



Red Rocks Credit Union

Report on Audit
of Financial Statements

for the years ended
December 31, 2018 and 2017

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 - 34



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, 2018 and 2017, 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, 2018 and 2017, 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, PC.

Evergreen, Colorado
March 12, 2019

303-480-9090

32186 Castle Court, Suite 220, Evergreen, CO 80439

Red Rocks Credit Union
Statements of Financial Condition
at December 31, 2018 and 2017

	2018	2017
ASSETS		
Loans to members, net of allowance for loan losses (Notes 2, 9 and 10)	\$ 274,748,302	\$ 252,529,788
Cash (Note 3)	8,873,357	12,865,401
Investments, Alloya Credit Union (Note 3)	3,247,239	12,968,473
Available-for-sale debt securities (Note 4 and 10)	1,509,653	3,930,609
Investments, other (Note 5)	1,154,153	1,807,550
Property and equipment, net (Note 6)	12,725,984	13,269,553
NCUSIF deposit	2,545,211	2,371,182
Accrued interest receivable	742,127	707,272
Other assets	1,910,544	1,087,438
	\$ 307,456,570	\$ 301,537,266
LIABILITIES AND MEMBERS' EQUITY		
Members' shares and savings accounts (Note 7)	\$ 265,425,579	\$ 271,602,222
Non-members' certificate accounts (Note 8)	5,026,000	-
Borrowed funds (Note 9)	4,000,000	-
Accrued expenses and other liabilities	2,751,455	2,400,649
	277,203,034	274,002,871
Total liabilities		
Commitments (Notes 9 and 10)		
Members' equity:		
Regular reserve	3,211,955	3,211,955
Undivided earnings	27,155,974	24,422,863
Accumulated other comprehensive loss	(114,393)	(100,423)
	30,253,536	27,534,395
	\$ 307,456,570	\$ 301,537,266

The accompanying notes are a part of the financial statements.

Red Rocks Credit Union
Statements of Income
for the years ended December 31, 2018 and 2017

	2018	2017
Interest and dividend income:		
Loans to members and others	\$ 13,316,473	\$ 11,434,587
Investments	275,945	313,699
Total interest and dividend income	13,592,418	11,748,286
Interest and dividend expense:		
Members' shares and savings accounts	2,107,321	1,541,960
Other borrowed funds	41,199	6
Total interest and dividend expense	2,148,520	1,541,966
Net interest income	11,443,898	10,206,320
Provision for loan losses (Note 2)	610,180	1,724,327
Net interest income after provision for loan losses	10,833,718	8,481,993
Non-interest income:		
Fees for member services	1,130,982	1,179,492
Income from sale of mortgages	80,683	49,205
VISA check card income	647,643	696,253
Other operating income	363,254	472,551
Net gain (loss) on sale or disposition of assets	(5,938)	525,586
Total non-interest income	2,216,624	2,923,087
Non-interest expense:		
Compensation and benefits	5,117,073	4,353,936
Office occupancy expense	871,951	887,812
VISA check card expenses	297,809	347,891
Other operating expenses	4,030,398	3,828,771
Total non-interest expense	10,317,231	9,418,410
Net income	\$ 2,733,111	\$ 1,986,670

Red Rocks Credit Union
 Statements of Comprehensive Income
 for the years ended December 31, 2018 and 2017

	2018	2017
Net income	\$ 2,733,111	\$ 1,986,670
Other comprehensive income:		
Unrealized (loss) gain on available-for-sale debt securities:		
Unrealized holding (losses) gains arising during period	(13,970)	48,282
Reclassification adjustment for loss included in net income	-	-
	(13,970)	48,282
Other comprehensive income	(13,970)	48,282
Comprehensive income	\$ 2,719,141	\$ 2,034,952

The accompanying notes are a part of the financial statements.

