

FARM CREDIT FOUNDATIONS

Annual Report 2022



Farm Credit Foundations is a collaboration of Farm Credit employers who have come together to create centralized HR shared services focused on meeting their own human capital needs. We are a federally chartered instrumentality of the United States, chartered by the Farm Credit Administration, operating independently since January 1, 2012.

Our participating Farm Credit organizations span 41 states and employ over 10,000 employees. We provide competitive and economic value by acting as one employer. Farm Credit Foundations employers access HR industry thought leadership and best practices through the expertise and breadth of experience of Foundations team members located in St. Paul, MN. Employers capture the efficiencies and effectiveness of shared benefits design, administration, asset management, payroll services, and related HR offerings. Through Foundations, their organizations are able to stay ahead of an increasingly complex and competitive workforce management environment. Foundations Consulting offers cost effective, customized solutions in a wide range of HR services to support Farm Credit organizations and agricultural cooperatives.

We help ensure Farm Credit offers market competitive compensation and compliance with affirmative action planning and other laws and regulations. Foundations Consulting offers boards the support they need to make decisions on chief executive pay decisions.



41
STATES



10,600
EMPLOYEES

An equal opportunity employer

FARM CREDIT FOUNDATIONS DELIVERS

Best total value

Human resource services that enable our clients to be the employers of choice for those who serve rural America.



How we bring value

FOUNDATIONS HELPS THEIR OWNERS AND CLIENTS ACHIEVE STRATEGIC ADVANTAGE BY:



Designing and offering a competitive benefits package to attract and retain talent



Pooling plan assets to gain economic muscle and lower fee structures



Leveraging new generation HR information technology to achieve efficiencies and service at economical costs



Providing support and expertise in compensation strategy and HR compliance



Ensuring expertise is readily available for the challenges of benefits, payroll, and HRIS



Providing employees and their families with the best network of healthcare providers for where they live



Advocacy for navigating difficult medical issues and complex retirement situations



Ensuring decisions are made on what is best for our owners' businesses and not on profitability

LETTER FROM

Chair & CEO

It is our privilege to lead the Farm Credit Foundations organization and governance. We hold the confidence you place with us to be a trusted partner delivering unrivaled excellence in HR services, in the highest regard. Knowing the impact we have on so many people's lives, we take our responsibilities toward those employees very seriously. The part we play in helping build better futures through health and financial stability is a source of pride and purpose for our governance members, employees, and partners. We fulfill our purpose by providing competitive and economic value to achieve economies of scale and strategic advantage by:

- Designing and offering a competitive employee benefits package for attraction and retention of talent,
- Pooling plan assets in the investment markets to gain economic muscle and lower cost,
- Leveraging new-generation HR information technology systems, which individual organizations could not afford on their own,
- Ensuring expertise and effective operations in a quickly changing benefits environment to manage compliance risk, and
- Providing support and information on compensation strategy and HR compliance.

2022 Business Highlights

We started the year from a great place, focused on our value proposition of delivering the best total value in HR services, enabling those we serve to be the employers of choice for those who serve Rural America. We finished in a better place through our top initiatives in 2022, which included:

- Defining what we needed in new vendors for the 401(k) plan and legacy pension plans and selecting the providers that deliver the best experience for the 22,300 participants in those plans.
- Pushing the reality of virtual health care forward in initiatives for virtual care for physical therapy, mental health and health care consumerism.
- Driving the technology initiative to deliver on-demand HR data to our employers and with an easy-to-use tool.
- Providing programs and actions to encourage participant behaviors that grow well-being, educating HR Partners, senior leadership and boards through the delivery of over 200 education sessions.

We are pleased to report the success of those initiatives, and we have pride that our principles guide us in our priorities, behaviors and decisions.

- Collaboration – Working hand-in-hand with the employers and businesses we serve
- Excellence – Committed to excellence in everything we do
- Trusted Partner – Building trusted and enduring relationships
- Passion to Serve – Proudly and passionately serving Farm Credit and the employers who serve rural America

Our team of employees provide the energy, enthusiasm, and care that drive our success. Attracting, retaining, and developing talent starts with maintaining a culture of purpose. We consider Foundations' purpose not just in terms of products and services, but in the context of our larger contributions to the health and welfare of the employees and families of Farm Credit.

It is our privilege to serve the organizations of Farm Credit and we thank you for your trust and support.



Stephanie Wise
Board Chair



Teresa Heath-Alva
Chief Executive Officer



401(k) Plan

\$3.29B Assets

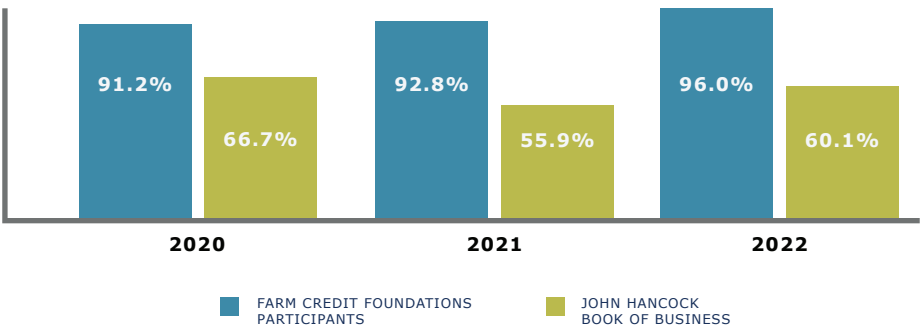
PARTICIPATION RATE



AVERAGE CONTRIBUTION RATE



RETIREMENT READINESS (>70% REPLACEMENT)



Legacy Pension Plans

\$1.73B Assets

ACTIVE PARTICIPANTS IN LEGACY PENSION RETIREMENT PLANS (11% of employee population)

1,081 AgriBank District	1 Northwest FCS	59 Wichita Employers	13 Western Employers
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RETIREMENT PLANS GLIDE PATH STRATEGY (pension de-risking strategy)

The glide path strategy involves shifting assets from return-seeking assets (equities) to liability-hedging assets (fixed income) over time as the Plans’ funded ratios improve. The glide path is triggered when a Plan reaches 80% funded.

