,918	8,183	7,387
Total members' equity	9,883	9,571	10,787	9,955	9,111
Total liabilities and members' equity	\$ 45,029	\$ 51,547	\$ 52,233	\$ 53,099	\$ 52,268
For the year ended December 31					
Statement of Income Data					
Net interest income	\$ 1,622	\$ 1,844	\$ 1,929	\$ 1,928	\$ 1,909
Provision for loan losses	--	--	--	5	53
Other expenses, net	1,207	1,186	1,113	987	1,094
Net income	\$ 415	\$ 658	\$ 816	\$ 936	\$ 762
Key Financial Ratios					
For the Year					
Return on average assets	0.8%	1.2%	1.5%	1.7%	1.5%
Return on average members' equity	4.2%	6.4%	7.8%	9.7%	8.6%
Net interest income as a percentage of average earning assets	3.3%	3.5%	3.6%	3.6%	3.9%
Net charge-offs as a percentage of average loans	--	0.0%	--	0.0%	0.0%
At Year End					
Members' equity as a percentage of total assets	21.9%	18.6%	20.7%	18.7%	17.4%
Allowance for loan losses as a percentage of loans	0.2%	0.2%	0.2%	0.2%	0.2%
Capital ratios effective beginning January 1, 2017:					
Common equity tier 1 ratio	24.8%	21.2%	20.0%	N/A	N/A
Tier 1 capital ratio	24.8%	21.2%	20.0%	N/A	N/A
Total capital ratio	25.1%	21.5%	20.3%	N/A	N/A
Permanent capital ratio	25.2%	21.4%	24.3%	N/A	N/A
Tier 1 leverage ratio	18.0%	15.1%	14.6%	N/A	N/A
Capital ratios effective prior to 2017:					
Permanent capital ratio	N/A	N/A	N/A	22.5%	21.0%
Total surplus ratio	N/A	N/A	N/A	17.8%	16.5%
Core surplus ratio	N/A	N/A	N/A	17.7%	16.3%
Net Income Distributed					
For the Year					
Patronage distributions:					
Cash	\$ 170	\$ 81	\$ 140	\$ 110	\$ 120

MANAGEMENT'S DISCUSSION AND ANALYSIS

Delta Agricultural Credit Association

The following commentary reviews the consolidated financial condition and consolidated results of operations of Delta Agricultural Credit Association (the Association) and its subsidiaries, Delta Agricultural Credit Association, FLCA and Delta Agricultural Credit Association, PCA and provides additional specific information. The accompanying Consolidated Financial Statements and Notes to the Consolidated Financial Statements also contain important information about our financial condition and results of operations.

The Farm Credit System (System) is a nationwide system of cooperatively owned banks and associations established by Congress to meet the credit needs of American agriculture. As of January 1, 2020, the System consisted of three Farm Credit Banks, one Agricultural Credit Bank, and 68 customer-owned cooperative lending institutions (associations). The System serves all 50 states, Washington D.C., and Puerto Rico. This network of financial cooperatives is owned and governed by the rural customers the System serves.

AgriBank, FCB (AgriBank), a System Farm Credit Bank, and its District associations are collectively referred to as the AgriBank Farm Credit District (AgriBank District or the District). We are an association in the District.

The Farm Credit Administration (FCA) is authorized by Congress to regulate the System. The Farm Credit System Insurance Corporation (FCSIC) ensures the timely payment of principal and interest on Systemwide debt obligations and the retirement of protected borrower capital at par or stated value.

Due to the nature of our financial relationship with AgriBank, the financial condition and results of operations of AgriBank materially impact our members' investment. To request free copies of AgriBank financial reports, contact us at:

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Our Annual Report is available on our website no later than 75 days after the end of the calendar year and members are provided a copy of such report no later than 90 days after the end of the calendar year. The Quarterly Reports are available on our website no later than 40 days after the end of each calendar quarter. To request free copies of our Annual or Quarterly Reports, contact us as stated above.

FORWARD-LOOKING INFORMATION

This Annual Report includes forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties, and assumptions that are difficult to predict. Words such as "anticipate", "believe", "estimate", "may", "expect", "intend", "outlook", and similar expressions are used to identify such forward-looking statements. These statements reflect our current views with respect to future events. However, actual results may differ materially from our expectations due to a number of risks and uncertainties which may be beyond our control. These risks and uncertainties include, but are not limited to:

- Political (including trade policies), legal, regulatory, financial markets, and economic conditions and developments in the United States (U.S.) and abroad
- Economic fluctuations in the agricultural, international, and farm-related business sectors
- Weather-related, disease, and other adverse climatic or biological conditions that periodically occur and can impact agricultural productivity and income
- Changes in U.S. government support of the agricultural industry and the System as a government-sponsored enterprise, as well as investor and rating agency reactions to events involving the U.S. government, other government-sponsored enterprises, and other financial institutions
- Actions taken by the Federal Reserve System in implementing monetary policy
- Credit, interest rate, and liquidity risks inherent in our lending activities
- Changes in our assumptions for determining the allowance for loan losses and fair value measurements
- Industry outlooks for agricultural conditions

AGRICULTURAL AND ECONOMIC CONDITIONS

Our territory is located in rural southeast Arkansas. Poultry, crop, livestock, and timber production are the primary agricultural enterprises that influence our association's portfolio. Local field crop commodity markets are being negatively affected by the current U.S. tariffs while other economic areas of our portfolio are in balance.

The current Farm Bill will provide some cushion to the decline of local field crop commodity prices. For the second year in a row the Market Facilitation Program (MFP) payment has been paid, which has helped offset the stress created from global tariff issues. The crop land rents have declined slightly and are generally tied to the equivalence of the predominant share crop rent values. Although there is economic pressure in crop production, crop rents are still attractive to land owners and investors who represent the majority of the farmland buyers. Poultry production continues to show profitable margins but new grower contracts and new poultry facility construction has declined significantly from the peak five years ago. Beef cattle prices are adequate compared to the cost of production in the last quarter and provides for profitability for the average producer. Pine timber prices have returned to its weak position after

temporarily increasing in the first quarter of 2019 due to an extended wet season. The major stress in our territory is in field crop enterprises, which has been mitigated significantly by the MFP payments.

The overall poultry, field crops, livestock, and timber economies are sustainable. The borrowers' capital erosion has been primarily limited to the stressed field crop sector. The crop commodity price stress has been offset by the government MFP payment. Field crop farmers have received about 75% of the MFP subsidy for 2019. The poultry and timberland real estate values remain stable. Our Farm Credit Association is experiencing an acceptable economic environment.

LOAN PORTFOLIO

Loan Portfolio

Total loans were \$42.5 million at December 31, 2019, a decrease of \$6.5 million from December 31, 2018.

Components of Loans

(in thousands)

As of December 31	2019	2018	2017
Accrual loans:			
Real estate mortgage	\$ 28,678	\$ 32,181	\$ 34,531
Production and intermediate-term	13,776	16,754	14,962
Agribusiness	23	53	56
Nonaccrual loans	--	--	160
Total loans	\$ 42,477	\$ 48,988	\$ 49,709

The decrease in total loans from December 31, 2018, was primarily due to lower real estate mortgage volume than 2018 as a result of annual repayments and minimal new growth. In addition, our production and intermediate-term loan volume is lower than 2018 due to annual repayments prior to December 31, 2019, including MFP payments that exceeded subsidies received in 2018.

We offer variable, fixed, and adjustable interest rate loan programs to our borrowers. We determine interest margins charged on each lending program based on cost of funds, credit risk, market conditions, and the need to generate sufficient earnings.

Portfolio Distribution

We are chartered to serve certain counties in Arkansas. Approximately 96.5% of our total loan portfolio was in Drew, Ashley, Bradley, Desha, Chicot, and Lincoln counties at December 31, 2019.

Agricultural Concentrations

As of December 31	2019	2018	2017
Poultry and eggs	40.9%	44.8%	46.2%
Cash grains	33.5%	33.2%	31.9%
Farm supplies	6.8%	6.3%	4.2%
Beef	6.4%	5.7%	6.1%
Forestry	5.4%	5.1%	5.9%
Fish	--	--	1.2%
Other	7.0%	4.9%	4.5%
Total	100.0%	100.0%	100.0%

Commodities are based on the borrower's primary intended commodity at the time of loan origination and may change due to borrower business decisions as a result of changes in weather, prices, input costs, and other circumstances.

Portfolio Credit Quality

The credit quality of our portfolio declined from December 31, 2018. Adversely classified loans increased to 5.5% of the portfolio at December 31, 2019, from 2.6% of the portfolio at December 31, 2018. Our portfolio credit quality has declined since December 31, 2018, primarily due to adversity in production agriculture. Adversely classified loans are loans we have identified as showing some credit weakness outside our credit standards. We have considered portfolio credit quality in assessing the reasonableness of our allowance for loan losses.

In certain circumstances, government agency guarantee programs are used to reduce the risk of loss. At December 31, 2019, \$20.3 million of our loans were, to some level, guaranteed under these government programs.

Risk Assets

Components of Risk Assets

(dollars in thousands)

As of December 31	2019	2018	2017
Loans:			
Nonaccrual	\$ --	\$ --	\$ 160
Accruing restructured	320	353	--
Accruing loans 90 days or more past due	--	--	--
Total risk loans	320	353	160
Other property owned	--	--	--
Total risk assets	\$ 320	\$ 353	\$ 160
Total risk loans as a percentage of total loans	0.7%	0.7%	0.3%
Nonaccrual loans as a percentage of total loans	--	--	0.3%
Current nonaccrual loans as a percentage of total nonaccrual loans	--	--	--
Total delinquencies as a percentage of total loans	--	--	0.3%

Note: Accruing loans include accrued interest receivable.

Our risk assets have decreased from December 31, 2018, and have remained at acceptable levels. Total risk loans as a percentage of total loans were well within our established risk management guidelines.

Allowance for Loan Losses

The allowance for loan losses is an estimate of losses on loans inherent in our portfolio as of the financial statement date. We determine the appropriate level of allowance for loan losses based on the periodic evaluation of factors such as loan loss history, estimated probability of default, estimated loss severity, portfolio quality, and current economic and environmental conditions.

Allowance Coverage Ratios

As of December 31	2019	2018	2017
Allowance as a percentage of:			
Loans	0.2%	0.2%	0.2%
Nonaccrual loans	--	--	65.6%
Total risk loans	32.5%	29.5%	65.6%
Net charge-offs as a percentage of average loans	--	0.0%	--
Adverse assets to total regulatory capital	27.4%	15.5%	5.8%

In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at December 31, 2019.

Additional loan information is included in Notes 3, 9, 10, and 11 to the accompanying Consolidated Financial Statements.

RESULTS OF OPERATIONS

Profitability Information

(dollars in thousands)

For the year ended December 31	2019	2018	2017
Net income	\$ 415	\$ 658	\$ 816
Return on average assets	0.8%	1.2%	1.5%
Return on average members' equity	4.2%	6.4%	7.8%

Changes in the chart above relate directly to:

- Changes in income discussed in this section
- Changes in assets discussed in the Loan Portfolio section
- Changes in capital discussed in the Capital Adequacy section

Changes in Significant Components of Net Income

(in thousands)	For the year ended December 31			(Decrease) increase in net income	
	2019	2018	2017	2019 vs 2018	2018 vs 2017
Net interest income	\$ 1,622	\$ 1,844	\$ 1,929	\$ (222)	\$ (85)
Non-interest income	266	283	264	(17)	19
Non-interest expense	1,471	1,469	1,377	(2)	(92)
Provision for income taxes	2	--	--	(2)	--
Net income	\$ 415	\$ 658	\$ 816	\$ (243)	\$ (158)

Net Interest Income

Changes in Net Interest Income

(in thousands)	For the year ended December 31	
	2019 vs 2018	2018 vs 2017
Changes in volume	\$ (134)	\$ (15)
Changes in interest rates	(88)	(70)
Net change	\$ (222)	\$ (85)

There was no income on nonaccrual loans included in net interest income in 2019, 2018, or 2017. Nonaccrual income is recognized when received in cash, collection of the recorded investment is fully expected, and prior charge-offs have been recovered.

Net interest margin (net interest income as a percentage of average earning assets) was 3.3%, 3.5%, and 3.6% in 2019, 2018, and 2017, respectively. Our net interest margin is sensitive to interest rate changes and competition.

Non-Interest Income

The change in non-interest income was primarily due to patronage income and Allocated Insurance Reserve Accounts distribution.

