AG NEW MEXICO, FARM CREDIT SERVICES, ACA

2021
Quarterly Report
Second Quarter

For the Quarter Ended June 30, 2021

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 6, 2021

Linda Brown, Chairman, Board of Directors

August 6, 2021

Will Fisher, Chief Financial Officer

August 6, 2021

Second Quarter 2021 Financial Report

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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, 2021. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2020 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 2020, the board of directors declared a patronage distribution in the amount of $650,000 which was distributed to the Association's borrowers in the second quarter of 2021. The amount declared was based on the Association's 2020 operating results.

The United States continues to operate under a presidentially declared emergency since March 13, 2020, due to the Coronavirus Disease 2019 (also referred to as COVID-19). The Association continues during these unprecedented times to fulfill its mission to support agriculture and rural communities by providing access to reliable and consistent credit. The Association is closely monitoring its loan portfolio overall and is particularly focused on sectors that may be pressured by COVID-19 and its related economic impacts, such as food processing, dairy, and beef cattle. The Association has maintained its strong portfolio monitoring and servicing practices and, if appropriate, will evaluate its allowance for loan losses as changes in outlook occur. Capital levels remained adequate to support any adversity or continuing loan demand.

The U.S. economy continued to gather momentum during the second quarter of 2021. New monthly COVID-19 cases decreased as vaccination rates improved. The recent rounds of fiscal stimulus coupled with the low interest rate environment are leading to strong economic performance. The U.S. Bureau of Economic Analysis estimates that real gross domestic product (GDP) increased at an annual rate of 6.4% in the first quarter of 2021, up from 4.3% during the fourth quarter of 2020. Additionally, as of June 2, 2021, the Federal Reserve Bank of Atlanta estimates that real GDP growth for the second quarter of 2021 was about 7.8%. According to the International Monetary Fund's April 2021 World Economic Outlook, U.S. real GDP growth is expected to be 6.4% during 2021.

According to USDA's June 2021 World Agricultural Supply and Demand Estimates report, crop prices for corn, soybeans, and cotton will experience double-digit growth during the 2021/22 marketing year. USDA revised up its estimate for the average price received by farmers for all milk during 2021 and is now projecting a 3.3% year-over-year price increase, followed by a 0.5% price decrease during 2022. Steer prices are estimated to have averaged higher during the second quarter of 2021 compared to the same period last year. Additionally, average steer prices are projected to increase year-over-year in 2021 and continue rising in 2022.

During the first half of 2021, the New Mexico agriculture economy remained sound. Moisture and precipitation varied across the state, with most of the state considered to be in a drought.

Loan Portfolio:

Total loans outstanding at June 30, 2021, including nonaccrual loans and sales contracts, were $343,042,272 compared to $293,066,480 at December 31, 2020, reflecting an increase of 17.1 percent. Nonaccrual loans as a percentage of total loans outstanding were 0.6 percent at June 30, 2021, compared to 0.7 percent at December 31, 2020.

The Association did not record any recoveries or charge-offs for the quarter ended June 30, 2021 and did not record any recoveries or charge-offs for the same period in 2020. The Association's allowance for loan losses was 0.3 percent of total loans outstanding as of June 30, 2021, and December 31, 2020.

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, 2021			December 31, 2020		
	Amount		%	Amount		%
Nonaccrual	$	2,033,213	99.9%	$	2,097,655	95.4%
90 days past due and still accruing interest		-	0.0%		99,364	4.5%
Other property owned, net		2,775	0.1%		2,775	0.1%
Total	$	2,035,988	100.0%	$	2,199,794	100.0%

Results of Operations:

The Association had net income of $1,058,268 and $2,179,390 for the three and six months ended June 30, 2021, as compared to net income of $658,538 and $2,019,733 for the same period in 2020, reflecting an increase of 60.7 percent and 7.9 percent, respectively. Net interest income was $1,850,030 and $3,564,896 for the three and six months ended June 30, 2021, compared to $1,437,117 and $3,477,105 for the same period in 2020.

	Six Months Ended							
	June 30, 2021				June 30, 2020			
	Average Balance		Interest		Average Balance		Interest	
Loans	$	310,149,332	$	5,765,420	$	262,315,331	$	6,209,757
Interest-bearing liabilities		273,950,960		2,200,524		230,877,598		2,732,652
Impact of capital	$	36,198,372			$	31,437,733		
Net interest income			$	3,564,896			$	3,477,105

	2021 Average Yield	2020 Average Yield
Yield on loans	3.75%	4.76%
Cost of interest-bearing liabilities	1.62%	2.38%
Interest rate spread	2.13%	2.38%
Net interest income as a percentage of average earning assets	2.32%	2.67%

	Six months ended: June 30, 2021 vs. June 30, 2020					
	Increase (decrease) due to					
	Volume		Rate		Total	
Interest income - loans	$	1,129,234	$	(1,573,571)	$	(444,337)
Interest expense		508,403		(1,040,531)		(532,128)
Net interest income	$	620,831	$	(533,040)	$	87,791

