



Red Rocks Credit Union

Report on Audit  
of Financial Statements

for the years ended  
December 31, 2017 and 2016

**Jones Mertsching**

**Certified Public Accountants**

CONTENTS

---

	Page
Independent Auditors' Report	1
Financial Statements:	
Statements of Financial Condition	2
Statements of Income	3
Statements of Comprehensive Income	4
Statements of Members' Equity	5
Statements of Cash Flows	6 - 7
Notes to Financial Statements	8 - 35



---

## INDEPENDENT AUDITORS' REPORT

To the Supervisory Committee of Red Rocks Credit Union

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of Red Rocks Credit Union which comprise the statements of financial condition as of December 31, 2017 and 2016, and the related statements of income, comprehensive income, members' equity, and cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Red Rocks Credit Union as of December 31, 2017 and 2016, 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.

*Jones Mertsching CPAs, P.C.*

Evergreen, Colorado

March 21, 2018

**303-480-9090**

**32186 Castle Court, Suite 220, Evergreen, CO 80439**

Red Rocks Credit Union  
Statements of Financial Condition  
at December 31, 2017 and 2016

	2017	2016
ASSETS		
Loans to members, net of allowance for loan losses (Notes 2, 8 and 9)	\$ 252,529,788	\$ 210,903,347
Real estate loans held-for-sale	-	185,264
Cash (Note 3)	12,865,401	16,847,969
Investments, Alloya Credit Union (Note 3)	12,968,473	16,130,912
Securities available-for-sale (Note 4 and 9)	4,034,132	8,016,756
Investments, other (Note 5)	1,704,027	1,735,448
Property and equipment, net (Note 6)	13,269,553	13,149,633
NCUSIF deposit	2,371,182	2,171,247
Accrued interest receivable	707,272	614,770
Other assets	1,087,438	3,658,450
	\$ 301,537,266	\$ 273,413,796
LIABILITIES AND MEMBERS' EQUITY		
Members' shares and savings accounts (Note 7)	\$ 271,602,222	\$ 245,782,940
Accrued expenses and other liabilities	2,400,649	2,131,413
	274,002,871	247,914,353
Commitments (Notes 8 and 9)		
Members' equity:		
Regular reserve	3,211,955	3,211,955
Undivided earnings	24,422,863	22,436,193
Accumulated other comprehensive loss	(100,423)	(148,705)
	27,534,395	25,499,443
Total members' equity	\$ 301,537,266	\$ 273,413,796

The accompanying notes are a part of the financial statements.

Red Rocks Credit Union  
 Statements of Income  
 for the years ended December 31, 2017 and 2016

	2017	2016
Interest and dividend income:		
Loans to members and others	\$ 11,434,587	\$ 9,687,562
Investments	313,699	285,169
Total interest and dividend income	11,748,286	9,972,731
Interest and dividend expense:		
Members' shares and savings accounts	1,541,960	1,170,019
Other borrowed funds	6	-
Total interest and dividend expense	1,541,966	1,170,019
Net interest income	10,206,320	8,802,712
Provision for loan losses (Note 2)	1,724,327	978,040
Net interest income after provision for loan losses	8,481,993	7,824,672
Non-interest income:		
Fees for member services	1,179,492	1,096,205
Income from sale of mortgages	49,205	373,876
VISA check card income	696,253	692,375
Other operating income	472,551	127,302
Net gain (loss) on sale or disposition of assets	525,586	(1,083)
Total non-interest income	2,923,087	2,288,675
Non-interest expense:		
Compensation and benefits	4,353,936	3,708,342
Office occupancy expense	887,812	845,156
VISA check card expenses	347,891	314,398
Other operating expenses	3,828,771	3,398,739
Total non-interest expense	9,418,410	8,266,635
Net income	\$ 1,986,670	\$ 1,846,712

Red Rocks Credit Union  
 Statements of Comprehensive Income  
 for the years ended December 31, 2017 and 2016

	2017	2016
Net income	\$ 1,986,670	\$ 1,846,712
Other comprehensive income:		
Unrealized gain on securities:		
Unrealized holding gains arising during period	48,282	2,777
Reclassification adjustment for loss included in net income	-	-
	48,282	2,777
Other comprehensive income	48,282	2,777
Comprehensive income	\$ 2,034,952	\$ 1,849,489

The accompanying notes are a part of the financial statements.  
 (4)

Red Rocks Credit Union  
 Statements of Members' Equity  
 for the years ended December 31, 2017 and 2016

	Regular Reserve	Accumulated Other Comprehensive Income (Loss)	Undivided Earnings	Total
"Balances, December 31, 2015" & DIS	\$ 3,211,955	\$ (151,482)	\$ 20,589,481	\$ 23,649,954
Net income	-	-	1,846,712	1,846,712
Other comprehensive income	-	2,777	-	2,777
Balances, December 31, 2016	\$ 3,211,955	\$ (148,705)	\$ 22,436,193	\$ 25,499,443
Net income	-	-	1,986,670	1,986,670
Other comprehensive income	-	48,282	-	48,282
Balances, December 31, 2017	<u>\$ 3,211,955</u>	<u>\$ (100,423)</u>	<u>\$ 24,422,863</u>	<u>\$ 27,534,395</u>

The accompanying notes are a part of the financial statements.

Red Rocks Credit Union  
Statements of Cash Flows  
for the years ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Interest and dividends received	\$ 12,468,265	\$ 10,788,964
Interest and dividends paid	(1,541,966)	(1,170,019)
Other operating income received	2,336,964	2,262,739
Cash paid to employees and suppliers	(5,902,225)	(8,104,081)
Net cash provided by operating activities	7,361,038	3,777,603
Cash flows from investing activities:		
Net (increase) in loans to members	(43,970,201)	(21,448,543)
Purchases of other investments	(21,300)	-
Proceeds from sale of other investments	641,300	-
Proceeds from maturities of Alloya and other investments	1,000,000	13,721,100
Proceeds from sales and maturities of investments, available-for-sale	4,023,122	1,122,433
Expenditures for property and equipment	(798,313)	(1,694,891)
(Increase) in NCUSIF deposit	(199,935)	(68,045)
Net cash (used in) investing activities	(39,325,327)	(8,367,946)
Cash flows from financing activities:		
Net increase in members' shares and savings accounts	25,819,282	17,358,390
Net cash provided by financing activities	25,819,282	17,358,390
Net (decrease) increase in cash and cash equivalents	(6,145,007)	12,768,047
Cash and cash equivalents (Note 3):		
Beginning of year	30,769,819	18,001,772
End of year	\$ 24,624,812	\$ 30,769,819

The accompanying notes are a part of the financial statements.

Red Rocks Credit Union  
 Statements of Cash Flows  
 for the years ended December 31, 2017 and 2016

	2017	2016
Net income	\$ 1,986,670	\$ 1,846,712
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	675,937	638,810
Provision for loan losses	1,724,327	978,040
Amortization of net deferred loan origination costs	804,697	836,000
Amortization of investment premiums, net	7,784	20,236
Equity income	(60,537)	(27,019)
Gain on sale of investments	(528,042)	-
Loss on sale of disposition of assets	2,456	1,083
(Increase) in accrued interest receivable	(92,502)	(40,003)
Decrease (increase) in other assets	2,571,012	(2,108,143)
Increase in other liabilities	269,236	1,631,887
Net cash provided by operating activities	\$ 7,361,038	\$ 3,777,603

The accompanying notes are a part of the financial statements.