We may receive patronage from AgriBank and other Farm Credit Institutions. Patronage distributions from AgriBank and other Farm Credit Institutions are declared solely at the discretion of each institution's Board of Directors.

Patronage Income

(in thousands)	For the year ended December 31		
	2019	2018	2017
Wholesale patronage	\$ 234	\$ 243	\$ 238
Other Farm Credit Institution patronage	5	4	4
Total patronage income	\$ 239	\$ 247	\$ 242
Form of patronage distributions:			
Cash	\$ 134	\$ 247	\$ 242
Stock	105	--	--
Total patronage income	\$ 239	\$ 247	\$ 242

Wholesale patronage income is based on the average balance of our note payable to AgriBank. The patronage rates were 55.9 basis points, 54.1 basis points, and 52.1 basis points in 2019, 2018, and 2017, respectively. AgriBank may distribute patronage in the form of stock or cash as determined by AgriBank's capital plan. A portion of the patronage in 2019 was paid in allocated stock. All patronage was paid in cash during 2018 and 2017. See the Relationship with AgriBank section for further discussion on patronage income.

In addition, the wholesale patronage balance includes equalization. Equalization is determined based on the quarterly average balance of stock in excess of our AgriBank required investment. The equalization rate is targeted at the average cost of funds for all District associations as a group.

The fluctuation in Allocated Insurance Reserve Accounts (AIRA) was due to our share of distributions from AIRA of \$7 thousand and \$19 thousand in 2019 and 2018, respectively. The AIRA was established by the FCSIC when premiums collected increased the level of the Insurance Fund beyond the required secured base amount of 2.0% of insured debt. There were no AIRA distributions in 2017.

Non-Interest Expense

Components of Non-interest Expense

(dollars in thousands)

For the year ended December 31	2019	2018	2017
Salaries and employee benefits	\$ 865	\$ 909	\$ 898
Other operating expense:			
Purchased and vendor services	418	351	255
Communications	20	22	20
Occupancy and equipment	34	32	36
Advertising and promotion	26	31	35
Examination	23	22	21
Farm Credit System insurance	21	22	40
Other	64	80	72
Total non-interest expense	<u>\$ 1,471</u>	<u>\$ 1,469</u>	<u>\$ 1,377</u>
Operating rate	3.0%	2.8%	2.6%

Salaries and employee benefits expense decreased primarily due to the deferral of salaries on new loan originations. In addition, director expense, which are included in "Other" in the chart above, decreased due to fewer meetings in 2019 compared to 2018. These decreases were partially offset by an increase in purchased services due to higher consulting fees in 2019 compared to 2018.

FUNDING AND LIQUIDITY

We borrow from AgriBank, under a note payable, in the form of a line of credit, as described in Note 5 to the accompanying Consolidated Financial Statements. This line of credit is our primary source of liquidity and is used to fund operations and meet current obligations. At December 31, 2019, we had \$25.1 million available under our line of credit. We generally apply excess cash to this line of credit. Due to the cooperative structure of the Farm Credit System and as we are a stockholder of AgriBank, we expect this borrowing relationship to continue into the foreseeable future. Our other source of lendable funds is from equity.

Note Payable Information

(dollars in thousands)

For the year ended December 31	2019	2018	2017
Average balance	\$ 40,648	\$ 44,360	\$ 45,287
Average interest rate	2.8%	2.6%	2.3%

The repricing attributes of our line of credit generally correspond to the repricing attributes of our loan portfolio, which significantly reduces our market interest rate risk. However, we maintain some exposure to interest rates, including London Inter-bank Offered Rate (LIBOR), primarily from loans to customers which may not have a component of our line of credit with an exact repricing attribute. Regulators in the U.S. and worldwide have expressed their desire to phase out LIBOR, and other inter-bank offered rates, by the end of 2021. They have indicated that the reliability and stability of LIBOR as a benchmark rate after 2021 cannot be assured. The Farm Credit System has established a LIBOR transition workgroup to provide leadership in addressing the LIBOR phase-out across system entities. While many factors can impact our net interest income, we expect that financial performance will remain relatively consistent under most interest rate environments over the next 12 months.

CAPITAL ADEQUACY

Total members' equity was \$9.9 million, \$9.6 million, and \$10.8 million at December 31, 2019, 2018, and 2017, respectively. Total members' equity increased \$312 thousand from December 31, 2018, primarily due to net income for the year partially offset by patronage distribution accruals.

The FCA Regulations require us to maintain minimums for our common equity tier 1, tier 1 capital, total capital, and permanent capital risk-based capital ratios. In addition, the FCA requires us to maintain minimums for our non-risk-adjusted ratios of tier 1 leverage and unallocated retained earnings and equivalents leverage.

Regulatory Capital Requirements and Ratios

As of December 31	2019	2018	2017	Regulatory Minimums	Capital Conservation Buffer	Total
Risk-adjusted:						
Common equity tier 1 ratio	24.8%	21.2%	20.0%	4.5%	2.5%*	7.0%
Tier 1 capital ratio	24.8%	21.2%	20.0%	6.0%	2.5%*	8.5%
Total capital ratio	25.1%	21.5%	20.3%	8.0%	2.5%*	10.5%
Permanent capital ratio	25.2%	21.4%	24.3%	7.0%	N/A	7.0%
Non-risk-adjusted:						
Tier 1 leverage ratio	18.0%	15.1%	14.6%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	17.7%	14.8%	14.1%	1.5%	N/A	1.5%

*The 2.5% capital conservation buffer over risk-adjusted ratio minimums was phased in over three years under the FCA capital requirements. The phase in period ended December 31, 2019.

Our capital plan is designed to maintain an adequate amount of surplus and allowance for loan losses which represents our reserve for adversity prior to impairment of stock. We manage our capital to allow us to meet member needs and protect member interests, both now and in the future.

Capital ratios are directly impacted by changes in capital, assets, and off-balance sheet commitments. Refer to the Loan Portfolio section for further discussion of the changes in assets. Additional discussion of regulatory ratios and members' equity information is included in Note 6 to the accompanying Consolidated Financial Statements.

In addition to these regulatory requirements, we establish an optimum common equity tier 1 (CET1) target. This target allows us to maintain a capital base adequate for future growth and investment in new products and services. The target is subject to revision as circumstances change. Our optimum CET1 target is 10.0%, as defined in our 2020 capital plan.

If the capital ratios fall below the total requirements, including the buffer amounts, capital distributions (equity redemptions, dividends, and patronage) and discretionary senior executive bonuses are restricted or prohibited without prior FCA approval. We do not foresee any events that would result in this prohibition in 2020.

RELATIONSHIP WITH AGRIBANK

Borrowing

We borrow from AgriBank to fund our lending operations in accordance with the Farm Credit Act. Approval from AgriBank is required for us to borrow elsewhere. A General Financing Agreement (GFA), as discussed in Note 5 to the accompanying Consolidated Financial Statements, governs this lending relationship.

The components of cost of funds under the GFA include:

- A marginal cost of debt component
- A spread component, which includes cost of servicing, cost of liquidity, and bank profit
- A risk premium component, if applicable

We were not subject to the risk premium component during 2019. We were subject to a 3 basis point and 2 basis point risk premium in 2018 and 2017, respectively. The risk premiums in 2018 and 2017 were triggered by a decline in our risk score. Certain factors may impact our cost of funds, which primarily include market interest rate changes impacting marginal cost of debt as well as changes to pricing methodologies impacting the spread components described above.

The marginal cost of debt approach simulates matching the cost of underlying debt with similar terms as the anticipated terms of our loans to borrowers. This approach substantially protects us from market interest rate risk. We may occasionally engage in funding strategies that result in limited interest rate risk with approval by AgriBank's Asset/Liability Committee.

On October 8, 2019, we notified AgriBank of certain lending limit violations under the FCA Regulation 614.4360 that violated the GFA. AgriBank found us to be in default of our GFA as of October 11, 2019, due to these lending limit violations and lack of sufficient controls to prevent such violations. The default was cured as of October 28, 2019, as a result of actions taken by us as required in the notice of default. The Association has not been declared in default under the terms of the GFA since the cure date of the event of default.

Investment

We are required to invest in AgriBank capital stock as a condition of borrowing. This investment may be in the form of purchased stock or stock representing distributed AgriBank surplus. During 2019, we were required by AgriBank to maintain an investment equal to 2.25% of the average quarterly balance of our note payable, with an additional amount required on association growth in excess of a targeted growth rate, if the District is also growing above a targeted growth rate. Effective January 1, 2020, the required rate was increased to 2.50% with similar growth rate requirements as 2019.

Patronage

AgriBank's 2019 capital plan is intended to provide for adequate capital at AgriBank under capital regulations as well as to create a path to long-term capital optimization within the AgriBank District. The plan optimizes capital at AgriBank; distributing available AgriBank earnings in the form of patronage, either cash or stock. The plan is designed to maintain capital adequacy such that sufficient earnings will be retained in the form of unallocated retained earnings and allocated stock to meet the leverage ratio target and other regulatory or policy constraints prior to any cash patronage distributions.

We receive the below types of discretionary patronage from AgriBank. Patronage income earned may be paid in cash and AgriBank stock. Patronage income for 2019 was paid in cash and AgriBank stock. Patronage income in 2018 and 2017 was paid in cash.

- Wholesale patronage which includes:
 - Patronage on our note payable with AgriBank
 - Equalization patronage based on our excess stock in AgriBank

Purchased Services

We purchase various services from AgriBank and SunStream Business Services (SunStream), a division of AgriBank. The services include certain financial and retail systems, financial reporting services, technology services, and insurance services. The total cost of services we purchased from AgriBank was \$122 thousand, \$113 thousand, and \$87 thousand in 2019, 2018, and 2017, respectively. In January 2020, the FCA provided regulatory approval for the formation of a separate service entity, SunStream. Subsequent to the formation of SunStream, effective April 1, 2020, we will be a partial owner and continue to purchase services from SunStream.

Impact on Members' Investment

Due to the nature of our financial relationship with AgriBank, the financial condition and results of operations of AgriBank materially impact our members' investment.

OTHER RELATIONSHIPS AND PROGRAMS

Relationships with Other Farm Credit Institutions

CentRic Technology Collaboration: We participate in CentRic Technology Collaboration (CTC) with certain other AgriBank District associations. The CTC facilitates the development and maintenance of certain retail technology systems essential to providing credit and other services to our members. The CTC operations are governed by representatives of each participating association. The expenses of CTC are allocated to each of the participating associations based on an agreed upon formula. The systems developed are owned by each of the participating associations.

Farm Credit Foundations: We have a relationship with Farm Credit Foundations (Foundations), a System service corporation, which involves purchasing human resource information systems, and benefit, payroll, and workforce management services. As of December 31, 2019, 2018, and 2017, our investment in Foundations was \$7 thousand. The total cost of services we purchased from Foundations was \$55 thousand, \$51 thousand, and \$50 thousand in 2019, 2018, and 2017, respectively.

REGULATORY MATTERS

Investment Securities Eligibility

On September 19, 2019, the FCA issued a proposed regulation regarding investment eligibility. The proposed regulation amends the regulations that became effective January 1, 2019, and would allow associations to purchase and hold portions of certain loans that non-Farm Credit System institutions originate and sell in the secondary market, and that the United States Department of Agriculture unconditionally guarantees as to the timely payment of principal and interest. The comment period for this proposed rulemaking ended on November 18, 2019, and the final regulation has not yet been issued.

OTHER MATTERS

Internal Control over Financial Reporting

During the year ended December 31, 2019, management concluded that a material weakness existed in our internal controls over financial reporting. This material weakness is related to our monitoring of regulatory compliance and covenant requirements of our GFA with AgriBank. Actions to remediate the deficiency and enhance our monitoring of regulatory and covenant requirements are still ongoing as of December 31, 2019.

Governance

The Board of the Association has been pursuing possible strategic initiatives including possible transfer to another Farm Credit District and ultimately potentially affiliating with another association. The Board has been in discussions with AgriBank about these potential changes. The Board has retained counsel to advise the Association on these issues and to represent the Association in its interactions with AgriBank, the FCA, and potential affiliation partners.

REPORT OF MANAGEMENT

Delta Agricultural Credit Association



We prepare the Consolidated Financial Statements of Delta Agricultural Credit Association (the Association) and are responsible for their 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. The Consolidated Financial Statements, in our opinion, fairly present the financial condition of the Association. Other financial information included in the Annual Report is consistent with that in the Consolidated Financial Statements.

