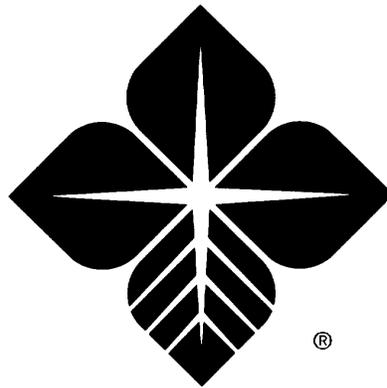


**AG NEW MEXICO, FARM CREDIT SERVICES, ACA**

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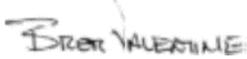
**2019  
Quarterly Report  
Second Quarter**



**For the Quarter Ended June 30, 2019**

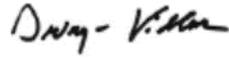
## REPORT OF MANAGEMENT

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.



Brett Valentine, Chief Executive Officer

*August 9, 2019*



Dwayne "Butch" Vidlar, Chairman, Board of Directors

*August 9, 2019*



Will Fisher, Chief Financial Officer

*August 9, 2019*

## AG NEW MEXICO, FARM CREDIT SERVICES, ACA MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the financial performance of the Ag New Mexico, Farm Credit Services, ACA (Agricultural Credit Association), referred to as the Association, for the quarter ended June 30, 2019. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2018 Annual Report to Stockholders.

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

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

### Significant Events:

In December 2018, the board of directors declared a patronage distribution in the amount of \$586,000 which was distributed to the Association's borrowers in the second quarter of 2019. The amount declared was based on the Association's 2018 operating results.

Ag New Mexico, Farm Credit Services, ACA operates under a General Financing Agreement (GFA) with the Farm Credit Bank of Texas, which stipulates a minimum return on average assets be maintained to remain in compliance with the GFA covenants. As of March 31, 2019 Ag New Mexico, Farm Credit Services, ACA fell below the minimum return on average assets covenant; to remain in compliance the Association was granted a limited waiver of the covenant through March 31, 2020.

### Loan Portfolio:

Total loans outstanding at June 30, 2019, including nonaccrual loans and sales contracts, were \$257,999,825 compared to \$241,118,248 at December 31, 2018, reflecting an increase of 7 percent. Nonaccrual loans as a percentage of total loans outstanding were 0.1 percent at June 30, 2019, compared to 0.2 percent at December 31, 2018.

The Association did not record any recoveries or charge-offs for the quarter ended June 30, 2019, and \$798 in recoveries and no charge-offs for the same period in 2018. The Association's allowance for loan losses was 0.2 percent of total loans outstanding as of June 30, 2019, and December 31, 2018.

### 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, 2019		December 31, 2018	
	Amount	%	Amount	%
Nonaccrual	\$ 362,539	93.7%	\$ 410,086	46.0%
Other property owned, net	24,300	6.3%	481,184	54.0%
Total	\$ 386,839	100.0%	\$ 891,270	100.0%

### Results of Operations:

The Association had net income of \$1,033,686 and \$1,793,421 for the three and six months ended June 30, 2019, as compared to net income of \$661,751 and \$1,781,272 for the same period in 2018, reflecting an increase of 56.2 and 0.7 percent. Net interest income was \$1,615,516 and \$3,172,097 for the three and six months ended June 30, 2019, compared to \$1,427,867 and \$2,925,635 for the same period in 2018.

	<b>Six Months Ended</b>			
	<b>June 30, 2019</b>		<b>June 30, 2018</b>	
	<b>Average Balance</b>	<b>Interest</b>	<b>Average Balance</b>	<b>Interest</b>
Loans	\$ 254,821,972	\$ 6,597,397	\$ 221,020,630	\$ 5,283,650
Interest-bearing liabilities	223,344,927	3,425,300	191,178,328	2,358,015
Impact of capital	<b>\$ 31,477,045</b>		<b>\$ 29,842,302</b>	
Net interest income		<b>\$ 3,172,097</b>		<b>\$ 2,925,635</b>

	<b>2019</b>	<b>2018</b>
	<b>Average Yield</b>	<b>Average Yield</b>
Yield on loans	5.22%	4.82%
Cost of interest-bearing liabilities	3.09%	2.49%
Interest rate spread	2.13%	2.33%
Net interest income as a percentage of average earning assets	2.51%	2.67%

	<b>Three Months Ended: June 30, 2019 vs. June 30, 2018</b>		
	<b>Increase (decrease) due to</b>		
	<b>Volume</b>	<b>Rate</b>	<b>Total</b>
Interest income - loans	\$ 808,051	\$ 505,696	\$ 1,313,747
Interest expense	396,752	670,533	1,067,285
Net interest income	<b>\$ 411,299</b>	<b>\$ (164,837)</b>	<b>\$ 246,462</b>

Interest income for the three and six months ended June 30, 2019, increased by \$704,690 and \$1,313,747, or 26.3 and 24.9 percent respectively, from the same period of 2018, primarily due to increases in yields on earning assets and an increase in average loan volume. Interest expense for the three and six months ended June 30, 2019, increased by \$517,041 and \$1,067,285, or 41.2 and 45.3 percent, from the same period of 2018 due to an increase in interest rates and an increase in average debt volume. Average loan volume for the second quarter of 2019 was \$254,821,972, compared to \$221,020,630 in the second quarter of 2018. The average net interest rate spread on the loan portfolio for the second quarter of 2019 was 2.13 percent, compared to 2.33 percent in the second quarter of 2018.

