HERITAGE LAND BANK, ACA

2022
Quarterly Report
First Quarter

For the Quarter Ended March 31, 2022

REPORT OF MANAGEMENT

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

/s/ William M Tandy

William M. Tandy, Chief Executive Officer
May 9, 2022

/s/ Kevin Sampson

Kevin Sampson, Chair, Board of Directors
May 9, 2022

/s/ Heath Gattis

Heath Gattis, Chief Financial Officer
May 9, 2022

First Quarter 2022 Financial Report

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HERITAGE LAND BANK, ACA
MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

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

Significant Events

The Association's board of directors is committed to returning earnings in the form of a cooperative dividend. In January 2022, the board of directors declared a cash cooperative dividend distribution of approximately $4.3 million from 2021 profits that was paid March 17, 2022. The cooperative dividend distribution equated to 70 basis points (0.7 percent). Since 2000, Heritage Land Bank has returned a total of $51.8 million in cash to borrowers.

The U.S. has been operating under a presidentially declared emergency since March 13, 2020, due to the coronavirus disease 2019 (COVID-19). COVID-19 cases reported in the U.S. and within Texas have fluctuated widely in recent months due to several factors, including the emergence of new variants and associated governmental responses. The number of cases and hospitalizations increased to a new high in January 2022 but returned to historically low levels as of the end of the first quarter of 2022. Throughout this unprecedented time, the Association has continued to fulfill its mission to support agriculture and rural communities by providing access to reliable and consistent credit. While credit quality at the Association has remained strong through this stage of the pandemic, the continuation of the pandemic could result in above normal volatility in risk ratings in future periods.

Russia's military action in Ukraine (the Russia/Ukraine Conflict) has exacerbated the current supply chain disruptions and contributed to surging prices for certain materials and commodities. Russia and Ukraine collectively account for approximately 26 percent of global wheat exports and are also significant exporters of corn, nitrogen fertilizers, sunflower oil, metals and minerals, and several other products important to the agricultural industry and the global economy. Elevated commodity prices and reduced availability of some materials are leading to both challenges and opportunities for U.S. agricultural producers.

Inflationary pressures continued during the first quarter of 2022. The Consumer Price Index for all urban consumers increased by 7.9 percent for the 12-month period ending February 2022, reflecting the largest 12-month increase since 1982. The largest contributors to the overall increase were rising prices for gasoline, shelter, and food. In an anticipated move, the Federal Reserve began raising the target federal funds rate by 25 basis points on March 16, 2022, in an attempt to mitigate inflation. According to a March 16 Reuters' article, most policymakers now see the federal funds rate rising to a range of 1.75 percent to 2.0 percent by the end of 2022. The Federal Reserve is also expected to begin shrinking its balance sheet during the second quarter of 2022.

The overall impact of these circumstances is still evolving, and future events are still uncertain. The Association continues to assess the impact on the global, U.S. and Texas economies. The Association will continue to closely monitor the situation in the coming months.

Loan Portfolio

Total loans outstanding at March 31, 2022, including nonaccrual loans and sales contracts, were $659,622,241 compared to $660,072,336 at December 31, 2021, reflecting a decrease of 0.1 percent. Nonaccrual loans as a percentage of total loans outstanding were 0.01 percent and 0.03 percent at March 31, 2022, and December 31, 2021, respectively.

The Association recorded $13,835 in recoveries and no charge-offs for the quarter ended March 31, 2022, and $16,378 in recoveries and no charge-offs for the same period in 2021. The Association's allowance for loan losses was 0.8 percent of total loans outstanding as of March 31, 2022, and December 31, 2021.

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.

	March 31, 2022		December 31, 2021	
	Amount	**%**	Amount	%
Nonaccrual	**$ 42,591**	**35.7%**	$ 194,728	71.4%
Formally restructured	**76,716**	**64.3%**	77,800	28.6%
Total	**$ 119,307**	**100.0%**	$ 272,528	100.0%

Results of Operations

The Association had net income of $2,504,825 for the three months ended March 31, 2022, as compared to net income of $2,385,558 for the same period in 2021, reflecting an increase of 5.0 percent. Net interest income was $4,367,520 for the three months ended March 31, 2022, compared to $4,111,892 for the same period in 2021.

