Red Rocks Credit Union

Report on Audit
of Financial Statements

for the years ended
December 31, 2022 and 2021

Jones Mertsching CPAs PC
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

To the Supervisory Committee of Red Rocks Credit Union

Opinion

We have audited the accompanying financial statements of Red Rocks Credit Union, which comprise the statements of financial condition as of December 31, 2022 and 2021, and the related statements of income, members' equity, and cash flows for the years then ended, and the related notes to the financial statements.

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

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

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

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

Jones Mertsching CPAs, P.C.

Evergreen, Colorado
April 4, 2023

Red Rocks Credit Union
Statements of Financial Condition
at December 31, 2022 and 2021

	2022	2021
ASSETS		
Loans to members, net of allowance for loan losses	$ 274,286,243	$ 243,456,746
Purchased loans to non-members, net of allowance for loan losses and discounts	16,759,082	26,336,144
Cash and cash equivalents	13,816,274	28,649,634
Investments, Alloya Credit Union	3,409,743	10,602,293
Available-for-sale debt securities	18,313,621	25,734,932
Investments, other	1,680,930	2,796,391
Property and equipment, net	12,877,173	13,148,474
NCUSIF deposit	2,734,758	2,849,806
Accrued interest receivable	971,892	776,608
Other assets	1,726,826	4,179,064
	$ 346,576,542	$ 358,530,092
LIABILITIES AND MEMBERS' EQUITY		
Members' shares and savings accounts	$ 286,064,082	$ 318,535,238
Non-members' certificate accounts	2,584,000	5,026,000
Borrowed funds	25,000,000	-
Accrued expenses and other liabilities	3,065,907	3,122,040
Total liabilities	316,713,989	326,683,278
Members' equity:		
Regular reserve	3,211,955	3,211,955
Undivided earnings	29,440,363	29,088,275
Accumulated other comprehensive income (loss)	(2,789,765)	(453,416)
Total members' equity	29,862,553	31,846,814
	$ 346,576,542	$ 358,530,092

The accompanying notes are a part of the financial statements.

Red Rocks Credit Union
Statements of Income
for the years ended December 31, 2022 and 2021

	2022	2021
Interest and dividend income:		
Loans to members and others	$ 14,232,135	$ 12,212,390
Investments	475,584	627,751
Total interest and dividend income	14,707,719	12,840,141
Interest and dividend expense:		
Members' shares and savings accounts	1,526,758	2,105,477
Other borrowed funds	406,291	48
Total interest and dividend expense	1,933,049	2,105,525
Net interest income	12,774,670	10,734,616
Provision for loan losses	1,274,151	(158,189)
Net interest income after provision for loan losses	11,500,519	10,892,805
Non-interest income:		
Fees for member services	837,632	818,061
Income from sale of mortgages	6,411	84,171
VISA interchange income	420,918	462,251
Other operating income	101,545	127,193
Net gain (loss) on sale or disposition of assets	139,430	(556,502)
Total non-interest income	1,505,936	935,174
Non-interest expense:		
Compensation and benefits	5,601,861	5,976,509
Account and loan services	1,964,147	1,701,758
Office operations	1,816,109	1,499,200
Marketing	1,153,657	1,084,036
Professional and outside services	987,863	1,054,422
Office occupancy expense	935,050	905,017
Other operating expenses	195,680	316,479
Total non-interest expense	12,654,367	12,537,421
Net income (loss)	$ 352,088	$ (709,442)

Red Rocks Credit Union
Statements of Comprehensive Income
for the years ended December 31, 2022 and 2021

	2022	2021
Net income (loss)	$ 352,088	$ (709,442)
Other comprehensive (loss):		
Unrealized (loss) on available-for-sale debt securities:		
Unrealized holding (loss) arising during period	(2,336,349)	(565,204)
Reclassification adjustment for loss included in net income	-	-
Other comprehensive (loss)	(2,336,349)	(565,204)
Comprehensive (loss)	$ (1,984,261)	$ (1,274,646)

The accompanying notes are a part of the financial statements.