Interest income for the three and six months ended June 30, 2021, increased by $341,944 and decreased by $444,437, or 12.9 percent and 7.2 percent respectively, from the same period of 2020, primarily due to a decrease in yields on earning assets slightly offset by an increase in average loan volume. Interest expense for the three and six months ended June 30, 2021, decreased by $70,969 and $532,128, or 5.8 percent and 19.5 percent, from the same period of 2020 due to a decrease in interest rates slightly offset by an increase in average debt volume. Average loan volume for the second quarter of 2021 was $310,149,332, compared to $262,315,331 in the second quarter of 2020. The average net interest rate spread on the loan portfolio for the second quarter of 2021 was 2.13 percent, compared to 2.38 percent in the second quarter of 2020.

The Association's return on average assets for the six months ended June 30, 2021, was 1.35 percent compared to 1.46 percent for the same period in 2020. The Association's return on average equity for the six months ended June 30, 2021, was 9.16 percent, compared to 9.05 percent for the same period in 2020.

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, 2021	December 31, 2020
Note payable to the Bank	**$ 301,695,771**	$ 248,320,942
Accrued interest on note payable	**371,370**	362,159
Total	**$ 302,067,141**	$ 248,683,101

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 $301,695,771 as of June 30, 2021, is recorded as a liability on the Association's balance sheet. The note carried a weighted average interest rate of 1.50 percent at June 30, 2021. 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, 2020, 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 $38,302,627 at June 30, 2021. The maximum amount the Association may borrow from the Bank as of June 30, 2021, was $341,360,408 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, 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.

In 2017, the United Kingdom's Financial Conduct Authority, announced its intention to stop persuading or compelling the group of major banks that sustains LIBOR to submit rate quotations after 2021. As a result, it is uncertain whether LIBOR will continue to be quoted after 2021. We continue to analyze potential risks associated with the LIBOR transition, including financial, operational, legal, tax, reputational and compliance risks. At this time, we are unable to predict whether or when LIBOR will cease to be available or if Secured Overnight Financing Rate (SOFR) or any other alternative reference rate will become the benchmark to replace LIBOR. Because we engage in transactions involving financial instruments that reference LIBOR, these developments could have a material impact on the Association and our borrowers. Management has documented a LIBOR transition plan to address the phase out of LIBOR rates in the future, including any updates to processes and loan servicing technology.

Capital Resources:

The Association's capital position increased by $2,196,657 at June 30, 2021, compared to December 31, 2020. The Association's debt as a percentage of members' equity was 6.27:1 as of June 30, 2021, compared to 5.53:1 as of December 31, 2020.

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, 2021, the Association exceeded all regulatory capital requirements.

Significant Recent Accounting Pronouncements:

In January 2021, the FASB issued an update whereby certain derivative instruments may be modified to change the rate used for margining, discounting, or contract price alignment. An entity may elect to apply the new amendments on a full retrospective basis as of any date from the beginning of an interim period that includes or is subsequent to March 12, 2020, or on a prospective basis to new modifications from any date within an interim period that includes or is subsequent to the date of the update, up to the date that financial statements are available to be issued. These amendments do not apply to contract modifications made or new hedging relationships entered into after December 31, 2022, and existing hedging relationships evaluated for effectiveness in periods after December 31, 2022. The Association is evaluating the impact of adoption on the Association's financial condition and its results of operations.

In March 2020, the Financial Accounting Standards Board (FASB) issued guidance entitled "Facilitation of the Effects of Reference Rate Reform on Financial Reporting." The guidance provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships and other transactions affected by reference rate reform. The guidance simplifies the accounting evaluation of contract modifications that replace a reference rate affected by reference rate reform and contemporaneous modifications of other contracts related to the replacement of the reference rate. With respect to hedge accounting, the guidance allows amendment of formal designation and documentation of hedging relationships in certain circumstances as a result of reference rate reform and provides additional expedients for different types of hedges, if certain criteria are met. The optional amendments are effective as of March 12, 2020, through December 31, 2022. The Association is evaluating the impact of adoption on the Association's financial condition and its results of operations.

In December 2019, the FASB issued guidance entitled "Simplifying the Accounting for Income Taxes." This guidance eliminates certain intra period tax allocations, foreign deferred tax recognition, and interim period tax calculations. In addition, the guidance simplifies disclosure regarding capital and franchise taxes, the allocation of goodwill in business combinations, subsidiary financial statements, and other disclosures. The new guidance is intended to eliminate and/or simplify certain aspects of income tax accounting that are complex or that require significant judgment in application or presentation. The guidance becomes effective for fiscal years beginning after December 15, 2021. Early adoption of the guidance is permitted, and the Association adopted this guidance on January 1, 2020. The adoption of this guidance did not materially impact the Association's financial condition or results of operations; nor did the guidance impact the presentation of taxes for prior periods in the year 2020 interim or year-end financial statements.