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	Three Months Ended			
	March 31, 2022		March 31, 2021	
	Average Balance	**Interest**	Average Balance	Interest
Loans	**$ 659,409,943**	**$ 7,243,376**	$ 621,419,121	$ 6,806,824
Interest-bearing liabilities	**567,781,636**	**2,875,856**	535,590,852	2,694,932
Impact of capital	**$ 91,628,307**		$ 85,828,269	
Net interest income		**$ 4,367,520**		$ 4,111,892

	2022	2021
	Average Yield	Average Yield
Yield on loans	**4.45%**	4.44%
Cost of interest-bearing liabilities	**2.05%**	2.04%
Interest rate spread	**2.40%**	2.40%
Net interest income as a percentage of average earning assets	**2.69%**	2.68%

	Three months ended: March 31, 2022 vs. March 31, 2021		
	Increase due to		
	Volume	**Rate**	**Total**
Interest income - loans	**$ 416,137**	**$ 20,415**	**$ 436,552**
Interest expense	**161,972**	**18,951**	**180,923**
Net interest income	**$ 254,165**	**$ 1,464**	**$ 255,629**

Interest income for the three months ended March 31, 2022, increased by $436,552, or 6.4 percent, from the same period of 2021 primarily due to an increase in average loan volume. Interest expense for the three months ended March 31, 2022, increased by $180,923, or 6.7 percent, from the same period of 2021 primarily due to an increase in average debt volume. Average loan volume for the first quarter of 2022 was $659,409,943, compared to $621,419,121 in the first quarter of 2021. The average net interest rate spread on the loan portfolio for the first quarter of 2022 and the first quarter of 2021 was 2.40 percent.

The Association's return on average assets for the three months ended March 31, 2022, was 1.51 percent compared to 1.52 percent for the same period in 2021. The Association's return on average equity for the three months ended March 31, 2022, was 10.41 percent, compared to 10.47 percent for the same period in 2021.

Liquidity and Funding Sources

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

		March 31, 2022		December 31, 2021
Note payable to the Bank	**$**	**567,123,363**	$	568,220,382
Accrued interest on note payable		**993,767**		980,745
Total	**$**	**568,117,130**	$	569,201,127

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 $567,123,363 as of March 31, 2022, is recorded as a liability on the Association's balance sheet. The note carried a weighted average interest rate of 2.04 percent at March 31, 2022. The indebtedness is collateralized by a pledge of substantially all of the Association's assets to the Bank and is governed by the GFA. The slight decrease in note payable to the Bank since December 31, 2021, is due to the Association's slight decrease in accrual loan volume. The slight increase in the related accrued interest payable is due to the slight increase in cost of interest-bearing liabilities. The Association's own funds, which represent the amount of the Association's loan portfolio funded by the Association's equity, were $91,808,341 at March 31, 2022. The maximum amount the Association may borrow from the Bank as of March 31, 2022, was $660,596,258 as defined by the GFA. The indebtedness continues in effect until the expiration date of the GFA, 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 $1,573,563 at March 31, 2022, compared to December 31, 2021. The Association's debt as a percentage of members' equity was 5.87:1 as of March 31, 2022, compared to 5.99:1 as of December 31, 2021.

Farm Credit Administration regulations require the Association to maintain minimums for various regulatory capital ratios. New regulations became effective January 1, 2017, which replaced the previously required core surplus and total surplus ratios with common equity tier 1, tier 1 capital, and total capital risk-based capital ratios. The new regulations also added tier 1 leverage and unallocated retained earnings and equivalents (UREE) ratios. The permanent capital ratio continues to remain in effect, with some modifications to align with the new regulations. As of March 31, 2022, the Association exceeded all regulatory capital requirements.

Significant Recent Accounting Pronouncements

In January 2021, the Financial Accounting Standards Board (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 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.

