HERITAGE LAND BANK, ACA

2017
Quarterly Report
Second Quarter

For the Quarter Ended June 30, 2017

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.

Bill Tandy, Chief Executive Officer

August 8, 2017

Gina DeHoyos, Chairman, Audit Committee

August 8, 2017

Adena K. Nichols, Chief Financial Officer

August 8, 2017

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 June 30, 2017. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2016 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 is celebrating its 100th year of continual service to rural Texas. Since 1917, the Association has provided its members with quality financial services. The Board of Directors and management remain committed to maintaining the financial integrity of the Association while offering competitive loan products that meet the financial needs of agricultural producers and rural homeowners throughout its territory.

In the second quarter of 2017, the Board declared an additional patronage distribution of $462,887 bringing the total patronage paid from 2016 earnings to $3,220,189. This patronage distribution represents the balance of patronage approved by the Board for 2016. The aggregate amount of patronage paid and allocated to its stockholders for the past 24 years exceeds $42.6 million.

Loan Portfolio:

Total loans outstanding at June 30, 2017, including nonaccrual loans and sales contracts, were $455,762,453 compared to $416,165,557 at December 31, 2016, reflecting an increase of 9.5 percent. Nonaccrual loans as a percentage of total loans outstanding were 0.1 percent at June 30, 2017, compared to 0.3 percent at December 31, 2016.

The Association recorded $23,084 in recoveries and no charge-offs for the quarter ended June 30, 2017, and $484,784 in recoveries and $2,682 in charge-offs for the same periods in 2016. The Association's allowance for loan losses was 1.0 percent and 1.1 percent of total loans outstanding as of June 30, 2017, and December 31, 2016, respectively.

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, 2017		December 31, 2016	
	Amount	**%**	Amount	%
Nonaccrual	**$ 594,636**	**20.0%**	$ 1,164,302	29.2%
Formally restructured	**557,668**	**18.7%**	582,007	14.6%
Other property owned, net	**1,828,052**	**61.3%**	2,235,472	56.2%
Total	**$ 2,980,356**	**100.0%**	$ 3,981,781	100.0%

Investments:

During the second quarter of 2017, the Association exchanged $7,594 of mortgage loans that previously were covered under a long-term standby commitment to purchase agreement with Federal Agricultural Mortgage Corporation (Farmer Mac) for a Farmer Mac guaranteed agricultural mortgage-backed security. No gain or loss was recognized in the financial statements upon completion of the exchange transaction. The Association continues to service the loans included in this transaction. These investments in guaranteed securities are included in this report's Consolidated Balance Sheet as investments – held-to-maturity.

Results of Operations:

The Association had net income of $1,897,484 and $3,191,401 for the three and six months ended June 30, 2017, as compared to net income of $1,330,596 and $2,728,879 for the same periods in 2016, reflecting an increase of 42.6 and 17.0 percent, respectively. Net interest income was $3,730,750 and $6,657,682 for the three and six months ended June 30, 2017, compared to $2,677,220 and $5,535,000 million for the same periods in 2016.

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	Six months ended:			
	June 30, 2017		June 30, 2016	
	Average Balance	**Interest**	Average Balance	Interest
Loans	**$ 436,045,736**	**$ 10,910,843**	$ 378,875,910	$ 8,931,089
Investments	**391,197**	**9,429**	557,717	11,979
Total interest-earning assets	**436,436,933**	**10,920,272**	379,433,627	8,943,068
Interest-bearing liabilities	**365,887,005**	**4,262,590**	310,589,301	3,408,068
Impact of capital	**$ 70,549,928**		$ 68,844,326	
Net interest income		**$ 6,657,682**		$ 5,535,000

	2017 Average Yield	2016 Average Yield
Yield on loans	**5.05%**	4.74%
Yield on investments	**4.86%**	4.32%
Total yield on interest-earning assets	**5.05%**	4.74%
Cost of interest-bearing liabilities	**2.35%**	2.21%
Interest rate spread	**2.70%**	2.53%
Net interest income as a percentage of average earning assets	**3.08%**	2.93%

	Six months ended: June 30, 2017 vs. June 30, 2016		
	Increase (decrease) due to		
	Volume	**Rate**	**Total**
Interest income - loans	**$ 1,343,902**	**$ 635,852**	**$ 1,979,754**
Interest income - investments	**(3,567)**	**1,017**	**(2,550)**
Total interest income	**1,340,335**	**636,869**	**1,977,204**
Interest expense	**605,085**	**249,437**	**854,522**
Net interest income	**$ 735,250**	**$ 387,432**	**$ 1,122,682**

Interest income for the three and six months ended June 30, 2017, increased by $1,549,516 and $1,977,204 or 35.2 and 22.1 percent respectively, from the same periods of 2016, primarily due to increases in average loan volume and increases in yields on earning assets. Interest expense for the three and six months ended June 30, 2017, increased by $495,986 and $854,522 or 28.7 and 25.1 percent, from the same periods of 2016 due to an increase in average debt volume and interest rates. Average loan volume for the second quarter of 2017 was $444,184,221 compared to $380,851,645 in the second quarter of 2016. The average net interest rate spread on the loan portfolio for the second quarter of 2017 was 2.99 percent, compared to 2.43 percent in the second quarter of 2016.

The Association's return on average assets was 1.44 percent for the six months ended June 30, 2017, and was 1.41 percent for the same period in 2016. The Association's return on average equity for the six months ended June 30, 2017, was 8.41 percent, compared to 8.05 percent for the same period in 2016.