To meet our responsibility for reliable financial information, we depend on accounting and internal control systems designed to provide reasonable, but not absolute assurance that assets are safeguarded and transactions are properly authorized and recorded. Costs must be reasonable in relation to the benefits derived when designing accounting and internal control systems. Financial operations audits are performed to monitor compliance. PricewaterhouseCoopers LLP, our independent auditors, audit the Consolidated Financial Statements. They also consider internal controls to the extent necessary to design audit procedures that comply with auditing standards generally accepted in the United States of America. The Farm Credit Administration also performs examinations for safety and soundness as well as compliance with applicable laws and regulations.

The Board of Directors has overall responsibility for our system of internal control and financial reporting. The Board of Directors and its Audit Committee consults regularly with us and meets periodically with the independent auditors and other auditors to review the scope and results of their work. The independent auditors have direct access to the Board of Directors, which is composed solely of directors who are not officers or employees of the Association.

The undersigned certify we have reviewed the Association's Annual Report, which has been prepared in accordance with all applicable statutory or regulatory requirements. The information contained herein is true, accurate, and complete to the best of our knowledge and belief.



Mike Norris
Chairperson of the Board
Delta Agricultural Credit Association



Mark W. Kaufman
Chief Executive Officer
Delta Agricultural Credit Association



Mary Ann Johnson
Chief Financial Officer
Delta Agricultural Credit Association

March 9, 2020

REPORT OF AUDIT COMMITTEE

Delta Agricultural Credit Association



The Consolidated Financial Statements were prepared under the oversight of the Audit Committee. The Audit Committee is composed of the entire Board of Directors of Delta Agricultural Credit Association (the Association). The Audit Committee oversees the scope of the Association's internal audit program, the approval, and independence of PricewaterhouseCoopers LLP (PwC) as independent auditors, the adequacy of the Association's system of internal controls and procedures, and the adequacy of management's actions with respect to recommendations arising from those auditing activities. The Audit Committee's responsibilities are described more fully in the Internal Control Policy and the Audit Committee Charter.

Management is responsible for internal controls and the preparation of the Consolidated Financial Statements in accordance with accounting principles generally accepted in the United States of America. PwC is responsible for performing an independent audit of the Consolidated Financial Statements in accordance with auditing standards generally accepted in the United States of America and to issue their report based on their audit. The Audit Committee's responsibilities include monitoring and overseeing these processes.

In this context, the Audit Committee reviewed and discussed the audited Consolidated Financial Statements for the year ended December 31, 2019, with management. The Audit Committee also reviewed with PwC the matters required to be discussed by Statement on Auditing Standards AU-C 260, *The Auditor's Communication with Those Charged with Governance*, and both PwC and the internal auditors directly provided reports on any significant matters to the Audit Committee.

The Audit Committee had discussions with and received written disclosures from PwC confirming its independence. The Audit Committee also reviewed the non-audit services provided by PwC, if any, and concluded these services were not incompatible with maintaining PwC's independence. The Audit Committee discussed with management and PwC any other matters and received any assurances from them as the Audit Committee deemed appropriate.

Based on the foregoing review and discussions, and relying thereon, the Audit Committee recommended that the Board of Directors include the audited Consolidated Financial Statements in the Annual Report for the year ended December 31, 2019.



Mike Norris
Chairperson of the Audit Committee
Delta Agricultural Credit Association

Members of the Audit Committee are:

Al Beaty
Bruce Bond
C. Randall Cox
Joe Mencer
John Mitchell
Mike Norris

March 9, 2020



Report of Independent Auditors

To the Board of Directors of Delta Agricultural Credit Association,

We have audited the accompanying Consolidated Financial Statements of Delta Agricultural Credit Association and its subsidiaries (the Association), which comprise the consolidated statements of condition as of December 31, 2019, 2018, and 2017, and the related consolidated statements of income, changes in members' equity and cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the Consolidated Financial Statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of Consolidated Financial Statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the Consolidated Financial Statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Consolidated Financial Statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Consolidated Financial Statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the Consolidated Financial Statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Association's preparation and fair presentation of the Consolidated Financial Statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the Consolidated Financial Statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the Consolidated Financial Statements referred to above present fairly, in all material respects, the financial position of Delta Agricultural Credit Association and its subsidiaries as of December 31, 2019, 2018, and 2017, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

March 9, 2020

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T: (612) 596 6000, www.pwc.com/us*

CONSOLIDATED STATEMENTS OF CONDITION

Delta Agricultural Credit Association

(in thousands)

As of December 31	2019	2018	2017
ASSETS			
Loans	\$ 42,477	\$ 48,988	\$ 49,709
Allowance for loan losses	104	104	105
Net loans	42,373	48,884	49,604
Investment in AgriBank, FCB	1,300	1,196	1,196
Accrued interest receivable	781	924	976
Other assets	575	543	457
Total assets	\$ 45,029	\$ 51,547	\$ 52,233
LIABILITIES			
Note payable to AgriBank, FCB	\$ 34,665	\$ 41,390	\$ 40,948
Accrued interest payable	254	329	263
Patronage distribution payable	100	170	81
Other liabilities	127	87	154
Total liabilities	35,146	41,976	41,446
Contingencies and commitments (Note 10)			
MEMBERS' EQUITY			
Protected members' equity	7	7	12
Capital stock and participation certificates	155	158	1,857
Unallocated surplus	9,721	9,406	8,918
Total members' equity	9,883	9,571	10,787
Total liabilities and members' equity	\$ 45,029	\$ 51,547	\$ 52,233

The accompanying notes are an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF INCOME

Delta Agricultural Credit Association

(in thousands)

For the year ended December 31	2019	2018	2017
Interest income	\$ 2,741	\$ 3,007	\$ 2,959
Interest expense	1,119	1,163	1,030
Net interest income	1,622	1,844	1,929
Provision for loan losses	--	--	--
Net interest income after provision for loan losses	1,622	1,844	1,929
Non-interest income			
Patronage income	239	247	242
Financially related services income	2	2	4
Fee income	15	13	14
Allocated Insurance Reserve Accounts distribution	7	19	--
Other non-interest income	3	2	4
Total non-interest income	266	283	264
Non-interest expense			
Salaries and employee benefits	865	909	898
Other operating expense	606	560	479
Total non-interest expense	1,471	1,469	1,377
Income before income taxes	417	658	816
Provision for income taxes	2	--	--
Net income	\$ 415	\$ 658	\$ 816

The accompanying notes are an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

Delta Agricultural Credit Association

(in thousands)

	Protected Members' Equity	Capital Stock and Participation Certificates	Unallocated Surplus	Total Members' Equity
Balance as of December 31, 2016	\$ 12	\$ 1,760	\$ 8,183	\$ 9,955
Net income	--	--	816	816
Unallocated surplus designated for patronage distributions	--	--	(81)	(81)
Capital stock and participation certificates issued	--	422	--	422
Capital stock and participation certificates retired	--	(325)	--	(325)
Balance as of December 31, 2017	12	1,857	8,918	10,787
Net income	--	--	658	658
Unallocated surplus designated for patronage distributions	--	--	(170)	(170)
Capital stock and participation certificates issued	--	471	--	471
Capital stock and participation certificates retired	(5)	(2,170)	--	(2,175)
Balance as of December 31, 2018	7	158	9,406	9,571
Net income	--	--	415	415
Unallocated surplus designated for patronage distributions	--	--	(100)	(100)
Capital stock and participation certificates issued	--	8	--	8
Capital stock and participation certificates retired	--	(11)	--	(11)
Balance as of December 31, 2019	\$ 7	\$ 155	\$ 9,721	\$ 9,883

The accompanying notes are an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Delta Agricultural Credit Association

(in thousands)

For the year ended December 31	2019	2018	2017
Cash flows from operating activities			
Net income	\$ 415	\$ 658	\$ 816
Depreciation on premises and equipment	6	7	9
Stock patronage received from AgriBank, FCB	(105)	--	--
Changes in operating assets and liabilities:			
Decrease in accrued interest receivable	141	52	203
Increase in other assets	(31)	(93)	(94)
(Decrease) increase in accrued interest payable	(75)	66	7
Increase (decrease) in other liabilities	40	(67)	(33)
Net cash (used in) provided by operating activities	391	623	908
Cash flows from investing activities			
Decrease in loans, net	6,512	593	973
Redemptions of investment in AgriBank, FCB, net	1	--	--
Purchases of premises and equipment, net	(7)	--	(6)
Net cash provided by (used in) investing activities	6,506	593	967
Cash flows from financing activities			
(Decrease) increase in note payable to AgriBank, FCB, net	(6,725)	442	(1,613)
Patronage distributions paid	(170)	(81)	(140)
Capital stock and participation certificates retired, net	(2)	(1,577)	(122)
Net cash used in financing activities	(6,897)	(1,216)	(1,875)
Net change in cash	--	--	--
Cash at beginning of year	--	--	--
Cash at end of year	\$ --	\$ --	\$ --
Supplemental schedule of non-cash activities			
Stock financed by loan activities	\$ 6	\$ 315	\$ 423
Stock applied against loan principal	7	442	202
Stock applied against loan interest	--	--	2
Interest transferred to loans	2	--	3
Patronage distributions payable to members	100	170	81
Supplemental information			
Interest paid	\$ 1,194	\$ 1,097	\$ 1,023
Taxes paid, net	2	--	--

The accompanying notes are an integral part of these Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Delta Agricultural Credit Association

NOTE 1: ORGANIZATION AND OPERATIONS

Farm Credit System and District

The Farm Credit System (System) is a nationwide system of cooperatively owned banks and associations established by Congress to meet the credit needs of American agriculture. As of January 1, 2020, the System consisted of three Farm Credit Banks, one Agricultural Credit Bank, and 68 customer-owned cooperative lending institutions (associations). AgriBank, FCB (AgriBank), a System Farm Credit Bank, and its District associations are collectively referred to as the AgriBank Farm Credit District (AgriBank District or the District). At January 1, 2020, the District consisted of 14 Agricultural Credit Associations (ACA) that each have wholly-owned Federal Land Credit Association (FLCA) and Production Credit Association (PCA) subsidiaries.

FLCAs are authorized to originate long-term real estate mortgage loans. PCAs are authorized to originate short-term and intermediate-term loans. ACAs are authorized to originate long-term real estate mortgage loans and short-term and intermediate-term loans either directly or through their subsidiaries. Associations are authorized to provide lease financing options for agricultural purposes and are also authorized to purchase and hold certain types of investments. AgriBank provides funding to all associations chartered within the District.

Associations are authorized to provide, either directly or in participation with other lenders, credit and related services to eligible borrowers. Eligible borrowers may include farmers, ranchers, producers or harvesters of aquatic products, rural residents, and farm-related service businesses. In addition, associations can participate with other lenders in loans to similar entities. Similar entities are parties that are not eligible for a loan from a System lending institution, but have operations that are functionally similar to the activities of eligible borrowers.

The Farm Credit Administration (FCA) is authorized by Congress to regulate the System banks and associations. We are examined by the FCA and certain association actions are subject to the prior approval of the FCA and/or AgriBank.

The Farm Credit Act established the Farm Credit System Insurance Corporation (FCSIC) to administer the Farm Credit Insurance Fund (Insurance Fund). The Insurance Fund is used to ensure the timely payment of principal and interest on Farm Credit Systemwide debt obligations, to ensure the retirement of protected borrower capital at par or stated value, and for other specified purposes.

At the discretion of the FCSIC, the Insurance Fund is also available to provide assistance to certain troubled System institutions and for the operating expenses of the FCSIC. Each System bank is required to pay premiums into the Insurance Fund until the assets in the Insurance Fund equal 2.0% of the aggregated insured obligations adjusted to reflect the reduced risk on loans or investments guaranteed by federal or state governments. This percentage of aggregate obligations can be changed by the FCSIC, at its sole discretion, to a percentage it determines to be actuarially sound. The basis for assessing premiums is debt outstanding with adjustments made for nonaccrual loans and impaired investment securities which are assessed a surcharge while guaranteed loans and investment securities are deductions from the premium base. AgriBank, in turn, assesses premiums to District associations each year based on similar factors.

Association

Delta Agricultural Credit Association (the Association) and its subsidiaries, Delta Agricultural Credit Association, FLCA and Delta Agricultural Credit Association, PCA (subsidiaries) are lending institutions of the System. We are a customer-owned cooperative providing credit and credit-related services to, or for the benefit of, eligible members for qualified agricultural purposes in the counties of Ashley, Bradley, Chicot, Desha, Drew, and part of Lincoln in the state of Arkansas.