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 became effective for fiscal years ending after December 15, 2020. The guidance was 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 did impact the employee benefit plan 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 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 institutions. 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 institutions 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 Financial Statements contained in the 2020 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.*

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*. Copies of the Association's quarterly stockholder reports can also be requested by e-mailing *will.fisher@farmcreditbank.com*.

AG NEW MEXICO, FARM CREDIT SERVICES, ACA

CONSOLIDATED BALANCE SHEET

	June 30, 2021 (unaudited)	December 31, 2020
ASSETS		
Loans	**$ 343,042,272**	$ 293,066,480
Less: allowance for loan losses	**923,279**	891,494
Net loans	**342,118,993**	292,174,986
Accrued interest receivable	**3,318,774**	3,008,000
Investment in and receivable from the Farm Credit Bank of Texas:		
Capital stock	**6,681,440**	6,917,190
Other	**1,340,965**	784,507
Deferred taxes, net	**389,277**	389,277
Other property owned, net	**2,775**	2,775
Premises and equipment, net	**2,642,070**	2,581,927
Other assets	**814,702**	619,773
Total assets	**$ 357,308,996**	$ 306,478,435
LIABILITIES		
Note payable to the Farm Credit Bank of Texas	**$ 301,695,771**	$ 248,320,942
Advance conditional payments	**3,357,902**	361,872
Accrued interest payable	**371,370**	362,159
Drafts outstanding	**7,393**	5,496
Patronage distributions payable	**-**	650,000
Other liabilities	**2,747,470**	9,845,533
Total liabilities	**308,179,906**	259,546,002
MEMBERS' EQUITY		
Capital stock and participation certificates	**453,375**	447,640
Unallocated retained earnings	**49,143,236**	46,963,846
Accumulated other comprehensive loss	**(467,521)**	(479,053)
Total members' equity	**49,129,090**	46,932,433
Total liabilities and members' equity	**$ 357,308,996**	$ 306,478,435

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 June 30,		Six Months Ended June 30,	
	2021	2020	**2021**	2020
INTEREST INCOME				
Loans	**$ 2,994,738**	$ 2,652,794	**$ 5,765,420**	$ 6,209,757
INTEREST EXPENSE				
Note payable to the Farm Credit Bank of Texas	**1,144,708**	1,215,677	**2,200,524**	2,732,652
Net interest income	**1,850,030**	1,437,117	**3,564,896**	3,477,105
PROVISION FOR LOAN LOSSES	**47,890**	65,575	**17,009**	130,786
Net interest income after provision for loan losses	**1,802,140**	1,371,542	**3,547,887**	3,346,319
NONINTEREST INCOME				
Income from the Farm Credit Bank of Texas:				
Patronage income	**702,159**	652,076	**1,392,504**	1,283,286
Loan fees	**39,794**	95,419	**74,383**	151,357
Financially related services income	**516**	14,586	**658**	21,465
Gain (loss) on sale of premises and equipment, net	**32,800**	(140,441)	**88,791**	(140,441)
Other noninterest income	**41,553**	10,422	**86,854**	128,743
Total noninterest income	**816,822**	632,062	**1,643,190**	1,444,410
NONINTEREST EXPENSES				
Salaries and employee benefits	**869,159**	891,355	**1,776,810**	1,815,614
Directors' expense	**41,081**	28,263	**72,962**	66,009
Purchased services	**82,060**	125,658	**180,424**	262,944
Travel	**66,463**	39,239	**121,802**	87,629
Occupancy and equipment	**236,204**	101,884	**345,224**	197,896
Communications	**19,266**	24,445	**39,675**	43,511
Advertising	**4,832**	2,684	**10,728**	12,868
Public and member relations	**7,507**	1,593	**11,584**	11,874
Supervisory and exam expense	**29,694**	27,455	**59,388**	54,910
Insurance Fund premiums	**114,637**	54,322	**222,304**	108,802
Loss on other property owned, net	**1,528**	11,882	**1,661**	15,602
Other noninterest expense	**88,263**	41,916	**169,125**	98,967
Total noninterest expenses	**1,560,694**	1,350,696	**3,011,687**	2,776,626
Income before income taxes	**1,058,268**	652,908	**2,179,390**	2,014,103
Benefit from income taxes	**-**	(5,630)	**-**	(5,630)
NET INCOME	**1,058,268**	658,538	**2,179,390**	2,019,733
Other comprehensive income:				
Change in postretirement benefit plans	**5,766**	4,170	**11,532**	8,340
COMPREHENSIVE INCOME	**$ 1,064,034**	$ 662,708	**$ 2,190,922**	$ 2,028,073

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

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

(unaudited)