Liquidity and Funding Sources:

The Association secures the majority of its lendable funds from the Farm Credit Bank of Texas (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, 2017	December 31, 2016
Note payable to the Bank	**$ 384,675,978**	$ 345,169,821
Accrued interest on note payable	**750,171**	663,466
Total	**$ 385,426,149**	$ 345,833,287

The Association operates under a general financing agreement (GFA) with the Bank. The current GFA is effective through October 1, 2017. The primary source of liquidity and funding for the Association is a direct loan from the Bank. The outstanding balance of $384,675,978 as of June 30, 2017, is recorded as a liability on the Association's balance sheet. The note carried a weighted average interest rate of 2.38 percent at June 30, 2017. 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, 2016, is due to the Association's increase in assets since year end. The Association's own funds, which represent the amount of the Association's loan portfolio funded by the Association's equity, were $70,111,166 at June 30, 2017. The maximum amount the Association may borrow from the Bank as of June 30, 2017, was $454,209,970 as defined by the general financing agreement. The indebtedness continues in effect until the expiration date of the general financing agreement, which is October 1, 2017, unless sooner terminated by the Bank upon the occurrence of an event of default, or by the Association, in the event of a breach of this agreement by the Bank, upon giving the Bank 30 calendar days' prior written notice, or in all other circumstances, upon giving the Bank 120 days' prior written notice.

Capital Resources:

The Association's capital position increased by $2,544,051 at June 30, 2017, compared to December 31, 2016. The Association's debt as a percentage of members' equity was 5.00:1 as of June 30, 2017, compared to 4.68:1 as of December 31, 2016. 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.

Significant Recent Accounting Pronouncements:

In March 2017, the Financial Accounting Standards Board (FASB) issued guidance entitled "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Cost." The guidance requires that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. Other components are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. This guidance becomes effective for interim and annual periods beginning after December 15, 2017. The adoption of this guidance is not expected to impact the Association's financial condition but could change the classification of certain items in the results of operations.

In August 2016, the FASB issued guidance entitled “Classification of Certain Cash Receipts and Cash Payments.” The guidance addresses specific cash flow issues with the objective of reducing the diversity in the classification of these cash flows. Included in the cash flow issues are debt prepayment or debt extinguishment costs and settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing. This guidance becomes effective for interim and annual periods beginning after December 15, 2017. The adoption of this guidance is not expected to impact the Association’s financial condition or its results of operations but could change the classification of certain items in the statement of cash flows.

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

In February 2016, the FASB issued guidance entitled “Leases.” The guidance requires the recognition by lessees of lease assets and lease liabilities on the balance sheet for the rights and obligations created by those leases. Leases with lease terms of more than 12 months are impacted by this guidance. This guidance becomes effective for interim and annual periods beginning after December 15, 2018, with early application permitted. The Association is currently evaluating the impact of adoption on its financial condition and results of operations.

In January 2016, the FASB issued guidance entitled “Recognition and Measurement of Financial Assets and Liabilities.” This guidance becomes effective for interim and annual periods beginning after December 15, 2017. The adoption of this guidance is not expected to impact the Association’s financial condition or its results of operations.

In August 2014, the FASB issued guidance entitled “Presentation of Financial Statements — Going Concern.” The guidance governs management’s responsibility to evaluate whether there is substantial doubt about an entity’s ability to continue as a going concern and to provide related footnote disclosures. This guidance requires management to perform interim and annual assessments of an entity’s ability to continue as a going concern within one year after the date the financial statements are issued or within one year after the financial statements are available to be issued, when applicable. Substantial doubt exists if it is probable that the entity will be unable to meet its obligations for the assessed period. This guidance became effective for interim and annual periods ending after December 15, 2016, and early application was permitted. The Association adopted this guidance in the fourth quarter of 2016 and management made its initial assessment as of December 31, 2016.

In May 2014, the FASB issued guidance entitled, “Revenue from Contracts with Customers.” The guidance governs revenue recognition from contracts with customers and requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Financial instruments and other contractual rights within the scope of other guidance issued by the FASB are excluded from the scope of this new revenue recognition guidance. In this regard, a majority of our contracts would be excluded from the scope of this new guidance. In August 2015, the FASB issued an update that defers this guidance by one year, which results in the new revenue standard becoming effective for interim and annual reporting periods beginning after December 15, 2017. The Association is in the process of reviewing contracts to determine the effect, if any, on their financial condition or results of operations.

Regulatory Matters:

On March 10, 2016, the Farm Credit Administration approved a final rule to modify the regulatory capital requirements for System banks and associations. The stated objectives of the proposed rule are as follows:

- To modernize capital requirements while ensuring that the institutions continue to hold sufficient regulatory capital to fulfill their mission as a government-sponsored enterprise,
- To ensure that the System’s capital requirements are comparable to the Basel III framework and the standardized approach that the federal banking regulatory agencies have adopted, but also to ensure that the rules recognize the cooperative structure and the organization of the System,

- To make System regulatory capital requirements more transparent and
- To meet the requirements of section 939A of the Dodd-Frank Act.

The final rule became effective on January 1, 2017. The Association is in compliance with the required minimum capital standards as of June 30, 2017.

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 2016 Annual Report of Heritage Land Bank, ACA more fully describe the Association's relationship with the Bank.