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 did not impact the Association's financial condition or its results of operations but did impact the employee benefit plan disclosures.

In August 2018, 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 became 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. The guidance is to be applied on a retrospective or prospective basis to all implementation costs incurred after the date of adoption. The adoption of this guidance did not materially impact the Association's financial condition or its results of operations.

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 became effective for interim and annual periods beginning after December 15, 2019. Early adoption was permitted and an entity was 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 did not impact the Association's financial condition or its results of operations but did impact the fair value measurements 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 2021 Annual Report of Heritage Land Bank, 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 Heritage Land Bank, ACA, 4608 Kinsey Drive, Tyler, Texas, 75703 or calling (903) 534-4975. The annual and quarterly stockholder reports for the Association are also available on its website at *heritagelandbank.com*. Copies of the Association's quarterly stockholder reports can also be requested by e-mailing *stephanie.davis@heritagelandbank.com*.

HERITAGE LAND BANK, ACA

CONSOLIDATED BALANCE SHEETS

	March 31, 2022 (unaudited)	December 31, 2021
ASSETS		
Cash	**$ 13,389**	$ 39,628
Loans	**659,622,241**	660,072,336
Less: allowance for loan losses	**5,446,732**	5,432,897
Net loans	**654,175,509**	654,639,439
Accrued interest receivable	**3,199,898**	2,560,938
Investment in and receivable from the Farm Credit Bank of Texas:		
Capital stock	**11,039,020**	11,039,020
Other	**1,023,644**	1,372,986
Premises and equipment, net	**5,466,716**	5,474,306
Other assets	**669,111**	423,448
Total assets	**$ 675,587,287**	$ 675,549,765
LIABILITIES		
Note payable to the Farm Credit Bank of Texas	**$ 567,123,363**	$ 568,220,382
Advance conditional payments	**3,633**	1,044
Accrued interest payable	**993,767**	980,745
Drafts outstanding	**267,981**	206,161
Cooperative dividends payable	**1,176,000**	4,587,000
Other liabilities	**7,752,183**	4,857,636
Total liabilities	**577,316,927**	578,852,968
MEMBERS' EQUITY		
Capital stock and participation certificates	**2,698,420**	2,717,525
Unallocated retained earnings	**95,877,978**	94,289,309
Accumulated other comprehensive loss	**(306,038)**	(310,037)
Total members' equity	**98,270,360**	96,696,797
Total liabilities and members' equity	**$ 675,587,287**	$ 675,549,765

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

HERITAGE LAND BANK, ACA

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

	Quarter Ended March 31, 2022	2021
INTEREST INCOME		
Loans	**$ 7,243,376**	$ 6,806,824
INTEREST EXPENSE		
Note payable to the Farm Credit Bank of Texas	**2,875,849**	2,694,930
Advance conditional payments	**7**	2
Total interest expense	**2,875,856**	2,694,932
Net interest income	**4,367,520**	4,111,892
PROVISION FOR LOAN LOSSES	**-**	-
Net interest income after provision for loan losses	**4,367,520**	4,111,892
NONINTEREST INCOME		
Income from the Farm Credit Bank of Texas:		
Patronage income	**1,002,383**	903,151
Loan fees	**31,745**	49,998
Refunds from Farm Credit System Insurance Corporation	**78,225**	58,567
Financially related services income	**162**	329
Gain (loss) on other property owned, net	**644**	(9,000)
Gain on sale of premises and equipment, net	**48,284**	-
Other noninterest income	**22,461**	26,211
Total noninterest income	**1,183,904**	1,029,256
NONINTEREST EXPENSES		
Salaries and employee benefits	**1,961,760**	1,770,234
Directors' expense	**70,905**	33,696
Purchased services	**94,052**	116,056
Travel	**53,740**	60,433
Occupancy and equipment	**226,119**	235,069
Communications	**31,598**	34,181
Advertising	**79,070**	79,263
Public and member relations	**107,563**	99,633
Supervisory and exam expense	**58,931**	55,169
Insurance Fund premiums	**234,879**	216,625
Other noninterest expense	**127,982**	55,231
Total noninterest expenses	**3,046,599**	2,755,590
NET INCOME	**2,504,825**	2,385,558
Other comprehensive income:		
Change in postretirement benefit plans	**3,999**	4,837
COMPREHENSIVE INCOME	**$ 2,508,824**	$ 2,390,395

