Farm Credit of Northwest Florida, ACA

FIRST QUARTER 2024

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CERTIFICATION

The undersigned certify that we have reviewed the March 31, 2024 quarterly report of Farm Credit of Northwest Florida, ACA, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and 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.

John R. Gregory
Chief Executive Officer

Abby Todd
Chief Financial Officer

D. Mark Fletcher, CPA
Chairman of the Board

May 9, 2024

Farm Credit of Northwest Florida, ACA

Management's Discussion and Analysis of Financial Condition and Results of Operations

(dollars in thousands)

The following commentary reviews the financial condition and results of operations of Farm Credit of Northwest Florida, ACA, (Association) for the three months ended March 31, 2024, with comparisons to prior periods. These comments should be read in conjunction with the accompanying financial statements, notes to the financial statements and the 2023 Annual Report of the Association. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors.

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners and farm-related businesses for financing of short and intermediate-term loans and long-term real estate mortgage loans. The Association's loan portfolio is diversified over a range of agricultural commodities including forestry, row crops, livestock, peanuts, horticulture, dairies and rural homes. Farm size varies and many of the borrowers in the region have diversified farming operations. This factor, along with the numerous opportunities for nonfarm income in the area, somewhat reduces the level of dependency on any single commodity.

The gross loan volume (total loans) of the Association as of March 31, 2024, was $384,106, a decrease of $6,827 as compared to $390,933 at December 31, 2023. The decrease was primarily due to a decrease in net originated loan volume and participations purchased loan volume, partially offset by a decrease in participations sold loan volume.

ASSET QUALITY AND LOAN LOSS RESERVES

There is an inherent risk in the extension of any type of credit. Portfolio credit quality continues to be maintained at an acceptable level and credit administration remains satisfactory. Loans classified under the Farm Credit Administration's Uniform Loan Classification as "acceptable" or "other assets especially mentioned" were 99.44 percent of total loans, as compared to 99.48 percent at December 31, 2023. The Association had no nonaccrual loans as of March 31, 2024 and December 31, 2023.

Association management maintains an allowance for credit losses in an amount considered sufficient to absorb estimated current and expected credit losses over the financial assets expected life. The most significant component of the Association's allowance for credit losses is the allowance for loan losses. The allowance for loan losses at March 31, 2024, was $1,296 or 0.34 percent of total loans compared to $1,174 or 0.30 percent of total loans at December 31, 2023, and is considered by management to be adequate to cover estimated current and expected losses within the loan portfolio. See further detail on the Association's allowance for credit losses within the Association's Annual Report and discussion of significant provision for credit loss within the *Results of Operations* below.

RESULTS OF OPERATIONS

The Association's primary source of funding is provided by AgFirst Farm Credit Bank (the Bank) in the form of notes payable. See *Funding Sources* section below for additional detail on this relationship. Prior to January 1, 2024, the rate applied to the notes payable to the Bank was intended to cover the Association's share of technology and software services provided by the Bank. Effective January 1, 2024, the Bank modified the methodology used to determine the rate applied to the Association's notes payable to the Bank to exclude the Association's share of technology and software services and began billing the Association for these services separately. This change will have a minimal effect on the Association's net income but effectively reclassifies the Association's technology and software costs paid to the Bank from interest expense to noninterest expenses. If the new methodology had been in effect during 2023, the Association would have recorded a reduction in interest expense and corresponding increase of noninterest expense of $221 for the three months ended March 31, 2023 as shown in the following table.

	For the three months ended	
	March 31, 2024	March 31, 2023*
Interest Income	$ 6,133	$ 4,980
Interest Expense	2,906	2,057
Net Interest Income	3,227	2,923
Provision for Credit Losses	187	64
Noninterest Income	865	739
Noninterest Expense	2,312	2,235
Provision for Income Taxes	3	–
Net Income	$ 1,590	$ 1,363

**reflects the pro-forma results if the revised notes payable rate methodology had been in effect during 2023*

Net income for the three months ended March 31, 2024, was $1,590, an increase of $227 as compared to net income of $1,363 for the same period ended in 2023. Components of the increase in net income are discussed further in the following paragraphs.