We borrow from AgriBank and provide financing and related services to our members. Our ACA holds all the stock of the FLCA and PCA subsidiaries.

We offer credit life insurance to borrowers and those eligible to borrow.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Principles and Reporting Policies

Our accounting and reporting policies conform to accounting principles generally accepted in the United States of America (GAAP) and the prevailing practices within the financial services industry. Preparing financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Consolidated Financial Statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

Principles of Consolidation

The Consolidated Financial Statements present the consolidated financial results of Delta Agricultural Credit Association and its subsidiaries. All material intercompany transactions and balances have been eliminated in consolidation.

Significant Accounting Policies

Loans: Loans are carried at their principal amount outstanding net of any unearned income, cumulative charge-offs, unamortized deferred fees and costs on originated loans, and unamortized premiums or discounts on purchased loans. Loan interest is accrued and credited to interest income based upon the daily principal amount outstanding. Origination fees, net of related costs, are deferred and recognized over the life of the loan as an adjustment to net interest income.

Generally we place loans in nonaccrual status when principal or interest is delinquent for 90 days or more (unless the loan is well secured and in the process of collection) or circumstances indicate that full collection is not expected.

When a loan is placed in nonaccrual status, we reverse current year accrued interest to the extent principal plus accrued interest before the transfer exceeds the net realizable value of the collateral. Any unpaid interest accrued in a prior year is capitalized to the recorded investment of the loan, unless the net realizable value is less than the recorded investment in the loan, then it is charged-off against the allowance for loan losses. Any cash received on nonaccrual loans is applied to reduce the recorded investment in the loan, except in those cases where the collection of the recorded investment is fully expected and the loan does not have any unrecovered prior charge-offs. In these circumstances interest is credited to income when cash is received. Loans are charged-off at the time they are determined to be uncollectible. Nonaccrual loans may be returned to accrual status when principal and interest are current, prior charge-offs have been recovered, the ability of the borrower to fulfill the contractual repayment terms is fully expected, the borrower has demonstrated payment performance, and the loan is not classified as doubtful or loss.

In situations where, for economic or legal reasons related to the borrower's financial difficulties, we grant a concession for other than an insignificant period of time to the borrower that we would not otherwise consider, the related loan is classified as a troubled debt restructuring, also known as a formally restructured loan for regulatory purposes. A concession is generally granted in order to minimize economic loss and avoid foreclosure. Concessions vary by program and borrower and may include interest rate reductions, term extensions, payment deferrals, or an acceptance of additional collateral in lieu of payments. In limited circumstances, principal may be forgiven. Loans classified as troubled debt restructurings are considered risk loans (as defined below).

Loans that are sold as participations are transferred as entire financial assets, groups of entire financial assets, or participating interests in the loans. The transfers of such assets or participating interests are structured such that control over the transferred assets, or participating interests have been surrendered and that all of the conditions have been met to be accounted for as a sale.

Allowance for Loan Losses: The allowance for loan losses is our best estimate of the amount of losses on loans inherent in our portfolio as of the date of the financial statements. We determine the appropriate level of allowance for loan losses based on periodic evaluation of factors such as loan loss history, estimated probability of default, estimated loss severity, portfolio quality, and current economic and environmental conditions.

Loans in our portfolio that are considered impaired are analyzed individually to establish a specific allowance. A loan is impaired when it is probable that all amounts due will not be collected according to the contractual terms of the loan agreement. We generally measure impairment based on the net realizable value of the collateral. Risk loans include nonaccrual loans, accruing restructured loans, and accruing loans 90 days or more past due. All risk loans are considered to be impaired loans.

We record a specific allowance to reduce the carrying amount of the risk loan by the amount the recorded investment exceeds the net realizable value of collateral. When we deem a loan to be uncollectible, we charge the loan principal and prior year(s) accrued interest against the allowance for loan losses. Subsequent recoveries, if any, are added to the allowance for loan losses.

An allowance is recorded for probable and estimable credit losses as of the financial statement date for loans that are not individually assessed as impaired. We use a two-dimensional loan risk rating model that incorporates a 14-point rating scale to identify and track the probability of borrower default and a separate 6-point scale addressing the loss severity. The combination of estimated default probability and loss severity is the primary basis for recognition and measurement of loan collectability of these pools of loans. These estimated losses may be adjusted for relevant current environmental factors.

Changes in the allowance for loan losses consist of provision activity, recorded in "Provision for loan losses" in the Consolidated Statements of Income, recoveries, and charge-offs.

Investment in AgriBank: Our stock investment in AgriBank is on a cost plus allocated equities basis.

Premises and Equipment: The carrying amount of premises and equipment is at cost, less accumulated depreciation and is included in "Other assets" in the Consolidated Statements of Condition. Calculation of depreciation is generally on the straight-line method over the estimated useful lives of the assets. Gains or losses on disposition are included in "Other non-interest income" or "Other non-interest expense" in the Consolidated Statements of Income. Depreciation and maintenance and repair expenses are included in "Other operating expense" in the Consolidated Statements of Income and improvements are capitalized.

Post-Employment Benefit Plans: The District has various post-employment benefit plans in which our employees participate. Expenses related to these plans, are included in "Salaries and employee benefits" in the Consolidated Statements of Income.

Certain employees participate in the AgriBank District Retirement Plan. The plan is comprised of two benefit formulas. At their option, employees hired prior to October 1, 2001, are on the cash balance formula or on the final average pay formula. Benefits eligible employees hired between October 1, 2001, and December 31, 2006, are on the cash balance formula. Effective January 1, 2007, the AgriBank District Retirement Plan was closed to new employees. The AgriBank District Retirement Plan utilizes the "Projected Unit Credit" actuarial method for financial reporting and funding purposes.

We also provide certain health insurance benefits to eligible retired employees according to the terms of those benefit plans. The anticipated cost of these benefits is accrued during the employees' active service period.

The defined contribution plan allows eligible employees to save for their retirement either pre-tax, post-tax, or both, with an employer match on a percentage of the employee's contributions. We provide benefits under this plan for those employees that do not participate in the AgriBank District Retirement Plan in the form of a fixed percentage of salary contribution in addition to the employer match. Employer contributions are expensed when incurred.

Income Taxes: The ACA and PCA accrue federal and state income taxes. Deferred tax assets and liabilities are recognized for future tax consequences of temporary differences between the carrying amounts and tax basis of assets and liabilities. Deferred tax assets are recorded if the deferred tax asset is more likely than not to be realized. If the realization test cannot be met, the deferred tax asset is reduced by a valuation allowance. The expected future tax consequences of uncertain income tax positions are accrued.

The FLCA is exempt from federal and other taxes to the extent provided in the Farm Credit Act.

Patronage Program: We accrue patronage distributions according to a prescribed formula approved by the Board of Directors. Generally, we pay the accrued patronage during the first quarter after year end.

Off-Balance Sheet Credit Exposures: Commitments to extend credit are agreements to lend to customers, generally having fixed expiration dates or other termination clauses. Any reserve for unfunded lending commitments is based on management's best estimate of losses inherent in these instruments, but the commitments have not yet disbursed. Factors such as likelihood of disbursement and likelihood of losses given disbursement are utilized in determining a reserve, if needed. Based on our assessment, any reserve would be recorded in "Other liabilities" in the Consolidated Statements of Condition and a corresponding loss would be recorded in "Provision for credit losses" in the Consolidated Statements of Income. However, no such reserve was necessary as of December 31, 2019, 2018, or 2017.

Cash: For purposes of reporting cash flow, cash includes cash on hand in the Consolidated Statements of Condition.

Fair Value Measurement: The accounting guidance describes three levels of inputs that may be used to measure fair value.

Level 1 — Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 — Observable inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly. Level 2 inputs include:

- Quoted prices for similar assets or liabilities in active markets
- Quoted prices for identical or similar assets or liabilities in markets that are not active so that they are traded less frequently than exchange-traded instruments, quoted prices that are not current, or principal market information that is not released publicly
- Inputs that are observable such as interest rates and yield curves, prepayment speeds, credit risks, and default rates
- Inputs derived principally from or corroborated by observable market data by correlation or other means

Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. These unobservable inputs reflect the reporting entity's own judgments about assumptions that market participants would use in pricing the asset or liability. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Recently Issued or Adopted Accounting Pronouncements

We have assessed the potential impact of accounting standards that have been issued by the Financial Accounting Standards Board (FASB) and have determined the following standards to be applicable to our business. While we are a nonpublic entity, our financial results are closely related to the performance of the combined Farm Credit System. Therefore, we typically adopt accounting pronouncements in alignment with other System institutions.

Standard and effective date	Description	Adoption status and financial statement impact
In February 2016, the FASB issued Accounting Standards Updated (ASU) 2016-02 "Leases." In July 2018, the FASB issued ASU 2018-11 "Leases (Topic 842): Targeted Improvements." The guidance was effective for public business entities in its first quarter of 2019 and early adoption was permitted.	The guidance modifies the recognition and accounting for lessees and lessors and requires expanded disclosures regarding assumptions used to recognize revenue and expenses related to leases. Upon adoption, a liability for lease obligations and a corresponding right-of-use asset is recognized on the Consolidated Statements of Condition for all lease arrangements spanning more than 12 months. The guidance includes an optional transition method where an entity is permitted to apply the guidance as of the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings.	We adopted this guidance on January 1, 2019. The adoption of this guidance did not have a material impact on our financial condition, results of operations, and financial statement disclosures, and had no impact on cash flows.

Standard and effective date	Description	Adoption status and financial statement impact
In June 2016, the FASB issued ASU 2016-13 "Financial Instruments - Credit Losses." The guidance was originally effective for non-U.S. Securities Exchange Commission filers for our first quarter of 2021. In November 2019, the FASB issued ASU 2019-10 which amends the mandatory effective date for this guidance for certain institutions. We have determined we qualify for the deferral of the mandatory effective date. As a result of the change, the standard is effective for our first quarter of 2023 and early adoption is permitted.	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.	We are evaluating the deferral and have not yet determined if we will early adopt the standard. We have reviewed the accounting standard and significant matters yet to be addressed include system selection, system development and testing, drafting disclosures, drafting of accounting policies and designing processes and controls. We are currently unable to estimate the impact on our financial statements.

NOTE 3: LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans by Type

(dollars in thousands) As of December 31	2019		2018		2017	
	Amount	%	Amount	%	Amount	%
Real estate mortgage	\$ 28,678	67.5%	\$ 32,181	65.7%	\$ 34,531	69.5%
Production and intermediate-term	13,776	32.4%	16,754	34.2%	15,122	30.4%
Agribusiness	23	0.1%	53	0.1%	56	0.1%
Total	\$ 42,477	100.0%	\$ 48,988	100.0%	\$ 49,709	100.0%

Portfolio Concentrations

Concentrations exist when there are amounts loaned to multiple borrowers engaged in similar activities, which could cause them to be similarly impacted by economic conditions. We lend primarily within agricultural industries.

As of December 31, 2019, volume plus commitments to our ten largest borrowers totaled an amount equal to 23.4% of total loans and commitments.

Total loans plus any unfunded commitments represent a proportionate maximum potential credit risk. However, substantial portions of our lending activities are collateralized. Accordingly, the credit risk associated with lending activities is less than the recorded loan principal. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but typically includes farmland and income-producing property, such as crops and livestock. Long-term real estate loans are secured by the first liens on the underlying real property.

Participations

We may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume, or comply with the limitations of the FCA Regulations or General Financing Agreement (GFA) with AgriBank.

Participations Sold (in thousands)	Other Farm Credit Institutions Total Participations Sold		
	2019	2018	2017
	As of December 31		
Real estate mortgage	\$ (921)	\$ (647)	\$ (680)
Production and intermediate-term	(3,999)	(4,052)	(3,788)
Total	\$ (4,920)	\$ (4,699)	\$ (4,468)

We did not have any participation interests purchased as of December 31, 2019, 2018, or 2017.

Credit Quality and Delinquency

We utilize the FCA Uniform Classification System to categorize loans into five credit quality categories. The categories are:

- Acceptable – loans are non-criticized loans representing the highest quality. They are expected to be fully collectible. This category is further differentiated into various probabilities of default.
- Other assets especially mentioned (Special Mention) – loans are currently collectible but exhibit some potential weakness. These loans involve increased credit risk, but not to the point of justifying a substandard classification.
- Substandard – loans exhibit some serious weakness in repayment capacity, equity, and/or collateral pledged on the loan.
- Doubtful – loans exhibit similar weaknesses as substandard loans. Doubtful loans have additional weaknesses in existing factors, conditions, and values that make collection in full highly questionable.
- Loss – loans are considered uncollectible.