The Association's return on average assets for the six months ended June 30, 2019, was 1.35 percent compared to 1.54 percent for the same period in 2018. The Association's return on average equity for the six months ended June 30, 2019, was 8.7 percent, compared to 9.1 percent for the same period in 2018.

#### **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.

	<b>June 30, 2019</b>	<b>December 31, 2018</b>
	Note payable to the Bank	\$ 225,198,133
Accrued interest on note payable	584,059	526,696
Total	<b>\$ 225,782,192</b>	<b>\$ 210,445,471</b>

The Association operates under a general financing agreement (GFA) with the Bank. The current GFA is effective through September 30, 2019. The primary source of liquidity and funding for the Association is a direct loan from the Bank. The outstanding balance of \$225,198,133 as of June 30, 2019, is recorded as a liability on the Association's balance sheet. The note carried a weighted average interest rate of 3.09 percent at June 30, 2019. The indebtedness is collateralized by a pledge of substantially all of the Association's assets to the Bank and is governed by the general financing agreement. The increase in note payable to the Bank and related accrued interest payable since December 31, 2018, 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 \$32,210,209 at June 30, 2019. The maximum amount the Association may borrow from the Bank as of June 30, 2019, was \$258,876,950 as defined by the general financing agreement. The indebtedness continues in effect until the expiration date of the general financing agreement, which is September 30, 2019, 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 \$1,787,023 at June 30, 2019, compared to December 31, 2018. The Association's debt as a percentage of members' equity was 5.37:1 as of June 30, 2019, compared to 5.22:1 as of December 31, 2018.

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, 2019, the Association exceeded all regulatory capital requirements.

### **Significant Recent Accounting Pronouncements:**

In August 2018, the Financial Accounting Standards Board (FASB) issued guidance entitled "Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Cost." The guidance aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by this guidance. This guidance becomes effective for interim and annual periods beginning after December 15, 2019. The guidance also requires an entity (customer) to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement. It further specifies where to present expense and payments in the financial statements. Early adoption is permitted. The guidance is to be applied on a retrospective or prospective basis to all implementation costs incurred after the date of adoption. The Association is evaluating the impact of adoption on the Association's financial condition and its results of operations.

In August 2018, the FASB issued guidance entitled "Disclosure Framework — Changes to the Disclosure Requirements for Defined Benefit Plans." The guidance modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. This guidance becomes effective for fiscal years ending after December 15, 2020. Early adoption is permitted. The guidance is to be applied on a retrospective basis for all periods. The adoption of this guidance will not impact the Association's financial condition or its results of operations, but will impact the employee benefit plan disclosures.

In August 2018, the FASB issued guidance entitled "Disclosure Framework — Changes to the Disclosure Requirements for Fair Value Measurement." The guidance modifies the requirements on fair value measurements by removing, modifying, or adding to the disclosures. This guidance becomes effective for interim and annual periods beginning after December 15, 2019. Early adoption is permitted and an entity is permitted to early adopt any removal or modified disclosures and delay adoption of the additional disclosures until their effective date. The adoption of this guidance will not impact the Association's financial condition or its results of operations, but will impact the fair value measurements disclosures.

In August 2017, the FASB issued guidance entitled "Targeted Improvements to Accounting for Hedging Activities." The guidance better aligns an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. The amendments in this guidance require an entity to present the earnings effect of the hedging instrument in the same income statement line item in which the earnings effect of the hedged item is reported. This guidance also addresses the timing of effectiveness testing, qualitative and quantitative effectiveness testing, and components that can be excluded from effectiveness testing. This guidance became effective for interim and annual periods beginning after December 15, 2018. The adoption of this guidance did not materially impact the Association's financial condition or its results of operations but did impact the derivative disclosures.

In June 2016, the FASB issued guidance entitled “Measurement of Credit Losses on Financial Instruments.” The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses. For public business entities that are not U.S. Securities and Exchange Commission filers this guidance becomes effective for interim and annual periods beginning after December 15, 2020, with early application permitted. The Association is evaluating the impact of adoption on its financial condition and results of operations.

In February 2016, the FASB issued guidance entitled “Leases.” The guidance requires the recognition by lessees of lease assets and lease liabilities on the balance sheet for the rights and obligations created by those leases. Leases with lease terms of more than 12 months are impacted by this guidance. The guidance and related amendments in this update became effective for interim and annual periods beginning after December 15, 2018, with early application permitted. The adoption of this guidance did not materially impact the Association’s financial condition and results of operations but did impact lease disclosures. The Association adopted this guidance on January 1, 2019 and upon adoption, recorded a \$379,821 right of use asset and a \$404,698 lease liability.

**Relationship With the Farm Credit Bank of Texas:**

The Association’s financial condition may be impacted by factors that affect the Bank. The financial condition and results of operations of the Bank may materially affect the stockholder’s investment in the Association. The Management’s Discussion and Analysis and Notes to Financial Statements contained in the 2018 Annual Report of Ag New Mexico, Farm Credit Services, 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](http://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 Ag New Mexico, Farm Credit Services, ACA, 4501 N. Prince St., Clovis, New Mexico, 88101 or calling (575) 762-3828. The annual and quarterly stockholder reports for the Association are also available on its website at [www.agnewmexico.com](http://www.agnewmexico.com). Copies of the Association’s quarterly stockholder reports can also be requested by e-mailing [will.fisher@farmcreditbank.com](mailto:will.fisher@farmcreditbank.com).