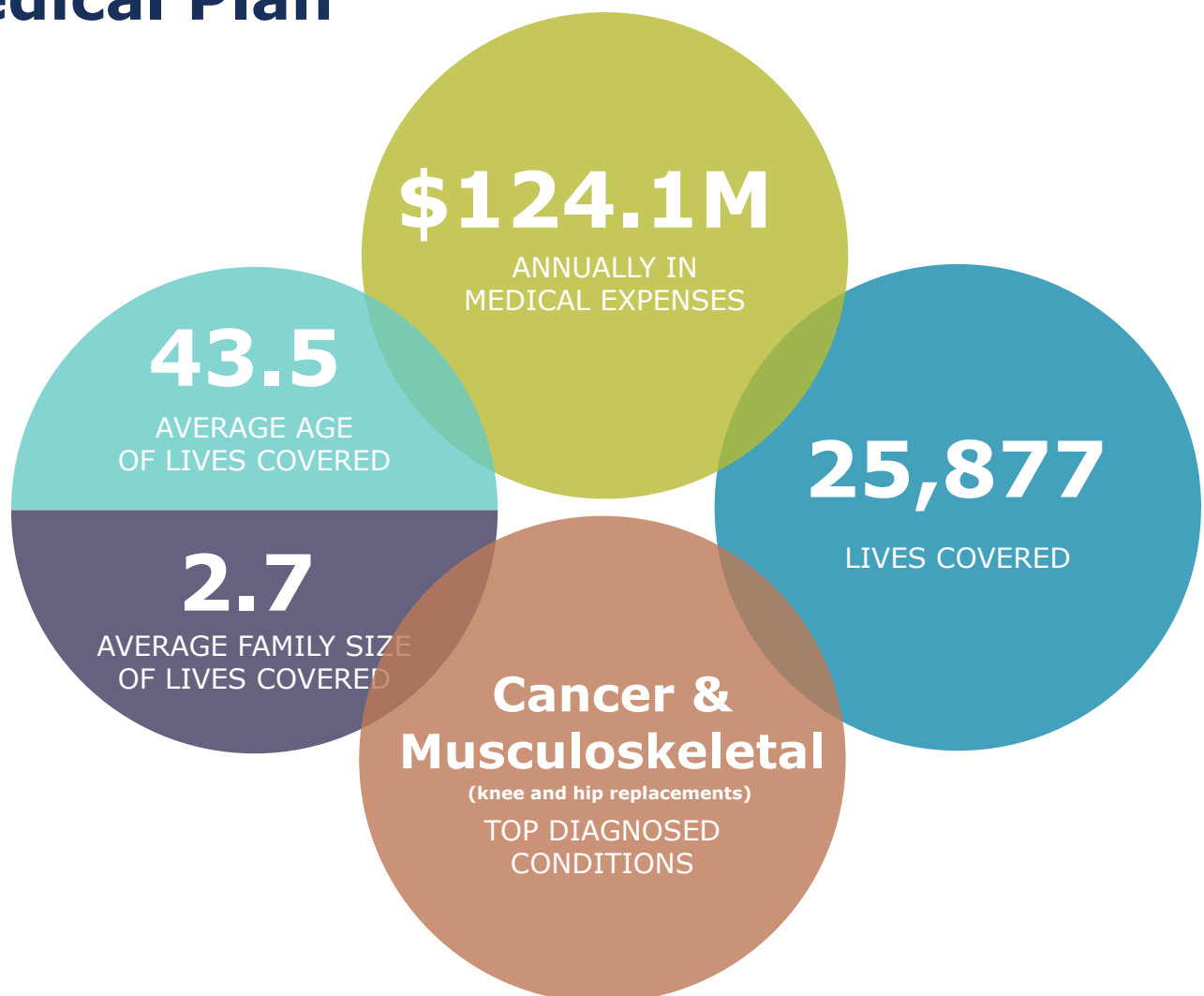
2022	96% AgriBank District	102% Northwest FCS	107% Wichita Employers	102% Western Employers
2021	97% AgriBank District	102% Northwest FCS	98% Wichita Employers	97% Western Employers

2022 DATA AS OF 12/31/22





Medical Plan



Member Rewards

Employees are incented to find a quality provider at a lower cost in order to save on common services.



Health Savings Account



Benefit Education

5,743 Employees Attended Educational Webinars

- New Hire Benefit Orientation
- New Hire 401(k) Orientation
- Retirement Planning
- Retirement Workshop
- *HealthyReturns* Program
- ConsumerMedical Education
- HSA Education
- 401(k) Education