Red Rocks Credit Union
Statements of Members' Equity
for the years ended December 31, 2022 and 2021

	Regular Reserve	Accumulated Other Comprehensive Income (Loss)	Undivided Earnings	Total
Balances, December 31, 2020	$ 3,211,955	$ 111,788	$ 29,797,717	$ 33,121,460
Net income (loss)	-	-	(709,442)	(709,442)
Other comprehensive income (loss)	-	(565,204)	-	(565,204)
Balances, December 31, 2021	$ 3,211,955	$ (453,416)	$ 29,088,275	$ 31,846,814
Net income	-	-	352,088	352,088
Other comprehensive income (loss)	-	(2,336,349)	-	(2,336,349)
Balances, December 31, 2022	$ 3,211,955	$ (2,789,765)	$ 29,440,363	$ 29,862,553

The accompanying notes are a part of the financial statements.

Red Rocks Credit Union
Statements of Cash Flows
for the years ended December 31, 2022 and 2021

	2022	2021
Cash flows from operating activities:		
Interest and dividends received	$ 14,837,317	$ 13,326,337
Interest and dividends paid	(1,851,691)	(2,105,525)
Other operating income received	1,408,670	1,481,029
Cash paid to employees and suppliers	(11,542,972)	(10,672,741)
Net cash provided by operating activities	2,851,324	2,029,100
Cash flows from investing activities:		
Net decrease (increase) in loans to members	(30,358,982)	(10,757,301)
Net decrease (increase) in purchased loans	9,927,118	(17,964,151)
Purchases of other investments	(855,700)	(12,700)
Purchases of investments, available-for-sale	-	(7,000,000)
Proceeds from maturities of Alloya and other investments	1,928,997	3,128,798
Proceeds from maturities of available-for-sale debt securities	4,897,448	17,190,110
Proceeds from maturities of held-to-maturity debt securities	-	6,998,653
Expenditures for property and equipment	(618,007)	(1,350,810)
Decrease (Increase) in NCUSIF deposit	115,048	(33,368)
Net cash (used in) investing activities	(14,964,078)	(9,800,769)
Cash flows from financing activities:		
Proceeds from borrowed funds	25,000,000	-
Net increase (decrease) in members' shares and savings accounts	(34,913,156)	3,281,206
Net cash (used in) provided by financing activities	(9,913,156)	3,281,206
Net (decrease) in cash and cash equivalents	(22,025,910)	(4,490,463)
Cash and cash equivalents (Note 4):		
Beginning of year	38,406,490	42,896,953
End of year	$ 16,380,580	$ 38,406,490

The accompanying notes are a part of the financial statements.

Red Rocks Credit Union

Statements of Cash Flows

for the years ended December 31, 2022 and 2021

	2022	2021
Net income (loss)	$ 352,088	$ (709,442)
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation	1,028,738	835,182
Provision for loan losses	1,274,151	(158,189)
Amortization of net deferred loan origination costs	137,368	213,129
Amortization of investment premiums, net	187,514	288,875
Equity income	42,164	(10,647)
(Gain) on sale of investments	-	(18,309)
(Gain) loss on sale of disposition of assets	(139,430)	574,811
(Increase) decrease in accrued interest receivable	(195,284)	(15,808)
(Increase) decrease in other assets	220,148	319,187
(Decrease) increase in other liabilities	(56,133)	710,311
Net cash provided by operating activities	$ 2,851,324	$ 2,029,100

The accomanying notes are a part of the financial statements.

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 2022 and 2021, items of other comprehensive income consist of unrealized gains and losses on available-for-sale debt securities (See Note 5).

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.

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 and for all balances greater than 90 days delinquent. The specific allowance established for these loans is based on a thorough analysis of the most probable source of repayment including 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.

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). 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. Held-to-maturity debt securities:

Investment securities for which the Credit Union has the positive intent and ability to hold to maturity are reported at amortized cost.