Red Rocks Credit Union  
Notes to Financial Statements  
December 31, 2017

---

1. Summary of Significant Accounting Policies:

a. Organization:

Red Rocks Credit Union (the Credit Union) is a Colorado state chartered credit union operated for the benefit of employees, former employees and members of their families of Lockheed Martin, other select employee groups, and people who live or work in Douglas, Arapahoe, and Jefferson Counties, Colorado. The Credit Union holds savings deposits, provides loans, and provides other financial services for its members at locations predominately in the Denver, Colorado metropolitan area.

b. Comprehensive income:

The Credit Union reports comprehensive income in addition to net income from operations. Comprehensive income is a more inclusive financial reporting methodology that includes disclosure of certain financial information that historically has not been recognized in the calculation of net income. For 2017 and 2016, items of other comprehensive income consist of unrealized gains and losses on available-for-sale securities (See Note 4).

c. Use of estimates in the preparation of financial statements:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

d. Loans to members:

Loans are stated at the amount of unpaid principal, reduced by an allowance for loan losses. Except as noted below, interest on loans is recognized using the simple-interest method on principal amounts outstanding.

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

Red Rocks Credit Union  
Notes to Financial Statements  
December 31, 2017

---

1. Summary of Significant Accounting Policies, Continued:

d. Loans to members, continued:

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and prevailing economic conditions. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available.

The Credit Union's allowance for loan losses is that amount considered adequate to absorb probable losses in the portfolio based on management's evaluations of the size and current risk characteristics of the loan portfolio. Such evaluations consider prior loss experience, the risk rating distribution of the portfolios, the impact of current internal and external influences on credit loss and the levels of nonperforming loans. Specific allowances for loan losses are established for impaired loans on an individual basis. The specific allowance established for these loans is based on a thorough analysis of the most probable source of repayment, including the present value of the loan's expected future cash flow, the loan's estimated market value, or the estimated fair value of the underlying collateral. General allowances are established for loans that can be grouped into pools based on similar characteristics. In this process, general allowance factors are based on an analysis of historical charge-off experience and expected losses given default rates derived from the Credit Union's internal risk rating process. These factors are developed and applied to the portfolio in terms of loan type. The qualitative factors associated with the allowances are subjective and require a high degree of management judgment. These factors include the credit quality statistics, recent economic uncertainty, losses incurred from recent events, and lagging data.

Accrual of interest is discontinued on a loan when the loan becomes 90 days delinquent. Consumer loans are typically charged off no later than 180 days past due. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if management believes, after considering economic conditions, business conditions, and collection efforts, that collection of principal or interest is considered doubtful.

Red Rocks Credit Union  
Notes to Financial Statements  
December 31, 2017

---

1. Summary of Significant Accounting Policies, Continued:

d. Loans to members, continued:

Conforming first mortgage real estate loans of members are stated at the amount of unpaid principal. Interest on these loans is recognized using the level yield method of interest computation.

Certain direct loan origination fees and costs are deferred and recognized as an adjustment to interest income using the straight-line method of amortization which does not produce financial results that are materially different from the interest method.

e. Securities available-for-sale:

Available-for-sale securities consist predominately of federal agency and government sponsored mortgage backed securities not classified as trading securities nor as held-to-maturity securities.

Available-for-sale securities are reported at fair value with unrealized gains and losses reported as a net amount in other comprehensive income (see above). Unrealized holding gains and losses on available-for-sale securities are reported as a net amount in other comprehensive income (see above). Realized gains and losses on the sale of available-for-sale securities are determined using the specific identification method. Realized gains and losses are included in earnings.

Interest income, including amortization of the premiums and discounts arising at acquisition, on debt securities classified as available-for-sale is included in earnings. Premiums and discounts are amortized or accreted using the interest method over the term to the first call date for agency bonds, or to the estimated average life of outstanding principal on mortgage backed and other securities based upon the average three month prepayment speed.

f. Investments in equity securities carried at cost:

The aggregate carrying amount of all investments, including investments at Alloya (other than cash and cash equivalents), accounted for under the cost method at December 31, 2017 and 2016, was \$2,761,631 and \$3,800,315, respectively. The aggregate carrying amount of cost method investments that were not evaluated for impairment at December 31, 2017 or 2016 was \$2,761,631 and \$3,800,315, respectively, as there were no identified events or changes in circumstances that may have had a significant adverse effect on the fair value of the investments and, other than the investments in certificates of deposit, it was not practicable to estimate the fair value of cost method investments. See Notes 3 and 5.

Red Rocks Credit Union  
Notes to Financial Statements  
December 31, 2017

---

1. Summary of Significant Accounting Policies, Continued:

g. Property and equipment:

Land is carried at cost. Other property and equipment is stated at cost less accumulated depreciation. Depreciation is provided on the straight-line method over the estimated useful lives of the assets.

h. Other real estate owned (OREO):

Real estate properties acquired through or in lieu of loan foreclosure are initially recorded at fair value at the date of foreclosure. Costs relating to development and improvement of the property are capitalized, whereas costs relating to holding the property are expensed. Valuations are periodically performed by management and an allowance for losses is established by means of a charge to operations if the carrying value of the property exceeds the lower of cost, or the fair value less estimated costs to sell.

i. NCUSIF deposit and insurance premiums:

The deposit in the National Credit Union Share Insurance Fund (NCUSIF) is in accordance with NCUA regulations, which require the maintenance of a deposit by each insured credit union in an amount equal to one percent of its insured shares. The deposit would be refunded to the Credit Union if its insurance coverage is terminated, it converts to insurance coverage from another source, or the operations of the fund are transferred from the NCUA Board.

The Credit Union is required to pay an annual insurance premium equal to a percentage of its insured shares, unless the payment is waived or reduced by the NCUA Board.

j. Members' shares and savings accounts:

Members' shares are subordinated to all other liabilities of the Credit Union upon liquidation. Dividends on members' share accounts are based on available earnings at the end of a dividend period and are not guaranteed by the Credit Union. Dividend rates on members' share accounts are approved by the board of directors, and interest rates on other members' accounts are set by the asset liability committee, based on an evaluation of current and future market conditions.

k. Members' equity:

The Credit Union is required by regulation to maintain a statutory reserve. This reserve, which represents a regulatory restriction on undivided earnings, is not available for the payment of dividends.