**AG NEW MEXICO, FARM CREDIT SERVICES, ACA**

**CONSOLIDATED BALANCE SHEET**

	<b>June 30, 2019 (unaudited)</b>	December 31, 2018
<b><u>ASSETS</u></b>		
Loans	\$ 257,999,825	\$ 241,118,248
Less: allowance for loan losses	635,290	521,118
Net loans	<u>257,364,535</u>	240,597,130
Accrued interest receivable	3,329,587	3,115,660
Investment in and receivable from the Farm Credit Bank of Texas:		
Capital stock	5,921,665	5,344,040
Other	969,986	1,119,540
Deferred taxes, net	297,532	297,532
Other property owned, net	24,300	481,184
Premises and equipment, net	3,580,160	3,158,314
Other assets	501,928	427,639
Total assets	<u>\$ 271,989,693</u>	<u>\$ 254,541,039</u>
<b><u>LIABILITIES</u></b>		
Note payable to the Farm Credit Bank of Texas	\$ 225,198,133	\$ 209,918,775
Advance conditional payments	789,179	168,696
Accrued interest payable	584,059	526,696
Drafts outstanding	42,686	62,762
Dividends payable	-	586,000
Other liabilities	2,658,488	2,347,985
Total liabilities	<u>229,272,545</u>	<u>213,610,914</u>
<b><u>MEMBERS' EQUITY</u></b>		
Capital stock and participation certificates	462,105	472,355
Unallocated retained earnings	42,442,911	40,649,490
Accumulated other comprehensive loss	(187,868)	(191,720)
Total members' equity	<u>42,717,148</u>	<u>40,930,125</u>
Total liabilities and members' equity	<u>\$ 271,989,693</u>	<u>\$ 254,541,039</u>

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

AG NEW MEXICO, FARM CREDIT SERVICES, ACA

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited)

	Quarter Ended		Six Months Ended	
	June 30,		June 30,	
	2019	2018	2019	2018
<b><u>INTEREST INCOME</u></b>				
Loans	\$ 3,388,522	\$ 2,683,832	\$ 6,597,397	\$ 5,283,650
Total interest income	3,388,522	2,683,832	6,597,397	5,283,650
<b><u>INTEREST EXPENSE</u></b>				
Note payable to the Farm Credit Bank of Texas	1,773,006	1,255,965	3,425,300	2,358,015
Total interest expense	1,773,006	1,255,965	3,425,300	2,358,015
Net interest income	1,615,516	1,427,867	3,172,097	2,925,635
<b><u>PROVISION FOR LOAN LOSSES</u></b>				
	60,832	12,145	120,421	47,296
Net interest income after provision for loan losses	1,554,684	1,415,722	3,051,676	2,878,339
<b><u>NONINTEREST INCOME</u></b>				
Income from the Farm Credit Bank of Texas:				
Patronage income	503,379	483,577	982,529	970,461
Loan fees	52,782	80,257	90,263	159,279
Refunds from Farm Credit System Insurance Corporation	-	-	-	319,682
Financially related services income	436	(49)	1,419	561
Gain on sale of premises and equipment, net	31,145	-	68,837	-
Other noninterest income	286,005	33,875	377,651	60,541
Total noninterest income	873,747	597,660	1,520,699	1,510,524
<b><u>NONINTEREST EXPENSES</u></b>				
Salaries and employee benefits	849,170	818,778	1,667,084	1,589,536
Directors' expense	48,640	52,758	114,248	90,950
Purchased services	128,224	111,908	256,263	229,208
Travel	66,943	79,010	143,359	144,250
Occupancy and equipment	94,876	77,206	199,040	142,356
Communications	22,985	13,663	39,631	24,641
Advertising	6,982	11,231	13,682	16,677
Public and member relations	10,155	6,071	19,670	13,471
Supervisory and exam expense	24,095	36,749	48,190	65,462
Insurance Fund premiums	58,451	36,964	122,477	73,954
Other noninterest expense	84,224	107,293	155,310	217,086
Total noninterest expenses	1,394,745	1,351,631	2,778,954	2,607,591
<b>NET INCOME</b>	<b>1,033,686</b>	<b>661,751</b>	<b>1,793,421</b>	<b>1,781,272</b>
Other comprehensive income:				
Change in postretirement benefit plans	1,926	7,671	3,852	15,342
<b>COMPREHENSIVE INCOME</b>	<b>\$ 1,035,612</b>	<b>\$ 669,422</b>	<b>\$ 1,797,273</b>	<b>\$ 1,796,614</b>

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

**AG NEW MEXICO, FARM CREDIT SERVICES, ACA**

**CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY**

(unaudited)