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

HERITAGE LAND BANK, ACA

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

(unaudited)

	Capital Stock/ Participation Certificates	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2020	$ 2,648,380	$ 89,506,815	$ (346,227)	$ 91,808,968
Comprehensive income	-	2,385,558	4,837	2,390,395
Capital stock/participation certificates issued	159,570	-	-	159,570
Capital stock/participation certificates retired	(122,865)	-	-	(122,865)
Cooperative dividends:				
Cash	-	(1,326,143)	-	(1,326,143)
Capital stock/participation certificates	-	-	-	-
Balance at March 31, 2021	$ 2,685,085	$ 90,566,230	$ (341,390)	$ 92,909,925
Balance at December 31, 2021	$ 2,717,525	$ 94,289,309	$ (310,037)	$ 96,696,797
Comprehensive income	-	2,504,825	3,999	2,508,824
Capital stock/participation certificates issued	108,360	-	-	108,360
Capital stock/participation certificates retired	(127,465)	-	-	(127,465)
Cooperative dividends:				
Cash	-	(916,156)	-	(916,156)
Capital stock/participation certificates	-	-	-	-
Balance at March 31, 2022	**$ 2,698,420**	**$ 95,877,978**	**$ (306,038)**	**$ 98,270,360**

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

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

The Heritage Land Bank, ACA (Agricultural Credit Association), referred to as the Association, is a member-owned cooperative that provides credit and credit-related services to or for the benefit of eligible borrowers/stockholders for qualified agricultural purposes. The Association serves the counties of Anderson, Angelina, Cherokee, Collin, Dallas, Henderson, Hunt, Nacogdoches, Panola, Rockwall, Rusk, Sabine, San Augustine, Shelby, Smith, and Tarrant in the state of Texas. The Association is a lending institution of the Farm Credit System (the System), which was established by Acts of Congress to meet the needs of American agriculture.

The accompanying unaudited 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, 2021, as contained in the 2021 Annual Report to Stockholders.

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

In January 2021, the Financial Accounting Standards Board (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 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.

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 did not impact the Association's financial condition or its results of operations but did impact the employee benefit plan disclosures.

In August 2018, 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 became 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. The guidance is to be applied on a retrospective or prospective basis to all implementation costs incurred after the date of adoption. The adoption of this guidance did not materially impact the Association's financial condition or its results of operations.

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 became effective for interim and annual periods beginning after December 15, 2019. Early adoption was permitted and an entity was 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 did not impact the Association's financial condition or its results of operations but did impact the fair value measurements 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 March 31, 2022, are not necessarily indicative of the results to be expected for the year ended December 31, 2022.

NOTE 2 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

A summary of loans follows:

Loan Type	**March 31, 2022 Amount**	December 31, 2021 Amount
Production agriculture:		
Real estate mortgage	**$ 612,303,559**	$ 611,698,531
Production and intermediate term	**12,370,687**	12,038,644
Rural residential real estate	**29,480,268**	30,900,995
Agribusiness:		
Processing and marketing	**3,418,421**	4,382,896
Farm-related business	**1,748,640**	747,277
Lease receivables	**300,666**	303,993
Total	**$ 659,622,241**	$ 660,072,336

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 March 31, 2022:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 11,377,114	$ 23,307,444	$ -	$ -	$ 11,377,114	$ 23,307,444
Production and intermediate term	665,023	-	-	-	665,023	-
Agribusiness	-	1,284,670	-	-	-	1,284,670
Total	$ 12,042,137	$ 24,592,114	$ -	$ -	$ 12,042,137	$ 24,592,114

The Association is authorized under the Farm Credit Act to accept "advance conditional payments" (ACPs) from borrowers. To the extent the borrower's access to such ACPs is restricted and the legal right of setoff exists, the ACPs are netted against the borrower's related loan balance. Unrestricted advance conditional payments are included in other liabilities. ACPs are not insured, and interest is generally paid by the Association on such balances. Balances of ACPs were $3,633 and $1,044 at March 31, 2022, and December 31, 2021, respectively.

