

CENTRAL TEXAS FARM CREDIT, ACA

**2022
Quarterly Report
Second Quarter**



For the Quarter Ended June 30, 2022

REPORT OF MANAGEMENT

The undersigned certify that we have reviewed this report, that it has been prepared in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate and complete to the best of our knowledge and belief.



Boyd J. Chambers, Chief Executive Officer
August 09, 2022



Robby A. Halfmann, Chairman, Board of Directors
August 09, 2022



Keith Prater, Chief Financial Officer
August 09, 2022

Second Quarter 2022 Financial Report

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

The following commentary reviews the financial performance of the Central Texas Farm Credit, ACA (Agricultural Credit Association), referred to as the Association, for the quarter ended June 30, 2022. These comments should be read in conjunction with the accompanying consolidated financial statements and the December 31, 2021 Annual Report to Stockholders.

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

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

Significant Events:

2022

In March 2022, a patronage refund of \$7,900,000 was distributed to the Association's borrowers. The patronage refund was declared by the board of directors in December 2021, and the amount was based on the Association's 2021 operating results.

2021

In December 2021, the Association received a direct loan patronage of \$3,139,643 from the Bank, representing 63 basis points on the average daily balance of the Association's direct loan with the Bank. During 2021, the Association received an additional \$171,285 in patronage payment from the Bank, based on the Association's stock investment in the Bank. Also, the Association received a capital markets patronage of \$75,968 from the Bank, representing 76 basis points on the Association's average balance of participations in the Bank's patronage pool program.

In March 2021, a patronage refund of \$7,241,217 was distributed to the Association's borrowers. The patronage refund was declared by the board of directors in December 2020, and the amount was based on the Association's 2020 operating results.

2020

In December 2020, the Association received a direct loan patronage of \$2,550,306 from the Bank, representing 57 basis points on the average daily balance of the Association's direct loan with the Bank. During 2020, the Association received an additional \$197,620 in patronage payments from the Bank, based on the Association's stock investment in the Bank. Also, the Association received a capital markets patronage of \$54,749 from the Bank, representing 80 basis points on the Association's average balance of participations in the Bank's patronage pool program.

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

2019

In December 2019, the Association received a direct loan patronage of \$2,039,245 from the Bank, representing 49 basis points on the average daily balance of the Association's direct loan with the Bank. During 2019, the Association received \$241,777 in patronage payments from the Bank, based on the Association's stock investment in the Bank. Also, the Association received a capital markets patronage of \$64,403 from the Bank, representing 68 basis points on the Association's average balance of participations in the Bank's patronage pool program.

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

Loan Portfolio

Total loans outstanding at June 30, 2022, including nonaccrual loans, were \$641,195,165 compared to \$631,826,004 at December 31, 2021, reflecting an increase of 1.5 percent. Nonaccrual loans as a percentage of total loans outstanding were both 0.3 percent at June 30, 2022, and December 31, 2021.

The Association recorded no recoveries and charge-offs for the quarter ended June 30, 2022, and for the same period in 2021. The Association's allowance for loan losses was 0.3 percent of total loans outstanding as of June 30, 2022, and December 31, 2021, respectively.

Problem Loans:

2022

During the first two quarters of 2022, the Association recorded no recoveries and charge-offs.

2021

During 2021, the Association recorded no recoveries and charge-offs.

2020

During the first quarter of 2020, the Association recorded a charge-off in the amount of \$290,338, and no recoveries were recorded. The Association recorded a charge-off in the amount of \$1,497 and a recovery in the amount of \$815 in the second quarter of 2020. During the third quarter of 2020, the Association recorded a charge-off in the amount of \$8,034, and no recoveries were recorded. The Association recorded charge-offs in the amount of \$133,107 and recoveries in the amount of \$9,271 in the fourth quarter of 2020.

2019

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

Territory Conditions:

The local economy in our chartered territory continued to remain relatively strong in the second quarter of 2022. The threat of COVID seemed to have subsided at least for a while. Real estate values seemed to stabilize by the end of the quarter with residential and land sales slowing some due to rising costs of construction and rapid increases in interest rates.

According to the June USDA Drought Monitor report, all of our territory was in a drought ranging from severe to exceptional. It was reported that only 7 percent of the state had received enough rains to not be considered dry or in drought. Our territory had very little rainfall in the first and second quarter. Pasture conditions during this time had deteriorated further and were considered very poor to poor in 75 percent of the state.

The USDA's report "Texas Crop Progress and Condition" for the last week of June 2022, reported of the acres that did produce wheat, 80 percent was harvested and 60 percent of total acres considered very poor. Cotton was reported as 37 percent fair condition, 26 percent poor and 20 percent very poor condition. By the end of June, 29 percent of cotton acres were in the squaring stage while 12 percent of acres were setting bolls.

Cattle markets were mostly flat in the second quarter. Live cattle futures were trading in the upper \$130s at the end of June as was the case in March. Forward contracts move higher in late summer into the fall with the December contract in the upper \$140s. Feeder cattle fared better increasing from the upper \$150s/cwt in March to mid \$170s by the end of the second quarter. Forward contracts have feeders moving into the \$180s by October.

Class III milk futures slipped some during the second quarter. At the end of March they were at \$24/cwt and by the end of the second quarter they were in the \$22/cwt range. Forward contracts suggest pricing will continue to be in the \$22/cwt range through the end of 2022

Risk Exposure

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

	June 30, 2022		December 31, 2021	
	Amount	%	Amount	%
Nonaccrual	\$ 1,997,023	100.0%	\$ 1,860,250	100.0%
Total	\$ 1,997,023	100.0%	\$ 1,860,250	100.0%

Results of Operations

The Association had net income of \$2,869,609 and \$5,724,114 for the three and six months ended June 30, 2022, as compared to net income of \$2,430,626 and \$4,720,493 for the same period in 2021, reflecting an increase of 18.1 percent and 21.3 percent, respectively. Net interest income was \$4,508,773 and \$8,960,827 for the three and six months ended June 30, 2022, compared to \$4,103,083 and \$8,217,031 for the same period in 2021.