Red Rocks Credit Union
 Statements of Members' Equity
 for the years ended December 31, 2018 and 2017

	Regular Reserve	Accumulated Other Comprehensive Income (Loss)	Undivided Earnings	Total
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	\$ 3,211,955	\$ (100,423)	\$ 24,422,863	\$ 27,534,395
Net income	-	-	2,733,111	2,733,111
Other comprehensive income	-	(13,970)	-	(13,970)
Balances, December 31, 2018	<u>\$ 3,211,955</u>	<u>\$ (114,393)</u>	<u>\$ 27,155,974</u>	<u>\$ 30,253,536</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, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Interest and dividends received	\$ 14,339,843	\$ 12,468,265
Interest and dividends paid	(2,137,470)	(1,541,966)
Other operating income received	2,189,292	2,336,964
Cash paid to employees and suppliers	(10,111,936)	(5,902,225)
Net cash provided by operating activities	4,279,729	7,361,038
Cash flows from investing activities:		
Net (increase) in loans to members	(23,589,470)	(43,970,201)
Purchases		
Purchases of other investments	(83,740)	(21,300)
Proceeds from sale of other investments	-	641,300
Proceeds from maturities of Alloya and other investments	1,113,625	1,000,000
Proceeds from sales and maturities of available-for-sale debt securities	2,399,951	4,023,122
Expenditures for property and equipment	(145,076)	(798,313)
(Increase) in NCUSIF deposit	(174,029)	(199,935)
Net cash (used in) investing activities	(20,478,739)	(39,325,327)
Cash flows from financing activities:		
Increase in borrowed funds	4,000,000	-
Net increase in members' shares and savings accounts	(1,150,643)	25,819,282
Net cash provided by financing activities	2,849,357	25,819,282
Net (decrease) increase in cash and cash equivalents	(13,349,653)	(6,145,007)
Cash and cash equivalents (Note 3):		
Beginning of year	24,624,812	30,769,819
End of year	\$ 11,275,159	\$ 24,624,812

The accompanying notes are a part of the financial statements.

Red Rocks Credit Union
 Statements of Cash Flows
 for the years ended December 31, 2018 and 2017

	2018	2017
Net income	\$ 2,733,111	\$ 1,986,670
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	688,645	675,937
Provision for loan losses	610,180	1,724,327
Amortization of net deferred loan origination costs	760,776	804,697
Amortization of investment premiums, net	7,035	7,784
Equity income	(27,332)	(60,537)
Loss (Gain) on sale of investments	14,469	(528,042)
Loss on sale of disposition of assets	-	2,456
(Increase) in accrued interest receivable	(34,855)	(92,502)
(Increase) decrease in other assets	(823,106)	2,571,012
Increase in other liabilities	350,806	269,236
Net cash provided by operating activities	\$ 4,279,729	\$ 7,361,038

The accompanying notes are a part of the financial statements.

Red Rocks Credit Union
Notes to Financial Statements
December 31, 2018

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 2018 and 2017, items of other comprehensive income consist of unrealized gains and losses on available-for-sale debt 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, 2018

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.

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.

Red Rocks Credit Union
Notes to Financial Statements
December 31, 2018

1. Summary of Significant Accounting Policies, Continued:

d. Loans to members, continued:

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. Available-for-sale debt securities:

Available-for-sale debt 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 debt 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 debt securities are reported as a net amount in other comprehensive income (see above). Realized gains and losses on the sale of available-for-sale debt 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 without readily determined fair values 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, 2018 and 2017, was \$1,698,883 and \$2,761,631, respectively. The aggregate carrying amount of cost method investments that were not evaluated for impairment at December 31, 2018 or 2017 was \$1,698,883 and \$2,761,631, 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, 2018

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, 2018

1. Summary of Significant Accounting Policies, Continued:

l. Advertising costs:

Advertising costs are expensed as incurred. For the years ended December 31, 2018 and 2017, advertising and marketing costs were \$443,587 and \$361,024, 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 2015, 2016 and 2017 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. Adoption of a new accounting standard:

In January 2016, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") 2016-01, Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Financial Liabilities. ASU 2016-01 requires equity investments with readily determined fair values to be measured at fair value with changes in fair value recognized in net income. The standard also improves the presentation and disclosure of financial instruments.