The Texas Farm Credit District's (District) annual and quarterly stockholder reports, as well as those of the Bank, are available free of charge, upon request. These reports can be obtained by writing to Farm Credit Bank of Texas, The Ag Agency, P.O. Box 202590, Austin, Texas 78720, or by calling (512) 483-9204. Copies of the District's quarterly and annual stockholder reports also can be requested by e-mail at *fcb@farmcreditbank.com*. The annual and quarterly stockholder reports for the Bank and the District 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, TX 75703 or calling (903) 534-4975. The annual and quarterly stockholder reports for the Association are also available on its website at *www.heritagelandbank.com.*

HERITAGE LAND BANK, ACA

CONSOLIDATED BALANCE SHEET

	June 30, 2017 (unaudited)	December 31, 2016
ASSETS		
Cash	**$ 147,013**	$ 256,735
Investments	**361,886**	423,564
Loans	**455,762,453**	416,165,557
Less: allowance for loan losses	**4,703,013**	4,655,232
Net loans	**451,059,440**	411,510,325
Accrued interest receivable	**2,138,317**	2,022,783
Investment in and receivable from the Farm Credit Bank of Texas:		
Capital stock	**6,396,505**	6,396,505
Other	**864,648**	491,673
Other property owned, net	**1,828,052**	2,235,472
Premises and equipment, net	**3,079,450**	3,166,643
Other assets	**294,492**	295,679
Total assets	**$ 466,169,803**	$ 426,799,379
LIABILITIES		
Note payable to the Farm Credit Bank of Texas	**$ 384,675,978**	$ 345,169,821
Accrued interest payable	**750,171**	663,466
Drafts outstanding	**171,170**	13,888
Dividends payable	**275,813**	2,749,838
Other liabilities	**2,624,695**	3,074,441
Total liabilities	**388,497,827**	351,671,454
MEMBERS' EQUITY		
Capital stock and participation certificates	**2,214,035**	2,110,740
Unallocated retained earnings	**75,386,344**	72,941,069
Accumulated other comprehensive income	**71,597**	76,116
Total members' equity	**77,671,976**	75,127,925
Total liabilities and members' equity	**$ 466,169,803**	$ 426,799,379

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

HERITAGE LAND BANK, ACA

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

	Quarter Ended June 30,		Six Months Ended June 30,	
	2017	2016	**2017**	2016
INTEREST INCOME				
Loans	**$ 5,948,387**	$ 4,397,962	**$ 10,910,843**	$ 8,931,089
Investments	**4,583**	5,492	**9,429**	11,979
Total interest income	**5,952,970**	4,403,454	**10,920,272**	8,943,068
INTEREST EXPENSE				
Note payable to the Farm Credit Bank of Texas	**2,222,220**	1,726,234	**4,262,590**	3,408,068
Net interest income	**3,730,750**	2,677,220	**6,657,682**	5,535,000
PROVISION FOR LOAN LOSSES	**-**	(150,000)	**-**	(150,000)
Net interest income after provision for loan losses	**3,730,750**	2,827,220	**6,657,682**	5,685,000
NONINTEREST INCOME				
Income from the Farm Credit Bank of Texas:				
Patronage income	**335,094**	536,630	**997,878**	1,009,126
Loan fees	**45,085**	17,871	**58,624**	34,381
Refunds from Farm Credit System Insurance Corporation	**-**	-	**4,102**	-
Financially related services income	**458**	438	**983**	1,007
Gain on other property owned, net	**-**	-	**-**	27,008
Other noninterest income	**20,677**	21,851	**46,154**	44,823
Total noninterest income	**401,314**	576,790	**1,107,740**	1,116,345
NONINTEREST EXPENSES				
Salaries and employee benefits	**1,309,017**	1,132,974	**2,561,528**	2,181,135
Directors' expense	**73,443**	92,400	**158,098**	156,786
Purchased services	**73,510**	107,706	**150,267**	268,073
Travel	**48,299**	66,581	**110,894**	126,866
Occupancy and equipment	**147,705**	145,152	**324,036**	296,031
Communications	**40,358**	45,148	**78,414**	78,381
Advertising	**131,673**	153,723	**304,190**	305,460
Public and member relations	**171,112**	121,570	**289,274**	255,116
Supervisory and exam expense	**38,500**	31,804	**77,000**	63,608
Insurance Fund premiums	**144,359**	113,763	**282,097**	226,997
Loss on other property owned, net	**2,556**	4,299	**135,780**	-
Other noninterest expense	**54,048**	58,294	**102,443**	114,715
Total noninterest expenses	**2,234,580**	2,073,414	**4,574,021**	4,073,168
NET INCOME	**1,897,484**	1,330,596	**3,191,401**	2,728,177
Other comprehensive income:				
Change in postretirement benefit plans	**(4,519)**	(4,519)	**(4,519)**	(9,038)
COMPREHENSIVE INCOME	**$ 1,892,965**	$ 1,326,077	**$ 3,186,882**	$ 2,719,139

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, 2015	$ 1,946,435	$ 70,176,212	$ 71,511	$ 72,194,158
Net income	-	2,728,177	-	2,728,177
Other comprehensive loss	-	-	(9,038)	(9,038)
Capital stock/participation certificates and allocated retained earnings issued	179,520	-	-	179,520
Capital stock/participation certificates and allocated retained earnings retired	(128,180)	-	-	(128,180)
Patronage distributions declared	-	(1,375,292)	-	(1,375,292)
Balance at June 30, 2016	$ 1,997,775	$ 71,529,097	$ 62,473	$ 73,589,345
Balance at December 31, 2016	$ 2,110,740	$ 72,941,069	$ 76,116	$ 75,127,925
Net income	-	3,191,401	-	3,191,401
Other comprehensive loss	-	-	(4,519)	(4,519)
Capital stock/participation certificates and allocated retained earnings issued	250,305	-	-	250,305
Capital stock/participation certificates and allocated retained earnings retired	(147,010)	-	-	(147,010)
Patronage refunds - Cash	-	(746,126)	-	(746,126)
Balance at June 30, 2017	**$ 2,214,035**	**$ 75,386,344**	**$ 71,597**	**$ 77,671,976**