	Six Months Ended			
	June 30, 2022		June 30, 2021	
	Average Balance	Interest	Average Balance	Interest
Loans	\$ 640,344,274	\$ 14,464,134	\$ 590,225,003	\$ 13,028,791
Interest-bearing liabilities	531,418,757	5,503,307	483,033,418	4,811,760
Impact of capital	\$ 108,925,517		\$ 107,191,585	
Net interest income		\$ 8,960,827		\$ 8,217,031
	2022		2021	
	Average Yield		Average Yield	
Yield on loans	4.56%		4.45%	
Cost of interest-bearing liabilities	2.09%		2.01%	
Interest rate spread	2.47%		2.44%	
Net interest income as a percentage of average earning assets	2.82%		2.81%	

	Six months ended: June 30, 2022 vs. June 30, 2021		
	Increase due to		
	Volume	Rate	Total
Interest income - loans	\$ 1,106,336	\$ 329,007	\$ 1,435,343
Interest expense	481,988	209,559	691,547
Net interest income	\$ 624,348	\$ 119,448	\$ 743,796

Interest income for the six months ended June 30, 2022, increased by \$1,435,343, or 11.0 percent, from the same period of 2021, primarily due to increases in average loan volume and an increase in yields on earning assets. Interest expense for the six months ended June 30, 2022, increased by \$691,547, or 14.4 percent, from the same period of 2021 due to an increase in interest rates and an increase in average debt volume. Average loan volume for the six months ended June 30, 2022 was \$640,344,274, compared to \$590,225,003 in the second quarter of 2021. The average net interest rate spread on the loan portfolio for the second quarter of 2022 was 2.47 percent, compared to 2.44 percent in the second quarter of 2021.

The Association's return on average assets for the six months ended June 30, 2022, was 1.74 percent compared to 1.56 percent for the same period in 2021. The Association's return on average equity for the six months ended June 30, 2022, was 9.43 percent, compared to 8.01 percent for the same period in 2021.

Liquidity and Funding Sources

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

	June 30, 2022	December 31, 2021
Note payable to the Bank	\$ 532,413,803	\$ 519,237,475
Accrued interest on note payable	1,034,097	784,241
Total	\$ 533,447,900	\$ 520,021,716

The Association operates under a general financing agreement (GFA) with the Bank. The current GFA is effective through September 30, 2023. The primary source of liquidity and funding for the Association is a direct loan from the Bank. The outstanding balance of \$532,413,803 as of June 30, 2022, is recorded as a liability on the Association's balance sheet. The note carried a weighted average interest rate of 2.24 percent at June 30, 2022. The indebtedness is collateralized by a pledge of substantially all of the Association's assets to the Bank and is governed by the GFA. The increase in note payable to the Bank and related accrued interest payable since December 31, 2021, is due to the Association's increase in loan volume. The Association's own funds, which represent the amount of the Association's loan portfolio funded by the Association's equity, were \$106,100,401 at June 30, 2022. The maximum amount the Association may borrow from the Bank as of June 30, 2022, was \$643,535,600 as defined by the GFA. The indebtedness continues in effect until the expiration date of the GFA, which is September 30, 2023, unless sooner terminated by the Bank upon the occurrence of an event of default, or by the Association, in the event of a breach of this agreement by the Bank, upon giving the Bank 30 calendar days' prior written notice, or in all other circumstances, upon giving the Bank 120 days' prior written notice.

Capital Resources

The Association's capital position increased by \$5,660,693 at June 30, 2022, compared to December 31, 2021. The Association's debt as a percentage of members' equity was 4.29:1 as of June 30, 2022, compared to 4.45:1 as of December 31, 2021.

Farm Credit Administration regulations require the Association to maintain minimums for various regulatory capital ratios. New regulations became effective January 1, 2017, which replaced the previously required core surplus and total surplus ratios with common equity Tier 1, tier 1 capital, and total capital risk-based capital ratios. The new regulations also added Tier 1 leverage and unallocated retained earnings and equivalents (UREE) ratios. The permanent capital ratio continues to remain in effect, with some modifications to align with the new regulations. As of June 30, 2022, the Association exceeded all regulatory capital requirements.

Significant Recent Accounting Pronouncements:

In March 2022, the Financial Accounting Standards Board (FASB) issued an update entitled, "Financial Instruments - Credit Losses: Troubled Debt Restructurings and Vintage Disclosures." The guidance eliminates the accounting guidance for troubled debt restructurings (TDRs) by creditors while enhancing disclosure requirements for certain loan refinancings and restructurings when a borrower is experiencing financial difficulty. The creditor will have to apply the guidance to determine whether a modification results in a new loan or a continuation of an existing loan. In addition to the TDR guidance, the update requires public business entities to disclose current period gross write-offs by year of origination for financing receivables and net investments in leases within the scope of the credit losses standard. These amendments will be effective for the Association at the time of adoption of the measurement of credit losses on financial instruments standard on January 1, 2023.