For the three months ended March 31, 2024, net interest income after provision for credit losses was $3,040, an increase of $181 as compared to $2,859 for the same period ended in 2023. The increase was due primarily to higher average loans outstanding, increased earnings on loanable funds and higher average net interest rates, partially offset by higher average balances and higher average interest rates on the Association's notes payable to AgFirst.

The provision for credit losses for the three months ended March 31, 2024, was $187, an increase of $123 from the provision for credit losses of $64 for the same period ended during the prior year.

Noninterest income increased $126 to $865 during the first three months of 2024 compared with the first three months of 2023 primarily due to an increase in patronage refunds from other Farm Credit institutions, loan fees, gains on the sale of rural home loans, partially offset by lower other noninterest income.

During the first three months of 2024, noninterest expense increased $77 to $2,312 compared with the first three months of 2023 primarily due to the change in the rate applied to notes payable discussed above and an increase in salaries and employee benefits, data processing and other operating expenses, partially offset by lower occupancy and equipment expense, Insurance Fund premiums and no losses on other property owned.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with AgFirst Farm Credit Bank (the Bank) through a General Financing Agreement. The General Financing Agreement utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The Bank advances funds to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sections. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. The total notes payable to the Bank at March 31, 2024, was $290,297 as compared to $300,170 at December 31, 2023. The decrease was primarily the result of decreased net loans outstanding and an increase in the loanable funds credit. The Association had no lines of credit with third parties as of March 31, 2024.

CAPITAL RESOURCES

Total members' equity at March 31, 2024, was $96,909, an increase of $1,618 from a total of $95,291 at December 31, 2023. The increase was primarily the result of an increase to unallocated retained earnings. Total capital stock and participation certificates were $1,523 on March 31, 2024, compared to $1,495 on December 31, 2023.

FCA sets minimum regulatory capital requirements with a capital conservation buffer for System banks and associations. Capital adequacy is evaluated using a number of regulatory ratios.

The following sets forth the regulatory capital ratios:

	Regulatory Minimum Including Buffer*	3/31/24	12/31/23	3/31/23
Permanent Capital Ratio	7.00%	22.83%	23.06%	24.42%
Common Equity Tier 1 (CET1) Capital Ratio	7.00%	22.65%	23.00%	24.22%
Tier 1 Capital ratio	8.50%	22.65%	23.00%	24.22%
Total Regulatory Capital Ratio	10.50%	22.97%	23.31%	24.65%
Tier 1 Leverage Ratio**	5.00%	22.99%	23.27%	24.83%
Unallocated Retained Earnings (URE) and URE Equivalents	1.50%	22.60%	22.89%	24.43%

**Include full capital conservation buffers.*
***The Tier 1 Leverage Ratio must include a minimum of 1.50% of URE and URE equivalents.*

If the capital ratios fall below the minimum regulatory requirements, including the buffer amounts, capital distributions (equity redemptions, dividends, and patronage) and discretionary senior executive bonuses are restricted or prohibited without prior FCA approval. For all periods presented, the Association exceeded minimum regulatory requirements for all of the ratios.

REGULATORY MATTERS

On February 8, 2024, the Farm Credit Administration (FCA) approved a final rule to amend its regulatory capital requirements to define and establish risk-weightings for High Volatility Commercial Real Estate (HVCRE) by assigning a 150 percent risk-weighting to such exposures, instead of the current 100 percent to reflect their increased risk characteristics. The rule further ensures comparability between FCA's risk-weightings and the federal banking regulators. The final rule excludes certain acquisition, development, and construction loans that do not present as much risk and therefore do not warrant the risk weight for HVCRE. In addition, the final rule adds an exclusion for loans originated less than $500,000. The final rule will become effective on January 1, 2025.

On October 12, 2023, the FCA approved a final rule governing the Farm Credit System's service to young, beginning, and small (YBS) farmers and ranchers. The rule requires banks that fund the direct-lender associations to annually review and approve the association YBS programs. The rule also requires a direct-lender association to enhance the strategic plan of its YBS program. The strategic plan must contain specific elements that will be evaluated as part of a rating system to measure year-over-year internal progress, which would allow the Farm Credit Administration to compare the success of the direct-lender association's YBS program. The final rule became effective on February 14, 2024.