Expertise & Support



100% client satisfaction



120+ payroll audits each pay period to provide accuracy



Compensation services to 63% of Farm Credit organizations



7 independent annual audits create assurance for your financial records



Affirmative action reporting for all owner organizations



Support of HR functions during a merger for smooth transition



Centralized data repository for on-demand, flexible access to data

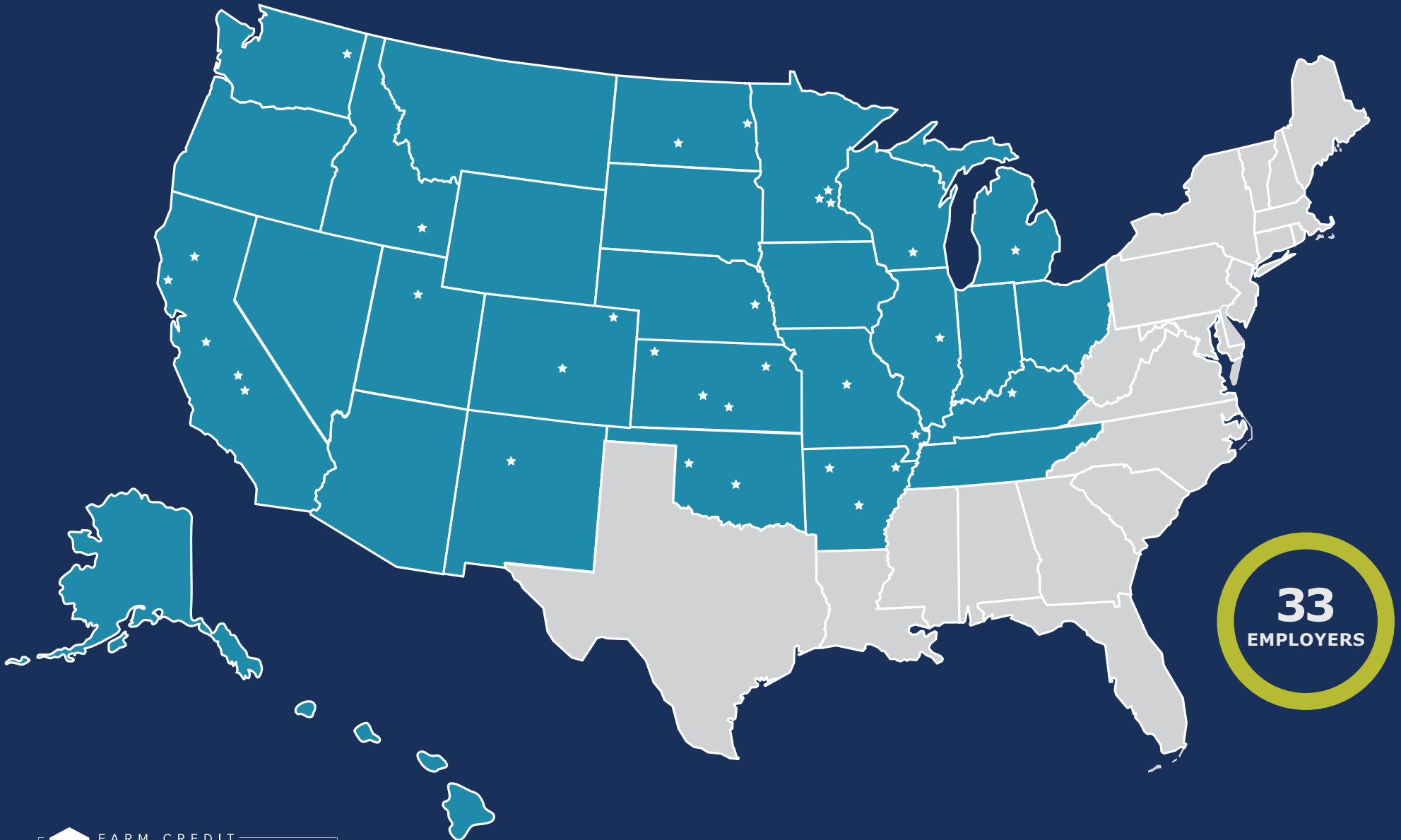


“The succession of Board and Leadership of Foundations over the past 10 years has proven that the structure and design of this organization is very effective!”

– CEO of Farm Credit Employer



2022 Map of Participating Employers



33
EMPLOYERS

2022 Board of Directors / Plan Sponsor Committee

The Board of Directors and Plan Sponsor Committee are two distinct governance bodies with separate responsibilities. However, the members are the same individuals. The Board is responsible for the safe and sound operation of FCF and for ensuring FCF fulfills its mission. In meeting these responsibilities, the Board is accountable to its stockholders.

The Plan Sponsor Committee governs the employee benefits. The Plan Sponsor Committee determines what benefits are to be offered, who is eligible, and under what conditions and how cost is shared between employers and employees.



Scott Binder

*Executive Vice President
Chief Alliance Administration Officer
FCS of America / Frontier Farm Credit*



George Fontes

*Director
American AgCredit*



Rod Hebrink

*Chief Executive Officer
Compeer Financial*



Kathy Payne

*Senior Vice President,
Human Resources
Northwest FCS*



Ed Reed

*Director
GreenStone FCS*



Lisa Shinn

*Director
Premier Farm Credit*



Tracy Sparks

*President and CEO
Yosemite Farm Credit*



Susan Voss

*Board Vice Chair,
Director
FCS of America*



Dan Wagner

*President and CEO
Farm Credit Mid-America*



Andrew Wilson

*Director
Farm Credit Mid-America*



Stephanie Wise

*Board Chair,
Director
Compeer Financial*



Patrick Zeka

*President and CEO
Oklahoma AgCredit*

2022 Trust Committee

The Trust Committee serves as the fiduciary for the benefits plans and assets held in trust for employee medical and retirement benefits. Oversight of investments and administration of the plans.



Craig Kinnison

*Executive Vice President and
Chief Financial Officer
FCS of America
Frontier Farm Credit*



Jeff Moore

*Chief Financial Officer
AgriBank*



John Phelan

*Executive Vice President and
Chief Risk and Credit Officer
Northwest FCS*



Bob Rhode

*Senior Vice President and
General Counsel
Farm Credit Illinois*



Chris Roche

*Executive Vice President and
Chief Administrative Officer
Farm Credit West*



Jerry Rose

*Executive Vice President and
Chief Strategy Officer
American AgCredit*



Kevin Swayne

*President / CEO
High Plains Farm Credit*



Heather Vidourek

*Committee Vice Chair,
Chief Administrative Officer
Farm Credit Mid-America*



Jase Wagner

*Committee Chair,
Chief Financial Officer
Compeer Financial*

Farm Credit Foundations Officers



Teresa Heath-Alva
Chief Executive Officer



Cindy Burkel
*Senior Vice President
Employee Benefits
Retired 11/30/22*



Sandy Engen
*Vice President
Governance and Corporate Admin
Corporate Secretary*



Michelle Meyer
*Vice President
Technology and Innovation*



Beth Ostrem
*Vice President
Consulting*



Ken Roth
*Vice President
Chief Financial Officer*



Suzanne Smith
*Vice President
Employee Benefits*

Supporting our Community

The Farm Credit Foundations team volunteered to support our community this year by volunteering at Feed My Starving Children, donating blankets to Saint Paul Children's Hospital, sponsoring families in need with Christmas gifts and donated funds to Merrick Food Shelf in St. Paul.



“I am so thankful to have knowledgeable and helpful resources available through the Foundations team, and recently was very thankful for assistance with a sensitive situation. The quick responses, ideas, and professionalism were exceptional and helped to make the situation better for all involved. Thank you, for sharing your expertise with us and being available to assist in such a short timeframe! We appreciate you!”