In June 2016, the FASB issued guidance entitled "Measurement of Credit Losses on Financial Instruments." The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses. For public business entities that are not U.S. Securities and Exchange Commission filers this guidance was to become effective for interim and annual periods beginning after December 15, 2020, with early application permitted. In November 2019, the FASB issued an update that amends the mandatory effective date for this guidance for certain associations. The change resulted from a change in the effective date philosophy that extends and simplifies the adoption by staggering the dates between large public entities and other entities. As a result of the change, the new credit loss standard, for those associations qualifying for the delay, becomes effective for interim and annual reporting periods beginning after December 15, 2022, with early adoption permitted. The Association qualifies for the delay in the adoption date. The Association continues to evaluate the impact of adoption on the Association's financial condition and its results of operations.

Relationship With the Farm Credit Bank of Texas:

The Association's financial condition may be impacted by factors that affect the Bank. The financial condition and results of operations of the Bank may materially affect the stockholder's investment in the Association. The Management's Discussion and Analysis and Notes to Consolidated Financial Statements contained in the 2021 Annual Report of Central Texas Farm Credit, ACA more fully describe the Association's relationship with the Bank.

The annual and quarterly stockholder reports of the Bank are available free of charge, upon request. These reports can be obtained by writing to Farm Credit Bank of Texas, Corporate Communications, P.O. Box 202590, Austin, Texas 78720, or by calling (512) 483-9204. The annual and quarterly stockholder reports for the Bank are also available on its website at www.farmcreditbank.com.

The Association's quarterly stockholder reports are also available free of charge, upon request. These reports can be obtained by writing to Central Texas Farm Credit, ACA, 1026 Early Boulevard, Early, Texas, 76802, or calling (325) 643-5563. The annual and quarterly stockholder reports for the Association are also available on its website at www.centraltexasfarmcredit.com. Copies of the Association's quarterly stockholder reports can also be requested by e-mailing Keith.Prater@farmcreditbank.com.

CENTRAL TEXAS FARM CREDIT, ACA

CONSOLIDATED BALANCE SHEETS

	June 30, 2022 (unaudited)	December 31, 2021
<u>ASSETS</u>		
Cash	\$ 1,960	\$ 2,960
Loans	641,195,165	631,826,004
Less: allowance for loan losses	1,792,375	1,648,857
Net loans	<u>639,402,790</u>	<u>630,177,147</u>
Accrued interest receivable	5,740,505	6,307,042
Investment in and receivable from the Farm		
Credit Bank of Texas:		
Capital stock	9,810,495	9,810,495
Other	314,053	561,787
Premises and equipment, net	5,559,622	5,461,359
Other assets	2,049,632	316,131
Total assets	<u><u>\$ 662,879,057</u></u>	<u><u>\$ 652,636,921</u></u>
<u>LIABILITIES</u>		
Note payable to the Farm Credit Bank of Texas	\$ 532,413,803	\$ 519,237,475
Accrued interest payable	1,034,097	784,241
Dividends payable	-	7,900,000
Other liabilities	4,044,025	4,988,766
Total liabilities	<u>537,491,925</u>	<u>532,910,482</u>
<u>MEMBERS' EQUITY</u>		
Capital stock and participation certificates	2,064,685	2,117,870
Unallocated retained earnings	123,388,116	117,664,002
Accumulated other comprehensive loss	(65,669)	(55,433)
Total members' equity	<u>125,387,132</u>	<u>119,726,439</u>
Total liabilities and members' equity	<u><u>\$ 662,879,057</u></u>	<u><u>\$ 652,636,921</u></u>

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

CENTRAL TEXAS FARM CREDIT, ACA

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited)

	Quarter Ended		Six Months Ended	
	June 30,		June 30,	
	2022	2021	2022	2021
<u>INTEREST INCOME</u>				
Loans	\$ 7,446,649	\$ 6,537,165	\$ 14,464,134	\$ 13,028,791
<u>INTEREST EXPENSE</u>				
Note payable to the Farm Credit Bank of Texas	2,937,876	2,434,082	5,503,307	4,811,760
Net interest income	4,508,773	4,103,083	8,960,827	8,217,031
<u>PROVISION FOR LOAN LOSSES</u>				
Net interest income after provision for loan losses	176,164	178,556	197,627	398,526
	4,332,609	3,924,527	8,763,200	7,818,505
<u>NONINTEREST INCOME</u>				
Income from the Farm Credit Bank of Texas:				
Patronage income	814,567	606,069	1,581,723	1,191,168
Loan fees	50,966	41,211	95,213	154,449
Financially related services income	955	1,215	4,769	4,426
Gain (loss) on sale of premises and equipment, net	-	7,500	(1,194)	7,500
Other noninterest income	-	-	48,870	28,637
Total noninterest income	866,488	655,995	1,729,381	1,386,180
<u>NONINTEREST EXPENSES</u>				
Salaries and employee benefits	1,331,883	1,393,947	2,774,686	2,827,159
Directors' expense	48,054	25,978	95,746	54,815
Purchased services	56,365	46,660	164,918	174,755
Travel	57,926	57,668	107,953	86,687
Occupancy and equipment	134,932	128,506	285,061	255,429
Communications	32,954	36,406	76,347	68,292
Advertising	54,891	25,781	124,784	52,956
Public and member relations	106,928	113,780	191,581	212,648
Supervisory and exam expense	61,205	47,948	122,410	106,738
Insurance Fund premiums	302,459	179,788	609,951	468,234
Other components of net periodic postretirement benefit cost	20,061	22,048	40,122	44,097
Other noninterest expense	121,830	71,386	174,908	132,382
Total noninterest expenses	2,329,488	2,149,896	4,768,467	4,484,192
NET INCOME	2,869,609	2,430,626	5,724,114	4,720,493
Other comprehensive income:				
Change in postretirement benefit plans	(5,118)	(2,892)	(10,236)	(5,784)
COMPREHENSIVE INCOME	\$ 2,864,491	\$ 2,427,734	\$ 5,713,878	\$ 4,714,709