1. Summary of Significant Accounting Policies, Continued:

g. 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, 2022 and 2021, was $2,358,648 and $3,281,112, respectively. The aggregate carrying amount of cost method investments that were not evaluated for impairment at December 31, 2022 or 2021 was $2,358,648 and $3,281,112, 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.

h. 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.

i. 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.

j. 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.

1. Summary of Significant Accounting Policies, Continued:

k. 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.

l. 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.

m. Advertising costs:

Advertising costs are expensed as incurred. For the years ended December 31, 2022 and 2021, advertising and marketing costs were $1,153,657 and $807,713, respectively.

n. 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 2019, 2020 and 2021 federal income tax returns are open for examination by the IRS.

1. Summary of Significant Accounting Policies, Continued:

o. 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.

p. Adoption of a new accounting standard:

In February 2016, the Financial Accounting Standard Board issued Accounting Standards Update ("ASU") 2016-02, Leases (ASC 842). ASC 842 was issued to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. ASC 842 is effective for fiscal years beginning after December 15, 2021. The Credit Union's branch land lease falls within the scope of ASC 842.

The Credit Union adopted ASC 842 using the modified retrospective method. The adoption of ASC 842 did result in changes in the addition of a right to use asset and lease liability. No changes were required to previously reported revenues and expenses as a result of the adoption.

q. Reclassifications:

Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications had no effect on the reported results of operations.

r. Subsequent events:

Management has evaluated subsequent events for recognition and/or disclosure in the accompanying financial statements through April 4, 2023, the date the financial statements are available to be issued.

2. Loans to Members:

The composition of loans to members at December 31, 2022 and 2021 is as follows:

	2022	2021
Loans secured by automobiles, including unamortized direct loan origination costs (Note 12)	$ 40,768,894	$ 41,060,642
Loans secured by real estate, fixed rate	156,441,326	148,217,756
Loans secured by real estate, variable rate	54,102,174	44,977,477
Unsecured loans	18,230,656	4,662,694
Loans secured by shares	79,967	28,932
VISA Card credit card loans, unsecured	4,162,376	4,082,065
Other secured loans	1,529,987	1,290,249
	275,315,380	244,319,815
Less allowance for loan losses	1,029,137	863,069
	$274,286,243	$243,456,746

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 five classes: (a) unsecured loans, (b) negative shares, (c) credit cards, (d) debt elimination, and (e) indirect unsecured.

2. Loans to Members, Continued:

a. Allowance for Loan Losses

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 $1,029,137 adequate to cover loan losses inherent in the loan portfolio, at December 31, 2022. 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, 2022 and 2021.

Allowance for Loan Losses and Recorded Investment in Loans
for the year ended December 31, 2022

	Auto	Real Estate	Consumer Secured	Consumer Unsecured	Total
Allowance for Loan Losses:					
Beginning balance	$ 263,200	$ 244,485	$ 4,075	$ 351,309	$ 863,069
Charge-offs	(58,897)	(-)	(6,776)	(372,566)	(438,239)
Recoveries	146,280	-	-	77,084	223,364
Provision	(219,926)	(140,050)	10,406	730,513	380,943
Ending balance	$ 130,657	$ 104,435	$ 7,705	$ 786,340	$1,029,137
Ending balance: individually evaluated for impairment	$ 37,156	$ -	$ -	$ -	$ 37,156
Ending balance: collectively evaluated for impairment	93,501	104,435	7,705	786,340	991,981
	$ 130,657	$ 104,435	$ 7,705	$ 786,340	$ 1,029,137
Loan to members:					
Ending balance: individually evaluated for impairment	$ 74,100	$ 574,572	$ -	$ -	$ 648,672
Ending balance: collectively evaluated for impairment	40,694,794	209,968,928	1,609,954	22,393,032	274,666,708
Total ending balance	$40,768,894	$210,543,500	$1,609,954	$22,393,032	$275,315,380