The accompanying notes are an integral part of these consolidated 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 (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, 2016, as contained in the 2016 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, 2016, as contained in the 2016 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, 2017. Descriptions of the significant accounting policies are included in the 2016 Annual Report to Stockholders. In the opinion of management, these policies and the presentation of the interim financial condition and results of operations conform with GAAP and prevailing practices within the banking industry.

In March 2017, the Financial Accounting Standards Board (FASB) issued guidance entitled “Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Cost.” The guidance requires that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. Other components are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. This guidance becomes effective for interim and annual periods beginning after December 15, 2017. The adoption of this guidance is not expected to impact the Association’s financial condition but could change the classification of certain items in the results of operations.

In August 2016, the FASB issued guidance entitled “Classification of Certain Cash Receipts and Cash Payments.” The guidance addresses specific cash flow issues with the objective of reducing the diversity in the classification of these cash flows. Included in the cash flow issues are debt prepayment or debt extinguishment costs and settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing. This guidance becomes effective for interim and annual periods beginning after December 15, 2017. The adoption of this guidance is not expected to impact the Association’s financial condition or its results of operations but could change the classification of certain items in the statement of cash flows.

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

In February 2016, the FASB issued guidance entitled "Leases." The guidance requires the recognition by lessees of lease assets and lease liabilities on the balance sheet for the rights and obligations created by those leases. Leases with lease terms of more than 12 months are impacted by this guidance. This guidance becomes effective for interim and annual periods beginning after December 15, 2018, with early application permitted. The Association is currently evaluating the impact of adoption on its financial condition and results of operations.

In January 2016, the FASB issued guidance entitled "Recognition and Measurement of Financial Assets and Liabilities." This guidance affects, among other things, the presentation and disclosure requirements for financial instruments. For public entities, the guidance eliminates the requirement to disclose the methods and significant assumptions used to estimate the fair value of financial instruments carried at amortized cost. This guidance becomes effective for interim and annual periods beginning after December 15, 2017. The adoption of this guidance is not expected to impact the Association's financial condition or its results of operations.

In August 2014, the FASB issued guidance entitled "Presentation of Financial Statements — Going Concern." The guidance governs management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. This guidance requires management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year after the date the financial statements are issued or within one year after the financial statements are available to be issued, when applicable. Substantial doubt exists if it is probable that the entity will be unable to meet its obligations for the assessed period. This guidance became effective for interim and annual periods ending after December 15, 2016, and early application was permitted. The Association adopted this guidance in the fourth quarter of 2016 and management made its initial assessment as of December 31, 2016.

In May 2014, the FASB issued guidance entitled, "Revenue from Contracts with Customers." The guidance governs revenue recognition from contracts with customers and requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Financial instruments and other contractual rights within the scope of other guidance issued by the FASB are excluded from the scope of this new revenue recognition guidance. In this regard, a majority of our contracts would be excluded from the scope of this new guidance. In August 2015, the FASB issued an update that defers this guidance by one year, which results in the new revenue standard becoming effective for interim and annual reporting periods beginning after December 15, 2017. The Association is in the process of reviewing contracts to determine the effect, if any, on their financial condition or 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, 2017, are not necessarily indicative of the results to be expected for the year ended December 31, 2017. Certain amounts in the prior period's financial statements have been reclassified to conform to current financial statement presentation.

NOTE 2 — INVESTMENTS:

The following is a summary of Farmer Mac agricultural mortgage-backed securities:

	June 30, 2017				
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**	**Weighted Average Yield**
Agricultural mortgage-backed securities	**$ 369,480**	**$ 1,172**	**$ -**	**$ 370,652**	**4.82 %**

	December 31, 2016				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Agricultural mortgage-backed securities	$ 423,564	$ 2,162	$ -	$ 425,726	4.27 %

Effective during the second quarter of 2017, $7,594 of agricultural mortgage loans previously covered under a long-term standby commitment to purchase agreement with the Federal Agricultural Mortgage Corporation (Farmer Mac) were securitized. No gain or loss was recognized in the financial statements upon completion of the securitization. Terms of the agreement call for a guarantee fee of 20-50 basis points to be paid to Farmer Mac, and for the Association to receive a 30-basis-point fee for servicing the underlying loans.