Red Rocks Credit Union
Notes to Financial Statements
December 31, 2018

1. Summary of Significant Accounting Policies, Continued:

o. Adoption of a new accounting standard:

ASU 2016-01 is effective for fiscal years beginning after December 15, 2018. As a result of the early adoption of ASU 2016-01, the Credit Union has accounted for equity securities set aside for retirement purposes at fair value with changes in fair value recognized in net income. See Note 10b.

The effect of the adoption of this standard to prior periods is immaterial.

p. Subsequent events:

Management has evaluated subsequent events for recognition and/or disclosure in the accompanying financial statements through March 12, 2019, the date the financial statements are available to be issued.

2. Loans to Members:

The composition of loans to members at December 31, 2018 and 2017 is as follows:

	2018	2017
Loans secured by automobiles, including unamortized direct loan origination costs (Note 9)	\$ 59,487,624	\$ 72,482,071
Loans secured by real estate, fixed rate	151,378,040	126,965,107
Loans secured by real estate, variable rate	55,714,797	45,514,186
Unsecured loans	2,712,813	3,116,958
Loans secured by shares	130,701	226,597
VISA Card credit card loans, unsecured	5,540,987	4,634,072
Other secured loans	924,899	1,175,035
	275,889,861	254,114,026
Less allowance for loan losses	1,141,559	1,584,238
	\$274,748,302	\$252,529,788

Red Rocks Credit Union
Notes to Financial Statements
December 31, 2018

2. Loans to Members, Continued:

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 five classes: (a) direct new auto loans, (b) direct used auto loans, (c) indirect new auto loans, (d) indirect used auto loans, and (e) lender protection. 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.

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 \$1,141,559 adequate to cover loan losses inherent in the loan portfolio, at December 31, 2018. 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, 2018 and 2017.

Red Rocks Credit Union
Notes to Financial Statements
December 31, 2018

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, 2018

	Auto	Real Estate	Consumer Secured	Consumer Unsecured	Total
Allowance for Loan Losses:					
Beginning balance	\$ 1,038,425	\$ 355,147	\$ 1,288	\$ 189,378	\$ 1,584,238
Charge-offs	(695,315)	(204,843)	(-)	(409,683)	(1,309,841)
Recoveries	211,018	5,000	-	40,964	256,982
Provision	(97,716)	130,387	(298)	577,807	610,180
Ending balance	<u>\$ 456,412</u>	<u>\$ 285,691</u>	<u>\$ 990</u>	<u>\$ 398,466</u>	<u>\$ 1,141,559</u>
Ending balance: individually evaluated for impairment	\$ -	\$ -	\$ -	\$ 5,833	\$ 5,833
Ending balance: collectively evaluated for impairment	456,412	285,691	990	392,633	1,135,726
	<u>\$ 456,412</u>	<u>\$ 285,691</u>	<u>\$ 990</u>	<u>\$ 398,466</u>	<u>\$ 1,141,559</u>
Loan to members:					
Ending balance: individually evaluated for impairment	\$ 20,474	\$ -	\$ -	\$ 23,333	\$ 43,807
Ending balance: collectively evaluated for impairment	59,467,150	207,092,837	1,055,600	8,230,467	275,846,054
Total ending balance	<u>\$59,487,624</u>	<u>\$207,092,837</u>	<u>\$1,055,600</u>	<u>\$8,253,800</u>	<u>\$275,889,861</u>

Red Rocks Credit Union
Notes to Financial Statements
December 31, 2018

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, 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	1,038,425	173,147	1,288	180,616	1,393,476
	<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	72,445,418	172,162,174	1,401,632	7,742,268	253,751,492
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>

b. Credit Quality Information

The Credit Union's creditworthiness of the loan portfolio is analyzed by a third party agency annually. However, the analysis was not completed during 2018. In November 2017, 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, 2018