Red Rocks Credit Union  
Notes to Financial Statements  
December 31, 2017

---

1. Summary of Significant Accounting Policies, Continued:

l. Advertising costs:

Advertising costs are expensed as incurred. For the years ended December 31, 2017 and 2016, advertising and marketing costs were \$361,024 and \$355,856, respectively.

m. Income tax status:

The Credit Union is exempt from federal and state income tax. The Credit Union's accounting policy under FASB ACS 740-10 *Accounting for Uncertainty in Income Taxes* is to recognize in its financial statements only those tax benefits (reported or to be reported in its tax returns) when it is more likely than not that the tax position will be sustained on examination by the relevant taxing authority. Management currently believes that it is more likely than not that all of its significant tax positions, included positions related to the unrelated business income tax (UBIT) would be sustained on examination by relevant taxing authorities. Additionally, no interest and penalties have been recorded in the accompanying financial statements related to uncertain tax positions. Currently, the 2014, 2015 and 2016 federal income tax returns are open for examination by the IRS. Federal income tax returns related to UBIT were not filed prior to 2013. Accordingly, years prior to 2013 are open for examination by the IRS.

n. Presentation of cash flows:

For the purpose of reporting cash flows, cash and cash equivalents includes cash on hand and amounts due from financial institutions (including cash items in process of clearing). Cash equivalents include short-term highly liquid investments with an original maturity of three months or less. Cash flows from deposits placed with other financial institutions, member deposits, and loans to members are reported net.

o. Subsequent events:

Management has evaluated subsequent events for recognition and/or disclosure in the accompanying financial statements through March 21, 2018, the date the financial statements are available to be issued.

Red Rocks Credit Union  
Notes to Financial Statements  
December 31, 2017

2. Loans to Members:

The composition of loans to members at December 31, 2017 and 2016 is as follows:

	2017	2016
Loans secured by automobiles, including unamortized direct loan origination costs (Note 9)	\$ 72,482,071	\$ 75,359,337
Loans secured by real estate, fixed rate	126,965,107	99,014,598
Loans secured by real estate, variable rate	45,514,186	29,966,545
Unsecured loans	3,116,958	3,726,707
Loans secured by shares	226,597	112,634
VISA Card credit card loans, unsecured	4,634,072	3,001,118
Other secured loans	1,175,035	769,023
	254,114,026	211,949,962
Less allowance for loan losses	1,584,238	1,046,615
	\$252,529,788	\$210,903,347

a. Allowance for Loan Losses

The Credit Union has an established methodology to determine the adequacy of the allowance for loan losses that assesses the risks and losses inherent in the Credit Union's loan portfolio. For purposes of determining the allowance for loan losses, the Credit Union segments certain loans in its portfolio by product type. The Credit Union's loans are segmented into the following pools: auto, real estate, consumer secured, and consumer unsecured portfolios. The Credit Union also sub-segments these segments into classes based on the associated risks within those segments.

Auto loans are divided into the following four classes: (a) direct new auto loans, (b) direct used auto loans, (c) indirect new auto loans, and (d) indirect used auto loans. Real estate loans are divided into three classes: (a) first mortgages, (b) first time home-buyers, and (c) second mortgages. Consumer secured loans are divided into two classes: (a) share secured and (b) other secured. In addition, consumer unsecured loans are divided into three classes: (a) unsecured loans, (b) negative shares, and (c) credit cards.

A 12 month historical loss percentage was applied to each segment and applied to the calculation of allowance for loan losses.

Red Rocks Credit Union  
Notes to Financial Statements  
December 31, 2017

2. Loans to Members, Continued:

a. Allowance for Loan Losses, continued:

The total allowance reflects management's estimate of loan losses inherent in the loan portfolio at the balance sheet date. The Credit Union considers the allowance for loan losses of \$1,584,238 adequate to cover loan losses inherent in the loan portfolio, at December 31, 2017. The following table presents by portfolio segment, the changes in the allowance for loan losses and the recorded investment in loans for the years ended December 31, 2017 and 2016.

Allowance for Loan Losses and Recorded Investment in Loans  
for the year ended December 31, 2017

	Auto	Real Estate	Consumer Secured	Consumer Unsecured	Total
Allowance for Loan Losses:					
Beginning balance	\$ 621,292	\$ 165,753	\$ 825	\$ 258,745	\$ 1,046,615
Charge-offs	(1,121,949)	(-)	(-)	(196,388)	(1,318,337)
Recoveries	98,194	600	-	32,839	131,633
Provision	1,440,888	188,794	463	94,182	1,724,327
Ending balance	<u>\$ 1,038,425</u>	<u>\$ 355,147</u>	<u>\$ 1,288</u>	<u>\$ 189,378</u>	<u>\$ 1,584,238</u>
Ending balance: individually evaluated for impairment	\$ -	\$ 182,000	\$ -	\$ 8,762	\$ 190,762
Ending balance: collectively evaluated for impairment	<u>1,038,425</u>	<u>173,147</u>	<u>1,288</u>	<u>180,616</u>	<u>1,393,476</u>
	<u>\$ 1,038,425</u>	<u>\$ 355,147</u>	<u>\$ 1,288</u>	<u>\$ 189,378</u>	<u>\$ 1,584,238</u>
Loan to members:					
Ending balance: individually evaluated for impairment	\$ 36,653	\$ 317,119	\$ -	\$ 8,762	\$ 362,534
Ending balance: collectively evaluated for impairment	<u>72,445,418</u>	<u>172,162,174</u>	<u>1,401,632</u>	<u>7,742,268</u>	<u>253,751,492</u>
Total ending balance	<u>\$72,482,071</u>	<u>\$172,479,293</u>	<u>\$1,401,632</u>	<u>\$7,751,030</u>	<u>\$254,114,026</u>

Red Rocks Credit Union  
Notes to Financial Statements  
December 31, 2017

2. Loans to Members, Continued:

a. Allowance for Loan Losses, Continued:

Allowance for Loan Losses and Recorded Investment in Loans  
for the year ended December 31, 2016

	Auto	Real Estate	Consumer Secured	Consumer Unsecured	Total
Allowance for Loan Losses:					
Beginning balance	\$ 430,034	\$ 103,979	\$ 57,731	\$ 223,974	\$ 815,718
Charge-offs	(521,867)	(112)	-	(305,701)	(827,680)
Recoveries	51,105	655	-	28,777	80,537
Provision	662,020	61,231	(56,906)	311,695	978,040
Ending balance	<u>\$ 621,292</u>	<u>\$ 165,753</u>	<u>\$ 825</u>	<u>\$ 258,745</u>	<u>\$ 1,046,615</u>
Ending balance: individually evaluated for impairment					
	\$ -	\$ -	\$ -	\$ 2,691	\$ 2,691
Ending balance: collectively evaluated for impairment					
	621,292	165,753	825	256,054	1,043,924
	<u>\$ 621,292</u>	<u>\$ 165,753</u>	<u>\$ 825</u>	<u>\$ 258,745</u>	<u>\$ 1,046,615</u>
Loan to members:					
Ending balance: individually evaluated for impairment					
	\$ 47,236	\$ 113,405	\$ -	\$ 10,762	\$ 171,403
Ending balance: collectively evaluated for impairment					
	75,312,101	128,867,738	881,657	6,717,063	211,778,559
Total ending balance	<u>\$75,359,337</u>	<u>\$128,981,143</u>	<u>\$881,657</u>	<u>\$6,727,825</u>	<u>\$211,949,962</u>

b. Credit Quality Information

The Credit Union's creditworthiness of the loan portfolio is analyzed by a third party agency annually. In November 2017 and November 2016, the analysis was on real estate loans, auto loans, and consumer unsecured loans. Category ratings are reviewed each year, at which time management analyzes the resulting scores, as well as other external statistics and factors, to track the migration of loan qualities. Loans that trend upward toward higher levels generally have a lower risk factor associated; whereas, loans that migrate toward lower ratings generally will result in a higher risk factor being applied to those related loan balances.