	Capital Stock/ Participation Certificates	Unallocated Retained Earnings	Accumulated Other Comprehensive Income Loss	Total Members' Equity
Balance at December 31, 2019	$ 449,660	$ 43,552,293	$ (326,340)	$ 43,675,613
Comprehensive income	-	2,019,733	8,340	2,028,073
Capital stock/participation certificates and allocated retained earnings issued	32,220	-	-	32,220
Capital stock/participation certificates and allocated retained earnings retired	(31,420)	-	-	(31,420)
Balance at June 30, 2020	$ 450,460	$ 45,572,026	$ (318,000)	$ 45,704,486
Balance at December 31, 2020	$ 447,640	$ 46,963,846	$ (479,053)	$ 46,932,433
Comprehensive income	-	2,179,390	11,532	2,190,922
Capital stock/participation certificates and allocated retained earnings issued	26,370	-	-	26,370
Capital stock/participation certificates and allocated retained earnings retired	(20,635)	-	-	(20,635)
Balance at June 30, 2021	**$ 453,375**	**$ 49,143,236**	**$ (467,521)**	**$ 49,129,090**

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

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 PCA and FLCA subsidiaries are also authorized to operate in Cochran County, Texas. In addition, the Association and Farm Credit Services of New Mexico, ACA have entered into an agreement that allows the Association to make mortgage loans in New Mexico, on a statewide basis, without obtaining territorial approval. 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, 2020, as contained in the 2020 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, 2020, as contained in the 2020 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, 2021. Descriptions of the significant accounting policies are included in the 2020 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 January 2021, the FASB issued an update whereby certain derivative instruments may be modified to change the rate used for margining, discounting, or contract price alignment. An entity may elect to apply the new amendments on a full retrospective basis as of any date from the beginning of an interim period that includes or is subsequent to March 12, 2020, or on a prospective basis to new modifications from any date within an interim period that includes or is subsequent to the date of the update, up to the date that financial statements are available to be issued. These amendments do not apply to contract modifications made or new hedging relationships entered into after December 31, 2022, and existing hedging relationships evaluated for effectiveness in periods after December 31, 2022. The Association is evaluating the impact of adoption on the Association's financial condition and its results of operations.

In March 2020, the Financial Accounting Standards Board (FASB) issued guidance entitled "Facilitation of the Effects of Reference Rate Reform on Financial Reporting." The guidance provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships and other transactions affected by reference rate reform. The guidance simplifies the accounting evaluation of contract modifications that replace a reference rate affected by reference rate reform and contemporaneous modifications of other contracts related to the replacement of the reference rate. With respect to hedge accounting, the guidance allows amendment of formal designation and documentation of hedging relationships in certain circumstances as a result of reference rate reform and provides additional expedients for different types of hedges, if certain criteria are met. The optional amendments are effective as of March 12, 2020, through December 31, 2022. The Association is evaluating the impact of adoption on the Association's financial condition and its results of operations.

In December 2019, the FASB issued guidance entitled "Simplifying the Accounting for Income Taxes." This guidance eliminates certain intra period tax allocations, foreign deferred tax recognition, and interim period tax calculations. In addition, the guidance simplifies disclosure regarding capital and franchise taxes, the allocation of goodwill in business combinations, subsidiary financial statements, and other disclosures. The new guidance is intended to eliminate and/or simplify certain aspects of income tax accounting that are complex or that require significant judgment in application or presentation. The guidance becomes effective for fiscal years beginning after December 15, 2021. Early adoption of the guidance is permitted, and the Association adopted this guidance on January 1, 2020. The adoption of this guidance did not materially impact the Association's financial condition or results of operations; nor did the guidance impact the presentation of taxes for prior periods in the year 2020 interim or year-end financial statements.

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 became effective for fiscal years ending after December 15, 2020. The guidance was 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 did impact the employee benefit plan 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 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 institutions. 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 institutions 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, 2021, are not necessarily indicative of the results to be expected for the year ended December 31, 2021. Certain amounts in the prior period’s financial statements may 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, 2021**	December 31, 2020
Production agriculture:		
Real estate mortgage	**$ 175,370,561**	$ 127,731,209
Production and intermediate term	**65,967,527**	73,334,998
Agribusiness:		
Processing and marketing	**45,568,441**	46,594,131
Farm-related business	**18,473,495**	17,831,009
Loans to cooperatives	**8,337,824**	4,462,937
Energy	**9,063,544**	5,052,291
Communication	**7,999,274**	8,039,201
Rural residential real estate	**4,403,972**	4,991,761
International	**3,181,193**	-
Water and waste water	**2,822,334**	3,038,933
Lease receivables	**1,854,107**	1,990,010
Total	**$ 343,042,272**	$ 293,066,480