We had no loans categorized as loss at December 31, 2019, 2018, or 2017.

Credit Quality of Loans

(dollars in thousands)	Acceptable		Special Mention		Substandard/ Doubtful		Total	
	Amount	%	Amount	%	Amount	%	Amount	%
As of December 31, 2019								
Real estate mortgage	\$ 27,212	93.1%	\$ 985	3.4%	\$ 1,018	3.5%	\$ 29,215	100.0%
Production and intermediate-term	11,555	82.4%	1,107	7.9%	1,357	9.7%	14,019	100.0%
Agribusiness	24	100.0%	--	--	--	--	24	100.0%
Total	<u>\$ 38,791</u>	<u>89.7%</u>	<u>\$ 2,092</u>	<u>4.8%</u>	<u>\$ 2,375</u>	<u>5.5%</u>	<u>\$ 43,258</u>	<u>100.0%</u>
As of December 31, 2018								
Real estate mortgage	\$ 31,104	94.8%	\$ 794	2.4%	\$ 933	2.8%	\$ 32,831	100.0%
Production and intermediate-term	14,426	84.7%	2,224	13.1%	376	2.2%	17,026	100.0%
Agribusiness	55	100.0%	--	--	--	--	55	100.0%
Total	<u>\$ 45,585</u>	<u>91.4%</u>	<u>\$ 3,018</u>	<u>6.0%</u>	<u>\$ 1,309</u>	<u>2.6%</u>	<u>\$ 49,912</u>	<u>100.0%</u>
As of December 31, 2017								
Real estate mortgage	\$ 34,320	97.3%	\$ 511	1.4%	\$ 456	1.3%	\$ 35,287	100.0%
Production and intermediate-term	14,952	97.5%	371	2.4%	16	0.1%	15,339	100.0%
Agribusiness	59	100.0%	--	--	--	--	59	100.0%
Total	<u>\$ 49,331</u>	<u>97.4%</u>	<u>\$ 882</u>	<u>1.7%</u>	<u>\$ 472</u>	<u>0.9%</u>	<u>\$ 50,685</u>	<u>100.0%</u>

Note: Accruing loans include accrued interest receivable.

Aging Analysis of Loans

(in thousands)	90 Days or More Past Due		Total Past Due		Not Past Due or Less Than 30 Days Past Due		Total
As of December 31, 2019							
Real estate mortgage	\$ --	\$ --	\$ --	\$ --	\$ 29,215	\$ 29,215	
Production and intermediate-term	--	--	--	--	14,019	14,019	
Agribusiness	--	--	--	--	24	24	
Total	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 43,258</u>	<u>\$ 43,258</u>	
As of December 31, 2018							
Real estate mortgage	\$ --	\$ --	\$ --	\$ --	\$ 32,831	\$ 32,831	
Production and intermediate-term	--	--	--	--	17,026	17,026	
Agribusiness	--	--	--	--	55	55	
Total	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 49,912</u>	<u>\$ 49,912</u>	

As of December 31, 2017	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total
Real estate mortgage	\$ --	\$ --	\$ 35,287	\$ 35,287
Production and intermediate-term	160	160	15,179	15,339
Agribusiness	--	--	59	59
Total	<u>\$ 160</u>	<u>\$ 160</u>	<u>\$ 50,525</u>	<u>\$ 50,685</u>

Note: Accruing loans include accrued interest receivable.

There were no loans 90 days or more past due and still accruing interest at December 31, 2019, 2018, or 2017.

Risk Loans

Risk loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms. Interest income recognized and cash payments received on nonaccrual risk loans are applied as described in Note 2.

Risk Loan Information

(in thousands)

As of December 31	2019	2018	2017
Nonaccrual loans:			
Current as to principal and interest	\$ --	\$ --	\$ --
Past due	--	--	160
Total nonaccrual loans	--	--	160
Accruing restructured loans	320	353	--
Accruing loans 90 days or more past due	--	--	--
Total risk loans	<u>\$ 320</u>	<u>\$ 353</u>	<u>\$ 160</u>
Volume with specific allowance	\$ --	\$ --	\$ 160
Volume without specific allowance	320	353	--
Total risk loans	<u>\$ 320</u>	<u>\$ 353</u>	<u>\$ 160</u>
Total specific allowance	\$ --	\$ --	\$ 16
For the year ended December 31			
Income on accrual risk loans	\$ 20	\$ 15	\$ --
Income on nonaccrual loans	--	--	--
Total income on risk loans	<u>\$ 20</u>	<u>\$ 15</u>	<u>\$ --</u>
Average risk loans	\$ 327	\$ 282	\$ 323

Note: Accruing loans include accrued interest receivable.

We had nonaccrual production and intermediate-term loans of \$160 thousand at December 31, 2017. We had no nonaccrual loans at December 31, 2019, or 2018.

	As of December 31, 2017			For the year ended December 31, 2017	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Real estate mortgage	\$ --	\$ --	\$ --	\$ --	\$ --
Production and intermediate-term	160	147	16	322	--
Total	\$ 160	\$ 147	\$ 16	\$ 322	\$ --
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	\$ --	\$ --	\$ --	\$ 1	\$ --
Production and intermediate-term	--	21	--	--	--
Total	\$ --	\$ 21	\$ --	\$ 1	\$ --
Total impaired loans:					
Real estate mortgage	\$ --	\$ --	\$ --	\$ 1	\$ --
Production and intermediate-term	160	168	16	322	--
Total	\$ 160	\$ 168	\$ 16	\$ 323	\$ --

The recorded investment in the loan is the unpaid principal amount of the receivable increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, and acquisition costs and may also reflect a previous direct charge-off of the investment.

Unpaid principal balance represents the contractual principal balance of the loan.

We did not have any commitments to lend additional money to borrowers whose loans were classified as risk loans at December 31, 2019.

Troubled Debt Restructurings (TDRs)

Included within our loans are TDRs. These loans have been modified by granting a concession in order to maximize the collection of amounts due when a borrower is experiencing financial difficulties. All risk loans, including TDRs, are analyzed within our allowance for loan losses.

There were no TDRs that occurred during the years ended December 31, 2019, or 2017. We completed TDRs of certain production and intermediate-term loans during the year ended December 31, 2018. Our recorded investment in these loans just prior to restructuring was \$450 thousand and immediately following the restructuring was \$341 thousand during the year ended December 31, 2018. The recorded investment in the loan is the unpaid principal amount of the receivable increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, and acquisition costs and may also reflect a previous direct charge-off of the investment.

The primary type of modification was deferral of principal. There were no TDRs that defaulted during the years ended December 31, 2019, 2018, or 2017 in which the modification was within twelve months of the respective reporting period.

TDRs outstanding in the production and intermediate-term loan category totaled \$320 thousand and \$353 thousand, all of which were in accrual status at December 31, 2019, and 2018, respectively. There were no TDRs outstanding at December 31, 2017.

There were no commitments to lend to borrowers whose loans have been modified in a TDR at December 31, 2019.

Allowance for Loan Losses

Changes in Allowance for Loan Losses

(in thousands)

For the year ended December 31	2019	2018	2017
Balance at beginning of year	\$ 104	\$ 105	\$ 105
Loan charge-offs	--	(1)	--
Balance at end of year	\$ 104	\$ 104	\$ 105

Changes in Allowance for Loan Losses and Year End Recorded Investments by Loan Type

(in thousands)	Real Estate Mortgage	Production and Intermediate-Term	Agribusiness	Total
Allowance for loan losses:				
Balance as of December 31, 2018	\$ 69	\$ 35	\$ --	\$ 104
(Reversal of) provision for loan losses	(16)	16	--	--
Loan recoveries	--	--	--	--
Loan charge-offs	--	--	--	--
Balance as of December 31, 2019	\$ 53	\$ 51	\$ --	\$ 104
Ending balance: individually evaluated for impairment	\$ --	\$ --	\$ --	\$ --
Ending balance: collectively evaluated for impairment	\$ 53	\$ 51	\$ --	\$ 104
Recorded investment in loans outstanding:				
Ending balance as of December 31, 2019	\$ 29,215	\$ 14,019	\$ 24	\$ 43,258
Ending balance: individually evaluated for impairment	\$ --	\$ 320	\$ --	\$ 320
Ending balance: collectively evaluated for impairment	\$ 29,215	\$ 13,699	\$ 24	\$ 42,938

	Real Estate Mortgage	Production and Intermediate-Term	Agribusiness	Total
Allowance for loan losses:				
Balance as of December 31, 2017	\$ 82	\$ 23	\$ --	\$ 105
(Reversal of) provision for loan losses	(13)	13	--	--
Loan recoveries	--	--	--	--
Loan charge-offs	--	(1)	--	(1)
Balance as of December 31, 2018	\$ 69	\$ 35	\$ --	\$ 104
Ending balance: individually evaluated for impairment	\$ --	\$ --	\$ --	\$ --
Ending balance: collectively evaluated for impairment	\$ 69	\$ 35	\$ --	\$ 104
Recorded investment in loans outstanding:				
Ending balance as of December 31, 2018	\$ 32,831	\$ 17,026	\$ 55	\$ 49,912
Ending balance: individually evaluated for impairment	\$ --	\$ 353	\$ --	\$ 353
Ending balance: collectively evaluated for impairment	\$ 32,831	\$ 16,673	\$ 55	\$ 49,559

	Real Estate Mortgage	Production and Intermediate-Term	Agribusiness	Total
Allowance for loan losses:				
Balance as of December 31, 2016	\$ 41	\$ 64	\$ --	\$ 105
Provision for (reversal of) loan losses	41	(41)	--	--
Loan recoveries	--	--	--	--
Loan charge-offs	--	--	--	--
Balance as of December 31, 2017	\$ 82	\$ 23	\$ --	\$ 105
Ending balance: individually evaluated for impairment	\$ --	\$ 16	\$ --	\$ 16
Ending balance: collectively evaluated for impairment	\$ 82	\$ 7	\$ --	\$ 89
Recorded investment in loans outstanding:				
Ending balance as of December 31, 2017	\$ 35,287	\$ 15,339	\$ 59	\$ 50,685
Ending balance: individually evaluated for impairment	\$ --	\$ 160	\$ --	\$ 160
Ending balance: collectively evaluated for impairment	\$ 35,287	\$ 15,179	\$ 59	\$ 50,525

The recorded investment in the loan is the unpaid principal amount of the receivable increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, and acquisition costs and may also reflect a previous direct charge-off of the investment.

NOTE 4: INVESTMENT IN AGRIBANK

During 2019, we were required by AgriBank to maintain an investment equal to 2.25% of the average quarterly balance of our note payable, with an additional amount required on association growth in excess of a targeted growth rate, if the District is also growing above a targeted growth rate. Effective January 1, 2020, the required rate was increased to 2.50% with similar growth rate requirements as 2019.

AgriBank's capital plan provides for annual retirement of AgriBank stock and optimizes capital at the Bank by distributing all available Bank earnings in the form of patronage, either in cash or stock. The plan is designed to maintain capital adequacy such that sufficient earnings will be retained in the form of allocated retained earnings and allocated stock to meet the leverage ratio target and other regulatory or policy constraints prior to any cash patronage distributions.

NOTE 5: NOTE PAYABLE TO AGRIBANK

Our note payable to AgriBank represents borrowings, in the form of a line of credit, to fund our loan portfolio. The line of credit is governed by a GFA and substantially all of our assets serve as collateral.

Note Payable Information

(dollars in thousands)

As of December 31	2019	2018	2017
Line of credit	\$ 60,000	\$ 60,000	\$ 60,000
Outstanding principal under the line of credit	34,665	41,390	40,948
Interest rate	2.6%	2.8%	2.6%

Our note payable was scheduled to mature on March 31, 2020. However, in January 2020, it was renewed early for \$60.0 million with a maturity date of May 31, 2021. The note payable will be renegotiated no later than the maturity date. We were not subject to the risk premium during 2019. We were subject to a 3 basis point and 2 basis point risk premium in 2018 and 2017, respectively. The risk premiums in 2018 and 2017 were triggered by a decline in our risk score.