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, 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%

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	\$ 1,229,136	0.8%	15	0.6%	757

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	\$ 1,058,433	0.6%	12	0.5%	722

Red Rocks Credit Union
Notes to Financial Statements
December 31, 2018

2. Loans to Members, Continued:

b. Credit Quality Information, continued:

Consumer unsecured loans

Credit Rating	November 2017		
	Loan Volume	Number of Loans	Median FICO
Exceptional	\$ 3,550,164	4,213	790
Great	1,679,296	754	702
Good	1,259,419	470	664
Fair	524,343	222	621
Low	547,562	283	548
Total	\$ 7,560,786	5,942	770

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

Credit Rating	November 2017		
	Loan Volume	Number of Loans	Median FICO
Exceptional	\$ -	-	-
Great	-	-	-
Good	-	-	-
Fair	-	-	-
Low	-	-	-
Total	\$ -	-	-

Red Rocks Credit Union
Notes to Financial Statements
December 31, 2018

2. Loans to Members, Continued:

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, 2018 and 2017. The Credit Union stops the accrual of interest on loans over 90 day past due.

At December 31, 2018

	61-179		Total Past Due	Current	Total Loans
	Days	> 180 Days			
	Past Due	Past Due			
Direct Auto	\$ 5,063	\$ 1,630	\$ 6,693	\$ 18,245,385	\$ 18,252,078
Indirect Auto	193,983	8,070	202,053	41,033,493	41,235,546
Consumer					
secured	-	-	-	1,055,600	1,055,600
1st Mortgage	-	-	-	51,096,265	51,096,265
Home Equities	16,033	155,623	171,656	155,824,916	155,996,572
Unsecured	-	-	-	2,712,813	2,712,813
Credit Card	2,998	-	2,998	5,537,989	5,540,987
Total	\$ 218,077	\$165,323	\$ 383,400	\$275,506,461	\$275,889,861

At December 31, 2017

	61-179		Total Past Due	Current	Total Loans
	Days	> 180 Days			
	Past Due	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, 2018

2. Loans to Members, Continued:

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, 2018 and 2017:

As of December 31, 2018

	Unpaid Principal Balance	Allocated Allowance	Average Recorded Balance	Interest Income Recognized
Impaired loans without a valuation allowance	\$ 20,474	\$ -	\$ 4,954	\$ 3,206
Impaired loans with a valuation allowance	23,333	5,833	7,777	2,595
	<u>\$ 43,807</u>	<u>\$ 5,833</u>	<u>\$ 5,476</u>	<u>\$ 5,801</u>

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>

e. Interest receivable

Accrued interest receivable on loans to members totaled \$730,598 and \$678,776 at December 31, 2018 and 2017, respectively. The accrual of interest has been discontinued on loan balances of approximately \$387,000 and \$960,000 at December 31, 2018 and 2017, 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, 2018 and 2017, are loans of approximately \$1,189,000 and \$1,149,000, respectively, to directors and management of the Credit Union, including approximately \$1,132,000 and \$1,102,000, respectively, in real estate loans.

Red Rocks Credit Union
Notes to Financial Statements
December 31, 2018

2. Loans to Members, Continued:

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 2018 and 2017 was \$5,833 and \$8,762, 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.

For the year ended December 31, 2018				
Trouble Debt Restructuring			TDRs Which Subsequently Defaulted	
	Pre- modification	Post- modification		
Number of Loans	Outstanding Recorded Investment	Outstanding Recorded Investment	Number of Loans	Recorded Investment
Consumer loans	3	\$ 47,081	0	\$ -0-

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

Red Rocks Credit Union
Notes to Financial Statements
December 31, 2018

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, 2018 and 2017:

	2018	2017
Cash	\$8,873,357	\$12,865,401
Investments, Alloya Credit Union:		
Daily deposit shares, 0.15% rate at December 31, 2018	2,401,802	11,759,411
	\$11,275,159	\$24,624,812

Investments at Alloya Credit Union at December 31, 2018 and 2017 consisted of the following:

	2018	2017
Cash and cash equivalents	\$ 2,401,802	\$ 11,759,411
Perpetual contribution capital account, 1.5% yield at December 31, 2018	845,437	845,437
Nonperpetual contribution capital accounts, minimum withdrawal notice of five years	-	363,625
	\$ 3,247,239	\$ 12,968,473

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.