Red Rocks Credit Union  
Notes to Financial Statements  
December 31, 2017

2. Loans to Members, Continued:

b. Credit Quality Information, Continued:

The FICO score based risk ratings are as follows: above 720 were 'Exceptional', 680-719 were 'Great', 640-679 were 'Good', 600-639 were 'Fair', and below 600 were 'Low'. Based on the valuations performed in November 2017 and November 2016, the Credit Union's internal risk ratings based on FICO scores, were as follows:

Mortgage loans - November 2017

Credit Rating	Loan Volume	% of Portfolio	Number of Loans	% of Total	Median FICO	Median LTV
Exceptional	\$114,876,087	70.8%	1,759	71.6%	778	47.4%
Great	24,652,930	15.2%	358	14.6%	701	70.1%
Good	13,679,262	8.4%	195	7.9%	664	69.4%
Fair	4,506,267	2.8%	80	3.3%	626	74.3%
Low	4,554,962	2.8%	64	2.6%	566	65.7%
Total	\$162,269,508	100.0%	2,456	100.0%	758	55.1%

Mortgage loans - November 2016

Credit Rating	Loan Volume	% of Portfolio	Number of Loans	% of Total	Median FICO	Median LTV
Exceptional	\$95,445,600	76.5%	1,449	75.0%	781	44.3%
Great	15,679,444	12.6%	256	13.3%	702	68.2%
Good	7,515,458	6.0%	130	6.7%	665	65.3%
Fair	2,898,735	2.3%	54	2.8%	625	73.1%
Low	3,206,525	2.6%	42	2.2%	556	59.1%
Total	\$124,745,762	100.0%	1,931	100.0%	766	49.9%

Red Rocks Credit Union  
Notes to Financial Statements  
December 31, 2017

2. Loans to Members, Continued:

b. Credit Quality Information, continued:

November 2017

RE loans CLTV 120%+

Credit Rating	Loan Volume	% of Portfolio	Number of Loans	% of Total	Median FICO
Exceptional	\$ 803,319	0.5%	10	0.4%	767
Great	64,387	0.0%	1	0.0%	695
Good	228,261	0.1%	2	0.1%	654
Fair	133,169	0.1%	2	0.1%	628
Low	-	0.0%	-	0.0%	-
Total	<u>\$ 1,229,136</u>	<u>0.8%</u>	<u>15</u>	<u>0.6%</u>	<u>757</u>

RE loans CLTV 100 - 119%

Credit Rating	Loan Volume	% of Portfolio	Number of Loans	% of Total	Median FICO
Exceptional	\$ 664,338	0.4%	7	0.3%	750
Great	369,503	0.2%	4	0.2%	701
Good	-	0.0%	0	0.0%	-
Fair	-	0.0%	0	0.0%	-
Low	24,592	0.0%	1	0.0%	566
Total	<u>\$ 1,058,433</u>	<u>0.6%</u>	<u>12</u>	<u>0.5%</u>	<u>722</u>

November 2016

RE loans CLTV 120%+

Credit Rating	Loan Volume	% of Portfolio	Number of Loans	% of Total	Median FICO
Exceptional	\$ 646,034	0.5%	4	0.2%	738
Great	158,046	0.1%	2	0.1%	695
Good	28,517	0.0%	1	0.1%	672
Fair	117,077	0.1%	2	0.1%	616
Low	-	0.0%	-	0.0%	-
Total	<u>\$ 949,674</u>	<u>0.7%</u>	<u>9</u>	<u>0.5%</u>	<u>702</u>

RE loans CLTV 100 - 119%

Credit Rating	Loan Volume	% of Portfolio	Number of Loans	% of Total	Median FICO
Exceptional	\$ 460,139	0.4%	7	0.4%	747
Great	143,526	0.1%	3	0.2%	709
Good	116,452	0.1%	2	0.1%	660
Fair	59,159	0.0%	1	0.1%	614
Low	51,468	0.0%	1	0.1%	592
Total	<u>\$ 830,744</u>	<u>0.6%</u>	<u>14</u>	<u>0.7%</u>	<u>717</u>

Red Rocks Credit Union  
Notes to Financial Statements  
December 31, 2017

2. Loans to Members, Continued:

b. Credit Quality Information, continued:

Consumer unsecured loans

Credit Rating	November 2017			November 2016		
	Loan Volume	Number of Loans	Median FICO	Loan Volume	Number of Loans	Median FICO
Exceptional	\$ 3,550,164	4,213	790	\$ 3,039,036	4,124	788
Great	1,679,296	754	702	1,544,174	781	700
Good	1,259,419	470	664	1,129,258	465	663
Fair	524,343	222	621	512,211	210	623
Low	547,562	283	548	636,862	291	555
Total	\$ 7,560,786	5,942	770	\$ 6,861,541	5,871	768

Auto loans - November 2017

Credit Rating	Loan Volume	% of Portfolio	Number of Loans	% of Total	Median FICO	Median LTV
Exceptional	\$33,915,882	48.3%	2,465	48.1%	770	75.7%
Great	12,951,475	18.4%	927	18.1%	700	89.0%
Good	9,315,862	13.3%	690	13.5%	662	94.3%
Fair	5,583,246	7.9%	397	7.8%	622	103.4%
Low	8,510,021	12.1%	642	12.5%	544	107.0%
Total	\$70,276,486	100.0%	5,121	100.0%	716	86.0%

Auto loans - November 2016

Credit Rating	Loan Volume	% of Portfolio	Number of Loans	% of Total	Median FICO	Median LTV
Exceptional	\$31,161,618	43.8%	2,300	45.2%	770	99.1%
Great	13,073,520	18.4%	901	17.7%	700	122.6%
Good	10,684,243	15.0%	732	14.4%	662	138.8%
Fair	6,351,613	8.9%	459	9.0%	622	145.8%
Low	9,931,885	13.9%	692	13.7%	549	155.1%
Total	\$71,202,879	100.0%	5,084	100.0%	708	119.4%

Red Rocks Credit Union  
Notes to Financial Statements  
December 31, 2017

2. Loans to Members, Continued:

b. Credit Quality Information, continued:

Auto loans- LTV over 150% - based on Kelley Wholesale Trade In Value

Credit Rating	November 2017			November 2016		
	Loan Volume	Number of Loans	Median FICO	Loan Volume	Number of Loans	Median FICO
Exceptional	\$ -	-	-	\$ 6,779,852	477	759
Great	-	-	-	3,989,852	281	701
Good	-	-	-	4,610,900	307	661
Fair	-	-	-	3,123,563	219	623
Low	-	-	-	5,453,570	365	544
Total	\$ -	-	-	\$23,957,737	1,649	672

c. Age Analysis of Past Due Loans By Class

Following are tables which include an aging analysis of the recorded investment of past due loans to members as of December 31, 2017 and 2016. The Credit Union stops the accrual of interest on loans over 90 day past due.