NOTE 3 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

A summary of loans follows:

	June 30, 2017	December 31, 2016
Loan Type	**Amount**	Amount
Production agriculture:		
Real estate mortgage	**$ 397,438,753**	$ 367,488,502
Rural residential real estate	**30,869,838**	28,053,904
Production and intermediate term	**19,099,387**	18,246,903
Agribusiness:		
Processing and marketing	**6,677,985**	-
Farm-related business	**1,235,878**	919,871
Loans to cooperatives	**2,469**	2,469
Communication	**279,493**	296,882
Mission-related investments	**158,650**	60,000
Water and waste water	**-**	20,863
Total	**$ 455,762,453**	$ 415,089,394

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, 2017:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 392,017	$ 74,963,923	$ -	$ -	$ 392,017	$ 74,963,923
Agribusiness	2,625,503	1,284,670	-	-	2,625,503	1,284,670
Communication	279,493	-	-	-	279,493	-
Total	$ 3,297,013	$ 76,248,593	$ -	$ -	$ 3,297,013	$ 76,248,593

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

	June 30, 2017	December 31, 2016
Nonaccrual loans:		
Real estate mortgage	**$ 571,511**	$ 1,164,302
Production and intermediate term	**336**	-
Rural residential real estate	**22,789**	-
Total nonaccrual loans	**594,636**	1,164,302
Accruing restructured loans:		
Real estate mortgage	**546,916**	552,464
Production and intermediate term	**10,752**	29,543
Total accruing restructured loans	**557,668**	582,007
Total nonperforming loans	**1,152,304**	1,746,309
Other property owned	**1,828,052**	2,235,472
Total nonperforming assets	**$ 2,980,356**	$ 3,981,781

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, 2017	December 31, 2016
Real estate mortgage		
Acceptable	**97.7** %	97.4 %
OAEM	**0.1**	0.6
Substandard/doubtful	**2.2**	2.0
	100.0	100.0
Production and intermediate term		
Acceptable	**99.2**	99.1
OAEM	**-**	-
Substandard/doubtful	**0.8**	0.9
	100.0	100.0
Agribusiness		
Acceptable	**100.0**	100.0
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.0	100.0
Water/waste water		
Acceptable	**-**	100.0
OAEM	**-**	-
Substandard/doubtful	**-**	-
	-	100.0
Communication		
Acceptable	**100.0**	100.0
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.0	100.0
Rural residential real estate		
Acceptable	**99.8**	99.3
OAEM	**-**	-
Substandard/doubtful	**0.2**	0.7
	100.0	100.0
Mission-related investments		
Acceptable	**100.0**	100.0
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.0	100.0
Total loans		
Acceptable	**97.9**	97.6
OAEM	**0.1**	0.5
Substandard/doubtful	**2.0**	1.9
	100.0 %	100.0 %

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

June 30, 2017	**30-89 Days Past Due**	**90 Days or More Past Due**	**Total Past Due**	**Not Past Due or Less Than 30 Days Past Due**	**Total Loans**	**Recorded Investment >90 Days and Accruing**
Real estate mortgage	**$ 1,064,168**	**$ 292,055**	**$ 1,356,223**	**$ 397,809,860**	**$ 399,166,083**	**$ -**
Rural residential real estate	**26,237**	**22,789**	**49,026**	**30,891,563**	**30,940,589**	**-**
Production and intermediate term	**104,831**	**336**	**105,167**	**19,305,490**	**19,410,657**	**-**
Agribusiness	**-**	**-**	**-**	**7,943,416**	**7,943,416**	**-**
Communication	**-**	**-**	**-**	**280,951**	**280,951**	**-**
Mission-related investments	**-**	**-**	**-**	**159,074**	**159,074**	**-**
Total	**$ 1,195,236**	**$ 315,180**	**$ 1,510,416**	**$ 456,390,354**	**$ 457,900,770**	**$ -**

December 31, 2016	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment >90 Days and Accruing
Real estate mortgage	$ 1,428,019	$ 402,013	$ 1,830,032	$ 367,354,236	$ 369,184,268	$ -
Rural residential real estate	77,138	-	77,138	28,038,212	28,115,350	-
Production and intermediate term	18,802	-	18,802	18,476,937	18,495,739	-
Agribusiness	-	-	-	937,763	937,763	-
Communication	-	-	-	297,911	297,911	-
Mission-related investments	-	-	-	60,288	60,288	-
Water and waste water	-	-	-	20,863	20,863	-
Total	$ 1,523,959	$ 402,013	$ 1,925,972	$ 415,186,210	$ 417,112,182	$ -

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

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

There were no troubled debt restructured loans as of June 30, 2017. As of June 30, 2017 and December 31, 2016 there were no commitments to lend funds to borrowers whose loan terms have been modified in 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*	
	June 30, 2017	December 31, 2016	June 30, 2017	December 31, 2016
Real estate mortgage	$ 546,916	$ 552,464	$ -	$ -
Production and intermediate term	10,752	29,543	-	-
Total	$ 557,668	$ 582,007	$ -	$ -

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

Additional impaired loan information is as follows:

	June 30, 2017			December 31, 2016		
	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	**$ 188,781**	**$ 202,060**	**$ 15,217**	$ -	$ -	$ -
Rural residential real estate	**22,789**	**22,789**	**2,023**	-	-	-
Total	**$ 211,570**	**$ 224,849**	**$ 17,240**	$ -	$ -	$ -
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	**$ 929,646**	**$ 1,012,340**	**$ -**	$ 1,716,766	$ 1,811,552	$ -
Production and intermediate term	**11,088**	**830,396**	**-**	29,543	893,874	-
Processing and marketing	**-**	**5,115,441**	**-**	-	5,115,441	-
Total	**$ 940,734**	**$ 6,958,177**	**$ -**	$ 1,746,309	$ 7,820,867	$ -
Total impaired loans:						
Real estate mortgage	**$ 1,118,427**	**$ 1,214,400**	**$ 15,217**	$ 1,716,766	$ 1,811,552	$ -
Production and intermediate term	**11,088**	**830,396**	**-**	29,543	893,874	-
Processing and marketing	**-**	**5,115,441**	**-**	-	5,115,441	-
Rural residential real estate	**22,789**	**22,789**	**2,023**	-	-	-
Total	**$ 1,152,304**	**$ 7,183,026**	**$ 17,240**	$ 1,746,309	$ 7,820,867	$ -