	<b>Capital Stock/ Participation Certificates</b>	<b>Unallocated Retained Earnings</b>	<b>Accumulated Other Comprehensive Income (Loss)</b>	<b>Total Members' Equity</b>
Balance at December 31, 2017	\$ 435,635	\$ 38,495,664	\$ (365,959)	\$ 38,565,340
Comprehensive income	-	1,781,272	15,342	1,796,614
Capital stock/participation certificates and allocated retained earnings issued	48,175	-	-	48,175
Capital stock/participation certificates and allocated retained earnings retired	(23,650)	-	-	(23,650)
<b>Balance at June 30, 2018</b>	<b>\$ 460,160</b>	<b>\$ 40,276,936</b>	<b>\$ (350,617)</b>	<b>\$ 40,386,479</b>
Balance at December 31, 2018	\$ 472,355	\$ 40,649,490	\$ (191,720)	\$ 40,930,125
Comprehensive income	-	1,793,421	3,852	1,797,273
Preferred Stock Issued				
Capital stock/participation certificates and allocated retained earnings issued	28,750	-	-	28,750
Capital stock/participation certificates and allocated retained earnings retired	(39,000)	-	-	(39,000)
<b>Balance at June 30, 2019</b>	<b>\$ 462,105</b>	<b>\$ 42,442,911</b>	<b>\$ (187,868)</b>	<b>\$ 42,717,148</b>

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

**AG NEW MEXICO, FARM CREDIT SERVICES, ACA**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(UNAUDITED)

**NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:**

The Ag New Mexico, Farm Credit Services, 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 all counties in the state of New Mexico with the exception of San Juan County and the portion of Rio Arriba County lying west of the Continental Divide. 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 consolidated 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 consolidated financial statements as of and for the year ended December 31, 2018, as contained in the 2018 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 consolidated financial statements should be read in conjunction with the audited consolidated financial statements as of and for the year ended December 31, 2018, as contained in the 2018 Annual Report to Stockholders. The preparation of consolidated 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, 2018. Descriptions of the significant accounting policies are included in the 2018 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 August 2018, the Financial Accounting Standards Board (FASB) issued guidance entitled “Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Cost.” The guidance aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by this guidance. This guidance becomes effective for interim and annual periods beginning after December 15, 2019. The guidance also requires an entity (customer) to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement. It further specifies where to present expense and payments in the financial statements. Early adoption is permitted. The guidance is to be applied on a retrospective or prospective basis to all implementation costs incurred after the date of adoption. The Association is evaluating the impact of adoption on the Association’s financial condition and its results of operations.

In August 2018, the FASB issued guidance entitled “Disclosure Framework — Changes to the Disclosure Requirements for Defined Benefit Plans.” The guidance modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. This guidance becomes effective for fiscal years ending after December 15, 2020. Early adoption is permitted. The guidance is to be applied on a retrospective basis for all periods. The adoption of this guidance will not impact the Association’s financial condition or its results of operations, but will impact the employee benefit plan disclosures.

In August 2018, the FASB issued guidance entitled “Disclosure Framework — Changes to the Disclosure Requirements for Fair Value Measurement.” The guidance modifies the requirements on fair value measurements by removing, modifying, or adding to the disclosures. This guidance becomes effective for interim and annual periods beginning after December 15, 2019. Early adoption is permitted and an entity is permitted to early adopt any removal or modified disclosures and delay adoption of the additional disclosures until their effective date. The adoption of this guidance will not impact the Association’s financial condition or its results of operations, but will impact the fair value measurements disclosures.

In August 2017, the FASB issued guidance entitled “Targeted Improvements to Accounting for Hedging Activities.” The guidance better aligns an entity’s risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. The amendments in this guidance require an entity to present the earnings effect of the hedging instrument in the same income statement line item in which the earnings effect of the hedged item is reported. This guidance also addresses the timing of effectiveness testing, qualitative and quantitative effectiveness testing, and components that can be excluded from effectiveness testing. This guidance became effective for interim and annual periods beginning after December 15, 2018. The adoption of this guidance did not materially impact the Association’s financial condition or its results of operations but did impact the derivative disclosures.

In June 2016, the FASB issued guidance entitled “Measurement of Credit Losses on Financial Instruments.” The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses. For public business entities that are not U.S. Securities and Exchange Commission filers this guidance becomes effective for interim and annual periods beginning after December 15, 2020, with early application permitted. The Association is evaluating the impact of adoption on its financial condition and results of operations.

In February 2016, the FASB issued guidance entitled “Leases.” The guidance requires the recognition by lessees of lease assets and lease liabilities on the balance sheet for the rights and obligations created by those leases. Leases with lease terms of more than 12 months are impacted by this guidance. The guidance and related amendments in this update became effective for interim and annual periods beginning after December 15, 2018, with early application permitted. The adoption of this guidance did not materially impact the Association’s financial condition and results of operations but did impact lease disclosures. The Association adopted this guidance on January 1, 2019 and upon adoption, recorded a \$379,821 right of use asset and a \$404,698 lease liability.