At December 31, 2017

	61-179			Current	Total Loans
	Days Past Due	> 180 Days Past Due	Total Past Due		
Direct Auto	\$ 154,858	\$ -	\$ 154,858	\$ 19,276,278	\$ 19,431,136
Indirect Auto	557,052	88,122	645,174	52,405,761	53,050,935
Consumer					
secured	-	-	-	1,401,632	1,401,632
1st Mortgage	104,411	-	104,411	54,673,635	54,778,046
Home Equities	245,900	360,889	606,789	117,094,458	117,701,247
Unsecured	-	-	-	3,116,958	3,116,958
Credit Card	22,433	-	22,433	4,611,639	4,634,072
Total	\$1,084,654	\$449,011	\$1,533,665	\$252,580,361	\$254,114,026

Red Rocks Credit Union  
Notes to Financial Statements  
December 31, 2017

2. Loans to Members, Continued:

c. Age Analysis of Past Due Loans By Class, continued

At December 31, 2016

	61-179		Total Past Due	Current	Total Loans
	Days	> 180 Days			
	Past Due	Past Due			
Direct Auto	\$ 66,852	\$ 43,058	\$ 109,910	\$ 20,497,474	\$ 20,607,384
Indirect Auto	820,257	303,432	1,123,689	53,628,264	54,751,953
Consumer					
secured	-	-	-	881,657	881,657
1st Mortgage	-	-	-	55,438,293	55,438,293
Home Equities	270,782	-	270,782	73,272,068	73,542,850
Unsecured	6,941	-	6,941	3,719,766	3,726,707
Credit Card	17,856	-	17,856	2,983,262	3,001,118
<b>Total</b>	<b>\$1,182,688</b>	<b>\$346,490</b>	<b>\$1,529,178</b>	<b>\$210,420,784</b>	<b>\$211,949,962</b>

d. Impaired Loans

A loan is impaired when, based on current information and events, it is probable that the Credit Union will be unable to collect all amounts due according to the contractual terms of the loan agreement, including collection of principal and interest as scheduled in the loan agreement. The following is a summary of information pertaining to individually identified impaired loans with the associated allowance amount, if applicable, at December 31, 2017 and 2016:

As of December 31, 2017

	Unpaid Principal Balance	Allocated Allowance	Average Recorded Balance	Interest Income Recognized
Impaired loans without a valuation allowance	\$ 148,892	\$ -	\$ 29,778	\$ 21,432
Impaired loans with a valuation allowance	213,642	190,762	106,820	5,516
	<u>\$ 362,534</u>	<u>\$ 190,762</u>	<u>\$ 51,790</u>	<u>\$ 26,948</u>

As of December 31, 2016

	Unpaid Principal Balance	Allocated Allowance	Average Recorded Balance	Interest Income Recognized
Impaired loans without a valuation allowance	\$ 160,640	\$ -	\$ 32,128	\$ 10,231
Impaired loans with a valuation allowance	10,763	2,691	5,381	323
	<u>\$ 171,403</u>	<u>\$ 2,691</u>	<u>\$ 24,486</u>	<u>\$ 10,554</u>

Red Rocks Credit Union  
Notes to Financial Statements  
December 31, 2017

---

2. Loans to Members, Continued:

e. Interest receivable

Accrued interest receivable on loans to members totaled \$678,776 and \$578,457 at December 31, 2017 and 2016, respectively. The accrual of interest has been discontinued on loan balances of approximately \$960,000 and \$1,113,000 at December 31, 2017 and 2016, respectively. Such loans were in the ordinary course of business at normal credit terms including interest rates and collateralization and do not represent more than a normal risk of collection.

f. Related party loans receivable

Included in loans to members at December 31, 2017 and 2016, are loans of approximately \$1,149,000 and \$1,119,000, respectively, to directors and management of the Credit Union, including approximately \$1,102,000 and \$1,059,000, respectively, in real estate loans.

g. Trouble debt restructuring

The Credit Union's loan portfolio also includes certain loans that have been modified in a Trouble Debt Restructuring (TDR), where economic concessions have been granted to borrowers who have experienced or are expected to experience financial difficulties. These concessions typically result from the Credit Union's loss mitigation activities and could include reductions in the interest rate, payment extensions, forgiveness of principal, forbearance or other actions.

If Management determines that the value of the modified loan is less than the recorded investment in the loan, impairment is recognized by segment or class of loan, as applicable, through the allowance for loan losses. The amount added to the allowance for loan losses from TDRs for 2017 and 2016 was \$8,762 and \$2,691, respectively.

The following tables include the recorded investment for TDRs originated within the last year and TDRs that defaulted in the current reporting period. Management defines a TDR as subsequently defaulted when the TDR is 90 days past due.

Red Rocks Credit Union  
Notes to Financial Statements  
December 31, 2017

2. Loans to Members, Continued:

g. Trouble debt restructuring, continued

For the year ended December 31, 2017					
Trouble Debt Restructuring				TDRs Which Subsequently Defaulted	
Number of Loans	Pre- modification Outstanding Recorded Investment	Post- modification Outstanding Recorded Investment	Number of Loans	Recorded Investment	
	Trouble Debt Restructuring				TDRs Which Subsequently Defaulted
None	0	\$ -0-	\$ -0-	0	\$ -0-

For the year ended December 31, 2016					
Trouble Debt Restructuring				TDRs Which Subsequently Defaulted	
Number of Loans	Pre- modification Outstanding Recorded Investment	Post- modification Outstanding Recorded Investment	Number of Loans	Recorded Investment	
	Trouble Debt Restructuring				TDRs Which Subsequently Defaulted
Consumer loans	2	\$ 20,420	\$ 18,765	1	\$ 113,405

3. Cash & Cash Equivalents and Investments at Alloya Credit Union:

The following reconciles cash in the statement of financial condition to cash and cash equivalents in the statement of cash flows at December 31, 2017 and 2016:

	2017	2016
Cash	\$12,865,401	\$16,847,969
Investments, Alloya Credit Union:		
Daily deposit shares, 0.05% rate at December 31, 2017	11,759,411	13,921,850
	\$24,624,812	\$30,769,819

Red Rocks Credit Union  
Notes to Financial Statements  
December 31, 2017

3. Cash & Cash Equivalents and Investments at Alloya Credit Union, Continued:

Investments at Alloya Credit Union at December 31, 2017 and 2016 consisted of the following:

	2017	2016
Cash and cash equivalents	\$ 11,759,411	\$ 13,921,850
Certificates of deposit, matured January 2017, weighted average yield 0.85% at maturity	-	1,000,000
Perpetual contribution capital account, 0.7% yield at December 31, 2017	845,437	845,437
Nonperpetual contribution capital accounts, minimum withdrawal notice of five years, 0.2% yield at December 31, 2017	363,625	363,625
	\$ 12,968,473	\$ 16,130,912

In 2011, in conjunction with the recapitalization requirements for corporate credit unions, Alloya Credit Union (Alloya) offered its member credit unions subscriptions to perpetual contributed capital (PCC I) and non-perpetual capital (NCA I). Both capital subscriptions are required for continued membership in Alloya and were calculated based on the Credit Union's assets reported on the June 30, 2012 Call Report. PCC I and NCA I are speculative investments, subject to the risk of loss, are uninsured, and have substantial restrictions on transferability. They both are available to cover losses that exceed reserves and undivided earnings and to the extent that PCC I and NCA I funds are used to cover losses, Alloya is prohibited from restoring or replenishing the affected accounts under any circumstances. Both PCC I and NCA I were issued for indefinite terms and have no maturity dates. NCA I may be withdrawn upon not less than five years prior notice to Alloya. PCC I is callable only at the option of Alloya and only if Alloya meets its minimum required capital requirements after the funds are called. Alloya also must obtain the prior, written approval of NCUA before releasing any PCC I.