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

	March 31, 2022	December 31, 2021
Nonaccrual loans:		
Real estate mortgage	**$ 36,094**	$ 158,892
Rural residential real estate	**6,497**	35,836
Total nonaccrual loans	**42,591**	194,728
Accruing restructured loans:		
Real estate mortgage	**76,716**	77,800
Total accruing restructured loans	**76,716**	77,800
Total nonperforming loans	**119,307**	272,528
Other property owned	**-**	-
Total nonperforming assets	**$ 119,307**	$ 272,528

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:

	March 31, 2022	December 31, 2021
Real estate mortgage		
Acceptable	**99.5** %	99.3 %
OAEM	**0.3**	0.5
Substandard/doubtful	**0.2**	0.2
	100.0	100.0
Production and intermediate term		
Acceptable	**98.8**	98.5
OAEM	**0.7**	0.9
Substandard/doubtful	**0.5**	0.6
	100.0	100.0
Agribusiness		
Acceptable	**100.0**	100.0
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.0	100.0
Rural residential real estate		
Acceptable	**100.0**	99.9
OAEM	**-**	-
Substandard/doubtful	**-**	0.1
	100.0	100.0
Lease receivables		
Acceptable	**100.0**	100.0
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.0	100.0
Total loans		
Acceptable	**99.5**	99.3
OAEM	**0.3**	0.5
Substandard/doubtful	**0.2**	0.2
	100.0 %	100.0 %

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

March 31, 2022	**30-89 Days Past Due**	**90 Days or More Past Due**	**Total Past Due**	**Not Past Due or Less Than 30 Days Past Due**	**Total Loans**	**Recorded Investment >90 Days and Accruing**
Real estate mortgage	**$ 409,112**	**$ 15,815**	**$ 424,927**	**$ 614,789,326**	**$ 615,214,253**	**$ -**
Rural residential real estate	**318,528**	**-**	**318,528**	**29,237,690**	**29,556,218**	**-**
Production and intermediate term	**-**	**-**	**-**	**12,568,668**	**12,568,668**	**-**
Processing and marketing	**-**	**-**	**-**	**3,421,537**	**3,421,537**	**-**
Farm-related business	**-**	**-**	**-**	**1,759,800**	**1,759,800**	**-**
Lease receivables	**-**	**-**	**-**	**301,663**	**301,663**	**-**
Total	**$ 727,640**	**$ 15,815**	**$ 743,455**	**$ 662,078,684**	**$ 662,822,139**	**$ -**

December 31, 2021	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment >90 Days and Accruing
Real estate mortgage	$ 866,388	$ 18,035	$ 884,423	$ 613,123,833	$ 614,008,256	$ -
Rural residential real estate	174,675	-	174,675	30,799,134	30,973,809	-
Production and intermediate term	-	-	-	12,198,116	12,198,116	-
Processing and marketing	-	-	-	4,392,238	4,392,238	-
Farm-related business	-	-	-	755,930	755,930	-
Lease receivables	-	-	-	304,925	304,925	-
Total	$ 1,041,063	$ 18,035	$ 1,059,098	$ 661,574,176	$ 662,633,274	$ -

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

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

As of March 31, 2022, the total recorded investment of troubled debt restructured loans was $92,228, including $15,815 classified as nonaccrual and $76,413 classified as accrual, with no specific allowance for loan losses. As of March 31, 2022, and December 31, 2021, there were no commitments to lend funds to borrowers whose loan terms have been modified in a troubled debt restructuring.