– HR Partner of Farm Credit Employer

Financial Statements

Years ended December 31, 2022, 2021, 2020 Financials

INDEPENDENT AUDITORS' REPORT

Board of Directors
Farm Credit Foundations
St. Paul, Minnesota

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Farm Credit Foundations, which comprise the balance sheets as of December 31, 2022, 2021, and 2020, and the related statements of operations, changes in member equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Farm Credit Foundations as of December 31, 2022, 2021, and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Farm Credit Foundations and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Farm Credit Foundations' ability to continue as a going concern for one year after the date the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Farm Credit Foundations' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Farm Credit Foundations' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Other Information Included in the Annual Report

Management is responsible for the other information included in the annual report. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

Board of Directors
Farm Credit Foundations

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

CliftonLarsonAllen LLP

Minneapolis, Minnesota
March 1, 2023

FARM CREDIT FOUNDATIONS
BALANCE SHEETS
DECEMBER 31, 2022, 2021, AND 2020

	2022	2021	2020
ASSETS			
Cash	\$ 2,626,409	\$ 3,045,888	\$ 2,876,102
Deferred Tax Asset	284,641	248,997	253,944
Accounts Receivable	303,456	283,044	165,665
Prepays and Other Assets	27,828	51,191	19,130
Furniture and Equipment, Net	494,290	485,953	242,325
Right of Use Asset, Net	1,014,729	1,244,999	1,464,607
Total Assets	\$ 4,751,353	\$ 5,360,072	\$ 5,021,773
LIABILITIES AND MEMBER EQUITY			
LIABILITIES			
Accounts Payable	\$ 63,898	\$ 26,526	\$ 41,655
Accrued Salaries	913,992	838,940	821,822
Accrued Annual Leave	65,510	64,326	64,879
Current Tax Liability	34,776	-	15,962
Death Benefit Liability	33,042	33,042	38,042
Patronage Liability	913,138	1,443,510	851,152
Benefits Liability	386,472	352,143	345,823
Lease Liability - Financing	114,348	142,593	170,212
Lease Liability - Operating	1,014,729	1,244,999	1,464,607
Other Liabilities	42,906	38,188	31,814
Total Liabilities	3,582,811	4,184,267	3,845,968
MEMBER EQUITY			
A Stock	1,168,542	1,175,805	1,175,805
Total Liabilities and Member Equity	\$ 4,751,353	\$ 5,360,072	\$ 5,021,773

See accompanying Notes to Financial Statements.

FARM CREDIT FOUNDATIONS
STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2022, 2021, AND 2020

	2022	2021	2020
OPERATING INCOME	\$ 9,940,840	\$ 9,444,022	\$ 8,417,098
OPERATING EXPENSES			
Salaries and Employee Benefits	7,027,704	6,441,810	5,986,621
Purchased Services	1,048,230	893,000	812,749
Occupancy and Equipment	284,437	284,437	284,438
Depreciation	97,349	35,982	35,778
Interest	2,918	3,546	4,160
Other	535,980	313,704	415,754
Total Operating Expenses	8,996,618	7,972,479	7,539,500
INCOME BEFORE INCOME TAXES	944,222	1,471,543	877,598
Provision for Income Taxes	31,084	28,033	26,446
NET INCOME	<u>\$ 913,138</u>	<u>\$ 1,443,510</u>	<u>\$ 851,152</u>

See accompanying Notes to Financial Statements.

FARM CREDIT FOUNDATIONS
STATEMENTS OF CHANGES IN MEMBER EQUITY
YEARS ENDED DECEMBER 31, 2022, 2021, AND 2020

	Class A Stock	Class B Stock	Unallocated Surplus	Total Member Equity
BALANCE AT DECEMBER 31, 2019	\$ 1,160,000	\$ -	\$ -	\$ 1,160,000
Member Capital Contributed	15,805	-	-	15,805
Net Income	-	-	851,152	851,152
Unallocated Surplus Designated for Patronage Distributions	-	-	(851,152)	(851,152)
BALANCE AT DECEMBER 31, 2020	<u>\$ 1,175,805</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,175,805</u>
BALANCE AT DECEMBER 31, 2020	\$ 1,175,805	\$ -	\$ -	\$ 1,175,805
Net Income	-	-	1,443,510	1,443,510
Unallocated Surplus Designated for Patronage Distributions	-	-	(1,443,510)	(1,443,510)
BALANCE AT DECEMBER 31, 2021	<u>\$ 1,175,805</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,175,805</u>
BALANCE AT DECEMBER 31, 2021	\$ 1,175,805	\$ -	\$ -	\$ 1,175,805
Member Capital Retired	(7,263)	-	-	(7,263)
Net Income	-	-	913,138	913,138
Unallocated Surplus Designated for Patronage Distributions	-	-	(913,138)	(913,138)
BALANCE AT DECEMBER 31, 2022	<u>\$ 1,168,542</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,168,542</u>

See accompanying Notes to Financial Statements.

FARM CREDIT FOUNDATIONS
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2022, 2021, AND 2020

	2022	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES			
Net Income	\$ 913,138	\$ 1,443,510	\$ 851,152
Adjustments to Reconcile Net Income to			
Net Cash Provided (Used) by Operating			
Activities:			
Depreciation	316,958	255,591	245,219
Patronage Accrual	(913,138)	(1,443,510)	(851,152)
Principal Paid on Operating Lease	(227,500)	(219,611)	(209,441)
Net Change in:			
Deferred Tax Asset	(35,644)	4,947	(21,615)
Accounts Receivable	(20,412)	(117,379)	28,721
Prepays and Other Assets	23,363	(32,061)	7,049
Accounts Payable	37,372	(15,129)	17,007
Accrued Salaries	75,052	17,118	54,536
Patronage Liability	(530,372)	592,358	109,794
Benefits Liability	34,329	6,320	(109,890)
Other Liabilities	40,678	(15,141)	26,160
Net Cash Provided (Used) by Operating			
Activities	(286,176)	477,013	147,540
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of Fixed Assets	(105,686)	(279,610)	(75,845)
CASH FLOWS FROM FINANCING ACTIVITIES			
Member Capital Contributions	-	-	15,805
Principal Paid on Financing Lease	(27,617)	(27,617)	(27,002)
Net Cash Used by Financing			
Activities	(27,617)	(27,617)	(11,197)
NET INCREASE (DECREASE) IN CASH	(419,479)	169,786	60,498
Cash - Beginning of Year	3,045,888	2,876,102	2,815,604
CASH - END OF YEAR	<u>\$ 2,626,409</u>	<u>\$ 3,045,888</u>	<u>\$ 2,876,102</u>
SUPPLEMENTAL SCHEDULE OF NONCASH			
INVESTING AND FINANCING ACTIVITIES			
Amounts Paid for Taxes	\$ 34,954	\$ 55,014	\$ 32,098
Cash Paid for Interest	\$ 67,746	\$ 68,374	\$ 79,157