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, 2019, are not necessarily indicative of the results to be expected for the year ended December 31, 2019. Certain amounts in the prior period’s consolidated 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, 2019 Amount	December 31, 2018 Amount
Production agriculture:		
Real estate mortgage	<b>\$ 104,611,790</b>	\$ 93,498,586
Production and intermediate term	<b>72,942,171</b>	74,958,714
Agribusiness:		
Processing and marketing	<b>44,976,150</b>	42,048,352
Loans to cooperatives	<b>5,703,048</b>	3,036,606
Farm-related business	<b>5,670,925</b>	5,284,755
Rural residential real estate	<b>8,606,606</b>	9,241,754
Energy	<b>6,568,326</b>	6,146,189
Communication	<b>4,615,709</b>	2,536,651
Lease receivables	<b>2,309,436</b>	2,371,397
Water and waste water	<b>1,995,664</b>	1,995,244
Total	<b>\$ 257,999,825</b>	<b>\$241,118,248</b>

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, 2019:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations	Participations	Participations	Participations	Participations	Participations
	Purchased	Sold	Purchased	Sold	Purchased	Sold
Agribusiness	\$36,547,037	\$11,000,724	\$ -	\$ -	\$36,547,037	\$11,000,724
Real estate mortgage	10,990,444	29,673,793	-	-	10,990,444	29,673,793
Production and intermediate term	9,653,309	28,667,134	-	2,334,792	9,653,309	31,001,926
Energy	6,568,326	-	-	-	6,568,326	-
Communication	4,615,709	-	-	-	4,615,709	-
Water and waste water	1,995,664	-	-	-	1,995,664	-
Lease receivables	1,810,280	-	-	-	1,810,280	-
Total	<u>\$72,180,769</u>	<u>\$69,341,651</u>	<u>\$ -</u>	<u>\$2,334,792</u>	<u>\$72,180,769</u>	<u>\$71,676,443</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 may be paid by the Association on such balances. Balances of ACPs were \$789,179 and \$168,696 at June 30, 2019, and December 31, 2018, respectively.

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

	<u>June 30,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
<b>Nonaccrual loans:</b>		
Real estate mortgage	\$ 305,599	\$ 398,523
Production and intermediate term	56,940	11,563
Total nonaccrual loans	<u>362,539</u>	410,086
Other property owned	24,300	481,184
Total nonperforming assets	<u>\$ 386,839</u>	<u>\$ 891,270</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:

	<b>June 30, 2019</b>	December 31, 2018
Real estate mortgage		
Acceptable	<b>87</b> %	96 %
OAEM	<b>3</b>	3
Substandard/doubtful	<b>10</b>	1
	<b>100</b>	100
Production and intermediate term		
Acceptable	<b>89</b>	95
OAEM	<b>6</b>	4
Substandard/doubtful	<b>5</b>	1
	<b>100</b>	100
Agribusiness		
Acceptable	<b>98</b>	95
OAEM	<b>2</b>	5
Substandard/doubtful	-	-
	<b>100</b>	100
Energy and water/waste water		
Acceptable	<b>88</b>	100
OAEM	-	-
Substandard/doubtful	<b>12</b>	-
	<b>100</b>	100
Communication		
Acceptable	<b>100</b>	100
OAEM	-	-
Substandard/doubtful	-	-
	<b>100</b>	100
Rural residential real estate		
Acceptable	<b>100</b>	100
OAEM	-	-
Substandard/doubtful	-	-
	<b>100</b>	100
Lease receivables		
Acceptable	<b>100</b>	100
OAEM	-	-
Substandard/doubtful	-	-
	<b>100</b>	100
Total loans		
Acceptable	<b>91</b>	97
OAEM	<b>3</b>	2
Substandard/doubtful	<b>6</b>	1
	<b>100</b> %	100 %

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

June 30, 2019	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment >90 Days and Accruing
Real estate mortgage	\$ 351,892	\$ 305,599	\$ 657,491	\$ 106,056,195	\$106,713,686	\$ -
Production and intermediate term	121,310	56,940	178,250	73,554,286	73,732,536	-
Processing and marketing	511,880	-	511,880	44,725,885	45,237,765	-
Rural residential real estate	-	-	-	8,640,048	8,640,048	-
Energy	-	-	-	6,582,971	6,582,971	-
Loans to cooperatives	-	-	-	5,725,415	5,725,415	-
Farm-related business	-	-	-	5,706,816	5,706,816	-
Communication	-	-	-	4,617,089	4,617,089	-
Lease receivables	-	-	-	2,347,200	2,347,200	-
Water and waste water	-	-	-	2,025,886	2,025,886	-
<b>Total</b>	<b>\$ 985,082</b>	<b>\$ 362,539</b>	<b>\$1,347,621</b>	<b>\$ 259,981,791</b>	<b>\$261,329,412</b>	<b>\$ -</b>
December 31, 2018	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	\$ 125,268	\$ 398,523	\$ 523,791	\$ 94,621,991	\$ 95,145,782	\$ -
Production and intermediate term	243,011	11,563	254,574	75,632,908	75,887,482	-
Processing and marketing	-	-	-	42,408,974	42,408,974	-
Rural residential real estate	317,085	-	317,085	8,955,190	9,272,275	-
Energy	56,913	-	56,913	6,100,927	6,157,840	-
Farm-related business	-	-	-	5,354,797	5,354,797	-
Loans to cooperatives	-	-	-	3,050,111	3,050,111	-
Communication	-	-	-	2,536,652	2,536,652	-
Lease receivables	-	-	-	2,394,529	2,394,529	-
Water and waste water	-	-	-	2,025,466	2,025,466	-
<b>Total</b>	<b>\$ 742,277</b>	<b>\$ 410,086</b>	<b>\$1,152,363</b>	<b>\$ 243,081,545</b>	<b>\$244,233,908</b>	<b>\$ -</b>

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 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, 2019, the total recorded investment of troubled debt restructured loans was \$266,866, all of which was classified as nonaccrual with no specific allowance. As of June 30, 2019, commitments to lend funds to borrowers whose loan terms have been modified in a troubled debt restructuring were \$442,016 at period end and at December 31, 2018.