In restructurings where principal is forgiven, the amount of the forgiveness is immediately charged off. In restructurings where accrued interest is forgiven, the interest is reversed (if current year interest) or charged off (if prior year interest). There were no TDR charge-offs recorded and no TDR defaults for the quarter ending March 31, 2022.

The predominant form of concession granted for troubled debt restructuring includes extensions and/or rearranging 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.

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*	
	March 31, 2022	December 31, 2021	**March 31, 2022**	December 31, 2021
Real estate mortgage	**$ 92,228**	$ 95,835	**$ 15,815**	$ 18,035
Total	**$ 92,228**	$ 95,835	**$ 15,815**	$ 18,035

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

Additional impaired loan information is as follows:

	March 31, 2022			December 31, 2021		
	Recorded Investment	**Unpaid Principal Balance[a]**	**Related Allowance**	Recorded Investment	Unpaid Principal Balance[a]	Related Allowance
Impaired loans with a related allowance for credit losses:						
Real estate mortgage	**$ -**	**$ -**	**$ -**	$ -	$ -	$ -
Rural residential real estate	**6,497**	**6,497**	**6,944**	6,497	6,497	6,944
Total	**$ 6,497**	**$ 6,497**	**$ 6,944**	$ 6,497	$ 6,497	$ 6,944
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	**$ 112,810**	**$ 112,508**	**$ -**	$ 236,692	$ 236,692	$ -
Rural residential real estate	**-**	**-**	**-**	29,339	29,339	-
Total	**$ 112,810**	**$ 112,508**	**$ -**	$ 266,031	$ 266,031	$ -
Total impaired loans:						
Real estate mortgage	**$ 112,810**	**$ 112,508**	**$ -**	$ 236,692	$ 236,692	$ -
Rural residential real estate	**6,497**	**6,497**	**6,944**	35,836	35,836	6,944
Total	**$ 119,307**	**$ 119,005**	**$ 6,944**	$ 272,528	$ 272,528	$ 6,944

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

	For the Quarter & Year Ended March 31, 2022		For the Quarter & Year Ended March 31, 2021	
	Average Impaired Loans	**Interest Income Recognized**	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:				
Real estate mortgage	**$ -**	**$ -**	$ -	$ -
Production and intermediate term	**-**	**-**	-	-
Rural residential real estate	**6,497**	**-**	-	-
Total	**$ 6,497**	**$ -**	$ -	$ -
Impaired loans with no related allowance for credit losses:				
Real estate mortgage	**$ 114,949**	**$ 916**	$ 447,211	$ 1,009
Production and intermediate term	**-**	**-**	41,464	10,136
Rural residential real estate	**-**	**-**	29,241	-
Total	**$ 114,949**	**$ 916**	$ 517,916	$ 11,145
Total impaired loans:				
Real estate mortgage	**$ 114,949**	**$ 916**	$ 447,211	$ 1,009
Production and intermediate term	**-**	**-**	41,464	10,136
Rural residential real estate	**6,497**	**-**	29,241	-
Total	**$ 121,446**	**$ 916**	$ 517,916	$ 11,145

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	Rural Residential Real Estate	Lease Receivables	Total
Allowance for Credit Losses:						
Balance at December 31, 2021	**$ 2,453,067**	**$ 1,392,078**	**$ 1,569,584**	**$ 18,168**	**$ -**	**$ 5,432,897**
Charge-offs	**-**	**-**	**-**	**-**	**-**	**-**
Recoveries	**-**	**13,835**	**-**	**-**	**-**	**13,835**
Other	**-**	**-**	**-**	**-**	**-**	**-**
Balance at March 31, 2022	**$ 2,453,067**	**$ 1,405,913**	**$ 1,569,584**	**$ 18,168**	**$ -**	**$ 5,446,732**
Ending Balance:						
Individually evaluated for impairment	**$ -**	**$ -**	**$ -**	**$ 6,944**	**$ -**	**$ 6,944**
Collectively evaluated for impairment	**2,453,067**	**1,405,913**	**1,569,584**	**11,224**	**-**	**5,439,788**
Balance at March 31, 2022	**$ 2,453,067**	**$ 1,405,913**	**$ 1,569,584**	**$ 18,168**	**$ -**	**$ 5,446,732**
Balance at December 30, 2020	$ 2,429,067	$ 1,315,368	$ 1,509,584	$ 18,168	$ -	$ 5,272,187
Charge-offs	-	-	-	-	-	-
Recoveries	-	16,378	-	-	-	16,378
Other	-	-	70,000	-	-	70,000
Balance at March 31, 2021	$ 2,429,067	$ 1,331,746	$ 1,579,584	$ 18,168	$ -	$ 5,358,565
Ending Balance:						
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	2,429,067	1,331,746	1,579,584	18,168	-	5,358,565
Balance at March 31, 2021	$ 2,429,067	$ 1,331,746	$ 1,579,584	$ 18,168	$ -	$ 5,358,565