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

CENTRAL TEXAS FARM CREDIT, ACA

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

(unaudited)

	<u>Capital Stock/ Participation Certificates</u>	<u>Unallocated Retained Earnings</u>	<u>Accumulated Other Comprehensive Loss</u>	<u>Total Members' Equity</u>
Balance at December 31, 2020	\$ 2,208,715	\$ 114,499,160	\$ (216,830)	\$ 116,491,045
Comprehensive income	-	4,720,493	(5,784)	4,714,709
Capital stock/participation certificates and allocated retained earnings issued	179,800	-	-	179,800
Capital stock/participation certificates and allocated retained earnings retired	(226,830)	-	-	(226,830)
Patronage refunds:				
Cash	-	(41,217)	-	(41,217)
Balance at June 30, 2021	<u>\$ 2,161,685</u>	<u>\$ 119,178,436</u>	<u>\$ (222,614)</u>	<u>\$ 121,117,507</u>
Balance at December 31, 2021	\$ 2,117,870	\$ 117,664,002	\$ (55,433)	\$ 119,726,439
Comprehensive income	-	5,724,114	(10,236)	5,713,878
Capital stock/participation certificates and allocated retained earnings issued	165,845	-	-	165,845
Capital stock/participation certificates and allocated retained earnings retired	(219,030)	-	-	(219,030)
Patronage refunds:				
Cash	-	-	-	-
Balance at June 30, 2022	<u>\$ 2,064,685</u>	<u>\$ 123,388,116</u>	<u>\$ (65,669)</u>	<u>\$ 125,387,132</u>

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

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

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

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

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. (GAAP) for interim financial information. Accordingly, they do not include all of the disclosures required by GAAP for annual financial statements and should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2021, as contained in the 2021 Annual Report to Stockholders.

In the opinion of management, the accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with generally accepted accounting principles (GAAP), except for the inclusion of a statement of cash flows. GAAP require a business enterprise that provides a set of financial statements reporting both financial position and results of operations to also provide a statement of cash flows for each period for which results of operations are provided. In regulations issued by FCA, associations have the option to exclude statements of cash flows in interim financial statements. Therefore, the Association has elected not to include a statement of cash flows in these consolidated financial statements. These interim financial statements should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2021, as contained in the 2021 Annual Report to Stockholders. The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year ending December 31, 2022. Descriptions of the significant accounting policies are included in the 2021 Annual Report to Stockholders. In the opinion of management, these policies and the presentation of the interim financial condition and results of operations conform with GAAP and prevailing practices within the banking industry.

In March 2022, the Financial Accounting Standards Board (FASB) issued an update entitled, “Financial Instruments - Credit Losses: Troubled Debt Restructurings and Vintage Disclosures.” The guidance eliminates the accounting guidance for troubled debt restructurings (TDRs) by creditors while enhancing disclosure requirements for certain loan refinancings and restructurings when a borrower is experiencing financial difficulty. The creditor will have to apply the guidance to determine whether a modification results in a new loan or a continuation of an existing loan. In addition to the TDR guidance, the update requires public business entities to disclose current period gross write-offs by year of origination for financing receivables and net investments in leases within the scope of the credit losses standard. These amendments will be effective for the Association at the time of adoption of the measurement of credit losses on financial instruments standard on January 1, 2023.

In June 2016, the FASB issued guidance entitled “Measurement of Credit Losses on Financial Instruments.” The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses. For public business entities that are not U.S. Securities and Exchange Commission filers this guidance was to become effective for interim and annual periods beginning after December 15, 2020, with early application permitted. In November 2019, the FASB issued an update that amends the mandatory effective date for this guidance for certain associations. The change resulted from a change in the effective date philosophy that extends and simplifies the adoption by staggering the dates between large public entities and other entities. As a result of the change, the new credit loss standard, for those associations qualifying for the delay, becomes effective for interim and annual reporting periods beginning after December 15, 2022, with early adoption permitted. The Association qualifies for the delay in the adoption date. The Association continues to evaluate the impact of adoption on the Association’s financial condition and its results of operations.

The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries. The preparation of these consolidated financial statements requires the use of management’s estimates. The results for the quarter ended June 30, 2022, are not necessarily indicative of the results to be expected for the year ended December 31, 2022. Certain amounts in the prior period’s financial statements have been reclassified to conform to current financial statement presentation.

NOTE 2 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

A summary of loans follows:

Loan Type	June 30,	December 31,
	2022	2021
	Amount	Amount
Production agriculture:		
Real estate mortgage	\$ 450,042,335	\$ 432,840,207
Production and intermediate term	77,402,868	91,867,182
Agribusiness:		
Processing and marketing	51,599,376	50,768,509
Farm-related business	27,002,956	26,831,944
Loans to cooperatives	5,591,383	3,135,393
Communication	13,300,108	13,393,063
Energy	6,772,210	6,862,903
Water and waste water	4,605,109	801,802
International	4,234,258	4,233,783
Rural residential real estate	644,562	1,091,218
Total	<u>\$ 641,195,165</u>	<u>\$ 631,826,004</u>

The Association purchases or sells participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration regulations. The following table presents information regarding the balances of participations purchased and sold at June 30, 2022:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
	Agribusiness	\$ 62,429,082	\$ 3,902,828	\$ -	\$ -	\$ 62,429,082
Production and intermediate term	16,479,229	5,950,132	-	-	16,479,229	5,950,132
Real estate mortgage	13,402,462	13,089,786	-	-	13,402,462	13,089,786
Communication	13,300,108	-	-	-	13,300,108	-
Energy	6,772,210	-	-	-	6,772,210	-
Water and waste water	4,605,109	-	-	-	4,605,109	-
International	4,234,258	-	-	-	4,234,258	-
Total	<u>\$ 121,222,458</u>	<u>\$ 22,942,746</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 121,222,458</u>	<u>\$ 22,942,746</u>

The Association is authorized under the Farm Credit Act to accept “advance conditional payments” (ACPs) from borrowers. To the extent the borrower’s access to such ACPs is restricted and the legal right of setoff exists, the ACPs are netted against the borrower’s related loan balance. Unrestricted advance conditional payments are included in other liabilities. ACPs are not insured, and interest is generally paid by the Association on such balances. The Association had no balances of ACPs at June 30, 2022, and December 31, 2021, respectively.