On October 5, 2023, the FCA approved a final rule on cyber risk management that requires each System institution to develop and implement a comprehensive, written cyber risk management program. Each institution's cyber risk plan must require the institution to take the actions to assess internal and external risk factors, identify potential system and software vulnerabilities, establish a risk management program for the risks identified, develop a cyber risk training program, set policies for managing third-party relationships, maintain robust internal controls and establish institution board reporting requirements. The final rule will become effective on January 1, 2025.

NOTE: Shareholder investment in the Association is materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst's annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2764, or writing Matthew Miller, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained at their website, *www.agfirst.com*. Copies of the Association's annual and quarterly reports are also available upon request free of charge by calling 850-718-5535, or writing Abby Todd, Chief Financial Officer, Farm Credit of Northwest Florida, ACA, P.O. Box 7000, Marianna, FL 32447, or accessing the website, *www.farmcredit-fl.com*. The Association prepares a quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

Farm Credit of Northwest Florida, ACA

Consolidated Balance Sheets

(dollars in thousands)		March 31, 2024		December 31, 2023
		(unaudited)		*(audited)*
Assets				
Loans	**$**	**384,106**	$	390,933
Allowance for loan losses		**(1,296)**		(1,174)
Net loans		**382,810**		389,759
Loans held for sale		**10**		131
Accrued interest receivable		**3,821**		4,065
Equity investments in other Farm Credit institutions		**5,991**		5,974
Premises and equipment, net		**1,849**		1,882
Accounts receivable		**1,106**		3,266
Other assets		**198**		131
Total assets	**$**	**395,785**	$	405,208
Liabilities				
Notes payable to AgFirst Farm Credit Bank	**$**	**290,297**	$	300,170
Accrued interest payable		**1,018**		1,161
Patronage refunds payable		**188**		4,443
Accounts payable		**320**		785
Advanced conditional payments		**784**		1,327
Other liabilities		**6,269**		2,031
Total liabilities		**298,876**		309,917
Commitments and contingencies (Note 5)				
Members' Equity				
Capital stock and participation certificates		**1,523**		1,495
Retained earnings				
Allocated		**36,420**		36,420
Unallocated		**58,966**		57,376
Total members' equity		**96,909**		95,291
Total liabilities and members' equity	**$**	**395,785**	$	405,208

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

Farm Credit of Northwest Florida, ACA

Consolidated Statements of Comprehensive Income

(unaudited)

(dollars in thousands)	For the Three Months Ended March 31, 2024	2023
Interest Income		
Loans	**$ 6,132**	$ 4,979
Other	**1**	1
Total interest income	**6,133**	4,980
Interest Expense		
Notes payable to AgFirst Farm Credit Bank	**2,892**	2,267
Other	**14**	11
Total interest expense	**2,906**	2,278
Net interest income	**3,227**	2,702
Provision for credit losses	**187**	64
Net interest income after provision for credit losses	**3,040**	2,638
Noninterest Income		
Loan fees	**57**	23
Patronage refunds from other Farm Credit institutions	**746**	674
Gains (losses) on sales of rural home loans, net	**46**	23
Other noninterest income	**16**	19
Total noninterest income	**865**	739
Noninterest Expense		
Salaries and employee benefits	**1,443**	1,398
Occupancy and equipment	**53**	63
Insurance Fund premiums	**71**	115
Purchased services	**358**	111
Data processing	**41**	39
Other operating expenses	**346**	285
(Gains) losses on other property owned, net	**—**	3
Total noninterest expense	**2,312**	2,014
Income before income taxes	**1,593**	1,363
Provision for income taxes	**3**	—
Net income	**$ 1,590**	$ 1,363
Other comprehensive income	**—**	—
Comprehensive income	**$ 1,590**	$ 1,363

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

Farm Credit of Northwest Florida, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)	Capital Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Total Members' Equity
Balance at December 31, 2022	$ 1,444	$ 36,420	$ 51,265	$ 89,129
Cumulative effect of change in accounting principle			3,437	3,437
Comprehensive income			1,363	1,363
Capital stock/participation certificates issued/(retired), net	(3)			(3)
Balance at March 31, 2023	$ 1,441	$ 36,420	$ 56,065	$ 93,926
Balance at December 31, 2023	**$ 1,495**	**$ 36,420**	**$ 57,376**	**$ 95,291**
Comprehensive income			**1,590**	**1,590**
Capital stock/participation certificates issued/(retired), net	**28**			**28**
Balance at March 31, 2024	**$ 1,523**	**$ 36,420**	**$ 58,966**	**$ 96,909**