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Rural Residential Real Estate	Lease Receivables	Total
Recorded Investments in Loans Outstanding:						
Ending Balance at March 31, 2022	**$ 615,214,253**	**$ 12,568,668**	**$ 5,181,337**	**$ 29,556,218**	**$ 301,663**	**$ 662,822,139**
Individually evaluated for impairment	**$ 112,810**	**$ -**	**$ -**	**$ 6,497**	**$ -**	**$ 119,307**
Collectively evaluated for impairment	**$ 615,101,443**	**$ 12,568,668**	**$ 5,181,337**	**$ 29,549,721**	**$ 301,663**	**$ 662,702,832**
Ending Balance at December 31, 2021	$ 614,008,256	$ 12,198,116	$ 5,148,168	$ 30,973,809	$ 304,925	$ 662,633,274
Individually evaluated for impairment	$ 236,692	$ -	$ -	$ 35,836	$ -	$ 272,528
Collectively evaluated for impairment	$ 613,771,564	$ 12,198,116	$ 5,148,168	$ 30,937,973	$ 304,925	$ 662,360,746

NOTE 3 —LEASES:

The components of lease expense were as follows:

Classification	For the Three Months Ended March 31, 2022	March 31, 2021
Operating lease cost	**$ 9,814**	$ 33,664
Net lease cost	**$ 9,814**	$ 33,664

Other information related to leases was as follows:

	For the Three Months Ended March 31, 2022	March 31, 2021
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	**$ 9,814**	$ 33,664

Lease term and discount rate are as follows:

	March 31, 2022	December 31, 2021
Weighted average remaining lease term in years		
Operating leases	**1.32**	1.52
Weighted average discount rate		
Operating leases	**2.84%**	2.84%

Future minimum lease payments under non-cancellable leases as of March 31, 2022, were as follows:

	Operating Leases
2022 (excluding the three months ended 3/31/22)	$ 29,441
2023	15,680
2024	-
2025	-
2026	-
Thereafter	-
Total	$ 45,121

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 the Association's customer base; and any other risk-oriented activities, such as funding and interest rate risk, potential obligations under joint and several liability, contingent and off-balance-sheet liabilities, or other conditions warranting additional capital. At least quarterly, management reviews the Association's goals and objectives with the board.

Regulatory Capitalization Requirements

Risk-adjusted:	Regulatory Requirements Including Capital Conservation Buffers	As of March 31, 2022
Common equity tier 1 ratio	7.00%	13.33%
Tier 1 capital ratio	8.50%	13.33%
Total capital ratio	10.50%	14.18%
Permanent capital ratio	7.00%	13.44%
Non-risk-adjusted:		
Tier 1 leverage ratio	5.00%	12.99%
UREE leverage ratio	1.50%	12.58%

The details for the amounts used in the calculation of the regulatory capital ratios as of March 31, 2022:

	Common equity tier 1 ratio	Tier 1 capital ratio	Total capital ratio	Permanent capital ratio
Numerator:				
Unallocated retained earnings	$ 94,418,923	$ 94,418,923	$ 94,418,923	$ 94,418,923
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	2,704,462	2,704,462	2,704,462	2,704,462
Allowance for loan losses and reserve for credit losses subject to certain limitations	-	-	5,539,591	-
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	(10,983,595)	(10,983,595)	(10,983,595)	(10,983,595)
	$ 86,139,790	$ 86,139,790	$ 91,679,381	$ 86,139,790
Denominator:				
Risk-adjusted assets excluding allowance	657,367,632	657,367,632	657,367,632	657,367,632
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	(10,983,595)	(10,983,595)	(10,983,595)	(10,983,595)
Allowance for loan losses	-	-	-	(5,439,591)
	$ 646,384,037	$ 646,384,037	$ 646,384,037	$ 640,944,446

	Tier 1 leverage ratio	UREE leverage ratio
Numerator:		
Unallocated retained earnings	$ 94,418,923	$ 94,418,923
Common Cooperative Equities:		
Statutory minimum purchased borrower stock	2,704,462	-
Regulatory Adjustments and Deductions:		
Amount of allocated investments in other System institutions	(10,983,595)	(10,983,595)
	$ 86,139,790	$ 83,435,328
Denominator:		
Total Assets	$ 674,512,191	$ 674,512,191
Regulatory Adjustments and Deductions:		
Regulatory deductions included in tier 1 capital	(11,487,377)	(11,487,377)
	$ 663,024,814	$ 663,024,814

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

	Accumulated Other Comprehensive Loss	
	March 31, 2022	March 31, 2021
Nonpension postretirement benefits	**$ (306,038)**	$ (341,390)

The Association's accumulated other comprehensive loss relates entirely to its nonpension other postretirement benefits. Amortization of prior service credits are reflected in "Salaries and employee benefits" and amortization of actuarial loss is reflected in "Other noninterest expense" in the Consolidated Statements of Comprehensive Income. The following table summarizes the change in accumulated other comprehensive loss for the three months ended March 31:

	2022	2021
Accumulated other comprehensive loss at January 1	**$(310,037)**	$(346,227)
Amortization of prior service credit included in salaries and employee benefits	**(1,603)**	(1,604)
Amortization of actuarial loss included in salaries and employee benefits	**5,602**	6,441
Other comprehensive loss	**3,999**	4,837
Accumulated other comprehensive loss at March 31	**$(306,038)**	$(341,390)

NOTE 5 — INCOME TAXES:

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

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 15 to the 2021 Annual Report to Stockholders for a more complete description.

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

March 31, 2022	**Fair Value Measurement Using**			**Total Fair**
	Level 1	**Level 2**	**Level 3**	**Value**
Assets:				
Assets held in nonqualified benefit trusts	**$ 71,553**	**-**	**-**	**$ 71,553**

December 31, 2021	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Assets held in nonqualified benefit trusts	$ 65,760	-	-	$ 65,760

Valuation Techniques

As more fully discussed in Note 15 to the 2021 Annual Report to Stockholders, authoritative guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following represent a brief summary of the valuation techniques used for the Association's assets and liabilities. For a more complete description, see Notes to the 2021 Annual Report to Stockholders.

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.

Other Property Owned

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

Cash

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

Loans

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

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

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

Commitments to Extend Credit

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

NOTE 7 — EMPLOYEE BENEFIT PLANS:

The following table summarizes the components of net periodic benefit costs of nonpension other postretirement employee benefits for the three months ended March 31:

	Other Benefits	
	2022	2021
Service cost	**$ 8,807**	$ 9,729
Interest cost	**12,820**	11,177
Amortization of prior service credits	**(1,603)**	(1,604)
Amortization of net actuarial loss	**5,602**	6,441
Net periodic benefit cost	**$ 25,626**	$ 25,743

The Association's liability for the unfunded accumulated obligation for these benefits at March 31, 2022, was $1,662,499 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. As of March 31, 2022, $29,277 of contributions have been made to the defined benefit pension plan. The Association presently anticipates contributing an additional $87,833 to fund the defined pension plan in 2022 for a total amount of $117,110.

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 May 9, 2022, which is the date the financial statements were issued. There are no other significant events requiring disclosure as of May 9, 2022.