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

	June 30, 2022	December 31, 2021
Nonaccrual loans:		
Energy	\$ 1,764,355	\$ 1,826,585
Real estate mortgage	<u>232,668</u>	<u>33,665</u>
Total nonperforming assets	<u>\$ 1,997,023</u>	<u>\$ 1,860,250</u>

One credit quality indicator utilized by the Association is the Farm Credit Administration Uniform Loan Classification System that categorizes loans into five categories. The categories are defined as follows:

- Acceptable – assets are expected to be fully collectible and represent the highest quality;
- Other assets especially mentioned (OAEM) – assets are currently collectible but exhibit some potential weakness;
- Substandard – assets exhibit some serious weakness in repayment capacity, equity and/or collateral pledged on the loan;
- Doubtful – assets exhibit similar weaknesses to substandard assets; however, doubtful assets have additional weaknesses in existing factors, conditions and values that make collection in full highly questionable; and
- Loss – assets are considered uncollectible.

The following table shows loans and related accrued interest as a percentage of total loans and related accrued interest receivable by loan type as of:

	June 30, 2022	December 31, 2021
Real estate mortgage		
Acceptable	98.9 %	98.8 %
OAEM	0.4	0.5
Substandard/doubtful	0.7	0.7
	100.0	100.0
Production and intermediate term		
Acceptable	97.2	97.1
OAEM	2.2	2.2
Substandard/doubtful	0.6	0.7
	100.0	100.0
Agribusiness		
Acceptable	95.9	97.8
OAEM	-	-
Substandard/doubtful	4.1	2.2
	100.0	100.0
Energy and water/waste water		
Acceptable	84.6	73.4
OAEM	-	-
Substandard/doubtful	15.4	26.6
	100.0	100.0
Communication		
Acceptable	100.0	100.0
OAEM	-	-
Substandard/doubtful	-	-
	100.0	100.0
Rural residential real estate		
Acceptable	100.0	100.0
OAEM	-	-
Substandard/doubtful	-	-
	100.0	100.0
International		
Acceptable	100.0	100.0
OAEM	-	-
Substandard/doubtful	-	-
	100.0	100.0
Total loans		
Acceptable	98.0	98.2
OAEM	0.6	0.6
Substandard/doubtful	1.4	1.2
	100.0 %	100.0 %

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

June 30, 2022	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment >90 Days and Accruing
Real estate mortgage	\$ 1,587,820	\$ -	\$ 1,587,820	\$ 452,900,437	\$ 454,488,257	\$ -
Production and intermediate term	29,967	-	29,967	78,264,679	78,294,646	-
Processing and marketing	-	-	-	51,730,338	51,730,338	-
Farm-related business	-	-	-	27,204,772	27,204,772	-
Communication	-	-	-	13,305,345	13,305,345	-
Energy	-	1,248,898	1,248,898	5,563,717	6,812,615	-
Loans to cooperatives	-	-	-	5,596,955	5,596,955	-
Water and waste water	-	-	-	4,609,908	4,609,908	-
International	-	-	-	4,247,215	4,247,215	-
Rural residential real estate	-	-	-	645,619	645,619	-
Total	\$ 1,617,787	\$ 1,248,898	\$ 2,866,685	\$ 644,068,985	\$ 646,935,670	\$ -
December 31, 2021	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment >90 Days and Accruing
Real estate mortgage	\$ 411,053	\$ -	\$ 411,053	\$ 437,580,295	\$ 437,991,348	\$ -
Production and intermediate term	60,044	-	60,044	92,731,044	92,791,088	-
Processing and marketing	-	-	-	50,858,965	50,858,965	-
Farm-related business	-	-	-	26,956,802	26,956,802	-
Communication	-	-	-	13,395,104	13,395,104	-
Energy	-	1,248,898	1,248,898	5,617,274	6,866,172	-
Loans to cooperatives	-	-	-	3,136,410	3,136,410	-
Water and waste water	-	-	-	801,838	801,838	-
International	-	-	-	4,241,460	4,241,460	-
Rural residential real estate	-	-	-	1,093,859	1,093,859	-
Total	\$ 471,097	\$ 1,248,898	\$ 1,719,995	\$ 636,413,051	\$ 638,133,046	\$ -

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

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

As of June 30, 2022, the Association had no troubled debt restructured loans. In restructuring where principal is forgiven, the amount of forgiveness is immediately charged off. In restructurings where accrued interest is forgiven, the interest is reversed (if current year interest) or charged off (if prior year interest).