Red Rocks Credit Union
Notes to Financial Statements
December 31, 2018

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

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 and the NCA I was withdrawn in 2018.

4. Available-for-Sale Debt Securities:

The amortized cost and estimated fair values of the Credit Union's available-for-sale portfolio of debt securities at December 31, 2018 and 2017 are as follows:

	Weighted Average Yield 12/31/18	2018		2017	
		Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Federal agency securities	-0- %	\$ -	\$ -	\$2,000,000	\$1,998,313
Federal agency mortgage backed securities	2.998%	134,937	131,102	227,656	221,840
Federal agency CMO securities	1.284%	1,489,109	1,378,551	1,806,179	1,710,456
Total available-for-sale Portfolio	1.503%	\$1,624,046	\$1,509,653	\$4,033,835	\$3,930,609

Proceeds from sales of available-for-sale debt securities during 2018 and 2017 were \$-0-.

Red Rocks Credit Union
Notes to Financial Statements
December 31, 2018

4. Available-for-Sale Debt Securities, Continued:

	2018		2017	
	Gross Unrealized Gains	Gross Unrealized Losses	Gross Unrealized Gains	Gross Unrealized Losses
Federal agency Securities	\$ -	\$ -	\$ -	\$ 1,687
Federal agency mortgage backed Securities	-	3,835	-	5,816
Federal agency CMO Securities	-	110,558	-	95,723
Total available-for-sale Portfolio	<u>\$ -</u>	<u>\$ 114,393</u>	<u>\$ -</u>	<u>\$ 103,226</u>

Securities in loss positions at December 31, 2018 and 2017 are as follows:

December 31, 2018

	Fair Value	Gross Unrealized Losses < 1 year	Fair Value	Gross Unrealized Losses > 1 year
Federal agency mortgage backed Securities	\$ -	\$ -	\$ 131,102	\$ 3,835
Federal agency CMO securities	-	-	1,378,551	110,558
	<u>\$ -</u>	<u>\$ -</u>	<u>\$1,509,653</u>	<u>\$ 114,393</u>

December 31, 2017

	Fair Value	Gross Unrealized Losses < 1 year	Fair Value	Gross Unrealized Losses > 1 year
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>

Red Rocks Credit Union
Notes to Financial Statements
December 31, 2018

4. Available-for-Sale Debt Securities, Continued:

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 debt securities and the trend in recovery of the loss positions, and has determined that there was no OTTI associated with these debt securities at December 31, 2018 or 2017.

The amortized cost and estimated fair values of the available-for-sale portfolio of debt securities at December 31, 2018, 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	\$ -	\$ -
Due after one year through five years	-	-
Due after five years through ten years	-	-
Due after ten years	1,624,046	1,509,653
	<u>\$ 1,624,046</u>	<u>\$ 1,509,653</u>

5. Investments, Other:

The Credit Union's other investments at December 31, 2018 and 2017 consisted of the following:

	2018	2017
Certificate of deposit, matures 2019 yield 2.0% at December 31, 2018	\$250,000	\$1,000,000
FHLB stock	309,100	275,700
Equity securities:		
With readily determinable fair values (Note 10b)	139,394	103,523
Without readily determinable fair values:		
Investments in Credit Union Service Organizations:		
CUILA, LLC, at cost	38,648	38,648
CO-OP Network, equity method	161,313	151,458
CU Service Network, LLC, at cost	52,000	52,000
Pro-Design Credit Union Systems, LLC, at cost	65,000	65,000
Other	138,698	121,221
	<u>\$1,154,153</u>	<u>\$1,807,550</u>

Red Rocks Credit Union
Notes to Financial Statements
December 31, 2018

5. Investments, Other, Continued:

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, 2018, the Credit Union owns \$301,500 in class A stock and \$7,600 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 9). The stock pays a quarterly dividend, which is competitive with market rates.