	Loans Modified as TDRs		TDRs in Nonaccrual Status*	
	December		December 31,	
	June 30, 2019	31, 2018	June 30, 2019	2018
Production and intermediate term	\$ 56,940	\$ 313,311	\$ 56,940	\$ 313,311
Real estate mortgage	209,926	11,563	209,926	11,563
<b>Total</b>	<b>\$ 266,866</b>	<b>\$ 324,874</b>	<b>\$ 266,866</b>	<b>\$ 324,874</b>

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

Additional impaired loan information is as follows:

	June 30, 2019			December 31, 2018		
	Recorded Investment	Unpaid Principal Balance <sup>a</sup>	Related Allowance	Recorded Investment	Unpaid Principal Balance <sup>a</sup>	Related Allowance
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	\$305,599	\$ 305,796	\$ -	\$ 398,523	\$398,719	\$ -
Production and intermediate term	56,940	80,276	-	11,563	93,619	-
Total	\$362,539	\$ 386,072	\$ -	\$ 410,086	\$492,338	\$ -
Total impaired loans:						
Real estate mortgage	\$305,599	\$ 305,796	\$ -	\$ 398,523	\$398,719	\$ -
Production and intermediate term	56,940	80,276	-	11,563	93,619	-
Total	\$362,539	\$ 386,072	\$ -	\$ 410,086	\$492,338	\$ -

<sup>a</sup> Unpaid principal balance represents the recorded principal balance of the loan.

	For the Three Months Ended				For the Six Months Ended			
	June 30, 2019		June 30, 2018		June 30, 2019		June 30, 2018	
	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 no related allowance for credit losses:								
Real estate mortgage	\$302,594	\$ -	\$476,630	\$ 190	\$307,079	\$ -	\$538,117	\$ 190
Production and intermediate term	8,810	-	152,200	-	8,901	-	274,251	-
Total	\$311,404	\$ -	\$628,830	\$ 190	\$315,980	\$ -	\$812,368	\$ 190
Total impaired loans:								
Real estate mortgage	\$302,594	\$ -	\$476,630	\$ 190	\$307,079	\$ -	\$538,117	\$ 190
Production and intermediate term	8,810	-	152,200	-	8,901	-	274,251	-
Total	\$311,404	\$ -	\$628,830	\$ 190	\$315,980	\$ -	\$812,368	\$ 190

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	Water and Wastewater	Rural Residential Real Estate	Lease Receivables	Total
<b>Allowance for Credit Losses:</b>									
Balance at March 31, 2019	\$ 147,680	\$ 286,813	\$ 98,008	\$ 7,252	\$ 22,498	\$ 8,986	\$ 9,882	\$ -	\$ 581,119
Charge-offs	-	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-	-
Provision for loan losses	15,470	30,003	10,267	760	2,356	941	1,035	-	60,832
Other	-	(6,661)	-	-	-	-	-	-	(6,661)
Balance at June 30, 2019	\$ 163,150	\$ 310,155	\$ 108,275	\$ 8,012	\$ 24,854	\$ 9,927	\$ 10,917	\$ -	\$ 635,290
Balance at December 31, 2018	\$ 132,526	\$ 257,012	\$ 87,951	\$ 6,508	\$ 20,189	\$ 8,064	\$ 8,868	\$ -	\$ 521,118
Charge-offs	-	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-	-
Provision for loan losses	30,624	59,392	20,324	1,504	4,665	1,863	2,049	-	120,421
Other	-	(6,249)	-	-	-	-	-	-	(6,249)
Balance at June 30, 2019	\$ 163,150	\$ 310,155	\$ 108,275	\$ 8,012	\$ 24,854	\$ 9,927	\$ 10,917	\$ -	\$ 635,290
Ending Balance:									
Individually evaluated for impairment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Collectively evaluated for impairment	163,150	310,155	108,275	8,012	24,854	9,927	10,917	-	635,290
Balance at June 30, 2019	\$ 163,150	\$ 310,155	\$ 108,275	\$ 8,012	\$ 24,854	\$ 9,927	\$ 10,917	\$ -	\$ 635,290
Balance at March 31, 2018	\$ 123,524	\$ 249,945	\$ 81,977	\$ 6,066	\$ 26,333	\$ -	\$ 8,266	\$ -	\$ 496,111
Charge-offs	-	-	-	-	-	-	-	-	-
Recoveries	-	798	-	-	-	-	-	-	798
Provision for loan losses	3,050	6,065	2,025	149	652	-	204	-	12,145
Other	-	(7,341)	-	-	-	-	-	-	(7,341)
Balance at June 30, 2018	\$ 126,574	\$ 249,467	\$ 84,002	\$ 6,215	\$ 26,985	\$ -	\$ 8,470	\$ -	\$ 501,713
Balance at December 31, 2017	\$ 114,695	\$ 228,073	\$ 76,118	\$ 5,632	\$ 24,452	\$ -	\$ 7,675	\$ -	\$ 456,645
Charge-offs	-	-	-	-	-	-	-	-	-
Recoveries	-	798	-	-	-	-	-	-	798
Provision for loan losses	11,879	23,622	7,884	583	2,533	-	795	-	47,296
Other	-	(3,026)	-	-	-	-	-	-	(3,026)
Balance at June 30, 2018	\$ 126,574	\$ 249,467	\$ 84,002	\$ 6,215	\$ 26,985	\$ -	\$ 8,470	\$ -	\$ 501,713
Ending Balance:									
Individually evaluated for impairment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Collectively evaluated for impairment	126,574	249,467	84,002	6,215	26,985	-	8,470	-	501,713
Balance at June 30, 2018	\$ 126,574	\$ 249,467	\$ 84,002	\$ 6,215	\$ 26,985	\$ -	\$ 8,470	\$ -	\$ 501,713
<b>Recorded Investments in Loans Outstanding:</b>									
Ending Balance at June 30, 2019	\$106,713,686	\$ 73,732,536	\$56,669,996	\$ 4,617,089	\$ 6,582,971	\$2,025,886	\$8,640,048	\$ 2,347,200	\$ 261,329,412
Individually evaluated for impairment	\$ 362,539	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 362,539
Collectively evaluated for impairment	\$106,351,147	\$ 73,732,536	\$56,669,996	\$ 4,617,089	\$ 6,582,971	\$2,025,886	\$8,640,048	\$ 2,347,200	\$ 260,966,873
Ending Balance at June 30, 2018	\$ 90,951,291	\$ 59,080,600	\$58,981,599	\$ 2,631,876	\$ 9,835,420	\$ -	\$9,463,094	\$ 1,941,228	\$ 232,885,108
Individually evaluated for impairment	\$ 405,189	\$ 107,560	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 512,749
Collectively evaluated for impairment	\$ 90,546,102	\$ 58,973,040	\$58,981,599	\$ 2,631,876	\$ 9,835,420	\$ -	\$9,463,094	\$ 1,941,228	\$ 232,372,359