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

	For the Three Months Ended				For the Six Months Ended			
	June 30, 2017		June 30, 2016		**June 30, 2017**		June 30, 2016	
	Average Impaired Loans	**Interest Income Recognized**	Average Impaired Loans	Interest Income Recognized	**Average Impaired Loans**	**Interest Income Recognized**	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:								
Real estate mortgage	**$ 189,690**	**$ -**	$ -	$ -	**$ 188,219**	**$ -**	$ -	$ -
Production and intermediate term	**-**	**-**	-	-	**-**	**-**	-	-
Rural residential real estate	**22,581**	**-**	-	-	**15,461**	**148**	-	-
Total	**$ 212,271**	**$ -**	$ -	$ -	**$ 203,680**	**$ 148**	$ -	$ -
Impaired loans with no related allowance for credit losses:								
Real estate mortgage	**$ 921,284**	**$ 534,538**	$ 3,596,272	$ 10,156	**$ 1,013,559**	**$ 549,097**	$ 3,383,006	$ 19,755
Production and intermediate term	**12,316**	**176**	54,878	636	**14,280**	**407**	51,918	1,375
Rural residential real estate	**-**	**-**	2,642	-	**-**	**-**	3,085	-
Total	**$ 933,600**	**$ 534,714**	$ 3,653,792	$ 10,792	**$ 1,027,839**	**$ 549,504**	$ 3,438,009	$ 21,130
Total impaired loans:								
Real estate mortgage	**$ 1,110,974**	**$ 534,538**	$ 3,596,272	$ 10,156	**$ 1,201,778**	**$ 549,097**	$ 3,383,006	$ 19,755
Production and intermediate term	**12,316**	**176**	54,878	636	**14,280**	**407**	51,918	1,375
Rural residential real estate	**22,581**	**-**	2,642	-	**15,461**	**148**	3,085	-
Total	**$ 1,145,871**	**$ 534,714**	$ 3,653,792	$ 10,792	**$ 1,231,519**	**$ 549,652**	$ 3,438,009	$ 21,130

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

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communication	Energy and Water/Waste Water	Rural Residential Real Estate	Mission-Related Investments	Total
Allowance for Credit Losses:								
Balance at March 31, 2017	$ 2,330,403	$ 708,934	$ 1,619,584	$ 4,840	$ -	$ 18,168	$ -	$ 4,681,929
Charge-offs	-	-	-	-	-	-	-	-
Recoveries	-	21,084	-	-	-	-	-	21,084
Provision for loan losses	-	-	-	-	-	-	-	-
Balance at June 30, 2017	$ 2,330,403	$ 730,018	$ 1,619,584	$ 4,840	$ -	$ 18,168	$ -	$ 4,703,013
Balance at December 31, 2016	$ 2,328,403	$ 684,237	$ 1,619,584	$ 4,840	$ -	$ 18,168	$ -	$ 4,655,232
Charge-offs	-	-	-	-	-	-	-	-
Recoveries	2,000	45,781	-	-	-	-	-	47,781
Provision for loan losses	-	-	-	-	-	-	-	-
Balance at June 30, 2017	$ 2,330,403	$ 730,018	$ 1,619,584	$ 4,840	$ -	$ 18,168	$ -	$ 4,703,013
Ending Balance:								
Individually evaluated for impairment	$ 15,217	$ -	$ -	$ -	$ -	$ 2,023	$ -	$ 17,240
Collectively evaluated for impairment	2,315,186	730,018	1,619,584	4,840	-	16,145	-	4,685,773
Balance at June 30, 2017	$ 2,330,403	$ 730,018	$ 1,619,584	$ 4,840	$ -	$ 18,168	$ -	$ 4,703,013
Balance at March 31, 2016	$ 2,255,947	$ 630,071	$ 1,153,673	$ 4,840	$ -	$ 18,168	$ -	$ 4,062,699
Charge-offs	(2,307)	-	-	-	-	-	-	(2,307)
Recoveries	3,000	17,337	464,447	-	-	-	-	484,784
Provision for loan losses	(150,000)	-	-	-	-	-	-	(150,000)
Balance at June 30, 2016	$ 2,106,640	$ 647,408	$ 1,618,120	$ 4,840	$ -	$ 18,168	$ -	$ 4,395,176
Balance at December 31, 2015	$ 2,135,430	$ 599,315	$ 1,128,391	$ 4,840	$ -	$ 18,168	$ -	$ 3,886,144
Charge-offs	(2,682)	-	-	-	-	-	-	(2,682)
Recoveries	123,892	48,093	489,729	-	-	-	-	661,714
Provision for loan losses	(150,000)	-	-	-	-	-	-	(150,000)
Balance at June 30, 2016	$ 2,106,640	$ 647,408	$ 1,618,120	$ 4,840	$ -	$ 18,168	$ -	$ 4,395,176
Ending Balance:								
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	2,106,640	647,408	1,618,120	4,840	-	18,168	-	4,395,176
Balance at June 30, 2016	$ 2,106,640	$ 647,408	$ 1,618,120	$ 4,840	$ -	$ 18,168	$ -	$ 4,395,176