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

Farm Credit of Northwest Florida, ACA

Notes to the Consolidated Financial Statements

(dollars in thousands, except as noted)
(unaudited)

Note 1 — Organization, Significant Accounting Policies, and Recently Issued Accounting Pronouncements

Organization
The accompanying financial statements include the accounts of Farm Credit of Northwest Florida, ACA and its Production Credit Association (PCA) and Federal Land Credit Association (FLCA) subsidiaries (collectively, the Association). Descriptions of the organization and operations, the significant accounting policies followed, and the financial condition and results of operations for the Association as of and for the year ended December 31, 2023, are contained in the 2023 Annual Report to Shareholders. These unaudited interim consolidated financial statements should be read in conjunction with the latest Annual Report to Shareholders.

Basis of Presentation
In the opinion of management, the accompanying consolidated financial statements contain all adjustments necessary for a fair statement of results for the periods presented. These adjustments are of a normal recurring nature, unless otherwise disclosed.

Certain amounts in the prior period's consolidated financial statements have been reclassified to conform to the current period presentation. Such reclassifications had no effect on the prior period net income or total capital as previously reported.

The results of any interim period are not necessarily indicative of those to be expected for a full year.

Significant Accounting Policies
The Association's accounting and reporting policies conform with U.S. generally accepted accounting principles (GAAP) and practices in the financial services industry. To prepare the financial statements in conformity with GAAP, management must make estimates based on assumptions about future economic and market conditions (for example, unemployment, market liquidity, real estate prices, etc.) that affect the reported amounts of assets and liabilities at the date of the financial statements, income and expenses during the reporting period, and the related disclosures. Although these estimates contemplate current conditions and expectations of change in the future, it is reasonably possible that actual conditions may be different than anticipated, which could materially affect results of operations and financial condition.

Management has made significant estimates in several areas, including loans and allowance for credit losses (Note 2, *Loans and Allowance for Credit Losses*) and financial instruments (Note 4, *Fair Value Measurement*). Actual results could differ from those estimates.

For further details of significant accounting policies, see Note 2, *Summary of Significant Accounting Policies*, from the latest Annual Report.

Recently Issued or Adopted Accounting Pronouncements
In December 2023, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2023-09 - Income Taxes: Improvements to Income Tax Disclosures. The amendments in this standard require more transparency about income tax information through improvements to income tax disclosures primarily related to the rate reconciliation and income taxes paid information. The amendments in this standard require qualitative disclosure about specific categories of reconciling items and individual jurisdictions that result in a significant difference between the statutory tax rate and the effective tax rate. The amendments are effective for annual periods beginning after December 15, 2025. The adoption of this guidance is not expected to have a material impact on the Association's financial condition, results of operations or cash flows.

Note 2 — Loans and Allowance for Credit Losses

A summary of loans outstanding at period end follows:

	March 31, 2024	December 31, 2023
Real estate mortgage	$ 271,830	$ 273,532
Production and intermediate-term	56,319	64,553
Agribusiness:		
Loans to cooperatives	1,986	2,110
Processing and marketing	19,014	15,492
Farm-related business	7,210	5,565
Rural infrastructure:		
Communication	6,587	6,747
Power and water/waste disposal	3,658	6,388
Rural residential real estate	16,290	15,504
Other:		
International	1,212	1,042
Total loans	$ 384,106	$ 390,933

A substantial portion of the Association's lending activities is collateralized, and exposure to credit loss associated with lending activities is reduced accordingly. The Association may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume, and comply with FCA regulations.