Borrowing under the GFA is subject to covenants governing matters such as outstanding loan balances, credit quality, and financial condition. Additionally, we have requirements to maintain an effective program of internal controls over financial reporting. At December 31, 2019, we were not declared in default under any GFA covenants or provisions. However, on October 8, 2019, we notified AgriBank of certain lending limit violations under the FCA Regulation 614.4360 that violated the GFA. AgriBank found us to be in default of our GFA as of October 11, 2019, due to these lending limit violations and lack of sufficient controls to prevent such violations. The default was cured as of October 28, 2019, as a result of actions taken by us as required in the notice of default. The Association has not been declared in default under the terms of the GFA since the cure date of the event of default.

NOTE 6: MEMBERS' EQUITY

Capitalization Requirements

In accordance with the Farm Credit Act, each borrower is required to invest in us as a condition of obtaining a loan. As authorized by the Agricultural Credit Act and our capital bylaws, the Board of Directors has adopted a capital plan that establishes a stock purchase requirement for obtaining a loan of 2.0% of the customer's total loan(s) or one thousand dollars, whichever is less. The Board of Directors may increase the amount of required investment to the extent authorized in the capital bylaws. The borrower acquires ownership of the capital stock at the time the loan is made. The aggregate par value of the stock is added to the principal amount of the related obligation. We retain a first lien on the stock or participation certificates owned by customers. During the third quarter of 2018, stock in excess of the 2.0% or one thousand dollars requirement was retired.

Protection Mechanisms

Under the Farm Credit Act, certain borrower equity is protected. We are required to retire protected borrower equity at par or stated value regardless of its book value. Protected borrower equity includes capital stock and participation certificates that were outstanding as of January 6, 1988, or were issued prior to October 6, 1988, as a requirement for obtaining a loan. If we were to be unable to retire protected borrower equity at par value or stated value, the FCSIC would provide the amounts needed to retire this equity.

Regulatory Capitalization Requirements

Regulatory Capital Requirements and Ratios

As of December 31	2019	2018	2017	Regulatory Minimums	Capital Conservation Buffer	Total
Risk-adjusted:						
Common equity tier 1 ratio	24.8%	21.2%	20.0%	4.5%	2.5%*	7.0%
Tier 1 capital ratio	24.8%	21.2%	20.0%	6.0%	2.5%*	8.5%
Total capital ratio	25.1%	21.5%	20.3%	8.0%	2.5%*	10.5%
Permanent capital ratio	25.2%	21.4%	24.3%	7.0%	N/A	7.0%
Non-risk-adjusted:						
Tier 1 leverage ratio	18.0%	15.1%	14.6%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	17.7%	14.8%	14.1%	1.5%	N/A	1.5%

*The 2.5% capital conservation buffer over risk-adjusted ratio minimums was phased in over three years under the FCA capital requirements. The phase in period ended December 31, 2019.

Risk-adjusted assets have been defined by the 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.

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 inclusion of the allowance for loan losses as a deduction to risk-adjusted assets for the permanent capital ratio.

These ratios are based on a three-month average daily balance in accordance with FCA Regulations and are calculated as follows (not all items below may be applicable to our Association):

- Common equity tier 1 ratio is statutory minimum purchased member stock, other required member stock held for a minimum of 7 years, allocated equities held for a minimum of 7 years or not subject to retirement, unallocated retained earnings as regulatorily prescribed, 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 member 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 for loan losses and reserve for credit losses subject to certain limitations, less certain investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.
- Permanent capital ratio is all at-risk borrower stock, any allocated excess stock, unallocated retained earnings as regulatorily prescribed, paid-in capital, subordinated debt, and preferred stock 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.
- Unallocated retained earnings and equivalents leverage ratio is unallocated retained earnings as regulatorily prescribed, paid-in capital, allocated surplus not subject to retirement 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 total requirements, including the buffer amounts, capital distributions (equity redemptions, dividends, and patronage) and discretionary senior executive bonuses are restricted or prohibited without prior FCA approval.

The regulatory capital requirements allow for allotment agreements for only the permanent capital ratio and, as such, any stock in excess of our AgriBank required investment was not included in the common equity tier 1, tier 1 capital, total capital, or leverage ratios. We included 24.2%, 12.2%, and 16.3% of our investment in AgriBank as permanent capital at December 31, 2019, 2018, and 2017, respectively.

Description of Equities

The following represents information regarding classes and number of shares of stock outstanding. All shares are stated at a \$5.00 par value.

As of December 31	Number of Shares		
	2019	2018	2017
Class A common stock (protected)	1,435	1,435	2,354
Class B common stock (at-risk)	79	79	1,286
Class C common stock (at-risk)	31,106	31,590	370,220

Under our bylaws, we are also authorized to issue Class D and Class E common stock, Series 2 participation certificates, and Class F preferred stock. Each of these classes of common stock is at-risk and nonvoting with a \$5.00 par value per share. Currently, no stock of these classes has been issued.

Only holders of Class C common stock have voting rights. Our bylaws do not prohibit us from paying dividends on any classes of stock. However, no dividends have been declared to date.

Our bylaws generally permit stock and participation certificates to be retired at the discretion of our Board of Directors and in accordance with our capitalization plans, provided prescribed capital standards have been met. At December 31, 2019, we exceeded the prescribed standards. We do not anticipate any significant changes in capital that would affect the normal retirement of stock.

In the event of our liquidation or dissolution, according to our bylaws, any remaining assets after payment or retirement of all liabilities will be distributed first, pro rata to holders of Class F preferred stock, and second pro rata to all holders of common stock and participation certificates.

In the event of impairment, losses will be absorbed first, pro rata by holders of all classes of common stock and participation certificates and then pro rata by holders of Class F preferred stock. However, protected stock will be retired at par value regardless of impairment.

All classes of stock are transferable to other customers who are eligible to hold such class of stock as long as we meet the regulatory minimum capital requirements.

Patronage Distributions

We accrued patronage distributions of \$100 thousand, \$170 thousand, and \$81 thousand at December 31, 2019, 2018, and 2017, respectively. Generally, the patronage distributions are paid in cash during the first quarter after year end. The Board of Directors may authorize a distribution of earnings provided we meet all statutory and regulatory requirements.

The FCA Regulations prohibit patronage distributions to the extent they would reduce our permanent capital ratio below the minimum permanent capital adequacy standards. Additionally, patronage distributions may be restricted or prohibited without prior FCA approval if capital ratios fall below the total requirements, including the buffer amounts.

NOTE 7: INCOME TAXES

The Tax Cuts and Jobs Act (the Act) was enacted in December of 2017. This Act contained various tax law changes, including a federal statutory tax rate change to 21% from 34%, effective January 1, 2018. Because deferred tax assets and liabilities are expected to be recognized in the Association's tax return in a future year, when the new statutory tax rate would be applicable, the deferred tax assets and liabilities as of December 31, 2017, were valued using a blended federal/state effective tax rate based on the new federal statutory tax rate. The effect of this revaluation was recognized in our provision for income taxes for the year ended December 31, 2017.

Provision for Income Taxes

Provision for Income Taxes

(dollars in thousands)

For the year ended December 31	2019	2018	2017
Current:			
Federal	\$ 2	\$ --	\$ --
State	--	--	--
Total current	\$ 2	\$ --	\$ --
Deferred:			
Federal	\$ 8	\$ (5)	\$ 2
State	--	--	--
(Decrease) increase in valuation allowance	(8)	5	(2)
Total deferred	--	--	--
Provision for income taxes	\$ 2	\$ --	\$ --
Effective tax rate	0.5%	0.0%	0.0%

Reconciliation of Taxes at Federal Statutory Rate to Provision for Income Taxes

(in thousands)

For the year ended December 31	2019	2018	2017
Federal tax at statutory rates	\$ 88	\$ 138	\$ 277
State tax, net	1	3	--
Patronage distributions	(21)	(36)	(28)
Effect of non-taxable entity	(63)	(91)	(248)
(Decrease) increase in valuation allowance	(8)	5	(2)
Other	5	(19)	1
Provision for income taxes	\$ 2	\$ --	\$ --

Deferred Income Taxes

Tax laws require certain items to be included in our tax returns at different times than the items are reflected on our Consolidated Statements of Income. Some of these items are temporary differences that will reverse over time. We record the tax effect of temporary differences as deferred tax assets and liabilities netted on our Consolidated Statements of Condition.

Deferred Tax Assets and Liabilities

(in thousands)

As of December 31	2019	2018	2017
Allowance for loan losses	\$ 13	\$ 13	\$ 13
Postretirement benefit accrual	16	17	18
Other assets	3	10	4
Total deferred tax assets	32	40	35
Valuation allowance	(32)	(40)	(35)
Deferred tax assets	\$ --	\$ --	\$ --
Gross deferred tax assets	\$ 32	\$ 40	\$ 35

A valuation allowance for the deferred tax assets was necessary at December 31, 2019, 2018, and 2017, because we determined that the deferred tax asset was not completely realizable due to our minimal current tax liability over the past several years, caused primarily by the patronage program.

We have not provided for deferred income taxes on patronage allocations received from AgriBank prior to 1993. Such allocations, distributed in the form of stock, are subject to tax only upon conversion to cash. Our intent is to permanently maintain this investment in AgriBank. With respect to the AgriBank stock distributed in 2002, the Board of Directors has passed a resolution that, should this stock ever be converted to cash, creating a tax liability, an equal amount will be distributed to patrons at that time under our patronage program. Our total permanent investment in AgriBank is \$1.2 million. Additionally, we have not provided deferred income taxes on accumulated FLCA earnings of \$5.3 million as it is our intent to permanently maintain this equity in the FLCA or to distribute the earnings to members in a manner that results in no additional tax liability to us.

Our income tax returns are subject to review by various United States taxing authorities. We record accruals for items that we believe may be challenged by these taxing authorities. However, we had no uncertain income tax positions at December 31, 2019. In addition, we believe we are no longer subject to income tax examinations for years prior to 2016.

NOTE 8: EMPLOYEE BENEFIT PLANS

Pension and Post-Employment Benefit Plans

Complete financial information for the pension and post-employment benefit plans may be found in the AgriBank 2019 Annual Report.

The Farm Credit Foundations Plan Sponsor and Trust Committees provide oversight of the benefit plans. These governance committees are comprised of elected or appointed representatives (senior leadership and/or Board of Director members) from the participating organizations. The Plan Sponsor Committee is responsible for employer decisions regarding all benefit plans including retirement benefits. These decisions could include plan design changes, vendor changes, determination of employer subsidies (if any), and termination of specific benefit plans. Any action to change or terminate the retirement plan can only occur at the direction of the AgriBank District participating employers. The Trust Committee is responsible for fiduciary and plan administrative functions.

Pension Plan: Certain employees participate in the AgriBank District Retirement Plan, a District-wide multi-employer defined benefit retirement plan. The Department of Labor has determined the plan to be a governmental plan; therefore, the plan is not subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended (ERISA). As the plan is not subject to ERISA, the plan's benefits are not insured by the Pension Benefit Guaranty Corporation. Accordingly, the amount of accumulated benefits that participants would receive in the event of the plan's termination is contingent on the sufficiency of the plan's net assets to provide benefits at that time. This plan is noncontributory and covers certain eligible District employees. The assets, liabilities, and costs of the plan are not segregated by participating entities. As such, plan assets are available for any of the participating employers' retirees at any point in time. Additionally, if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers. Further, if we choose to stop participating in the plan, we may be required to pay an amount based on the underfunded status of the plan. Because of the nature of the plan, any individual employer is not able to unilaterally change the provisions of the plan. If an employee transfers to another employer within the same plan, the employee benefits under the plan transfer. Benefits are based on salary and years of service. There is no collective bargaining agreement in place as part of this plan.

AgriBank District Retirement Plan Information

(in thousands)

As of December 31	2019	2018	2017
Unfunded liability	\$ 220,794	\$ 274,450	\$ 352,516
Projected benefit obligation	1,421,126	1,272,063	1,371,013
Fair value of plan assets	1,200,332	997,613	1,018,497
Accumulated benefit obligation	1,298,942	1,125,682	1,184,550
For the year ended December 31	2019	2018	2017
Total plan expense	\$ 36,636	\$ 51,900	\$ 44,730
Our allocated share of plan expenses	78	95	78
Contributions by participating employers	90,000	90,000	90,000
Our allocated share of contributions	169	157	147

The unfunded liability reflects the net of the fair value of the plan assets and the projected benefit obligation at the date of these Consolidated Financial Statements. The projected benefit obligation is the actuarial present value of all benefits attributed by the pension benefit formula to employee service rendered prior to the measurement date based on assumed future compensation levels. The accumulated benefit obligation is the actuarial present value of the benefits attributed to employee service rendered before the measurement date and based on current employee service and compensation. The funding status is subject to many variables including performance of plan assets and interest rate levels. Therefore, changes in assumptions could significantly affect these estimates.