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communication	Energy and Water/Waste Water	Rural Residential Real Estate	Mission-Related Investments	Total
Recorded Investments in Loans Outstanding:								
Ending Balance at June 30, 2017	$ 399,166,083	$ 19,410,657	$ 7,943,416	$ 280,951	$ -	$ 30,940,589	$ 159,074	$ 457,900,770
Individually evaluated for impairment	$ 929,646	$ 11,088	$ -	$ -	$ -	$ -	$ -	$ 940,734
Collectively evaluated for impairment	$ 398,236,437	$ 19,399,569	$ 7,943,416	$ 280,951	$ -	$ 30,940,589	$ 159,074	$ 456,960,036
Ending Balance at December 31, 2016	$ 369,184,268	$ 18,495,739	$ 937,763	$ 297,911	$ 20,863	$ 28,115,350	$ 60,288	$ 417,112,182
Individually evaluated for impairment	$ 1,716,766	$ 29,543	$ -	$ -	$ -	$ -	$ -	$ 1,746,309
Collectively evaluated for impairment	$ 367,467,502	$ 18,466,196	$ 937,763	$ 297,911	$ 20,863	$ 28,115,350	$ 60,288	$ 415,365,873

NOTE 4 — CAPITAL:

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

Regulatory Capitalization Requirements

Effective January 1, 2017, the regulatory capital requirements for System banks and associations were modified. The new regulations replaced existing 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 a tier 1 leverage ratio and an unallocated retained earnings equivalents (UREE) leverage ratio. The permanent capital ratio continues to remain in effect.

Risk-adjusted:	Regulatory Minimums	Conservation Buffer	Total	As of June 30, 2017
Common equity tier 1 ratio	4.50%	2.50%	7.00%	16.55%
Tier 1 capital ratio	6.00%	2.50%	8.50%	16.55%
Total capital ratio	8.00%	2.50%	10.50%	17.69%
Permanent capital ratio	7.00%	0.00%	7.00%	16.74%
Non-risk-adjusted:				
Tier 1 leverage ratio	4.00%	1.00%	5.00%	15.63%
UREE leverage ratio	1.50%	0.00%	1.50%	16.57%

*The 2.5% capital conservation buffer for the risk-adjusted ratios will be phased in over a three year period ending on December 31, 2019.

Risk-adjusted assets have been defined by FCA Regulations as the Statement of Condition assets and off-balance-sheet commitments adjusted by various percentages, depending on the level of risk inherent in the various types of assets. The primary changes which generally have the impact of increasing risk-adjusted assets (decreasing risk-based regulatory capital ratios) were as follows:

- Inclusion of off-balance-sheet commitments less than 14 months
- Increased risk-weighting of most loans 90 days past due or in nonaccrual status

Risk-adjusted assets is calculated differently for the permanent capital ratio (referred herein as PCR risk-adjusted assets) compared to the other risk-based capital ratios. The primary difference is the deduction of the allowance for loan losses from risk-adjusted assets for the permanent capital ratio.

The ratios are based on a three-month average daily balance in accordance with FCA regulations and are calculated as follows:

- Common equity tier 1 ratio is statutory minimum purchased borrower stock, other required borrower stock held for a minimum of 7 years, allocated equities held for a minimum of 7 years or not subject to revolvement, unallocated retained earnings, paid-in capital, less certain regulatory required deductions including the amount of allocated investments in other System institutions, and the amount of purchased investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.

- Tier 1 capital ratio is common equity tier 1 plus non-cumulative perpetual preferred stock, divided by average risk-adjusted assets.

- Total capital is tier 1 capital plus other required borrower stock held for a minimum of 5 years, allocated equities held for a minimum of 5 years, subordinated debt and limited-life preferred stock greater than 5 years to maturity at issuance subject to certain limitations, allowance and reserve for credit losses under certain limitations less certain investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.

- Permanent capital ratio (PCR) is all at-risk borrower stock, any allocated excess stock, unallocated retained earnings, paid-in capital, subordinated debt and preferred subject to certain limitations, less certain allocated and purchased investments in other System institutions, divided by PCR risk-adjusted assets.

- Tier 1 leverage ratio is tier 1 capital, including regulatory deductions, divided by average assets less regulatory deductions subject to tier 1 capital.

- UREE leverage ratio is unallocated retained earnings, paid-in capital, allocated surplus not subject to revolvement less certain regulatory required deductions including the amount of allocated investments in other System institutions divided by average assets less regulatory deductions subject to tier 1 capital.

If the capital ratios fall below the minimum regulatory requirements, including the capital conservation and leverage buffer amounts, capital distributions (equity redemptions, dividends, and patronage) and discretionary bonus payments to senior offices are restricted or prohibited without prior FCA approval.

The components of the Association's risk-adjusted capital, based on 90 day average balances, were as follows at June 30, 2017:

	Common equity tier 1 ratio	Tier 1 capital ratio	Regulatory capital ratio	Permanent capital ratio
Numerator:				
Unallocated retained earnings	74,446,971	74,446,971	74,446,971	74,446,971
Paid-in capital	-	-	-	-
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	2,178,382	2,178,382	2,178,382	2,178,382
Other required member purchased stock held <5 years	-	-	-	-
Other required member purchased stock held ≥ 5 years but < 7 years	-	-	-	-
Other required member purchased stock held ≥7 years	-	-	-	-
Allocated equities:				
Allocated equities held <5 years	-	-	-	-
Allocated equities held ≥5 years but < 7 years	-	-	-	-
Allocated equities held ≥7	-	-	-	-
Nonqualified allocated equities not subject to retirement	-	-	-	-
Non-cumulative perpetual preferred stock	-	-	-	-
Other preferred stock subject to certain limitations	-	-	-	-
Subordinated debt subject to certain limitation	-	-	-	-
Allowance for loan losses and reserve for credit losses subject to certain limitations	-	-	-	-
Regulatory Adjustments and Deductions:	-	-	-	-
Amount of allocated investments in other System institutions	(6,396,505)	(6,396,505)	(6,396,505)	(6,396,505)
Other regulatory required deductions	-	-	-	-
	70,228,848	70,228,848	70,228,848	70,228,848
Denominator:				
Risk-adjusted assets excluding allowance	430,641,494	430,641,494	430,641,494	430,641,494
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	(6,396,505)	(6,396,505)	(6,396,505)	(6,396,505)
Allowance for loan losses	-	-	-	(4,693,098)
	424,244,989	424,244,989	424,244,989	419,551,891

The components of the Association's non-risk-adjusted capital, based on 90 day average balances, were as follows at June 30, 2017:

	Tier 1 leverage ratio	UREE leverage ratio
Numerator:		
Unallocated retained earnings	74,446,971	74,446,971
Paid-in capital	-	-
Common Cooperative Equities:		
Statutory minimum purchased borrower stock	2,178,382	-
Other required member purchased stock held <5 years	-	-
Other required member purchased stock held ≥ 5 years but < 7 years	-	-
Other required member purchased stock held ≥7 years	-	-
Allocated equities:		
Allocated equities held <5 years	-	-
Allocated equities held ≥5 years but < 7 years	-	-
Allocated equities held ≥7	-	-
Nonqualified allocated equities not subject to retirement	-	-
Non-cumulative perpetual preferred stock	-	-
Other preferred stock subject to certain limitations	-	-
Subordinated debt subject to certain limitation	-	-
Allowance for loan losses and reserve for credit losses subject to certain limitations	-	-
Regulatory Adjustments and Deductions:		
Amount of allocated investments in other System institutions	(6,396,505)	-
Other regulatory required deductions	-	-
	70,228,848	74,446,971
Denominator:		
Total Assets	455,680,820	455,680,820
Regulatory Adjustments and Deductions:		
Regulatory deductions included in tier 1 capital	(6,396,505)	(6,396,505)
	449,284,315	449,284,315

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

June 30, 2017	**Net of Tax**
Nonpension postretirement benefits	**$ 71,597**
Total	**$ 71,597**

June 30, 2016	Net of Tax
Nonpension postretirement benefits	$ 62,473
Total	$ 62,473

The Association's accumulated other comprehensive income relates entirely to its nonpension other postretirement benefits. Amortization of prior service credits are reflected in "Salaries and employee benefits" in the Consolidated Statement of Comprehensive Income.

The following table summarizes the changes in accumulated other comprehensive income for the six months ended June 30:

	2017	2016
Accumulated other comprehensive income at January 1	**$ 76,116**	$ 71,511
Amortization of prior service credit included in salaries and employee benefits	**(4,519)**	(9,038)
Other comprehensive loss, net of tax	**(4,519)**	(9,038)
Accumulated other comprehensive income at June 30	**$ 71,597**	$ 62,473

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 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. As of June 30, 2017 and 2016, the Association carried a deferred tax asset of $9,214,337 and $9,064,754, respectively, with a full valuation allowance recorded against the asset each year.

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 2 to the 2016 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, 2017	**Fair Value Measurement Using**			**Total Fair**
	Level 1	**Level 2**	**Level 3**	**Value**
Assets:				
Assets held in nonqualified benefit trusts	**$ 17,086**	**$ -**	**$ -**	**$ 17,086**
Total assets	**$ 17,086**	**$ -**	**$ -**	**$ 17,086**

December 31, 2016	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets held in nonqualified benefit trusts	$ 15,466	$ -	$ -	$ 15,466
Total assets	$ 15,466	$ -	$ -	$ 15,466

*Accounting guidance requires that the fair value measurement for investments be broken out by the different types of investments held.

Assets and liabilities measured at fair value on a nonrecurring basis for each of the fair value hierarchy values are summarized below:

June 30, 2017	Fair Value Measurement Using			Total Fair
	Level 1	**Level 2**	**Level 3**	**Value**
Other property owned	**$ -**	**$ -**	**$1,828,052**	**$ 1,828,052**

December 31, 2016	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Other property owned	$ -	$ -	$2,235,472	$ 2,235,472

With regard to other property owned, it is not practicable to provide specific information on inputs as each collateral property is unique. System institutions utilize appraisals to value other property owned and take into account unobservable inputs such as income and expense, comparable sales, replacement cost and comparability adjustments.

Valuation Techniques

As more fully discussed in Note 2 to the 2016 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 2016 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.

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 six months ended June 30:

	Other Benefits	
	2017	2016
Service cost	**$ 10,044**	$ 10,410
Interest cost	**25,146**	25,155
Amortization of prior service credits	**(4,519)**	(9,038)
Net periodic benefit cost	**$ 30,671**	$ 26,527

The Association's liability for the unfunded accumulated obligation for these benefits at June 30, 2017, was $1,106,051 and is included in "Other Liabilities" in the balance sheet.

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 June 30, 2017, $13,076 of contributions have been made. The Association presently anticipates contributing an additional $39,229 to fund the defined benefit pension plan in 2017 for a total of $52,305.

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 8, 2017, which is the date the financial statements were issued. There are no other significant events requiring disclosure as of August 8, 2017.