**NOTE 3 —LEASES:**

Adoption of the leasing standard impacted our previously reported results as follows:

Balance Sheet Classification	As of June 30, 2019	As Previously Reported December 31, 2018	Lease Standard Adjustment	As Restated January 1, 2019
Operating lease right-of-use asset	\$ 329,946	\$ -	\$ 379,821	\$ 404,698
	<u>\$ 329,946</u>	<u>\$ -</u>	<u>\$ 379,821</u>	<u>\$ 404,698</u>
Operating lease liabilities	\$ 328,400	\$ -	\$ 379,821	\$ 379,821
	<u>\$ 328,400</u>	<u>\$ -</u>	<u>\$ 379,821</u>	<u>\$ 379,821</u>

The components of lease expense were as follows:

	For the Six Months Ended June 30, 2019
Operating lease cost	<u>\$ 56,623</u>
Net lease cost	<u>\$ 56,623</u>

Other information related to leases was as follows:

	For the Six Months Ended June 30, 2019
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	\$ 56,623
Right-of-use assets obtained in exchange for lease obligations:	
Operating leases	49,875

Lease term and discount rate are as follows:

	June 30, 2019
Weighted average remaining lease term in years	
Operating leases	3.2
Weighted average discount rate	
Operating leases	4.65%

Future minimum lease payments under non-cancellable leases as of June 30, 2019 were as follows:

	Operating Leases
2019 (excluding the six months ended 6/30/19)	\$ 56,873
2020	114,501
2021	99,160
2022	57,125
2023	42,802
Thereafter	-
Total lease payments	<u>\$ 370,461</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 institution's capital adequacy goals as well as the minimum permanent capital standards. The Plan monitors projected dividends, equity retirements, and other actions that may decrease the Association's permanent capital. In addition to factors that must be considered in meeting the minimum standards, the board of directors also monitors the following factors: capability of management; quality of operating policies, procedures, and internal controls; quality and quantity of earnings; asset quality and the adequacy of the allowance for losses to absorb potential loss within the loan and lease portfolios; sufficiency of liquid funds; needs of an institution's customer base; and any other risk-oriented activities, such as funding and interest rate risk, potential obligations under joint and several liability, contingent and off-balance-sheet liabilities, or other conditions warranting additional capital. At least quarterly, management reviews the Association's goals and objectives with the board.

### Regulatory Capitalization Requirements

Risk-adjusted:	Regulatory Conservation			As of June 30, 2019
	Minimums	Buffer	Total	
Common equity tier 1 ratio	4.50%	2.50%	7.00%	14.02%
Tier 1 capital ratio	6.00%	2.50%	8.50%	14.02%
Total capital ratio	8.00%	2.50%	10.50%	14.26%
Permanent capital ratio	7.00%	0.00%	7.00%	14.05%
<b>Non-risk-adjusted:</b>				
Tier 1 leverage ratio	4.00%	1.00%	5.00%	13.53%
UREE leverage ratio	1.50%	0.00%	1.50%	14.50%

	Common Equity Tier 1 Ratio	Tier 1 Capital Ratio	Total Capital Ratio	Permanent Capital Ratio
<b>Numerator:</b>				
Unallocated retained earnings	\$ 41,234,040	\$ 41,234,040	\$ 41,234,040	\$ 41,234,040
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	464,086	464,086	464,086	464,086
Allowance for loan losses and reserve for credit losses subject to certain limitations			622,111	
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	(5,427,475)	(5,427,475)	(5,427,475)	(5,427,475)
	<u>\$ 36,270,651</u>	<u>\$ 36,270,651</u>	<u>\$ 36,892,762</u>	<u>\$ 36,270,651</u>
<b>Denominator:</b>				
Risk-adjusted assets excluding allowance	\$264,193,486	\$264,193,486	\$264,193,486	\$264,193,486
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	(5,427,475)	(5,427,475)	(5,427,475)	(5,427,475)
Allowance for loan losses				(583,527)
	<u>\$ 258,766,011</u>	<u>\$ 258,766,011</u>	<u>\$ 258,766,011</u>	<u>\$ 258,182,484</u>