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, 2021

	Auto	Real Estate	Consumer Secured	Consumer Unsecured	Total
Allowance for Loan Losses:					
Beginning balance	$ 425,903	$ 304,479	$ 15,302	$ 398,163	$ 1,143,847
Charge-offs	(112,542)	(-)	(-)	(344,666)	(457,208)
Recoveries	124,427	91,229	-	118,963	334,619
Provision	(174,588)	(151,223)	(11,227)	178,849	(158,189)
Ending balance	$ 263,200	$ 244,485	$ 4,075	$ 351,309	$ 863,069
Ending balance: individually evaluated for impairment	$ 22,179	$ -	$ -	$ -	$ 22,179
Ending balance: collectively evaluated for impairment	241,021	244,485	4,075	351,309	840,890
	$ 263,200	$ 244,485	$ 4,075	$ 351,309	$ 863,069
Loan to members:					
Ending balance: individually evaluated for impairment	$ 39,836	$ 46,971	$ -	$ -	$ 86,807
Ending balance: collectively evaluated for impairment	41,020,806	193,148,262	1,319,181	8,744,759	244,233,008
Total ending balance	$41,060,642	$193,195,233	$1,319,181	$8,744,759	$244,319,815

b. Credit Quality Information

The Credit Union’s creditworthiness of the loan portfolio is analyzed by a third party agency. In December 2021, the analysis was performed on data as of December 31, 2020 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.

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 December 2021, the Credit Union's internal risk ratings based on FICO scores, were as follows:

Mortgage loans - December 2020

Credit Rating	Loan Volume	% of Portfolio	Number of Loans	% of Total	Median FICO	Median LTV
Exceptional	$131,752,838	73.9%	2,084	75.6%	782	25.4%
Great	25,253,235	14.2%	339	13.0%	703	41.9%
Good	12,526,895	7.0%	173	6.5%	662	57.2%
Fair	3,783,749	2.1%	62	2.2%	623	63.0%
Low	4,923,931	2.8%	73	2.6%	565	49.6%
Total	$178,240,648	100.0%	2,756	100.0%	767	30.9%

Consumer unsecured loans

Credit Rating	December 2020 Loan Volume	Number of Loans	Median FICO
Exceptional	$ 4,982,437	4,176	795
Great	2,140,800	490	702
Good	878,004	247	662
Fair	594,588	139	625
Low	325,634	127	565
Total	$ 8,921,463	5,179	785

Auto loans - December 2020

Credit Rating	Loan Volume	% of Portfolio	Number of Loans	% of Total	Median FICO	Median LTV
Exceptional	$30,341,076	66.2%	2,141	64.2%	774	59.6%
Great	6,636,676	14.5%	503	15.1%	702	68.5%
Good	4,379,910	9.6%	315	9.4%	662	72.3%
Fair	2,212,113	4.8%	182	5.5%	623	75.3%
Low	2,282,534	5.0%	194	5.8%	558	68.1%
Total	$45,852,309	100.0%	3,335	100.0%	749	62.8%

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, 2022 and 2021. The Credit Union stops the accrual of interest on loans over 90 day past due.

At December 31, 2022

	61-179 Days Past Due	> 180 Days Past Due	Total Past Due	Current	Total Loans
Direct Auto	$ 162,585	$ 7,678	$ 170,263	$ 24,083,478	$ 24,253,741
Indirect Auto	71,556	-	71,556	16,443,597	16,515,153
Consumer secured	-	-	-	1,609,954	1,609,954
1st Mortgage	-	-	-	87,825,626	87,825,626
Home Equities	1,001,287	45,752	1,047,039	121,670,835	122,717,874
Unsecured	50,465	-	50,465	18,180,191	18,230,656
Credit Card	29,692	-	29,692	4,132,684	4,162,376
Total	$1,315,585	$ 53,430	$1,369,015	$273,946,365	$275,315,380