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

Additional impaired loan information is as follows:

	June 30, 2022			December 31, 2021		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
Impaired loans with a related allowance for credit losses:						
Real estate mortgage	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Energy and water/waste water	<u>1,764,355</u>	<u>1,765,394</u>	<u>372,917</u>	<u>1,826,585</u>	<u>1,827,624</u>	<u>372,917</u>
Total	<u>\$ 1,764,355</u>	<u>\$ 1,765,394</u>	<u>\$ 372,917</u>	<u>\$ 1,826,585</u>	<u>\$ 1,827,624</u>	<u>\$ 372,917</u>
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	\$ 232,668	\$ 232,668	\$ -	\$ 33,665	\$ 33,665	\$ -
Energy and water/waste water	-	-	-	-	-	-
Total	<u>\$ 232,668</u>	<u>\$ 232,668</u>	<u>\$ -</u>	<u>\$ 33,665</u>	<u>\$ 33,665</u>	<u>\$ -</u>
Total impaired loans:						
Real estate mortgage	\$ 232,668	\$ 232,668	\$ -	\$ 33,665	\$ 33,665	\$ -
Energy and water/waste water	<u>1,764,355</u>	<u>1,765,394</u>	<u>372,917</u>	<u>1,826,585</u>	<u>1,827,624</u>	<u>372,917</u>
Total	<u>\$ 1,997,023</u>	<u>\$ 1,998,062</u>	<u>\$ 372,917</u>	<u>\$ 1,860,250</u>	<u>\$ 1,861,289</u>	<u>\$ 372,917</u>

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

	For the Three Months Ended				For the Six Months Ended			
	June 30, 2022		June 30, 2021		June 30, 2022		June 30, 2021	
	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:								
Real estate mortgage	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Energy and water/waste water	<u>1,774,933</u>	-	<u>666,589</u>	-	<u>1,799,994</u>	-	<u>481,010</u>	<u>153</u>
Total	<u>\$ 1,774,933</u>	<u>\$ -</u>	<u>\$ 666,589</u>	<u>\$ -</u>	<u>\$ 1,799,994</u>	<u>\$ -</u>	<u>\$ 481,010</u>	<u>\$ 153</u>
Impaired loans with no related allowance for credit losses:								
Real estate mortgage	\$ 48,285	\$ 2,777	\$ 38,030	\$ -	\$ 40,468	\$ 5,768	\$ 38,989	\$ -
Energy and water/waste water	-	-	<u>658,760</u>	<u>1,006</u>	-	-	<u>337,607</u>	<u>1,984</u>
Total	<u>\$ 48,285</u>	<u>\$ 2,777</u>	<u>\$ 696,790</u>	<u>\$ 1,006</u>	<u>\$ 40,468</u>	<u>\$ 5,768</u>	<u>\$ 376,596</u>	<u>\$ 1,984</u>
Total impaired loans:								
Real estate mortgage	\$ 48,285	\$ 2,777	\$ 38,030	\$ -	\$ 40,468	\$ 5,768	\$ 38,989	\$ -
Energy and water/waste water	<u>1,774,933</u>	-	<u>1,325,349</u>	<u>1,006</u>	<u>1,799,994</u>	-	<u>818,617</u>	<u>2,137</u>
Total	<u>\$ 1,823,218</u>	<u>\$ 2,777</u>	<u>\$ 1,363,379</u>	<u>\$ 1,006</u>	<u>\$ 1,840,462</u>	<u>\$ 5,768</u>	<u>\$ 857,606</u>	<u>\$ 2,137</u>

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

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy and Water/Waste Water	Rural Residential Real Estate	International	Total
Allowance for Credit Losses:								
Balance at March 31, 2022	\$ 361,984	\$ 360,239	\$ 494,387	\$ 33,179	\$ 382,351	\$ 1,330	\$ 9,392	\$ 1,642,862
Charge-offs	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-
Provision for loan losses	5,087	(38,150)	209,937	(618)	1,055	(1,061)	(86)	176,164
Other	(2)	(16,610)	(13,577)	(177)	3,983	17	(285)	(26,651)
Balance at June 30, 2022	\$ 367,069	\$ 305,479	\$ 690,747	\$ 32,384	\$ 387,389	\$ 286	\$ 9,021	\$ 1,792,375
Balance at December 31, 2021	\$ 359,949	\$ 405,304	\$ 459,979	\$ 32,536	\$ 380,728	\$ 1,386	\$ 8,975	\$ 1,648,857
Charge-offs	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-
Provision for loan losses	7,250	(59,256)	248,274	(103)	2,476	(1,100)	86	197,627
Other	(130)	(40,569)	(17,506)	(49)	4,185	-	(40)	(54,109)
Balance at June 30, 2022	\$ 367,069	\$ 305,479	\$ 690,747	\$ 32,384	\$ 387,389	\$ 286	\$ 9,021	\$ 1,792,375
Ending Balance:								
Individually evaluated for impairment	\$ -	\$ -	\$ -	\$ -	\$ 372,917	\$ -	\$ -	\$ 372,917
Collectively evaluated for impairment	367,069	305,479	690,747	32,384	14,472	286	9,021	1,419,458
Balance at June 30, 2022	\$ 367,069	\$ 305,479	\$ 690,747	\$ 32,384	\$ 387,389	\$ 286	\$ 9,021	\$ 1,792,375
Balance at March 31, 2021	\$ 279,612	\$ 316,770	\$ 462,205	\$ 36,228	\$ 367,638	\$ 357	\$ -	\$ 1,462,810
Charge-offs	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-
Provision for loan losses	17,119	44,858	24,208	(1,945)	82,974	816	10,526	178,556
Other	(10)	(20,432)	15,053	-	16	(569)	(1,162)	(7,104)
Balance at June 30, 2021	\$ 296,721	\$ 341,196	\$ 501,466	\$ 34,283	\$ 450,628	\$ 604	\$ 9,364	\$ 1,634,262
Balance at December 30, 2020	\$ 263,100	\$ 387,617	\$ 437,456	\$ 37,003	\$ 119,964	\$ 364	\$ -	\$ 1,245,504
Charge-offs	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-
Provision for loan losses	33,621	(12,587)	39,270	(3,240)	330,129	807	10,526	398,526
Other	-	(33,834)	24,740	520	535	(567)	(1,162)	(9,768)
Balance at June 30, 2021	\$ 296,721	\$ 341,196	\$ 501,466	\$ 34,283	\$ 450,628	\$ 604	\$ 9,364	\$ 1,634,262
Ending Balance:								
Individually evaluated for impairment	\$ -	\$ -	\$ -	\$ -	\$ 440,042	\$ -	\$ -	\$ 440,042
Collectively evaluated for impairment	296,721	341,196	501,466	34,283	10,586	604	9,364	1,194,220
Balance at June 30, 2021	\$ 296,721	\$ 341,196	\$ 501,466	\$ 34,283	\$ 450,628	\$ 604	\$ 9,364	\$ 1,634,262
Recorded Investments in Loans Outstanding:								
Ending Balance at								
June 30, 2022	\$ 454,488,257	\$ 78,294,646	\$ 84,532,065	\$ 13,305,345	\$ 11,422,523	\$ 645,619	\$ 4,247,215	\$ 646,935,670
Individually evaluated for impairment	\$ 232,668	\$ -	\$ -	\$ -	\$ 1,764,355	\$ -	\$ -	\$ 1,997,023
Collectively evaluated for impairment	\$ 454,255,589	\$ 78,294,646	\$ 84,532,065	\$ 13,305,345	\$ 9,658,168	\$ 645,619	\$ 4,247,215	\$ 644,938,647
Ending Balance at								
December 31, 2021	\$ 437,991,348	\$ 92,791,088	\$ 80,952,177	\$ 13,395,104	\$ 7,668,010	\$ 1,093,859	\$ 4,241,460	\$ 638,133,046
Individually evaluated for impairment	\$ 33,665	\$ -	\$ -	\$ -	\$ 1,826,585	\$ -	\$ -	\$ 1,860,250
Collectively evaluated for impairment	\$ 437,957,683	\$ 92,791,088	\$ 80,952,177	\$ 13,395,104	\$ 5,841,425	\$ 1,093,859	\$ 4,241,460	\$ 636,272,796