	Tier 1 Leverage Ratio	UREE Leverage Ratio
Numerator:		
Unallocated retained earnings	\$ 41,234,040	\$ 41,234,040
Common Cooperative Equities:		
Statutory minimum purchased borrower stock	464,086	-
Regulatory Adjustments and Deductions:		
Amount of allocated investments in other System institutions	(5,427,475)	(2,379,200)
	<u>\$ 36,270,651</u>	<u>\$ 38,854,840</u>
Denominator:		
Total Assets	\$274,002,360	\$274,002,360
Regulatory Adjustments and Deductions:		
Regulatory deductions included in tier 1 capital	(6,022,682)	(6,022,682)
	<u>\$ 267,979,678</u>	<u>\$ 267,979,678</u>

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

<b>June 30, 2019</b>	<b>Net of Tax</b>
<b>Nonpension postretirement benefits</b>	<b>\$ (187,868)</b>
<b>Total</b>	<b>\$ (187,868)</b>
June 30, 2018	Net of Tax
Nonpension postretirement benefits	\$ (350,617)
Total	\$ (350,617)

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

	<u>2019</u>	<u>2018</u>
Accumulated other comprehensive loss at January 1	\$(191,720)	\$(365,959)
Amortization of prior service credit included		
in salaries and employee benefits	(2,242)	(5,566)
Amortization of actuarial loss included		
in salaries and employee benefits	6,094	20,908
Other comprehensive income, net of tax	3,852	15,342
Accumulated other comprehensive loss at June 30	<u>\$ (187,868)</u>	<u>\$ (350,617)</u>

#### **NOTE 5 — INCOME TAXES:**

Ag New Mexico, Farm Credit Services, 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. Ag New Mexico, Farm Credit Services, ACA operates as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, Ag New Mexico, Farm Credit Services, ACA can exclude from taxable income amounts distributed as qualified patronage dividends in the form of cash, stock, or allocated retained earnings. Provisions for income taxes are made only on those taxable earnings that will not be distributed as qualified patronage dividends. Deferred taxes are recorded at the tax effect of all temporary differences based on the assumption that such temporary differences are retained by the institution and will therefore impact future tax payments. A valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (more than 50 percent probability), based on management's estimate, that they will not be realized.

## NOTE 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 2018 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, 2019</u>	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Assets:				
Other property owned	-	-	24,300	24,300

<u>December 31, 2018</u>	<u>Fair Value Measurement Using</u>			<u>Total Fair Value</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Assets:				
Other property owned	-	-	481,184	481,184

### Valuation Techniques

As more fully discussed in Note 13 to the 2018 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 2018 Annual Report to Stockholders.

#### *Assets Held in Nonqualified Benefits Trusts*

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

#### *Standby Letters of Credit*

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

#### *Loans Evaluated for Impairment*

For certain loans evaluated for impairment under FASB impairment guidance, the fair value is based upon the underlying collateral since the loans are collateral-dependent loans for which real estate is the collateral. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral, and other matters. As a result, a majority of these loans have fair value measurements that fall within Level 3 of the fair value hierarchy. When the value of the real estate, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established. The fair value of these loans would fall under Level 2 of the hierarchy if the process uses independent appraisals and other market-based information.

#### *Other Property Owned*

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

#### *Cash*

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

## Loans

Fair value is estimated by discounting the expected future cash flows using the Association's current interest rates at which similar loans would be made to borrowers with similar credit risk. The discount rates are based on the Association's 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	
	2019	2018
Service cost	\$ 1,555	\$ 7,172
Interest cost	14,813	28,104
Amortization of prior service credits	(1,122)	(5,566)
Amortization of net actuarial loss	3,048	20,908
Net periodic benefit cost	<u>\$ 18,294</u>	<u>\$ 50,618</u>

Six months ended June 30 :

	Other Benefits	
	2019	2018
Service cost	\$ 3,110	\$ 14,344
Interest cost	29,626	56,208
Amortization of prior service credits	(2,242)	(11,132)
Amortization of net actuarial loss	6,094	41,816
Net periodic benefit cost	<u>\$ 36,588</u>	<u>\$ 101,236</u>

The Association's liability for the unfunded accumulated obligation for these benefits at June 30, 2019, was \$1,289,085 and is included in "Other Liabilities" in 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 consolidated financial statements for the year ended December 31, 2018, that it expected to contribute \$66,906 to the District's defined benefit pension plan in 2019. As of June 30, 2019, the full annual contribution has been made. The Association presently does not anticipate additional contributions to fund the defined benefit pension plan in 2019.

**NOTE 8 — COMMITMENTS AND CONTINGENT LIABILITIES:**

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

**NOTE 9 — SUBSEQUENT EVENTS:**

The Association has evaluated subsequent events through August 9, 2019, which is the date the financial statements were issued. There are no other significant events requiring disclosure as of August 9, 2019.