At December 31, 2021

	61-179 Days Past Due	> 180 Days Past Due	Total Past Due	Current	Total Loans
Direct Auto	$ 47,701	$ -	$ 47,701	$ 22,231,358	$ 22,279,059
Indirect Auto	36,269	-	36,269	18,745,314	18,781,583
Consumer secured	-	-	-	1,319,181	1,319,181
1st Mortgage	-	-	-	88,669,392	88,669,392
Home Equities	379,777	-	379,777	104,146,064	104,525,841
Unsecured	-	-	-	4,662,694	4,662,694
Credit Card	-	-	-	4,082,065	4,082,065
Total	$ 463,747	$ -	$ 463,747	$243,856,068	$244,319,815

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, 2022 and 2021:

As of December 31, 2022

	Unpaid Principal Balance	Allocated Allowance	Average Recorded Balance	Interest Income Recognized
Impaired loans without a valuation allowance	$ 578,566	$ -	$ 72,321	$ 23,319
Impaired loans with a valuation allowance	70,106	37,156	10,748	3,624
	$ 648,672	$ 37,156	$ 46,700	$ 26,943

As of December 31, 2021

	Unpaid Principal Balance	Allocated Allowance	Average Recorded Balance	Interest Income Recognized
Impaired loans without a valuation allowance	$ 55,569	$ -	$ 13,892	$ 1,450
Impaired loans with a valuation allowance	31,239	22,179	10,413	1,134
	$ 86,807	$ 22,179	$ 12,401	$ 2,584

e. Interest receivable

Accrued interest receivable on loans to members totaled $832,258 and $599,060 at December 31, 2022 and 2021, respectively. The accrual of interest has been discontinued on loan balances of approximately $645,000 and $141,000 at December 31, 2022 and 2021, 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, 2022 and 2021, are loans of approximately $761,000 and $687,000, respectively, to directors and management of the Credit Union, including approximately $638,000 and $660,000, respectively, in real estate loans.

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 2022 and 2021 was $-0- and $-0-, 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, 2022				
	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
Consumer loans	-	$ -0-	$ -0-	0	$ -0-

	For the year ended December 31, 2021				
	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
Consumer loans	0	$ -0-	$ -0-	0	$ -0-

3. Purchased Loans to Non-members

The Credit Union has purchased an interest in certain unsecured loan pools originated by third parties. At December 31, 2022 and 2021, the loan pools have a total remaining carrying amount of $16,759,082 and $26,347,269, respectively.

All loans subject to the participation agreements were purchased at a premium which is being amortized based on percent of principal paid over the life of the loans and is included in purchased loans to non-members in the accompanying financial statements. As of December 31, 2022 and 2021, the balance of the premiums are $963,376 and $1,827,040, respectively.

In addition, at the time of acquisition, a discount was established based on the estimated lifetime net losses at a rate that was determined based on models provided by the loan originators. The discounts are being amortized and are included in purchased loans to non-members in the accompanying financial statements. As of December 31, 2022 and 2021, the balance of the discounts are $937,569 and $1,275,631, respectively.

All loans purchased by the Credit Union are without recourse to the originator/servicer.

The following table presents the changes in the allowance for loan losses for purchased unsecured loans to non-members:

Balance, December 31, 2021	$ -0-
Charge-offs	(865,970)
Recoveries	10,436
Provision	893,208
Balance, December 31, 2022	$ 37,674

At December, 31, 2022 a total of $246,688 of purchased unsecured loans to non-members were delinquent in the 60-179 day category.

4. 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, 2022 and 2021:

	2022	2021
Cash	$13,816,274	$28,649,634
Investments, Alloya Credit Union:		
Daily deposit shares, 0.75% rate at December 31, 2022	2,564,306	9,756,856
	$16,380,580	$38,406,490

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

Investments at Alloya Credit Union at December 31, 2022 and 2021 consisted of the following:

	2022	2021
Cash and cash equivalents	$ 2,564,306	$ 9,756,856
Perpetual contribution capital account, 2.25% yield at December 31, 2022	845,437	845,437
	$ 3,409,743	$ 10,602,293

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 2018, the Credit Union withdrew the NCA I.