See accompanying Notes to Financial Statements.

FARM CREDIT FOUNDATIONS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022, 2021, AND 2020

NOTE 1 ORGANIZATION AND OPERATIONS

Farm Credit Foundations (the Foundations) is engaged principally in providing human resource services to Farm Credit System institutions on a fee basis. Foundations provides benefits design and administration, payroll processing, HRIS technology, compensation consulting, performance management and compliance support. Capitalization for Foundations was obtained through the sale of stock to certain Farm Credit System entities, including 30 Farm Credit associations, two service corporations (AgVantis and SunStream Business Services), and one Farm Credit Bank (AgriBank, FCB).

The Farm Credit Administration (FCA) chartered Foundations as a service corporation under Section 4.25 of the Farm Credit Act of 1987, as amended. The FCA has authority to charter and regulate the Farm Credit System Banks, Associations, and Service Corporations. The FCA examines the activities of Farm Credit System institutions to ensure their compliance with the Farm Credit Act, FCA regulations, and safe and sound practices.

The board of directors of Foundations is comprised of 12 directors, who are affiliated with the 33 employee owner entities.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of Foundations conform to accounting principles generally accepted in the United States of America (GAAP). The preparation of financial statements in conformity with GAAP requires Foundations' management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying footnotes, as applicable. Actual results may differ from those estimates.

Cash

Cash, as included in the financial statements, represents Foundations' funds invested with Farm Credit Employee Credit Union. The account is interest bearing. At times, the amount will exceed deposit insurance limits.

Furniture and Equipment

Property and equipment are stated at cost. All major expenditures for property and equipment \$8,000 and above are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from three to seven years.

Employee Benefits Plan

The AgriBank District has various postemployment pension related benefit plans in which Foundations employees participate.

FARM CREDIT FOUNDATIONS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022, 2021, AND 2020

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Employee Benefits Plan (Continued)

Certain employees also participate in the AgriBank District Retirement Plan. The plan is comprised of two benefit formulas. At their option, employees hired prior to October 1, 2001 are on the cash balance formula or on the final average pay formula. Benefits eligible employees hired between October 1, 2001 and December 31, 2006 are on the cash balance formula. Effective January 1, 2007, the AgriBank District Retirement Plan was closed to new employees. The AgriBank District Retirement Plan utilizes the "Projected Unit Credit" actuarial method for financial reporting and funding purposes.

Foundations also provides certain health insurance benefits to eligible retired employees according to the terms of those benefit plans. The anticipated cost of these benefits is accrued during the employees' active service period.

The defined contribution plan allows eligible employees to save for their retirement either pre-tax, post-tax, or both, with an employer match on a percentage of the employee's contributions. We provide benefits under this plan for those employees that do not participate in the AgriBank District Retirement Plan in the form of a fixed percentage of salary contribution in addition to the employer match. Employer contributions are expensed when incurred.

Certain employees also participate in the Nonqualified Deferred Compensation Plan. Eligible participants must meet one of the following criteria: certain salary thresholds as determined by the Internal Revenue Service (IRS), are either a Chief Executive Officer or President of a participating employer, or have previously elected pre-tax deferrals in 2006 under predecessor nonqualified deferred compensation plans. Under this plan the employee may defer a portion of his/her salary, bonus, and other compensation. Additionally, the plan provides for supplemental employer matching contributions related to any compensation deferred by the employee that would have been eligible for a matching contribution under the retirement savings plan if it were not for certain IRS limitations. Currently no employees are participating in this plan.

Certain employees also participate in the Nonqualified Defined Benefit Pension Restoration Plan of the AgriBank District. This plan restores retirement benefits to certain highly compensated eligible employees that would have been provided under the qualified plan if such benefits were not above the Internal Revenue Code compensation or other limits. Currently no employees are participating in this plan.

Income Taxes

Foundations has provided for federal and state income taxes. Deferred tax assets and liabilities are established for the expected future tax consequences of temporary differences between the carrying amounts and tax basis of assets and liabilities. Temporary differences are transactions reported for tax purposes in periods different from the periods when such transactions are reported in Foundations' financial statements. Deferred tax assets represent the tax benefit of future deductible temporary differences.

**FARM CREDIT FOUNDATIONS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022, 2021, AND 2020**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes (Continued)

Recognition of deferred tax assets is based upon management's belief that it is more likely than not that the tax benefits associated with Foundations' temporary differences will be realized in the future. A valuation allowance is recorded when it is more likely than not that realization will not occur. The expected future tax consequences of uncertain income tax positions are accrued.

Earnings Patronage

Foundations accrues patronage distributions according to a prescribed formula approved by the board of directors. Generally, accrued patronage distributions are paid during the first quarter subsequent to year-end.

Income Recognition

Income is recognized on an accrual basis when services are provided and the performance obligations are met related to payroll processing and other consulting and administrative support, and recognized as services are provided, which happens evenly over the course of the year.

Fair Value Measurement

The Financial Accounting Standards Board (FASB) guidance defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. It describes three levels of inputs that may be used to measure fair value:

Level 1 – Quoted prices in active markets for identical assets or liabilities that Foundations has the ability to access at the measurement date. Level 1 assets include assets held in trust funds that relate to deferred compensation and the supplemental retirement plans. The trust funds include investments that are actively traded and have quoted net asset values that are observable in the marketplace.