The following table shows loans, classified under the FCA Uniform Loan Classification System, as a percentage of total loans by loan type as of:

	March 31, 2024	December 31, 2023
Real estate mortgage:		
Acceptable	98.94%	99.01%
OAEM	0.54	0.46
Substandard/doubtful/loss	0.52	0.53
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	95.12%	96.69%
OAEM	3.70	2.52
Substandard/doubtful/loss	1.18	0.79
	100.00%	100.00%
Agribusiness:		
Acceptable	96.74%	100.00%
OAEM	3.26	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Rural infrastructure:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	-	–
	100.00%	100.00%
Rural residential real estate:		
Acceptable	99.63%	99.59%
OAEM	–	–
Substandard/doubtful/loss	0.37	0.41
	100.00%	100.00%
Other:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Total loans:		
Acceptable	98.28%	98.74%
OAEM	1.16	0.74
Substandard/doubtful/loss	0.56	0.52
	100.00%	100.00%

Accrued interest receivable on loans of $3,821 and $4,065 at March 31, 2024 and December 31, 2023, respectively, has been excluded from the amortized cost of loans and reported separately in the Consolidated Balance Sheets.

The following tables provide an aging analysis of past due loans as of:

	March 31, 2024					
	30 Through 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**	**90 Days or More Past Due and Accruing**
Real estate mortgage	$ 735	$ 213	$ 948	$ 270,882	$ 271,830	$ 213
Production and intermediate-term	201	–	201	56,118	56,319	–
Agribusiness	–	–	–	28,210	28,210	–
Rural infrastructure	–	–	–	10,245	10,245	–
Rural residential real estate	–	–	–	16,290	16,290	–
Other	–	–	–	1,212	1,212	–
Total	$ 936	$ 213	$ 1,149	$ 382,957	$ 384,106	$ 213

	December 31, 2023					
	30 Through 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**	**90 Days or More Past Due and Accruing**
Real estate mortgage	$ 1,860	$ –	$ 1,860	$ 271,672	$ 273,532	$ –
Production and intermediate-term	4	–	4	64,549	64,553	–
Agribusiness	–	–	–	23,167	23,167	–
Rural infrastructure	–	–	–	13,135	13,135	–
Rural residential real estate	–	–	–	15,504	15,504	–
Other	–	–	–	1,042	1,042	–
Total	$ 1,864	$ –	$ 1,864	$ 389,069	$ 390,933	$ –

The Association had no nonaccrual loans as of March 31, 2024 and December 31, 2023. No interest income was recognized on nonaccrual loans during the three months ended March 31, 2024 and March 31, 2023.

There were no loans that moved to nonaccrual status for the three months ended March 31, 2024 and March 31, 2023.

A summary of changes in the allowance for credit losses is as follows:

Allowance for Loan Losses:	
Balance at December 31, 2023	$ 1,174
Charge-offs	–
Recoveries	2
Provision for loan losses	120
Balance at March 31, 2024	$ 1,296
Allowance for Unfunded Commitments:	
Balance at December 31, 2023	$ 98
Provision for unfunded commitments	67
Balance at March 31, 2024	$ 165
Total allowance for credit losses	$ 1,461

Allowance for Loan Losses:		
Balance at December 1, 2022	$	4,980
Cumulative effect of a change in accounting principle		(3,463)
Balance at January 1, 2023	$	1,517
Charge-offs		(1)
Recoveries		24
Provision for loan losses		53
Balance at March 31, 2023	$	1,593
Allowance for Unfunded Commitments:		
Balance at December 31, 2022	$	35
Cumulative effect of a change in accounting principle		26
Balance at January 1, 2023	$	61
Provision for unfunded commitments		11
Balance at March 31, 2023	$	72
Total allowance for credit losses	$	1,665

Loan modifications may be granted to borrowers experiencing financial difficulty. Qualifying disclosable modifications are one, or a combination of, principal forgiveness, interest rate reduction, or a term or payment extension. Covenant waivers and modifications of contingent acceleration clauses are not considered term extensions. Modified loans to borrowers experiencing financial difficulty and activity on these loans were not material during the three months ended March 31, 2024. There were no material commitments to lend to borrowers experiencing financial difficulty whose loans have been modified at March 31, 2024.

Loans held for sale were $10 and $131 at March 31, 2024 and December 31, 2023, respectively. Such loans are carried at the lower of cost or fair value.

Note 3 — Investments

Equity Investments in Other Farm Credit System Institutions

Equity investments in other Farm Credit System institutions are generally nonmarketable investments consisting of stock and participation certificates, allocated surplus, and reciprocal investments in other institutions regulated by the FCA. These investments are carried at cost and evaluated for impairment based on the ultimate recoverability of the par value rather than by recognizing temporary declines in value.