NOTE 3 —LEASES:

The components of lease expense were as follows:

	For the Three Months Ended		For the Six Months Ended	
	<u>June 30, 2022</u>	<u>June 30, 2021</u>	<u>June 30, 2022</u>	<u>June 30, 2021</u>
Operating lease cost	\$ 4,228	\$ 4,228	\$ 8,456	\$ 8,456
Net lease cost	\$ 4,228	\$ 4,228	\$ 8,456	\$ 8,456

Other information related to leases was as follows:

	For the Three Months Ended		For the Six Months Ended	
	<u>June 30, 2022</u>	<u>June 30, 2021</u>	<u>June 30, 2022</u>	<u>June 30, 2021</u>
Cash paid for amounts included in the measurement of lease liabilities:				
Operating cash flows from operating leases	\$ 5,670	\$ 5,600	\$ 11,340	\$ 11,060

Lease term and discount rate are as follows:

	<u>June 30, 2022</u>	<u>December 31, 2021</u>
Weighted average remaining lease term in years		
Operating leases	\$ 1.83	\$ 2.33
Weighted average discount rate		
Operating leases	2.24%	1.76%

Future minimum lease payments under non-cancellable leases as of June 30, 2022 were as follows:

	<u>Operating Leases</u>
2022 (excluding the six months ended 6/30/22)	\$ 11,340
2023	23,240
2024	7,840
2025	-
2026	-
Thereafter	-
Total	<u>\$ 42,420</u>

NOTE 4 — CAPITAL:

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

Regulatory Capitalization Requirements

Risk-adjusted:	Regulatory Requirements Including Capital Conservation Buffers	As of June 30, 2022
Common equity tier 1 ratio	7.00%	16.67%
Tier 1 capital ratio	8.50%	16.67%
Total capital ratio	10.50%	16.95%
Permanent capital ratio	7.00%	16.71%
Non-risk-adjusted:		
Tier 1 leverage ratio	5.00%	17.31%
UREE leverage ratio	1.50%	16.99%

The details for the amounts used in the calculation of the regulatory capital ratios as of June 30, 2022:

	Common equity tier 1 ratio	Tier 1 capital ratio	Total capital ratio	Permanent capital ratio
Numerator:				
Unallocated retained earnings	\$ 120,930,542	\$ 120,930,542	\$ 120,930,542	\$ 120,930,542
Paid-in capital	-	-	-	-
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	2,072,871	2,072,871	2,072,871	2,072,871
Allowance for loan losses and reserve for credit losses subject to certain limitations	-	-	1,885,362	-
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	(9,810,495)	(9,810,495)	(9,810,495)	(9,810,495)
	<u>\$ 113,192,918</u>	<u>\$ 113,192,918</u>	<u>\$ 115,078,280</u>	<u>\$ 113,192,918</u>
Denominator:				
Risk-adjusted assets excluding allowance	\$ 688,833,066	\$ 688,833,066	\$ 688,833,066	\$ 688,833,066
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	(9,810,495)	(9,810,495)	(9,810,495)	(9,810,495)
Allowance for loan losses	-	-	-	(1,644,656)
	<u>\$ 679,022,571</u>	<u>\$ 679,022,571</u>	<u>\$ 679,022,571</u>	<u>\$ 677,377,915</u>
		Tier 1 leverage ratio		UREE leverage ratio
Numerator:				
Unallocated retained earnings		\$ 120,930,542		\$ 120,930,542
Common Cooperative Equities:				
Statutory minimum purchased borrower stock		2,072,871		-
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions		(9,810,495)		(9,810,495)
		<u>\$ 113,192,918</u>		<u>\$ 111,120,047</u>
Denominator:				
Total Assets		\$ 666,762,055		\$ 666,762,055
Regulatory Adjustments and Deductions:				
Regulatory deductions included in Tier 1 capital		(12,777,785)		(12,777,785)
		<u>\$ 653,984,270</u>		<u>\$ 653,984,270</u>