Level 2 – Observable inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly. Level 2 inputs include the following: (a) quoted prices for similar assets or liabilities in active markets; (b) quoted prices for identical or similar assets or liabilities in markets that are not active so that they are traded less frequently than exchange-traded instruments, the prices are not current or principal market information is not released publicly; (c) inputs other than quoted prices that are observable such as interest rates and yield curves, prepayment speeds, credit risks and default rates, and (d) inputs derived principally from or corroborated by observable market data by correlation or other means.

Level 3 – Unobservable inputs are those that are supported by little or no market activity and that are significant to the determination of the fair value of the assets or liabilities. These unobservable inputs would reflect Foundations' own assumptions about assumptions that market participants would use in pricing the asset or liability.

The fair value disclosures are presented in Note 7.

FARM CREDIT FOUNDATIONS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022, 2021, AND 2020

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases

Foundations determines if an arrangement is a lease at inception. The assets are recorded within property and equipment on the balance sheet and are also detailed out in Note 10.

These assets represent Foundations' right to use an underlying asset for the lease term and lease liabilities represent Foundations' obligation to make lease payments arising from the lease. The assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. Lease terms may include options to extend or terminate the lease when it is reasonably certain that Foundations will exercise that option. Lease expense for operating lease payments is recognized on a straight-line basis over the lease term.

NOTE 3 INCOME TAXES

The provision for income taxes consisted of the following:

	2022	2021	2020
Current:			
Federal	\$ 44,427	\$ 10,895	\$ 30,226
State	25,302	12,167	17,836
Total Current Tax Expense	69,729	23,062	48,062
Deferred Tax Benefit:			
Federal	(29,269)	6,061	(14,243)
State	(9,376)	(1,090)	(7,373)
Total Deferred Tax Benefit	(38,645)	4,971	(21,616)
Total Provision for Income Taxes	<u>\$ 31,084</u>	<u>\$ 28,033</u>	<u>\$ 26,446</u>

The provision for income taxes differs from the amount of income tax determined by applying the applicable U.S. statutory federal income tax rate to pretax income.

	2022	2021	2020
Federal Tax at Statutory Rate	\$ 200,695	\$ 310,716	\$ 184,296
State Tax, Net of Federal Benefit	2,484	2,170	2,047
Permanent Differences between Book and Tax Provision	19,664	18,284	18,845
Deductible Patronage Distributions	(191,759)	(303,137)	(178,742)
Provision for Income Taxes	<u>\$ 31,084</u>	<u>\$ 28,033</u>	<u>\$ 26,446</u>

FARM CREDIT FOUNDATIONS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022, 2021, AND 2020

NOTE 3 INCOME TAXES (CONTINUED)

Deferred tax assets are comprised from the following:

	2022	2021	2020
Accrued Incentives	\$ 262,700	\$ 241,128	\$ 236,207
Accrued Annual Leave	18,829	18,489	18,648
Depreciation	3,112	(10,620)	(911)
Deferred Tax Asset	<u>\$ 284,641</u>	<u>\$ 248,997</u>	<u>\$ 253,944</u>

The calculation of tax assets and liabilities involves various management estimates and assumptions as to the future taxable earnings. A valuation reserve for the deferred tax assets was not necessary at December 31, 2022, 2021, and 2020.

Foundations had no uncertain tax positions to be recognized as of December 31, 2022, 2021, and 2020.

NOTE 4 EMPLOYEE BENEFIT PLANS

Complete financial information for the pension and postemployment benefit plans may be found in the Combined AgriBank and Affiliated Associations 2022 Annual Report (District financial statements).

The Farm Credit Foundations Plan Sponsor and Trust Committees provide oversight of the benefit plans. These governance committees are comprised of elected or appointed representatives (senior leadership and/or board of director members) from the participating organizations. The Plan Sponsor Committee is responsible for employer decisions regarding all benefit plans including retirement benefits. These decisions could include plan design changes, vendor changes, determination of employer subsidies (if any), and termination of specific benefit plans. Any action to change or terminate the retirement plan can only occur at the direction of the AgriBank District participating employers. The Trust Committee is responsible for fiduciary and plan administrative functions.

FARM CREDIT FOUNDATIONS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022, 2021, AND 2020

NOTE 4 EMPLOYEE BENEFIT PLANS (CONTINUED)

Pension Plan

Certain employees participate in the AgriBank District Retirement Plan, a District-wide multiple-employer defined benefit retirement plan. The Department of Labor has determined the plan to be a governmental plan; therefore, the plan is not subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended (ERISA). As the plan is not subject to ERISA, the plan's benefits are not insured by the Pension Benefit Guaranty Corporation. Accordingly, the amount of accumulated benefits that participants would receive in the event of the plan's termination is contingent on the sufficiency of the plan's net assets to provide benefits at that time. This Plan is noncontributory and covers certain eligible District employees. The assets, liabilities, and costs of the plan are not segregated by participating entities. As such, plan assets are available for any of the participating employers' retirees at any point in time. Additionally, if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers. Further, if we choose to stop participating in the plan, we may be required to pay an amount based on the underfunded status of the plan. Because of the nature of the plan, any individual employer is not able to unilaterally change the provisions of the plan. If an employee transfers to another employer within the same plan, the employee benefits under the plan transfer. Benefits are based on salary and years of service. There is no collective bargaining agreement in place as part of this plan.

AgriBank District Retirement Plan Information			
(in thousands)			
As of December 31	2022	2021	2020
Unfunded Liability	\$ 87,688	\$ 46,421	\$ 169,640
Projected Benefit Obligation	1,204,130	1,500,238	1,563,421
Fair Value of Plan Assets	1,116,442	1,453,817	1,393,781
Accumulated Benefit Obligation	1,083,610	1,384,554	1,426,270
For the year ended December 31	2022	2021	2020
Contributions by Participating Employers	\$ 90,385	\$ 90,000	\$ 90,000
Our Allocated Share of Contributions	402	403	358

The unfunded liability reflects the net of the fair value of the plan assets and the projected benefit obligation at the date of these financial statements. The projected benefit obligation is the actuarial present value of all benefits attributed by the pension benefit formula to employee service rendered prior to the measurement date based on assumed future compensation levels. The accumulated benefit obligation is the actuarial present value of the benefits attributed to employee service rendered before the measurement date and based on current employee service and compensation. The funding status is subject to many variables including performance of plan assets and interest rate levels. Therefore, changes in assumptions could significantly affect these estimates.