Costs are determined for each individual employer based on costs directly related to their current employees as well as an allocation of the remaining costs based proportionately on the estimated projected liability of the employer under this plan. We recognize our proportional share of expense and contribute a proportional share of funding. Our allocated share of plan expenses is included in "Salaries and employee benefits" in the Consolidated Statements of Income.

Benefits paid to participants in the District were \$68.8 million in 2019. While the plan is a governmental plan and is not subject to minimum funding requirements, the employers contribute amounts necessary on an actuarial basis to provide the plan with sufficient assets to meet the benefits to be paid to participants. The amount of the total District employer contributions expected to be paid into the pension plan during 2020 is \$90.0 million. Our allocated share of these pension contributions is expected to be \$190 thousand. The amount ultimately to be contributed and the amount ultimately recognized as expense as well as the timing of those contributions and expenses, are subject to many variables including performance of plan assets

and interest rate levels. These variables could result in actual contributions and expenses being greater than or less than the amounts reflected in the District financial statements.

Retiree Medical Plans: District employers also provide certain health insurance benefits to eligible retired employees according to the terms of the benefit plans. The anticipated costs of these benefits are accrued during the period of the employee's active status.

Retiree Medical Plan Information				
(in thousands)				
For the year ended December 31		2019	2018	2017
Postretirement benefit expense (income)	\$	(2)	\$ --	\$ 3
Our cash contributions		5	5	5

The 2019 postretirement benefit income is due to an actuarial gain. Postretirement benefit expense (income) is included in "Salaries and employee benefits" in the Consolidated Statements of Income. Our cash contributions are equal to the benefits paid.

Defined Contribution Plans

We participate in a District-wide defined contribution plan. For employees hired before January 1, 2007, employee contributions are matched dollar for dollar up to 2.0% and 50 cents on the dollar on the next 4.0% on both pre-tax and post-tax contributions. The maximum employer match is 4.0%. For employees hired after December 31, 2006, we contribute 3.0% of the employee's compensation and will match employee contributions dollar for dollar up to a maximum of 6.0% on both pre-tax and post-tax contributions. The maximum employer contribution is 9.0%.

Employer contribution expenses for the defined contribution plan, included in "Salaries and employee benefits" in the Consolidated Statements of Income, were \$36 thousand, \$34 thousand, and \$31 thousand in 2019, 2018, and 2017, respectively. These expenses were equal to our cash contributions for each year.

NOTE 9: RELATED PARTY TRANSACTIONS

In the ordinary course of business, we may enter into loan transactions with our officers, directors, their immediate family members, and other organizations with which such persons may be associated. Such transactions may be subject to special approval requirements contained in the FCA Regulations and are made on the same terms, including interest rates, amortization schedules, and collateral, as those prevailing at the time for comparable transactions with other persons. In our opinion, none of these loans outstanding at December 31, 2019, involved more than a normal risk of collectability.

Related Party Loans Information				
(in thousands)				
As of December 31		2019	2018	2017
Total related party loans	\$	2,800	\$ 3,865	\$ 3,758
For the year ended December 31		2019	2018	2017
Advances to related parties	\$	5,353	\$ 12,261	\$ 12,209
Repayments by related parties		7,240	12,746	11,793

The related parties can be different each year end primarily due to changes in the composition of the Board of Directors and the mix of organizations with which such persons may be associated. Advances and repayments on loans in the preceding chart are related to those considered related parties at year end.

As discussed in Note 5, we borrow from AgriBank, in the form of a line of credit, to fund our loan portfolio. All interest expense as shown on the Consolidated Statements of Income was paid to AgriBank.

Total patronage received from AgriBank was \$234 thousand, \$243 thousand, and \$238 thousand in 2019, 2018, and 2017, respectively. Patronage income for 2019 was paid in cash and AgriBank stock. Patronage income for 2018 and 2017 was paid in cash.

Refer to Note 4 for stock investment in AgriBank information.

We purchase various services from AgriBank and SunStream Business Services (SunStream), a division of AgriBank. The services include certain financial and retail systems, financial reporting services, technology services, and insurance services. The total cost of services we purchased from AgriBank was \$122 thousand, \$113 thousand, and \$87 thousand in 2019, 2018, and 2017, respectively. In January 2020, the FCA provided regulatory approval for the formation of a separate service entity, SunStream. Subsequent to the formation of SunStream, effective April 1, 2020, we will be a partial owner and continue to purchase services from SunStream.

We also purchase human resource information systems, and benefit, payroll, and workforce management services from Farm Credit Foundations (Foundations). As of December 31, 2019, 2018, and 2017, our investment in Foundations was \$7 thousand. The total cost of services purchased from Foundations was \$55 thousand, \$51 thousand, and \$50 thousand in 2019, 2018, and 2017, respectively.

NOTE 10: CONTINGENCIES AND COMMITMENTS

In the normal course of business, we have various contingent liabilities and commitments outstanding, which may not be reflected in the Consolidated Financial Statements. We do not anticipate any material losses because of these contingencies or commitments.

We may be named as a defendant in certain lawsuits or legal actions in the normal course of business. At the date of these Consolidated Financial Statements, our management team was not aware of any material actions. However, management cannot ensure that such actions or other contingencies will not arise in the future.

We have commitments to extend credit to satisfy the financing needs of our borrowers. These financial instruments involve, to varying degrees, elements of credit risk that may be recognized in the financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the loan contract. At December 31, 2019, we had commitments to extend credit of \$9.2 million.

Commitments to extend credit generally have fixed expiration dates or other termination clauses and we may require payment of a fee. If commitments to extend credit remain unfulfilled or have not expired, they may have credit risk not recognized in the financial statements. Many of the commitments to extend credit will expire without being fully drawn upon. Therefore, the total commitments do not necessarily represent future cash requirements. The credit risk involved in issuing these financial instruments is essentially the same as that involved in extending loans to borrowers and we apply the same credit policies. The amount of collateral obtained, if deemed necessary by us upon extension of credit, is based on management's credit evaluation of the borrower.

NOTE 11: FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or most advantageous market for the asset or liability. Accounting guidance also establishes a fair value hierarchy, with three input levels that may be used to measure fair value. Refer to Note 2 for a more complete description of the three input levels.

We did not have any assets or liabilities measured at fair value on a recurring basis at December 31, 2019, 2018, or 2017.

Non-Recurring

We may be required, from time to time, to measure certain assets at fair value on a non-recurring basis. The following represents a summary of the assets, valuation techniques, and inputs used to measure fair value on a non-recurring basis:

Impaired loans: The fair value of impaired loans was \$151 thousand at December 31, 2017, which were valued using Level 3 inputs. The fair value represents the carrying amount of loans which were evaluated for individual impairment based on the appraised value of the underlying collateral. When the value of the collateral, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established. Costs to sell represent transaction costs and are not included as a component of the asset's fair value. If the process uses observable market-based information, they are classified as Level 2. If the process requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters, they are classified as Level 3. We had no impaired loans that required fair value write-downs based on our impairment analyses as of December 31, 2019, or 2018.

NOTE 12: SUBSEQUENT EVENTS

We have evaluated subsequent events through March 9, 2020, which is the date the Consolidated Financial Statements were available to be issued. Other than the January 2020 renewal of our line of credit with AgriBank as discussed in Note 5, there have been no other material subsequent events that would require recognition in our 2019 Consolidated Financial Statements or disclosure in the Notes to Consolidated Financial Statements.

DISCLOSURE INFORMATION REQUIRED BY REGULATIONS

Delta Agricultural Credit Association
(Unaudited)

Description of Business

General information regarding the business is incorporated herein by reference from Note 1 to the Consolidated Financial Statements in this Annual Report.

The description of significant business developments, if any, is incorporated herein by reference from the Management's Discussion and Analysis section of this Annual Report.

Description of Property

Property Information

Location	Description	Usage
Dermott, AR	Owned	Headquarters
Monticello, AR	Leased	Branch

Legal Proceedings

Information regarding legal proceedings is discussed in Note 10 to the Consolidated Financial Statements in this Annual Report. We were not subject to any enforcement actions as of December 31, 2019.

Additional Regulatory Capital Disclosure

Regulatory Capital Ratios Pursuant to FCA Regulation 620.5				
As of December 31	2014	2013	2012	
Permanent capital ratio	23.3%	23.5%	23.2%	
Total surplus ratio	17.8%	17.8%	17.3%	
Core surplus ratio	16.8%	16.8%	16.4%	

Refer to the Consolidated Five-Year Summary of Selected Financial Data at the beginning of this Annual Report for capital ratio calculations for the past five years.

Description of Capital Structure

Information regarding our capital structure is discussed in Note 6 to the Consolidated Financial Statements in this Annual Report.

Description of Liabilities

Information regarding liabilities is discussed in Notes 5, 6, 7, 8 and 10 to the Consolidated Financial Statements in this Annual Report. All debt and other liabilities in the financial statements are uninsured.

Selected Financial Data

The Consolidated Five-Year Summary of Selected Financial Data is presented at the beginning of this Annual Report.

Management's Discussion and Analysis

Information regarding any material aspects of our financial condition, changes in financial condition, and results of operations are discussed in the Management's Discussion and Analysis section of this Annual Report.

Board of Directors

Board of Directors as of December 31, 2019, including business experience during the last five years

Name	Term	Principal occupation and other business affiliations
Al Beaty Outside Director Service Began: 1990	1/2018-1/2021	Principal occupation: Retired Other business affiliations: Director: Drew County Farm Bureau, involved in insurance sales
Bruce Bond Service Began: 2014	3/2017 - 3/2020	Principal occupation: Self-employed cotton and grain farmer Other business affiliations: Director: Lake Village Seed and Tire, a farm supply store Director: Crooked Bayou Watershed, involved in drainage management Director: Eudora Western Drainage District, involved in drainage management
C. Randall Cox Vice Chairperson Service Began: 1997	3/2018 - 3/2021	Principal occupation: Retired cotton and grain farmer
Joe Mencer Service Began: 2011	3/2018 - 3/2021	Principal occupation: Self-employed cotton and grain farmer Other business affiliations: Director: USA Rice Federation, involved in rice promotion Director: Arkansas Rice Federation, involved in rice promotion Director: Arkansas Boll Weevil Eradication Foundation, involved in boll weevil eradication Director: Chicot County Farm Bureau, involved in insurance sales Director: Lake Village Seed and Tire, a farm supply store Director: Chicot County Conservation District, involved in soil and water conservation Director: Delta Grain and Gin, involved in cotton ginning Director: Agricultural Council of Arkansas, involved in Arkansas agricultural promotions
John Mitchell Service Began: 2019	3/2019 - 3/2022	Principal occupation: Self-employed poultry broiler farmer Other business affiliations: Director: Drew County Farm Service Agency, an agency of the United States Department of Agriculture Director: Yorktown Water Association, public water authority
Mike Norris Chairperson Service Began: 2002	3/2018 - 3/2021	Principal occupation: Self-employed cotton and grain farmer

Pursuant to our bylaws, directors are paid a per diem of \$125 per day for attendance at board meetings and other special meetings. Directors serving on the loan committee are paid a per diem of \$75 per day. Directors are also provided with \$100 thousand 24-hour Accidental Death and Dismemberment insurance coverage while traveling on association business. The annual premium cost to us is \$20 per director.

Information regarding compensation paid to each director who served during 2019 follows:

Name	Number of Days Served		Compensation Paid for Service on a Board Committee	Name of Committee	Total Compensation Paid in 2019
	Board Meetings	Other Official Activities			
Al Beaty, Outside Director	7.0	2.0	\$ --		\$ 1,125
Bruce Bond	5.0	4.0	--		1,125
C. Randall Cox, Vice Chairperson	7.0	8.0	375	Loan	1,625
Kim Ellington ¹	2.0	1.0	--		375
Joe Mencer	7.0	6.0	--		1,625
John Mitchell ²	3.0	2.0	--		625
Mike Norris, Chairperson	7.0	11.0	375	Loan	2,000
					<u>\$ 8,500</u>

¹Term expired in in March 2019.

²Elected to the Board in March 2019.