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, 2021:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Agribusiness	$ 48,666,669	$ 22,403,344	$ -	$ -	$ 48,666,669	$ 22,403,344
Real estate mortgage	17,792,475	23,329,448	-	1,857,623	17,792,475	25,187,071
Production and intermediate term	16,492,218	31,557,877	-	-	16,492,218	31,557,877
Energy	9,063,544	-	-	-	9,063,544	-
Communication	7,999,274	-	-	-	7,999,274	-
International	3,181,193	-	-	-	3,181,193	-
Water and waste water	2,822,334	-	-	-	2,822,334	-
Lease receivables	1,546,916	-	-	-	1,546,916	-
Rural residential real estate	-	4,411,360	-	-	-	4,411,360
Total	$107,564,623	$ 81,702,029	$ -	$ 1,857,623	$107,564,623	$ 83,559,652

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 $3,357,902 and $361,872 at June 30, 2021, and December 31, 2020, respectively.

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

	June 30, 2021	December 31, 2020
Nonaccrual loans:		
Production and intermediate term	**$ 1,023,103**	$ 1,024,083
Real estate mortgage	**793,244**	845,459
Rural residential real estate	**216,866**	228,113
Total nonaccrual loans	**2,033,213**	2,097,655
Accruing loans 90 days or more past due:		
Production and intermediate term	**$ -**	$ -
Real estate mortgage	**-**	-
Rural residential real estate	**-**	99,364
Total accruing loans 90 days or more past due	**-**	99,364
Total nonperforming loans	**2,033,213**	2,197,019
Other property owned	**2,775**	2,775
Total nonperforming assets	**$ 2,035,988**	$ 2,199,794

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, 2021		December 31, 2020	
Real estate mortgage				
Acceptable	**98**	%	98	%
OAEM	**1**		1	
Substandard/doubtful	**1**		1	
	100		100	
Production and intermediate term				
Acceptable	**93**		93	
OAEM	**5**		5	
Substandard/doubtful	**2**		2	
	100		100	
Process and marketing				
Acceptable	**90**		90	
OAEM	**3**		10	
Substandard/doubtful	**7**		-	
	100		100	
Farm-related business				
Acceptable	**100**		100	
OAEM	**-**		-	
Substandard/doubtful	**-**		-	
	100		100	
Loans to cooperatives				
Acceptable	**100**		100	
OAEM	**-**		-	
Substandard/doubtful	**-**		-	
	100		100	
Energy				
Acceptable	**78**		100	
OAEM	**-**		-	
Substandard/doubtful	**22**		-	
	100		100	
Communication				
Acceptable	**100**		100	
OAEM	**-**		-	
Substandard/doubtful	**-**		-	
	100		100	
Rural residential real estate				
Acceptable	**95**		95	
OAEM	**-**		-	
Substandard/doubtful	**5**		5	
	100		100	
International				
Acceptable	**100**		-	
OAEM	**-**		-	
Substandard/doubtful	**-**		-	
	100		-	
Water and waste water				
Acceptable	**100**		100	
OAEM	**-**		-	
Substandard/doubtful	**-**		-	
	100		100	
Lease receivables				
Acceptable	**100**		100	
OAEM	**-**		-	
Substandard/doubtful	**-**		-	
	100		100	
Total loans				
Acceptable	**96**		96	
OAEM	**1**		3	
Substandard/doubtful	**3**		1	
	100	%	100	%

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

June 30, 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	**$ 741,049**	**$ 150,445**	**$ 891,494**	**$ 176,581,807**	**$ 177,473,301**	**$ -**
Production and intermediate term	**417,137**	**-**	**417,137**	**66,346,458**	**66,763,595**	**-**
Processing and marketing	**-**	**-**	**-**	**45,828,532**	**45,828,532**	**-**
Farm-related business	**-**	**-**	**-**	**18,534,107**	**18,534,107**	**-**
Loans to cooperatives	**-**	**-**	**-**	**8,369,456**	**8,369,456**	**-**
Energy	**-**	**-**	**-**	**9,071,923**	**9,071,923**	**-**
Communication	**-**	**-**	**-**	**7,999,850**	**7,999,850**	**-**
Rural residential real estate	**386,161**	**-**	**386,161**	**4,035,045**	**4,421,206**	**-**
International	**-**	**-**	**-**	**3,185,357**	**3,185,357**	**-**
Water and waste water	**-**	**-**	**-**	**2,852,696**	**2,852,696**	**-**
Lease receivables	**-**	**-**	**-**	**1,861,023**	**1,861,023**	**-**
Total	**$ 1,544,347**	**$ 150,445**	**$ 1,694,792**	**$ 344,666,254**	**$ 346,361,046**	**$ -**

December 31, 2020	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	$ 305,701	$ 169,436	$ 475,137	$ 129,207,733	$ 129,682,870	$ -
Production and intermediate term	44,340	-	44,340	73,965,172	74,009,512	-
Processing and marketing	-	-	-	46,830,792	46,830,792	-
Farm-related business	-	-	-	17,896,730	17,896,730	-
Loans to cooperatives	-	-	-	4,465,388	4,465,388	-
Energy	-	-	-	5,060,539	5,060,539	-
Communication	-	-	-	8,039,650	8,039,650	-
Rural residential real estate	487,504	327,477	814,981	4,196,350	5,011,331	99,364
International	-	-	-	-	-	-
Water and waste water	-	-	-	3,069,217	3,069,217	-
Lease receivables	-	-	-	2,008,451	2,008,451	-
Total	$ 837,545	$ 496,913	$ 1,334,458	$ 294,740,022	$ 296,074,480	$ 99,364

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.