FARM CREDIT FOUNDATIONS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022, 2021, AND 2020

NOTE 4 EMPLOYEE BENEFIT PLANS (CONTINUED)

Pension Plan (Continued)

Costs are determined for each individual employer based on costs directly related to their current employees as well as an allocation of the remaining costs based proportionately on the estimated projected liability of the employer under this plan. We recognize our proportional share of expense and contribute a proportional share of funding. Our allocated share of plan expenses is included in "Salaries and employee benefits" in the statement of operations.

Benefits paid to participants in the District were \$132 million in 2022. While the plan is a governmental plan and is not subject to minimum funding requirements, the employers contribute amounts necessary on an actuarial basis to provide the plan with sufficient assets to meet the benefits to be paid to participants. The amount of the total District employer contributions expected to be paid into the pension plan during 2023 is \$45 million. Our allocated share of these pension contributions is expected to be \$260 thousand. The amount ultimately to be contributed and the amount ultimately recognized as expense as well as the timing of those contributions and expenses, are subject to many variables including performance of plan assets and interest rate levels. These variables could result in actual contributions and expenses being greater than or less than the amounts reflected in the District financial statements.

Retiree Medical Plans

District employers also provide certain health insurance benefits to eligible retired employees according to the terms of the benefit plans. The anticipated costs of these benefits are accrued during the period of the employee's active status. Postretirement benefit costs are included in Salaries and Employee Benefits in the statements of operations. Our cash contributions are equal to the benefits paid.

Defined Contribution Plans

Foundations participates in a District-wide defined contribution plan. For employees hired before January 1, 2007, employee contributions are matched dollar for dollar up to 2.0% and 50 cents on the dollar on the next 4.0% on both pre-tax and post-tax contributions. The maximum employer match is 4.0%. For employees hired after December 31, 2006, Foundations contribute 3.0% of the employee's compensation and will match employee contributions dollar for dollar up to a maximum of 6.0% on both pre-tax and post-tax contributions. The maximum employer contribution is 9.0%.

Foundations also participates in a District-wide Nonqualified Deferred Compensation Plan. Eligible participants must meet one of the following criteria: certain salary thresholds as determined by the IRS, are either a chief executive officer or president of a participating employer, or have previously elected pre-tax deferrals in 2006 under predecessor nonqualified deferred compensation plans. Under this plan the employee may defer a portion of his/her salary, bonus, and other compensation. Additionally, the plan provides for supplemental employer matching contributions related to any compensation deferred by the employee that would have been eligible for a matching contribution under the defined contribution plan if it were not for certain IRS limitations.

FARM CREDIT FOUNDATIONS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022, 2021, AND 2020

NOTE 4 EMPLOYEE BENEFIT PLANS (CONTINUED)

Defined Contribution Plans (Continued)

Employer contribution expenses for the defined contribution plan, included in Salaries and Employee Benefits in the statements of operations were \$365 thousand, \$340 thousand, and \$311 thousand in 2022, 2021, and 2020, respectively. These expenses were equal to our cash contributions for each year.

NOTE 5 CAPITAL

Foundations is authorized to issue 232,000 shares each of Class A Common Stock, and no Class B Common Stock. All classes of stock have a par value of \$5.00. Dividends may be paid on shares as determined by a board of directors' resolution. Outstanding shares shall be retired at the sole discretion of the board. Losses which result in any impairment of Foundations' stock shall be borne: first equally by each share of common stock outstanding; and second equally by each share of Class D and Class E Preferred Stock outstanding, on a pro rata basis. Impaired stock shall be restored in the reverse order until each share of stock has a book value equal to the par value.

As of December 31, 2022, 2021, and 2020, Foundations owners held 232,000 shares of Class A Common Stock and no shares of Class B Common Stock. The minimum stock requirement for Class Common Stock shareholders is 1,453 per shareholder and for Class B Common Stock shareholders is -0- shares per shareholder.

Descriptions of each class of stock authorized by Foundations Bylaws and the number of shares outstanding at December 31, 2022, 2021, and 2020 are provided below.

Class A Common Stock (Voting, 232,000 shares outstanding) – Issued only to owners using services under a Services Agreement when such issues are authorized by a plan approved by the board of directors. At the time a Class A Common Stock Services Agreement is terminated (with no renewal), any such relative holder's Class A Common Stock shall be automatically converted to nonvoting Class B Common Stock.

Class B Common Stock (Nonvoting, no shares outstanding) – Issued solely to shareholders, which are Farm Credit System institutions under the Act.

Patronage Distributions

Foundations accrued patronage distributions of \$913,138, \$1,443,510, and \$851,152 at December 31, 2022, 2021, and 2020, respectively. Generally, the patronage distributions are paid in cash during the first quarter after year-end. The board of directors may authorize a distribution of earnings provided Foundations meets all statutory and regulatory requirements.

FARM CREDIT FOUNDATIONS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022, 2021, AND 2020

NOTE 6 RELATED PARTY TRANSACTIONS

Foundations primary business is to provide services to other Farm Credit System entities, including 30 Farm Credit associations, two service corporation (AgVantis and SunStream Business Services), and one Farm Credit Bank (AgriBank, FCB). Revenue from these entities was \$9,940,840, \$9,444,022, and \$8,417,098 in 2022, 2021, and 2020, respectively, which includes excess receipts offset by the patronage accrual described in Note 6.

Additionally, Foundations pays AgriBank for services received to support both its operations and services to Employers. Foundations paid AgriBank \$570,622, \$424,518, and \$445,775 for these services in 2022, 2021, and 2020, respectively, which are included in Purchased Services in the statements of operations. Also included in Purchased Services are supervisory and examination costs paid to Farm Credit Administration that totaled \$73,750, \$46,250, and \$68,750 in 2022, 2021, and 2020, respectively.