5. 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, 2022 and 2021 are as follows:

	Weighted Average Yield 12/31/22	2022 Amortized Cost	2022 Estimated Fair Value	2021 Amortized Cost	2021 Estimated Fair Value
Federal agency mortgage backed securities	0.97%	$ 9,115,758	$7,935,635	$11,033,757	$10,887,225
Federal agency CMO securities	0.35%	1,451,548	1,390,971	1,963,568	1,957,820
Federal agency CMBS securities	1.08%	10,536,086	8,987,021	13,191,017	12,889,881
Total available-for-sale Portfolio	0.98%	$21,103,392	$18,313,627	$26,188,342	$25,734,926

Proceeds from sales of available-for-sale debt securities during 2022 and 2021 were $-0-.

	2022 Gross Unrealized Gains	2022 Gross Unrealized Losses	2021 Gross Unrealized Gains	2021 Gross Unrealized Losses
Federal agency mortgage backed Securities	$ -	$1,180,122	$ 132	$ 146,664
Federal agency CMO securities	-	60,577	542	6,290
Federal agency CMBS Securities	-	1,549,066	6,236	307,372
Total available-for-sale Portfolio	$ -	$2,789,765	$6,910	$ 460,326

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

Securities in loss positions at December 31, 2022 and 2021 are as follows:

December 31, 2022

	Fair Value	Gross Unrealized Losses < 1 year	Fair Value	Gross Unrealized Losses > 1 year
Federal agency mortgage backed Securities	$ 605,714	$31,474	$7,329,922	$1,148,648
Federal agency CMO securities	66,974	3,506	1,323,997	57,071
Federal agency CMBS securities	1,378,884	24,955	7,608,137	1,524,111
	$2,051,571	$59,935	$16,262,056	$2,729,830

December 31, 2021

	Fair Value	Gross Unrealized Losses < 1 year	Fair Value	Gross Unrealized Losses > 1 year
Federal agency mortgage backed securities	$ 8,628,698	$124,727	$1,388,208	$ 21,936
Federal agency CMO securities	142,795	3,854	1,664,253	2,436
Federal agency CMBS securities	6,619,836	138,966	3,324,858	168,409
	$15,391,329	$267,548	$6,377,319	$192,778

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, 2022 or 2021.

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

The amortized cost and estimated fair values of the available-for-sale portfolio of debt securities at December 31, 2022, 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	420,040	412,155
Due after five years through ten years	8,412,519	7,221,974
Due after ten years	12,270,833	10,679,498
	$21,103,392	$18,313,627

6. Investments, Other:

The Credit Union's other investments at December 31, 2022 and 2021 consisted of the following:

	2022	2021
Certificate of deposit, maturities 2021-2022		
Yield 1.50% at maturity	$-	$1,736,000
FHLB stock	1,212,200	356,500
Equity securities:		
With readily determinable fair values	-	192,997
Without readily determinable fair values:		
Investments in Credit Union Service Organizations:		
CO-OP Network, equity method	167,719	167,719
CU Service Network, LLC, at cost	52,000	52,000
Pro-Design Credit Union Systems, LLC, at cost	65,000	65,000
Other	184,011	226,175
	$1,680,930	$2,796,391

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, 2022, the Credit Union owns $376,100 in class A stock and $836,100 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 11). The stock pays a quarterly dividend, which is competitive with market rates.

6. Investments, Other, Continued:

b. 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, 2022, 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 $147,719, for total equity of $167,719. The stock of CO-OP is subject to a stock transfer agreement whereby disposition of the stock in any manner is restricted.

c. Investment in AUX, LLC:

The Credit Union has invested in the membership units of AUX, LLC, a credit union service organization that operates shared service centers for credit unions and credit union members. At December 31, 2022, the Credit Union owns 2 units of AUX's membership equity at an original cost basis of $52,000, which represents approximately 1.2% of total membership equity. The membership units of AUX are subject to restrictions on transferability.

d. Investment in Pro-Design Credit Union Systems:

The Credit Union has invested in the membership units of 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 a core processing system and provides network services for credit unions. At December 31, 2022, 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.