The predominant form of concession granted for troubled debt restructuring includes extensions of terms. 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 case the Association assesses all of the modified terms to determine if the overall modification qualifies as a troubled debt restructuring.

As of June 30, 2021, the total recorded investment of troubled debt restructured loans was $150,445, all of which was classified as nonaccrual with no specific allowance. Commitments to lend funds to borrowers whose loan terms have been modified in a troubled debt restructuring were $442,016 as of June 30, 2021 and as of December 31, 2020.

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

	Loans Modified as TDRs		TDRs in Nonaccrual Status*	
	June 30, 2021	December 31, 2020	**June 30, 2021**	December 31, 2020
Real estate mortgage	**$ 150,445**	$ 169,436	**$ 150,445**	$ 169,436
Total	**$ 150,445**	$ 169,436	**$ 150,445**	$ 169,436

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

Additional impaired loan information is as follows:

	June 30, 2021			December 31, 2020		
	Recorded Investment	**Unpaid Principal Balance[a]**	**Related Allowance**	Recorded Investment	Unpaid Principal Balance[a]	Related Allowance
Impaired loans with no related allowance for credit losses:						
Production and intermediate term	**$ 1,023,103**	**$ 1,053,615**	**$ -**	$ 1,024,083	$ 1,054,593	$ -
Real estate mortgage	**793,244**	**793,244**	**-**	845,459	845,459	-
Rural residential real estate	**216,866**	**216,866**	**-**	327,477	327,477	-
Total	**$ 2,033,213**	**$ 2,063,725**	**$ -**	$ 2,197,019	$ 2,227,529	$ -
Total impaired loans:						
Production and intermediate term	**$ 1,023,103**	**$ 1,053,615**	**$ -**	$ 1,024,083	$ 1,054,593	$ -
Real estate mortgage	**793,244**	**793,244**	**-**	845,459	845,459	-
Rural residential real estate	**216,866**	**216,866**	**-**	327,477	327,477	-
Total	**$ 2,033,213**	**$ 2,063,725**	**$ -**	$ 2,197,019	$ 2,227,529	$ -

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

	For the Three Months Ended				For the Six Months Ended			
	June 30, 2021		June 30, 2020		**June 30, 2021**		June 30, 2020	
	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:								
Production and intermediate term	**$1,023,103**	**$ -**	$ 2,229,107	$ 17,604	**$1,023,103**	**$ -**	$ 1,400,198	$ 33,242
Real estate mortgage	**802,063**	**-**	5,437,675	3,004	**814,897**	**2,535**	4,074,299	10,588
Rural residential real estate	**219,178**	**-**	235,372	2,777	**221,091**	**-**	235,740	5,571
Total	**$2,044,344**	**$ -**	$ 7,902,154	$ 23,385	**$2,059,091**	**$ 2,535**	$ 5,710,237	$ 49,401
Total impaired loans:								
Production and intermediate term	**$1,023,103**	**$ -**	$ 2,229,107	$ 17,604	**$1,023,103**	**$ -**	$ 1,400,198	$ 33,242
Real estate mortgage	**802,063**	**-**	5,437,675	3,004	**814,897**	**2,535**	4,074,299	10,588
Rural residential real estate	**219,178**	**-**	235,372	2,777	**221,091**	**-**	235,740	5,571
Total	**$2,044,344**	**$ -**	$ 7,902,154	$ 23,385	**$2,059,091**	**$ 2,535**	$ 5,710,237	$ 49,401