Foundations leases office space from AgriBank. Included in occupancy and equipment are tenant fees paid to AgriBank of \$284,438 in 2022, 2021, and 2020. In 2014, the lease terms were amended to revise the premises Foundation occupies as part of the lease. The amended lease expires October 31, 2026, and provides for Foundations to pay \$26,300 per month, or \$315,600 per year. Foundations' minimum lease payments over the term of this lease are included in Note 9.

Foundations entered into a line of credit agreement with AgriBank, FCB. The total line of credit is \$1 million and it bears interest on any outstanding balance at a variable rate of AgriBank's marginal cost of debt plus the bank's spread plus 2.00%, which was 4.16% at December 31, 2022. At December 31, 2022, 2021, and 2020, the outstanding principal borrowed under the line of credit was \$0- and it expires March 31, 2023, at which time it may be renewed with AgriBank.

NOTE 7 FAIR VALUE MEASUREMENTS

Accounting guidance defines fair value 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. The fair value measurement is not an indication of liquidity. FASB 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. See Note 2 – Summary of Significant Accounting Policies for additional information. Foundations has no assets and no liabilities measured at fair value.

FARM CREDIT FOUNDATIONS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022, 2021, AND 2020

NOTE 8 FURNITURE AND EQUIPMENT

Furniture and equipment as of December 31 consists of the following:

	2022	2021	2020
Cost:			
Building	\$ 1,014,729	\$ 1,244,999	\$ 1,464,607
Furniture and Equipment	778,551	458,950	458,950
Software	502,379	716,295	436,685
Total Cost	2,295,659	2,420,244	2,360,242
Accumulated Depreciation	(786,640)	(689,292)	(653,310)
Net Property and Equipment	<u>\$ 1,509,019</u>	<u>\$ 1,730,952</u>	<u>\$ 1,706,932</u>

NOTE 9 LEASES

As noted in Note 6, during 2014, Foundations entered into a lease that included office furniture and that portion of the lease qualifies as a financing lease. The furniture portion of the lease requires monthly payments of \$2,597 for a term of 148 months. The following summarizes the assets under the lease:

	2022	2021	2020
Furniture	\$ 335,349	\$ 335,349	\$ 335,349
Accumulated Depreciation	(231,119)	(203,928)	(176,738)
Net Furniture	<u>\$ 104,230</u>	<u>\$ 131,421</u>	<u>\$ 158,611</u>

For the portion of the lease that is considered financing (with a weighted-average discount rate of 2.00%), the future minimum lease obligations for the years ending December 31 are:

<u>Year</u>	<u>Amount</u>
2023	\$ 31,163
2024	31,163
2025	31,163
2026	25,968
Total Payments	119,457
Interest Portion	(5,109)
Total Lease Obligation	<u>\$ 114,348</u>

FARM CREDIT FOUNDATIONS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022, 2021, AND 2020

NOTE 9 LEASES (CONTINUED)

This lease also includes space and was amended and now expires October 31, 2026. The lease provides for Foundations to pay \$26,300 per month, or \$315,600 per year and is considered an operating lease. The following summarizes the assets under the lease:

	2022	2021	2020
Building	\$ 1,857,506	\$ 1,857,506	\$ 1,857,506
Accumulated Depreciation	(842,777)	(612,507)	(392,899)
Net Building	<u>\$ 1,014,729</u>	<u>\$ 1,244,999</u>	<u>\$ 1,464,607</u>

For the portion of the lease that is considered operating (with a weighted average discount rate of 4.75%), the future minimum lease obligations for the years ending December 31 are:

Year	Amount
2023	\$ 284,437
2024	284,437
2025	284,437
2026	260,736
Total Payments	1,114,047
Interest Portion	(99,318)
Total Lease Obligation	<u>\$ 1,014,729</u>

The following table provides additional quantitative information concerning Foundations' financing and operating leases.

	2022	2021	2020
Lease Cost:			
Finance Lease Cost:			
Amortization of Right-to-Use Asset	\$ 27,191	\$ 27,190	\$ 27,191
Interest on Lease Liabilities	2,818	3,546	4,160
Operating Lease Cost	230,270	219,344	209,441
Total Lease Cost	<u>\$ 260,279</u>	<u>\$ 250,080</u>	<u>\$ 240,792</u>

NOTE 10 CONTRACT COMMITMENT

In 2015, Foundations entered into a contract with a vendor for a human resource information system (HRIS). This system is a cloud-based payroll processing system. The contract requires a three-year commitment by Foundations with annual fees estimated at \$1,320,000, of which Foundation's portion is \$68,000. The three-year commitment expired in April 2019, at which time the contract transitioned to a pay-as-you-go contract. Pricing is approximately \$110,000 monthly. Foundations must provide a 90-day notice before the contract can be terminated.

FARM CREDIT FOUNDATIONS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022, 2021, AND 2020

NOTE 11 SUBSEQUENT EVENTS

Foundations has evaluated subsequent events through March 1, 2023, which is the date the financial statements were available to be issued, and no material subsequent events were identified.

Owners

AgCountry Farm Credit Services

AgHeritage Farm Credit Services

AgriBank

AgVantis

American AgCredit

Compeer Financial

Farm Credit Illinois

Farm Credit Mid-America

Farm Credit Midsouth

Farm Credit of New Mexico

Farm Credit of Southern Colorado

Farm Credit of Western Kansas

Farm Credit of Western Oklahoma

Farm Credit Services of America /
Frontier Farm Credit

Farm Credit Services of Mandan

Farm Credit Services of North Dakota

Farm Credit Services of Western
Arkansas

Farm Credit Southeast Missouri

Farm Credit West

FCS Financial

FCS of Colusa Glenn

Fresno Madera Farm Credit

Golden State Farm Credit

GreenStone Farm Credit Services

High Plains Farm Credit

Idaho AgCredit

Northwest Farm Credit Services

Oklahoma AgCredit

Premier Farm Credit

SunStream Business Services

Western AgCredit

Yosemite Farm Credit



Best total value in HR services