7. Property and Equipment:

Property and equipment at December 31, 2022 and 2021 is summarized as follows:

	2022	2021
Land	$1,092,229	$1,092,229
Buildings and improvements	12,581,740	12,581,740
Construction in process	53,664	1,526,829
Furniture and equipment	5,656,092	3,699,452
Right-of-use asset	273,962	-
	19,657,687	18,900,250
Less accumulated depreciation	6,780,514	5,751,776
	$12,877,173	$13,148,474

Depreciation expense for the years ended December 31, 2022 and 2021 was $1,028,738 and $835,182, respectively.

8. Members' Shares and Savings Accounts:

A summary of members' shares and savings accounts at December 31, 2022 and 2021 is as follows:

	Weighted Average Rate at December 31, 2022	2022	2021
Regular shares	0.06%	$53,807,426	$54,948,344
High-yield savings	0.98%	130,815,497	154,289,324
Checking	-0-%	51,705,601	50,216,189
Regular shares - Business	0.06%	341,367	98,800
High-yield savings - Business	1.04%	985,236	889,517
Checking - Business	-0-%	1,657,898	1,475,290
Member mortgage payments and escrow in process	-0-%	1,725,954	2,537,766
Certificates of deposit	3.46%	45,025,103	54,080,008
		$286,064,082	$318,535,238

The aggregate amount of members' share and savings accounts potentially uninsured was approximately $23,455,000 and $46,486,000 at December 31, 2022 and 2021, 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.

8. Members' Shares and Savings Accounts, Continued:

At December 31, 2022, scheduled maturities of share certificates are as follows:

2023	2024	2025	2026	2027	Total
$23,723,210	$17,864,409	$1,556,527	$1,537,539	$343,418	$45,025,103

9. Non-Members' Certificate Accounts:

Non-member certificates totaled $2,584,000 at December 31, 2022 with a weighted average rate of 3.46%. The aggregate amount of non-members' certificate accounts potentially uninsured was approximately $2,334,000 at December 31, 2022. All eligible accounts of the Credit Union are insured up to $250,000.

At December 31, 2022, scheduled maturities of certificates are $2,584,000 on December 7, 2023.

10. 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, 2022 of $125,706,312 are as follows. These amounts are not reflected in the accompanying financial statements.

	2022
Lines of credit, secured by real estate	$101,936,173
Overdraft privilege program	3,432,145
Lines of credit, unsecured	10,577,398
VISA credit card lines	8,137,406
Other unfunded commitments	1,623,190
	$125,706,312

10. 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 $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, 2022 or 2021.

The Credit Union has entered into an Advance, Pledge and Security Agreement with FHLB (Note 7a). 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, 2022, conventional first mortgage loans and second mortgage loans qualified as approximately $92 million of eligible collateral. Outstanding advances at December 31, 2022 and 2021 were 25,000,000 and $-0-, respectively. The outstanding advances have been converted into term loans with $10 million due March, 2023 at a rate of 4.27%, and $15 million due July, 2024 at rate of 3.5%.

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, 2022, cash and cash equivalents of $2,564,306 are concentrated with Alloya Credit Union (Note 4). Cash and cash equivalents of $12,787,984 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.

11. Other Commitments:

a. Indirect lending program:

The Credit Union has contracted with CU Direct Connect 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, 2022 and 2021, total fees of $134,935 and $100,721, were paid under the program. These loan origination costs have been deferred and the unamortized balance of $222,394 and $224,827 at December 31, 2022 and 2021, 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 with the Credit Union who 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, 2022 and 2021 was $107,246 and $113,009, respectively.

11. 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. The Credit Union accounts for these leases in the 2022 statement of financial condition as right-of-use assets and lease liabilities amortized on a straight-line basis over the lease term.