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, 2018, 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, 2018. 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, 2018, 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 \$141,313, for total equity of \$161,313. 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, 2018, 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.

Red Rocks Credit Union
Notes to Financial Statements
December 31, 2018

5. Investments, Other, Continued:

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, 2018, 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.

6. Property and Equipment:

Property and equipment at December 31, 2018 and 2017 is summarized as follows:

	2018	2017
Land	\$1,092,229	\$1,092,229
Buildings and improvements	12,581,740	12,581,740
Construction in process	22,470	46,000
Furniture and equipment	2,792,833	2,639,014
Leasehold improvements	74,300	74,300
	16,563,572	16,433,283
Less accumulated depreciation	3,837,588	3,163,730
	\$12,725,984	\$13,269,553

Depreciation expense for the years ended December 31, 2018 and 2017 was \$688,645 and \$675,937, respectively.

Red Rocks Credit Union
Notes to Financial Statements
December 31, 2018

7. Members' Shares and Savings Accounts:

A summary of members' shares and savings accounts at December 31, 2018 and 2017 is as follows:

	Weighted Average Rate at December 31, 2018	2018	2017
Regular shares	0.05%	\$48,722,133	\$57,975,586
High-yield savings	0.39%	85,544,973	80,935,914
Checking	-0-%	38,887,331	40,759,298
Regular shares - Business	-0-%	95,073	133,768
High-yield savings - Business	0.45%	1,082,954	907,344
Checking - Business	-0-%	1,317,918	1,128,254
Member mortgage payments and escrow in process	-0-%	1,405,910	754,855
Certificates of deposit	2.14%	88,369,287	89,007,203
		\$265,425,579	\$271,602,222

The aggregate amount of members' share and savings accounts potentially uninsured was approximately \$20,902,000 and \$17,975,000 at December 31, 2018 and 2017, 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, 2018, scheduled maturities of share certificates are as follows:

2019	2020	2021	2022	2023+	Total
\$42,801,127	\$19,235,138	\$13,867,101	\$8,563,539	\$3,902,382	\$88,369,287

8. Non-Members' Certificate Accounts:

Non-member certificates totaled \$5,026,000 at December 31, 2018 with a weighted average rate of 3.43%. The aggregate amount of non-members' certificate accounts potentially uninsured was approximately \$4,526,000 at December 31, 2018. All eligible accounts of the Credit Union are insured up to \$250,000.

At December 31, 2018, scheduled maturities of certificates are as follows:

2022	2023+	Total
\$2,442,000	\$2,584,000	\$5,026,000

Red Rocks Credit Union
Notes to Financial Statements
December 31, 2018

9. 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, 2018 of \$91,069,592 are as follows. These amounts are not reflected in the accompanying financial statements.

	<u>2018</u>
Lines of credit, secured by real estate	\$ 52,155,032
Overdraft privilege program	8,668,912
Lines of credit, unsecured	4,868,583
VISA credit card lines	21,432,805
Other unfunded commitments	3,944,260
	<u>\$ 91,069,592</u>

The Credit Union has an open end line of credit in the amount of \$34.8 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, 2018 or 2017.

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, 2018, conventional first mortgage loans and second mortgage loans qualified as approximately \$29.2 million of eligible collateral. Outstanding advances at December 31, 2018 and 2017 were \$4,000,000 and \$-0-, respectively. Interest on outstanding balances is due monthly at 3.18% - 3.31% and the principal amount of outstanding borrowings are due \$1,000,000 in September 2020, \$2,000,000 in September 2021, and \$1,000,000 in September 2022.