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	Energy	Communication	Rural Residential Real Estate	International	Water and Waste Water	Lease Receivables	Total
Allowance for Credit Losses:										
Balance at March 31, 2021	$ 147,328	$ 209,348	$ 429,870	$ 50,219	$ 13,819	$ 13,418	$ -	$ 4,471	$ 1,115	$ 869,588
Charge-offs	-	-	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-	-	-
Provision for loan losses	36,673	(31,806)	(33,701)	81,816	(7,552)	(767)	3,938	(653)	(58)	47,890
Other	1,163	1,123	2,504	835	40	80	25	24	7	5,801
Balance at June 30, 2021	$ 185,164	$ 178,665	$ 398,673	$ 132,870	$ 6,307	$ 12,731	$ 3,963	$ 3,842	$ 1,064	$ 923,279
Balance at December 31, 2020	$ 131,980	$ 281,178	$ 437,180	$ 10,189	$ 8,477	$ 16,386	$ -	$ 4,812	$ 1,292	$ 891,494
Charge-offs	-	-	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-	-	-
Provision for loan losses	50,501	(105,799)	(45,447)	121,328	(2,353)	(3,873)	3,938	(1,040)	(246)	17,009
Other	2,683	3,286	6,940	1,353	183	218	25	70	18	14,776
Balance at June 30, 2021	$ 185,164	$ 178,665	$ 398,673	$ 132,870	$ 6,307	$ 12,731	$ 3,963	$ 3,842	$ 1,064	$ 923,279
Ending Balance:										
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	185,164	178,665	398,673	132,870	6,307	12,731	3,963	3,842	1,064	923,279
Balance at June 30, 2021	$ 185,164	$ 178,665	$ 398,673	$ 132,870	$ 6,307	$ 12,731	$ 3,963	$ 3,842	$ 1,064	$ 923,279
Balance at March 31, 2020	$ 131,924	$ 274,114	$ 247,904	$ 44,577	$ 7,033	$ 21,064	$ -	$ 1,530	$ 1,431	$ 729,577
Charge-offs	-	-	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-	-	-
Provision for loan losses	1,289	(4,803)	55,929	5,002	959	2,814	-	4,186	199	65,575
Other	360	731	825	134	22	65	-	16	4	2,157
Balance at June 30, 2020	$ 133,573	$ 270,042	$ 304,658	$ 49,713	$ 8,014	$ 23,943	$ -	$ 5,732	$ 1,634	$ 797,309
Balance at December 31, 2019	$ 106,416	$ 271,389	$ 226,982	$ 40,050	$ 6,278	$ 21,253	$ -	$ 2,786	$ 1,272	$ 676,426
Charge-offs	(12,030)	-	-	-	-	-	-	-	-	(12,030)
Recoveries	-	-	-	-	-	-	-	-	-	-
Provision for loan losses	38,832	(2,067)	76,862	9,531	1,714	2,626	-	2,930	358	130,786
Other	355	720	814	132	22	64	-	16	4	2,127
Balance at June 30, 2020	$ 133,573	$ 270,042	$ 304,658	$ 49,713	$ 8,014	$ 23,943	$ -	$ 5,732	$ 1,634	$ 797,309
Ending Balance:										
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	133,573	270,042	304,658	49,713	8,014	23,943	-	5,732	1,634	797,309
Balance at June 30, 2020	$ 133,573	$ 270,042	$ 304,658	$ 49,713	$ 8,014	$ 23,943	$ -	$ 5,732	$ 1,634	$ 797,309

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Energy	Communication	Rural Residential Real Estate	International	Water and Waste Water	Lease Receivables	Total
Recorded Investments in Loans Outstanding:										
Ending Balance at June 30, 2021	$ 177,473,301	$ 66,763,595	$ 72,732,095	$ 9,071,923	$ 7,999,850	$ 4,421,206	$ 3,185,357	$ 2,852,696	$ 1,861,023	$ 346,361,046
Individually evaluated for impairment	$ 793,244	$ 1,023,103	$ -	$ -	$ -	$ 216,866	$ -	$ -	$ -	$ 2,033,213
Collectively evaluated for impairment	$ 176,680,057	$ 65,740,492	$ 72,732,095	$ 9,071,923	$ 7,999,850	$ 4,204,340	$ 3,185,357	$ 2,852,696	$ 1,861,023	$ 344,327,833
Ending Balance at June 30, 2020	$ 119,902,511	$ 70,229,507	$ 58,811,703	$ 5,204,446	$ 6,596,316	$ 5,468,101	$ -	$ 3,208,219	$ 2,064,152	$ 271,484,955
Individually evaluated for impairment	$ 3,157,263	$ 2,773,401	$ -	$ -	$ -	$ 239,742	$ -	$ -	$ -	$ 6,170,406
Collectively evaluated for impairment	$ 116,745,248	$ 67,456,106	$ 58,811,703	$ 5,204,446	$ 6,596,316	$ 5,228,359	$ -	$ 3,208,219	$ 2,064,152	$ 265,314,549

NOTE 3 —LEASES:

The components of lease expense were as follows:

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2021	June 30, 2020	**June 30, 2021**	June 30, 2020
Operating lease cost	**$ 33,823**	$ 33,568	**$ 67,645**	$ 62,129
Net lease cost	**$ 33,823**	$ 33,568	**$ 67,645**	$ 62,129

Other information related to leases was as follows:

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2021	June 30, 2020	**June 30, 2021**	June 30, 2020
Cash paid for amounts included in the measurement of lease liabilities:				
Operating cash flows from operating leases	**$ 33,823**	$ 33,568	**$ 67,645**	$ 62,129
Right-of-use assets obtained in exchange for lease obligations:				
Operating leases	**32,051**	31,181	**63,883**	58,070