There is no obligation for Alloya to pay dividends on PCC I or NCA I. If the Alloya board of directors determines that it will pay dividends on PCC I and NCA I, any such dividends may only be paid after dividends have been paid on all superior classes of shares and deposits. Dividends may be paid only when sufficient current and/or prior earnings are available at the end of the dividend period.

In June 2011, Red Rocks Credit Union's Board of Directors authorized the purchase of Alloya PCC I and NCA I, in the amounts of \$845,437 and \$363,625, respectively. In May 2013, the Credit Union put the NCA I on a five year notice.

Red Rocks Credit Union  
Notes to Financial Statements  
December 31, 2017

4. Securities Available-for-Sale:

The amortized cost and estimated fair values of the Credit Union's available-for-sale portfolio at December 31, 2017 and 2016 are as follows:

	Weighted Average Yield 12/31/17	2017		2016	
		Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Federal agency securities	1.180%	\$2,000,000	\$1,998,313	\$5,400,000	\$5,405,639
Federal agency mortgage backed securities	0.170%	227,656	221,840	311,959	304,531
Federal agency CMO securities	1.270%	1,806,179	1,710,456	2,453,502	2,306,586
<b>Total available-for-sale portfolio</b>	<b>1.160%</b>	<b>\$4,033,835</b>	<b>\$3,930,609</b>	<b>\$8,165,461</b>	<b>\$8,016,756</b>

Proceeds from sales of available-for-sale securities during 2017 and 2016 were \$-0-.

	2017		2016	
	Gross Unrealized Gains	Gross Unrealized Losses	Gross Unrealized Gains	Gross Unrealized Losses
Federal agency Securities	\$ -	\$ 1,687	\$ 5,639	\$ -
Federal agency mortgage backed Securities	-	5,816	-	7,428
Federal agency CMO Securities	-	95,723	-	146,916
<b>Total available-for-sale Portfolio</b>	<b>\$ -</b>	<b>\$ 103,226</b>	<b>\$ 5,639</b>	<b>\$ 154,344</b>

Red Rocks Credit Union  
Notes to Financial Statements  
December 31, 2017

4. Securities Available-for-Sale, Continued:

Securities in loss positions at December 31, 2017 and 2016 are as follows:

December 31, 2017

	<u>Fair Value</u>	<u>Gross Unrealized Losses &lt; 1 year</u>	<u>Fair Value</u>	<u>Gross Unrealized Losses &gt; 1 year</u>
Federal agency securities	\$1,998,313	\$ 1,687	\$ -	\$ -
Federal agency mortgage backed Securities	-	-	221,840	5,816
Federal agency CMO securities	-	-	1,710,456	95,723
	<u>\$1,998,313</u>	<u>\$ 1,687</u>	<u>\$1,932,296</u>	<u>\$ 101,539</u>

December 31, 2016

	<u>Fair Value</u>	<u>Gross Unrealized Losses &lt; 1 year</u>	<u>Fair Value</u>	<u>Gross Unrealized Losses &gt; 1 year</u>
Federal agency securities	\$ -	\$ -	\$ -	\$ -
Federal agency mortgage backed securities	-	-	304,530	7,428
Federal agency CMO securities	-	-	2,306,586	146,916
	<u>\$ -</u>	<u>\$ -</u>	<u>\$2,611,116</u>	<u>\$ 154,344</u>

Management evaluates securities for OTTI (Other than temporary impairment) at least on an annual basis. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer or fund, and (3) the intent and ability of the Credit Union to retain its investments in the issuer or fund for a period of time sufficient to allow for any anticipated recovery in fair value. Market changes will cause normal fluctuations in the market price of securities and the possibility of temporary unrealized losses. Management of the Credit Union has evaluated the management of these securities and the trend in recovery of the loss positions, and has determined that there was no OTTI associated with these securities at December 31, 2017 or 2016.

Red Rocks Credit Union  
Notes to Financial Statements  
December 31, 2017

4. Securities Available-for-Sale, Continued:

The amortized cost and estimated fair values of the available-for-sale portfolio of debt securities at December 31, 2017, by contractual maturity, are shown below. Expected maturities on mortgage-related and callable securities will differ from contractual maturities due to prepayments and other factors.

	Amortized Cost	Estimated Fair Values
Due in one year or less	\$ 2,000,000	\$ 1,998,313
Due after one year through five years	-	-
Due after five years through ten years	-	-
Due after ten years	2,033,835	1,932,296
	\$ 4,033,835	\$ 3,930,609

5. Investments, Other:

The Credit Union's other investments at December 31, 2017 and 2016 consisted of the following:

	2017	2016
Certificates of deposit, other financial institutions, maturities through 2019, weighted average yield 1.74% at December 31, 2017	\$1,000,000	\$1,000,000
FHLB stock	275,700	254,400
Investments in Credit Union Service Organizations:		
CUILA, LLC, at cost	38,648	151,906
CO-OP Network	151,458	144,195
CU Service Network, LLC, at cost	52,000	52,000
Pro-Design Credit Union Systems, LLC, at cost	65,000	50,000
Other	121,221	82,947
	\$1,704,027	\$1,735,448

a. Investment in FHLB stock:

The Credit Union has invested in Federal Home Loan Bank of Topeka ("FHLB"), a privately owned, federally chartered bank that provides wholesale mortgage credit related products and services to financial institutions. At December 31, 2017, the Credit Union owns \$273,500 in class A stock and \$2,200 in class B stock of FHLB. The stock investment is required in order to obtain and continue FHLB membership. FHLB maintains the only market for its stock, and the price is always par at \$100 per share. The stock investment allows the Credit Union to use FHLB as a borrowing facility; with borrowing advances collateralized by Credit Union mortgages (see Note 8). The stock pays a quarterly dividend, which is competitive with market rates.