Red Rocks Credit Union
Notes to Financial Statements
December 31, 2018

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

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, 2018, cash and cash equivalents of \$2,401,802 are concentrated with Alloya Credit Union (Note 3). Cash and cash equivalents of \$7,563,126 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.

10. 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, 2018 and 2017, total fees of \$286,808 and \$662,867, were paid under the program. These loan origination costs have been deferred and the unamortized balance of \$560,149 and \$1,034,117 at December 31, 2018 and 2017, 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, 2018 and 2017 was \$107,868 and \$83,966, respectively.

Red Rocks Credit Union
Notes to Financial Statements
December 31, 2018

10. Other Commitments, Continued:

b. Pension plan and supplemental executive retirement plan:

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 60th birthday and 100% vested on the 65th 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. Expenses under the Plan for 2018 and 2017 were \$35,871 and \$103,523, respectively. The balance in the Plan liability at December 31, 2018 and 2017, was \$139,394 and \$103,523, respectively.

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 \$151,060 and fair value of \$139,394 at December 31, 2018 and a cost basis of \$100,720 and fair value of \$103,523 at December 31, 2017. Unrealized (losses) gains recognized during the year on equity securities still held at December 31, 2018, and 2017 were (\$14,469) and \$2,803, respectively.

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.

Red Rocks Credit Union
Notes to Financial Statements
December 31, 2018

10. Other Commitments, Continued:

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, 2018 and 2017, 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:

2019	136,500
2020	79,625
	<u>\$ 216,125</u>

11. 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.

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, 2018 and 2017 was 7.13% and 6.41%, respectively. The minimum ratio to be considered complex under the regulatory framework is 6%. Management believes, as of December 31, 2018 and 2017, that the Credit Union meets all capital adequacy requirements to which it is subject.

Red Rocks Credit Union
Notes to Financial Statements
December 31, 2018

11. Regulatory Capital, Continued:

As of December 31, 2018, 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, 2018 and 2017:

	2018		2017	
	Amount	Ratio	Amount	Ratio
Amount needed to be classified as "adequately capitalized"	\$18,360,858	6.0%	\$17,374,999	6.0%
Amount needed to be classified as "well capitalized"	21,421,001	7.0%	20,270,832	7.0%
Actual net worth	30,367,929	9.9%	27,637,621	9.5%

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.

12. Fair Value Measurements:

The fair value of assets and liabilities measured on a recurring basis at December 31, 2018 and 2017 are as follows:

Fair Value Measurements at Reporting Date Using:

	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
December 31, 2018:				
Available-for-sale debt securities (Note 4)	\$1,509,653	\$ -	\$1,509,653	\$ -
Equity securities with readily determined fair values	\$139,394	\$139,394	\$ -	\$ -
December 31, 2017:				
Available-for-sale debt securities (Note 4)	\$3,930,609	\$ -	\$3,930,609	\$ -
Equity securities with readily determined fair values	\$103,523	\$103,523	\$ -	\$ -

Red Rocks Credit Union
Notes to Financial Statements
December 31, 2018

12. Fair Value Measurements, Continued:

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 of debt securities are based on quoted market prices for securities with similar characteristics. The fair value of equity securities with readily determinable fair values is based on quoted market prices at year-end.

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:

	<u>Fair Value</u>	<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>	<u>Level 3 Inputs</u>
December 31, 2018:				
Impaired Loans (Note 2)	\$ 43,807	\$ -	\$ -	\$ 43,807
Collateral in liquidation	\$ 147,531	\$ -	\$147,531	\$ -
December 31, 2017:				
Impaired Loans (Note 2)	\$ 362,534	\$ -	\$ -	\$ 362,534
Collateral in liquidation	\$ 192,042	\$ -	\$192,042	\$ -

See Note 1 for a description of the inputs and valuation techniques applicable to impaired loans. There were no OREO properties at December 31, 2018 or 2017. 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.