Rent expense, included in office occupancy expense in the accompanying financial statements totaled $148,558 and $148,558 for the years ended December 31, 2022 and 2021, respectively.

During 2022, the Credit Union had the following cash and non-cash activities associated with lease agreements:

	2022
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	$143,325
Noncash investing and financing activities:	
Additions to right of use assets obtained from new operating lease liabilities	$337,230

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

2023	143,325
2024	143,325
2025	83,606
	$ 370,256

12. 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).

As of December 31, 2022, 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.

12. Regulatory Capital, Continued:

The Credit Union's actual capital amounts and ratios are presented as follows as of December 31, 2022 and 2021:

	2022		2021	
	Amount	Ratio	Amount	Ratio
Amount needed to be classified as "adequately capitalized"	$20,794,593	6.0%	$21,511,806	6.0%
Amount needed to be classified as "well capitalized"	24,260,358	7.0%	25,097,106	7.0%
Actual net worth	32,652,318	9.4%	32,300,230	9.0%

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.

Effective January 1, 2022, the Capital Adequacy Standards were revised to (a) remove the RBNW ratio measurement, (b) amend the definition of "complex" from total assets greater than $50 million to total assets greater than $500 million, (c) make non-complex credit unions only subject to the Net Worth requirement (above), and (d) make complex credit unions subject to both a Net Worth requirement and a Risk-Based Capital ratio.

13. Fair Value Measurements:

The fair value of assets and liabilities measured on a recurring basis at December 31, 2022 and 2021 are as follows:

	Fair Value Measurements at Reporting Date Using:			
	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
December 31, 2022:				
Available-for-sale debt securities (Note 5)	$18,313,621	$ -	$18,313,621	$ -
December 31, 2021:				
Available-for-sale debt securities (Note 5)	$25,734,932	$ -	$25,734,932	$ -
Equity securities with readily determined fair values	$192,997	$192,997	$ -	$ -

13. 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:

	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
December 31, 2022:				
Impaired Loans (Note 2d)	$ 648,672	$ -	$ -	$ 648,672
December 31, 2021:				
Impaired Loans (Note 2d)	$ 86,807	$ -	$ -	$ 86,807

See Note 1 for a description of the inputs and valuation techniques applicable to impaired loans. There were no OREO properties at December 31, 2022 or 2021. 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.

14. Revenue from Contracts with Members

Non-interest income, including revenue from contracts with members and customers, within the scope of ASC 606 is presented for the years ended December 31, 2022 and 2021:

	2022	2021
Non-interest income within the scope of ASC 606:		
Share account services fees	$ 733,281	$ 670,011
Interchange income	420,918	462,251
	1,154,199	1,132,262
Non-interest income outside the scope of ASC 606:		
Loan service fees	104,351	148,050
Gain on sale or disposition of assets	139,430	-
Gain on sale or disposition of investments	-	18,309
Sale of mortgages	6,411	84,171
Other operating income	101,545	127,193
	351,737	377,723
Total non-interest income	$1,505,936	$1,509,985

Share account service fees are fees earned from members for account maintenance and transaction-based activity. Account maintenance fees such as bad address fee, inactivity fees, bill payment fees, or safe deposit fees are typically charged on a monthly basis when the performance obligation for that month is satisfied because the service has been completed. These fees are recognized as revenue on a monthly basis. Transaction based fees such as late payment fee, skip a pay fee, overdraft line of credit fee, ACH return fee, etc. are charged for the specific service provided. The performance obligation is satisfied when the transaction is completed resulting in immediate recognition of the income as revenue.

Interchange income is earned when a debit or credit card is used to purchase a good or service. Many factors such as transaction amount and merchant type determine the amount of the transaction to be charged when the transaction is completed. The performance obligation is satisfied when the transaction is completed resulting in income during the period the transaction occurs. Card processing fees that are incurred and are directly associated with the interchange income are netted. Accordingly, for 2022 and 2021, these expenses of $334,310 and $331,584, respectively, are netted against interchange income of $755,228 and $793,835, respectively.