Lease term and discount rate are as follows:

	June 30, 2021	December 31, 2020
Weighted average remaining lease term in years		
Operating leases	**1.9**	2.4
Weighted average discount rate		
Operating leases	**3.41%**	3.87%

Future minimum lease payments under non-cancellable leases as of June 30, 2021 were as follows:

	Operating Leases
2021 (excluding the six months ended 6/30/21)	$ 57,555
2022	95,195
2023	80,872
2024	28,553
2025	-
Thereafter	-
Total	$ 262,175

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 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 Requirements Including Capital Conservation Buffers	As of June 30, 2021
Common equity tier 1 ratio	7.00%	12.29%
Tier 1 capital ratio	8.50%	12.29%
Total capital ratio	10.50%	12.56%
Permanent capital ratio	7.00%	12.32%
Non-risk-adjusted:		
Tier 1 leverage ratio	5.00%	12.47%
UREE leverage ratio	1.50%	13.67%

	Common equity tier 1 ratio	Tier 1 capital ratio	Total capital ratio	Permanent capital ratio
Numerator:				
Unallocated retained earnings	47,707,473	47,707,473	47,707,473	47,707,473
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	452,831	452,831	452,831	452,831
Allowance for loan losses and reserve for credit losses subject to certain limitations			925,242	
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	(6,823,481)	(6,823,481)	(6,823,481)	(6,823,481)
	41,336,823	41,336,823	42,262,065	41,336,823
Denominator:				
Risk-adjusted assets excluding allowance	343,188,941	343,188,941	343,188,941	343,188,941
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	(6,823,481)	(6,823,481)	(6,823,481)	(6,823,481)
Allowance for loan losses				(873,764)
	336,365,460	336,365,460	336,365,460	335,491,696

	Tier 1 leverage ratio	UREE leverage ratio
Numerator:		
Unallocated retained earnings	47,707,473	47,707,473
Common Cooperative Equities:		
Statutory minimum purchased borrower stock	452,831	-
Regulatory Adjustments and Deductions:		
Amount of allocated investments in other System institutions	(6,823,481)	(2,391,533)
	41,336,823	45,315,940
Denominator:		
Total Assets	339,334,508	339,334,508
Regulatory Adjustments and Deductions:		
Regulatory deductions included in tier 1 capital	(7,723,978)	(7,723,978)
	331,610,530	331,610,530

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

June 30, 2021	**Accumulated Other Comprehensive Loss**
Nonpension postretirement benefits	**$ (467,521)**
Total	**$ (467,521)**

June 30, 2020	Accumulated Other Comprehensive Loss
Nonpension postretirement benefits	$ (318,000)
Total	$ (318,000)

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 Statements of Comprehensive Income. The following table summarizes the change in accumulated other comprehensive loss for the six months ended June 30:

	2021	**2020**
Accumulated other comprehensive loss at January 1	**$(479,053)**	$(326,340)
Amortization of prior service credit included in salaries and employee benefits	**(2,242)**	(2,240)
Amortization of actuarial loss included in salaries and employee benefits	**13,774**	10,580
Other comprehensive income, net of tax	**11,532**	8,340
Accumulated other comprehensive loss at June 30	**$ (467,521)**	$ (318,000)

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 14 to the 2020 Annual Report to Stockholders for a more complete description.

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

June 30, 2021	**Fair Value Measurement Using**			**Total Fair**
	Level 1	**Level 2**	**Level 3**	**Value**
Assets:				
Other property owned	**$ -**	**$ -**	**$ 2,775**	**$ 2,775**

December 31, 2020	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Other property owned	$ -	$ -	$ 2,775	$ 2,775

Valuation Techniques

As more fully discussed in Note 14 to the 2020 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 2020 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.

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	
	2021	2020
Service cost	**$ 6,322**	$ 3,250
Interest cost	**11,385**	12,243
Amortization of prior service credits	**(1,121)**	(1,120)
Amortization of net actuarial loss	**6,887**	5,290
Net periodic benefit cost	**$ 23,473**	$ 19,663

Six months ended June 30:

	Other Benefits	
	2021	2020
Service cost	**$ 12,645**	$ 6,500
Interest cost	**22,769**	24,486
Amortization of prior service credits	**(2,242)**	(2,240)
Amortization of net actuarial loss	**13,774**	10,580
Net periodic benefit cost	**$ 46,946**	$ 39,326

The Association's liability for the unfunded accumulated obligation for these benefits at June 30, 2021, was $1,662,221 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, 2020, that it expected to contribute $57,439 to the District's defined benefit pension plan in 2021. As of June 30, 2021, the full contribution has been made. The Association presently does not anticipate additional contributions to fund the defined benefit pension plan in 2021.

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 6, 2021, which is the date the financial statements were issued. There are no other significant events requiring disclosure as of August 6, 2021.