Senior Officers

Senior Officers as of December 31, 2019, including business experience during the last five years

Name	Business experience and other business affiliations
Mark W. Kaufman	Business experience: Chief Executive Officer (CEO) since June 2002
Kerry Hartness	Business experience: Chief Credit Officer (CCO) since April 2017 Loan Officer for Delta Agricultural Credit Association from December 2015 to April 2017 Research Assistant for Monsanto Company from January 2013 to December 2015 Other business affiliations: President: Drew County Farm Bureau, involved in insurance sales
Keith Hunter	Business experience: Vice President (VP) since January 2005 Other business affiliations: Director: Chicot County Conservation District, involved in soil and water conservation
Mary Ann Johnson	Business experience: Chief Financial Officer (CFO) since January 1990

Senior Officer Compensation

We believe the design and governance of our CEO, senior officers, and highly compensated individuals compensation program is consistent with the highest standards of risk management and provides total compensation that promotes our mission to ensure a safe, sound, and dependable source of credit and related services for agriculture and rural America.

The CEO, senior officers, and highly compensated individuals are compensated with a mix of direct cash and retirement plans generally available to all employees. We do not offer any short-term or long-term incentives to our CEO, senior officers, or highly compensated individuals.

Base Salary: The CEO, senior officers, and highly compensated individuals base salaries reflect the individual's experience and level of responsibility. Base salaries are subject to review and approval by our Board of Directors and are subject to adjustment based on changes in responsibilities or competitive market conditions.

Retirement Plans: We have various post-employment benefit plans which are generally available to all Association employees, including the CEO, senior officers, and highly compensated individuals based on dates of service to the Association and are not otherwise differentiated by position, unless specifically stated. Information regarding the post-employment benefit plans is included in Notes 2 and 8 to the accompanying Consolidated Financial Statements in this Annual Report.

Other Components of Compensation: Additionally, compensation associated with any group term life insurance premiums, disability insurance premiums, or other taxable reimbursements may be made available to the CEO, senior officers, and highly compensated individuals based on job criteria or similar plans available to all employees.

Compensation to the CEO, Senior Officers, and Highly Compensated Individuals

(in thousands)						
Name	Year	Salary	Bonus	Deferred/ Perquisites	Other	Total
Mark W. Kaufman, CEO	2019	\$ 118	\$ --	\$ 1	\$ 169	\$ 288
Mark W. Kaufman, CEO	2018	115	--	1	(16)	100
Mark W. Kaufman, CEO	2017	110	--	1	120	231
Aggregate Number of Senior Officers and Highly Compensated Individuals, excluding CEO						
Four	2019	\$ 350	\$ --	\$ 1	\$ 237	\$ 588
Four	2018	340	--	1	61	402
Four	2017	318	--	1	194	513

Members may request information on the compensation to the individuals included in the preceding table during 2019.

The amount in the "Other" category in the preceding table primarily includes:

- Employer match on defined contribution plans available to all employees.
- Changes in the value of pension benefits. The change in value of the pension benefits is defined as the change in the vested portion of the present value of the accumulated benefit obligation from December 31 of the prior year to December 31 of the most recent year for the District-wide Pension Plan, as disclosed in Note 8 to the Consolidated Financial Statements in this Annual Report. This change in value does not represent cash payments made by the Association during the year, but rather is an estimate of the change in the Association's future obligations under the pension plan. The change in the value of the pension benefits is highly sensitive to discount rates used to value the plan liabilities to participants.

No tax reimbursements are made to the CEO, senior officers, or highly compensated individuals.

The value of the pension benefits increased from December 31, 2018, to December 31, 2019, primarily due to the decrease in interest rates year over year. The value of the pension benefits was also impacted to a lesser extent by the accumulation of an additional year of credited service by plan participants and updates to actuarial assumptions.

Pension Benefits Attributable to the CEO, Senior Officers, and Highly Compensated Individuals

(dollars in thousands)

2019		Years of	Present Value	Payments
Name	Plan	Credited Service	of Accumulated Benefits	Made During the Reporting Period
Mark W. Kaufman, CEO	AgriBank District Retirement Plan	43.1	\$ 1,093	\$ --
Aggregate Number of Senior Officers and Highly Compensated Individuals, excluding CEO				
Three	AgriBank District Retirement Plan	26.2	\$ 1,040	\$ --

The change in composition of the aggregate senior officers and highly compensated individuals can have a significant impact on the calculation of the accumulated pension benefits.

Effective January 1, 2007, the AgriBank District Retirement Plan was closed to new employees. Therefore, any employee starting employment with the AgriBank District after that date is not eligible to be in the plan.

Transactions with Senior Officers and Directors

Information regarding related party transactions is discussed in Note 9 to the Consolidated Financial Statements in this Annual Report.

Travel, Subsistence, and Other Related Expenses

Directors and senior officers are reimbursed for reasonable travel, subsistence, and other related expenses associated with business functions. A copy of our policy for reimbursing these costs is available by contacting us at:

P.O. Box 750
 Dermott, AR 71638
 (870) 538-3258
 www.deltaaca.com

The total directors' travel, subsistence, and other related expenses were \$7 thousand, \$22 thousand, and \$13 thousand in 2019, 2018, and 2017, respectively.

Involvement in Certain Legal Proceedings

No events occurred during the past five years that are material to evaluating the ability or integrity of any person who served as a director or senior officer on January 1, 2020, or at any time during 2019.

Member Privacy

The FCA Regulations protect members' nonpublic personal financial information. Our directors and employees are restricted from disclosing information about our Association or our members not normally contained in published reports or press releases.

Relationship with Qualified Public Accountant

There were no changes in independent auditors since the last Annual Report to members and we are in agreement with the opinion expressed by the independent auditors. The total financial statement audit fees paid during 2019 were \$56 thousand. Our engagement letter commits to reimbursing the external auditor for reasonable out-of-pocket expenses as incurred for travel.

Financial Statements

The Report of Management, Report of Audit Committee, Report of Independent Auditors, Consolidated Financial Statements, and Notes to Consolidated Financial Statements are presented prior to this portion of the Consolidated Financial Statements in this Annual Report.

Young, Beginning, and Small Farmers and Ranchers

Information regarding credit and services to young, beginning, and small farmers and ranchers, and producers or harvesters of aquatic products is discussed in an addendum to this Annual Report.

YOUNG, BEGINNING, AND SMALL FARMERS AND RANCHERS

Delta Agricultural Credit Association

(Unaudited)

We have specific programs in place to serve the credit and related needs of young, beginning, and small farmers and ranchers (YBS) in our territory. The definitions of YBS as developed by the Farm Credit Administration (FCA) follow:

- Young: A farmer, rancher, or producer or harvester of aquatic products who is age 35 or younger as of the loan transaction date.
- Beginning: A farmer, rancher, or producer or harvester of aquatic products who has 10 years or less farming or ranching experience as of the loan transaction date.
- Small: A farmer, rancher, or producer or harvester of aquatic products who normally generates less than \$250 thousand in annual gross sales of agricultural or aquatic products.

Our Demographic Study Revision for farmers, ranchers, and producers of aquatic products is based on our information from the end of fourth quarter 2019. The source of YBS information for the comparison of Young, Beginning, and Small Farmers in our territory is the 2017 United States Department of Agriculture Census and the Chicot County Extension Service. Our portfolio statistics are based on number of loans, while the census data is based on number of farms and/or producers. While the numbers are fairly similar, the difference in methodology should be taken into consideration. In addition, note that our Association includes Ashley, Bradley, Chicot, Desha, Drew, and Lincoln counties. Only 30% of Lincoln County is in our territory.

The total number of Young, Beginning, and Small farmers in our territory was 189 young farmers, 657 beginning farmers, and 292 small farmers. Our Young, Beginning, and Small farmer program consisted of 69 young farmers, which is 91% of the market, 151 beginning farmers, which is 23% of the market, and 146 small farmers, which is 50% of the market in our territory.

There are approximately 30 agricultural lending institution offices in our territory. We make up 7% of the business of these agricultural lending agencies. Our market share of the YBS producers exceeds our physical presence in the community. It is very difficult for a YBS operation to become a viable operation with today's economic, environmental, governmental, and social forces. Efforts have succeeded in creating a larger percentage of YBS numbers in our portfolio than exists in our territory. We will continue to emphasize YBS portfolio growth.

Mission Statement

Our mission is to provide support for the YBS farmers. As a farmer-owned cooperative, we will promote and assist these farmers with their careers by providing a competitive and dependable source of constructive credit.

Quantitative Goals

Annual quantitative targets for YBS farmers were to increase our new volume in dollars by 1% and increase our percentage of share in the territory by a minimum of 1%.

The following are the results of our YBS gross 2019 year end loan numbers and volumes compared to 2018:

- Young – loan numbers down by 6 (40% decrease); volume decreased 82%
- Beginning – loan numbers down by 9 (35% decrease); volume decreased 74%
- Small – loan numbers up by 5 (25% increase); volume decreased 57%

Considering the economic conditions of 2019, as well as the over-chartered territory in which we operate, the year end results of our YBS borrower new loan growth did not materialize as we expected. In 2019, we had fewer loan requests, and the majority of the requests were for smaller amounts. Some unexpected payoffs before year end affected both numbers and volume totals as well. While the goal of increased new loan volume was not met, we did meet our goal of increased territory percentage for Young and Small farmer categories.

Our total Young, Beginning, and Small loan numbers and portfolio share percentages increased. Young and Small territory share percentages increased. Beginning territory share percentage decreased. However, a Farm Credit Council analyst advised this drop could be partially due to changed census reporting formats.

Qualitative Goals and Outreach Programs

Annual qualitative goals for YBS farmers are to maintain our current borrowers as well as attract new YBS borrowers with acceptable credit classification. Our YBS qualitative goal for 2019 was to have 90% of the new and existing loans in the YBS category with an acceptable credit classification. We did maintain current YBS borrowers and gained new YBS borrowers and our goal was met with 93% of our YBS loans having acceptable credit classifications.

We have developed lending methodologies for YBS farmers. Credit factors have been specifically developed and are in use by the lending staff. The Farm Service Agency (FSA) Guarantee Program is used in many cases to offset credit risk associated with the inadequate collateral or capital exhibited by many YBS farmers.

Safety and Soundness of the Program

We will review any loan request with the intent to make the loan if the credit and eligibility criteria can be met. We will use the FSA Guarantee Program to reduce risk associated with YBS loans, if applicable. The credit and services offered to YBS farmers are provided in a safe and sound manner.

FUNDS HELD PROGRAM

Delta Agricultural Credit Association
(Unaudited)

Purpose

The purpose of this policy is to establish standardized documentation and procedures on the uses of the Funds Held feature.

Policy

Funds Held Account Purpose. It is the intention of the Association to make available the Funds Held feature to borrowers for the purpose of escrowing available funds to be applied to future scheduled payments of principal, interest payable, and other collateral expenses such as property taxes and insurance.

Funds Held Account Balance Maximum. Funds Held principal balance cannot exceed the related loan's outstanding principal balance. Recommended maximum balance not to exceed the equivalent of 50% of the current outstanding principal loan balance.

Interest will accrue on Funds Held at a simple rate of interest that may be changed by the Association from time to time. The interest rate may never exceed the interest rate charged on the related loan. Interest rates are currently reported on each customer's loan statement.

A 1099-INT Form will be sent to borrowers and reported to the IRS in accordance with IRS regulations. Funds Held interest income will be reported on an "accrual basis", as opposed to 1098 Interest Paid reporting which is on a "cash basis".

Availability of Funds Held Balances for Withdrawal. The Association wishes to avoid potential abuse of this feature. The Association is not a chartered depository institution. Therefore, a Funds Held account cannot be treated as a deposit account from which funds can be withdrawn on demand.

Customers can withdraw funds upon approval by one loan officer after receipt of a written customer request. Withdrawals must be for an eligible purpose under the Funds Held program.

Borrowers shall be provided adequate disclosures regarding:

- The fact that Funds Held balances are uninsured, including an explanation of the risk in the event of liquidation of the institution;
- Limits on amounts that can be paid into Funds Held;
- Interest rates that will be paid; and
- Withdrawal guidelines or restrictions.

Responsibility

The management will be responsible for monitoring and approving Funds Held withdrawals. The management may delegate Funds Held withdrawal approvals to branch managers.

Association management shall report to the Board of Directors, on an annual basis, information concerning customer's use of the Funds Held account.

The Board of Directors will periodically review the adequacy of the provisions of this policy.



Delta Agricultural Credit Association

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Visit us at www.deltaaca.com