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

Accumulated Other Comprehensive Loss

June 30, 2022	<u>Net of Tax</u>
Nonpension postretirement benefits	<u>\$ (65,669)</u>
Total	<u>\$ (65,669)</u>
June 30, 2021	Net of Tax
Nonpension postretirement benefits	<u>\$ (222,614)</u>
Total	<u>\$ (222,614)</u>

The Association's accumulated other comprehensive loss relates entirely to its nonpension other postretirement benefits. Amortization of prior service credit and of actuarial loss are reflected in "Salaries and employee benefits" in the Consolidated Statements of Comprehensive Income. The following table summarizes the change in accumulated other comprehensive loss for the six months ended June 30:

	<u>2022</u>	<u>2021</u>
Accumulated other comprehensive loss at January 1	<u>\$ (55,433)</u>	<u>\$ (216,830)</u>
Amortization of prior credit costs included in salaries and employee benefits	<u>(10,236)</u>	<u>(5,784)</u>
Other comprehensive loss, net of tax	<u>(10,236)</u>	<u>(5,784)</u>
Accumulated other comprehensive loss at June 30	<u>\$ (65,669)</u>	<u>\$ (222,614)</u>

NOTE 5 — INCOME TAXES:

Central Texas Farm Credit, ACA conducts its business activities through two wholly-owned subsidiaries. Long-term mortgage lending activities are conducted through a wholly-owned FLCA subsidiary which is exempt from federal and state income tax. Short- and intermediate-term lending activities are conducted through a wholly-owned PCA subsidiary. The PCA subsidiary and the ACA holding company are subject to income tax. Central Texas Farm Credit, ACA operates as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, Central Texas Farm Credit, ACA can exclude from taxable income amounts distributed as qualified patronage dividends in the form of cash, stock or allocated retained earnings. Provisions for income taxes are made only on those taxable earnings that will not be distributed as qualified patronage dividends. Deferred taxes are recorded at the tax effect of all temporary differences based on the assumption that such temporary differences are retained by the Association and will therefore impact future tax payments. A valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (more than 50 percent probability), based on management's estimate, that they will not be realized. The Association's valuation allowance was \$676,549 as of the quarter ended June 30, 2022 for no available tax benefit as of that point in time.

NOTE 6 — FAIR VALUE MEASUREMENTS:

FASB guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. See Note 13 to the 2021 Annual Report to Stockholders for a more complete description.

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

<u>June 30, 2022</u>	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>	<u>Total Gains (Losses)</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>		
Assets:					
Loans*	\$ -	\$ -	\$ 1,392,477	\$ 1,392,477	\$ -
<u>December 31, 2021</u>	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>	<u>Total Gains (Losses)</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>		
Assets:					
Loans*	\$ -	\$ -	\$ 1,453,667	\$ 1,453,667	\$ -

*Represents the fair value of certain loans that were evaluated for impairment under the authoritative guidance “Accounting by Creditors for Impairment of a Loan.” The fair value was based upon the underlying collateral since these were collateral-dependent loans for which real estate is the collateral.

Valuation Techniques

As more fully discussed in Note 13 to the 2021 Annual Report to Stockholders, authoritative guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following represent a brief summary of the valuation techniques used for the Association’s assets and liabilities. For a more complete description, see Notes to the 2021 Annual Report to Stockholders.

Loans Evaluated for Impairment

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

Other Property Owned

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

Cash

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

Loans

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

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

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

Commitments to Extend Credit

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

NOTE 7 — EMPLOYEE BENEFIT PLANS:

The following table summarizes the components of net periodic benefit costs of nonpension other postretirement employee benefits for the three and six months ended June 30:

Three months ended June 30:

	Other Benefits	
	2022	2021
Service cost	\$ 8,755	\$ 9,214
Interest cost	16,424	15,726
Amortization of prior credits costs	(5,118)	(2,892)
Net periodic benefit cost	<u>\$ 20,061</u>	<u>\$ 22,048</u>

Six months ended June 30:

	Other Benefits	
	2022	2021
Service cost	\$ 17,509	\$ 18,429
Interest cost	32,848	31,452
Amortization of prior credits costs	(10,236)	(5,784)
Net periodic benefit cost	<u>\$ 40,121</u>	<u>\$ 44,097</u>

The Association's liability for the unfunded accumulated obligation for these benefits at June 30, 2022, was \$2,134,359 and is included in other liabilities on the balance sheet.

The components of net periodic benefit cost other than the service cost component are included in the line item "other components of net periodic postretirement benefit cost" in the income statement.

The structure of the District's defined benefit pension plan is characterized as multiemployer since the assets, liabilities and cost of the plan are not segregated or separately accounted for by participating employers (Bank and associations). The Association recognizes its amortized annual contributions to the plan as an expense. The Association previously disclosed in its financial statements for the year ended December 31, 2021, that it expected to contribute \$93,820 to the District's defined benefit pension plan in 2022. As of June 30, 2022, \$40,122 of contributions have been made. The Association presently anticipates contributing an additional \$40,116 to fund the defined benefit pension plan in 2022 for a total of \$80,238.

NOTE 9 — COMMITMENTS AND CONTINGENT LIABILITIES:

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

NOTE 10 — SUBSEQUENT EVENTS:

The Association has evaluated subsequent events through August 09, 2022, which is the date the financial statements were issued. There are no other significant events requiring disclosure as of August 09, 2022.