Red Rocks Credit Union  
Notes to Financial Statements  
December 31, 2017

---

5. Investments, Other, Continued:

b. Investment in CUILA, LLC:

The Credit Union has invested in the membership units of CUILA, LLC, dba CU Direct Connect, a credit union service organization formed to provide indirect lending options to credit unions and their members. At December 31, 2017, the Credit Union owns 17.062 units of CUILA's membership equity, which represents approximately 1.05% of the total membership equity. During 2017, the Credit Union sold 50 units of CUILA's membership equity for total proceeds of \$641,300 resulting in a gain of \$528,042. The investment is accounted for on the cost method, and the carrying amount was \$38,648 at December 31, 2017. The membership units of CUILA are subject to restrictions on transferability.

c. Investment in CU Cooperative Systems, Inc:

The Credit Union has invested in the common stock of CU Cooperative Systems, Inc. (CO-OP) a credit union service organization that operates an ATM and shared branching network for credit unions and credit union members. At December 31, 2017, the Credit Union owns 10 shares of CO-OP's Class B common stock at a cost basis of \$20,000, plus undistributed patronage dividends of \$131,458, for total equity of \$151,458. The stock of CO-OP is subject to a stock transfer agreement whereby disposition of the stock in any manner is restricted.

d. Investment in CU Service Network, LLC:

The Credit Union has invested in the membership units of CU Service Network, LLC (CUSN), a credit union service organization that operates shared service centers for credit unions and credit union members. At December 31, 2017, the Credit Union owns 2 units of CUSN's membership equity at an original cost basis of \$52,000, which represents approximately 1.2% of total membership equity. The membership units of CUSN are subject to restrictions on transferability.

e. Investment in Pro-Design Credit Union Systems:

The Credit Union has invested in the membership units Pro-Design Credit Union Systems. Pro-Design is the parent company that wholly owns Credit Union Data Processing, Inc., a credit union service organization that operates the core processing system of Red Rocks Credit Union. At December 31, 2017, the Credit Union owns 1 unit of Pro-Design's membership equity at an original cost basis of \$65,000, which represents 1% of total membership equity with voting rights. The membership units of Pro Design are subject to restrictions on transferability.

Red Rocks Credit Union  
Notes to Financial Statements  
December 31, 2017

6. Property and Equipment:

Property and equipment at December 31, 2017 and 2016 is summarized as follows:

	<u>2017</u>	<u>2016</u>
Land	\$1,092,229	\$1,092,229
Buildings and improvements	12,581,740	11,964,939
Construction in process	46,000	211,833
Furniture and equipment	2,639,014	2,294,524
Leasehold improvements	<u>74,300</u>	<u>74,300</u>
	16,433,283	15,637,825
Less accumulated depreciation	<u>3,163,730</u>	<u>2,488,192</u>
	<u>\$13,269,553</u>	<u>\$13,149,633</u>

Depreciation expense for the years ended December 31, 2017 and 2016 was \$675,937 and \$638,810, respectively.

7. Members' Shares and Savings Accounts:

A summary of members' shares and savings accounts at December 31, 2017 and 2016 is as follows:

	Weighted Average Rate at December 31, 2017	<u>2017</u>	<u>2016</u>
Regular shares	0.05%	\$57,975,586	\$56,424,494
High-yield savings	0.30%	80,935,914	91,541,627
Checking	-0-%	40,759,298	41,869,383
Regular shares - Business	-0-%	133,768	110,753
High-yield savings - Business	0.33%	907,344	1,172,628
Checking - Business	-0-%	1,128,254	988,133
Member mortgage payments and escrow in process	-0-%	754,855	807,934
Certificates of deposit	1.96%	<u>89,007,203</u>	<u>52,867,988</u>
		<u>\$271,602,222</u>	<u>\$245,782,940</u>

Red Rocks Credit Union  
Notes to Financial Statements  
December 31, 2017

7. Members' Shares and Savings Accounts, Continued:

The aggregate amount of members' share and savings accounts potentially uninsured was approximately \$17,975,000 and \$15,662,000 at December 31, 2017 and 2016, respectively. All eligible accounts of the Credit Union are insured up to \$250,000. The \$250,000 level was made permanent under the Dodd-Frank Wall Street Reform and Consumer Protection Act, which was signed into law on July 21, 2010.

At December 31, 2017, scheduled maturities of share certificates are as follows:

2018	2019	2020	2021	2022+	Total
\$33,592,521	\$22,767,261	\$12,665,928	\$11,589,828	\$8,391,665	\$89,007,203

8. Financial Instruments with Off-Balance-Sheet Risk:

a. Loan commitments and lines of credit:

The Credit Union has initiated lines of credit whereby members can draw on pre-approved loan amounts. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The Credit Union's exposure to credit loss in the event of non-performance by the counter party to the loan commitment is represented by the contractual amount of those instruments. However, since many of the commitments are expected to expire without being drawn upon in full, the total commitment amount does not necessarily represent future cash requirements. The Credit Union generally uses the same credit policies in making loan commitments as it does for on balance sheet instruments. In addition, the Credit Union has disclosed to its membership an overdraft privilege program, which gives qualifying members an amount of overdraft privilege without any loan agreement. Unused lines of credit amounts and unused overdraft privilege program commitments at December 31, 2017 of \$76,500,900 are as follows. These amounts are not reflected in the accompanying financial statements.

	<u>2017</u>
Lines of credit, secured by real estate	\$ 40,503,536
Overdraft privilege program	8,189,087
Lines of credit, unsecured	5,069,515
VISA credit card lines	17,382,625
Other unfunded commitments	<u>5,356,137</u>
	<u>\$ 76,500,900</u>

Red Rocks Credit Union  
Notes to Financial Statements  
December 31, 2017

---

8. Financial Instruments with Off-Balance-Sheet Risk, Continued:

a. Loan commitments and lines of credit, continued:

The Credit Union has an open end line of credit in the amount of \$19.8 million, with Alloya Credit Union. Alloya holds a perfected security interest in all investment property, deposit accounts, accounts and other rights to payment, and general intangibles of the Credit Union. There were no outstanding advances on this line of credit at December 31, 2017 or 2016.

The Credit Union has entered into an Advance, Pledge and Security Agreement with FHLB (Note 5a). This agreement allows the Credit Union to obtain financing from FHLB up to an amount equal to a percentage of qualifying collateral. The Credit Union is required at all times to provide FHLB with a security interest in an amount of eligible collateral that has a lending value at least equal to the required collateral amount. As of December 31, 2017, conventional first mortgage loans and second mortgage loans qualified as approximately \$30.4 million of eligible collateral. There were no outstanding advances at December 31, 2017 and 2016.

b. Financial instruments with concentrations of credit risk:

A substantial amount of the Credit Union's business activity is with members who are employees, former employees, and members of their families of Lockheed Martin Corporation and Douglas County, Colorado residents. The amount of collateral obtained, if deemed necessary by the Credit Union upon extension of credit, is based on the credit evaluation of the member. The loan portfolio of these two groups is indicative of the loan composition described in Note 2.

Other financial instruments that potentially expose the Credit Union to concentrations of credit risk consist primarily of cash and cash equivalents and available-for-sale (AFS) securities. At December 31, 2017, cash and cash equivalents of \$11,759,411 are concentrated with Alloya Credit Union (Note 3). Cash and cash equivalents of \$12,142,075 are also concentrated with the Federal Reserve Bank of Kansas City. The AFS securities are concentrated with government sponsored enterprises. The Credit Union has not experienced any losses on its cash equivalents, and management believes the Credit Union is not exposed to any significant credit risk on cash and cash equivalents or AFS securities.