Associations are required to maintain ownership in AgFirst (AgFirst or the Bank) in the form of Class B or Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. The Association owned 1.04 percent of the issued stock and allocated retained earnings of the Bank as of March 31, 2024, net of any reciprocal investment. As of that date, the Bank's assets totaled $44.3 billion and shareholders' equity totaled $1.7 billion. The Bank's earnings were $66 million for the first three months of 2024. In addition, the Association held investments of $569 related to other Farm Credit institutions.

Note 4 — Fair Value Measurement

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability.

Accounting guidance establishes a hierarchy for disclosure of fair value measurements to maximize the use of observable inputs, that is, inputs that reflect the assumptions market participants would use in pricing an asset or liability based on market data obtained from sources independent of the reporting entity. The hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. A financial instrument's categorization within the hierarchy tiers is based upon the lowest level of input that is significant to the fair value measurement.

The classifications within the fair value hierarchy are as follows:

Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 inputs include quoted prices for similar assets and liabilities in active markets; quoted prices in markets that are not active; and inputs that are observable, or can be corroborated, for substantially the full term of the asset or liability.

Level 3 inputs are unobservable and supported by little or no market activity. Valuation is determined using pricing models, discounted cash flow methodologies, or similar techniques, and could include significant management judgment or estimation. Level 3 assets and liabilities also could include instruments whose price has been adjusted based on dealer quoted pricing that is different than the third-party valuation or internal model pricing.

For a complete discussion of the inputs and other assumptions considered in assigning various assets and liabilities to the fair value hierarchy levels, see the latest Annual Report to Shareholders.

There were no Level 3 assets or liabilities measured at fair value on a recurring basis for the periods presented. The Association had no transfers of assets or liabilities into or out of Level 1 or Level 2 during the periods presented.

Fair values are estimated at each period end date for assets and liabilities measured at fair value on a recurring basis. The following tables summarize assets measured at fair value at period end.

	March 31, 2024			
	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Recurring assets				
Assets held in trust funds	$ 11	$ –	$ –	$ 11
Nonrecurring assets				
Nonaccrual loans	$ –	$ –	$ –	$ –
Other property owned	$ –	$ –	$ –	$ –

	December 31, 2023			
	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Recurring assets				
Assets held in trust funds	$ 11	$ –	$ –	$ 11
Nonrecurring assets				
Nonaccrual loans	$ –	$ –	$ –	$ –
Other property owned	$ –	$ –	$ –	$ –

Valuation Techniques

Assets held in trust funds

Assets held in trust funds, related to deferred compensation plans, are classified as Level 1. The trust funds include investments in securities that are actively traded and have quoted net asset value prices that are directly observable in the marketplace.

Nonaccrual loans

Fair values of nonaccrual loans are estimated to be the carrying amount of the loan less specific reserves. Certain loans evaluated for impairment under FASB guidance have fair values based upon the underlying collateral, as the loans were collateral-dependent. Specific reserves were established for these loans when the value of the collateral, less estimated cost to sell, was less than the principal balance of the loan. 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.

Other property owned

For other property owned, the fair value is generally determined using formal appraisals of each individual property. These assets are held for sale. Costs to sell represent transaction costs and are not included as a component of the fair value of other property owned. If the process uses observable market-based information, the assets are classified as Level 2. If the process requires significant input based upon management’s knowledge of and judgment about current market conditions, specific issues relating to the property and other matters, the assets are classified as Level 3.

Note 5 — Commitments and Contingent Liabilities

From time to time, legal actions are pending against the Association in which claims for money damages are asserted. On at least a quarterly basis, the Association assesses its liabilities and contingencies in connection with outstanding legal proceedings utilizing the latest information available. While the outcome of legal proceedings is inherently uncertain, on the basis of information presently available, management, after consultation with legal counsel, is of the opinion that the ultimate liability, if any, from these actions would not be material in relation to the financial position of the Association. Because it is remote that the Association will incur a loss or the loss is not estimable, no liability has been recorded for any claims that may be pending.

Note 6 — Subsequent Events

The Association evaluated subsequent events and determined there were none requiring disclosure through May 9, 2024, which was the date the financial statements were issued.