Red Rocks Credit Union  
Notes to Financial Statements  
December 31, 2017

---

9. Other Commitments:

a. Indirect lending program:

The Credit Union has contracted with CU Direct Connect (Note 5b) to facilitate the origination of automobile loans at the point of purchase at automobile dealerships. Under terms of the agreement, the Credit Union agrees to pay a fee to the dealership and a fee for each completed loan transaction to CU Direct Connect. For the years ended December 31, 2017 and 2016, total fees of \$662,867 and \$831,227, were paid under the program. These loan origination costs have been deferred and the unamortized balance of \$1,034,117 and \$1,175,947 at December 31, 2017 and 2016, is included in loans to members in the accompanying financial statements.

b. Pension plan and supplemental executive retirement plan:

Pension plan:

The Credit Union has established a defined contribution and salary deferral 401(k) plan for all full-time employees who have completed one year of service (1,000 hours) with the Credit Union and have attained age 21. The Plan is funded monthly with an employer safe-harbor contribution based on compensation of eligible employees. Pension expense for the years ended December 31, 2017 and 2016 was \$83,966 and \$68,793, respectively.

Supplemental executive retirement plan:

In May 2017, the Credit Union adopted a Supplemental Executive Retirement Plan (the "Plan") to provide supplemental retirement benefits to select participants in the Plan as designated by the Board.

The participant will receive annual credits representing the Credit Union's commitment under the Plan. The commitment is accrued for monthly as a liability. Benefits from the annual credits vest and the participant generally must be continually employed to the vesting dates, although benefits may be paid earlier upon certain events. The participant becomes 50% vested in the Plan upon the participant's 60<sup>th</sup> birthday and 100% vested on the 65<sup>th</sup> birthday.

The Board has designated one participant and the Credit Union's commitment under the Plan is \$100,000 plus, beginning in 2018, 15% of base salary of the participant for the Plan year, plus 15% of any incentive award paid to the participant during the Plan Year. Expense under the Plan for 2017 was \$103,523. The balance in the Plan liability at December 31, 2017 was \$103,523.

Red Rocks Credit Union  
Notes to Financial Statements  
December 31, 2017

---

9. Other Commitments, Continued:

b. Supplemental executive retirement plan, continued:

Although the Plan is defined as unfunded, the Credit Union has set aside investments, the earnings of which are also credited to the participant's account. These investments are classified by Management as available-for-sale, and consist of cash equivalents, exchange traded funds, and mutual funds with a cost basis of \$100,720 and fair value of \$103,523 at December 31, 2017.

Title to and beneficial ownership of these investments shall remain in the name of Credit Union, and neither the participant nor beneficiary shall have any right or property interest in these investments. In addition, these investments are subject to the general claims of creditors.

c. Lease commitments:

The Credit Union had entered into a 10 year shopping center (land) lease for its main branch. The shopping center land lease agreement contains six extension terms of five years each beginning in 2015. Rent expense, net of sub-lease rental income, included in office occupancy expense in the accompanying financial statements totaled \$148,558 and \$148,558 for the years ended December 31, 2017 and 2016, respectively.

The following is a schedule by years of future minimum rental payments required under the first renewal term of the shopping center land lease:

2018	\$ 136,500
2019	136,500
2020	79,625
	<hr style="width: 100%; border: 0.5px solid black;"/>
	\$ 352,625

10. Regulatory Capital:

The Credit Union is subject to various regulatory capital requirements administered by the NCUA. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Credit Union's financial statements. Under capital adequacy regulations and the regulatory framework for prompt corrective action, the Credit Union must meet specific capital regulations that involve quantitative measures of the Credit Union's assets, liabilities, and certain off-balance-sheet items as calculated under generally accepted accounting principles. The Credit Union's capital amounts and net worth classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Red Rocks Credit Union  
Notes to Financial Statements  
December 31, 2017

---

10. Regulatory Capital, Continued:

Quantitative measures established by regulation to ensure capital adequacy require the Credit Union to maintain minimum amounts and ratios (set forth in the table below) of net worth (as defined in the regulations) to total assets (as defined). Credit Unions are also required to calculate a Risk-Based Net Worth (RBNW) Requirement, which establishes whether or not the Credit Union will be considered "complex" under the regulatory framework. The Credit Union's RBNW ratio as of December 31, 2017 and 2016 was 6.41% and 6.03%, respectively. The minimum ratio to be considered complex under the regulatory framework is 6%. Management believes, as of December 31, 2017 and 2016, that the Credit Union meets all capital adequacy requirements to which it is subject.

As of December 31, 2017, the most recent call reporting period, NCUA categorized the Credit Union as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized," the Credit Union must maintain a minimum net worth ratio of 7% of assets and meet any applicable RBNW Requirement. There are no conditions or events since that notification that management believes have changed the Credit Union's category.

The Credit Union's actual capital amounts and ratios are presented as follows as of December 31, 2017 and 2016:

	2017		2016	
	Amount	Ratio	Amount	Ratio
Amount needed to be classified as "adequately capitalized"	\$17,374,999	6.0%	\$15,821,534	6.0%
Amount needed to be classified as "well capitalized"	20,270,832	7.0%	18,458,456	7.0%
Actual net worth	27,637,621	9.5%	25,648,148	9.7%

In performing its calculation of total assets, the Credit Union uses the average of the current and three preceding calendar quarter end balances, as permitted by regulation.

Red Rocks Credit Union  
Notes to Financial Statements  
December 31, 2017

11. Fair Value Measurements:

The fair value of assets and liabilities measured on a recurring basis at December 31, 2017 and 2016 are as follows:

Fair Value Measurements at Reporting Date Using:

	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
December 31, 2017:				
Available-for sale securities (Note 4)	\$4,034,132	\$ -	\$4,034,132	\$ -
December 31, 2016:				
Available-for sale securities (Note 4)	\$8,016,756	\$ -	\$8,016,756	\$ -

FASB ASC 820-10, *Fair Value Measurements*, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of significant observable inputs other than quoted prices for identical assets, and Level 3 inputs have significant unobservable inputs and have the lowest priority. The Credit Union uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Credit Union measures fair value using Level 1 or Level 2 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs are only used when Level 1 or Level 2 inputs are not available.

*Level 2 Fair Value Measurements:*

The fair values of the available-for-sale portfolios are based on quoted market prices for securities with similar characteristics.

Certain assets are measured at fair value on a non-recurring basis; that is the assets are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances. The following table presents assets measured at fair value on a non-recurring basis:

	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
December 31, 2017:				
Impaired Loans (Note 2)	\$ 362,534	\$ -	\$ -	\$ 362,534
Collateral in liquidation	\$ 192,042	\$ -	\$192,042	\$ -
December 31, 2016:				
Impaired Loans (Note 2)	\$ 171,403	\$ -	\$ -	\$ 171,403
Collateral in liquidation	\$ 398,249	\$ -	\$398,249	\$ -

Red Rocks Credit Union  
Notes to Financial Statements  
December 31, 2017

---

11. Fair Value Measurements, Continued:

See Note 1 for a description of the inputs and valuation techniques applicable to impaired loans. There were no OREO properties at December 31, 2017 or 2016. When OREO properties are required to be measured at fair value, the fair value is measured using Level 2 inputs (comparable sales) if independent appraisals are obtained, or Level 3 inputs if the fair value is estimated internally. Collateral in liquidation consists of repossessed automobiles which are valued using Level 2 inputs (NADA values) and are included in other assets.